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PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

4.1 Overview

The general price level, as measured by the consumer price indices, compiled by the Department of Census and Statistics (DCS), followed an overall increasing trend and remained at comparatively higher levels during 2017. Factors attributing to the observed movement of the general price level were mainly related to supply side developments of the economy. The prolonged drought in most areas of the country, from the latter part of 2016 and throughout most of 2017, had an adverse impact on key domestically produced food items, which represent relatively high shares in all consumer price measures, and thus exerted upward pressure on their prices. However, the impact was partly offset by the downward revisions on import duties applicable on certain imported food commodities. Higher prices of non-food commodities, due to upward revisions to administered prices of certain items, also contributed to the upward trend in the general price level. Accordingly, the year-on-year headline inflation moved on an overall increasing trend during the year. Furthermore, overall producer prices also displayed an increasing trend

during the year, driven by increases in producer prices of both agriculture and manufacturing items. In terms of developments in real wages, an increase was observed only in the informal private sector, partly supported by labour supply shortages in certain sectors, whilst an erosion of real wages was observed in the formal sector during 2017. The overall unemployment rate declined compared to the previous year, despite the decline in foreign employment opportunities, thereby reflecting the increased job opportunities within economy. However, unemployment among youth, females and persons with higher educational attainment continued to remain at higher levels, despite concerns of labour shortages across many emerging sectors, caused by skills mismatches. In addressing the scarcity of labour in the domestic market, provision of demand driven training by vocational training authorities in collaboration with the private sector, and the introduction and implementation of labour law reforms would play a prominent role in attracting the untapped potential, particularly in rural areas of the country.

4.2 Prices

Movements of the General Price Level

Consumer Price Indices (CPIs) measure the overall price level of a basket of goods and services used by an average household, relative to a base period. The DCS, the authority entrusted with the responsibility of compiling official consumer price indices, compiles two such indices, namely the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100). Movements of the NCPI reflect price trends of selected consumer items as well as the patterns of consumption and expenditure of consumers at the national level, while the CCPI reflects the same of consumers in urban areas of the Colombo district. The NCPI has a relatively larger share of expenditure on food than in the CCPI, indicating that an average household, representing the entire country, spends relatively larger share of expenditure on items in the food category. The general price level as measured by these indices moved on an overall increasing trend with mixed movements during 2017, attributing to the increases in prices of items in the food category.

As observed in the previous years, the movement of prices in the Food category was very much in line with the prices of Volatile Food[1]. The prices of Volatile Food, especially that of rice and coconuts increased significantly in 2017, compared to the previous year, owing to supply disruptions caused by prolonged adverse weather conditions. In order to reduce the negative impact of supply side disturbances on consumer prices, measures were taken by the government to encourage rice imports. Consequently, the prevailing tax structure on imported rice was removed and only a Special Commodity Levy

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1 Volatile Food includes rice, meat, fresh fish and sea food, coconuts, fresh fruits, vegetables, potatoes, onions and selected condiments.

(SCL) of Rs.15 per kg was imposed, with effect from 07 January 2017. The SCL was revised downward on several instances and with the escalating retail prices, a maximum retail price was also imposed on several rice varieties while SCL was maintained at 25 cents per kg from 27 July 2017 onwards. The price of coconuts rose sharply during the second half of 2017, mainly driven by low production as a result of the lagged effect of prolonged drought conditions. In order to curtail the increasing price of coconuts, a maximum retail price of Rs.75 per nut was imposed, with effect from 06 December 2017. As a result, price of coconuts that prevailed at record high levels during the second half of 2017, declined gradually towards the end of the year. Moreover, the prevailed tax structure applicable on the importation of coconut kernel was removed and an SCL of Rs.1 per kg was imposed on the same with effect from 14 December 2017. The prices of fresh fish moved on an increasing trend until mid-year, mainly due to limited supply conditions caused by restricted fishing activities, resulting from adverse weather conditions that prevailed during May 2017 and declined thereafter. The weighted average prices of vegetables also increased in 2017, compared to the previous year, following the normal seasonal pattern. The price of potatoes followed an overall declining trend with mixed movements whereas the prices of big onions and red onions increased on an overall basis in 2017.

Within the Food category, prices of items other than Volatile Food increased at a moderate pace during 2017. The domestic prices of key imported food items showed marginal increases in 2017, compared to the previous year. The price of sugar increased in the domestic market in 2017, in comparison to the previous year, partly due to the upward revision to the SCL of imported sugar on several occasions during the year, to encourage domestic sugar production. Meanwhile, the price of

Table 4.1
Retail Prices of Key Domestically Produced and Imported Items

Item		Unit	Annual Average				
			Price - Rs.			Percentage Change	
			2015	2016	2017	2016/ 2015	2017/ 2016
Domestic	Rice - Samba	1 kg	91.20	92.75	98.79	1.7	6.5
	Kekulu (Red)	1 kg	76.57	69.52	87.94	-9.2	26.5
	Kekulu (White)	1 kg	69.30	72.12	83.64	4.1	16.0
	Nadu	1 kg	77.95	78.71	94.37	1.0	19.9
	Up-country Vegetables - Beans	1 kg	209.53	204.75	192.36	-2.3	-6.1
	Carrot	1 kg	199.88	188.86	193.98	-5.5	2.7
	Cabbage	1 kg	143.67	154.71	155.38	7.7	0.4
	Beetroot	1 kg	160.12	165.81	163.14	3.6	-1.6
	Low-country Vegetables - Brinjals	1 kg	123.87	133.08	161.72	7.4	21.5
	Ladies Fingers	1 kg	138.80	139.29	148.89	0.4	6.9
	Ridge Gourd	1 kg	149.56	155.58	192.23	4.0	23.6
	Bitter Gourd	1 kg	185.35	200.51	236.98	8.2	18.2
	Coconut (medium)	nut	50.49	46.12	67.67	-8.6	46.7
	Fish - Tuna	1 kg	799.29	860.68	950.17	7.7	10.4
	Eggs	each	14.80	16.10	14.08	8.7	-12.5
Imports	Sugar	1 kg	87.80	100.69	107.48	14.7	6.7
	Red Dhal	1 kg	184.07	191.16	180.52	3.9	-5.6

Source: Department of Census and Statistics

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dhal, which was at higher levels at the beginning of the year, declined gradually, thereby recording lower prices compared to the previous year. In order to contain the price pressure in the domestic market, maximum retail prices were imposed on prices of some food items, including sugar, dried sprats, dhal and potatoes, in January 2017.

The prices of items in Non-food and other categories moved on an overall increasing trend, exerting some upward pressure on the general price level. The administered price revisions to selected Non-food items contributed towards this increase in prices of the Non-food category. Upward price revisions were made on the price of LP Gas and bus fares, while a downward price revision was made on the price of Kerosene oil. Consequently, the increase observed in the prices of some prepared food within the Restaurants and Hotels sub-category during October 2017 could be attributed to the increase in LP Gas prices in September 2017. The increase in the price of a lottery ticket from Rs.20 to Rs.30 and the subsequent reversal of the same

was also observed in 2017. A marginal decline was observed in internet charges with the removal of the Telecommunication Levy on internet services. With the introduction of volume based excise duty on liquor, as per the Budget 2018, an increase in the prices of arrack and a decline in the prices of beer were observed during November and December 2017. A decline in medical charges was observed during June and July 2017 as a result of the government intervention to reduce private hospital medical charges for blood tests carried out to diagnose Dengue fever. The reversal of the same was also observed in prices after the Dengue epidemic began to dissipate.

Consumer Price Indices

National Consumer Price Index

The NCPI moved up from 119.3 index points in January 2017 to 126.6 index points in December 2017. On a month-on-month basis, the NCPI increased during the first two months of 2017 before declining marginally in March and increased

Table 4.2
Key Items with Administered Prices

Item	Unit	Price (year end) - Rs.			Percentage Change		
		2015	2016	2017	2015/2014	2016/2015	2017/2016
Kerosene	1 ltr.	59.00	49.00	44.00	-39.5	-16.9	-10.2
Gas-Litro	12.5 kg	1,346.00	1,321.00	1,431.00	-29.0	-1.9	8.3
Gas-Laugfs	12.5 kg	1,346.00	1,321.00	1,431.00	-29.0	-1.9	8.3
Bus Fare					-8.2	6.0	6.3

Source: Central Bank of Sri Lanka

thereafter until June 2017. However, the NCPI recorded declines in both July and August 2017, reversed its trend thereafter and moved on an increasing path until the end of 2017. During 2017, the movement of the NCPI was driven mainly by the price movements of the Food category, while a notable contribution from the Non-food category was observed only in certain months.

Colombo Consumer Price Index

The CCPI moved up from 116.1 index points in January 2017 to 122.9 index points in December 2017. The movements of the CCPI were in line with the movements of the NCPI, however, at different magnitudes. In terms of the CCPI, the movements were driven by the Food category during the year, except in January and November 2017 where the movement was driven by the Non-food category. During 2017, a notable contribution from the Non-food category was observed in terms of the CCPI compared to the marginal contribution of the same in terms of the NCPI. This may be attributable to the comparatively higher weight of the Non-food category in the CCPI than in the NCPI.

Headline Inflation

Headline inflation, as measured by the year-on-year change in the NCPI, exhibited an overall increasing trend with mixed movements during 2017. The NCPI based headline inflation increased during the first quarter of 2017 from 6.5 per cent in January to 8.6 per cent in March and gradually declined during the second quarter of 2017. However, it picked up again during the third quarter of 2017 and peaked at 8.8 per cent in October 2017, before declining to 7.3 per cent in December 2017. The movement of year-on-year inflation was highly determined by the base effect caused by the changes in food prices during 2016 as well as the introduction, suspension and re-imposition of government taxes during 2016. Moreover, monthly increases arising from high food prices that prevailed during January, February, September and October 2017 contributed towards the increase in the year-on-year inflation in these months. Meanwhile, the annual average NCPI inflation gradually increased from 4.6 per cent in January 2017 to 7.7 per cent in December 2017.

Table 4.3
Changes in Price Indices

Index	Index (year end)		Year-on-Year Percentage Change		Annual Average Percentage Change	
	2016	2017 (a)	Dec.2016/ Dec.2015	Dec.2017/ Dec.2016 (a)	2016/2015	2017/2016 (a)
NCPI (2013=100)	118.0	126.6	4.2	7.3	4.0	7.7
CCPI (2013=100)	114.7	122.9	4.5	7.1	4.0	6.6
PPI (2013 Q4=100)	115.3 (b)	131.8	7.5 (b)	14.3	1.7 (b)	17.0
GDP Deflator (2010=100)	131.8 (b)	142.7	-	-	4.1 (b)	8.2

(a) Provisional
(b) Revised

Source: Department of Census and Statistics
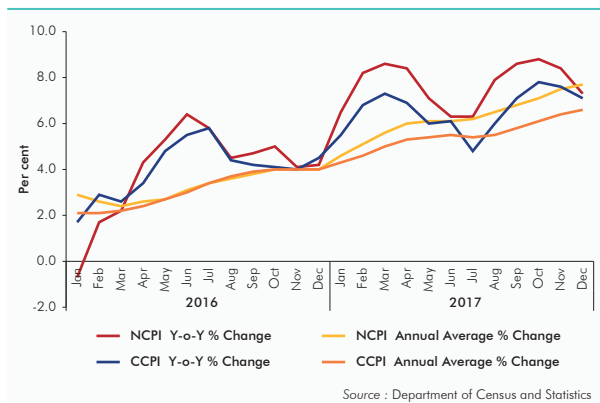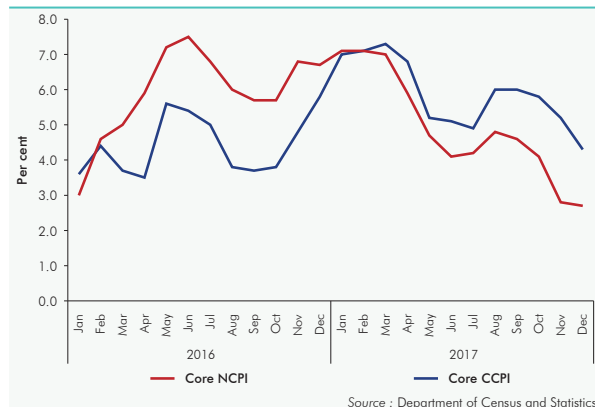
Chart 4.1
Movements of Inflation
(NCPI and CCPI)

Source : Department of Census and Statistics

Chart 4.2
Movements of Core Inflation
(Year-on-Year % Change)

Source : Department of Census and Statistics

Year-on-year CCPI based headline inflation also followed a trend similar to NCPI inflation. As such, CCPI inflation, which was 5.5 per cent in January 2017, peaked at 7.8 per cent in October 2017 and declined to 7.1 per cent in December 2017. The movement of the year-on-year CCPI inflation was also driven by the base effect along with the monthly movement of the prices of items in the CCPI. The annual average CCPI inflation increased from 4.3 per cent in January 2017 to 6.6 per cent in December 2017.

Table 4.4
Contribution to Year-on-Year Inflation by Sub-category - December 2017

Index	CCPI (2013=100) Percentage		NCPI (2013=100) Percentage	
	Change	Contribution	Change	Contribution
All Items	7.1	100.0	7.3	100.0
Food And Non Alcoholic Beverages	14.4	59.2	12.8	77.6
Non Food, Alcoholic Beverages and Tobacco	4.2	40.8	2.9	22.4
Alcoholic Beverages and Tobacco	1.5	0.3	-0.9	-0.4
Clothing and Footwear	6.0	2.0	2.9	1.3
Housing, Water, Electricity, Gas and Other Fuels	0.3	1.4	0.7	1.7
Furnishings, Household Equipment and Routine Household Maintenance	13.7	4.6	5.1	2.2
Health	6.5	5.1	3.4	2.3
Transport	4.0	4.9	5.2	6.0
Communication	-0.7	-0.3	-0.2	-0.1
Recreation and Culture	2.6	0.4	2.6	0.5
Education	11.0	9.3	4.4	1.7
Restaurants and Hotels	9.1	6.5	2.3	1.2
Miscellaneous Goods and Services	13.2	6.5	9.6	6.0

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

Core Inflation

The NCPI based year-on-year core inflation moved on an overall declining trend during the year. The moderate increases in Non-food prices during the year, coupled with the base effect caused by changes made to the government taxes during 2016, contributed towards the declining trend in year-on-year core inflation in 2017. Accordingly, the NCPI based core inflation, which was 7.1 per cent in January 2017, moved on a declining trend to reach 2.7 per cent in December 2017. Meanwhile, the CCPI based core inflation, which followed a similar trend, was 7.0 per cent in January 2017, peaked at 7.3 per cent in March 2017 and declined to 4.3 per cent in December 2017.

Producer Price Inflation

The Producer's Price Index (PPI, 2013 Q4=100), compiled by the DCS, which measures the average change over time in the prices received by domestic producers of goods and services, also followed an overall increasing trend during 2017. The PPI covers producer's prices in Agriculture, Manufacturing and Utilities (Electricity and Water Supply) sectors of the economy. Producer prices in both Agriculture and

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Manufacturing sectors increased during the year. Meanwhile, producer prices in the Electricity and Water Supply sector remained at stable levels during the first and fourth quarters, while exhibiting volatility during second and third quarters of the year. The sharp increase observed in producer prices of the Agriculture sector during the year was due to prolonged adverse weather conditions, which was reflected in consumer prices of food items.

Producer price inflation as measured by the year-on-year change in the PPI, displayed a relatively stable movement during 2017. The producer price inflation in the Agriculture sub-sector exhibited overall increasing trends during the year. The producer price inflation in the Electricity and Water Supply sector varied in the range of -1.8 per cent and 2.8 per cent during the year. Meanwhile, producer price inflation in the Manufacturing sub-sector moved on a declining trend during 2017. The overall producer price inflation largely followed the movements of the producer price inflation in the Agriculture sub-sector, a trend that was also observed in consumer price inflation during the period. However, the declining trend of the Manufacturing sector prices, which comprise the highest weight in the PPI, could have contributed to ease the increase in overall producer price inflation.

Table 4.5
Sectoral Deflators and GDP Deflator

(2010=100)

Sector	Index			Percentage Change	
	2015 (a)	2016 (a)	2017 (b)	2016/ 2015 (a)	2017/ 2016 (b)
Agriculture	133.8	138.2	160.2	3.3	15.9
Industry	131.2	135.4	145.0	3.2	7.1
Services	128.4	132.1	140.1	2.9	6.1
GDP	**126.6**	**131.8**	**142.7**	**4.1**	**8.2**

(a) Revised
(b) Provisional

Source: Department of Census and Statistics

GDP Deflator

With the upward price movements in all three major sectors of the economy, the GDP deflator, which measures the price movements of all domestically produced goods and services in the overall economy, increased during 2017, compared to the previous year. Prices of the Agriculture, Industry and Services sectors increased by 15.9 per cent, 7.1 per cent and 6.1 per cent, respectively, during the year, compared to 3.3 per cent, 3.2 per cent and 2.9 per cent in 2016. Accordingly, the overall GDP deflator increased to 8.2 per cent in 2017 compared to the 4.1 per cent in 2016.

Inflation Expectations

Inflation expectations of the Corporate sector were well aligned with actual inflation while the gap between long term and short term inflation expectations narrowed. Over time, inflation expectations have closely responded to monetary and fiscal policy measures, at times with a lag. Further, the trend of Corporate sector inflation expectations was observed to be in line with actual inflation, reflected by both the NCPI and CCPI. Reasons cited by respondents for their expected level of inflation mainly comprised supply side disruptions and their perception on the strength of the domestic currency. Further, inflation expectations of the Household sector

Chart 4.3
Movements of Producer Price Inflation
(Year-on-Year % Change)

Source : Department of Census and Statistics

BOX 03
Measuring Inflation Expectations

Inflation expectations, which is generally defined as economic agents' beliefs or perceptions about inflation in the future, have long been in the centre of attention for Central Banks across the world, when setting monetary policy aimed at achieving price stability. Academic literature also suggests that an institutional commitment to a nominal inflation target helps promote price stability (Mishkin, 2011). Further, inflation expectations influence wage and price setting behaviours at different horizons, thereby being an important determinant of actual inflation. A sustained rise in short term inflation expectations signal the medium term inflationary pressures in the economy, which is an important factor to consider in setting the monetary policy at appropriate levels, to maintain price stability (Patra and Ray, 2010). In the long-term, inflation expectations indicate the view of the public on the credibility of the Central Bank in maintaining stable inflation. Therefore, Central Banks, the inflation targeting ones in particular, pay special attention to inflation expectations, as the effectiveness of monetary policy and the credibility of the Central Banks in achieving price stability are likely to be greater in instances where the inflation expectations remain anchored closer to the inflation target (Bernanke, 2007). Accordingly, measuring inflation expectations becomes an important area with reference to the role of the Central Bank of Sri Lanka (CBSL) in maintaining price stability, particularly with the gradual shifting of the Monetary Policy Framework towards Flexible Inflation Targeting (FIT).

Chart B 3.1
Measures of Inflation Expectations

Inflation expectations, which are unobservable in real time, are measured using a range of methods, and are used as inputs for forecasting inflation and setting the future path of monetary policy. The two commonly used methods of measuring inflation expectations are survey-based and market-implied measures (Adeney, Arsov and Evans, 2017)[1]. Survey based measures gauge people's expectations of inflation by simply asking them what they expect inflation to be in the short, medium and long term. Generally, inflation expectations surveys consider three types of respondents: i.e., households, businesses and professionals. Frequency of surveys varies from monthly to semi-annually. Market-implied measures are derived from observed prices of certain financial instruments, with the payoffs linked closely to future expected inflation outcomes. The most often used market-implied measures are based on prices of index-linked financial securities.
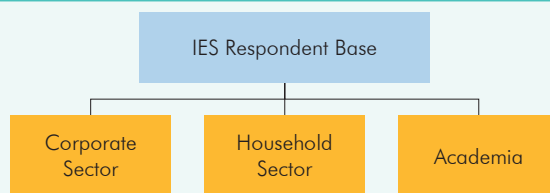
In the context of Sri Lanka, the commencement of survey based measures of inflation expectations tracks far back to 2006. Since then, the survey has undergone several rounds of revamping to achieve a broader respondent base with improved quality and timeliness. The survey is broadly categorised among three respondent categories, which comprises the Corporate sector, Household sector and Academia. With regard to the Corporate sector, respondents provide their expected rate of inflation for the current month, three, six and twelve months ahead periods and the survey is conducted via e-mails. The sampling frame of the Corporate sector includes participants of the financial industry[2], the listed companies of the Colombo Stock Exchange and the member companies of the Ceylon Chamber of Commerce. For the Household sector, where financial literacy and information availability is comparatively lower than that of the Corporate sector, group discussions are conducted with the employees[3] of randomly selected public institutions in the Colombo district. To compensate for the information disadvantage, a brief introduction on inflation is provided before the survey and their perceived "range" of inflation for future periods is obtained. Further, the CBSL also commenced obtaining responses from Academia from mid-2017, where responses are obtained on the expected rate of inflation from lecturers in state universities. All three respondent categories are also requested to state the reasons for their stated inflation expectations, while the collected data are analysed using the median of inflation expectations.
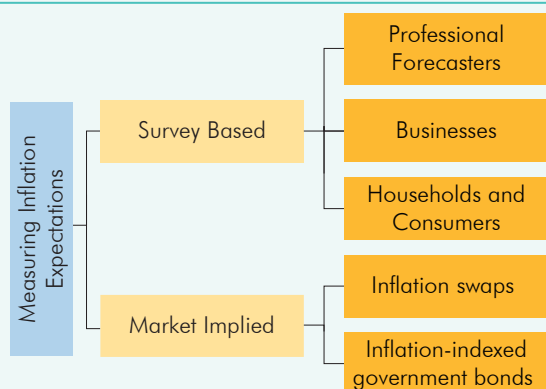
Chart B 3.2
Composition of the Inflation Expectations Survey (IES)

1   The United States, Euro Area, Japan, United Kingdom, Australia and Sweden use both types of inflation expectation measures while countries such as New Zealand, India and Canada rely only on survey-based measures for measuring expectations

2   Licensed Commercial Banks, Licensed Specialised Banks, Registered Finance Companies, Primary Dealers and Insurance Companies
3   Employees of different wage levels of an institution are interviewed in order to avoid any biases

Behaviour of Inflation Expectations in Sri Lanka

Inflation expectations in Sri Lanka, particularly that of the Corporate sector, have shown to be well aligned with the trends in actual inflation, as measured in terms of both the National Consumer Price Index (NCPI) and the Colombo Consumer Price Index (CCPI).

Chart B 3.3
Inflation Expectations and Actual Inflation
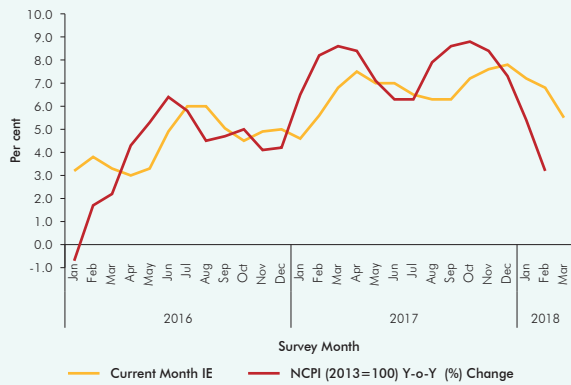
Sources: Central Bank of Sri Lanka
Department of Census and Statistics

As observed over the years, changes in the monetary and fiscal policies are reflected in respondents' expected levels of inflation, however, at times with a lag. For example, respondents reacted to the tightening stance of monetary policy in the preceding periods by lowering or not increasing their expected inflation, as they believed the policy actions would curb excessive price pressure in the future. Similarly, when changes to the Government tax structure were introduced in May 2016, the change was mirrored in survey results, as respondents increased their expected inflation across all tenors surveyed.

Chart B 3.4
Inflation Expectations of Corporate Sector

Source: Central Bank of Sri Lanka

It is also observed that the gap between near-term and long-term inflation expectations of the Corporate sector are being narrowed, thus indicating the expectation of less volatility in future inflation. During 2017, reasons cited by the Corporate sector for their expected inflation mainly drifted among domestic supply side conditions and their perception on the strength of the domestic currency. Household sector expectations too, attune to changes in policy measures, although the magnitude of the expected inflation generally remains higher than that of the Corporate sector. Further, the recently commenced Inflation Expectations Survey (IES) for Academia also show outcomes more similar to the Corporate sector and are observed to be closely aligned with actual inflation.

Way Forward

Country experiences reveal the importance of having a national coverage in conducting the IES. However, a major limitation of the current IES conducted by the CBSL is the restrained geographical coverage. Therefore, the CBSL plans to expand the IES beyond the Colombo district through the newly established network of the Country-Wide Data Collection System (CWDCS)[4], which closely follows the NCPI data collection layout. The CWDCS is featured with real-time data management via a system of Tablet computers together with a software application (App). Thus, conducting IES through this system is expected to improve the coverage and precision of the Household sector inflation expectations.

As observed over the years, higher inflation expectations of individuals in the Household sector could be attributable to limited knowledge in economics and poor financial literacy. In order to address this issue, the CBSL is in the process of introducing an Inflation Perception Survey (IPS) using the CWDCS network, which would seek qualitative responses from households on expected level of variation in consumer expenditure, including food and non-food categories, for three months and one year ahead periods. It is expected that the IPS would provide extra insights into inflation, while facilitating to obtain a more accurate read of households' true inflation perceptions. These surveys could be improved frequently with periodic reviews, similar to India's experience on the progression of the inflation perception and expectation surveys over time (Mohanty, 2012). Enhanced financial literacy would in turn improve the process of expectations formation of the public, which is vital for the effectiveness of monetary policy under the FIT regime.

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4   CWDCS collects retail prices of consumer goods, producer prices of agricultural commodities and informal sector daily wages on a regular basis

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also varied, attuning to increases in general price levels, although they naturally remain at a level higher than the expectations of the Corporate sector.

4.3 Wages

During 2017, wage rate indices indicated signs of wage pressure in the economy, with real wages being on a downward trend. This was as a result of a slower increase in nominal wages than the increase in inflation, and was prominent in the public and formal private sectors in 2017. However, the demand pressure from wages on the general price level remained subdued during the course of the year.

Public Sector Wages

The gross salary of public sector employees remained unchanged in 2017, even though the inclusion of the special allowance and interim allowance to the basic salary continued in 2017. Accordingly, the

Chart 4.4
**Real Wage Rate Indices
(Annual Average % Change)**

Sources : Central Bank of Sri Lanka
Department of Labour
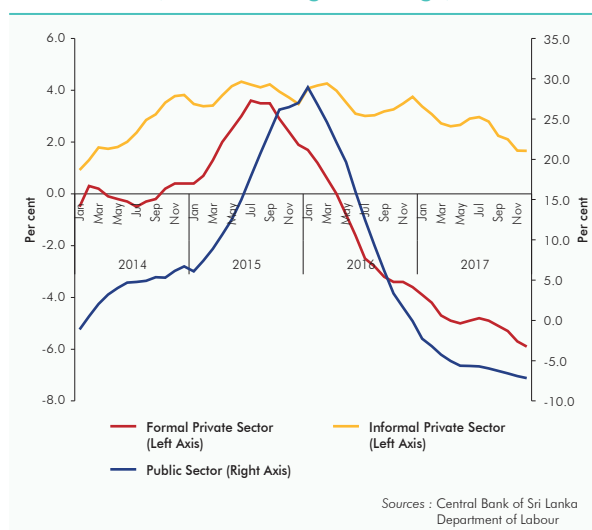
nominal wages of public sector employees, as measured by the annual average change in the Public Sector Wage Rate Index (2012=100), remained unchanged in 2017, compared to the increase of 3.9 per cent recorded in the previous year. Public sector employees experienced a

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Table 4.6
Wage Rate Indices

Employment Category	Index				Percentage Change			
	Nominal		Real		Nominal		Real	
	2016	2017	2016	2017	2016	2017	2016	2017
1. Government Employees								
All Government Employees (2012=100)	160.8	160.8	140.9(a)	130.9(a)	3.9	0.0	-0.1	-7.2
Primary Level Officers	170.4	170.4	149.4(a)	138.7(a)	4.6	0.0	0.6	-7.2
Secondary Level Officers	161.6	161.6	141.7(a)	131.5(a)	3.7	0.0	-0.2	-7.2
Tertiary Level Officers	155.5	155.5	136.3(a)	126.6(a)	4.4	0.0	0.4	-7.2
Senior Level Officers	141.4	141.4	123.9(a)	115.0(a)	5.0	0.0	1.0	-7.2
2. Workers in Wages Boards Trades								
All Wages Boards Trades (1978 Dec=100)	4,127.9	4,128.6	103.5(b)	97.4(b)	0.0	0.0	-3.6	-5.9
Workers in Agriculture	4,735.7	4,736.7	118.8(b)	111.8(b)	0.0	0.0	-3.5	-5.9
Workers in Industry and Commerce	3,459.1	3,459.1	86.8(b)	81.6(b)	0.0	0.0	-3.6	-5.9
Workers in Services	2,313.2	2,313.2	58.0(b)	54.6(b)	0.0	0.0	-3.6	-5.9
3. Informal Private Sector Employees								
All Informal Private Sector (2012=100)	136.7	149.7	119.8(a)	121.8(a)	7.9	9.5	3.7	1.7
Agriculture	136.9	150.9	119.9(a)	122.8(a)	6.7	10.3	2.6	2.3
Industry	140.7	155.0	123.3(a)	126.1(a)	9.1	10.2	4.9	2.3
Services	132.8	144.1	116.4(a)	117.2(a)	7.2	8.5	3.1	0.7

(a) Based on NCPI (2013=100)
(b) Based on CCPI (2006/07=100)

Sources: Department of Labour
Central Bank of Sri Lanka

real wage erosion of 7.2 per cent in 2017 as a result of the developments in inflation, compared to a marginal real wage erosion of 0.1 per cent in 2016.

Private Sector Wages

Nominal wages of employees in the formal private sector increased marginally in 2017. It is measured in terms of the annual average change in the minimum wage rate index of employees whose wages are governed by the Wages Boards Trades[2] (1978=100), which is compiled by the Department of Labour. However, real wages of employees in the formal private sector declined by 5.9 per cent during 2017, compared to the decline of 3.6 per cent in 2016.

A growth in both nominal and real wages was observed in the informal private sector in 2017, where wages are determined based on market conditions. Accordingly, nominal wages of informal private sector employees, as measured by the annual average change in the Informal Private Sector Wage Rate Index (2012=100), increased by 9.5 per cent in 2017, compared to the increase of 7.9 per cent in the previous year. Nominal wage rate indices of all three sub sectors, namely; Agriculture, Industry and Services increased by 10.3 per cent, 10.2 per cent and 8.5 per cent, respectively, in 2017. Increases of wages, in nominal terms, in Masonry and Carpentry trades by 12.5 per cent and 11.2 per cent, respectively, were observed in 2017 owing to the increased demand for labour in these sectors, with the rapid expansion of the Construction sector. Real wage growth of the employees in the informal private sector was 1.7 per cent in 2017, compared to 3.7 per cent recorded in 2016.

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2 Minimum wages of 21 Wages Boards are considered when compiling the nominal index and the real index of the same is calculated by the CBSL.

4.4 Population, Labour Force and Employment

Population

The mid-year population in 2017 was estimated at 21.4 million, with an annual growth rate of 1.1 per cent, unchanged from the growth rate observed in 2016. This included 10.4 million males (48.4 per cent) and 11.1 million females (51.6 per cent). Population with regard to age categories below 15 years, 15-59 years, and 60 years and above, represented shares of 25.2 per cent, 62.4 per cent and 12.4 per cent of the total population, respectively, in 2017. The

Table 4.7
District-wise Population and Density (a)(b)

District	2016		2017	
	Population '000 Persons	Density (c)	Population '000 Persons	Density (c)
Colombo	2,395	3,543	2,419	3,578
Gampaha	2,372	1,769	2,391	1,783
Kalutara	1,261	800	1,271	806
Kandy	1,434	748	1,452	757
Matale	508	260	514	263
Nuwara Eliya	748	438	756	443
Galle	1,102	682	1,113	688
Matara	845	665	851	670
Hambantota	637	255	647	259
Jaffna	602	648	608	654
Mannar	106	56	107	57
Vavuniya	182	98	184	99
Mullaitivu	95	39	96	40
Kilinochchi	122	101	124	103
Batticaloa	550	211	560	215
Ampara	691	164	705	167
Trincomalee	404	160	412	163
Kurunegala	1,676	362	1,694	366
Puttalam	801	278	814	282
Anuradhapura	905	136	918	138
Polonnaruwa	425	138	431	140
Badulla	854	302	864	306
Moneragala	479	87	485	88
Ratnapura	1,140	352	1,151	356
Kegalle	869	516	877	520
Total	**21,203**	**338**	**21,444**	**342**

(a) Provisional
(b) The mid-year population data are based on the Census of Population and Housing - 2012.
(c) Persons per Square km.

Source: Registrar General's Department

population density[3] continued to increase from 338 in 2016 to 342 in 2017, as observed in all districts. The Western province, which is the leading contributor to GDP, accounted for 28.4 per cent of the total mid-year population, while Central, Southern and North-Western provinces contributed to the population by 12.7 per cent, 12.2 per cent and 11.7 per cent, respectively, in 2017.

Sri Lanka is currently experiencing a phenomenon of ageing population, with persons aged 60 years and above representing a share of 12.4 per cent[4], compared to 6.6 per cent in 1981. This is also supported by the increase in the median age of the population from 21 years to 30 years[5] and the increase of elderly dependency ratio[6] from 12 per cent to 20 per cent during the same period. Reasons for such a scenario range from low levels of population growth to relatively high levels of life expectancy. Since such demographic trends pose serious challenges to the economy in the guise of reduced labour force participation, increased dependency ratio, low productivity, lower savings rates and increased public expenditure on social welfare, significant policy actions are needed to address the

same. Thus, policies could be directed towards engaging the elderly population on productive activities through upskilling initiatives, educating them on retirement planning, encouraging their participation in contributory superannuation schemes and development of workforce skills for the geriatric care sector to reduce possible socio-economic vulnerabilities.

Labour Force

Continuing the trend observed in the past five years, the labour force grew by 3.1 per cent in 2017, compared to 2016. The labour force, which is defined as the economically active population[7] aged 15 years and above, was 8.567 million in 2017, compared to 8.311 million in 2016. Encouragingly, with the growth of the labour force, the employed population also increased by 3.3 per cent, amidst a decline in the unemployed population, indicating an increase in employment opportunities in the economy. However, this notable increase in the labour force was able to trigger only a marginal improvement in the Labour Force Participation Rate (LFPR)[8] due to the expansion in household population, which

3   Number of persons per square kilometer of land.

4, 5   Based on the Census of Population and Housing 2012, Department of Census and Statistics.

6   Persons aged 60 years and above as a percentage of persons in the age category of 15-59 years.

7   Economically active population consists persons who are employed or unemployed during the reference period of the Quarterly Labour Force Survey conducted by the DCS.

8   Labour Force Participation Rate refers to the ratio of the labour force to the household population aged 15 years and above.

Table 4.8
Household Population, Labour Force and Labour Force Participation (a) (b)

Item	2016	2017 (c)				
		Q1	Q2	Q3	Q4	Annual
Household Population '000 Persons	15,449	15,684	15,814	15,894	15,983	15,844
Labour Force '000 Persons	8,311	8,583	8,519	8,522	8,642	8,567
Employed	7,948	8,230	8,139	8,164	8,300	8,208
Unemployed	363	353	381	358	342	358
Labour Force Participation Rate (d)	53.8	54.7	53.9	53.6	54.1	54.1
Male	75.1	75.1	74.6	73.6	74.9	74.5
Female	35.9	37.6	35.9	36.6	36.4	36.6

(a) Household population aged 15 years and above
(b) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards
(c) Provisional
(d) Labour force as a percentage of household population

Source: Department of Census and Statistics
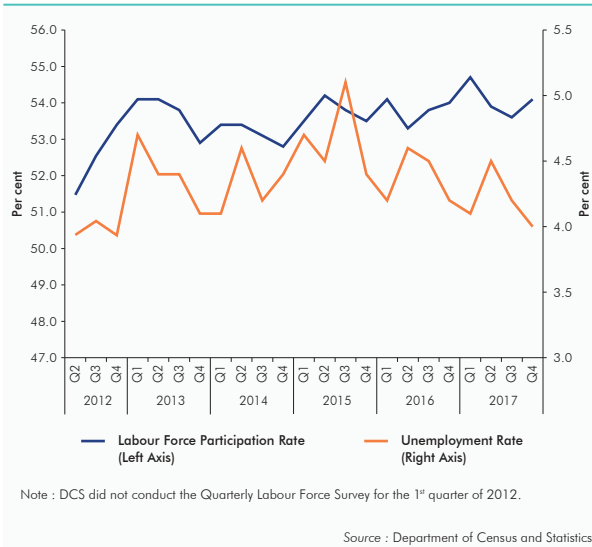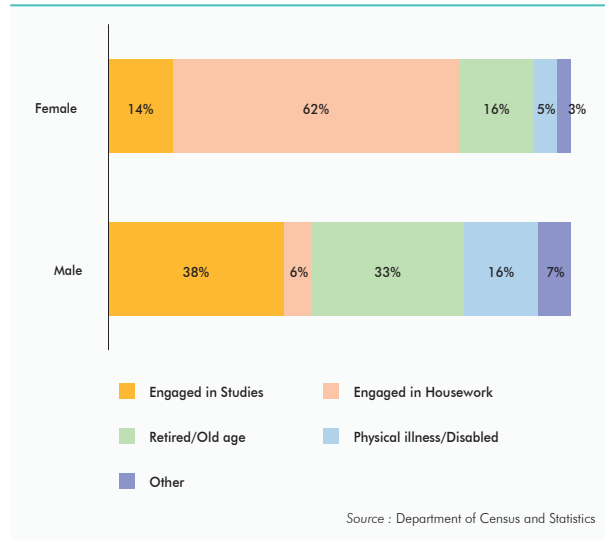
Chart 4.5
Trends in Labour Force and Unemployment
(2012 - 2017)

Note : DCS did not conduct the Quarterly Labour Force Survey for the 1st quarter of 2012.

Source : Department of Census and Statistics

Chart 4.6
Reasons for being Economically
Inactive by Gender (%) - 2016

Source : Department of Census and Statistics

includes both economically active and inactive persons. Thus, the LFPR improved moderately to 54.1 per cent in 2017, from 53.8 per cent in 2016.

The gender gap in labour force participation narrowed during 2017, although the LFPR still remains much in favour of the male labour force. The male LFPR was 74.5 per cent during 2017 while the female LFPR was 36.6 per cent. As such, females remain under-represented in the Sri Lankan labour force, despite increasing number of women attaining educational and professional qualifications. The main reason for economic inactivity in females, as identified by the Quarterly Labour Force Survey of the DCS, is their engagement in housework. Further, the Doing Business Index database on labour market regulation[9] reflects that Sri Lanka lags in terms of provisions for night work and maternity leave, when compared with economies such as Singapore, China, India, Philippines, Thailand and Vietnam. Therefore, as highlighted in several previous occasions, a national level policy intervention is

required to create sufficiently conducive working conditions for females. Such facilities could include affordable child care and aged care, flexible and part-time working arrangements and improved transportation facilities. "Vision 2025", the Government's Economic Policy, which outlines its future path, has also identified several remedies to address the issue of low female LFPR and robust implementation of these measures would be of vital importance to achieve the desired economic vision. Increasing the female labour force participation will not only increase the supply of labour as a factor of production, but also will enhance the ability to create value in the labour force through new skills and talent brought in by gender diversity.

Employment

The number of employed persons increased in 2017 amidst structural shifts in employment in the economy. As such, the number employed increased by 3.3 per cent to 8.208 million in 2017, compared to 7.948 million in the previous year. The Services sector continued to be the foremost employment generating sector in the economy, contributing a share of 45.5 per cent of the total

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9 The Doing Business Index is compiled and published by the World Bank Group, and labour market regulations sub area studies the flexibility of regulation of employment, specifically relating to the areas of hiring, working hours and redundancy.

Table 4.9
Employment by Economic Activity (a) (b) (c)

Sector	'000 Persons						Percentage of Total Employment	
	2016	2017(d)					2016	2017 (d)
		Q1	Q2	Q3	Q4	Annual		
Agriculture	2,154	2,222	2,114	1,984	2,241	2,140	27.1	26.1
Industry	2,098	2,306	2,301	2,372	2,346	2,331	26.4	28.4
Mining and Quarrying	60	50	50	74	79	63	0.8	0.8
Manufacturing	1,421	1,572	1,549	1,586	1,616	1,581	17.9	19.3
Construction, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities	617	685	702	712	651	688	7.8	8.4
Services	3,696	3,702	3,723	3,808	3,713	3,737	46.5	45.5
Wholesale and Retail Trade, Repair of Motor Vehicles and Motor Cycles	1,102	1,083	1,200	1,216	1,142	1,160	13.9	14.1
Transport and Storage	516	502	515	530	506	513	6.5	6.3
Accomodation and Food Services Activities	203	194	203	248	197	210	2.6	2.6
Information and Communication	62	70	61	76	74	70	0.8	0.9
Financial and Insurance Activities	159	154	146	177	162	160	2.0	1.9
Professional, Scientific and Technical Activities	55	60	60	63	95	70	0.7	0.8
Administrative and Support Service Activities	107	126	121	151	211	152	1.4	1.9
Public Administration and Defence, Compulsory Social Security	609	617	578	535	377	527	7.7	6.4
Education	344	380	345	368	416	377	4.3	4.6
Human Health and Social Work Activities	142	146	155	136	161	149	1.8	1.8
Other (e)	397	371	339	309	371	348	5.0	4.2
Total employment	7,948	8,230	8,139	8,164	8,300	8,208	100.0	100.0
Percentage of Labour Force	95.6	95.9	95.5	95.8	96.0	95.8		

(a) Based on the International Standard Industrial Classification (ISIC) - Revision 4
(b) Household population aged 15 years and above
(c) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.
(d) Provisional
(e) This includes activities of households as employers; Real estate; Arts, entertainment and recreation; and Extra territorial organisations and bodies.

Source: Department of Census and Statistics

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employment in 2017. Within the Services sector, the highest share of employment was recorded in the wholesale and retail trade, repair of motor vehicle and motor cycles sub-sector with a representation of 14.1 per cent of total employment. The Industry sector share of total employment in 2017 was 28.4 per cent. The Manufacturing sub sector accounted for the largest share of employment within the Industry sector, with a representation of 19.3 per cent of total employment. However, employment in the Agriculture sector declined owing to the contraction observed in agricultural activities, due to continued disruptions caused by adverse weather conditions that prevailed during the period. Accordingly, the share of employed population in the Agriculture sector decreased to 26.1 per cent in 2017, from 27.1 per cent in 2016. During the course of 2017, the share of employed population in the Agriculture sector reached an all-time low in the third quarter of 2017, reflected by the negative growth in agricultural activities during the same period.

In terms of the absolute number of employment opportunities created, a significant increase was observed in Private sector employment, amidst an increase across all categories during 2017. Accordingly, the number employed in the Private sector, which represented a share of 43.3 per cent of total employment in 2017, increased by 117,405 persons. Further, the Self-Employed category increased by 59,273 persons

Table 4.10
Status of Employment (a) (b)

Persons

Period	Public Sector Employees	Private Sector Employees	Employers	Self-Employed	Unpaid Family Workers	Total
2016	1,157,658	3,437,919	217,215	2,511,750	623,141	7,947,683
2017 (c)	1,178,708	3,555,323	247,470	2,571,023	655,655	8,208,179
1st Quarter	1,215,187	3,572,361	258,117	2,504,860	679,682	8,230,207
2nd Quarter	1,162,738	3,513,026	237,563	2,601,122	624,280	8,138,728
3rd Quarter	1,146,652	3,539,312	264,456	2,513,366	700,083	8,163,869
4th Quarter	1,190,257	3,596,593	229,743	2,664,743	618,574	8,299,911

(a) Household population aged 15 years and above
(b) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.
(c) Provisional

Source: Department of Census and Statistics

during the period under review. The increase in Self-Employed and Employer categories together accounted for 34 per cent of the total increase in employment opportunities. This indicates the creation of new business opportunities and entrepreneurship in the country. The increase in the Employer category in particular, could result in the generation of more employment opportunities and many other economic benefits in the subsequent periods. Vulnerable employment[10] was 39.3 per cent of total employment in 2017, hovering around the global

10 Vulnerable employment is defined as the sum of own-account workers and contributing family workers by the International Labour Organisation

Chart 4.7
Distribution of Employment Status by Gender (%) - 2016

	Male	Female
Employee	66.0%	34.0%
Employer	87.9%	12.1%
Own Account Worker	71.1%	28.9%
Contributing Family Worker	22.7%	77.3%

Source : Department of Census and Statistics

average of 42 per cent[11]. Persons employed in this category are less likely to be governed by any labour regulation or have access to decent working conditions.
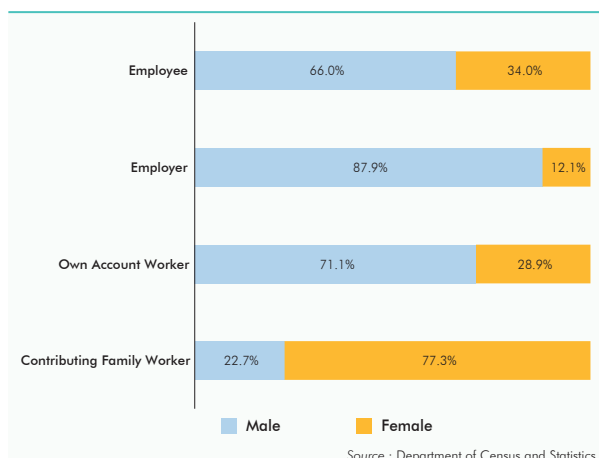
Meanwhile, as per the Public Sector Employment Survey conducted by the Central Bank of Sri Lanka, the total public sector employment was 1,394,172 at the end of 2017, compared to 1,389,767 in 2016. This includes employees in Ministries, Departments, District Secretariats, Divisional Secretariats, Provincial Councils and Semi Government institutions.

Unemployment

The overall unemployment rate declined to 4.2 per cent in 2017, from 4.4 per cent in 2016, with a notable decline in the female unemployment rate. During 2017, the total labour force and the employed population grew by 3.1 per cent and 3.3 per cent, respectively, compared to 2016, leading to a notable decline in the number of unemployed persons during the period. The male unemployment rate remained unchanged at 2.9 per cent in 2017, while female unemployment rate declined to 6.5 per cent compared to 7.0 per cent in 2016.

11 World Employment Social Outlook - Trends 2018, International Labour Organisation

Table 4.11
Public Sector Employment

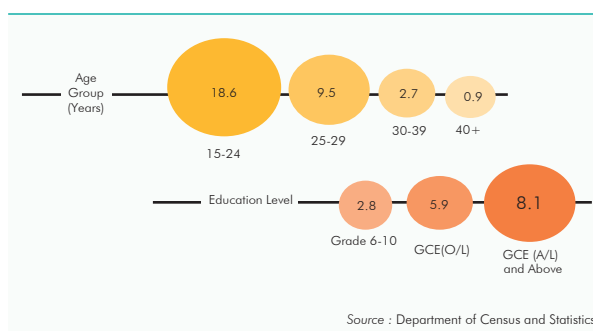| Sector	2015	2016 (a)	2017 (b)	Percentage Change	
				2016/ 2015 (a)	2017/ 2016 (b)
Government (c)	1,136,656	1,146,995	1,149,867	0.9	0.3
Semi Government (d)	238,474	242,772	244,305	1.8	0.6
Public Sector	**1,375,130**	**1,389,767**	**1,394,172**	**1.1**	**0.3**

(a) Revised
(b) Provisional
(c) Central Government, Local Government and Provincial Councils
(d) State Corporations, Statutory Boards and State Authorities
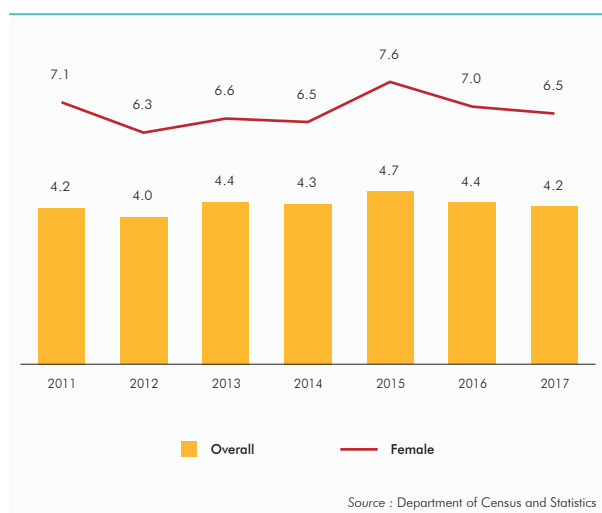
Source: Central Bank of Sri Lanka

Chart 4.9
Unemployment Rate (%) - 2017

Source : Department of Census and Statistics

Unemployment among youth, educationally qualified and females continued to remain high despite the low overall unemployment rate. The highest unemployment rate by the level of education continued to be observed in the GCE (A/L) and above category, which was 8.1 per cent in 2017. The youth (15-24 years) unemployment rate decreased to 18.6 per cent in 2017, compared to 21.6 per cent in the previous year. Unemployment among persons above 30 years remained low and can be attributable to increased employability with higher work experience and skills developed over the period. Factors underlying high unemployment among youth and educationally qualified could be due to the limited creation of skilled jobs as well as

Chart 4.8
Unemployment Rate (%)

Source : Department of Census and Statistics

inadequate supply of labour to match labour market requirements. Sri Lanka's education, vocational and technical training systems have historically underperformed in terms of generating skills demanded by respective sectors of the economy, despite the education system being able to provide free education to mass public equitably from primary schools to universities. Thus, it is urgent that formal education and vocational training are aligned to match labour market requirements. Rigid mandates that are enforced upon education and training systems/ organisations with common objectives need to be relaxed to supply adequate labour to the domestic labour market with relevant skills. In addition, private and public sector industry participants should co-operate to identify labour demanding sectors and to assess labour availability. In such an environment, the conventional teaching and training methods would need to be challenged, and would require institutions and trainees to be adoptable to changing dynamics.

A large gap has been created between the requirements of job creators and the expectations of job seekers, leading to labour shortages in the domestic market. This is also revealed by the findings of the Business Sentiment surveys, where the intention to hire labour has been largely positive, although labour availability is lagging. Further, as per the Labour

Table 4.12
Unemployment Rate (a) (b)

Category	2016	2017 (c)				
		Q1	Q2	Q3	Q4	Annual
All	4.4	4.1	4.5	4.2	4.0	4.2
By Gender						
Male	2.9	2.7	3.0	2.7	3.0	2.9
Female	7.0	6.5	7.1	6.8	5.6	6.5
By Educational Level						
Grade 5 and below	...	...	...	...	...	...
Grade 6-10	3.3	2.9	3.5	2.4	2.3	2.8
GCE (O/L)	5.8	5.7	6.0	6.0	5.8	5.9
GCE (A/L) and above	8.3	7.8	8.2	8.5	7.9	8.1
By Age Group (Years)						
15-19	27.1	22.1	25.6	16.1	20.6	21.1
20-24	19.9	17.4	18.4	19.0	16.6	17.8
25-29	9.2	8.0	11.3	9.8	8.9	9.5
30-39	2.4	2.9	2.5	3.2	2.2	2.7
40 and above	0.8	1.0	0.9	0.8	1.0	0.9

(a) Household population aged 15 years and above
(b) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force
    data series for 2011 onwards.
(c) Provisional

*Source*: Department of Census and Statistics

Demand Survey conducted by the DCS in 2017, main reasons for difficulty in filling approximately 0.5 million vacancies that existed as at June 2017 were, the unavailability of people interested in doing certain jobs, high competition from other employers, demand for high salaries and unavailability of qualified applicants, which are results of long prevailing skill gaps in the country. If the issue of labour shortage is not addressed immediately, sectors with persistent skill gaps and labour scarcity would continue to demand the government to provide clearance to import labour. In terms of policy measures to address labour shortage, occupation accreditation can be introduced to attract job seekers towards certain types of jobs that are not socially recognised. Further, actions could be taken to introduce and implement reforms in the areas of archaic labour laws, representation of youth in labour advisory councils, demand driven training in collaboration with the private sector, up skilling and reskilling of the current labour force, and certification based on learning or prior experience. Since the human capital is identified as one of Sri Lanka's key strengths, its capacity should be further improved to attain optimal utilisation of the domestic workforce and the untapped potential of the rural youth, in order to achieve the desired growth momentum of the economy.

Foreign Employment

The total number of departures for foreign employment in 2017 declined by 12.6 per cent compared to 2016. The continuous decline in departures for foreign employment observed since

Chart 4.10
Departures for Foreign Employment by Skills

Source : Sri Lanka Bureau of Foreign Employment
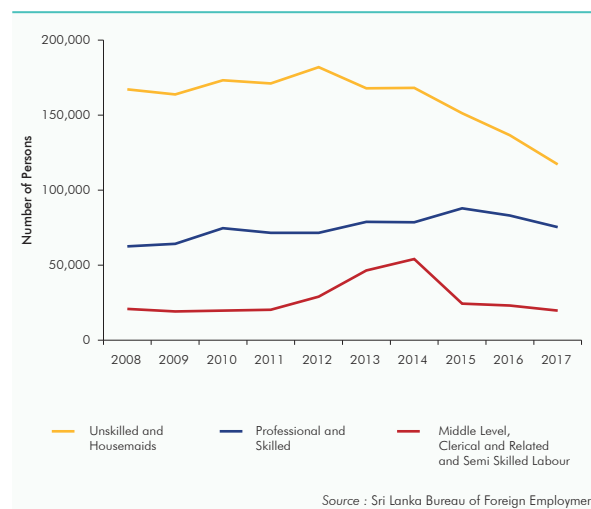
2014 can be mainly attributable to the policy actions taken by the government to minimise the departures of unskilled labour, particularly in the housemaid category. The lower demand and government policies on migrant workers in destination markets, particularly in the Middle-East, also had a significant impact on the drop in the departures for foreign employment. The increased demand for labour in various sectors within the country could also be a reason for this observed drop. Accordingly, the total number of departures for foreign employment was 212,162 in 2017, compared to 242,816 in 2016. The female departures declined by 11.7 per cent to 72,891 and male departures declined by 13.1 per cent to 139,271 in 2017, compared to 2016. The female representation is around 34 per cent of the total departures for foreign employment, which is far below the housemaid centered 53 per cent representation a decade ago.

In terms of skill levels, departures for foreign employment have declined across all categories. Despite the steps taken as per the strategic direction of the authorities towards "Safe, Skilled Migration", the unskilled and housemaid categories still account for around 55 per cent of total departures. Only 3 per cent of worker departures were under the professional category and 3.4 per cent of worker departures were under

the middle level category. It is noteworthy that departures for professional and middle level categories showed a decline in 2017, compared to 2016 despite the increasing demand for professionals and skilled employees in many countries including the Gulf economies, which are highly focused on creating knowledge-based economies at present. Despite the authorities' continuous efforts to channel job placements through registered agencies, around 68 per cent of the migrant workers have used private sources to access foreign labour markets. This could result in vulnerability in foreign employment due to lack of protection over employment rights and other social hazards abroad. Sri Lankans have obtained employment opportunities across 108 countries in 2017 and almost 90 per cent are employed in the Middle East, which continued to be the dominant migrant destination. In June 2017, several countries such as Saudi Arabia, United Arab Emirates, Bahrain and Egypt severed diplomatic ties with Qatar, which annually hosts around a quarter of Sri Lankan job seekers. Accordingly, the migrant worker departures to Qatar declined to 56,644 in 2017, compared to 59,523 in 2016.

Dependence of the Sri Lankan economy on worker remittances needs to be reduced. Socio-economic developments such as high

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Table 4.13
Departures for Foreign Employment

Foreign Employment	2015		2016 (a)		2017 (b)	
	Number	% Share	Number	% Share	Number	% Share
Total Placements	263,443	100.0	242,816	100.0	212,162	100.0
By Source						
Licensed Agents	116,749	44.3	87,982	36.2	68,564	32.3
Other	146,694	55.7	154,834	63.8	143,598	67.7
By Gender						
Male	172,788	65.6	160,306	66.0	139,271	65.6
Female	90,655	34.4	82,510	34.0	72,891	34.4
By Manpower Category						
Professional	6,251	2.4	6,578	2.7	6,371	3.0
Middle Level	6,951	2.6	8,234	3.4	7,124	3.4
Clerical & Related	12,501	4.7	10,862	4.5	9,265	4.4
Skilled Labour	81,682	31.0	76,545	31.5	68,993	32.5
Semi-skilled Labour	4,847	1.8	3,926	1.6	3,295	1.6
Unskilled Labour	77,985	29.6	71,656	29.5	61,057	28.8
Housemaid	73,226	27.8	65,015	26.8	56,057	26.4

(a) Revised
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

Table 4.14
Foreign Employment Departures by Destination

Country	2016 (a)		2017 (b)		Change (b)	
	Number	% Share	Number	% Share	Number	Per cent
Saudi Arabia	63,293	26.1	37,900	17.9	-25,393	-40.1
Qatar	59,523	24.5	56,644	26.7	-2,879	-4.8
Kuwait	32,400	13.3	37,420	17.6	5,020	15.5
U A E	40,117	16.5	36,657	17.3	-3,460	-8.6
Other	47,483	19.6	43,541	20.5	-3,942	-8.3
Total	242,816	100.0	212,162	100.0	-30,654	-12.6

(a) Revised
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

youth unemployment have led several Middle Eastern countries to implement national policies to create jobs for the locals and restrict migrant labour. Such scenarios raise significant threats to the ability of Sri Lankan migrant workers in securing jobs in these markets. In addition, increasing demand for skilled labour and large scale investment on technology to reduce the labour cost could limit the number of foreign job opportunities available for Sri Lankans in the near future. Hence, it is important that vocational and professional training systems match the international standards so that employment opportunities in higher skilled categories in existing markets and new markets in developed countries can be secured. Meanwhile, a substantial portion of the unskilled and middle level foreign job seekers could be channeled towards local industries, which are facing severe labour shortages despite comparably higher wages. In the overall context, long term measures should be brought in to ease the over-dependency on worker-remittances by gradually improving export capacity and Foreign Direct Investments.

The Sri Lankan Bureau of Foreign Employment (SLBFE) continued various programmes to regulate the labour migration process while empowering migrant workers and their families. Ensuring trustworthy foreign employment for Sri Lankan migrant workers, the SLBFE conducted 224 raids on illegal recruitment activities during the year 2017, which is an increase of 27 per cent compared to 2016. The SLBFE also filed 239 court cases against illegal agencies and licensed agencies that violated the law during 2017, using its mandate to regulate the industry. As a welfare measure on the safety of migrant workers, the SLBFE paid a total of Rs. 139.2 million to an insurance scheme that covered 212,470 migrant workers during 2017. A total of 1,966 migrant workers were repatriated due to problems encountered in host countries, utilising Rs. 78.8 million of the insurance scheme and Workers' Welfare Fund, during 2017. With the view of facilitating the island wide migrant workers' network, measures are being taken to establish Migrant Resource Centers in provinces with a high outflow of migrant workers.

Labour Relations and Labour Market Reforms

Labour relations in the private sector improved during 2017 as reflected by the decline in the number of strikes, the total number of workers involved and man days lost. Accordingly, a total of 10,312 workers were involved in 32 strikes and 58,279 man days were lost due to strikes during 2017. This was mainly contributed by sectors other than plantation in 2017. However, these data indicate only the strikes of the private industries that are reported to the Labour Department. Apart from the reported strikes, publicly available data revealed a number of strikes

Table 4.15
Strikes in Private Sector Industries

Year	Plantation			Other (a)			Total		
	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost
2014	31	4,833	29,165	7	1,618	8,158	38	6,451	37,323
2015	31	10,427	70,697	20	4,488	11,597	51	14,915	82,294
2016 (b)	26	11,185	85,637	15	10,167	18,690	41	21,352	104,327
1st Quarter	11	3,876	26,083	2	4,350	8,700	13	8,226	34,783
2nd Quarter	6	2,380	14,661	8	3,022	5,775	14	5,402	20,436
3rd Quarter	3	533	2,877	4	2,773	4,193	7	3,306	7,070
4th Quarter	6	4,396	42,016	1	22	22	7	4,418	42,038
2017 (c)	12	1,885	5,643	20	8,427	52,636	32	10,312	58,279
1st Quarter	3	343	1,011	9	3,344	23,258	12	3,687	24,269
2nd Quarter	6	767	2,632	6	2,401	6,452	12	3,168	9,084
3rd Quarter	1	335	1,340	5	2,682	22,926	6	3,017	24,266
4th Quarter	2	440	660	-	-	-	2	440	660

(a) Includes semi government institutions and other private institutions
(b) Revised
(c) Provisional

Source: Department of Labour

(16 strikes during 2017) in sectors such as health, education, petroleum, postal and transportation, which could have had a significant negative impact on the daily lives of the general public and the social and economic activities of the country.

The Ministry of Labour and Trade Union Relations adopted several measures to improve workplace cooperation and industrial harmony in 2017, with a view of establishing a better working environment in the private sector. The National Policy on the Elimination of Child Labour in Sri Lanka was launched on 08 September 2017 with the objective of ending Child Labour in the country. In addition, decisions were also taken through the consultation of the National Labour Council to extend maternity benefits from third and subsequent children for female workers in the private sector and to implement administrative relaxation to spread over of working hours in a five day work week in the private sector manufacturing industry. Further, steps have been taken to increase the minimum age for employment from 14 years to 16 years, by amending the relevant labour related legislations in line with the regulation to increase compulsory education up to 16 years. Awareness programmes and workshops were conducted targeting the managers, key staff members and employees of selected enterprises in the private sector for promoting the social dialogue to develop and strengthen industrial harmony at workplaces. Selected enterprises were awarded in 2017, recognising their commitment in strengthening social dialog and workplace cooperation.

Labour Productivity

Labour productivity, as measured by Gross Value Added (GVA) (in 2010 prices) per hour worked, decreased marginally in 2017. Accordingly, overall productivity decreased by 1.14 per cent to Rs. 458.29 per hour in the first three quarters of 2017, from Rs. 463.56 per hour in the corresponding period of 2016. The level of labour productivity in the Agriculture sector continues to remain the lowest

Table 4.16
Labour Productivity by Major Economic Sectors (a)

Item	2016 (Q1-Q3) (b)	2016 (b)	2017 (Q1-Q3)
Gross Value Added at Constant (2010) Prices, Rs. mn	6,026,066	8,167,563	6,206,968
Agriculture	477,747	644,262	461,010
Industry	1,785,716	2,399,285	1,862,046
Services	3,762,602	5,124,016	3,883,912
Labour Productivity, Rs. per Hour Worked	463.56	467.23	458.29
Agriculture	173.19	172.28	165.77
Industry	501.93	504.55	479.42
Services	562.98	570.23	564.62

(a) Provisional
(b) Revised

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

of all three sectors, at Rs. 165.77 per hour worked. Despite the Agriculture sector contributing to a share of only around 7 per cent of the national output, approximately 26 per cent of workers in the country are employed in the sector. Meanwhile, productivity of Industry and Services sectors was recorded as Rs. 479.42 and Rs. 564.62, respectively, for the first three quarters of 2017.

Amidst structural shifts in employment observed in the recent past, focus should be on improving productivity of all sectors of the economy. Productivity levels of the Agriculture sector could be improved through various actions such as the adoption of technology in commercial agricultural activities and the use of high yielding varieties and hybrid seeds. Further, with the entry into new trade agreements and restoration of certain trade facilities, the Industry and Services sectors could focus on higher value addition through diversifying into niche markets and offering value added products to international consumers. Apart from the low value addition in the Agriculture sector, the higher share of employed population in the sector has also been identified as a main reason for the lower productivity in the sector. Thus, there is a high potential to bring rural youth engaged in agricultural activities into higher value adding sectors through vocational training if authorities outreach for the untapped potential. Moreover, nation-wide awareness to attract the rural youth for such training programmes would then be required, where youth attitudes are aligned with the broader economic agenda of creating a competitive, knowledge based economy.

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