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# POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

## Demographic Challenges of an Ageing Asia

### SRI LANKA STATE OF THE ECONOMY 2014

Rising Asia:  
Opportunities and  
Challenges for Sri Lanka



Asia is the fastest growing region in the world. Despite the region being successful in terms of economic development, challenges that could impede this growth momentum still remain. One such challenge is the rapid demographic changes the region will experience over the next few decades.

With the elderly population projected to reach 922.7 million in 2050, Asia is on track to become the oldest region in the world. A rapidly ageing population could be a drag on economic growth, especially due to the substantial increases in age related expenditure including healthcare and social welfare. In addition, a shrinking working age population would create labour supply shortages, and have an adverse impact on total factor productivity which would have a detrimental effect on GDP growth.

Similar to many East Asian countries, Sri Lanka is also currently undergoing a rapid demographic transition.

### Demographic Dividend in Sri Lanka

Sri Lanka experienced the demographic dividend much earlier than the other South Asian countries. Currently, the country is at the tail end of the phase, which is expected to end in 2017. With Sri Lanka having the highest proportion of elderly population in South Asia, the country will then be faced with a rapidly ageing population. It is projected that by 2031, the elderly population of Sri Lanka will reach over 20 per cent of the total population, and will further increase to a point where one in every four persons in Sri Lanka will be elderly by 2041. With this, the proportion of the working age population which reached its peak in 2006 (65.1 per cent) will continue to fall over the coming decades.

### Issues, Challenges and Policy Options for Sri Lanka

As Sri Lanka experiences a demographic transition, the country will face several economic and social challenges, specifically in handling the social protection and health care needs of a rising elderly population. In addition, Sri Lanka will also have to address the implications of a shrinking workforce on the growth of the country.

With a significant increase in the elderly population in the coming decades, it is crucial to improve the current social protection programmes for elders – particularly in terms of coverage, level of benefits, programme design and sustainability. Currently, only around 40-50 per cent of the elders are covered under

In Sri Lanka, 60+ population is expected to double between 2011 and 2041



some form of social protection or old-age benefit programmes like pension schemes, provident funds or monthly cash transfers. However, the number of pensioners and expenditure on public sector pensions has increased in recent years, and at present, expenditure on public sector pensions accounts for about 1.5 per cent of GDP. Given that the overall coverage of social protection programmes for the elderly is low, and the available monthly cash assistance programmes are limited in coverage as is the size of the benefits, measures are required to improve coverage and benefits to ensure effective social protection for the elderly.

With the onset of rapid ageing, Sri Lanka will have to make adjustments to its health care system to accommodate the growing health care needs of the elderly. Expenditure on non-communicable diseases (NCDs) is presently a major component of health care expenditure in Sri Lanka. It is expected to rise further, as the prevalence of NCDs increase with population ageing. While Sri Lanka has a prevention-based strategy to combat NCDs, cost-effective management of NCD patients is limited in the health care system. This is due to under-financing and having limited access to cost effective medication to manage NCD patients. Therefore, a prevention-based strategy will have to be combined with a sufficient increase in public funding to effectively manage NCDs. In addition, increasing health insurance coverage would be important to reduce the burden on state finances.

The demographic transition in Sri Lanka will affect the labour force of the country as well. The labour force of Sri Lanka increased from 4.5 million to 8.5 million between 1971 and 2012, and is projected to increase to 9.3 million in 2021. However, the absolute size of Sri Lanka's labour force will start to shrink after 2030, and so will the working age population. This decline along with the projected increase in the old-age dependency ratio can have a negative impact on GDP growth. A country with a large dependent population relative to its labour force will, on average, have lower productivity growth – adversely affecting per capita GDP growth. As a country that is facing a shrinking labour force, Sri Lanka should look into the East Asian countries which have implemented policies that increase labour participation rates. The country should look into strategies that will boost the labour force participation rate such as increasing the mandatory and effective retirement age, as well as implementing structural reforms that will improve productivity through effective human capital development as a way of addressing the challenges arising from the rapid ageing of the population and a shrinking working-age population.

**To counter the effects of labour force reduction, Sri Lanka should design policies to increase participation rates, particularly among women and the elderly.**

(This Policy Insight is based on the comprehensive chapter on Demographic Challenges of an Ageing Asia' in the 'Sri Lanka: State of the Economy 2014' – the flagship publication of the Institute of Policy Studies of Sri Lanka. The complete 'State of the Economy 2014' report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143100.)



**INSTITUTE OF POLICY STUDIES OF SRI LANKA**

100/20 Independence Avenue

Colombo 7, Sri Lanka

T: +94 11 2143100 / 2665068, F: +94 11 2665065

[www.ips.lk](http://www.ips.lk)