

Second Regional Report on Jobs and Growth in North Africa (2018 -2021): Developments through the COVID-19 Era

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The case of Egypt



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Outline

- Macroeconomic Developments
- Labor Market Developments
- Conclusion and Policy Recommendations



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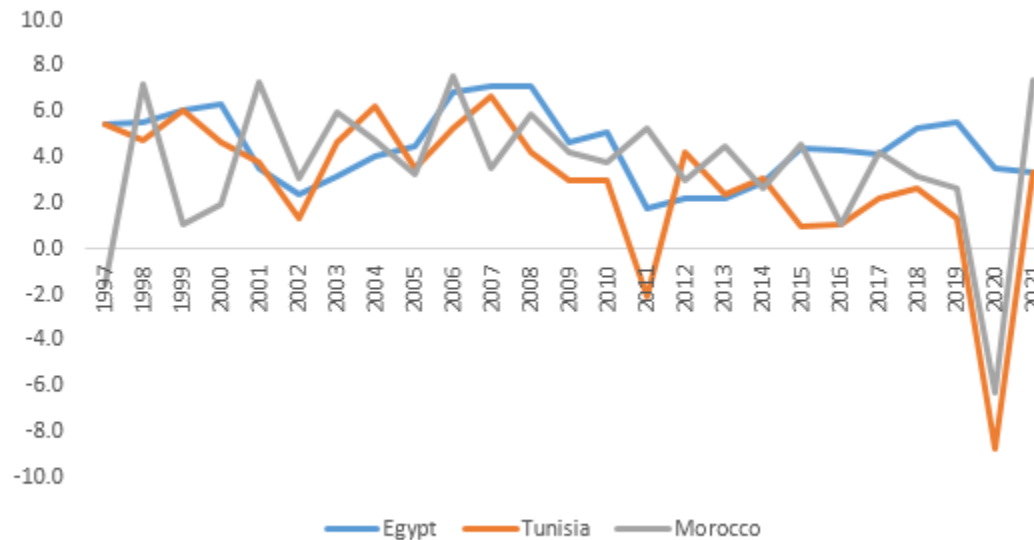


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Macroeconomic Resilience

- Egypt has been relatively more resilient than other comparable economies in the region.
- It was the only country with positive growth rates (3.6 per cent in 2020, down from 5.6 per cent in 2019). The decrease was more pronounced for Tunisia and Morocco, whose GDP growth rates were -8.7 and -6.3 per cent in 2020, down from 1.3 and 2.6 per cent, respectively, in 2019

Figure 1: Real GDP growth rates (%)



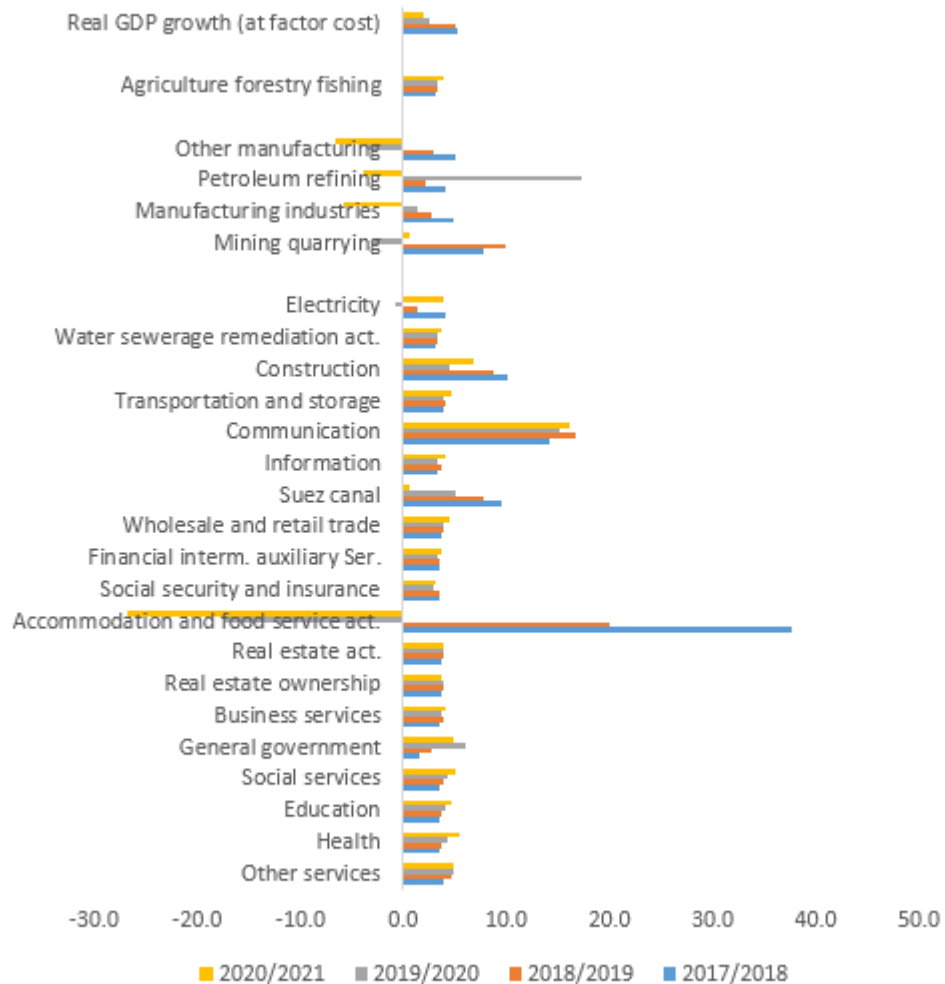
Source: World Development Indicators online dataset.

Capital-intensive Growth

With the disruption in supply chains and the decrease in exports and investments, several sectors suffered from the pandemic, especially the non-oil manufacturing sector (which decreased by 3.5 per cent year-over-year between 2019 and 2020) and tourism (which decreased by 17.3 per cent over the same period). This decreasing trend continued in the following fiscal year, during which these two sectors decreased by 6.5 and 26.7 per cent, respectively.

Sectors that witnessed a significant growth rate were chiefly capital-intensive, such as petroleum (up by 17.3 per cent), construction (up by 4.4 per cent), in addition to some services, especially communication (up by 15.2 per cent) with the shift to online education and telework.

Figure 2: GDP, by economic activity (growth rates - %)

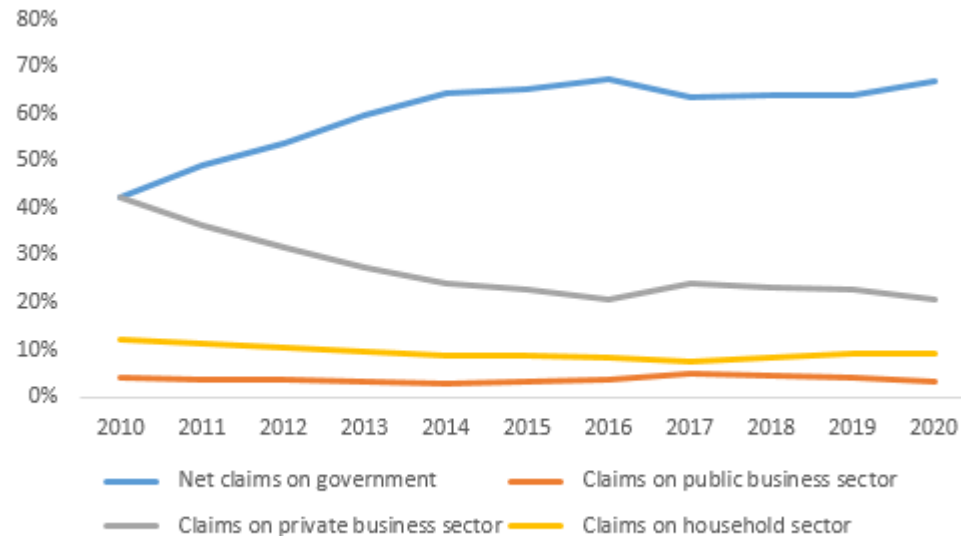


Source: Authors' own elaboration, using the Ministry of Planning and Economic Development's online data set.

Crowding-out?

At the domestic level, in addition to lower demand, the increase in domestic credit provided to the Government by the financial sector (from 64 per cent in 2017 to 67 per cent in 2020) was associated with a simultaneous decrease in credit to the private sector (21 per cent, down from 24 per cent over the same period). Such government credit was mainly used to finance the fiscal deficit and the domestic debt.

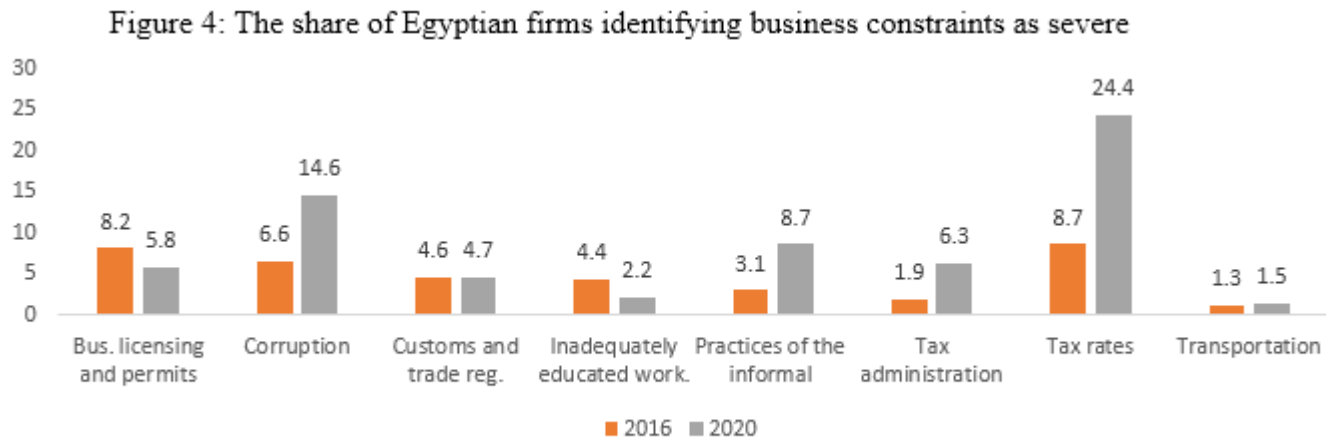
Figure 3: Domestic credit (% of total domestic credit)



Source: Authors' own elaboration, using Central Bank of Egypt online data set.

Investment Climate

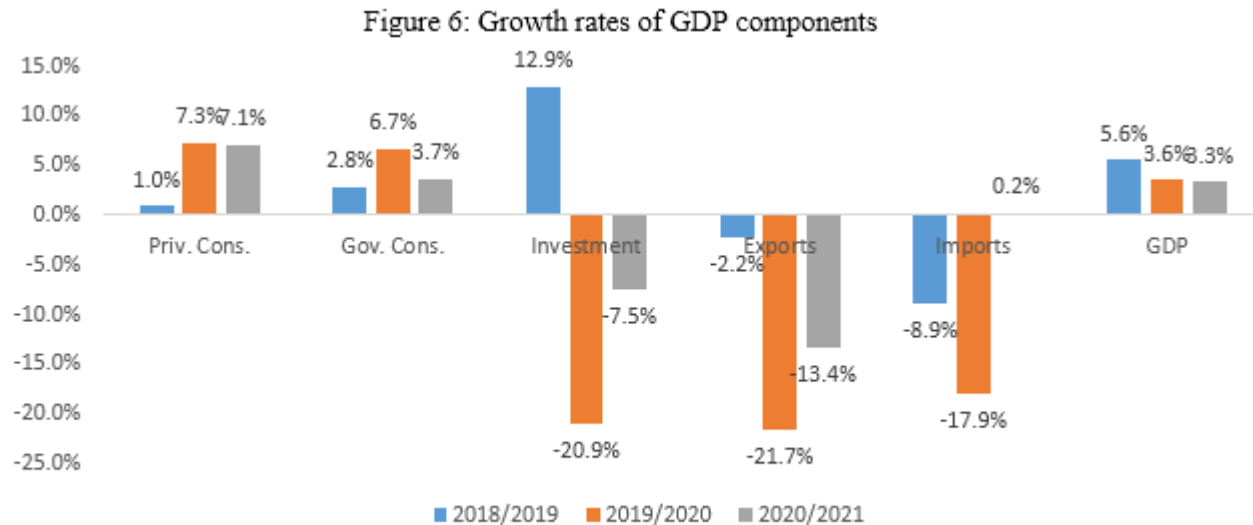
Another important reason behind the decrease in domestic investment is the deterioration of the investment climate, as shown in Figure 4. In fact, according to the World Bank Enterprise Survey, the share of Egyptian firms identifying practices of the informal sector, corruption, tax administration, tax rates and customs and trade regulations as major business constraints has increased between 2016 and 2020



Source: Author's own elaboration, using the World Bank Enterprise Survey online data set.

Volatility of Exports and Investments

At the cyclical level, and because of the pandemic, a detailed look at the demand components shows that, while government and private consumption increased from 9.5 to 9.8 per cent of GDP and from 80.8 to 83.7 per cent, respectively, investment and exports decreased significantly, by 20.9 and 21.7 per cent compared to fiscal year 2019.

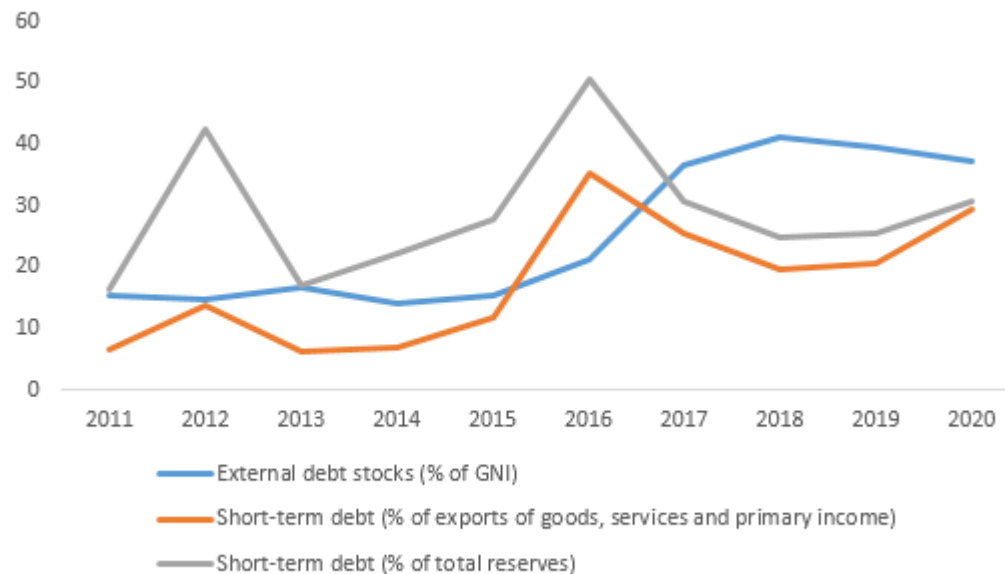


Source: Authors' own elaboration using the Ministry of Planning and Economic Development online data set.

A more fragile external position

With the increase in foreign reserves (thanks to foreign deposits or loans), external debt has been substantially increasing, as shown in Figure 7. Indeed, the share of external debt in national income increased from 21.1 per cent in 2016 to 37.2 per cent in 2020. Moreover, between 2019 and 2020, the share of short-term debt to foreign reserves increased from 20.7 to 30.7 per cent, putting further pressure on Egypt's foreign currency (pressured by the decrease in tourism, exports and FDI).

Figure 7: External debt



Source: World Development Indicators online data set.

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Labour market developments in Egypt

The macroeconomic developments presented above translate into a more vulnerable labour market, characterised by:

- A declining contribution in value added and in the employment of labour-intensive sectors, particularly manufacturing.
- Employment rates have decreased and the proportion of discouraged job-seekers has risen.
- Women, young people, and the less educated represent the most vulnerable groups in terms of access to the labour market, and the quality of jobs.

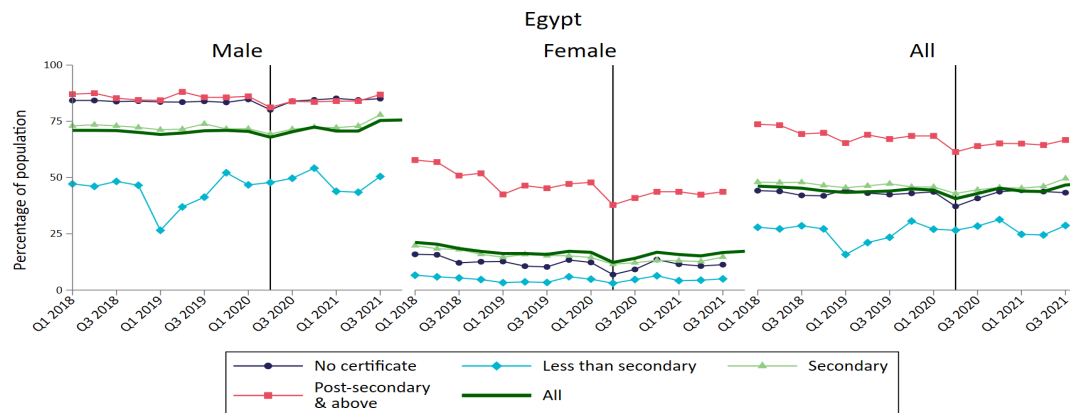
We present two sets of indicators:

- Quantity indicators: Labour force participation, employment, unemployment.
- Quality indicators:
 - Informal employment
 - Time-related underemployment
 - Youth not in employment, education or training (NEET)

Labour force participation rate

- COVID-19 impact on the labour force participation rate materialized in Q2 2020: where the LFP rate declined to 40.7 per cent compared to 43.7 per cent during the same quarter in 2019. The indicator has largely recovered afterwards reaching 45.3 per cent in Q4 2020 and further to 46.7 in Q3 2021.
- The existing of large gender disparities.
 - male LFP rate, at 72.5 per cent, was four times higher than the female rate (16.8 per cent) by Q4 2020.
 - The drop in LFP rates following COVID-19 was more intense among females (12.3 per cent in Q2 2020 vs. 16.8 per cent in Q1 2020) than males (68 per cent in Q2 2020 vs. 70.6 per cent in Q1 2020).
 - Women with higher education witnessed the largest decrease in participation rates; 37.9 per cent in Q2 2020, down from 47.9 per cent in Q1 2020.

Figure 1: Quarterly labor force participation by gender and education (2018-2021)



Employment-to-population ratio

- We observe the same gender disparities as well as similar recovery trends as observed in LFP rates.
 - The overall employment rate has bounced back, reaching 43.1 per cent in Q3 2021 after witnessing a low of 36.7 per cent in Q2 2020.
- Youth (aged 15–24), who often struggle to transition from school to work, had lower employment rates than the other age groups throughout the period.
 - However, youth employment reached a high of 20.9 per cent in Q3 2021, compared to 18.4 in Q3 2018

Figure 2: Quarterly employment rate by gender and age (2018-2021)

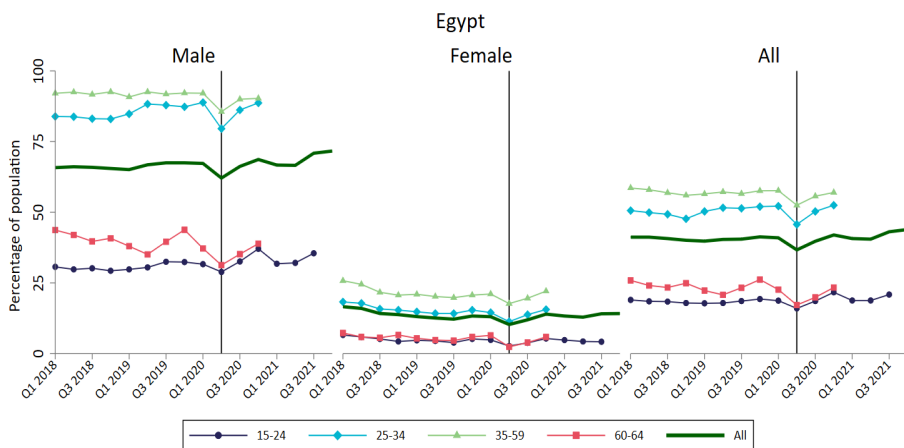
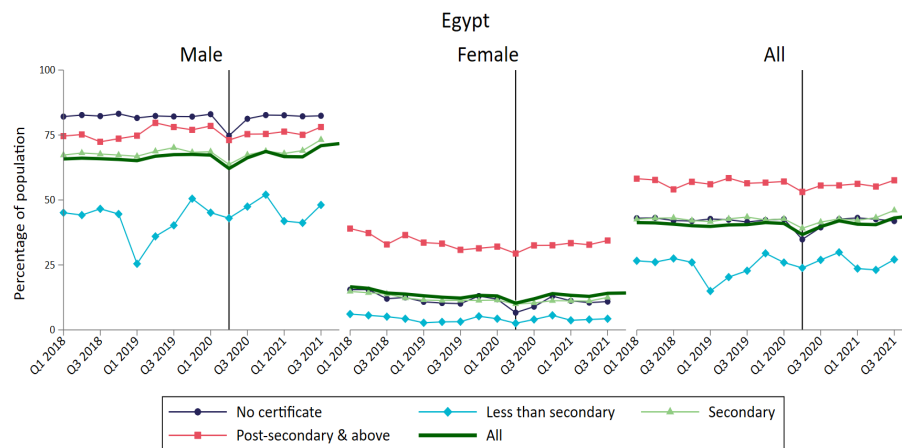


Figure 3: Quarterly employment rate by gender and education (2018-2021)



Unemployment Rate

- COVID-19 shock pushed up the overall unemployment rate in Q2 2020, to 9.8 per cent compared to 7.6 per cent in Q2 2019.
 - Unemployment rate declined afterwards to 7.5 per cent in Q3 2020, which is even less than the pre-pandemic levels.
- Women experienced much higher rates of unemployment than men over the period, as has historically been true in Egypt.
 - More than half of young women (51.6 per cent) are unemployed in Q2 2020, compared to 49.9 per cent in Q2 2018.
 - However, the pandemic had a larger impact on men, where male unemployment rates more than doubled in Q2 2020 reaching 8.6 per cent compared to 4.3 per cent in Q2 2019.
- Unemployment has been particularly higher among post-secondary graduates and lower among people with no certificate.
 - However, highly educated women saw the largest drop in unemployment rates (22.3 per cent in Q2 2020 vs 33.1 per cent in Q1 2020) as they were more likely to find a job than the other educational levels.

Figure 4: Quarterly unemployment rate by gender and age (2018-2021)

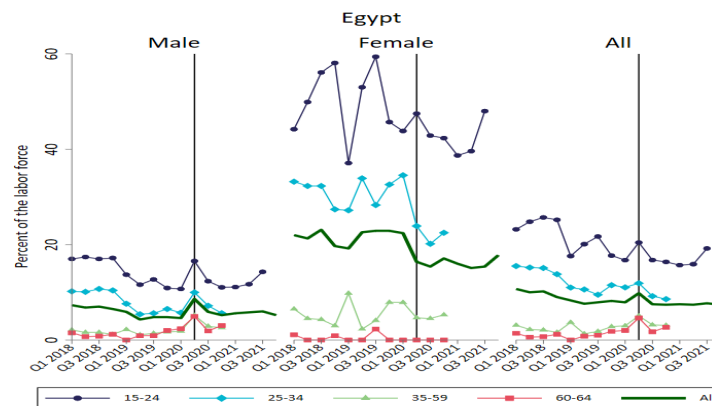
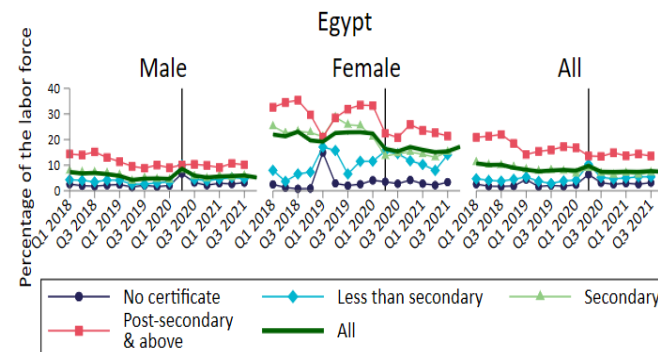


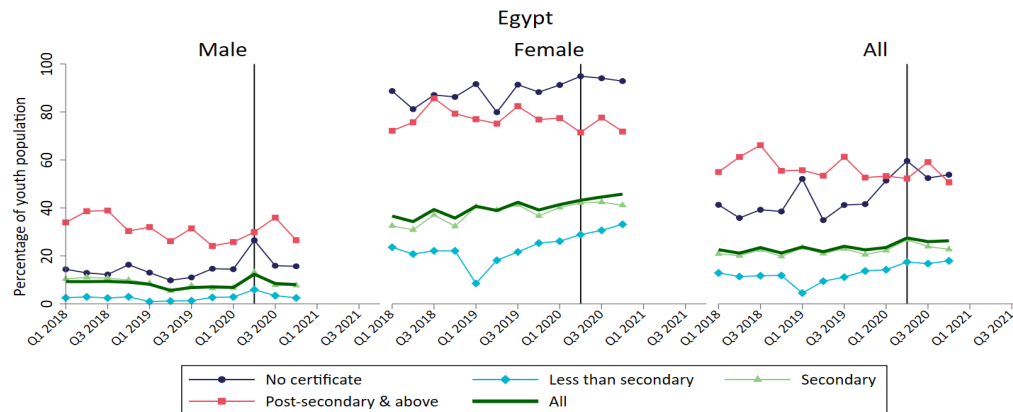
Figure 5: Quarterly unemployment rate by gender and education (2018-2021)



Youth not in employment, education or training (NEET)

- More than a quarter of Egyptian youth (26.3 per cent) are neither employed nor enrolled in education or training by Q4 2020.
- Youth NEET among females reached 45.8 per cent in Q4 2020, which is more than five times higher than for their male counterpart (8.1 per cent).
- Post-secondary graduates were the least engaged in employment or training across the period, which suggests that there is a mismatch between graduates' skills and the available job and training opportunities

Figure 6: Quarterly rate of Not in Employment, Education or Training (NEET) by gender and education (2018-2021)



Time-related underemployment rate

- Time-related underemployment is low in Egypt, with 2.6 per cent of workers underemployed in Q4 2019 and 4.8 per cent in Q4 2020.
 - Time-related underemployment rates reached 5.1 per cent among males and 3.2 per cent among females in Q4 2020, compared to 1.4 per cent and 0.7 per cent respectively in Q4 2018.
 - Underemployment is larger among the least-educated women and men (with no certificate) and smaller among the most educated (post-secondary and above graduates).
 - Underemployment among private informal wage workers has increased from 2.9 per cent in Q4 2018 to 7.7 per cent in Q4 2020.
- while the percentage of underemployed public sector workers is 0.6 per cent in Q4 2020.

Figure 7: Time Related Underemployment by gender and education

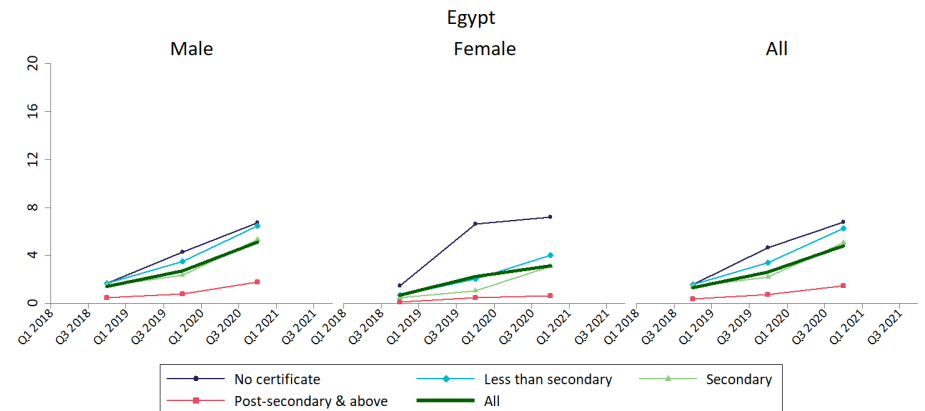
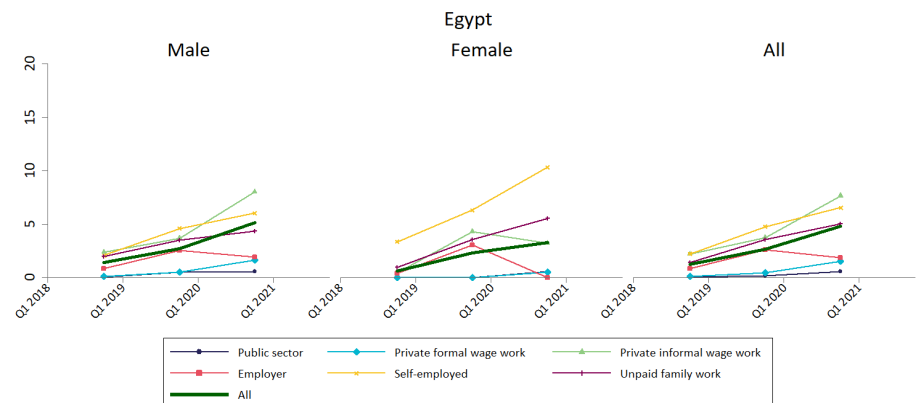


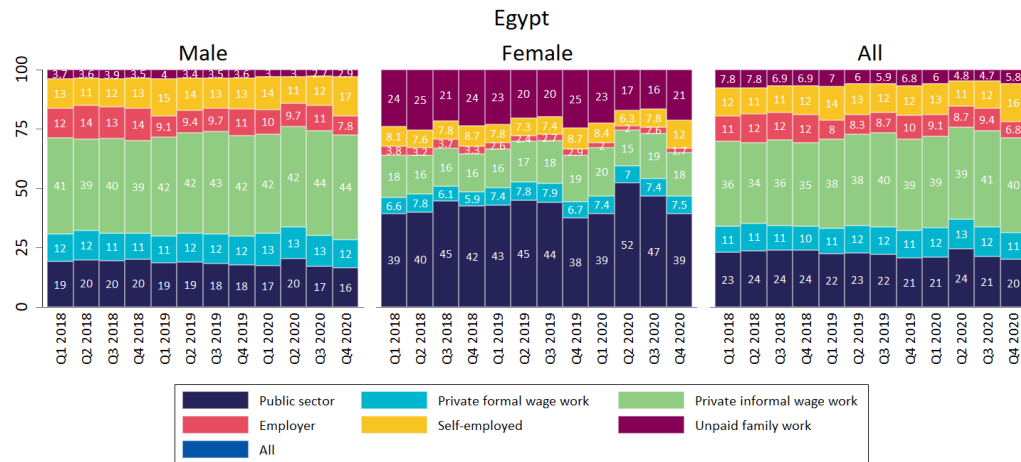
Figure 8: Time related underemployment rate by type of employment



Type of employment

- Overall, by Q4 2020, 40 per cent of Egyptian workers were private informal wage workers, 20 per cent worked for the public sector and 16 per cent were self-employed.
- While the larger proportion of females work for the public sector (52 per cent), male employment is primarily concentrated in private informal wage work (42 per cent in Q2 2020).
- The rise in the share of public sector work among females explains a shift towards more stable sources of income following COVID-19.

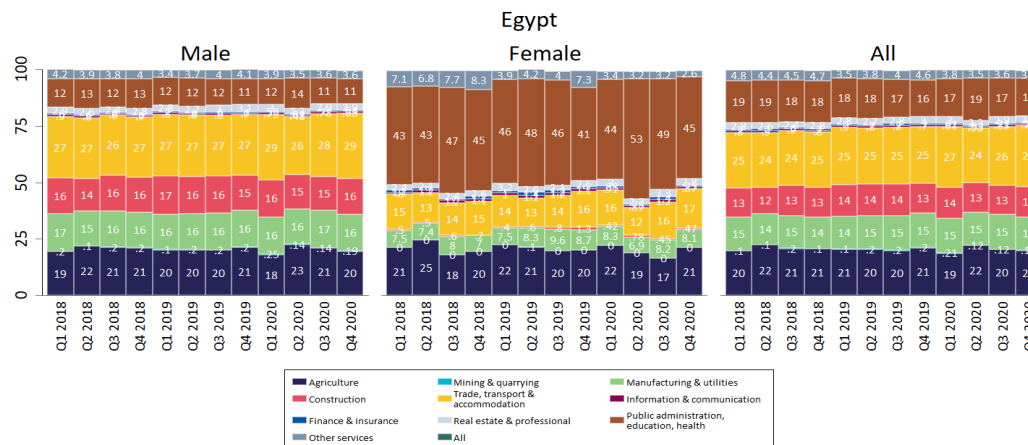
Figure 8: Time related underemployment rate by type of employment



Employment by economic activity

- As of Q4 2020, the largest two economic sectors in Egypt are:
 - The trade, transportation and accommodation sector (27 per cent of all workers) & agriculture (20 per cent).
- Male employment is concentrated in the trade, transport and accommodation sector throughout the period.
 - However, in Q2 2020, the share decreased to 26 per cent in Q2 2020 (from 29 per cent in Q1 2020) at the expense of a rise in agricultural employment and public administration, education and health.
- Female employment is primarily focused in the public administration, education and health sectors.
 - Especially following COVID-19, where it reached 53 per cent in Q2 2020, up from 44 per cent in Q1 2020.

Figure 8: Employment share by economic activity and gender



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Conclusion

- The Egyptian comprehensive reforms in 2016 contributed to achieving a positive growth amid the pandemic, yet this economic growth has not been accompanied by sustainable job creation levels.
- We identify 5 main macroeconomic challenges:
 - A capital-intensive economic growth sectors, where sectors such as petroleum, construction and communication witnessed significant growth rates following the pandemic.
 - The crowding-out effect associated with the increase in claims on the government and the decrease of those on the private sector between 2010 and 2020.
 - A deteriorating investment climate that is from its contribution potential to growth and thus employment.
 - The volatility of exports and investment due to a lower demand from Egypt's main trade partners.
 - External debt has been rising substantially with the increase in foreign reserves adding more pressure on Egypt's foreign currency already affected by the decrease in tourism, exports and FDI.
- COVID-19 added more pressure on the labour market challenges:
 - Relatively low labour force participation rates and employment-to-population ratio.
 - A relatively high unemployment rate, especially among youth and women.
 - The existing of important gender disparities where young females not in employment, education, or training are five times higher than their male counterparts.

Policy implications

- The Egyptian economy was to a large extent resilient during the pandemic, thanks to different macro-stabilization programmes during recent years.
- However, Egypt's deep-rooted structural problems related to employment and inclusive growth suggest the need to shift the focus on more structural policies (Structural Program of MPED in 2021).
 - Reforms must be directed towards labour-intensive sectors in order to create more jobs (especially for youth and women) and thus stimulate the economy.
 - In order to increase both domestic and foreign investments, it's essential to:
 - ✓ Enhancing the business climate
 - ✓ Facilitate access to finance, land and energy, especially for SMEs
 - At the fiscal level, changing spending priorities is key in order to create fiscal space and ensure debt sustainability.

Thank you for your attention!

Questions?!



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