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PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

The general price level as measured in terms of the National Consumer Price Index (NCPI, 2013=100) increased in January 2020, moved on a declining trend until April and increased thereafter in line with the prices of items in the Food category. Within the Food category, prices of Volatile Food items exhibited mixed movements, while prices of other food items exhibited an overall increasing trend during the period from January to September 2020. With a notable increase at the beginning of the year, prices of items in the Non-food category remained mostly unchanged during the period from April to June 2020, mainly due to the lower demand for non-essential goods and services and non-adjustment of administered prices with the spread of the COVID-19 pandemic in the country. NCPI based year-on-year headline inflation remained above mid-single digit level during the period from January to September 2020. Meanwhile, headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI, 2013=100), remained broadly within the targeted range of 4-6 per cent during the period from January to September 2020. The year-on-year core inflation, based on both NCPI and CCPI, remained at stable levels, yet notably lower than that of the previous year. Meanwhile, inflation expectations of the corporate sector remained well anchored during the period from January to September 2020. The negative impacts of the COVID-19 pandemic amidst the persistent structural issues led the labour market indicators to deteriorate during the first half of 2020. As such, the Labour Force Participation Rate (LFPR) and employed population declined in the first half of 2020 compared to the corresponding period of 2019. In line with the decline in the employed population, the unemployment rate increased notably to 5.6 per cent during the first half of 2020 compared to the same period of the previous year. Following the same trend, unemployment rates among the females, youth, and educationally qualified persons continued to remain at high levels during the first half of 2020. Meanwhile, departures for foreign employment declined sharply in the first half of 2020 compared to the corresponding period of 2019 due to the spread of the COVID-19 pandemic.

Developments in 2020

Prices

Movements of the General Price Level

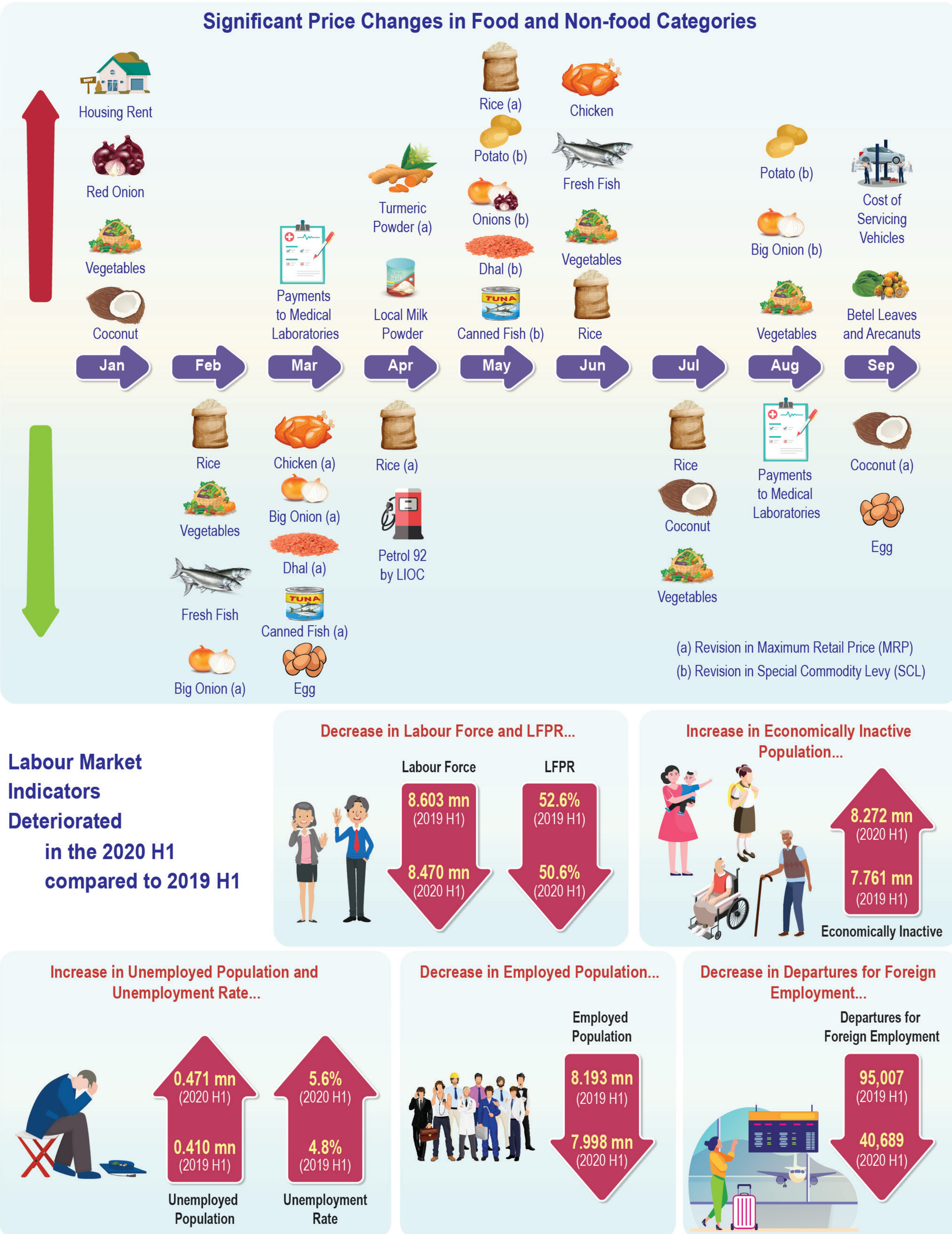
- **The general price level, which increased in January 2020, moved on a declining trend until April and increased thereafter**. Both Consumer Price Indices (CPIs), namely, the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100),[1] which measure the general price level, moved in line with the prices of items in the Food category during the period from January to September 2020. The behaviour of the prices of items in the Food category, which was largely affected by policy decisions taken by the government to curtail the COVID-19 pandemic, has exhibited mixed movements so far during 2020. Even though the prices of items in the Non-food category showed an increasing momentum during January to March, prices of the same exhibited broadly a stable behaviour between April and June 2020, signifying the low demand for non-essential goods and services during the lockdown period. However, prices of items in the Non-food category increased again from July 2020.

- **Considering the period from January to September 2020, the prices of items in the Volatile Food[2] category increased at the beginning of the year, moved on a declining trend till May 2020, and followed an overall increasing trend thereafter**. The increase observed in the prices of Volatile Food items in January 2020 was mainly driven by the price increases of vegetables, coconut and red onion. However, reversing the continuous increasing trend observed since April 2019, prices of items in the Volatile Food category decreased in February 2020 and continued its declining trend until May 2020 owing to price declines in rice, vegetables, red onion, large fish, meat and green chilli. The increase observed in the prices of Volatile Food items in June 2020 was mainly due to price increases in items such as rice, vegetables, fresh fish and chicken. However, this increasing trend reversed in July 2020, attributed by price decreases in rice, coconut, vegetables and onions. Nevertheless, the prices of items in the Volatile Food category increased afterwards until September 2020, owing to the price increases observed in vegetables, coconut, big onion and fruits. When observing the price movement of selected Volatile Food items, prices of rice varieties underwent several revisions during the period from January to September 2020 to protect consumers from escalating prices during the lockdown period. Maximum Retail Prices (MRPs) of Rs. 90 each for Samba and Nadu rice and Rs. 85 on Kekulu rice, which were imposed with effect from 10 April 2020, were revised upwards to Rs. 98, Rs. 96 and Rs. 93 on Samba, Nadu and Kekulu rice, respectively, with effect from 28 May 2020. However, towards the latter part of the period from January to September 2020, a supply shortage in Samba rice was observed amid the receival of the Yala harvest to the market. In contrast to 2019, prices of coconut recorded increases during the period from January to September 2020 except for May and July, thereupon remaining above the prices prevailed in the corresponding period of 2019. As a result, MRPs of Rs. 60, Rs. 65 and Rs. 70 were imposed on coconut, of which the circumference is below 12 inches, between 12-13 inches and above 13 inches, respectively, with effect from 25 September 2020. Big onion prices in February, March and April in 2020 remained well above the prices prevailed in the corresponding months since 2014, compelling the government to impose MRPs of Rs. 190 and Rs.150, with effect from 23 February 2020 and 18 March 2020, respectively, to protect consumers from higher prices. Subsequently, big onion prices followed a declining trend during April to July 2020, especially due to lower prices in the international market. Afterwards, big onion prices increased mainly due to decline observed in the domestic production owing to crop damages and export ban

1 The Department of Census and Statistics (DCS), compiles official consumer price indices, namely, the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100) on a monthly basis. The NCPI demonstrates the price movements of selected consumer items at the national level, while the CCPI reflects the same among urban households in the Colombo district.

2 Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potatoes, onions and selected condiments.

Figure 4.1
Movement of Prices and Labour Market Trends



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imposed by India with effect from 15 September 2020. Meanwhile, the Special Commodity Levy (SCL) on imported big onion was increased to Rs. 15 and Rs. 50 per 1 kg with effect from 01 May 2020 and 01 August 2020, respectively. However, the government revised the SCL downwards on imported big onion to 25 cents with effect from 14 October 2020, in view of curtailing difficulties rising with the re-emergence of the risk in the spread of the COVID-19 pandemic in the country. Furthermore, red onion prices, which recorded its highest in the recent past at the beginning of the year, decreased comparatively towards the end of the period from January to September 2020, though the SCL increased to Rs. 50 per 1 kg with effect from 22 May 2020. During the period from January to September 2020, prices of potatoes, which mostly stayed above the price levels observed in the corresponding months of the recent years also experienced an increase in SCL on imported potatoes to Rs. 50 and Rs. 55 per 1 kg with effect from 22 May 2020 and 15 August 2020, respectively.

- **Within the Food category, prices of items excluding Volatile Food moved on an overall increasing trend during the period from January to September 2020, exhibiting a marginal decline only in March 2020**. Local milk powder price for a 400g packet was increased from Rs. 345 to Rs. 380 with effect from 28 April 2020 in order to match the imported milk powder price. However, the price of imported milk powder, which underwent several price revisions in 2019 remained unchanged during the period from January to September 2020. MRPs of Rs. 65 per 1 kg of dhal and Rs. 100 per 425g tin of canned fish, which were imposed with effect from 18 March 2020 as provisions of relief to the consumers during the situation prevailed in the country following the COVID-19 outbreak were removed effective from 30 April 2020 with the relaxation of lockdown conditions. Subsequently, the SCLs on dhal and canned fish were increased to Rs. 10 and Rs. 100 per 1 kg, respectively, from 22 May 2020. Another relief measure taken during the lockdown period was to reduce the prices of eggs to Rs. 10 each with effect from 23 March 2020, recording the lowest for the year in April 2020. From May 2020 onwards, egg prices followed a continuous increasing trend, necessitating the decision taken to decrease price per egg by Rs. 2 with effect from 07 September 2020. Having foreseen an attempt to increase chicken prices during the festive season by creating an artificial scarcity of maize, MRPs of Rs. 430 and Rs. 500 on broiler chicken (with skin) and chicken (skinless), respectively were imposed, with effect from 12 March 2020. Even though the chicken prices declined accordingly in April 2020, the prices exhibited an increasing trend afterwards. Moreover, the MRP of maize was also brought to Rs. 55 per 1kg, with effect from 12 March 2020. SCLs on several more imported items were revised upwards from 22 May 2020, among which the SCLs for sugar, yoghurt, garlic, dried chilli and maize were revised upward to Rs. 50, Rs. 800, Rs. 50, Rs. 100 and Rs. 25 per 1 kg, respectively. A MRP of Rs. 750 was imposed on 1 kg of turmeric powder with effect from 21 April 2020 to curtail the rising prices resulting from import restrictions imposed effective from 06 December 2019 with the objective of increasing the local turmeric production. Despite these efforts, turmeric powder prices spiked in the following months owing to the substantial gap between the local supply and demand, resulting in the government removing the MRP with effect from 24 September 2020. Meanwhile, the prices of wheat flour remained stable during the period under review. Considering the difficulties which arose with the re-emergence of the risk in spreading of COVID-19 pandemic in the country, the SCL on several imported items such as dhal, canned fish and sugar was revised downwards to 25 cents per 1kg with effect from 14 October 2020.

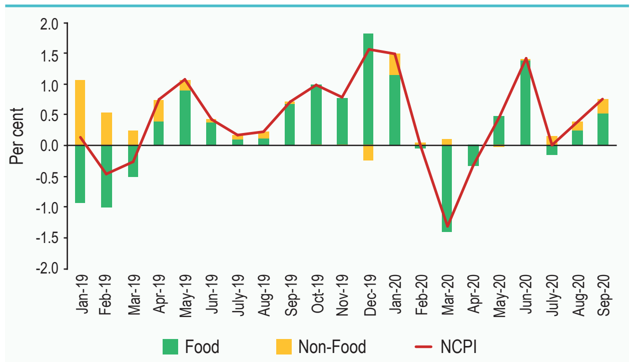
- **With a notable increase at the beginning of the year, prices of items in the Non-food category remained mostly unchanged during the period from April to June 2020, mainly due to the lower demand for non-essential goods and services and non-adjustment of administered prices such as transport fare, communication charges, electricity and water charges with the spread of the COVID-19 pandemic in the country**. Similar to 2019, an increase in house rentals in Housing, Water, Electricity, Gas and other Fuels sub-category, which occupies the largest share in the Non-food category in both CPI baskets, took place in January 2020, yet at a comparatively lower magnitude. This increase at the beginning of the year was coupled with an increase in tuition fees for secondary education in the Education sub-category, and resulted in the highest increase observed in the Non-food category since January 2019. Moreover, an increase in payments to medical laboratories in the Health sub-category occurred in March 2020. However, a decline in the same was recorded in August 2020, contributed to by the downward price revision of the Full Blood Count (FBC) laboratory test. Meanwhile, Lanka IOC (LIOC) revised petrol (92 octane) price downward from Rs. 142 to Rs. 137 per litre from 06 April 2020, but increased back to the original price on 17 May 2020. However, LIOC reduced the price of petrol (92 octane) back to Rs. 137 with effect from 20 May 2020, tallying the price maintained by the Ceylon Petroleum Corporation (CPC). Prices of arrack, beer and cigarettes have remained unchanged thus far during the year, while prices of areca nuts and betel leaves increased significantly August 2020 onwards. Meanwhile, prices of items in the Non-food category followed an increasing trend from July 2020 onwards.

Consumer Price Indices

National Consumer Price Index

- **The NCPI, which recorded 137.0 index points in January 2020, declined to 134.8 index points in April, before reaching 138.9 index points in September 2020.** The increase observed in the NCPI in January 2020 was driven by the increases observed in prices of items in both Food and Non-food categories. Afterwards, the NCPI declined for two consecutive months in March and April 2020 driven by the decrease in prices of items in the Food category. The NCPI demonstrated a reversal of its previous downward trend and increased thereafter till June 2020, while the prices of items in the Food category remained as the sole contributor towards this increasing momentum. However, the NCPI remained unchanged in both February and July 2020 since the decline of the prices of items in the Food category was nullified by the increase observed in the prices of items in the Non-food category. Further, the increase observed in the NCPI in both August and September 2020 was contributed by the increases of prices of items in the Food and Non-food categories.

Figure 4.2
Contribution to Month-on-Month % Change in NCPI (2013=100)



Source : Department of Census and Statistics

Colombo Consumer Price Index

- **The CCPI, which recorded 134.6 index points in January, reached 133.4 index points in March 2020 and increased to 136.3 index points in September 2020.** The increase in January 2020 was supported by the movement of the prices of the items in both the Food and Non-food categories. Meanwhile, the movement of prices of items in the Food category contributed towards the decline and the increase observed thereafter in March and April 2020, respectively. Month-on-month increases demonstrated by the CCPI in the next three consecutive months until July 2020 and September 2020 were mainly due to the price increases of the items in both Food and Non-food categories.

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Headline Inflation

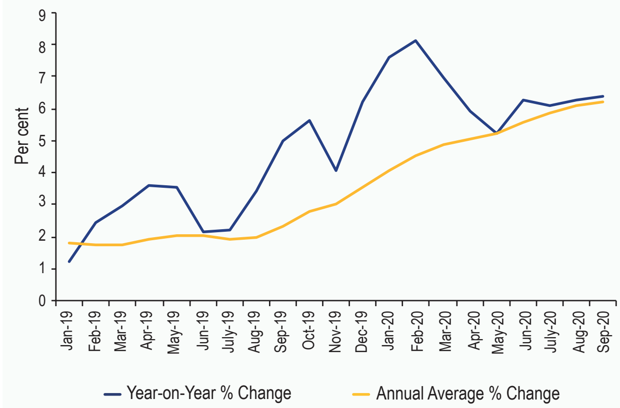
- **NCPI based year-on-year headline inflation remained above mid-single digit level during the period from January to September 2020.** The year-on-year headline inflation, which recorded 7.6 per cent in January, peaked at 8.1 per cent in February 2020, the highest since November 2017 and reached 6.4 per cent in September 2020. Meanwhile, NCPI based annual average inflation increased continuously from 4.1 per cent in January to 6.2 per cent in September 2020.

- **CCPI based headline inflation remained mostly within the targeted range of 4-6 per cent during the period from January to September 2020**. Accordingly, the year-on-year CCPI inflation increased from 5.7 per cent in January to 6.2 per cent in February 2020, moved on a declining trend afterwards until reaching 3.9 per cent in June and increased thereafter to 4.0 per cent in September 2020. Meanwhile, the annual average CCPI based inflation remained stable during the period from January to September 2020, in which it recorded 4.5 per cent in January and reached 4.7 per cent in September 2020.

Core Inflation

- **Core inflation remained at stable levels yet notably lower than that of the previous year, driven by the statistical effect of the high base which prevailed throughout the previous year owing to the significant hike in house rentals observed at the beginning of 2019**. Even though an upward revision in house rental occurred in January 2020, the effect was comparatively minimal. Accordingly, amidst monthly increases, the year-on-year NCPI based core inflation moved on a decreasing trend from 3.9 per cent in January to 3.2 per cent in March and remained unchanged in April before continuously increasing to reach 4.8 per cent in September 2020. Meanwhile, CCPI based year-on-year core inflation was at 3.0 per cent in January and recorded 2.9 per cent in September 2020.

Figure 4.3
Movements of Headline Inflation - NCPI (2013=100)

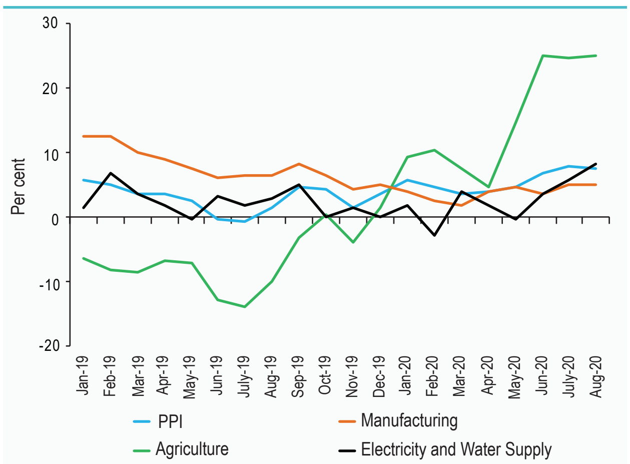


Source : Department of Census and Statistics

Producer Price Inflation

- **The producer price inflation measured by the year-on-year change in the Producer's Price Index (PPI, 2013 Q4=100) increased initially to 5.6 per cent in January, peaked at 7.8 per cent in July and declined to 7.7 per cent in August 2020.** The year-on-year producer price inflation of all three sub-sectors, namely, agriculture, manufacturing and electricity and water supply demonstrated overall increases during the first eight months of the year, yet recording notable fluctuations in between.

Figure 4.4
Movements of Producer Price Inflation (Y-o-Y %)



Source : Department of Census and Statistics

Inflation Expectations

- **Inflation expectations of the corporate sector moved mostly within 4-6 per cent, however demonstrating mixed movements, during the period from January to September 2020, while inflation expectations of the household sector remained above the inflation expectations of the corporate sector**. Short term inflation expectations of both the corporate sector and household sector remained above their longer term inflation expectations. Accordingly, disruptions to domestic production and supply chains along with containment measures taken to combat the spread of the COVID-19 pandemic, import restrictions imposed by the government, depreciation of the local currency, relaxed monetary policy stance and expected recovery in demand and economic activities with the ease of restrictions related to the COVID-19 pandemic emerged as main reasons for their high inflation expectations. Meanwhile, subdued demand and economic activities, and fall in international oil prices amidst the spread of the COVID-19 pandemic, upswing in home gardening, expected improvements in domestic production, expected relaxation of import restrictions and recovery of supply chains with the ease of the COVID-19 pandemic were cited by respondents as reasons for their low inflation expectations in the longer term.

Wages

- **Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), increased significantly by 11.1 per cent during the period from January to August 2020 compared to the same period of 2019.** This increase was due to the introduction of a new non-pensionable monthly interim allowance of Rs. 2,500 with effect from 01 July 2019 to all public sector employees and the addition of final tranche of the special allowance and interim allowance to the basic salary of public sector employees, with effect from 01 January 2020. Accordingly, real wages of the public sector employees also increased by 4.3 per cent during the period from January to August 2020 compared to the corresponding period of the previous year.

- **Nominal wages of the employees in the formal private sector, as measured by the minimum wage rate index (1978 December=100) of employees, whose wages are governed by the Wages Boards Trades, increased marginally by 0.2 per cent during the period from January to August 2020 compared to the same period of 2019.** However, real wages of employees in the formal private sector declined by 4.4 per cent during the period from January to August 2020 compared to the corresponding period of the

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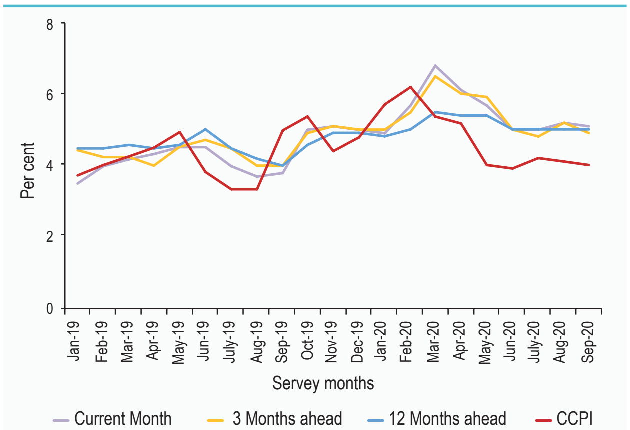
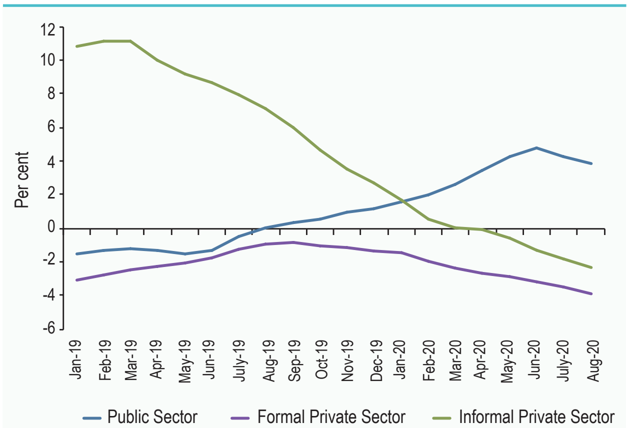
Figure 4.5
Inflation Expectations of the Corporate Sector



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

Figure 4.6
Annual Average Change in Real Wage Rate Indices



Sources : Department of Labour
Central Bank of Sri Lanka

Table 4.1
Labour Force, Employment and Unemployment

Item	2019		2020 (a)	
	H1	Annual	H1	Annual (Projections)
Household Population, '000 (Aged 15 years and above)	16,364	16,424	16,742	16,781
Labour Force, '000	8,603	8,592	8,470	8,540
Employed, '000	8,193	8,181	7,998	8,089
Unemployed, '000	410	411	471	451
Labour Force Participation Rate (% of Household Population)	52.6	52.3	50.6	50.9
Unemployment Rate (% of Labour Force)	4.8	4.8	5.6	5.3

(a) Provisional

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

previous year. Meanwhile, several rounds of discussions were held in 2020 to determine the possibility of increasing the basic daily wage of workers in the plantation sector to Rs. 1,000.

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- **Nominal wages of the informal private sector employees, as measured by the informal private sector wage rate index (2012=100), increased by 3.5 per cent during the period from January to August 2020 compared to the same period of 2019.** Nominal wages of employees in all sub-sectors, namely, agriculture, industry and services increased by 4.1 per cent, 2.9 per cent and 3.9 per cent, respectively, during the period from January to August 2020. However, real wages in the informal private sector declined by 2.8 per cent during the period from January to August 2020 compared to the corresponding period of the previous year.

Labour Force, Employment and Unemployment

- **The negative impacts of the COVID-19 pandemic amidst the persisting structural issues led the labour market indicators to deteriorate during the first half of 2020.** As per the statistics reported by the Department of Census and Statistics, the working age population increased during the first half of 2020 compared to the corresponding period of the previous year, led by the significant increase in economically inactive population amidst a comparatively lesser decline in the economically active population. Accordingly, the Labour Force Participation Rate (LFPR), which is the ratio of the labour force to the working age population, declined during the first half of 2020 compared to the same period of 2019. A considerable decline was observed in the employed population as well. The unemployment rate, which is the share of unemployed population to the labour force, increased notably during the first half of 2020 compared to the corresponding period of the previous year. Continuing the trend observed in the recent past, unemployment rates among females, youth and educationally qualified persons continued to remain at high levels during the first half of 2020.

Labour Force

- **The labour force, which is the economically active population,[3] declined to 8.470 million in the first half of 2020 from 8.603 million in the corresponding period of the previous year, recording a decline of 1.5 per cent.** This decline in labour force was solely driven by the significant decline of 6.0 per cent in the female labour force during the reference period. In contrast, the male labour force, which accounts for the highest share of the labour force, increased by 0.9 per cent during the first half of 2020 compared to the corresponding period of the previous year. In terms of sector wise labour force, declines were observed across all sectors namely urban, estate and rural sectors during the reference period mainly due to the considerable drops in the female labour force. Meanwhile, the male labour force in the urban and estate sectors also recorded marginal declines, though the male labour force in the rural sector recorded an increase.

3 This is the current economically active population, i.e. the number of persons (aged 15 years and above), who are employed or unemployed during the reference one-week period.

- **In line with the decline of the labour force, LFPR declined to 50.6 per cent during the first half of 2020 from 52.6 per cent recorded in the first half of 2019.** This considerable decline was mainly driven by the significant increase observed in economically inactive females during the reference period. Consequently, the female LFPR declined to 32.0 per cent in the first half of 2020 from 34.7 per cent in the corresponding period of 2019. The male LFPR also declined to 72.1 per cent in the first half of 2020 from 73.4 per cent in the first half of 2019 due to the higher increase in economically inactive males compared to the increase in economically active males. Accordingly, the gender gap in LFPRs soared to 40.1 percentage points in the first half of 2020 from 38.7 percentage points in the corresponding period of the previous year affirming the persisting issues related to low female labour force participation towards the economic growth in the country.

Employment

- **The employed population[4] declined by 2.4 per cent to 7.998 million in the first half of 2020 compared to 8.193 million recorded in the corresponding period of 2019.** This decline was led by both industry and services sectors, as an increase in employed population was observed in the agriculture sector. Within the industry sector, declines in employed population were observed across all sub-sectors namely, mining and quarrying, manufacturing and construction, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities, while within the services sector prominent declines in employed population were observed in wholesale and retail trade, repair of motor vehicles and motorcycles, administrative and support service activities, and public administration and defence, compulsory social security sub-sectors. These declines in employment in industry and services sectors were also reflected in the employment indices of manufacturing and services purchasing managers' index surveys conducted by the Central Bank of Sri Lanka in the first half of 2020. Meanwhile, continuing the trend observed in the recent past, the services sector, which accounted for 46.2 per cent of the total employment, remained as the foremost employment generator followed by the industry and agriculture sectors contributing to 27.0 per cent and 26.8 per cent of the total employment, respectively, during the first half of 2020.

- **In terms of the status of employment, the employed population in all categories declined during the first half of 2020 compared to the first half of 2019.** With regard to employment status, the employed population is categorised into two major categories, namely, waged and salaried workers (employees) and the self-employed. The employees category is further categorised into public sector and private sector, while the self-employed category is categorised into employers, own account workers and contributing family workers. Among these categories, a prominent decline was observed in private sector employees followed by public sector employees. Nevertheless, with the government programme to provide jobs for 60,000 unemployed graduates and for 100,000 persons in the lowest strata of income earners in Sri Lanka with the objective of eradicating poverty, in line with the government policy declaration enunciated as "Saubagyaye Dakma", public sector employment is expected to increase during the second half of the year.

Unemployment

- **In line with the decline in the employed population, the unemployed population increased significantly by 14.8 per cent to 0.471 million during the first half of 2020 compared to 0.410 million in the corresponding period of the previous year attributable to the negative impacts of the COVID-19 pandemic.** This increase in the unemployed population was mainly driven by unemployed females who contributed to 58 per cent of the total increase

4 Persons who worked at least one hour during the reference period, as paid employees, employers, own account workers or contributing family workers are said to be employed. This also includes persons with a job but not at work during the reference period.

Table 4.2
Unemployment Rate (%) - 2020 H1 (a)

By Age (Years)	
15-19	31.0
20-24	26.3
25-29	11.3
30-39	3.2
40 and above	1.2
By Educational Level	
Grade 6-10	4.0
GCE (O/L)	7.0
GCE (A/L) and above	10.1

(a) Provisional

Source : Department of Census and Statistics

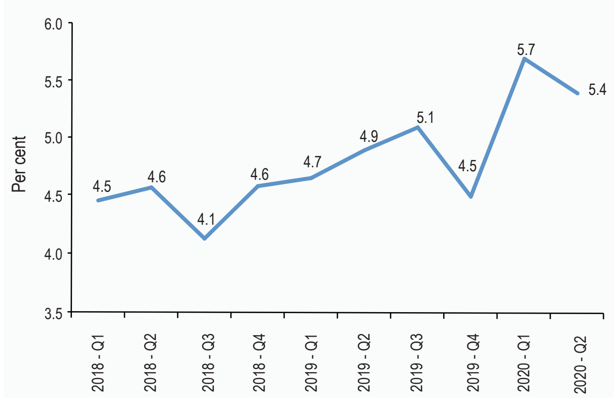
in the unemployed population. Accordingly, the increase in unemployed females was recorded at 16.0 per cent, while the increase in unemployed males was recorded at 13.4 per cent during the reference period.

- **In line with the increase in the unemployed population,[5] the unemployment rate increased to 5.6 per cent in the first half of 2020 compared to 4.8 per cent recorded in the first half of 2019.** Accordingly, the unemployment rate of females increased significantly to 8.9 per cent in the first half of 2020 from 7.2 per cent in the corresponding period of the previous year. The unemployment rate of males increased to 3.9 per cent in the first half of 2020 from 3.4 per cent in the corresponding period of the previous year.

- **Unemployment rates among all age categories increased during the first half of 2020 compared to the same period of the previous year**. It is noteworthy that among these age categories, youth (aged 15-24 years) unemployment, which continued to remain at a high level, increased substantially to 27.3 per cent during the first half of 2020 from 20.8 per cent in the corresponding period of the previous year. Moreover, unemployed youth contributed to 98 per cent of the total increase in the unemployed population. More than a quarter of the youth labour force being unemployed bring to the surface the issues related to underutilisation of the most productive human capital towards the economic growth of the country.

- **In terms of education level, unemployment rates increased among all educational categories during the first half of 2020 compared to the corresponding period of the previous year**. The highest unemployment rate continued to be reported in the GCE A/L and above category. Accordingly, the unemployment rate of this category increased considerably to 10.1 per cent during the first half of 2020 from 8.7 per cent in the corresponding period of the previous year. Moreover, the GCE A/L and above category contributed to 40 per cent of the total increase in the unemployed population during the reference period. This high unemployment among the educationally qualified reflects the labour demand and supply mismatches owing to the gaps in the education system of the country. Meanwhile, during the first half of 2020, the unemployment rate of the Grade 6-10 category increased to 4.0 per cent from 3.0 per cent, which recorded in the same period of the previous year, while the unemployment rate of the GCE O/L category increased to 7.0 per cent from 6.3 per cent, as recorded in the same period of the previous year. Even though female unemployment rates are higher than those of their counterparts in all levels of education, it is more prominent in the GCE A/L and above category reflecting issues of employability among educated females.

Figure 4.7
Overall Unemployment Rate



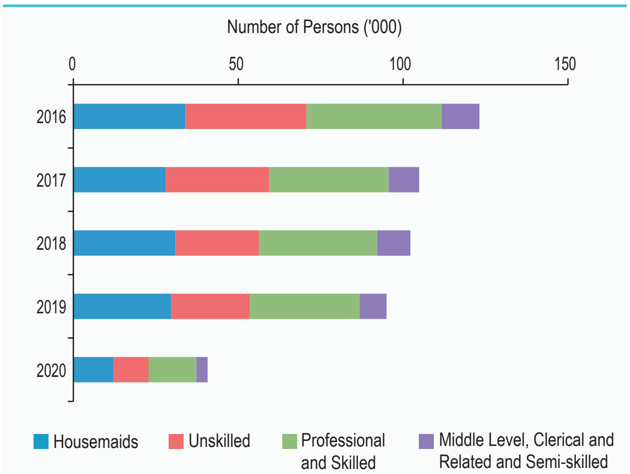
Source : Department of Census and Statistics

5 Persons available and/or looking for work, and who did not work and took steps to find a job during the last four weeks and are ready to accept a job given a work opportunity within next two weeks are said to be unemployed.

Foreign Employment

- **Departures for foreign employment declined sharply by 57.2 per cent to 40,689 in the first half of 2020 from 95,007 in the corresponding period of 2019 with the temporary ban imposed by Sri Lanka Bureau of Foreign Employment (SLBFE) on departures of migrant workers registered with them and with the travel restrictions imposed in labour receiving countries due to the COVID-19 pandemic**. Accordingly, out of the total departures for foreign employment during the first half of 2020, male departures accounted for 60 per cent and female departures accounted for 40 per cent. Both male and female departures declined by 56.6 per cent and 58.0 per cent, respectively, in the first half of 2020 compared to the corresponding period of 2019. Meanwhile, in line with the decline in total departures for foreign employment, departures under all skill categories, namely, professional, middle level, clerical and related, skilled, semi-skilled, unskilled and housemaid, declined in the first half of 2020 compared to the same period of the previous year. Nevertheless, unskilled and housemaid categories represented the majority of 56 per cent of the total departures for foreign employment in the first half of 2020. Accordingly, departures under unskilled and housemaid categories stood at 10,686 and 12,163, respectively, during the first half of 2020.

Figure 4.8
Departures for Foreign Employment by Skills (First Half of the Year)



Source : Sri Lanka Bureau of Foreign Employment

- **Migrant workers are among the hardest hit groups due to the COVID-19 pandemic**. The pandemic resulted in a large number of migrant workers returning to the country in early March mainly from Italy, South Korea and other European countries. Since the suspension of passenger arrivals to the country, a considerable amount of migrant workers in labour receiving countries were repatriated amidst health risks, contract expirations, and job losses and pay cuts as a result of the economic downturn caused by the pandemic. As per the SLBFE, approximately 39,489 migrant workers have lost their jobs as of August 2020 and many others have faced reduction in their incomes. Meanwhile, approximately 2,600 migrant workers were infected by COVID-19, while 64 have died in their destination countries as of the beginning of October 2020. On this note, job losses and reduction in earnings of migrant workers, and decline in departures for foreign employment owing to travel restrictions and reduced demand for migrant labour, specifically from Middle Eastern countries, would have an impact on the worker remittances and on the domestic labour market during the year.

- **The SLBFE continued to implement measures to regulate the migration process, and protect and empower migrants and their families in addition to the special initiatives taken to address the effects of the COVID-19 pandemic during the first half of 2020**. Accordingly, ensuring trustworthy foreign employment for Sri Lankan migrant workers, the SLBFE conducted 146 raids on illegal recruitment activities and filed 58 court cases against non-licensed persons, who were engaged in foreign employment business as well as licensed agencies that violated the law, during the first half of 2020. As welfare and protection measures, in the first half of 2020, the SLBFE paid Rs. 26.33 million as insurance premium on behalf of 40,143 migrant workers and Rs. 54.86 million for 888 persons as benefits under the insurance scheme with regard to repatriation, death claims and medical claims for dependents. Further, the SLBFE

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incurred a cost of Rs. 20.25 million in awarding scholarships to 797 children of migrant workers. Furthermore, the SLBFE provided financial assistance for 38 needy migrant workers utilising the Workers' Welfare Fund (WWF) of the SLBFE and repatriated a total of 15 migrant workers due to the issues they encountered during their stay abroad utilising Rs. 0.22 million of the WWF and Rs. 0.48 million under the insurance scheme. Meanwhile, in order to upgrade the quality of domestic labour, the NVQ level III qualification was provided for 1,293 job seekers during the first half of 2020. As special initiatives taken to address the effects of the COVID-19 pandemic, the SLBFE established a special information counter to obtain frequent information from the affected migrant workers and their families, and shared information and government instructions with the migrant workers and their family members through mass media and social media. Further, the SLBFE allocated funds for Sri Lanka Diplomatic Missions that required funding to provide dry rations to the migrant workers who were infected with COVID-19 and receiving treatment, had been subjected to self-quarantine or lost their employment and unable to secure meals or essential items. In addition, arrangements are being made to provide financial assistance to the family members of the migrant workers who lost their lives due to the COVID-19 pandemic.

Labour Relations

- **Labour relations in the private sector improved with the decline observed in terms of the number of strikes, workers involved in strikes and man days lost due to strikes during the first half of 2020 compared to the corresponding period of the previous year**. According to the data reported by the Department of Labour, a total of 15 strikes were reported during the first half of 2020, of which 8 strikes were reported in the plantation sector and 7 strikes were reported in other private institutions. Overall, 2,167 workers were involved in strikes during the first half of 2020, of which around 50 per cent each were from the plantation sector and other private institutions, respectively. Total man days lost due to strikes were 5,391 days during the first half of 2020, of which 67 per cent was in the plantation sector and 33 per cent was in other private institutions. In the plantation sector, the number of strikes increased during the first half of 2020 compared to the corresponding period of the previous year. However, the number of workers involved in strikes as well as the number of man days lost due to strikes declined during the first half of 2020 compared to the corresponding period of the previous year perhaps due to the imposition of lockdown and social distancing restrictions. In other private institutions, the number of strikes declined in the first half of 2020 compared to the corresponding period of the previous year. Moreover, the number of workers involved in strikes and the number of man days lost due to strikes in other private institutions also declined during the first half of 2020 compared to the corresponding period of the previous year.

- **Several measures were taken by the Ministry of Skills Development, Employment and Labour Relations[6] during the first half of 2020 to improve industrial harmony**. Accordingly, a Ministry level task force was appointed to address employment issues resulting from the COVID-19 pandemic, in order to maintain industrial peace during the critical time. Consensuses were arrived at on retaining of employees in institutions, where work was suspended due to the COVID-19 pandemic, implementation of a roster system or any other suitable mechanism to ensure that all employees were given monthly work proportionately in situations where all employees could not be called for work and on paying 50 per cent of basic salary included in the last paid full salary or Rs. 14,500 whichever was more favourable to the employee in situations, where employees were required to stay at home as there was no sufficient work to be assigned during the months of May, June, July, August and September 2020. Further, a mechanism was established to receive and settle complaints efficiently and effectively on termination of

6 The name of the Ministry was changed as Ministry of Labour with effect from 09 August 2020

employment due to the spread of the COVID-19 pandemic and employers were given a six month extension period to pay Employees' Provident Fund (EPF) contributions without paying any surcharges or late charges. Meanwhile, granting approvals for employment of women in night shifts was streamlined and employers were given the opportunity to submit their night work requests online to the Labour Department to make the night work approval system more efficient and flexible. Moreover, several legal provisions/amendments were also introduced in the sphere of labour relations during the first half of 2020. Accordingly, a cabinet paper was presented in February 2020 to increase the minimum salary of private sector employees from Rs. 10,000 to Rs. 12,500 per month. Further, actions were initiated to amend the Employees' Provident Fund Act, No. 15 of 1958 making it mandatory for employers to report information regarding new employees recruited to the Labour Department within two months to prevent the evasion of EPF contributions and to secure the labour rights and welfare of the workers. In addition, draft regulations on hazardous occupations for young persons below 18 years of age under the Employment of Women, Young Persons and Children Act, No. 47 of 1956 and draft amendment Acts with regard to increasing the minimum age of employment from 14 years to 16 years were also submitted for the cabinet approval.

Labour Productivity

- **Labour productivity measured in terms of Gross Value Added (in 2010 prices) per hour worked increased by 15 per cent to reach Rs. 564.77 per hour worked in the first quarter of 2020 compared to Rs. 491.06 per hour worked in the corresponding period of 2019.** The improvement in overall labour productivity during the first quarter of 2020 compared to the corresponding period of the previous year was mainly due to the considerable decline observed in hours worked, which could be attributable to the restrictions on work prevailed since mid-March of 2020 with the containment measures taken to combat the spread of the COVID-19 pandemic. Both industry and services sectors reported a positive growth in labour productivity in the first quarter of 2020 compared to the same period of 2019, while labour productivity in the agriculture sector declined. In terms of the level of labour productivity, the services sector exhibited the most efficient use of the labour resource, recording the highest labour productivity level of Rs. 701.04 per hour worked, followed by the industry sector with a labour productivity level of Rs. 655.77 per hour worked. Continuing the trend observed in the recent past, the agriculture sector registered the lowest labour productivity level of Rs. 168.99 per hour worked during the first quarter of 2020.

Expected Developments

Prices

- **Inflation is expected to remain within the target range of 4-6 per cent during the remainder of 2020.** Well anchored inflation expectations, demand management policies and favourable domestic supply conditions would support to contain inflation at benign levels. Nevertheless, seasonal torrential rains expected during the latter part of the year could cause supply disruptions of volatile food items; particularly vegetables, fruits and fresh fish, leading to a transitory increase in food inflation. Further, with the possible reversal of the declining trend in international food prices and if the domestic currency weaken further, a price pressure is anticipated on imported items. Moreover, amidst such developments, if the import restrictions imposed in the aftermath of the COVID-19 pandemic are relaxed, inflationary pressure emanating from price movements of the imported items would be more prominent.

- **Food price stability is continuously challenged by the volatility in the supply side, highlighting the compelling need for a strong supply management system**. A proper mechanism needs to be established to forecast impending surpluses and shortages in crop production and guide farmers to produce crops according to the anticipated scarcity level of each crop. Accordingly, the government may provide incentives to cultivate identified deficit crops and make intervention to purchase excessive crop production. Moreover, a proper storage facilities to store excess supply should be established by the government along with a proper mechanism to sell the excess supply for needy institutions such as hospitals, prisons or private sector traders at a competitive price. The agriculture sector exhibits the lowest labour productivity in the economy, which increases the cost of production and thereby its prices. Therefore, the government should implement proper mechanisms to improve the productivity of this sector to reduce the cost of production and post-harvest losses, while increasing the output, in order to reap the benefits of the opportunities opened due to import restrictions imposed with the spread of the COVID-19 pandemic.

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Labour Force, Employment and Unemployment

- **Shrink in demand for migrant labour in line with proposals to cap migrant worker numbers, especially in Middle Eastern countries, highlights the need to seek new avenues for foreign employment opportunities**. With the travel restrictions imposed in host countries amidst job losses and pay cuts, which are mainly attributable to the suppressed global demand for oil causing collapses in oil prices in major host countries for Sri Lankan migrant workers due to the impact of the COVID-19 pandemic, foreign employment is under considerable threat affecting worker remittances of the country. This trend is expected to continue as migrant workers remain the most vulnerable category in the international labour market. In this regard, temporary livelihood support to migrant workers, who have lost jobs, is in need in the short run. In the long term, the returned migrant workers, who are added to the labour force should be reemployed, by upskilling or reskilling if needed, either in foreign destinations or their local environment, while establishing appropriate social security schemes to face future distresses in the international labour market. Further, negotiations need to be made to recover the missed foreign employment opportunities due to the halt in departures during the pandemic period. In addition, new destinations for foreign employment opportunities should be continuously explored, while promoting skilled and safe migration, in order to recover and sustain the remittance inflow to the country.

- **The existing labour laws in Sri Lanka need to be revisited to provide for situations similar to the pandemic as well as for the drastic changes in the world in terms of company structures and methods of engaging employees**. In the absence of labour laws in addressing the issues, with regard to payment of salaries, employee termination etc, emerged with the disrupted business activities owing to health concerns and related restrictions imposed by the government to curb the spread of the COVID-19 pandemic, the Employers' Federation of Ceylon, trade unions and Ministry of Skills Development, Employment and Labour Relations reached a tripartite agreement to pro-rate wages based on varied levels of deployment of staff. Going forward, these decisions should also be regularised in the law and the existing laws should be revisited to provide relief measures to employers in such uncontrollable situations, while also providing social security schemes with unemployment benefits, reskilling or up skilling and reemployment for the employees. Accordingly, the existing labour laws have to be amended to provide employers the flexibility in managing their employees as the rigidity in Sri Lankan labour laws is one reason for losing foreign investment opportunities. In addition, the pandemic period led companies towards adopting essential changes in work methods such as work from home, part time work and flexible work hours, which are expected to be continued in the post-pandemic era as well. Accordingly, existing labour laws should be modernised in accordance with new business models and work methods.

These amendments would also stimulate the female labour force participation, which remains at a significantly low level compared to its counterparts.

- **The importance of social security measures targeted towards the informal sector emerged during the period of pandemic**. In the absence of unemployment benefit schemes amidst rigid labour laws, a major part of the labour force in Sri Lanka is attracted towards informal employment. Accordingly, informal sector employment accounts for a large share, 57.4 per cent of total employment in Sri Lanka, according to the labour force survey 2019 conducted by the Department of Census and Statistics. Amidst the containment measures taken to curb the spread of the COVID-19 pandemic, the informal sector was the most affected category in the labour force as they faced severe disruptions to their capacity to earn a living. As the informal sector employment is not covered by any social security scheme, they remain the most susceptible category in the labour force to fall below the poverty line in distress situations. As such, social security measures targeted towards the large informal sector of the country are key in improving the wellbeing of the informal sector workers.

- **Educational reforms are vital in developing a future ready workforce who is capable of positively contributing towards the economic growth of the country**. As it has been continuously highlighted, reforms related to primary, secondary, higher and vocational education to build up demand driven knowledge, skill and attitude of the labour force is necessary to address the demand and supply mismatches in the labour market as well as to broaden the domestic economic activities. Disruptions to global supply chains with the spread of the COVID-19 pandemic resurfaced the need for inward looking economic policies supported by a competent local work force. On this note, with the declaration of the years from 2021 to 2030 as the "Decade of Skills Development" by the government, the expected transformation in the education system is the key to attract foreign investments, improve living standards and in-house production, promote skilled migration, and reduce unskilled labour and importation of labour. Further, it is important to continue and expand the momentum gained in using online platforms during the period with lockdown restrictions and to promote private education in order to expand the capacity of the education system in building a future-ready labour force in Sri Lanka.