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PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

Inflation on both annual average and year-on-year basis declined gradually and remained at low single digit levels during the first nine months of 2014. Accordingly, inflation has continuously remained at single digit levels for more than five years, which is the longest period that inflation remained at single digit levels over the last four decades. Prudent monetary management, relatively stable exchange rate, moderation in prices of both food and non-food imported items, improvements in the local agricultural commodity supply during the early months of 2014 compared to the corresponding period of the previous year, and absence of major upward revisions in administered prices helped maintain year-on-year inflation below 5 per cent during the period under review. Annual average inflation declined throughout the reference period and reached 4.2 per cent in September 2014. Meanwhile, core inflation, on an annual average basis, moved from 4.1 per cent in January to 3.2 per cent in September 2014 exhibiting mixed movements during the period. The benign level of inflation is expected to prevail during the balance period of the year as well, supported by stable international prices of some commodities, improved domestic supply conditions, downward revision of electricity tariff and fuel prices, prudent monetary management and well contained inflation expectations.

Nominal wages of employees in all three sectors, namely the public sector, formal private sector and informal private sector increased during the first eight months of the year, compared to the corresponding period of 2013. The continuous decline in inflation during the same period resulted in a real wage increase experienced by employees in public sector and informal private sector, while a marginal real wage decline was experienced by formal private sector employees. The unemployment rate declined further to 4.1 per cent during the first quarter of the year, benefitting from expanding economic activities. In terms of size of employment, the Industry sector desirably emerged as the second largest sector in the economy surpassing the Agriculture sector in this period. Foreign employment also increased during the period under review, with the increase in departures under middle level, clerical, skilled and semi-skilled categories, while departures under housemaid category decreased, as a positive result of measures taken to encourage more skilled labour departures, while streamlining housemaid departures.

Developments in 2014

Prices

- The general price level, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), the official consumer price index of Sri Lanka, increased moderately during the first nine months of 2014, amid the upward price pressure triggered by supply shortages of fresh agricultural items during the mid months of 2014, due to adverse weather conditions. Accordingly, it increased from 177.5 in January 2014 to 181.9 in September 2014, by 2.5 per cent. The year-on-year headline inflation decreased from January to February and stabilised at the same level in March due to modest increase in food prices. Then it increased in April 2014, due to both the seasonal demand and the base effect. Inflation dropped significantly in May and reached 2.8 per cent in June, the lowest recorded during the reference period due to the high base prevailed in the corresponding months of 2013. Thereafter, year-on-year inflation increased in July, due to the price increases of the agricultural commodities led by the low supply brought on by adverse weather conditions which prevailed in major producing areas. With the availability of Yala harvest in the market, prices moderated and inflation dropped to 3.5 per cent in September. Annual average inflation decelerated continuously from 6.5 per cent in January 2014 to 4.2 per cent in September 2014.
- The Non-food category contributed heavily towards the year-on-year inflation during January to April 2014. Within the Non-food category, the Housing, water, electricity, gas and other fuels sub-index contributed mainly to the increase in year-on-year inflation during this period. The full impact of upward revision in the tariff structure of electricity which came into effect from end April 2013 caused this increase. Thereafter, from May onwards, the contribution

from this sub-index reduced drastically as the impact of electricity tariff revision was present in both the reference and base months considered for the calculation of year-on-year inflation. Meanwhile, the prices of agricultural commodities moved on an increasing path during the same period reflecting adverse weather conditions prevalent in the country. As a combined impact of these developments, the food category became the main contributor to the year-on-year inflation during the period of May to September 2014. Meanwhile, the highest contributor for annual average inflation throughout the period under consideration was the Non-food category.

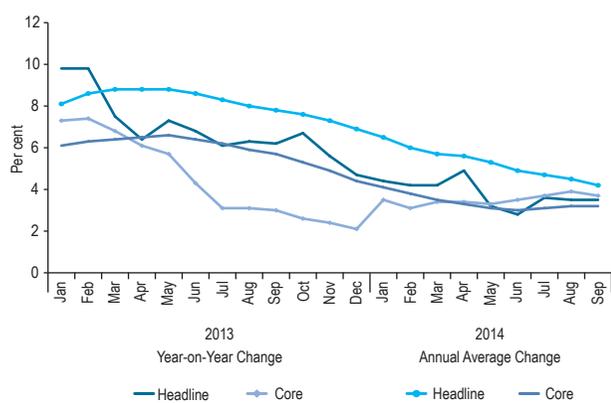
- During the first nine months of 2014, the weighted average price of rice increased by 15.6 per cent, compared to the corresponding period of the previous year. This price increase resulted from the reduction in Maha paddy production by 15.7 per cent, caused by adverse weather conditions compared to the same season of the previous year. The price increase

Table 4.1 Movements of the CCPI (2013 - 2014)

		2006/07=100			
Period		Year-on-year Change (%)		Annual Average Change (%)	
		Headline	Core	Headline	Core
2013	January	9.8	7.3	8.1	6.1
	February	9.8	7.4	8.6	6.3
	March	7.5	6.8	8.8	6.4
	April	6.4	6.1	8.8	6.5
	May	7.3	5.7	8.8	6.6
	June	6.8	4.3	8.6	6.4
	July	6.1	3.1	8.3	6.2
	August	6.3	3.1	8.0	5.9
	September	6.2	3.0	7.8	5.7
	October	6.7	2.6	7.6	5.3
	November	5.6	2.4	7.3	4.9
	December	4.7	2.1	6.9	4.4
2014	January	4.4	3.5	6.5	4.1
	February	4.2	3.1	6.0	3.8
	March	4.2	3.4	5.7	3.5
	April	4.9	3.4	5.6	3.3
	May	3.2	3.3	5.3	3.1
	June	2.8	3.5	4.9	3.0
	July	3.6	3.7	4.7	3.1
	August	3.5	3.9	4.5	3.2
	September	3.5	3.7	4.2	3.2

Source: Department of Census and Statistics

Chart 4.1 Movements of the CCPI (2013-2014)



was further fuelled by the insufficiency of rice stocks due to the fact that harvests of several preceding seasons were also not up to expected levels. With a view of maintaining the rice prices at a moderate level, the government reduced the Special Commodity Levy (SCL) on rice imports to Rs. 5 per kg with effect from April 9, 2014 to encourage rice imports to meet up with the supply shortage. Moreover, the prevailing ceiling on price of rice also revised upward with effect from the same date. Accordingly, the ceiling price of rice varieties of samba, white nadu and white raw were increased to Rs. 77, Rs. 68 and Rs. 66 per kg respectively, from Rs. 70, Rs. 60 and Rs. 60 per kg, respectively. These measures helped moderate the price of rice to some extent.

- **The weighted average price of vegetables decreased by 3.3 per cent during the first nine months of 2014 compared to the same period of the previous year.** The prices of almost all the vegetable varieties were relatively low during the period of January to April 2014, due to favourable weather conditions in the country. However, the prices in general, began to move upward from May onwards due to seasonal factors and reached the peak level in July, fuelled by the adverse weather conditions. This increased the weighted average price of the vegetable sub group by 27.8 per cent in July compared to

that in January 2014. The prices of vegetables began to ease in tandem with the arrival of Yala harvest to the market from mid-July 2014. This declining trend is expected to continue further, subject to the availability of favourable weather conditions in producing areas.

- **The average price of both coconut and coconut oil increased during the first nine months of the year compared to the same period of the previous year.** The price of coconut remained elevated from January to April 2014 compared to the corresponding period of 2013. However, it followed a gradual declining trend thereafter due to seasonal factors. Meanwhile, the price of coconut oil almost stabilised at the same level in December 2013, before recording a marginal decline in July 2014. The overall impact of these price movements resulted in an increase in the price of both coconut and coconut oil, on average, by 11.3 per cent and 13.7 per cent, respectively, in the first nine months of 2014 compared to the corresponding period of the previous year.
- **During the period under consideration, the weighted average price of fresh fish and seafood decreased marginally by 0.6 per cent compared to the same period of 2013.** The increase in fish production by 4.3 per cent during the first seven months of the year compared to the corresponding period of 2013 has contributed to the decline in domestic fish prices. The price of both large and small fish remained low during January to April 2014, due to seasonal factors. However, it increased gradually thereafter, owing to unfavourable seasonal weather conditions in the coastal areas. Meanwhile, price of eggs decreased by 7.1 per cent in the first nine months of 2014, despite the increase in cost of production, especially due to high cost of chicken feed.

- **Domestic prices of some imported food items increased during the first nine months of 2014 mostly in line with their price movements in the international market.** The price of milk powder (except Highland milk powder) was increased by Rs. 61 per 400g pack and Rs. 152 per 1kg pack, with effect from February 01, 2014. As a result, the price of milk powder increased by 10.9 per cent during the period under review. Meanwhile, prices of dhal and sugar increased by 2.7 per cent and 1.4 per cent, respectively, during the first nine months of 2014, compared to the corresponding period of the previous year. The relatively stable exchange rate during the period exerted less pressure on prices of imported commodities.
- **Within the Non-food category, absence of upward adjustments in administered prices contributed heavily towards moderating the general price level.** This was supported by the relatively favourable international prices of crude oil. Higher utilization of Coal Power, relatively stable Petroleum prices and improved financial position of Ceylon Electricity Board (CEB) did not necessitate upward revisions for electricity tariff during the first eight months of 2014. Downward revision of electricity tariff with effect from September 16, 2014, reduced the cost of electricity for the domestic sector by around 25 per cent per month. The prices of diesel, petrol and kerosene were also reduced by Rs. 3, Rs. 5 and Rs. 20 per litre, respectively, from September 17, 2014. The downward trend in international LP Gas prices supported maintaining stable domestic prices. Meanwhile, the bus and train fares were maintained at the same level during the period under consideration.
- **Fiscal policy measures implemented to contain supply side shocks in harmony with monetary policy measures helped achieve inflation at mid-single digit levels during the period under review.** Supply side disturbances were curtailed

through tariff reductions implemented with the view of stabilising domestic prices. In contrast, upward tariff revisions were introduced to safeguard the farmers during the periods of bumper harvests. Accordingly, during the off-season of potato and big onion, SCL was reduced with a view to stabilising prices by increasing supply through imports. SCL on potato and big onion was increased during harvesting periods to discourage the imports of these items. SCL on rice was reduced with effect from April 09, 2014 as a proactive measure of stabilising domestic rice prices.

- **The core inflation, on an annual average basis, decreased gradually from 4.1 per cent in January to 3.2 per cent in September 2014.** This decelerating trend was observed for more than a year since June 2013. The year-on-year core inflation, which showed a mixed movement with low volatility, increased marginally from 3.5 per cent in January to 3.7 per cent in September 2014.

Wages

- **Overall, the nominal wage rate index of public sector employees increased by 7.5 per cent during the first eight months of 2014, compared to the increase of 4.2 per cent during the corresponding period of 2013.** Government school teachers received a nominal wage increase of 7.4 per cent during the same period of 2014, compared to 4.1 per cent increase in 2013. The enhancement of the monthly Cost of Living Allowance (COLA) payable to all categories of public sector employees by Rs. 1,200 with effect from January 01, 2014 caused this increase. Consequently, the monthly COLA payable to public sector employees increased from Rs. 6,600 to Rs. 7,800. Accordingly, within the Central Government sector, non-executive employees and minor employees received wage increases of 7.3 per cent and 7.7 per cent, respectively,

during the first eight months of 2014, compared to increases of 4.0 per cent and 4.3 per cent, respectively, during the same period of 2013.

- **On an overall basis, real wages of public sector employees increased by 3.5 per cent during the first eight months of 2014.** The increase in nominal wages has more than offset the increase in the general price level, resulting in a gain in real wages during this period, in comparison to a real wage erosion of 3.1 per cent recorded in the corresponding period of 2013. Accordingly, real wages of non-executive employees and minor employees increased by 3.3 per cent and 3.7 per cent, respectively, during the first eight months of 2014 compared to real wage declines of 3.3 per cent and 3.0 per cent, respectively, experienced during the same period of 2013. Government school teachers also enjoyed a real wage increase of 3.5 per cent in 2014 subsequent to a real wage decline of 3.2 per cent recorded in the previous year.
- **Nominal wage rate index of the formal private sector increased by 2.9 per cent in the first eight months of 2014, compared to 5.1 per cent during the corresponding period of 2013.** These wage movements are measured by the minimum wage rate indices of employees whose wages are administered by regulations under the Wages Boards Trades. The overall increase in the formal private sector nominal wages was mainly due to the significant increase in the minimum daily wages of workers in the Industry and Commerce sector. Meanwhile, increase in wages of the employees in the Services sector also contributed positively. Consequently, minimum wage rate indices of the employees in the Industry and Commerce sector and the Services sector increased by 11.2 per cent and 4.9 per cent, respectively. The minimum wage rate index of the employees in the Agriculture sector increased by 1.0 per cent during the first eight months of 2014 compared to an increase of 0.1 per cent during the corresponding period of 2013. The increases in wages were observed in Cocoa, Cardamom, Pepper and Coconut growing sectors.
- **Real wages of workers in the Industry and Commerce, and the Services sectors increased by 7.2 per cent and 1.1 per cent, respectively, during the first eight months of 2014, subsequent to notable increases of real wages by 20.3 per cent and 10.7 per cent, respectively, in the corresponding period of 2013.** Real wages of workers in the Agriculture sector declined in the first eight months of 2014 by 2.7 per cent, as the increase in their nominal wages was not sufficient to offset the increase in inflation during the period. Consequently, on an overall basis, formal private sector employees experienced a real wage erosion of 0.9 per cent during the period under review, compared to a real wage erosion of 2.3 per cent recorded during the corresponding period of 2013.
- **Workers in the informal private sector received a nominal wage increase of 5.8 per cent during the first eight months of the year, subsequent to a sizable 13.1 per cent increase recorded during the corresponding period of 2013.** Within the informal private sector, employees engaged in agricultural activities enjoyed a 5.9 per cent daily wage increase, on average, compared to a 13.5 per cent increase during the same period of 2013. Average daily wages of employees in Tea, Coconut, Rubber and Paddy sub sectors in the Agriculture sector increased by 8.4 per cent, 6.1 per cent, 5.8 per cent and 3.2 per cent, respectively, during the period. Masons and carpenters in the Construction sector enjoyed a wage increase of 5.5 per cent and 5.3 per cent, respectively, in nominal terms, leading to a 5.4 per cent overall daily wage increase in the Construction sector.

- In real terms, wages of employees in the informal private sector also increased by 1.9 per cent, on average, during the first eight months of 2014 compared to the increase of 5.2 per cent recorded in the corresponding period of 2013. When sub categories in the informal private sector are considered, employees in Tea, Rubber, Coconut, Masonry and Carpentry enjoyed increases in their real wages by 4.4 per cent, 1.9 per cent, 2.2 per cent, 1.6 per cent and 1.4 per cent, respectively. Employees in the Paddy sector experienced a marginal decline in their real wages, subsequent to receiving a sizable real wage increase of 7.1 per cent during the corresponding period of 2013.

Employment

- According to the Quarterly Labour Force Survey (QLFS) conducted by the Department of Census and Statistics (DCS), covering the entire island, the total labour force¹ decreased marginally by 1.0 per cent to 8.770 million in the first quarter of 2014 compared to 8.862 million in the corresponding period of the previous year. The decline in the labour force which signals shifting of population from economically active category to the economically inactive category was due to decrease of both employed and unemployed persons. This is identified as an undesirable development as it could create upward pressure on wages on account of the increasing demand for labour in the present high growth trajectory.
- The labour force participation rate (LFPR), which is expressed as the ratio of the labour force to the household population aged 15 years and above, also declined to 53.4 per cent in the first quarter of 2014 compared to 54.2 per cent in the corresponding period of the last year. The decrease was a combined outcome of decreases of both male and female LFPR which declined to 74.4 per cent and 35.3 per cent, respectively, in the first quarter of 2014 compared to their respective levels at 75.1 per cent and 36.2 per cent in the corresponding period of the last year. There was an increase in the urban sector LFPR, but the rural sector LFPR decreased.
- According to the DCS, the number of employed persons decreased by 0.5 per cent to 8.407 million in the first quarter of 2014 compared to 8.451 million in the same period of the last year. The Agriculture sector recorded the highest decline (162,698) in the number employed in this period and shed its share in total employment to 26.4 per cent from 28.2 per cent in the corresponding period of the previous year. The contraction of activities in the Agriculture sector on account of the adverse weather conditions mainly contributed to this decrease while the other two sectors namely the Industry and Services recorded increases in the number employed. The number of employees in the Industry sector and the Services sector increased by 65,518 and 53,205, respectively, in the first quarter of 2014. Their respective shares in the total employment too increased to 27.8 per cent and 45.7 per cent, compared to 26.9 per cent and 44.9 per cent in the corresponding period of the previous year. These developments led to a desirable change in the employment structure of the economy during the first quarter of 2014. Accordingly, for the first time since the introduction of QLFS in 1990, the number employed in the Industry sector surpassed that of the Agriculture sector, thus helping the Industry sector emerge as the second largest sector in terms of the size of employment.
- In terms of employment status, the number of employees in the public sector and the self-employed category recorded marginal increases while private sector, employers and unpaid family workers recorded decreases. The largest decrease was recorded by the

¹ The labour force, which consists of employed and unemployed persons, is defined as the economically active population aged 15 years and above.

unpaid family workers whose share in the total employment decreased to 8.7 per cent in the first quarter of 2014 compared to 9.4 per cent in the corresponding period of the previous year. Both the number and share in the employment of public sector and self-employed increased in the first quarter of 2014 compared to the same period of the previous year. Accordingly, their share of total employment increased to 15.7 per cent and 31.6 per cent, respectively. In spite of the marginal decrease in the number employed, the private sector which holds the largest share of employment (40.9 per cent) further increased its share of employment in the first quarter of 2014.

- **The unemployment rate appreciably decreased to 4.1 per cent in the first quarter of 2014 compared to 4.6 per cent in the corresponding period of the previous year.** The total number unemployed was estimated at 0.362 million for the first quarter of 2014, compared to 0.411 million recorded in the same period of the last year. The decrease of female unemployed persons mainly contributed to this decrease. Accordingly, female unemployment decreased to 6.1 per cent in first quarter of 2014 compared to 7.0 per cent in the corresponding period of the previous year. The male unemployment rate too decreased to 3.0 per cent from 3.3 per cent recorded in the corresponding period of the previous year.
- **Decreases in the unemployment rates were recorded by majority of age groups, except between 15-19 years and 25-29 years, which recorded marginal increases in the first quarter of 2014 compared to corresponding period of the previous year.** Youth unemployment continued to remain higher than the overall level of unemployment. The 15-19 age group emerged as the group with more acute unemployment surpassing the 20-24 age group. Accordingly, the unemployment among age group of 15-19 was 21.1 per cent while it was 19.1 per cent among the age group of 20-24 in the first quarter of 2014. In terms of education level, the highest unemployment rate was reported for the persons with GCE (A/L) and higher education. However, unemployment rate for this category decreased appreciably to 6.9 per cent in the first quarter of 2014 compared with 9.2 per cent in the corresponding period of the previous year. This is a noteworthy development, as the highest unemployment rate in the recent years was recorded under this category. Meanwhile, unemployment among the persons with year 6-10 grade qualifications declined from 3.7 per cent to 3.1 per cent, while it increased from 6.0 per cent to 6.6 per cent among those with GCE (O/L).
- **Foreign employment continued to be a foremost exchange earner for the country and a major source of employment in the first half of 2014.** The number of departures excluding

Table 4.2

Labour Force, Employment and Unemployment

Item	2013		2014 (a)	
	Q1	Year	Q1	Projections
Household Population, '000 (Age 15 years and above)	16,356	16,360	16,420	16,468
Labour Force, '000	8,862	8,802	8,770	8,791
Employed, '000	8,451	8,418	8,407	8,439
Unemployed, '000	411	384	362	352
Labour Force Participation Rate (% of Household Population)	54.2	53.8	53.4	53.4
Unemployment Rate (% of Labour Force)	4.6	4.4	4.1	4.0

(a) Provisional

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

housemaids increased by 4.9 per cent to 101,171 in the first half of 2014 compared to the 96,474 in the same period of the last year. However, due to the strict adherence to regulations imposed by authorities with regard to departure of housemaids, the total number of departures including the housemaids decreased to 145,557 by 3.3 per cent in the first half of 2014 compared to 150,592 in the corresponding period of the previous year. The developments observed in the composition of departures for foreign employment in the first half of 2014 depicts the effectiveness of the current foreign employment policy which focused to reorient the migrant labour force from housemaid and unskilled categories to semi-skilled and skilled categories.

- **There have been positive developments, when departures under different skill categories are considered.** The category of middle level employees recorded a considerable increase in departures while clerical and related, skilled labour and semi-skilled labour categories too recorded moderate increase of departures. A decrease in departures was observed in professional category. However, the share of departures under this category is only 1.4 per cent. Departures of housemaids decreased notably by 18 per cent to 44,386 in the first half of 2014 compared to 54,118 in the corresponding period of the previous year. The decline is mainly attributable to the concerted efforts taken by the authorities under the current foreign employment policy to streamline the departure of female workers for housemaid jobs. As a result, the share of housemaids to the total migrants decreased to 30.5 per cent during the first half of 2014 compared to 35.9 per cent in the corresponding period of the previous year. In terms of gender composition of the migrant workforce, male departures increased by 5.3 per cent recording a share of 62.5 per cent of total departures for foreign employment while female departures declined considerably by 15 per cent. Meanwhile, total foreign remittances received from migrant workers increased by 10.6 per

cent to US dollars 3,360 million in the first half of 2014 compared to US dollars 3,039 million received during the corresponding period of the previous year.

- **The total number of strikes, number of workers involved in the strikes and the man days lost in the strikes declined remarkably in the first half of 2014 indicating improved labour relations in the private sector.** Accordingly, the number of strikes declined from 23 to 19 while workers involved in the strikes and man days lost declined from 7,250 to 3,275 and from 59,076 to 9,862, respectively, in the first half of 2014 compared to the corresponding period of the previous year. Sectors other than the plantation sector recorded most outstanding improvement in labour relations with the number of strikes declining to 2 in the first half of 2014 compared to 12 in the corresponding period of the previous year. In the contrast, the number of strikes in the plantation sector increased to 17 in the first half of 2014 compared to 11 in the corresponding period of the previous year. Nevertheless, the plantation sector too showed drastic improvement in labour relations as the number of workers involved and the man days lost indicated considerable decline in the first half of 2014. Effective coordination between employers and employee unions and early resolution of labour issues has led to improvement of labour relations and reduction of occurrence and elongation of strikes.

Productivity

- **A commendable improvement in labour productivity in the economy is indicated through the high economic growth recorded in the first quarter, which was achieved amid a declined number of employed people.** Productivity improvement is more important and more impressive as it raises country's competitiveness in the external front and also it creates immense potential for future growth.

Productivity improvement is precisely crucial at this juncture as unemployment rate of the country has reached to the lowest recorded. It is obvious that future growth prospects will mostly depend on productivity improvements. Measures taken to improve productivity levels in the economy are commendable in this high growth trajectory as to sustain economic development and maintain and improve living standards of people in the country.

- **Increased mechanisation, usage of improved propagation methods and proper management of the usage of fertilizer will help further to enhance productivity in the Agriculture sector.** The provisioning of relevant infrastructure including irrigation networks, forward linkages to minimize waste, research and development on high yielding and disease resistant crops and distribution and marketing channels will also contribute immensely towards the productivity improvements in the Agriculture sector. Moreover, introducing and expanding of agro-based processing industries will be essential to increase the value addition which will pave the way to improve productivity. The experiences and best practices followed by other countries will be useful in this.
- **Improving productivity in the Services sector is paramount for a successful and sustainable growth paradigm.** With main focus on the Five plus tourism Hub strategy, the most anticipated and deliberated growth sector in the economy is the Services sector, while already being the largest contributor for economic growth. The focus should not solely be on labour productivity, but also on productivity improvement in all factors of production. On this service based expansion path, availability of suitable and cutting edge infrastructure facilities is needed to encourage entrepreneurship on the Services sector. Such facilitations will further improve employment opportunities, particularly in IT and BPO

sectors, opening up new ways of earning foreign currency, without the need for physically sending human resource abroad, while boosting the growth of the Services sector.

- **The rapid growth in both economic and social infrastructure which was experienced during recent years helped improving overall productivity in the economy, significantly.** The government has invested heavily in infrastructure in the areas of ports, airports, railways, expressways, highways and other road networks, power projects, telecommunication and information technology. It is also expected to expand investments in infrastructure development projects further covering certain new areas. This developments in infrastructure minimizes especially, the cost and the time of transportation and communication which are vital in determining productivity in each sector. Accordingly, the supportive platform provided through further improvements in infrastructure would contribute considerably towards improving productivity and thereby accelerating the economic growth.

Prospects for 2015

- **Inflation is expected to remain below mid-single digit levels during the remainder of the year.** This positive outlook is to be supported by well anchored inflation expectations, prudent monetary management, favourable price movements in the Non-food category and the moderation of prices in some agricultural commodities. Some supply side pressures are anticipated to arise particularly through the low domestic supply of rice. However, it is expected that such unfavourable developments will be contained through timely policy measures. The impact of recent electricity tariff and fuel price revisions will also ease the inflationary pressures.

- **Increases in real wages are expected to remain positive for the remaining part of the year, in the low inflation scenario.** Increase in wages should always be complemented by improved productivity to mitigate unwarranted price pressure and also to maintain competitiveness in the international markets. Wage increases without productivity improvements lead to both demand and supply side price pressures, and propagation of such price pressures to increased cost of production and hence substandard competitiveness.
- **Unemployment is expected to moderate further, with the employment opportunities generated by the expansion of economic activities.** As this growth momentum has to be promoted through attracting more investments, existing labour laws have to be reformed allowing entry and exit from contracts with lesser cost and relative ease, as it is one of the key prerequisites for investors in making investment decisions. This would enhance a competitive edge over other countries in the region, in terms of attracting foreign investments.
- **The emergence of the Industry sector as the second largest employment generating sector is expected to be further concreted in the future along with the expansion in economic activities in the sector.** The share of employment in the Agriculture sector is expected to shrink further in the future with the mechanization of agricultural activities and increase of educated and skilled labour force. However, this reorientation of employment among major economic sectors will occur with an initial deterioration of labour productivity in the sectors that absorb new labour. Hence, to facilitate a smooth transition of labour, suitable re-skilling and re-training programmes have to be introduced after assessing the needs in the labour market. Meanwhile, the Services sector will remain as the largest employment generator of the economy in the future.
- **Youth unemployment rate and unemployment rate among educated persons are expected to ease in the future, along with opportunities created in the expanding Industry and Services sectors.** In line with the high growth trajectory, the education system needs to be re-equipped with suitable curricular for the future, while eventually phasing out the less demanded and outdated programmes to facilitate this positive expectation. Students should be made aware of the options and opportunities available as career paths locally and internationally, so that they can envision and shape their skills and competencies accordingly. The perceptions and attitudes of future generations have to be developed in a way that they choose education, career paths, professions and responsibilities in areas that they have a passion to make an effective contribution.