

WELCOME TO TODAY'S DISCUSSION ON

MENA ECONOMIC UPDATE - OCTOBER 2023

BALANCING ACT: JOBS AND WAGES IN THE MIDDLE EAST AND NORTH AFRICA WHEN CRISES HIT

Roberta Gatti, Daniel Lederman, Nelly Elmallakh, Jesica Torres,
Joana Silva, Rana Lotfi, and Ilias Suvanov

LIVE EVENT WILL BEGIN SHORTLY

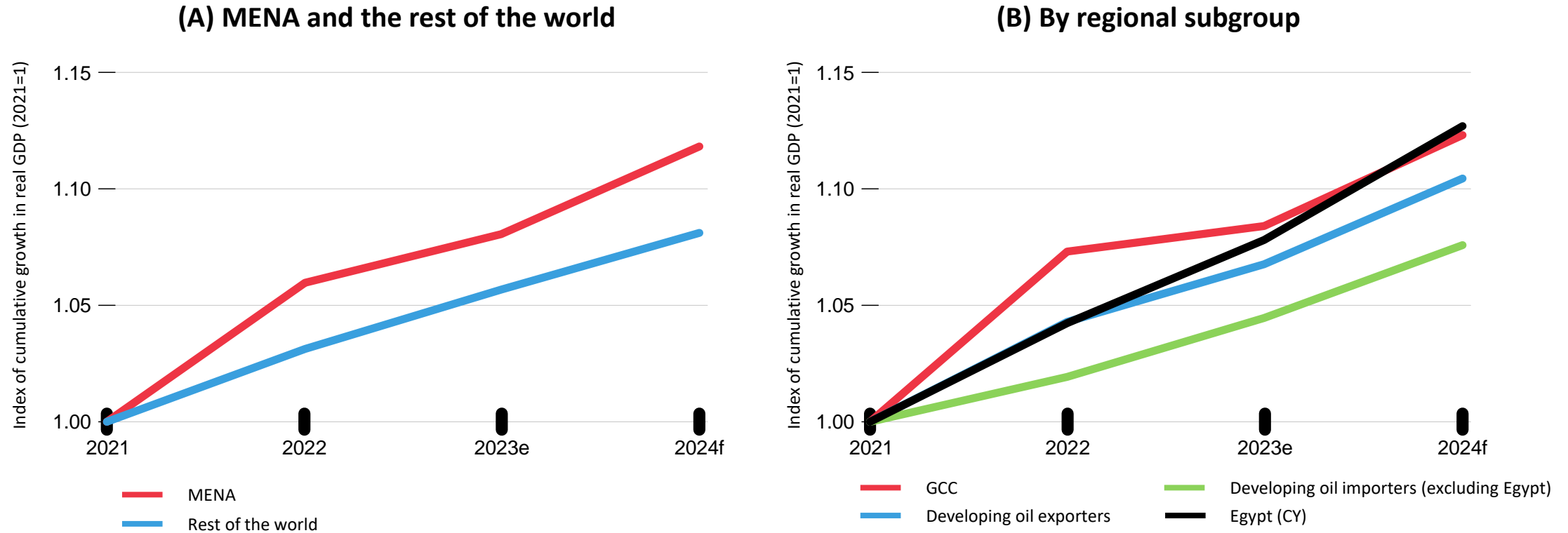


Key messages

1. Economic activity in MENA is forecast to sharply decelerate in 2023.
 - In MENA, GDP growth rate from 6% in 2022 to 1.9% this year. In the GCC, from 7.3% in 2022 to 1% in 2023.
2. The global shocks that hit MENA during 2020-22 resulted in an increase of over 5 million people becoming unemployed.
 - 2.1 million fewer unemployed people if MENA had the same unemployment response of other EMDEs.
3. The Balancing Act: During negative shocks that depress labor demand, economies face a trade-off between more unemployment and lower real wages.
4. Neither outcome is desirable. Job displacement can lead to labor scarring, while the erosion of real incomes deepens inequality.
5. Public policies should protect the vulnerable with well-targeted cash transfers, while allowing real wages to adjust.

Economic activity in MENA is forecast to sharply decelerate in 2023

Index of actual and projected cumulative real GDP growth in the Middle East and North Africa, 2021-2024

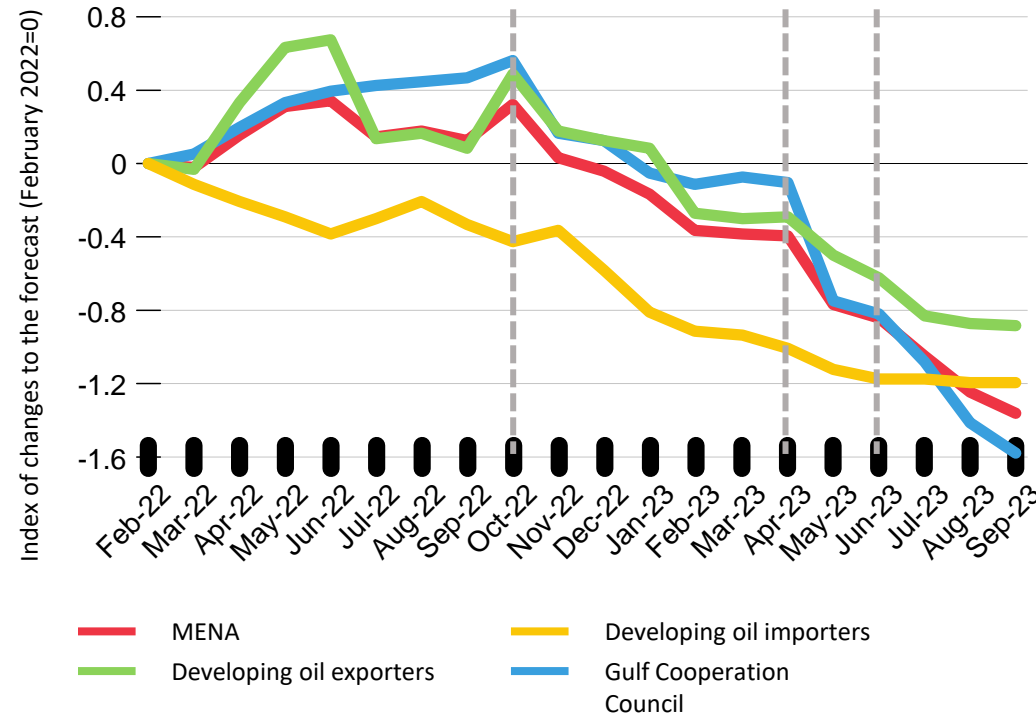


Source: Authors' calculations, based on data from the *Macro Poverty Outlook*, October 2023.

Note: MENA includes Algeria, Bahrain, Djibouti, Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates, and the West Bank and Gaza. The Gulf Cooperation Council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Developing oil exporters include Algeria, the Islamic Republic of Iran, and Iraq. Developing oil importers excluding Egypt include Djibouti, Jordan, Morocco, Tunisia, and the West Bank and Gaza. Real GDP estimates for Egypt in panel b correspond to calendar years. Regional and subregional weighted-average real GDP growth rates were calculated using previous year real GDP levels as weights.

Oil production cuts amidst a slowdown in global economic activity that has depressed oil prices slowed growth among the oil exporters in the region

Index of changes in private sector forecasts of real GDP growth in 2023 in the Middle East and North Africa since February 2022 (Index of changes in the forecast, February 2022=0)

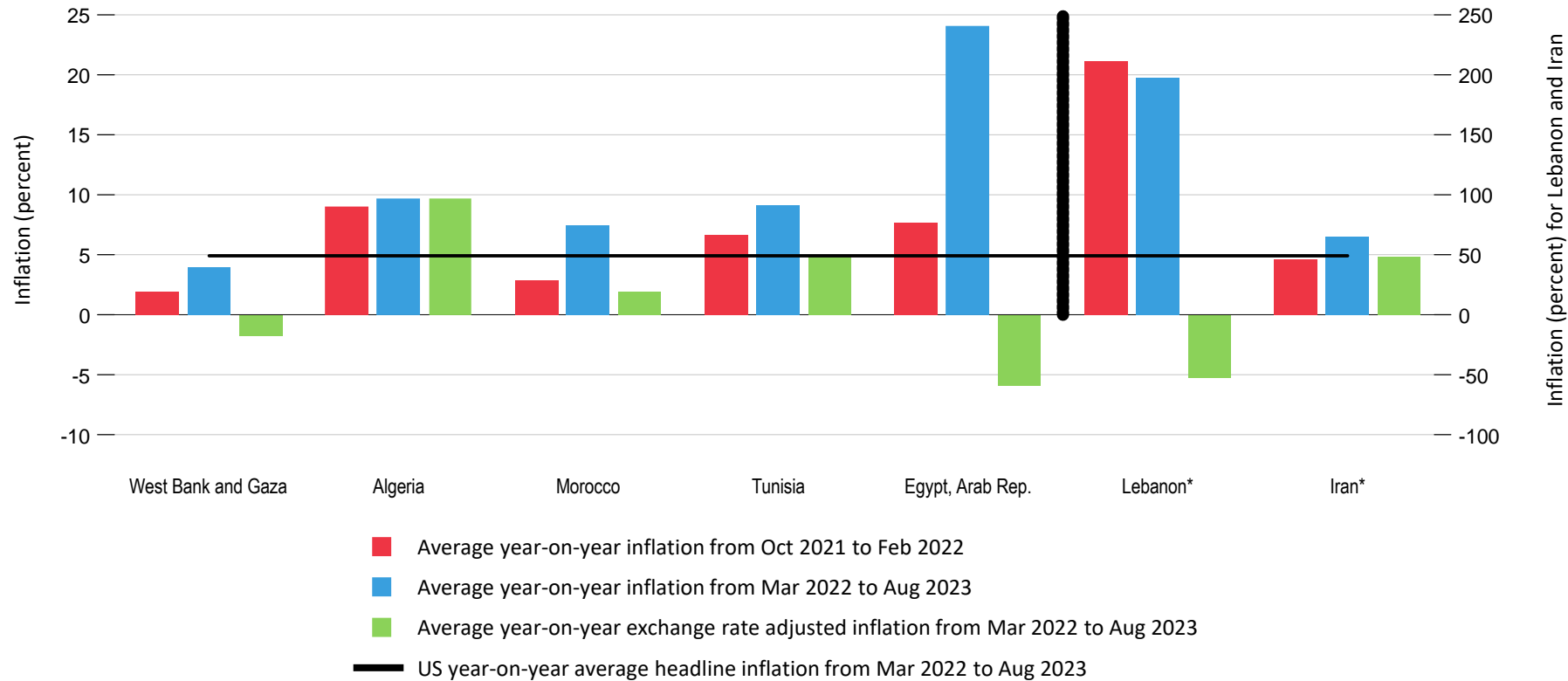


Source: Authors' calculations, based on data from Consensus Focus Economics Forecasts.

Note: MENA excludes Djibouti, Libya, Syria, and the West Bank and Gaza, for which data were unavailable. The GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Developing oil exporters include Algeria, the Islamic Republic of Iran, Iraq, and Yemen. Developing oil importers include Egypt, Jordan, Lebanon, Morocco, and Tunisia. Egypt's forecasted growth is transformed from fiscal year to calendar year (Egypt's fiscal year starts on July 1). For calendar year 2023, the forecast is the average of forecasted growth for FY22/23 and FY23/24. Average forecasted growth for each group is a weighted average of the country-level forecasted growth for 2023, using estimated 2022 real GDP as weights.

Among MENA oil importers, the ripple effects of the tightening of global financial conditions continue to constrain economic activity

Inflation in the Middle East and North Africa after adjusting for exchange rate fluctuations, by economy

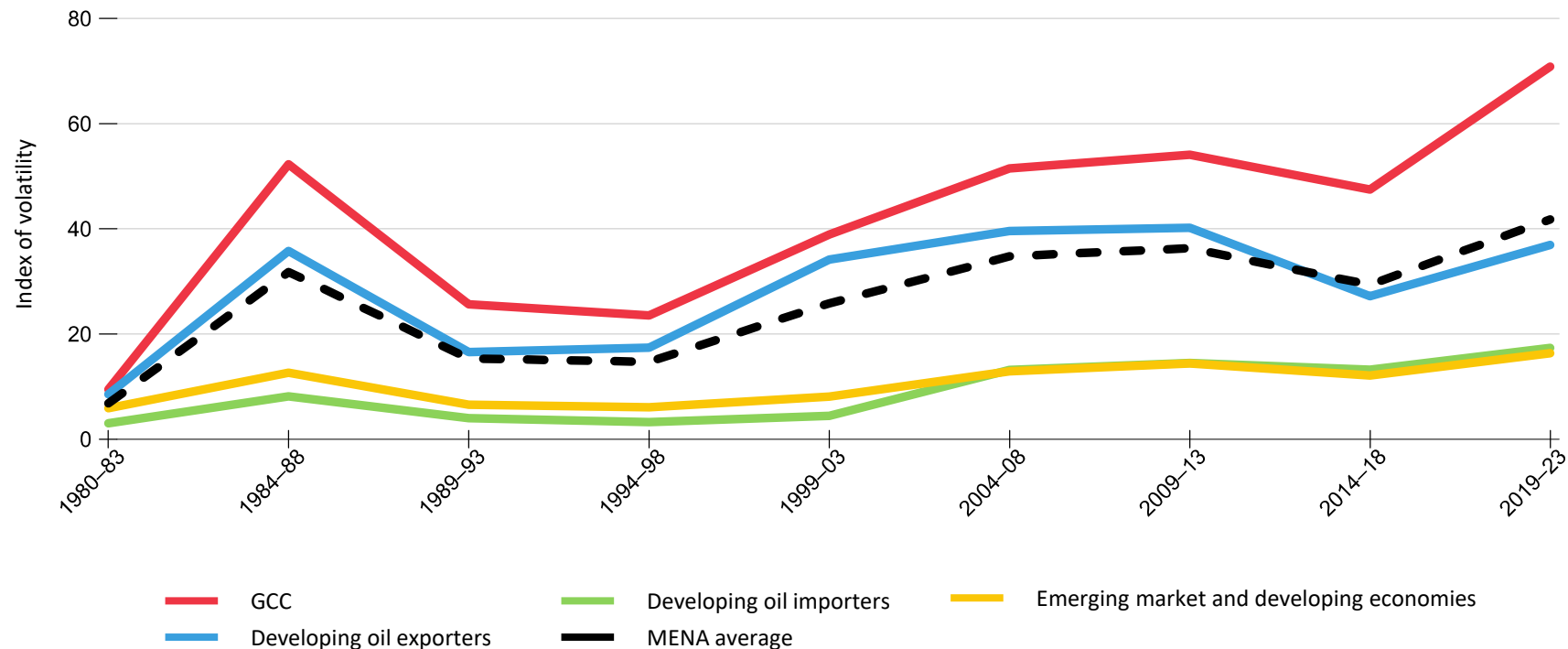


Source: Authors' calculations, based on data from Haver Analytics, national statistical offices, and Bloomberg LP.

Note: The green bars show what the average year-on-year inflation rate would have been had each country's bilateral exchange rate with the US dollar remained at its February 2022 level. Countries are displayed in ascending order of 2021 GDP per capita (constant 2017 purchasing power parity dollars) within categories. Foreign exchange rate changes (changes in the value of USD in local currency) are calculated using 1st trading day of each month in the data (i.e., foreign exchange rate changes between February 2022 and August 2023 would be between 2/1/2022 and 8/1/2023). In Algeria, Morocco, and Lebanon the last data point corresponds to July 2023.

The global shocks of 2020-22 brought about the highest levels of volatility in MENA terms-of-trade since 1980

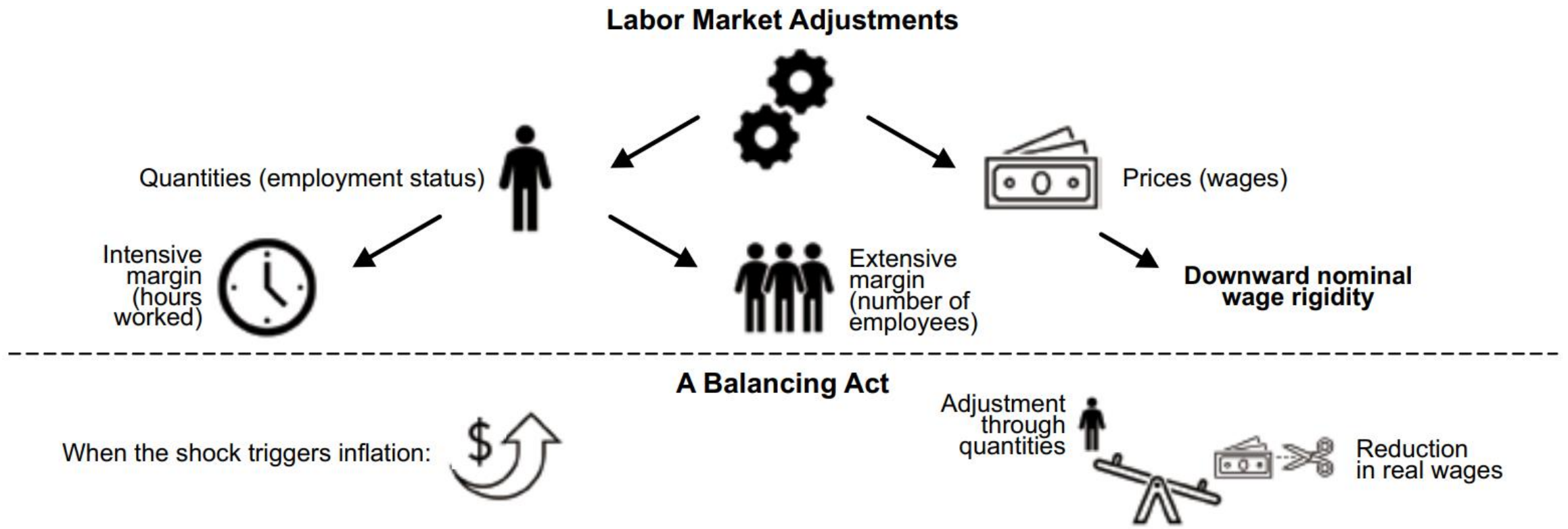
Index of terms-of-trade volatility in the Middle East and North Africa, 1980-2023



Source: Authors' calculations based on data from the Commodity Terms of Trade database of the IMF (Gruss and Kebhaj 2019).

Note: The figure shows the average volatility within each 5-year period for each group. Volatility is defined as the difference between the maximum and the minimum shock to terms-of-trade. Shocks are computed as the percentage difference relative to the month before. The estimation of the mean controls for population size. The data covers from January 1980 through February 2023. MENA includes Algeria, Bahrain, Djibouti, Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, and Yemen. Emerging Markets and Developing Economies excluding MENA (EMDE ex-MENA) includes 127 countries. The Gulf Cooperation Council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Developing oil exporters include Algeria, the Islamic Republic of Iran, Iraq, Libya, Syria, and Yemen. Developing oil importers include Djibouti, Egypt, Jordan, Lebanon, Morocco, and Tunisia.

During negative shocks economies face a trade-off between more unemployment and lower real wages: this is the balancing act



Source: Authors' elaboration.

The shocks during 2020-22 led to an additional 5 million unemployed workers in the region

5 million

- COVID-19 pandemic
- Volatility in commodity prices
- Rising inflation
- Tightening of global financial conditions
- Currency depreciations

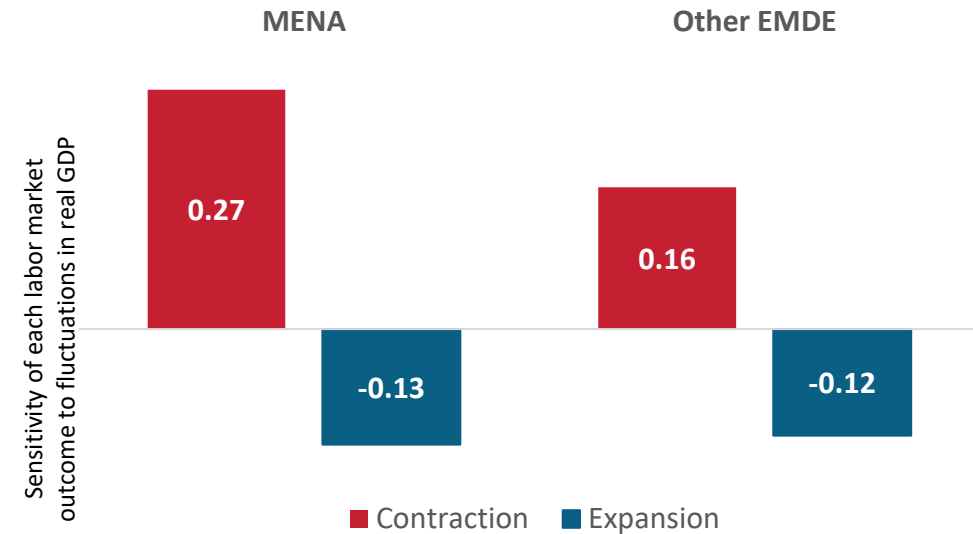
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The increase in unemployment in downturns in MENA is almost twice when compared to other EMDE

=

Other labor markets responses are similar in MENA and EMDE: labor force participation, self-employment, public sector employment

Response of unemployment to changes in real GDP

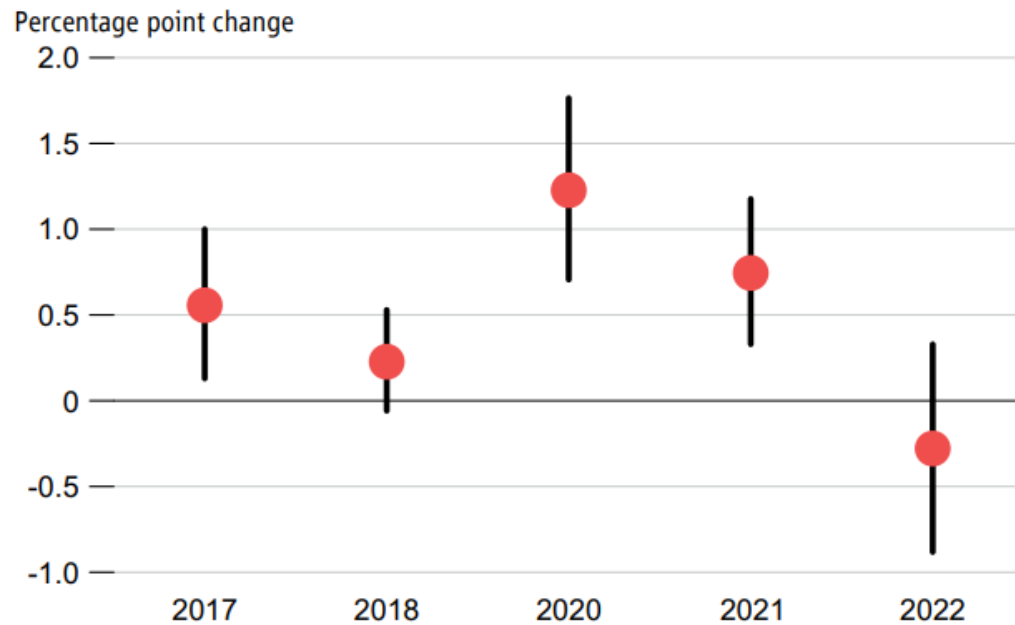


Source: Authors' calculations using data from ILO, World Bank's World Development Indicators, Haver Analytics, and the OECD

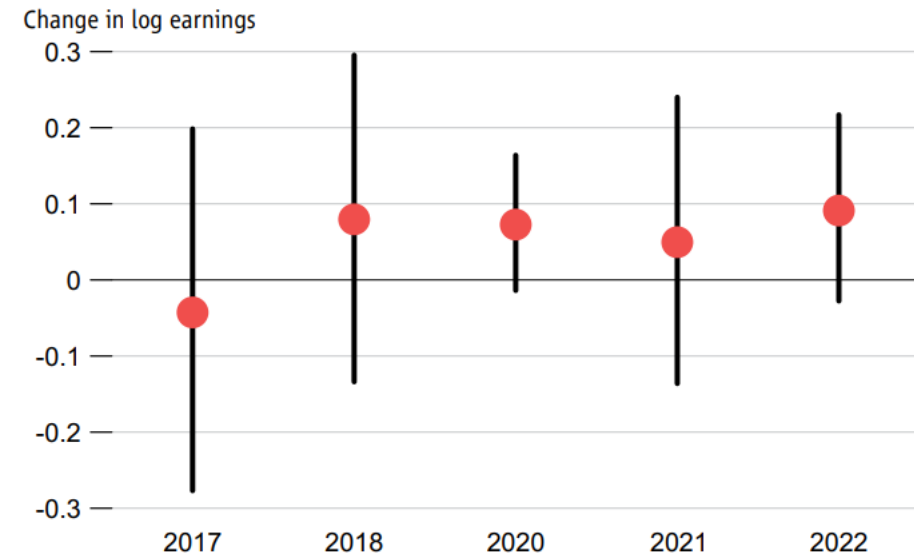
Following COVID-19, unemployment increased while nominal earnings remained rigid in EMDEs

Fixed-effects regressions of labor market outcomes in a global sample of EMDEs, 2017-22

(A) Unemployment



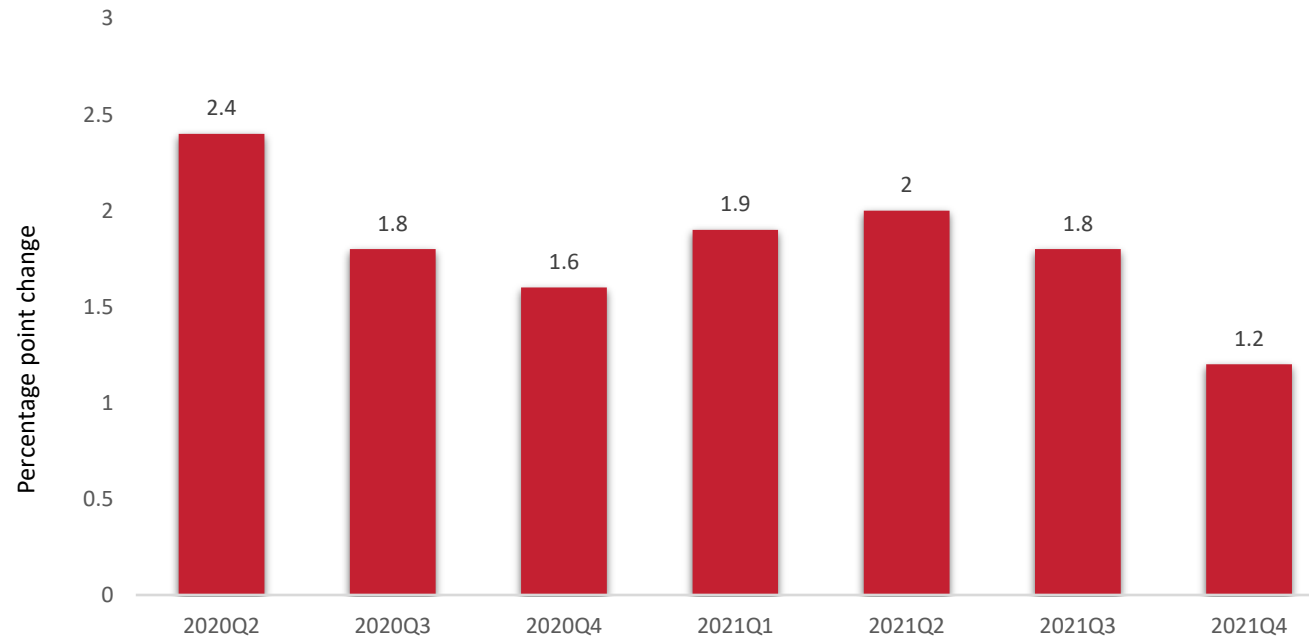
(B) Nominal monthly earnings



Source: Authors' calculations using data from national estimates by the International Labor Organization.

Unemployment took center stage as the primary margin of adjustment in MENA after COVID-19

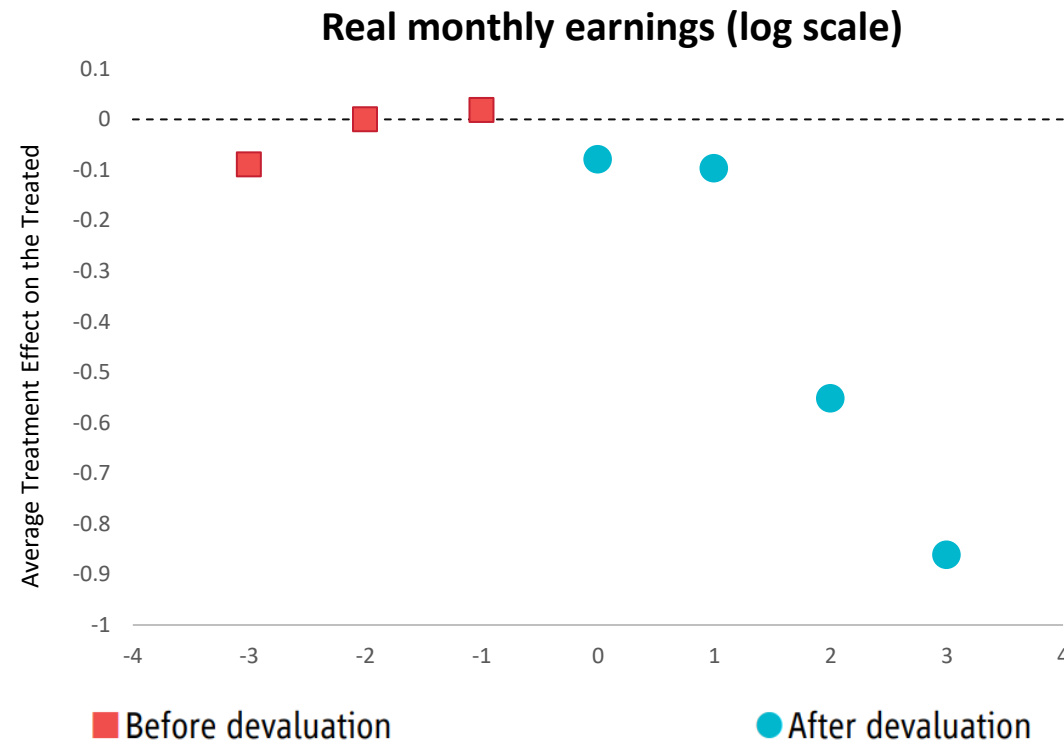
Percentage point change in total unemployment, 2020Q2-2021Q4



Source: Authors' calculations using data from various sources. Egypt: National estimates by the ILO. Jordan: LFS microdata. Morocco: HCP. Qatar: PSA. Saudi Arabia: GASTAT. Tunisia: INS.

When shocks are inflationary, labor markets in EMDEs adjust through lower real wages following large currency devaluations

Labor market adjustments following large currency devaluation shocks in EMDEs



Source: Authors' calculations using data from national estimates by the International Labor Organization.

Inflation can buffer the unemployment adjustment, but it leads to the erosion of real incomes

30%

Inflation stood at 30% following the 2016 currency devaluation in Egypt

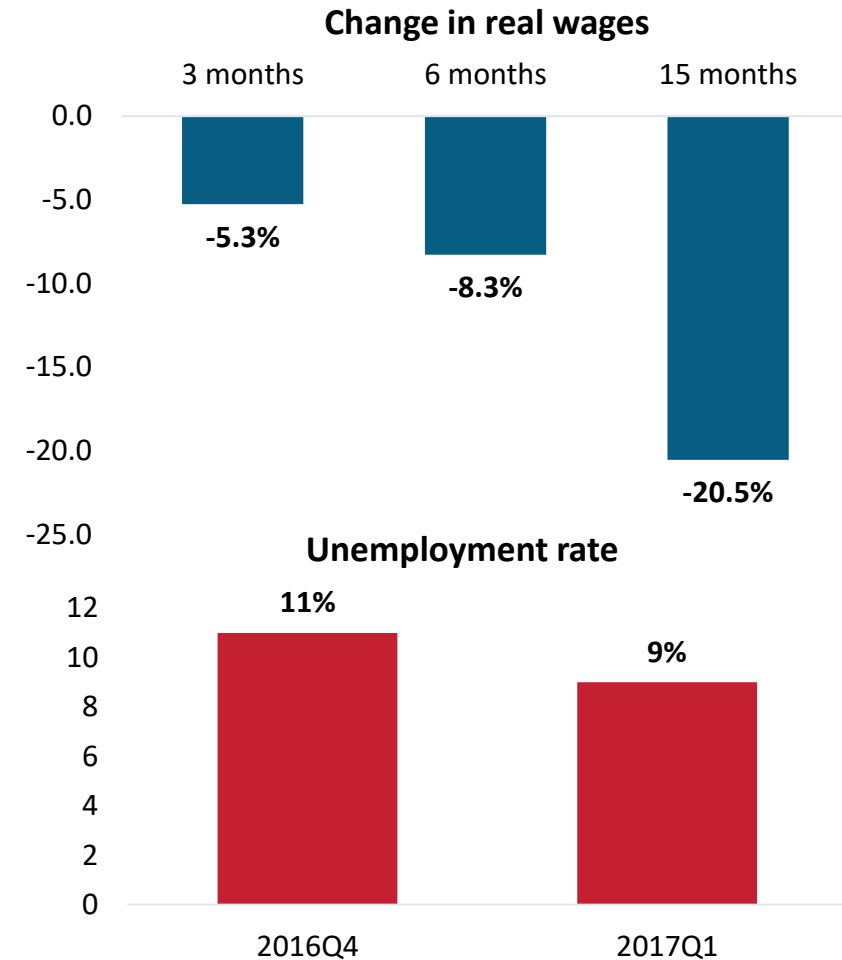
1/5

Workers in Egypt lost up to a fifth of their real incomes 15 months after the devaluation episode

↓ 20%

Unemployment declined by 20% immediately after the devaluation, from 11% in 2016Q4 to 9% in 2017Q1

Real wages and unemployment after the 2016 currency devaluation in Egypt



Source: Authors' calculations using data from the Labor Force Surveys

Unemployment carries long-term consequences

**10
years**

The consequences could be felt even 10 years after involuntary job losses

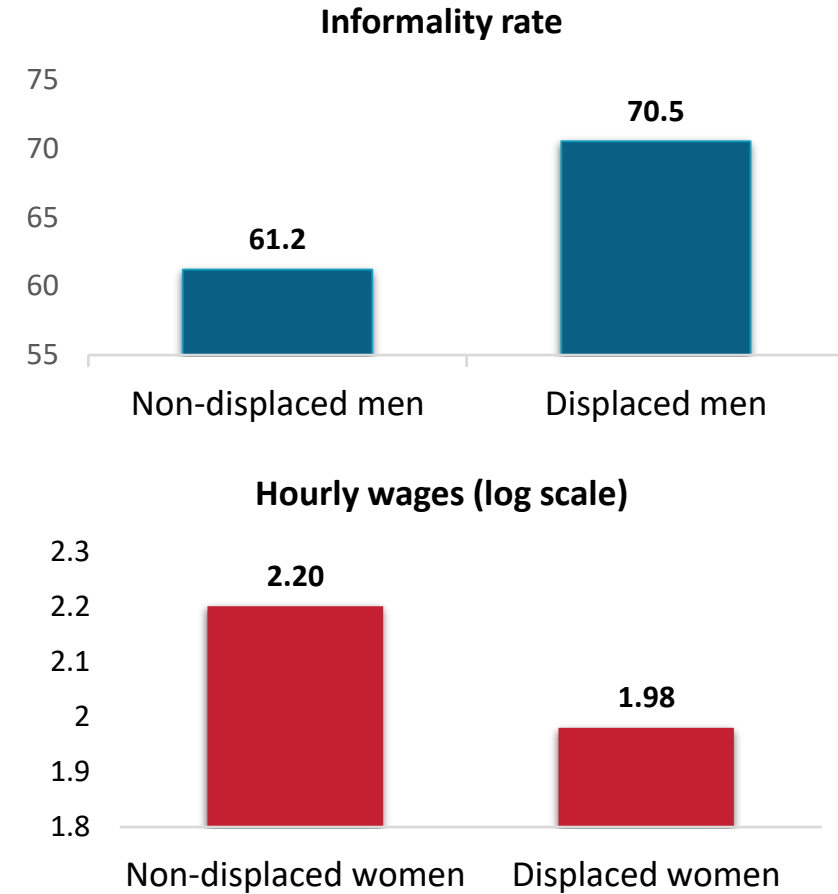
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Displaced men are 9 percentage points more likely to be informally employed

↓ 20%

Displaced women experience a 20 percent wage penalty

Effect of involuntary job losses in Egypt



Source: Authors' calculations using data from the Egypt Labor Market Panel Survey 2018

During downturns, there is a trade off between more unemployment and lower real wages

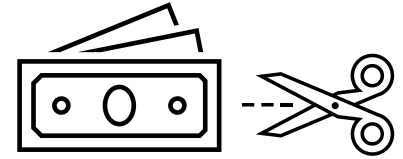
Job losses



- Persistent scarring on employment trajectories
- Negative long-term effects on earnings

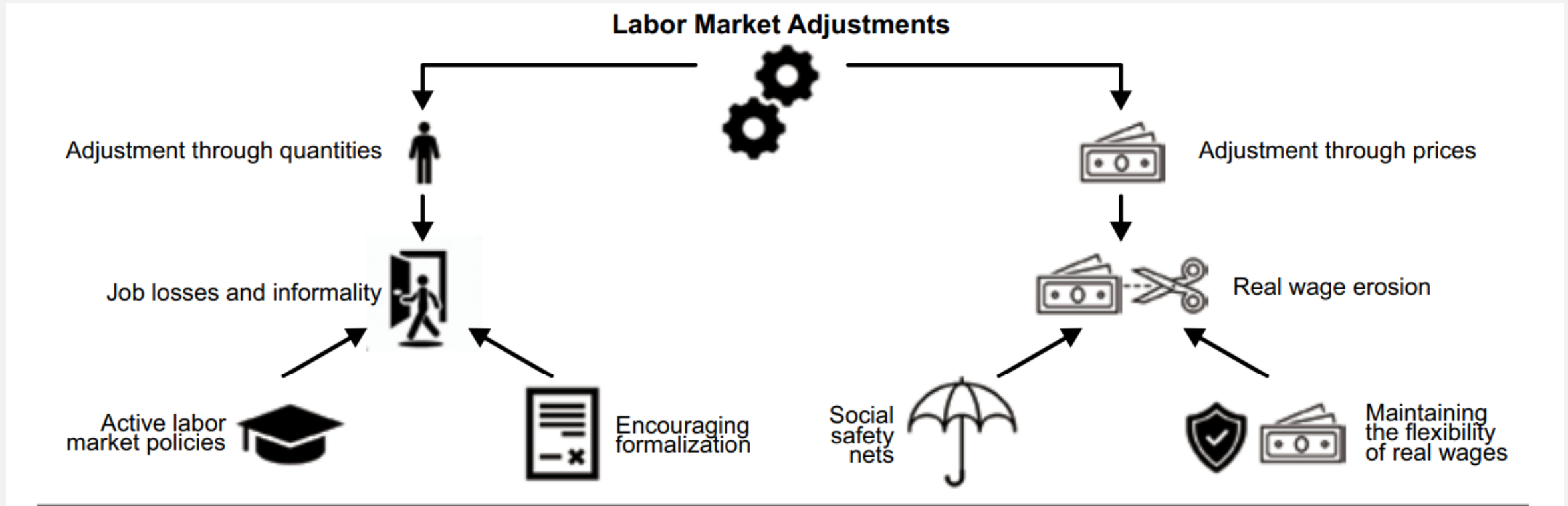


Lower real wages



- Negative implications on standards of living
- Deepening existing income inequality and poverty

The policy toolkit offers different instruments but not all have the same record of effectiveness



Source: Authors' elaboration.

Real wage flexibility combined with well-targeted cash transfers to support the most vulnerable

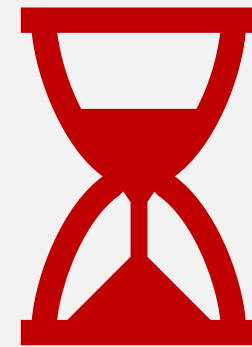


Lower employment losses because they have long-term costs

Protect the most vulnerable with well-targeted cash transfers



Effective policies are needed to prevent the worsening of **enduring structural challenges**



The time for reform is now

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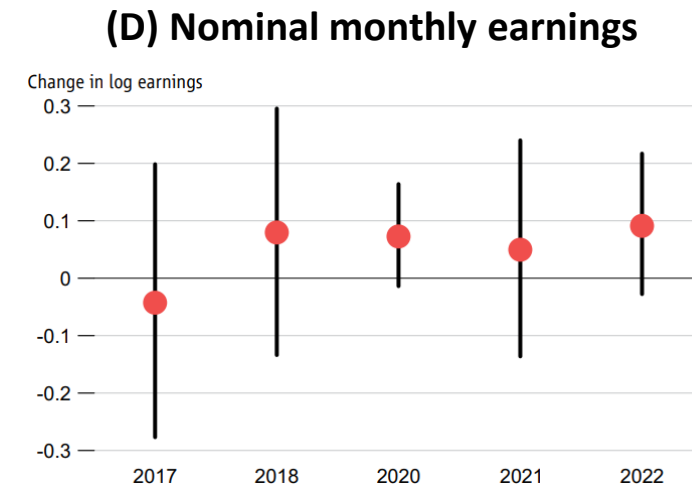
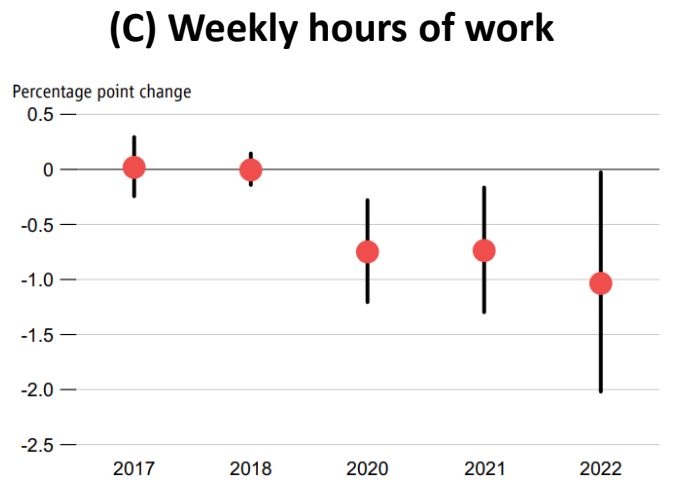
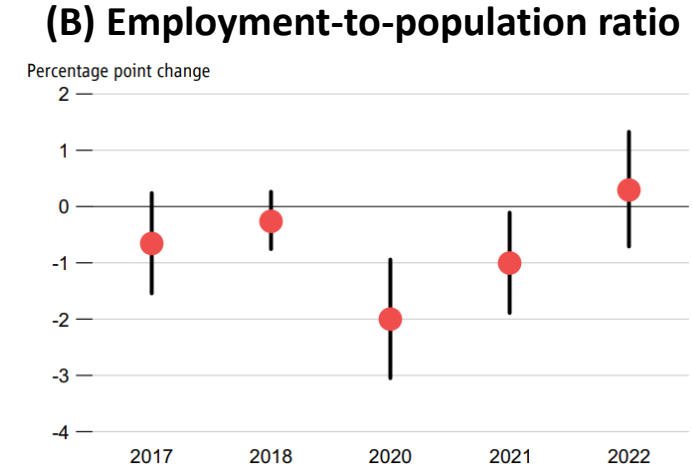
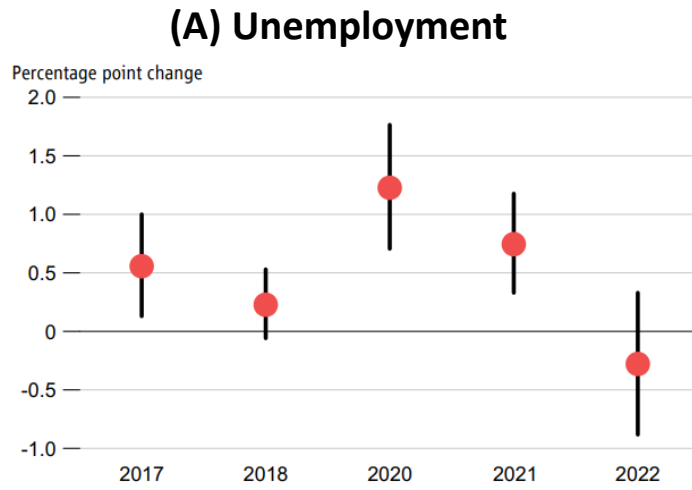
THANK YOU FOR JOINING US TODAY



APPENDIX

Moderate decreases in employment and working hours in EMDEs after COVID-19

Fixed-effects regressions of labor market outcomes in a global sample of EMDEs, 2017-22

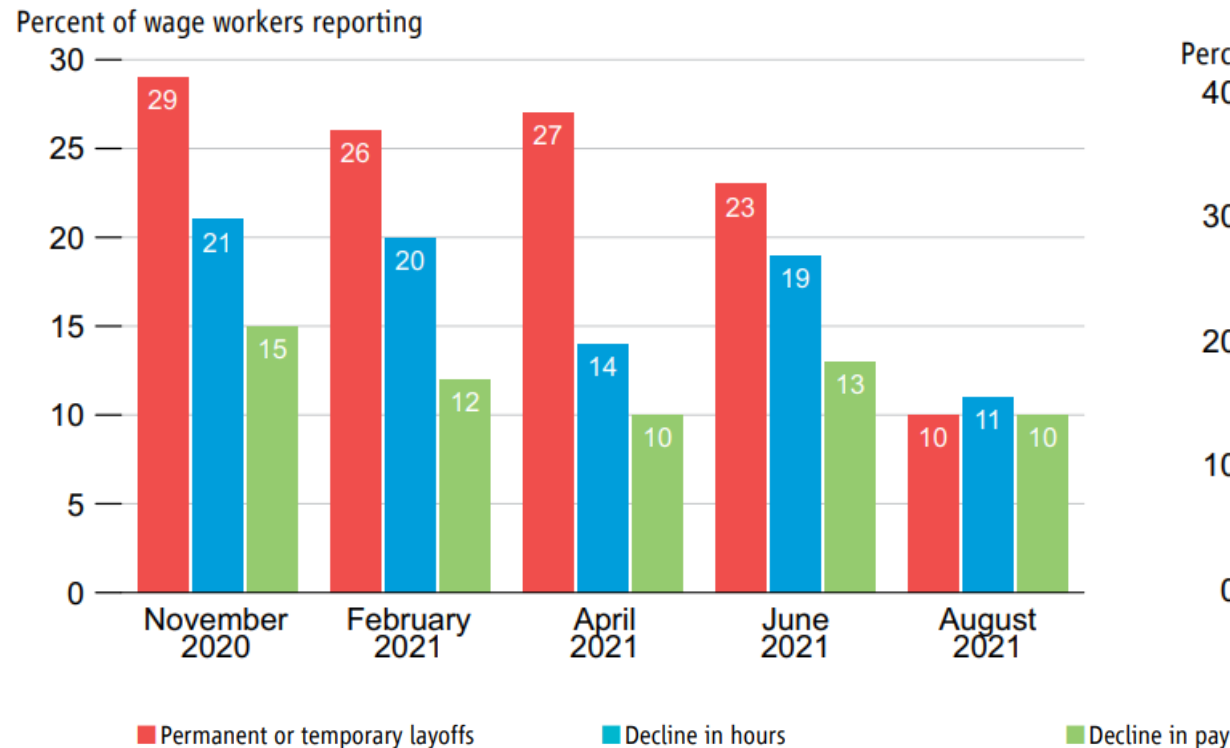


Source: Authors' calculations using data from national estimates by the International Labor Organization.

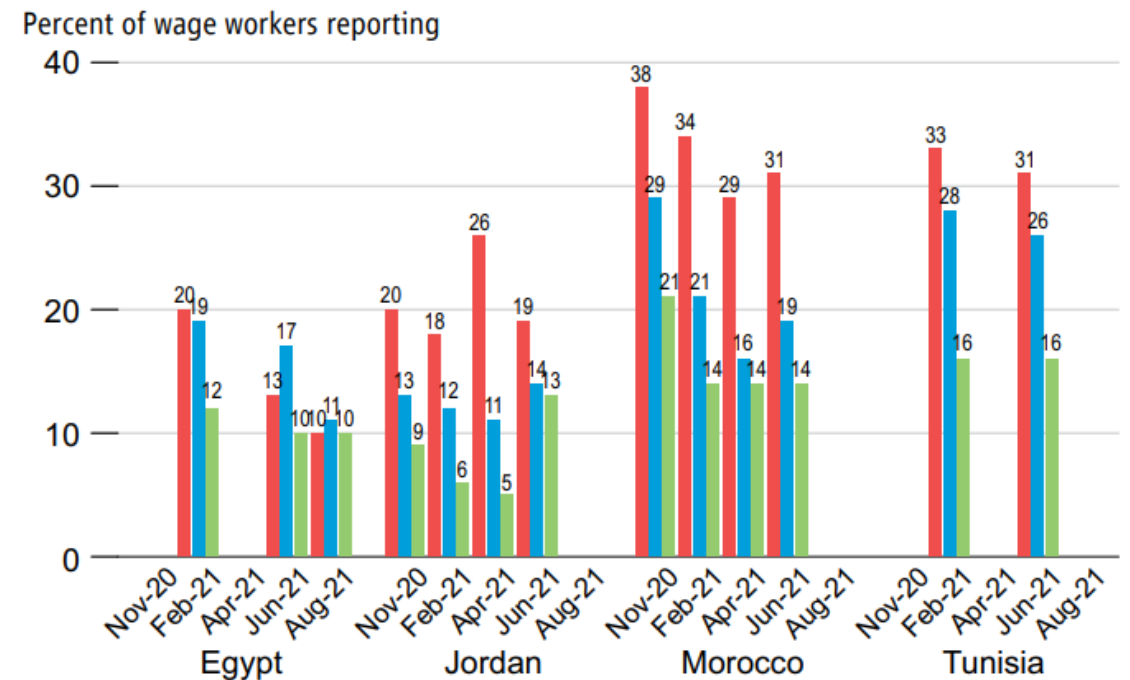
Labor markets in MENA adjusted primarily through a reduction in employment and working hours

Layoffs and reduction in working hours or pay after the COVID-19 shock (November 2020- August 2021)

(A) Average for the four countries surveyed



(B) By country

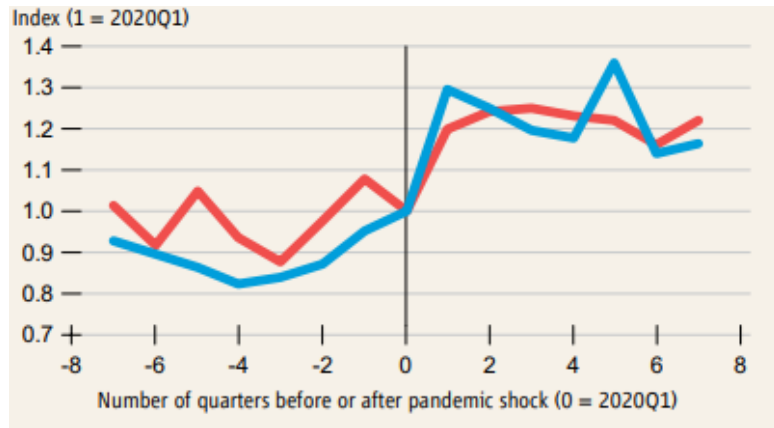


Source: Authors' calculations using data from COVID-19 MENA Monitor Surveys.

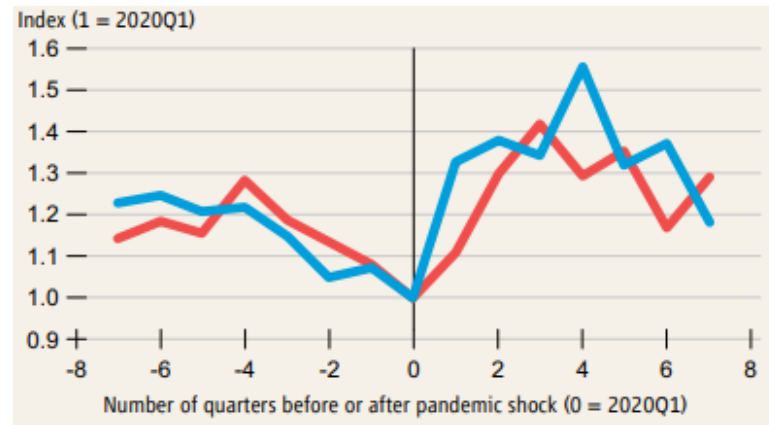
No evidence of pre-existing in male and female unemployment before the COVID-19 shock

Male and female unemployment rates in six countries in MENA, 2018-22

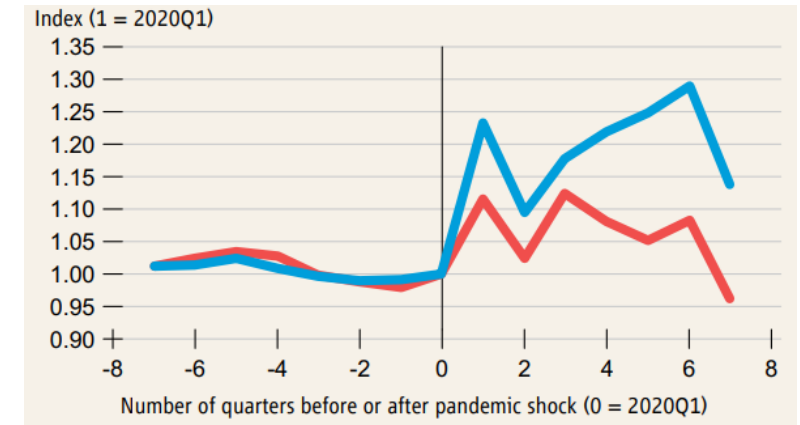
(A) Morocco



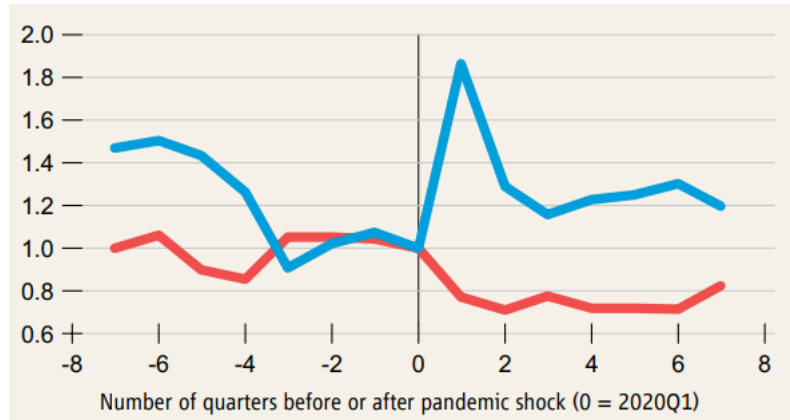
(B) Jordan



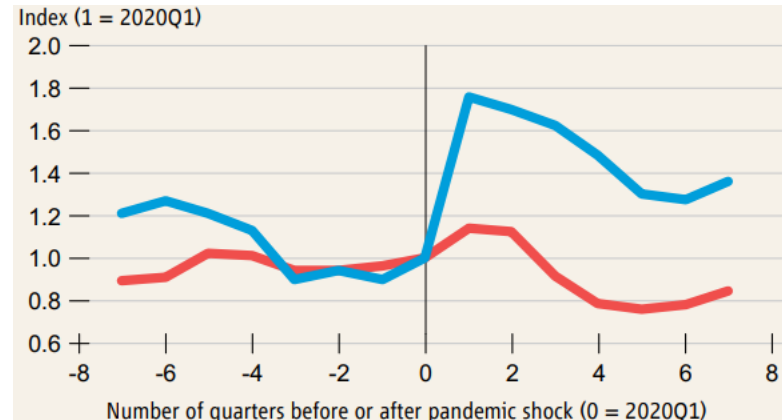
(C) Tunisia



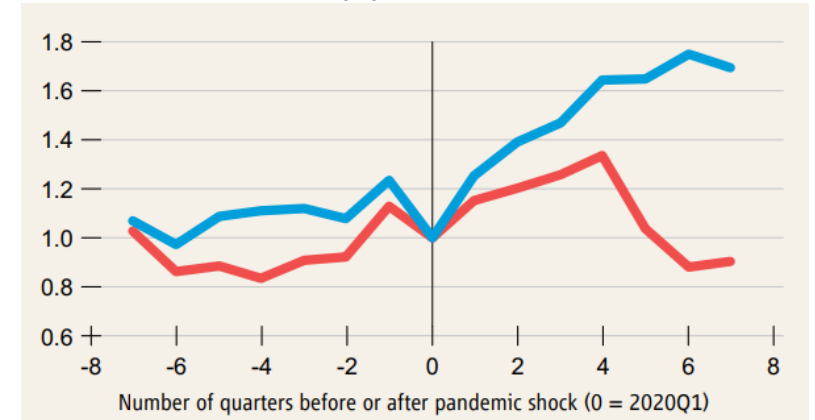
(D) Egypt



(E) Saudi Arabia



(F) Qatar



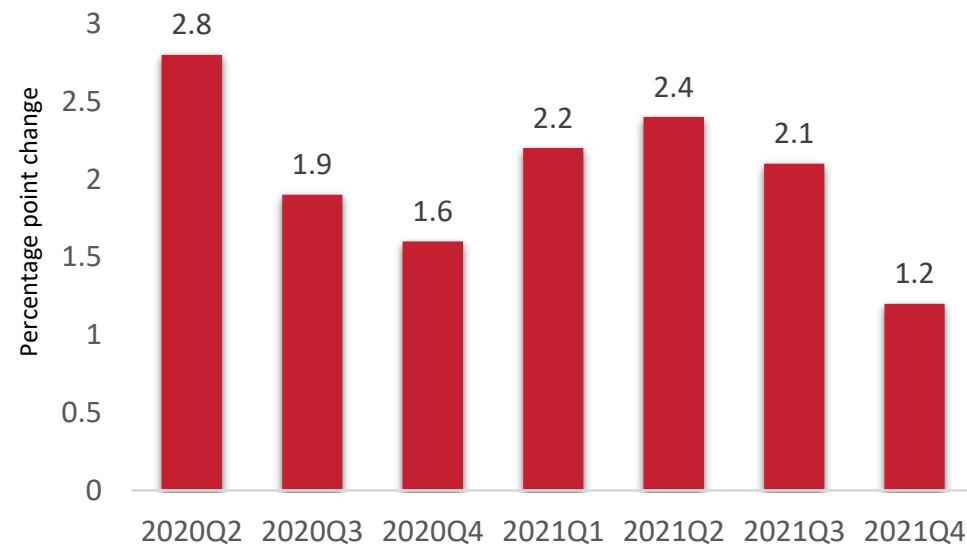
— Women — Men

Source: Authors' calculations using data from various sources. Egypt: National estimates from ILO. Jordan: LFS microdata. Morocco: HCP. Qatar: PSA. Saudi Arabia: GASTAT. Tunisia: INS

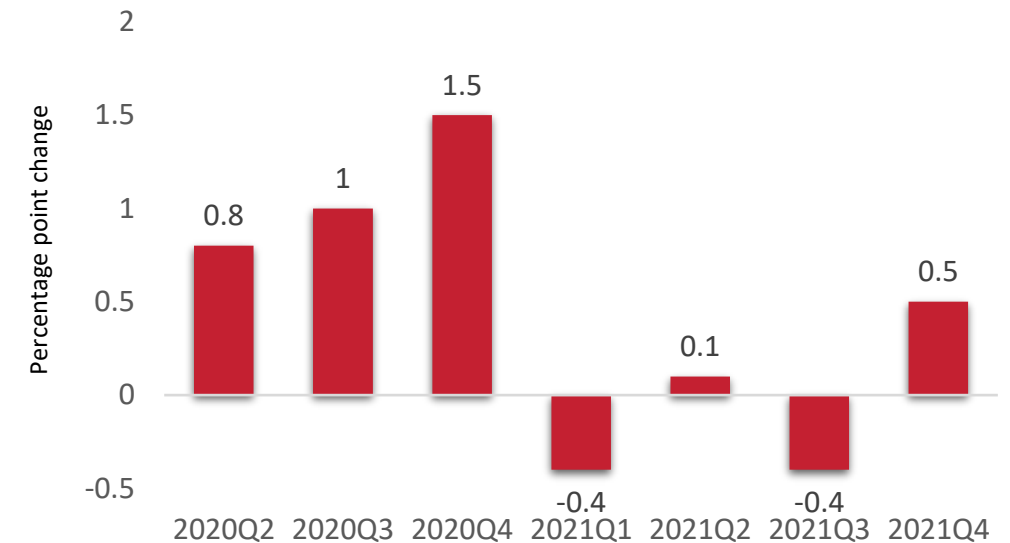
Unemployment took center stage as the primary margin of adjustment in MENA after COVID-19

Percentage point change in male and female unemployment, 2020Q2-2021Q4

(A) Results for men



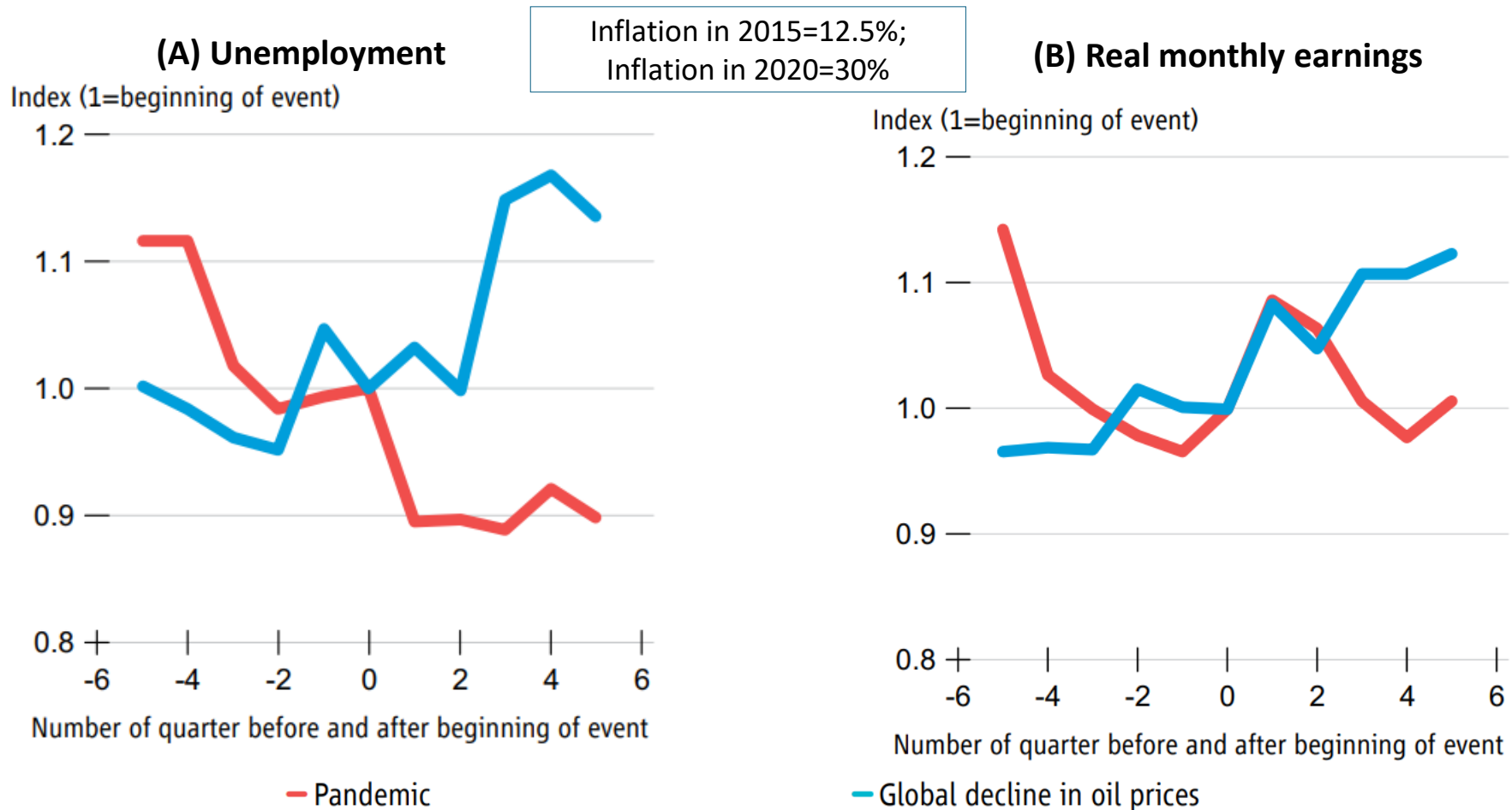
(B) Results for women



Source: Authors' calculations using data from various sources. Egypt: National estimates by the ILO. Jordan: LFS microdata. Morocco: HCP. Qatar: PSA. Saudi Arabia: GASTAT. Tunisia: INS.

Iran is the exception to the rule: A decline in real wages following the COVID-19 shock

Unemployment and wages following terms of trade shocks and COVID-19 in Iran

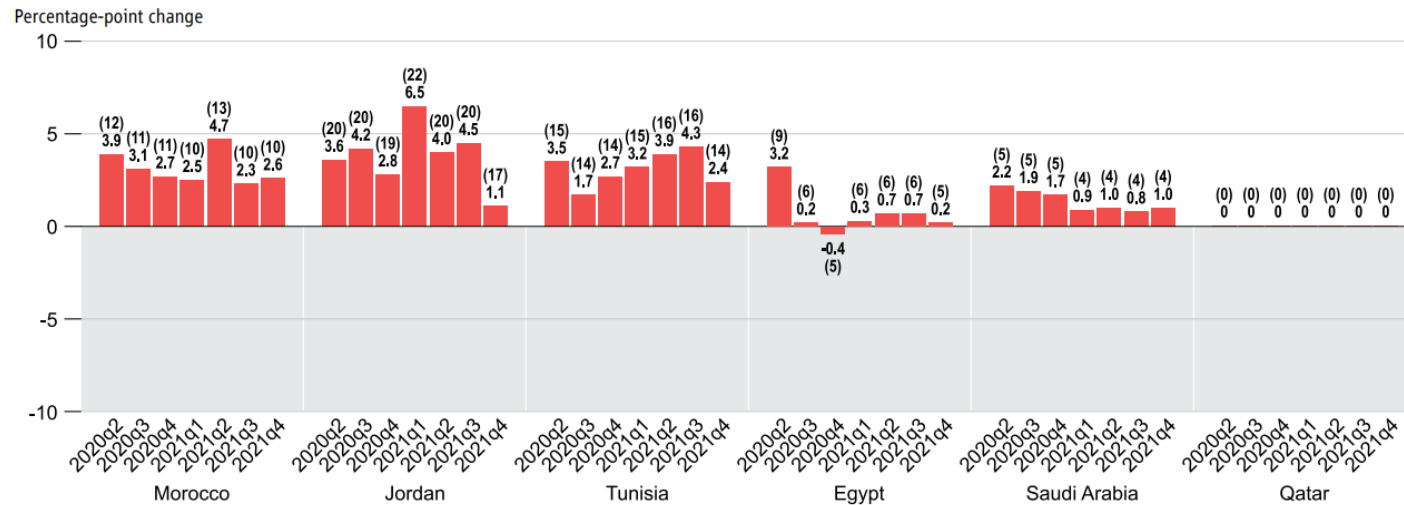


Source: Authors' calculations using data from the International Labor Organization and the Household Income and Expenditure Surveys.

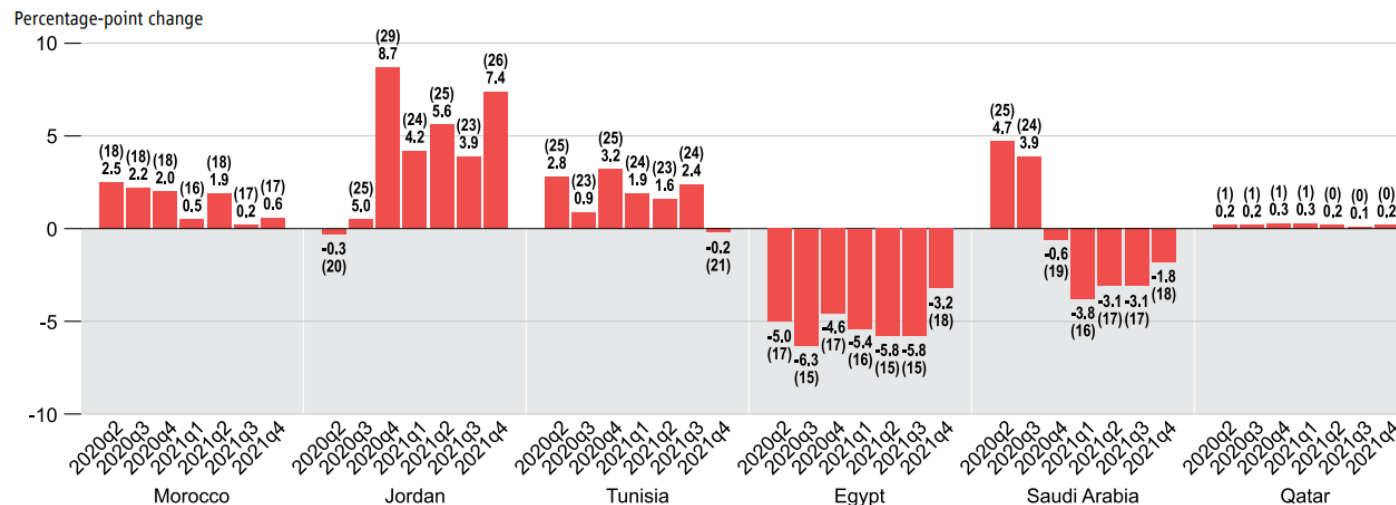
Larger increases in unemployment in developing MENA countries after the COVID-19 shock

Percentage point change in male and female unemployment, 2020Q2-2021Q4

(A) Results for men



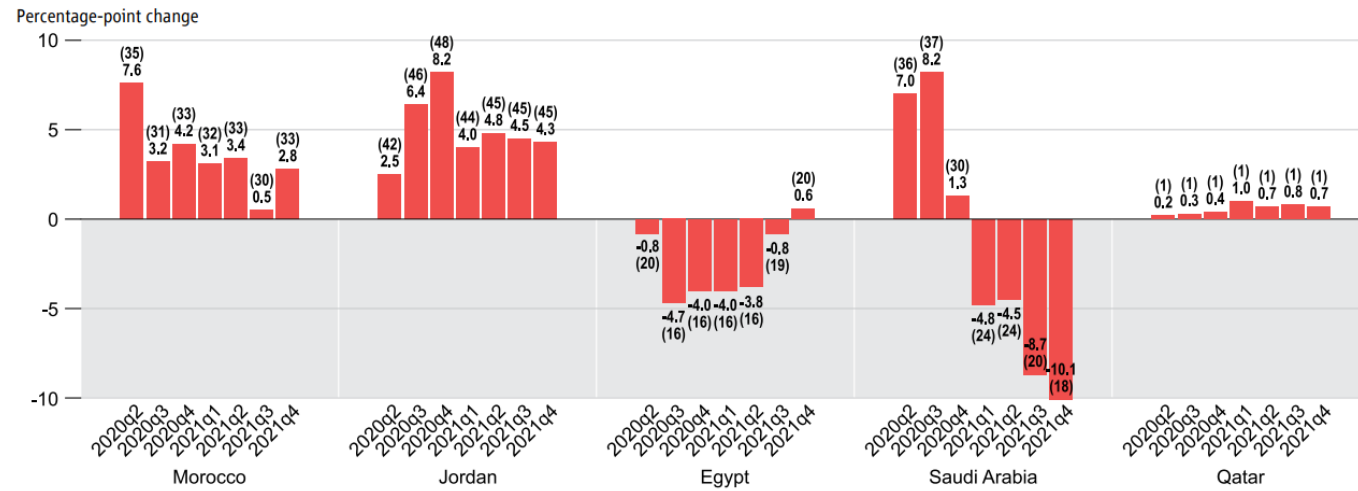
(B) Results for women



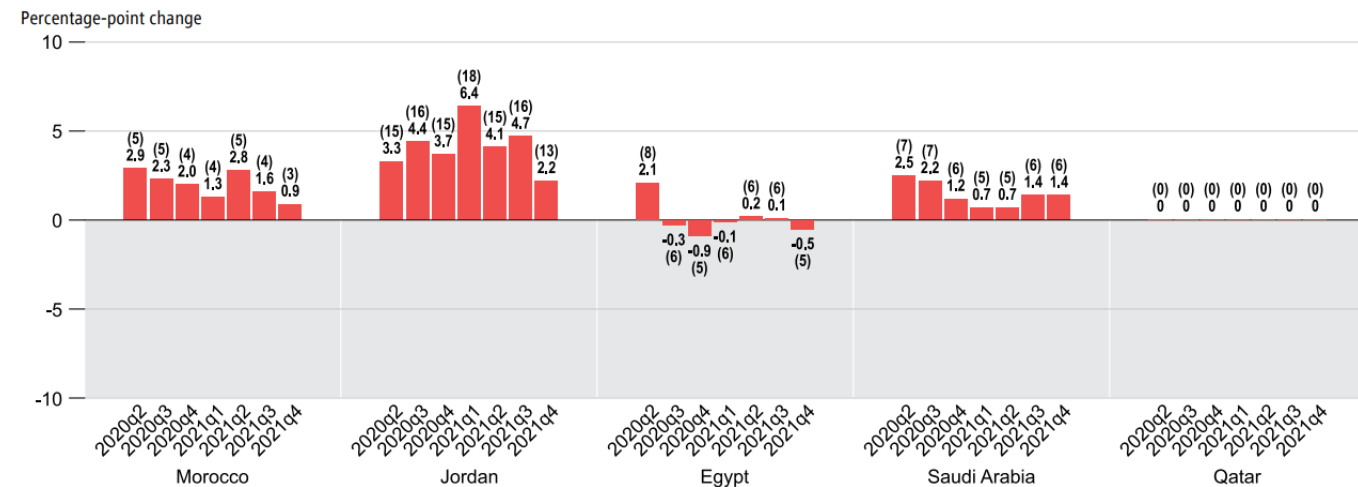
Source: Authors' calculations using data from various sources. Egypt: National estimates by the ILO. Jordan: LFS microdata. Morocco: HCP. Qatar: PSA. Saudi Arabia: GASTAT. Tunisia: INS.

The unemployment increase among youth is 1.5 times larger than among adults in 2020

Percentage point change in male and female unemployment, 2020Q2-2021Q4



(A) Results for youth



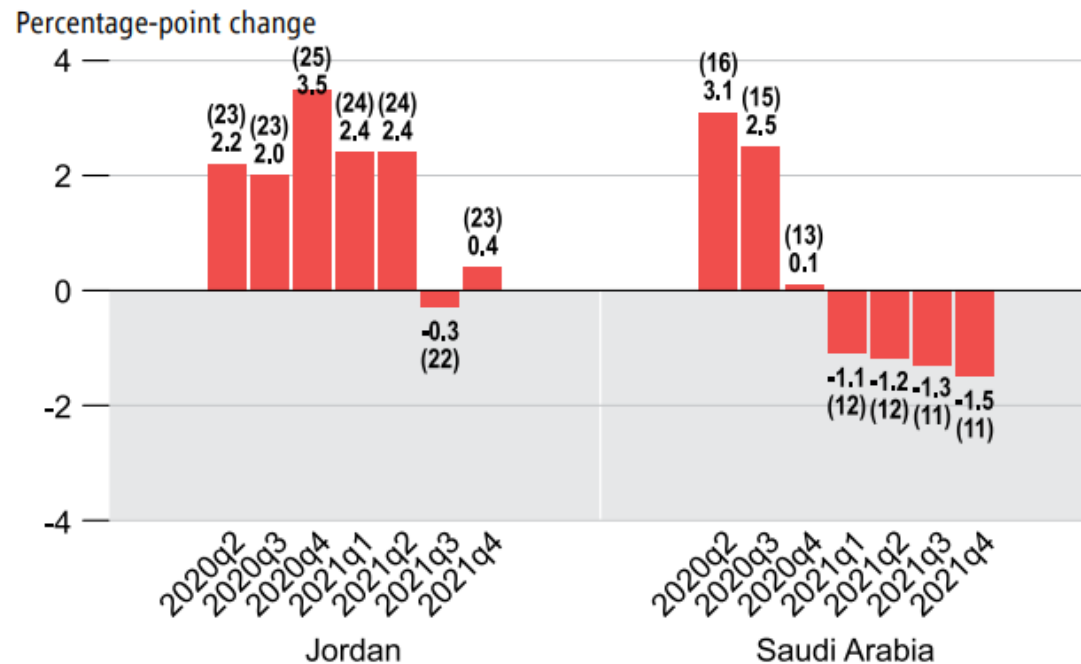
(B) Results for adults

Source: Authors' calculations using data from various sources. Egypt: National estimates by the ILO. Jordan: LFS microdata. Morocco: HCP. Qatar: PSA. Saudi Arabia: GASTAT.

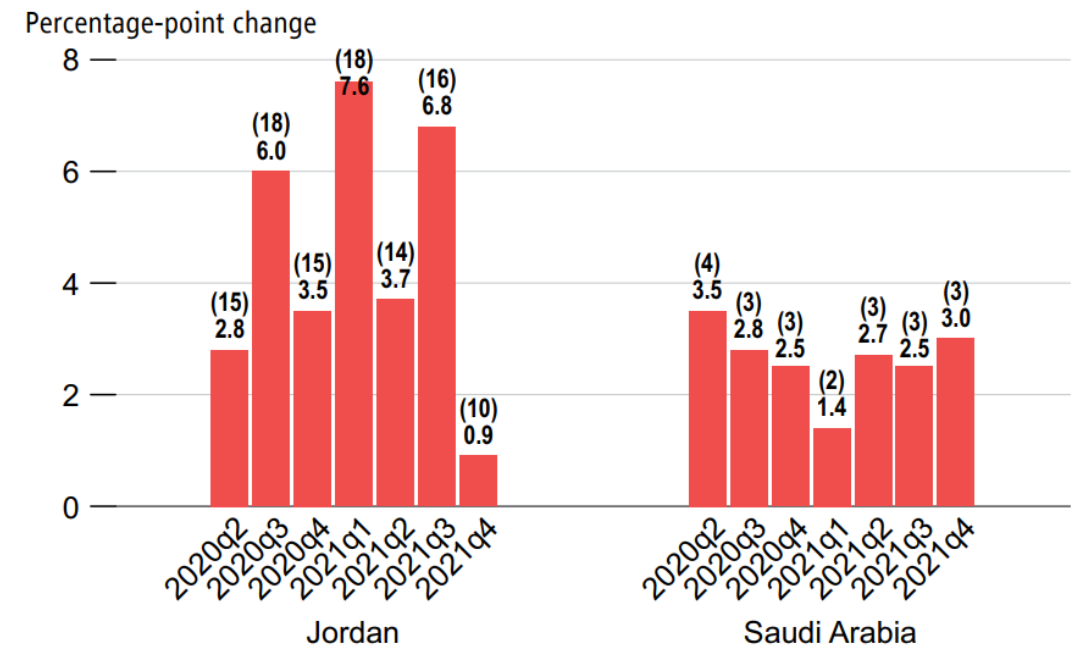
Non-national citizens experienced larger increases in unemployment after the COVID-19 shock

Percentage point change in unemployment among national and non-national citizens, 2020Q2-2021Q4

(A) Results for national citizens



(B) Results for non-national citizens

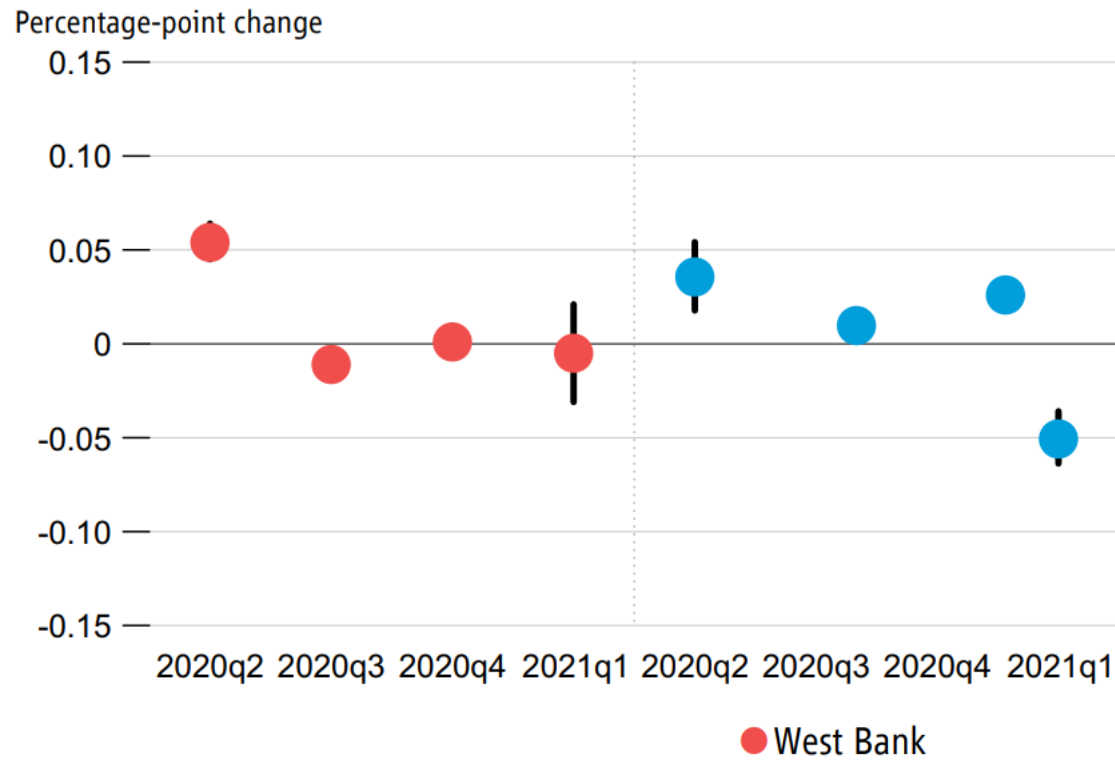


Source: Authors' calculations using data from various sources. Jordan: LFS microdata. Saudi Arabia: GASTAT.

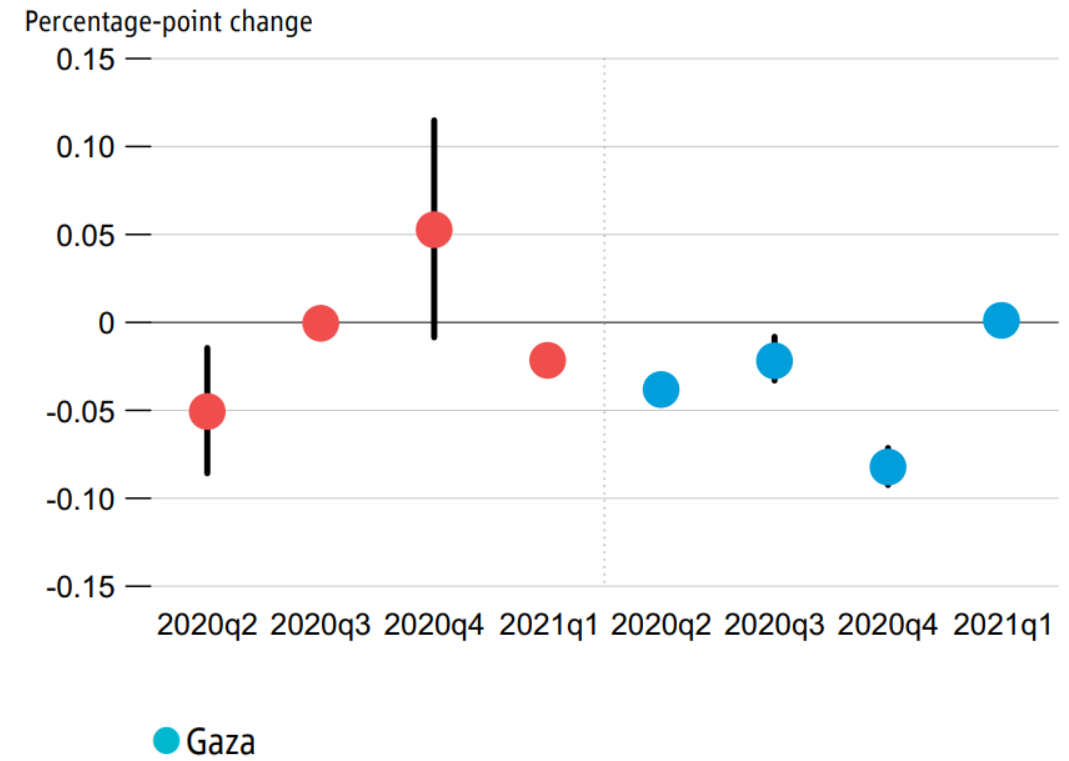
An increase in job loss and a decline in job finding rates among men in the West Bank and Gaza

Job loss and job gain among men in the West Bank and Gaza, 2020Q2-2021Q1

(A) Job loss



(B) Job gain

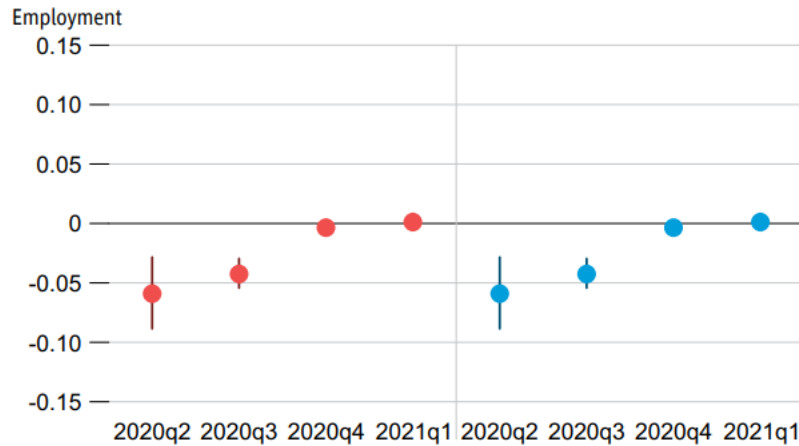


Source: Deng, Elmallakh, Flabbi, and Gatti (2023) based on Labor Force Surveys in the West Bank and Gaza.

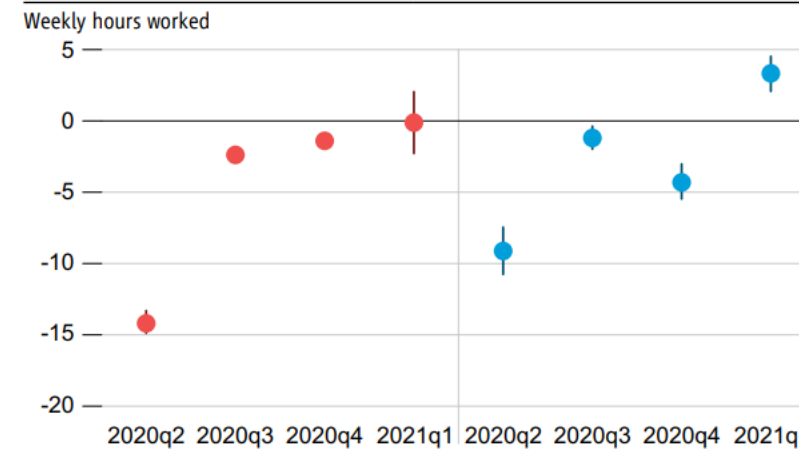
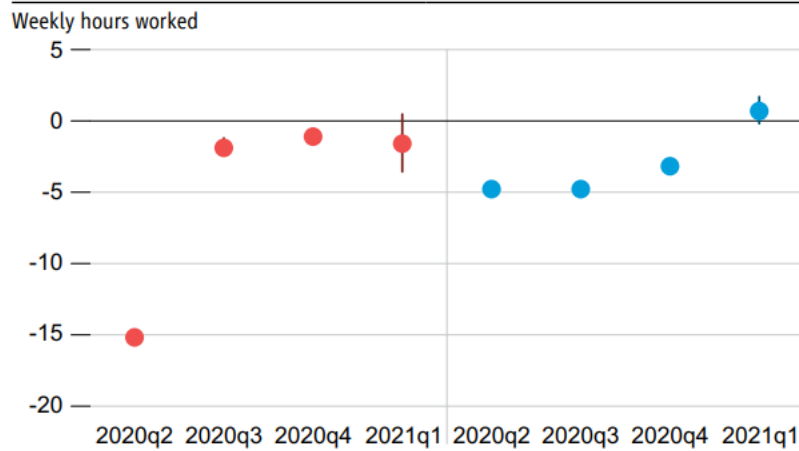
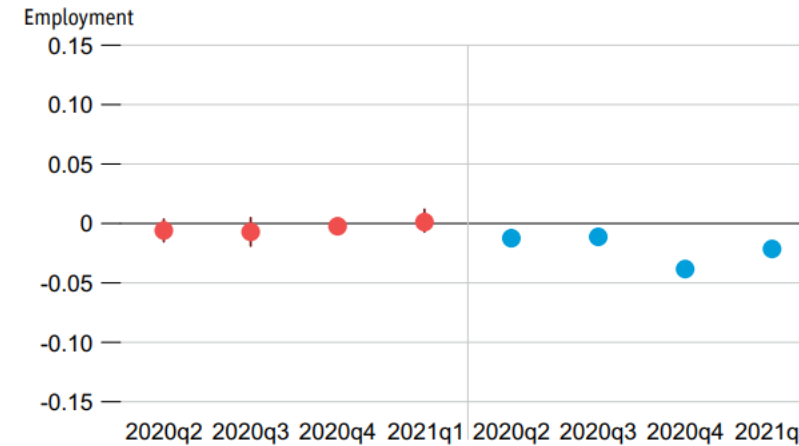
Extensive and intensive margins of adjustment are equally important

Employment and hours worked in the West Bank and Gaza, 2020Q2-2021Q1

(A) Results for men



(B) Results for women



● West Bank

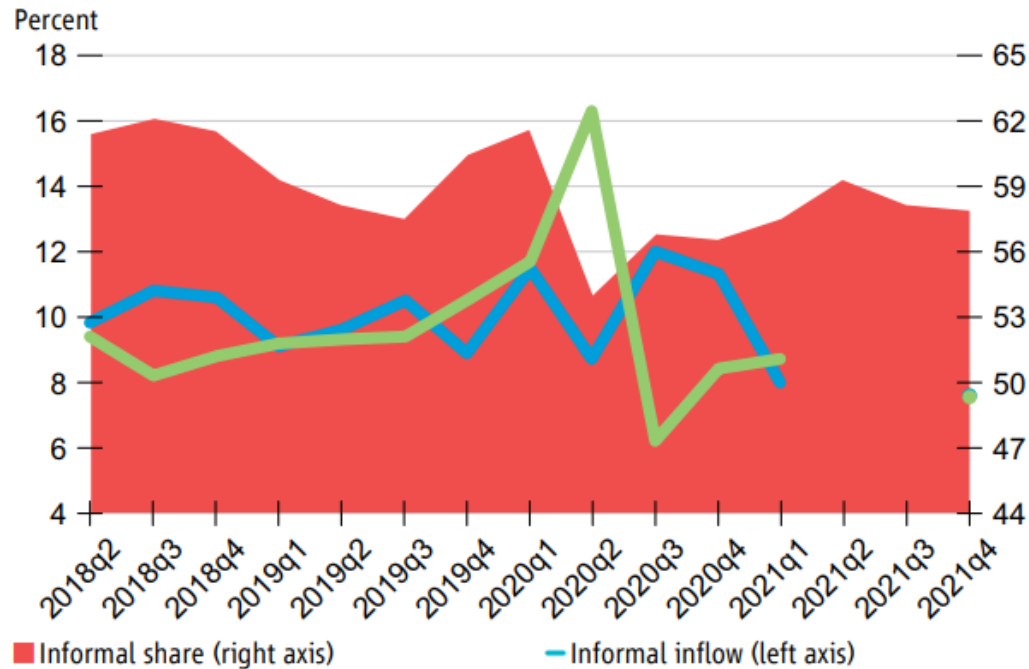
● Gaza

Source: Deng, Elmallakh, Flabbi, and Gatti (2023) based on Labor Force Surveys in the West Bank and Gaza.

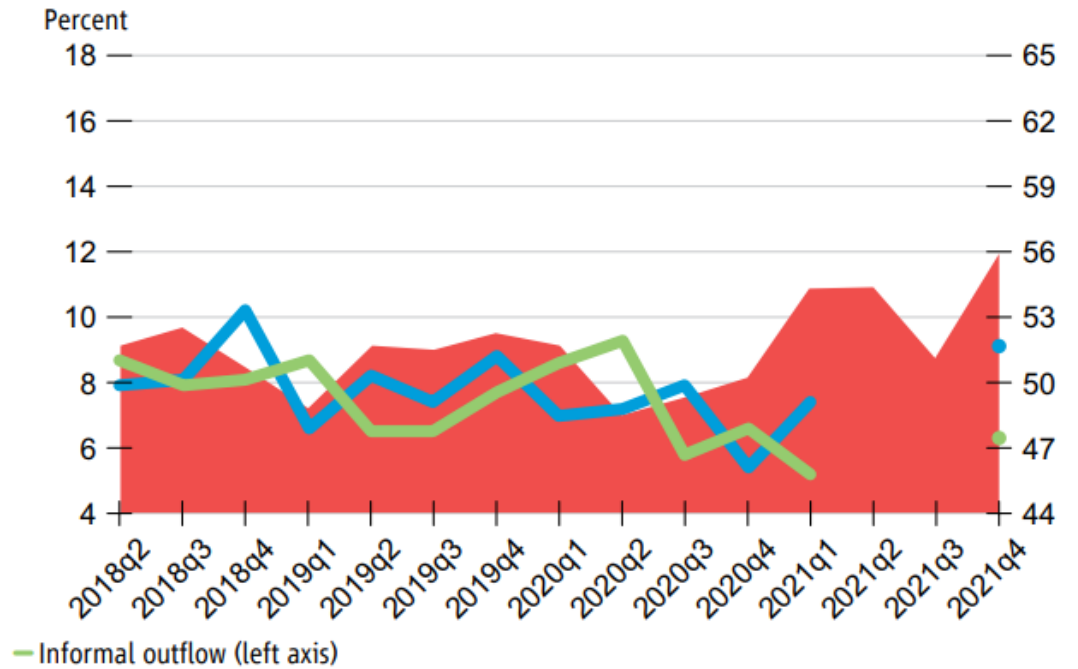
Pandemic induced job losses disproportionately affected informal workers in West Bank and Gaza

Informality in the West Bank and Gaza, 2018-21

(A) The West Bank



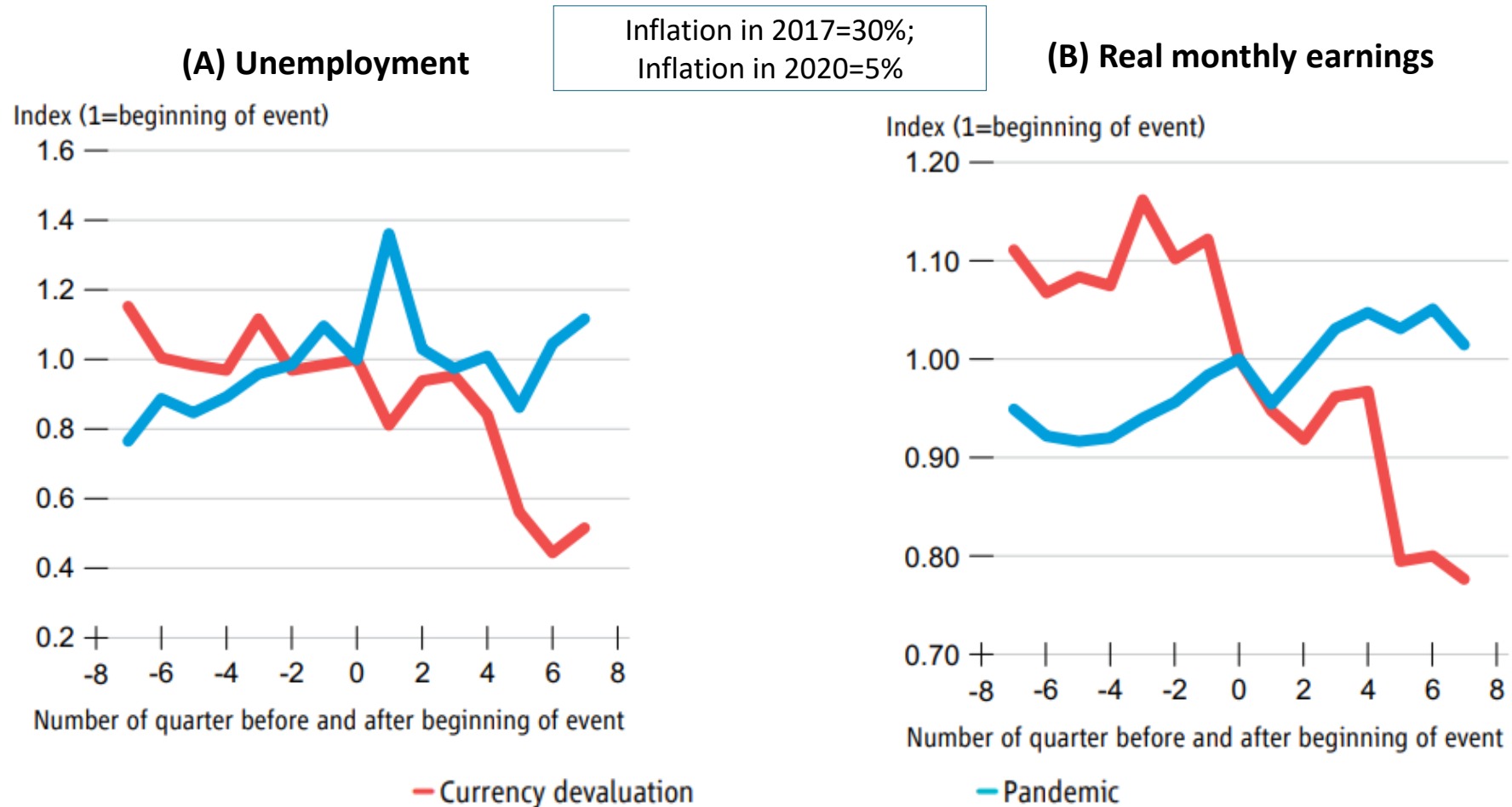
(B) Gaza



Source: Authors' calculations using data from the Labor Force Surveys in the West Bank and Gaza.

Inflation can help buffer the unemployment adjustment, but it leads to the erosion of real wages

Unemployment and wages following the 2016 currency devaluation and COVID-19 in Egypt

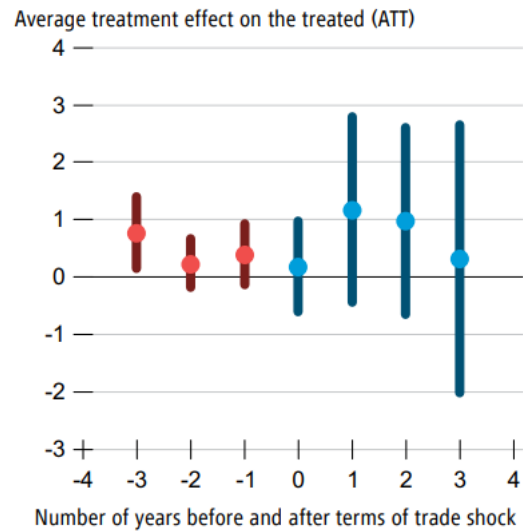


Source: Authors' calculations using data from Labor Force Surveys.

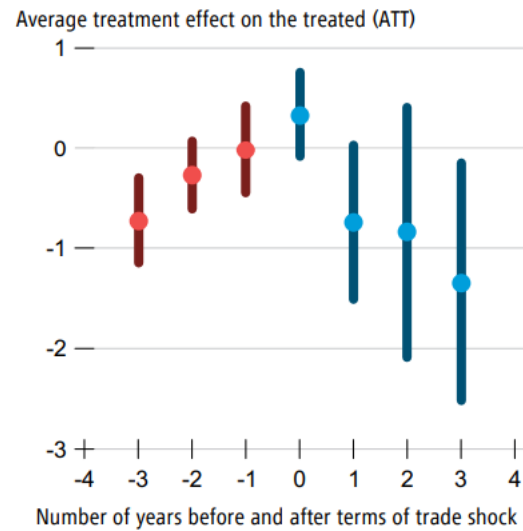
Higher unemployment and lower hours of work after negative terms of trade shocks in EMDEs

Adjustments to negative terms of trade shocks in EMDEs, 1981-2020

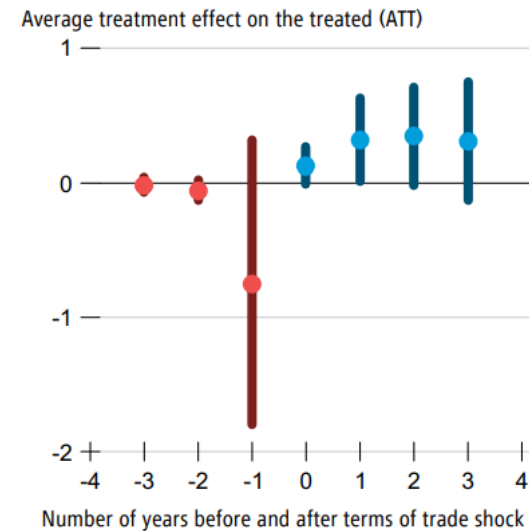
(A) Unemployment



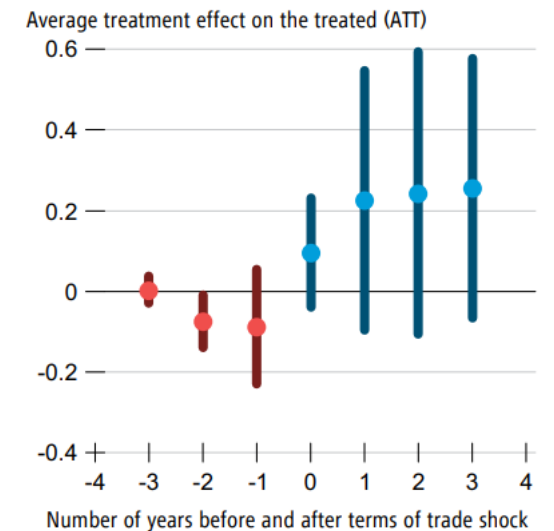
(B) Weekly hours of work



(C) Log nominal earnings



(D) Log real earnings



● Before terms of trade shock

● After terms of trade shock

Source: Authors' calculations using data from national estimates by the International Labor Organization.

Wage erosion: Deepening inequalities and burdening the poor



After the 2016 devaluation in Egypt, 4% of exchange rate changes impacted prices immediately and 9% were passed through over six months (Alazzawi and Hlasny, 2019).



The average household experienced a cost-of-living surge of up to 50%, with poorer households facing even larger increases (Alazzawi and Hlasny, 2019).



Past currency devaluations in Egypt inflicted larger welfare losses on the poor (Kraay, 2007).



Large devaluations, such as in Mexico in 1994, raised the cost of living for the bottom income decile by approximately 1.5 times more than for the top decile after two years (Cravino and Levchenko, 2017).