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CCAMTAC Regional Webinar

“The Middle East and Central Asia Regional Economic Outlook:

Analytical Chapter Outreach”

Thursday, December 9, 2021

Introduction:

Norbert Funke, Director, CCAMTAC

Moderator:

Aliya Kistaubayeva, Economic Analyst, CCAMTAC

Presenters:

Sahra Sakha, Economist at the Middle East and Central Asia Department, IMF

Nordine Abidi, Economist at the Middle East and Central Asia Department, IMF

Following introductory remarks by CCAMTAC, Sahra Sakha started the session by presenting Chapter 2 of the latest [Middle East and Central Asia \(ME&CA\) Regional Economic Outlook \(REO\)](#), which provides a detailed analysis and outlook of the labor market developments in the region. She mentioned that before the onset of the COVID-19, in 2018-19 labor markets in the ME&CA were prone to high unemployment rates and low labor force participation compared to other regions in the world. The long-standing labor market challenges have been exacerbated by the pandemic, such that that the unemployment rate in the region saw the largest increase compared to the global financial crisis and the 2014–15 oil price shock. In terms of labor market recovery, considerable heterogeneity was observed. Employment in most countries remains below its pre-pandemic levels, which points to the risk of hysteresis where not all job losses can be recouped. Sahra Sakha continued by sharing the IMF view on the prospects of the region's labor market recovery using the Okun's Law analysis, which shows that there is a considerable cross-country heterogeneity in the responsiveness of labor markets to output fluctuations. Without reforms, the growth rate required to stabilize unemployment will be high in many countries. Important structural reforms would include reducing informality, rationalizing large public sector employment, and addressing regulatory impediments in product and labor markets.

In the second part of the webinar, Nordine Abidi went through the REO's Chapter 3, which considers COVID-19 and the corporate outlook. After a sharp hit, the corporate sector in the



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ME&CA faces a steady but uneven recovery. Despite policy support and firms making significant cost adjustments, high-contact-intensive sectors, firms with preexisting vulnerabilities, small firms, and those lacking digital connectivity faced the brunt of the pandemic. Nordine Abidi emphasized that although liquidity and solvency risks have been contained for the overall corporate sector, liquidity stress is projected to remain elevated for vulnerable firms, while solvency concerns could be exacerbated in the event of a subdued economic recovery or premature withdrawal of policy support. In conclusion Nordine Abidi communicated that policymakers need to lay the groundwork for a transformation toward an inclusive, resilient, and green economy and address long-standing issues by enhancing governance and accountability, reforming the public sector and SOEs, enabling the private sector, reducing informality, and tackling inequality and poverty. Countries are also recommended to leverage accelerating trends to deliver more efficient social safety nets, invest in climate-resilient and digital infrastructure.

During the general discussion questions to the presenters covered (i) sensitivity of unemployment to output by subregions; (ii) impact of stronger monetary tightening on the adverse scenarios and IMF outlook; (iii) presence of labor shortage in ME&CA; (iv) possible solution to reduce wage differences between public and private sector, and v) SOE reforms.

Aliya Kistaubayeva,
Economic Analyst, CCAMTAC