

A FLOURISHING OR FALTERING ECONOMY: UNEMPLOYMENT IMPACTING SRI LANKAN ECONOMIC GROWTH

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Abstract

The primary goal of any economy is to achieve long-term economic growth while maintaining a stable rate of unemployment, which is a macroeconomic factor. Moreover, when unemployment rises, real Gross Domestic Product (GDP) falls short of potential GDP. Accordingly, the purpose of this study is to examine the impact of unemployment on the economic growth of Sri Lanka. By using data from the first quarter (Q1) of 2000 to the fourth quarter (Q4) of 2021 and Vector Error Correction Model (VECM) and Granger Causality are applied to analyse the impact of unemployment on economic growth. The findings indicates that there is a unidirectional causality between unemployment and economic growth, and that there is a long run relationship between these two variables, with both long-term and short-term negative impacts on economic growth in Sri Lanka. Macroeconomic policies need to be formulated to sustain the unemployment rate in line with the current economic realities of Sri Lanka for sustainable economic growth and significant contribution to the creation of new jobs and the expansion of existing employment in Sri Lanka.

JEL: E24, J6, O4

Keywords: Unemployment, Economic growth, Granger causality, VECM, Sri Lanka

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INTRODUCTION

Unemployment is a multi-faceted economic phenomenon that manifests as an imbalance in economic activities. Additionally, it impacts the social structure of a country as a social phenomenon. As Alhabees and Rumman (2012) emphasised, economic and social components of unemployment will further add to its complexity, necessitating significant investigations to comprehend the causes and implications. Identifying appropriate responses to economic growth is estimated in terms of gross domestic product (GDP) and unemployment. These variables are critical for decision making in any macroeconomic system. As per Mustafa (2019), one of the goals of the most basic macroeconomics is to achieve sustainable economic growth by maintaining low unemployment.

Unemployment in Sri Lanka, a developing country, is a matter of concern among economists and policy makers alike. This is because unemployment is a critical economic indicator of economic growth and development. Based on the Central Bank of Sri Lanka (CBSL) statistics and Mustafa (2019) there was a surge in unemployment from 24.7 per cent to 38.1 per cent during the period 2000 to 2021 in Sri Lanka due to the continuous growth of youth unemployment. Further, the massive wastage of manpower in a country can negatively impact declining production levels deviating from its potential level and incurring social welfare expenses. As a developing country, Sri Lanka needs to address the problem of increasing unemployment to prevent the negative effects of unemployment on economic growth. Based on these controversial findings in the past literature which indicates both reversal and adverse effects, the present study examines the impact of unemployment on Sri Lanka's economic growth using quarterly time series data from year 2000 to 2021.

Problem Statement

The economic outlook of Sri Lanka is persistently constrained with significant uncertainties related to many macroeconomic factors. Unemployment is a major challenging factor and is something that cannot be eliminated under any economic conditions. In these circumstances, labour supply and demand levels may influence growing unemployment rate. Sri Lanka's unemployment can be emphasised as follows.

Changes in technology will result in job losses and an increase in unemployment in the economy since employers are searching for people with new technological competencies. Moreover, most economies have mismatches between job requirements and the existing abilities in this challenging job market. Though employment opportunities are available, job seekers lack required skills and abilities which are most in demand. Furthermore, many Sri Lankans prefer employment in the government sector rather than the private sector, mainly due to job security and retirement benefits. As indicated by Thayaparan (2014), although there are job opportunities, it appears that many Sri Lankans prefer public sector jobs over the private sector due to lack of required skills and highly sought-after abilities, and job security and benefits. Therefore, people spend more time looking

for a job in the government sector even if they get a job or better career prospects in the private sector, thus leading to long queues for government sector jobs and higher unemployment rates in the country. In addition, due to Covid-19 travel restrictions, airport closure and lockdown were imposed in the country to prevent the virus spread. This scenario saw a rapid decline in industrial production and services sectors that disrupted and tightened the revenue streams of companies leading to laying-off of excess employees. As per the CBSL (2000-2021) 1.7 million people received allowance due to loss of income. Furthermore, the survey found that 64.2 per cent of employees were not engaged in any work by May 2020. For business survival amid uncertainties, some companies downsized their business operations while some, partially retrenched the existing workforce.

By the year 2020, the total number of jobs in the economy dropped from 87 per cent to 70 per cent and this situation had a severe impact on unemployment in Sri Lanka (CBSL 2000-2021). As per CBSL (2000-2021) of 2019 and 2020 the unemployment rates were 5.8 per cent and 4.35 per cent respectively. That means unemployment increased 1.53 per cent in Sri Lanka. As a result of the aforementioned circumstances, the unemployment rates are likely to further increase. This means that underlying problems related to unemployment in the economy of Sri Lanka needs to be addressed. Consequently, this study examines the impact of unemployment on economic growth in Sri Lanka.

Objective

The purpose of this study is to examine the impact of unemployment on the economic growth of Sri Lanka. Further, this study differs from existing empirical studies and contributes to the literature in three ways. Firstly, the present study has been conducted for a longer period using quarterly data employing the Granger Causality and Vector Autoregression (VAR) model than previous studies relevant to this field of research. The use of quarterly data rather than yearly data permits the identification and unambiguous observation of the influence of unemployment on economic growth from frequent points. Another point to consider is that the current study would be beneficial for any researcher or any stakeholder in this field to better understand the prevailing issue.

Secondly, most of the studies have examined the relationship between unemployment and economic growth but only a few have focused on its impact. In the Sri Lankan aspect, limited studies have been conducted in this context. Most of the studies examined economic growth based on other variables. Besides, to the best of the researchers' knowledge, empirical research of this scope using two decades of data has not been conducted in recent history. Therefore, this study significantly contributes to the empirical literature as the latest research on this topic and uses data from 2000 to 2021. Thirdly, this study is timely, as it discusses the economic instability triggered by the Covid-19 pandemic and the associated rise in unemployment. Finally, this study enables

policymakers to validate the impact of current and previous policy initiatives on Sri Lanka's unemployment behaviour and economic expansion.

LITERATURE REVIEW

Researchers investigated scholarly articles from numerous reputable sources to conduct a quality literature review in the preliminary stages of this study. Quality research publications were obtained through Science Direct, Wiley Online, Emerald Insight, JSTOR, Springer, SAGE, Research Gate, and Google Scholar using the search keywords impact or relationship, unemployment and economic growth, GDP, Granger causality and the VECM, as illustrated in the flow diagram in Figure 1. Furthermore, a screening process was carried out to monitor the irrelevant publications among the 117 articles initially detected using the aforementioned sources. Consequently, 46 publications were discovered as eligible for the study to be conducted; besides, these may be considered quality publications for achieving the study's goal of examining the impact of unemployment on economic growth in Sri Lanka.

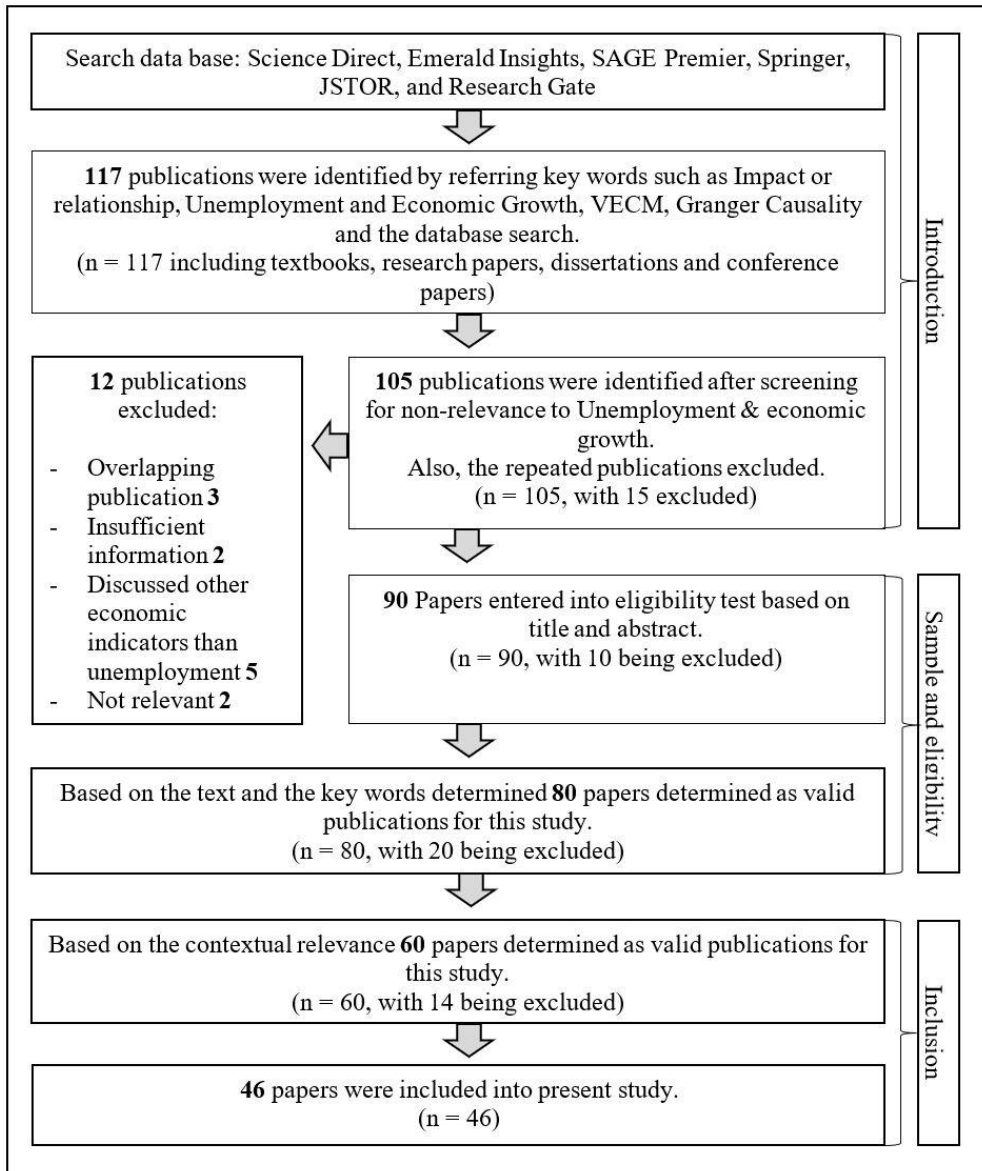
As a major macroeconomic factor in the economy, unemployment is the category of people who are included in the workforce, not employed but are willing to work, and have taken action to get a job. Loss of workers output, loss of economic output and taxation by the government are ill effects of unemployment. As Pehkonen (2000) identified, unemployment is divided into four categories: Seasonal, Frictional, Structural and Cyclical unemployment.

Further, scholars have presented the impact of unemployment and economic growth from different perspectives. As stated by Kukaj (2018) and Mustafa (2019), there is a trade-off between unemployment and economic growth in the West Balkan countries which have a high unemployment rate, and when unemployment rises to 1 per cent, economic growth slows to 0.5 per cent. Contrastingly, Banda et al. (2016) pointed out that in South Africa, when economic growth increases by 1 per cent, unemployment increases by 0.0609 percent. Further, Bartolucci et al. (2018) and Fanati and Manfredi (2003) asserted that the impact of unemployment and economic growth, both negative and positive, depends on the relative cost of controlling for employed and unemployed individuals and the level of unemployment benefits. As such, there will be a mixed impact either negative or positive based on the economic environmental factors.

Empirical studies have revealed some essential findings on the relationship between economic growth and unemployment. Dogru (2013), Alhabees and Rumman (2012), Gachunga and Kuso (2019) and Chen et al. (2016) indicated that most European nations and Arabic countries have evidence of unemployment and demonstrated that real output and unemployment rate have a long-term relationship. In both the short and long run, the unemployment rate positively influences economic growth. As per Muscatelli and Tirelli

(2001), most economies have a negative relationship between unemployment and productivity in labour development.

Figure 1: Literature Search Flow Diagram



Source: Based on authors' observations.

Moreover, Yii and Geetha (2017) revealed the analysis that estimates the Granger causality test model selection and further exposes constricts with regard to country's macroeconomic expansions. Additionally, several studies in past literature have determined the direction through Granger causality. Akeju and Olanipekun (2014) and Mathavan and Padder (2021) examined the Granger causality and found that the

unemployment rate had an insignificant impact on economic growth and a growing tendency for both variables. Either way, it appears that economic growth is not sensitive to unemployment and unemployment is not sensitive to economic growth. Moreover, employing this method Suleiman et al. (2017) and Alhdiy et al. (2015) found that a unidirectional causal link exists between unemployment and economic growth. This implies that since the direction is from economic growth to unemployment, unemployment leads to economic growth.

Shabbir et al. (2020) states that the VAR model is more realistic than other econometric models, and the VECM is more relevant in investigating the short-run as well as the long-run impact of proposed variables. Regardless of advantages of VECM, it has many pitfalls as specified by Johansen (1991). Furthermore, as Rath and Akram (2021) and Hanck et al. (2019) emphasise that the inability of imposing economic structures depends on the cointegration vectors and whether the dataset is stationary or not. Conversely, Luukkonen et al. (1999) revealed the necessity of the normalisation test if there is an existence of cointegration. Furthermore, when variables check-in a symmetrical way, the Johansen normalisation test can overcome the implications attached to the study's outcome.

Further, empirical studies of Andrei and Andrei (2015), Lutkepohl et al. (2000) and Johansen (1995) using VECM and the VAR to investigate the impact of unemployment on economic growth, emphasise that the individual coefficients of differential terms capture short-term impact; in addition, the coefficient of the VECM variable captures the impact and provides information on whether the previous values of the variables affect the current value. Moreover, Thayaparan (2014) explored that in Sri Lanka, both economic growth and inflation have had a negative and significant impact on the unemployment rate. Specifically, the analysis revealed that inflation only reduces unemployment significantly, while economic growth has a positive but insignificant influence on unemployment. The VAR revealed the long-run equilibrium between economic growth and the unemployment rate. Chang (2007) elaborated the negative effect of economic growth on the unemployment rate.

Besides studies based on the VECM, several studies employed many analytical tools and methodologies to examine the relationship between unemployment and economic growth. The study conducted by Akutson et al. (2018) using the Auto Regressive Distributed Lag (ARDL) model implied that there was no long-term relationship between Nigeria's unemployment rate and economic growth. Similarly, Abeti and Karikari-Apau (2019) have affirmed that the unemployment rate has a short-term and long-term relationship with the pace of economic growth in China. In addition, using Ordinary Least Square (OLS) to determine how different segments of economic growth affect Ghana's unemployment rate, Adarkwa et al. (2017) asserted that the service sector has a negative impact on unemployment.

Additionally, Gabrisch and Buscher (2006) and Ibragimov and Ibragimov (2016) Okun's law estimation by referring to OLS regressions proved an inverse relationship between unemployment and economic growth in Commonwealth of Independent States countries and European Countries. According to Gonzalo (1994) and Sadiku et al. (2015) in a fully specified Error Correction Model (ECM), the maximum likelihood has demonstrably superior qualities than the other estimators. Similarly, Tenzin (2019), Mohseni and Jouzaryan (2016), Bhavan and Shiyalini (2021) and Kostov (2017) investigated the significant and negative impact of inflation and unemployment on economic growth in the long run, while exemplifying that inflation and unemployment have contributed to the slowdown in economic growth.

Moreover, necessary findings have been made through studies examining other factors affecting economic growth in addition to unemployment. As such Quy (2016) and Chu et al. (2021) claimed that mainly public investment positively impacts economic growth. Furthermore, poverty, exports and imports have been identified as factors that have a negative impact on unemployment. According to Garang et al. (2018) and Bala et al. (2020), there is no statistical evidence that Foreign Direct Investments (FDI) plays a significant role in boosting economic growth and reducing unemployment. Therefore, it shows that short-term and long-term dynamics have no statistically significant relationship. On the contrary, Fung et al. (1999) and Omofa (2017) implied that more FDI has a positive or negative impact on the economy's dynamics, such as urban unemployment, economic growth and social welfare.

As unemployment decelerates the growth of the economy as a macroeconomic problem, there is potential for the economy to directly intervene in the country's policy implications to change this circumstance. Accordingly, Makaringe and Khobai (2018) and Banda et al. (2016) emphasised that the South African government, with a vast job deficit created a conducive environment and flexible labour market policies. In addition, Jibir et al. (2015) has proposed that reduction of unemployment boosts economic growth but this can only be achieved by improving labour productivity through training and acquisition of advanced skills required by the contemporary industry.

Many empirical studies are based on developed countries and the environmental changes in those economies. Hence, the relevance of findings is questionable in the context of developing countries. In light of the above, this article is a pioneer in examining the impact of unemployment on the economic growth of Sri Lanka as a developing country.

DATA AND METHODOLOGY

Data

The unemployment rate (UNE) and economic growth (GDP) from Q1 of 2000 to Q4 of 2021 were used in this study. The required quantitative secondary data was gathered from

the CBSL and the Department of Census and Statistics (DCS). STATA SE 12 was used as the analytical tool to estimate the model.

Methodology

In the proposed econometric model, VECM was used to analyse the long-run and short-run impacts of the UNE on GDP. The methodology discusses salient aspects along with the relevant equation and theoretical explanations to admit the relevancy of referring to the VECM. In addition, VECM is the basic VAR model that contains error correction terms within the model specification. The VECM is built based on the existence of one cointegration relation when variables are non-stationary. Consequently, the model will further specify the variables' movements away from the long-run equilibrium. Besides, the model will capture short-run impacts from individual coefficients of unemployment and economic growth. Further, the VECM will emphasise how past values of UNE and GDP impact on present values of UNE and GDP. The differenced values are estimated and added into the model equation since UNE and GDP are not stationary in the initial levels though stationary in first differences. Based on these, the general equation for the VECM for UNE and GDP can be expressed as follows:

$$\Delta Y_t = a_1 + \sum_{i=1}^{k-1} \beta_{11} \Delta Y_{t-i} + \sum_{i=1}^{k-1} \beta_{12} \Delta X_{t-i} + \lambda_1 ECT_{t-1} + u_{1t} \quad (1)$$

where:

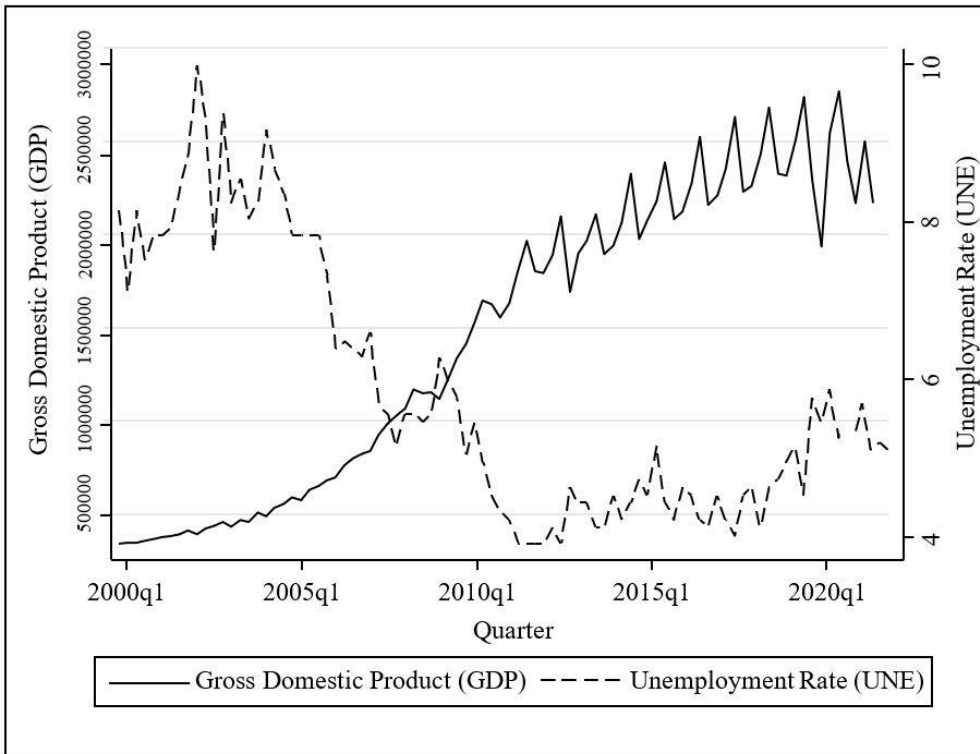
- ΔY_t - Change in value of the dependent variable y from period t - 1 to period t
- ΔX_{t-1} - Change in value of the independent variable x from period t - 2 to period t-1
- a_1 - Dependent variable is constant
- $k - 1$ - Lag length reduced by 1
- β - Short-run coefficient
- λ_1 - Speed of adjustment
- ECT_{t-1} - Error correction term which further explain the long run information
- u_{1t} - Residuals

The VECM specifies the short-run and long-run impact with a widespread form of error correction term as stated by Shabbir et al. (2020). Additionally, the non-uniqueness of vectors is problematic when determining test results, but there are many alternative tests, as stated by Johansen (1991).

RESULTS AND DISCUSSION

There are several investigations employed with the VECM. Before investigating the impact, fluctuations in both unemployment and economic growth for the selected period was evaluated through the graphical illustration. Figure 2 shows the significant changes in both UNE and GDP over the period of Q1 2000 and Q4 2021 in Sri Lanka.

Figure 2: Graphical Representation of Changes between Unemployment and Economic Growth



Source: Authors' illustration based on CBSL (2000-2021) and DCS (2000-2021).

As investigated, there are significant changes in both UNE and GDP over the period of Q1 2000 and Q4 2021 in Sri Lanka, the UNE increased to the highest peak of the data set in Q2 2002 reaching 9.8 per cent and the GDP value decreased rapidly to 7.5 per cent in the Q4 2022. That means graphical illustration clearly demonstrate how changes in UNE has impacted GDP over period.

Test

Converting the non-stationary time series data into stationary data is essential in conducting the VECM. The time series plot estimates both variables as non-stationary. Therefore, the time series plots with first differenced conscripted and the numerous irregular upwards and downwards changes concluded UNE and GDP as stationary.

It was further confirmed through the Augmented Dickey Fuller (ADF) test. According to Rath and Akram (2021), the importance of focusing on the unit roots is to know whether the unit roots exist in time series data or not, which has consequences for econometric models. According to the ADF findings the non-stationary null hypothesis can be rejected. The t-statistics of the first differences (Δ UNE and Δ GDP) between UNE and GDP are less than the critical value of 5 per cent and hence, determined as stationary. The

DF-GLS test is used to confirm whether the variables are integrated and their differences are stationary, as stated by Hanck et al. (2019). In this study the null hypothesis of unit root can be rejected at all significance levels as t-statistical values of Δ UNE and Δ GDP are -11.1774 and -5.5834 respectively. Ultimately, it allows the study to examine the impact of UNE on GDP of Sri Lanka.

Granger Causality Test

To assess the causation between UNE and GDP in Sri Lanka, the Granger causality test utilised was primarily concerned with identifying the nature of the causality between the two variables.

Based on 0.0174 valued *p*-value of UNE (Table 1) the null hypothesis that "UNE lagged values does not cause GDP" can be rejected. But the GDP does not cause UNE as corresponding *p*-value (0.4413) is higher than 0.05 significance level. Thus, Gachunga and Kuso (2019) investigated the unidirectional causality existed from UNE to GDP by utilising the Granger causality test where only UNE cause on GDP.

Johansen Cointegration and VECM Test

By obtaining the confirmation of the cause of UNE on GDP, the impact can be investigated through the proposed model. Therefore, the model used to investigate the impact of UNE on GDP depends on whether the variables are cointegrated or not.

As Banda et al. (2016) insist, before determining the long and short run coefficient for the Johansen approach, the maximum number of six optimal lags in the lag length of the lag order and the definite tendencies of the VAR were identified through Akaike Information Criterion of VARSOC as per Table 1.

Therefore, cointegration is measured by the trace statistics and eigenvalue statistics performed by Johansen Cointegration. When trace statistics and eigenvalue statistics provide dissimilar results, Lutkepohl et al. (2000) suggest that trace statistics be more robust than eigenvalue statistics. The null hypothesis of one cointegration vector cannot be rejected because trace max statistic (2.2342) is less than the critical value of 5 per cent (3.76). Hence, the regression result indicated that there is one cointegration. According to Andrei and Andrei (2015), when variables have one or more cointegrating vectors, the VECM could be employed to adjust changes in the short run and deviations from equilibrium.

Two outcomes can be yielded through the VECM to check the impact of UNE on GDP. As per the Table 1, -0.1290 is the error correction term and 0.3638 is the standard error which will engender Z-statistic of -3.55. The negative error correction term and *p*-value (0.0000) will result in a significant estimation. That means, at the rate of 129 per cent, the speed of adjustment generated towards a long-run equilibrium.

Table 1: Results of Granger-Causality Test, Johansen Cointegration, VECM and Johansen Normalisation

Granger-Causality Test				
Null Hypothesis		p-value		
Lagged UNE does not cause GDP		0.0174**		
Lagged GDP does not cause UNE		0.4413		
Johansen Cointegration Test				
Maximum Rank	Max Trace	Max Eigenvalue	Critical value	
I (1)	2.2342	0.23146	3.7602 **	
VECM Test (Chi square – 0.0000)				
Regressors	Coefficient	Standard Error	Z-Statistic	p-value
Δ GDP	-1.2902	0.3638	-3.5501	0.0000
UNE	18,215.5343	28,781.9112	0.6322	0.5272
Johansen Normalization Test				
Regressors	Coefficient	Standard Error	Z-Statistic	p-value
GDP	1	.	.	.
UNE	511,175	44,986.5612	11.3632	0.0000

Notes: ** indicates significance at 5 per cent, I (1) indicate 1cointegrating vector, Δ is the first difference.

Source: Authors' compilation based on CBSL (2000-2021) and DCS (2000-2021).

Secondly, the short run impact of UNE on GDP must be considered through the Δ GDP adjustment coefficient. It can be determined based on the lags of UNE. The coefficient and insignificant p -value of lags of UNE explain that there is no possibility of explaining GDP. However, there is a possibility of rectifying the instability that occurred from one period to another period as revealed by Johansen (1991). Through the post estimation test checks the null hypothesis can be rejected as the probability Chi square indicates zero. This further explains that the lags of UNE are zero where the UNE causes a significant impact on GDP. The short-run estimation of VECM exhibits that UNE has a negative impact on GDP.

The Johansen normalisation restriction-imposed test assesses the long-run impact of UNE on GDP. The revised signs of coefficients in Table 1 can determine the exact impact of UNE on GDP in long run. The coefficients are statistically significant at the 1 per cent level. The Z-statistic is 11.36 and the p -value is below 5 per cent which elaborate the test as relevant to predict movements of UNE and GDP in long run from -511,175. Contrastingly, Luukkonen et al. (1999) revealed the restrictions attached to the cointegration equation but findings implied some criticisms to the normalisation test due to lack of theoretical counterparts and regarded as a meaningless test. But it can be rectified by investigating the stability of the VECM.

Normality and Stability Tests for Autocorrelation

The Lagrange-Multiplier Test (LM test) was used to check whether the errors are normally distributed and the VECM estimations are stable, respectively.

Table 2: Results of Autocorrelation Test, Normality Test and Stability Test

Lagrange-Multiplier Test (Autocorrelation Test)						
Lags	1	2	3	4	5	6
<i>p</i> -value	0.6145	0.5238	0.3609	0.0914	0.5192	0.1736

Jarque-Bera Test (Normality Test)		Eigenvalue (Stability Test)	
Equation	<i>p</i> -value	Eigenvalue	Modulus
GDP	0.0000**	0.9845	0.9845
UNE	0.0000**	-0.9634	0.9634

Notes: ** indicates significance at 5 per cent.

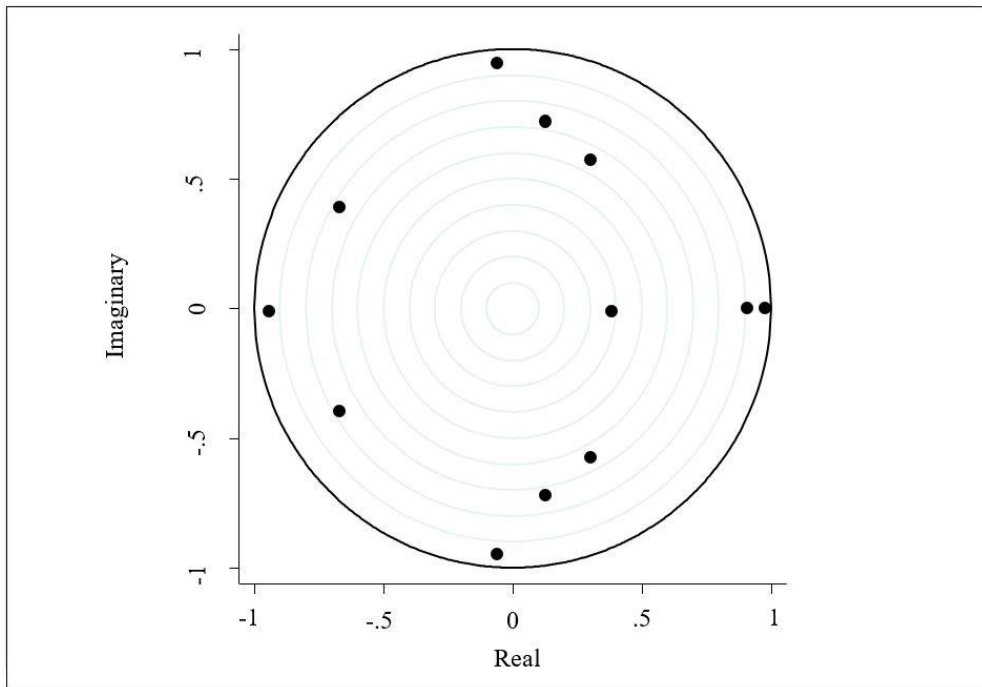
Source: Authors' compilation based on CBSL (2000-2021) and DCS (2000-2021).

The finite-sample bias in parameter estimates can be significantly increased and a sequential correlation can be made by underspecifying the number of lags in a VECM (Gonzalo 1994). According to the Table 2, there is no autocorrelation at the lag order because *p*-values of lags are higher than the 5 per cent significance level. Thus, it cannot reject the null hypothesis at the 0.05 level. As a result, there is no indication of model misspecifications in the LM test.

Moreover, according to the results of the Jarque-Bera test, the null hypothesis can be rejected since the *p*-values of GDP (zero) and UNE (zero) are less than 0.05 level. According to the stability test results, there is a real root at around one. Even though there is no distribution theory to determine how close that root is to one, according to Johansen (1995), the first root of 0.9845 as illustrated in Figure 3 of this study was able to conclude that the predicted cointegrating equation has more possibility to be stable. However, IRF test confirmed the results generated in the previous modelled analysis as UNE impact on GDP.

Overall, the Δ UNE and Δ GDP series are stationary and revealed the unidirectional causality of UNE on GDP. Furthermore, the VECM test was able to be conducted as Johansen Co-integration test results show that those variables are one co-integrated and revealed that UNE has a significant negative impact on GDP both in the short and long term.

Figure 3. Roots of Companion Matrix



Source: Authors' compilation based on CBSL (2000-2021) and DCS (2000-2021).

CONCLUSIONS

This research study explained how unemployment impacts Sri Lanka's economic growth over the period Q1 2000 to Q4 2021. The Granger causality test findings endorsed a unidirectional causal relationship between unemployment and economic growth, implying that unemployment causes economic growth whereas economic growth does not have a causal effect on unemployment. Since unemployment and economic growth are co-integrated, this study utilised VECM to determine the impact of unemployment on economic growth. Based on the findings of VECM, it illustrated that the behaviour of unemployment disrupts the economic growth and has a considerable significant negative impact on economic growth in Sri Lanka both in the short and long run from the year 2000 to 2021. Consequently, the economy should focus primarily on the impact of unemployment on economic growth and ensure a stable unemployment rate to establish sustainable economic growth.

Policy Implications and Recommendations

As in many other economies, the mismatch between job requirements and employee skills is a cause of rising unemployment in Sri Lanka. The fundamental reason for this disparity, according to this study, is that despite a large number of job opportunities in the Sri Lankan economy, the workforce lacked adequate or current job skills. Apart from that, as

the Covid-19 continues and rapidly spread countrywide from time to time with variants, the government and the health sector too continue and enact revised health regulations. Under these conditions, restricted mobility still impends opportunities for employment. In these circumstances, the enterprise' revenue stream had a significant impact due to a shrink in the country's economic production and contraction of the manufacturing and services sectors. Accordingly, many citizens have lost their jobs, leading to a rise in its unemployment rate. As a result of these phenomena, policymakers must promote existing entrepreneurship in the country and combine these with the introduction of new entrepreneurial avenues to stimulate economic growth while maintaining a steady unemployment rate. As such, policymakers need to concentrate on creating a business environment and flexible labour market policies that have the potential to attract diverse corporate sectors. Finally, the study's policy recommendations are expected to contribute significantly to creating new jobs and existing employment opportunities in Sri Lanka.

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