



Date: 26-10-2020

Issue: 23

Follow-up on Covid-19 Consequences on Egyptian Economy Egyptian Labor Market



General Introduction

The Egyptian Center for Economic Studies (ECES) has provided an impact assessment of Coronavirus pandemic on the various sectors of the Egyptian economy. The analysis was supported by multiple scenarios with expectations varied according to the performance of these sectors, in addition to indicators and situation

prevailing at the time of building these scenarios. Complementing on this effort, ECES is currently monitoring the performance of the sectors following their exposure to Covid-19 crisis in the real world respectively, in light of the relevant official data recently published by either the Central Agency for Public Mobilization and Statistics (CAPMAS), the Central Bank of Egypt, relevant ministries or any other concerned authorities. The analysis assesses available data and monitors the situation on the ground through four main aspects. First: Assessing published data and patterns of change on the ground; Second: Data consistency with previous trends and expectations in the studies of ECES and others, and reasons behind; Third: Future expectations; and Fourth: Recommendations to improve the performance of the sector whenever possible.

We begin in this report, by following up on the repercussions of the Covid-19 pandemic on the labor market on the ground, in light of the Quarterly Bulletin of the Labor Force Survey for the second quarter (April-June 2020), issued by CAPMAS. This quarter represents the first period in which labor market following the pandemic have been monitored, and through which the real impact on Egyptian labor can be traced to a certain extent.

First: Assessing published data and PATTERNS of change on the ground

There are several points that should be taken into consideration before analyzing the published labor market data and evaluating the Egyptian labor market on the ground, namely:

1- It is unclear whether the declared unemployment rates reflect the unemployed in the formal sector only, or the unemployed in the informal labor market were also counted? **Informal employment represents approximately 83% of workers outside the government sector and the public sector. Around 60.4% of informal workers work in the informal sector, while the rest (39.6%) work in the formal sector under informal arrangements, i.e., without contracts or insurance. Hence, they have the largest weight when calculating unemployment in Egypt, and they are the most likely to be vulnerable to unemployment because they are the first to be dispensed with in times of crises¹.**

2- It is noticed that the degree of response to the statistical sample of the survey questions during the second quarter (April-June

¹ <http://www.eces.org.eg/Publications?Lang=AR&C=1&T=1&%D8%B1%D8%A3%D9%8A-%D9%81%D9%8A-%D8%AE%D8%A8%D8%B1>

2020) is weak, and even lower than usual compared to previous publications. As, while CAPMAS used to get a 99% response, this bulletin received only 85% due to the precautionary measures accompanying the pandemic, which somewhat led to a defect in the composition of indicators and the significance of data, therefore data are not accurate enough.

3- Caution should be exercised when following up on the changes between one quarter and the next, as they are related to a temporary change due to certain circumstances but not a specific pattern in the long run. It rather gives an indication that should be paid attention during the follow-up analysis, especially in times of crises when monitoring the variation in sectoral performance before and after the crisis. In other words, the low rate of increasing in unemployment here cannot be modeled.

The following table shows evolution of the most important indicators of the Egyptian labor market during the second quarter (April-June 2020); that is, the post-crisis period, compared to the corresponding quarter of 2019, the fourth quarter of 2019 and the first quarter 2020, which reflect the period prior to the crisis.

Table 1. Evolution of some labor market performance indicators in Egypt before and after the crisis

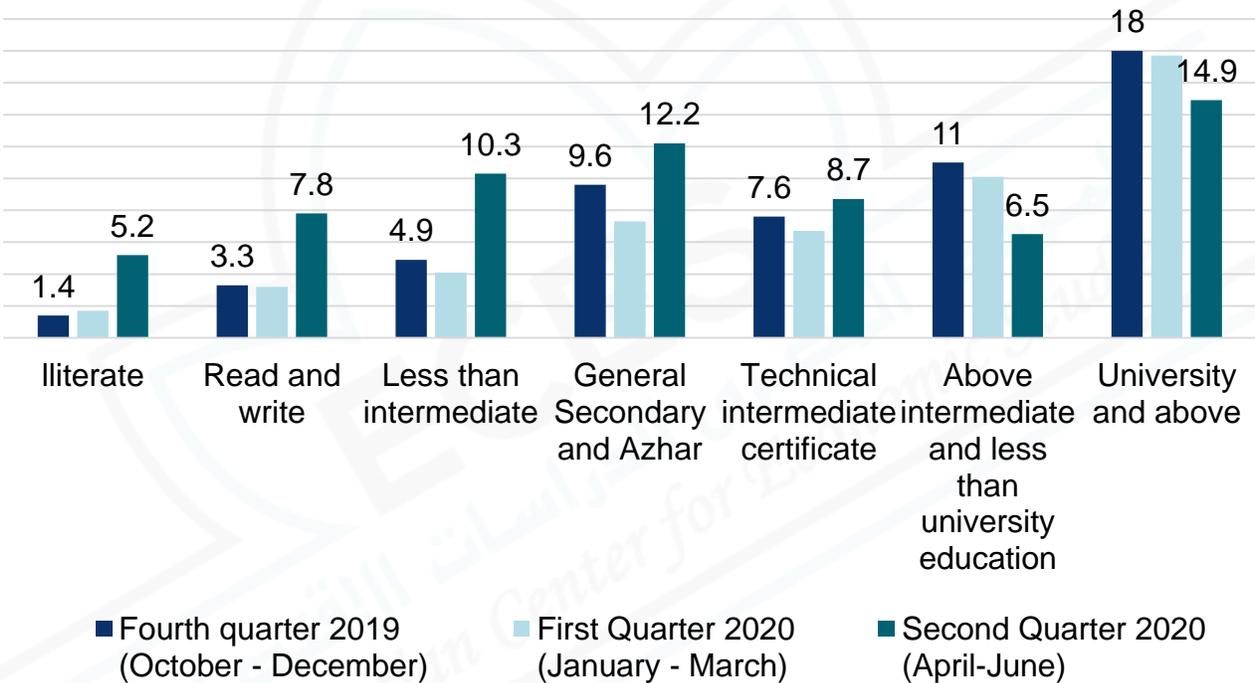
Figure	Time period	Corresponding quarter of the previous year	Prior to the crisis		Post crisis	Direction of change
		Second Quarter 2019 (April-June)	Fourth quarter 2019 (October - December)	First Quarter 2020 (January - March)	Second Quarter 2020 (April-June)	
Employment rate (%) (No. of Employed/ Population)		38.8	39.7	39.4	35.1	↓
The numbers of unemployed (000)		2094	2329	2236	2574	↑
Labor force (000)		28069	28950	29008	26689	↓
Unemployment rate (%) (No. of Unemployed / Labor Force)		7.5	8	7.7	9.6	↑
Males		4.2	4.7	5.7	8.5	↑
Females		22.3	22.7	18.9	16.2	↓

Source: Central Agency for Public Mobilization and Statistics, Labor Force Survey, Quarterly Bulletin, several issues.

- The employment rate decreased significantly compared to the previous quarter and compared to the corresponding quarter of 2019. Unemployment rate also increased during the second quarter of 2020, whether compared to the previous quarter or the corresponding quarter of 2019, to reach **9.6%**, as an expected result of the crisis.
- By looking at unemployment rates according to gender, it is noticeable that the gender gap among the unemployed has decreased from five-fold to **only one-fold**. This confirms the previous "Views on the Crisis" analysis regarding the greater need that emerged from the Covid-19 pandemic to the role of women in the labor market, especially in the essential service sectors for instance education and health, and manufacturing industries such as clothing and food industries, in addition to the informal sector.
- Concerning the **educational level**, Figure 1 below shows that unemployment is higher among all educational levels except for those with higher qualifications, and is significantly higher among groups with lower qualifications, which is an unusual phenomenon in the distribution of Egyptian unemployment by educational level. Usually, unemployment is higher in the Egyptian labor market among the more educated groups

compared to other groups, which is clearly shown in the figures of the fourth quarter of 2019 and first quarter 2020, i.e., before the onset of the crisis.

Figure 1. Change in unemployment according to education (October 2019 - June 2020)



Source: Central Agency for Public Mobilization and Statistics, Labor Force Survey, Quarterly Bulletin, several issues.

The logical explanation for this phenomenon is related to the prevailing type of unemployment, and lies in the following:

- 1- The low level of education among those with intermediate qualifications and low skills has caused them rapidly dismissed from their jobs,** due to the ease with which they could be replaced. They were the first of groups that were laid off by companies as a direct result of the crisis, which explains high unemployment among these groups specifically during this quarter, despite the country's attempt to reduce unemployment in labor-intensive sectors of this kind, such as construction and building through reopening them quickly.
- 2- As for the lower unemployment among those with higher qualifications, contrary to what is known in the Egyptian labor market, the crisis has revealed the difficulty of exiting of these groups from the labor market, especially those with accumulated experience in the workplace over years.** Therefore, it is difficult to lay them off or replace their specific skills, nevertheless they could have been exposed to similar conditions to their counterparts from lower-education groups if labor market paralysis extended more. Apparently, this is a correction of **the inverted unemployment pyramid**

phenomenon², and a clear indication to the need to complete the educational process as an explicit guarantee of continuation in the labor market.

Second: Data consistency with previous trends and expectations

Referring to the “Views on the Crisis” report on the effects of the pandemic on labor market during the successive stages of the crisis, the number of unemployed and the prevailing unemployment rates in this quarter are low compared to the expected numbers of unemployed (4 million unemployed) and the expected unemployment rate (14%) of the report³, based on available data, indicators and prevailing conditions at the time of writing it.

In addition to the above-mentioned regarding **the inaccuracy of this quarter's data and omitting the unemployed of the informal sector**, this can be attributed to several factors, the most important of which are as follows:

² See the report, "Views on the Crisis: The Egyptian Labor Market," No. 13, Egyptian Center for Economic Studies

<http://www.eces.org.eg/Publications?Lang=AR&C=1&T=1&%D8%B1%D8%A3%D9%8A-%D9%81%D9%8A-%D8%AE%D8%A8%D8%B1>

³ Expectations differed according to the relevant scenario and the time period accompanying it. For more details about expectations and scenarios, see "Views on the Crisis: The Egyptian Labor Market" report, Issue 13, Egyptian Center for Economic Studies.

<http://www.eces.org.eg/Publications?Lang=AR&C=1&T=1&%D8%B1%D8%A3%D9%8A-%D9%81%D9%8A-%D8%AE%D8%A8%D8%B1>

1- Non-return of workers from Arab countries yet, and accordingly their impact on unemployment rates in this quarter is not taken into account. This is a cause for concern due to their huge number, which exceeds what is expected in the report by about **7 times**, as the number of Egyptian working currently in Arab countries only is estimated at **7 million Egyptians, equivalent to about 70% of total Egyptians working abroad**. The following is an estimate of the number of Egyptian workers abroad according to groups of countries in 2017.

Table 2. Estimates of the number of Egyptians working abroad according to country groups in 2017

Country classification	Arab countries	American countries	European countries	Oceania	African countries (Non-Arab)	Asian countries	Total
Estimates	7007590 (68.4%)	1835693 (17.9%)	1035344 (10.1%)	290000 (2.8%)	45081 (0.4%)	33595 (0.3%)	10247303 (100%)

Source: Central Agency for Public Mobilization and Statistics, Statistics Egypt 17, Announcement of Economic Census Results, 2020.

2- There is a significant decrease in the labor force during the second quarter of 2020 due to the crisis (Table 1); that is, many

people refrained from seeking jobs, which contributes with the big share of increase in unemployment rate.

3- The decrease in the number of unemployed and increase in the labor force during the first quarter (January-March) of 2020 compared to the previous quarter, on which the expectations were built on—and it is the quarter that includes the second half of March that witnessed the beginning of the lockdown and suspension of services, thus, before emergence of the effects of the pandemic on the labor market.

Third: Future expectations

- Assuming the optimistic scenario of the return of only one million Egyptian workers from Arab countries (compared to those returned from the Gulf War in 1990/1991), **which is equivalent to only 14% of total Egyptians working abroad, the unemployment rate is expected to rise to about 13.4%**, and to higher levels reaching 19% during the second half of 2020 if at least 25% of total workers abroad returned. This is consistent with the expectations of the International Labor Organization and the International Monetary Fund in April 2020 that annual unemployment rates in Egypt are expected to rise by the end of

2020 to 10.3%, and to 11.6% by the end of 2021⁴, as shown in Table 3 below.

Table 3. Global unemployment expectations in Egypt, 2020/2021

	Expected unemployment rates in Egypt	
	2020	2021
International Labor Organization	10.1%	-----
International Monetary Fund	10.3%	11.6%

Source: International Labor Organization, International Monetary Fund.

- As for recent graduates and their possible impact on unemployment rates, the effect of this will appear on the ground in the data of the last quarter of 2020, which will reflect data of new graduates entering the labor market and their unemployment/employment status on the one hand, and the dropout rates for the previous academic year on the other hand. In general, failure of completing and evaluating school courses at the end of the last academic year will apparently be reflected in different types of unemployment prevailing in the labor market.

⁴ <https://www.nordeatrade.com/en/explore-new-market/egypt/economical-context?>

Fourth: Recommendations to improve the performance of the labor market

- 1- Creating job opportunities for educated youth by targeting areas of modern technology and productive sectors, with no more expansion in the fields of building and construction that target employment of less educated groups despite its temporary nature of jobs and the low level of skills associated with them.
- 2- Utilizing the now available database created through applicants who applied for the government subsidy to support the unemployed of the crisis (a cash grant of EGP 500) matching available jobs in different sectors- according to the various specializations- with job seekers. It can also be used to update the unemployment data in terms of unemployment status, job search and desire to work.

Disclaimer

This report was prepared for distribution to members of the Egyptian Center for Economic Studies only and may not be published or distributed without the written consent of ECES management. The data, analyses or information contained in this report do not constitute any form of recommendation or assurance of the commercial feasibility of the activity subject of the report or its ability to achieve certain results.

The data and investment analyses contained in this report were prepared based on the viewpoint of ECES, and rely on information and data obtained from sources we believe in their validity and integrity. We believe the information and conclusions contained in this report are correct and fair at the time of their preparation, and should not be considered as a basis for taking any investment decision. ECES is not responsible for any legal or investment consequences as a result of using the information contained in this report. Any errors that may have occurred at the time of preparing these data are accidental and unintentional.

Egyptian Center for Economic Studies (ECES)
All rights reserved.