

Chapter 4

PRICES, WAGES AND EMPLOYMENT

4.1 Overview

As was projected at the beginning of the year, the price inflation in 2004 recorded a gradual downward movement for some time and then began its upward trend. This was observed in the case of all the price indices, first at the primary market level and then, at the retail market level. Accordingly, the factors that contributed to improve price stability through the previous years, turned unfavourable since the middle of 2004.

Factors attributable to the observed price and wage developments during 2004 related to both the demand and supply sides of the economy, among which supply side factors were dominant. The economy experienced supply shocks originating both internally and externally. Internally, the prolonged drought in certain areas from the latter part of 2003 through most of 2004 had an adverse impact on key domestically produced food items, which represent relatively high shares in all measures of inflation, and exerted upward pressure on their prices. Externally, the strong global demand during the year pushed up the international prices of key commodities, specifically that of petroleum products, generating cost-push inflation. International prices of most consumer imports increased in 2004 in contrast to price decreases for some of them and lower price increases for others in the previous year. The depreciation of the rupee against major currencies, as reflected by the movements of the Nominal Effective Exchange Rate (NEER), aggravated the situation by exacerbating the adverse impact of rising international prices of imports to Sri Lanka. Thus, the costs of key imported inputs such as fertiliser, raw materials and fuel went up, raising the cost structure of most domestically produced goods, and generating cost-push inflationary

pressures. These supply side factors were also reinforced by a trade policy that protected domestic farmers through the maintenance of limits on imports of rice, that has the highest single share in all measures of inflation, despite a drop in its domestic production by 15 per cent during the year. The upward revision of the Value Added Tax (VAT) on imports also contributed to cost-push pressures.

The expansion of money supply at a higher rate of around 20 per cent in 2004 compared to around 15 per cent in the previous year added demand side pressures on prices by raising liquidity levels in the economy. A higher budget deficit partly financed through banking sources and an accelerated credit expansion to the private sector contributed to the monetary expansion.

Wage developments too had an impact on the price inflation in the country. Nominal wages in the public sector which had remained unchanged in 2003 were revised upwards at both the beginning and end of the year. The increase at the beginning of the year, at higher rates than justified by the prevailing inflation rates resulting in increases in real wages without apparent commensurate improvement in productivity, also contributed to the price pressure during the year simply by raising the aggregate demand. In contrast to public sector wage developments, some formal private sector employee categories suffered losses in real minimum wages, while nominal wages in the informal private sector generally kept abreast with inflation.

In 2004, there was a slowing down of the progress of labour reforms. On the policy front, following on representations made by trade unions, the Ministry of Labour Relations and Foreign Employment (MLRFE) through a cabinet decision on 26 May 2004, suspended the implementation of the amended Termination of Employment of Workmen Act (TEWA), which came into operation in December 2003, and in June 2004 formed the National Labour Advisory Council (NLAC), comprising the MLRFE, trade unions and representatives from employers, to review the entire labour market reforms programme. The main task of the NLAC was to decide on a new compensation formula with an unemployment benefit scheme to provide income support to displaced workers. The new formula was formulated by October 2004 and is due to be gazetted with an unemployment benefit scheme in early 2005.

Population growth slowed down marginally from 1.3 per cent in 2003 to 1.1 per cent in 2004. Meanwhile, district-wise differences were observed in growth rates, where areas

Chart 4.1
Trends in Price Indices

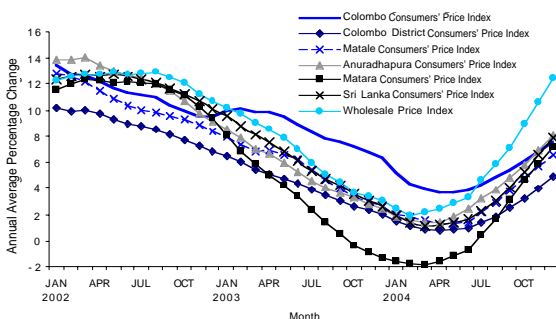


Table 4.1
Price Behaviour in 2003 and 2004

Year	Month	Monthly Change %						Annual Average Change %					
		CCPI	CDCPI	APCPI	MLCPI	MRCPI	SLCPI	CCPI	CDCPI	APCPI	MLCPI	MRCPI	SLCPI
2003	January	4.2	1.7	1.4	3.0	1.2	2.1	10.0	6.5	8.6	8.0	8.1	9.6
	February	-1.1	-0.1	-1.1	-2.4	-0.7	-0.6	10.2	6.1	7.9	7.4	6.8	8.9
	March	-2.3	-1.5	-1.9	-0.6	-2.0	-2.2	9.9	5.5	7.0	6.9	5.9	8.2
	April	-0.8	-0.3	-0.6	0.6	-1.4	-1.1	9.9	5.1	6.7	6.9	5.1	7.6
	March	2.4	0.1	-1.4	-0.8	-0.1	0.5	9.5	4.8	6.0	6.6	4.3	6.8
	June	1.3	0.5	0.5	0.8	0.3	0.5	9.0	4.4	5.3	6.2	3.5	6.1
	July	-1.8	-1.3	-0.9	-2.8	-3.2	-1.1	8.3	3.9	4.6	5.4	2.4	5.4
	August	-2.5	-0.5	-0.9	-0.2	-0.5	-1.5	7.8	3.5	4.1	4.7	1.5	4.8
	September	0.3	-0.4	0.3	0.0	-0.9	-0.1	7.6	3.1	3.7	4.0	0.6	4.3
	October	-0.1	0.4	0.8	0.5	0.5	0.1	7.2	2.7	3.3	3.3	-0.3	3.6
	November	2.6	1.6	2.9	2.6	3.7	2.5	6.8	2.4	2.9	3.0	-0.9	3.1
	December	3.1	1.1	3.1	1.9	1.9	1.8	6.3	2.1	2.5	2.6	-1.3	2.6
2004	January	-0.2	-0.3	-1.1	-0.2	-0.1	0.2	5.2	1.6	1.9	2.0	-1.6	1.9
	February	-0.7	0.2	0.4	0.0	0.6	0.2	4.4	1.2	1.6	1.9	-1.7	1.5
	March	-0.8	-0.5	-0.8	-1.2	-0.7	-0.8	3.9	1.0	1.5	1.6	-1.8	1.2
	April	1.3	1.1	1.6	1.3	2.0	1.8	3.7	0.9	1.5	1.3	-1.6	1.3
	May	3.7	1.3	0.8	1.7	1.0	1.0	3.7	0.9	1.9	1.3	-1.2	1.4
	June	2.1	0.4	1.5	1.3	1.0	1.3	3.9	1.0	2.5	1.5	-0.7	1.7
	July	0.1	1.0	1.5	0.5	2.3	1.5	4.3	1.4	3.2	2.2	0.5	2.3
	August	-1.1	0.2	-0.8	0.2	0.0	0.8	4.9	1.8	4.0	2.9	1.7	3.1
	September	1.3	2.1	2.1	1.9	1.6	3.1	5.4	2.5	4.9	3.8	3.2	4.1
	October	0.4	0.7	1.6	1.5	0.5	0.8	6.1	3.3	5.9	4.9	4.7	5.4
	November	3.4	2.8	2.8	2.4	2.0	2.9	6.8	4.0	6.9	5.7	5.9	6.6
	December	3.7	2.9	4.6	3.3	2.7	2.9	7.6	5.0	8.0	6.6	7.2	7.9

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

previously affected by the security situation registered relatively higher growth in population under a relatively peaceful environment with the continuation of the ceasefire. However, the labour force participation rate had declined with the inclusion of the Northern Province, where the participation rate was relatively low. The employment rate had increased marginally with the expansion of economic activity, particularly in the Services sector. The employment rate was also supported by the expansion in public sector employment opportunities under the policy of the new government and its subsequent drive to recruit graduates to the public sector. However, unemployment, recording a marginal rise in the overall rate during the year, remained an area of concern, particularly among the educated youth.

The Tsunami tidal wave disaster, which devastated a large area of the coastal belt on 26 December 2004, claimed around 30,000 to 40,000 lives when both confirmed deaths and the missing are taken into account. In addition, around 100,000 houses were destroyed or damaged, leading to the displacement of around half a million people (2-3 per cent of the population). The direct impact on the labour force may be seen in 2005 in the form of a lower labour force participation rate or a higher unemployment rate. At the same time, the situation could also reverse with a higher demand for labour under a dynamic reconstruction and rehabilitation programme.

The impact of the Tsunami disaster on prices and wages will also manifest itself in 2005 in certain sectors. The fisheries sector was one of the worst affected. Prices of fish did not rise

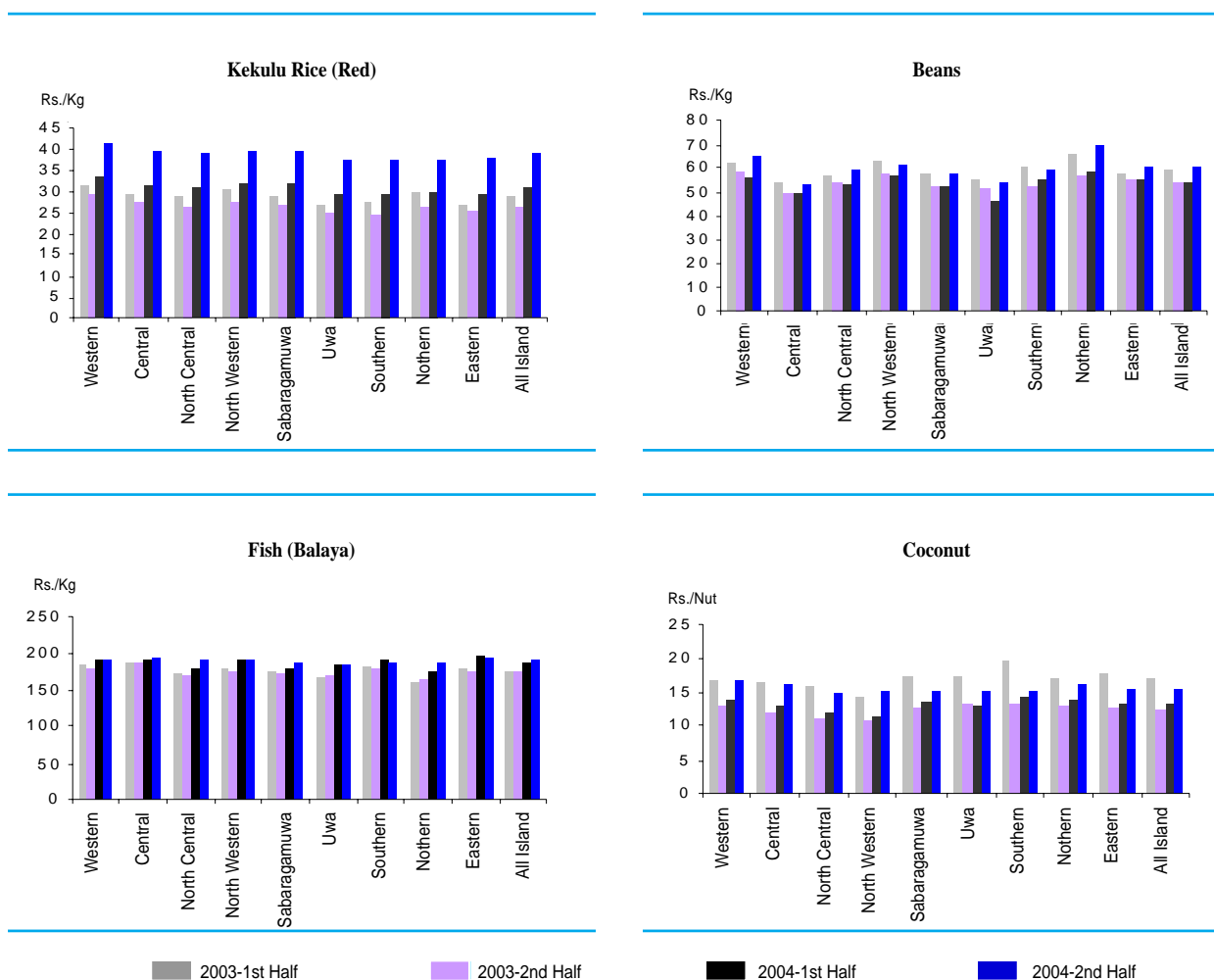
immediately due to a temporarily low demand, but have risen since then with the demand picking up. The supply shortage is expected to continue until the required infrastructure is in place. Meanwhile, prices of other protein substitutes have already risen. Trading activities in the affected areas have also been disrupted. Marketing and distribution to those coastal areas will take a while to recover, so that prices and wages in those economic sectors will also remain affected for a period. Rehabilitation and reconstruction activities could also exert excessive pressure on input prices including skilled labour unless due consideration is given to resource availability limitations in the planning of the implementation.

4.2 Prices

Price Movements of Goods and Services

Prices of most domestically produced goods and services, as well as imported goods, increased at different rates during the year compared to prices in the previous year. Among domestically produced agricultural goods, prices dropped for certain goods during the first half of the year, but rose at very high rates during the second half, generally reflecting the production situation during the year. In 2003, rice prices dropped within a range of 4 to 12 per cent with the growth in production, whereas, they increased within a range of 15 to 27 per cent in 2004 with the drop in both Maha (12 per cent) and Yala (20 per cent) production. During the second half alone, prices of all varieties of rice increased in a range of 30 to 46

Chart 4.2
Retail Prices of Selected Commodities by Province



per cent. Prices of coconut, another important domestically produced consumer item, dropped in 2004 over the levels in 2003 by around 2 per cent, although overall production fell. This overall outcome was due to price declines in a range of 22 to 23 percent during the first half of the year when the crop increased and increases of around 25 to 28 per cent during the second half when production fell. Prices of vegetables recorded mixed trends. With the increase in the Maha vegetable harvest, prices fell in general in the early part of the year, but rose thereafter. Prices of protein sources, different varieties of sea and inland fish and dried fish, different varieties of meat and meat products, fresh milk, milk based products and eggs, increased during the year in a range of 1 to 13 per cent. Unlike rice and coconuts, prices of protein sources were higher throughout the year compared to the previous year. Almost all varieties of domestically produced fruits also recorded somewhat higher prices in 2004 although production rose.

These price increases marked continuation of the price increases observed over the past few years. Increasing demand for protein sources and the rising costs of inputs and transport could have contributed to such developments.

Among imported goods, price increases were observed in all three major categories of imports, consumer goods, intermediate goods and investment goods. Prices of both consumer goods and intermediate goods had an adverse impact on overall price movements during the year itself. The impact of the price increases of investment goods on other prices will be felt with a time lag. Among major food imports, significant price increases in US Dollar terms were observed for wheat grain (24 per cent), milk powder (18 per cent), rice (10 per cent) and sugar (10 per cent). Prices of most imported fruits also increased during the year. The impact of price increases of intermediate goods, especially fuel prices, were more significant in 2004 than 2003. The US Dollar price of a barrel

Table 4.2
Administered Price Revisions in 2002,2003 and 2004

Item	Unit	Price Dec-2002	Price Dec-2003	Price Dec-2004	% Change 2003/2002	% Change 2004/2003
Coconut Arrack	750.ml.	285.00	300.00	338.50	5.3	12.8
Extra Special Arrack	750.ml.	241.00	260.00	290.00	7.9	11.5
Postal Charges Normal Letter	1 Unit	4.50	4.50	5.00	0.0	11.1
Diesel	1 Ltr.	30.00	32.00	44.00(a)	6.7	37.5
Kerosene	1 Ltr.	24.00	25.50	25.50	6.3	0.0
Petrol	1 Ltr.	49.00	53.00	70.00(a)	8.2	32.1
Furnace Oil(1000)	1 Ltr.	23.50	23.20	24.70	-1.3	6.5
Furnace Oil(1500)	1 Ltr.	23.00	22.30	24.30	-3.0	9.0
Furnace Oil(3500)	1 Ltr.	21.50	20.70	22.00	-3.7	6.3
Busfare					0.0	15.0

(a) Colombo City Price. With effect from September 2004, the price elsewhere was Rs.2 less than this price.

Source: Central Bank of Sri Lanka

of crude oil increased by around 27 per cent in 2004 against 17 per cent in 2003. The corresponding increases for LP gas were 20 per cent and 17 per cent. Fertiliser prices also increased by 17 and 21 per cent, respectively. International price increases coupled with rupee depreciation raised domestic fuel prices in a range of 0 to 38 per cent. Gas prices too increased by 11 to 12 per cent. These price increases had a secondary impact on transport and other sectors that use them as major inputs. Accordingly, bus fares, railway fares and charges on other modes of transport, such as three wheelers and vans, increased during the year.

The intermediate input prices in the food processing industry also had an impact on the prices of prepared food. Accordingly, prices of bread and flour based products increased by around 3 per cent. Prices of a variety of prepared foods recorded price increases in a range of 4 to 10 per cent. Among non food items, price increases were observed for household items and services, particularly private tuition classes and medical consultancy charges, reflecting the spiraling impact of rising inflation by the end of the year.

Provincial Price Variations

Variations in prices among provinces exist due to variation in the availability of goods and their quality differences. The availability, in turn, depends on the area of production and efficiency in distribution. Within the overall trend of price increases, regional price variations, in different degrees, were observed across different commodities. Estimated Coefficient of Variation values (CVs)¹ for rice, potatoes, dried chillies, coconut and eggs were below 5 per cent. The CVs for big onions, brinjals and fish were above 10 per cent. Accordingly, the commodities that are more perishable, and hence, subject to more quality variations, had higher CVs. Comparison of CVs in 2004 with those in previous years indicated that regional variability among prices of key consumer items has narrowed down further, despite the increase in the overall price level.

1 The Coefficient of Variation (CV) is a statistical measure that measures the average variability of the values of a given item relative to its average value. Accordingly, a lower CV indicates less variability and vice versa. This statistic can be used to analyse relative price variation among the provinces.

Continuation of the ceasefire and further improvements in the distribution channels due to improvements in intra regional road networks, expansion of the goods transport fleet and timely availability of information about market conditions along with expansion in telecommunication facilities have contributed to these developments in the recent past.

Consumer Price Indices

The year 2004 commenced with falling inflation registered by all available Consumer Price Indices (CPIs), continuing the moderation of inflation observed throughout the past two years, before bottoming out by the second quarter of the year. This trend was consistent among all CPIs, which signaled rising price pressure during the second half of 2004.

The overriding influence on aggregate inflation remained domestically produced goods, which represent around 75 per cent of total consumption expenditure² and are dominated by food items. Imported items directly account for the balance 25 per cent of consumption expenditure which is also dominated by food items. The persistently higher price pressure, especially during the second half, was mainly due to the overall increase in prices of food, which represents around 60 per cent of the total weight across all CPIs. Hence, the rise in international commodity prices also contributed to domestic inflation in 2004. Hence, price increases of both imported goods and domestically produced goods contributed to the overall inflation during the year. On the whole, relatively lower prices of most agricultural commodities at the beginning of the year, was the key factor responsible for the lower inflation rate at the commencement of the year, despite the rise in import prices. The revision of the applicable VAT rate on imported food items from 10 per cent to 15 per cent from January 2004 had an upward impact on the prices of most imported food items. However, the impact of rising international commodity prices, both directly as well as through input costs, particularly of unusually high crude oil prices, was evident in the domestic inflation thereafter, and was partly responsible for reversing the downward inflation trend from the second quarter of the year.

2 Prices of domestically produced goods are also sensitive to import price changes due to heavy dependence on imported intermediate inputs.

TABLE 4.3
Changes in Price Indices

Index	Average Index			Point to Point Percentage Change		Annual Average Percentage Change	
	2002	2003	2004	Dec-03	Dec-04	2003	2004
CCPI	3,176.4	3,377.0	3,632.8	5.0	13.8	6.3	7.6
CDCPI	138.5	141.1	148.5	1.1	12.6	2.1	5.0
APCPI	143.1	146.6	158.4	2.1	15.0	2.5	8.0
MLCPI	138.5	142.1	151.6	2.5	13.5	2.6	6.6
MRCPI	139.1	127.3	147.2	-1.3	13.6	-1.3	7.2
SLCPI	154.4	158.4	170.9	1.0	16.8	2.6	7.9
WPI	1,628.9	1,679.1	1,889.0	3.4	23.9	3.1	12.5
GDP deflator	160.0	168.0	183.5	n.a.	n.a.	5.0	9.2

n.a. - not applicable

Source: Central Bank of Sri Lanka

The month to month changes in the indices indicated upward pressure on prices as they were higher than the historical seasonal changes for most months of the year. The point to point changes, (which measure the change in the index in any month compared to the value of the index in the corresponding month of the previous year), which continuously rose throughout 2004, were higher in the second half of the year and greater than 10 per cent for most indices during this period. Accelerating pressure on prices during the second half was denoted by these significantly higher point to point increases compared to those of the corresponding months of the previous year. Consequently, all CPIs recorded relatively higher and rising annual average inflation rates in a range of 5 to 8 per cent by the end of the year, compared to -1 to 6 per cent in the previous year.

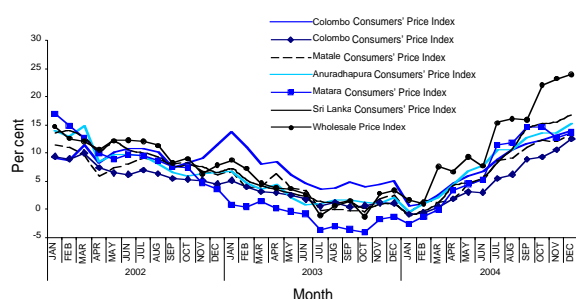
The annual average increase of the Colombo Consumers' Price Index (CCPI), the official measure of the cost of the living, reached 3.7 per cent in May, its lowest annual average increase since January 2002, and then rose continuously to reach 7.6 per cent by the end of the year. The Sri Lanka Consumers' Price Index (SLCPI), which has a broader geographical as well as income group coverage representing the price movements of the country as a whole and having more recent weights than the CCPI, behaving in a similar way, plummeted at the beginning of the year to reach its lowest annual average change of 1.2 per cent in March and rose faster

thereafter to reach 7.9 per cent by end 2004. The corresponding rates of inflation were lower at 6.3 and 2.6 per cent, respectively, in the previous year.

Among the sub indices of the CCPI that represent price movements of various consumption expenditure groups, food and miscellaneous items registered higher annual average increases compared to their corresponding increases in the previous year. The Food sub index, which represents the highest share of around 62 per cent in the CCPI basket, registered an annual average increase of around 8 per cent, higher than the 6 per cent registered for 2003. Similarly, the food sub index of the SLCPI having a weight of 71 per cent, increased by around 9 per cent relative to the 1 per cent increase recorded in 2003 on an annualised basis. The acceleration in the pressure from food prices was indicated by a point to point increase of around 16 per cent in the CCPI Food sub index during 2004, compared to around 4 per cent in the previous year. This trend was mirrored in the SLCPI as well, where the food sub index in the SLCPI rose by 20 per cent, point to point, in contrast to the decline of around 1 per cent recorded in 2003. Consequently, the respective indices indicated that the contribution of food prices to the overall inflation, was greater than 70 per cent in 2004, in comparison to 67 per cent in the previous year for the CCPI and less than 40 per cent in the SLCPI.

The Fuel and Light sub index with a share of around 4 per cent of the CCPI basket registered an annual average increase of around 10 per cent compared to 15 per cent during 2003. The contribution of the Fuel and Light category to overall inflation was around 11 per cent, in relation to 19 per cent in 2003. This increase was mainly driven by higher prices of firewood as there were no revisions to kerosene prices during the year. The prices of firewood would have increased due to higher demand from households, as well as small scale restaurants and fast food outlets, following on the price increase of alternative energy sources such as LP gas. The relative sub index in the SLCPI with a weight of 13 per cent rose at a relatively lower rate of around 6 per cent during the year, which reflected the rise in L.P. gas prices, which has a marginal representation of around 0.2 per cent, in addition to the prices of firewood. The relative contribution to the overall inflation from this sector was around 10 per cent for 2004.

Chart 4.3
Point to point Changes in Price Indices



The increase in international prices of crude oil and gas, and the consequential upward revision of domestic fuel prices led to an increase in transport charges. This was clearly reflected in the Transport sub index of the SLCPI, which had the highest annual average increase for the year of around 11 per cent compared to 8 per cent in the previous year. This sub index, having an expenditure share of 4 per cent in the index, was responsible for around 5 per cent of the overall inflation in 2004. The CCPI, with the exception of revisions to kerosene prices, only captures the indirect impact of fuel price increases, which however includes bus fares, in the Miscellaneous sub-index. The Miscellaneous sub index with a somewhat higher weight of around 19 per cent in the CCPI was responsible for 14 per cent of the resultant inflation for the year.

The Clothing sub-indices, with relative shares of 4 and 9 per cent in the two CPIs increased by less than 5 per cent during the year. There was relatively lower price pressure from this category, with the contribution to inflation being less than 4 per cent.

The Health and Leisure, entertainment and culture sub indices of the SLCPI increased by 10 and 8 per cent, respectively, in 2004, higher than the increases recorded for the previous year. The increased expenditure on health was responsible for around 5 per cent of the rise in the overall price level during the year, while the latter category contributing marginally. The impact of other sub-indices on the aggregate price level was marginal in 2004.

Regional Price Indices

The Central Bank measures the cost of living in different regions through the movements of regional CPIs compiled for the districts of Colombo (CDCPI), Anuradhapura (APCPI), Matale (MLCPI), and Matara (MRCPI). The prices at regional level as measured by these 4 indices illustrated a behaviour similar to the CCPI and SLCPI. The continuous acceleration in inflation, especially during the second half, culminated in annual average inflation rates between 5 per cent and 8 per cent by the end of the year, in comparison to the corresponding range of -1 to 3 per cent at end 2003, across the regions. The point to point changes too indicated a similar trend and were much higher than in 2003, particularly during the second half. Price variations exist across regions due to several factors, as discussed in the previous section. The inflation mainly stemming from food prices were at varying intensities across the regions, due to price variations as well as the differences in the weight structure of the indices. It was observed that the inflation variation was higher in other districts compared with Colombo District, reflecting mainly differences in transport and distribution facilities.

Increased imports, especially rice, following on lower production in 2004, and also other domestic agricultural commodities, were mainly distributed from Colombo, which still remains the main wholesale and retail market. With added transportation costs, which increased during the year as well,

the prices of imported goods increased further when reaching regions outside Colombo. Despite the lower price disparities across regions with the expansion of regional economic centres, the greater availability of the main agricultural products in Colombo relative to other regions at times of poor production, and vice versa, may give rise to these regional differences. Hence, the deceleration in 2002 and 2003 and subsequent acceleration in 2004 in inflation were sharper in the other 3 districts and the country as a whole (SLCPI), compared to Colombo District and the Colombo Municipality area (CCPI). This was particularly so during the second half of 2004.

Wholesale Price Index

The Wholesale Price Index (WPI) captures price movements at the primary market level, which complements the available CPIs in measuring changes in the general price level to some extent, by acting as a leading indicator of possible future price movements at the retail level. In addition to the overall index, separate sub indices are computed under domestic, export and import classifications, based on their origin. Sub indices are also available according to the use of goods, namely, for consumer, intermediate and investment goods.

WPI movements during the year behaved very similar to those of retail prices but somewhat earlier, thereby foretelling the future retail price changes. The rate of annual average inflation as measured by the WPI was higher at 12.5 per cent in 2004 compared to 3 per cent in 2003 and the acceleration of the index, as measured by the point to point changes, was significantly higher during the second half of 2004. The price movements of different sub categories of the WPI were more or less consistent with the behaviour of comparable categories of the available CPIs during the period. The Food sub-category, which has the highest weight of around 68 per cent, mainly comprises of key items with relatively low elasticities of demand and their prices are mainly driven by supply side factors. The drought conditions resulting in low harvests, especially for rice, and the delaying of imports leading to speculative pressures, resulted in higher prices. Consequently, this would have been a factor towards the increase in other food items as well. Hence, the food index increased by around 12 per cent in 2004 against a drop in the previous year. The rise in this sub category reflected the same factors that underpinned the rise in CPI inflation during the year. Subsequent to the increase in excise duty, liquor prices were revised upward several times during the year and, as a result, the Alcoholic drinks sub index recorded an increase of 11 per cent, against 3 per cent in 2003. Consequent to the increase in international prices of oil, the petroleum product sub index, the major non food sub category in the WPI, increased by around 15 per cent, relative to the 9 per cent increase in 2003. Initially, the government absorbed the oil price hike, but subsequently, the partial price adjustment for selected petroleum products, particularly the upward revision of petrol and diesel prices by 32 and 37.5 per cent, respectively, impacted on several other prices in the economy as well. The increase in vehicle tyre prices in 2004, as a result

of higher international rubber prices, was mainly responsible for the higher annual increase of around 6 per cent in the Transport equipment sub-index in 2004. Higher rubber and tobacco prices were the major contributory factors for the rise in the Miscellaneous sub-index in 2004. The increase in most building materials, particularly cement and bricks, driven by increased activity in the construction sector, and higher transport charges resulted in an increase in the Non metallic products group by around 16 per cent in 2004.

The domestic group dominated by food items, with a share of slightly higher than 50 per cent, increased at a higher rate of around 10 per cent in 2004 than 4 per cent in 2003. The slump in agriculture production contributed to this higher pressure on prices. The imports group recorded an increase of around 10 per cent in 2004 mainly driven by higher prices of intermediate imports such as fuel during the year, which, however, was 12 per cent in 2003. The export group, which recorded the highest annual average increase of around 17 per cent in 2004, in contrast to the decline of 3 per cent in 2003, reflected attractive export prices mainly for the plantation sector crops i.e. tea, rubber and coconut.

Under the classification on the basis of the use of goods, consumer goods, which represent more than 75 per cent of the overall index and are dominated by food items, rose by 11 per cent in 2004, as against the 1 per cent decline in the previous year. This too was as a result of the poor performance of the agriculture sector during the year. Investment goods registered an increase of 13 per cent when compared with 12 per cent in 2003, while there was an increase to 18 per cent for intermediate goods due to higher fuel prices, from 15 per cent in 2003.

GDP Deflator

The GDP deflator³ is an implicit price indicator obtained through the GDP compilation process. The deflator is the ratio of the nominal GDP in a given year to the real GDP in that year. Since the GDP deflator is based on a calculation involving all the goods produced in the economy, it is a broad price index that is frequently used to measure inflation at the producer level.

The GDP deflator confirmed the inflationary pressure indicated by other price indices in 2004. The overall index increased by 9.2 per cent compared with a 5 per cent increase

Table 4.4
GDP Deflator

Sector	Index			Percentage Change	
	2002	2003	2004	2003	2004
Agriculture	165.8	168.5	182.8	1.6	8.5
Industry	157.9	167.5	185.8	6.1	10.9
Services	158.9	168.1	182.6	5.8	8.6
GDP	160.0	168.0	183.5	5.0	9.2

Source: Central Bank of Sri Lanka

³ Unlike the other price indices discussed above, which are based on the Laspeyres formula, the GDP deflator is based on the Paasche formula where the weights changes every year with the change in national production.

in 2003. The increase in producer prices as well as the increase in wage pressure in both the formal and informal sectors experienced during the year contributed to the overall movement of the index. Sector-wise, the increasing trend was observed in all three sectors of the economy. In contrast, in 2003, the agriculture sector displayed a low level of inflation, while inflation in the other two sectors was moderate. In 2004, agricultural producer prices rose in parallel with prices in the other two sectors due to high input costs. In 2004, the industry sector recorded the highest increase, largely due to the increase in cost of construction.

4.3 Wages

Wages in Sri Lanka can be analysed under two main categories of employment, namely, public sector and private sector. The private sector can be sub-divided into two as the formal private sector and informal private sector. The public sector too can be sub-divided into two sectors as the government sector (central, provincial and local government sectors) and the semi-government sector (state corporations, statutory boards and state authorities).

Wage developments in the public sector are monitored through official wage indices, which cover only the non-executive grades in central government and government school-teachers. The formal private sector comprises private sector institutions that contribute to the general Employees' Provident Fund (EPF) or maintain their own provident funds with the approval of the Commissioner of Labour. Movements of formal sector wages are monitored through the minimum wage rate indices that cover only the minimum wage categories of employees governed by the Wages Boards Trades. Minimum wages are revised on the decisions of these Wages Boards. Separate wage rate indices are computed by the Department of Labour for three sectors, namely agriculture, industry and commerce, and services. A consolidated wage rate is also computed on a monthly basis. Information on wages in the informal private sector is collected under the Country Wide Data Collection System (CWDCS) of the Central Bank.

Public Sector

Public Sector employees enjoyed two salary revisions, during the year. The first revision provided for an increase of 10 per cent or Rs. 1,250, whichever was higher, with effect from 01.01.2004. The second revision took effect from 01.12.2004. This revision granted a 40 per cent increase of the current basic salary subject to a minimum of Rs. 3,250 per month and a maximum Rs. 9000 per month, plus allowances. The new salary scales were to be implemented in two stages. Rs.2,500 or 50 per cent of the proposed increase, whichever was higher, was to be with effect from December 2004 and the balance from January 2006, subject to the recommendations of the National Council for Administration.

These salary revisions, especially the first one, raised wage indices of non executive officers, minor employees and government school teachers within a range of 21 per cent to 25

Table 4.5
Wage Rate Index Numbers
(December 1978=100)

Employment Category	Nominal			Real			Percentage Change			
							Nominal		Real	
	2002	2003	2004(a)	2002	2003	2004(a)	2003	2004(a)	2003	2004(a)
1. Government employees										
Central government employees	1,525.0	1,525.0	1,872.1	115.0	108.1	123.3	0.0	22.8	-6.0	14.0
Non-executives	1,410.3	1,410.3	1,709.0	106.3	100.0	112.5	0.0	21.2	-6.0	12.6
Minor employees	1,636.7	1,636.7	2,039.5	123.4	116.0	134.3	0.0	24.6	-6.0	15.7
Government school teachers	1,180.1	1,180.1	1,428.4	89.0	83.7	94.1	0.0	21.0	-6.0	12.4
2. Workers in wages boards trades										
All wages boards trades	1,126.5	1,205.2	1,233.0	84.9	85.4	81.3	7.0	2.3	0.7	-4.8
Workers in agriculture	1,269.6	1,382.2	1,397.7	95.6	98.0	92.2	8.9	1.1	2.5	-5.9
Workers in industry and commerce	986.5	1,009.4	1,044.1	74.4	71.6	68.9	2.3	3.4	-3.8	-3.7
Workers in services	678.0	678.0	751.0	51.1	48.1	49.5	0.0	10.8	-6.0	2.9

(a) Provisional

Sources : Department of Labour
Central Bank of Sri Lanka

per cent in nominal terms in 2004. Accordingly, the overall nominal wage rate index for government employees increased by around 23 per cent. These increases when adjusted for the CPI inflation during the year gave those government employees real wage increases in the range of 12 to 16 per cent, with the overall increase being 14 per cent. However, these indices only represent wages of the public sector employees who fall into low wage categories. Accordingly, many of them would have received the lump sum payment of Rs. 1,250 rather than the 10 per cent increase. Hence, the overall public sector wage increase in 2004 would have been lower than indicated by the available wage indices.

Formal Private Sector

Nominal wages in the three major sectors in the formal private sector, Agriculture, Industry and Commerce, and Services, as

reflected in the respective minimum wage indices, increased in a range from 1 to 11 per cent in 2004. The sector, as a whole, experienced a nominal wage increase of 2.3 per cent. Formal private sector employees, in general, suffered a loss in their minimum real wages. Only the Services sector employees enjoyed a real minimum wage increase. However, since the minimum wage indices do not cover wages earned by managerial and professional categories in this sector and even the other benefits received in different forms, the overall situation could be different from what is reflected in these minimum wage indices.

Informal Private Sector

Nominal wages in the informal sector are determined in a more free market environment and respond to various factors, such as the rising cost of living, prevailing market conditions, the

Table 4.6
Informal Private Sector Daily Wages by Sector and Gender ¹

Sector	Annual Average of Daily Wages (Rs.)			Percentage Change			
				Nominal		Real	
	2002	2003	2004	2003	2004	2003	2004
1. Agriculture Sector							
Tea							
Male	251	276	304	9.8	10.3	3.5	2.7
Female	183	199	218	8.8	9.4	2.5	1.8
Rubber							
Male	271	278	304	2.5	9.3	-3.8	1.7
Female	187	214	229	14.7	6.8	8.4	-0.8
Coconut							
Male	329	335	361	2.1	7.6	-4.2	0.0
Paddy							
Male	279	304	333	8.8	9.4	2.5	1.8
Female	216	230	256	6.8	11.0	0.5	3.4
2. Construction Sector							
Carpentry							
Master Carpenter - Male	439	470	506	7.0	7.7	0.7	0.1
Skilled and Unskilled Helper- Male	270	289	314	7.0	8.8	0.7	1.2
Masonry							
Master Mason - Male	432	466	500	7.7	7.3	1.4	-0.3
Skilled and Unskilled Helper- Male	271	292	315	7.5	7.8	1.2	0.2

1. Female participation is minimal in the Coconut and Construction sectors.

Source : Country wide Data Collection System
Central Bank of Sri Lanka

degree of labour intensity in work and alternative opportunities to shift among different activities. The information on the informal sector daily wages collected under the CWDCS, which covers only two sectors of agriculture and construction, revealed upward movements of daily wages in the informal sector at different rates.

Nominal daily wages in the Agriculture sector increased within a range of around 7 to 11 per cent during the year. The corresponding range in the construction was narrower, from around 7 to 9 per cent. Within the Agriculture sector, the four sub sectors experienced different wage increases in nominal terms. Differences were observed among male and female wages as well, where in some sub sectors increases in female wages were lower than for males and in others female wages increased somewhat faster than for males although within a relatively narrower range. Real wages within the Agriculture sector moved in different directions, albeit marginally. Similarly, real wages within the construction sector moved in different directions, but within an even narrower range. While the helpers in carpentry enjoyed a small real wage increase, other categories in the construction sector experienced negligibly marginal changes in their real wages.

When compared with the public sector and formal private sector, wages in the informal private sector appeared to adjust more freely to movements in the inflation in a more market oriented environment, with less volatility exhibited over time.

4.4 Population, Labour Force and Employment

Population

In 2004, the mid-year population estimated by the Registrar General's Department grew by 1.1 per cent, compared to 1.3 per cent recorded in 2003. Accordingly, the mid-year population was 19.5 million in 2004 and almost all districts contributed to the expansion in population except Mannar district where the growth was zero. High increases in population were recorded in Colombo, Kandy, and Ratnapura districts, while high growth rates were registered from Mullaitivu, Killinochchi and Vavuniya districts. The relatively peaceful conditions that prevailed in the Northern and Eastern provinces, due to the continuation of the ceasefire since early 2002, would have enabled more people to return to their homes, as indicated by the high population growth recorded for these three districts in the Northern Province in 2004.

Labour Force

The Quarterly Labour Force Survey (QLFS) conducted by the Department of Census and Statistics (DCS), which estimates the labour force, employment and unemployment in the country, expanded its sample coverage to the entire country by including the Northern Province during the first half of 2004. The Northern Province was included in QLFS in two stages and as a result, the coverage was extended to the entire country

Table 4.7
Population By District

District	2003	2004(a)	Change	% Change
Colombo	2,305	2,342	37	1.6
Kandy	1,307	1,325	18	1.4
Ratnapura	1,036	1,049	13	1.3
Badulla	801	813	12	1.5
Kurunegala	1,475	1,486	11	0.7
Gampaha	2,089	2,099	10	0.5
Galle	1,011	1,020	9	0.9
Anuradhapura	764	773	9	1.2
Kalutara	1,077	1,085	8	0.7
Matara	780	788	8	1.0
Nuwara Eliya	714	722	8	1.1
Ampara	605	613	8	1.3
Batticaloa	536	544	8	1.5
Puttalam	721	728	7	1.0
Jaffna	589	596	7	1.2
Matale	453	459	6	1.3
Trincomalee	377	383	6	1.6
Hambantota	533	538	5	0.9
Moneragala	405	410	5	1.2
Polonnaruwa	368	372	4	1.1
Mullaitivu	141	144	3	2.1
Killinochchi	140	143	3	2.1
Vavuniya	139	142	3	2.2
Kegalle	789	791	2	0.3
Mannar	97	97	0	0.0
Total	19,252	19,462	210	1.1

(a) Provisional

Source: Registrar General's Department

from the second quarter of 2004. The third quarter labour force estimates of the QLFS are used to analyse the key variables of the labour force in this chapter due to the non-availability of QLFS data for the fourth quarter of 2004.

The labour force, which is defined as persons aged 10 years and above, who are able and willing to work, increased by 0.4 million to 8.0 million in the third quarter of 2004 from the third quarter of 2003 mainly due to the inclusion of the Northern Province in the QLFS during the first half of 2004. However, the increase in labour force due to the inclusion of the Northern Province was low compared to the inclusion of the Eastern Province earlier, where the labour force rose more, by around 0.5 million. The total labour force consisted of 7.3 million employed and 0.7 million unemployed, in the third quarter of 2004.

Chart 4.4
Trends in the Labour Force and Unemployment 2000-2004 Q3

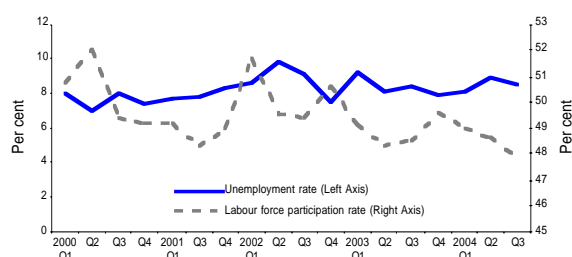


Table 4.8
Labour Force Participation

Item	2003 (a)	Q1	Q2	Q3	Q4	2004(b)	Q1 (c)	Q2(d)	Q3(d)
Household Population (e)	15,649	15,566	15,573	15,672	15,785	16,514	16,316	16,525	16,702
Labour Force '000 Persons	7,654	7,643	7,527	7,609	7,835	8,003	7,987	8,038	7,984
Employed	7,013	6,943	6,920	6,973	7,215	7,319	7,337	7,314	7,305
Unemployed	641	700	607	636	620	684	650	724	679
Labour Force Participation Rate (f) %	48.9	49.1	48.3	48.6	49.6	48.5	49.0	48.6	47.8
Male	67.2	66.8	66.8	67.1	68.0	66.9	67.4	67.7	65.7
Female	31.4	32.2	30.6	30.8	32.0	31.1	31.4	30.8	31.0

(a) Up to 4th Quarter 2002, data excluded both Northern and Eastern Provinces. Commencing from 1st Quarter 2003, Eastern Province was included and only the Northern Province was excluded from the survey.

(b) Average of first three quarters

(c) Data included both Northern and Eastern Provinces excluding Vavuniya, Killinochchi and Mullaitivu districts.

(d) Data included all districts.

(e) Household population aged 10 years and above

(f) Labour force as a % of household population

Source: Department of Census and Statistics (DCS)

The labour force participation rate¹, decreased marginally to 47.8 per cent in the third quarter of 2004 compared to the third quarter of 2003. This was partly due to relatively low labour force participation rates that prevailed in the Northern Province. This was further confirmed by the estimates of the Consumer Finances and Socio Economic Survey (CFS-2003/04) conducted by the Central Bank of Sri Lanka. The labour force participation rate of the Northern Province, excluding Killinochchi, Mullaitivu and Mannar districts, was low at 32.9 per cent compared to the overall participation rate of 46.4 per cent, according to the CFS-2003/04. The decline was seen in both male and female labour force participation rates. The gender analysis of the labour force participation rate over the years had shown that the participation rate of males has been over twice that of females throughout the recent past. This had not changed with the inclusion of the North and East.

Employment

The QLFS conducted by the DCS defines an employed person as one who worked for pay, profit or family gain (unpaid) for one hour or more during the week preceding the survey. Employees temporarily absent from work, due to illness, bad weather or labour disputes are also considered as employed. According to the QLFS, the employment rate, which decreased between the first and second quarters of 2004 partly due to the inclusion of three districts of the Northern Province, reversed its direction to 91.5 per cent in the third quarter of 2004. Although there was a marginal decrease in the employment rate between the third quarters of 2003 and 2004, the employment increased by .32 million persons.

The increase in employment in the reference period was mainly due to the increase in employment in the Services sector, while the Agriculture and Industry sectors also contributed at a lower rate. As a result, the employment share

of the Services sector increased and the shares of the other two sectors decreased in the third quarter of 2004 compared to the third quarter of 2003. The employment growth in the Services sector coincides with the highest sectoral GDP growth recorded by the same for the reference period, while the contraction in GDP in the Agricultural sector and marginal increase in employment in the same sector, indicates a decline in labour productivity in that sector.

According to the QLFS estimates for the third quarter of 2004, only the private sector share of employees increased among the five categories of employment status, while the share of unpaid family workers had the highest decline in the third quarter of 2004 compared to the third quarter of 2003. However the share of public sector employment estimated by the QLFS for the fourth quarter of 2004 is expected to rise due to the graduate recruitment programme implemented by the government in the same period.

By implementing the programme, the government expected to strengthen the public sector through improvement in the quality of the service provided by recruiting a new work force with higher academic qualifications. At the same time, they also expected to enhance employment opportunities for the unemployed graduates in the country. In order to effect the recruitments, the government had to cancel Management Circular No. 16(1) dated 24 October 2002 that directed the downsizing of the public sector in the country. Accordingly, about 42,000 graduates were provided training opportunities in the government sector with a view to absorbing them into the service once the training is successfully completed. In addition, the 1,640 clerical grade appointments made by the Department of Public Administration also led to the expansion of the public sector. However, the suspension of recruitments to posts in all subordinate and minor employee grades remained unchanged in order to avoid unnecessary postings to the public sector that would lead to productivity deterioration.

1 The ratio of the labour force to the household population aged 10 years and above.

Table 4.9
Employment by Economic Activity

Sector	In Thousand Persons							Percentage of Total Employment	
	2003 (a)				2004			2003	2004
	Q1	Q2	Q3	Q4	Q1(b)	Q2(c)	Q3(c)	Q3	Q3
Agriculture	2,381	2,415	2,439	2,303	2,355	2,608	2,492	35.0	34.1
Industry	1,504	1,457	1,514	1,643	1,625	1,630	1,564	21.7	21.4
Manufacturing	1,106	1,125	1,120	1,275	1,242	1,239	1,221	16.1	16.7
Construction	397	332	393	367	383	390	344	5.6	4.7
Services	3,058	3,048	3,020	3,270	3,357	3,076	3,248	43.3	44.5
Trade and hotels, etc.	988	957	958	1,062	1,141	961	1,013	13.7	13.9
Transport, storage and communication	376	332	358	390	401	460	418	5.1	5.7
Finance, insurance and real estate	217	195	177	190	171	193	187	2.5	2.6
Personal services and other (d),(e)	1,478	1,565	1,528	1,627	1,644	1,461	1,630	21.9	22.3
Total employment	6,943	6,920	6,973	7,215	7,337	7,314	7,305	100	100
Percentage of labour force	90.8	91.9	91.6	92.1	91.9	91.0	91.5		

Source: Department of Census and Statistics (DCS)

- (a) Up to 4th Quarter 2002, data excluded both Northern and Eastern Provinces. Commencing from 1st Quarter 2003, Eastern Province was included and only the Northern Province was excluded from the survey.
 (b) Data include both Northern and Eastern Provinces excluding Vavuniya, Killinochchi and Mullaitivu districts.
 (c) Data include all districts.
 (d) Mining and quarrying categorised under Personal Services and Other in the QLFS from 2002-Q1
 (e) Electricity, gas and water categorised under Personal Services and Other in the QLFS from 2001-Q1

The expansion in the public sector during the fourth quarter of 2004 was reflected in the Annual Public Sector Employment Survey (APSES) conducted by the Central Bank. According to the APSES the number of employees in government institutions, which cover central government, provincial government and local government employees, increased by 7.1 per cent in 2004 compared to the previous year. In contrast, the number of employees in the government sector had declined by 0.6 per cent in 2003, due to the previous government policy of down sizing the public sector since 2001.

The voluntary retirement schemes (VRS) implemented since 2001 to reduce the excess staff mainly in the semi government institutions, was very effective in reducing the number of employees up to 2004. The phasing out of VRS during 2004 was clearly reflected in the lower decrease of employees in the semi-government institutions, by 1.9 per cent, in 2004 when compared to the decrease of 5.1 per cent in 2003.

Table 4.10
Public Sector Employment

	2003 (a)	% Change	2004 (a)	% Change
Government (b)	785,756	-0.6	841,756	7.1
Semi-Government (c)	257,452	-5.1	252,659	-1.9
Public Sector	1,043,208	-1.7	1,094,415	4.9

Source: Central Bank of Sri Lanka

- (a) Provisional
 (b) Central Government, Provincial Councils and Local Government
 (c) State Corporations, Statutory Boards and State Authorities

Unemployment

The unemployment rate, which rose marginally from end 2003 to 8.1 per cent in the first quarter of 2004 with the inclusion of the Northern Province, excluding Vauniya, Killinochchi and Mullaitivu, increased further to 9.0 per cent in the second quarter with the extension of the sample coverage to the entire country. The increase in unemployment in the first half of 2004 was partly due to the inclusion of the Northern Province in the QLFS. This reversed to 8.5 per cent in the third quarter, solely due to the Services sector employment generation during the same period.

The continuation of youth unemployment, especially among the more educated, was evident from the QLFS. According to the QLFS estimates, the unemployment rate in the 20 – 29 age group had increased to 21.4 per cent in the third quarter of 2004 from 19.6 per cent in the third quarter of 2003, while the high unemployment rates among those with GCE (O/L) and GCE (A/L) and higher qualifications further increased to 14.1 per cent and 17.3 per cent, respectively, in the third quarter of 2004. The high unemployment rates among the educated youth were further confirmed by the estimates of the CFS-2003/04 conducted by Central Bank of Sri Lanka. According to the CFS-2003/04 the unemployment rates of persons with GCE (O/L) and GCE (A/L) and above qualifications were 13.8 per cent and 18.2 per cent, respectively, while the overall unemployment rate was 9.0 per cent. However these rates are expected to decline during the fourth quarter of 2004 due to the programmes that were implemented by the government to recruit educated youth in to the public sector.

Table 4.11
Unemployment Rate
 (Percentage of Labour Force)

Category	2003 (a)	Q1	Q2	Q3	Q4	2004(b)	Q1 (c)	Q2(d)	Q3(d)
All	8.4	9.2	8.1	8.4	7.9	8.5	8.1	9.0	8.5
By Gender									
Male	6.0	6.4	5.7	6.3	5.9	6.3	6.2	6.6	6.0
Female	13.2	14.6	13.1	12.8	12.1	13.2	12.2	14.0	13.5
By Age Group (Years)									
15-19	30.3	32.3	29.4	29.9	29.6	30.6	31.7	34.2	25.8
20-29	19.4	21.0	19.0	19.6	17.9	19.7	17.9	19.8	21.4
30-39	3.9	4.8	3.5	3.4	3.7	3.7	3.8	4.4	2.9
40 and above	1.1	1.3	1.0	1.1	1.0	1.3	1.5	1.3	1.1
By Education Level									
Grade 4/Year 5 and below	1.7	1.7	1.6	2.0	1.7	2.1	2.5	2.3	1.4
Grade 5-9/Year 6-10	7.4	8.1	7.0	8.3	6.1	7.3	7.3	8.0	6.6
GCE(O/L)/NCGE	13.0	14.8	12.8	11.2	13.3	12.9	11.6	12.9	14.1
GCE(A/L)/HNCE and above	16.5	18.1	15.9	15.2	17.1	17.0	14.6	19.0	17.3

Source: Department of Census and Statistics (DCS)
 Central Bank of Sri Lanka

(a) Up to 4th Quarter 2002, data excluded both Northern and Eastern Provinces. Commencing from 1st Quarter 2003, the Eastern Province was included and only the Northern Province was excluded from the survey.

(b) Average of first three quarters

(c) Commencing from 1st Quarter 2004, data include both Northern and Eastern Provinces excluding Vavuniya, Killinochchi and Mullaitivu districts.

(d) Data include all districts.

Foreign Employment

According to the Sri Lanka Bureau of Foreign Employment (SLBFE), the registered number of departures for foreign employment grew by 2.1 per cent in 2004 and stood at 213,114. The Middle Eastern countries such as Saudi Arabia, Kuwait, UAE and Qatar absorbed around 80 per cent of the total migrant labour in 2004. Even though, the first half of 2004 indicated a sharp increase of around 9 per cent over the first half of 2003, the projected total number of foreign employment placements of 220,600 was not achieved in 2004. The improvements made by the SLBFE in 2004 to the registering system for migrant workers at the time of departure improved the accuracy of records of the number of departures, thereby increasing the total reported departures to a certain degree.

The SLBFE reported that the share of females in total foreign departures decreased marginally. However, the share of females remained above 60 per cent in 2004 and was due to the increase in the share of housemaids among manpower categories to 52 per cent in 2004 from 49 per cent in 2003. The

declining trend in the share of housemaids recorded since 2001 was reversed in 2004. This further confirmed that migrant workers continue to consist mostly of blue-collar workers such as housemaids who are from the lower income groups. Acceptance of housemaid offers, despite the unsettled post-war situation in the Middle East in addition to the problems faced by housemaids, ranging from harassment to death, indicates their expectation of better economic opportunities there than in the domestic economy.

The decrease in the share of skilled categories among manpower categories in 2004 was the opposite of what the country had expected to achieve, as skilled migrants always had the edge over others and were greatly in demand in the foreign job market. Sri Lanka continues to remain less competitive in the skilled category of the foreign job market and has been less successful in catering to the demand for skilled migrants even with a system of vocational training institutes in place. In order to address this problem, a project was initiated by the Tertiary and Vocational Education Commission (TVEC) with donor funding to re-organise and develop the tertiary education system in Sri Lanka in 2004. An awareness programme to convey existing opportunities in the field and change the negative social attitudes towards employment in various trades is a part of this project.

Labour Productivity

Labour productivity, estimated on the basis of annual value added per employee remained around Rs. 135,000 per person for the period 2000 to 2004. Labour productivity in the Services sector was the highest at about Rs. 170,000 per person. Meanwhile, productivity in the Agriculture sector was less than half that in the other two sectors. Therefore, it reduced the overall productivity level to well below the Services and

Table 4.12
Foreign Employment

Item	2001	2002	2003	2004 (a)
Employment Placements	184,007	203,773	208,808	213,114
By Source %				
Licensed Agents	72	75	74	73
Other	28	25	26	27
By Gender %				
Male	33	35	36	38
Female	67	65	64	62
By Manpower Category %				
Housemaid	56	53	49	52
Skilled Labour	20	22	23	21
Unskilled Labour	18	18	21	20
Other	6	7	7	7

(a) Provisional

Source : Sri Lanka Bureau of Foreign Employment

Table 4.13
Labour Productivity by Major Economic Sector

	2000	2001	2002	2003	2004 (a)
GDP at Constant (1996) Prices, Rs. Million	857,035	843,794	877,248	929,226	980,662
Agriculture	175,317	169,377	173,623	176,213	173,213
Industry	236,347	231,350	233,562	246,446	259,786
Services	445,371	443,067	470,063	506,567	547,663
Total Employment, '000 Persons	6,310	6,235	6,670	7,012	7,319
Agriculture	2,274	2,033	2,359	2,384	2,485
Industry	1,491	1,491	1,387	1,529	1,607
Services	2,545	2,711	2,924	3,099	3,227
Labour Productivity, Rs. '000 per Person	135.8	135.3	131.5	132.5	134.0
Agriculture	77.1	83.3	73.6	73.9	69.7
Industry	158.5	155.2	168.4	161.2	161.7
Services	175.0	163.4	160.8	163.5	169.7

(a) Provisional

Source: Department of Census and Statistics (DCS)
Central Bank of Sri Lanka

Industry sector levels. The marginal increase in the overall productivity observed since 2002 was solely due to the increasing trend in Services sector productivity.

4.5 Policies and Issues

Despite the GDP growth of 5.4 per cent in 2004, and relatively stable unemployment rates, the rising inflationary trend is a cause for concern for macro economic stability. Signs of rising inflation could fuel further inflation and raise inflationary expectations leading towards an inflation – wage increase spiral. Hence, remedial measures need to be taken urgently to arrest this trend.

Comparison of nominal wage movements in the informal private sector and the other two sectors, public sector and formal private sector, suggests that nominal wages in this sector adjust fairly, in line with the changing cost of living and productivity, whereas administered wage revisions at ad-hoc intervals in the other two sectors could result in unwarranted real wage increases without commensurate productivity improvements which could increase cost-push inflationary pressure. Hence, effective measures are required to ensure productivity improvements to follow any increase in real wages.

It has been acknowledged by successive governments that labour market reforms are necessary to ensure an efficient allocation of resources, productivity improvements and higher participation in the labour market through improvements in flexibility and a beneficial environment for both employers and employees. Such changes in the labour market are also necessary for achieving sustainable high economic growth and securing international competitiveness. However, a lack of policy consistency has resulted in an uncertain environment, which seems to be more harmful than not having reforms at all, both in terms of labour costs and labour productivity. Since delaying necessary reforms would aggravate the situation further, all stakeholders need to work

together to make such reforms a reality towards removing existing labour market rigidities that hamper long term economic development.

The low productivity level in the agriculture sector, reflects the weak dynamism in the sector due to deep-rooted structural weaknesses. This raises concern, as agriculture still absorbs almost 35 per cent of the total labour force. The ad-hoc policies followed in the past, including restrictions in the land market and the continuation of distortionary government interventions, have worsened the situation. Therefore, effective resolutions to these weaknesses through a market based sustainable strategy are needed to improve both agricultural production and factor productivity in the sector.

The mismatch between labour demand and supply in both domestic and foreign labour markets has been identified as a major issue in Sri Lanka. According to JobsNet, which was established to provide a user-friendly interface between job seekers and potential employers, there were around 13,000 unfilled vacancies mostly in the craft and related trades sector, despite around 101,000 people being registered with the JobsNet. Also, according to the SLBFE, the demand for skilled labourers in the construction sector, welders and drivers in the foreign labour market, especially in the Middle East, was not fulfilled due to the short supply of such skilled labourers. The mismatch remains despite some education reforms undertaken to match the demand and the skills training provided by institutions such as the TVEC to meet the demand for skilled workers. In order to minimise the mismatch, educational reformists, planners of training programmes and job seekers should be provided with near-perfect information about occupations in demand. Conducting occupational surveys on key skills, abilities and wage levels currently in place for key occupational sectors in the economy will help to make such information available to job seekers and minimise the information gap between demand and supply in the labour market.