

Covid-19 and Soaring Unemployment in the Mediterranean

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As elsewhere in the world, Covid-19 has disrupted the markets of Mediterranean economies. Indeed, the imposition of restrictions, at the local level as well as for relations with the outside world, has had impacts, although different from one country to another and from one category of actors to another, but on the whole, negative across the entire economic circuit: agents and channels.

With regard to the labour market, the influence of the quarantine on production factors has resulted in a freeze in the overall functioning of many businesses, particularly those whose activity relies on the mobility and gathering of people (e.g. tourism, art and culture), but also those with important supply and transport links with the rest of the world (including/ even/ and still countries heavily impacted by the pandemic). This influence has also materialized through increased risk aversion and deferred investment.

This has led to an episode of contraction in economic growth across the region. The countries on the north shore felt the effect of the pandemic on growth more during the first quarter of 2020, with contractions of around 14% in Spain and France, and over 10% in Italy and Portugal. On the other side of the Mediterranean, the effect appears to have peaked in the second quarter, with significant contractions of -18.6% in Tunisia and -14.9% in Morocco. In the East, a contraction of -5.2% was recorded in Turkey in the first quarter of 2020, and -3.6% in Jordan in the second. Over the whole of 2020, only in Egypt was a positive growth rate observed. The overall in-

crease in non-oil private sector activity, the relatively small number of new Covid-19 patients, and a continued public spending effort favoured and contributed to growth in economic activity in the latter country.

TABLE 10	Covid-19 and Economic Growth in the Mediterranean			
	2020T1	2020T2	2020T3	2020
EU27	-9.3	11.7	2.6	-6.1
Zone Euro19	-10.3	12.5	1.7	-6.6
Greece	-5.5	16.8	-4.8	-8.2
Spain	-14.3	14.7	2.7	-10.8
France	-13.3	16.0	3.7	-8.1
Croatia	-4.5	16.6	-9.2	-8.0
Italy	-10.2	16.0	0.2	-8.9
Cyprus	-7.7	9.8	-0.3	-5.1
Portugal	-11.6	14.4	-1.5	-7.6
Slovenia	-6.2	13.5	-1.5	-5.5
Turkey	-5.2	29.9	2.6	1.8
Morocco	0.1	-14.9	-7.2	-7.0
Tunisia	-2.8	-18.6	19.1	-7.0
Egypt	0.7	2.0	5.0	3.5
Jordan	1.3	-3.6	-2.2	-1.8

Sources: National accounts, Eurostat, author's calculations.

Thus, labour demand has been negatively affected because of the negative impacts on sectoral growth and output, sectoral employment, and business operations (temporary and permanent stoppages of activity; significant decline in sales; problems at various levels of business, including logistics, supply chains, investment plans, communication plans, wage payments and cash flow requirements; and high default risks).

The impact on workers, for its part, has been reflected in three main ways or phenomena: unemployment, a drop in working hours and a drop in income (lower consumption and evaporation of savings). As an indication, Morocco's High Commission for Planning (HCP) reported that a total of

600,000 jobs and 300 salaried jobs were destroyed between the second quarters of 2019 and 2020, which is about 5% of jobs, but more than half (53%) of hours worked in the non-agricultural sectors were lost. In Egypt, the unemployment rate increased from 7.7% to 9.6% between the first and second quarters of 2020 respectively, while the number of labour market participants decreased from 28 million in the second quarter of 2019 to 26.7 million in the second quarter of 2020, a decrease of about 18% of the Egyptian labour force. In Tunisia, the unemployment rate stood at about 18% in the second quarter of 2020 compared to 15.1% in the first quarter of the same year; and the number of unemployed increased by 17.6% during this period, from 634,800 to 746,400 unemployed out of the total labour force, respectively. Furthermore, Eurostat data shows that the unemployment rate increased from 6.8% to 7.3% between the first and second quarters of 2020 in the European Union (EU-27), and from 7.6% to 8% in the Eurozone. Countries such as Spain, Montenegro and Turkey, which were already experiencing high unemployment rates, were particularly affected.

On the northern shore of the Mediterranean, particularly in the Eurozone, observation of the difference between the unemployment rate at its peak in 2020 and the rate recorded in the first quarter of 2020 shows that women were more affected by unemployment. There was a difference of 1.1% among women, compared to around 0.9% in the population as a whole. However, this finding was far from uniform among northern shore countries. While the difference in a country like France was about 2.6% among women compared to 2.1% overall, it was about 2.7% overall compared to 1.6% among women in Croatia.

On the southern shore, there was a deterioration of indicators for labour force participation, employment and unemployment. In Egypt, for example, women were more affected by the decline in labour force participation in the second quarter of 2020, as about 1.1 million women withdrew from the labour market. In Morocco, the female unemployment rate jumped by about 7.1% between the first and third quarters of 2020, compared to an overall rise

of 2.2%. In Tunisia, the number of women in employment fell from 950,000 in the first quarter of 2020 to 892,000 in the second quarter, a decrease of 6.1%. In the countries of the southern shore (North Africa) as a whole, the volume of unemployment increased by 373,000 over one year.

In the East, after a downward trend during 2019, the unemployment rate for Turkish women increased from 13.3% in the second quarter to 15.9% in the third. In Jordan, the female unemployment rate was already high before the pandemic, and crossed the 30% mark in the second (33.6%) and third (32.6%) quarters of 2020.

The Covid-19 crisis has also led to a rise in unemployment among youth (15-24-year-olds) in the Mediterranean region. In the majority of countries, the youth unemployment rate was already high before the crisis, exceeding 30% in Spain, Italy and Tunisia. Also, two-thirds of youth employment in the MENA region is considered informal; this percentage is about a quarter in Europe.

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During the crisis, the unemployment rate of 15-24-year-olds jumped to about 40.4% in the third quarter of 2020 in Spain. It was 36% at its peak in Greece, 33.4% in Morocco and 31% in Italy. In volume, youth unemployment rose by 438,000 in the EU and 353,000 in the euro area over one year. It continues to be a major challenge in the MENA region with a proportion approaching 25%, almost half of which are women (40%).¹

Covid-19 has also had an impact on graduate unemployment rates. The increase was widespread, but particularly significant among countries on the southern shore of the Mediterranean where economies generate less skilled and decent jobs. Even before the advent of the pandemic, unemployment in North

¹ THE WORLD BANK. *Middle East and North Africa*. 2021. Retrieved from www.banquemondiale.org/fr/region/mena/overview



Sources: National statistics bureaus, Eurostat, author's calculations.

Africa displayed some asymmetry to the disadvantage of graduates. Indeed, the unemployment rate dispersion in countries such as Egypt, Morocco and/or Tunisia is relatively higher than that observed in lower-

income countries, on average. This shows the degree of difficulties encountered by unemployed graduates in terms of labour market integration. A recovery not conducive to the creation of productive and decent

CHART 20

Trends in Unemployment Rates for Youth (15-24-year-olds) in the Mediterranean, 2019-2020



Sources: National statistics bureaus, Eurostat, author's calculations.

employment would only restrict the transition opportunities available to unemployed graduates. High unemployment, before and during the pandemic, was not the only concern of Mediterranean countries. The setbacks of the crisis are many, including

the inequalities that are growing with the pandemic. Certainly, the impact of the crisis on inequalities is not the same from one coast to the other. Also, the degree of preparedness and comprehensiveness of socio-economic mitigation policies is different. Greece,



Sources: National statistics bureaus, Eurostat, author's calculations.

Italy and Spain seem to be the least prepared in the northern Mediterranean.²

In Europe, for example, automatic economic stabilizers and social protection are at an advanced stage of development, and already include a significant amount of population support measures. In addition, various measures have been taken during the pandemic, including a temporary instrument for recovery and resilience amounting to €750 billion to help repair the immediate economic and social damage caused by the Covid-19 pandemic.

In the Arab Mediterranean countries, the weight of informal and vulnerable employment is high, while automatic stabilizers such as social benefits and unemployment compensation are almost completely absent. Moreover, cash benefits for the informally unemployed have been limited to a few months and are well below the minimum wage. In Egypt, for example, benefits have been a one-off amount of approximately \$34, while the minimum wage is about \$138; in Morocco, benefits have ranged from \$86 per month for three months, to approximately \$217

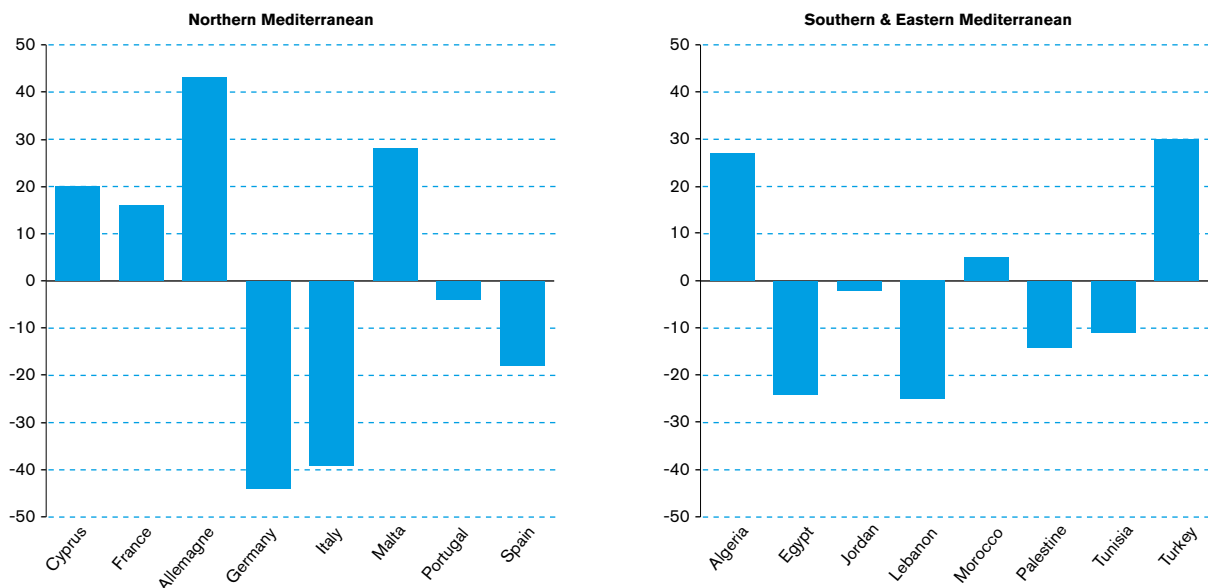
per month, whereas the minimum wage is about \$293. This has left people in the region extremely exposed to the impacts of the pandemic. The least prepared in the East-South Mediterranean according to the Policy Response Monitor for Covid-19 in the Mediterranean are: Egypt, Lebanon, Palestine and Tunisia.

In this context, and taking poverty as an indicator of inequality, the number of poor people at the \$1.9 a day threshold would change only slightly in the Europe and Central Asia region, according to World Bank estimates. These estimates indicate, however, that Covid-19 could push more than three million people into extreme poverty in the MENA region.

More pessimistic assessments (Oxfam, 2020) estimate that the economic contractions caused by the measures put in place to prevent the spread of the virus would push an additional 45 million people into poverty across the MENA region.

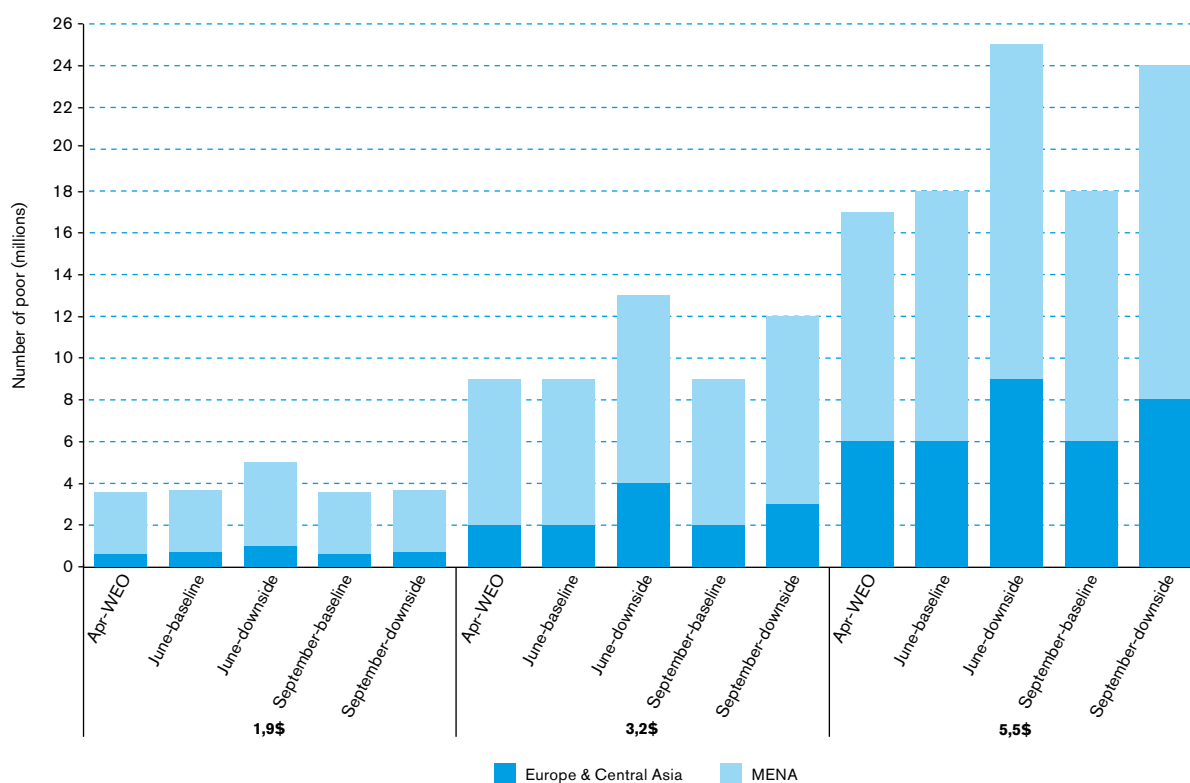
The inequalities caused by the pandemic may not only occur in the short term, but are also likely to last over time. Indeed, the negative shock to the la-

CHART 22 Preparedness and Comprehensiveness of Covid-19 Socio-Economic Mitigation Policies in the Mediterranean



Source: The Euro-Mediterranean Economists Association's Covid-19 Policy Response Monitor for the Mediterranean and Africa.

² Here, the degree of preparedness is assessed according to an indicator of the Policy Response Monitor for Covid-19 in the Mediterranean. This indicator covers the following areas: fiscal and monetary space; quality of institutions; economic relevance of sectors at risk; economic dependency on the rest of the world; social vulnerability; social buffers and protection; banking soundness; banking dependency on the rest of the world; bank profitability. <https://research.euromed-economists.org/pillar-3-economic-preparedness/>



Sources: Lakner et al. (2020) (updated), World Bank, PovcalNet, Global Economic Prospects (GEP) report..

bour market may be of a hysteretic nature, and unemployment, which might in principle be temporary, could persist. There are several factors suggesting a prolongation of the influence of current shocks on future labour market conditions in the Arab Mediterranean countries. The list is broad. It includes the ability of firms to hire, the consolidation of their financial situation and the use of cost-cutting strategies, notably through the adoption and dissemination of new technologies and the adoption of capital-based techniques and best practices, structural rigidities, which prevent a certain fluidity between supply and demand, the loss of attractiveness and employability of the long-term unemployed due to the depreciation or even obsolescence of their skills or simply lack of notification, etc.

Tackling the surge in unemployment and reducing the inequalities caused by the pandemic thus requires not only short-term measures, but also long-term ones. In the shorter term, we propose businesses be given support, that the support be personalized and its implementation well-orchestrated.

Government support alone would be limited and alternative funding options and sources should be considered (crowdfunding, microfinance, solidarity finance, etc.). Also, training should be used as a lever for resilience, equity and sustainability. All this should be accompanied by an improvement in the business climate, especially in the southeastern Mediterranean.

Another imperative is to halt the deterioration in the living conditions of thousands of households, while a large proportion of workers in Arab countries do not benefit from any unemployment insurance scheme; private sector workers, including the informal sector, are particularly at risk. Promoting greater formalization of the economy is vital to ensure a minimum of protection for the most vulnerable workers. This is also the case with regard to broadening the membership base of social security schemes and promoting job loss indemnity.

The crisis associated with the Covid-19 pandemic has resulted in the mobilization of significant government resources to undertake health, economic

and social responses. In this context, there are a number of macro-economic risks to be monitored, particularly with regard to public finances and fiscal space.

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In the longer term, the key lies in accelerating economic transformation in the southern and eastern Mediterranean region. Indeed, accelerating the structural transformation of economies is necessary in order to respond in quantity, but above all in quality, to the job demands of the millions of young people who enter the region's labour markets every year. Moreover, young people (15-24 years old) and women seem to be over-represented in the jobs most at risk of automation, and therefore of disappearance. They need to be prepared for the labour market of tomorrow, when today more than ever, it is widely acknowledged that the world of work is experiencing an acceleration of these changes under the impact of the Covid-19 pandemic.

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