Demand Outstrips Labour Supply in Post-Revolution Egypt

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Since the eruption of the revolution in Egypt in 2011, it has become clear that the future of the country is closely tied to the future of those who were at the forefront of this revolution: its young people. With a population of nearly 85 million, two-thirds of which is under 30, Egypt has a workforce that, at least in theory, not only is employable but also is adaptable to a labour market that is continuously and rapidly changing due to the influence of globalization and technological advancements.

However, of the country’s unemployed population, Egyptian youth under 30 represents nearly 90%, a shocking fact that highlights the enormous challenges facing the country’s workforce as its members seek to be productive, engaged citizens and create better opportunities for themselves and their families. Unemployment is an issue in any country, but in this case it is a deeply rooted structural problem that is putting huge pressure on the Government as well as on the economy. Even after a decade of exceptional economic growth (see Figure 1 opposite), unemployment has remained a key challenge that is blocking the country’s development.

A closer look at the situation in Egypt reveals that unemployment figures do not capture the full magnitude of the problem. There is a large pool of ‘discouraged’ youth who are in neither education nor employment and have given up searching for a job due to limited opportunities and frustration. This group is not included in the unemployment statistics and is particularly prevalent in the rural areas of Egypt.

DEMAND FOR LOCAL TALENT

When addressing the challenges facing Egyptian youth, one unavoidable truth needs to be taken into account: the majority of the workforce lacks both the knowledge and the technical expertise that the market demands. Although there is an abundance of labour, the private sector in Egypt continues to report difficulties in finding qualified or skilled candidates to employ. This is symptomatic of a crisis that runs much deeper than mere unemployment.

A visible mismatch between the demand for, and supply of, labour was a key trigger for the 2011 revolution; however, the issue remains the same today. The private sector still needs to find qualified and skilled employees, but the available pool of job seekers remains unable to meet those needs. Closing this gap is one of the Government’s most critical and urgent tasks.

Egypt currently has the largest pool of youth in its history and providing this group with the skills and knowledge required to compete in a globalized economy is proving a difficult task within an overburdened and ill-funded education system. The demands of the private sector mean that the problems employers face in finding skilled, qualified candidates are therefore growing steadily worse.

The education and training provided for the majority of Egyptian school leavers and university graduates is often cited as outdated and unsuitable by the private sector. The lack of high-quality education is matched by a lack of life skills, such as problem-solving, critical thinking and self-awareness. Employers are often willing to cover the gap in terms of technical or vocational skills by providing proper training. However, they are less motivated when it comes to developing life and job readiness skills which they believe should be provided within the education system.

Companies in Egypt report that the gap between supply and demand for workers ranges from highly skilled professions, such as technicians and mechanics, to lower-skilled occupations, including call centre agents, drivers and production line workers.

THE SUPPLY SIDE

Quality of Jobs and the Informal Economy

Moving on to the supply side – the unemployed masses. The problem of a lack of available positions is often attributed to the economic stagnation that has followed the revolution. Economic uncertainty is hindering the job creation cycle within the formal economy, resulting in continued decline in the quality of available jobs in the market. As a result, a large proportion of the employed workforce is within the informal economy.

Consisting of unregistered businesses, the informal economy offers jobs with low pay, few benefits and little or no growth potential, where workers often have no contracts and many lack access to social security.
Although the magnitude of the problem is clearly evident in the market, it is rarely addressed in policy discussions which tend to concern unemployment among educated youth. A report published by the International Labour Organization in 2012 addressed the fact that, excluding those in the agricultural sector, almost 51.2% of Egypt’s workforce falls into the informal economy. A recent study by the Population Council and the Information and Decision Support Center showed that, within the informal economy, only 15.7% of workers have signed contracts and only 14.8% have social insurance benefits. In summary, there is no control or supervision over this large proportion of the economy and, as such, resources and capacities are unutilized or underdeveloped, workers as well as consumers are unprotected and revenues are not accounted for.

Market Information
Another major obstacle facing Egyptian youth is identifying potential employers. Finding information on which companies are hiring, recruitment criteria, which skills are desirable in the market and how to obtain those skills can seem like an impenetrable maze to most job seekers. Both sides of the labour market – demand and supply – depend upon word of mouth and personal contacts to make connections. Many job seekers would prefer to use the internet to find vacancies; however, many employers do not utilize online job vacancy services to post available positions.

Working for the Government
As in most countries, an Egyptian government job is characterized by fixed salaries, job security, paid leave and social security. For many, the Government has everything the private sector might lack. This is particularly true for many young Egyptian women who receive access to benefits, such as paid maternity leave, extended unpaid leave to care for children and flexible return-to-work options.

However, no government can absorb the large number of people graduating year after year. Since introducing a programme of guaranteed employment for graduates in the 1960s, the Government has become an ungainly dinosaur, overburdened with surplus workers and unable to keep up with changing labour-market conditions. Recognizing that this programme was not sustainable, the Government has been introducing a set of structural adjustment policies since the early 1990s. In the 21st century, jobs in the public sector have become difficult to find and young people have turned to using personal connections as a means of securing these positions.

In order to effectively develop an economic environment that is capable of meeting the ever-growing demand for jobs, the Government needs to build a strong sustainable relationship with the private sector and civil society, support young people by preparing them for the labour market and do whatever is needed to control the informal economy.

INFLATION AND SALARY INCREASES
Overview on Inflation
Inflation rates in Egypt are reported by the Central Bank of Egypt (CBE). The rate has averaged 8.92% from 1958 to 2014, reaching an all-time high of 35.10% in June 1986 and a record low of –4.20% in August 1962. In Egypt, the Consumer Price Index (CPI) measures the change in the cost of a fixed basket of goods and services that are purchased by a representative sample of households from urban areas, which include Cairo, Alexandria, urban Lower Egypt, urban Upper Egypt, Suez Canal cities and frontier governorates.
**Basic salary movements (same companies)**

**FIGURE 2**

**Salary Movements in Egypt**

<table>
<thead>
<tr>
<th>Job level</th>
<th>Basic salary movements (same companies)*</th>
<th>Base salary movements (same companies)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management / Executive (HRL 21 and above)</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Middle management / Seasoned professional (HRL 17-20)</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Supervisory / Junior professional (HRL 12-16)</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Clerical / Operations (HRL 4-11)</td>
<td>1%</td>
<td>3%</td>
</tr>
</tbody>
</table>

NOTE: HRL = Hay Reference Level

* Basic payments are annualized cash amounts paid for work performed as stated in an employment contract, excluding all fixed and variable payments. Note that in the Middle East basic salary excludes allowances, market premium, fixed bonuses, variable bonuses and any other cash payments.

** Current Inflation **

In March this year, the inflation rate was recorded at 9.8% year on year. When looking at food and non-food inflation, we consistently see annual increases standing at 15.6% and 5.1% year on year respectively. Monthly inflation trends show that headline inflation was up by 0.6% month on month in March, decelerating from 1.4% in January and 1.0% in February. Food prices jumped by 1.4% month on month, driven by higher prices of meat, fruit and vegetables. Non-food inflation inched up by only 0.1% month on month with most non-food items in the consumer basket showing no price movements. Non-food prices rose by a total of 1.4% quarter on quarter in the first quarter of 2014.

Inflation is likely to decelerate further in the next few months, benefiting from favourable base effects including the devaluation of the Egyptian pound in the first half of 2013. Inflation is therefore expected to remain in single figures for the rest of 2014, forecast at an average of 9.4% year on year. Financial and in-kind support from the Gulf Cooperation Council and stability in global food prices will help avoid any inflationary shocks related to the currency or energy.

The CBE, which last met on 24 April, held policy rates unchanged at 8.25% for the overnight deposit rate, 9.25% for the overnight lending rate and 8.75% for the discount rate.

**Salary Increases**

The 2013 ‘Hay Group Egypt Compensation and Benefits Survey’, which captured salary data from 262 organizations reflecting the pay of approximately

1. Q3 is the 75th percentile (also called the upper quartile), the limit above which we find 25% of company salary levels and under which are the remaining 75%. In other words, 75% of survey participants pay less than this level while 25% pay more.

2. Median is the 50th percentile, the line that divides company salary levels into two equal groups, 50% paying more and 50% paying less.

3. Q1 is the 25th percentile (also called the lower quartile), the limit above which we find 75% of company salary levels and under which are the remaining 25%. In other words, 25% of survey participants pay less than this level while 75% pay more.

These items categorize areas of spending by Egyptian households. There is public demand to revisit the weighting of housing within the total basket, as increased immigration is driving housing costs up.

**FIGURE 3**

**Salary Increase Forecasts in Egypt**

<table>
<thead>
<tr>
<th>Market percentile</th>
<th>Basic salary movements forecasts*</th>
<th>Base salary movements forecasts**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Median</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Q1</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Average</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

* Basic payments are annualized cash amounts paid for work performed as stated in an employment contract, excluding all fixed and variable payments. Note that in the Middle East basic salary excludes allowances, market premium, fixed bonuses, variable bonuses and any other cash payments.

† Base salary is the sum of basic payments and fixed payments. Fixed payments are annualized cash amounts paid when the same absolute or percentage amounts have been awarded to eligible jobholders automatically year over year irrespective of individual, unit or company performance.

**NOTES:**

1. Q3 is the 75th percentile (also called the upper quartile), the limit above which we find 25% of company salary levels and under which are the remaining 75%. In other words, 75% of survey participants pay less than this level while 25% pay more.

2. Median is the 50th percentile, the line that divides company salary levels into two equal groups, 50% paying more and 50% paying less.

3. Q1 is the 25th percentile (also called the lower quartile), the limit above which we find 75% of company salary levels and under which are the remaining 25%. In other words, 25% of survey participants pay less than this level while 75% pay more.

The most important categories, along with the proportion of their total basket weight, in the headline CPI are:

- food and beverages (40%),
- housing, water, electricity, gas and other fuel (18.4%),
- medical care (6.3%),
- transport (5.7%),
- clothing and footwear (5.4%),
- education (4.6%),
- hotels, cafés and restaurants (4.4%),
- furnishings, household equipment and routine maintenance of the residence (3.8%),
- miscellaneous goods and services (3.7%),
- communications (3.1%),
- recreation and culture (2.4%), and
- tobacco and related products (2.2%).

These items categorize areas of spending by Egyptian households. There is public demand to revisit the weighting of housing within the total basket, as increased immigration is driving housing costs up.
110,000 employees in the Egyptian market from major industry sectors and ownerships, revealed that, in 2012-13, actual salaries increased by around 6.8% across all employee groups, on ‘same companies’ analysis. The breakdown between employee groups is shown in Figure 2 opposite. The ‘same companies’ analysis is useful for an understanding of realistic market movements, since it captures the actual increases from organizations that provided payroll data in both the 2012 and 2013 surveys. In 2013-14, basic salary is forecast to increase by 10.3% on average, which is in line with inflation forecasts for the year 2014, as shown in Figure 3, also opposite.

DEVALUATION & ITS EFFECT ON BUYING POWER
The Egyptian pound has come under significant depreciative pressures since the beginning of the revolution in 2011. The CBE has intervened to slow the rate of depreciation, but its ability to support the currency is waning. As such, the Egyptian pound has depreciated sharply to 6.9386 against the US dollar – which is a 9% fall in 2013. With the ousting of President Mohamed Morsi in July 2013, the Egyptian pound reached its lowest official rate, at 7.0408, and a low of 8 in the black market that emerged due to banks failing to meet the demand for US dollars.

As a result, the CBE held forex auctions – selling US dollars mainly to government bodies that are responsible for importing critical goods, such as wheat and medicine, in an attempt to manage the gradual deterioration in the exchange rate and save the pound from further depreciation. The CBE sold an average of US$60 million per week, with the exception of three auctions in which the bank sold US$600 million (April), US$800 million (May) and US$1.3 billion (September).

Although the forex auctions succeeded in slowing down the pace of the currency devaluation, the programme had an adverse effect on foreign reserves which fell below US$15 billion in the first half of 2013. However, the Gulf states intervened, providing aid to the value of US$12 billion, raising reserves to their highest level in the past three years.

Wage Inflation
Following the growth in real wages of 1.8% in 2012, Egypt saw slower growth of 0.5% in 2013. This trend reflects a persistent weakness in the Egyptian economy as well as higher consumer price inflation. These conditions will continue to dampen wage growth in 2014 and 2015, leading Egyptian real wages to contract by 1.7% and 0.7% respectively.

Buying Power
Owing to weak economic activity, growth in Egyptian buying power was expected to slow to 3.0% in 2013. Hereafter, stronger economic growth will allow buying power to accelerate over the remainder of the current outlook period. Overall, buying power is expected to reach US$6,550 in 2013, with subsequent increases to around US$6,770 and US$7,070 forecast for 2014 and 2015 respectively.

Regional Comparisons
Figure 4 above illustrates the relatively low level of buying power seen in Egypt when compared with * £1 = €19.98; €1 = £9.77 as at 19 May 2014
the aggregate measure for the MENA region. Although the economy will continue to drive growth, Egyptian buying power will fall further behind the regional measure, with the difference between the two measures expected to widen from US$4,690, recorded in 2012, to US$5,230 in 2015.\textsuperscript{18}

LOOKING AHEAD
Organizations will continue to focus on the retention of top performers and the review of poor performers through performance management systems. Forty-two per cent of organizations reported an increased focus on removing poor performers, while 33\% redeployed employees to different jobs as a means of better resource allocation.\textsuperscript{19}

Over 85\% of organizations are planning for revenue growth, profitability and market share. Along with this comes a constant focus on expansion and recruitment. In addition, 40\% of the organizations identified employee engagement as a key focus area.\textsuperscript{20}

Organizations in Egypt are determined to keep salaries increasing in line with inflation through adding adequate salary increments. This will have a positive impact on their ability to attract and retain qualified and skilled talent during these difficult economic times. \(\Omega\)

\* Middle East and North Africa

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