



Labour market performances across the EU

**Active labour market policies, what works
Bruegel,
Malta 27 April 2016**

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Outline

- The overall labour market performance in the EU is improving
- Unemployment has declined amidst weak recovery & low investment
- But long-term unemployment has declined slowly
- Performances across the EU has started to converge, but remain heterogeneous...
- Improvements reflect ongoing rebalancing of external positions within the euro-area and wage adjustment in high unemployment countries
- And comprehensive reforms implemented in particular in vulnerable countries
- Keep reform momentum and use the full scope for adjustment already introduced

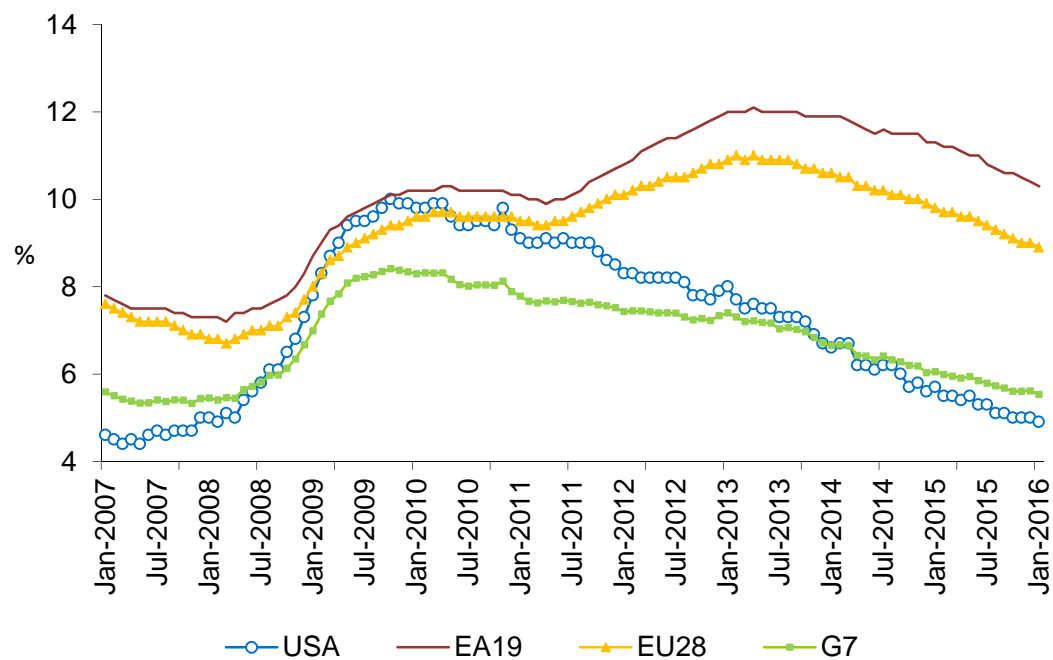


The labour market recovery is continuing, but...

Unemployment rates across world macro regions

Swift and relative strong fall of unemployment in spite of

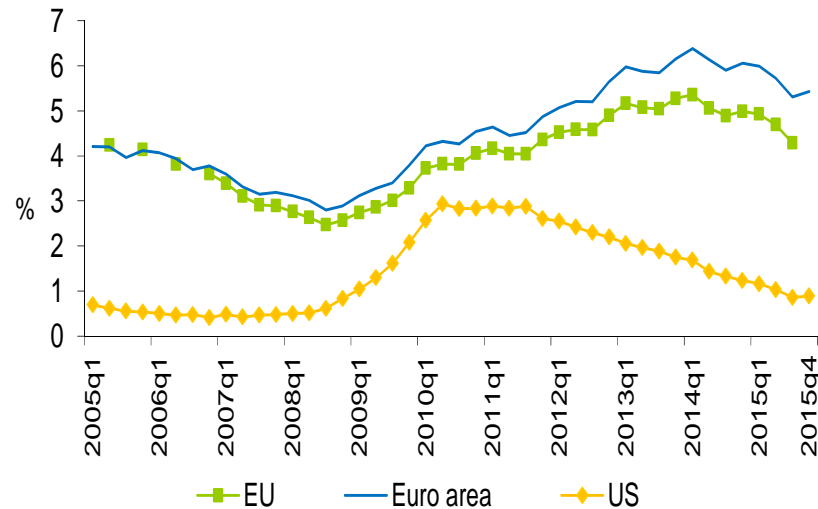
- Anaemic growth
- Weak investment dynamics until recently
- Pervasive rebalancing needs



Latest data : May 2015

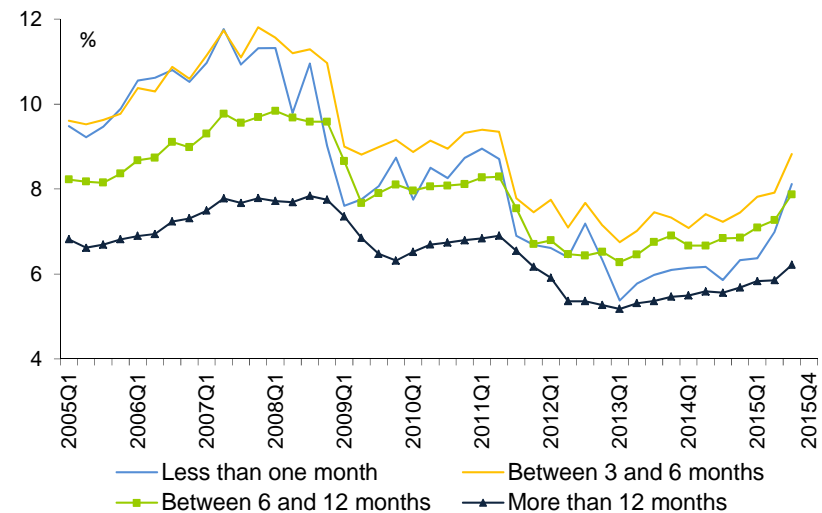
Long-term unemployment is declining slowly, reflecting depressed job finding rates, especially for those out of work for more than 12 months

Long-term unemployed in the EU, the euro area and the US



- LTU falling
- But well above pre-crisis levels

Job finding rate by duration of unemployment

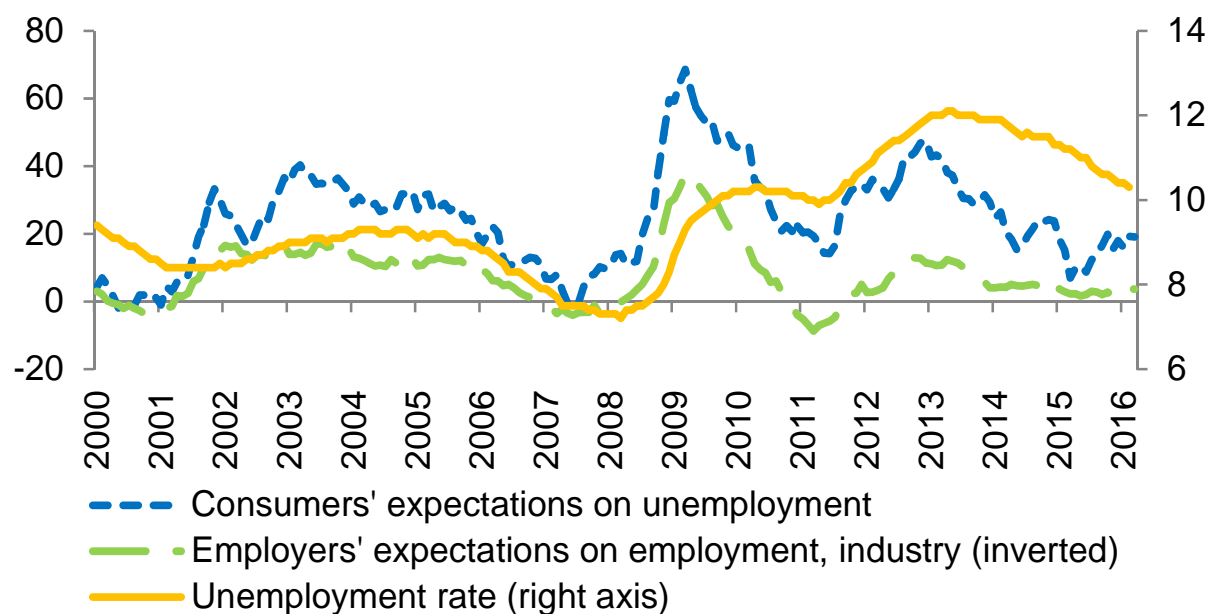


- Job finding rates has started to improve only recently
- Less for LTU

Improved confidence goes with fall in unemployment

- Drop Job destruction rates
→dynamic private consumption
- From April 2015 consumers' and employers' unemployment confidence back to pre-crisis levels

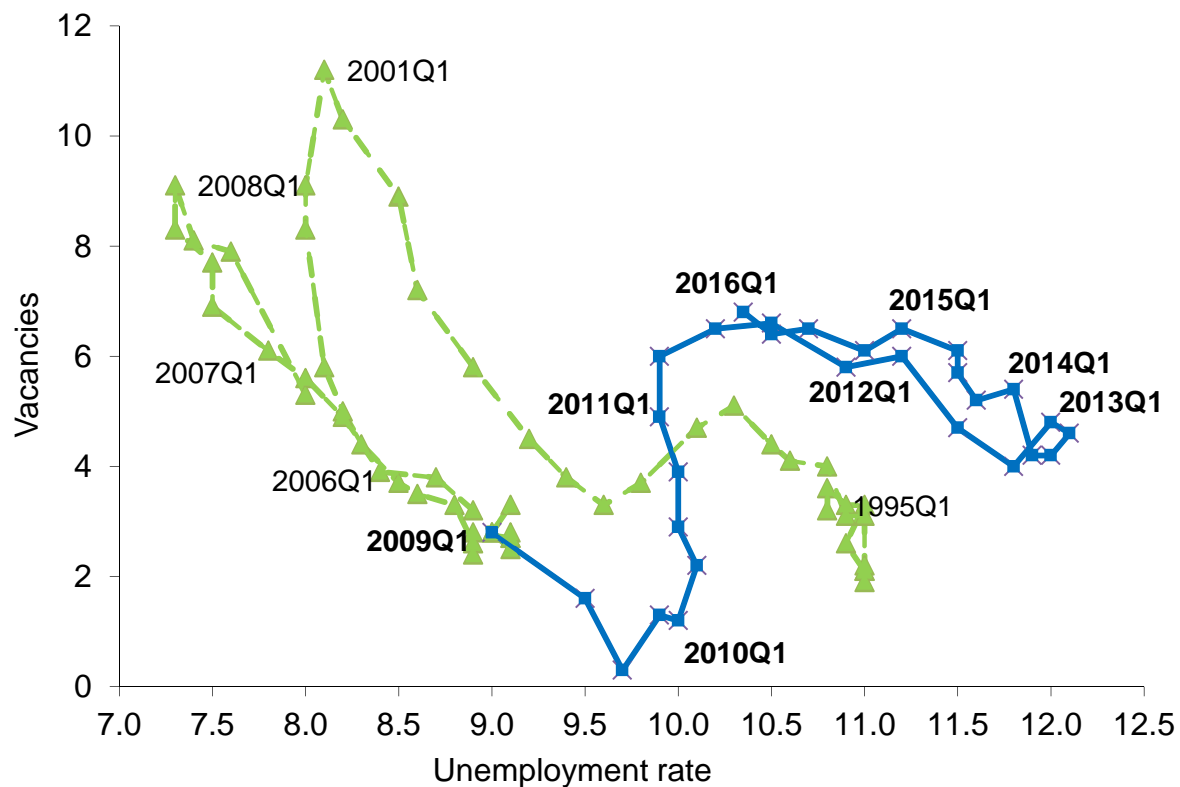
Unemployment rate and unemployment expectations for the coming 12 months



Reduction of unemployment along a worsened matching

Beveridge curve for the euro area, 1995-2015

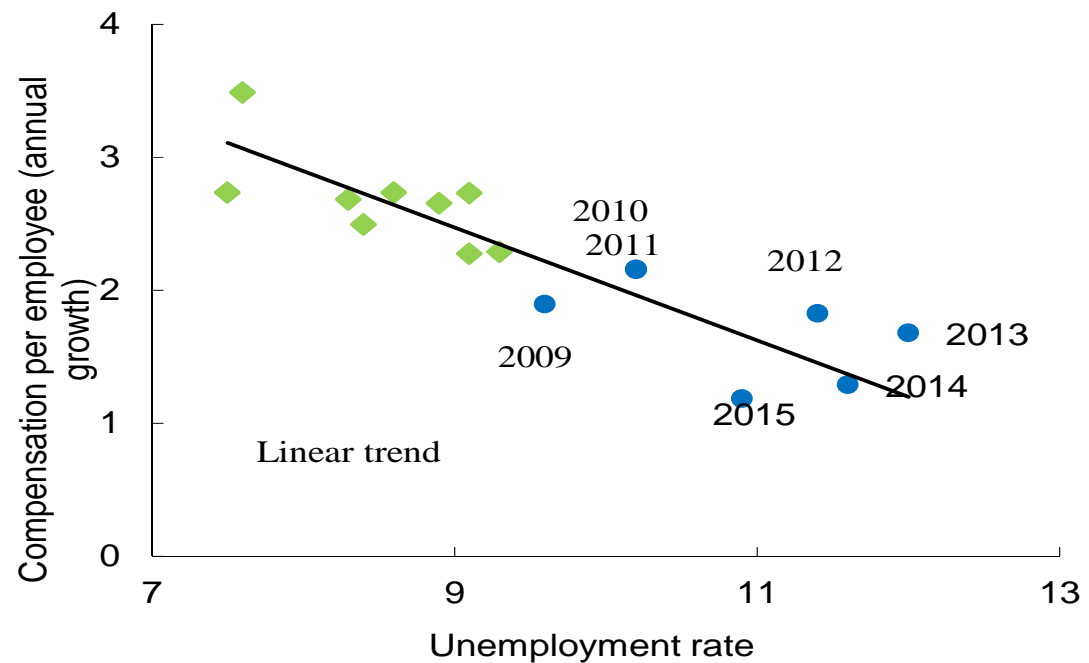
- 2009Q3 -2011Q2: Vacancies rise, unemployment unchanged
- 2011Q2-2013Q3: vacancies drop, unemployment increases
- 2013Q3-2016Q1: vacancies rise, unemployment drops
- BC has shifted outward but not all increase in LTU reflects persistent mismatches



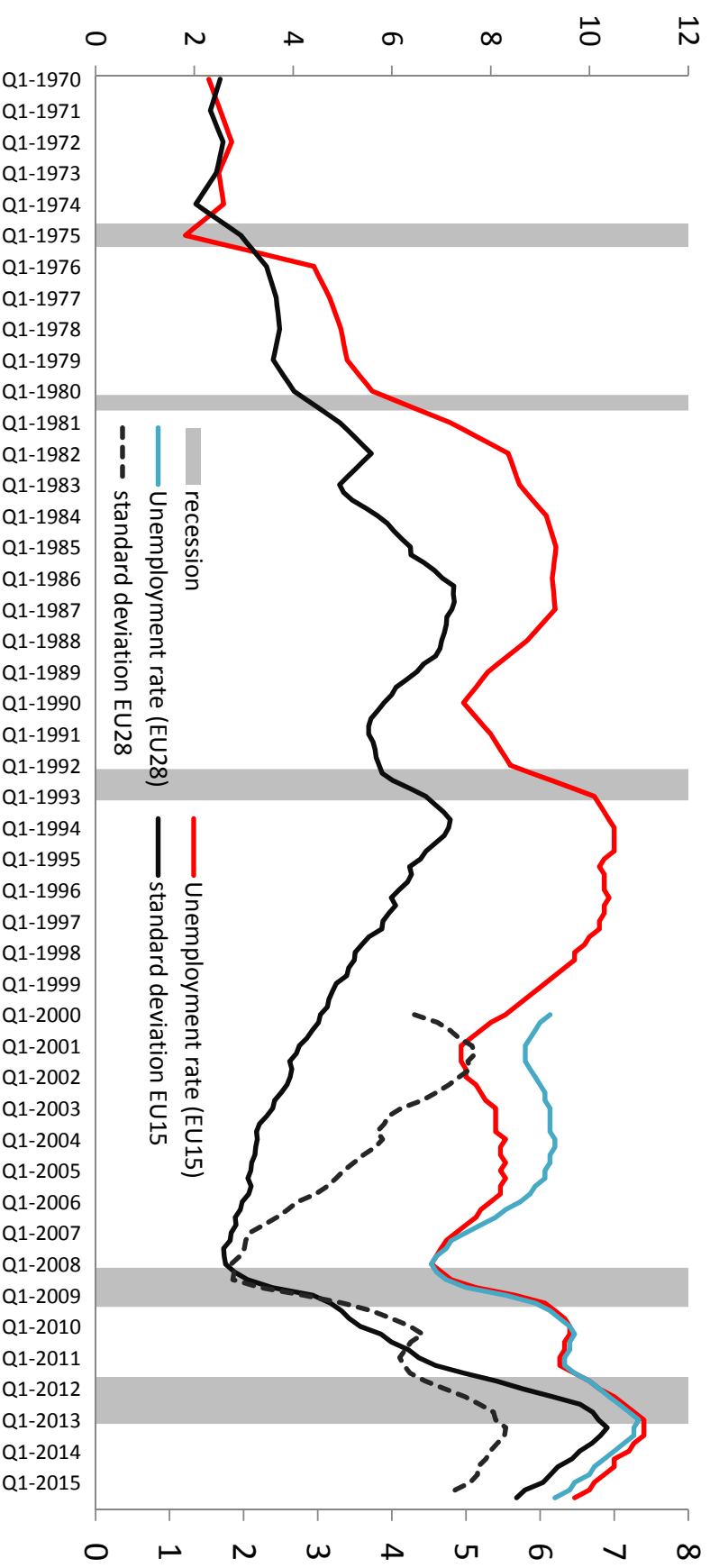
Supportive wage and unit labour costs developments

- Growth in nominal compensation per employee remain moderate

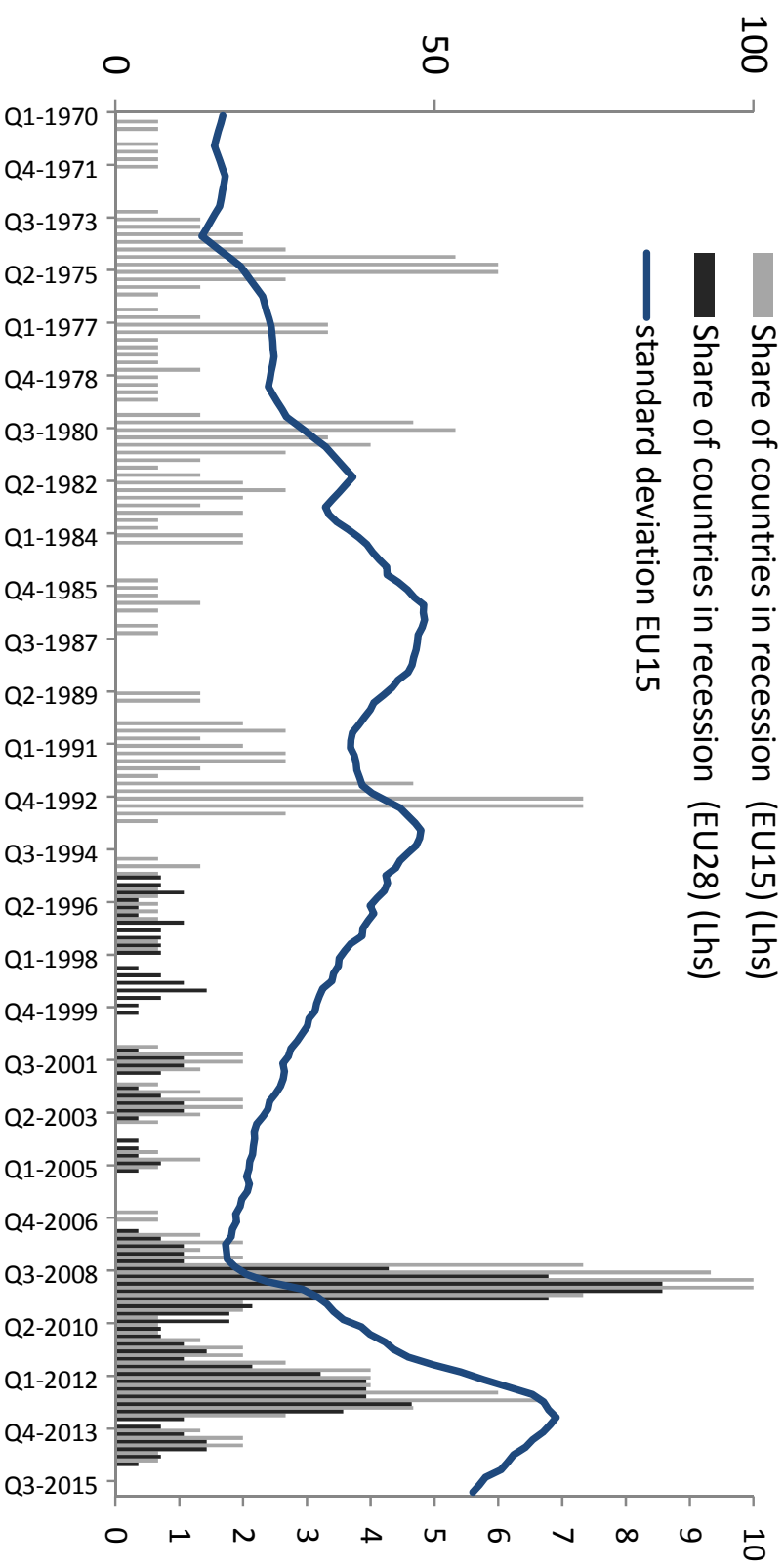
Phillips curve of the EA 2000-2012: growth rate of compensation per employee



Labour market performances across the EU has started to converge, but remain heterogeneous

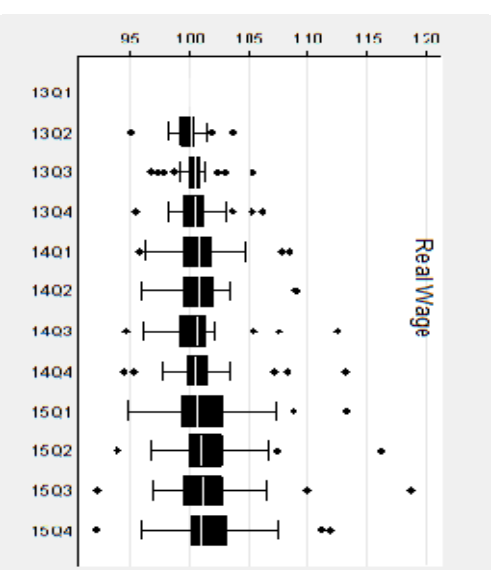
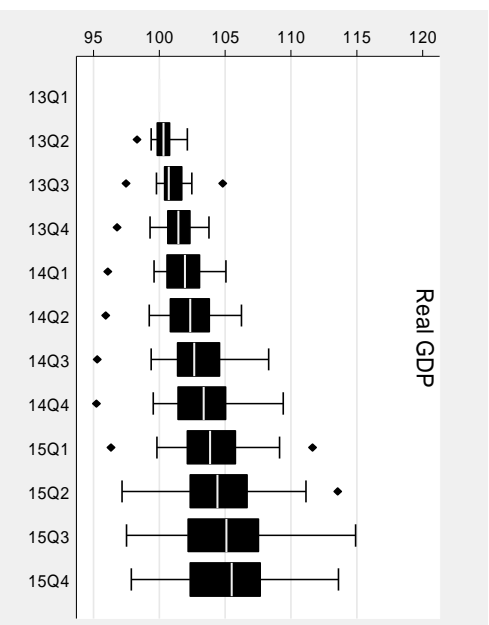
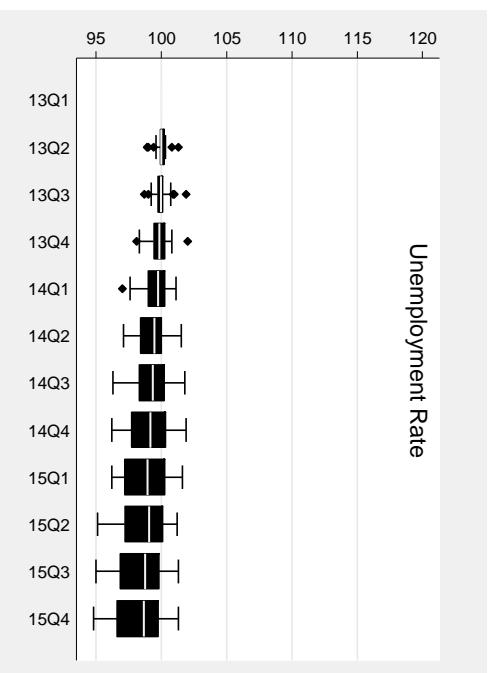


Asymmetric effects of common shocks prevail





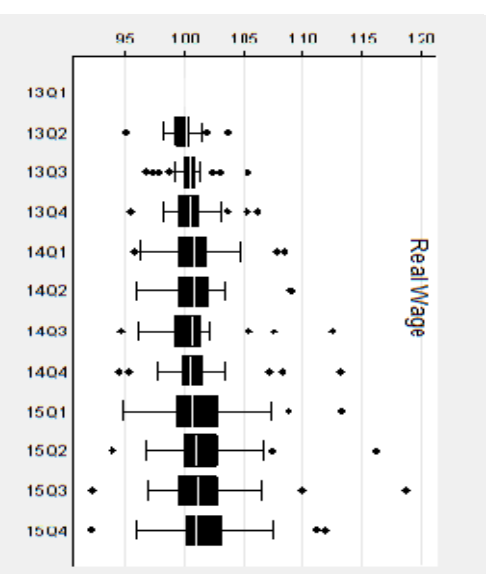
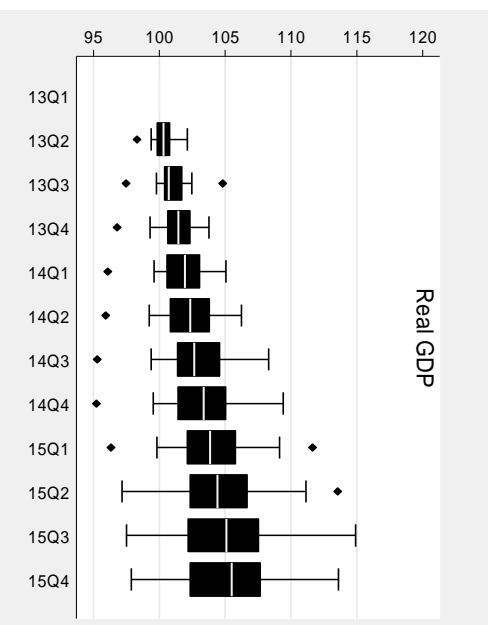
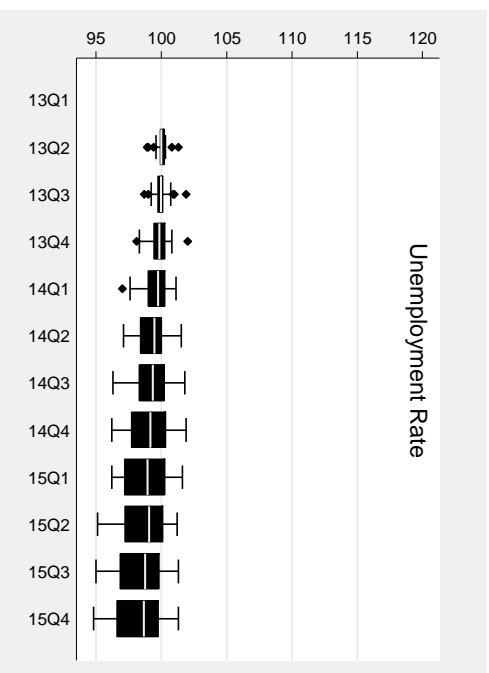
Current Recovery



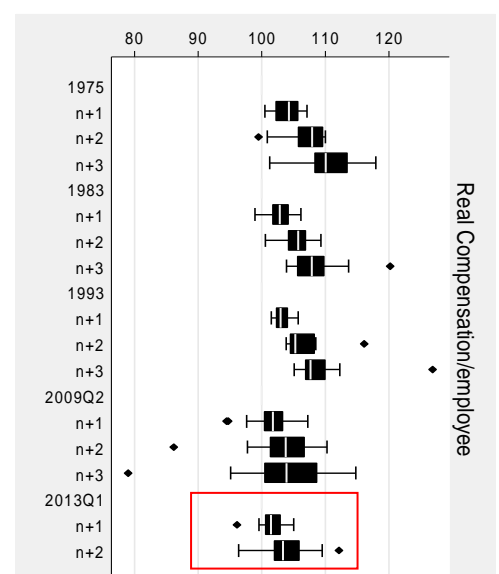
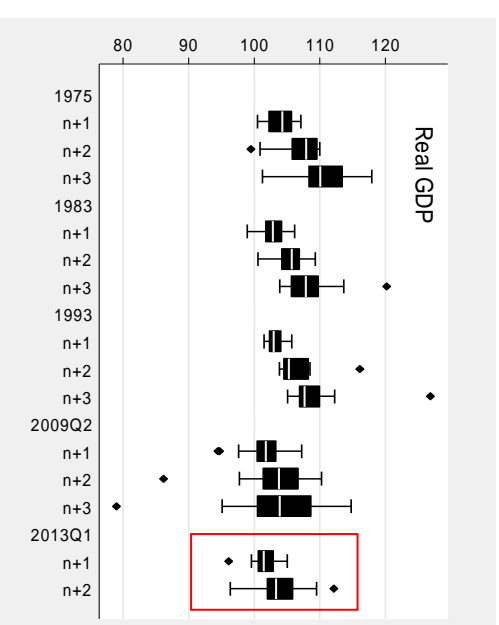
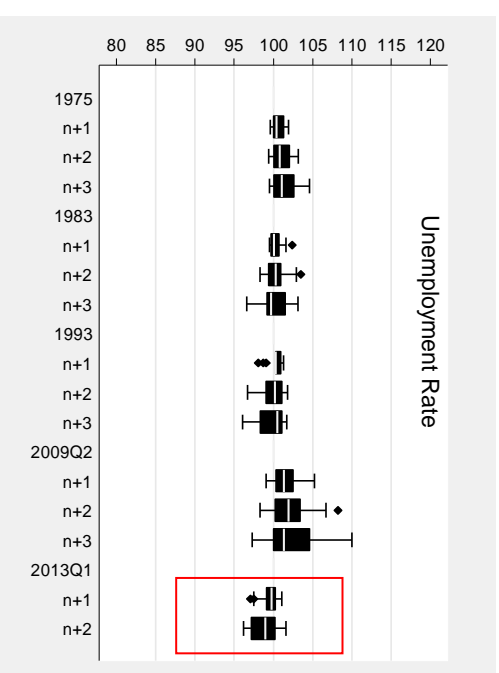


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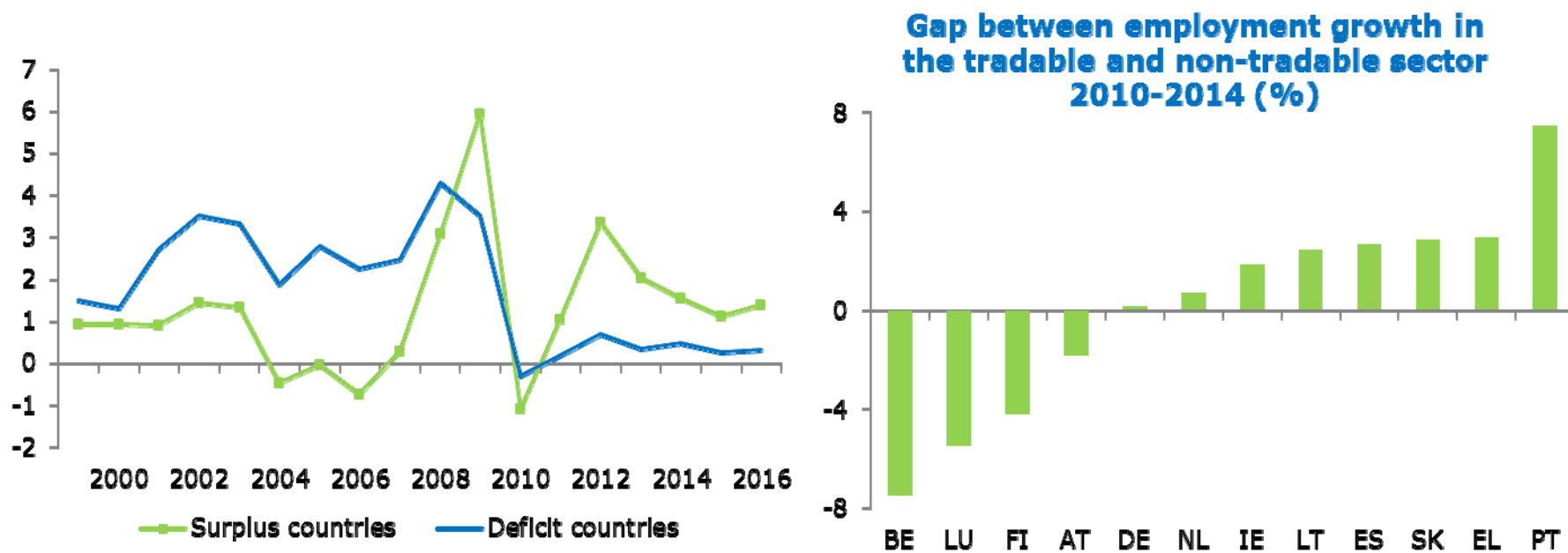
Current Recovery



Past and current Recoveries



Unit labour cost dynamics consistent with rebalancing of external positions in the euro area

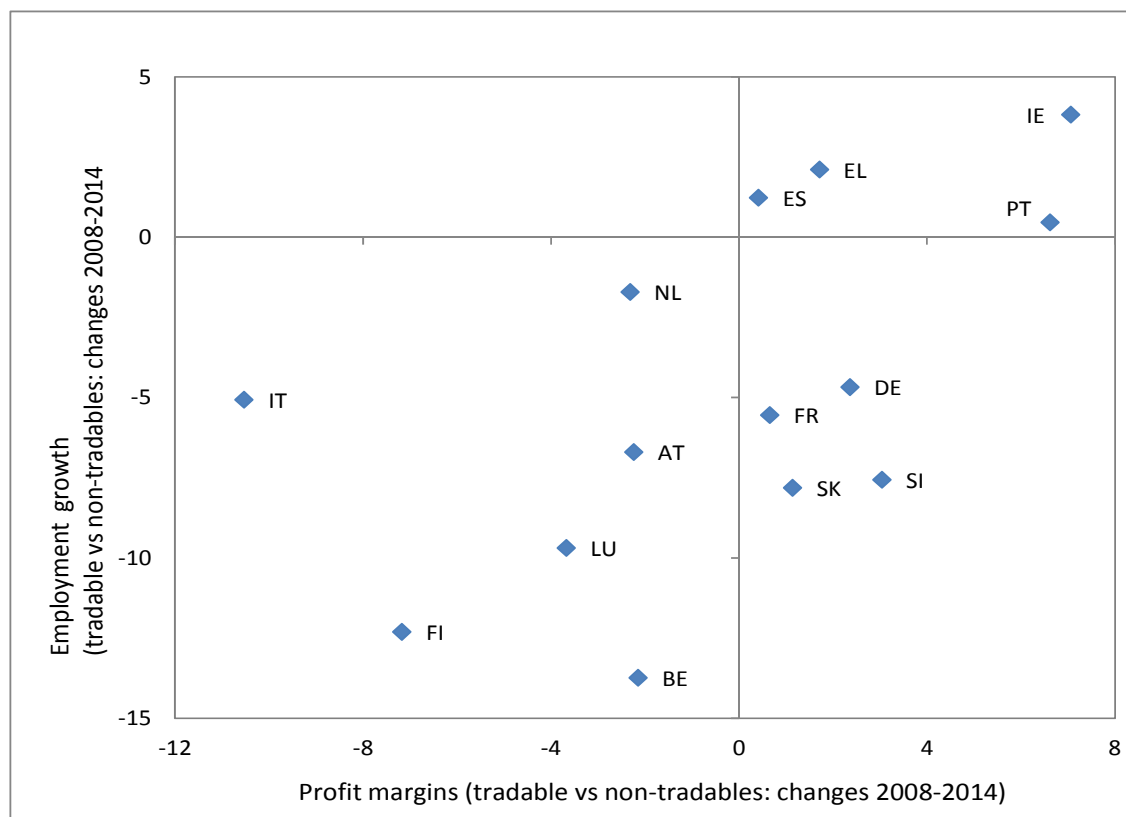


Since 2011 NULC dynamics support rebalancing in the euro area

The process of rebalancing is under way

Developments in employment and profitability: tradable vs non-tradable sectors

Sectoral pattern helps reallocating employment towards the tradable sector in deficit countries

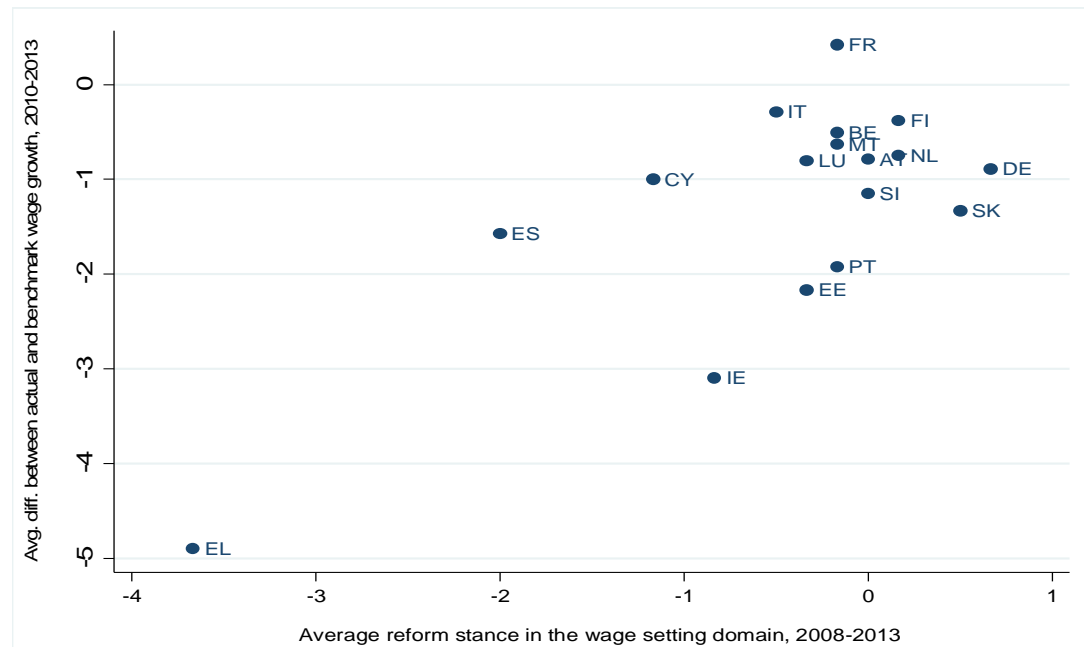


Reforms stance in wage setting, euro area countries

Reforms of wage setting are associated with wage adjustment

Horizontal axis: actual wage growth – wages growth expected on the basis of fundamentals

Vertical axis: reform stance in the wage setting,





Common reform pattern: evolving reform strategies

2008-2009: cushioning the impact of the crisis

- Strengthened short-time working schemes (permanent)
- Increased coverage and level of benefits
- Targeted labour costs reductions (temporary)
- PES more effective for wider number of jobseeker

2010-2012: fiscal constraints, macro-imbalances and enhancing adjustment capacity

- EPL: tackle duality and enhance reallocation, reducing uncertainty of dismissals procedure for open-ended contracts
- Wage setting: enhance adjustment of relative wages and foster contract renegotiation
- Unemployment benefits





From 2013 : tackling the social implications of the crisis

- ALMPs: employment subsidies, training, targeted services, customized offers and counselling) → LTU, low-skilled youth
- PES: improved job-seekers profiling and targeting of job search assistance
- Vocational training and recognition of on-the-job-training
- Improved social safety net: streamline and broaden coverage (permanent)
- Tax wedge cuts (permanent but timid)
- Wage setting frameworks:
 - New mechanisms to set MW
 - Measures to ensure better alignment wages to productivity
 - encourage more rapid renewal of expired contracts

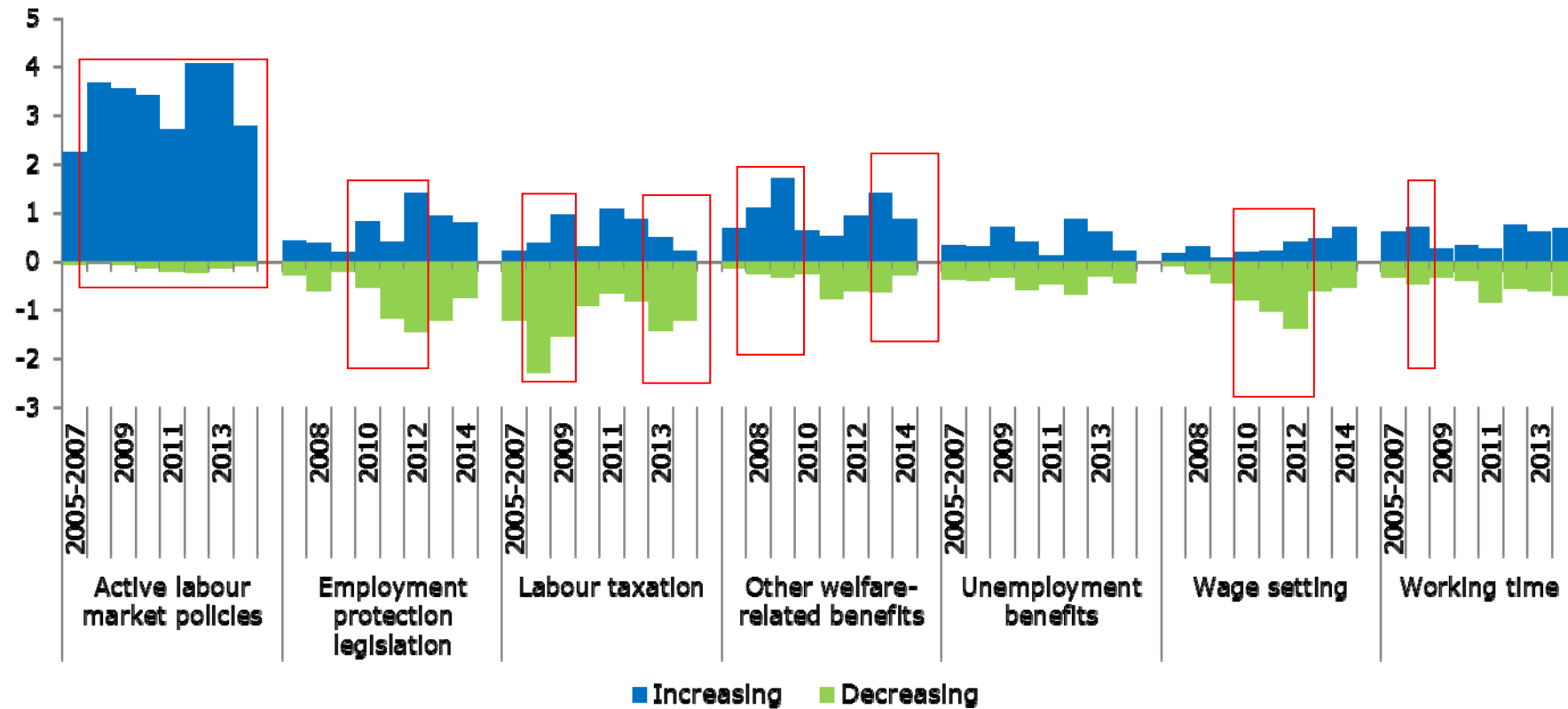
Keep reform momentum and use the full scope for adjustment already introduced





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Evolving reform strategies



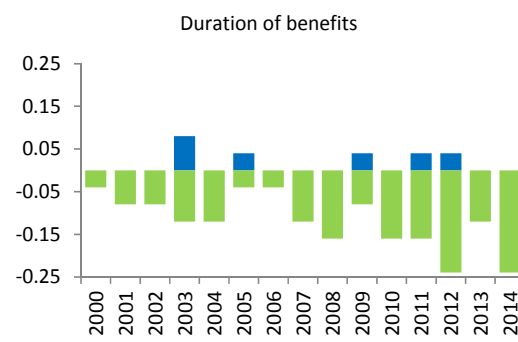
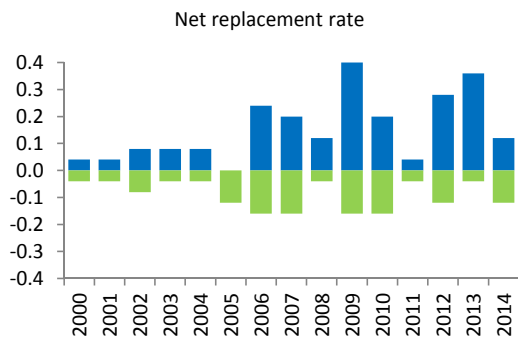
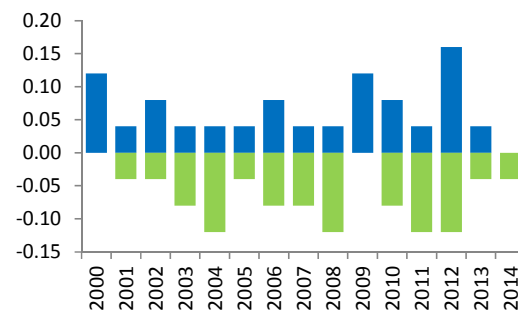
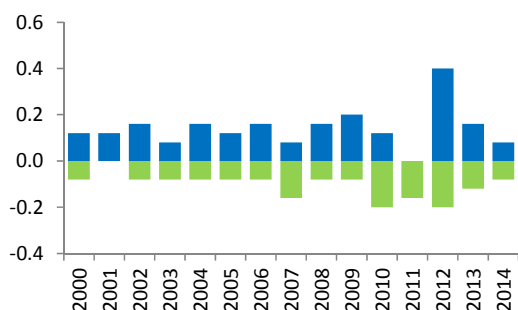


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Unemployment benefits, policy direction by parameters: 2000-2014

Since the onset of the crisis

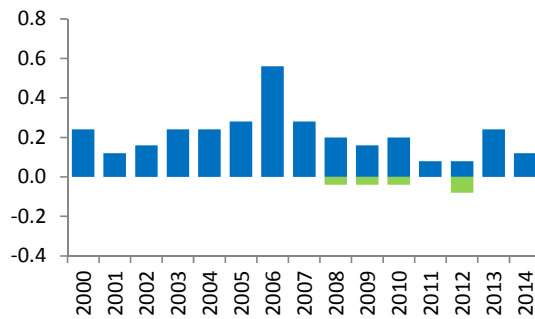
- Increasing generosity (NRR and duration)
- Strengthening search & job availability conditions
- Extending coverage



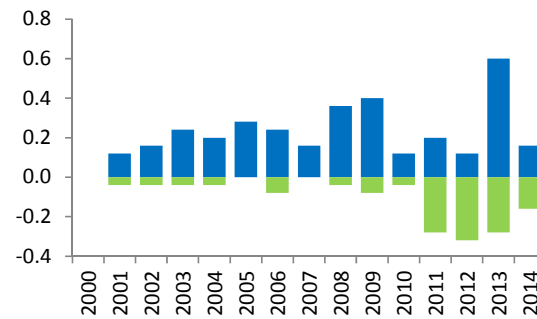
■ increasing ■ decreasing



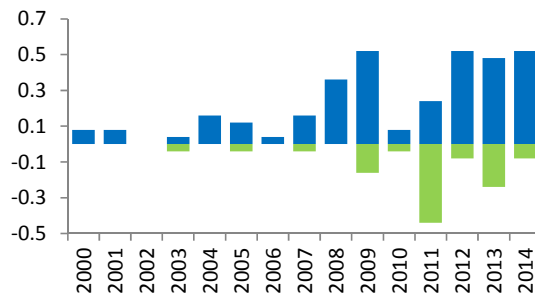
Welfare Benefits, policy direction by parameters: 2000-2014



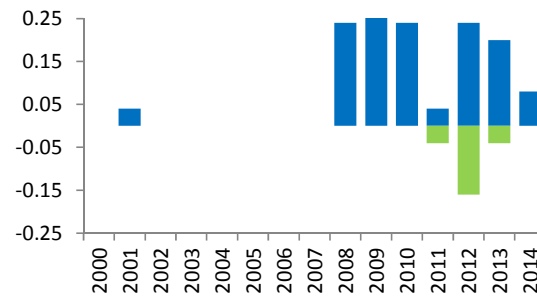
In-work benefits



Social assistance



Family-related benefits



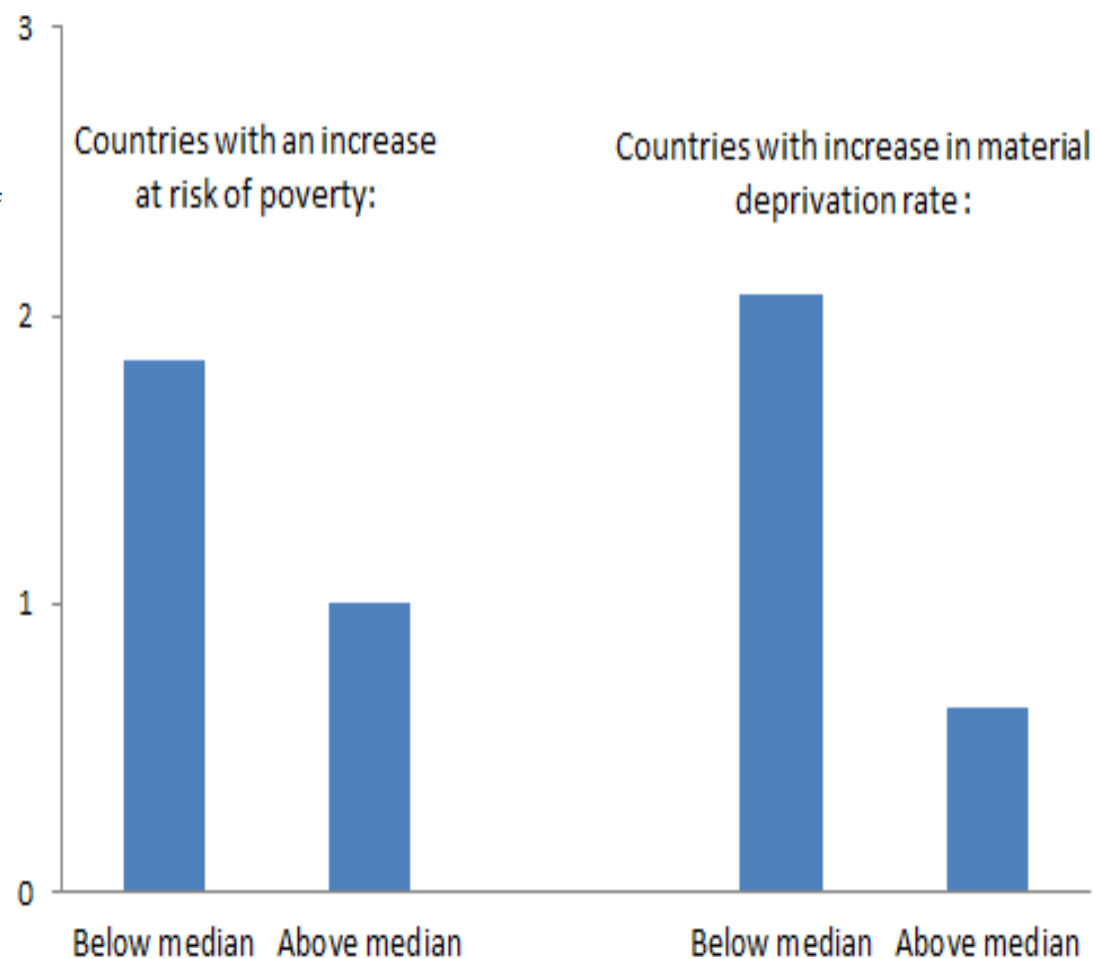
Short-time work schemes

■ increasing ■ decreasing

Reform stance in social assistance 2008-2013

Reforms improving the generosity of social assistance less frequent in countries with a sharper deterioration of social situation

(perhaps owing to tight fiscal constraint)





- Unemployment started to decline but LTU remains high
- How to avoid that increase in LTU translates into permanently higher unemployment rates?
- Policy priorities: labour taxation vs. active policies and safety nets
- To maintain momentum towards structural reforms, exploit the full scope of adjustment introduced with recent reforms and avoid reforms' reversal





*Thank you for your
attention*

