

**Macroeconomic Policy for Full and
Productive Employment & Decent
Work for All:
Sri Lanka Country Study**

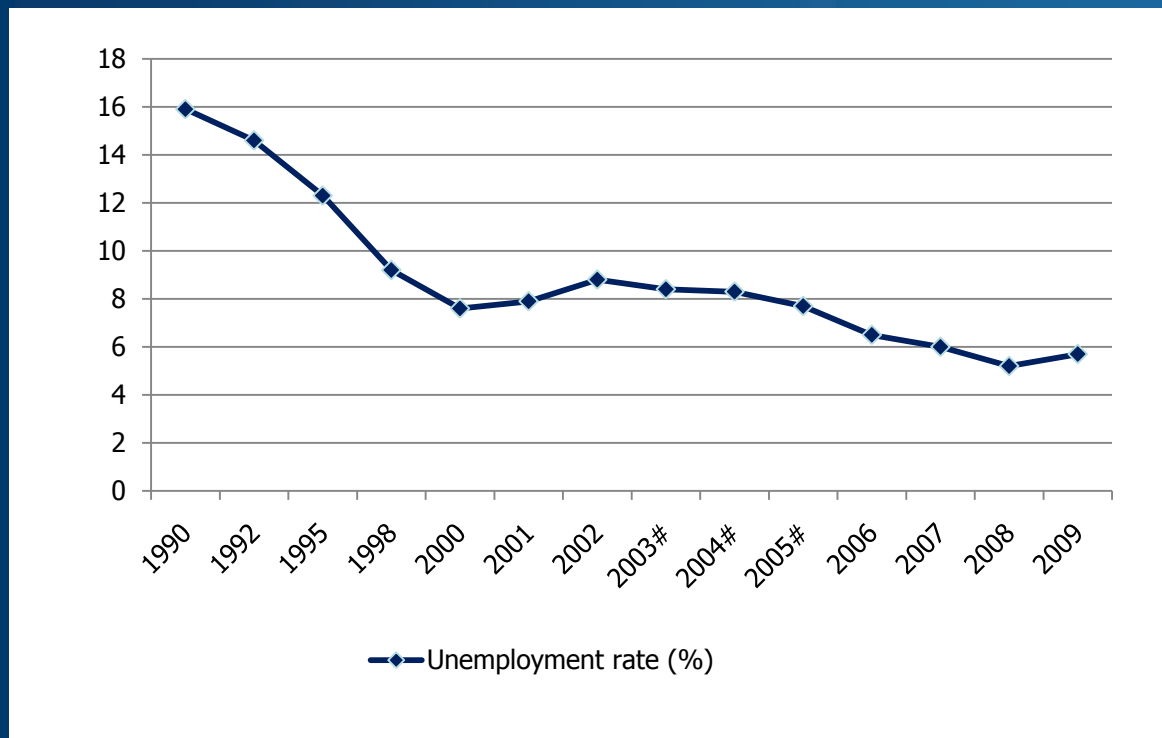
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Introduction

- Around 8 million individuals are economically active
- Amounting to about half the working age (10 plus) population
- About 94% of them are employed

	1990 *	2000*	2009*
Population ('000 persons) 10 plus	11,574	13,564	15,398
LF ('000 persons)	6,001	6,827	7,572
LFPR (% of population)	52	50	49
Employed Population ('000)	5,047	6,310	7,140
Unemployment rate (% of LF)	15.9	7.6	5.7
Employment-to-Population ratio	44	47	46

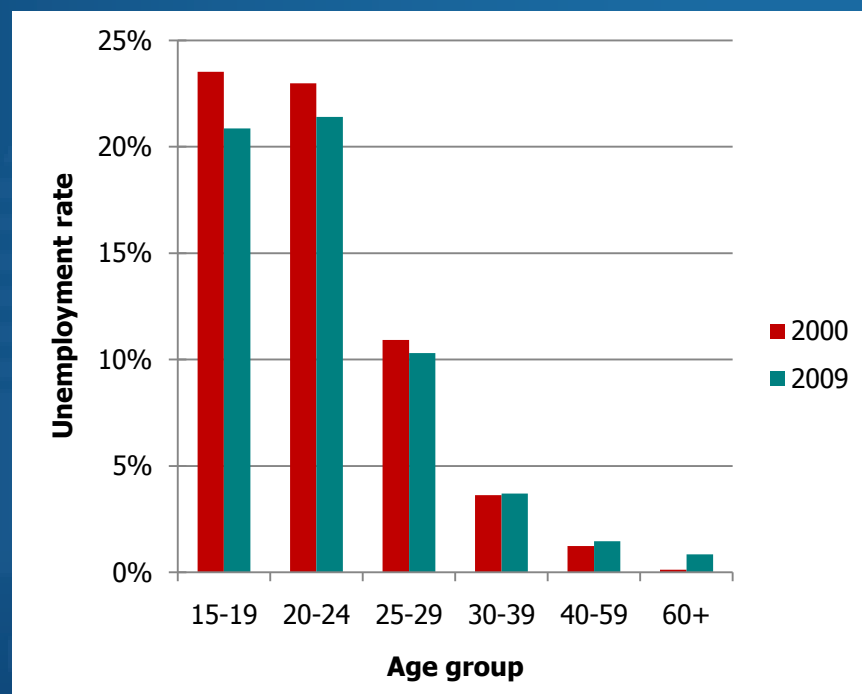
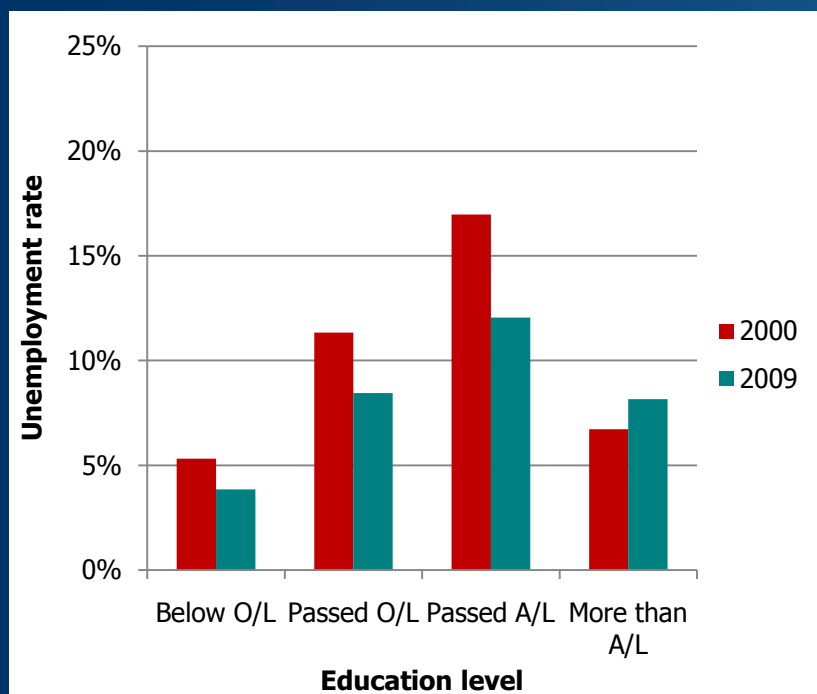
Unemployment rate has come down ... but,



-Unemployment (UE) rate has steadily comedown over the last two decades

But, unemployment rate is high amongst

- the educated and the young



Unemployment rate is still high

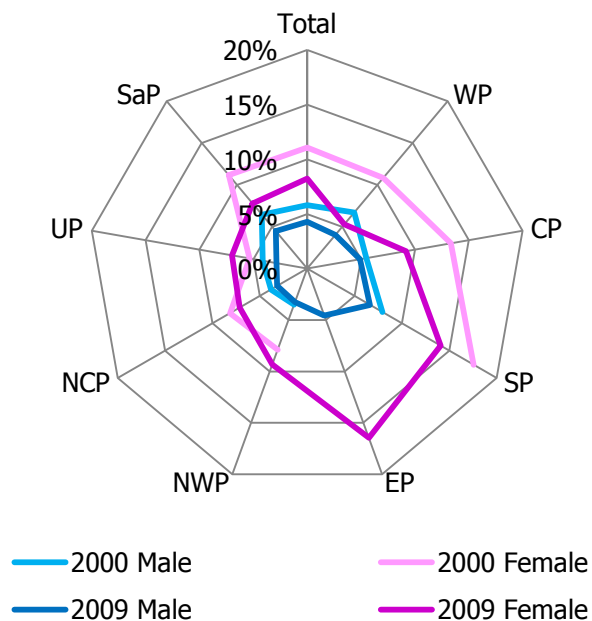
Amongst the educated, especially those with (only) school education

Amongst youth

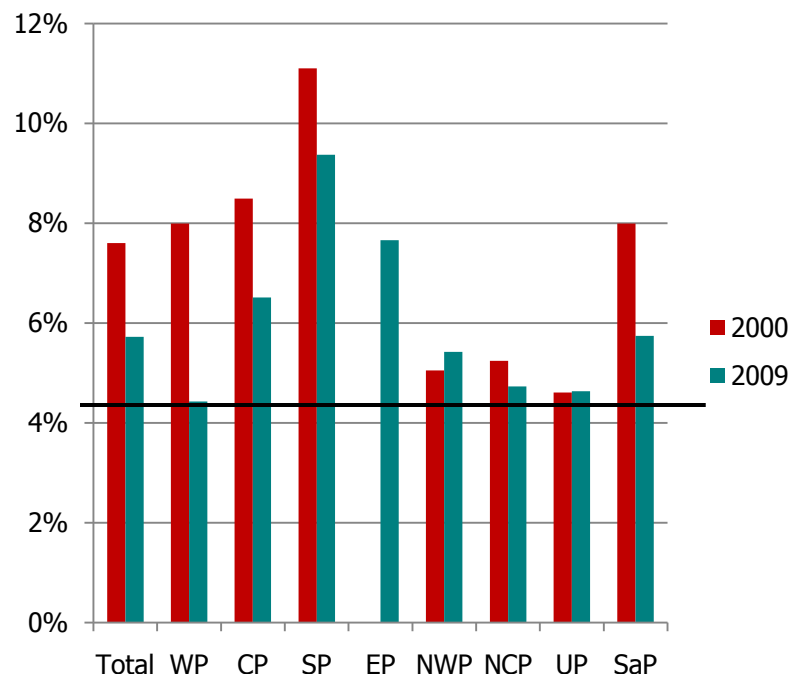
Unemployment rate is high amongst

- females and those outside the WP

Unemployment rate by province and sex

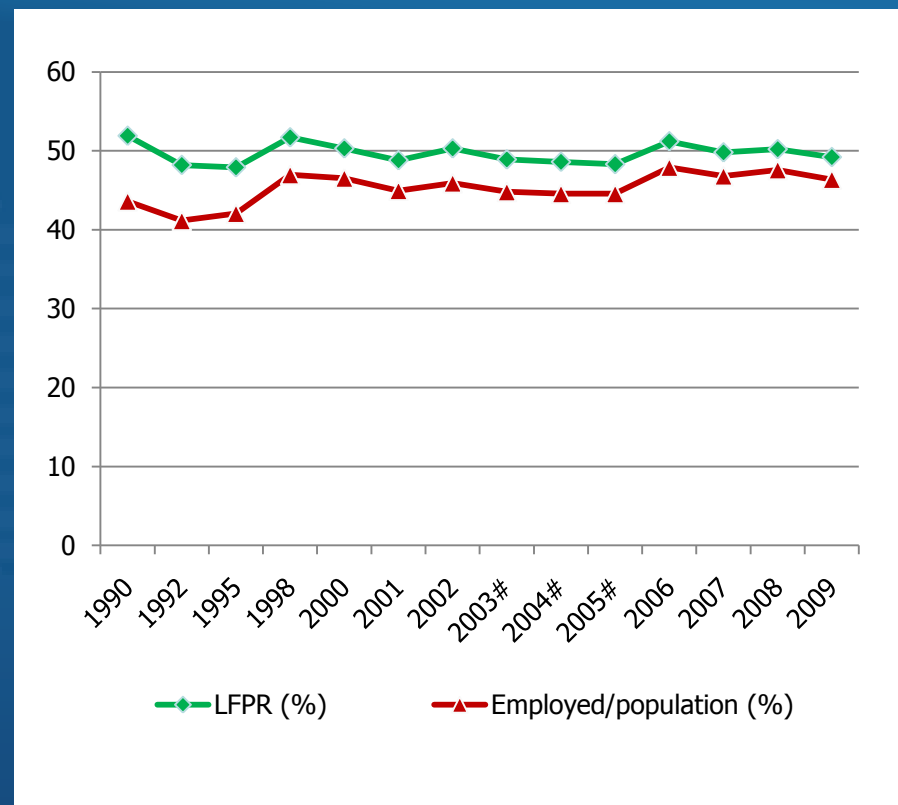
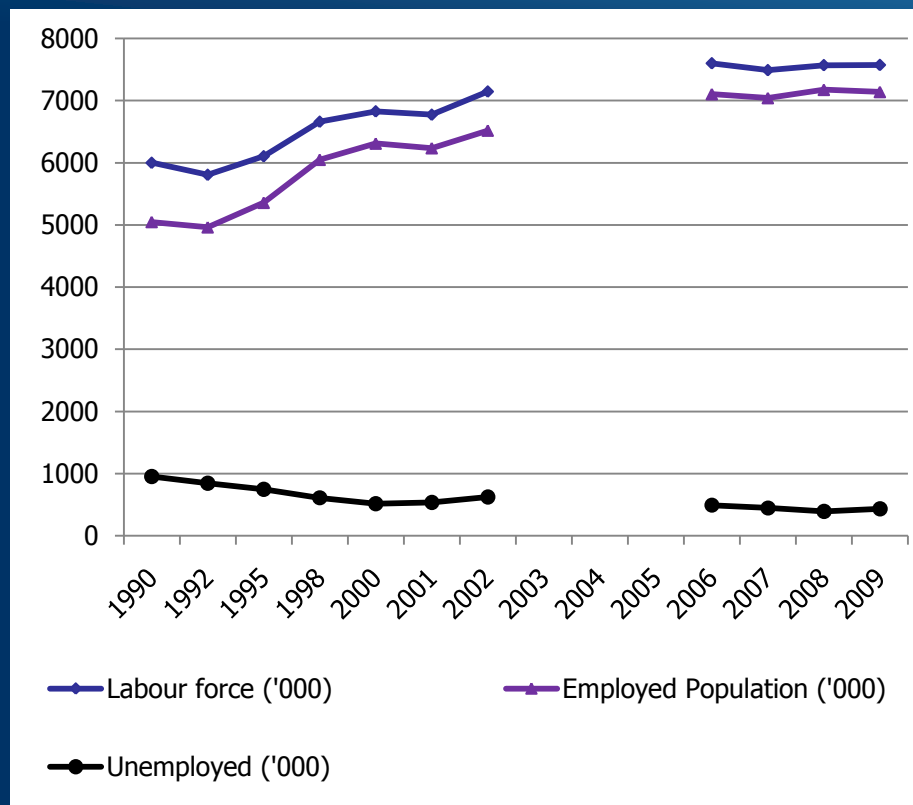


Unemployment rate by province



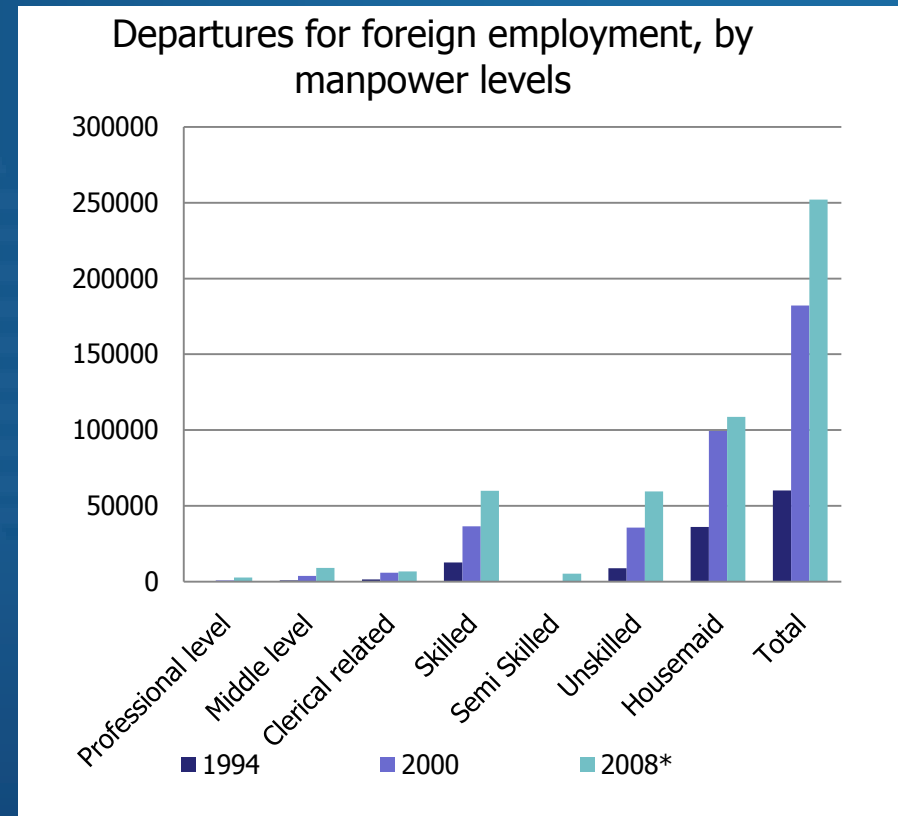
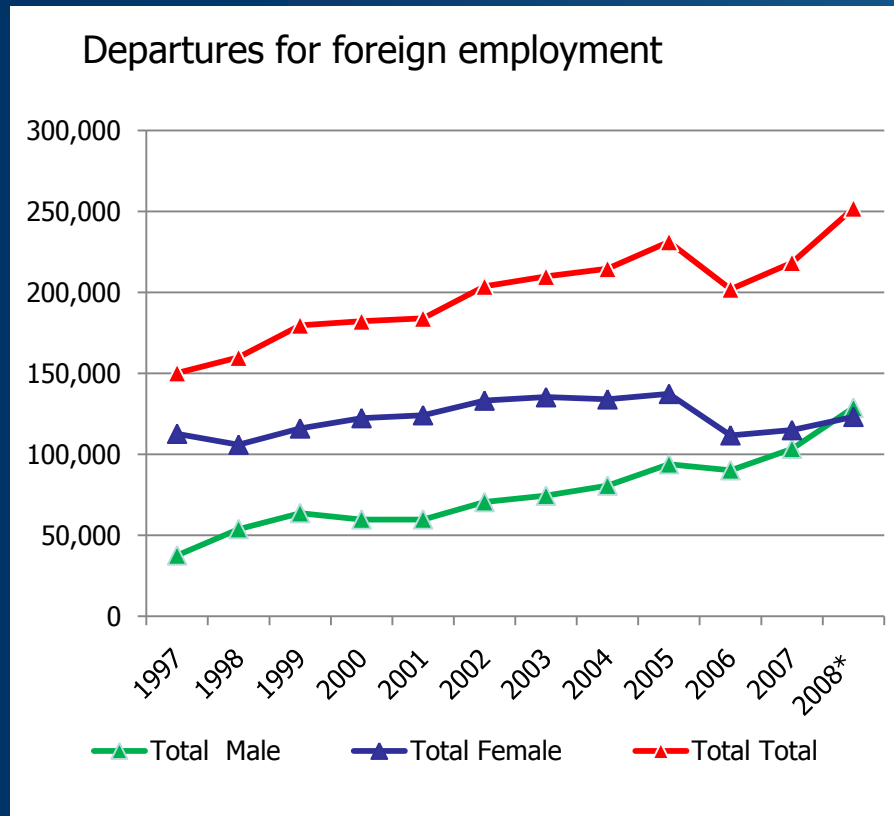
- Unemployment rate is higher for females
- Unemployment rate is higher outside the Western Province
- The reduction in unemployment has not been uniform across provinces

Drop in UE rate is partly due to slow LF growth



- The drop in unemployment rate is partly due to the slow LF growth
- Employed to population ratio has remained constant overtime

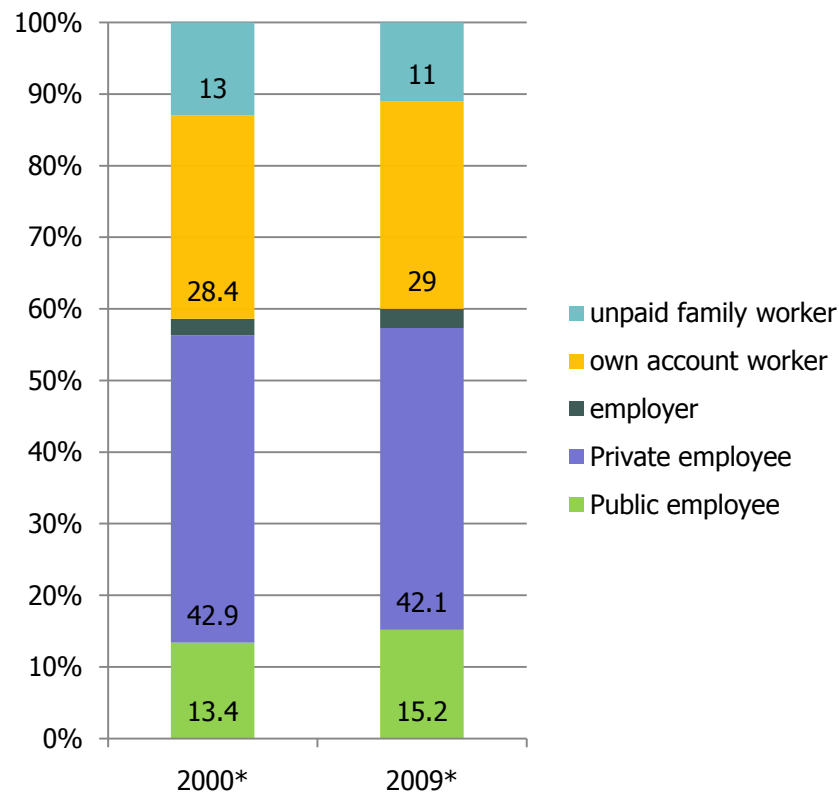
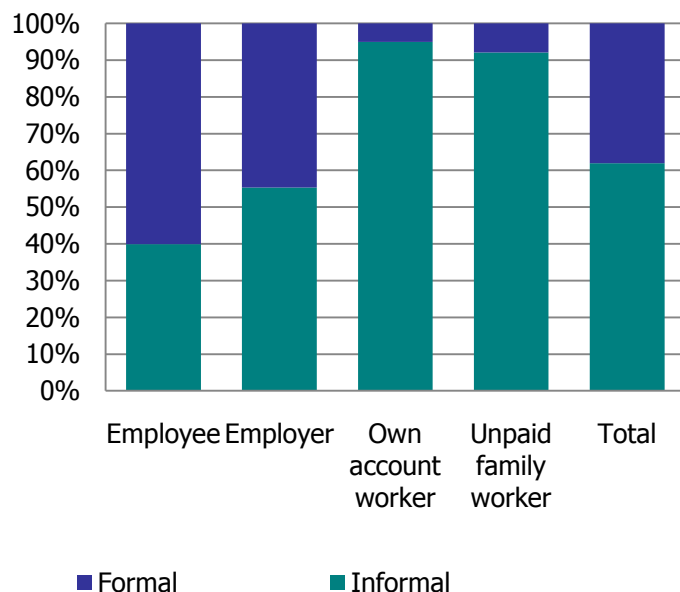
Slow LF growth partly explained by departures for foreign employment



- Gross annual outflow of workers has increased substantially overtime
- The number of male migrants are increasing
- The proportion of skilled migrants (SM) are small, but increasing (SM influences LF more)

Where are the employed working?

Employed, by Occupation Status and Sector (2009)



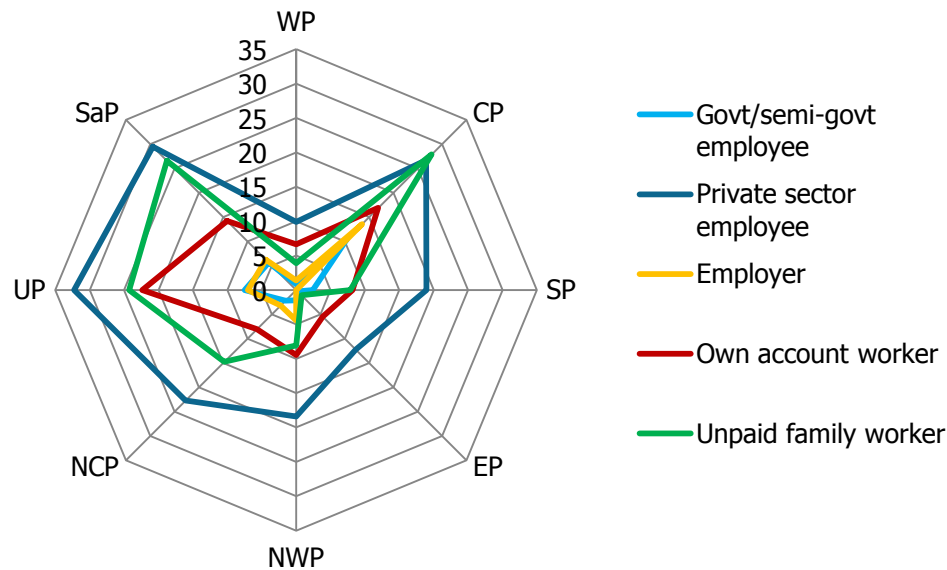
- Majority (62%) are working in the informal sector
- More than 40% are own acc and unpaid family workers (proportion has not changed over time)
- The proportion of public employees have increased overtime

Job Protection and Unemployment Insurance (UI)

Public sector (1.1 million)	High level of job protection. Civil service pension scheme (SCPS) - Non contributory, eligible to a pension
Formal private sector (1.8 million workers)	Restrictions on termination of employment (TEWA, 1971), and considerable compensation (int'l comparisons) Retirement benefits and survivors benefits under Employers Provident Fund - Mandatory, Contributory, Lump sum at retirement Budget 2010 – 'Employees' Pension Fund'
Informal private sector (4.7 million workers)	Some protection for livelihood related investments Some ad hoc public works opportunities post disasters (tsunami, conflict) Budget 2010 – Citizens' Pension and Insurance Fund'

Informal sector workers are more likely to be working poor

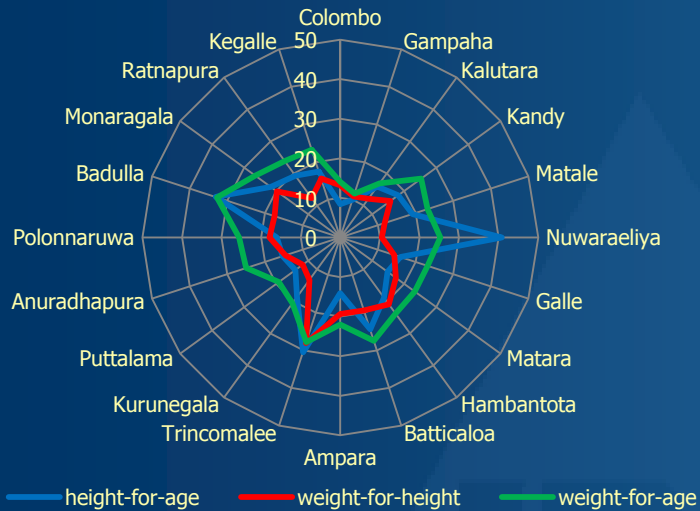
Working poor by employment status (%)



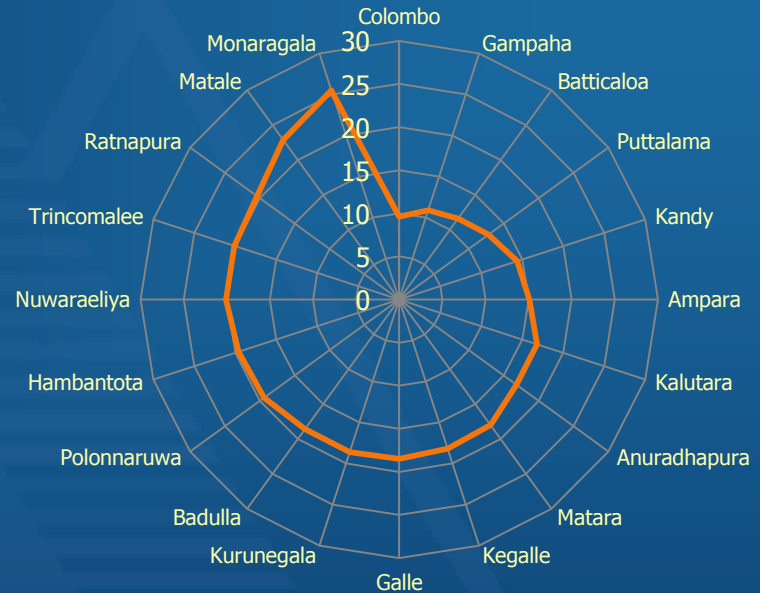
Informal sector workers are more likely to be working poor.

Malnutrition

Child Malnutrition
(% of children below 5 years below 2SD)



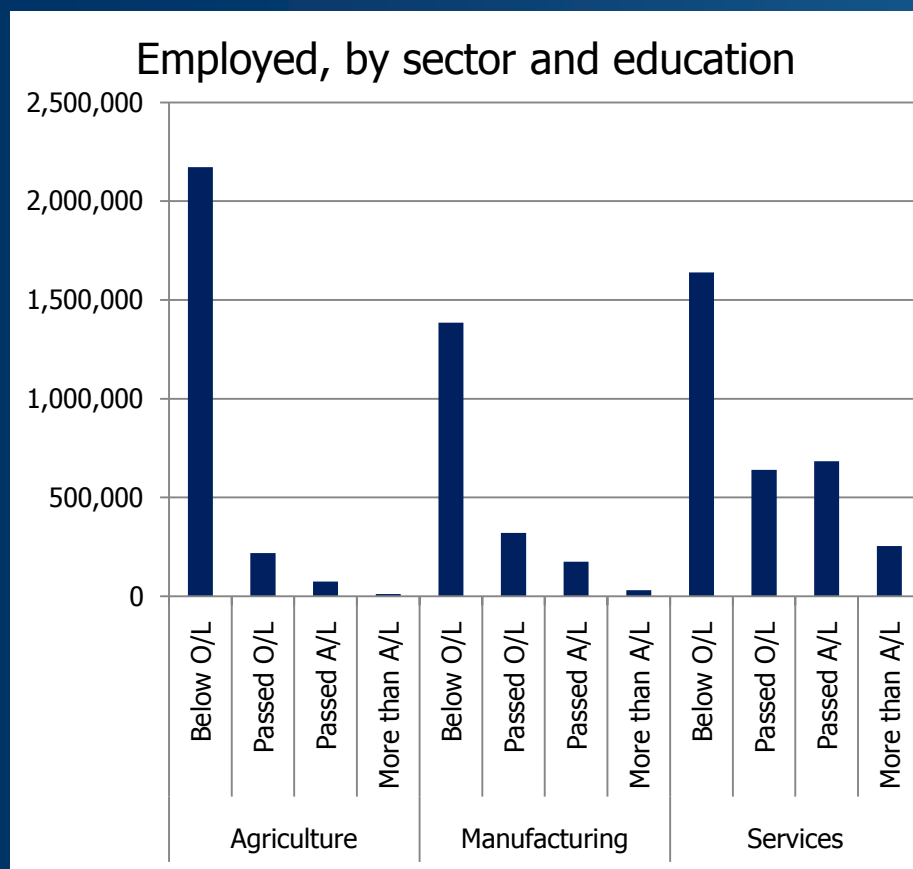
Maternal malnutrition (% of women aged 15-49)



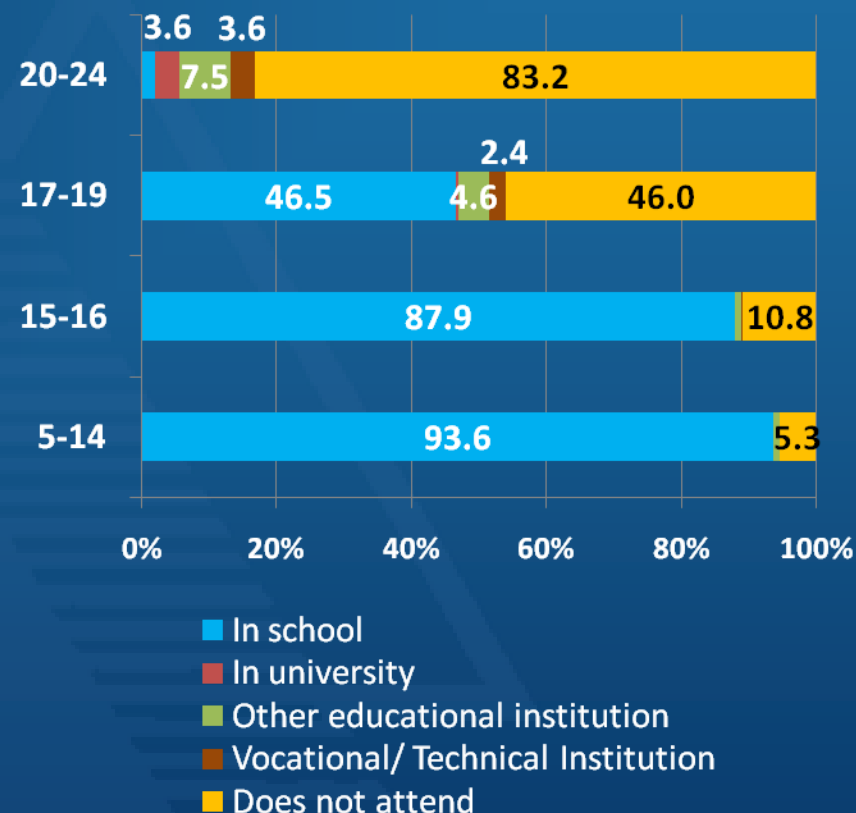
Source: Department of Census & Statistics, DHS 2006/07

- Gaps in provision, socio-economic conditions (education level, income level, etc) and knowledge on health and community health seeking behavior are the main reasons behind these disparities

Better skills are needed for more productive employment



Education participation, by age group

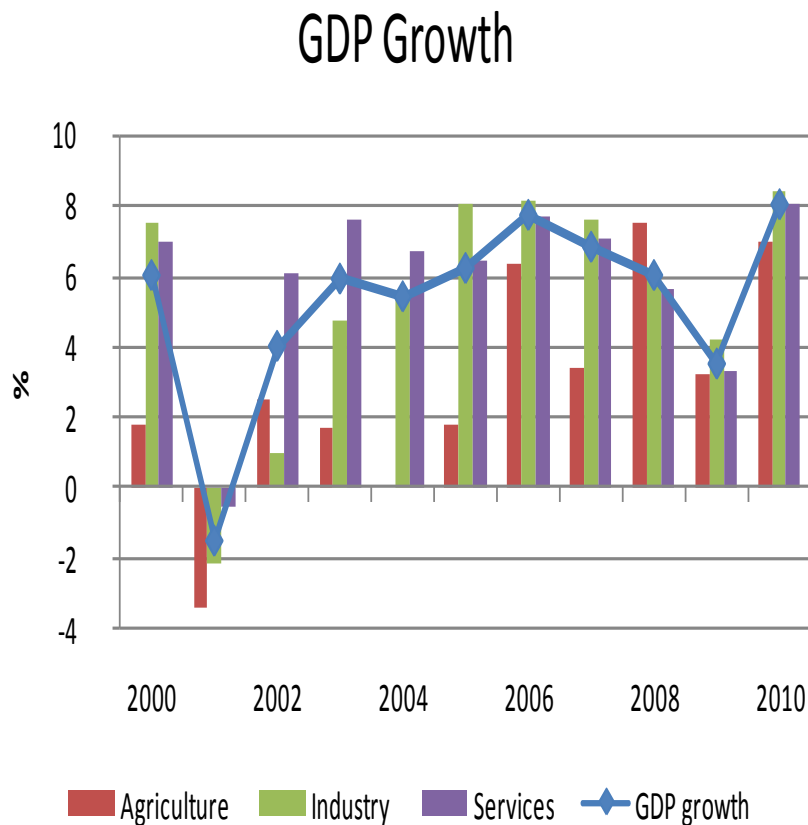


- Only 15% of employed have finished high school
- Better education is needed for more moving to more productive employment
- Tertiary and vocational training needs to improve

Summary

- Unemployment rate has decreased overtime
- But – amongst some group UE rate is still high amongst the
- The drop in unemployment is partly explained by slow growth of the LF
 - Increasing outflow of workers a reason (especially skilled workers)
- Majority of the employed are in the informal sector
- The proportion of informal sector workers have changed little overtime
- Better skills and education is necessary for employment in more productive sectors
- Policies are needed to
 - promote opportunities formal productive employment ...
 - And, improve employability

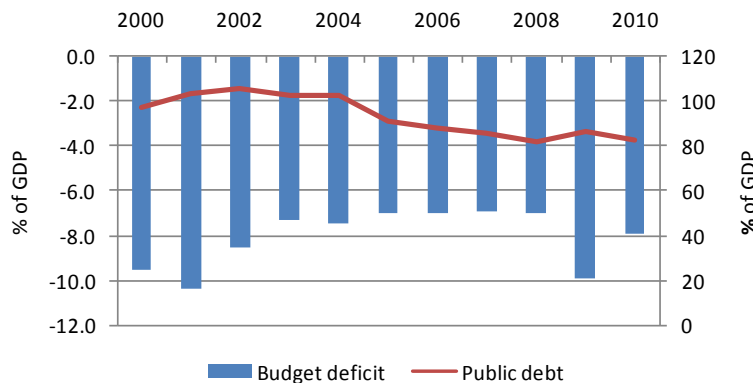
Resilient growth despite instability



- Resilient growth despite costly conflict
 - 5% average GDP growth
 - decline in unemployment
- But, economy underperforming
 - Lack of political stability imposed by conflict
 - Lack of related policy stability from high fiscal & other costs
- Experience was of significant macroeconomic volatility

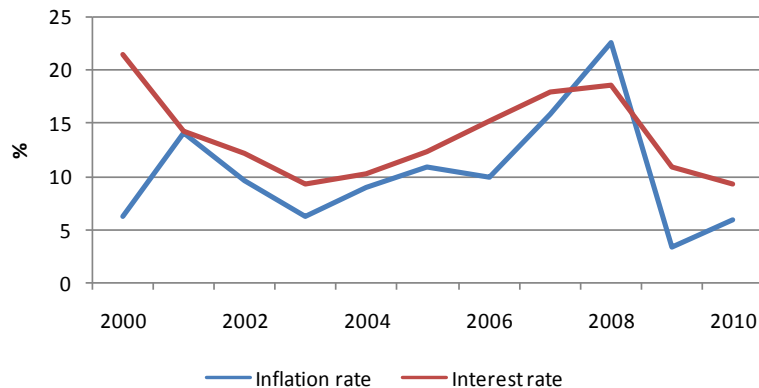
Economic instability harms investor confidence

Fiscal Trends



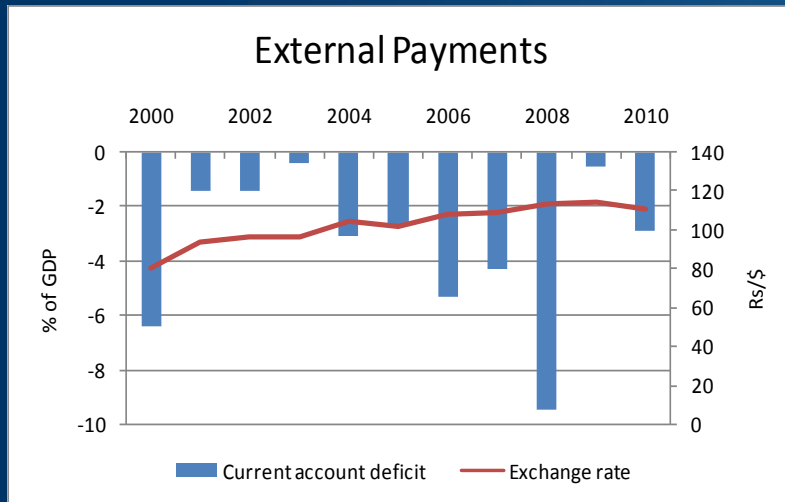
- Fiscal deficits averaged 8-10% of GDP
- Rising public debt to GDP ratio
 - Peaked at 105.6% in 2002

Inflation and Interest Rates



- High and volatile inflation
 - Swing from 22.6% in 2008 to 3.4% in 2009
- Mirrored in interest rate trends

Limited policy space in times of crises



- Persistent twin deficit on current account
 - Continuous depreciation of the exchange rate
 - Depreciated by 40% between 2000-08

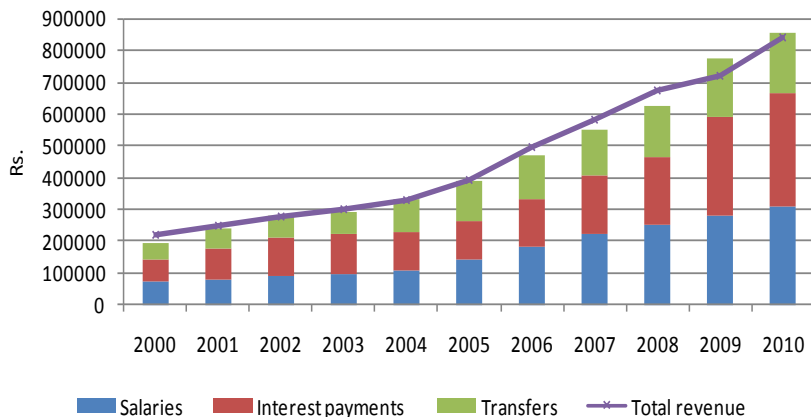
- Macroeconomic environment deterrent to long term investment
- Encourages employment in informal/contractual arrangements
 - Erosion of real wage gains
- Instability has seen Sri Lanka periodically approach the IMF
 - Most recently in February 2009

Post-conflict phase of rapid growth anticipated

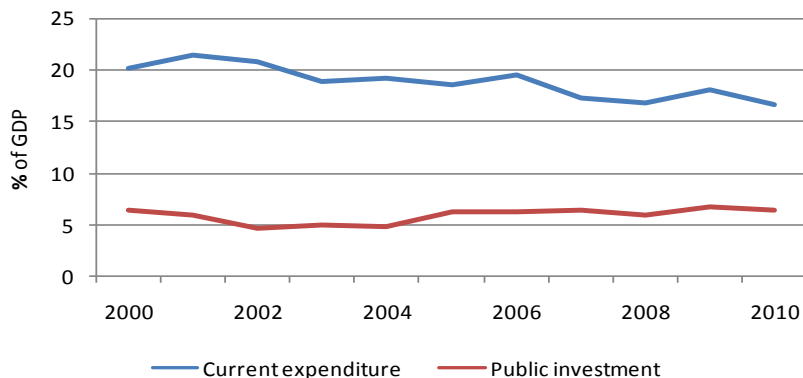
- Since 2006, two clear objectives behind economic policy framework
 - Ensure balanced growth
 - Support lagging sectors of production
- Policy priorities to achieve objectives focused primarily on
 - Rapid investment to improve infrastructure services
 - Aimed to connect urban/rural and develop conflict-affected regions
- Confident of achieving medium term GDP growth in excess of 8%
 - Clear implications for employment, and
 - Broader socio-economic development outcomes

Fiscal policy providing near term boost to growth

Current Exp. & Revenue

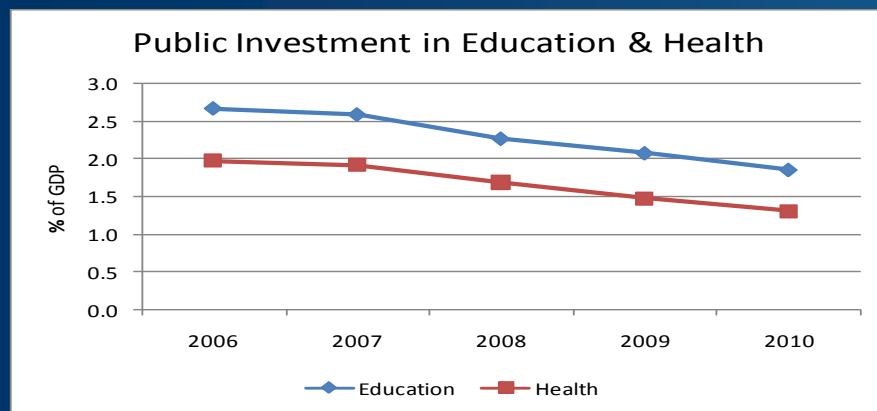


Current & Capital Spending



- Structural weakness: current spending outstrips revenue
 - Capital spending on borrowed funds
- Positive fiscal developments
 - Reforms to raise tax revenues initiated
 - Current expenditures contained and public investment increased
- Fiscal deficit reduced progressively since 2009
 - 9.9% in 2009 to 6.8% in 2011
 - Underwritten by \$2.6 bn. IMF package
- Higher capital investment expected to boost growth

Lack of fiscal support to improve labour productivity a cause of concern



- Public investment geared overwhelmingly towards heavy infrastructure
- Spending on education and health as share of GDP declined sharply
- Sri Lanka performs poorly even by global comparisons
- Can higher growth be sustained without investment to improve labour productivity?

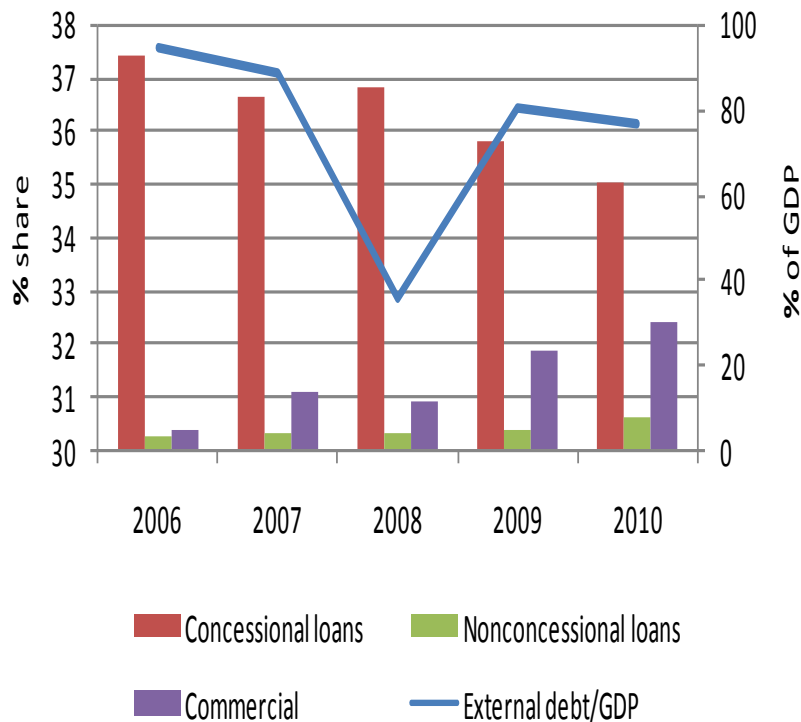
Public Expenditure on Education & Health: 2008/09

% of GDP	Education	Health
Malaysia	4.1	2.2
Singapore	2.6	1.6
Indonesia	2.8	1.2
Philippines	2.8	1.3
India	3.1	1.4
Bangladesh	2.4	1.1
Nepal	3.8	2.1
Sri Lanka	2.3	1.8

Source : <http://databank.worldbank.org/ddp/home.do>

Concerns on sustainability of fiscal stance exist

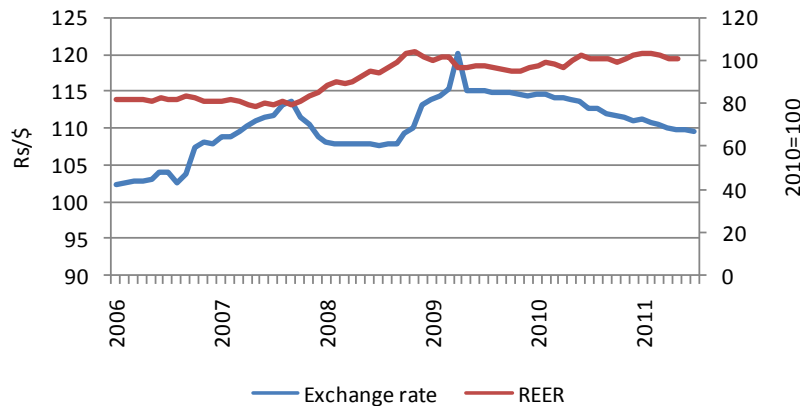
External Debt Dynamics



- Higher public investment financed through foreign currency borrowing
 - e.g., in 2010, foreign financing of deficit was 4.4% of GDP
- Sharp change in composition of foreign debt
 - Non-concessional/commercial share increased from 7.3% to 37.5% between 2006-10
- Poses significant risks to macroeconomic health

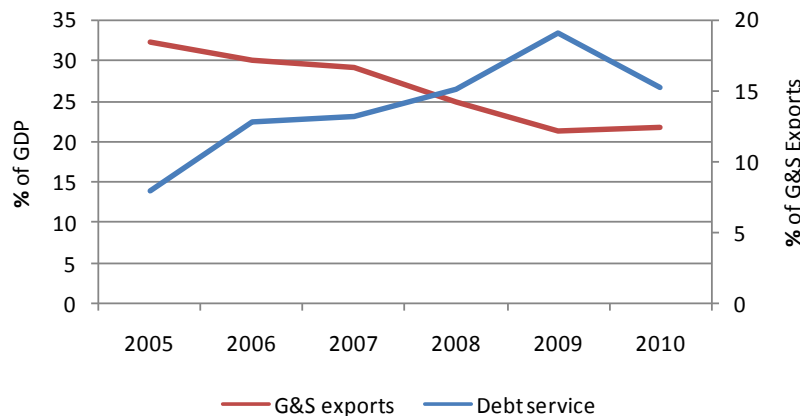
Foreign borrowing also causing other distortions

Nominal & Real ER



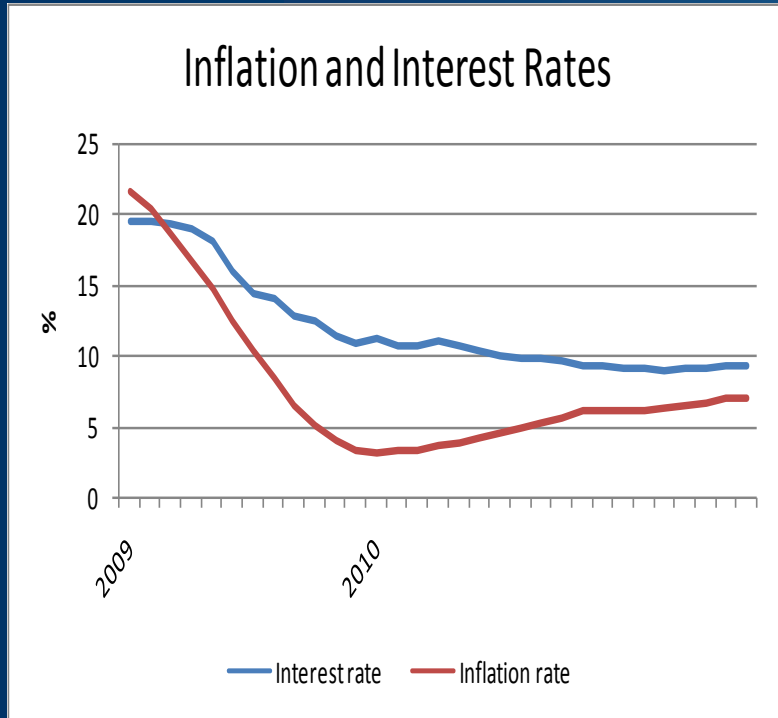
- Current account deficit suggest nominal depreciation
 - But, ER appreciating in view of borrowing related capital inflows
 - 'distortionary' real appreciation

Exports & Debt Service



- Real appreciation hurting competitiveness of exports, when
 - Exports to GDP ratio declining sharply
 - Debt service ratio rising sharply

Tighter fiscal policy has allowed monetary policy stimulus



- Interest rates brought down sharply as inflation moderated
- But, risks to price stability remain in fine tuning monetary policy and ER policy
- Central Bank intervening to keep ER stable
 - Attractive when resorting to foreign currency borrowing
- Intervention expands monetary base
 - Potentially inflationary

Fiscal consolidation a must

- Calls for fiscal consolidation in SL needs to be understood in above context
 - First, lower deficit to manageable levels
 - Over time, reduce country's debt overhang
- Need to steer away from costly and risky foreign borrowing
- Consolidation will allow domestic resources for investment
 - Needed in education/health, etc.
 - Social safety programs for the vulnerable
- Only then, can SL be confident of sustaining a high and stable growth process conducive for productive employment outcomes

Thank You

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