Can Fiscal Belt-Tightening be Friendly to Jobs and Growth in the Mideast?

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A call for a fairer access to economic opportunities, especially jobs, was one of the key reasons behind the uprisings that the Middle East witnessed four years ago. However, the region is still struggling to create jobs and boost economic growth.

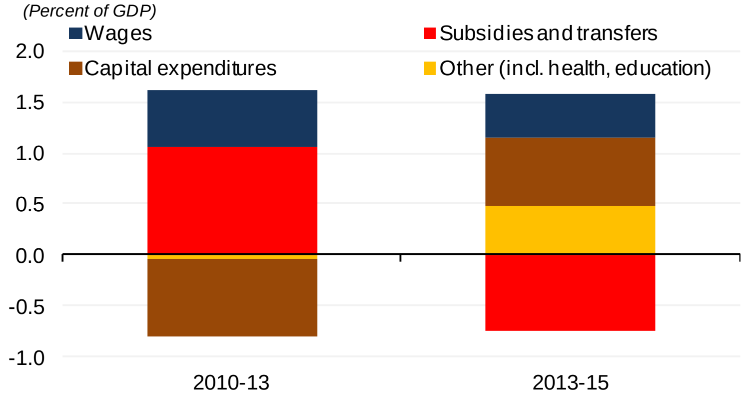
At the same time, improving economic confidence and stability requires placing government debt on a sustainable path by raising revenues and reigning in government spending, which could hurt jobs. During extended periods of weak growth, this can also prolong unemployment, resulting in skills depreciation and prompting discouraged workers to leave the labor force.

But actually the picture is not as bleak as it might seem. Retrenching some types of expenditure or raising certain types of revenues can help sort out this predicament and leave only a benign effect on growth and employment.

How to spur job creation

Shifting spending from inefficient generalized energy subsidies toward growth-creating spending on infrastructure, health care, and education is a part of the solution. Many oil importers across the Middle East and North Africa, Pakistan, and Afghanistan are already pursuing fiscal consolidation programs that reduce subsidy spending (Figure 1).

Figure 1
Change in Expenditure[1]
(Percent of GDP)



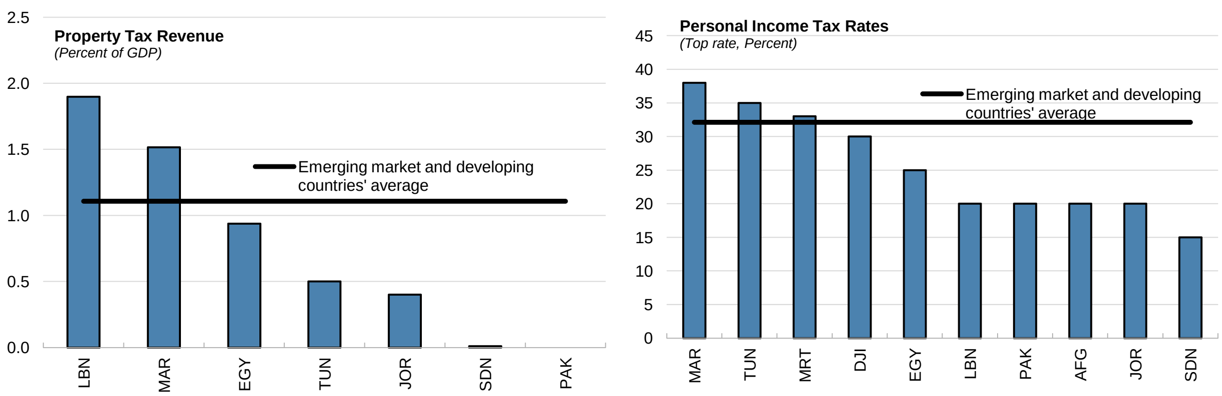
Sources: National authorities; and IMF staff calculations.
[1]Excludes Syria.

In Egypt, Jordan, Pakistan, and Tunisia, such reforms have created room in the budget for increased investment in energy efficient technologies, infrastructure, education, and health care, [all of which support job creation](). Such spending also aims to improve the business environment and enhance workers' skills, leading to higher productivity and providing further boost to job creation.

Measures to raise revenues also support fiscal consolidation with little impact on jobs. Some examples are raising property and personal income taxes for high-income segments of the population, and the elimination of certain tax exemptions. These measures would be particularly effective in the region's oil importers, where these taxes are generally low compared to other emerging and developing economies (Figure 2).

Such tax reforms also create a more equitable tax environment, improve incentives for doing business, and encourage legitimization of informal businesses, causing business expansion and creation of jobs.

Figure 2 Property, Personal, and Income Taxes in MENAP Oil Importers



Sources: National authorities; KPMG; Deloitte; and IMF staff calculations.

Coming full circle

Fiscal savings from the measures above can be used to finance job-creating labor market reforms. For example, in the region's oil importers, some savings from energy subsidy reforms can finance job placement services, including centralized computer matching services and apprenticeships.

The mismatch between employees' skills and employers' needs, especially in vocational, language, computer, and management skills, can be partly resolved through targeted training programs. Governments can collaborate with the private sector in the design and financing of these programs.

Finally, public-private consultations can better align the design of tertiary and vocational education with employers' needs.