

The Regional Report on Jobs and Growth in North Africa

“Presentation of the main macroeconomic indicators, labor market trends and the impact of COVID-19”

Prepared by:

Abdel-Rahmen El Lahga (Tunis University)

Sofiane Ghali (Tunis University)

Yamen Hlel (National Institute of Statistics)

Date: June 2021





Economic growth and labor market characteristics in Tunisia



Motivation and objective of the chapter



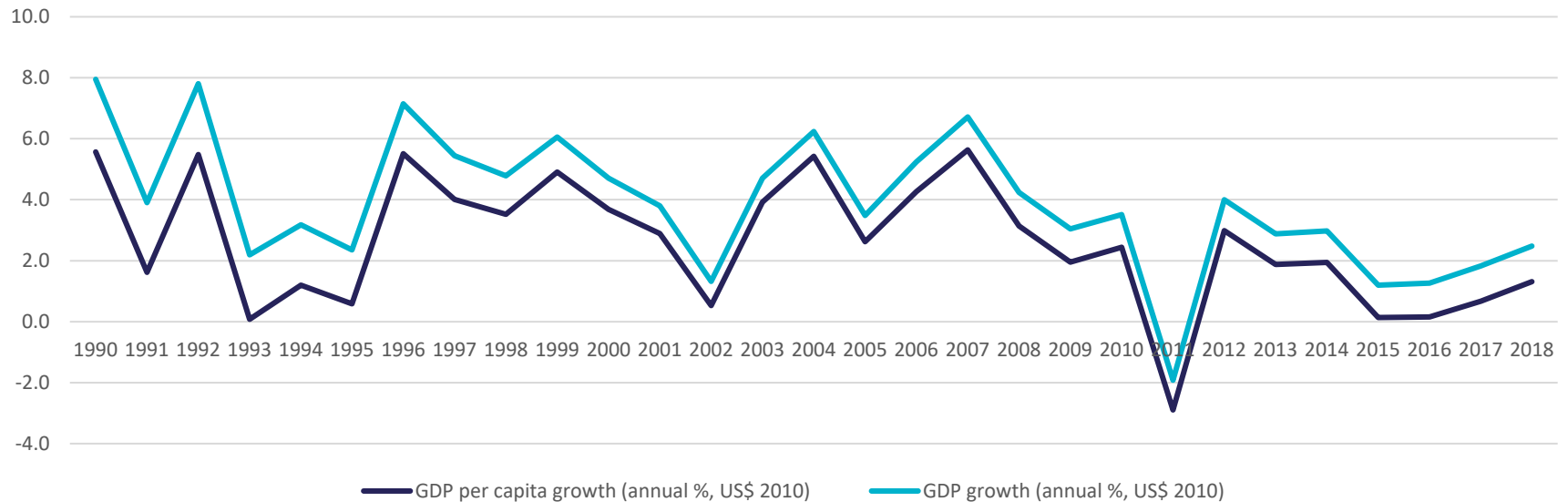
- The performance of the Tunisian labor market is disappointing. Growth has been steady with significant fluctuations, but the problem of unemployment and the quality of jobs created are still at the heart of the national debate.
- The central and most pressing question is why the Tunisian economy is not able to create enough decent jobs?
- Our chapter attempts to shed some light on Tunisia's employment performance and growth patterns over the past two decades in order to help answer our central question.

Economic context: Growth on target, but below expectations.



Before 2011, growth was there but the country's potential was weaker, hampered by several problems. The structural problems economy have been aggravated over the past decade by:

- The difficult political transition
- The slowdown in growth of extractive industries.
- Business climate deterioration
- The recent COVID-19 crisis.

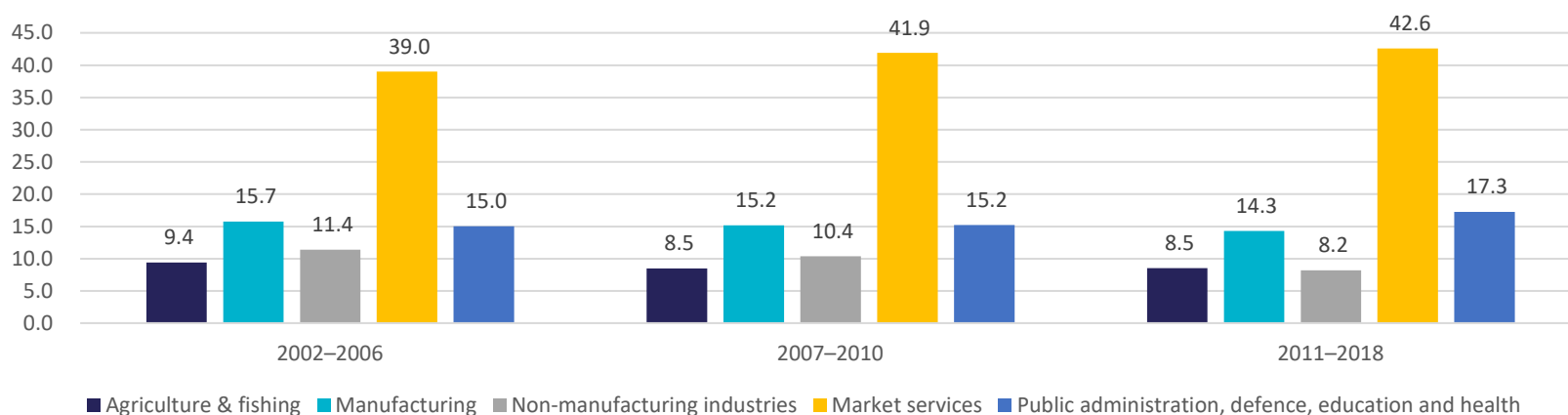


Relatively stable composition of GDP with declining manufacturing's share



- The distribution of the value added by sector shows that the services sector (market and non-market) represents nearly 60 per cent of GDP over the last decade. However, the growth of some service industries (e.g. finance) was not sufficient to transform the structure of GDP.
- The share of non-manufacturing industries has declined significantly, due to social unrest in the phosphate and petroleum industries.
- The share of agriculture has remained relatively stable in the economy.
- Deindustrialization and weak structural transformation of the economy. Productivity gains have been primarily within sectors rather than across sectors.

GDP decomposition, by sector (constant 2005 prices):





Key drivers of this poor performance

- Difficult labor mobility between sectors: complex regulations, weak training and reintegration policy.
- Significant drop in labor productivity (from an average of 2 per cent in 2002-2010 to 0.7 per cent in 2011-2018). The decline affected nearly all sectors, except agriculture.
- Low rate of investment (public and private): overregulation of the economy's recent difficulties.
- Low contribution of the financial sector in the financing of the economy: sector inefficiency and lack of competition.



Labor market

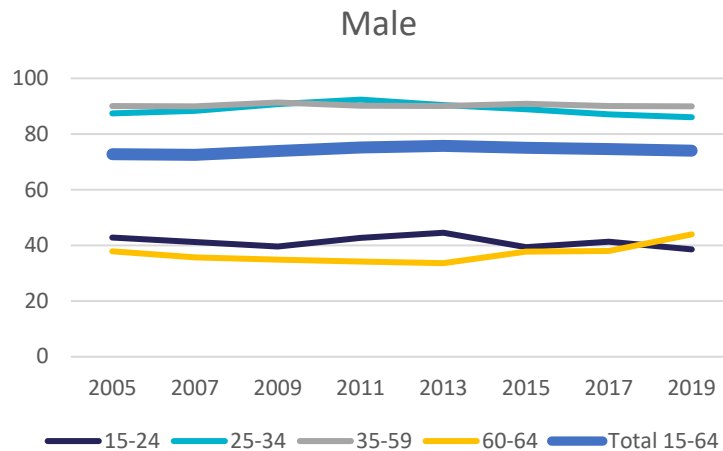
- Main characteristics
- Main dysfunctions

Underutilization of Human Resources



- Low labor force participation (LFP) of the working age population (52 per cent)
- Very low female LFP (27 per cent)
- Education and age strongly influence female LFP: (i) high reservation wage for the less educated, (ii) social standards, (iii) low geographical mobility, etc.
- Fairly high NEETS population.

Labour Force Participation rates

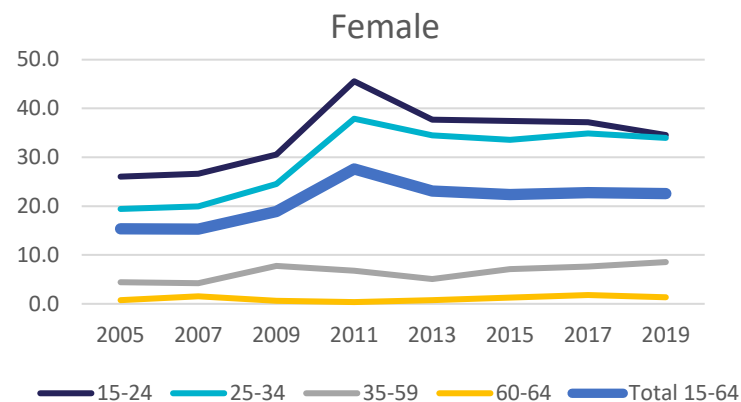
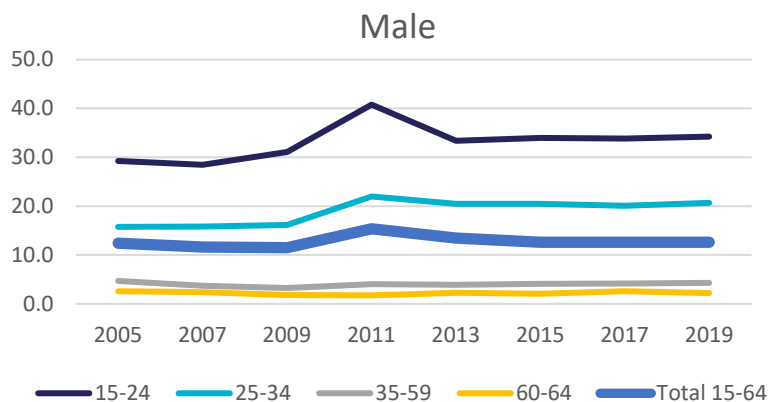


Persistent unemployment affecting vulnerable groups



- Stagnant unemployment rate at high levels (average of 16 per cent)
- The economy's inability to create enough jobs
- Unemployment rate that notably affects youth and women: difficult transition from school to market and weak opportunities offered particularly to women.
- Discouraged population: especially young people

Unemployment rate by sex and age group

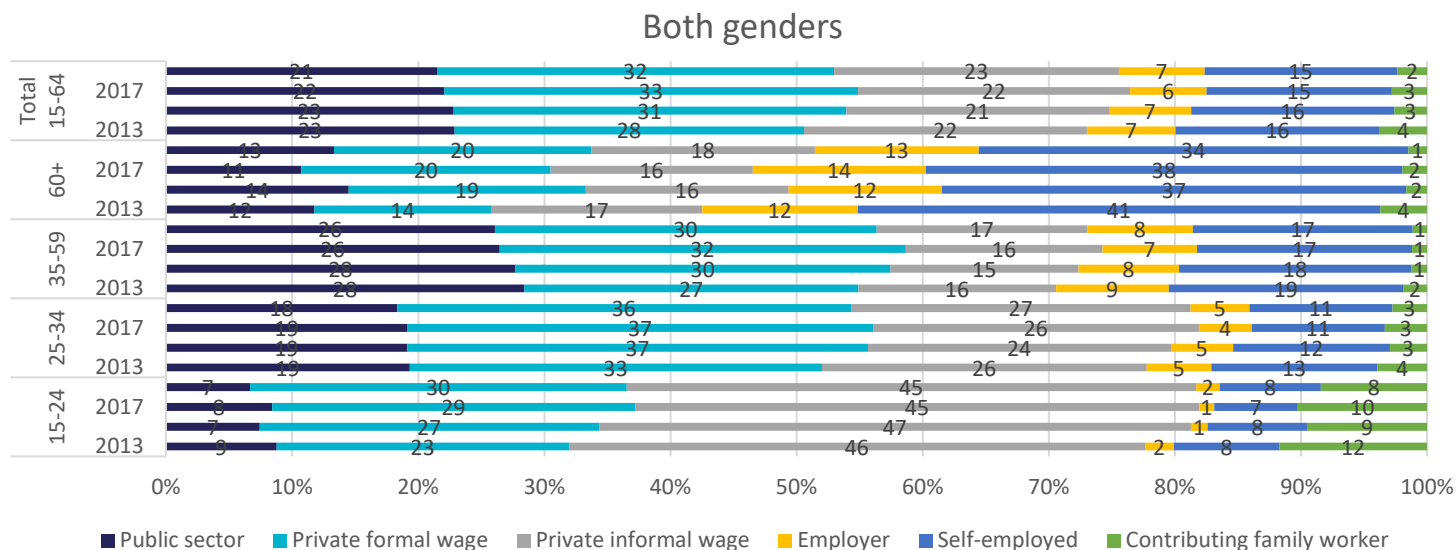


Quite high proportion of low-quality jobs



- Overall, the distribution of employment by type has not changed between 2013 and 2019.
- Formal employment increased in the private sector by 4 percentage points, reaching 32 per cent in 2019, compared to 28 per cent in 2013.
- Despite the observed improvement in the share of informal work, a significant proportion of workers (23 percent) remain in informality.

Distribution of workers by employment type

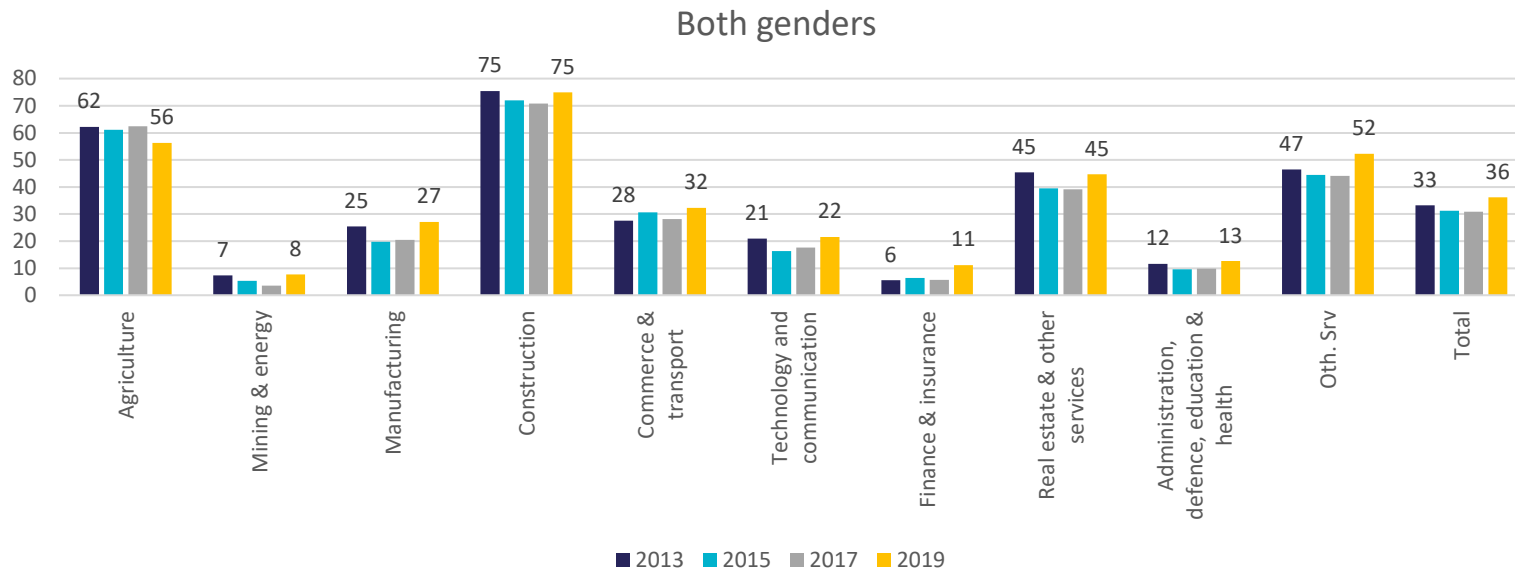


Job insecurity



- Another measure of employment quality: precariousness (little discussed in general).
- Concentration of precarious jobs in two sectors: Agriculture and construction.
- Immediate results: the working poor are in the same sectors and in rural areas.

Distribution of workers by economic activity



Key lessons from the COVID-19 crisis: 1/2



- It is difficult and somewhat premature to draw definitive lessons from the impact of a pandemic that is still ongoing.
- Globally, the unemployment rate reached 18 per cent in Q2 2020 (in the midst of the pandemic), which is a 3 percentage points higher than the rate observed in the last years before the pandemic.
- In Q3 2020, unemployment fell significantly to 16.2 per cent, but remained above the recent trend. It is reasonable to attribute most of the increase in unemployment to the pandemic, not to mention the structural problems of the Tunisian economy.

Key lessons from the COVID-19 crisis: 2/2



- Beyond the impact on employment, the pandemic has certainly had a negative impact on household income, poverty and inequality. Kokas et al. (2020) show that poverty would increase by 7 percentage points by 2020. The main sectors losing jobs would be manufacturing, construction and tourism.
- At a different level, telephone surveys - such as the COVID-19 MENA Monitor Survey, or the INS-International Finance Corporation (IFC) telephone survey assessing the impact of COVID-19 on the private sector - have allowed to draw learning lessons.
- The COVID-19 crisis has certainly worsened and deteriorated labor market indicators, but Tunisia's structural problems are much deeper and older. The crisis has particularly highlighted the precariousness of jobs and the poor ability to identify, reach and protect workers.

Final remarks



- On the demand side, the main result is that different sectors of the economy have not created enough jobs to absorb the growing demand, especially the country's increasingly educated youth cohort. The most productive sectors, notably finance and transport, experienced poor job creation. We cannot say that the Tunisian economy has succeeded in its structural transformation, as evidenced by the share of added value in the various primary sectors. Also, statistics on the evolution of employment show that the reallocation of jobs in Tunisia, particularly to the industrial sector, has been low compared to other countries with comparable incomes (for a more detailed analysis, see El Lahga et al. . 2016).
- The weak dynamics of the reallocation of jobs hamper the improvement of productivity. Additionally, sectors of activity are dominated by SMEs which are often unable, for various reasons linked to the business climate and uncompetitive practices, to create jobs.
- The resolution of the unemployment problem in Tunisia must be based on a multidimensional approach. Reforms should target the education system, which should better meet the current and future needs of the market and reduce the skills gap. The effectiveness of active labor market policies should be assessed to improve the speed of integration of youth.
- The business climate and the legal framework governing competition should be reviewed in order to eliminate any obstacle to the growth of companies and their access to economic opportunities (barriers to entry and access to finance).
- Further investigations are needed to identify a solid industrial development strategy that creates decent jobs. Indeed, the strategy pursued, which focuses on the development of SMEs - clearly struggling to grow and create enough quality jobs- should be assessed.

*Thank you for your
attention!*



Questions?!