

Sri Lanka: COVID-19 divide in private and public sector salaries

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The pandemic impacted salaries in dualistic ways last year, with real wages of formal private sector workers showing a reduction of 4.2% but in contrast nominal wages of public sector workers increased 9.2% and real wages 2.9% in 2020, the Central Bank said.

The Central Bank Annual Report pointed out that while informal and formal sectors performed differently, the demand pressure arising from wages on the general price level remained subdued during the year.

Real wages of employees in the formal private sector decreased by 4.2% in 2020 compared to 2019.

Amidst the containment measures taken to curb the spread of the COVID-19 pandemic, the informal private sector was severely affected with the disruptions to their capacity to earn a living.

Accordingly, nominal wages of the informal private sector employees decreased in May with the first wave of the COVID-19 pandemic and gradually recovered until September 2020. Thereafter, with the second wave of the pandemic, it decreased again in October 2020 and recovered in November and December 2020.

“Overall, 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 3.3% in 2020 compared to 2019. Meanwhile, real wages of employees in the informal private sector decreased, by 2.7% in 2020 compared to 2019,” the report said.

Nominal wages of the public sector employees, as measured by the annual average change in the public sector wage rate index (2016=100), increased by 9.2% in 2020 compared to 2019. This increase was due to the addition of a new non-pensionable monthly interim allowance of Rs. 2,500 with effect from 1 July 2019, and the final tranche of the special allowance and interim allowance to the basic salary, with effect from 1 January 2020. Accordingly, real wages of the public sector employees increased by 2.9% in 2020 compared to 2019.

The formal private sector was adversely affected by the COVID-19 pandemic. Accordingly, some firms had to revise salaries downwards as their cash flows were severely affected with the disruptions to their business activities.

Further, a tripartite agreement was reached between the Ministry of Skills Development, Employment and Labour Relations, the Employers’ Federation of Ceylon and trade unions on paying 50% of the last paid basic salary or Rs. 14,500 per month, whichever was more favourable to the employee, where employees were required to stay at home due to pandemic conditions.

However, nominal wages of employees in the formal private sector, as measured by the annual average change in the minimum wage rate index (1978 December=100) of employees whose wages are governed by the wage boards, increased by 0.2% in 2020 compared to 2019. This increase was

mainly driven by the increases in minimum wages of workers in the industry and commerce, and services sub-categories.

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