

## Key Country Examples of Labor Market Issues

The table below presents some examples of specific challenges pertaining to labor markets in Africa, Asia and Pacific, Europe, Latin America, and the Middle East and Central Asia. Where relevant, we have described the nature of the IMF's policy advice. The descriptions make clear that the IMF's advice is closely tailored to individual country circumstances, and in line with the limited mandate of the institution on labor market issues.

### Africa

#### Congo, Republic of

- **Unemployment is a key concern.** The ILO estimates unemployment in the Republic of Congo at 16 percent in 2012. Youth unemployment is estimated to exceed 30 percent and underemployment is thought to be widespread. The economy remains dominated by the capital-intensive oil sector. Overall growth has been robust. However, non-oil-related growth is inadequate to absorb the rapidly growing supply of labor. Mismatches between private employer needs and the skills provided by the education system exacerbate unemployment.
- **The Congolese authorities are advancing reforms and implementing targeted employment and social safety net programs,** in consultation with IMF and World Bank staff. An action plan is being implemented to improve the business climate, diversify the economy, and enhance employment creation in the non-oil sector. The 2013 budget gives priority to technical and vocational education to reduce skills mismatches. An internship program in private companies, partly paid by the government, is underway to facilitate access to formal employment. Rural development initiatives are also underway. Finally, a guarantee fund for microfinance was created to support self-employment.

#### Ghana

- **Addressing bottlenecks to private sector growth and job creation.** Information on private sector labor market developments is limited. The latest labor market surveys reveal that more than 85 percent of the labor force operates in the informal sector. To create the jobs needed for a growing labor force, the government seeks to transform the country's newfound oil wealth into productive infrastructure and remove the main bottlenecks to private sector growth—unreliable energy provision and lack of access to affordable financing.
- **The fiscal deficit is high (12 percent of GDP) with a heavy wage bill crowding out social and public investment spending.** Fund advice has focused on ways to reduce the deficit and improve the quality of expenditure.

#### Lesotho

- **Structural reforms to address high unemployment.** To achieve sustained growth and increase employment, the IMF-supported program focused on policies to enable private sector growth and diversification of the economy.
- **Restraining the government wage bill.** The wage bill is one of the highest in Sub-Saharan Africa. During the program, the authorities reduced the wage bill from 17.9 percent of GDP in 2009/10 to

15.6 percent in 2012/13. Over the medium term, they intend to further restrain the wage bill by restricting the filling of vacancies to priority posts, allowing only modest increases in wages and salaries, limiting the creation of new positions, and reviewing the size of the civil service.

### Seychelles

- **The labor market suffers from structural problems.** The largest sectors of the economy, which include tourism, construction, and tuna canning increasingly rely on immigrant labor, whose share in total employment has surpassed 26 percent. At the same time, employment of the Seychellois has remained virtually flat from 2005 onwards. There are signs of persisting pockets of underemployment, particularly in the young unskilled labor force. The government is considering further reforms to the educational system, labor regulations and entitlement system to address these structural imbalances.
- **Employment has successfully shifted towards the private sector.** Following a drastic down-sizing of the public sector in 2008-2009, the share of public sector employment decreased from 45 to 28 percent between 2006 and 2011. After falling 18 percent between 2007 and 2009, average real wages have recovered, and in 2011 surpassed the pre-crisis level.

### Zambia

- **Developments in the labor market.** The 2010 Living Conditions Monitoring Survey estimated unemployment at 13 percent, down from 14 percent estimated in 2006. The urban unemployment rate was estimated at 29 percent compared to 5 percent in rural areas. The unemployment rate was higher for women than for men. For young workers aged 15-24, the unemployment rate was around 28 percent.
- **Restraining the government wage bill to make room for social spending.** Civil service salaries were increased by on average over 40 percent in 2013 and the wage bill is constraining much needed increases in social and productivity enhancing spending, including investment in infrastructure. The private sector minimum wage was increased twice in recent years: by 44 percent in January 2011 and by another 67 percent in July 2012.
- **Regular consultations with trade unions.** IMF staff teams meet with labor union representatives during the annual reviews of the country's economy to discuss issues of concern. Current discussions are focused on ways to achieve inclusive growth. A high-level conference, jointly organized by the government, the ILO, and the IMF, was held in May 2012 and discussed the reforms needed to lay the basis for sustained, broad-based, and employment-intensive growth. The IMF and the ILO continue to support the Zambian government on the areas covered at the conference, most recently at a follow-up event in July 2013.

## Asia and Pacific

- Bangladesh**
- **The IMF-supported program, in place since April 2012**, aims to restore macroeconomic stability, strengthen the external position, and establish conditions for higher, more inclusive growth. Over the past 18 months, the government made policy adjustments that helped to lower the inflation rate, bolster foreign reserves, and stabilize the exchange rate, contributing to the protection of purchasing power and maintain Bangladesh's competitiveness. Reforms are in process to help improve the trade and investment climate for growth.
  - **Labor reforms.** The government passed amendments to the 2006 Labor Law in July, incorporating provisions such as allowing formation of trade unions without informing factory owners, resolution of conflicts through arbitration, ensuring safety measures for workers, mandatory elections of workers' participation committees and introducing compulsory group insurance policies. The government, employers, and workers reached agreement in July 2013 to form a comprehensive National Tripartite Plan of Action on Fire Safety and Structural Integrity in the flagship garment sector, which employs almost 4 million workers, over 80 percent of whom are women. Building on this plan, global unions and over 80 garment retailers (mostly in the E.U.) have signed a compact supported by the ILO, the European Union, and the government. Meanwhile, another initiative has brought together over 17 U.S. retailers and brands and aims to inspect and set safety standards in associated factories. In September 2013, the government obtained agreement for a common action plan to unify inspection standards under the three platforms. The government has also set up a wage commission to review the minimum wage in the sector, last revised in 2010.
  - **Boosting competitiveness.** Efforts are being made to narrow the skills gap with other countries in the region, as the authorities look to take full advantage of Bangladesh's favorable demographics and help create conditions for more labor-intensive led growth. The January 2013 Joint IMF-World Bank Staff Advisory Note pointed to the need to strengthen linkages between the labor market and reforms in the education system to better address a skills mismatch. The government is also scaling up spending on education, science and technology, and information and communication technology.
  - **Labor union engagement.** Fund mission staff and labor union representatives have meetings to discuss labor market issues.
- Myanmar**
- **Inclusive and sustainable development is on top of the government's agenda.** The authorities have increased civil service pensions from low levels, and boosted spending on health and education. They have also adopted legislation to improve access to finance, give land titles to farmers, and boost foreign direct investment with the aim of providing increased employment opportunities. A new minimum wage was recently enacted which sets out a new and broad framework for determining the minimum wage for employees in various sectors of the economy.

- **A new staff-monitored program supports the Myanmar authorities' goals.** Its central aims are to maintain low inflation, build the institutions for macroeconomic management, and increase revenue in the medium term to fund large development needs, in particular in the areas of health care, education, and infrastructure. The staff-monitored program runs through 2013 and the first review was completed successfully in June.
- Solomon Islands**
- **Increasing basic salaries, while streamlining public sector allowances and benefits.** The 2013 budget envisages an increase basic wages of about 6 percent in nominal terms. However, this measure should be accompanied by streamlining public sector allowances and benefits. This will enhance the transparency of the remuneration system and contain the increase in recurrent spending. Going forward, a comprehensive reform of the payroll system is necessary to be able to attract and retain high-qualified staff in key areas in the public service sector and improve the composition of the overall payroll.
- Sri Lanka**
- **Unemployment has declined since the end of the war.** Unemployment has declined significantly from 5.7 percent in 2009 to 3.9 percent in 2012. The minimum wage has increased across all sectors since 2009. The share of public sector employment has declined from 15.5 percent in 2009 to 15.1 percent. Following the end of the conflict, security-related expenditure has declined considerably, freeing up resources for reconstruction activities and spending on social programs.

## Europe

- Bosnia and Herzegovina**
- **Restraining the government wage bill.** The government wage bill, at around 13 percent of GDP, has become a major constraint on much needed social and productivity enhancing spending, including infrastructure investment. Under the IMF-supported program, the institutions of Bosnia and Herzegovina and the two-entity center governments have kept the wages and employment at near or below the pre-program levels.
  - **Creating a vibrant private sector.** Job creation ultimately comes from growth. IMF has supported the authorities' on-going efforts in creating a conducive environment to private sector development, including through simplifying business registration and regulation.
  - **Improving the functioning of the labor market.** The authorities see an urgent need to update labor laws to make them more conducive to job creation while providing adequate safeguards for workers' rights. In addition, the rights-based benefits and pension systems are being overhauled to create incentives to get people back to work. IMF and World Bank staff are providing technical support in these areas.
  - **Engaging with stakeholders.** IMF staff teams and resident representative office staff have regularly met the labor union and business representatives to discuss labor market issues.

## Greece

- **The IMF-supported program aims to restore competitiveness and growth.** Unemployment exceeded 27 percent in mid-2013. As a member of the eurozone, Greece cannot devalue its currency. This means it needs to boost economic growth by other means to close its competitiveness gap until reforms to improve productivity mature and produce results.
- **Bringing wages in line with productivity.** Unit labor costs—which is a key measure of competitiveness—increased by over 35 percent in Greece during 2000-10, compared to less than 20 percent in the euro area. Greece’s minimum wage at end-2011 was substantially higher than that of its closest competitors—50 percent higher than in Portugal, 17 percent higher than in Spain, and 5-7 times higher than in Romania and Bulgaria. These numbers are one of the reasons why Greece’s exports of goods and services amounted to only about 20 percent of GDP in 2010. To help restore competitiveness, the minimum wage was reduced by 22 percent in February 2012, with a further 10 percent reduction for youth.
- **Lowering non-wage costs.** To reduce pressure on wages and support employment creation, non-wage labor costs have been reduced through reforming severance pay and lowering administrative burdens related to extensive preapproval and reporting of labor arrangements. The program also targets a reduction of social security contribution rates for employers by 5 percentage points in a budget neutral way.
- **Making collective bargaining more effective.** Under the program, the arbitration system was reformed by switching from unilateral to voluntary recourse to arbitration, as in most other European countries; automatic salary increases were frozen to better align wage developments with economic conditions; current and previously state-owned firms were allowed to align contracts to the private sector by eliminating tenure; and the after-effects and length of collective contracts were limited to encourage contract negotiation.
- **Stronger support to the unemployed.** The authorities have launched employment programs that target unemployed youths and jobless households, and are expanding public and social work programs and training programs to fight long-term unemployment by better leveraging available EC structural funds.
- **Labor market reforms should go hand-in-hand with other reforms.** The expected improvement in competitiveness will only materialize if labor market reforms are complemented by reforms to increase price flexibility in product and service markets, including by opening up restricted professions, the transportation sector, and other services to competition. Over the long run, measures to improve the investment climate and facilitate exports will be key to boosting growth and creating jobs.

**Iceland**

- **The recently completed IMF-supported program has helped restore growth.** The economic expansion continued, and the unemployment rate declined to 4.4 percent last year, down from a record level of 8.2 percent in 2010. Unemployment is expected to fall further to 4.0 percent in 2014, while the slack in the economy will nearly disappear.
- **Spending on unemployment protection rose under the program.** Spending on the unemployed quadrupled during 2008-10, mostly due to cash unemployment benefits. Several labor market programs were also implemented, raising spending on services for the unemployed by about 66 percent, without exceeding the overall budget envelope. Measures included expanding registration for unemployment benefits, job retraining, subsidized hiring, and study programs. In 2011, the availability and targeting of education was improved by opening secondary schools to anyone below 25 years of age and promoting work-related education.

**Latvia**

- **Unemployment remains a concern despite recent declines.** The economic downturn in 2008 and 2009 was severe, and the unemployment rate peaked around 20 percent in 2010. The unemployment rate has since fallen below 12 percent, in part due to emigration, but more recently due to strong job creation. The IMF strongly supported the government's introduction of an emergency public works program, financed by the European Social Fund, to provide temporary jobs to people who wanted to work but were unable to find employment, as well as the expansion of lower-tier social safety net during the crisis.
- **Substantial wage and price cuts helped restore competitiveness.** Following average wage growth exceeding 20 percent annually during 2005–08, wages fell by 13.6 percent from the end of 2008 through early 2010, but have since gradually increased. Latvia succeeded in maintaining its long-standing peg to the euro, but its labor cost-based real effective exchange rate depreciated by about 25 percent from its 2008 peak through early 2010.
- **Further efforts are needed to reduce labor skills mismatch with industry and make work pay.** Measures are needed to improve the quality of education and better tailor it to employers' needs and to reduce the tax wedge on labor to strengthen the incentives to work.

**Portugal**

- **Reducing unemployment and supporting growth.** Labor market reforms under the IMF-supported program have been designed to address the high unemployment rate and support medium-term growth. Unemployment has almost doubled since 2007; by the first quarter of 2013, the aggregate unemployment rate exceeded 17½ percent (although it has since declined to close to 15½ percent). Worse still, unemployment disproportionately affects young people and tends to last longer. While the economic downturn has had a severe impact on labor market conditions, labor market rigidity has also contributed to high structural unemployment, with a direct impact on

Portugal's potential growth performance. The reforms in train, which have been developed in collaboration with the European Commission and discussed with social partners, aim at addressing these problems.

- **One of the pillars of these reforms has been to improve conditions for job creation.** Particularly strict employment protection legislation has been a key impediment. Reforms aim at better aligning Portugal's legislation with that of peer countries, including through a reduction in severance pay.
- **Another important aspect has been to encourage labor supply.** Portugal's unemployment insurance system was one of the most generous in the EU, providing disincentives for seeking re-employment. Accordingly, substantial revisions have been implemented to reduce both the duration and amount of entitlements, while preserving the main features of the unemployment insurance system.
- **Efforts are also being made to ensure that wage developments remain consistent with a competitive economy.** While the minimum wage is not high relative to other EU countries, it grew rapidly in 2007-2010, sharply outpacing productivity. For that reason, it has effectively been frozen under the program. Wage bargaining has been reformed to allow wages to reflect better heterogeneous firm-level conditions.
- **Active labor market policies are also in train, so as to improve the employability of the job seekers and better match employers' needs.** The government is implementing measures to improve education and training—particularly for long-term and young unemployed.

## Romania

- **Relatively high youth unemployment and low labor market participation remain a concern.** The unemployment rate stood at 7.2 percent in the first half of 2014, below other EU countries in the region, but youth unemployment rate reached an elevated level of about 24 percent. Labor market participation rate was relatively low in EU wide comparison at 54 percent in 2014, especially for women and youth.
- **The public sector wage bill was cut to restore fiscal sustainability during the crisis.** A 25 percent cut in public wages and a policy of replacing 1 employee for every 7 departures was introduced under the 2009 Stand-By Arrangement, where the lowest paid employees were protected from the cuts. The public sector wage bill dropped from 9.3 percent of GDP in 2009 to around 7-7½ percent of GDP in 2012 and 2013. After full restoration of public wages was achieved in January 2013 and the attrition rule of 1 hiring for every 7 departures was replaced by a one-for-one hiring-departure rule in June 2013, the public wage bill has remained around 7¼ percent of GDP. The unified public wage law, approved in September 2009, laid out the principles for a simplified and unified wage scheme across the government. The share of public employment in total registered employment remains at around 20 percent in 2014.

- **The minimum wage was steadily raised during the past few years and wage growth has been stable.** The monthly minimum wage—which is the second-lowest in the EU—was raised in two steps in 2014 to 900 lei (about US\$275), after a 100 lei increase in 2013. Nominal wage growth stabilized at around 5 percent since 2011, with private sector wage growth outpacing the public sector in the first half of 2014.
- **The 2011 labor market reforms aimed at improving the flexibility of the labor market.** The Labor Code extended the scope and duration of fixed-term and temporary employment contracts, and resulted in an increase of fixed-term contracts from 3.9 percent of total active contracts at the beginning of 2011 to 7.8 percent at end-2013. The collective bargaining process was reformed under the Social Dialogue Law. During the drafting and consultation phases, staff consistently advocated a gradual approach to implementing the law and ensuring consistency with core ILO conventions.
- **Active labor market policies and improvements to social protection programs are aimed to raise labor supply and protect the most vulnerable.** Vocational training schemes are put in place to tackle youth unemployment and reduce skills mismatch. A new minimum social insertion income program aims to unify three existing income-tested benefits, better target the poorest 30 percent of the population, and strengthen the link between social benefits and activation measures to improve beneficiaries' access to the labor market.

## Serbia

- **Substantial job losses need to be reversed.** The global economic crisis, coupled with the transition to a market-based economy and a more sustainable export-based growth model, entailed substantial job losses, especially in the oversized non-tradable sector. The unemployment rate has increased from nearly 15 percent in 2008 to 20 percent in 2014, and is especially high among young people.
- The government needs to continue broad-based policy effort to promote job creation. The priority should be given to pursue structural reforms, and improve the business environment in order to promote investment and therefore facilitate creation of new private sector jobs. The authorities advanced labor market reforms in the summer 2014 by passing legislative amendments including (i) limiting severance payments by linking them to service with the current employer rather than lifetime employment, (ii) extending maximum length of temporary contracts, (iii) strengthening rules on extensions of collective bargaining agreements and (iv) clarifying and simplifying separation rules. Strong and consistent implementation of the amended legislation will be key for reducing labor market rigidities and generating demand for labor.



## Latin America

### Dominican Republic

- **Economic growth has not translated into higher employment growth.** The economy has grown by nearly 4 percent per year since 2000, double the average for Latin America and the Caribbean. This strong long-term economic growth performance, however, has not translated into equally significant improvement in living standards for all. Despite an open unemployment rate of only 5 percent, poverty levels in 2010 were the same as in 1990, according to official national estimates. Persistently high levels of inequality and poverty, a large informal labor market, and low participation rates remain concerns, and are being addressed in the recently-approved National Development Strategy.
- **New policies to improve job creation.** Against this background, the Dominican Republic was selected as one of the pilot cases of the IMF-ILO initiative to design policies to improve job creation. This initiative began following the “Conference on the Challenges of Growth, Employment and Social Cohesion,” held in Oslo on September 13, 2010. IMF staff routinely holds discussions with labor market stakeholders during visits to the country. In addition, a joint ILO-IMF working group has conducted research on structural factors that would help the Dominican economy to generate more high-quality employment. This research was presented in a tripartite conference with labor market stakeholders and the government in January 2013, and has been a critical component of the dialogue between staff and the Dominican authorities.

### Jamaica

- **The IMF-supported program that has been in place since May 2013 aims to increase sustainable growth in production and employment.** Since the mid-1990s, annual economic growth has averaged less than 1 percent, unemployment has been high (especially for the young), and little progress has been made in lowering poverty. The program strategy comprises several, mutually reinforcing areas: (i) putting the public debt on a sustainable downward trajectory; (ii) restoring competitiveness through productivity improvements and allowing the exchange rate to adjust as a means to reduce the reliance on imports and create jobs; (iii) improving the business climate and implementing strategic investments in infrastructure; and (iv) securing funding for private investment through strengthening the financial system and lessening the crowding out from government borrowing.
- **The government has put significant weight on strengthening social protection programs** (MEFP ¶41, 42). In the past, the fiscal room for social programs has been crowded out by Jamaica’s high interest costs. Despite the significant fiscal adjustment that has taken place, the government has underscored the importance of reversing this erosion. Under the program, the authorities have committed to, as a minimum, maintaining the real value of social spending. The existing conditional cash transfer program (PATH), a vital component of that

social safety net, has also been strengthened with repeated increases in the transfer amounts (well beyond inflation), with World Bank and Inter-American Development Bank assistance.

- **Better labor market performance is critical.** The unemployment rate in April 2014 stood at 13.6 percent, a decline of 1.4 percentage points from the average level of the year before, despite the slow pickup in economic activities. The authorities plan to enhance the job training component of the social protection programs. Recently tabled legislation will introduce flexible work arrangements, allowing more continuous use of machinery and more varied opening hours. There is also a need to enhance labor market flexibility (including by tackling high separation costs) to facilitate the needed adjustment of labor from nontradeable to tradeable sectors, and to improve education and training to help address the chronic problem of youth unemployment. A newly created Labor Market Reform Commission will review existing policies and inform the reform agenda going forward.

#### St. Kitts and Nevis

- **The authorities are finalizing the legislation to improve working conditions, and continuing actions to improve training of the work force, and plan to submit the new Labor Code to Parliament in 2014.** The code will strengthen the legal framework for occupational health and safety, define labor termination rules and institute labor tribunals, in order to alleviate the existing backlog in the courts. They also plan to rollout an Unemployment Benefit Scheme in the second half of 2014. The purpose of the Scheme is to provide partial income replacement to Social Security contributors who are temporarily unemployed and actively seeking employment.
- **Upgrade skills of job seekers to improve their employment prospects.** The authorities are introducing various programs to improve the fit of job market applicant with employers' needs. These programs range from upgrading vocational training at secondary schools to subsidizing wages for new private sector trainees and developing entrepreneurial skills.

## Middle East and Central Asia

#### Armenia

- **Protecting the most vulnerable in society.** Total unemployment in Armenia is estimated at around 18 percent (as of September 2014). The IMF-supported program has sought to consolidate stability and buffers against possible external shocks, and to emphasize poverty reduction by fully implementing well-targeted social policy, including the integrated social protection services. Social spending is expected to rise from 6.9 percent of GDP in 2013 to 7.6 percent of GDP in 2014. Looking ahead, building fiscal buffers could allow the expansion of benefits to additional eligible families, as defined by income and other criteria.
- **Private sector job creation.** To help boost private investment and job creation, the IMF-supported program has promoted initiatives to improve the business climate and raise competitiveness. Among these

is support for the government's systematic streamlining and deregulation initiative and for the State Committee for the Protection of Economic Competition, which is charged with policing competitive practices.

### Djibouti

- **Focus on job creation.** The government has declared job creation a priority and has launched a number of initiatives to reduce the high unemployment rate, estimated at 48 percent of the labor force in 2012. Initiatives include a scheme to provide start-up financing for small-scale business proposals by university graduates and skills training programs. Legislation has also been introduced to ease the process of hiring and laying off workers, and firms have been granted tax breaks in return for reaching employment targets.
- **Protecting the most vulnerable.** Under the 2008–12 IMF-supported program, the authorities set a floor on social spending, for which the agreed target for 2011 was about 6 percent of GDP. In January 2012, they increased the minimum wage in the public sector, while maintaining a freeze on all other categories of public sector wages.

### Georgia

- **Limiting job losses.** The 2008–11 IMF-supported program provided financing that was instrumental in limiting economic contraction and job losses during the global economic crisis. After increasing to 16.9 percent in 2009, the unemployment rate declined to 15 percent in 2012. The subsequent 2012-14 program helped consolidate these gains, with unemployment falling further to 14.6 percent in 2013 despite the economic slowdown that year.
- **Supporting reforms to generate job-friendly growth.** Under the new program adopted in July 2014, the IMF is supporting the government's policies to generate sustained growth by improving the business environment, boosting competitiveness, supporting private investment, and promoting agriculture development. In particular, the government is supporting—including by training entrepreneurs and start-ups—small and medium-sized enterprises, which have large potential for job creation. It is also streamlining communication systems between employers and jobseekers through online web portals, where the registration of jobseekers is free.
- Following the October 2012 parliamentary elections, the government initiated amendments to the Labor Code which were passed in June 2013. The revised Code requires employers to pay overtime, increases severance pay, strengthens workers' rights to challenge employer's decisions in courts, and prohibits firing without clear reasons for dismissal. These changes may increase employer costs, but should help boost employee morale and productivity and bring labor regulations closer to Georgia's commitments under the Association and Deep and Comprehensive Free Trade Area agreements with the European Union signed in June 2014.
- **Investing in education.** The government is working to upgrade skills in the labor force, which are generally recognized as a major impediment to employment creation in the formal sector. Georgia has

taken steps to reform the education system (improving quality and the curriculum), and has started expanding vocational training programs. Education spending grew considerably in recent years and, according to the 2014 budget, is projected to increase by a third this year, reaching for the first time 10 percent of total spending.

#### Iraq

- **Despite the large size of the public sector, unemployment remains high.** It has officially been estimated at 11 percent in 2011, although actual levels, particularly among the youth, were likely to be considerably higher. The labor force lacks basic skills due to years of war and sanctions, and massive emigration since 2003. Administrative capacity is weak at all levels of government. Demographic pressure is strong, with 41 percent of the population under 15 years. The oil sector employs only an estimated 80,000 workers out of a total of about 8 million in the labor force. The government absorbs most entrants to the labor market, with about 40 percent of the workforce in the public sector, up from 31 percent in 2007. Job security and a generous pay structure in the public sector set a high reservation wage and crowd out private employment. As a result, total job creation has been weak, averaging around 1 percent a year. Female participation in the labor force, at only 13 percent, is particularly low compared to international and regional standards. Aggregate labor market indicators also mask large geographical disparity, with official unemployment in some provinces at 20 percent.
- **Over the medium term, demographic trends will put pressure on the labor market.** The Fund's labor template, based on conservative assumptions (whole-economy growth projections and average growth-employment elasticity estimates of MENA oil producers), suggests that employment creation in 2013–18 will likely not be strong enough to absorb the 2.1 million total new entrants in the labor force estimated by the International Labor Organization, leading to a rise in the unemployment rate. These results should be interpreted cautiously given significant data quality issues, but they do underline the need for higher growth or better job-creation strategies to help generate adequate employment.

#### Jordan

- **Structural reforms needed to create more jobs.** Unemployment has been persistently high—averaging 13 percent over the past decade and registering 12.6 percent at end-2013—and is prevalent among the young and educated. Unemployment is largely structural rather than cyclical. Thus, short term changes in aggregate demand would not necessarily make a big dent in the unemployment problem, but structural reforms would.
- **Skills mismatches are at the heart of the problem.** Skills produced by the education system do not very well match those demanded by the market. There is a need for policy to address such mismatches through education reforms and training programs. Two promising programs currently operate in Jordan, run by the Education for Employment Foundation and Injaz. Scaling up and replicating such promising programs could go a long way.

- **Youth employment focus.** Jordan is pursuing reforms aimed at promoting employment, especially for the youth. In line with the National Employment Strategy adopted in 2012, the government initiated in early 2013 the design of “Jordan Job Compact”, an initiative aiming to assist unskilled, semi-skilled, and skilled youths to find jobs. The initiative combines training, better skills matches, stimulus packages to employers, and finance for small and medium-sized enterprises to generate more and better jobs for Jordanians.

## Kyrgyz Republic

- **Improving training for young people.** The rate of total employment increased to 61.4 percent in 2012 from 60.9 percent in 2011, with the unemployment rate declining slightly to 8.4 percent in 2012. The government is focusing on removing infrastructure bottlenecks in labor-intensive industries, such as tourism. Youth unemployment remains high, although it declined slightly to 15.4 percent in 2012 from 16 percent in 2011. The government is improving vocational training facilities with a view to providing better training programs for young people, especially in the field of agriculture. Spending on training, however, remains low (US\$0.5 million in 2013).
- **Increasing wages and pensions.** The government decided on a sizable wage increase for social sector workers in 2011. As a result, the government wage bill rose by 40 percent to 8.3 percent of GDP in 2011 from 7.7 percent in 2010. In 2012, wages increased only slightly in nominal terms, but rose relative to GDP (to 8.8 percent) because of lower GDP (the economy contracted in 2012). Pensions also increased—by 20 percent in 2011, 10 percent in 2012, and by 8.7 percent in 2013—bringing the average pension closer to the nationwide minimum subsistence level, which is currently about US\$100 per month. The guaranteed minimum income was also raised—by 20 percent in 2011, and 50 percent in 2012—reaching US\$12. This allowed an increase in spending on targeted social assistance programs (from 1 percent of GDP in 2012 to 1.3 percent in 2013). The minimum wage was US\$17 in 2013, among the lowest in Central Asia. The average wage in the public sector in 2012 was US\$190 compared to US\$290 in the private sector. The social security contribution rate paid by employees remained at 10 percent.

## Mauritania

- **Reducing youth unemployment.** The first ever national labor survey according to the methodology of the International Labor Organization (ILO) with a better coverage of the informal sector was recently completed, reporting a total unemployment rate of 10 percent. Youth, educated and females are particularly affected by unemployment and females have a low participation rate. According to the latest Living Standards Measurement Survey (LSMS; 2008), the unemployment rate in Mauritania was reported at 32 percent—although the figure is not comparable to the latest reported number. To promote formal employment, the government introduced a program for young unemployed university graduates in the agricultural and the fishery sectors, and initiated a broad training and integration program for the unskilled. Given that private sector investment needs to increase to

sustainably create new jobs, the authorities have developed—with help of the World Bank—an action plan aimed at improving Mauritania’s business environment.

- **Freeing up resources for pro-poor spending.** Fuel subsidy reform, wage bill containment, and civil service reform have freed up resources for pro-poor spending and productive investment. At the same time, better-targeted social transfers are expected to be introduced, including through a cash transfer scheme developed with the help of the World Food Programme. In 2013, a roughly revenue-neutral, progressive income-tax reform increased the spending power of all but the richest workers. A reconciliation of the recent census of civil servants with the payroll and a similar census for public enterprises are underway to help decrease the number of “ghost” workers.

- **Improving data quality.** Improving labor statistics is key to assessing appropriate employment trends.

## Morocco

- **Unemployment remains high, especially among young people.** The unemployment rate has remained at about 9 percent since 2009, but youth unemployment increased from 17.9 percent in 2011 to 18.6 percent in 2012. Youth unemployment is largely of a structural nature. About two-thirds of youth unemployed have been without a job for at least one year. This rate is even higher for young women and for youth living in urban areas. Unemployment among the educated has been persistently high. Morocco’s labor market is relatively rigid and tends to limit the integration of new workers.

- **Structural reforms to reduce unemployment.** Higher growth will be necessary, but not sufficient, to significantly reduce unemployment over the medium term. Large-scale reforms in labor and product markets have sizeable effects in increasing the responsiveness of employment to changes in economic activity. Strengthening current programs and properly designing additional active labor market policies to improve the efficiency of the job matching process by enhancing the skills of the unemployed would help reduce unemployment. Supporting enterprise development by improving infrastructure and ensuring that small and medium-sized enterprises have access to credit may have significant effects on youth unemployment. The IMF-supported Precautionary and Liquidity Line provides support for the government’s structural reform agenda in these and other areas.

## Pakistan

- **Difficult employment challenges.** The labor force is growing, and providing employment opportunities remains challenging. Pakistan’s population growth rate of 2.2 percent (annual average) over the past decade is almost twice the average rate of emerging and developing economies with about 40 percent of the population below the age of 15. The labor force is expected to grow by 2 percent in the coming years. The youth unemployment rate was estimated to be above 10.5 percent in 2013, almost twice the unemployment rate among adults aged over 25 years. The official unemployment rate hovered around 5-7 percent range during FY2009/10–FY2012/13. The urban

unemployment rate (8.8 percent in 2012/13) is significantly higher than the rural rate (5.1 percent in 2012/13), and only a quarter of employment is in the formal sector. During the course of the current IMF-supported program, the unemployment rate is projected to decline to about 5 percent by 2017/18.

- **Increasing investment in education.** A central objective of IMF-supported programs since the 2008 global crisis has been to lay the foundation for strong and inclusive growth in order to create jobs. Increased investment in education—including technical and vocational training programs—will be critical to improve matching peoples' skills to jobs.
- **Reforms to create jobs in the private sector.** New jobs in Pakistan will need to be generated by the private rather than the public sector. This will require a scaling back of the public sector's footprint in the economy, the elimination of bottlenecks in the power sector, and an improved business climate to help support business start-ups. In addition, public sector wage increases, which act as a signal to the private sector, will need to be contained as a way of ensuring steady demand for labor and protecting the state of the public finances.

## Tajikistan

- **Rapid expansion of the workforce creates challenges for absorption through domestic job creation.** Recent surveys indicate that Tajikistan's working age population is growing fast—even faster than the overall population—at 3.1 versus 2.1 percent per year. Despite average real GDP growth of 7 percent over the past five years, employment opportunities are scarce and younger job seekers often must search for a job abroad. A substantial portion of the workforce is emigrating to, or undertaking seasonal work in neighboring countries, including Russia. The authorities are making efforts to match labor demand through training and requalification programs. In 2011, about 0.1 percent of total budget expenditure went to those programs.
- **Improving the business environment.** Tajikistan's most recent three-year program with the IMF ended in May 2012. It focused on helping the country through the global economic crisis and included measures to support a business environment conducive to private sector growth and job creation. Reflecting the priorities outlined in the authorities' National Development Strategy and Poverty Reduction Strategy, the public sector wage bill has increased from 4.1 percent of GDP in 2008 to 5.6 percent in 2012, with a particular emphasis on wages and salaries in the health and education sectors. The minimum wage was increased in September 2013 from approximately US\$42 to US\$50.
- **Improving the availability of credit.** Other measures to create an environment more conducive to job creation in the private sector have included steps to bolster the financial system, so that credit can be made more widely available, and the adoption of the new tax code effective January 1, 2013, that lowers the administrative burden on companies, including small and medium-sized firms.

## Tunisia

- **Achieving higher and more inclusive growth is a priority for Tunisia in order to absorb high unemployment.** Unemployment has recently declined to 15.2 percent (as at the end of the first quarter of 2014), but remains high, particularly among the young and educated. The IMF-supported program aims at fostering stronger and more inclusive growth to spur job-creation while preserving short-term macroeconomic stability and protecting the most vulnerable. Achieving a better composition of public expenditures and sustained public investments, and implementing a comprehensive structural reform agenda to promote private sector development will contribute to laying the foundations to support growth, create high value-added jobs, and absorb high unemployment.
- **A more efficient functioning of the Tunisian labor market would help to foster job-creation.** A new social contract was signed on January 14, 2013, between employers and trade unions to serve as a common social roadmap. A broad consultation is planned to discuss the new employment strategy that is currently under preparation. Such a strategy is crucial to reduce labor market rigidities and skill mismatches between labor demand and supply and to foster more rapid job creation.
- **Regular consultations with trade unions.** IMF staff maintains a regular dialogue with Tunisian labor union representatives to gather their views on needed reforms, assess the possible impact of program-supported reforms, and foster a transparent and participatory reform process.

## Yemen

- **High unemployment is a challenge.** Yemen's unemployment rate is high, ranging from official estimates of about 17 percent to unofficial estimates of up to 40 percent. The high population growth rate of 2.5 percent annually, and very young population—40 percent of the population is under the age of 15 while 65 percent is under the age of 24—contributes to the high unemployment rate.
- **Containing the public sector wage bill is part of the strategy to create fiscal space to address social and reconstruction needs.** The wage bill exceeded 10 percent of GDP in 2013, but is expected to decrease slightly in 2014 as result of recently approved measures to eliminate ghost workers and double dippers, which will entail full implementation of the biometric identification system throughout the civil service, the military, and the police. This will help gradually reduce the growth of the wage bill over the medium term, thereby freeing resources to increase social spending and help protect the most vulnerable and pensioners.
- **Inclusive growth will require diversification and labor market reforms.** The private sector absorbs a small fraction (and mostly within the informal sector of the economy) of the new entrants to the labor market, estimated between 170,000 to 230,000 annually, and government capacity to absorb new hires is limited due to budgetary constraints. Enhancing the business environment and access to financial services, supporting small and medium-sized enterprises,



reforming education and vocational training, and labor market reforms are therefore necessary to promote the role of the private sector as the engine of growth and employment.