

Labour Market Performance and Public Policy Responses during COVID-19 Pandemic: Evidence from Sri Lanka

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Abstract: During 2020-2021, both monetary and fiscal policy measures were executed to mitigate the labour market impacts of the COVID-19 pandemic in Sri Lanka. Nevertheless, the pandemic adversely affected on a number of labour market outcomes. First, youth labour force participation, in particular, in urban areas declined drastically during the pandemic period. Second, the reduction in employment was very much significant among females as well as in the urban areas compared to their counterparts. Third, most of the job losers joined the agriculture sector, resulting an increase in the share of agricultural workers in the economy. Forth, employment levels of many economic sectors contracted; namely Mining & Quarrying, Manufacturing, Accommodation and Food Services Activities, Financial and Insurance Activities, Professional, Scientific and Technical Activities, and Administrative and Support Service Activities. Fifth, unemployment, in particular among educated youths, increased significantly. Finally, informal employment slightly increased while impact on real wages were marginally witnessed. The economy of Sri Lanka went into a deep crisis by early 2022 and the country defaulted *on its debt* for the first time in its history. In subsequent period, economic activities were contracted due to a number of unhealthy developments including fertilizer import ban, shortages of essential imports, import restrictions and power cuts. Hence, it could reasonably be assumed that the effects of the pandemic may have further aggravated in the subsequent periods though an increasing number of workers sought foreign employment opportunities in recent months. Hence, it is imperative that the policy makers take note on above effects.

Keywords: COVID-19 pandemic, Labour Market, Public Policy, Sri Lanka

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1. Introduction

Labour markets are often vulnerable to both man-made and natural disasters. The size of the impact depends on the magnitude and the duration of the disaster as well as its overall

economic burden. The COVID-19 pandemic, first reported in China and subsequently spread to all most all the countries in the world, has not only been a major health crisis but also it harshly lasted more than two years. As per World Bank (2022), the overall economic burden of the pandemic is the largest global economic crisis in more than a century. In particular, the pandemic has pushed a large number of households into poverty around the world and led to dramatic increase in inequality within and across countries. A sizable share of the impact directly or indirectly transmitted to households through labour markets. Around the world, governments and central banks responded through fiscal and monetary policies to minimize the socio-economic impact of the pandemic. Developed and emerging economies effectively utilized a number policy measures while some poorer countries struggled to respond to the crisis sufficiently due to their limited financial capacities. The first COVID-19 case was reported in Sri Lanka on 28th of January 2020 and, in subsequent period, Sri Lanka witnessed a non-linear pattern with respect to frequency of reporting. The path of the pandemic spread could broadly be divided into four waves; first wave (27th Jan - 3rd Oct.2020), second wave (4th Oct.2020 - 14th April 2021), third wave (15th April, 2021 – 30th June 2021), and fourth wave (post 30th June, 2021). By early 2022, the country was mostly free from a major threat emanating from the pandemic partly due to the vaccination and public awareness on the pandemic. Under the prevailing stringent fiscal space, the government of Sri Lanka and the central bank of Sri Lanka, took a number of steps in mitigating socio-economic consequences of the pandemic.

This study aims at examining the labour market performance in Sri Lanka during the pandemic and stocktaking public policy measures introduced in mitigating the socio-economic impacts of the pandemic. It is widely considered that labour market performance during the pandemic may shed some lights on the impact of the pandemic at the households and the economy. However, labour market performances during the pandemic need to be evaluated through the lens of various public policy measures took place during the pandemic period. The paper is organized as follows. Section two review both theory and empirics related to the impacts of a pandemic on labour market while the third section deals the trends, magnitude, and geographical distribution of COVID-19 cases. The latter part of the section three discusses various policy measures introduced by the government and the Central Bank in mitigating socio-economic impact of the pandemic while section four analyses the labour market performance/

2. Literature Survey

Coibion, *et.al.*, (2020) attempted at quantifying the impact of the COVID-19 pandemic on the United States at the early stage of the pandemic. Accordingly, the

authors estimated 20 million job loss in the United States by April 6th 2020. However, the authors argued the rise of unemployment remained relatively contained since many of those who lost jobs are not actively looking for new ones and declining labour force participation. In contrast, Gros and Ounnas (2021) examine the effect of COVID-19 on labour markets in the United States and Europe and after controlling for a number of explanatory variables and fixed effects, the authors examined the impact of COVID-19 crisis on unemployment in regression framework. Accordingly, it was found that unemployment rate increased sharply in the United States while the increase in unemployment in Europe was somewhat far less. In the United States, the labour markets witnessed a rapid recovery in the post-pandemic period whereas recovery was gradual in the Europe. Lemieux *et.al.*, (2020) examined the initial impacts of the COVID-19 on Canadian labour market with special focus on changes in employment and aggregate hours worked. The authors found that COVID-19 pandemic was accountable for a 32 per cent decline in aggregate weekly work hours among workers aged 20-64 years and COVID-19 induced reduction in employment was 15 per cent for the same aged group. In particular, this study found that nearly half of the job losses are attributed to workers in the bottom earnings quartile. Moreover, it was found that those most affected held public-facing jobs in industries such as accommodation and food services, which were largely affected by the pandemic, and were young, paid hourly, and non-union members. Somewhat similar findings were pronounced by Cortes and Foesythe (2020) who examined heterogeneous labour market impacts of the COVID-19 in the context of the United States. Their study, using Current Population Survey, found that the pandemic exacerbated pre-existing inequalities in the labour market. In particular, the authors found though employment losses were widespread, such losses were much larger in lower-paying occupations and industries. Moreover, it was found that individuals from disadvantaged groups, such as Hispanics, younger workers, less educated workers, and women, have witnessed a higher level of job losses. Maurizio and Bertranou (2020) also confirmed the heterogeneous labour market impacts of the COVID-19 for the Latin American countries. Further, the authors argued that the path of recovery is relatively slow amidst governments in the region making significant efforts to implement a set of policies aimed at sustaining employment and income. Nevertheless, Eichhorst and Brunner (2022) provided evidences, in the context of Nordic countries, that favorable initial social, economic and labour market conditions as well as timely mobilization of public policies could manage the labour market impacts of the pandemic successfully. Effectiveness of the public policy in mitigating the heterogeneous labour market impacts of the pandemic was found by Casarico and Lattanzio (2022) in the context of Italy. The authors found

that initial negative labour market impacts were faded away, to a larger extent, with the introduction of active labour market policies. In the context of Sri Lanka, a few studies examined the labour market impacts of the COVID-19 mostly focusing the first wave of the COVID-19 pandemic (Dunusinghe, 2021; Wimalaweera, 2020).

3. COVID-19 Pandemic and Public Policy Response

The government of Sri Lanka, as in many other countries around the world, introduced a number of direct and indirect policy measures to mitigate the labour market impacts of the COVID-19 pandemic. Broadly, such interventions could be classified into monetary, fiscal, and labour market and employment policies. It could be observed that the government of Sri Lanka largely employed monetary policy in supporting COVID-19 affected businesses and individuals. This is partly because there was a limited fiscal space for public policy response since the newly elected government offered a number of tax concessions prior to the pandemic¹.

On 4th March 2020, the Central Bank of Sri Lanka requested commercial banks, specialized banks, and leasing companies to offer a debt moratorium for COVID-19 affected businesses (affected small/ medium enterprises, tourism, apparel, plantation and IT, related logistic service providers) and individuals for a period of six months starting from March 2020 and expanded the coverage of businesses in subsequent period along with an extension of the period. The debt moratorium was granted to businesses operating in the tourism and exporting sectors, small & medium businesses, self-employed, and foreign currency earners. In addition, credit facilities were made available at a lower interest rates for working capital requirement and re-financing facility, amounting to LKR 50 Bn, was offered to COVID-19 hit businesses - such as tourism, export-related businesses, Small and Medium Enterprises (SMEs), self-employment businesses, individuals who have lost their jobs or income due to the outbreak of COVID-19, and foreign currency earners - starting from March 2020. Moreover, the Central Bank of Sri Lanka decided to reduce its Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), bank rate, and the Statutory Reserve Ratio (SRR) to support the measures already taken for redressing businesses and workers affected by the pandemic². The government of Sri Lanka also introduced a number of regulations to encourage foreign exchange inflows and to discourage foreign exchange outflows so as to minimize the adverse impacts on businesses due to shrinking foreign exchange reserves in the country.

Fiscal policy measures largely aimed at offering social assistance (direct cash payments) to affected households/individuals. Between April-May 2020, the government provided two 'one-off' transfer of LKR 5,000 for 5.7 mn individuals

while ‘one-off’ payment of LKR 5,000 was paid per quarantined household to support the lost livelihood in October 2020. Additionally, a special loan scheme was made available during festive season, (April 2021) for selected low income households³. It is expected that these cash transfers may have supported some livelihoods activities, at least temporarily, via increased demand for goods and services.

In the area of labour market and employment, the Tripartite Taskforce comprising of the Employers’ Federation of Ceylon (EFC), the trade union, and the Ministry of Skills Development, Employment and Labour Relations reached a tripartite agreement to pro-rate wages of monthly paid employees in all sectors (Other than industries associated with leisure/hospitality and tourism) based on the varied of levels of deployment of staff owing to the COVID-19 Pandemic. The agreement extended until the 31st of June 2021.

The above policy measures directly or indirectly intended to support the businesses and workers affected by the pandemic and/or to provide alternative livelihood opportunities for those who have lost their employments due to the pandemic. As in many other countries, Sri Lanka did not implement active job retention programmes during the pandemic and, instead, businesses were supported through the monetary policy to reduce the financing costs of the existing loans or new funding requirements. However, it is quite clear to what extent those interventions saved/supported jobs of vulnerable groups, in particular low-skilled informal workers, whose employments are not protected by formal labour market institutions⁴. The effectiveness of the policy interventions was further disturbed by import controls, initially introduced for addressing growing balance of payment pressure, and subsequent limited supply of essential imports such as crude oil, natural gas, and other imported goods and the economic and political crises witnessed in the country during 2022.

4. Labour Market performance during the COVID-19

Labour Force Participation

The pandemic had a negative impact on labour force participation of both male and female labour force participants. The decline in labour force participation was relatively significant at 20-24 age group in both sexes compared to the other age groups. For instance, male and female labour force participation of 20-24 age group declined by 9 per cent and 6 per cent during 2019-2021 respectively. The decline in female labour force participation is a serious concern given the overall female labour force participation in Sri Lanka has remained significantly lower compared to most other developed and developing countries (see Figure 1). This age group generally consists

of youth who intend to join the labour market after completing their tertiary and/or vocational education. Hence, the pandemic induced supply-side factors such as unable to complete their education/training programmes, concerns on health risks posed by the pandemic, and general perception on lower probability of finding a suitable job, may have affected youth to stay out of the labour force. Female labour force participation in 40+ age group declined marginally, probably due to pandemic induced household responsibilities, such as caring kids and old-aged family members. Decline in labour force participation, both sexes among 20-24 age group, was more prominent in the urban sector compared to that of the rural. For instance, male labour force participation declined from 66 per cent in 2019 to 51 per cent in 2021 while that of the female dropped from 43 per cent to 32 per cent during the reference period (Figure 2). This may have largely driven by new labour market entrants' perception on low probability of finding employments given the pandemic induced economic contraction. As a result, urban youth largely became increasingly idle and frustrated. It could be suspected that the 'Aragalaya' launched by youth during 2022 against the then government may have partly been influenced and supported by a larger majority of idle urban youth.

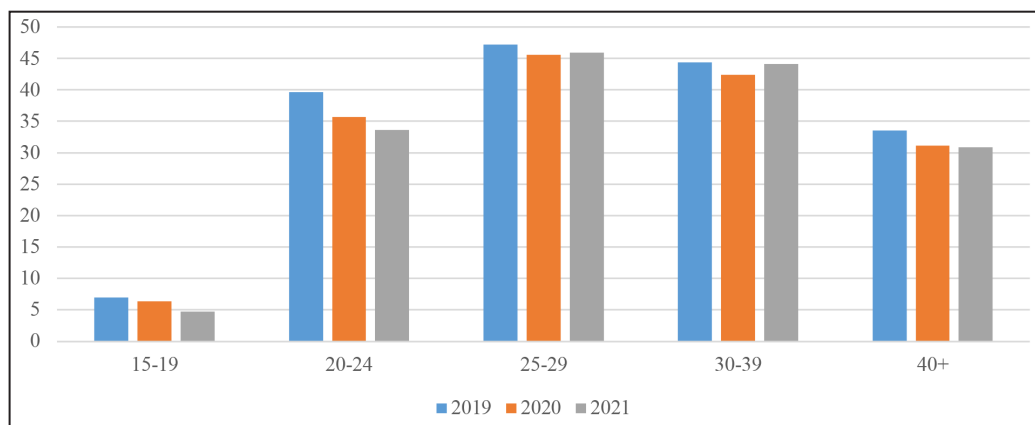


Figure 1: Female Labour Force Participation (%) by Age-Group

Source: Labour Force Survey Annual Report (*various issues*), Department of Census and Statistics of Sri Lanka.

Employment

Share of employment in agriculture sector has increased from 25.3 per cent in 2019 to 27.3 per cent in 2021 while employment shares in the other two sectors witnessed a decline (Table 1). This increase reversed the structural change Sri Lanka witnessed

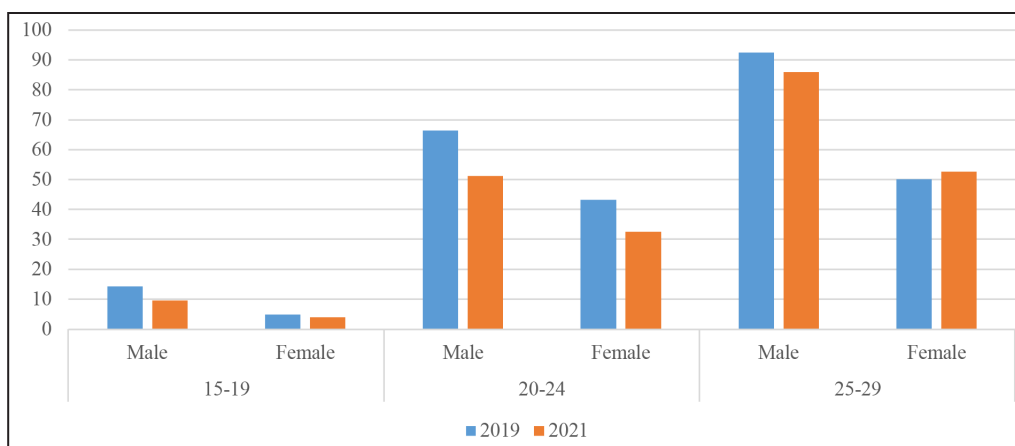


Figure 2: Urban Youth Labour Force Participation (%)

Source: Labour Force Survey Annual Report (*various issues*), Department of Census and Statistics of Sri Lanka.

over the years where workers moved out of low productive agriculture sector to high productive industrial and services sectors. The increase of agriculture sector employment share is prominent in provinces where the agriculture sector is relatively prominent; i.e. North Central, Uva, North-Central, Northern, and Eastern provinces. For instance the share of agriculture sector employment in North-Central province increased from 45.2 per cent in 2019 to 49.5 per cent in 2021 while in Uva province it increased from 52.9 per cent to 56 per cent during the above period. The pandemic induced economic contraction witnessed in industrial and services sectors pushed workers to the agriculture sector. In that sense, agriculture sector worked as a shock-absorber during the pandemic period. In line with the pandemic induced economic contraction, the share of private sector employees declined during post-2019.

Table 1: Employment by sector: 2015-2021

Year	Agriculture	Industry	Services
2015	28.7	25.8	45.6
2016	27.1	26.4	46.5
2017	26.1	28.4	45.5
2018	25.5	27.9	46.6
2019	25.3	27.6	47.1
2020	27.1	26.9	46.0
2021	27.3	26.0	46.7

Source: Labour Force Survey Annual Report (*various issues*), Department of Census and Statistics of Sri Lanka.

Office of National Statistics (2022) proposed the following methodology in estimating the employment effect of COVID-19;

$$\frac{\Delta E}{E} = \frac{\Delta W}{E} - \frac{\Delta U}{E} - \frac{\Delta I}{E} \quad (1)$$

Population of working age (W) consists of employed (E), unemployed (U), and inactive (I);

$$W = E + U + I$$

This study employed eq. (1) for estimating the employment impact of COVID-19 where 2019 Q4 (employment prior to COVID-19) employment level and its immediate trough, 2020 Q3 (lowest level witnessed during the first wave), was considered for estimating the employment effect of first wave of COVID-19 while employment level in 2021 Q1 (highest level) and 2021Q3 (lowest level) was considered for estimating the employment impact of subsequent wave COVID-19 pandemic⁵. The employment effects were estimated for the total, male, female, urban, and rural workforces (see Table 2).

Table 2: Employment Effect of COVID-19 (% change during the reference period)

<i>Employment category</i>	<i>2019Q4-2020Q3</i>	<i>2021Q1-2021Q3</i>
Total	-2.8	-0.4
Male	-0.1	0.9
Female	-8.0	-6.9
Urban	-1.9	-8.1
Rural	-3.0	-0.5

Source: Author's calculation based on LFS Annual Reports (*various issues*)

Sri Lanka's labour market has witnessed a decline in total employment by 2.8 per cent during the first wave of the pandemic while the total employment was contracted by 0.4 per cent during the second wave. The male employed population declined by around -0.1 per cent during 2019Q4-2020Q3 and, quite contrary to the expectation, total male employed population expanded by 0.9 per cent during 2021Q1 to 2021Q3. Female employed population dropped significantly during the both period while total employment in the urban sector contracted faster during the 2nd wave of the pandemic compared to that of 1st wave of the pandemic (Table 1). For instance, female employed population contracted by 8 per cent during 2019Q4 to 2020Q3 while it declined by 6.9 per cent during 2021Q1 to 2021Q3. The decline of employed population in the urban sector was 8 per cent during 2021Q1-2021Q3. The contraction of employment directly link with the contraction of the economy. For instance, in terms

of Gross Domestic Product (GDP), economy contracted in 2020Q1 (-1.8 per cent) and 2020Q2 (-16.4 per cent) while it marginally improved in 2021Q3 (1.3 per cent). The first two quarters of 2021 recorded a positive growth while the growth rate became negative in 2021Q3.

The share of own account workers increased during the pandemic period indicating that workers who lost their jobs in the formal sector opted to be self-employed. Unavailability of an unemployment insurance forced workers take up jobs in the informal sector as the resort though productivity, earnings, and working conditions are poorer in it compared to that of the formal sector. A sizable share of formal sector job losers joined the agriculture sector while some took up careers as salesmen. During 2019-2021, female employment in public sector increased by 20,000 while female employment in the private declined, 72,000. In particular, female shares of employment of services & Sale and elementary occupations have sizably increased in 2021 compared to 2019. As a % of total female employment, 24.1 engaged in elementary occupations in 2019 and this number increased to 28.6 per cent in 2021. Similarly, share of total female employment engaged in services & sale occupation increased from 7.6 per cent in 2019 to 11.4 per cent in 2021. This indicates that females have either shifted to lower end of the occupations and/or high skilled females left the job market during the study period to take up responsibilities at the households. Most newly joined females may have joined to lower end while female who held at the top end of occupation may have left.

This study examines the employment effects of COVID-19 pandemic by different economic sectors where 2019-2020 was divided into two time period; namely 2019-2020 and 2020-2021. Accordingly, agriculture (including forestry and fishing) and public administration and depence

Unemployment

Unemployment has been a concern in Sri Lanka's labour market over the last several decades. In particular, unemployment among educated youth led to two youth insurrections while youth unemployment made a significant contribution to militant formation of youth in the Northern and the East provinces. A number of hypotheses have been introduced in explaining persistently high educated youth unemployment. Overall male unemployment in 2019 was 3.3 per cent and it increased to 4 per cent by 2020 while slightly declined in 2021. Following the same pattern overall female unemployment level increased from 7.4 per cent in 2019 to 8.5 per cent in 2020 and declined to 7.9 per cent in 2021. Overall youth unemployment increased from 21 per cent in 2019 to 26.5 per cent in 2020. In contrast to overall unemployment, youth unemployment did not witnessed a decline in 2021.

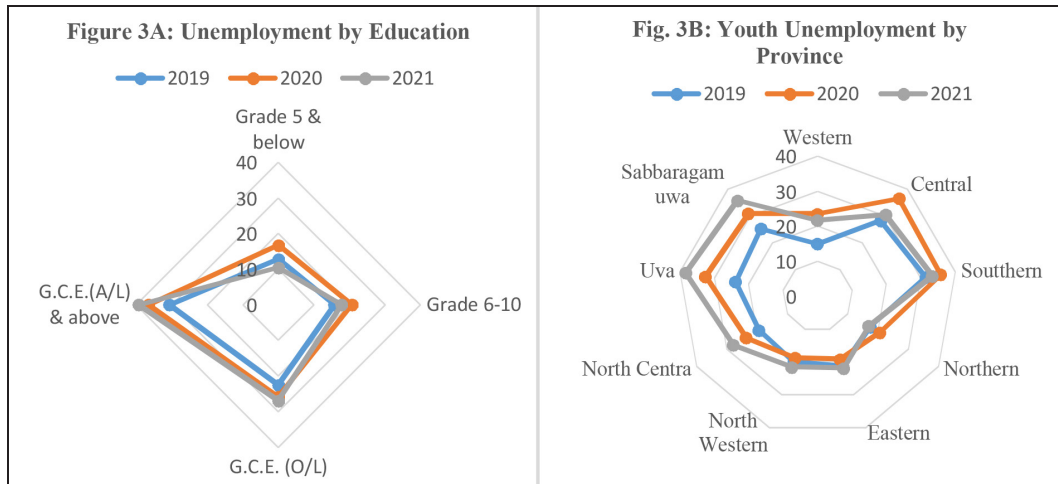
Table 3: Sectoral Employment Change during 2019-2020 and 2020-2021

	<i>Expanded during 2019-2020</i>	<i>Declined during 2019-2020</i>
Expanded during 2020-2021	Agriculture, forestry and fishing Public administration and defense compulsory social security	Wholesale and retail trade, repair of motor vehicles and motor cycles Information and communication Education Human health and social work activities Other service activities Activities of households as employers; undifferentiated goods and services - producing activities
Declined during 2020-2021	Construction, Electricity, gas, steam and air conditioning supply, Water supply, sewerage, waste management and remediation activities Transportation and storage	Mining & quarrying Manufacturing Accommodation and food services activities Financial and insurance activities Professional, scientific and technical activities Administrative and support service activities

Figure 3A and 3B report data on youth unemployment by education level and provinces respectively. Youth unemployment among low educated group increased during 2019-2020, however, it slightly declined subsequently (see Figure 3A). In contrary, youth unemployment among high educated groups continued to increase during 2019-2021. For instance, youth unemployment among GCE A/L passed or above group increased from 30.7 per cent in 2019 to 36.7 per cent in 2020 and reached 39.3 per cent by 2021. In terms of regional distribution of youth unemployment, during 2019-2020, all provinces witnessed a rise in youth unemployment (see Figure 3B). However, few provinces witnessed a slight decline in 2021 though the levels did not reach pre-pandemic level. Youth unemployment in some provinces such as Sambaragamuwa, Uva, and North Central continued to rise in 2021.

Informal employment

The share of informal employment has increased by 1 per cent during 2019-2021, i.e. from 66.7 in 2019 to 67.5 in 2021 reflecting informal sector get expanded during the COVID-19 pandemic period⁶. This 1 per cent increase roughly amount to around 20,000 jobs. Interestingly, non-agriculture sector informal employment declined by around 66,000 during 2019-2021. Those who lost jobs both in the formal sector and informal non-agriculture sector joined the agriculture sector as the last resort; an increase of over 80,000 workers in the agriculture sector. Moreover, informal employment slightly increased among high-skilled categories. During the decade prior to the pandemic, Sri Lanka's labour market witnessed a decline in both agriculture



Source: Annual Report (various issues), Labour Force Survey, Department of Census and Statistics of Sri Lanka

employment as well as informal employment, however, this trend was reversed during the pandemic.

Trends in Wage Indices

Public sector workers’ real wage indices declined during the COVID19 pandemic while those of informal workers increased marginally (Fig. 4 & 6). In the formal private

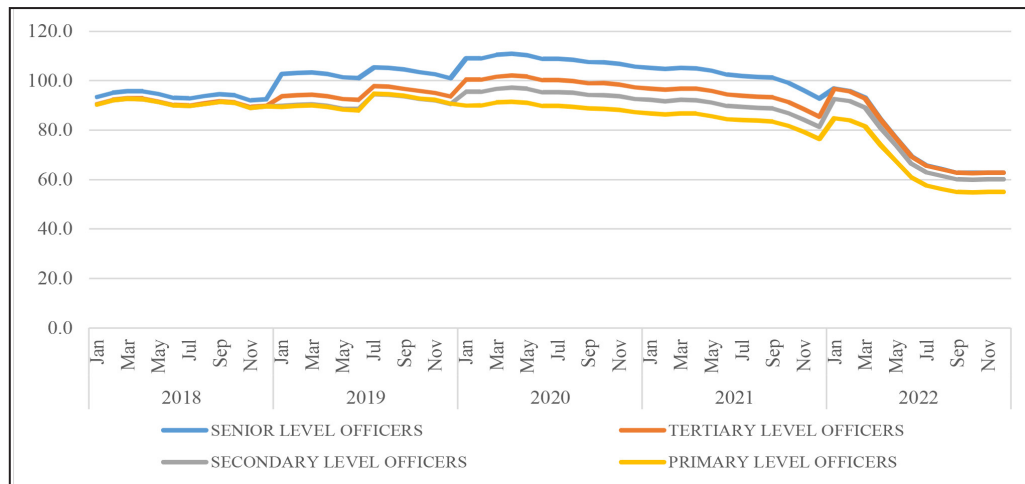


Fig. 4: Formal Public Sector Real Wage Indices (2016=100)

Note: 2016=100 (National Consumer Price Index)

Source: Central Bank of Sri Lanka

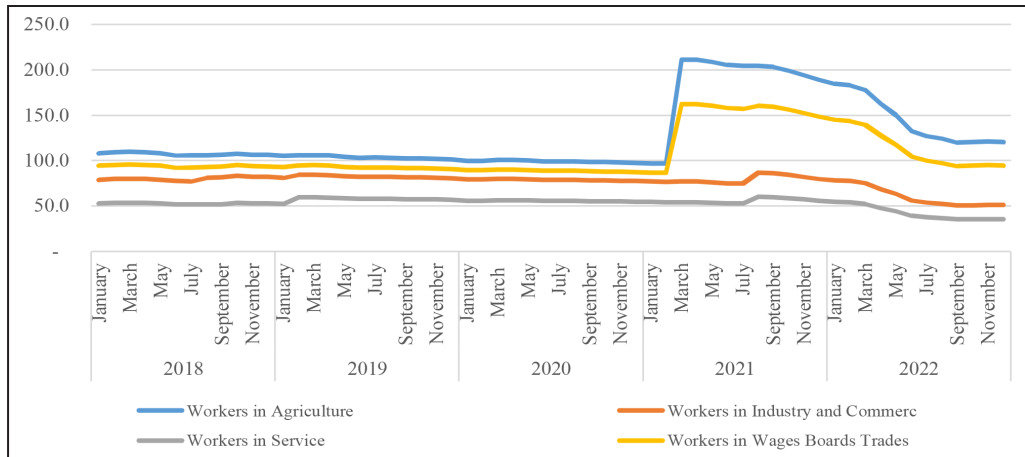


Fig. 5: Formal Private Sector Real Wage Indices (1978=100)

Note: 2006/7=100 (base on Colombo Consumer Price Index)

Source: Central Bank of Sri Lanka

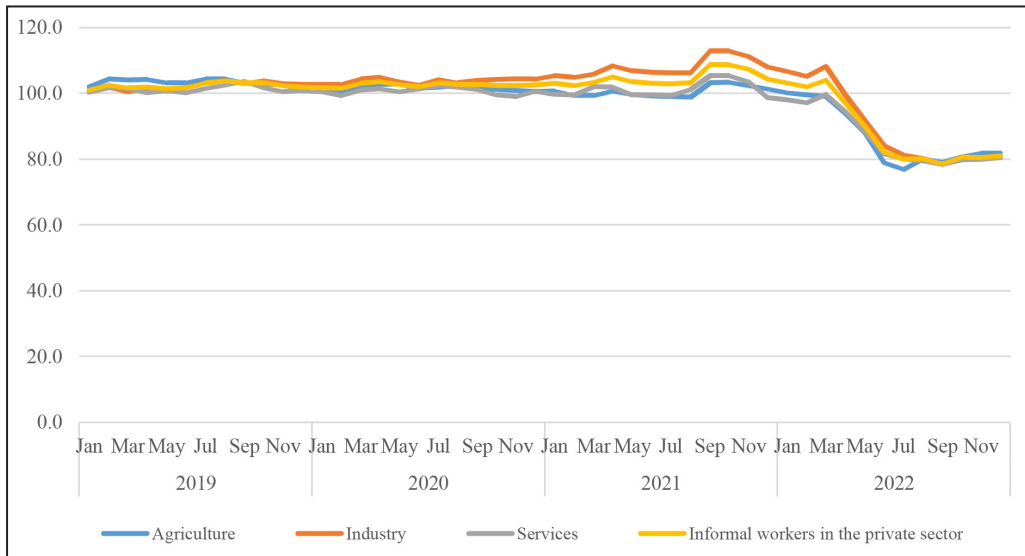


Fig. 6: Informal Workers' Real Wage Indices (2018=100)

Note: 2013=100 (National Consumer Price Index)

Source: Central Bank of Sri Lanka

sector, workers in agriculture sector and workers who come under the Wage Boards witnessed a wage increase in early 2021 (Fig. 5). The minimum daily wage of Estate Sector workers (Rubber & Tea) was increased by the government from Rs. 750 to Rs.

900 in March 2021, and additional Rs. 100 was provided under the budgetary relief allowance. In line with this increase, wages of workers in manufacturing trades, whose wages come under the wage boards, also witnessed an increase. In all the three sectors, workers witnessed a rapid decline in their real wages during 2022, largely due to the higher inflationary situation prevailed in the economy. In addition, demand for labour remained very weak due to a number of adverse conditions, such as import restrictions introduced, shortages of essential imports such as fuel, and daily power cut imposed.

5. Conclusion

The government of Sri Lanka enforced a number of measures to limit the spread of COVID-19 pandemic in the society since early 2020. It also introduced direct and indirect policy measures to mitigate the labour market impacts of the pandemic. Among the policy measures, monetary policy played a key role, partly due to the limited fiscal space prevailed. The Central Bank of Sri Lanka directed financial sector institutions to offer debt moratorium facility as well as low costs finances for businesses and individuals affected by the pandemic. In addition, the government offered cash transfers to poor households and vulnerable individuals.

The pandemic had a negative impact on youth labour force participation and, in particular, youth labour force participation in urban areas dropped drastically. Employment effects of the pandemic were very much visible among females as well as in urban areas compared to their counterparts. Most of the affected individuals joined the agriculture sector, thereby witnessing an increase in the share of agricultural workers in the economy. During the pandemic, employment levels of many economic sectors contracted; namely Mining & Quarrying, Manufacturing, Accommodation and Food Services Activities, Financial and Insurance Activities, Professional, Scientific and Technical Activities, and Administrative and Support Service Activities. Moreover, informal employment slightly increased during the pandemic while impact on real wages were marginally witnessed. In fact, the government made a policy intervention in increasing minimum wages so as to make sure low skilled workers.

The economy of Sri Lanka went into a deep crisis, partly due to the negative effects of the pandemic on foreign exchange earnings, by early 2022 and the country defaulted *on its debt* for the first time in its history. In subsequent period, economic activities were contracted due to a number of unhealthy developments including shortages of essential imports, import restrictions and power cuts enforced. Hence, it could reasonably be assumed that the effects of the pandemic, discussed above, may have further aggravated in subsequent periods.

Notes

1. The newly elected government offered a series of tax concessions to businesses and individuals in 2019 and, largely those tax concessions caused total tax revenue collection to drop by 48 per cent during 2020. As a result, fiscal policy was limitedly employed in mitigating economic impacts of the COVID-19 pandemic.
2. The Central Bank of Sri Lanka decided to reduce its Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by -25bps each to 6.25% and 7.25% respectively whilst reducing the Statutory Reserve Ratio (SRR) by -100bps to 4% with effect from 17th March 2020 and The SDFR and SLFR rates were further reduced by 25 basis points on 3rd April 2020. The bank rate was reduced by 500 basis points on 16th April 2020. On 6th May 2020, SDFR and SLFR rates were further reduced by 50 basis points. Hence, in total, SDFR and SLFR rates were reduced by 100 basis points within less than two months. The SRR was brought down to 2 per cent on 16th June 2020.
3. A loan amounting to maximum of LKR 50,000 at an interest rate of 0.625 per month and a 11-month repayment period.
4. In Sri Lanka, informal workforce accounts for two-third of the total employed workers and labour market institutions governing employment & remuneration security are hardly applied to this category of workers.
5. The first COVID-19 case was reported in January 28th 2020 and a number measures such as lockdown and social distancing were introduced in subsequent period in Sri Lanka. Such measures were gradually relaxed towards the end of 2020 and level of COVID-19 related restrictions were at minimal during 2020Q4 to 2021Q1. As a result, economic activities were largely returned to normal by 2021Q1. However, the rapid spread of Delta variant forced authorities to re-introduced/tighten lockdown and social distancing measures there by slowing down economic activities. Lockdown and social distancing measures were relaxed again due to initiation of country-wide vaccination programme by the end of 2021Q3.
6. The share of informal employment has increased from 66.7 to 67.5 during 2019-2021.

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