

Chapter 4



PRICES, WAGES AND EMPLOYMENT

4.1 Overview

The year 2006 commenced with a moderation of consumer price inflation, in response to tight monetary policy aided by growth in domestic production. However, the developments that took place thereafter, particularly, the escalation of oil prices, led to a reversal of this trend exerting pressure on inflation during the remainder of the year. The rise in prices was a consequence of the combined effects of demand pressure, increases in administered prices and supply side disturbances. The pressure on prices from the demand side was directed from the relatively high monetary growth, that arose from high public and private sector credit due to increased consumption, as well as increased government expenditure and borrowings.

A further demand side pressure arose from the wage increases of the public sector employees in 2006. On the supply side, the expansion in domestic agriculture production with paddy recording a bumper harvest for the second consecutive year helped ease the price pressure at the beginning of the year, but the weather related disturbances to harvesting and distribution particularly of vegetables and subsidiary food crops during the second half of the year resulted in higher prices. The escalation of the cost of production and distribution, mainly due to the upward revision of fuel prices on several occasions from the second quarter of the year continued to exert pressure on prices. Though increases in fuel prices raised the price level, its overall impact on the future inflation will be to lower the inflation, since the government will be able to reduce the subsidy cost, which is mostly met through inflationary financing. The tariff increases on some imported consumer items to encourage domestic production, also raised the cost of imports, contributing to consumer price inflation during the year.

Public sector real wages increased while private sector real wages contracted during 2006. The overall nominal wages of central government employees rose by 30.5 per cent resulting in a 15.1 per cent increase in real terms. The real wage was maintained with the grant of Cost of Living Allowance (COLA) to public sector employees by the government with effect from 01 January, 2006.

The rate of unemployment dropped substantially to 6.5 per cent during 2006. This was mainly reflected in the increased employment in the agriculture and construction sectors and the increased incidence of self employment. The government efforts to provide more job opportunities for the youth also supported the drop in unemployment. However, foreign employment placements dropped in 2006 in response to the political uncertainty in the Middle Eastern Region.

4.2 Prices

Factors of Price Movements

The sharp increase in the general price level in 2006 over the price level of 2005 was a result of the combination of both demand pull and cost push factors. The rising inflation was reflected in the annual average increase recorded by all price indices in 2006, with the CCPI and SLCPI rising by 13.7 per cent and 9.5 per cent, respectively.

The demand side pressure emanated from the increase in the reserve money at a higher rate due to the monetary expansion as well as high government expenditure and borrowings. This was indicated by the rising trend of core inflation, which is the part of overall inflation more sensitive to monetary expansion¹.

The monetary growth continued to remain high by the end of the year at around 17.8 per cent. The high monetary growth has been entirely due to the increases in net domestic assets from the banking sector as a result of high expansion of credit to both the private sector and the government. The private sector credit continued to grow at a higher rate and reached 24.8 per cent in December, 2006 due to expansion of economic activities relating to trading, real estate and housing, leasing and consumption. The increase in provisional advances to the government contributed to the excessive monetary expansion, which has fuelled the demand driven inflation. This indicates the need for renewed efforts in improving demand management.

Prices of domestically produced and imported food items reflected supply side disturbances. Prices of vegetables increased substantially during the latter part of the year due to the shortage in supply, being the inter harvest period exacerbated by the extreme weather conditions. The disturbances created for distribution of goods due to adverse

¹Compiled after exclusion of items with high price volatilities and administered prices.

Chart 4.1

Annual Average Changes in Price Indices

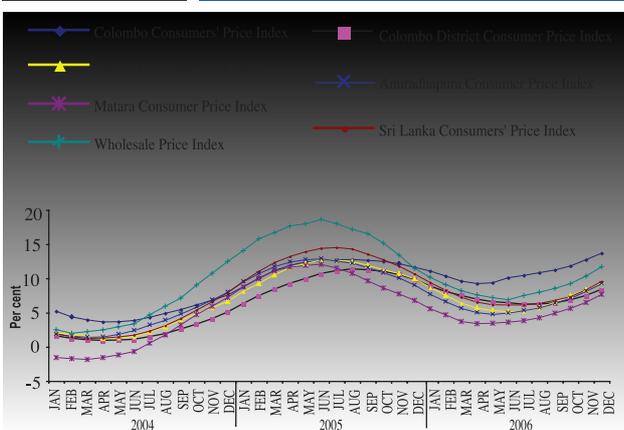


Chart 4.2

Point to Point Changes in Price Indices

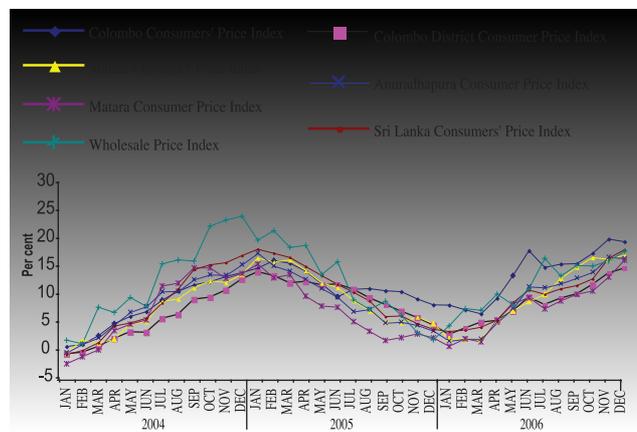


Table 4.1

Changes in Price Indices

Index	Average Index			Point to Point Percentage Change		Annual Average Percentage Change	
	2004	2005	2006(a)	Dec-2005/Dec-2004	Dec-2006/Dec-2005(a)	2005/2004	2006/2005(a)
CCPI	3,632.8	4,055.5	4,610.8	8.0	19.3	11.6	13.7
CDCPI	148.5	163.1	176.6	4.3	14.5	9.8	8.3
APCPI	158.5	172.8	188.9	3.4	16.4	9.0	9.3
MLCPI	151.6	166.6	182.3	4.6	16.9	9.9	9.4
MRCPI	147.2	157.2	169.3	2.1	16.0	6.8	7.7
SLCPI	170.9	189.1	207.2	3.6	17.9	10.6	9.5
WPI	1,889.0	2,105.9	2,351.6	1.7	17.3	11.5	11.7
GDP Deflator	183.6	201.8	222.6	-	-	9.9	10.3

(a) Provisional

Source: Central Bank of Sri Lanka

security developments in the Northern and Eastern provinces raised the prices of fresh fish both at wholesale and retail level even though the fisheries sector had almost fully recovered after the tsunami. Resulting from the substitution effect of high fish prices, the prices of meat, eggs and dried fish also increased. The prices of several other key food items such as red onions, potatoes and dried chillies rose noticeably due to both supply side and external factors. Increase in intermediate input costs along with the high transport expenditure were other contributory factors for the above price developments.

High international prices coupled with the duty revisions and the currency depreciation raised the prices of imported items. International oil prices increased by around 22 per cent to US dollars 64 per barrel compared with US dollars 53 per barrel in 2005 compelling the revisions of domestic fuel prices. World prices of sugar rose sharply in 2006 due to low supply in the international market as a result of sugar cane being used to produce ethanol, a substitute for

gasoline, in response to high international petroleum prices. High import price of wheat grain raised the local prices of wheat flour and bread. The government imposed an additional customs duty of Rs. 10 per kilogram on imported wheat flour and increased the customs duty on imported rice from Rs. 9 to Rs 20 per kilogram with effect from 01 February 2006, which raised the import prices of essential goods. This was further aggravated by the upward revision of the Ports and Airport Development Levy (PAL) and the excise duty on certain non-food items from the 2007 Budget by the end of the year. Furthermore, the increased freight and insurance charges too added to the cost of imports in 2006.

A series of administrative price revisions impacted on raising the price levels in 2006. This contributed to a further rise in the overall price level of both domestically produced and imported goods. Significant price revisions were made on fuel, electricity, transport, liquor and tobacco. The adjustment of domestic fuel prices three times during the year resulted in petrol and auto diesel prices rising by 15 per cent

Table 4.2

Retail Prices of Key Imported and Domestically Produced Items

Item	Unit	SLCPI Weight	Price - Rs						Percentage Change				
			Annual Average			Dec 2004	Dec 2005	Dec 2006(a)	Annual Average		Point to Point		
			2004	2005	2006(a)				2005/2004	2006/2005	Dec-2005/Dec-2004	Dec-2006/Dec-2005(a)	
Domestic	Red Kekulu Rice	kg	16.3	35.30	32.83	31.22	41.86	32.10	38.19	-7.0	-4.9	-23.3	19.0
	Par Boiled (Highest)	kg		34.03	31.75	31.49	39.29	33.65	37.95	-6.7	-0.8	-14.4	128
	Kora (Highest)	kg		33.51	31.72	30.85	38.16	32.46	34.79	-5.3	-2.7	-14.9	7.2
	Coconut (medium)	Nut	5.4	12.68	16.61	15.68	18.65	16.39	18.59	31.0	-5.6	-12.1	13.4
	Fish - Kelawalla	kg	1.4	240.41	263.74	308.15	248.10	275.60	333.66	9.7	16.8	11.1	21.1
	Beans	kg	1.3	56.35	69.40	76.14	53.56	73.64	101.97	23.2	9.7	37.5	38.5
	Brinjal	kg	0.9	35.55	42.06	47.74	51.70	45.76	71.20	18.3	13.5	-11.5	55.6
Eggs	One	0.6	5.45	7.26	7.07	6.86	6.71	9.07	33.2	-2.6	-2.2	35.2	
Imports	Sugar	kg	3.4	37.51	41.94	60.22	38.70	43.66	65.31	11.8	43.6	12.8	49.6
	Milk Powder - Anchor	400g	3.3	137.13	156.31	160.58	149.58	158.98	165.83	14.0	2.7	6.3	4.3
	Red Dhal	kg	1.9	69.46	76.51	75.52	75.67	75.87	81.99	10.1	-1.3	0.3	8.1
	Wheat Flour	kg	0.9	25.99	29.00	34.25	27.41	29.13	40.47	11.6	18.1	6.3	38.9

(a) Provisional

Source: Central Bank of Sri Lanka

Table 4.3

Administered Price Revisions in 2005 and 2006

Item	Unit	Price (Dec) - Rs.			Percentage Change	
		2004	2005	2006	2005/2004	2006/2005
Cigarettes (Gold-leaf)	Each	9.00	10.50	11.00	16.7	4.8
Cigarettes (Bristol)	Each	7.50	9.00	9.50	20.0	5.6
Coconut Arrack	750 ml	338.50	375.00	410.00	10.8	9.3
Extra Special Arrack	750 ml	290.00	345.00	360.00	19.0	4.3
Diesel	1 ltr.	44.00	50.00	60.00	13.6	20.0
Kerosene	1 ltr.	25.50	30.50	48.00	19.6	57.4
Petrol	1 ltr.	70.00	80.00	92.00	14.3	15.0
Furnace Oil (1000)	1 ltr.	24.70	30.70	44.40	24.3	44.6
Furnace Oil (1500)	1 ltr.	24.30	30.30	43.30	24.7	42.9
Furnace Oil (3500)	1 ltr.	22.00	28.00	41.00	27.3	46.4
Electricity - Unit Charge	Unit range 0-30	3.00	3.00	3.00	0.0	0.0
	31-60	3.70	3.70	4.70	0.0	27.0
	61-90	4.10	4.10	5.10	0.0	24.4
	91-180	10.60	10.60	12.10	0.0	14.2
	> 180	15.80	15.80	17.30	0.0	9.5
Electricity - Fixed Charge	Unit range 0-30	30.00	30.00	60.00	0.0	100.0
	31-60	30.00	30.00	90.00	0.0	200.0
	61-90	30.00	30.00	120.00	0.0	300.0
	91-180	30.00	30.00	180.00	0.0	500.0
	> 180	30.00	30.00	240.00	0.0	700.0
Bus Fare	-	-	-	-	15.0	16.0

Source: Central Bank of Sri Lanka

and 20 per cent, respectively during 2006. The fuel price revisions were necessary to remove the burden of subsidies from the government to avoid longer term inflation resulting from the weakening of the fiscal sector.

Seasonal Variations in Prices

Consumer prices in Sri Lanka exhibit distinct seasonal patterns, which are clearly reflected in the movements of the CPIs. There are two main agricultural seasons Yala (April-August) and Maha (September-March) coinciding with the two monsoons leading to seasonality in agricultural produce such as rice, vegetables, pulses and other subsidiary food crops. Accordingly, during the two main harvesting seasons, which fall in February to March and July to August periods, the prices decline while during inter harvest periods the prices creep up as seen by the CPI movements, in general. In addition, prices tend to rise during the festive seasons, particularly during the two main cultural and religious festivals in April and December. This behaviour of prices was seen in 2006 as well where vegetable prices dropped within a range of 1 - 43 per cent during harvesting periods while the prices rose in a range of 1 - 52 per cent during inter harvest periods. Similarly, in respect of rice, the prices declined in a range of 3 - 8 per cent while increases ranged between 1 - 10 per cent in the respective periods.

Consumer Price Indices

The Colombo Consumers' Price Index (CCPI), the official cost of living index, recorded a 19.3 per cent increase on point-to-point basis in December 2006 culminating in an annual average increase of 13.7 per cent by the year end.

Among the sub indices of the CCPI, the food sub index, which has the highest weight of around 62 per cent in the total basket, had the dominant influence on the overall index. The fuel and light sub index increased at a faster rate in 2006 as a result of the upward price revisions of kerosene and electricity during the year coupled with the price increases of firewood due to bad weather conditions. The increase of the miscellaneous sub index was mainly driven by the upward price revisions of transport related goods and services and price increases of liquor, tobacco, medicine and education.

The Sri Lanka Consumers' Price Index (SLCPI) which has a broader geographical coverage with a more recent consumption basket (base year 1995/97) followed a similar trend registering a point-to-point increase of 17.9 per cent and an annual average increase of 9.5 per cent in December 2006. The dominating consumption expenditure group of SLCPI, food, beverages and tobacco with a weight of 71.2 per cent increased by 17.7 per cent on a point-to-point basis in December, 2006 and made the highest contribution to the overall increase. Housing, water, electricity, gas and other fuel category which has the second highest weight in the SLCPI basket, recorded its highest increase, contributing significantly to the increase in the overall index. Housing construction materials, LP gas, electricity charges and kerosene recorded price increases. The transport sub index also recorded a relatively higher increase in response to the price revision of bus fare by the Ceylon Transport Commission and the upward price revision of petrol and diesel. Meanwhile, pressure from other sub indices were lower contributing less than 5 per cent to the overall increase in 2006.

All regional CPIs also demonstrated a behaviour similar to the CCPI and SLCPI, but with slower increases than the CCPI. The slower increase was due to differences in the weight structures used for the construction of four regional CPIs for the districts of Anuradhapura (APCPI), Colombo (CDCPI), Matale (MLCPI) and Matara (MRCPI) and the variations in regional prices. All these four regional indices registered lower annual average increases ranging from 7.7 per cent to 9.4 per cent, with the lowest increase of 7.7 per cent being recorded by the MRCPI. The relatively high weights of the food sub group in the APCPI and MLCPI around 64 per cent compared to around 58 per cent in the CDCPI, contributed to raise the inflation in Anuradhapura and Matale districts higher than Colombo as inflation mainly stemmed from the food items. Prices of vegetables in the Anuradhapura and Matale districts increased rapidly in the fourth quarter of 2006 compared to the increases in the Colombo district in response to the extreme weather conditions making a significant influence on the registered inflation in these two districts. This may be due to the high sensitivity of prices to supply changes in the producing areas compared to Colombo as Colombo receives supplies from everywhere being the main distribution centre in the country.

Wholesale Price Index

The Wholesale Price Index (WPI), which measures the price movements at the primary market level, behaved similarly to the CPIs, particularly the SLCPI, preceding the price developments at the retail level. The movements in WPI mostly represent the price developments at producer level and therefore, it is a useful indicator to assess the future inflation in the country. The WPI was on a decelerating path in 2005, and rose continuously after January 2006 marking a point to point increase of 17.3 per cent by December to yield an annual average inflation of 11.7 per cent for the year.

The annual average change of the dominant sub group of food, with a share of around 68 per cent, dominated the pattern of the overall index, but increased at a relatively lower rate in 2006. Factors that affected the prices at the retail level during the year had a similar impact on the domestic and import food prices at the wholesale level as well. In addition, higher prices of certain key exports such as tea and pepper in the international market contributed to the increase in this sub index. Meanwhile, price declines in a few items including paddy and coconut, which account for more than 20 per cent of the overall weight helped dampen the price pressure to a certain extent. The increase in the petroleum sub index, having the second highest weight, by 27 per cent, was a consequence of the upward revisions in domestic fuel prices. Increase in the miscellaneous sub index by 33 per cent during the year, mainly influenced by higher international prices of rubber driven by increased demand, had a substantial impact on the index. Increase in the prices of tyres and batteries, consequential on higher imported input

prices and freight charges was evident in the annual average increase in the transport equipment sub index by 19 per cent and the impact of higher excise duty on alcoholic drinks in 2006 was reflected in the increase of the alcoholic drinks sub index by 11 per cent. In contrast, the drop in the wholesale price of fertilizer as a result of granting subsidy helped lower the high price pressure to a certain extent.

On the basis of origin of goods, the imports sub group recorded the highest increase followed by the domestic group, while the exports increased at a relatively lower level during the year. The higher international prices of major intermediate import items of petroleum products and key food imports and medicine were the main contributory factors to the increase in the imports sub index, which has a weight of around 27 per cent in the WPI basket. The domestic group representing a share greater than 50 per cent, increased by around 11 per cent, influenced by the price increases of both food and non-food items such as alcohol, tobacco, tyres and construction materials. The exports sub group which increased at a slower rate than 2005 was mainly influenced by the lower prices of coconut and cocoa.

Of the three sub indices consumer, intermediate and investment, under the end use classification, intermediate goods was the main contributor to the rise in price levels. This group increased at a higher rate of 25 per cent on average, compared to 11 per cent increase in the previous year. Excise duty imposed on tobacco, high fuel prices, high export prices for rubber, increased tyre prices and high import price of wheat grain contributed to the increase in intermediate goods prices. The consumer sub group with a dominant share of more than 71 per cent, mainly containing food items moved very much similar to the food sub index, recording a similar increase for the year. The investment sub group recorded the highest annual average increase of 30 per cent, which, however has a relatively lower share. The continuous demand for both domestic and imported construction materials with further expansion of tsunami construction work along with implementation of foreign funded projects exerted demand side pressure on investment goods. The higher transport charges of building materials contributed partly to this increase, in addition to the higher cost of domestic production arising from high import prices as well as domestically procured goods and services. Further, the restrictions imposed due to environmental concerns adversely affected the production of certain construction materials such as sand, bricks and roof tiles limiting their supplies.

GDP Deflator

The GDP deflator, which measures the price change of all goods produced in the economy, increased by 10.3 per cent compared with 9.9 per cent in 2005. The increasing trend of inflation was observed in the industry and services sectors, while the agriculture sector increased at a

Table 4.4 Sectoral Deflators and GDP Deflator

Sector	Index			Percentage Change	
	2004	2005(a)	2006(b)	2005/2004	2006/2005(b)
Agriculture	182.3	202.4	217.9	11.0	7.7
Industry	185.9	202.6	223.4	9.0	10.3
Services	183.0	201.2	223.6	10.0	11.1
GDP	183.6	201.8	222.6	9.9	10.3

(a) Revised
(b) Provisional

Source : Central Bank of Sri Lanka

lower rate of 7.7 per cent as compared with the increase of 11 per cent registered in the previous year. The services sector recorded the highest increase of 11.1 per cent while the industry sector increased by 10.3 per cent in 2006 compared to 9.0 per cent in 2005.

4.3 Wages

The employed population comprises paid employees, employers, own account workers and unpaid family workers. The paid employees category comprises of three sectors public sector, formal private sector and informal private sector. Wages in the public sector are largely determined by the government. For formal private sector employees, the wage setting mechanism includes several forms, tripartite determination, collective bargaining, remunerative tribunals, unilateral employer decisions and adjustment by government directives. In the informal private sector, wages are mostly determined on demand and supply conditions in the market. In 2006, overall nominal wages grew faster than the previous year.

Public Sector Wages²

The government implemented a new salary structure for the public service by re-categorising /re-grouping of all posts/services based on a new set of definitions under Budget proposals of 2006. Accordingly, all government employees initially received a fifty per cent of the salary increase which was based on the difference between the new salary scales and the salaries paid in December, 2005 inclusive of all allowances, with effect from 01 January, 2006. The balance fifty per cent of the difference was due to be paid from January 2007.

A new system for the payment of cost of living allowances (COLA) to the government employees was also implemented as proposed in the Budget 2006. Accordingly, the COLA would be revised every six months ending 30th June and 31st December of each year. An initial payment of COLA amounting to Rs.1,000/- was granted to all government employees with effect from 01 January 2006 (Public Administration Circular No.12/2006) and was increased to Rs.1,375/- from 01 July 2006. The combined impact of above increases was the rise in the nominal wage rate indices of all categories of public sector employees, non-executive officers, minor employees and government school teachers, in the range of 26 - 31 per cent in 2006. When these nominal wage increases were adjusted for inflation, their real wages increased in the range of 12 - 16 per cent.

Formal Private Sector Wages³

The overall minimum nominal wage rate index of workers in the formal private sector increased by 2 per cent in 2006. Wages of the workers in Agriculture and Industry and

² The public sector consists of two sub sectors, namely, government (central, provincial and local government sectors) and semi government (state corporations, statutory boards and state authorities).

³ The formal private sector comprises private sector institutions that contribute to the general Employees' Provident Fund (EPF) or maintain their own funds with the approval of the Commissioner of Labour.

Table 4.5

Wage Rate Indices

Employment Category	(December 1978=100)											
	Index						Percentage Change					
	Nominal			Real			Nominal			Real		
	2004	2005	2006(a)	2004	2005	2006(a)	2004	2005	2006(a)	2004	2005	2006(a)
1. Government employees												
Central government employees	1,872.1	2,417.5	3,155.6	123.3	142.7	164.2	22.8	29.1	30.5	14.0	15.8	15.1
Non-executives	1,709.0	2,178.4	2,853.8	112.5	128.6	148.5	21.2	27.5	31.0	12.6	14.3	15.5
Minor employees	2,039.5	2,672.4	3,474.1	134.3	157.8	180.8	24.6	31.0	30.0	15.7	17.5	14.6
Government school teachers	1,428.4	1,818.6	2,304.2	94.1	107.4	119.9	21.0	27.3	26.7	12.4	14.1	11.7
2. Workers in wages boards trades												
All wages boards trades	1,233.0	1,329.7	1,358.2	81.3	78.5	70.7	2.3	7.8	2.1	-4.8	-3.5	-9.9
Workers in agriculture	1,397.7	1,527.4	1,567.1	92.2	90.2	81.6	1.1	9.3	2.6	-5.9	-2.3	-9.5
Workers in industry and commerce	1,044.1	1,078.4	1,090.7	68.9	63.7	56.8	3.4	3.3	1.1	-3.7	-7.6	-10.8
Workers in services	751.0	779.7	779.7	49.5	46.0	40.6	10.8	3.8	0.0	2.9	-7.0	-11.8

(a) Provisional

Source: Department of Labour

Table 4.6

Informal Private Sector Daily Wages by Sector and Gender^(a)

Sector	Annual Average (Rs.)			Percentage Change			
	2004	2005	2006(b)	Nominal		Real	
				2005	2006(b)	2005	2006(b)
1. Agriculture Sector							
Tea							
Male	304	300	333	-1.3	11.2	-12.9	-2.5
Female	218	217	234	-0.5	8.4	-12.1	-5.3
Rubber							
Male	304	305	335	0.8	9.7	-10.8	-4.0
Female	229	230	249	1.3	8.3	-10.3	-5.4
Coconut (c)							
Male	361	378	411	5.0	8.6	-6.6	-5.1
Paddy							
Male	334	343	375	2.4	9.8	-9.2	-3.9
Female	256	256	289	-0.1	13.4	-11.7	-0.3
2. Construction Sector (c)							
Carpentry							
Master Carpenter - Male	505	542	616	7.4	13.4	-4.2	-0.3
Skilled and Unskilled Helper- Male	349	353	398	1.3	12.7	-10.3	-1.0
Masonry							
Master Mason - Male	499	537	608	7.6	13.1	-4.0	-0.6
Skilled and Unskilled Helper- Male	347	353	394	1.8	11.8	-9.8	-1.9

(a) Wage Information were based on monthly wages from 93 centres.

(b) Provisional

(c) Female participation is minimal in the Coconut and Construction sectors.

Source :Central Bank of Sri Lanka

Commerce rose by a range of 1-3 per cent, while those for the services sector remained unchanged. The wage increases in the formal private sector were influenced by the wage increases of individual contracts, collective agreements, unilateral decisions by employers and minimum wage decisions of Wages Boards. Employees in this sector suffered losses in their minimum real wages in 2006 too as experienced in 2005. However, as the minimum wage indices do not cover all payments and wages earned by managerial and professional categories, the actual situation could be different to the situation reflected in the minimum wage indices.

Informal Private Sector Wages⁴

The informal private sector experienced marginal improvements in wage rates in 2006. The Country Wide Data Collection System (CWDCS) of the Central Bank showed that the nominal daily wages in the agriculture sector increased in a range of 8 – 13 per cent in 2006 and the wages of the workers in the tea and rubber sectors rose at relatively higher rates as a result of improved prices of tea and rubber during the year. However, real wages of all agricultural sector workers dropped further within a range of 0.3 - 5.4 per cent compared with the drop of 6.6 -12.9 per cent in the previous year. The construction sector nominal wages increased within a range of 12 - 13 per cent as the demand for construction workers continued to rise in 2006. However, when adjusted for inflation, their real wages dropped marginally during the year.

⁴ The informal private sector comprises all employees that fall outside the public sector and formal private sector.

4.4 Population, Labour Force and Employment

Population

The mid year population, estimated at 19.9 million in 2006, grew by 1.1 per cent over 2005. All three age categories (below 15 years, 15-54 years and 55 years and above) recorded growth rates similar to the mid year population growth. All districts contributed to the expansion in population, except Jaffna and Killinochchi which recorded declines due to out-migration. High increases in population in Colombo, Vavuniya, Kandy, Gampaha, Ratnapura, Kurunegala, Badulla and Galle districts contributed 63 per cent to the overall growth.

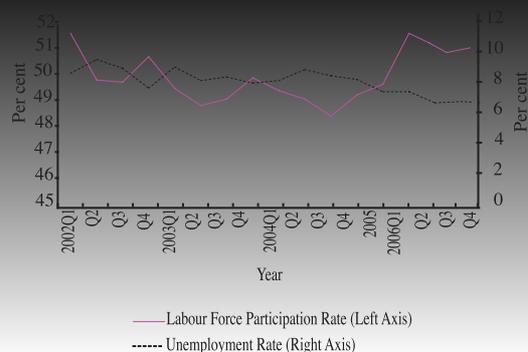
Labour Force

The labour force, employment and unemployment in the country are estimated by the Quarterly Labour Force Surveys (QLFS) conducted by the Department of Census and Statistics (DCS)⁵. However, the DCS did not conduct QLFS in 2005 due to the absence of a sample frame in the tsunami affected areas, but a Special Labour Force Survey (SLFS) was conducted in August 2005 covering the entire country. The QLFS was conducted in 2006, but the Northern and Eastern provinces were not covered due to the adverse security situation in those areas. Therefore, in the absence of a comparative data series for 2005 and 2006, QLFS data of 2006 and SLFS data adjusted for exclusion of the Northern and Eastern provinces are used for this analysis as the most closely approximates. Accordingly, the labour force increased

⁵ Labour force is defined as persons aged 10 years and above, and able and willing to work.

Chart 4.3

Trends in Labour Force and Unemployment 2002-2006



by 3.9 per cent from 7.3 million in August 2005 to 7.6 million in 2006, which comprised of 7.1 million employed and 0.5 million unemployed. The labour force participation rate (LFPR) increased to 51.2 per cent in 2006 from 49.3 per cent in August, 2005⁶.

Employment

According to the QLFS, the number of employed persons increased by 4.7 per cent to 7.1 million in 2006 from 6.8 million in August 2005. The QLFS defines an employed person as one who worked for pay, profit or family gain (unpaid) for one hour or more during the week preceding the survey. Employees temporarily absent from work due to illness, bad weather or labour disputes are also considered as employed.

⁶ LFPR is the ratio of the labour force to the household population aged 10 years and above.

Table 4.7

Districtwise Population

District	'000 Persons			
	2005	2006(a)	Change	Percentage Change
Colombo	2,382	2,421	39	1.6
Kandy	1,343	1,361	18	1.3
Ratnapura	1,060	1,073	13	1.2
Badulla	825	837	12	1.5
Kurunegala	1,498	1,511	13	0.9
Gampaha	2,111	2,125	14	0.7
Galle	1,030	1,040	10	1.0
Anuradhapura	782	791	9	1.2
Kalutara	1,094	1,102	8	0.7
Matara	795	804	9	1.1
Nuwara Eliya	729	735	6	0.8
Ampara	618	627	9	1.5
Batticaloa	549	556	7	1.3
Puttalam	737	745	8	1.1
Jaffna	603	595	-8	-1.3
Matale	466	471	5	1.1
Trincomalee	388	395	7	1.8
Hambantota	542	547	5	0.9
Moneragala	415	420	5	1.2
Polonnaruwa	377	382	5	1.3
Mullaitivu	141	145	4	2.8
Kilinochchi	145	142	-3	-2.1
Vavuniya	145	164	19	13.1
Kegalle	794	797	3	0.4
Mannar	99	100	1	1.0
Total	19,668	19,886	218	1.1

(a) Provisional

Source: Registrar General's Department

The increase in employment was spread across all three economic sectors, agriculture, industry and services. The industry sector had recorded the largest increase while expansionary policies of the government including several subsidy programmes coupled with favourable agricultural prices contributed to the rise in employment in the agriculture sector. However, the employment in the services sector contracted marginally by 0.4 per cent although it recorded the highest sectoral GDP growth during the reference period.

Table 4.8

Household Population, Labour Force and Labour Force Participation

Item	2004(a)	2005(b)	2005(b)(c)	2006(c)				
				Q1	Q2	Q3	Q4	Annual
Household Population (d) '000 Persons	16,593	16,871	14,838	14,759	14,779	14,989	14,967	14,834
Labour Force '000 Persons	8,061	8,141	7,312	7,628	7,549	7,602	7,629	7,599
Employed	7,394	7,518	6,788	7,081	7,074	7,112	7,150	7,105
Unemployed	667	623	524	546	476	490	479	493
Labour Force Participation Rate (e) per cent	48.6	48.3	49.3	51.7	51.1	50.7	51.0	51.2
Male	66.7	67.1	67.3	69.3	68.4	68.0	67.0	68.1
Female	31.5	30.9	32.6	35.5	35.4	35.0	36.1	35.7

(a) Mullaitivu and Kilinochchi districts were excluded for 2004 annual estimates.

(b) QLFS was conducted as a one off survey in August 2005.

(c) Data exclude both Northern and Eastern provinces.

(d) Age 10 years and above.

(e) Labour force as a percentage of household population aged 10 years and above.

Source: Department of Census and Statistics

Table 4.9

Employment by Economic Activity

Sector	'000 Persons								Percentage of Total Employment			
	2004(a)	2005(b)	2005(b)(c)	2006(c)					2004(a)	2005(b)	2005(b)(c)	2006(c)
				Q1	Q2	Q3	Q4	Annual				
Agriculture	2,475	2,306	2,059	2,346	2,423	2,122	2,357	2,287	33.5	30.7	30.3	32.2
Industry	1,781	1,928	1,787	1,863	1,791	2,018	1,892	1,890	24.1	25.6	26.3	26.6
Manufacturing	1,307	1,385	1,293	1,333	1,250	1,486	1,357	1,363	17.7	18.4	19.0	19.2
Construction (d)	474	543	494	530	541	532	535	527	6.4	7.2	7.3	7.4
Services	3,138	3,284	2,941	2,872	2,860	2,972	2,901	2,928	42.4	43.7	43.3	41.2
Trade and hotels, etc.	1,031	1,043	932	1,101	1,034	1,088	1,043	1,084	13.9	13.9	13.7	15.3
Transport, storage and communication	417	485	448	404	404	438	439	430	5.6	6.5	6.6	6.1
Finance, insurance and real estate	176	234	226	236	213	244	196	221	2.4	3.1	3.3	3.1
Personal services and other	1,514	1,522	1,335	1,131	1,209	1,203	1,223	1,192	20.5	20.2	19.7	16.8
Total employment	7,394	7,518	6,788	7,081	7,074	7,112	7,150	7,105	100.0	100.0	100.0	100.0
Percentage of labour force	91.7	92.3	92.8	92.8	93.7	93.6	93.7	93.5	-	-	-	-

(a) Mullaitivu and Kilinochchi districts were excluded for 2004 annual estimates

(b) QLFS was conducted as a one-off survey in August 2005.

(c) Data exclude both Northern and Eastern provinces.

(d) Mining and quarrying, electricity, gas and water categorised under construction. 2004 and 2005 data were revised accordingly.

Source: Department of Census and Statistics

This was mainly due to the decline in employment in the personal services category from 1.3 million to 1.2 million between the two periods.

According to the QLFS, the share of employment of the private sector declined from 46.2 per cent in August 2005 to 42.1 per cent. The share of public sector employment increased from 13.2 per cent in August 2005 to 13.4 per cent in 2006. The expansion in the public sector employment during the reference period was also reflected in the Annual Public Sector Employment Survey (APSES) conducted by the Central Bank.

Unemployment

According to the DCS, the annual unemployment rate dropped to 6.5 per cent in 2006 from 7.2 per cent recorded in August 2005. However, the rate had dropped to 6.3 per cent in the fourth quarter 2006 from 6.4 per cent in the third quarter. This decline was associated with the healthy growth experienced in all three sectors of the economy during 2006. The implementation of several programmes for job creation, dissemination of labour market information and career guidance programmes also contributed to lessen the rate of unemployment.

The unemployment among young age groups and women was relatively higher. However, youth unemployment, especially among the age groups of 15-19 years has declined significantly. According to the QLFS estimates, the unemployment rate in this age group had declined to 23.1 per cent in 2006 from 33.2 per cent in August 2005, while the unemployment among the age group of 20-29 remained unchanged.

Table 4.10

Status of Employment

Period	Per cent					
	Public Sector Employees	Private Sector Employees	Employers	Self Employed	Unpaid Family Workers	Total
2004(a)	13.0	46.4	2.9	28.3	9.4	100.0
2005(b)	13.3	46.1	3.1	29.7	7.9	100.0
2005(b)(c)	13.2	46.2	2.8	29.7	8.1	100.0
2006(c)	13.4	42.1	3.1	30.8	10.5	100.0
1st Quarter	13.4	41.9	3.2	31.6	9.9	100.0
2nd Quarter	13.4	42.0	3.0	30.6	11.1	100.0
3rd Quarter	14.0	42.1	3.6	30.1	10.2	100.0
4th Quarter	13.1	42.8	3.0	30.5	10.6	100.0

Source: Department of Census and Statistics

(a) Mullaitivu and Kilinochchi districts were excluded for 2004 annual estimates.

(b) QLFS was conducted as a one-off survey in August 2005.

(c) Data exclude both Northern and Eastern provinces.

Table 4.11

Public Sector Employment

	2004	2005	2006(a)	Percentage Change	
				2005/2004	2006/2005(a)
Government(b)	842,255	850,321	887,674	0.9	4.4
Semi-Government(c)	252,659	253,922	258,049	0.5	1.6
Public Sector	1,094,914	1,104,243	1,145,723	0.8	3.8

(a) Provisional

(b) Central Government, Local Government and Provincial Councils

(c) State Corporations, Statutory Boards and State Authorities

Source: Central Bank of Sri Lanka

Table 4.12

Unemployment Rate (Unemployed as a Percentage of Labour Force)

Category	2004(a)	2005(b)	2005(b)(c)	2006(c)				
				Q1	Q2	Q3	Q4	Annual
All	8.3	7.7	7.2	7.2	6.3	6.4	6.3	6.5
By Gender								
Male	6.0	5.5	5.3	5.5	4.9	4.6	4.3	4.7
Female	12.8	11.9	10.7	10.1	8.7	9.8	9.8	9.7
By Age Group								
15 - 19	28.3	30.8	33.2	31.3	23.3	20.7	20.3	23.1
20 - 29	19.2	17.2	16.0	16.8	15.3	16.4	15.9	15.9
30 - 39	4.0	3.8	3.5	3.5	2.9	3.2	3.3	3.3
40 and above	1.3	1.2	2.4	1.3	1.1	1.2	1.5	1.4
By Education Level								
Grade 4/Year 5 and below	2.0	1.8
Grade 5-9/ Year 6-10	6.9	6.3	6.1	6.5	5.9	5.6	5.5	5.8
GCE(O/L)/ NCGE	12.3	11.5	10.6	10.0	10.3	9.9	9.2	9.9
GCE(A/L)/HNCE and above	16.8	13.8	12.2	12.1	10.6	11.3	12.0	11.6

(a) Mullaitivu and Kilinochchi districts were excluded for 2004 annual estimates.
 (b) QLFS was conducted as a one-off survey in August 2005.
 (c) Data exclude both Northern and Eastern provinces

Source: Department of Census and Statistics

Further, the high unemployment rates among those with GCE/OL and GCE/AL and higher qualifications had declined to 9.9 per cent and 11.6 per cent, from 10.6 per cent and 12.2 per cent, respectively. However, these estimates exclude the Northern and the Eastern Provinces for both years as the QLFS of 2006 was not conducted in these areas.

Foreign Employment

According to estimates of the Sri Lanka Bureau of Foreign Employment (SLBFE), 1.5 million Sri Lankans were employed overseas as at end 2006. However, foreign employment placements during the year 2006 declined by 13 per cent to 201,143 compared with 231,290 in 2005. This decline was mainly due to tension in the Middle Eastern

Region and poor supply of skilled labour and housemaids. The Middle Eastern Region contributed for more than 90 per cent of total foreign employment opportunities. However, there was a noticeable increase in employment opportunities in South Korea and Malaysia in recent years following the efforts of the government.

The share of males in foreign employment placements continue to increase. The share of male foreign employment which was 25 per cent in the mid 1990s increased further from 41 per cent in 2005 to 44 per cent in 2006. This increase in the share of male foreign employment was due to high demand for skilled and unskilled males for jobs in Qatar in the last two years. Consequently, the share of females in

Table 4.13

Foreign Employment

Employment	2004		2005		2006(a)	
	Number	Per cent	Number	Per cent	Number	Per cent
Total Placements	214,709	100.0	231,290	100.0	201,143	100.0
By Source						
Licensed Agents	156,146	72.7	165,707	71.6	142,883	71.0
Other	58,563	27.3	65,583	28.4	58,260	29.0
By Gender						
Male	80,699	37.6	93,896	40.6	88,747	44.1
Female	134,010	62.4	137,394	59.4	112,396	55.9
By Manpower Category						
Housemaid	110,512	51.5	125,493	54.3	100,326	49.9
Other						
Skilled Labour	45,946	21.4	46,688	20.2	44,464	22.1
Unskilled Labour	43,204	20.1	41,904	18.1	40,518	20.1
Other	15,047	7.0	17,205	7.4	15,835	7.9

(a) Provisional

Source: Sri Lanka Bureau of Foreign Employment

Table 4.14

Foreign Employment Departures by Destination

Country	2005		2006(a)		Change(a)	
	Number	Share	Number	Share	Number	Per cent
Qatar	35,953	15.5	31,177	15.5	-4,776	-13.3
Saudi Arabia	76,210	33.0	61,385	30.5	-14,825	-19.5
U A E	36,371	15.7	33,386	16.6	-2,985	-8.2
Kuwait	36,157	15.6	34,526	17.2	-1,631	-4.5
Other	46,599	20.2	40,669	20.2	-5,930	-12.7
Total	231,290	100.0	201,143	100.0	-30,147	-13.0

(a) Provisional

Source : Sri Lanka Bureau of Foreign Employment

total foreign employment declined further from 59 per cent in 2005 to 56 per cent in 2006.

Despite government initiatives to encourage skills development for migrant labour, 70 per cent of migrant workers were in the unskilled category, although the share of housemaids, the most vulnerable and lowest income-earning group dropped to 50 per cent in 2006 from 54 per cent in 2005. There was a high concentration on housemaids of the manpower categories especially in the Middle Eastern countries such as Saudi Arabia, Kuwait, UAE, Qatar, Lebanon and Jordan with a combined share of more than 80 per cent. In contrast, there was a higher concentration of skilled migrant workers to Malaysia and South Korea. This was a result of new government policy to encourage skilled labour migration to those countries.

Labour Productivity

Labour productivity continued to improve in 2006, following the trend experienced during the last few years. In terms of value addition, it increased by around 3 per cent compared to the previous year, to Rs. 142,700 per employee, based on the employment numbers adjusted for the Northern and Eastern provinces for 2006 to be comparable between the years. The considerable increase in productivity in the services sector was the main contributor to the increase in

productivity in 2006 while the contribution from the industry sector was marginal. Meanwhile, the agriculture sector productivity, which has remained at low levels, had declined compared to 2005 dampening the overall productivity for the year.

Labour Relations

The number of strikes in the private sector decreased in 2006, to the lowest in the past decade. However, in contrast, the total man-days lost and workers involved recorded the highest level in the year 2006 due to the engagement of a large number of plantation workers in industrial action during 2006. Trade union action in the plantation sector in the 4th quarter of 2006 had a grave impact on the plantation industry. The total man-days lost in the plantation sector implied that the plantation sector as well as the export trade would continue to suffer until production and quality returns to normal. The number of strikes in the rest of the private sector, excluding the plantation sector also declined in 2006. Reflecting this, the total man-days lost and workers involved declined dramatically by more than 50 per cent in this category. This favourable development was a combined result of various factors such as signing the collective agreements between employers and trade unions, better relationships among parties and maintaining a better social dialogue at the workplace to improve industrial harmony. The continuous maintenance of such a sound environment is essential for increasing investment and productivity in the country.

Some disputes in certain key public sector institutions have raised concerns over maintaining overall industrial harmony. In this respect, the workers' unrest that prevailed in certain key public institutions such as Sri Lanka Railway, Ceylon Electricity Board, the Sri Lanka Ports Authority and Ceylon Petroleum Corporation during the year need to be addressed to create an environment conducive to promoting growth.

Table 4.15

Labour Productivity by Major Economic Sector

	2004	2005(a)	2006(b)
GDP at Constant (1996) Prices, Rs. Million	980,720	1,039,763	1,116,215
Agriculture	175,852	179,278	187,729
Industry	259,286	280,868	300,982
Services	545,582	579,618	627,504
Labour Productivity, Rs.'000 Per Person(c)	134.0	138.3	142.7
Agriculture	70.8	77.7	73.8
Industry	161.3	152.3	154.6
Services	169.1	172.1	188.5

(a) Revised

(b) Provisional

(c) Employment numbers adjusted for the exclusion of Northern and Eastern provinces were used.

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

Table 4.16

Strikes in Private Sector Industries

Year	Plantation			Other(a)			Total		
	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost
2004	44	15,832	40,779	46	17,514	40,321	90	33,346	81,100
2005	17	4,283	8370	40	49,282	149,982	57	53,565	158,352
2006(b)	19	196,520	4,821,394	34	13,283	72,513	53	209,803	4,893,907
1st Quarter	8	1,973	4,360	9	3,726	46,368	17	5,699	50,728
2nd Quarter	3	1,463	2,593	7	4,166	10,932	10	5,629	13,525
3rd Quarter	6	1,805	7,645	8	1,719	7,949	14	3,524	15,594
4th Quarter	2	191,279	4,806,796	10	3,672	7,264	12	194,951	4,814,060

(a) Includes semi government institutions and all other private institutions

(b) Provisional

Source: Department of Labour

Labour Market Reforms

During 2006, the Ministry of Labour Relations and Foreign Employment (MLRFE) passed the **Employment of Women, Young Persons and Children (Amendment) Act in Parliament with amendments to restrain persons below the age of 18 years from being employed in hazardous occupations**. Previously, there were no provisions in the Act to cover persons less than 18 years of age in work classified under hazardous work tantamount to the worst forms of child labour use. In this respect, a competent committee appointed by the steering committee on elimination of child labour examined the types of employment, which can be classified under the worst forms of child labour.

The MLRFE also made amendments to the **Industrial Disputes Act (IDA) No.43 of 1950 and Termination of Employment of Workmen Act (TEWA) No.45 of 1971, extending the period to 6 months from 3 months for the submission of appeals after termination of employment, to the Commissioner of Labour under TEWA and to the Labour Tribunals under IDA**. They also suggested amendments to the Employees' Provident Fund (Special Provision) Act No.6 of 1975. The Minister of Labour sought approval of the Cabinet to amend the law to provide for the Commissioner to grant permission for pension funds only if in the opinion of the Commissioner they are more beneficial to the employees than the EPF and also to validate the operation of approved provident funds and pension schemes, which were in existence as at 01 February, 1990. In this respect, the Cabinet approved the proposal and the Legal Draftsman was advised to draft amendments accordingly. Further, the MLRFE is considering repealing the Factory Ordinance Act No.45 of 1942, as it does not cover workers in all sectors. Instead, a new Act, Occupational Safety, Health and Welfare at Work Act has been proposed which will cover all the workers in all sectors.

The MLRFE commenced work relating to National Policy for Decent Work (NPDW) in Sri Lanka. A Tripartite Steering Committee (TSC) was appointed under the

Minister's chairmanship with the purpose of drafting a national policy and action plan. The NPDW in Sri Lanka identifies the weaknesses in the focus areas of decent work and sets out the policies designed to overcome them. The National Action Plan for Decent Work has been developed with tripartite and regional participation to convert policy into action. Under the NPDW, opportunity for work, rights at work, social protection, social dialogue and the creation of jobs of acceptable quality are the main areas concerned. Accordingly, the NPDW is intended to weave many strands of existing policy with decent work principles to create an integrated framework for social and economic development.

4.5 Policies and Issues

Rising high and volatile consumer price inflation needs to be addressed promptly. The money driven inflation is being addressed by the Central Bank through its monetary policy. A part of the high volatility experienced during recent times was mainly due to the supply side factors arising from significant structural problems associated with the production and distribution systems. Improvements in the handling and distribution systems particularly for agriculture products along with a system to preserve some agriculture commodities during glut periods, could help mitigate high volatility in prices. Further, avoiding ad hoc tariff revisions to encourage a smooth flow of imports and encouraging the processed food industry are other measures in addressing price volatility.

High dependency on fuel and lack of policies for its efficient use have made domestic prices more vulnerable to international price fluctuations. A national level programme for energy conservation needs to be implemented to harness the full potential of available sources of energy.

Using outdated indices to measure inflation tends to give poor representation of general increase in prices. Developing a more representative measure of inflation and having it officially accepted by all stakeholders is also an area of great importance for policy matters.

Box 5

Need for a Better Representative Measure of Inflation

Inflation is the change in aggregate price level. The process of measuring inflation involves combining changes in the prices of individual goods and services to derive a measure of general price change. Accurate measures of inflation is crucial in achieving price stability, the goal of monetary policy.

It is unrealistic to monitor the price changes of all the goods and services traded in an economy. Hence, inflation measures rely on a 'basket of goods and services', which is a subset of goods and services transacted, consumed or produced in an economy. Price indices used in Sri Lanka differ in terms of the goods and services included in the basket, weights assigned to each item, geographic area of price collection, population coverage and the base year.

In Sri Lanka, the Colombo Consumers' Price Index (CCPI) is considered the official cost of living index. The other price indices are the Sri Lanka Consumers' Price Index (SLCPI), the Greater Colombo Consumers' Price Index (GCPI), the Colombo District Consumer Price Index (CDCPI), the Wholesale Price Index (WPI), the Western Province Consumer Price Index (WPCPI) and several regional price indices.

CCPI, the oldest index is based on the spending patterns of the lowest 40 per cent of households, who lived in the Colombo Municipal area in 1949/50, by their monthly expenditure. This index compiled and published by the Department of Census and Statistics (DCS), which is considered the official indicator of changes in cost of living as per the provisions of Wages Board Ordinance of 1941, is used to determine the cost of living allowances payable to government servants, plantation workers and workers in other industries covered by the said legislation.

Sampling of the goods and services to be included in a basket, so as to represent the aggregate price changes, is very important. It is equally important to use appropriate weights for each item so selected, when deriving a price index. To ensure this, the items to be chosen for computing a consumer price index (CPI) as well as the relative weights assigned to them need to be based on findings of a contemporaneous survey on consumption patterns of the targeted group. In those grounds, the official inflation measure of Sri Lanka is disreputably outdated. The weights used in CCPI

significantly differ from the findings of two recent surveys, the Consumer Finances and Socio-Economic Survey (CFS) 2003/2004 conducted by the Central Bank of Sri Lanka and the Household Income and Expenditure Survey (HIES) 2005, conducted by the DCS. Table B 5.1 compares the weights of major expenditure categories used in the CCPI, with the findings of CFS and HIES.

Table B 5.1
Structure of Household Expenditure

Expenditure category	Expenditure share in CCPI (Dec. 2006)	CFS 2003/04	HIES 2005
Food and beverages	72%	35%	40%
Narcotics	6%	2%	2%
Clothing	2%	7%	3%
Housing, Water, Fuel and Light	10%	15%	15%
Education and Health	1%	6%	8%
Transport and Communication	2%	12%	9%
Recreation and culture	2%	7%	2%
Miscellaneous	5%	16%	21%
Total	100%	100%	100%

Reflecting the changes in expenditure patterns since 1952, the CCPI basket does not contain some of the current main expenditure items such as gas, water charges, telephone charges, private tuition fees and mosquito coils. Food items are notably over-represented in the CCPI basket. It can also be observed that the geographical coverage of CCPI is limited to the Colombo municipal area. However, the other potential alternative with a better geographical coverage, SLCPI too is not sufficiently representative to fill the vacuum as that index too largely over-represents food items.

The methodology behind the derivation of inflation using CCPI implicitly assumes a fixed consumption pattern, as well as the homogeneity of goods and services over time, which are both far from reality, particularly in the long run. However, with the technological advancements, the quality of consumption goods changes over time. At the same time, new goods and services constantly enter consumption bundles, while old goods are dropped. Moreover, the quantity of consumption of each item also changes over time, with changes in household income levels.

These issues are usually addressed in other countries through periodic revisions of the items included in the computation of the index and the relevant weights, based on contemporaneous survey findings. The statistical agencies that prepare CPIs usually have revision schedules to rebase the weights of each item in respective indices. In the US, the weights of CPI are revised every other year, while the weights of CPI and

RPI in UK are revised annually. In most other countries, CPI weights are rebased at least once in 5 years. In Sri Lanka, a formal revision schedule has not been announced for the official index, but the Department of Census and Statistics has revised the weights from time to time, the recent major revision being in 1995. Table B 5.2 summarises the revision schedules of CPIs in various countries.

Table B 5.2
Cross Country Comparison of Official Consumer Price Indices

Country	Price Index	Responsible Institute	Coverage	Revision Schedule
US	Consumer Price Index (CPI)	Bureau of Labour Statistics	Each month 80,000 price quotations are obtained from approximately 23,000 outlets.	Historically weights have been revised once every 10 years; From 2002, weights are revised every other year. Market basket has last been revised in 2002.
UK	Retail Price Index (RPI)	Central Statistical Office	Price movements are measured in about 20,000 outlets in around 150 areas throughout the country.	All weights are updated each year, with the basket of goods and services also revised each year.
France	Indice des prix à la consommation (IPC)	Institut National de la Statistique et des Études Économiques (National Institute for Statistics and Economic Studies)	Covers all cities of mainland France and of the overseas departments with a population greater than 2,000.	Weights for these groupings are derived from national accounts final consumption data of the antepenultimate year.
Canada	Consumer Price Index (CPI)	Statistics Canada	The index covers all provinces of Canada, and the territorial cities.	Weights are generally revised every 4 years and the index is re-based approximately every 10 years.
Germany	Consumer Price Index (CPI)	Statistische Ämter des Bundes und der Länder (Federal and Countries' statistical offices)	Price are collected from approximately 40,000 retail outlets in 190 municipalities throughout Germany.	The weights used in the index are revised at five-yearly intervals.
Japan	Consumer Price Index (CPI)	Statistics Bureau of Japan	All districts and major metropolitan areas are covered.	Currently, the base year of the CPI is 2005 and it is revised every five years. The items and weights for the CPI are reviewed together with this base revision.

Korea	Consumer Price Index (CPI)	National Statistical Office	Covers 36 cities, which include 82 percent of the total urban population of Korea.	The index is re-based and the weights are changed at five-yearly intervals.
Singapore	Consumer Price Index (CPI)	Department of Statistics	33,400 price quotations are collected from 2,410 outlets.	Weighing pattern is updated once in five years.
Australia	Consumer Price Index (CPI)	Australian Bureau of Statistics	All major cities are covered.	Major benchmark revisions are made every 5 years.
Malaysia	Consumer Price Index (CPI)	Department of Statistics	Each month approximately 190,000 price quotes are obtained from about 19,000 retail outlets throughout the country.	The weights are normally revised every 5 years. The index is normally re-based every 5 years in tandem with the revision of the weights.
China	Consumer Price Index (CPI)	State Statistical Bureau	Approximately 226 areas throughout the country are covered, including 80 counties and 146 cities.	The list of items is revised annually.
India	Wholesale Price Index (WPI)	Office of the Economic Adviser	Each week, 1,918 price quotations are collected from various government and non-governmental organisations.	Base years is revised every five year and not later than ten years.
Pakistan	Consumer Price Index (CPI)	Federal Bureau of Statistics	The series cover 35 urban centres (large, medium, and small) that represent about 68% of the total population.	Current base year is 2000/2001.
Thailand	Consumer Price Index (CPI)	Bureau of Trade and Economic Indices	Approximately 65,000 prices are collected from a total of 1,535 establishments covering the Bangkok Metropolitan area and other urban areas.	The index is normally re-based every four years.
Sri Lanka	Colombo Consumers' Price Index (CPI)	Department of Census and Statistics	Geographic coverage is limited to the Colombo Municipal area.	No base revision has been done since 1952. A revision schedule for the weights has not been specified.

Source: Respective statistical agencies

Sri Lanka needs to follow international best practices as the official inflation measure in Sri Lanka is increasingly becoming unrepresentative of the actual cost of living of the country, as evident from the findings of the Consumer Finances and Socio-Economic Surveys. Meantime, none of the other available price indices are good enough to replace the current official index. Therefore, it is high time to introduce a new price index, based on the findings of a contemporaneous consumer survey and adopt it as the official measure of inflation.

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Continuation of upward adjustments in nominal wages to compensate the negative effects of inflation has resulted in increasing real wages without commensurate improvements in the productivity, particularly in the public sector. This trend has also added pressure on inflation. Delaying such measures further could aggravate the situation and also could spill over to the private sector wage developments, eventually affecting the competitiveness of Sri Lanka's exports in the international markets.

The incidence of high rates of unemployment among the educated youth while some sectors of the economy are suffering from the lack of skilled labour, highlights the deficiencies in the education system. Though the need for educational reforms accompanied by effective national level programmes for skills developments to meet the changing conditions in both the domestic and international labour markets have been widely discussed and agreed,

implementation of required programmes is lagging behind. This is manifested in some employers looking for opportunities to import high level human capital to meet their needs.

Remittances from expatriate Sri Lankans have been providing a significant relief to cushion the pressure on the external sector in Sri Lanka. However, Sri Lanka still caters mostly to the low demand for unskilled labour with high concentration of unskilled employment opportunities in the Middle East. Programmes to diversify the supply of labour both among different job categories and different geographical areas will increase the potential Sri Lanka has in bringing more foreign exchange, while supporting programmes for regional development and poverty reduction, as the majority of such job aspirants are still from the rural poor. Furthermore, the financial system needs to innovate a mechanism to attract more remittance inflows.