

## MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

### Regional Economic Outlook

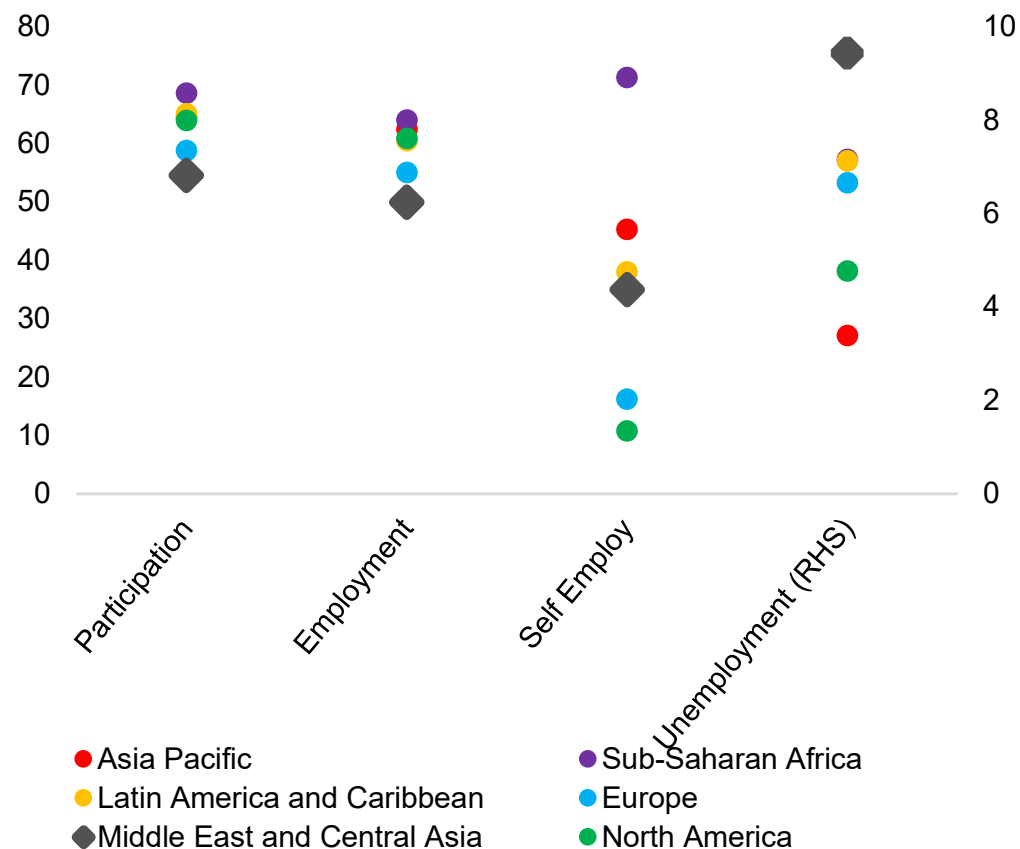
### Chapter 2: Labor Market Challenges during the Pandemic, the Role of Informality, and the Road Ahead

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# Long-Standing Labor Market Challenges of the Middle East and Central Asia (ME&CA) region at the Dawn of the Pandemic

**Figure 2.1. Labor Market Outcomes: 2018-19**  
(In percent)



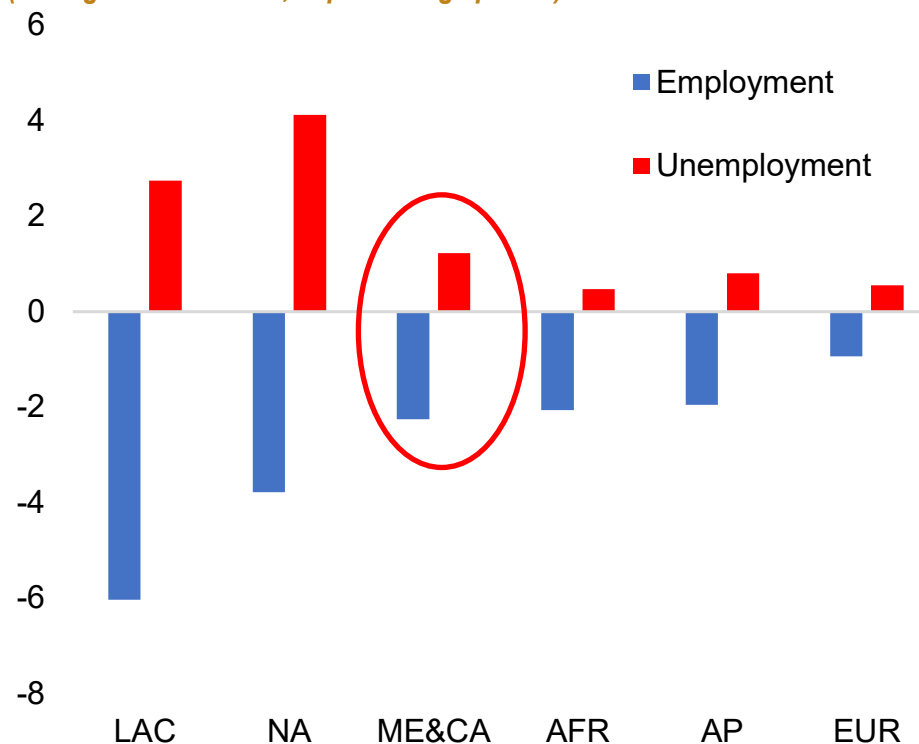
Sources: ILOSTAT; ILO modelled estimates; and IMF staff calculations.

Note: Unemployment is unemployment rate; participation is labor force participation rate; employment rate is employment-to-working-age population ratio; and self-employment is self employment in percent of total employment.

# The pandemic has taken a heavy toll on labor markets globally and in the ME&CA region

**Figure 2.2. Labor Market Outcomes during the Pandemic across Regions**

*(Change from 2018-19, in percentage points)*



Sources: ILOSTAT; ILO modelled estimates; and IMF staff calculations.

Note: Employment is employment-to-working-age-population ratio. Employment and Unemployment is the average change in the indicated variable across countries in the region, calculated relative to its average value over 2018–19. NA refers to North America, LAC to Latin America and the Caribbean, AFR to Sub-Saharan Africa, AP to Asia-Pacific and EUR to Europe.

# The Pandemic's Unprecedented Impact on Labor Markets

**Table 2.1. Labor Market Outcomes Compared to Previous Crises**

	Pre-GFC	GFC	Pre-Oil Shock	Oil Shock	Pre-COVID	COVID
Unemployment rate	9.3	9.0	9.1	9.6	9.0	10.2
Labor force participation rate	50.3	49.9	49.5	49.6	49.7	48.1
Employment-to-working age population ratio	45.3	44.6	44.5	43.8	43.5	41.5
Ratio of total weekly hours worked 1/	42.1	42.2	42.1	42.1	41.6	40.3

Sources: ILOSTAT; ILO modeled estimates; and IMF staff calculations.  
 Notes: All values are median. Pre-crisis is defined as two years before each crisis episode. Covid covers 2020, oil shock 2014-15, and GFC 2008-09.  
 1/ Ratio of total weekly hours worked to population aged 15-64.

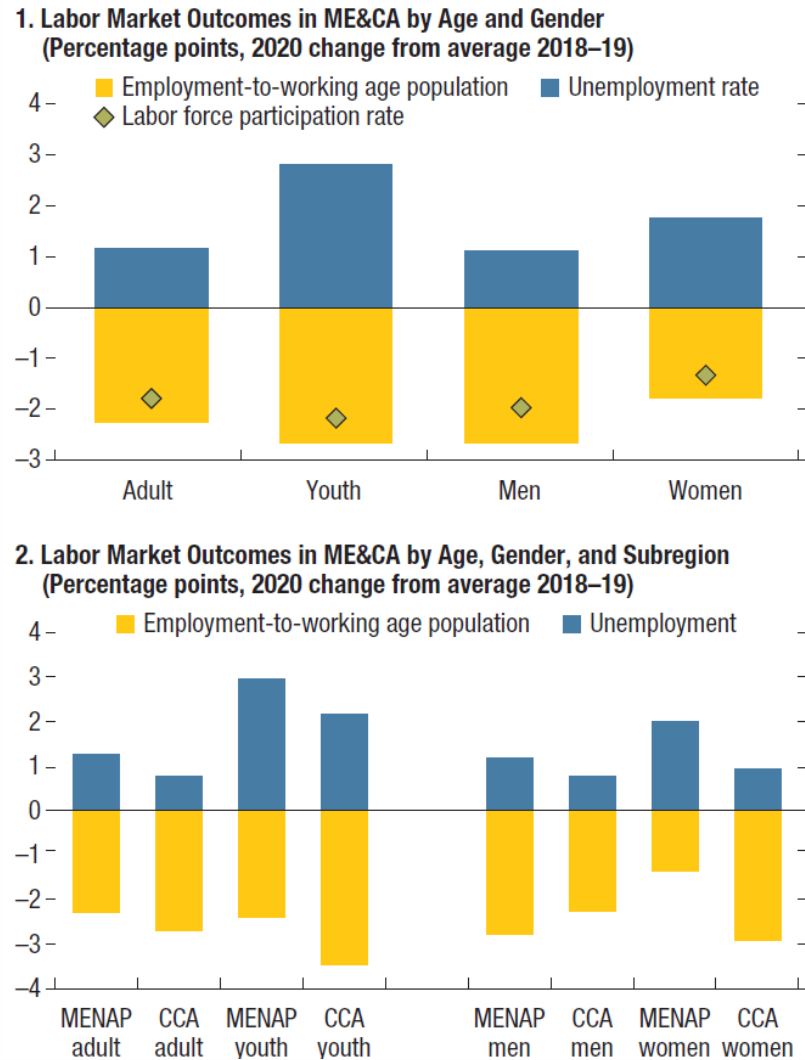
# In contrast to previous economic downturns, informality did not play this time its role as a shock absorber

Figure 2.4. The Labor Market during Downswings and the COVID-19 Shock

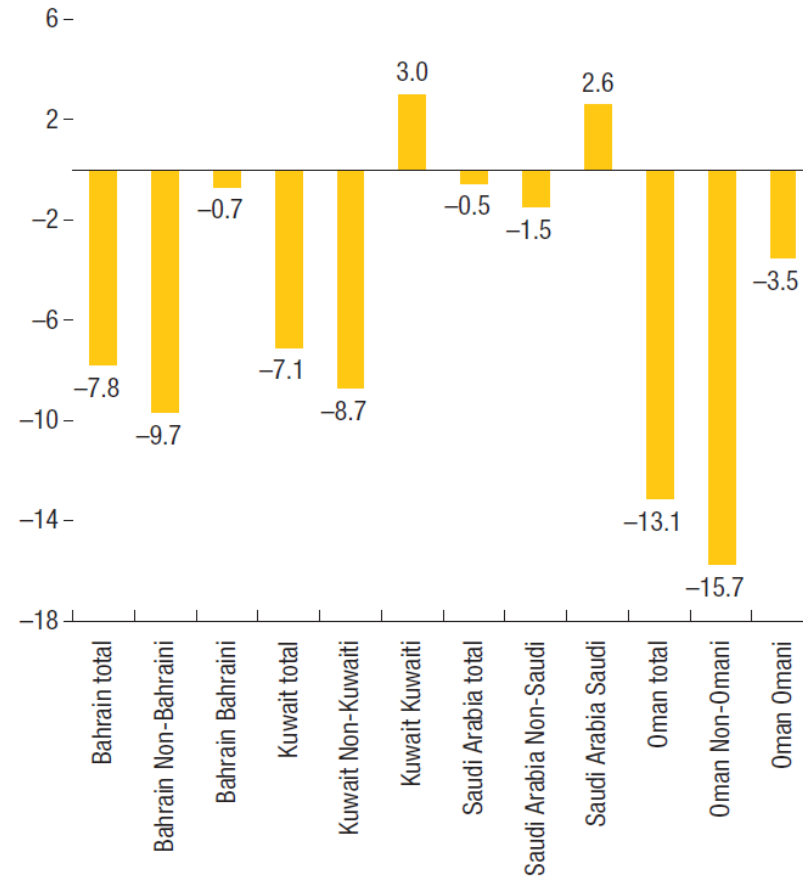


# The most vulnerable have shouldered the pandemic's burden disproportionately, with the low-skilled, the young, women, migrant workers, and informal workers among the hardest hit

**Figure 2.5. Pandemic's Impact on Labor Market Outcomes of Various Demographic Groups**



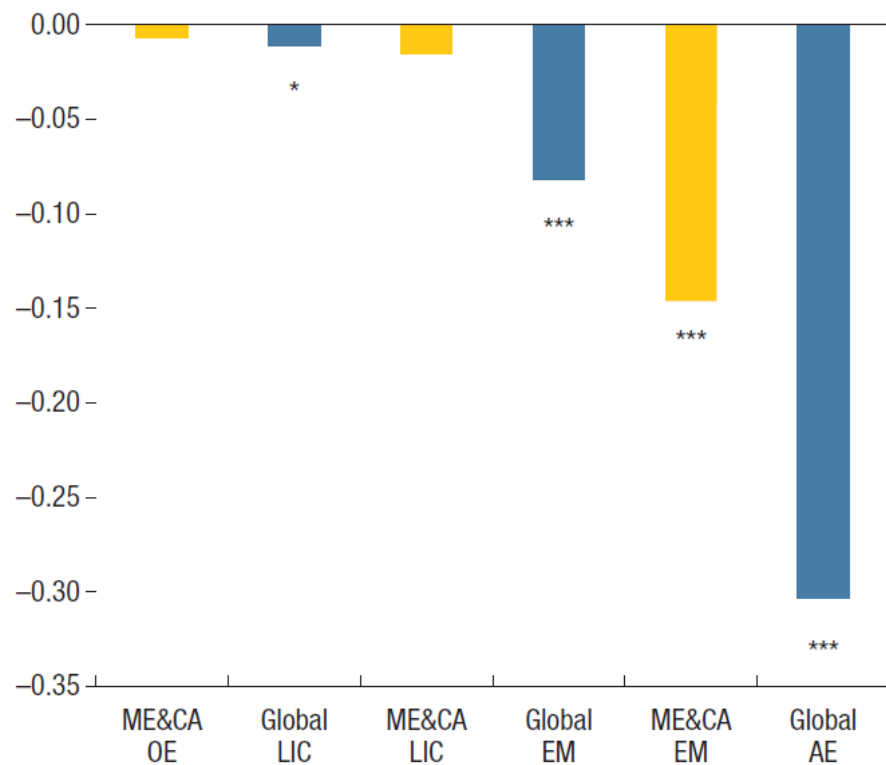
**Figure 2.6. Employment by Worker Nationality**  
(Percent, 2020:Q4/2019:Q4)



Source: IMF staff calculations based on data from national authorities.

# The Sensitivity of Labor Markets to Output Fluctuations Has Been Historically Small in ME&CA

Figure 2.9. Okun's Coefficients from Panel Regressions by ME&CA Economic Groupings and Global Income Groupings



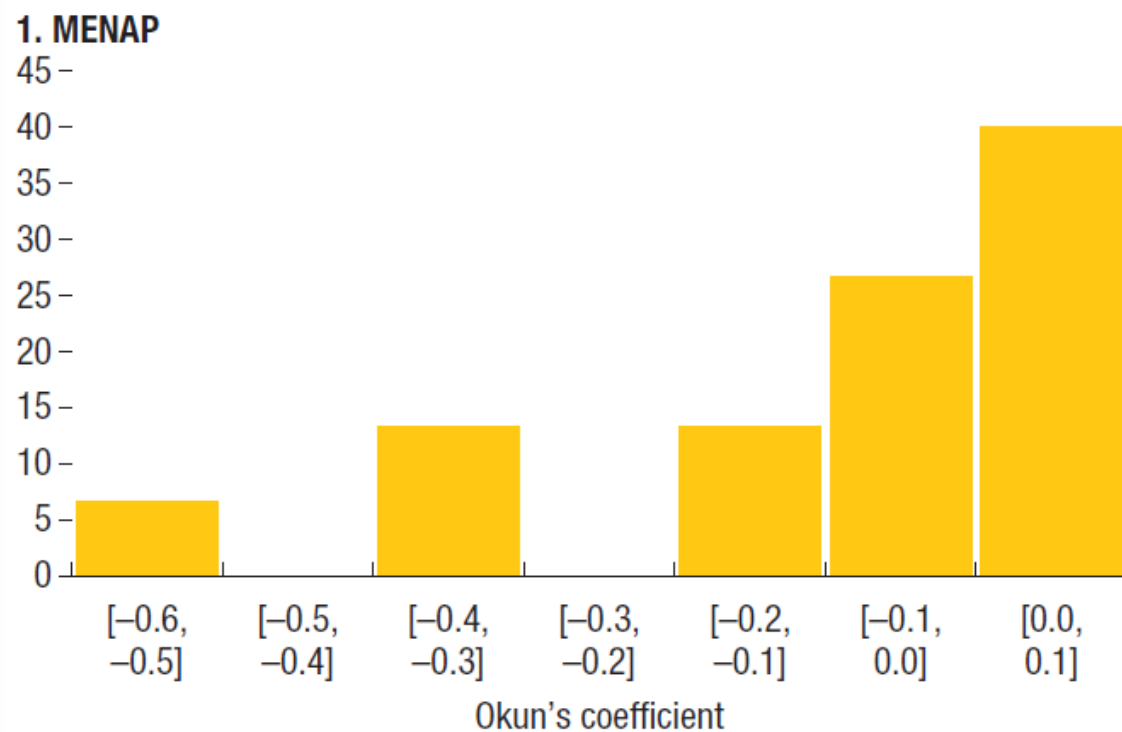
Source: IMF staff calculations.

Note: The bars show the estimated Okun's coefficients from the change specification. AE = advanced economies; EM = emerging markets; LIC = low-income countries; ME&CA = Middle East and Central Asia; OE = oil exporters.

\* $p < .10$ ; \*\* $p < .05$ ; \*\*\* $p < .01$ .

# The Sensitivity of Labor Markets to Output Fluctuations is very Heterogeneous Across MENAP countries

**Figure 2.10. Distribution of Okun's Coefficients by Country**  
(Percent)

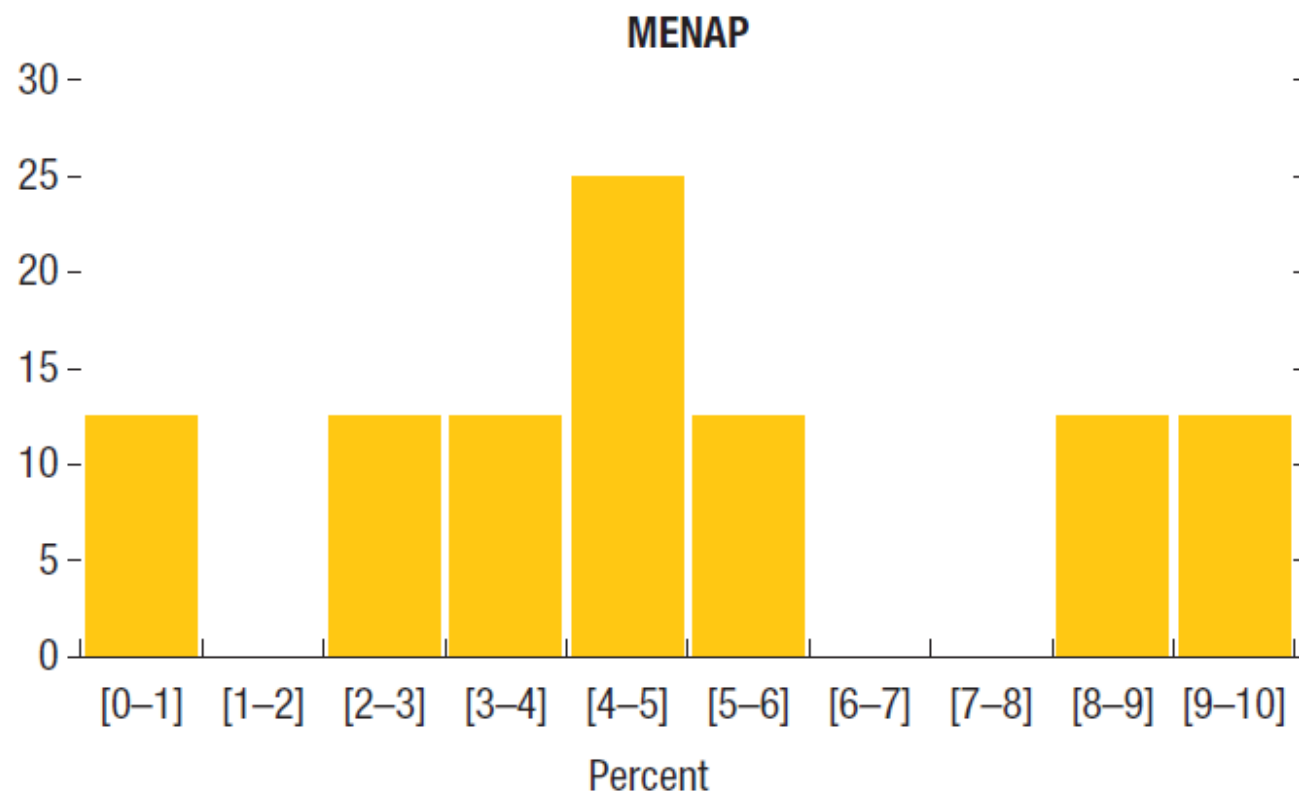




# The Low Sensitivity of Labor Markets to Output Fluctuations Likely Require Very High Growth Rates to Make a Dent in Unemployment (1/2)

Figure 2.12. GDP Growth Consistent with Stable Unemployment Rate and Gap with World Economic Outlook Projections

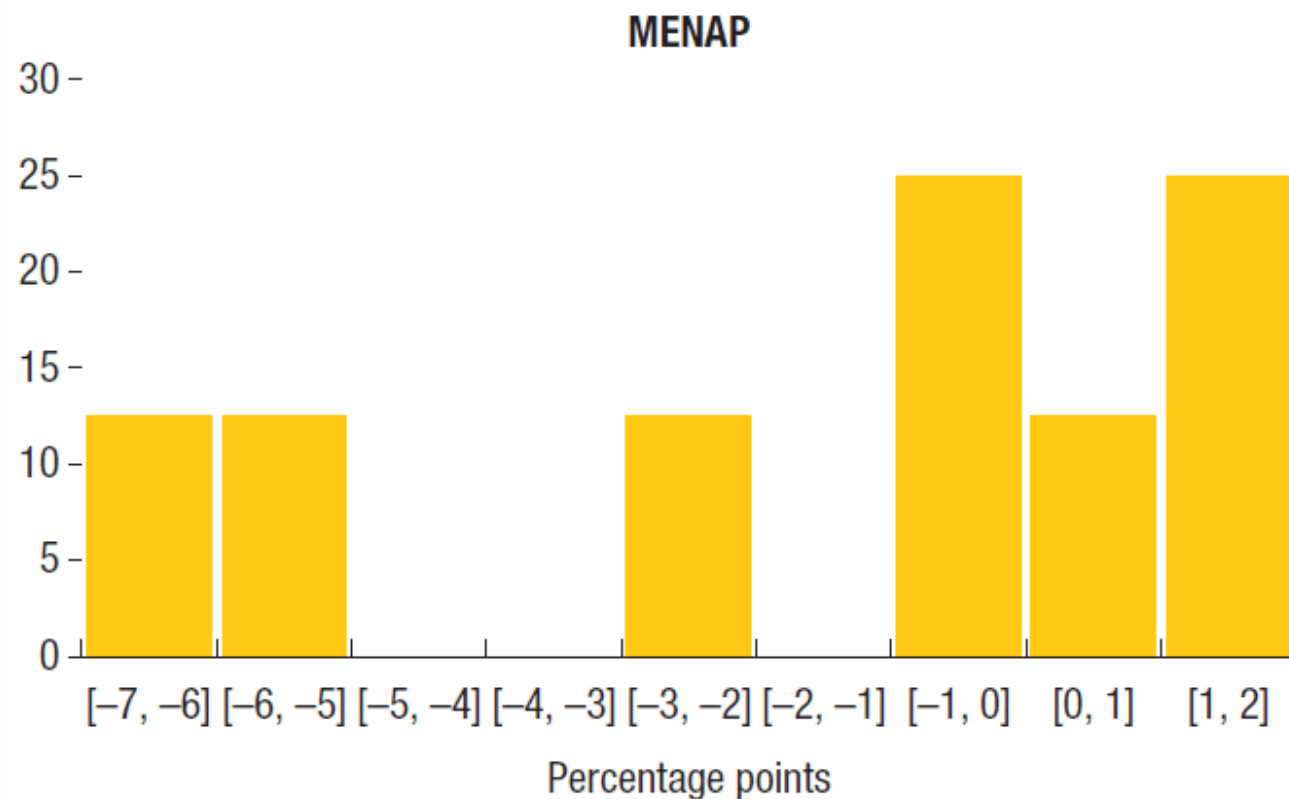
## 1. Distribution of Unemployment-Stabilizing GDP Growth (Percent)



# The Low Sensitivity of Labor Markets to Output Fluctuations Likely Require Very High Growth Rates to Make a Dent in Unemployment (2/2)

Figure 2.12. GDP Growth Consistent with Stable Unemployment Rate and Gap with World Economic Outlook Projections

## 2. Distribution of WEO Projections Minus Unemployment-Stabilizing GDP Growth (Percent)



# The Low Sensitivity Reflects the High Prevalence of Informality and Other Institutional Features

Figure 2.13. Okun's Coefficients and Structural Variables



Sources: IHS Markit; World Economic Forum, Global Competitiveness Report, Executive Opinion Survey; ILOSTAT, ILO modeled estimates; UNESCO Institute for Statistics; World Bank, World Development Indicators; and IMF staff estimates.

Note: Larger values for bureaucracy and bribery indicate better outcomes/ratings (that is, lower costs). All results are statistically significant at the 10 percent level or less (that is, 5 or 1 percent).

## **Policy Actions Towards and Inclusive Recovery**

- Closing social safety gaps and supporting vulnerable groups
- Recalibration of crisis-related labor market measures
- Policies to minimize the risks of scarring
- Structural policies to increase the responsiveness of employment to growth and boost potential growth

**Thank you**