MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Labor Market Challenges during the Pandemic, the Role of Informality, and the Road Ahead

XXXIX Encuentro de Economistas Banco Central de Reserva del Perú

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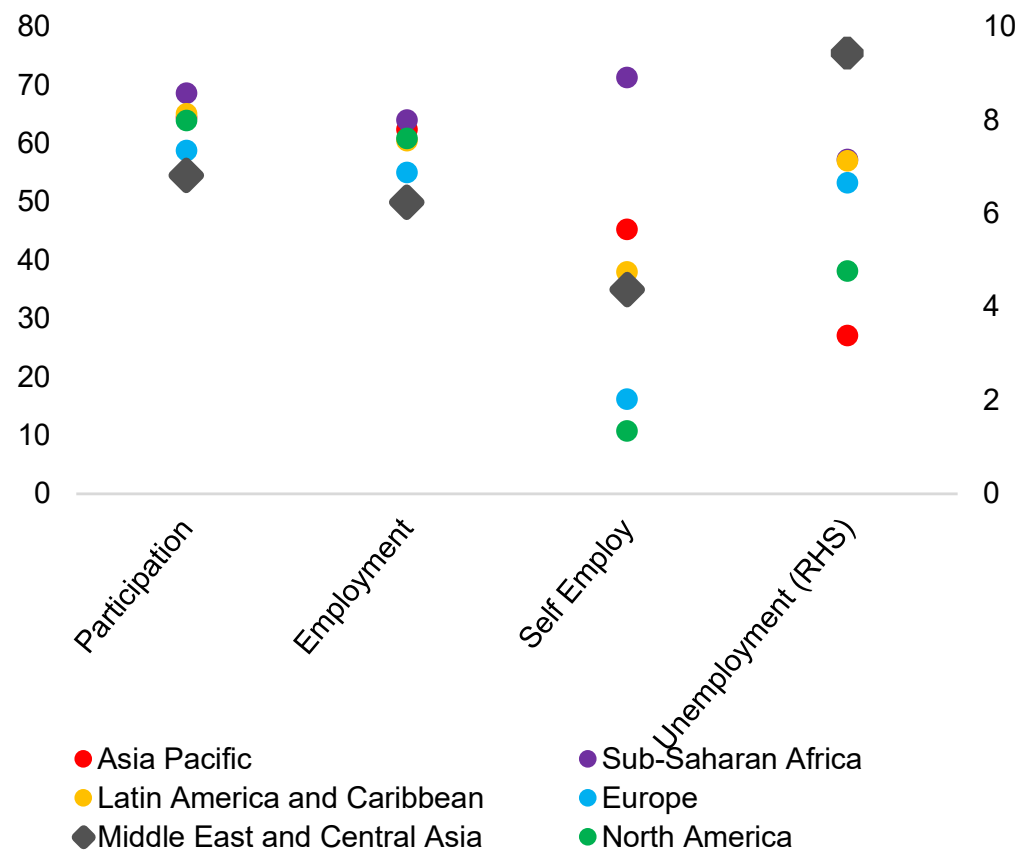Middle East and Central Asia Department

Outline of the Presentation

- **Background**

- Backward-looking analysis: The Labor Market Impacts of the COVID-19 Shock

- Forward-looking analysis: Prospects for the Labor Market Recovery in the Near Term

- Policy Actions toward an Inclusive Recovery

A word about the *Regional Economic Outlook: Middle East and Central Asia*
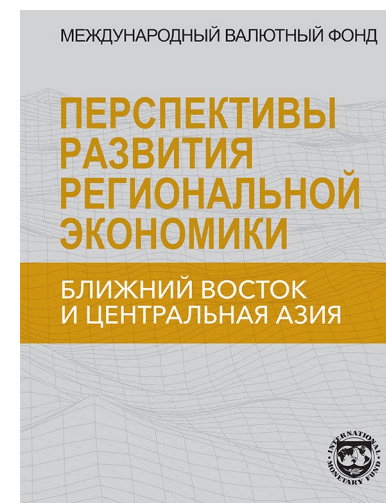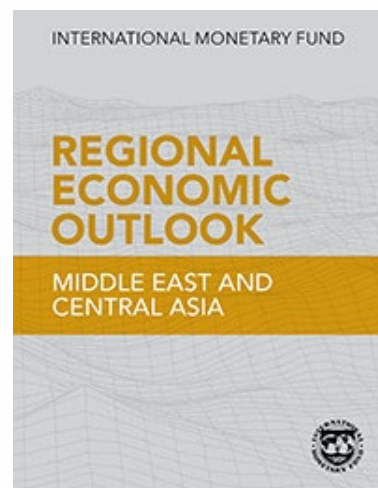
Long-Standing Labor Market Challenges of the Middle East and Central Asia (ME&CA) region at the Dawn of the Pandemic

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

Legend:
- Asia Pacific
- Sub-Saharan Africa
- Latin America and Caribbean
- Europe
- Middle East and Central Asia
- North America

Sources: ILOSTAT; ILO modelled estimates; and IMF staff calculations.
Note: Unemployment is unemploymenr rate; participation is labor force participation rate; employment rate is employment-to-working-age population ratio; and self-employ is self employment in percent of total employment.

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The Pandemic's Unprecedented Impact on Labor Markets (1/3)

Figure 2.2. Labor Market Outcomes during the Pandemic across Regions
(Change from 2018-19, in percentage points)
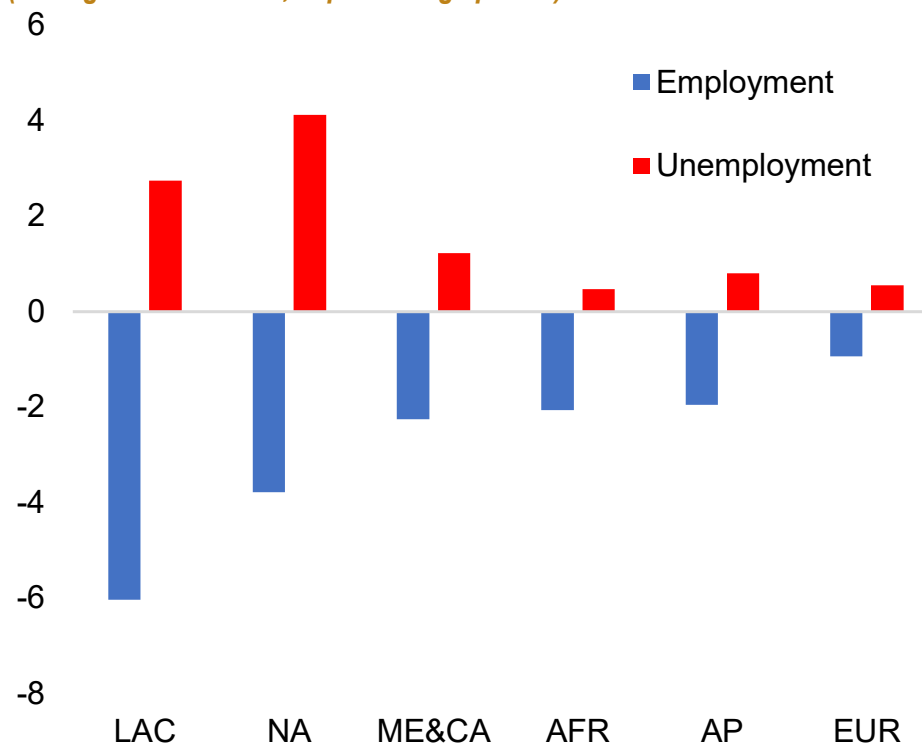
Sources: ILOSTAT; ILO modelled estimates; and IMF staff calculations.
Note: Employment is employment-to-working-age-population ratio. Employment and Unemployment is the average change in the indicated variable across countries in the region, calculated relative to its average value over 2018–19. NA refers 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 (2/3)

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.						

# The Pandemic's Unprecedented Impact on Labor Markets (3/3)

Figure 2.3. Quarterly Employment Dynamics for Selected Countries during Previous Downturns and the COVID-19 Shock
(Index: quarter before start of slowdown or recession = 100)
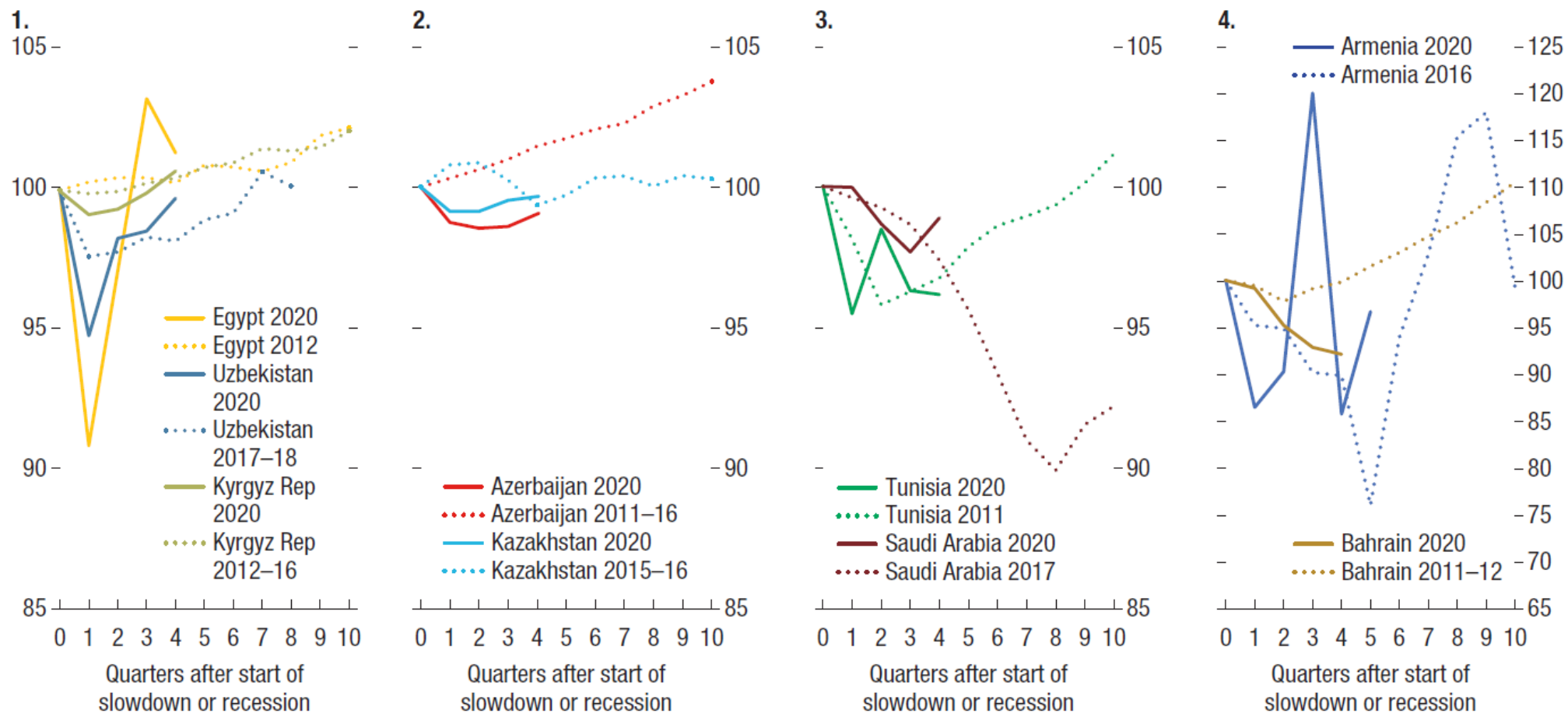
Source: IMF staff calculations based on data from national authorities.

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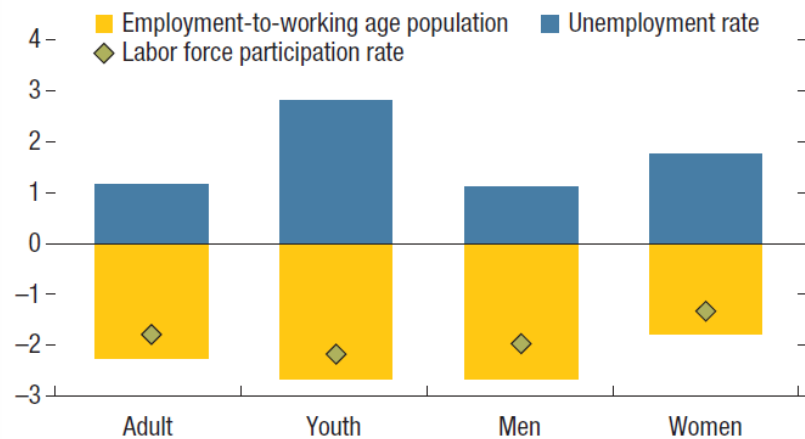

Figure 2.4. The Labor Market during Downswings and the COVID-19 Shock
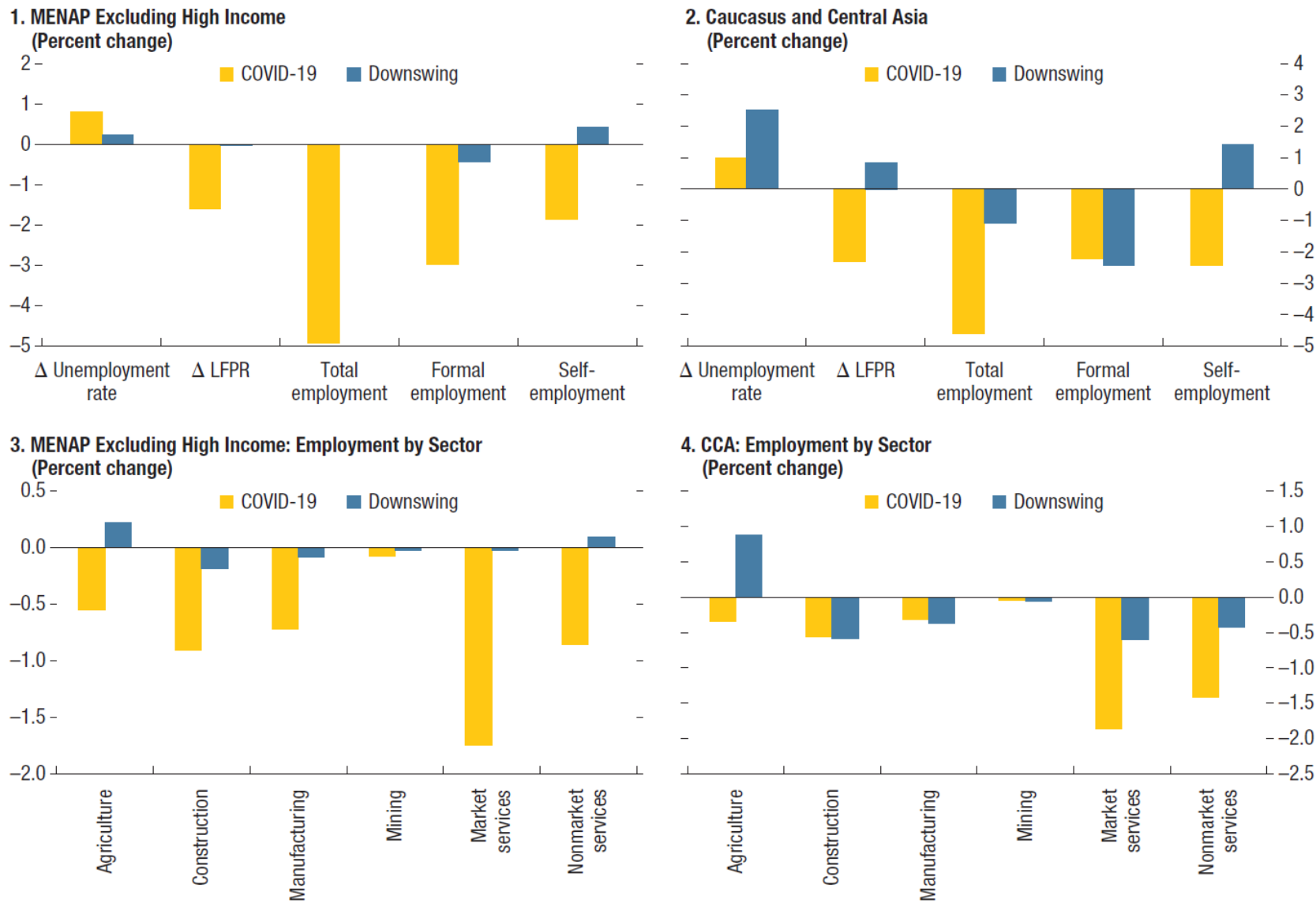
The most vulnerable have shouldered the pandemic's burden disproportionately, with the low-skilled, the young, women, migrant workers, and informal workers among the hardest hit

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

1. Labor Market Outcomes in ME&CA by Age and Gender
(Percentage points, 2020 change from average 2018–19)

- Employment-to-working age population
- Unemployment rate
- Labor force participation rate

Categories: Adult, Youth, Men, Women

2. Labor Market Outcomes in ME&CA by Age, Gender, and Subregion
(Percentage points, 2020 change from average 2018–19)

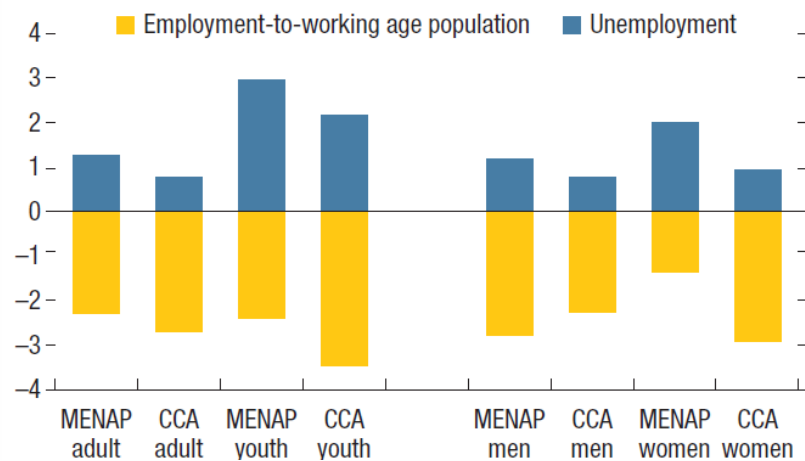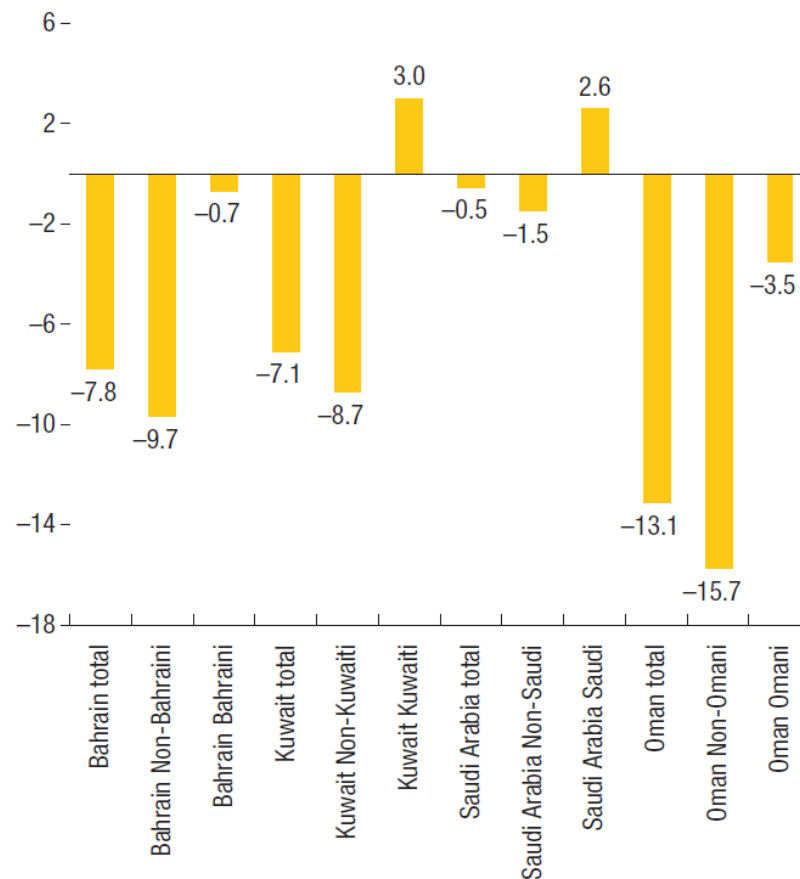- Employment-to-working age population
- Unemployment

Categories: MENAP adult, CCA adult, MENAP youth, CCA youth, MENAP men, CCA men, MENAP women, CCA women

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

- Bahrain total: −7.8
- Bahrain Non-Bahraini: −9.7
- Bahrain Bahraini: −0.7
- Kuwait total: −7.1
- Kuwait Non-Kuwaiti: −8.7
- Kuwait Kuwaiti: 3.0
- Saudi Arabia total: −0.5
- Saudi Arabia Non-Saudi: −1.5
- Saudi Arabia Saudi: 2.6
- Oman total: −13.1
- Oman Non-Omani: −15.7
- Oman Omani: −3.5

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

Countries in ME&CA implemented wide-ranging measures to support firms and workers

Figure 2.8. Labor Market Policy Responses during the Pandemic in the ME&CA Region
(Number of countries)
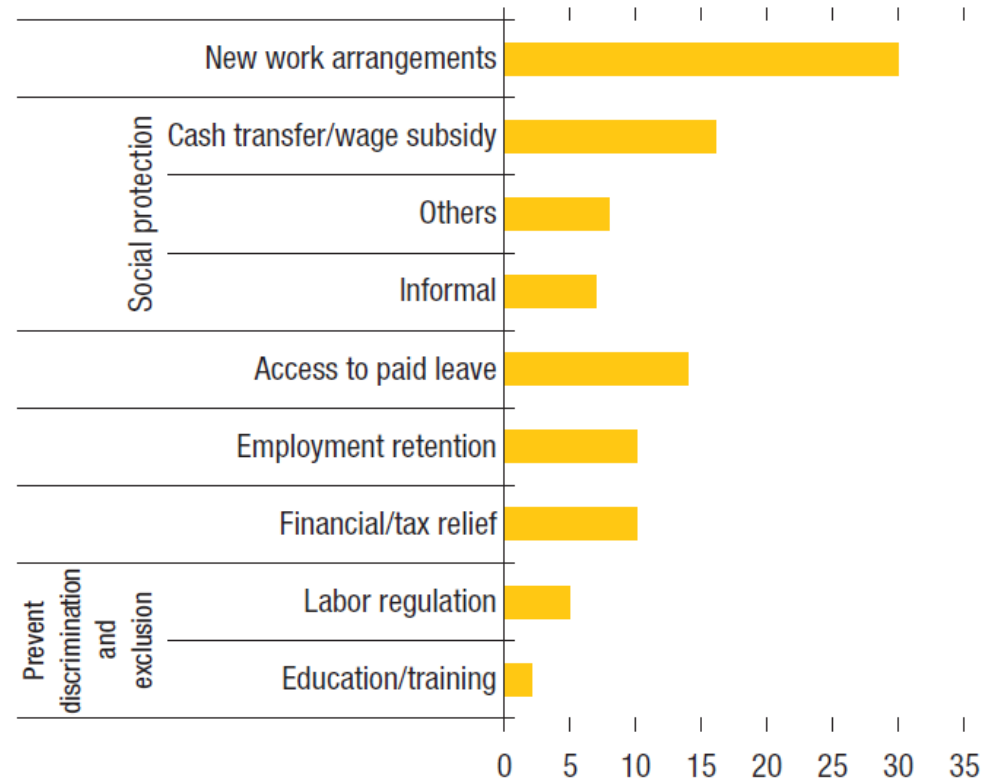
Sources: ILO Policy Response Tracker; and IMF staff calculations.
Note: Country policy responses are presented within these categories, which were defined by the ILO. ILO = International Labour Organization; ME&CA = Middle East and Central Asia.

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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
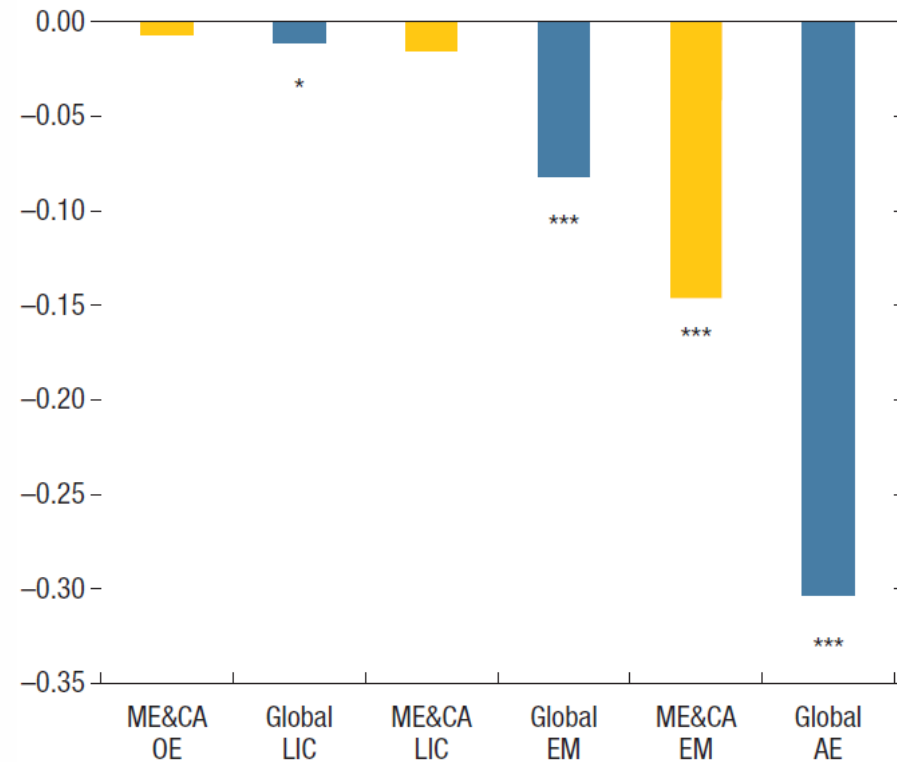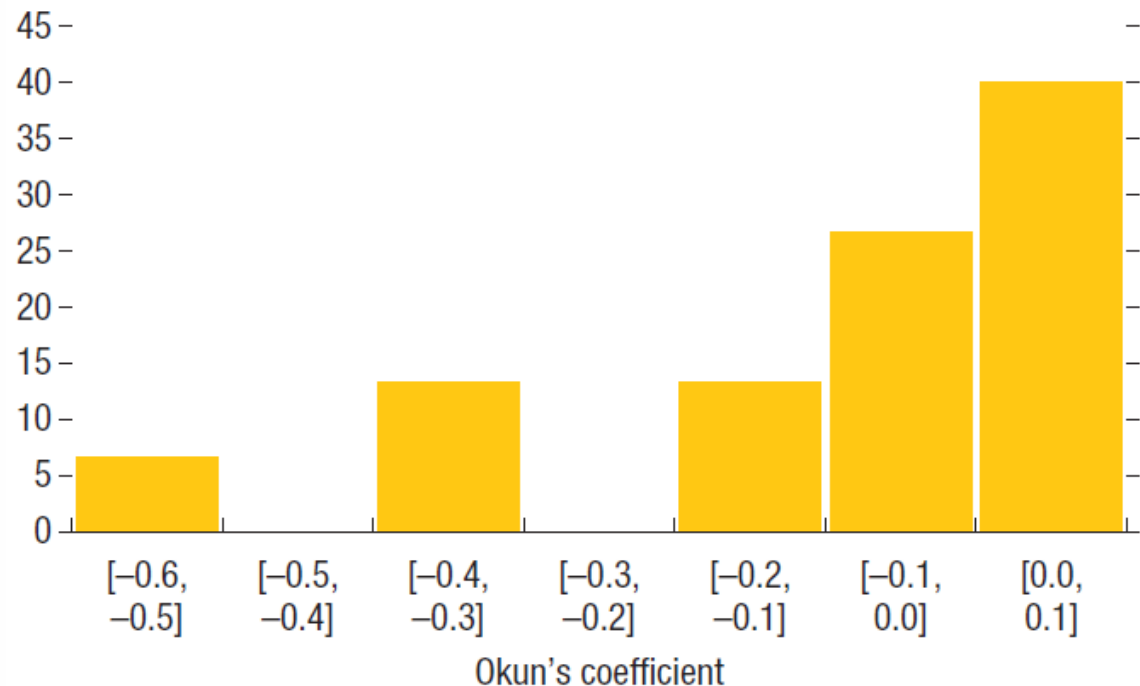
Source: IMF staff calculations.
Note: The bars show the estimated Okun's coefficients from the change specification. AE = advanced economies; EM = emerging markets; LIC = low-income countries; ME&CA = Middle East and Central Asia; OE = oil exporters.
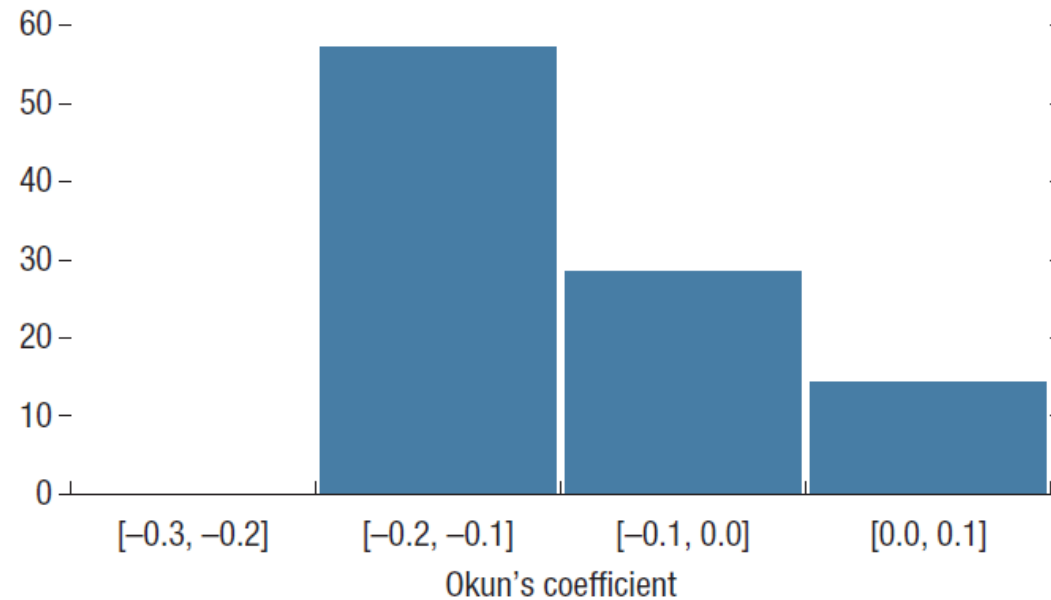$*p < .10$; $**p < .05$; $***p < .01$.

The Sensitivity of Labor Markets to Output Fluctuations is very Heterogeneous Across ME&CA countries

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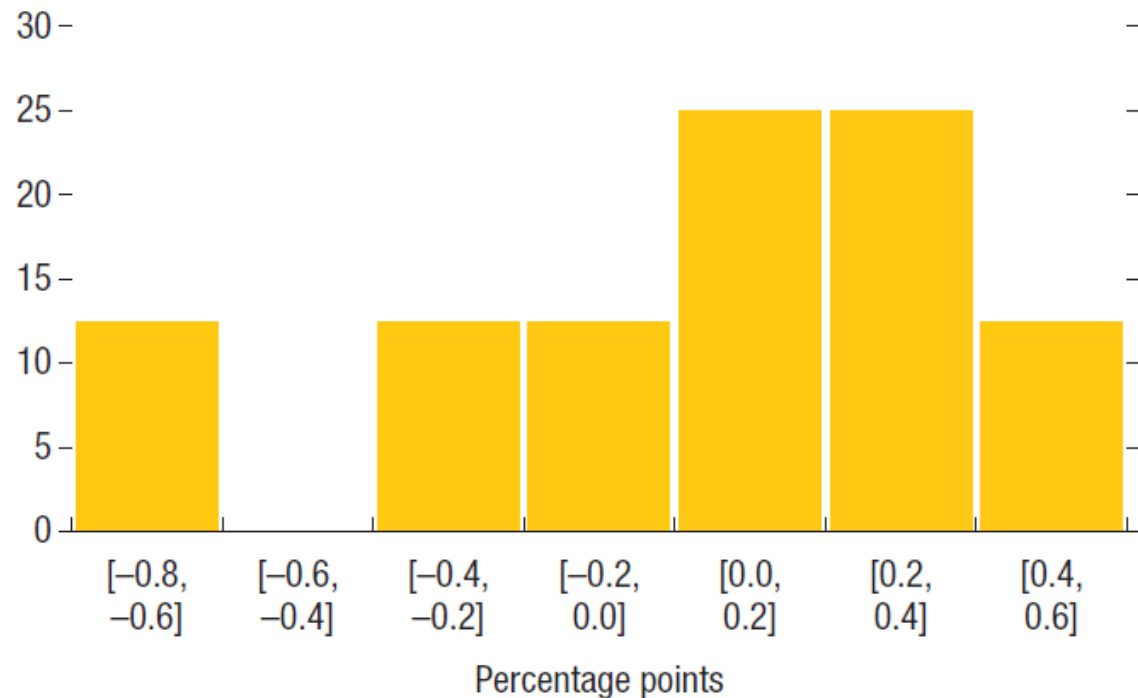(Percent)

Source: IMF staff estimates.
Note: CCA = Caucasus and Central Asia; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.
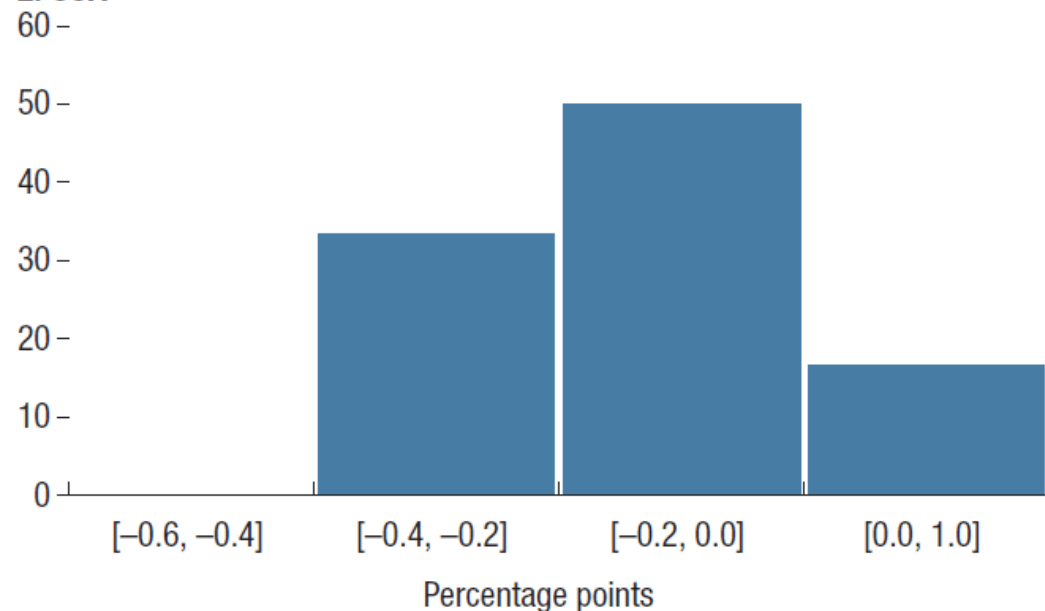
The Low Sensitivity of Labor Markets to Output Fluctuations Could Weigh on the Speed of the Region's Labor Market Recovery over the Near Term

Figure 2.11. Distribution of Unemployment Change Implied by the April 2021 WEO GDP Growth Projections for 2021–22
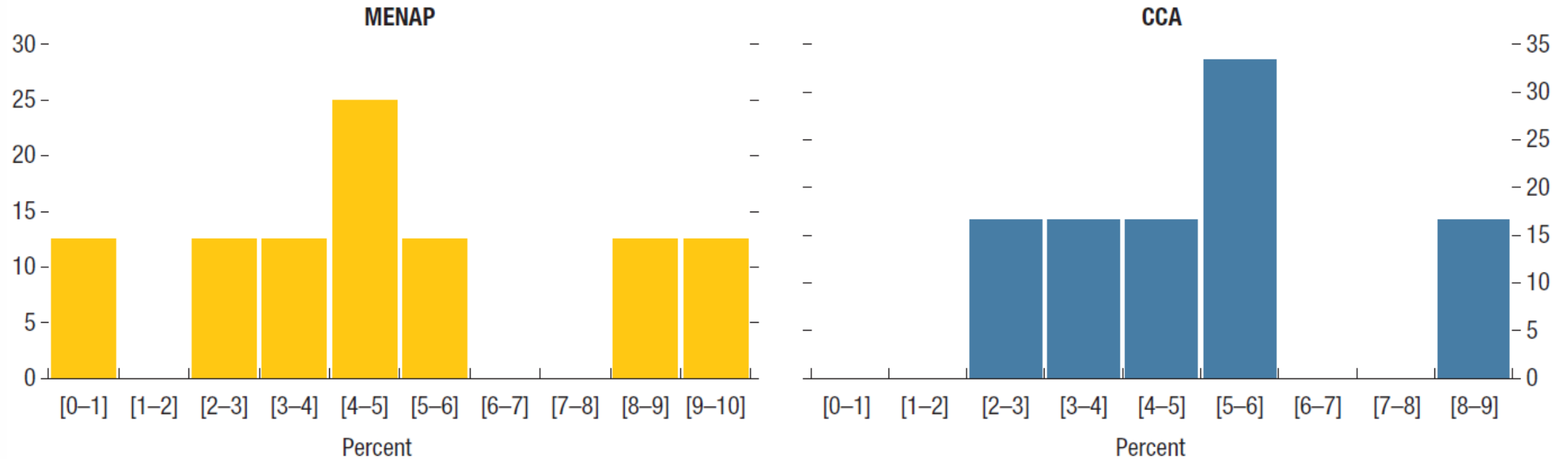(Percent)

Source: IMF staff estimates.
Note: CCA = Caucasus and Central Asia; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; WEO = World Economic Outlook.

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)

2. Distribution of WEO Projections Minus Unemployment-Stabilizing GDP Growth (Percent)
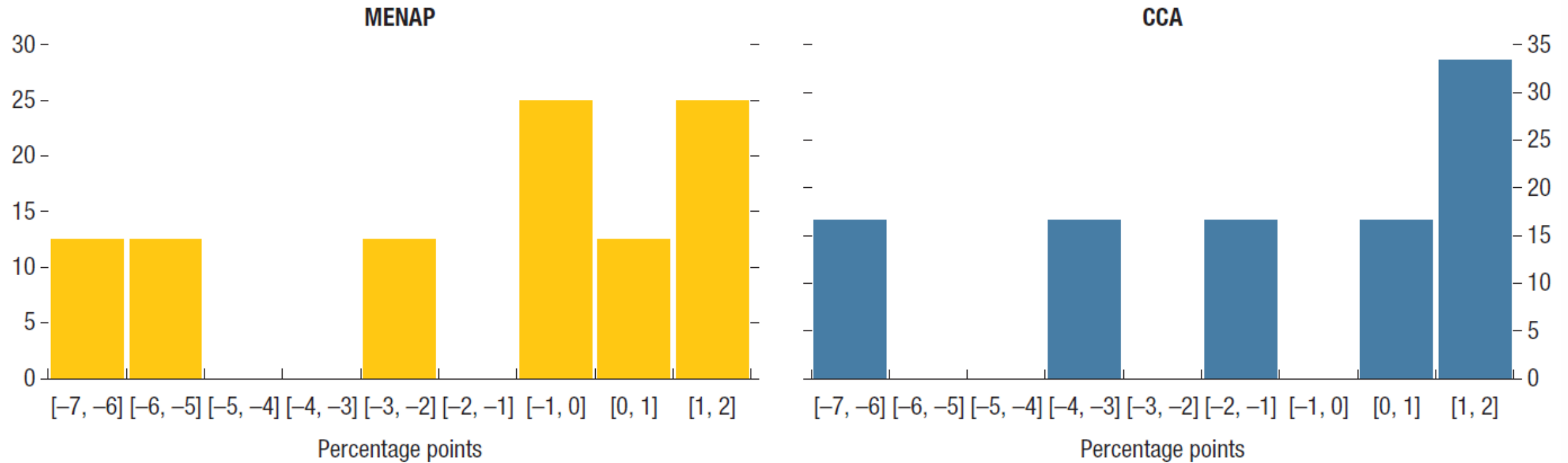
Source: IMF staff estimates.
Note: The figures present the distribution of the GDP growth required to stabilize unemployment that results from the change specification of Okun's law and the difference with the April 2021 *World Economic Outlook* projections for GDP growth. CCA = Caucasus and Central Asia; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; WEO = *World Economic Outlook*.

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).

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Thank you