

5. LABOUR MARKET

The unemployment rate as measured by the Quarterly Labour Force Survey excluding the Northern Province rose marginally to 8.0 per cent in the first quarter of 2004 compared to 7.9 per cent in the fourth quarter of 2003. Meanwhile the unemployment rate, including a part of the Northern Province with the rest of the country in the Survey since the first quarter 2004, stood at 8.1 per cent. With the continuation of the ceasefire, the growth in the economy and proposed expansion of public sector employment, the unemployment rate for 2004 is expected to be marginally lower at around 8.3 per cent compared to 8.4 per cent in 2003. The impact of the Multi Fibre Arrangement (MFA) on domestic as well as migrant garment factory workers and the anticipated recovery in the agriculture sector would influence the employment level in different directions in 2005, and it is expected that the unemployment rate will remain around the same level as in 2004. The proposed labour market reforms were not implemented as scheduled at the beginning of

2004, giving mixed signals to the labour market. However, review of the proposed reforms during 2004, and expected implementation of labour laws within a set time frame are expected to raise private sector investor confidence and thereby contribute to employment generation.

Outlook for 2004

Labour Force, Employment and Unemployment

- In the first quarter of 2004, the Department of Census and Statistics (DCS) further widened the sample

coverage of the Quarterly Labour Force Survey (QLFS) by including the Jaffna and Mannar districts. Although the DCS was planning to conduct the survey and publish detailed estimates for the entire country from 2004 Q1, they could not conduct the survey in three districts in the Northern Province, i.e., Vavuniya, Killinocchi and Mullaitivu, due to unsettled civil conditions in those areas.

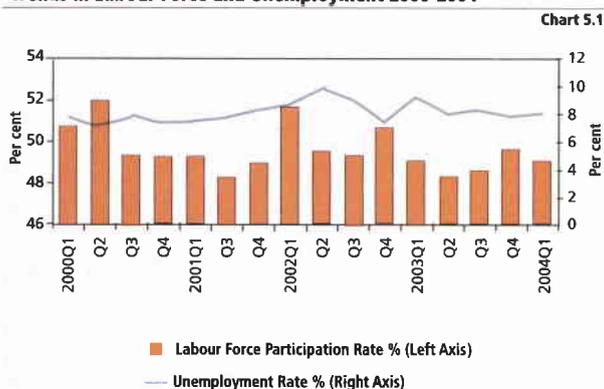
Table 1
Labour Force, Employment and Unemployment

Item	2003	2003				2004	2004	2004
	Annual ¹	Q1 ¹	Q2 ¹	Q3 ¹	Q4 ¹	Q1 ¹	Q1 ²	Q1 ³
Household Population (Aged 10 years and above), '000	15,649	15,566	15,573	15,672	15,785	15,733	16,316	14,542
Labour Force, '000	7,654	7,643	7,527	7,609	7,835	7,787	7,987	7,269
Employed	7,013	6,943	6,920	6,973	7,215	7,160	7,337	6,710
Unemployed	641	700	607	636	620	627	650	559
Labour Force Participation Rate, (% of Household Population)	48.9	49.1	48.3	48.6	49.6	49.5	49.0	50.0
Unemployment Rate (% of Labour Force)	8.4	9.2	8.1	8.4	7.9	8.0	8.1	7.7

- (1) Up to 4th Quarter 2002, data exclude both Northern and Eastern provinces. Commencing from 1st Quarter 2003, the Eastern Province is included and only the Northern Province is excluded from the survey.
- (2) Commencing from 1st Quarter 2004, the Northern Province is also included except Vavuniya, Killinocchi, Mullaitivu districts.
- (3) Excluding the Northern and Eastern provinces

- ❑ The labour force participation rate, excluding the Northern districts, decreased marginally to 49.5 per cent in the first quarter of 2004 from 49.6 per cent in the fourth quarter of 2003. With the inclusion of Jaffna and Mannar districts in the QLFS, the labour force participation rate decreased to 49.0 per cent in the first quarter of 2004, which indicated a lower rate in Jaffna and Mannar districts than in the rest of the country excluding the Northern Province.

Trends in Labour Force and Unemployment 2000-2004



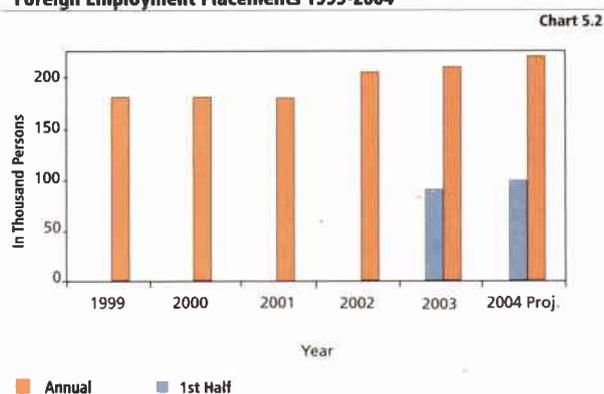
- ❑ A break in the series of the QLFS data occurred at the beginning of 2003 as a result of the inclusion of the Eastern Province into the sample coverage of the QLFS. The unemployment rate (including the Eastern Province) rose significantly to 9.2 per cent in the first quarter of 2003 from 7.5 per cent in the fourth quarter of 2002. In contrast, inclusion of two districts in the Northern Province had only a marginal impact on the unemployment rate in the first quarter of 2004.
- ❑ The graduate employment programme of the new government is expected to increase total government sector employment by around 40,000 in 2004. Most

of these graduates were already undergoing training under this programme from September 2004. Also, towards the end of 2004 agriculture sector employment is expected to increase due to the 2004/05 Maha cultivation season. The contribution from the Northern and Eastern provinces to the agriculture sector is significant. Therefore, continuation of the ceasefire agreement and peaceful conditions in the North and the East are important to expand employment opportunities towards the end of 2004. The overall unemployment rate is expected to be marginally lower at around 8.3 per cent in 2004, compared to 8.4 per cent in 2003.

Foreign Employment

- ❑ According to the Sri Lanka Bureau of Foreign Employment (SLBFE), foreign employment generation rose sharply during the first half of 2004 to 99,992 compared to 91,500 in the first half of 2003. Accordingly, the total number of Sri Lankans leaving for foreign employment in 2004 as projected by SLBFE will be about 220,600, an increase of about 12,000 workers compared to 2003. The SLBFE also reports that the migrants consist of mostly blue-collar workers (e.g. housemaids) who are from the lower income groups. This sharp increase in migrant workers, despite the unsettled post-war situation in the Middle East, indicates their expectation of better economic opportunities there than in the domestic economy.
- ❑ The increase in the share of blue-collar workers in total migrants was evident from the trend in the share of housemaids among manpower categories. The

Foreign Employment Placements 1999-2004



shift in migrant workers from jobs categorised under housemaids to the skilled category in 2003 compared to 2002 reverted to the housemaid category in the first half of 2004. The percentage share of housemaids in total foreign employment placements, which declined to 48 per cent during 2003 from 53 per cent in 2002, rose slightly again to 49 per cent in the first half of 2004.

Labour Market Reforms

- According to the proposed labour market reforms programme in 2003, a formula to compute compensation payable to workmen under the amendment to the Termination of Employment of Workmen Act (TEWA) was published on 31 December 2003. With the announcement of the formula, TEWA (Amendment), Industrial Disputes (Amendment) Act (IDA-1) and Industrial Disputes (Hearing and Proceedings) Act (IDA-2) came into operation. However there was a strong demand from trade unions to review these labour reforms.

- The Ministry of Labour Relations and Foreign Employment (MLRFE) under the new government began to review the entire labour market reform programme in the National Labour Advisory Council (NLAC) from June 2004. The NLAC comprises the MLRFE, trade unions and representatives from employers. It meets every month to discuss the reforms.
- First, the NLAC hopes to discuss and decide on a compensation formula with a safety net (unemployment benefit scheme) to provide income support and other benefits that promote employability of displaced workers.
- Second, the amendments to the IDA-2, which defines the time frame for the settlement of industrial disputes, will be reviewed by the NLAC. The time frame, which has come under criticism, will be discussed based on the principle of natural justice. Further, the MLRFE will discuss the setting up of Labour Tribunals under the IDA-1 amendments with the Ministry of Justice afresh due to the practical problems encountered in setting up the Tribunals to clear the backlog of labour disputes.
- Continuation of reforms is necessary to bring about flexibility in the labour market, which together with economic growth would generate more employment opportunities.

Out look for 2005

- ❑ In 2005, a significant loss of employment opportunities could be expected with the ending of the Multi Fibre Arrangement (MFA) at the end of 2004. However, the non- MFA (non-quota) garment industrialists will not be affected and the total impact on employment will depend on the share of non-quota garment industries in total garment industries, as well as the share of the quota garment industries that are unable to compete in a quota-free environment.

- ❑ Agriculture sector output is expected to recover in 2005 compared to the drop in 2004. However, the output level in 2005 is expected to remain below the level in 2003. Hence, employment creation will remain

marginally below or around the same as in 2003. Since the share of agriculture in the Northern and Eastern provinces is high, the agriculture sector performance in those provinces would also have an impact on employment generation. In order to achieve the forecasted targets for the North and East, peaceful conditions should prevail. This will be possible only with the continuation of the ceasefire agreement and the commencement of peace talks on an agreed time frame in 2004.

- ❑ With the expected service sector expansion in 2005, new employment creation in that sector too would be possible, thus increasing total employment during 2005. Against this background, the unemployment rate is forecast to be around 8 per cent in 2005.