

# Labour market and wage developments in 2008

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# Labour Market and Wage Developments in 2008

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Comments on the report would be gratefully received at the following address:

**DG ECFIN Unit B3**

Directorate-General for Economic and Financial Affairs  
European Commission  
Mr Giuseppe Carone  
Rue de la Loi 200 (BU1-4/286)  
B-1049 Brussels  
Rue de la Loi 200

E-mail: [ecfin-secretariat-b3@ec.europa.eu](mailto:ecfin-secretariat-b3@ec.europa.eu)

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## SUMMARY AND MAIN FINDINGS

This report analyses labour market and wage developments as the worst economic and financial crisis since World War II hit the European Union and its labour markets. The report focuses on how the crisis is affecting employment trends and the functioning of the labour market, analysing the interaction with key macroeconomic variables such as productivity, wages and GDP. It aims to contribute to the overall efforts to upgrade the monitoring of macroeconomic developments in the EU and the euro area as recommended by the EMU@10 communication.<sup>(1)</sup> To this end, it presents an analysis of the most recent trends and prospects on participation, unemployment and employment rates on the one hand and labour costs on the other. Although the report concentrates on developments at euro area and EU27 levels, it also examines the situation in individual countries and specific measures taken to minimise the impact of the crisis on labour market and the challenges ahead. The report looks mainly at labour market trends in 2008, against the background of developments earlier this century, but also covers recent developments as far as available figures allow (i.e. July 2009), given that the economic crisis has had a rapid and significant impact on labour market conditions, which are continuing to deteriorate fast.

### ***Employment and unemployment developments***

Before the financial crisis broke out in summer 2007, European labour markets had been in a relatively good shape. The employment rate had reached about 68% of the workforce - close to the target set in the Lisbon strategy for 2010, owing mainly to significant increases in the employment rates of women and older workers. Between 2000 and 2008 the female and older worker employment rates had increased by about 5½ and 9 percentage points respectively. Furthermore, the decline in unemployment brought the unemployment rate down to 7%, despite a very substantial increase in the labour force, especially of non-EU foreigners and women.

But by the end of November 2008, it was clear that the world economy was cooling rapidly and the financial crisis was increasingly having an impact

on the real economy. International trade began falling at an alarming rate. Although there was considerable variation across Member States in terms of their direct exposure to either shocks or to international trade, economic activity in the EU began to decline strongly, which, after some delay, started feeding through to labour markets. Between 2008Q2 (when unemployment reached its lowest level) and 2009Q2, GDP fell by about 5%, and the unemployment rate increased by 2 percentage points (from about 7% to 9%). The first signs of the impact on the labour market emerged in several Member States during the second half of 2008, although EU-wide labour market outcomes were not much affected. But thereafter unemployment started to increase strongly, despite several effective short term policy measures being implemented.

Sign of a weakening in employment growth gradually emerged in the course of 2008. Total employment in the EU27 grew at a much lower rate than in 2007 (1%, down from 1.8%), and the situation was even worse in the euro area, where employment growth halved to 1.4 per cent. Average employment rates still rose slightly in 2008, to 68% of the working age population, ½ percentage point above the 2007 average. Consequently, the full effect of the crisis on employment and unemployment will become clear only in 2009 and 2010.

Socio-economic groups with relatively weak work contracts (temporary contracts), the self-employed and the low- and medium-skilled have so far borne much of the brunt of the current recession. The advent of the crisis has had only minor effects on the employment of high-skilled workers, but it significantly hit the medium- and low-skilled, with annual employment growth in those groups falling to 1.3% (from 2.1% in 2007) and -2.5% (from -0.6% in 2007).

On average, over 2008, the number of unemployed was already up from 2007 in the euro area (by almost 200 thousand, to 11.7 million), though it was still declining in the EU27 (also by almost 200 thousand to 16.6 million). By 2009Q2, the EU27 harmonised unemployment rate had risen to 8.8% (and to 9.3% in the euro area) from about 7% one year earlier and also considerably up on the rate in 2008Q4 (7.4% for the EU and about 8% for the euro area), owing mainly to weaker demand for

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(1) Commission Communication: "EMU@10: successes and challenges after 10 years of Economic and Monetary Union", COM(2008) 238, of 7.5.2008.

labour. A considerable increase in unemployment was registered among craft workers and those previously employed in elementary occupations, which are mainly in services. The increase in the overall unemployment rate was driven mainly by the rise in the rate of male unemployment, reflecting the deep downturn in some male-dominated sectors. However, although women have been less affected than men overall, in 2009Q1 their rate of employment finally started to fall for the first time since 2005Q4.

More recently, the increase in unemployment has been limited by a fall in the labour force over two consecutive quarters (-0.3% in 2008Q4 and -0.5% in 2009Q1), reflecting some discouraged worker effects. The growth of nationals in the labour force was very low in recent years and became negative in 2008. On the other side, the growth of non-nationals (about 5% of the total labour force), which has been very strong in the recent years, almost halved to 4% on a year-on-year basis in 2009Q1. The activity rate (the rate of participation in the labour market) for the population aged between 15 and 64 hovered around 71% for the EU and 71.5% for the euro area, up by about ½ percentage point.

While there may be some concerns about the effects of the crisis on total labour supply, it must be kept in mind that recent reforms in many countries have strengthened the labour market attachment of the working-age population. As a consequence, any big reduction in the overall activity rate is unlikely, so that job losses are likely to show up primarily in a higher unemployment rate. Maintaining labour supply is an important objective in view of ageing populations; achieving this has long run benefits, even if it poses a formidable challenge in the near future. Against this background, recourse to early retirement schemes should be avoided as much as possible.

The decrease in economic activity is thus likely to mainly feed through into lower labour utilisation. So far unemployment has gone up by some 2 percentage points, with the bulk of the remaining adjustment (2 to 3 percentage points) consisting of reductions in hours worked per person. This is partly caused by employers holding on to labour after a period in which labour shortages in some Member States had become significant (e.g. Denmark). However, in a number of Member

States (notably Italy, Germany) measures to facilitate short term work and part time unemployment seem to have played an important role. These short-time compensation schemes supported by public funds to prevent mass layoffs can be an effective instrument to contain wasteful labour shedding due to a temporary demand shock, in particular when inflows to unemployment exceed outflows from unemployment. However, if potential output is affected,<sup>(2)</sup> then these schemes to some extent smoothen the downward adjustment in employment levels. This presents some advantages and disadvantages which vary across Member States – depending on the structure and functioning of their labour markets.

Given the sluggish outlook for economic growth in 2010, the above analysis suggests that unemployment is still set to rise significantly until the end of 2010. A major challenge is the risk that unemployment may not easily revert to pre-crisis levels once the recovery sets in. In particular, in the absence of adequate policy measures, the skills of the unemployed may deteriorate, lessening their human capital. A temporary increase in unemployment could thus become persistent (hysteresis effect). Persistently high unemployment, with potentially long-lasting effects on the labour markets and potential growth, could threaten the European models of social welfare which are already strained by ageing populations.

It is important to point out that there is a considerable variation in developments across Member States on account of the severity of the shocks affecting them, in their labour market performance and policy reaction. In the Baltic States and Ireland, the deep shock had a major impact on employment as of mid 2008 and the same holds true for Spain where labour shedding of workers on fixed term contracts occurred without much delay. As a result, already high levels of unemployment shot up to 18% in the summer of 2009, illustrating the problems caused by strongly segmented labour markets. On the other hand, countries like Germany, Italy and the Netherlands, have largely contained the rise in unemployment so far through a very strong

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<sup>(2)</sup> See EC-DGECFIN (2009), "Impact of the current economic and financial crisis on potential output", European Economy - Occasional Paper No.49, June.

emphasis on policies to support short-term work and part-time unemployment.

### ***Recent trends in wages and labour costs***

There was a delay before the crisis started to impact wage developments in 2008, particularly since labour markets had been tightening for several years. As a result, wage growth started to slow down only in the last quarter. The annual growth of hourly labour costs in the euro area actually accelerated from 3.4% in 2008Q3 to 4% in 2008Q4 – largely on account of reductions in hours worked per employee. However, this increase was short-lived and was followed by clear signs of abating wage and costs pressures in 2009Q1, when the year-on-year increase in negotiated wages and the Labour Cost Index slowed to 3.2% and 3.7% respectively. Nevertheless the increase in the hourly labour costs remained high, owing to the large downward adjustment in hours worked. Growth in compensation per employee fell sharply, from 3.5% in the third quarter to 2.7% in 2008Q3 and 1.8% and 2008Q4. Taken together with the gradual deterioration in employment and the relative stability in the basic pay, this could suggest that, in the face of tight financial conditions, firms are actively reducing the variable pay component of compensation.

The acceleration in unit labour costs was widespread across euro-area Member States up to 4.5% and 5.5% in the last two quarters available (2008Q4 and 2009Q1) - marking the strongest growth in over a decade. This is the result of a severe contraction in labour productivity, which is mainly attributable to – often policy induced – decisions by firms not to adjust the size of their workforce to the depressed economic activity in the short run. Only in Spain did productivity experience a sizeable increase, in line with the sharp drop in employment.

Lowering labour costs has gained relevance in the framework of the crisis. As unemployment surges, the most disadvantaged labour-market groups are the first to lose their jobs and, since they also face serious difficulties in finding a new job, they are at high risk of becoming long-term unemployed. To support the most vulnerable, Member States have cut social security contributions, especially for low-wage earners. Rebates on social security

contributions to boost labour demand were made conditional on job creation in some Member States.

Although wage behaviour in the public sector varied across euro-area countries in 2008, a moderation in public wages can be expected, which will orient pay practices in the private sector. In 2008, the strong wage growth in public wages continued in Italy and Portugal but substantially reversed in Ireland and Spain, the two countries worst affected by the economic crisis. For the euro area as a whole, labour costs and wage pressures are expected to dissipate in line with the weakness in employment developments, the steep rise in the unemployment rate, low inflation expectations and the general deterioration of confidence. As employment reacts only with a lag to the economic downturn, labour productivity growth should decrease sharply in 2009 before recovering in 2010. Consequently, unit labour costs are foreseen to continue increasing steadily in 2009 and to remain relatively muted in 2010 in most euro area countries.

For the first time since 1999, real wages deflated by the consumption price deflator grew at the modest rate of 0.4% in the euro area in 2008. This helped keep aggregate consumption relatively resilient. In addition, other factors may have played a role as well, such as lower inflation expectations, together with improved household confidence about recovery packages and social protection safety nets that are playing their role as automatic stabilisers.

Given the nature of this crisis, the situation differs considerably across Member States, both in terms of labour market outcomes and institutions, and in terms of constraints on account of the external competitiveness. Since the latter will be of particular importance, a number of Member States will need to intervene to improve their competitive position<sup>(3)</sup>, notably by allowing for relative wage

(<sup>3</sup>) Looking at the real effective exchange rate based on relative unit labour cost (REER) in the euro area, Member States have accumulated a divergence of almost 34 percentage points over the period 1999-2008, with Germany's REER depreciating by 15.2 percentage points in contrast with the sharp appreciation movement recorded in Ireland, equivalent to 18.6 percentage points, Italy (11.8 pps.) and Spain (11.6 pps.). For details see Chapter 2, section 2.1.3 ("Competitive developments within the euro area") in this report.

flexibility. Given the considerable downward wage rigidity recorded in the past crises, reforms in this respect will be essential in a number of cases.

#### *The policy response to the crisis*

Member States, the European Union, and central banks have taken strong policy action in the face of a crisis of unprecedented severity. The December European Council endorsed the Commission's proposal for a co-ordinated European response in the form of the European Economic Recovery Plan (EERP).<sup>(4)</sup> The Spring European Council reported on the implementation of the EERP and agreed that Member States' recovery programmes constitute a robust response to the crisis and are broadly in line with the principles enunciated in the EERP, in that they encompass financial rescue packages, fiscal stimuli, temporary support to hard-hit sectors and targeted support to vulnerable groups. EU-wide discretionary fiscal stimulus package is sizeable, amounting to some 2% of GDP, while the size of national discretionary fiscal stimuli varies considerably across Member States, depending on the degree of fiscal space available and the external competitive position. The overall fiscal stimulus, including the effects of automatic stabilisers, amounts to 5% of GDP in the EU.

The EERP called for priority to be given to those reforms which could support aggregate demand, employment and/or household income during the crisis, whilst at the same time improving adjustment capacity to raise the growth and jobs potential in the longer run, and therefore facilitate a faster recovery when conditions improve. The EERP also called for these measures to be consistent with long-term public policy objectives such as those found in the Lisbon strategy, the smooth functioning of the single market, and a move towards a low-carbon economy. In line with this overall approach, the Commission has identified a number of principles for the short term, to direct the labour market policy response to the crisis.

<sup>(4)</sup> See the Commission Communications: "From Financial crisis to recovery: A European framework for action", COM(2008) 706, of 29.10.2008 and "A European Economic Recovery Plan", COM(2008) 800, of 26.11.2008.

The March 2009 Communication for the Spring European Council<sup>(5)</sup> suggests that Member States should focus on:

- Keeping people in viable employment, notably by providing financial support to temporary flexible working time arrangements ("short-time work") in line with production needs, combined with measures to support employability and ease transitions to new jobs;
- Providing adequate income support and reinforcing activation for those most affected by the economic slowdown;
- Considering supporting measures to boost both labour demand and labour supply, such as lowering non-wage costs for low-skilled workers, bearing in mind that wage developments and fiscal measures should take account of each Member State's competitive position and productivity growth;
- Investing in training and skills upgrading and enhancing employment services to cope with increasing unemployment, there including extra-support to tackle youth unemployment and early school leavers.

By contrast, measures such as indiscriminate tax-funded support for jobs in declining sectors or regions, which could delay necessary restructuring, large direct job-creation schemes in the public sector not sufficiently targeted at specific vulnerable groups, and early retirement or other policies that push workers out of the labour market, would be better avoided.

The labour market and social policy response to the crisis appears to be broadly in line with the guiding principles above.<sup>(6)</sup> The majority of policy interventions are intended to improve job placement and investment in lifelong learning, and therefore to increase the employability of those hit by the crisis, improve the matching process and ultimately facilitate labour market transitions. Also high on the reform agenda are measures to get

<sup>(5)</sup> Commission Communication: "Driving European recovery", COM(2009) 114, of 4.3.2009.

<sup>(6)</sup> See EC-DGECFIN (2009), "The EU response to support the real economy during the economic crisis: a review of Member States recovery measures", European Economy - Occasional Paper No 51, July.

people into work and keep them there, notably by cutting labour costs, which stimulates labour demand while maintaining the incentive not to withdraw from the labour market during the crisis. The measures adopted to encourage flexible working time have also positively contributed to the stimulus effort.

Temporary working time reductions, temporary production site closures and other forms of short-time work implemented by firms to prevent mass layoffs are being largely supported by public funds in many European countries. So far, these schemes have proved effective in containing wasteful labour shedding due to the demand shock, thus in cushioning the employment impact of the crisis in the short-term. However, the major risk associated with these schemes is that of overstaffing, and hence a delayed dramatic impact on unemployment once the schemes end. In particular, the depth and nature of the crisis makes it particularly likely that restructuring will be necessary as the economy emerges from it (e.g. in the construction, financial services or automobile industries).

To be effective, therefore, short-term measures need to be complemented by measures supporting employability (such as vocational training) and labour market transitions, as well as strong interventions in other fields. The large majority of European countries have also intervened to improve the design and capacity of their active labour market policies (ALMPs) and training offer to respond to the new, pressing needs resulting from the spreading out of the crisis.

Lowering labour costs for both employers and employees already featured in some medium-term national reform programmes, but has become increasingly important since the start of the crisis. Rebates on social security contributions to boost labour demand during the crisis were typically made conditional upon job creation. Measures were often targeted to those most difficult to employ, sometimes to SMEs or to the self-employed. While important, these measures have not offset the steep rise in unit labour cost on account of falling productivity levels.

Improving the incentives to work embedded in the tax and benefit system was also high on the policy agendas, and in line with the long term goals of

most countries. At the same time, most Member States also took action to support incomes, although to different degrees. Measures included the increase in the level of the guaranteed minimum income or minimum wage, the temporary extension of the coverage or the generosity (level and/or duration) of unemployment benefits, the enhancement of other social benefit, the introduction of tax rebates or exemptions for specific groups, especially the most vulnerable.

Overall, short-term policies seem to largely contribute to long-term reform challenges. Yet, many are rather isolated initiatives (e.g. limited changes in the eligibility conditions/ generosity of unemployment benefits in some countries), which could gain in effectiveness if they were inserted in a more comprehensive framework. Improved coordination of a number of policies, notably those aimed at avoiding large-scale redundancies and at cutting non-wage labour costs, may prove necessary to avoid spill-over effects across borders.

To sum up, although there are signs that the recession is bottoming out, unemployment is set to continue rising, reversing the downward trend which started a decade ago. Nonetheless, there is some cause for hope. Member States have allocated considerable budgets and attention to addressing employment issues. Moreover, most of the measures implemented thus far seem to be temporary, targeted and timely. Such measures have helped lessen the impact of the crisis on unemployment. They now need to be embedded in a comprehensive, coordinated strategy to prevent the rise in unemployment from becoming structural. As the deterioration in economic growth bottoms-out and fiscal space diminishes, the emphasis in the policy agenda will need to switch from policies aimed at avoiding mass labour shedding to policies focused on improving the functioning of the labour markets, in order to raise employment and economic growth.





# Part I

Employment and wage developments



# 1. GENERAL DEVELOPMENTS IN 2008

## 1.1. EMPLOYMENT AND EMPLOYMENT RATES

### 1.1.1. Overall employment performance

In 2008, GDP growth in the EU27 strongly decelerated from 2.9% in 2007 to 0.9% on an annual basis, as a result of the current financial and economic crisis. Indeed, on a quarterly basis, output shrank at an increasing rate, from -0.1% in the second quarter up to -1.5% in the fourth quarter. Signs of labour market deterioration had already gradually started to emerge in 2008, yet the full effect of the crisis on employment and unemployment will become clear only in 2009.

Even so, 2008 annual averages are already providing some indications of the severity of the current crisis for the labour market. According to the Labour Force Survey (LFS), total employment (Table I.1.1) grew at a much lower rate than in 2007 (1.2% against 1.9% in EU27) - especially in the euro area, where employment growth halved to 1.4%. Employment growth in the Member States (Graph I.1.1) has differed according to how strong and quick they have been affected by the global economic slowdown. Only four Member States (Slovak Republic, Denmark, United Kingdom and Portugal) had an employment growth higher than in 2007 (Graph I.1.1). All the others experienced a steep deceleration in employment expansion and there was even negative employment growth in countries that had experienced buoyant growth in previous years - e.g. Spain (-0.5%), Ireland (-0.6%), Luxembourg (-0.4%) and Lithuania (-1%). The worst performer was Hungary (-1.2%), but in this case employment growth had already been negative in 2007. The largest euro-area economies still showed some positive employment growth, thus contributing to the EU27's positive employment developments on an annual basis.

As Table I.1.1 shows, the crisis has not hit different socio-economic groups in the same way. With employment growth of 1.7% in 2008 compared with 2.2% one year earlier, women appears less affected than men, as the crisis first and foremost involved male-dominated sectors such as construction and related industries. Also, the number of employees continued to grow, albeit at a lower rate, while the self-employed declined significantly (-0.8%). This may have many causes.

Firstly, since the self-employed need capital, the financial crisis might have reduced access to bank credit for potential new self-employed workers, which may have made exits from self-employment more prevalent than entries. Secondly, in many countries (especially the Southern ones) the self-employed are often in a quasi-dependent relationship with a single company, which can in this way more flexibly manage its production process (and its workforce). In response to a fall in their orders, such firms may be much quicker to reduce employees with this type of relationships to them. Similarly, more flexible manning strategies help to explain the different pattern seen between permanent and temporary employment, the first of expanded at a rate slightly below that of 2007 while the second fell for the first time - by 1.4% after years of positive growth.

Consequently, the share of temporary contracts fell to 14% (16.4%) of total employment in the EU27 (Euro area). Consistently with the pro-cyclical pattern identified in the 2007 Report, the number of those involuntarily in a temporary job fell to about 59%, which is still above the average of the 2001-2007 period (57%). Despite the decline in many Member States, the share of people with a temporary job remains high in countries where the core of permanent workers is protected by employment legislation while flexibility is achieved through an external group of peripheral workers.

The sunrise of the crisis had not effect at all on the employment of highly-skilled workers (which even accelerated in 2008), while it had a significantly negative effect on the medium- and low-skilled, with annual employment growth falling to 1.3% (2.1% in 2007) and -2.5% (-0.6% in 2007).

While relevant for distributive consequences, differentiated employment patterns for various skills and age groups also have a bearing on overall employment growth on the basis of the relative weight of each group in total employment (Table I.1.2). As for contract types, the positive contribution of temporary workers - on average 36% of the total employment growth in EU27 in the 2001-2007 period - reversed its trend in 2008, when the decline in temporary employment caused a reduction in overall employment growth. At the same time, permanent workers in 2008 grew more

than overall employment, mainly for prime-age workers.

The data suggest that the crisis has so far mainly affected those with relatively unstable work status (i.e. temporary contract, low-skilled and self-employed).

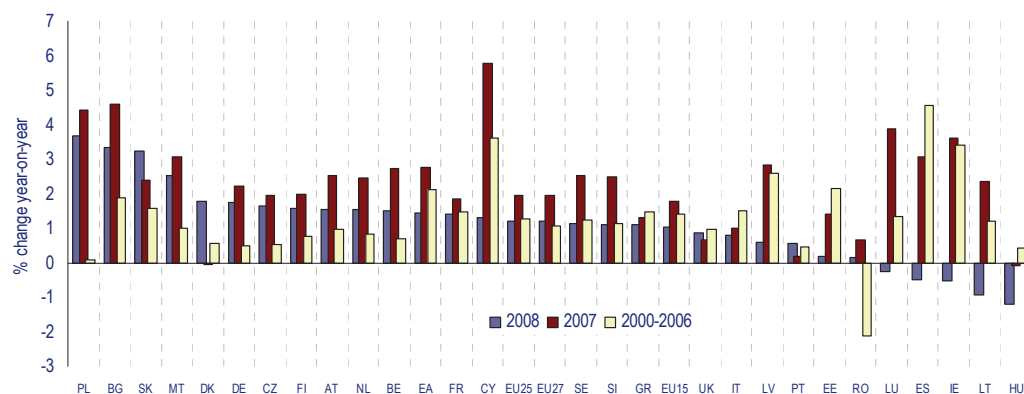
In particular, low-skilled workers accounted for more than half of the reduction in employment growth. The prime-age low-skilled are the group that most negatively contributed to the overall employment growth.

Table I.1.1: Key labour market indicators in the EU-27 – 2008

<b>Structure of employment - EU27 - 2008</b>				
	Thousand of persons or %	Percentage change 2006-2007	Percentage change 2007-2008	Percentage change 2001-2008
<b>Total employment (age 15-64)</b>	217846	1,9%	1,2%	8,6%
<i>of which women</i>	97801	2,2%	1,7%	11,9%
<i>men</i>	120045	1,6%	0,7%	6,1%
<i>of which Employees</i>	183624	2,1%	1,6%	10,5%
<i>Self-employed</i>	21272	1,0%	-0,8%	11,8%
<i>of which Permanent Employment</i>	192164	1,7%	1,5%	6,8%
<i>Fixed-term and temporary employment</i>	25681	2,7%	-1,4%	24,8%
<i>of which Full-time employment</i>	179422	2,6%	1,5%	:
<i>Part-time employment</i>	38359	2,8%	1,7%	:
<i>of which High-skilled</i>	58569	3,7%	4,1%	32,8%
<i>Medium-skilled</i>	108150	2,1%	1,3%	12,9%
<i>Low-skilled</i>	50600	-0,6%	-2,5%	-11,1%
<b>Unemployed (age 15-64)</b>	16544	-12,1%	-1,2%	-13,3%
<i>women</i>	8563	-12,7%	0,9%	-11,2%
<i>men</i>	7981	-11,5%	-3,3%	-15,5%
<b>Labour force (age 15-64)</b>	234389	0,7%	1,0%	6,7%
<i>women</i>	128608	0,5%	0,7%	4,7%
<i>men</i>	105781	0,9%	1,3%	9,2%
<b>Participation rate (age 15-64)</b>	70,9	0,2	0,4	2,4
<i>women</i>	63,9	0,3	0,6	3,8
<i>men</i>	78,0	0,1	0,3	1,1
<b>Employment rate (age 15-64)</b>	65,9	0,9	0,5	3,4
<i>women</i>	59,1	1,0	0,8	4,8
<i>men</i>	72,8	0,9	0,3	1,9
<b>Unemployment rate (age 15-64)</b>	7,1	-1,1	-0,1	-1,6
<i>women</i>	7,6	-1,1	-0,3	-2,2
<i>men</i>	6,7	-0,9	0,0	-1,2
<b>Long-term unemployment rate (age 15-64)</b>	37,0	-2,8	-5,7	-9,8
<i>women</i>	37,2	-2,8	-5,3	-10,7
<i>men</i>	36,8	-2,8	-6,2	-8,9
<b>Youth unemployment rate (age 15-24)</b>	15,5	-1,8	0,1	-1,8
<i>women</i>	15,5	-1,9	-0,3	-2,5
<i>men</i>	15,6	-1,8	0,4	-1,2

Source: Commission services, based on Labour Force Survey (Eurostat).

Graph I.1.1: Employment growth in the European Union



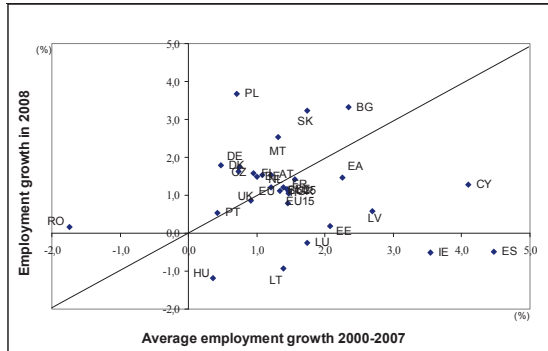
Source: Commission services.

Table I.1.2: Employment contribution to changes by different groups

	2008				2001 - 2007			
	EU27		Euro area		EU27		Euro area	
	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution
<b>Employment growth:</b>	1,2	(100%)	1,4	(100%)	1,2	(100%)	1,5	(100%)
Young (15-24)	-0,2	-2%	-0,1	-1%	-0,1	-1%	0,3	2%
Prime age (25-54)	0,9	60%	1,1	63%	0,9	61%	1,3	66%
Older (55-64)	4,1	42%	4,6	37%	4,7	40%	5,2	32%
<b>MALE:</b>	0,7	34%	0,8	30%	0,9	41%	1,0	36%
Young (15-24)	-0,7	-3%	-1,1	-4%	0,1	0%	0,2	1%
Prime age (25-54)	0,4	15%	0,5	16%	0,5	21%	0,7	20%
Older (55-64)	3,8	23%	3,8	19%	3,9	20%	3,9	15%
<b>FEMALE:</b>	1,7	66%	1,8	70%	1,6	58%	1,8	63%
Young (15-24)	0,4	2%	1,0	3%	-0,2	-1%	0,4	1%
Prime age (25-54)	3,8	45%	1,9	48%	3,9	40%	2,1	45%
Older (55-64)	4,5	19%	5,6	19%	5,9	19%	7,2	16%
<b>Permanent (15-64)</b>	1,5	115%	1,7	106%	0,8	66%	1,3	73%
Young (15-24)	1,1	6%	1,4	5%	-1,5	-10%	-1,2	-5%
Prime age (25-54)	1,1	68%	1,3	64%	0,5	34%	1,0	45%
Older (55-64)	4,1	40%	4,6	36%	4,6	37%	5,1	30%
<b>Temporary (15-64)</b>	-1,4	-15%	-0,6	-6%	4,0	36%	3,5	29%
Young (15-24)	-2,4	-8%	-1,7	-6%	2,6	8%	2,1	6%
Prime age (25-54)	-1,3	-9%	-0,1	-1%	4,6	25%	4,2	20%
Older (55-64)	4,3	2%	2,8	1%	6,0	2%	7,2	2%
<b>High skilled (15-64)</b>	4,1	93%	4,6	85%	4,1	79%	4,0	59%
<b>Medium skilled (15-64)</b>	1,3	57%	1,7	53%	1,8	75%	2,3	65%
<b>Low-skilled (15-64)</b>	-2,5	-53%	-2,1	-43%	-1,5	-37%	-0,8	-17%
<b>Employees (15-64)</b>	1,6	113%	1,8	110%	1,4	102%	1,7	92%
<b>Self-employed (15-64)</b>	-0,9	-13%	-0,9	-10%	0,0	1%	1,0	10%

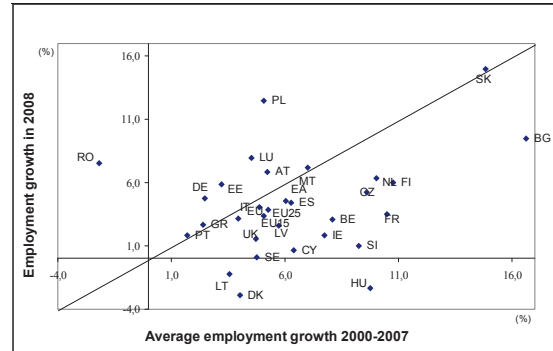
Source: Commission services, based on Labour Force Survey (Eurostat).

Graph I.1.2: Employment growth (15-64)



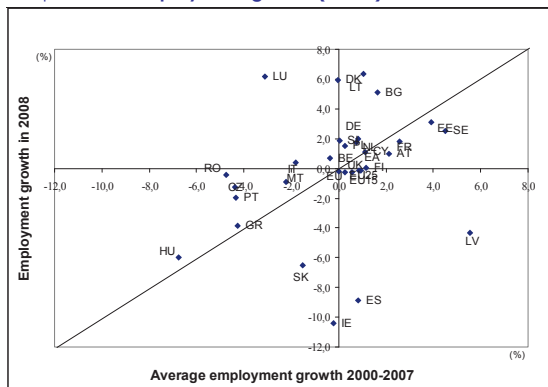
Source: Commission services.

Graph I.1.5: Employment growth (55-64)



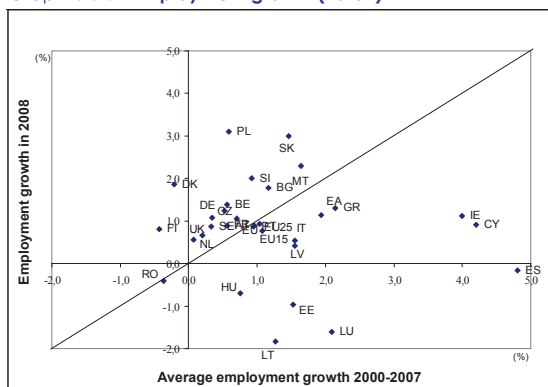
Source: Commission services.

Graph I.1.3: Employment growth (15-24)



Source: Commission services.

Graph I.1.4: Employment growth (25-54)



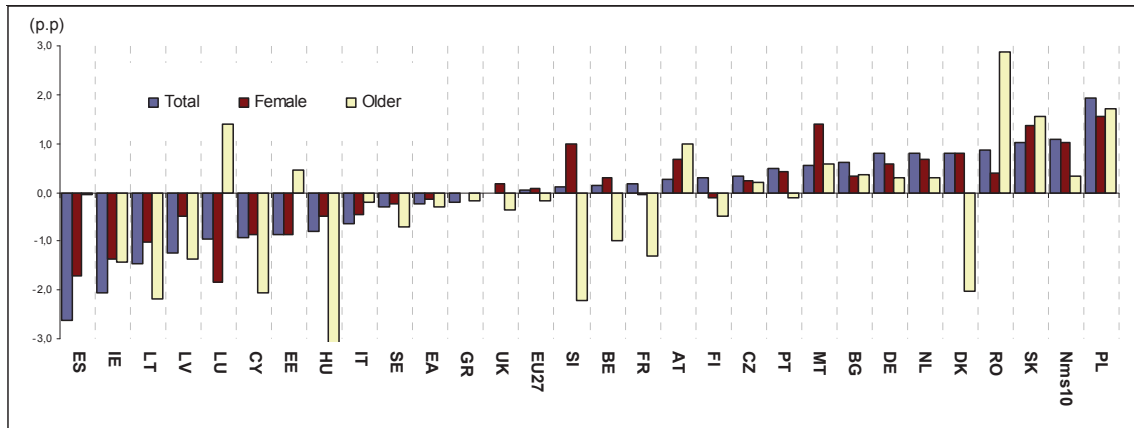
Source: Commission services.

Graphs I.1.2-I.1.5 show average employment growth in the 2000-2007 period on the horizontal axis and the employment growth in 2008 on the vertical axis. The most divergent behaviour of employment growth in 2008 was registered in Spain and Ireland, both countries hard hit by the crisis (Graph I.1.2) and owing mainly to the large decline in employment growth for the young. In other countries (Cyprus, Lithuania, Latvia, Estonia, Luxembourg), employment growth fell short of the 2000s average. On the positive side, in 2008 employment actually accelerated in Poland mainly because of the dynamism of the prime age and older worker age groups. As for young workers (Graph I.1.3), their employment fell sizeably compared to the average in Ireland, Spain, Latvia and Slovakia. Employment growth of older workers (Graph I.1.5) appears closer to the 2000-2007 average. This can be explained by many factors. Until now older workers have been less affected by the crisis, either because legislation protects workers with longer tenures or because older workers have access to supplementary wages for reduced working hour schemes. In addition, flexible contracts are more common among young workers, implying that not renewing temporary contracts is the easiest option firms have when they need to cut their labour costs.

### 1.1.2. Working age population

In 2008, the working age population increased roughly at about the same rate as in 2007 (0.4% or about 1.2 millions). As in previous years, the increase in the working age population was mainly due to the expansion of the resident foreign population (+1.3 million against 1.5 million in 2007). From the EU perspective, it is appropriate

Graph I.1.6: Changes in the employment rates relative to the previous years' average changes 2000-2007



Source: Commission services.

to distinguish between nationals from other Member States, for whom free movement within the EU generally applies, and nationals from third countries, who are subject to the immigration and asylum legislation of each individual country. In 2008, both components grew, with citizens from third countries accounting for 57% (59%) of the increase in the EU (euro Area) working age population.

### 1.1.3. The overall and youth employment rate

In 2008 the employment rate reached 66% of the working age population, up by 0.5 pp. with respect to the previous year - almost half of the increase recorded in 2007 (0.9 pp.). The increase in the employment rate was sizeable in Bulgaria and Poland (+2.2 pps.), Slovak Republic (+1.6 pps.), Germany (+1.4 pps.) and the Netherlands (+1.2 pps.), while those countries which were hit first and most strongly by the crisis already started to see a sizeable contraction in their employment rate, with Ireland at -1.5 pps., Spain at -1.3 pps. and Lithuania at -0.6 pps.

While the employment rate of foreigners from EU countries remained largely unchanged (up by 0.1 pp. to 69.7%), that of foreigners from non-EU countries increased by 0.8 pp. to 59.2% of the relevant population. Despite an acceleration in the decline of the young (15-24) population (-0.8% in 2008 compared with -0.6% of one year earlier), the employment rate of young individuals grew by only 0.2 pp. to 37.6%, while in 2007 it increased by 0.8 pp., which confirms that it is the young who

are the most exposed to the deterioration in the labour market.

Table I.1.2 reveals the importance of specific age and/or gender groups for total employment growth. Despite the smaller increase in the employment rate of older workers' in 2008 compared to the 2000-2007 period, their contribution to total employment growth, at 42% for the EU and 37% for the Euro area, remained high. Moreover, owing to the different intensity with which the recession is hitting sectors where one gender is over-represented, male and female employment respond differently. In particular, male employment growth is already declining in EU27 (+0.7%) and in the euro area (+0.8%) down by 0.2 pp. in both areas as males are relatively over-represented in sectors (like the building sector) that were hit first and hardest by the crisis. This different behaviour in male and female employment in 2008 also explains the high contribution growth of female employment compared to previous years (66% in EU27 and 70% in the euro area).

Finally, it is worth mentioning that in 2008, prime-aged women were the main contributors to total female employment, while older men accounted for the largest increase in the male employment rate. This difference may be a consequence of firms adjusting their labour force at the early stage of the crisis by cutting (male) temporary contracts, which are less common among older workers than other age groups.

As Graph I.1.6 points out, the annual change in the employment rate in 2008 is below the historical

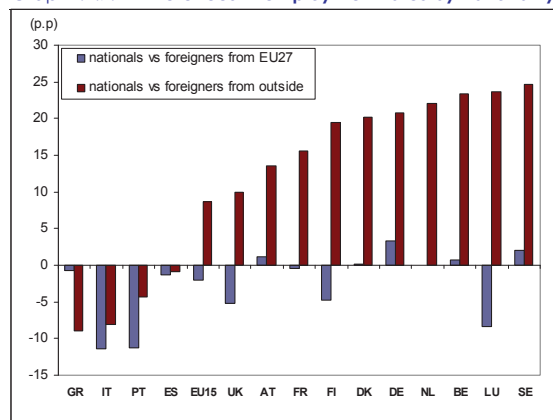


averages, especially in Spain, Ireland, Lithuania and Latvia. Compared with the average changes of previous years, the graph also shows evidence of the different behaviour in the last year of total, female and older worker employment rates. The case of Spain is particularly interesting, as it presents very different responses across age groups - with the older worker employment rate expanding at the same rate as the previous years - and gender, with the female rate falling much less than the male rate. This implies that in this country, young and prime-age males are the hardest hit by the crisis. The labour market response appears more homogeneous in Ireland despite sharing with Spain a dramatic contraction in GDP owing to the burst of two related bubbles in Construction and Finance. The older workers' employment rate presents a behaviour that deviates from that of the previous years, particularly in Hungary, Slovenia, Denmark, Lithuania and Cyprus on the negative side and Romania, Poland, Slovak Republic and Luxembourg on the positive side. The fact that there are so many positive and negative deviations from trend can be explained by the fact that the reforms implemented in the recent years by many countries have had an impact on the level and not on the rate of change of employment rate. For example, in response to an increase in the retirement age, the employment rate of older workers changes significantly until a new level compatible with the new retirement age is achieved.

employment rates and the difference between nationals' and other foreigners' employment rates<sup>(7)</sup>. On average the differences in employment rates between nationals and EU27 foreigners are much less pronounced than those between nationals and non-nationals from third countries. Furthermore, only in Germany (+3.3 pps.), Sweden (+2.0 pps.), Austria (+1.2 pps.), Belgium (+0.7 pp.), Denmark (+0.1 pp.) is the difference between nationals' and EU27 foreigners' employment rates positive. In all other countries, EU27 foreigners have higher employment rates than nationals; this is particularly true for Portugal (-11.2 pps.) and Italy (-11.4 pps.). Finally, the difference between nationals' and outside-EU27 foreigners' employment rate is negative only in Greece (-9.0 pps.), Italy (-8.1 pps.), Portugal (-4.3 pps.) and Spain (-0.9 pp.), while it is positive and very large in all other countries, exceeding 22 pps. in the Netherlands, Belgium, Luxembourg and Sweden. There also seems to be a difference between countries with relatively recent migration flows from outside-EU27 (as in Southern Europe) and countries with a longer tradition of migration. In the latter, foreigners have lower employment rate than nationals.<sup>(8)</sup>

The contribution of different gender and age groups to the changes in total employment and participation rates is shown in Table I.1.3, along with the contribution provided by the demographic component.<sup>(9)</sup> In 2008, women played a stronger role than in the recent past in accounting for total employment growth, especially in the euro area, where countries (like Spain and Ireland saw a stronger negative effect of the crisis over sectors

Graph I.1.7: Differences in employment rates by nationality



Source: Commission services.

As for employment rates by nationality, Graph I.1.7 shows two simple indicators: the difference between nationals' and EU27 foreigners'

<sup>(7)</sup> The analysis is restricted to EU15 due to lack of reliability for foreigners' employment rates data in RAMS.

<sup>(8)</sup> This does not imply a trade-off between national and foreigners' employment. For an extensive analysis and evidence on the economics of immigration see the focus chapter of the 2008 Annual Labour Market Review.

<sup>(9)</sup> The change in employment (participation) rate in 2007 is decomposed in three components: the shifts in employment (participation) rates of different gender/age groups, the demographic effects and the interaction between the previous two. In particular, as for the first component, each row of the second column reports how the change in total employment (participation) rate would be if only the employment (participation) of the relative age/gender group had changed, the other ones remaining fixed. Furthermore the third column (in italics) reports the percentage contribution of each group's shift to the pps. change in total employment (participation) rate. The fourth and fifth columns show the same data but referred to average annual contribution in the 2000-07 period.

with a prevalence of male occupation. As already noted in 2007, the reduction in the contribution of older workers to the improvement in the employment rate also continued in 2008. As for the demographic effects, the negative (positive) contribution of young (older) workers was in 2008 stronger than in the past, implying a share of young (old) workers over the active population shrinking (expanding) at a higher rate.

The participation rate increased more than in 2000-2007, mainly owing to stronger participation among young workers, while the contribution of older workers' participation was lower than in the past. The contribution of male workers to change in the participation rate went up in EU27 (but not in the euro area). Finally, the total demographic effects became negative in the euro area.

Table I.1.3: Employment and participation rate contribution to changes by gender and age groups

Employment rate									
Rate in:	EU27				Euro area				
	2008		2007		2008		2007		
	65,9		65,4		66,1		65,7		
	p.p. change in				p.p. change in				
	2007-2008		2000-2007 (annual)		2007-2008		2000-2007 (annual)		
	0,51	100%	0,47	100,0%	0,39	100,0%	0,62	100,0%	
<b>due to shifts in employment rates of:</b>									
Young	0,04	7,5%	0,01	1,9%	0,00	1,0%	0,03	4,4%	
Prime age	0,31	60,4%	0,29	62,3%	0,21	54,3%	0,34	55,7%	
Older	0,17	32,7%	0,18	38,9%	0,18	46,8%	0,23	37,0%	
MALE:	0,12	23,2%	0,14	29,5%	-0,02	-5,3%	0,14	22,5%	
Young	0,01	1,1%	0,00	0,4%	-0,03	-7,1%	0,01	1,4%	
Prime age	0,03	5,0%	0,06	12,1%	-0,07	-18,6%	0,03	5,4%	
Older	0,09	17,2%	0,08	17,0%	0,08	20,4%	0,10	15,8%	
FEMALE:	0,40	77,3%	0,34	73,0%	0,42	107,5%	0,46	74,3%	
Young	0,03	6,5%	0,01	1,2%	0,03	8,3%	0,02	2,8%	
Prime age	0,28	55,1%	0,24	49,9%	0,28	72,4%	0,31	50,2%	
Older	0,08	15,8%	0,10	21,9%	0,10	26,8%	0,13	21,2%	
<b>due to demographic effect:</b>									
TOTAL:	-0,01	-1,0%	0,00	-5,3%	-0,01	-2,0%	0,01	2,1%	
Young	-0,08	-15,1%	-0,04	-8,1%	-0,07	-17,4%	-0,05	-7,4%	
Prime age	-0,05	-9,1%	-0,05	-10,2%	-0,04	-9,7%	0,03	4,9%	
Older	0,12	23,2%	0,06	13,0%	0,10	25,2%	0,03	4,6%	
<b>due to interaction effect:</b>									
	0,00	0,4%	0,01	2,3%	0,00	-0,1%	0,01	0,9%	

Participation rate									
Rate in:	EU27				Euro area				
	2008		2007		2008		2007		
	70,9		70,5		71,5		71,1		
	p.p. change in				p.p. change in				
	2007-2008		2000 - 2007		2007-2008		2000 - 2007		
	0,43	100,0%	0,28	100%	0,46	100%	0,49	100%	
<b>due to shifts in participation rates of:</b>									
Young	0,05	12,1%	-0,03	-11,0%	0,05	10,1%	0,00	0,5%	
Prime age	0,25	58,4%	0,16	55,7%	0,28	60,1%	0,26	52,0%	
Older	0,14	32,7%	0,18	62,5%	0,15	33,5%	0,22	44,6%	
MALE:	0,14	31,9%	0,05	19,1%	0,09	20,2%	0,09	18,9%	
Young	0,03	6,6%	-0,02	-6,0%	0,02	4,0%	0,00	-0,1%	
Prime age	0,04	8,1%	0,00	-0,8%	0,01	1,1%	0,00	1,0%	
Older	0,07	17,1%	0,07	26,0%	0,07	15,0%	0,09	18,1%	
FEMALE:	0,31	71,3%	0,25	87,2%	0,38	83,6%	0,38	77,8%	
Young	0,02	5,6%	-0,02	-5,4%	0,03	6,3%	0,00	0,4%	
Prime age	0,22	49,9%	0,16	56,2%	0,27	58,5%	0,25	50,9%	
Older	0,07	15,9%	0,10	36,5%	0,09	18,8%	0,13	26,5%	
<b>due to demographic effect:</b>									
TOTAL:	-0,02	-3,6%	-0,03	-11,7%	-0,02	-4,0%	0,01	1,3%	
Young	-0,09	-21,1%	-0,05	-16,6%	-0,08	-16,8%	-0,05	-10,4%	
Prime age	-0,05	-11,4%	-0,05	-18,6%	-0,05	-10,0%	0,03	5,5%	
Older	0,13	29,0%	0,07	23,5%	0,10	22,9%	0,03	6,2%	
<b>due to interaction effect:</b>									
	0,00	0,3%	0,01	4,5%	0,00	0,3%	0,01	1,7%	

Source: Commission services.

## 1.2. UNEMPLOYMENT AND LABOUR SUPPLY

In an economic downturn it is very important to look jointly at unemployment and labour supply. Indeed, a worker loosing a job can either give up searching, thus entering inactivity, or actively look for other employment opportunities, thus entering unemployment. The social outcomes of this choice

are very different. In the first case, the active population shrinks and more and more individuals depend on social assistance; if social policies are not properly designed, many of them will subsequently remain outside the labour market. A shortage of supply may occur when the economy rebounds, which could lead to higher wages that can curb the recovery. In the second case, labour supply remains more or less constant and does not

Table I.1.4: **Labour force by nationality**

Labour Force by nationality						
	2006		2007		2008	
	Thousands	Growth rate	Thousands	Growth rate	Thousands	Growth rate
<b>EU27</b>						
<b>Total</b>	234041,5	1,1	235910,7	0,8	238366,2	1,0
<b>Nationals</b>	219726,3	1,6	220004,6	0,1	219834,9	-0,1
<b>Non-nationals</b>	13906,8	6,9	14987,9	7,8	16118,4	7,5
<i>of which:</i>						
<i>from EU27</i>	5131,1	8,9	5570,1	8,6	6027,6	8,2
<i>from outside EU27</i>	8775,7	5,8	9417,8	7,3	10090,8	7,1
<b>EA16</b>						
<b>Total</b>	152521,6	1,3	154154	1,1	155915,7	1,1
<b>Nationals</b>	140871,8	2,2	141180,7	0,2	140565,5	-0,4
<b>Non-nationals</b>	11247,8	5,6	12063,9	7,3	12950,1	7,3
<i>of which:</i>						
<i>from EU27</i>	4073,5	8,0	4302,3	5,6	4640,3	7,9
<i>from outside EU27</i>	7174,3	4,4	7761,7	8,2	8309,7	7,1

Source: Commission services.

put a break on the recovery when it comes, giving more resilience to the economic system while keeping wage inflation in check.

The outcome depends on a series of factors, including early retirement measures, welfare and social benefits, and the depreciation of skills during the recession. In the recessions of the 1980s and 1990s the labour supply was cut in Europe to address persistently high unemployment rates (the so-called *lump-of-labour fallacy*). Since the mid-1990s, a consensus emerged among policymakers and economists that policies which shrink labour supply impair potential output growth while creating a distortion in the allocation of public money between the old and the young. Early retirement policies were gradually discontinued, while activation and 'making work pay measures' became the main focus of labour market policies. In order to assess whether the new approach is yielding results in the crisis, the remainder of this section cross-checks unemployment and the activity rate.

### 1.2.1. The dynamics of labour supply

The EU27 labour force expanded in 2008 by almost 2.3 million or 1%. This increase is due to a large extent to the EA16, where the labour force went up by almost 1.7 million (1.1%). Yet, compared to the change observed in 2007 - +1.6 millions (0.8%) in the EU27 and +1.5 million (1.0%) in the EA16- the labour force expanded at a higher rate in 2008 only in the EU27, while in the EA16 it expanded at the same rate as in 2007. This difference is due to higher increase in the working

age (15-64) population in the EU27 (1.2 million against + 900 thousands in the EA16) while the increase in the activity rate was about the same (by 0.4 pp. to 70.9% in the EU27 and by 0.5 pp. to 71.5% in the EA16). As in recent years, the female labour supply was the more dynamic component, especially in the euro area (0.5 pp. and 0.7 pp. for females and 0.3 pp. and 0.2 pp. for males in the EU27 and in the EA16 respectively).

Table I.1.4 shows the composition by nationality of the labour supply and the relative performance of nationals versus non-nationals. It is evident that the growth rate of nationals' labour supply has been very low in recent years and that it became negative (-0.1%) in 2008. Conversely, non-nationals strongly increased their labour supply, on average by more than 7% year-on-year over the last three years. In the EA16, the decrease in labour supply by nationals was more pronounced in 2008 than in the rest of EU27 but the higher incidence of non-nationals in total labour supply, combined with their strong labour supply's growth rate, allowed a sustained increase in total labour supply. Even if further analyses are needed, these findings raise some preliminary concerns about the effect of the crisis on total labour supply. Indeed, with the downturn most heavily hitting those sectors with a prevalence of immigrant employment and the consequently higher unemployment having a discouragement effect over immigrants' labour supply, total labour supply, which in recent years has been sustained mainly by immigrants, may be strongly affected.

### 1.2.2. The dynamics of unemployment

The number of unemployed persons in the EA16 rose to 11.7 million in 2008, up by almost 200,000 from 2007; over the same period it declined by almost 200,000 to 16.6 million in the EU27. This implies that the decrease in unemployment was quite strong outside the euro area. The euro area unemployment rate moved up to 7.6% from 7.5% in 2007, owing to a weaker labour demand and a still growing labour supply. Conversely, the unemployment rate in the EU27 fell by 0.1 pp. to 7.0%, implying that in countries outside the euro area the unemployment rate went down by much more as a result of more moderate growth in the labour supply and a still sustained growth in labour demand.

Looking at unemployment rates by gender, while the EU male rate hovered around the 2007 level (6.6%), female unemployment fell to 7.5% (0.3 pp. less than the previous year). Together with the female labour supply growing more than male, this implies that the beginning of the recession hit more typically male- than female-employment sectors. Crossing the gender dimension with the age dimension, young (15-24) males appears to be the only group that had already started to experience an increase in unemployment in 2008 (+0.5 pp. to 15.6%), as a consequence of an increase in the labour supply (as the activity rate went up by 0.3 pp. to 47.9%) not being followed by a rise in labour demand.

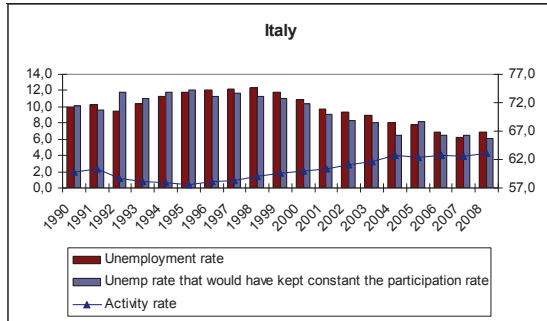
Graph I.1.8 shows the 2008 unemployment rates and their 2007-08 change in all EU27 countries. Spain has the highest rate while the Netherlands has the lowest. In 2008, 10 out of 27 countries experienced an increasing unemployment rate, with Spain having by far the highest variation (+3.1 pps.), followed by Latvia (+1.6 pps.), Lithuania and Ireland (both +1.5 pps.). All these are countries in which the crisis had already had a very strong impact in 2008.

In order to look at the relationship between the activity rate and the unemployment rate, a counterfactual analysis was conducted. Taking the effective number of employed persons, the number of unemployed that would have kept the activity rate fixed at the previous year's level is calculated<sup>(10)</sup>. From this number the corresponding *constant-participation unemployment rate (CPUR)* is easily deducted - always keeping the number of employed persons fixed. As long as labour demand determines employment, when the actual unemployment rate is higher than the constant-participation unemployment rate, it means that workers without jobs will prefer to stay on the market and search for work instead of becoming inactive. In other words, the difference between the actual unemployment rate and the constant-participation unemployment rate is a proxy of the discouragement effect of unemployment, for a given level of employment. Thus, when actual unemployment is lower than the *CPUR*, some discouragement effects are at play.

<sup>(10)</sup> The following calculations have been used. Let's indicate with  $p_t$  the participation rate at time  $t$ , which equals to  $LS_t/P_t$  where  $LS_t$  is the labour supply at time  $t$  and  $P_t$  is the population at time  $t$ . We want to keep the participation rate constant between two successive periods, namely  $p_t = p_{t+1}$ . Substituting the definition of  $p_t$  given above, we have the following relationship:  $P_{t+1}/P_t = LS_{t+1}/LS_t = (E_{t+1} + U_{t+1})/LS_t$  where  $E_{t+1}$  is the number of employed persons at time  $t+1$ ,  $U_{t+1}$  is the number of unemployed persons at time  $t+1$ . The last expression can be rearranged to give:  $U_{t+1} = (P_{t+1} LS_t / P_t - E_{t+1})$ . Taking for given the value of  $E_{t+1}$ , this calculated  $U_{t+1}$  can be interpreted as the number of unemployed persons that would have kept constant the participation rate. Dividing it by  $LS_{t+1}$  returns the corresponding unemployment rate.

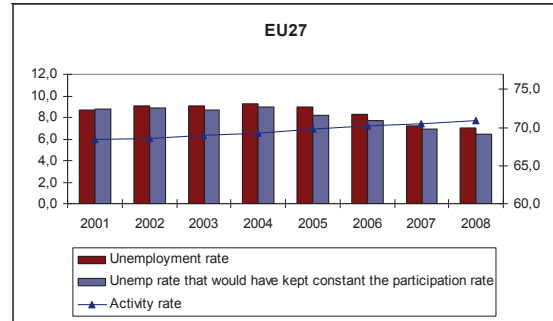


Graph I.1.11: The relationship between unemployment and activity rates - Italy



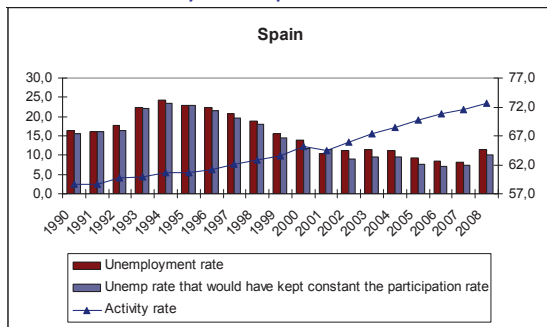
Source: Commission services.

Graph I.1.14: The relationship between unemployment and activity rates - EU27



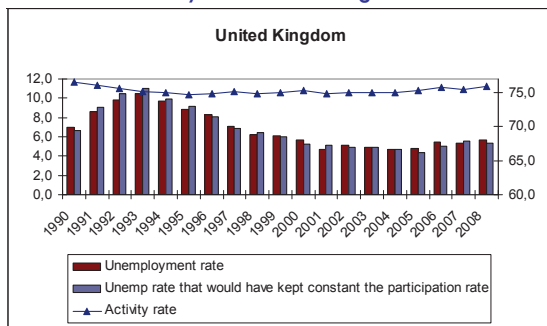
Source: Commission services.

Graph I.1.12: The relationship between unemployment and activity rates - Spain



Source: Commission services.

Graph I.1.13: The relationship between unemployment and activity rates - United-Kingdom



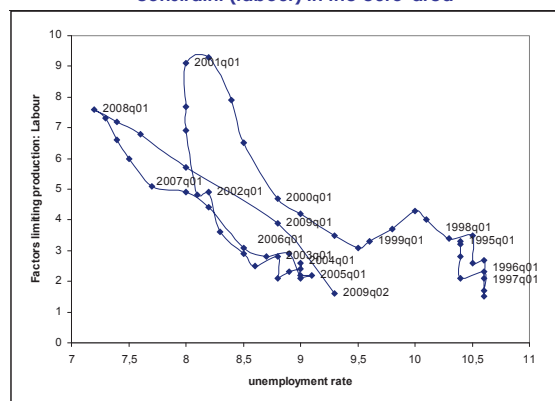
Source: Commission services.

Graphs I.1.9-I.1.14 also helps us to understand how different the current downturn is from the previous ones for the largest European countries. With the exception of Spain, the first year of the downturn of the 1990s' (1992) was characterized by an increasing inactivity rate, hence a *CPUR* higher than the effective unemployment rate. This implies that the discouragement effects of the recession were high, probably because the design of the labour market institutions was distorting the incentives to supply labour. Spain was an exception, given the evident positive long-term trend in participation that may mainly reflect catching up with the EU.

After the recession of the early 1990s, labour market reforms were implemented in many countries. Together with an increase in flexibility at the margins, many countries introduced measures that tightened access to non-employment benefits. The higher probability of losing a job for the main earner (usually a man) of the household together with much less generous benefits may have crowds in the labour supply, as the income effect of more labour supply prevailed on the substitution effect.

These reforms may have changed the participation behaviour of those less strongly attached to the labour market (mainly women).<sup>(11)</sup> Indeed, in the recession of 2001 the discouragement effect was not seen at all in the data. Although only 2008 data are now available and it is arguably too early to draw conclusions, it is possible to argue that, so far, the discouragement effect in this downturn has not been apparent. If this is indeed the case, it can be said that labour supply will not shrink so much as previously thought and this can be taken as positive news for the future recovery. Indeed, a shrinking labour supply would put pressures on wages and thus on prices.

Graph I.1.15: Beveridge curve and aggregate demand constraint (labour) in the euro-area



Source: Commission services.

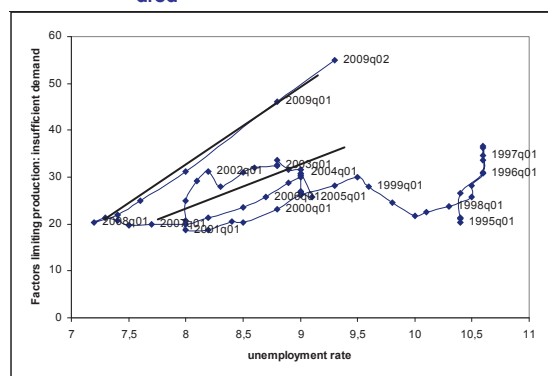
In order to understand the developments of the interaction between labour demand and labour supply and to highlight the possible future developments in the unemployment rate, the Beveridge curve for the euro area (starting from 1995Q1 and ending with 2009Q2) is reported in Graph I.1.15<sup>(12)</sup>. The curve represents the

<sup>(11)</sup> In the case of Italy, there is evidence of a fall in household income only between 1991 and 1993, the time of the most severe recession experienced by Italy after the second world war (Boeri and Brandolini (2005)). In addition, the number of low paid jobs increased rapidly among all employees (Cipollone (2001)). The increase in female participation may therefore be explained by an income effect resulting from a decline in the level of expected household income. The increase in female participation stemming from the temporary decline in income was then kept by policies which promoted flexible working time arrangements.

<sup>(12)</sup> Data on job vacancies and occupied posts are available only for some countries and starting from 2000. The graph is then based on the information from DG ECFIN Businesses' and Consumers' Survey, which asks about various factors limiting production, including labour

relationship between job vacancies and the unemployment rate. It is negatively sloped. Shifts along the curve represent cyclical changes in excess demand for labour, whereas shifts in the curve are indicative of long-run changes, like variations in the degree of mismatch. Over time the curve has shifted inwards, suggesting an improvement in the process of job reallocation, i.e. a lower unemployment rate associated to a given rate of vacancies. In recent quarters, however, it seems that the curve is again moving rightwards. Even if it is too soon to confirm such a movement, this may raise some concerns for the unemployment rates developments in the near future. In any case, for the same level of vacancies, the unemployment rate is still much lower than that seen during the period of high unemployment in the 1990s.

Graph I.1.16: Beveridge curve and aggregate demand constraint (insufficient demand) in the euro-area



Source: Commission services.

We may also consider the relationship between employers' perceptions of the limits to production due to insufficient demand and the unemployment rate (Graph I.1.16). Over the cycle, one might expect a positive relationship between these two variables: as the economy improves, both the unemployment rate and the perceived constraints to production from insufficient demand should decline. It is clear that, since the mid-1990s, the curve has shifted leftward and has become flatter implying

a) there is lower average unemployment rate over the cycle

shortages. Data used are balances of respondents giving positive and negative answers.



b) that an increase (fall) in demand is accompanied by a higher reduction (or increase) in the unemployment rate.

This suggests a structural improvement in the labour market, both in terms of equilibrium unemployment and cyclical response. The recent movements of the curve do not imply a significant change in the average unemployment over the last quarters; they also highlight the smaller increase in unemployment compared to what one would have expected by looking at the curve for the period 2000-2007.

In all these countries (with the exception of Latvia) the increase in the unemployment rate was accompanied by a decrease in employment, while labour supply has increased. However, while in Spain both the working age population and activity rate are rising, a reduction of the participation rate was registered in Ireland and Luxembourg, which can be interpreted as a sign of discouragement of jobless workers. Finally, in Latvia and Lithuania the increase in labour supply conceals a decrease in the working age population which is more than compensated for by an increase in the activity rate.

### 1.2.3. Decomposing the dynamics of unemployment

It is a worthwhile exercise to decompose the change in unemployment rate between changes in labour supply and changes in employment. Additionally, changes in labour supply can be decomposed in changes in working age population and changes in activity rate.

Table I.1.6 illustrates such decomposition<sup>(13)</sup> for all the Member States. In 2008, the total unemployment rate in the EU27 decreased by 0.2 pp.<sup>(14)</sup> Employment growth was still sustained, more than counterbalancing the increase in labour supply. On the contrary in the euro area, positive changes in employment equalized the changes in labour supply, resulting in an unchanged unemployment rate. Among Member States, Spain, Latvia, Ireland, Lithuania and Luxembourg experienced an increase of more than 1 pp. in the unemployment rate.

<sup>(13)</sup> Indicating with  $Popwa$  the working age population (15-64),  $pr$  the participation rate,  $ur$  the unemployment rate,  $U$  the number of unemployed and  $E$  the number of employed persons, it is easily recognized that  $U = (Popwa * pr) - E$ . This can be rearranged as  $U / (Popwa * pr) = 1 - E / (Popwa * pr)$  and  $(1 - ur) = E / (Popwa * pr)$ . Thus, by taking the logarithm of the expression and differentiating, it gives a decomposition that approximates the changes in the unemployment rate (in percentage point) as:  $dur = dPopwa / Popwa + dpr / pr - dE / E$ , that is as the sum of % change in the working age population and the participation rate minus the % change in employment.

<sup>(14)</sup> Data using for this analysis consider the age group of 15-64.

Table I.1.5: **Decomposing changes in the EU unemployment rate - 2008**

<b>Unemployment rate (age 15-64)</b>					
<b>Change since</b>			<b>is~ equal to</b>		
<b>(age 15-64)</b>			<b>% Change</b>	<b>% Change in</b>	<b>% Change in</b>
<b>Level in 2008</b>	<b>2007</b>	<b>≡</b>	<b>in active</b>	<b>+ participation</b>	<b>- employment</b>
			<b>population</b>	<b>rate</b>	
BE	7,0	-0,5	0,9	0,0	1,5
DK	3,4	-0,5	0,5	0,7	1,7
DE	7,6	-1,1	-0,3	0,7	1,7
GR	7,8	-0,6	0,3	0,1	1,1
ES	11,4	3,1	1,4	1,5	-0,5
FR	7,4	-0,6	0,5	0,3	1,4
IE	6,1	1,5	1,6	-0,6	-0,6
IT	6,8	0,7	0,6	0,8	0,7
LU	5,1	1,0	0,8	-0,1	-0,4
NL	2,7	-0,5	-0,1	1,1	1,5
AT	3,9	-0,6	0,5	0,4	1,4
PT	8,1	-0,4	0,1	0,1	0,7
FI	6,4	-0,5	0,5	0,5	1,6
SE	6,3	0,1	0,7	0,3	0,9
UK	5,7	0,4	0,6	0,4	0,7
EA	7,5	0,0	0,8	0,6	1,4
EU15	7,2	0,1	0,5	0,6	1,0
CY	3,8	-0,3	1,0	-0,4	0,9
CZ	4,4	-0,9	0,9	-0,3	1,6
EE	5,6	0,8	-0,2	1,5	0,4
HU	7,9	0,5	-0,1	-0,7	-1,2
LT	5,9	1,5	-0,1	0,7	-1,0
LV	7,7	1,6	-0,4	2,2	0,1
MT	6,1	-0,4	1,4	0,6	2,5
PL	7,2	-2,5	-0,1	1,1	3,7
SK	9,5	-1,6	0,5	0,8	3,1
SI	4,5	-0,5	0,7	0,7	1,9
EU25	7,1	-0,1	0,4	0,6	1,2
BG	5,7	-1,3	-0,6	2,2	3,0
RO	6,1	-0,7	0,0	-0,2	0,4
EU27	7,1	-0,2	0,4	0,6	1,2

Source: Commission services.

Table I.1.5 analyses the contribution of specific groups to the annual growth rate of unemployment. It suggests that the crisis implied a deviation from the homogeneous trends of the last decade. In particular, since men were overrepresented in

those sectors hit hardest and most directly by the crisis, the response of the labour market has been asymmetric. Despite a falling total unemployment rate, the male unemployment rate had already started to rise in 2008, especially in the euro area.

Table I.1.6: Unemployment rate contribution to changes by different groups

	2008				2001-2007			
	EU27		Euro area		EU27		Euro area	
	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution	Growth rate	Contribution
<b>Unemployment growth:</b>	-1,2	(100%)	2,1	(100%)	-2,2	(100%)	0,2	(100%)
<b>Young (15-24)</b>	0,4	-7%	3,5	36%	-2,3	26%	-0,1	-20%
<b>Prime age (25-54)</b>	-1,4	78%	2,5	81%	-2,5	78%	0,0	6%
<b>Older (55-64)</b>	-3,8	29%	-3,5	-16%	1,5	-5%	2,0	113%
<b>MALE:</b>	0,9	-39%	5,0	115%	-2,1	49%	0,5	151%
Young (15-24)	2,6	-29%	7,3	39%	-2,0	12%	0,5	38%
Prime age (25-54)	0,9	-25%	5,3	80%	-2,5	37%	0,4	90%
Older (55-64)	-3,4	15%	-1,7	-4%	0,2	0%	0,7	23%
<b>FEMALE:</b>	-3,3	139%	-2,7	-15%	-2,2	51%	-1,8	-57%
Young (15-24)	-2,2	22%	-0,7	-3%	-2,7	15%	-0,8	-59%
Prime age (25-54)	-3,4	103%	0,0	0%	0,2	41%	-0,4	-85%
Older (55-64)	-4,5	14%	-5,8	-12%	3,5	-4%	3,9	87%

Source: Commission services.

In the EU27, the number of unemployed persons decreased at a rate of 1.2% in 2008. Prime age (especially women) and older individuals were the main contributors to the decline in unemployment. The impressive decline in EU27 female unemployment (-3.3%) more than counterbalances the increase in male unemployment (0.9%), which contrasts with the decline in prime aged male unemployment over the 2001-2007 period. Conversely, in the euro-area, the increase in male unemployment contributed to the increase in the overall unemployment rate.

#### 1.2.4. The contribution of employment and labour productivity to GDP growth

The relative contribution to GDP growth of labour productivity and labour utilisation can be assessed using the standard accounting decomposition:

$$GDP = Labour\ productivity \times Labour\ utilisation$$

$$or\ GDP = GDP/Hours \times ((Hours/Employment) \times (Employment/Working\ Age\ Pop.) \times (Working\ Age\ Pop./Population)) \times Population$$

Table I.1.7 reproduces this decomposition for 2008 and for the period 1999-2008 respectively. In the EU25 GDP growth in 2008 was entirely due to growth in labour utilisation. The contribution of productivity growth was zero. This signals the end of the period of expansion and the start of the recession, when firms chose not shed workers and from fully adjusting total hours to the new demand

conditions ('labour hoarding'). As a consequence, hourly productivity stops growing while labour utilisation continues to grow, because it reacts with lags to the economic cycle. As for labour utilisation, its growth was guided by population growth and adjustments on the extensive margin, i.e. the employment rate, while the intensive margin (hours worked) played no role. In the euro area, the decomposition of the 2008 GDP growth was rather different. Indeed, the contribution of hourly labour productivity growth was still positive (0.2%) while that of labour utilisation was milder (0.5%) than in the EU27. Furthermore, while demographic movements and employment played a role very similar to that played in the EU27, hours worked had a negative effect on GDP growth, mainly due to the use of short time arrangements by firms or, more generally, because of labour hoarding as the crisis began to hurt. As additional evidence, while the contribution of hourly productivity is positive, that of productivity per worker (the sum of column 2 and 4) is null.

The same calculations for the 1999-2007 period (Table I.1.7) yield different results. For the euro Area, hourly labour productivity accounts for more GDP growth than labour utilisation. On the contrary, the decomposition of labour utilisation reveals results that are no different from the 2008 ones: extensive margin and the demographic factors play the biggest role in driving GDP growth.

The aggregate results mask differing behaviours among Member States. In the 1999-2008 period, hourly labour productivity was the main driver of GDP growth in most Member States, albeit with some important exceptions, like Italy and Spain, where labour utilisation played a larger role. In 2008 the situation reversed in many countries. Belgium, Germany, France, the Netherlands, Austria, Poland, Portugal, Slovenia and Finland - 9 out of the 17 countries that had had previously registered a long-term higher contribution - registered a higher contribution of labour utilisation instead. Conversely, in Denmark, Estonia, Spain, Ireland, Luxembourg and Malta - 6 out of 8 countries which had in the past seen a higher contribution of labour utilisation - registered a higher contribution of hourly productivity in 2008. Interestingly some of the countries that suffered most in the crisis in 2008 belong to this group.

As for the decomposition of labour utilisation, the drop in employment mainly contributed to an adjustment in labour utilisation in Ireland (-2.5%) and in Spain (-1.7%), a rate similar to the US (-1.3%). This is relatively unsurprising since these countries have more flexible labour markets than others (even if, especially for Spain, this is the case only for a segment of the working population) and they are among the worst hit by the crisis (especially in labour-intensive sectors like construction).

### **1.3. EMPLOYMENT PROSPECTS IN COMING YEARS**

ECFIN's spring forecasts for 2009-2010 predict - consistently with other international organisations - a pronounced deterioration in Member States' labour markets, which is unsurprising given the magnitude of the expected fall in aggregate demand and the usual lags with which the labour market responds to economic activity (Table I.1.8).

Looking at the largest Member States, GDP in Germany fell heavily by more than 5%, mainly because of the extremely negative developments in global trade markets. As for the other euro area members, a negative performance is expected for Ireland, with GDP falling by 9% and 2.6% in 2009 and 2010. The Baltic countries are expected to perform even more badly, with an astonishingly drop in Latvia of about 13% in 2009 and 3% in 2010) and Lithuania (-11% in 2009 and -4.7% in 2010).

These negative GDP projections only gradually start to affect labour markets. This is due to many reasons. Firstly, during the crisis, many countries have enhanced measures that help firms to mitigate labour market adjustments while waiting for the recovery (e.g. temporary reductions in working hours). Secondly, sunk costs related to training restrain firms from shedding workers at an early stage, especially if the long-term effects of the crisis on the firm demand are not fully predictable. Additionally, high hiring costs, especially for high skilled staff, may induce firms to hoard labour while waiting for increases in orders to materialise. This means that even if GDP growth is expected to be less negative than previously expected, labour market outcomes are expected to be disappointing in 2010 as well.

According to ECFIN (Table I.1.9), the country that will experience the most pronounced fall in employment over the following two years is Ireland, with employment growth of -9.0% in 2009 and -4.0% in 2010. Among the euro area countries, Spanish employment is projected to fall by 5.3% in 2009 and by 2.7% in 2010. In Germany, employment is expected to fall by 1.5% in 2009 and 0.4% in 2010. France and Italy may experience a larger fall, of some 2% in 2009 and 2010. Outside the euro area, the Baltic states are expected to see falls in employment similar to those seen in Ireland.

Table I.1.7: GDP growth and its sources

GDP growth in 2008	Due to growth in:						GDP per capita growth in 2008	
	Productivity (GDP/hour)	Labour utilisation of which	Hours worked per employee	Employment rate	Share of Working age population	Population		
								3 = 4+5+6+7
1 = 2+3	2	3 = 4+5+6+7	4	5	6	7	8 = 1-7	
BE	1,1	-0,2	1,2	-0,4	0,7	0,3	0,6	0,5
CZ	3,2	2,5	0,7	-0,4	0,4	0,1	0,7	2,5
DK	-1,1	-2,5	1,3	0,3	0,8	-0,1	0,3	-1,4
DE	1,3	0,0	1,3	-0,1	1,9	-0,3	-0,2	1,4
EE	-3,6	-2,3	-1,3	-1,5	0,4	-0,1	-0,1	-3,5
EL	2,9	2,4	0,5	-0,7	0,9	-0,1	0,4	2,5
ES	1,2	2,1	-0,9	-0,5	-1,7	-0,3	1,6	-0,4
FR	0,4	-0,5	0,9	0,4	0,2	-0,2	0,5	-0,1
IE	-2,3	-1,4	-0,8	0,0	-2,5	-0,2	1,9	-4,2
IT	-1,0	-0,5	-0,5	-0,8	-0,3	-0,1	0,7	-1,8
CY	3,7	0,9	2,7	0,1	0,2	1,5	1,0	2,7
LV	-4,6	-4,8	0,2	-0,5	1,1	0,0	-0,4	-4,1
LT	3,0	1,9	1,1	1,6	-0,4	0,4	-0,5	3,5
LU	-0,9	-5,1	4,4	-0,2	2,6	0,3	1,8	-2,7
HU	0,5	1,7	-1,2	0,0	-1,1	0,1	-0,2	0,7
MT	2,7	1,4	1,2	0,1	0,1	0,5	0,6	2,1
NL	2,1	0,4	1,7	0,2	1,3	-0,1	0,3	1,8
AT	1,8	0,1	1,7	-0,1	1,3	0,1	0,3	1,4
PL	5,0	1,0	3,9	-0,1	3,7	0,3	0,0	5,0
PT	0,0	-0,4	0,4	-0,1	0,3	-0,1	0,2	-0,2
SI	3,5	0,7	2,8	-0,1	0,7	0,7	1,5	2,0
SK	6,4	3,9	2,4	-0,6	2,9	-0,2	0,2	6,2
FI	0,9	-1,5	2,5	1,0	1,1	-0,1	0,5	0,5
SE	-0,2	-1,8	1,6	0,6	-0,1	0,2	0,8	-1,0
UK	0,7	0,6	0,2	0,8	-1,1	0,0	0,5	0,3
US	1,1				-1,3	-0,1	0,9	0,2
JP	-0,7				0,0	-0,5	0,1	-0,8
Euroarea	0,7	0,2	0,5	-0,2	0,4	-0,2	0,5	0,1
EU-25	0,8	0,0	0,8	0,0	0,4	-0,1	0,4	0,3
EUR-15	0,6	0,1	0,5	0,0	0,2	-0,1	0,5	0,1
EU10	3,5	1,3	2,2	-0,2	2,0	0,2	0,1	3,4
GDP growth in 1999- 2007	Due to growth in:						GDP per capita growth in 1999- 2007	
	Productivity (GDP/hour)	Labour utilisation of which	Hours worked per employee	Employment rate	Share of Working age population	Population		
								3 = 4+5+6+7
1 = 2+3	2	3 = 4+5+6+7	4	5	6	7	8 = 1-7	
BE	2,3	1,3	1,0	-0,1	0,6	0,0	0,5	1,9
CZ	4,1	4,3	-0,2	-0,4	-0,1	0,3	0,0	4,0
DK	1,9	0,9	1,1	0,4	0,5	-0,2	0,3	1,6
DE	1,5	1,5	0,0	-0,5	0,8	-0,3	0,0	1,5
EE	7,3	0,0			0,7	0,3	-0,4	7,6
EL	4,2	2,7	1,5	0,4	0,9	-0,1	0,4	3,8
ES	3,7	0,7	3,0	-0,6	2,2	0,1	1,4	2,4
FR	2,2	1,7	0,5	-0,6	0,5	0,0	0,6	1,6
IE	6,6	3,3	3,2	-0,5	1,5	0,4	1,8	4,8
IT	1,5	0,5	1,0	-0,4	1,2	-0,3	0,5	1,0
CY	3,8	1,4	2,4	-0,2	0,3	0,8	1,6	2,2
LV	8,2	7,3	0,8	-0,5	1,5	0,4	-0,6	8,8
LT	6,5	5,6	0,9	0,6	0,4	0,5	-0,6	7,1
LU	5,2	2,0	3,0	-0,7	2,3	0,1	1,4	3,8
HU	4,0	2,9	1,1	0,5	0,8	0,1	-0,2	4,2
MT	2,6	0,0			-0,2	0,4	0,9	1,7
NL	2,5	1,6	0,8	-0,4	0,8	-0,1	0,5	2,0
AT	2,4	1,7	0,7	-0,3	0,5	0,1	0,5	2,0
PL	4,1	4,4	-0,2	-0,1	-0,5	0,6	-0,2	4,3
PT	1,7	1,6	0,2	-0,4	0,2	-0,1	0,5	1,2
SI	4,5	3,9	0,6	-0,4	0,7	0,0	0,2	4,3
SK	5,0	4,9	0,1	-0,2	-0,4	0,7	0,0	5,0
FI	3,4	2,3	1,1	-0,3	1,2	0,0	0,3	3,1
SE	3,2	2,4	0,8	-0,3	0,4	0,3	0,4	2,8
UK	2,8	2,3	0,5	-0,4	0,3	0,2	0,5	2,3
US	2,7	2,1	0,6	-0,5	-0,1	0,2	1,0	1,7
JP	1,5	2,2	-0,7	-0,3	0,2	-0,7	0,1	1,4
Euro area	2,2	1,3	0,9	-0,4	1,0	-0,1	0,5	1,7
EU 25	2,4	0,0	:	:	0,7	0,0	0,4	2,0
EU15	2,3	1,5	0,9	-0,4	0,8	-0,1	0,5	1,8

Source: Commission services.

Table I.1.8: GDP forecasts by ECFIN, OECD and IMF

	GDP growth forecasts						
	2008	ECFIN		OECD		IMF	
		2009	2010	2009	2010	2009	2010
<b>BE</b>	1,1	-3,5	-0,2	-4,1	-0,5	-3,8	0,3
<b>BG</b>	6,0	-1,6	-0,1			-2,0	-1,0
<b>CZ</b>	3,2	-2,7	0,3	-4,2	1,4	-3,5	0,1
<b>DK</b>	-1,1	-3,3	0,3	-4,0	0,1	-4,0	0,4
<b>DE</b>	1,3	-5,4	0,3	-6,1	0,2	-6,2	-0,6
<b>EE</b>	-3,6	-10,3	-0,8			-10,0	-1,0
<b>IE</b>	-2,3	-9,0	-2,6	-9,8	-1,5	-8,0	-3,0
<b>EL</b>	2,9	-0,9	0,1	-1,3	0,3	-0,2	-0,6
<b>ES</b>	1,2	-3,2	-1,0	-4,2	-0,9	-4,0	-0,8
<b>FR</b>	0,4	-3,0	-0,2	-3,0	0,2	-3,0	0,4
<b>IT</b>	-1,0	-4,4	0,1	-5,5	0,4	-5,1	-0,1
<b>CY</b>	3,7	0,3	0,7			0,3	2,1
<b>LV</b>	-4,6	-13,1	-3,2			-12,0	-2,0
<b>LT</b>	3,0	-11,0	-4,7			-10,0	-3,0
<b>LU</b>	-0,9	-3,0	0,1	-4,0	-0,4	-4,8	-0,2
<b>HU</b>	0,6	-6,3	-0,3	-6,1	-2,2	-3,3	-0,4
<b>MT</b>	2,5	-0,9	0,2			-1,5	1,1
<b>NL</b>	2,1	-3,5	-0,4	-4,9	-0,4	-4,8	-0,7
<b>AT</b>	1,8	-4,0	-0,1	-4,3	-0,1	-3,0	0,2
<b>PL</b>	5,0	-1,4	0,8	-0,4	0,6	-0,7	1,3
<b>PT</b>	0,0	-3,7	-0,8	-4,5	-0,5	-4,1	-0,5
<b>RO</b>	7,1	-4,0	0,0			-4,1	0,0
<b>SI</b>	3,5	-3,4	0,7			-2,7	1,4
<b>SK</b>	6,4	-2,6	0,7	-5,0	3,1	-2,1	1,9
<b>FI</b>	0,9	-4,7	0,2	-4,7	0,8	-5,2	-1,2
<b>SE</b>	-0,2	-4,0	0,8	-5,5	0,2	-4,3	0,2
<b>UK</b>	0,7	-3,8	0,1	-4,3	0,0	-4,1	-0,4
<b>EA-16</b>	0,7	-4,0	-0,1	-4,1	-0,3	-4,8	-0,3
<b>EU-27</b>	0,9	-4,0	-0,1				
<b>JP</b>	-0,7	-5,3	0,1	-6,6	-0,5	-6,2	0,5
<b>US</b>	1,1	-2,9	0,9	-4,0	0,0	-2,8	0,0

**Source:** EU Commission Spring 2009 forecast; OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition & World Economic Outlook update July 2009 for Germany, France, Spain and Italy).

Table I.1.9: Employment growth and unemployment rate forecasts by ECFIN, OECD and IMF

	Employment (annual percentage change)						Unemployment (percentage of civilian labour force)							
	ECFIN			OECD		IMF		ECFIN			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010	2008	2009	2010	2009	2010	2009	2010
BE	1,6	-1,2	-1,5	-0,2	0,2	-3,1	-0,7	7,0	8,5	10,3	8,3	10,6	9,5	10,5
BG	3,3	-2,2	-1,0					5,6	7,3	7,8			0,0	0,0
CZ	1,2	-1,7	-1,3	-0,4	0,0	-1,4	-0,4	4,4	6,1	7,4	6,9	9,2	5,5	5,7
DK	1,0	-2,2	-2,0	-1,9	-1,2	-1,4	-1,3	3,3	5,2	6,6	6,0	7,9	3,2	4,5
DE	1,4	-1,5	-2,2	-0,7	-0,2	-0,4	-2,0	7,3	8,6	10,4	8,7	11,6	9,0	10,8
EE	0,2	-7,0	-2,9					5,5	11,3	14,1			0,0	0,0
IE	-0,9	-9,0	-4,0	-2,3	0,5	-7,9	-2,9	6,3	13,3	16,0	12,2	14,8	12,0	13,0
EL				0,4	0,6	-1,0	-1,4				9,5	10,3	9,0	10,5
ES	-0,5	-5,3	-2,7	-2,3	-0,6	-3,5	-1,0	11,3	17,3	20,5	18,1	19,6	17,7	19,3
FR	0,5	-2,2	-1,2	-0,6	0,1	-1,8	-0,6	7,8	9,6	10,7	9,7	11,2	9,6	10,3
IT	0,3	-2,1	-0,4	-0,4	0,0	-1,7	-1,5	6,8	8,8	9,4	8,4	10,2	8,9	10,5
CY	2,6	-0,4	0,1			0,3	0,8	3,8	4,7	6,0			4,6	4,3
LV	0,7	-8,9	-3,3					7,5	15,7	16,0			0,0	0,0
LT	-0,5	-7,7	-2,4					5,8	13,8	15,9			0,0	0,0
LU	4,7	0,5	-0,8	-1,2	-0,1	-1,4	2,4	4,9	5,9	7,0	6,0	7,2	6,8	6,0
HU	-0,5	-3,0	-2,0	-1,3	-0,3			7,8	9,5	11,2	10,7	11,7	0,0	0,0
MT	2,5	-0,5	0,2			-0,6	0,6	5,9	7,1	7,6			6,9	7,6
NL	1,5	-1,2	-2,6	0,0	0,1	-1,0	-1,4	2,8	3,9	6,2	4,0	7,0	4,1	5,0
AT	1,8	-2,1	-0,9	0,0	0,3	0,5	0,7	3,8	6,0	7,1	6,1	7,9	5,4	6,2
PL	4,0	-2,3	-1,4	0,8	0,4			7,1	9,9	12,1	9,0	11,6	0,0	0,0
PT	0,4	-1,4	-0,6	-0,5	0,0	-1,8	-1,3	7,7	9,1	9,8	9,6	11,2	9,6	11,0
RO	0,3	-2,2	0,6					5,8	8,0	7,7			0,0	0,0
SI	2,9	-4,7	-0,6			-2,4	0,0	4,4	6,6	7,4			6,2	6,1
SK	2,9	-1,7	0,4	1,0	1,0	-1,5	0,1	9,5	12,0	12,1	11,8	13,6	11,5	11,7
FI	1,5	-2,9	-0,8	0,2	0,1	-3,8	-1,8	6,4	8,9	9,3	8,7	10,8	8,5	9,3
SE	0,9	-2,4	-2,3	-1,2	-1,0	-2,2	-1,3	6,2	8,4	10,4	8,7	11,4	8,4	9,6
UK	-0,7	-2,4	-0,9	-1,8	-1,9	-1,7	-1,4	5,6	8,2	9,4	8,2	9,7	7,4	9,2
EA-16	0,8	-2,4	-1,6			-1,6	-1,3	7,5	9,9	11,5	10,1	11,7	10,1	11,5
EU-27	0,8	-2,4	-1,4					7	9,4	10,9				
US	-0,5	-3,5	-0,9			-2,6	0,1	5,8	8,9	10,2	8,9	10,1	9,1	10,3
JP	-0,4	-3,0	-1,2			-1,2	-1,6	4	5,9	6,4	4,9	5,6	4,6	5,6

Source: EU Commission Spring 2009 forecast; OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

The second part of Table I.1.9 shows very similar forecasts for Euro area unemployment rate both in 2009 and 2010 from all the three sources. The fact that ECFIN forecasts much more negative employment growth than, and a more or less equal unemployment rate as, the IMF may be explained by different outcomes in participation rate implied by the two forecasts. The last available data for April 2009 showed that the unemployment rate had already reached 18.1% in Spain. In the rest of the euro area, unemployment will reach 13.3% in Ireland up from the 11% of the last available monthly figure (April 2009). In Germany, the unemployment rate should increase, hovering around 9% in 2009 and going beyond 10% in 2010. Forecasts for France are slightly more optimistic only for 2009. In Italy the unemployment rate should remain below the average of the largest euro area countries.

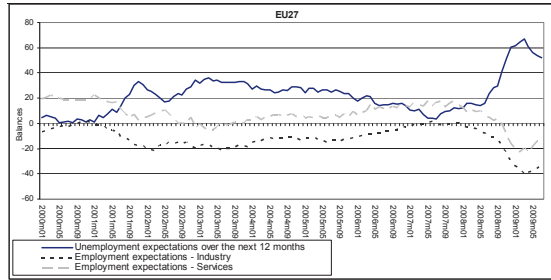
Outside the euro area, unemployment in UK will rise to 8.2% in 2009 from 5.6% in 2008 and then further to 9.4% in 2010. The Baltic countries should reach very high unemployment rates (16.0% in Latvia, 15.9% in Lithuania and 14.1 in Estonia for 2010), but in these cases the forecasts already appear too optimistic, since the last available monthly unemployment rate have already overtaken these rates.

#### 1.4. UNEMPLOYMENT AND EMPLOYMENT EXPECTATIONS DURING THE CRISIS AND THE LABOUR MARKET PROSPECTS

The severity of the current recession has raised concerns about the extent of the labour market adjustment and its persistency. Yet, the response of the unemployment rate in the EU has so far been relatively mild. Since the second quarter of 2008 (when unemployment reached its lowest level), GDP has fallen by about 5% while the unemployment rate has increased by only 2 pps., mainly owing to a decline in employment (LFS definition) growth of the same amount. Yet, households' and employers' expectations on the state of the labour market deteriorated rapidly and extensively over the same period (Graph I.1.17). After July 2007, which produced the second lowest value since the survey began in 1985, consumers' and employers' perceptions about the state of the labour market worsened to unprecedented levels of pessimism in March 2009. Recently, the general pessimism about the state of the labour market in the EU appears to be lifting, mainly owing to improvements in Germany and France. Yet, consumers' fears of unemployment remain high and employers' intentions in manufacturing and

services remain well below the levels normally associated with an economy on a solid footing.

Graph I.1.17: **Employment and unemployment expectations: business and consumers survey**

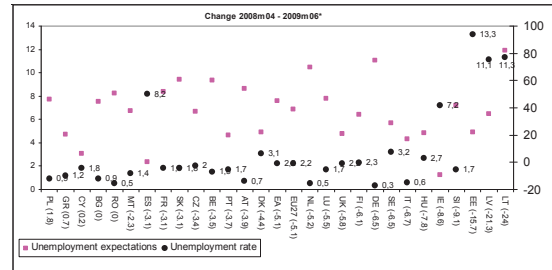


Source: Commission services.

The aggregate evolution does not highlight the different responses across countries. Graph I.1.18 displays the change in consumers' unemployment expectations for the year ahead together with the rise in unemployment since the start of the second quarter of 2008; countries have been ordered in descending order in terms of GDP growth (shown in parentheses). In several Member States the increase in the unemployment rate has been relatively mild, in particular if one consider the amount of output loss. Exceptions to this pattern are on one side the Baltic States and Ireland, where the unemployment rate skyrockets in response to massive output loss, and on the other Spain, where mass unemployment occurs with a relatively modest fall in GDP. <sup>(15)</sup> Among countries with an output loss higher than the EU27 average (-5%), the rise in the unemployment rate is particularly low (below 1 pp.) in Germany, Italy and the Netherlands).

<sup>(15)</sup> In Spain, the largest decline in employment was registered in 2008q2. During the first two quarters of 2009 employment decline has decelerated.

Graph I.1.18: **Changes in unemployment rate and in consumers perceptions on the labour market since 2008q2**



- (1) For the unemployment rate the last month available is May for the UK and March for Greece, Italy, and Romania.
- (2) GDP growth over the period in brackets.
- (3) Unemployment expectations on right hand axis.

Source: Commission services.

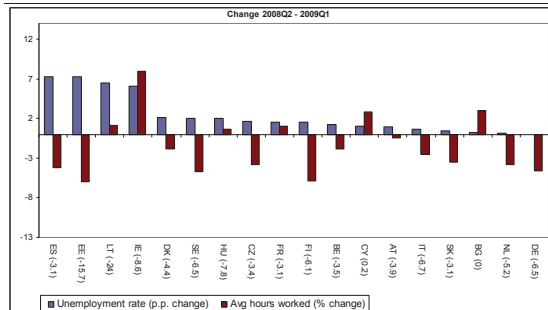
To some extent, the limited pick up in unemployment seen in several European countries may be due to the hoarding of labour during the recession. Different reasons may explain why firms choose not to adjust employment in line with transitory fluctuations in the demand of their products. Firstly, firms may face costs in adjusting the size of the workforce because of hiring and firing costs associated with re-training costs and labour market regulations. Secondly, firms may prefer to adjust their labour inputs at the intensive (i.e. hours worked) rather than at the extensive margin (i.e. workforce) to be able to increase the utilisation of labour without major recruitment, especially of scarce and expensive skilled-labour, when the recovery comes, thus keeping wage pressures under check. <sup>(16)</sup>

Graph I.1.19 plots the change in the average number of hours worked and the rise in unemployment since the start of the second quarter of 2008; countries are ordered in ascending order of output loss. It is clear that where the rise in unemployment rate is small and the fall in GDP significant, the fall in hours worked is relatively large, which is suggestive of labour hoarding during the current recession.

<sup>(16)</sup> Darby, J , Hart, R and Vecchi , M (2001), 'Wages, work intensity and unemployment in Japan, UK and USA', Labour Economics, Vol. 8, pages 243–58.



Graph I.1.19: **Unemployment rate and average hours worked**



Source: Commission services.

Yet, the stark deteriorations in both employment intentions in manufacturing and services and in consumers' unemployment expectations for next year remain a matter of concern as they may predict much larger future labour shedding. With uncertainty about the persistency of the collapse in demand and, thus, about its resumption, it is extremely difficult to predict whether the wave of frightening pessimism among consumers and employers will anticipate a significant increase in unemployment, similar, if not higher, than that which occurred in the deepest recessions of the 1980s and 1990s. In the Box I.1.1 the relationship between consumers' and employers' expectations on unemployment, industrial orders and actual unemployment rate was studied for the four largest European economies. The analysis suggests that fluctuations in the German unemployment rate are linked to the evolution of expectations, while industrial orders play a more important role in France and the UK. For Italy, the unemployment rate is not influenced by shocks to the variables considered (not surprisingly, as the period covered was characterised by job expansion with limited economic growth). Thus, a pick up of industrial orders would imply that the recovery is more likely to be a U shaped rather than V shaped (more so in Germany than in the UK or France). Conversely, without adverse shocks to consumers' unemployment expectations in Germany (or even a positive rebound in confidence) the recovery might come about at a faster pace.

To get further insight into the response of the labour market to the recession, Graphs I.1.20-I.1.35 compare, for selected countries, the behaviour of consumers' unemployment expectations, the unemployment rate, the total and the average hours worked during the current

recession with the behaviour of the last recent recessions. <sup>(17)</sup> The evolution during the recession and the following months of positive GDP growth are shown in the graphs with lines respectively in bold and dots. The comparison with the recent downturns suggests that the period of weak labour market usually continues much longer than the period of recession.

During the recession of the early 1990s, GDP contracted for about 5 quarters in Italy and the UK and 2 quarters in Germany and France. The unemployment rate continued to climb when the recession was over. It declined to pre-recession levels only after 30 months in Italy and the UK and about 20 months in France and Germany. The same pattern can be observed for the much shallower recessions of the early 2000s. Italy represents an exception as its unemployment rate continued to fall even during recent years of low or negative growth as a result of reforms.

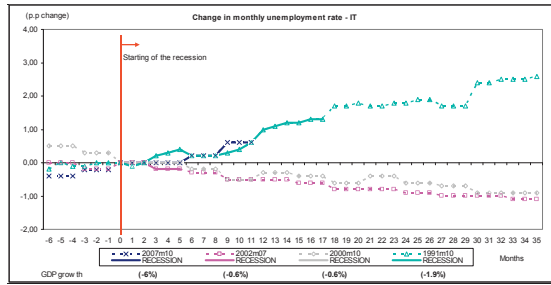
Compared with previous recessions, the current episode is so far characterised by greater output loss and a smaller rise in unemployment. This apparently inconsistent response is particularly striking in the case of Italy and Germany. If the recessions of the past are of any guide, one would have expected that these countries would experience a much higher increase in the jobless rate than the one seen during the current recession. Even so, consumers' fears of unemployment and employers' intentions on employment point toward a bleak employment outlook. In Italy expectations deteriorated in line with the 1991 recession and they were even worse in Germany. Conversely, the unemployment rates rose only by a limited amount (by about 0.6 pp. since the lowest level reached in 2008 in both countries) and the industrial orders fell significantly (by about 3%). A fall in industrial orders was also experienced by France and the UK, but of a much smaller size while the increase in unemployment rates was relatively large (1.8 pps. in France and 2.6 in the UK).

Thus, consumers' and employers' labour market expectations in Germany and Italy evolved more in line with the evolution of the industrial orders, - to

<sup>(17)</sup> Recessions are identified as two consecutive negative quarters of GDP growth. Total hour worked are from the ECFIN TRIMECO database. Employment is based on NA accounts definition (Source Eurostat; only for France employment data from INSEE).

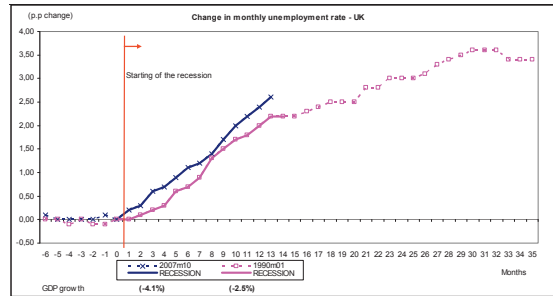
some extent a reflex reaction to the collapse of foreign demand in industrial sectors <sup>(18)</sup> - than with the current deterioration in the labour market.

Graph I.1.20: Impact of the crisis on the change in monthly unemployment rate - IT



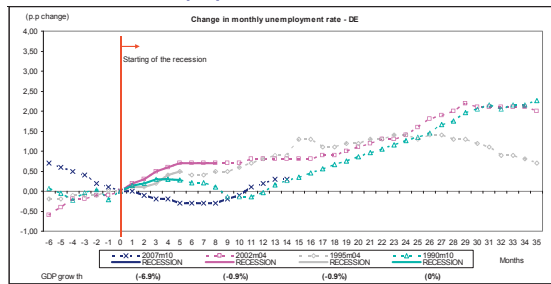
Source: Commission services.

Graph I.1.23: Impact of the crisis on the change in monthly unemployment rate - UK



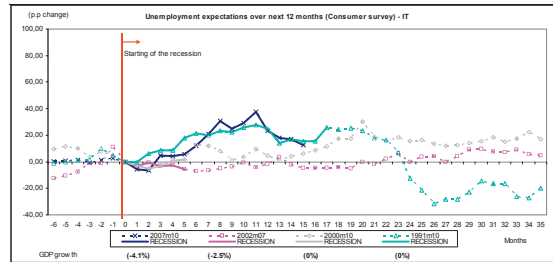
Source: Commission services.

Graph I.1.21: Impact of the crisis on the change in monthly unemployment rate - DE



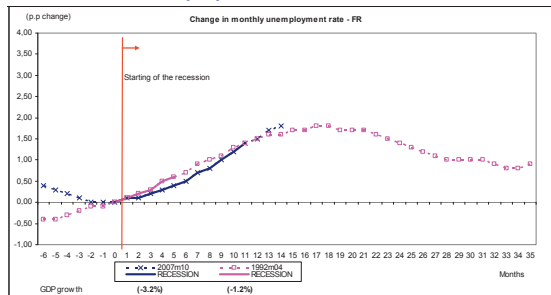
Source: Commission services.

Graph I.1.24: Impact of the crisis on the change in monthly unemployment expectations - IT



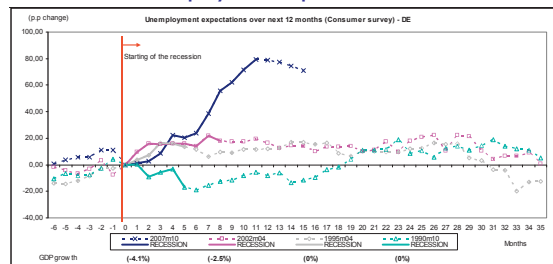
Source: Commission services.

Graph I.1.22: Impact of the crisis on the change in monthly unemployment rate - FR



Source: Commission services.

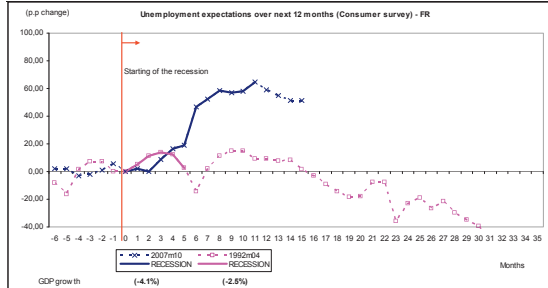
Graph I.1.25: Impact of the crisis on the change in monthly unemployment expectations - DE



Source: Commission services.

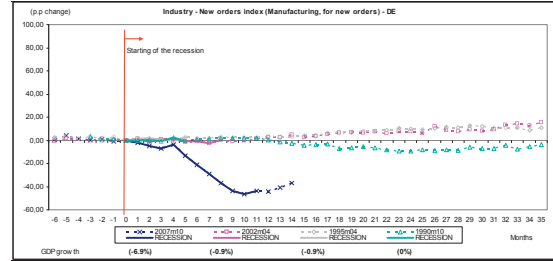
<sup>(18)</sup> In Germany and Italy, the recession led to a severe contractions of exports. In Italy, since the end of 2007 through the first quarter of 2009 exports have fallen by more than 20% in volume. With respect to the recession of the last thirty years where Italian exports bucked the trend (Bassanetti et al. 2009), this fall is the main novelty of the current recession.

Graph I.1.26: Impact of the crisis on the change in monthly unemployment expectations - FR



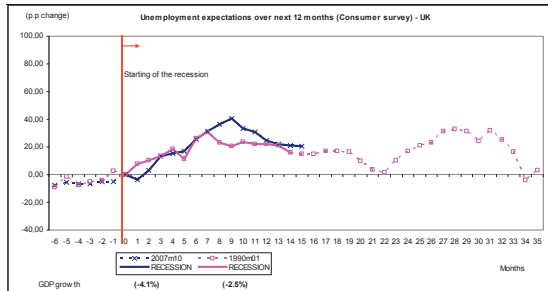
Source: Commission services.

Graph I.1.29: Impact of the crisis on the change in monthly new orders index - DE



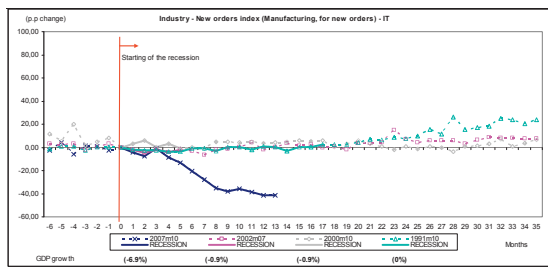
Source: Commission services.

Graph I.1.27: Impact of the crisis on the change in monthly unemployment expectations - UK



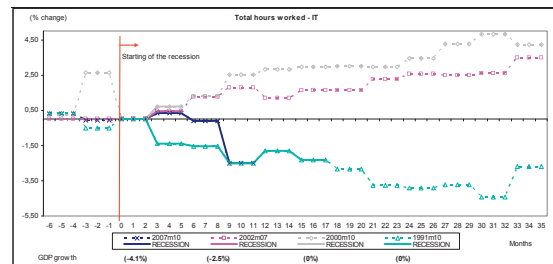
Source: Commission services.

Graph I.1.28: Impact of the crisis on the change in monthly new orders index - IT



Source: Commission services.

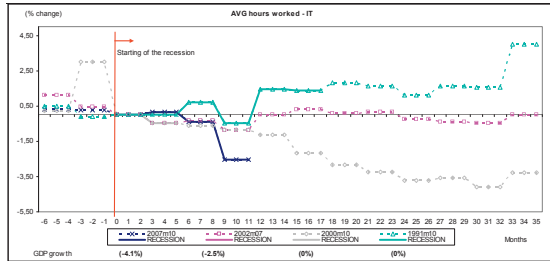
Graph I.1.30: Impact of the crisis on the change in the total hours worked - IT



Source: Commission services.

The relevance for some countries of labour hoarding is clear (Graphs I.1.30-I.1.35) comparing changes in average and total hours worked during the current recession and the recessions of the 1980s and 1990s. Total hours worked always decline during recessions. But the similarity between the current and the past recessions ends here. During the recession of the early 1990s, average hours worked remained mainly unchanged in France and Germany and increased in Italy. They even kept rising in France and Italy when the recession was over. Conversely, a year into the current recession, average hours worked fell in Italy and Germany below the business cycle peak (by 2.5% and 4.5% respectively) but increased in France by about 1% above the level of the beginning of the recession.

Graph I.1.31: Impact of the crisis on the change in the total average hours worked - IT



Source: Commission services.

Thus, whatever the cause of the labour hoarding, the loose link between consumers' and employers' perceptions on the state of the labour market observed in some countries is to a large extent explained once the adjustment of the labour market at the intensive margin is taken into account.

As already mentioned above, firms may choose not to cut their workforce to the degree warranted by the demand, mainly because of hiring and firing costs. In addition to these costs, the response of firms to the crisis may have contributed to the patterns observed in the average hours worked during the current recession.

Fluctuations in inflows and outflows from unemployment determine unemployment dynamics. When inflows to unemployment dominate outflows from unemployment, measures that reduce the risks of losing jobs effectively help to minimise the increase in the unemployment rate during downturns. Recent evidence on unemployment dynamics in OECD countries suggests that variation in the outflow rate accounts for the majority (80%) of the variation in the unemployment rate in Australia, Canada, New Zealand and the US. Variation in the inflow rates plays a larger role (50%) in continental European countries and the UK while Nordic countries rank between the two groups. <sup>(19)</sup>

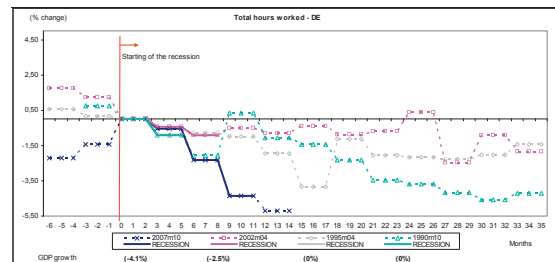
Working time flexibility - variation in the length, scheduling or distribution of working hours - can be a source of variation of labour input, without causing additional hiring and firing or wage renegotiations costs, while preserving firm-specific

<sup>(19)</sup> Elsby, M., B. Hbjin and A. S. (2008) "Unemployment Dynamics in the OECD" NBER WP 14167.

human capital. Yet, a temporary reduction of the hours worked can be an effective tool to stabilise employment only if not accompanied by full compensation of hourly wages to keep the monthly labour income unchanged. Reduced hours can be achieved by either wage or labour costs cuts, the main difference being that labour costs cuts are attained through state-sponsored schemes, which subsidise workers ready to work fewer hours, while wage cuts usually occur with the mutual consent of both parties (e.g. recession sabbatical). The latter are more efficient as they involve bilateral negotiations and need not be a matter of concern as their use should go down as the recovery steps in.

To minimise the risks of mass unemployment, many countries have introduced or made extensive use of government sponsored schemes available to employers to supplement wages of workers working reduced hours<sup>(20)</sup>. These schemes give firms the possibility of reducing their activity in case of short-term falls in industrial orders or other exceptional circumstances, while allowing employees to keep their contractual relationship.

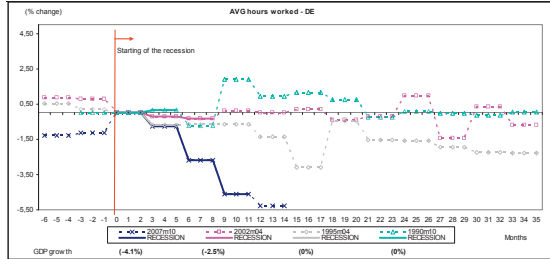
Graph I.1.32: Impact of the crisis on the change in the total hours worked - DE



Source: Commission services.

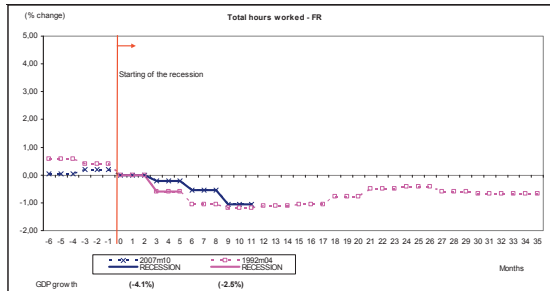
<sup>(20)</sup> For Italy, the hours of Wage Supplement Schemes (Cassa integrazione Guadagni) allowed rise more than in the previous recessions. Bassanetti A., M. Cecioni, A. Nobili and G. Zevi (2009) *Le principali recessione italiana: un confronto retrospettivo*, in Banca d'Italia Questioni di Economia e Finanza.

Graph I.1.33: Impact of the crisis on the change in the total average hours worked - DE



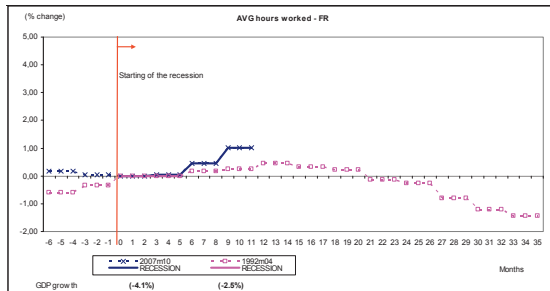
Source: Commission services.

Graph I.1.34: Impact of the crisis on the change in the total hours worked - FR



Source: Commission services.

Graph I.1.35: Impact of the crisis on the change in the total average hours worked - FR

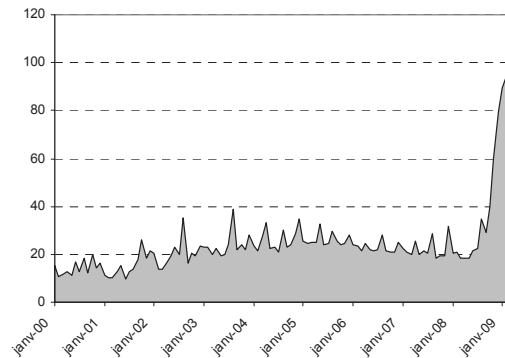


Source: Commission services.

few.<sup>(21)</sup> In Italy, the number of hours of wage supplementation (CIG) was around 20 per thousands of hours worked between January 2002 and July 2008 (Graph I.1.36). It rapidly picked up in November of 2008 and in April 2009 it reached its highest ever proportion since 2000 (110 per thousands of hours worked in industry). In the second quarter of 2009 about 10% of full-time equivalent workers were on wage supplementation schemes.<sup>(22)</sup> Similarly, in Germany the use of short-time employment picked-up swiftly; in March 2009 it reached the highest level since the 1992-1993 recessions (Graph I.1.37). In contrast, the use of the *chômage partiel* declined continuously in France between 1995 and 2005, affecting on average 1% of the establishments or 2% of employees (Calavrezo et al., 2009). During the recession, the proportion of workers in *chômage partiel* increased from 0.1% in the first quarter of 2008 to 0.7% in the first quarter of 2009, but remained below the historical average.

Graph I.1.36: Short-time workers: Italy

Hours of wage supplementation in total Industry (per 1000 of total hours worked)



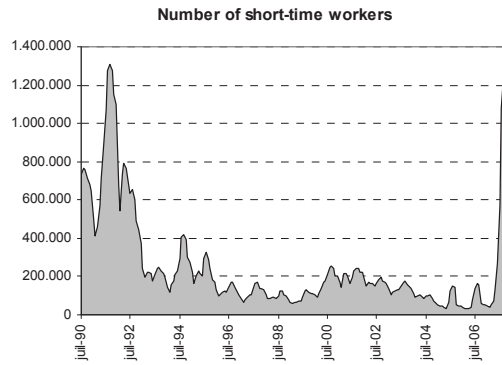
Source: Commission services.

In many European countries, government sponsored schemes are available to employers to supplement wages of workers working at reduced hours: the *Cassa Integrazione Guadagni* in Italy, the *Chômage technique* in France, or the *Kurzarbeitergeld* in Germany, to mention a

<sup>(21)</sup> Short-time scheme are available also in the US (the *Short time compensation programme*) and Canada (the *Work Sharing Program*). The data shown below are not comparable across countries.

<sup>(22)</sup> Bank of Italy (2009) *Economic Bulletin Number 53*, July.

Graph I.1.37: **Short-time workers: Germany**



Source: Commission services.

Short-term compensations schemes supported by public funds to prevent mass layoffs are an effective instrument to contain wasteful labour shedding because a temporary demand shocks in the short-term. Their benefit is less obvious if the recovery takes more time to materialise and/or companies face the need to restructure.

Moreover, when such schemes are granted with overly loose and unspecified conditions, there is the risk that they prolong the moment of an inevitable closure of a company/plant thus delaying structural change, especially when the market conditions reveal deficiencies in certain sectors. There is a trade-off between unemployment today and more redundancies at a later stage. The same applies when the fall in demand is persistent and workers are working very few hours. To address this problem, stricter conditionalities have been usually imposed on firms to gain access to government support (e.g. falling demand/or orders over the short term, commitment not to lay-off workers at a later stage, establishing a plan for sustained employment after completion of the scheme; commitment not to grant bonuses to managers; use the hours of non-working for training), but it is too early to say if the increase in short-time workers for economic reasons will anticipate an increase in unemployment in some countries when these schemes expire. Yet, a concern remains that the deterioration in consumers' and employers' perceptions about the state of the labour market in countries that have made large use of these schemes might herald a larger future increase in unemployment if a sufficiently vigorous recovery does not step in.

### Box 1.1.1: How much we should fear the fear of unemployment?

The crisis is characterised by an unprecedented increase in consumers' and employers' pessimism on the state of the labour market amidst the worst financial crisis since the great depression. Weak or negative job growth has been the driver in the rise in unemployment. Even so, the increase in unemployment has been rather limited, and a sharp uptick in unemployment may have still to come. While the announcements of redundancies in the press and/or their temporary suspension may build up expectation of an imminent major job squeeze, the outcomes have so far fallen short of fears of unemployment. It is difficult to establish if these fears have been overdone, not lastly because exceptional measures have been taken in response to an exceptional shock. Yet, the perceptions may influence consumers' spending plans, the demand for goods, employers' hiring strategies and, ultimately, the unemployment rate. Swings in optimism and pessimism can affect future economic outcomes irrespectively of underlying fundamentals (e.g. Cooper and John 1988); thus consumers' sentiment plays a non-trivial role in affecting current and future variations in aggregate activity (e.g. Acemoglu and Scott (19994); Matsusaka and Sbordone, 1995), especially in exceptional circumstances (e.g. Adrian Throop, 1992). <sup>(1)</sup>

This box investigates how the unemployment rate fluctuates in response to unexpected changes in expectations on the state of the labour market. We take an agnostic view on the mechanisms through which agents' belief influence and respond to economic outcomes. The analysis is developed in a VAR framework, which allows taking into account the interdependencies between the sentiment indicators, the unemployment rate and the industrial orders (VAR). The analysed focuses on the 4 largest European countries with monthly data over a period which slightly differs across countries depending on the data availability. The periods considered are: Germany 2002m02-2009m06; France 1989m01-2009m07; UK 1999m01-2009m05, Italy 1997m01-2009m03. To check the robustness of the results, the VARs is re-estimated on the shorter time period of the German VAR with no major differences. The lag length was selected to have well behaved residuals; when necessary dummy variables are included to eliminate outliers.

VAR analysis can be summarised in two ways. First, the impulse response functions (IRF) describe the impact of each shock at different horizons (months). The initial change is one standard deviation shock. But caution should be paid in comparing the different IRF as the standard deviations of the shocks differ across countries. Second, the forecast error variance decomposition (FEVD) explains the role played by different variables in causing this reaction. Since the estimated shocks (i.e. the residuals from the VAR) are correlated, it is impossible to shock one variable keeping the other fixed. Structural VARs (SVAR) require identifying restrictions that establish causal links among variables. These restrictions can be imposed on the contemporaneous effects of the shocks - i.e. contemporaneous links among the variables (Christiano et al.,1996)- on the long-run behaviour of the system (Blanchard, Quah, 1989) or as a mix of the previous (Gali, 1992). SVAR allows the impact on the unemployment rate of unexpected changes in confidence indicators to be isolated from that of other disturbances to the industrial orders or to the unemployment rate itself, while taking into account all the interdependencies between the variables. Thus disturbances to consumers' sentiment can be interpreted as exceptional shock (or sunspot) since they correspond to the part that cannot be explained by the information contained in economic fundamentals captured by the unemployment rate or the industrial order. We identify shocks assuming a contemporaneous causal structure, which implies that unexpected changes in the industrial order in one month influence consumers and employers' perceptions and the unemployment rate within the same month. Conversely, we assume that it takes more than one month for the industrial orders to respond to a shock in the consumers' and employers' expectations or in the unemployment rate. Finally, changes in state of confidence on the labour market influence the unemployment rate in the same month. The following scheme summarises the instantaneous linkages needed to identify the shocks:

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<sup>(1)</sup> Throop, A. W. (1992), "Consumer sentiment: its causes and effects," Economic review (Federal Reserve Bank of Sar Francisco), N. 1, p. 35-59.

*(Continued on the next page)*

*Box (continued)*

Industrial Orders → Employers' intentions of employment in Industry → Employers' intentions of employment in services → Consumers' unemployment expectations → unemployment rate

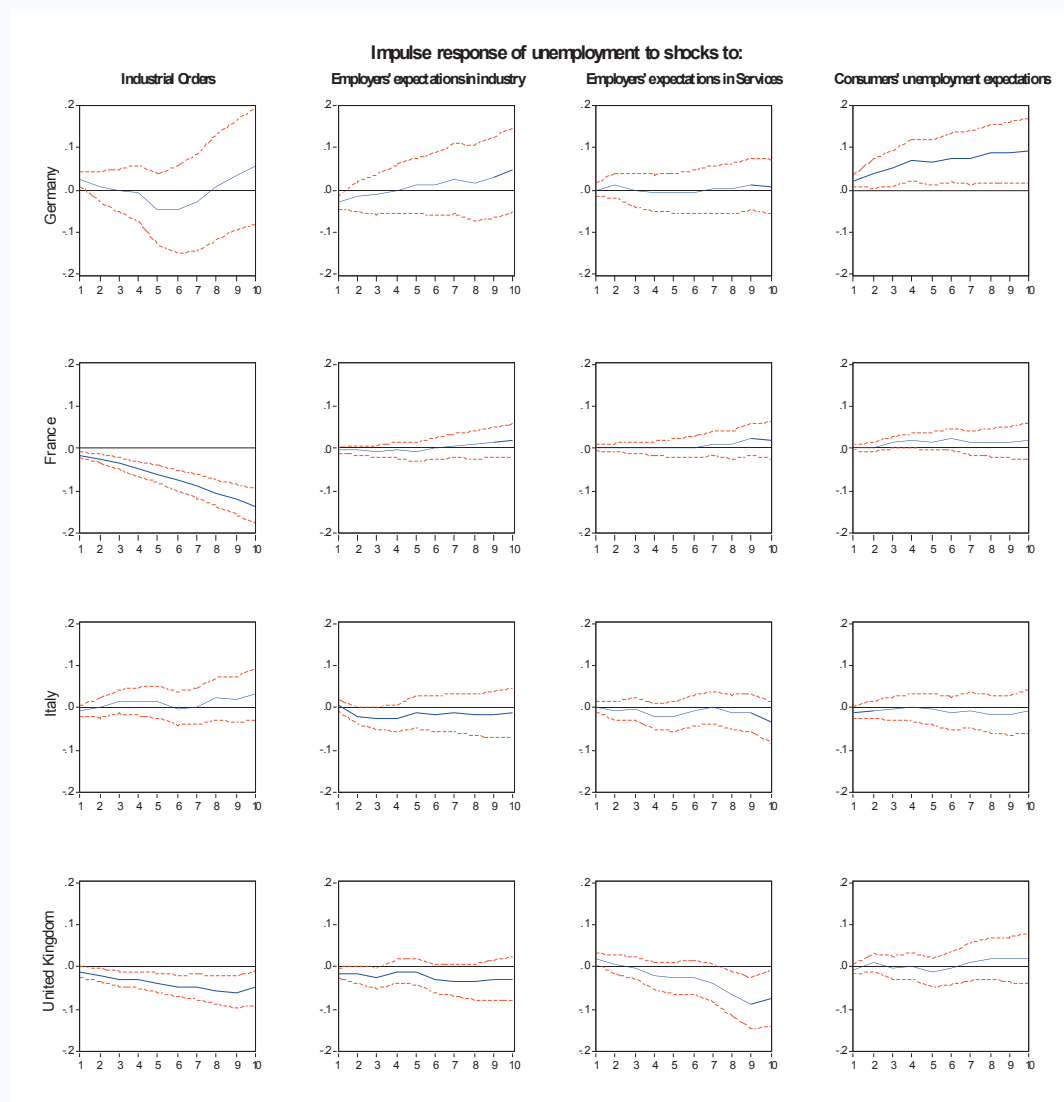
The Figure shows the response of unemployment rate to an unexpected change in industrial orders or to employers' or consumers' expectations, assuming that in each case no other disturbance occurs. The impulse responses are computed assuming symmetry in the response to negative or positive shock. The graph suggests a different reaction across countries of the unemployment rate to a shock of confidence or to industrial orders. A negative shock to industrial orders is accompanied by an increase in unemployment in France and the UK. It takes 1 quarter for the unemployment rate to respond. After 12 months a fall of industrial orders by 1 standard deviation leads to an increase in the unemployment rate by half and 0.7 percentage points. Moreover, a worsening of employers' intentions on employment in industry is accompanied by a temporary decline in unemployment rate in all countries; yet the effect on unemployment is small and not statistically significant. Quite interestingly, the unemployment rate falls in Germany in the same month the shock occurred and reverts to the level before the shock after about 1 quarter. Much more persistent is in this country the effect of a worsening in consumers' unemployment expectations. A fall in consumer sentiment about future employment prospects leads after 10 months to an increase in the unemployment rate by about 0.7 pp. The shock is very persistent as the unemployment rate starts reverting back towards the pre-shock level after about 15 months. Finally, deterioration in employers' intention on employment in services leads gradually to an increase in the unemployment rate only in the UK, where, after 3 quarters, the unemployment rate increases by 0.4 pp.

Finally the FEVD suggests that fluctuations in consumers' unemployment expectations explain about 30% and 50% of the variation in the German unemployment rate respectively after 4 and 10 months. However, the contribution of the same type of shock is almost nil in the case of the other countries where, with the exception of Italy, the industrial orders account for a rising share of the variance of unemployment, in particular in France.

*(Continued on the next page)*



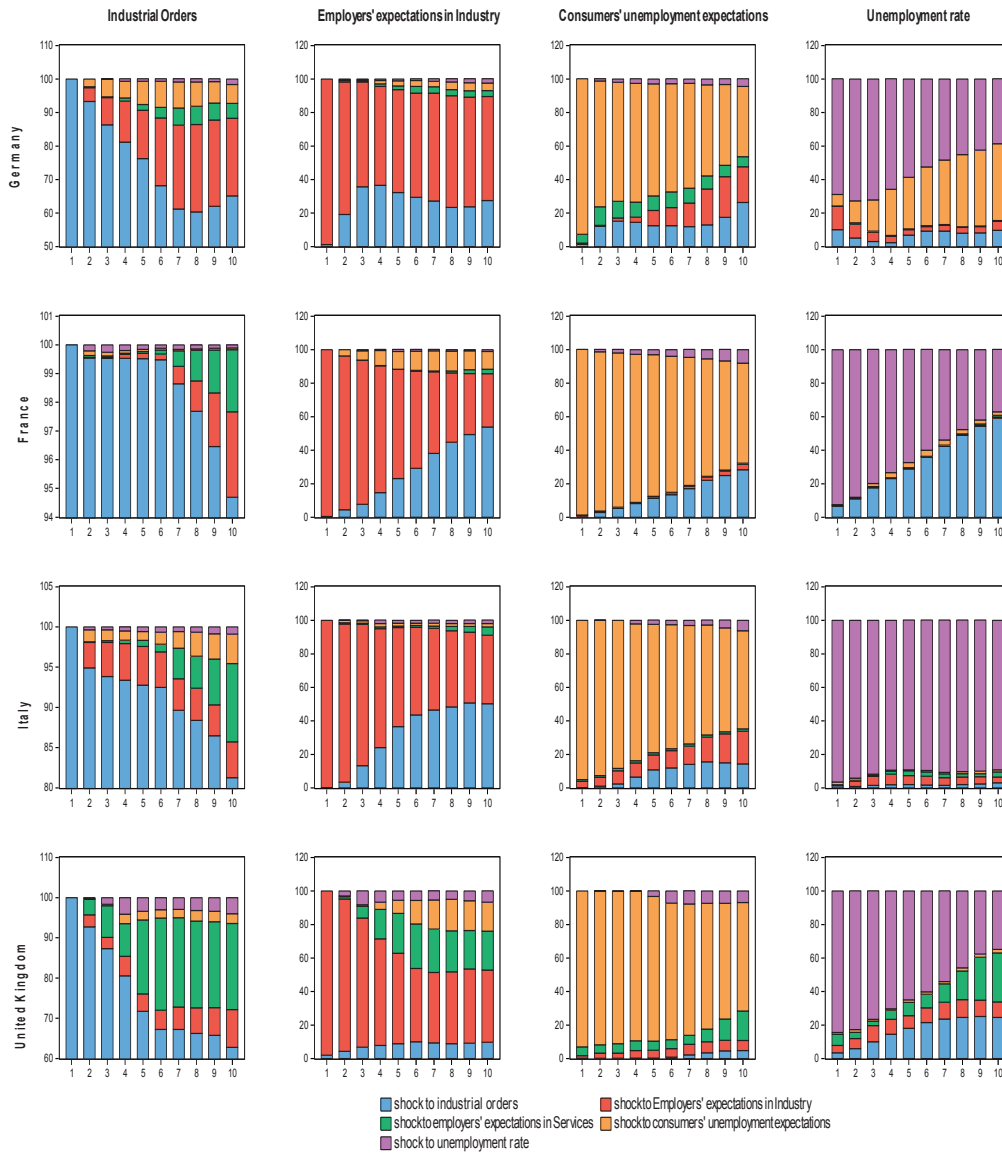
Box (continued)



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Box (continued)

Proportion of variance of selected series explained by the structural shocks  
 (forecast error variance decomposition)



## 2. WAGE AND LABOUR COSTS DEVELOPMENTS

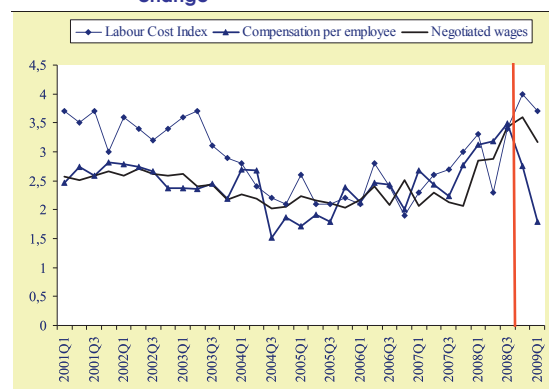
### 2.1. LABOUR COST DEVELOPMENTS IN THE EURO AREA

#### 2.1.1. Recent labour cost developments

**Wage developments were impacted by the crisis with some delay in 2008 and only began to ease in the last quarter of this year.** (Graph I.2.1 and Table I.2.1). Labour costs growth continued at a fast pace throughout the first three quarters of 2008. This was largely due to several forces including previously tight labour markets and continued high capacity utilisation, as well as to increases due to nominal wage indexation on account of past temporarily high inflation outcomes in some countries (Belgium, Luxembourg, Cyprus, Malta and Spain). In 2008Q4, negotiated wages grew by 3.6%, the highest rate since 1995, still reflecting past favourable labour market conditions. The annual growth of hourly labour costs in the euro area also accelerated from 3.4% in 2008Q3 to 4% in 2008Q4. However, the upward movement in both indicators was short-lived and followed by clear signs of abating wage pressures in 2009Q1, when year-on-year increases in negotiated wages and the Labour Cost Index eased to 3.2% and 3.7% respectively, dissipating fears echoed during the last quarter of 2008 of broadly-based second-round effects. Hourly labour costs remain elevated, however, on account of the strong downward adjustment in hours worked undertaken by many firms in order to face the effects of the financial crisis.<sup>(23)</sup> The slowdown came from the wage component of labour costs. By contrast, the non-wage component remained at high levels, with offsetting effects arising from the high cost of dismissals in the industrial and construction sectors and the temporary cuts in employers' social security contributions aimed at alleviating the weight of non-wage costs in overall labour costs. Growth in compensation per employee, the other indicator of wage growth, fell sharply from 3.5% in the third quarter to 2.7% in 2008Q3 and 1.8%

and 2008Q4 largely explained by short term working arrangements. Taken together with the deterioration in employment and the relative stability in negotiated wages (i.e. basic pay), this could suggest that, in the face of tight financial conditions, firms are actively reducing the variable pay component of compensation, such as overtime and bonus payments.<sup>(24)</sup> Recent evidence advanced by the ECB indeed suggests that the wage drift<sup>(25)</sup> has turned negative in 2008Q4.

Graph I.2.1: **Nominal wage indicators, euro area, y-o-y % change**



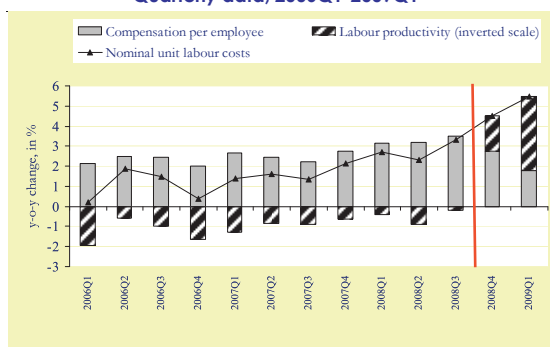
**Source:** Labour Cost Index and compensation per employee are Eurostat data. Negotiated wages are ECB data.

<sup>(23)</sup> Since labour costs are usually determined on a monthly basis, a temporary reduction of hours worked will lead to high hourly labour costs, even though total labour costs as such remain unaltered. Thus, caution is needed when interpreting growth in the Labour Cost Index in the context of the current crisis, characterised by an intensive use of short-time work schemes as a means to keep workers in employment.

<sup>(24)</sup> See "New survey on wage setting in Europe" ECB Monthly Bulletin, February 2009.

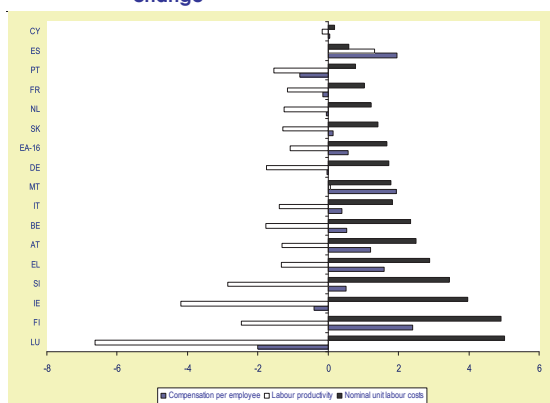
<sup>(25)</sup> The wage drift is defined as the difference between the growth in overall compensation, excluding employers' social security contributions, and the growth in collectively agreed wages. As wages are bargained for long periods of time, the wage drift captures the effect of unexpected cyclical changes in the economic environment.

Graph I.2.2: **Compensation per employee, labour productivity and unit labour costs, euro area. Quarterly data, 2006Q1-2009Q1**



(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts.  
**Source:** Eurostat.

Graph I.2.3: **Nominal wage indicators, euro area y-o-y % change**



(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts.  
**Source:** Eurostat.

**Unit labour costs in the euro area picked up strongly since late 2008 following a severe contraction in labour productivity.** (Graph I.2.2 and Table I.2.1). **The acceleration in unit labour costs was widespread across EA16 Member States.** (Graph I.2.3 and Table I.2.2). Productivity growth gradually weakened over the first three quarters of the year, mainly due to labour-intensive growth characterising the turn of the cycle and related at least in part to weak innovation in a context of low competition. Productivity turned negative (-1.4% and -3.7%) in 2008Q4 and 2009Q1, the lowest rates since the start of EMU. The intensifying contraction of labour productivity is mainly attributable to the depression in economic activity which has not been matched by

a comparable rate of decline in employment helped by labour hoarding (which has gone hand in hand with a reduction in hours worked in many countries). As a result, unit labour costs accelerated to 4.5% and 5.5% in the last two quarters available (2008Q4 and 2009Q1), marking the strongest growth in over a decade. In many euro-area countries, the annual growth of unit labour costs in 2008 was at least 2 pps. above the average over the period 1999-2007. In most cases, this was explained by downward nominal rigidity present in wages<sup>(26)</sup> in combination with a marked slowdown in labour productivity reflecting the lagged employment response to economic activity, in line with usual cyclical patterns. Barring Slovakia, which registered disorderly wage hikes, the acceleration in unit labour costs was indeed more marked in those euro-area countries with the highest drop in labour productivity, namely Slovenia, Finland and Germany. Only in Spain productivity experienced a sizeable increase in line with the sharp drop in employment. The fast speed of deterioration in employment in this country is related to the dual nature of the labour market, with young and temporary employment allowing for quick labour shedding. Temporary workers in Spain shrank from 5.2 million in 2007Q4 to 4.5 million in 2008Q4. The youth unemployment rate amounted to 31.8% in February 2009, more than 14 pps. above the average rate in the euro area. The main conclusion emerging from these figures is that the widespread acceleration in unit labour costs across countries is mostly attributable to the contraction in labour productivity while wages still have a long way to go in adjusting to the recession.

<sup>(26)</sup> The evidence in support of downward (nominal and real) wage rigidity among European firms is abundant. Some recent contributions include Dickens, W. T., L. Goette, E. L. Groshen, S. Holden, J. Messina, M. E. Schweitzer, J. Turunen and M. E. Ward (2007), "How Wages Change: Micro Evidence from the International Wage Flexibility Project", *Journal of Economic Perspectives* 21(2), pp. 195-214; Messina, J., P. Du Caju, C. Filipa Duarte, M. Izquierdo and N. Lynggård Hansen (2008), "The Causes and Consequences of Nominal and Real Wage Rigidity: A Sectoral Approach", mimeo (WDN); and Holden, S. and F. Wulfsberg (2007), "Downward nominal wage rigidity in the OECD", ECB Working Paper No.964. This body of literature follows the pioneering work of Blinder, A. S. and D. H. Choi (1990), "A Shred of Evidence on Theories of Wage Stickiness," *The Quarterly Journal of Economics* 5(4), pp. 1003-15.

Table I.2.1: **Nominal wage indicators, labour productivity and unit labour costs, euro area**

	2006	2007	2008	Av. 99-07	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1
Negotiated wages	2,3	2,1	3,2	2,4	2,9	2,9	3,4	3,6	3,2
Hourly Labour Cost Index	2,3	2,6	3,3	3,0	3,3	2,3	3,4	4,0	3,7
Compensation per employee	2,3	2,5	3,1	2,4	3,1	3,2	3,5	2,8	1,8
Labour productivity	1,3	0,9	-0,1	0,9	0,4	0,9	0,2	-1,7	-3,7
Nominal unit labour costs	1,0	1,6	3,2	1,5	2,7	2,3	3,3	4,5	5,5

Source: All indicators are Eurostat data except negotiated wages, which are ECB data.

Table I.2.2: **Unit labour costs (in nominal and real terms) and its components. Y-o-y % changes, 2009Q1, 2008 and average 2004-2007**

	BE	DE	IE	EL	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	EA-16
Nominal ULC:																	
2009Q1	5,8	8,1		4,6	0,5	3,9	6,1	2,1		7,5		6,1		15,3	2,3	10,2	5,7
2008	3,9	2,0	7,0	5,7	3,4	2,8	4,2	3,0	7,2	3,6	3,4	3,0	3,6	7,9	5,2	6,2	3,3
Av. 99-07	1,6	0,3	3,0	2,8	2,8	1,7	2,4	2,8	2,2	1,9	2,2	0,5	2,8	4,4	3,8	1,3	1,6
Compensation per employee:																	
2009Q1	1,9	1,3		5,5	3,8	1,5	0,3	1,8		2,5		2,9		6,3	17,7	3,7	2,9
2008	3,4	1,8	5,5	7,5	5,2	2,6	3,3	4,0	1,5	5,2	3,8	3,3	3,1	8,5	8,7	5,6	3,3
Av. 99-07	2,8	1,8	5,9	5,9	3,3	2,7	2,9	4,0	3,5	3,3	3,8	2,1	3,9	8,0	8,6	3,2	2,7
Labour productivity:																	
2009Q1	-3,9	-6,8		0,9	3,3	-2,4	-5,8	-0,3		-5,0		-3,2	-3,1	-9,0	-5,3	-6,5	-3,7
2008	-0,5	-0,2	-1,4	1,7	1,8	-0,2	-0,9	1,0	-5,3	1,5	0,3	0,3	-0,4	0,6	3,3	-0,5	0,9
Av. 99-07	1,2	1,6	2,8	3,0	0,4	1,0	0,5	1,2	1,3	1,5	1,6	1,6	1,1	3,5	4,6	1,9	1,1
GDP deflator:																	
2009Q1	1,8	1,9		1,8	1,2	1,3	3,8	0,5		2,5		0,9		3,7	10,3	2,0	1,7
2008	1,7	1,5	-0,3	3,4	3,0	2,5	2,8	4,8	1,6	2,5	2,7	2,4	1,8	4,0	2,9	2,7	2,3
Av. 99-07	2,8	1,8	5,9	5,9	3,3	2,7	2,9	4,0	3,5	3,3	3,8	2,1	3,9	8,0	8,6	3,2	2,7
Real ULC:																	
2009Q1	4,0	6,2		2,8	-0,7	2,4	2,3	1,6		5,0		5,2		11,6	12,7	8,2	4,0
2008	2,2	0,4	7,3	2,2	0,4	0,3	1,4	-1,8	5,5	1,1	0,7	0,6	1,7	3,7	2,2	3,4	0,9
Av. 99-07	-0,3	-0,6	-0,5	-0,7	-0,9	-0,1	0,0	-0,3	-0,9	-0,7	-0,4	-1,0	-0,3	-0,6	-0,9	-0,2	-0,5

Source: Eurostat.

Table I.2.3: **Contribution of import prices, NULC, gross operating surplus and net indirect taxes to growth in final demand deflator (y-o-y % changes), euro-area MS. 2008 and average 2004-2007**

	BE	DE	IE	EL	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
Average 1999-2007																
Import prices	1,2	0,2	0,7	0,8	0,5	0,1	0,7	0,8	2,1	1,3	0,4	0,4	0,5	1,6	1,5	0,4
Nominal unit labour costs	<b>0,5</b>	<b>0,1</b>	<b>0,8</b>	<b>1,1</b>	<b>1,2</b>	<b>0,8</b>	<b>1,1</b>	<b>1,0</b>	<b>0,5</b>	<b>0,5</b>	<b>0,8</b>	<b>0,2</b>	<b>1,3</b>	<b>1,8</b>	<b>1,0</b>	<b>0,5</b>
Net indirect taxes	0,1	0,2	0,3	0,3	0,4	0,1	0,2	0,9	0,2	0,4	0,3	0,0	0,4	0,4	0,3	0,1
Gross operating surplus	0,4	0,3	0,8	1,2	1,3	0,5	0,6	0,1	0,8	0,5	0,6	0,8	0,6	1,1	1,5	0,5
Final demand deflator	2,3	0,8	2,7	3,4	3,4	1,5	2,6	2,8	3,5	2,7	2,0	1,4	2,7	4,8	4,3	1,5
2008																
Import prices	3,4	0,4	1,0	1,6	0,9	0,9	1,6	1,7	0,7	1,4	1,8	0,9	1,5	1,7	1,4	1,2
Nominal unit labour costs	<b>1,3</b>	<b>0,8</b>	<b>2,1</b>	<b>2,3</b>	<b>1,4</b>	<b>1,2</b>	<b>1,9</b>	<b>1,0</b>	<b>1,4</b>	<b>0,9</b>	<b>1,2</b>	<b>1,1</b>	<b>1,5</b>	<b>2,8</b>	<b>1,2</b>	<b>2,4</b>
Net indirect taxes	-0,1	0,1	-0,8	0,0	-1,2	0,1	-0,4	0,6	-0,1	0,0	-0,2	0,1	-0,3	0,0	-0,5	0,0
Gross operating surplus	-0,2	0,2	-1,4	0,3	2,1	0,6	0,7	1,5	-0,7	0,4	0,6	0,4	0,0	-0,4	0,8	-0,5
Final demand deflator	4,3	1,5	0,8	4,1	3,2	2,8	3,8	4,8	1,4	2,7	3,4	2,4	2,8	4,0	2,9	3,1

Source: AMECO.

The contribution of unit labour costs to overall domestic inflationary pressures in 2008 still remained above historical levels (Table I.2.3). Pushed by the marked contraction in labour productivity and the delayed response in wages, the contribution of unit labour costs to the domestic final demand deflator has remained well above the average registered during 1999-2007 in all euro-area countries. However, with the deep downturn weakening firms' pricing power, there is virtually no risk that entrepreneurs will pass temporary increases in labour costs through to final demand prices, thus implying squeezing gross operating surplus, at least in the short term. Narrowing profit margins have prevailed in half of the euro area economies, namely, Belgium, Ireland, Greece, Luxembourg, Portugal, Slovenia, Slovakia and Finland.

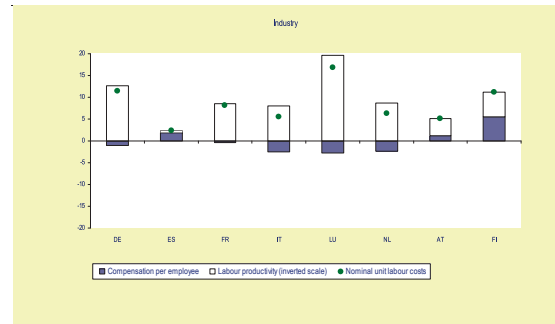
Real unit labour costs increased markedly in 2008 in many Member States as real production wages grew significantly above labour productivity (Table I.2.2). The gap between growth in real unit labour costs in 2008 against the average growth over the period 1999-2004 was at its highest in Ireland, Luxembourg, Slovenia, Finland, Slovakia and Greece. The rise in real unit labour costs is a relatively new phenomenon in euro-area countries. However, it is merely driven by temporary factors, i.e. the slowdown in labour productivity coupled with downward nominal wage rigidity in the short term, and thus cannot be expected to reverse the declining trend observed in labour shares in many European countries over the past three decades. Medium-term movements in real unit labour costs are to be explained by a combination of technological and institutional

factors (Box I.2.1), rather than cyclical labour market developments.

**A breakdown by sectors indicates that cost pressures were sharpest in the industrial sector.**

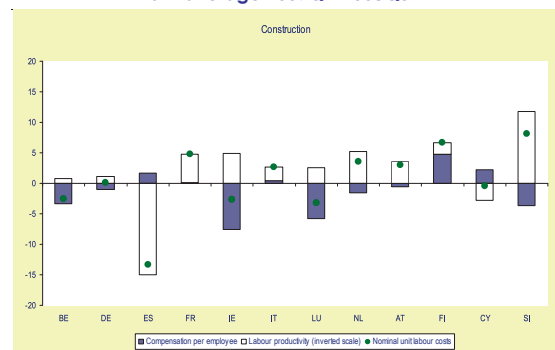
Graphs from I.2.4 to I.2.7 show the pp. deviation in 2008Q4 of compensation per employee, labour productivity and nominal unit labour costs from the average values over 2007Q1-2008Q3. Even though the crisis started in the financial sector, the contraction in activity and the ensuing slump in productivity have been most severe in manufacturing. Public measures adopted to keep workers in employment in the manufacturing sector have depressed labour productivity in the short term. By contrast, labour shedding in construction has resulted in higher productivity growth and relatively contained labour costs pressures in response to the crisis. Different forms of public support are indeed being put in place by EU countries to encourage businesses to use more flexible working time arrangements instead of making employees redundant. Typically, the State compensates for lost working hours through wage top-ups (directly to the employee or to the employer) and/or training (through funding or provision). Even if measures seem to be horizontal in nature, the most typical beneficiaries of those schemes can be found within the manufacturing sector, mainly linked to the automotive industry and its suppliers (e.g. in Austria, France, and Italy). Productivity increased in construction in Spain due to the effect of labour shedding, which implies a proportionally larger contraction in employment than in activity.

Graph I.2.4: **Compensation per employee, labour productivity and unit labour costs by sectors (Industry), selected euro-area Member States. Y-o-y % change, difference in 2008Q4 from average 2007Q2-2008Q3**



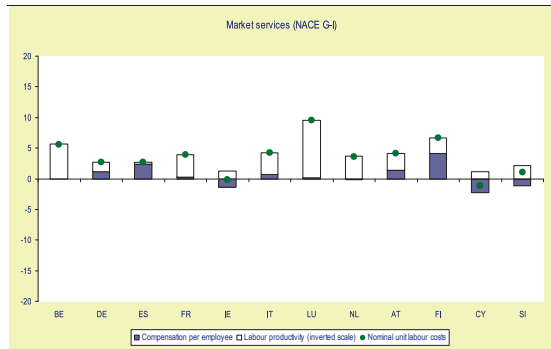
(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts.  
**Source:** Eurostat.

Graph I.2.5: **Compensation per employee, labour productivity and unit labour costs by sectors (Construction), selected euro-area Member States. Y-o-y % change, difference in 2008Q4 from average 2007Q2-2008Q3**



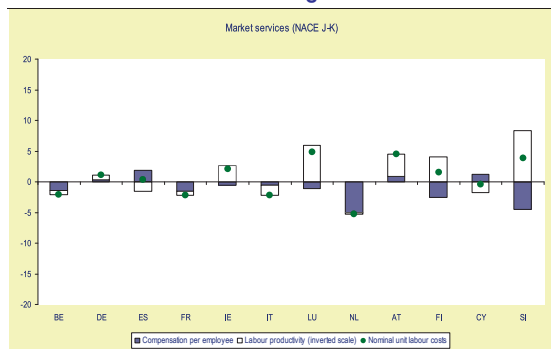
(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts.  
**Source:** Eurostat.

Graph I.2.6: **Compensation per employee, labour productivity and unit labour costs by sectors (Market services (G-I)), selected euro-area Member States. Y-o-y % change, difference in 2008Q4 from average 2007Q2-2008Q3**



(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts. NACE G-I includes Wholesale and Retail Trade, Hotels and Restaurants and Transport and Storage and Communication (I).  
**Source:** Eurostat.

Graph I.2.7: **Compensation per employee, labour productivity and unit labour costs by sectors (Market services (J-K)), selected euro-area Member States. Y-o-y % change, difference in 2008Q4 from average 2007Q2-2008Q3**

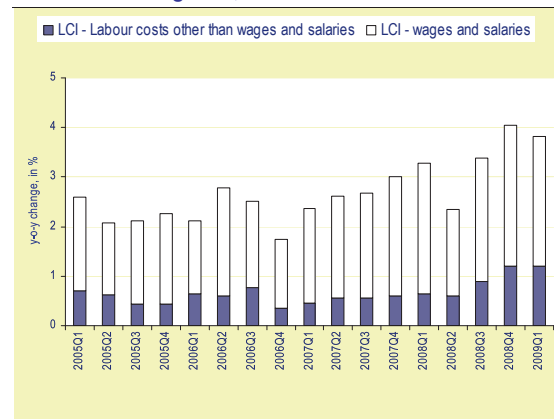


(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts. NACE J-K includes Finance, Insurance, Real Estate and Business Services.  
**Source:** Eurostat.

**Lowering labour costs for both employers and employees has gained relevance in the framework of the crisis.** As unemployment surges, the most disadvantaged labour-market groups – youth, low-skilled, immigrants and temporary workers – are the first to lose their jobs and, since they also face serious difficulties in finding a new job, they are at high risk of becoming long-term unemployed. Amongst the measures introduced over the last months by Member States to support the labour market and get the most vulnerable back into jobs is the

reduction in social security contributions (Belgium, France and Germany), especially for low-wage earners (e.g. Finland and Malta). Rebates on social security contributions to boost labour demand were typically made conditional upon job creation (Belgium, Spain, France, Portugal and Slovakia). Most of the recent measures undertaken appear to be temporary and contingent on the economic crisis. As such, they are intended to alleviate the weight of non-wage costs in overall labour costs. This is not yet reflected in the Labour Cost Index during the first quarter of 2009 (Graph I.2.8), where the contribution of costs other than wages and salaries has increased as compared with previous quarters, largely due to the higher costs of dismissals in the industrial and construction sectors. Box I.2.2 below discusses the theoretical concept and the evolution of the tax wedge on labour and further quantifies the macroeconomic impact of labour tax reductions in the euro area using DG ECFIN's QUESTIII model.

Graph I.2.8: **Contribution of wage and non-wage costs to LCI growth, euro area**

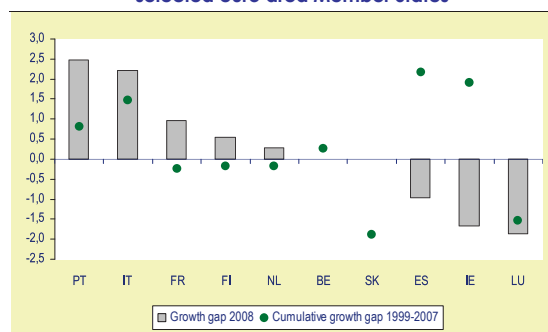


**Source:** Eurostat data and European Commission's staff calculations.

**Although wage behaviour in the public sector was heterogeneous across euro-area countries in 2008, moderation in public wages is foreseen which will orient pay practices in the private sector.** Graph I.2.9 shows that, on average, the annual growth gap between public and private compensation per employee during 1999-2007 was highest in Spain, Ireland, Italy and Portugal. Apart from Ireland, these are also the countries with strong representation of the public administration in collective bargaining. In 2008, a growth in public wages stronger than in private wages

continued in Italy and Portugal but was reverted substantially in Ireland and Spain, i.e. the two countries most adversely affected by the economic crisis. In Ireland, the 7.5% cut in public-sector pay that came into force in May was mostly a response to the fiscal crisis, but also advocated a remedy for lost competitiveness. With a view to rationalising pay of public sector employees, the Irish Public Service Benchmarking Body, which was established five years ago to compare pay and conditions between the public and private sectors, had previously recommended in a report issued in early 2008 that public wages should reflect pay practices in the private sector "at a time when the economy is facing more uncertainty and employment growth is slowing". In Italy, a program of reform for public sector employment presented in June 2008 advised the remuneration system to rely more on productivity rather than seniority. Looking further ahead, pay related measures in the public sector aimed at stabilizing public finances can be expected to narrow the gap between public and private wages over 2009-2010 in euro area countries.

Graph I.2.9: **Growth gap between compensation per employee in public and private sectors, selected euro area Member States**



Source: OECD Economic outlook database.



**Box 1.2.1: Understanding Labour Income Share Dynamics in Europe**

The empirical evidence shows that over the past three decades labour shares have declined in many European countries. Building on previous literature in this field, most importantly Bentolila and Saint-Paul (2003), Arpaia et al. (2009) identify the technological and institutional factors underlying labour share movements through a micro-founded model. The main novelty of the model is the adoption of a CES production function with capital and labour heterogeneity coupled with the assumption of capital-skill complementarity, i.e. the fact that capital is complementary to skilled labour but highly substitutive to unskilled labour. The production function is given by:

$$(1) Y = \left[ \alpha \left( a(AK)^{\frac{\eta-1}{\sigma}} + (1-a)(B_s L_s)^{\frac{\eta-1}{\sigma}} \right)^{\frac{\sigma}{\sigma-1}} + (1-\alpha)(B_u L_u)^{\frac{\sigma-1}{\sigma}} \right]^{\frac{\sigma-1}{\sigma}}$$

where Y is output and K, L<sub>s</sub>, L<sub>u</sub> stand for physical capital, skilled and unskilled labour. A production function like (1) is characterized by three kinds of parameters: distribution parameters *a* and  $\alpha$ , efficiency parameters *A*, *B<sub>s</sub>* and *B<sub>u</sub>* (which represent technical progress specific to each input) and substitution parameters  $\eta$  and  $\sigma$ , respectively the elasticity of substitution between physical capital and skilled labour and the elasticity of substitution between the composite input and unskilled labour. It is assumed that  $0 < \eta < \sigma < \infty$ . This implies relatively higher complementarity (or less substitution) between capital and skilled labour than between the capital-skill aggregate and unskilled labour.

On an accountancy basis, the share of labour in total income can be expressed as a function of the unskilled workers' labour share, the skill premium and the relative supply of skilled labour, i.e.

$$(2) LS = \frac{w_u L_u}{Y} \left( 1 + \frac{w_s}{w_u} \frac{L_s}{L_u} \right). \quad \text{Algebra implies that } \frac{w_u L_u}{Y} = f \left( \frac{AK}{B_u L_u}, \frac{B_s L_s}{B_u L_u} \right) \quad \text{and that}$$

$$\frac{w_s}{w_u} = f \left( \frac{AK}{B_u L_u}, \frac{AK}{B_s L_s}, \frac{B_s L_s}{B_u L_u} \right), \quad \text{meaning that the labour share can be expressed as a sole function of}$$

relative factor quantities. As explained below, comparative static results crucially depend on the specific values of the elasticities of substitution ( $\eta$  and  $\sigma$ ).

Equation (2) is calibrated to fit labour share movements in nine EU15 Member States over the period 1970-2004 (see Graph below). Leaving aside country-specific features, there seems to be a common story to the observed downward trend in the labour share. Given the characteristics of the production function, the various channels through which the labour share is pulled down by technological forces over the medium term are as follows:

- With capital-skill complementarity ( $\sigma > \eta$ ), capital-augmenting technical progress (a plausible assumption for technical progress over the medium run) pushes the labour share downwards.
- With high substitution between skilled and unskilled labour ( $\sigma > 1$ ), the labour share responds negatively to the historical increase in the relative supply of skilled labour. Intuitively, an increase in the relative supply of skilled labour creates an excess of supply of qualified workers and a reduction in their relative wage. The higher  $\sigma$ , the more unskilled workers will be replaced by skilled labour in production and the sharper the fall in the unskilled workers' share of income. Compared with the initial state of the economy, the relative demand for skilled workers will be higher, and both the labour share of the unskilled and the wage premium will be lower. If  $\sigma > 1$ , the overall effect on the labour share will be negative.

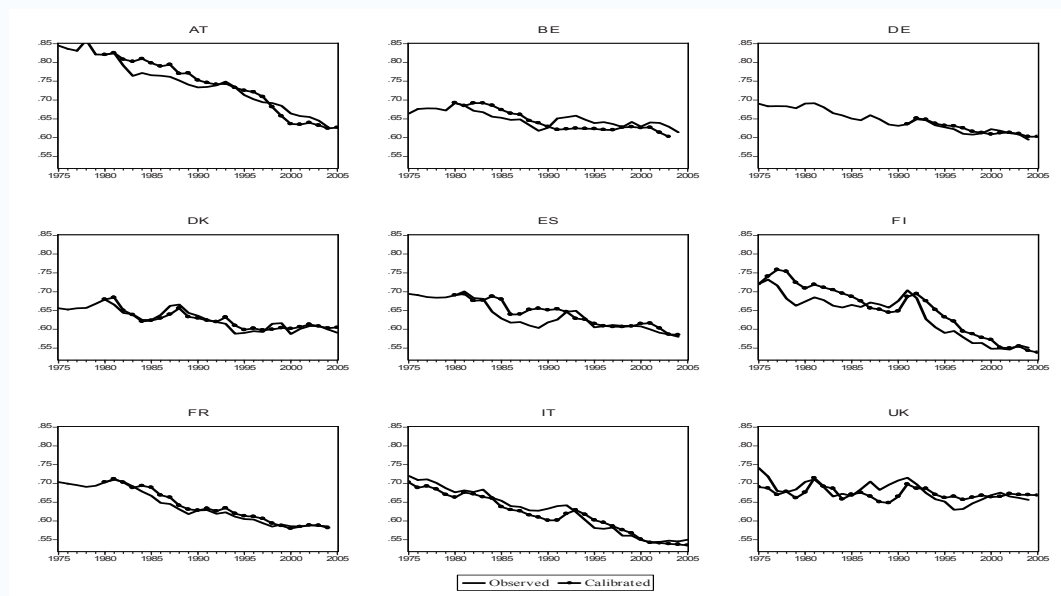
*(Continued on the next page)*

Box (continued)

- With high substitution between capital and unskilled labour ( $\sigma > 1$ ), the labour share responds negatively to the historical increase in the capital to unskilled labour ratio. This is because an increase in the capital to unskilled labour ratio creates an excess of supply of capital and a reduction of its price in terms of unskilled labour. The substitution in production of capital for unskilled labour implies a reduction in the unskilled share in total income (increasing with  $\sigma$ ). With capital-skill complementarity, the relative demand for skilled workers rises, which increases the wage premium. In the new equilibrium, both the relative demand for qualified labour and its relative price will be higher, while the labour income share of the unskilled will be lower. If  $\sigma > 1$ , the latter effect predominates and the labour share will decrease following a positive shock to capital.
- With  $\eta > 0$  the labour share responds negatively to the historical fall in the capital to skilled labour ratio. This is because with capital-skill complementarity, a reduction in equipment per skilled worker reduces the relative demand of qualified labour, thus leading to a reduction in the wage premium (decreasing with  $\eta$ ). In the new equilibrium, the income share of unskilled labour will remain unchanged while a smaller number of skilled workers will be employed at a lower wage. Thus, the share of income accruing to labour will be lower.

Overall, the calibration exercise suggests that most of the decline in labour shares over the medium term in nine EU15 Member States is governed by capital deepening in conjunction with capital-augmenting technical progress and labour substitution across labour skill categories. Although institutional factors also play a significant role, they appear to be of somewhat less importance.

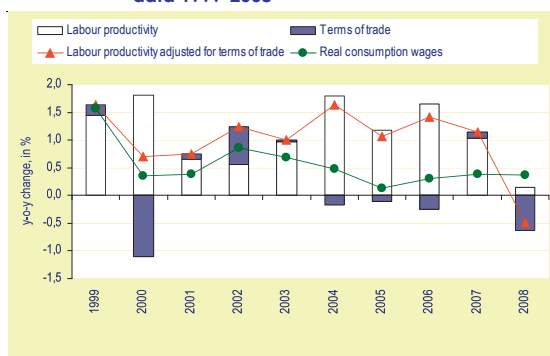
#### Observed and calibrated labour shares in selected EU15 Member States



(1) Calibration on the basis of EU KLEMS data, 1970-2004.

**Source:** Commission services.

Graph I.2.10: **Real consumption wages and terms-of-trade adjusted labour productivity, EA16. Annual data 1999-2008**



Source: AMECO and European Commission's staff calculations.

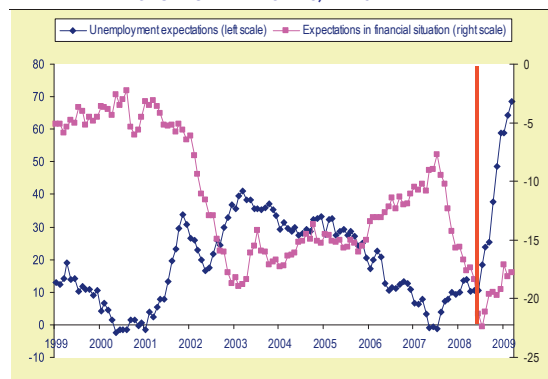
**Prompt action taken by most Member States to support people's income should support consumption despite the stagnation in real wages.** Real wages deflated by the consumption price deflator grew at the modest rate of 0.36% in the euro area in 2008, which nevertheless implied real consumption wages growing well above labour productivity adjusted for the terms of trade<sup>(27)</sup> for the first time since 1999 (Graph I.2.10). This should not be seen as inadequate wage behaviour. Indeed, there is no reason why real wages should absorb the severe slump in labour productivity registered in 2008, to the extent that this is due to short-lived economic developments –i.e. labour hoarding. Together with the deterioration in employment, the slow growth in real wages raises concerns as long as it could severely depress consumer spending, not only on account of the effective liquidity constraints currently at work but more importantly due to the downward revision of the permanent income expected by consumers, negative wealth effects<sup>(28)</sup> and the accumulation of higher precautionary savings in the face of uncertainty. However, aggregate consumption has remained relatively resilient as yet. Besides a limited increase in unemployment so far, this could be an indication of a favourable consumer response to lower inflation together with improved households' confidence on recovery packages and social protection nets that have started to play their role

<sup>(27)</sup> Over the long term, labour productivity adjusted for the terms of trade defines an upper limit for real consumption wages.

<sup>(28)</sup> Those countries suffering a real estate crisis face substantially lower consumption growth due to important wealth effects.

as automatic stabilisers. The recent data imply the decoupling of households' financial expectations from unemployment prospects since mid-2008 (Graph I.2.11). Many EU countries have indeed introduced a wealth of measures to support the labour market and mitigate the impact of the downturn on vulnerable groups. Measures range from increasing the level of minimum income or minimum wage, extending the coverage or duration of unemployment benefits, reinforcing other social benefits (i.e. housing or family allowances), to introducing tax rebates or exemptions for specific groups, measures against over-indebtedness or repossession, and incentives for banks to give access to credit to individuals, including people of low income.

Graph I.2.11: **Unemployment and financial expectations over next 12 months, EA16**



(1) The corresponding questions in the consumer survey read as follows: "How do you expect the number of people unemployed in this country to change over the next 12 months?" and "How do you expect the financial position of your household to change over the next 12 months?" The answer scheme is qualitative according to a five-option ordinal scale. Aggregate balances are calculated as the difference between positive and negative answering options, measured as percentage points of total answers. Balance values range from -100, when all respondents choose the most negative option, to +100, when all respondents choose the most positive option.

Source: EU consumer survey.

### Box 1.2.2: The evolution of the tax wedge of labour

Taxes and social security contributions drive a wedge between the cost for the employer and the net compensation received by the employee. The resulting effects on labour market outcomes have been extensively studied. See Pissarides (1998) and Bovenberg (2006) for useful summaries, and Nickell (2006) and Arpaia and Carone (2004) for empirical evidence.

From a theoretical perspective, different predictions have been derived depending on the specific assumptions regarding the functioning of the labour market, e.g. whether the labour market is a neoclassical one, or collective bargaining dominates or whether search and matching frictions are modelled or not. At the individual level, taxes can increase or decrease labour supply, depending on whether the income or substitution effect dominates. Empirical evidence tends to find a negative impact of labour taxes on labour supply, albeit with different magnitude for different groups of workers. In particular, the effect seems largest for the second member of the household and for single parents. In parallel to the disincentive effects of taxes on labour supply, taxes and social security contributions, to the extent they are reflected in higher labour costs, will also decrease labour demand for any given state of technology, thereby reducing employment and output levels.

The tax burden on labour is typically measured by the tax wedge on labour which measures the difference between the gross labour costs an employer has to pay and what the worker receives after taxes and social security contributions. This wedge can be calculated either on an average basis or with respect to the marginal Euro earned. The table below provides an overview of the average tax wedge (at 67% and 100% of the average wage of a single worker without children).

The tax wedge is composed of several elements. First, employers have to pay payroll taxes and/or employers' social security contributions. Second, employees have to pay social security contributions on their wage income received. Social security contributions (whether paid by the employer or employee) often give rights to individual benefits. Therefore, only to the extent to which the link between contributions and benefits in such social insurance schemes is not perceived as actuarially fair, the contributions actually constitute a tax. Finally, labour income is subject to the personal income tax. These different taxes and social security contributions constitute the different components of labour taxation, and they can be summed up to give the aggregate tax wedge due to labour taxes.

It should be noted, however, that the tax wedges as reported here underestimates the full tax burden on labour. Taxes on consumption, such as value added taxes also reduce the real value of wage payments, so should also be included in the tax burden on labour. However, due to the differentiated nature of consumption taxes, in particular due to differentiated rates and additional excises, the impact of these taxes on the real consumption wage depends on the actual consumption basket and is therefore difficult to quantify. Moreover, other taxes can also be implicit forms of labour taxation to the extent the incidence falls on labour, no matter how such taxes are classified. This can be the case for environmental or capital income taxation whose incidence may ultimately be shifted onto labour. With this caveat regarding the potential incompleteness of tax wedges as a measure of the tax burden on labour in mind, the evolution of tax wedges can be assessed to gauge the changes in the tax burden on labour over time.

Such measured tax wedges on labour remain high in most EU countries. This situation contrasts with that of non-EU OECD countries, where the total tax wedge is substantially lower on average. However, some European governments have been able to reduce the tax wedge over recent years. This has been the case for average and low income workers alike (see table below) and particularly in Ireland and in the Nordic countries Denmark, Sweden and Finland. On the other hand, some countries have substantially increased their tax wedge over the same period, such as Greece, the UK and Austria.

Given the importance of labour taxation for government revenues, reductions and increases in the tax wedge typically take place gradually over time. This is also evident from the table that shows little change on a year-over-year basis for individual countries. However, as the evidence of table indicates, continued small

*(Continued on the next page)*

Box (continued)

improvements add up over time and can result in a substantial relief or substantial additional burden within a few years. Exceptions to the gradual change in the tax burden on labour are changes in the tax wedge as a consequence of major tax reforms. Slovakia's reduction in the tax wedge, which is the biggest in the EU over the period 2001-2007 can be mostly attributed to the change from 2004 to 2005. Finally, a closer look at the components of the tax wedge reveals that most changes in the total tax wedge are driven by changes in income taxes. This holds for increases as well as decreases of the wedge.

Several Member States took measures to improve the incentives to work embedded in their tax system in 2008, providing simultaneously a welcome push in purchasing power during a period of falling demand, as well as a positive contribution to longer term labour supply and a boost to labour demand. Effective income tax rates have been significantly reduced in some Member States (Austria, Germany, France, Sweden and Finland) sometimes as part of longer-term structural policy agenda's. Other countries have made more modest changes to tax brackets or other parametric changes (Spain, Malta and Latvia). Rebates on social security contributions for employers were introduced in several countries (Belgium, Spain, Finland, France, Hungary, Portugal, Sweden, Germany, Bulgaria and Slovakia), sometimes specifically for SMEs (France and Portugal). Other Member States have partly suspended (Denmark) or cut employee contributions (the Czech Republic, Germany and the Netherlands). Both tax and benefit measures were often targeted to those most difficult to employ, low income workers, or to the self-employed (Slovenia and Slovakia). Other measures included reinforcement of in-work tax credits (Belgium, the Netherlands, Sweden and Slovakia) and commuters' tax allowances (Austria and Germany) and a few measures to support female labour market participation (the Czech Republic, Greece, Malta and the Netherlands). A detailed stocktaking of important measures adopted in Member States in 2008 can be found in Section 6.2 *Reviewing the incentives to work embedded in the tax system*, in Carone et al. (2008): "Recent reforms in the tax and benefit systems in the framework of flexicurity". European Commission, Occasional papers 43, March 2009.

#### Total tax wedge on labour (including employers' social security contributions)

	Total tax wedge (average rate, including employers' SSC), single person without children, 100% of AE									Total tax wedge (average rate incl. employers' SSC), single person without children, 67% of AE								
	2001	2002	2003	2004	2005	2006	2007	2008	Change 2001-08	2001	2002	2003	2004	2005	2006	2007	2008	Change 2001-08
Austria	46,9	47,1	47,4	48,1	47,9	48,1	48,5	48,9	2,0	42,9	43,1	43,5	43,9	43,1	43,5	44,1	44,5	1,6
Belgium	56,7	56,3	55,7	55,4	55,4	55,4	55,5	55,9	-0,8	50,7	50,5	49,6	48,9	49,2	49,1	49,6	50,2	-0,5
Bulgaria	40,4	39,6	39,0	38,9	38,9	35,4	36,5	n.a.	n.a.	35,9	35,2	35,0	34,9	35,3	31,1	32,3	n.a.	n.a.
Cyprus	20,9	17,3	18,5	18,6	13,6	14,1	13,9	n.a.	n.a.	17,0	17,2	18,5	18,6	11,9	11,9	11,9	n.a.	n.a.
Czech Republic	42,6	42,9	43,2	43,5	43,8	42,6	42,9	43,5	0,9	41,3	41,5	41,7	41,9	42,1	40,1	40,5	40,1	-1,2
Denmark	43,6	42,6	42,6	41,3	41,4	41,3	41,3	41,2	-2,4	40,5	39,8	39,8	39,3	39,3	39,3	39,3	39,0	-1,5
Estonia	39,7	42,2	42,5	41,4	41,6	40,2	40,1	n.a.	n.a.	37,4	40,2	40,7	38,9	39,8	38,4	38,7	n.a.	n.a.
Finland	46,4	45,9	45,0	44,5	44,6	44,1	43,7	43,5	-2,9	41,4	40,9	40,0	39,4	39,5	38,9	38,2	38,2	-3,2
France	49,8	49,8	49,8	49,9	50,1	50,2	49,2	49,3	-0,5	47,6	47,4	45,0	42,4	41,8	44,5	44,4	44,5	-3,1
Germany	53,0	53,5	54,2	53,2	52,4	52,5	52,2	52,0	-1,0	47,7	48,1	48,8	47,8	47,3	47,4	47,4	47,3	-0,4
Greece	38,1	37,7	37,7	39,5	40,4	41,2	42,3	42,5	4,4	35,1	34,3	34,4	34,9	34,8	35,4	36,7	37,7	2,6
Hungary	54,0	53,7	50,8	51,8	50,5	51,0	54,4	53,9	-0,1	48,1	48,2	44,5	44,8	42,9	42,9	45,9	46,6	-1,5
Ireland	25,8	24,5	24,2	25,0	23,5	23,1	22,3	22,7	-3,1	17,3	16,7	16,2	20,0	16,8	16,3	15,0	15,7	-1,6
Italy	46,0	46,0	45,0	45,4	45,4	45,2	45,9	46,5	0,5	42,7	42,7	41,1	41,4	41,7	41,5	42,0	43,0	0,3
Latvia	42,7	42,9	42,2	42,5	42,2	42,9	42,4	n.a.	n.a.	41,2	41,4	40,8	41,2	40,9	41,8	41,1	n.a.	n.a.
Lithuania	45,2	44,6	43,4	43,7	44,4	46,3	43,0	n.a.	n.a.	42,2	41,2	39,5	40,0	41,0	43,9	41,3	n.a.	n.a.
Luxembourg	37,0	34,2	34,7	35,1	35,9	36,5	37,5	37,2	0,2	31,2	29,0	29,3	29,6	30,2	30,6	31,4	31,2	0,0
Malta	23,4	24,1	23,3	23,6	23,9	24,5	23,6	n.a.	n.a.	17,0	17,7	17,4	17,6	17,8	18,4	18,6	n.a.	n.a.
Netherlands	37,2	37,4	37,1	38,8	38,9	44,4	44,0	44,8	7,6	38,9	39,1	40,0	40,8	41,6	40,6	40,2	41,4	2,5
Poland	42,9	42,9	43,1	43,3	43,6	43,7	42,8	39,8	-3,1	41,8	41,7	41,9	42,2	42,4	42,5	41,6	38,7	-3,1
Portugal	36,4	36,6	36,8	36,8	36,3	36,3	37,4	37,4	1,0	32,2	32,3	32,4	32,4	31,8	31,7	32,6	32,6	0,4
Romania	47,9	47,3	46,2	45,8	44,0	43,7	43,4	n.a.	n.a.	45,2	44,6	43,4	42,9	42,4	42,2	41,8	n.a.	n.a.
Slovak Republic	42,8	42,5	42,9	42,5	38,3	38,5	38,5	38,9	-3,9	41,3	40,8	40,9	39,6	35,3	35,6	35,6	36,1	-5,2
Slovenia	42,3	42,5	42,5	42,6	42,4	44,0	n.a.	n.a.	n.a.	41,0	41,1	41,1	41,1	39,4	39,8	n.a.	n.a.	n.a.
Spain	38,8	39,1	38,5	38,7	38,9	39,1	38,9	37,8	-1,0	35,3	35,7	34,7	35,2	35,5	35,9	35,6	33,8	-1,5
Sweden	49,1	47,8	48,2	48,4	47,9	47,9	45,4	44,8	-4,3	47,8	46,8	47,0	47,1	46,5	46,0	43,3	42,5	-5,3
United Kingdom	31,8	31,9	33,3	33,4	33,5	33,9	34,1	33,0	1,2	28,0	28,1	29,6	29,7	29,9	30,4	30,8	30,0	2,0
EU-27	44,9	45,0	45,4	45,2	44,9	45,1	44,8	n.a.	n.a.	41,3	41,4	41,3	40,7	40,4	40,7	40,6	n.a.	n.a.

Source: OECD and Eurostat, Change 2000-08 in percentage points, 2008 provisional values, AE: Average earnings

### Box 1.2.3: An assessment of labour tax reductions in the euro area: simulation results

Amongst the measures introduced over the last months by Member States to support the labour market is the reduction in social security contributions. This section provides a quantitative assessment of the macroeconomic impact of labour tax reductions in the euro area using the R&D extended version of DG ECFIN's QUESTIII model.<sup>(1)</sup> Two alternative scenarios for the reduction of labour taxes in the euro area are presented, one with a 1 pp. tax-cut for the low-skilled workers only and another one with a 1 pp. tax-cut on wages for all skill-groups. Each of these two scenarios is investigated for the case that only a small or a large euro area country introduces these tax-cut measures respectively (Belgium and Germany are taken as representative countries for the exercise<sup>(2)</sup>) and also for the case when all euro area countries cut taxes on wages at the same time.

For the current exercise the individual country models of the euro area members were linked into a joint 17-region model with the corresponding trade linkages in order to capture the potential spillover effects.<sup>(3)</sup> The model distinguishes three types of labour services, low-, medium- and high-skilled, and two types of households: liquidity-constrained and non-liquidity-constrained households. The liquidity-constrained households can offer only low-skilled labour services, while the non-liquidity constrained households offer medium and high-skilled labour. The simulated scenario allows for an increase in the budgetary deficit over the first ten years of the shocks. After this period a compensatory financing comes into effect via lump-sum taxation which is equivalent to transfer-cuts in our models. Benefits are indexed to wages and consumer prices in all scenarios and the benefit replacement rate is kept at 40%.<sup>(4)</sup> The euro area countries do not have independent monetary policies; the common interest rates follow a standard Taylor-rule which responds to the euro-area wide inflation and output-gap movements.

The simulation results with respect to the long-term GDP gain are summarized in Table 1 and depicted in Graph 1. The model predicts that a permanent cut in wage taxes has positive employment and GDP effects in all scenarios. The reduction in labour taxes lowers wage costs, reduces prices and boosts exports. The short-run increase in employment leads to an increase in the capital stock in the long term. The size of the effects depends on the country specific characteristics, but also on whether a country acts in isolation or jointly with other member states. These results also suggest that there are some positive spillover effects from a euro-area wide tax-cut in both scenarios. The simulation results show that, after 20 years, a 1 p.p. tax-cut on low-skilled wages leads to a GDP level gain of 0.18 to 0.23% for the representative small euro area country and 0.09 to 0.10% for the representative large euro area country depending on whether the tax-cut was introduced in a single country only or across the euro area. In case of an overall tax-cut across all skill-groups the GDP gain is 0.43 to 0.56% for the representative small euro area country and 0.44 to 0.45% for the large euro area country after 20 years.

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(1) See Ratto, M., W. Roeger and J. in't Veld (2008): "QUESTIII: an estimated DSGE model of the euro area with fiscal and monetary policy", European Economy, Economic Papers No. 335.

(2) As discussed in the Section 2.1 Belgium and Germany have actually undertaken temporary cuts in social security contributions to soften the impact of the crisis on employment. The analysis in this section nevertheless assumes that the reforms are of a permanent nature.

(3) This version of the model includes the 16 euro-area countries and the rest of the world (RoW).

(4) This is an average economy-wide replacement rate, set as the ratio of total benefits to total gross wage costs. Changing the level would not significantly change simulation results.

*(Continued on the next page)*

Box (continued)

**Table 1:**

<b>Long-run and GDP employment rate gains from 1 pp. labour-tax cuts</b>						
	<b>1 pp. tax-cut on low skilled wages</b>			<b>1 pp. tax-cut for all skill-groups</b>		
	<b>Single country</b>	<b>All EA countries</b>	<b>Size of the shock (%GDP)</b>	<b>Single country</b>	<b>All EA countries</b>	<b>Size of the shock (%GDP)</b>
<b>GDP</b>						
Belgium	0.18	0.23	0.15	0.43	0.56	0.63
Germany	0.09	0.1	0.07	0.44	0.45	0.59
<b>Employment</b>						
Belgium	0.24	0.25		0.54	0.57	
Germany	0.1	0.1		0.44	0.44	

The main findings emerging from these simulation results are as follows:

- The spillovers can be especially strong for smaller, more open economies. If only a single country (Belgium or Germany) undertakes the reform, this country could benefit by making competitiveness gains relative to the trading partners. This effect is less powerful for large countries, which experience smaller foreign demand effects in the short run and suffer from a terms-of-trade loss in the long run.
- It should be emphasized that the macroeconomic impact of the shocks depends on the country-specific details, most crucially, on the size of the low-skilled labour share. Belgium has a share of low-skilled households of 35% vs. 16% in Germany. The higher GDP effect of the first scenario in case of Belgium (0.18 or 0.23% vs. Germany's 0.09 or 0.10% medium-run GDP gain from low-skilled tax-cuts) is related to the low-skilled labour share and not to the size of the country. This can be seen from the magnitude of the shocks expressed in terms of GDP (see Table 1 in this box). The targeted tax-reduction on low-skilled wages amounts to 0.15% of GDP in Belgium compared to 0.07% in Germany.
- The across-the-board tax cuts over all labour categories are similar in the single-country scenarios, but the smaller euro area country again benefits from the positive spillovers when all countries cut taxes at the same time.

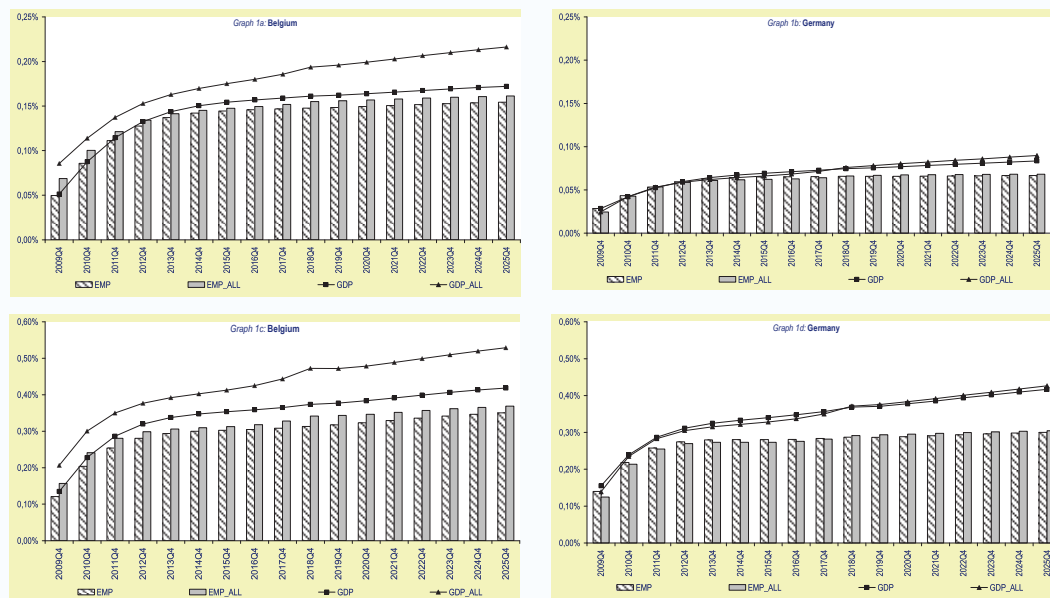
It should be noted that the findings of this simulation are in line with the literature on international spillovers of labour and product market reforms.<sup>(1)</sup> For instance, Dao (2008) finds that labour market reforms in Germany, including reforms in the area of labour taxation, have positive spillover effects on the rest of the euro area, which operate through the channel of trade, relative price adjustment, and financial market integration. Interestingly, compared to a competitive labour market, unionization dampens the positive response of the domestic economy and magnifies the spillover effects on the rest of the euro area. This literature tends to support the view that carrying out reforms simultaneously allows all countries in the monetary union to internalize these positive externalities.

<sup>(1)</sup> See, for instance, Bertola, G. (2006), "Social and Labor Market Policies in a Growing EU" Swedish Economic Policy Review 13:1 (Spring 2006), pp.189-232, Bertola, G. (2007), "The economics and politics of social policy in Europe's EMU", Mimeo, Coenen, G., P. McAdam and R. Straub (2007), "Tax Reform and Labour-Market Performance in the Euro Area: A Simulation-Based Analysis Using the New Area-Wide Model", Journal of Economic Dynamics & Control, forthcoming, and Dao, M. (2008), "International Spillover of Labour Market Reforms", IMF Working Paper, WP/08/113.

(Continued on the next page)

Box (continued)

**Graph 1: GDP and employment effects under low-skilled (upper graphs) and overall (lower graphs) tax cuts**



Source: Commission services.

## 2.1.2. THE NEAR-TERM OUTLOOK FOR LABOUR COST DEVELOPMENTS

**For the euro area as a whole, labour costs pressures are expected to dissipate in line with the weakness in employment developments, the steep rise in the unemployment rate, low inflation expectations and the general deterioration of confidence.** According to the European Commission's Spring economic forecast,<sup>(29)</sup> the increased deterioration in firms' demand outlook will lead to reduced labour hoarding in the course of 2009, where the contraction in employment is set to accelerate to around 2½% on the back of weakening economic activity. A further contraction of 1½% is forecast for 2010. This will clearly have a strong knock-on effect on unemployment which, on unchanged policies and labour market behaviour, is expected to reach double digits (11½%) by 2010. For the euro area, this is a level not seen in several decades

– even during the highs of the mid-1990s. The unemployment rate is expected to rise above the structural rate (NAWRU, i.e. the non-accelerating wage rate of unemployment) despite the marked increase in the latter.<sup>(30)</sup> The recent fall in inflation expectations should also push down wage claims in the euro area over 2009-2010. Weak economic activity and the increasing unemployment rate more than offset the effect of potential increases in commodity prices or exchange rate movements on inflation expectations. Households' expectations of inflation one year ahead have fallen more sharply than their perceptions of current inflation (Graph I.2.12). This divergence may suggest households are

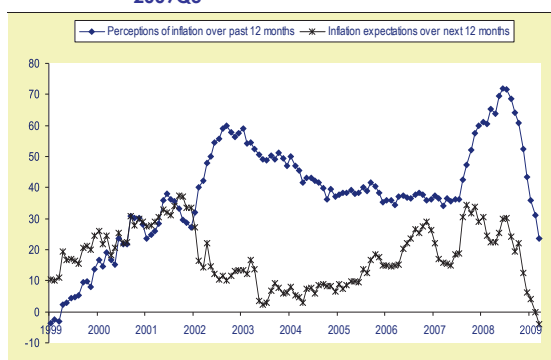
<sup>(29)</sup> European Commission (2009): "Economic forecast. Spring 2009", European Economy 3/2009.

<sup>(30)</sup> The very strong increase in the NAWRU, along with a sharp decline in capital accumulation, is behind the downward revision in the potential GDP growth following the financial crisis. For a review of the long lasting effects on output of financial crisis and the stylised facts of the contribution of productivity and input factors to potential growth in the aftermath of the concrete crisis see Cerra, V. and Saxena, S.C., (2008), "Growth Dynamics: The Myth of Economic Recovery." American Economic Review, 98(1): 439–57.



considering future economic developments when forming their expectations, rather than simply extrapolating forwards their perceptions of current inflation. As the unemployment gap<sup>(31)</sup> widens and gloomy prospects for the general economic situation materialise, nominal wage pressures should ease (to slightly below 2% in 2009 and 1½% in 2010), though nominal compensation per employee is still expected to remain positive by a wide margin, partly reflecting the multiannual agreements of earlier years and the effects of downward nominal wage flexibility. Labour productivity is expected to fall back behind trend in 2009 with a marked rebound in 2010. Together with the outlook for wages, unit labour costs should slightly accelerate in 2009 before returning to zero growth in 2010 (Graph I.2.13).

Graph I.2.12: **Inflation perceptions and inflation expectations, EA16. Monthly data, 1999Q1-2009Q3**



(1) The corresponding questions in the consumer survey read as follows: "How do you think that consumer prices have developed over the last 12 months?" and "By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months?" The answer scheme is qualitative according to a five-option ordinal scale. Aggregate balances are calculated as the difference between positive and negative answering options, measured as percentage points of total answers. Balance values range from -100, when all respondents choose the most negative option, to +100, when all respondents choose the most positive option.

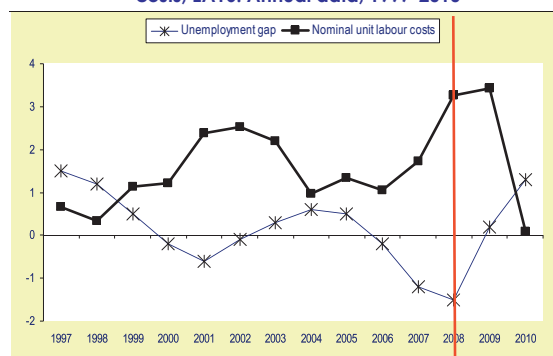
Source: EU Consumer Survey.

**Wage increases are expected to decelerate strongly in the majority of euro area countries over 2009-2010.** The acceleration in compensation per employee that took pace in 2008 will be followed by a moderation in nominal wage growth in the majority of Member States over the forecast period, with growth turning negative in 2009 in two Member States, i.e. Ireland and Portugal. New pay agreements signed in the metalworking industry in Germany in late 2008, which will be adopted as a pilot agreement in subsequent bargaining negotiations, provide for wage increases covering the period 2009-2010 well below the original pay demand of 8%. In Ireland, the national pay agreement ratified in November 2008 by the government and the social partners, initially allowed for a 6% pay increase over 21 months in all economic sectors. However, in order to stabilize public finances, the Irish government has unilaterally decided to freeze all pay rises due to public servants until at least the end of 2010, while private sector employers are seeking a formal deferral of all pay rises for at least 12 months. Pay related measures in the public sector as well as downward wage flexibility in the private sector in the current circumstances suggest a wage decline of 4.1% in 2009. In Portugal, the wage bargaining round in the public sector in December 2008 resulted in a 2.9% pay rise for 2009, which the trade unions considered insufficient to compensate for the decline in purchasing power of public sector employees. Overall, wages are expected to fall by 0.6% in 2009. Another country where public wages have been revised downwards is Slovenia, where in late February the government and the representatives of 23 public sector trade unions signed an austerity pay deal for the period 2009–2010 which involves a reduction in wage growth for 2009 from 9.9% to 7.1%. In the Netherlands and Finland, despite the economic crisis, wage growth in 2009 is nevertheless expected to remain resilient, as collective agreements were signed at a time of strong economic growth assumptions and high inflation expectations. The cabinet's crisis package approved in May 2009 engages the Dutch government in refraining from tampering with existing collective agreements, which, according to social partners, should ensure wage increases stay relatively in line with inflation, thereby maintaining spending power. Social partners in Finland are anticipating wage moderation for the near future. Employers have already stressed that

<sup>(31)</sup> The unemployment gap is computed as the difference between the observed rate of unemployment rate and the equilibrium rate of unemployment or NAWRU, available from the AMECO database. For a detailed description of the methodology followed by the European Commission in calculating the NAWRU, see Denis, C., D. Grenouilleau, K. Mc Morrow and W. Röger (2006): "Calculating potential growth rates and output gaps - A revised production function approach", European Economy, Economic papers, 247.

pay increases are not possible in the upcoming bargaining round, scheduled for spring 2010. The Finnish trade unions also agree that moderate pay increases would support workers' purchasing power and ensure economic recovery in the long term. In the same vein, sectoral agreements adopted in Cyprus and Malta before the downturn and wage indexation should contribute to a sustained wage growth in the current year, both in the public and private sectors. For 2010, further employment losses, rising unemployment and declining company profits should put downward pressure on wages in all euro area countries.

Graph I.2.13: **Unemployment gap and nominal unit labour costs, EA16. Annual data, 1997-2010**



(1) The unemployment gap is calculated as the difference between the observed rate of unemployment and the equilibrium rate of unemployment or NAWRU. Nominal unit labour costs are expressed in growth rates. All variables are taken from the AMECO database.

Source: AMECO.

**Unit labour costs are foreseen to continue increasing steadily in 2009 and to remain relatively muted in 2010 in most euro area countries.** As employment reacts only with a lag to the economic downturn, labour productivity growth should decrease sharply in 2009 before recovering in 2010. A remarkable exception to this general rule is Spain, where indiscriminate labour shedding which began in 2008 is further expected to gain momentum over the forecast period, therefore pushing up labour productivity growth due to purely cyclical factors. Given the stable and relatively subdued nominal compensation growth in 2009 and 2010, unit labour costs are set to continue increasing quite steadily in 2009. This is expected to be reversed in 2010, when unit labour costs are forecast to be moderate or turn negative in 2010 in almost all euro area countries. On average, over 2009-2010 the largest contraction in unit labour costs will be registered in Ireland,

followed by the low, albeit positive, growth rates of Spain and Slovenia. It is worth noting that unit labour costs are projected to go some way in closing their existing divergence between EMU Member States. In particular, Germany is forecast to experience growth in unit labour costs above the euro-area average. Conversely, Ireland and Spain are expected to see slower growth in unit labour costs than in the rest of the euro area in 2009-2010.

**Risks to the outlook for wages are mainly on the downside.** Downside risks are due to important unemployment composition effects. Given that the percentage of discouraged and marginal workers are non negligible and have increased since the beginning of the crisis, the number of unemployed tends to underestimate the pool of underutilised labour resources in euro area countries. Using measures of labour underutilization to assess labour cost pressures would result in further declines in wages. However, the risk of outright decreases in nominal wages, with possible deflationary impacts encouraging consumers to postpone spending and push the economy into deeper recession, appears very small. Notwithstanding some anecdotal evidence on firm- and industry-specific agreements to that end, inflation expectations so far remain anchored in positive territory in most countries. Furthermore, past reforms in the tax and benefits systems to increase flexibility, as well as the recent measures undertaken to support labour markets, should lead to a less persistent adjustment to the economic crisis. Should employment growth pick up quickly with economy recovery, this would prevent wages to decline.

**From a sectoral perspective, organizational change within firms and workers' reallocation is of key importance to wage prospects.** Business cycle indicators point to a smooth rebound in the retail trade sector and strong improvements in the industry and services sector, including a recent recovery for the climate in the construction sector. Policies should aim at easing the reallocation of resources across sectors, allowing the economy to better absorb shocks and take advantage of fast growing sectors. By preventing that a mismatch of skills translates into a permanent rise in the NAWRU, investment in retraining measures and professional mobility can contribute to facilitate the reallocation of the workforce and to achieve wage growth

commensurate with productivity developments at the sectoral level.

### 2.1.3. Competitive developments within the Euro area

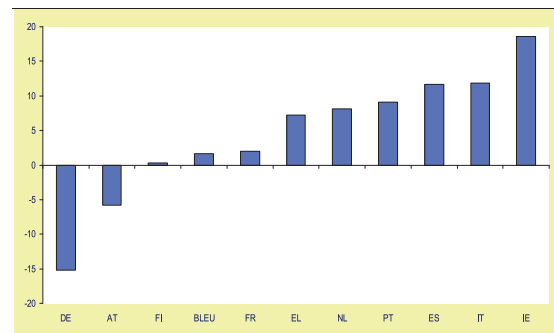
#### RISING DIVERGENCE OF MEMBER STATES' COST COMPETITIVENESS PERFORMANCE

This section reviews divergences in cost competitiveness among euro-area Member States since the launch of the euro, while identifying the sources of increasing divergence in cost competitiveness. The concept of competitiveness is not straightforward to define. In a broad sense, it refers to the success of an economy in selling its output on international markets. This section takes a close look at competitiveness within the euro area in a narrow sense, i.e. as measured by intra-euro area ULC-based real effective exchange rates (REERs).<sup>(32)</sup> It further discusses, though in a less detailed manner, structural competitiveness, as determined by the industry and trade composition of euro-area economies.

Since the creation of the single currency, nominal unit labour cost developments among EMU members have been diverse, leading to divergence in REERs based on ULC. Focusing on the former EA12, annual nominal unit labour cost growth on average ranged from around zero in Germany to around 3% in Greece, Ireland, Portugal and Spain (Table I.2.2). The standard deviation of growth in nominal unit labour costs was 1.3% in 2008 against 0.95% in 1999. This has translated into a corresponding divergence of the ULC-based REERs of almost 34 percentage points on an accumulated basis over the period 1999-2008, with Germany's REER depreciating by 15.2 pps. in contrast with the sharp appreciation movement recorded in Ireland equivalent to 18.6 pps. (Graph I.2.14). Looking at the two components of nominal unit labour costs, the standard deviation of wage growth across member states during 1999-2008 was 1.3, well above that of labour productivity growth, which stood at 0.8. This implies that the divergence in REERs is first and foremost driven by diverging wages, though

distinct patterns in labour productivity are also relevant.

Graph I.2.14: Intra-EA REER, based on ULC total economy, EA12 Member States. Cumulative change 1999-2008



Source: European Commission's price and cost competitiveness indicators.

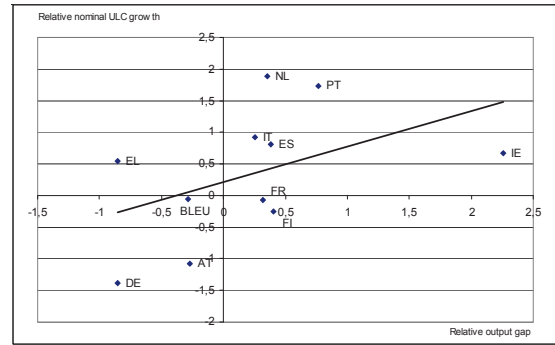
**The link between REER based on ULC and those based on GDP deflator is generally strong in euro area countries.** In theory, mounting labour cost pressures do not need to translate into inflationary pressures and a competitiveness loss if accompanied by a reduction in profit margins, at least in the short term. Graph I.2.15 shows a relatively close connection between REER based on ULC and the GDP deflator. There are some countries, however, where the redistribution of income between workers and firms has played a role in shaping competitiveness. Among countries with unfavourable labour cost developments, Ireland, Italy and (to a much less extent) Portugal, have seen offsetting movements in profit margins, thus mitigating the loss of competitiveness as measured in terms of the GDP deflator. By contrast, in Spain and Greece firms have been passing through the increase in nominal unit labour costs on final prices, thus leading to a deterioration in competitiveness arising from labour cost pressures.

**Divergence in REER based on ULC only partly reflects the response of labour costs to asymmetric cyclical positions.** Divergence in competitiveness can be traced back to business cycle developments. In the face of a positive asymmetric demand shock, unit labour costs in the country affected by the shock should increase faster than in the rest of the euro area. The increase in unit labour costs triggers an adjustment in competitiveness. In line with the competitiveness channel, a positive relation between the cyclical

<sup>(32)</sup> In the absence of internal nominal exchange rates, developments in unit labour costs are the sole determinant of ULC-based Real Effective Exchange Rates (REERs).

position and the REER can be observed within the euro area for certain periods of time as, for instance, is the case in the previous downturn (Graph I.2.16). However, this positive relation between the relative output gap and relative ULC becomes much weaker if one considers the whole EMU period, where the positive relation is driven by Germany and Ireland. If one removes these two countries from the sample, the slope of the regression line becomes even negative. The most striking counter example is Greece, where a negative cyclical position is accompanied by a sizeable increase in unit labour costs relative to the remaining euro-area countries. Portugal, the Netherlands, Italy and Spain experienced comparatively neutral cyclical positions (i.e., their position in the cycle is not different from that of their main competitors over the period 1999-2008), yet nominal unit labour costs accelerated beyond the euro-area average. Overall, during 1999-2008 Member State differences in competitive positions have widened considerably despite minimal cyclical differences over the period as a whole.

Graph I.2.16: **Unit labour costs and relative output gap, EA12 Member States. 1999-2003 - period averages in %**

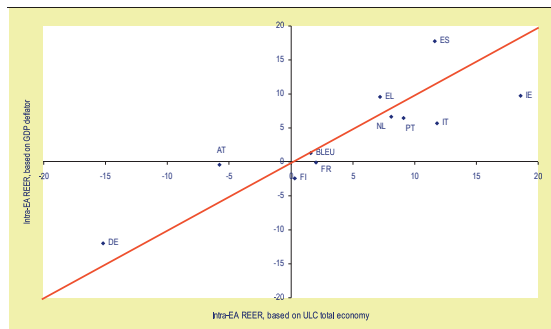


(1) All variables are expressed in relative terms, i.e. they are normalised with respect to the weighted average of the remaining euro-area countries.

**Source:** Commission services on the basis of AMECO data.

**In many instances, inadequate competitiveness adjustment has been driven by an inappropriate response of productivity and wages to country-specific shocks.** To gain a better understanding of why the response of productivity and wages to business cycle developments was at times inadequate, it is necessary to look separately at 1999-03 and 2004-07, which broadly correspond to the previous cyclical downturn and upturn in the euro area (Graph I.2.17). The decline in unit labour costs in Germany which prevailed in 1999-2003 continued its downward path in 2003-07, due to persistent wage moderation in spite of an improvement in the country's cyclical position relative to the rest of the euro area. The comparatively outstanding wage growth performance in Ireland during 1999-03 was only partially reflected in upward unit labour costs, as the country witnessed a structural positive shock in productivity. However, the disappearance of the advantage in productivity growth in 2004-07 was not followed by a corresponding moderation in wage growth, thereby causing a sizable increase in relative unit labour costs which would be unrelated to the country's almost neutral cyclical position.

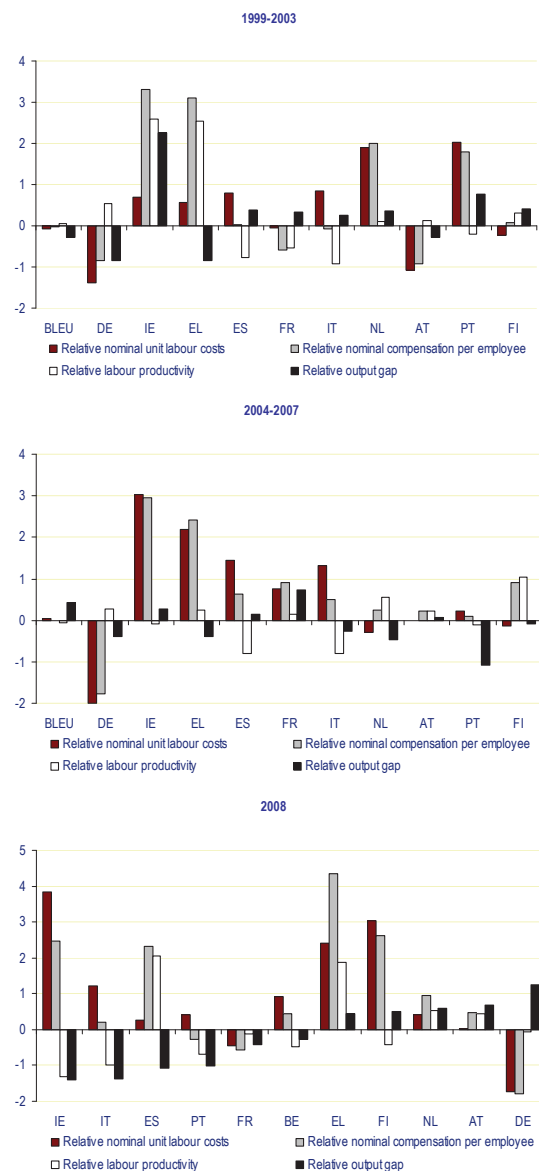
Graph I.2.15: **Cumulative changes in intra-EA REER, based on ULC total economy and GDP deflator, EA12 Member States. Cumulative change 1999-2008**



**Source:** European Commission's price and cost competitiveness indicators.

Greece experienced marked increases in labour productivity in the early years of EMU but not thereafter. Unchanged wage behaviour meant sizable increases in unit labour costs over 2003-07. Taking a look at 2008 data, there is a close correspondence between those countries with comparatively weaker economic activity and those with sluggish productivity performance. One exception to this general rule is Spain, where the sharp contraction in (temporary) employment has resulted in a (non-benign) rebound in productivity. Graph I.2.17 also suggests that there is a long way ahead for wages to accommodate relative cyclical positions. In particular, wages in Germany grew considerably below the euro area average in 2008 despite showing the highest positive output gap in relative terms. Conversely, brisk wage growth in Ireland and Spain, which have been particularly hit by the current crisis, was not in line with the negative sign of their relative output gaps. Wage behaviour in these two countries therefore faces significant adjustment challenges.

Graph I.2.17: **Cyclical divergence and nominal unit labour costs, compensation per employee and labour productivity, total economy, EA12 MS, 1999-2003 and 2004-2007 - period averages in % 2008 - Annual % change**



(1) All variables are expressed in relative terms, i.e. they are normalised with respect to the weighted average of the remaining euro-area countries.

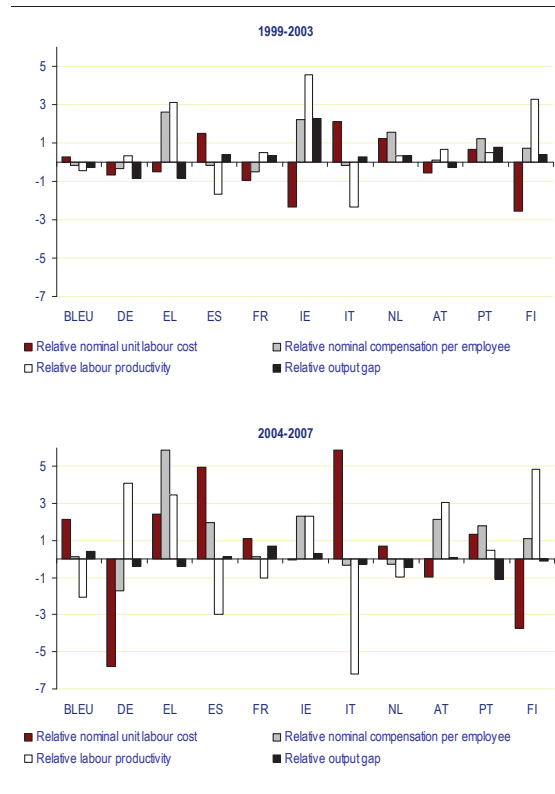
Source: Commission services on the basis of AMECO data.

**It is important to take into account sectoral differences in wages and productivity developments, particularly between manufacturing and the rest of the economy** (Graph I.2.18). Wage moderation in Germany during 2004-2007 is explained by wages falling far behind productivity gains in manufacturing. The reduction in relative productivity growth in the manufacturing sector in Spain and Italy during 1999-2003 was followed by a sharp deterioration in productivity behaviour over 2004-2007. Given that, in services, the productivity gap with the rest of the euro area remained broadly unchanged during the whole period, the loss of competitiveness in these countries could not be rationalised in terms of Balassa-Samuelson effects, which would predict a real appreciation as a consequence of rapid productivity growth in tradables relative to non-tradables (see Box I.2.4 for a detailed assessment of Balassa-Samuelson effects in euro-area countries). In the Netherlands and Portugal, wages increased over 1999-2003 more than was justified by their relative cyclical positions. In Portugal, a substantial part of the acceleration in wages was due to excessive wage growth in the non-tradables (fuelled to a large extent by public wages), whereas in the Netherlands the excessive wage growth was located in manufacturing, which largely exceeded productivity gains in this sector.

**Euro-area countries with deteriorated competitiveness need flexible labour markets to improve their external performance.** Although recent trends point to improved dynamism in terms of specialization and technological content of exports, all current low competitive euro-area countries (barring Ireland and the Netherlands) still show a low degree of geographic diversification relative to their peers. They also faced increasing competition in their export markets during the last decade, mainly driven by an adverse specialization pattern based on labour-intensive low-technology manufacturing goods.<sup>(33)</sup> As a consequence, for these countries it is even more important to regain intra-euro area competitiveness via flexible labour markets. Otherwise, quantitative adjustment may become more severe and traditional market

destinations in Europe might be entered by non euro-area competitors. The capacity of labour markets to facilitate competitiveness adjustment is discussed in the following section.

Graph I.2.18: **Cyclical divergence and nominal unit labour costs, compensation per employee and labour productivity, manufacturing, EA12 MS, 1999-2003 and 2004-2007 - period averages in %**



(1) All variables are expressed in relative terms, i.e. they are normalised with respect to the weighted average of the remaining euro-area countries.

**Source:** Commission services on the basis of AMECO data.

<sup>(33)</sup> For a detailed analysis of competitiveness in the Southern euro-area countries, see Bennett et al. (2008): "Competitiveness in the Southern Euro Area: France, Greece, Italy, Portugal, and Spain", IMF Working Paper, WP/08/112.

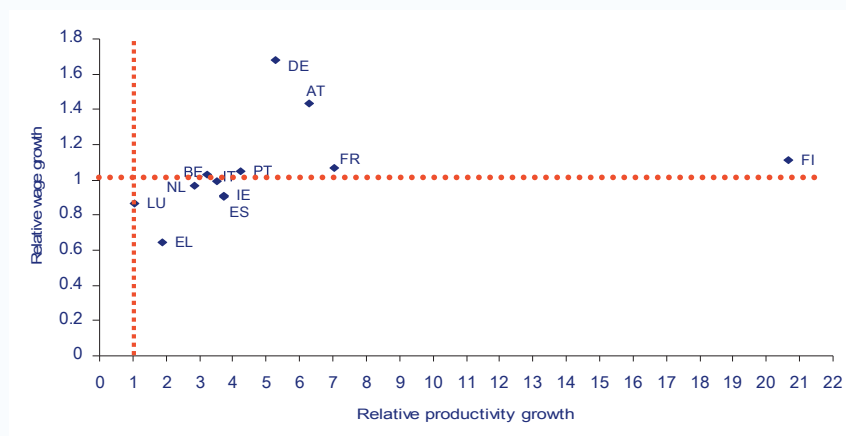
**Box 1.2.4: Assessing Balassa-Samuelson effects in euro-area countries**

Balassa-Samuelson (BS) effects are one of the possible "benign" sources of divergence in ULC-based REER. The BS hypothesis predicts that if prices in the tradable sector are set at international levels because purchasing power parity holds and if wages equalise across sectors, then wage increases in the sector with productivity gains (i.e. the tradable sector) will spread to the sector with relatively lower productivity gains (i.e. the non-tradable sector). As a consequence, the relative cost of producing non-tradables will rise and thereby the general price level will increase. The BS hypothesis therefore implies that the REER (any REER measure, provided it incorporates both traded and non-traded goods) will appreciate in countries with comparatively higher productivity gap between tradables and non-tradables.

The analysis in this box assumes that tradables and non-tradables are respectively represented by the manufacturing and services. To see whether the BS effect could have been at play between euro-area countries during 1999-2008, it is convenient to investigate its two central underlying assumptions, namely: i) Wages equalise across sectors; ii) Catching-up euro-area economies have registered comparatively higher productivity growth in the tradable sector.

The graph below displays relative productivity growth and relative wage growth (tradables versus non-tradables) in the X-axis and the Y-axis respectively. For BS effects to be present within euro-area countries, the following conditions should be fulfilled: i) catching-up, low competitive performers are situated on (i.e. wage equalisation hypothesis) or below (i.e. wage growth in non-tradables exceeding wage growth in tradables) the horizontal dotted line; ii) catching-up, low competitive performers are situated to the right of the vertical dotted line (i.e. positive productivity differential in manufacturing) and to the right of the rest of euro-area economies. The graph shows some variance of sectoral wage growth across countries and suggests that the wage equalisation hypothesis is far from perfect in Germany, Austria, Spain and Greece. Further, catching-up euro-area economies do not have higher relative productivity growth in the tradable sector. Quite the opposite, Greece, Spain and Portugal have among the lowest relative productivity growth rates. Overall, the graph does not reveal any systematic link between low competitive countries and the magnitude of the productivity differentials. Thus, there is no robust evidence in favour of the BS effect in euro-area countries. This is in line with the consensus view in the literature that this hypothesis is well-suited to explain trends in REERs between emerging market economies rather than between industrial countries, where BS effects are of second-order importance to explain the large movements in REERs (see Engel (1993) and Rogers and Jenkins (1995)).

**Relative productivity and wage growth in euro area Member States.** Relative growth tradable vs. non-tradable sector, annual average growth in % – 1999-2008



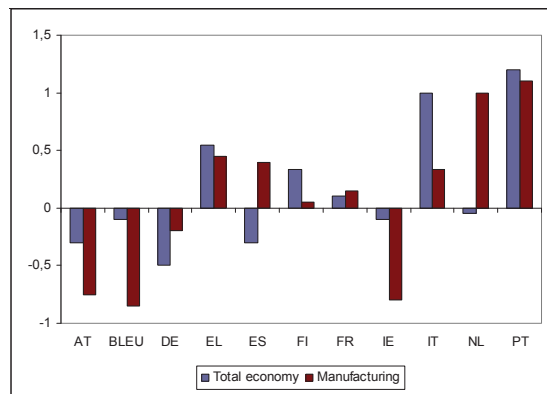
**Source:** Commission services on the basis of AMECO data.

### ASSESSING THE CAPACITY OF LABOUR MARKETS TO FACILITATE COMPETITIVENESS ADJUSTMENT

**Downward rigidity of nominal wages hinders adjustment processes as it implies an asymmetric response of unit labour costs over the cycle.** The response of the REER to cross-country differences in cyclical positions is asymmetric, responding more strongly to excess demand than to excess supply. In particular, econometric evidence<sup>(34)</sup> shows that, due to downward nominal wage rigidity, relative unit labour costs are more reactive over the cycle during expansions than during downturns in some Member States (e.g. Portugal, Italy, Greece and Finland), while, in others, they react broadly symmetrically over the cycle (e.g. Belgium, Ireland and the Netherlands) (Graph I.2.19), or are even more reactive to downswings than to upswings (e.g. Austria, Germany and Spain). It is worth mentioning that the information on rigidity reported in Graph I.2.19 is fully consistent with the official forecasts on unit labour costs discussed under Section 2.1.2, where Greece, Portugal and Finland (i.e. the "rigid" ones) stood out as the euro-area countries with relatively high wage growth over the forecast period, while the estimated marked decline in unit labour costs growth in Ireland is perfectly in line with the symmetric behaviour of this variable over the cycle.

**Since the introduction of the euro, downward rigidity of wages has contributed significantly to the divergence of real effective exchange rates.** As Graph I.2.20 shows, countries with on average greater downward rigidity of wages in the cycle and relatively regulated labour markets have seen the greatest losses of competitiveness. A notable exception is Ireland, where the unit labour cost-based REER has appreciated substantially despite no asymmetry in the cyclical reaction of wages.

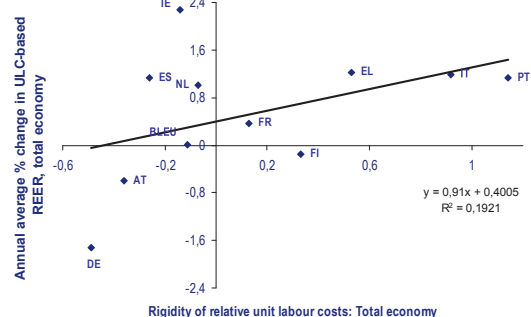
Graph I.2.19: **Rigidity (1) of relative unit labour costs in total economy and manufacturing. EA12 Member States**



(1) "Rigidity" is the difference between the elasticity in the growth of relative unit labour costs to positive output gaps and the elasticity in the growth of relative unit labour costs to negative output gaps. Output gap elasticities are estimated by regressing the change in a country's competitiveness vis-à-vis the remaining euro-area countries on the relative output gap and the lagged value of the competitiveness indicator, allowing for the coefficient of the output gap to vary across countries. Data are annual and cover the period 1970-2005.

**Source:** Arpaia A. and K. Pichelmann, Nominal and real wage flexibility in EMU, Economic Paper No. 281, June 2007.

Graph I.2.20: **Rigidity (1) of relative unit labour costs and change in competitiveness position, total economy. EA12 MS, annual data, 1999-2007**



(1) "Rigidity" is the difference between the elasticity in the growth of relative unit labour costs to positive output gaps and the elasticity in the growth of relative unit labour costs to negative output gaps. Output gap elasticities are estimated by regressing the change in a country's competitiveness vis-à-vis the remaining euro-area countries on the relative output gap and the lagged value of the competitiveness indicator, allowing for the coefficient of the output gap to vary across countries. Data are annual and cover the period 1970-2005.

**Source:** Arpaia A. and K. Pichelmann, Nominal and real wage flexibility in EMU, Economic Paper No. 281, June 2007.

<sup>(34)</sup> See chapter IV, Market adjustment: the competitiveness channel, in European Commission (2006): "Adjustment dynamics in the euro area: experiences and challenges. The EU Economy 2006 Review", European Economy No. 6/2006.

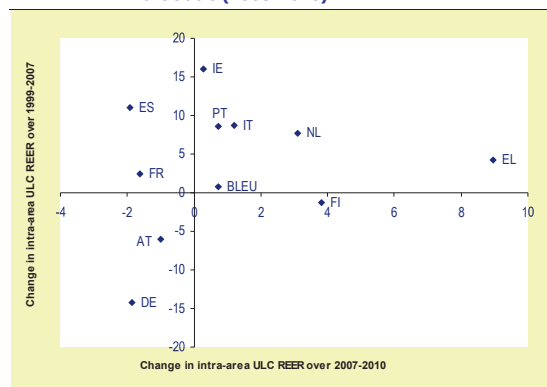
Nominal rigidity could be very harmful in the current crisis as it would require stronger increases in unemployment to achieve the required change in



competitiveness. Moreover, slow adjustment in wages may not only entail a temporary increase in the NAWRU during the recession, but long-lasting effects on the level of output and the external position are also possible if cyclical unemployment becomes entrenched and structural (hysteresis effect). REER adjustments required in the future therefore call for more flexible labour markets. There is indeed an extensive line of research that strongly supports improved labour market flexibility as an important factor for adjustment in EMU.<sup>(35)</sup> In the context of the crisis, higher market flexibility would make the reallocation of resources across sectors easier. Concretely, according to the stylized facts of the impact of past major recessions in Europe and the US, labour (and product) market regulation is negatively correlated with TFP growth between the five-year period before and after the recessions. The US and UK, with lower labour (and product) market regulation, have experienced a positive change in TFP growth as opposed to Portugal, Spain, France or Italy.<sup>(36)</sup>

**The current crisis has so far brought only limited adjustment in cost competitiveness.** Graph I.2.21 shows that ULC-based REER are not forecast to move strongly in the direction of rebalancing competitiveness between euro-area members. On the contrary, most countries with overvalued real exchange rates are expected to further lose competitiveness while undervalued economies will continue to gain competitiveness. Two exceptions to this general rule are Ireland – which will close its competitiveness gap by 2010, and Spain –which will regain only a little of the past competitiveness losses. Short of the necessary correction in REER, the ongoing crisis will take an even bigger toll in terms of unemployment and falling domestic demand in countries suffering from external imbalances.

Graph I.2.21: **Adjustment in ULC-based REER (total economy) following the financial crisis. EA12 MS, historical data (1999-2008) and official forecasts (2008-2010)**



Source: AMECO.

**Labour market support measures can be an important factor influencing future changes in intra area competitiveness in the short run.**

From an intra euro-area competitiveness perspective, a key channel through which labour market policies influence competitiveness in the *short run* is changes in taxes and social security contributions, which have an impact on wage and labour costs developments. Rebates on social security contributions to boost labour demand have been taken in a number of euro area members and have then typically been made conditional upon job creation (Belgium, Spain, France, Portugal and Slovakia). It can be noted that lowering labour costs for both employers and employees featured already in some medium-term national reform programmes and gained additional relevance in the framework of the crisis (Belgium, France and Germany). Improving the incentives to work embedded in the tax and benefit systems has also been high on the policy agendas and is in line with the long term goals. Overall, apart from reducing the tax pressure on labour especially for low-wage earners (e.g. Finland and Malta), most of these measures appear to be temporary and contingent to the economic crisis. Many euro area countries have either introduced new forms of public support to flexible working time or temporary unemployment (Portugal, Slovenia and Slovakia), or extended the duration and/or the level of already existing public support (Austria, Germany, France, the Netherlands, Belgium and Italy). Some Member States provide incentives for using the reduced hours for training activities (Austria, Belgium and Germany) in order to maximise the employability

<sup>(35)</sup> For a recent study see Zemanek et al. (2009): "Current Account Imbalances and Structural Adjustment in the Euro Area: How to Rebalance Competitiveness," CESifo Working Paper Series. The paper finds a significant impact of higher labour market flexibility and stronger structural reforms on competitiveness in EMU.

<sup>(36)</sup> See the evidence reported in González et al. (2009): "The impact of the economic and financial crisis on potential growth", QREA, Volume 8 No.2 (2009).

of workers on short-time arrangements. From a competitiveness perspective, it is clear that the potential impact on competitiveness of these measures hinges very much on their temporary nature. It is nevertheless too early to judge whether the measures taken are adequate but, to the extent that countries deal with these measures with different effectiveness, it can be an important factor influencing future unit labour cost developments and thus changes in intra-area competitiveness in the short run.

**Labour market measures adopted in the framework of the recovery programmes have been rather effective at stopping unemployment from shooting up so far. Yet, a good number of short-term measures are likely to affect the sectoral allocation of resources and the competitive positions of the European countries in the long run.** Training and active labour market policies help to respond to the increase in unemployment during crises, and therefore contribute to ensuring that structural unemployment does not increase. By facilitating the matching process and labour market transitions, policies that promote mobility from contracting to expanding sectors and active labour-market and retraining programmes enhancing the employability of those hit by the crisis can also be expected to have a *longer term* impact on labour productivity and relative competitiveness positions. Euro area members have taken a number of relevant measures in this field.<sup>(37)</sup> Measures taken to support sectors particularly hard-hit by the crisis, even if phased out as soon as the economic recovery begins to hold, may implicitly contribute to postponing necessary restructuring and thus lead to lower long term productivity and reduced competitiveness. There has been a significant emphasis placed on the automotive industry, where 10 euro area countries have taken

demand measures,<sup>(38)</sup> on construction (France, Ireland and Spain), and on tourism (Cyprus and Malta).

**Rebalancing of existing competitiveness disequilibria would also benefit from further improvements in wage bargaining practices.** It has been argued<sup>(39)</sup> that insufficient transnational bargaining coordination is part of the explanation of the increasing divergence in REER within euro-area members). Assuming that trade unions seek to maximize the purchasing power of their membership, national wage bargainers can choose between two strategies depending on whether they dominate the negotiating process in the tradable rather than the non-tradable sector. In the former case (i.e., Germany), they will seek to maximise employment by undercutting unit labour costs set by world competitors. In the latter case (i.e., Spain, Portugal and Italy), non-tradable sector dominates collective bargaining, especially in public services, and unions seek to maximise income by pushing wages in the protected sector. The first strategy would lead to a fall in unit labour costs and an increase in competitiveness relative to the euro-area average; the second strategy would lead to above average wage inflation and deteriorating competitiveness. Over the last 10 years national wage settlements have diverged and it has been argued that this is due to insufficient consideration of the euro-wide macroeconomic environment in national wage bargaining, including the relative competitive positions of national production locations.

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<sup>(37)</sup> Some Member States have aimed at improving the functioning of public agencies to ease labour market transition (EL, FI). Measures explicitly designed to support and ease the re-integration into the labour market of recently laid-off workers were adopted in AT, BE, FI, FR, ES, NL, SI, SK. Training opportunities and incentives were expanded in many countries (AT, EL, FI, FR, PT, SI). Specific interventions to support workers threatened by mass dismissals in those sectors which are being most hit by the crisis were adopted in ES, including vocational in-work training, social security rebates to preserve existing jobs, subsidies for job search and mobility.

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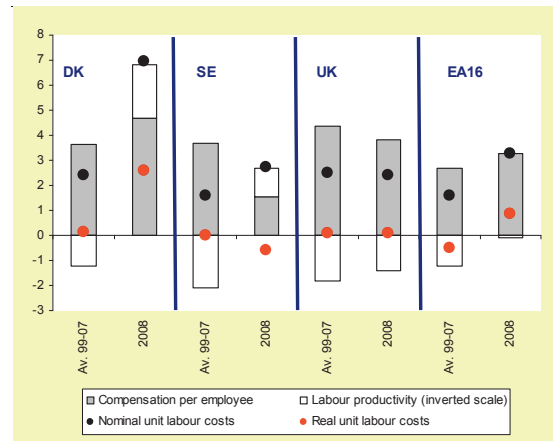
<sup>(38)</sup> Car-scrapping schemes have been implemented in several countries (FR, PT, IT, ES, LU, DE, AT, SK, CY, NL) with the German version being the most extensive example, where the measure is both temporary and has large cross-border spill-overs. There are also some measures on the supply side, such as in France ("Pacte Automobile" proposed in February 2009), Italy and Spain (Competitiveness automobile plan proposed in March 2009). See, DG ECFIN (2009): "The EU's response to support the real economy during the economic crisis: an overview of Member States' recovery measure", Occasional Paper, No.51.

<sup>(39)</sup> See, for instance, Collingnon (2008): "Wage developments in Euroland: the failure of the Macroeconomic Dialogue", mimeo.

## 2.2. LABOUR COST DEVELOPMENTS IN DENMARK, SWEDEN AND THE UNITED KINGDOM

After a period of extensive pressures on the labour market and high wage increases in 2008, wage inflation is beginning to decline as a result of the economic slowdown. Although private-sector wage increases declined substantially throughout the autumn in step with the abating pressure on the labour market, the rate of wage increase in Denmark reached 4.7% during 2008. This was 1 pp. higher than the average over the period 1999-2007 and clearly much higher than that of the euro area. This was due to labour shortages, especially in construction. Domestic overheating is indeed at the root of the recession in the Danish economy, which had already started in the beginning of 2008, well ahead of the time when the global crisis became visible. Together with the contraction in productivity of -2.2%, unit labour costs edged up to 7% in 2008. Thus, the undermining of competitiveness that has prevailed for a number of years in the Danish economy continued in 2008, and was further accentuated by an increase in the effective exchange rate of the krone. In the UK, nominal unit labour costs stood at 2.4% -i.e. the average over the period 1999-2007, as wages moderated in line with weaker productivity growth. Wage growth nevertheless fell sharply in the early months of 2009. This mainly reflects the impact of the marked rise in import prices following the fall in the exchange rate since the middle of 2007 and the recent falls in demand, which are both prompting business to bear down on labour costs. There is evidence that the largest falls in regular pay growth have tended to occur in those sectors that have experienced the sharpest contractions in output. Also, wage growth in the past has tended to be relatively weak during periods of strong import price inflation. Wage growth in Sweden considerably weakened in 2008 following sharp deceleration in economic activity. Unit labour costs nevertheless accelerated in 2008 compared with the average over 1999-2007, due to the drag on productivity growth.

Graph I.2.22: Compensation per employee, labour productivity and nominal and real unit labour costs in DK, SE and the UK



(1) Compensation per employee, labour productivity and unit labour costs are based on headcounts.

Source: AMECO.

### Rising unemployment will significantly dampen wage growth in 2009-2010. Combined with an expected upswing in productivity growth in 2010, this should moderate unit labour costs.

The future path of wages will depend on both the persistence and severity of the recession and also on the degree of flexibility in the labour market, which is relatively higher in DK, Sweden and Denmark. Surveys conducted by central banks in these countries towards the end of 2008 suggest that employees had become increasingly anxious about their job security following the recession, and that this had reduced their resistance to weaker pay growth. That influence may grow in importance, given the further increases expected in unemployment. As the crisis deepens, unemployment will double from its record low of 3.3% in 2008 to over 6% in 2010 in Denmark. In Sweden and the UK, the unemployment rate is likely to rise from around 6% in 2008 to around 10% in 2010. While the wage agreements that were signed in Sweden and Denmark, prior to the onset of the crisis and which run until the spring of 2010, stipulated fairly robust nominal wage increases, it is likely that negative wage drift might lead to slower wage growth. The new set of collective agreements, due to enter into force in the spring 2010 in both countries, is likely to take place in an environment fostering wage restraint. The latest wage agreements in the UK also point to weak earnings growth. Around 20% of settlements of private sector wage settlements agreed so far in 2009 were for no increase in basic pay, compared

with less than 2% of settlements over the past eight years. Following a short-lived episode of negative productivity growth in 2009 in the three countries, productivity will be reasonably strong in the projection for 2010, reflecting the expectation that the least productive part of the labour force will be the first to be affected by dismissals. This should moderate unit labour costs towards the end of the forecast period to 0.2% (Denmark), -1.1% (Sweden) and 0.4% (the UK), down from 7%, 2.7% and 2.4% in 2008.

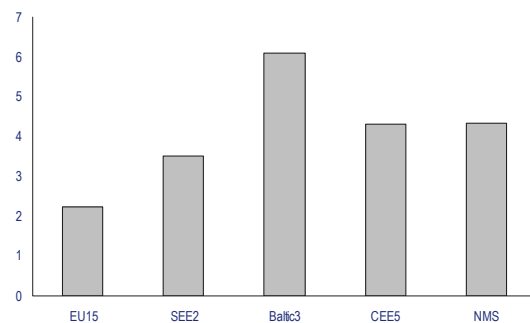
### 2.3. LABOUR COST DEVELOPMENTS IN CENTRAL AND EASTERN EUROPE

#### 2.3.1. Recent labour cost developments

**After a mixed period of resilient convergence and domestic demand-driven booms, the Recently Acceded Member States (RAMS) were hit significantly harder than the euro area by the current crisis.** Growth and living standards among RAMS have undoubtedly increased following the enlargement. Looking at the figures (Graph I.2.23), there is evidence that RAMS have seen a considerable boost to their catching-up process and have expanded at a pace of 5.4% of GDP over the last five years, compared to the 2.2% in the EU15 (respectively 4.3% and 2.1% on average since 1995). This has helped narrow the gap in living standards, with income per capita rising to almost 24% of the EU15 Member States average in 2008 (Graph I.2.24), up from 17% in 1995. Some of the RAMS already exceed per-capita GDP of some of the old Member States. The explanatory factors of this rapid catching-up have operated through the channels of good institutions, the strengthening of the rule of law, trade and financial market integration, which boosted economic restructuring, helped by FDI flows. The global financial turmoil has nevertheless given way to a deep crisis in several RAMS. Although the banking sector played a central role in the run-up to the crisis, various features of the catching-up process contributed to building up vulnerability and increasing exposure in financial markets in several RAMS.

These are associated with a catching-up model based on large capital inflows which fuelled domestic demand, allowing total investment to substantially surpass savings, prompting sizable current account deficits, a rapid build-up of external debt and appreciation of real exchange rates. Very low real interest rates also induced rapid credit growth resulting in widespread foreign currency lending, overheating, strong wage pressures and housing bubbles. The largely foreign-financed domestic demand boom came to a sudden end at the beginning of the fourth quarter, following the significant tightening of international capital inflows, increased investor risk aversion to home-grown vulnerabilities and decelerating disposable income. The downturn has been particularly severe in Latvia, Hungary and Romania, which, due to the accumulation of major imbalances, faced important funding constraints and asked for international institutional financing. By contrast, economic activity in some others (Poland) continued to be relatively robust and the recession proved to be comparatively mild.

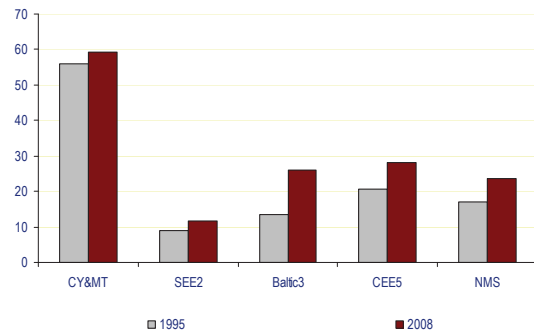
Graph I.2.23: **Convergence of RAMS with EU15, real GDP growth. Average y-o-y % change, 1995-2008**



(1) SEE2 stands for the two South and Eastern Europe countries (Romania and Bulgaria), Baltic3 stands for Estonia, Latvia and Lithuania and CEE5 stands for the five Central and Eastern Europe countries (Hungary, the Czech Republic, Poland, the Slovak Republic and Slovenia).

**Source:** Commission services on the basis of AMECO data.

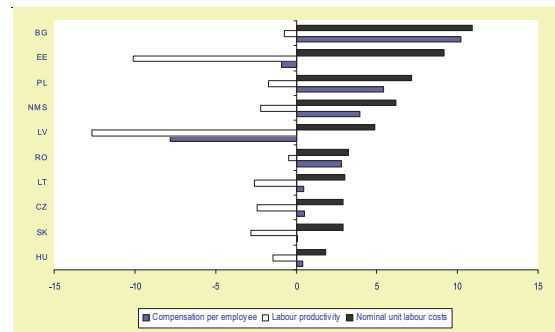
Graph I.2.24: **Convergence of RAMS with EU15, per capita GDP relative to EU15. Percent, 1995 and 2008**



(1) SEE2 stands for the two South and Eastern Europe countries (Romania and Bulgaria), Baltic3 stands for Estonia, Latvia and Lithuania and CEE5 stands for the five Central and Eastern Europe countries (Hungary, the Czech Republic, Poland, the Slovak Republic and Slovenia).  
**Source:** Commission services on the basis of AMECO data.

**After continuing tight labour market conditions and unit labour cost pressures, wages started to adjust in the second half of 2008 in some RAMS.** Graph I.2.25 shows that unit labour costs in 2008 were still situated well above the average over the booming period 2004-2007. Wage growth was exceptionally high in Bulgaria and Poland, reflecting tight labour market conditions, combined with modest declines in productivity. In Estonia, where the crisis has been particularly severe, nominal wage growth eased considerably in the economy as a whole and in the private sector in particular. Nominal unit labour costs were nevertheless fuelled by a severe contraction in productivity. In Lithuania, the Czech Republic, and Slovakia wages started to adjust to the changing situation in the labour market in the second half of 2008, thereby putting a lead on nominal unit labour costs.

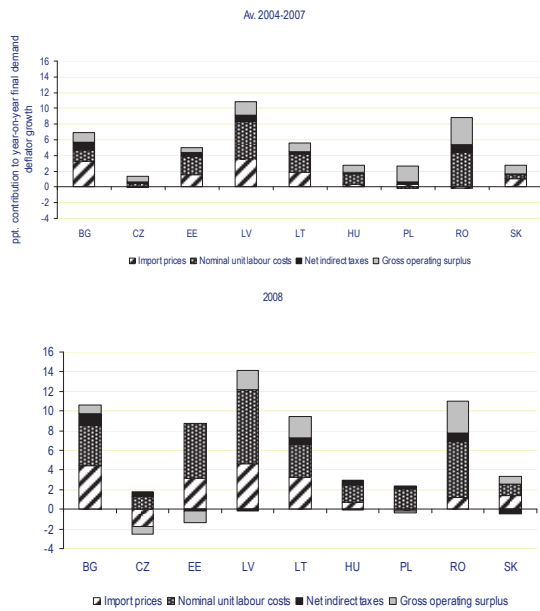
Graph I.2.25: **Compensation per employee, labour productivity and unit labour costs, RAMS. y-o-y % change, difference in 2008 from av. 2004-2007**



(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts.  
**Source:** AMECO.

**Domestic inflationary pressures remained high in 2008, but have been decreasing rapidly in recent months.** Compared with 2004-2007, the contribution of nominal unit labour costs to domestic inflationary pressures rose markedly in 2008 in Bulgaria, Estonia, Latvia and Poland (Graph I.2.26). While external factors such as soaring energy and food prices considerably increased inflation in 2008 in these countries, labour cost pressures contributed even more to boost prices. Inflationary pressures eased somewhat in the last months of 2008 on the back of falling international commodity prices. Inflation is expected to recede rapidly in 2009 and turn slightly negative or register further strong decreases in 2010 due to much lower commodity prices, weakening domestic demand and the abated of wage pressures.

Graph I.2.26: **Contribution of import prices, NULC, gross operating surplus and net indirect taxes to growth in final demand deflator, RAMS. 2008 compared with av. 2004-2007**

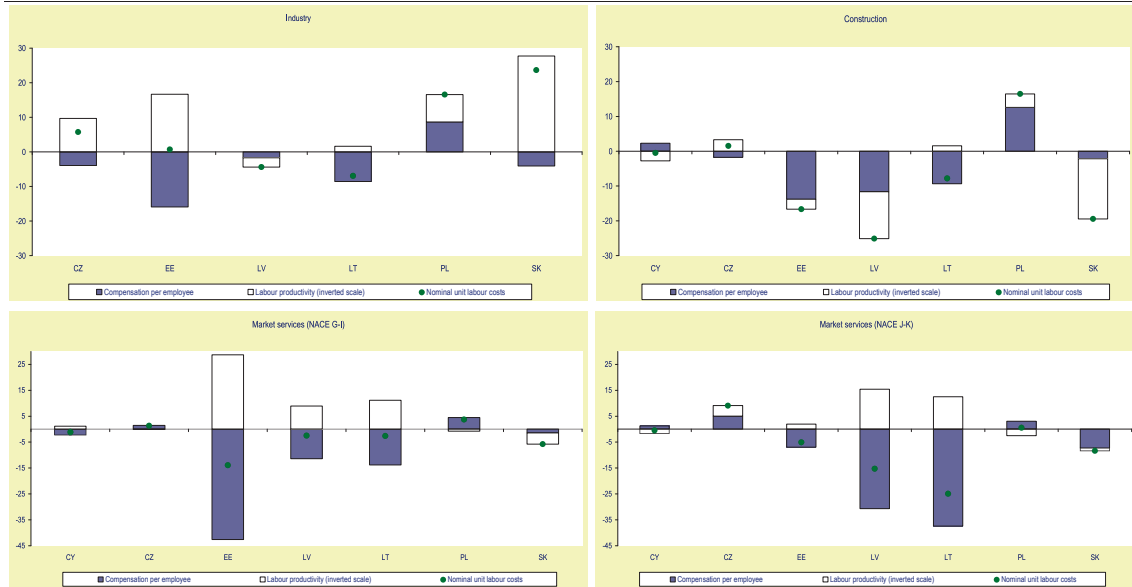


Source: AMECO.

**The construction and manufacturing sectors were the worst hit** (Graph I.2.27). In Estonia, nominal unit labour costs fell the most in the construction and wholesale trade and real estate activities due to a combination of falling wages and contracting productivity (only in wholesale trade and real estate activities).

Accession of Estonia to the EU in 2004 resulted in a period of massive financial flows, mostly directed at the non-tradable sectors of Estonia's economy, leading to an overexpansion of construction and market services. The slowdown and later contraction rapidly affected these sectors. In Latvia, the recession started in the first half of 2008 and also originated in the reversal of the domestic real estate boom, thus implying a substantial drop in the housing construction and labour productivity in the sector. Survey results point to a further deterioration in the months to come. The reduced functioning of financial markets in Latvia has caused nominal unit labour costs to decrease markedly in this sector, mainly due to a substantial drop in wages. Industrial production has plunged to record levels in Slovakia, mainly due to a substantial drop in export demand, aggravated by worsening domestic demand. This has depressed labour productivity and fuelled unit labour costs in this sector. On the contrary, labour shedding has predominated in the construction sector, where productivity has increased despite the reduced activity in the sector. The launch in the public private partnership investment projects for motorway construction in the course of 2009 should limit the downward trend in employment in this sector.

Graph I.2.27: Compensation per employee, labour productivity and unit labour costs by sectors, selected RAMS. Y-o-y % change, difference in 2008Q4 from average 2007Q2-2008Q3

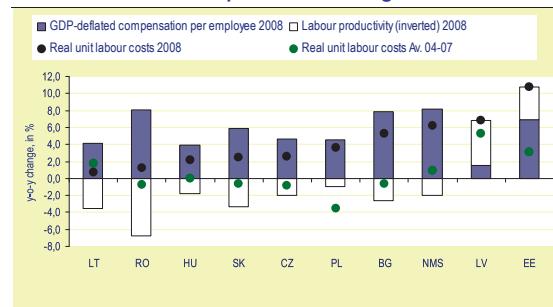


(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts. NACE G-I includes Wholesale and Retail Trade, Hotels and Restaurants and Transport and Storage and Communication (I). NACE J-K includes Finance, Insurance, Real Estate and Business services. Readers should be aware of the fact that scales differ across sectors.

Source: Eurostat.

**Real unit labour costs accelerated sharply in almost all RAMS following brisk increases in real production wages.** Graph I.2.28 shows that growth in real unit labour costs in 2008 reached 6.2% in RAMS as a whole. This is more than 5 pps. higher than the average over the recent period 2004-2007. Only in Lithuania did real unit labour costs grow at a slower rate in 2008 than over the three previous years, thanks to considerable advances in labour productivity coupled with comparatively contained pressures in real product wages. At the opposite side of the spectrum, real unit labour costs increased by rates higher than 5% in Bulgaria (5.2%), Latvia (6.8%) and Estonia (10.8%), although for different reasons, namely, strong increases in real wages in Bulgaria, plummeting productivity in Latvia and a combination of the two in Estonia.

Graph I.2.28: Real unit labour costs, RAMS. Y-o-y % change, 2008 compared with average 2004-2007



(1) Compensation per employee, labour productivity and unit labour costs are based on employment in headcounts.

Source: AMECO.

**Growth in real consumption wages was adversely affected by the crisis thereby putting pressure on consumers' budget.** Graph I.2.29 indicates that real consumption wages growth decelerated strongly in Baltic3 and SEE2 closely tied with labour productivity adjusted for the terms of trade.<sup>(40)</sup> By contrast, growth in real consumption wages accelerated somewhat in CEE5, largely decoupled from the significant

<sup>(40)</sup> Over the long term, labour productivity adjusted for the terms of trade defines an upper limit for real consumption wages.

terms-of-trade deterioration and the slowdown in labour productivity. From a longer term perspective, Graph I.2.29 interestingly shows that real consumption wages tend to be more volatile in RAMS economies than terms-of-trade adjusted labour productivity, thus implying that fluctuations in real product wages are generally sharper than those in labour productivity. This is most likely suggestive of a higher degree of flexibility in labour and product markets in RAMS than in euro-area countries, where quantities were shown to fluctuate more than prices. Although higher flexibility in real wages facilitates adjustment in the labour market it also raises the concern that private consumption will be impaired by lower disposable income in the short run. This danger is especially tangible in RAMS, where consumption has been adversely affected by the sudden reversal in the growth of credits to households, thereby worsening the recession. In many RAMS, the deleveraging of the economy has indeed resulted in the monthly growth in credit to the private sector turning negative. Narrowed access to credit could have severe effects on consumption. The May 2009 Regional Economic Outlook shows that household credit growth is positively correlated with retail sales growth in a number of emerging European economies, even though the strength of the correlation differs across countries. This is taken as an indication that, in emerging Europe, a credit decline is associated with a consumption decline.

Graph I.2.29: Real consumption wages and labour productivity adjusted for terms of trade, RAMS. Annual data, 1999-2008



(1) SEE2 stands for the two South and Eastern Europe countries (Romania and Bulgaria), CEE5 stands for the five Central and Eastern Europe countries (Hungary, the Czech Republic, Poland, the Slovak Republic and Slovenia) and Baltic3 stands for Estonia, Latvia and Lithuania.

**Source:** AMECO and European Commission's staff calculations.



Table I.2.4: **Unit labour costs (in nominal and real terms) and its components. Y-o-y % changes, 2008 and average 2004-2007**

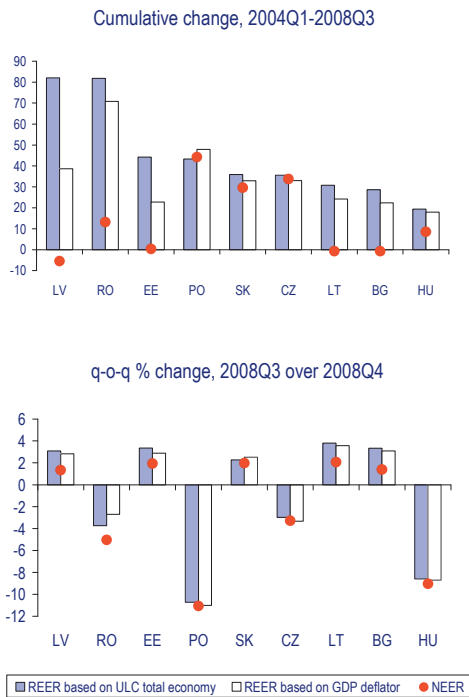
	BG	CZ	EE	LV	LT	HU	PL	RO	SK	NMS
Compensation per employee										
2008	19,3	6,3	14,7	16,7	14,5	7,8	7,6	22,0	8,7	13,7
Av. 04-07	9,1	5,8	15,7	24,5	14,0	7,4	2,2	19,3	8,6	9,7
Labour productivity										
2008	2,7	2,0	-3,8	-5,3	3,5	1,8	0,9	6,8	3,3	2,0
Av. 04-07	3,4	4,4	6,3	7,4	6,1	3,3	2,6	7,3	6,2	4,2
Nominal unit labour costs										
2008	16,6	4,3	18,6	22,0	10,9	6,0	6,7	15,2	5,4	11,7
Av. 04-07	5,7	1,4	9,4	17,1	7,9	4,1	-0,5	12,0	2,5	5,5
GDP deflator										
2008	11,4	1,7	7,8	15,2	10,3	3,8	3,1	14,0	2,9	5,5
Av. 04-07	6,3	2,2	6,3	11,8	6,1	4,2	3,0	12,7	3,1	4,6
Real unit labour costs										
2008	5,2	2,6	10,8	6,8	0,7	2,1	3,6	1,2	2,5	6,2
Av. 04-07	-0,6	-0,8	3,1	5,3	1,8	0,0	-3,5	-0,7	-0,6	0,9

Source: Eurostat.

**The economic downturn has been accompanied by some depreciation in a few RAMS in 2008, whereas the remaining ones have seen competitiveness deteriorating further.** Graph I.2.30 illustrates that European emerging economies have accumulated significant competitiveness losses in the recent past. Another interesting pattern featuring competitiveness performance in RAMS is the squeeze in corporate profits to compensate for strong labour cost pressures. As illustrated by Graph I.2.30, almost all RAMS have avoided passing through the marked increase in nominal unit labour costs characterising the convergence process on prices, thus mitigating the loss of competitiveness as measured in terms of GDP deflator at the expense of a drop in profit margins. As regards the impact of the crisis, due to the fact that most RAMS are small open economies, the marked deterioration in regional trade with the rest of the EU, the main trading partners, hit RAMS particularly hard. Exports of both goods and services are expected to contract further in coming months in view of the bleak economic outlook in RAMS' main trading partners. Economic downturn in RAMS will, therefore, most likely be deeper and more protracted than previously assumed. One exception to this general rule is Poland, where the recession is relatively mild, as the lower degree of openness cushions the effects of external developments. During 2008, depreciation in nominal currencies took place in Romania, Poland, Hungary and the Czech Republic. In Romania, successive wage negotiations have driven up unit labour costs, affecting Romania's international competitiveness in favour of low-cost Asian countries. Pressures on the RON resulted in 25% depreciation since

August 2008, which partly reflected a correction from previously overvalued levels. The Polish currency also witnessed a strong depreciation in 2008. This is expected to rebound external demand. However, there are increasing concerns that depreciation could also hamper the consumption of foreign-currency-indebted households, increase the financial costs of companies and affect also the inflation outlook. In the Czech Republic, the collapse of external demand is expected to weigh on export growth in spite of depreciation of the Czech koruna in the second half of 2008. Excessive borrowing by both the public and private sectors in Hungary made the economy vulnerable to a depreciation of the exchange rate. Although the large depreciation of the forint (October 2008) is expected to temporarily improve competitiveness, it also hurts household balance sheets, given large foreign-currency denominated liabilities. Exchange rate movements may also have an impact on real wages if the depreciation of the exchange rate make imported goods more expensive, increase the consumer price index and reduce the real wages.

Graph I.2.30: **Competitiveness in RAMS. Cumulative % change 2004Q1-2008Q3 compared to q-o-q % change 2008Q4 over 2008Q3**



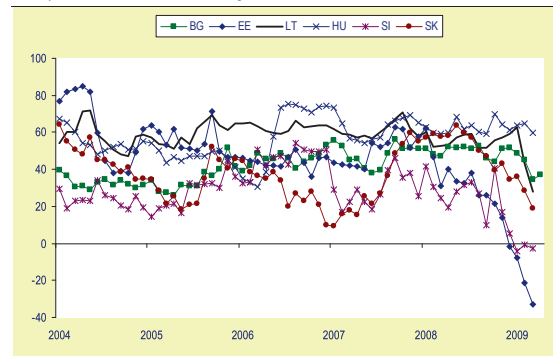
**Source:** European Commission's price and cost competitiveness indicators.

### 2.3.2. The near term outlook for labour cost developments

**Looking further ahead, weaker labour demand and inflation expectations should ease wage pressures in the RAMS.** The economic slowdown is expected to have a strong impact on the labour market with significant job losses being broad based across economic sectors, though particularly acute in those sectors most exposed to the downturn, namely the real estate. Labour market conditions, which had previously driven unemployment close to full employment, will deteriorate and the downward trend in unemployment is to be reversed over the forecast period. Weaker inflation expectations (Graph I.2.31) should also put downward pressure on wages in wage negotiations ahead. As a general rule, the severe downturn should accordingly trigger a progressive wage adjustment supported by private sector wage reductions as well as wage cuts in the public sector. However, public sector wages will outpace wages in the business sector in some countries, namely Slovenia, the Czech

Republic, Cyprus and Malta. In contrast with recent past trends, public wages in the Czech Republic will grow faster than wages in the business sector, which are set to decelerate substantially following cuts in working hours and falling demand for labour. The outlook for wage developments in Slovenia, Malta and Cyprus was already discussed under section 2.1.2.

Graph I.2.31: **Inflation expectations, selected RAMS**



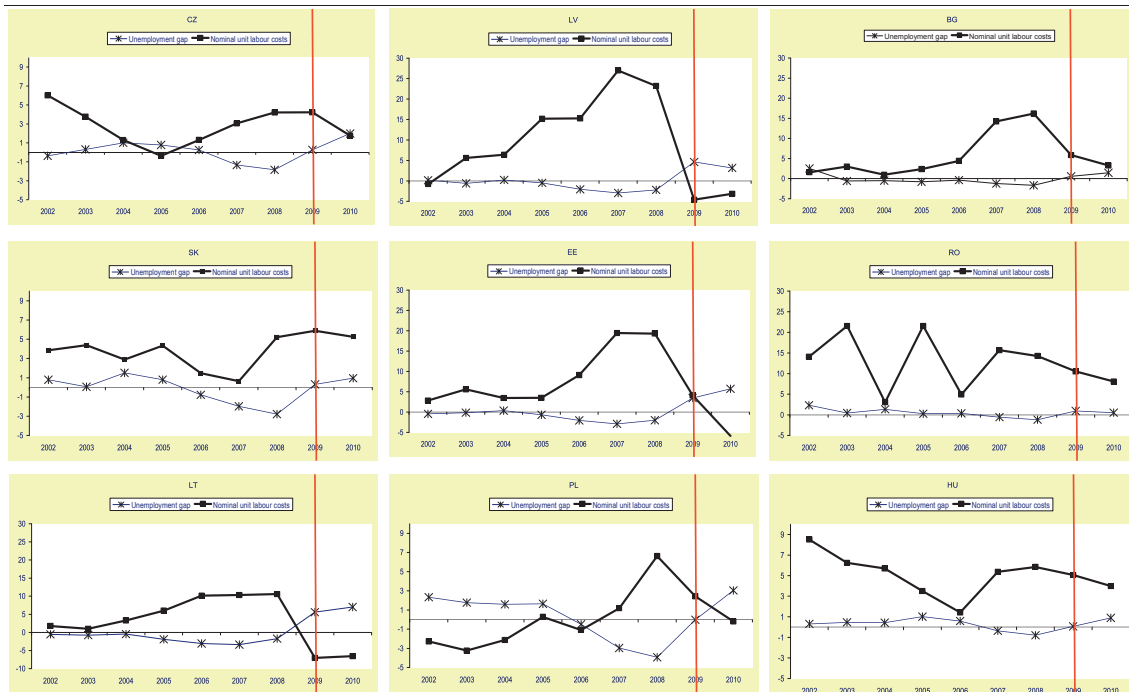
(1) The corresponding question in the consumer survey reads as follows "By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months?" The answer scheme is qualitative according to a five-option ordinal scale. Aggregate balances are calculated as the difference between positive and negative answering options, measured as percentage points of total answers. Balance values range from -100, when all respondents choose the most negative option, to +100, when all respondents choose the most positive option.

**Source:** EU consumer survey.

**Despite the lower productivity growth, the projected much more moderate nominal wage increases will bring nominal unit labour cost growth in RAMS down from 8.2% in 2008 to around 4.0% this year and 2.1% the next.** In line with slowing activity, productivity growth is expected to moderate over the forecast horizon. Coupled with a lower acceleration in wages, this is set to decelerate unit labour cost further (Graph I.2.32). The unemployment gap<sup>(41)</sup> will be situated in positive territory in all RAMS, although with varying magnitudes. Unemployment gaps higher than 3% are projected by 2010 in Estonia

<sup>(41)</sup> The unemployment gap is computed as the difference between the observed rate of unemployment rate and the equilibrium rate of unemployment or NAWRU, available from the AMECO database. For a detailed description of the methodology followed by the European Commission in calculating the NAWRU, see Denis, C., D. Grenouilleau, K. Mc Morrow and W. Röger (2006): "Calculating potential growth rates and output gaps - A revised production function approach", European Economy, Economic papers, 247.

Graph I.2.32: Unemployment gap and nominal unit labour costs, RAMS. Annual data, 2002-2010



(1) The unemployment gap is calculated as the difference between the observed rate of unemployment and the NAWRU. Nominal unit labour costs are expressed in growth rates. All variables are taken from the AMECO database.

Source: AMECO.

and Lithuania, Poland and Latvia. In Slovakia, Hungary and Rumania the unemployment gap will gradually close over the forecast horizon. The Czech Republic and Bulgaria occupy intermediate positions, with unemployment gaps of around 1% to 2%. Although developments in unit labour costs are still governed by long-term dynamics and convergence phenomena specific to RAMS, Graph I.2.32 suggests that the relation between labour market slack and nominal unit labour costs is broadly negative, i.e. labour costs can be expected to adjust to the excess of labour supply over the forecast period.

**Weakening labour costs will contribute to improving the competitiveness position of RAMS.** Together with weak domestic demand and modest commodity price growth in 2009 and 2010, low nominal wage growth should compensate for the losses seen in cost competitiveness over recent years.

Rapidly declining wage growth will not be sufficient, however, to redress all competitiveness weaknesses in RAMS and put their economies on a stronger footing for a sustainable export-led recovery from end-2010. It is possible that some pressures emerge in the future to compensate for the loss in corporate profits, adversely affecting competitiveness. In the medium term, policy measures should aim at shifting economic resources to the tradable sector and attracting investment in higher value added sectors, which are less dependent on low wages. This could be achieved by further improving the business climate, upgrading infrastructure and developing labour skills. Investment in human capital is still at a relatively low level compared with the euro area average. External imbalances make the need for policy measures which ensure continued FDI inflows particularly acute.



## 2. ADDRESSING THE CRISIS AND LONGER TERM CHALLENGES - EURO AREA MEMBER STATES



# 1. AUSTRIA

## 1.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 1.1.1. Recent trends

Austrian labour market performed relatively well in recent years, with an employment rate of 72.1%, already above the Lisbon target since 2006. This result is a consequence of a sustained increase in female employment (+5.6 pps. since 2001, up to 65.8% in 2008) and an even more pronounced rise in older workers employment rate (+12.4 pps. since 2001) that, however, was still at 41% in 2008, well below the Lisbon target.

The effects of the financial crisis on the labour market were relatively mild in 2008. Employment rate still increased by 0.7 pp., by less than in 2007 (+1.2 pps.) and the unemployment rate shrank to 3.8%, very close to the record low (3.6%) registered in 2001. With an employment rate about half percentage points below the rate of 2008q3, the crisis started to have a toll on previously resilient labour market in 2008q4. In 2009q1 the employment rate fell to 70.8%, 2 pps., below the rate of only 6 months earlier.

The growth of labour productivity, 1.4% on average between 2002 and 2008, came to a halt in 2008, perhaps as a consequence of labour hoarding during the first months of recession.

As for long-term trends, the degree of segmentation in the Austrian labour market is low, as compared to other countries. Males have an activity rate about 13 pps. higher than females. Their employment and unemployment rates are respectively 12.7 pps. higher and 0.5 pp. lower than those of females. These figures are in line with EU27 averages but less pronounced than the euro-area averages. Age gaps appear to be more important compared to other countries. The employment rate of prime-age individuals is higher than in the EU27 and the euro area average, while that of older workers is still well below the EU average, despite considerable increases in recent years. However, the youth employment rate is relatively high (55.9%) as compared to the EU27 and the euro area (around 38%), while the unemployment rate of young is relatively low (8%,

around a half of the EU averages), although it has been increasing considerably over the last decade.

Although the gaps in terms of activity, employment and unemployment rates between nationals and non-nationals are not the highest in Europe, they have been widening over the last decade. With respect to 2001, the activity rate of nationals increased by 5.4 pps. while that of non-nationals decreased by 4.5 pps., thus making non-nationals less attached to the labour force than nationals (in 2008 the activity rates of nationals and non-nationals were 75.7% and 69.5%, respectively). The lack of labour demand, in particular for non-EU nationals (probably due to skills mismatch between labour demand and supply as they on average achieve lower educational levels and have a higher share of early school leavers), evidenced by a more than doubled unemployment rate, may explain higher discouragement effect of non-nationals.

Temporary contracts are not as common as in other countries (9% of the total employment against the euro area average of 16.4%) and have remained more or less stable in the latest years. On the other hand, part-time employment is much more spread out, accounting for 22.6% of the total employment (17.6% and 19.3% for the EU27 and the euro area respectively), after a 5.8 pps. increase since 2001. In 2008, 41% of women (as % of all contracts) had part time contracts compared to only 6.9% of men.

The relatively good performance of the labour market is confirmed by the low incidence of long-term unemployment that accounts for about 24% of the total unemployed (37% in EU27). Yet, the employment rate of older workers is low while their long-term unemployment rate high. In 2009q1, the older workers' activity rate fell to 41.2% (about ½ pp. lower than in 2008q1), thus widening a gap with the EU in the recent quarters.

### 1.1.2. Outlook for next two years

According to the most recent EU Commission forecasts (Spring 2009), in 2009 and 2010 Austria will be heavily hurt by the international financial and economic crisis. After a GDP growth of +1.8% in 2008, output is seen shrinking by -4.0% in 2009 and -0.1% in 2010. The negative effects on labour demand are supposed to be very

pronounced, with a substantial impact on the unemployment rate (moving up from 3.8% in 2008 to 7.1% in 2010).



Table II.1.1: **Short-term forecasts - AT**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	1,8	-4,0	-0,1	-4,3	-0,1	-3,0	0,2
<b>Employment growth</b>	1,8	-2,1	-0,9	0,0	0,3	0,5	0,7
<b>Unemployment rate</b>	3,8	6,0	7,1	6,1	7,9	5,4	6,2

Source: EU Commission (Ameco June 2009); OECD (Economic Outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.1.2: **Labour market indicators**

	AT		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	68,4	72,1	62,5	65,9
Men	76,7	78,5	70,8	72,8
Women	60,1	65,8	54,3	59,1
<b>Employment rate 55-64</b>	28,7	41,0	37,5	45,6
Men	40,0	51,8	47,4	55,0
Women	17,9	30,8	28,2	36,9
<b>Participation rate 15-64</b>	71,0	75,0	68,5	70,9
Men	79,4	81,4	76,9	78,0
Women	62,5	68,6	60,2	63,9
<b>Participation rate 55-64</b>	30,1	41,9	40,1	48,1
Men	42,1	52,8	50,8	57,9
Women	18,8	31,6	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	3,6	3,8	8,5	7,0
Men	3,1	3,6	7,7	6,6
Women	4,2	4,1	9,4	7,5
<b>Long-term unemployment rate (2)</b>	26,1	24,2	46,8	37,0
<b>Self-employment (3)</b>	5,2	6,4	9,5	9,8
<b>Fixed term contracts (3,4)</b>	8,1	9,0	12,4	14,0
15-24	33,4	34,9	35,9	40,0
55-64	2,9	3,0	6,8	6,7
<b>Part-time contracts (4)</b>	16,8	22,6	:	17,6
Men	3,8	6,9	:	7,0
Women	33,1	41,1	:	30,6
<b>Employment rate 15-64</b>	68,4	72,1	62,5	65,9
Low-skilled	47,2	51,0	47,9	48,1
Medium-skilled	73,3	77,1	68,3	70,6
High-skilled	86,2	86,1	82,8	83,9
<b>Regional unemployment (5,7)</b>	2,1	2,7	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	17,2	18,1	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	11,0	12,2	18,0	22,5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.1.1: Recommendations (EU, OECD, IMF) - AT**

**EU (CSRs 2009):**

Further improve incentives for older workers to continue working by implementing a comprehensive strategy including enhanced job-related training, adaptation of working conditions, and tightening the conditions for early retirement; improve education outcomes for disadvantaged youth.

**OECD (Going for Growth 2009):**

Enhance work and entrepreneurship incentives by lowering marginal income tax rates financed by further broadening the tax base through reducing numerous tax allowances.

**IMF (2008 Article IV):**

Recommend that pension reforms be implemented firmly to enhance long-run fiscal sustainability and encourage labour market participation and flexibility.

**1.2. THE SHORT TERM RESPONSE TO THE CRISIS**

A first economic recovery program was adopted in October 2008 and a second one was adopted in December 2008. Income tax cuts approved by the Parliament in April are retroactive from 1 January onwards. The Austrian government adopted two labour market support packages, respectively in February and June 2009. These measures focus, inter alia, on income support, on reducing lay-offs and improving access to training, as well as on gross fixed investment, ensuring enterprises with access to finance, and support for the automotive industry. In addition to discretionary measures, automatic stabilisers will be fully effective.

Measures targeted to avoid lay-offs include the extension of the access to short-time work by firms and greater financial incentives (including special training allowances) to use it. The duration of the short-time working allowance was extended to six months from previously three. Further on, the possibility of demanding a prolongation of the scheme was introduced, up to 18 months in total. The necessary minimum working hours were reduced to 10% of normal working time. A further extension of the allowance - up to a maximum duration of 24 months - was decided in June 2009 in the framework of the second labour market package, for the period 2010 to 2012. For employees under a short-time working scheme, it

was also decided that from the 7<sup>th</sup> month onwards the employer's part to social contributions will be covered in total by the public employment agency. While in April 2009 around 60.000 persons (around 2% of dependent employees) were on short-time work, by the end of September 2009 their number dropped to 40.000. The cost for this scheme is projected by the authorities at € 220 million (0.1% of GDP for 2009 and 2010 each).

Additional training and qualifying programs for women, younger and metal workers have been also announced. All school leavers looking for a job will be guaranteed an apprenticeship placement. The number of participants will increase from 10.300 to 12.000, if necessary to 15.000. An extended education leave scheme will enable training for 3 to 12 months while receiving a fictitious unemployment benefit. The level of unemployment benefits was increased and the regulation of sabbatical leave relaxed (2 to 12 months' minimum duration from formerly 3 months; and minimum employment spell prior to the sabbatical leave lowered to 6 months from previously 12 months) on a permanent basis in June 2009. Partial retirement regulations were also eased in June 2009 <sup>(42)</sup>.

<sup>(42)</sup> New measures include: (i) Easier access to partial retirement; (ii) postponement of planned increase in the minimum age to be eligible for this measure to 2011 (minimum age for females: 53 years, male: 58 years); (iii)

There has been a remarkable increase in the number of labour foundation participants (*Arbeitsstiftungen*) since September 2008, when the effects of the crisis became more noticeable<sup>(43)</sup>. The creation of "sectoral labour foundations" (*Branchenstiftungen*) for young temporary workers, who are strongly affected by the crisis, is in its final stage. The strong increase in the use of short-time work and extensions in training programs has helped limiting the rise in unemployment so far. However, in the case of a prolonged recession, lay-offs of employees currently on short-time work might not be avoided.

### 1.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES

Austria has adopted substantial recovery measures providing a timely stimulus, as a large part of them took effect in the first quarter of 2009. Extensions of the access to and greater financial incentives for companies to use short time as well as extensions in training programs have helped to avoid excessive labour market adjustments so far and are in line with the EERP.

Austria has non-rigid employment protection legislation as well as a relatively high internal flexibility. The reform of the severance pay system introduced in 2003 injected, in a rather original way, additional external flexibility, as it eliminates uncertainty of firms related to severance payments and supports job-to-job transitions of workers. As to the internal flexibility, reform of the Working Hours Act in 2007 reduced the costs of overtime work as a part of relaxing regulation on working hours, thus supporting in particular companies with a high incidence of overtime work. These companies constitute the highest share of companies in Austria. Also, since mid-80s, as a part of a general tendency towards greater flexibility, work agreements at company level have

been increasingly gaining on importance as an instrument to regulate terms and conditions of employment.

High effective labour taxation produces disincentives to take up work, in particular for families with children. Furthermore, high gender segregation is still decisively influenced by the decision on the path and subject of education. Although childcare services have expanded and enrolment rates have gone up in recent years, measures taken are too few to offset the shortage of childcare facilities, especially for children under the age of three. This has contributed to an above the EU average gap in employment rates of women with and without children (17 pps.).

The wage bargaining process has contributed to wage moderation and wage flexibility in recent years and has become increasingly diversified and decentralized. High wage flexibility offsets the low external mobility and mitigates the adverse impact of high labour taxes on employment - as a substantial share of tax burden is ultimately on workers, which could explain the relatively high job tenure rate and low external mobility. Recent shift to the national minimum wage of 1.000€ might reduce the downward wage flexibility, potentially hurting in particular employment prospects of low skilled workers and labour market entrants (especially young persons). A reduction of a relatively high tax wedge could additionally boost employment, in particular of certain family types with children, while increasing their income.

Another challenge concerns the low employment rate of older workers who face a structural problem on the labour market, also as a result of high seniority pay and weak incentives to work due to generous early retirement. In fact, Austria has among the highest share of working age population receiving old age and early retirement benefits (about 10%), and among the highest implicit tax on continued work in the EU. Furthermore, the seniority pay rules tend to push wage above productivity weakening the incentives to employ older workers.

Finally, Austria still lacks a coherent lifelong learning strategy, given its rather fragmented education system. The main reason is a lack of an educational and a governance approach for the implementation of lifelong learning. The

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90% public reimbursement of costs if the partial retirement follows a continuous schema until the legal retirement age (60 for females, 65 for males) and 55% if it is blocked (i.e. full-time work in the first half of the partial retirement period and full retirement in the second part).

<sup>(43)</sup> Labour foundations are a peculiar element of the Austrian social model, where former employers, the PES and employees work together to provide financial and labour market policy support to help a smooth reallocation in the labour market of dismissed employees.

institutional framework and the pattern of coordination are quite unclear. Furthermore, a particularly high gap in education level can be observed for immigrants and it appears that it even persists for second level generation immigration.

The issues of reducing the high percentage of early school leavers among young immigrants and improving their qualifications need to be further addressed.

## 2. BELGIUM

### 2.1. LABOUR MARKET SITUATION AND KEY TRENDS

#### 2.1.1. Recent trends

Despite the improvements of the recent years, the Belgian labour market shows wide gaps between different groups, and employment rates far from the EU average.

According to LFS data <sup>(44)</sup>, the total employment rate in 2008 was at 62.4%, respectively 0.4 pp. and 2.5 pps. higher than in 2007 and 2001. The female employment rate at 56.2% remains well below the Lisbon target set for the EU as a whole. Despite a strong increase (more than 9 pps. since 2001), the older workers employment rate at 34.5% is among the lowest in the euro area. After growing at a sustained pace in 2007 (+2.7%), employment decelerated in 2008 (+1.5%), more for males (from +2.1% to +0.7%) than females (from +3.5% to +2.5%). Due to a milder increase in the labour force (+1.0%), the unemployment rate kept declining down to 7.0% (from 7.5% in 2007). The effects of the financial crisis on the Belgian labour market, still light in 2008, became sharper in 2009Q1 when employment rate fell by 0.5 pp. and the unemployment rate edged up to 8% - the highest rate since almost three years.

Age gaps in employment and participation rates clearly point towards older workers as the main responsible of the low overall employment rate. In fact, against an activity rate for prime age workers of 85.7% and an employment rate of 80.5%, the corresponding rates for older workers are about 50 pps. lower. Also, the unemployment rate of the young, at almost 21% in 2008, was three times larger than the unemployment rate of population aged between 25 and 54 (prime aged).

As for the nationality of the workforce, while the activity rate of nationals is 3 pps. higher than that of foreigners (67.4% versus 64.3%), the employment rate of nationals (55.2%) is 8 pps. higher than that of non-nationals. Hence, non-nationals still have a very high unemployment rate

(14.2% in 2008, more than twice higher than the rate of nationals).

The gap between nationals and non-nationals is probably largely due to skills mismatch, besides cultural and discrimination factors. The skill gaps are among the highest in Europe, with low-skilled having an activity rate of 45.4% (almost 27 pps. and 41 pps. below the activity rate of medium- and high-skilled), an employment rate of 39.7% (27.3 pps. and 43.3 pps. below the employment rate of medium- and high-skilled) and an unemployment rate of 12.5% (respectively +5.5 and +8.9 pps. higher than the medium- and high-skilled).

Temporary employment is less common than in other countries (8.3% of the total), even if it is much higher for female (10.2%) than for male workers (6.6%). Part-time contracts constitute an important part of total female employment (40.8%).

Regional imbalances are very pronounced and even widening in the last years. Contrary to what seen in the rest of the EU, the gap between the region with the highest and lowest unemployment rate widened to 12.8 pps., almost 4 pps. more than in 2001.

Long-term unemployment was at 47.7% of total unemployment in 2008, registering a decrease of 2.6 pps. with respect to 2007. In 2008 labour productivity decreased by 0.5%, mainly as a consequence of the use of reduced-hours schemes at onset of the financial crisis.

#### 2.1.2. Outlook for the next two years

The financial crisis is expected to have an important impact on the Belgian economy. The European Commission (ECFIN) previews a fall in the output (-3.5% in 2009 and -0.2% in 2010). This should result in an upward trend in unemployment rate, which is seen at 8.5% this year and 10.3% next year.

<sup>(44)</sup> Data from administrative datasets differ substantially from those from LFS.

Table II.2.1: **Short-term forecasts - BE**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	1,1	-3,5	-0,2	-4,1	-0,5	-3,8	0,3
<b>Employment growth</b>	1,6	-1,2	-1,5	-0,2	0,2	-3,1	-0,7
<b>Unemployment rate</b>	7,0	8,5	10,3	8,3	10,6	9,5	10,5

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.2.2: **Labour market indicators**

	BE		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	59,9	62,4	62,5	65,9
Men	68,8	68,6	70,8	72,8
Women	51,0	56,2	54,3	59,1
<b>Employment rate 55-64</b>	25,1	34,5	37,5	45,6
Men	35,1	42,8	47,4	55,0
Women	15,5	26,3	28,2	36,9
<b>Participation rate 15-64</b>	64,2	67,1	68,5	70,9
Men	73,2	73,3	76,9	78,0
Women	55,1	60,8	60,2	63,9
<b>Participation rate 55-64</b>	25,9	36,1	40,1	48,1
Men	36,3	44,4	50,8	57,9
Women	15,9	27,9	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	6,6	7,0	8,5	7,0
Men	5,9	6,5	7,7	6,6
Women	7,5	7,6	9,4	7,5
<b>Long-term unemployment rate (2)</b>	48,6	47,7	46,8	37,0
<b>Self-employment (3)</b>	8,7	8,5	9,5	9,8
<b>Fixed term contracts (3,4)</b>	8,8	8,3	12,4	14,0
15-24	26,4	29,5	35,9	40,0
55-64	3,5	3,8	6,8	6,7
<b>Part-time contracts (4)</b>	18,4	22,4	:	17,6
Men	4,9	7,5	:	7,0
Women	36,8	40,8	:	30,6
<b>Employment rate 15-64</b>	59,9	62,4	62,5	65,9
Low-skilled	40,8	39,7	47,9	48,1
Medium-skilled	66,2	67,0	68,3	70,6
High-skilled	83,6	83,0	82,8	83,9
<b>Regional unemployment (5,7)</b>	8,9	12,8	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	81,3	80,0	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	20,3	14,8	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

## 2.2. THE SHORT TERM RESPONSE TO THE CRISIS

Belgium's stimulus packages include a permanent reduction of the tax wedge on labour, in part for low-income workers, as well as a number of measures to enhance the functioning of the labour market, such as a better follow-up of dismissed workers due to restructuring, more forceful outplacement obligations for employers, improved access to training (e.g. for those who are temporarily unemployed) and qualifications, as well as better job seeker's advice. Training and counselling for the unemployed were reinforced, especially for older workers, and the income supplement for older unemployed who go back to work extended, by removing the seniority condition.

Temporary unemployment (*'Chomage technique'*) allowances were temporarily increased (replacement rate up from 60-65% to 70%-75% and wage ceiling up by 300€ from 1906€ to 2206€) and unemployment benefits extended to temporary and interim workers (with a tenure of more than 3 months in the same company). Unemployment allowances have been permanently increased as of January 2009: the wage ceiling has been raised by 300€ for the first 6 months of unemployment (leading to a ceiling at 2206€); by 150€ from the 7th month until the 12th of unemployment; and by +0.8% after 12 months of unemployment. The goal is to make unemployment benefits regressive over time.

**Box II.2.1: Recommendations (EU, OECD, IMF) - BE**

**EU (CSRs 2009):**

Further reduce the tax burden on labour, especially by reducing the tax wedge on low wage workers, while in the medium-term improving expenditure restraint to support fiscal consolidation.

Within an integrated flexicurity approach, accelerate the implementation of coordinated policy measures that improve labour market efficiency, review unemployment benefits to facilitate a rapid return of the unemployed to the labour market, enhance labour market participation (especially for older workers and people with a migrant background), reduce regional disparities and increase participation in lifelong learning across all regions.

**OECD (Going for Growth, 2009):**

To fully benefit from the increased focus on activation policies, the level of unemployment benefits should be reduced with unemployment duration to raise incentives for job seekers to search for employment.

Target all wage subsidies and reductions of social security contributions to low-wage earners, to avoid substitution effects between different support schemes. In particular, other reductions of social security contributions for other types of workers, such as for shift-workers, should be phased out.

Increase the scope for individual companies to opt out from sectoral agreements, to reduce the large and persistent geographical mismatches in the labour market. To make wage determination more flexible, wage indexation should be abolished.

**IMF (Article IV, 2008):**

Give consideration to reforming the wage indexation parameters to permit full coverage for the poorest, most vulnerable workers, while allowing for less-than complete indexation for the economy as a whole.

Improve activation policies and remove inactivity traps keeping potential workers out of the labour market. These measures should be coupled with increase training opportunities and focused on improving labour productivity.

The existing system of temporary unemployment allows firms to reduce employees' working time without resorting to dismissals and thus provides support to both employers and employees. While costly in itself, this system has up to now contributed to the relatively contained increase in unemployment and might also facilitate the pick up of production once demand accelerates as employees with relevant experience have been retained. However, as the crisis becomes more protracted, a larger increase in unemployment cannot be excluded.

**2.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

While the level of labour productivity in Belgium (measured in terms of output per hour worked) is high and comparable to the US, its growth has been low. The weak dynamics of productivity is responsible for the deterioration of competitiveness of the last years, which is the main challenge the country has to face particularly in order to allow the economy to benefit from a rebound of the world economy. It puzzles



many<sup>(45)</sup> that the high level of productivity is mainly due to the relatively few low-skilled (and low-productive) employed and a relatively short working time. Yet the low employment rates for core groups remain the main challenge.

The actions taken so far by the government to respond to the crisis appear to be broadly well designed to face the short-term consequences of the recession. However, further efforts have to be made in order to deal with the long-term challenge of increasing competitiveness and improving labour market outcomes.

The long-term unemployment rate is among the highest in the EU, which reflects structural problems stemming from large financial disincentives to take up work, unlimited unemployment benefit duration, wage setting mechanism producing high degree of real wage rigidities, long job tenure (higher than EU average) and little job mobility. Employment rates for older workers are low, as early retirement schemes remain pervasive and implicit taxes on continued work are high.

High marginal effective tax rates (especially for women) and their interaction with benefits, as well as high reservation wages, depress labour supply both in terms of employment and hours worked. Furthermore, unlimited unemployment benefit duration tends to depress labour supply even further, while the employability of older workers is also hampered by low participation in lifelong learning and steep seniority pay. The latter drives in fact wages of older workers above their marginal productivity. In this setup, lower marginal tax rates might boost employment, in particular if targeted to (low-skilled) female employment, while properly designed activation policies could offset the financial disincentives to work enshrined in the benefit system.

Consistent with an intermediate degree of strictness of EPL, the share of temporary workers is relatively low; yet a large fraction of temporary workers declared to be involuntarily in this type work relationship. Furthermore, in-work poverty risk by temporary contracts is about three times higher than in-work poverty risk by permanent contracts (though below the EU27 average). Conversion rates from temporary to permanent contracts are intermediate.

Strict employment protection legislation for temporary contracts can partly explain the low participation rate of young people, while numerous pathways into early retirement contribute to the very low participation of older workers.

Reinforcing the activation strategy, in particular by extending the activation measures to workers over 50, might be necessary to cope with the restructuring of the economy that the recession may bring. This strategy should be accompanied by lifelong learning programs that guarantee continuous education and a better adaptation of the workforce.

The top-down determination of wages, with a prominent role of wage indexation and the "wage norm", limits the response of wages to local labour market developments. In addition, the high statutory minimum wage (with no differentiation by region) depresses labour demand especially for low-skilled and new entrants in the labour market (despite some differentiation in the minimum wage by age).

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<sup>(45)</sup> See OECD (2007).

## 3. CYPRUS

### 3.1. LABOUR MARKET SITUATION AND KEY TRENDS

#### 3.1.1. Recent trends

Many years of sustained economic growth allow Cyprus to have high employment and participation rates in comparison with other European countries. All targets set by the Lisbon Strategy have already been achieved. In 2008 the total employment rate was at 70.9% (3 pps. higher than the 2001), while female employment rate was at 62.9% (5.8 pps. more than 2001). The rate of older workers (55-64) was at 54.8%, but some concerns arise because of its decline (by 1.1 pps.) compared to 2007. Youth unemployment dropped from 13.9% in 2005 to 8.9% in 2008, well below the EU27 average (15.5%). In 2009q1 it increased to 10%, yet well below the EU average (19%).

After years of buoyant growth, employment grew in 2008 by only 0.9% (down from 5.6% in 2007). The deceleration hurt both the male (from 4.2% to 0.6%) and the female component (from 7.4% to 1.3%). Since the labour force also grew at a lower pace (0.6%), the unemployment rate in 2008 was still falling relative to 2007 by 0.2 pp. to 3.8%. However, the activity rate showed a decline from 73.9% in 2007 to 73.6% in 2008, signalling that the crisis may cause discouragement of unemployed workers.

One significant feature of the Cypriot labour market is the employment of foreign labour in specific sectors of economic activity in an effort to offset labour shortages. Foreign labour constitutes around 14.6% of labour force and is employed in mainly low skill occupations sustaining lower wages in these sectors.

Nominal earnings including COLA<sup>(46)</sup> increased at a rate of around 7.2% in 2008, following a 3.1% increase in 2007. The large increase of nominal earnings in 2008 was based upon the salary increases granted to civil servants, bank officers and other public service workers that were agreed during the bargaining process between employers and employees. High nominal wages were also

granted in the construction sector due to its buoyant performance during the year.

Despite recent improvements, gender gaps are high. The difference between male and female employment and activity rates amounts to 16.3 pps., which implies that many women are discouraged to participate into the labour market. As a consequence, the gender gap in unemployment rates is small (3.3% for males and 4.3% for females). Age gaps are less relevant than in many euro area countries, even if young workers face a tight labour market since their unemployment rate is almost three times that of prime-age and older workers (8.9% and 3.2% respectively).

The low-skilled have a participation rate of 53.7%, about 2 pps. lower than in 2007 and below the euro-area average. It is also worth noticing that the activity rate of high-skilled followed a path similar to the low-skilled: it declined in 2008 by 0.4 pp. to 89.1% (1.6% from 2001's level).

Temporary employment represents 14% of the total and is very unevenly distributed between males and females (20.0% of female employment is temporary against 8.2% of male). Part-time contracts constitute about 8% of total employment, (but 11.4% of the female employment). The long-term unemployment rate (12 months or more) was at 13.6% in 2008, registering a remarkable decrease (5 pps.) with respect to 2007. In 2008, labour productivity grew by 1% and hourly labour productivity by 0.9%. The main sources of economic growth were the increase in total population and in the share of working population, as in past years.

#### 3.1.2. Outlook for next two years

The financial crisis is expected to have an impact through the fall in the global demand. After a strong positive growth in 2007 (3.7%), output is expected to stagnate in 2009 and to 0.7% in 2010, according to Commission Spring 2009 forecasts. The growth deceleration is expected to result in a negative growth of employment in 2009 (-0.4%) and only very a light recovery in 2010 (0.1%). Unemployment rate will hover around 5% and 6% respectively in 2009 and 2010.

<sup>(46)</sup> Cost of Living Allowance, a wage indexation system adjusting salaries to past 6 months domestic inflation.

Table II.3.1: **Short-term forecasts - CY**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	3,7	0,3	0,7	:	:	0,3	2,1
<b>Employment growth</b>	2,6	-0,4	0,1	:	:	0,3	0,8
<b>Unemployment rate</b>	3,8	4,7	6,0	:	:	4,6	4,3

Source: EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.3.2: **Labour market indicators**

	CY		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	67,9	70,9	62,5	65,9
Men	79,5	79,2	70,8	72,8
Women	57,1	62,9	54,3	59,1
<b>Employment rate 55-64</b>	49,1	54,8	37,5	45,6
Men	66,8	70,9	47,4	55,0
Women	32,0	39,4	28,2	36,9
<b>Participation rate 15-64</b>	70,7	73,6	68,5	70,9
Men	81,6	82,0	76,9	78,0
Women	60,6	65,7	60,2	63,9
<b>Participation rate 55-64</b>	52,0	56,6	40,1	48,1
Men	69,6	73,0	50,8	57,9
Women	35,0	41,0	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	3,8	3,8	8,5	7,0
Men	2,6	3,3	7,7	6,6
Women	5,3	4,3	9,4	7,5
<b>Long-term unemployment rate (2)</b>	21,2	13,5	46,8	37,0
<b>Self-employment (3)</b>	12,9	11,7	9,5	9,8
<b>Fixed term contracts (3,4)</b>	10,8	14,0	12,4	14,0
15-24	14,7	20,8	35,9	40,0
55-64	5,7	4,9	6,8	6,7
<b>Part-time contracts (4)</b>	7,4	6,8	:	17,6
Men	3,7	3,5	:	7,0
Women	12,1	10,8	:	30,6
<b>Employment rate 15-64</b>	67,9	70,9	62,5	65,9
Low-skilled	52,9	50,9	47,9	48,1
Medium-skilled	70,9	74,1	68,3	70,6
High-skilled	88,2	86,5	82,8	83,9
<b>Regional unemployment (5,7)</b>	0,0	0,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	83,6	89,5	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	20,5	30,7	18,0	22,5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

*Box II.3.1: Recommendations (EU, OECD, IMF) - CY*

**EU (CSR 2009):**

Continues with the efforts to expand lifelong learning opportunities, especially for the low skilled, unemployed and disadvantaged groups, by implementing actions within the approved Lifelong Learning National Strategy including the reforms of the vocational, education, training and the New Modern Apprenticeship Scheme. Address the very high gender pay gap.

**3.2. THE SHORT TERM RESPONSE TO THE CRISIS**

Cyprus has adopted some fiscal stimulus and structural measures, as a response to the crisis. Discretionary measures amount to around 1½% of GDP and include the February 2009 stimulus package, which is in line with the European Economic Recovery Plan (EERP). The measures are timely, as the package is front-loaded, and most of the measures are temporary.

So far, the labour market has remained at almost full employment, but unemployment is set to rise in the coming months. The increase is expected to mainly derive from shedding in construction and tourism, the sectors most exposed to the downturn, although government investment in infrastructure is expected to somewhat mitigate pressures on employment in the former. In view of the worldwide recession and with the aim of minimising its effects on the labour market, Cyprus has put forward a special Prevention-Action Plan, comprising mainly the following measures:

- in-company training programmes for employees faced with the risk of lay-offs in sectors most affected by the crisis;
- training programmes for upgrading the skills of unemployed persons; accelerated training programmes for newcomers;
- work experience to unemployed tertiary education graduates;
- intensifying the support provided by the Public Employment Services (PES) for assessing job vacancies, providing job placement services

and facilitating job transitions, including individualized counselling.

Beyond the positive effect on private sector employment, additional staff would also be employed by the government departments involved in the implementation of the infrastructure projects, while the recruitment of seasonal workers in the public sector is being accelerated. Also, inspection mechanisms are being reinforced in order to fight illegal employment and undeclared work.

**3.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

Although Cyprus performs better than the EU average in terms of labour market outcomes, its labour market is characterised by large gender gaps in employment rates and pay, and mismatches in the demand for and supply of skills. The measures promoted (encouragement of women's entrepreneurship; promotion of training and employability of economically inactive women; and development of family support services and care facilities) aim at increasing the participation of women in the labour market, which should normally contribute to reducing the gender pay gap.

Even though the short-term measures will not prevent a significant GDP slowdown in 2009 and 2010, they will act as stabilising factors.

In parallel, a new legislation in relation to the long-term sustainability of the General Social Insurance Scheme came into force on 1 April 2009. The legislation includes measures which aim at both

increasing income and reducing expenditure of the Social Insurance Fund (SIF).

To facilitate the adjustment of the workforce, the Human Resources Development Authority (HRDA) is coordinating a New Scheme for Training of the Unemployed for the sectors where an increase in unemployment is expected. The aim is to have trained local or EU residents to replace third-country nationals, employed on a temporary basis, especially those for whom the work permit will be expiring. Bearing in mind that more than 14% of the workforce is third-country nationals, this is a significant measure for reducing labour supply pressures.

Despite the fact that most work is carried out on a full-time basis under relatively inflexible real wages with a low incidence of performance pay, and despite a relatively inflexible public sector, the high incidence of self-employment and the use of foreign labour supply inject considerable flexibility in the labour market and in the Cypriot economy more in general. Yet, easy access to low-cost foreign labour has moderated efforts to tap pools of labour supply (teenagers, married women, retirees) that would come forth only through flexible forms of employment. In the case of small, open and services-oriented economies, the loss of autonomous monetary policy gives a more prominent role to competitiveness as channel of adjustment, and therefore to productivity and wage developments. Thus, also in the case of Cyprus steps to boost productivity through investment in knowledge, new technologies and skills, the business environment, and innovation remain useful, while efforts to ensure that labour market institutions contribute to the efficiency of the wage-setting process are important. Allowing wages to reflect sector or company productivity gains may contribute to a more competitive sectoral outlook and a more efficient allocation of labour.

The approval of the Cyprus national Life-long-learning Strategy in 2007 is a significant advance. The establishment of a monitoring mechanism for the implementation of the Life-long-learning Strategy will be helpful for the success of this strategy. A list of policy measures in the field of lifelong learning is provided in the NPR, but it is also admitted that “additional efforts are required to increase the participation in training and life long learning”. The approval of the New Modern Apprenticeship (NMA) Scheme may provide a learning pathway for young persons who withdraw from the education system early, enabling them to upgrade their skills and become more employable, ensuring mobility between education, apprenticeship and employment, thus minimising the risk of social exclusion. However, according to the information provided in NPR, the implementation of the scheme has been delayed and due start in the school year 2010-2011.

Measures such as those encouraging women’s entrepreneurship, promoting training and employability of economically inactive women, on care services, on the reconciliation of family and personal life are expected to enhance female labour market attachment and, ultimately, contribute to narrow the gender pay gap.

## 4. FINLAND

### 4.1. LABOUR MARKET SITUATION AND KEY TRENDS

#### 4.1.1. Recent trends

The prolonged expansionary period that has characterized the Finnish economy in the last decade is largely confirmed by all labour market indicators. All the Lisbon targets have been fully achieved since 2007, when the total employment rate overcame 70% for the first time (71.1% in 2008 up by 0.8 pp. from 2007 level and by 2.9 pps. from 2001 level). The female employment rate is still increasing (69.0% in 2008 from 68.5% in 2007 and 65.4% in 2001). At the same time, the older workers employment rate registered the quickest growth, being now at 56.5%, almost 11 pps. higher than 2001 and 1.4 pps. more than 2007. The labour market weakness that started to be felt at the end of 2008 worsened in 2009Q1. Decelerating growth has resulted in rising unemployment, along with wage pressures and eroding competitiveness.

Following three years of sustained growth since 2005, employment still grew at a fast rate in 2008 (+1.6%), only slightly less than in 2007 (+1.8%). While the female employment growth almost halved in 2008 as compared to the year before (from +2.1% in 2007 to +1.2% in 2008), the male employment rate rose by 1.9% in 2008, from 1.5% in 2007. Total labour force rose by 1.0% and the unemployment rate decreased by 0.5 pp. to 6.4%, in line with the trend of recent years (the rate was at 9.1% in 2001).

Compared to other euro area countries, during the last decade the increase in the older workers' employment was particularly relevant. Thus, the gap with the employment rate of prime age workers fell from 35 pps. in 2001 to 27 pps. in 2008. Conversely, the gap in the employment rates of young and prime-age workers remained unchanged at around 40 percentage points. Even so, the relative high unemployment rate of young people (more than three times higher than for prime-age workers) remains a cause of concern.

Progress in the labour market attachment of non-nationals has been noticeable in the last decade. The difference between nationals and non-

nationals employment rates shrank to 10.4 pps. in favour of the former, from 14.3 pps. in 2001. The unemployment rate gap remained high (9.5 pps.), although non-nationals showed a remarkable reduction in their unemployment rate, from 23.7% in 2001 to 15.7% in 2009.

Some concerns arise regarding the gap between groups with different skills. The activity rate of the low-skilled declined from 60.1% in 2001 to 53.2% in 2009 and their employment rate fell from 49.4% to 46.4% respectively in 2001 and 2009. Thus, the strong reduction in unemployment rate of low-skilled registered from 2001 to 2009 (-5.0%) can be attributed almost completely to a discouragement effect.

Temporary employment represents 14.9% of the total and it is much higher for female (18.7%) than for male employment (11.1%). Since 2001, the share of temporary employment over the total declined by 1.5 pps. Part-time contracts are less diffused than in other euro-area countries (12.7% against an average of 19.3% in the euro area) and obviously the share is much higher for female workers than for males.

Signalling a well functioning labour market, together with strong economic growth, the proportion of unemployed for more than 12 months stood at 18.6% in 2008, much lower than in many other European countries, registering a remarkable decrease of 4.4 pps. with respect to 2007 and of 9.4 pps. with respect to 2001. In 2008 labour productivity shrank by 0.5% from +2.0% in 2007. Apparently, the lower growth rate of GDP (+0.9% in 2008 versus +4.2% in 2007) had not completely translated into lower employment.

#### 4.1.2. Outlook for next two years

Due to its strong link with the world demand, the Finnish economy is expected to pay a high price to the current world recession. After still positive growth in 2008 (+0.9%), ECFIN Spring forecasts expect an output fall of 4.7% in 2009 and a slight recovery in 2010.

This should result in negative employment growth both this year and in 2010, equal to -2.9% and -0.8% respectively. The unemployment rate should

Table II.4.1: Short-term forecasts - FI

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	0,9	-4,7	0,2	-4,7	0,8	-5,2	-1,2
<b>Employment growth</b>	1,5	-2,9	-0,8	0,2	0,1	-3,8	-1,8
<b>Unemployment rate</b>	6,4	8,9	9,3	8,7	10,8	8,5	9,3

Source: EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.4.2: Labour market indicators

	FI		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	68,1	71,1	62,5	65,9
Men	70,8	73,1	70,8	72,8
Women	65,4	69,0	54,3	59,1
<b>Employment rate 55-64</b>	45,7	56,5	37,5	45,6
Men	46,6	57,1	47,4	55,0
Women	44,9	55,9	28,2	36,9
<b>Participation rate 15-64</b>	75,0	76,0	68,5	70,9
Men	77,6	77,9	76,9	78,0
Women	72,4	73,9	60,2	63,9
<b>Participation rate 55-64</b>	50,3	59,7	40,1	48,1
Men	51,3	60,6	50,8	57,9
Women	49,4	58,8	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	9,1	6,4	8,5	7,0
Men	8,6	6,1	7,7	6,6
Women	9,7	6,7	9,4	7,5
<b>Long-term unemployment rate (2)</b>	28,0	18,6	46,8	37,0
<b>Self-employment (3)</b>	8,3	8,0	9,5	9,8
<b>Fixed term contracts (3,4)</b>	17,9	14,9	12,4	14,0
15-24	51,1	39,6	35,9	40,0
55-64	6,4	6,9	6,8	6,7
<b>Part-time contracts (4)</b>	11,8	12,7	:	17,6
Men	7,4	7,9	:	7,0
Women	16,6	17,8	:	30,6
<b>Employment rate 15-64</b>	68,1	71,1	62,5	65,9
Low-skilled	49,4	46,4	47,9	48,1
Medium-skilled	73,2	75,1	68,3	70,6
High-skilled	85,5	85,6	82,8	83,9
<b>Regional unemployment (5,7)</b>	0,0	0,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	65,0	64,5	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	34,1	25,2	18,0	22,5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

increase from 6.4% in 2008 to 8.9% in 2009 and 9.3% in 2010.

*Box II.4.1: Recommendations (EU, OECD, IMF) - FI*

**EU (2009, no CSR addressed):**

A number of reforms are ongoing to address bottlenecks in the labour markets, but a reinforced implementation of measures is needed to tackle increasing labour mismatches. Economic growth and competitiveness are held back by labour shortages that will increase in the medium term because of a rapidly ageing population. Given the already high employment level, the main challenges will be to further enhance participation rates and reduce structural unemployment stemming from regional, sectoral and skills mismatches.

**OECD (Going for Growth, 2009):**

Continue to reduce taxes on labour income and ensure fiscal sustainability by shifting the tax burden towards less distortionary revenue sources. Average and marginal tax wedges on labour income are among the highest in the OECD. In combination with the compressed wage structure, this poses problems for the employment of the low-skilled and for both attracting high-skilled workers and retaining high-skilled jobs.

Abolish the special treatment of unemployed workers aged 59 and over (the “unemployment pipeline”) with a view to lifting the effective retirement age. Grant the disability pension only on medical grounds rather than on social criteria as permitted under the current system.

Increase the activation of persons on disability schemes with some work capacity.

Ensure that the activation reform is strictly enforced, including the requirement that the unemployed relocate if offered employment in other regions of the country. In addition, reduce the financial support available to the long-term unemployed to increase the incentive to take up work, including tapering unemployment benefits over time.

Promote employment and economic flexibility by negotiating a larger share of annual wage increases at the firm level and allowing opt-out clauses from central collective agreements, thus making wages more responsive to local conditions.

**IMF (Article IV, 2009):**

Steps to strengthen activation of the unemployed and partially disabled, shorten time spent in tertiary education, improve training and reduce labour market mismatches, and lessen poverty traps will continue to be crucial. The next round of wage bargaining ought to reflect productivity increase and differentials to stem rising unit labour costs. Measures to raise competition, above all in “sheltered” sectors of the economy, are required to enhance productivity growth.

#### **4.2. THE SHORT TERM RESPONSE TO THE CRISIS**

The governments' stimulus measures were announced in several waves, with the measures announced in 2008 concentrating mainly on permanent income tax cuts to support consumers'

purchasing power, and those contained in the package of 30 January 2009 focusing more on stimulating infrastructure and housing investment with a view to upholding employment. The Government has estimated that the overall impact of the various measures will amount to 1.8% of GDP in 2009 and to 1.4% of GDP in 2010. The recovery measures are largely related to the medium-term reform agenda. Various structural



measures with a more medium- to long-term perspective have been also planned in the domain of functioning of the labour and product markets, often with no major budgetary impact. Over 80% of the total stimulus package for 2009 is spent on permanent tax cuts (income taxes, VAT and employers' social contributions), which should support consumers' purchasing power, work incentives and employment over the duration of the crisis. Measures targeted to other priority areas such as innovation, environment, and employment have also been adopted, albeit with relatively little additional state financing in relation to the total size of the stimulus packages.

Overall, the stimulus packages comply with the general principles of the European Economic Recovery Plan (EERP). In particular, the mix of revenue and expenditure measures appears to be targeted towards the internal sources of economic challenges and is timely. The bulk of the fiscal stimulus is given through permanent tax cuts, which are not planned to be reversed given the long-term tax policy goals of the Government.

The direct increase of government financing of active labour market measures is marginal in relation to the total size of the stimulus package, and is mostly spent on training, vocational education and workers' relocation measures. However, the government is also planning various structural measures to improve the functioning of the labour market with little direct budgetary impact.

The income tax cuts make up about two thirds of the total size of different stimulus packages and are for most part equally spread across all income groups and only some more minor specific measures benefit specific groups- like families with children, people with lower incomes and income on timber sales. They have been designed to serve the double aim of boosting domestic demand, as well as of reducing the relatively high tax burden on labour and increasing employment incentives. As part of the Lisbon process, the government is presently undertaking a comprehensive review of work incentives. The Public employment services (PES) have reinforced their support and follow-up to job search activities by jobseekers; their operative model has been also modified to reach laid-off workers and offer them special guidance and counselling.

As of 1 July 2009, the group of jobseekers who qualify for the "change security" scheme has been broadened to all those workers who have been laid off for a minimum of 180 days or whose fixed-term employment contract has finished after having been employed for at least 5 years during the last 7 years. "Change security" consists of paid leave higher than normal unemployment allowances for seeking a new job or an employment programme. The maximum period of payment (36 months) of the adjusted unemployment allowance will be permanently abolished as of 2010. The adjusted unemployment allowance can be paid to a person working part-time but seeking full-time employment, whose daily or weekly hours have been reduced on account of a lay-off or an industrial action not related to his terms of employment, who has received a full-time job for a fixed term of a maximum of two weeks or who has income from part-time entrepreneurship.

#### **4.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

From a long term perspective, the Finnish economy faces pressing challenges due to a number of pitfalls of supply-side nature, which require reforms that boost competitiveness. This calls both for product and labour market reforms.

On the labour market front, it has proved difficult for Finland so far to facilitate the movement of production factors from declining sectors to more dynamic ones, and, further, from slow growing to buoyant regions. As Finland points out in its NRP, "structural unemployment is based on occupational and regional incompatibility of demand and supply", so that there are both regional mismatches and skills-mismatches. Two institutions have largely contributed to these mismatches: the wage bargaining framework and the tax and benefit system. Besides, easy access to education and accommodation and the related housing policy have a bearing on how willing people are to relocate.

Sluggish trend productivity growth threatens long-term growth potential and raises unit labour costs. Although growth in Finland's tradable sector has been remarkably high, the same cannot be said for the non-tradable. Productivity growth has been

particularly sluggish in the sheltered sectors (agriculture, utilities, and trade). Given that the exposed industries purchase a certain amount of inputs from the non-tradable sector, slowing productivity growth in the latter deteriorates the external competitiveness of Finland. As long as Finland's export base remains narrow and highly specialized, it will continue to be highly vulnerable to erosion in terms of trade – the price of Finnish industrial exports relative to that of trading partners has indeed been falling – which would call for sustained reduction in unit labour costs.

Finland's wage negotiation framework is largely centralized and provides weak incentives to employees to move to a different sector (or region) for work. This is due to an insufficient degree of wage differentiation for each skill level and occupation, which limits the inter-sectoral/regional labour mobility. Relatively tight EPL possibly contributes to wage developments which are not related to productivity growth. There has been recently a significant shift towards company-level agreements. In addition, the possibility of further strengthening the link of wages to productivity was considered in the decentralized wage agreements of the second half of 2007 – in particular, by making easier to resort to opting out clauses. Otherwise, skill shortages in some sectors (or regions) may prevail together with high unemployment rates in other sectors (or regions). Insufficient mobility across regions is also supported by weak incentives of unemployed workers to move, despite second residence subsidy.

Finland succeeded to combine generous welfare system with high employment rates across all age groups and, in particular, with a relatively high female employment rate. Despite the fact that both tax wedges and long-term net replacement rates are relatively high, and their interaction may distort work incentives, in particular for one-earner couple either with or without children, the unemployment and inactivity traps for the second earners are relatively low, thus supporting the high female employment rate, 10 pps. above the euro-area average.

Finally, imminent population aging - the working-age population is set to decline after 2010- will shrink working-age cohorts. Therefore, raising the employment rate of older workers through activation measures and reducing the access to the "unemployment pipeline" - which allows older persons to extend their entitlement to unemployment benefits up to old-age pension - seems essential to boost potential growth. It is crucial that hysteresis effects and unemployment persistence be averted in the current juncture, also on account of ageing populations. Creating jobs for young people has been the main focus of recent policy measures but it is equally important to ensure that older workers remain employed and that work careers last longer.

## 5. FRANCE

### 5.1. LABOUR MARKET SITUATION AND KEY TRENDS

#### 5.1.1. Recent trends

The total employment rate in 2008 was 65.2%, up by 0.6 pp. from the 2007's level and only by 2.5 pps. from 2001. On the contrary, the female employment rate reached 60.7%, +4.3 pps. with respect to 2001. The older (age 55-64) workers employment rate is at 38.3%, very far away from the Lisbon target (50%), although with an increase of 7.6 pps. since 2001.

After a sustained employment growth in 2007, the expansion of employment slowed down in 2008 (+1.4%). This deceleration was mainly due to female employment (from 2.6% to 1.6%), while male employment accelerated further (from +1.0% to +1.2%). Due to a much milder increase in labour force (+0.7%), the unemployment rate kept declining to 7.8% (from 8.3% in 2007). The weakness of the second half of 2008 worsened during 2009. In July 2009 the unemployment rate was at 9.8%, or 2 pps. higher than in July 2008.

Compared to other countries, gender gaps in employment appear not very pronounced. Instead age gaps are relevant. For prime age workers the activity rate is 88.8% and employment rate 83.2%, respectively almost 48 pps. and 45 pps. more than for older workers. Young workers suffer an unemployment rate of 18.1%, almost three times as large as the prime age unemployment rate. As for nationality of the workforce, France is one of the European countries with the most segmented labour market. While the activity rate of nationals is 5.5 pps. higher than foreigners (70.7% versus 65.2%), the employment rate of non-nationals is only 56%, almost 10 pps. less than nationals.

Hence, non-nationals undergo a still very high unemployment rate (14.1% in 2008, more than twice higher than the rate of nationals). This, together with the gap in the activity rates, points to discouragement effects among non-nationals. The gap among workers with different skills in terms of activity, employment and unemployment rates appears in line with the euro area average.

Temporary employment represents 14.3% of the total and it is slightly higher for female (15.5%). Part-time contracts constitute less than one third of total female employment (29.3%).

Regional imbalances are very pronounced in France. The standard deviation of the regional employment rates was at 6.7 in 2007, while that of unemployment rate was at 5.5, still high, but down from the 6.8 in 2001.

Long-term unemployment ratio at 37.6% in 2008 went down (-2.6 pps.) compared to 2007. In 2008, labour productivity shrank by 0.1% from +1.0% in 2007.

#### 5.1.2. Outlook for next two years

After positive output growth in 2007 (0.7%), the Commission foresees negative output growth in 2009 (-3.0%) and 2010 (-0.2%). Despite a slightly better outlook according to the September interim forecast (-2.1% and +0.8% respectively in 2009 and 2010), given the usual late reaction of employment to the economic cycle, employment growth is expected to be negative in 2009 and 2010, while the unemployment rate is set to enter a double digit territory, after a steep increase in 2009.

Table II.5.1: **Short-term forecasts - FR**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	0,4	-3,0	-0,2	-3,0	0,2	-3,0	0,4
<b>Employment growth</b>	0,5	-2,2	-1,2	-0,6	0,1	-1,8	-0,6
<b>Unemployment rate</b>	7,8	9,6	10,7	9,7	11,2	9,6	10,3

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database update July 2009).

Table II.5.2: **Labour market indicators**

	FR		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	62,7	65,2	62,5	65,9
Men	69,8	69,8	70,8	72,8
Women	55,7	60,7	54,3	59,1
<b>Employment rate 55-64</b>	30,7	38,3	37,5	45,6
Men	34,9	40,6	47,4	55,0
Women	26,7	36,1	28,2	36,9
<b>Participation rate 15-64</b>	68,6	70,4	68,5	70,9
Men	75,1	75,0	76,9	78,0
Women	62,3	65,9	60,2	63,9
<b>Participation rate 55-64</b>	32,6	40,2	40,1	48,1
Men	36,9	42,7	50,8	57,9
Women	28,5	37,8	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	8,3	7,8	8,5	7,0
Men	7,0	7,2	7,7	6,6
Women	9,9	8,3	9,4	7,5
<b>Long-term unemployment rate (2)</b>	36,8	37,6	46,8	37,0
<b>Self-employment (3)</b>	5,5	5,2	9,5	9,8
<b>Fixed term contracts (3,4)</b>	14,9	14,2	12,4	14,0
15-24	52,2	51,4	35,9	40,0
55-64	5,5	6,2	6,8	6,7
<b>Part-time contracts (4)</b>	16,3	16,7	:	17,6
Men	4,9	5,6	:	7,0
Women	30,3	29,3	:	30,6
<b>Employment rate 15-64</b>	62,7	65,2	62,5	65,9
Low-skilled	46,6	47,2	47,9	48,1
Medium-skilled	69,7	69,6	68,3	70,6
High-skilled	79,5	81,0	82,8	83,9
<b>Regional unemployment (5,7)</b>	20,5	17,5	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	:	54,9	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	25,3	33,5	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.5.1: Recommendations (EU, OECD, IMF) - FR**

**EU (CSRs 2009):**

Within an integrated flexicurity approach, further modernises employment protection in order to reduce labour market segmentation among contract types and support entry and transitions in the labour market, notably of the young; and improve lifelong learning opportunities so they are better aligned with labour market needs

**OECD (Going for Growth, 2009):**

Continue to limit future increases in the minimum wage so as to allow the minimum cost of labour to fall in relative terms. Also, take advantage of the introduction of the new income support scheme to integrate the existing scheme in order to have a single earned income tax credit so that it is more effectively targeted on low wage earners.

Pursue efforts to ease employment protection legislation and to further increase the predictability of dismissal costs, in particular in the case of layoffs on economic grounds, so as to limit the need for court intervention.

Further reduce the implicit tax on continued work at older ages. Ease the restrictions on combining pension and work incomes.

**IMF (Article IV, 2009):**

Important labour market measures have been implemented, but additional efforts, particularly in this time of crisis, should be considered to increase employment. The merger of the national employment agency (ANPE) and the unemployment insurance scheme (UNEDIC) holds the promise of improving placement services for job seekers but its effectiveness will depend on successful integration of the two entities into the new *Pôle emploi*, and on the strict enforcement of job-search requirements and sanctions. Cooperation with private placement agencies could also be enhanced. In addition, international experience has shown that activation policies can be very successful, even if implemented under difficult economic conditions. It would be helpful if the authorities could study and implement such measures, which need to be combined with further training to reduce skill mismatches in a rapidly evolving economy.

**5.2. THE SHORT TERM RESPONSE TO THE CRISIS**

A first €26 billion (1.3% of GDP) recovery plan was announced on 4 December 2008. Its measures encompass public investment, support to employment (such as a total exemption from social security contributions for employers of small companies for new hires and only for 2009 and extra subsidies for supported jobs), support to firms and support to household purchasing power. This has been followed by a second set of measures, announced on 18 February 2009, aiming at mitigating the impact of the crisis on vulnerable households. The total size of the stimulus measures – which will have an overall impact of around 1% of GDP on the public deficit – reflects France's

limited fiscal space. In addition, automatic stabilisers will work fully, implying a substantial increase in social expenditure and a significant decrease in tax revenue.

To directly support employment, temporary short-time working (*chômage partiel*) has been extended to 800 hours from previously 600 hours per year (up to 1000h/y in some sectors), while the allowance has been permanently raised from 50% to 60% of previous wages, and then further increased to 75% of previous wages in April 2009. The costs will be borne mostly by the central government and in the small part by the employment agency. Since September 2009 temporary short-time working has been allowed to 1000h/y in all sectors.

In order to step up the effectiveness of the employment services and activation policies, the ongoing merger between job placement and unemployment compensation agencies (*Pôle Emploi* and UNEDIC), which had been decided in 2008, has been sped up. The new operator is supposed to better assist companies, workers and job seekers. To facilitate the transition and better manage the increasing amount of job seekers, 600 new case managers were recruited with fixed-term contracts up to the 1st trimester of 2009. The experimental 'professional transition contracts' (CTP), which since 2006 have been supporting laid-off employees in areas suffering important economic difficulties, have been reinforced with training and higher allowances for 12 months instead of previously 6 months. Moreover, a "Social Investment Fund" was set up in February 2009 (scheduled to end in 2010), to coordinate funds for employment and professional training, managed by both the State and social partners (cost for central government: 0.1% of GDP; existing funds for professional training will contribute). To support job creation, firms with less than 10 employees have been exempted from paying social security contributions in 2009 for employees hired in 2009. 100,000 new temporary subsidized jobs have been also created.

In addition to the €200 social benefit in favour of lower-income households, which was part of the recovery plan (0.04% of GDP), new social measures were announced on 18 February, comprising various allowances and tax cuts. All in all, they will have a budgetary impact of around 0.1% of GDP. The main measures include a lump-sum bonus of 500€ for newly unemployed people that can justify from 2 to 4 months of work but that cannot benefit from unemployment allowances; and personal income tax cuts of 2/3 in 2009 for the lowest scale of revenues, plus an additional tax credit.

Some of these temporary measures are going to be extended partly during 2010. For instance, total exemption from social security contributions by employers of small companies for new hires could last until June 2010. The lump sum bonus offered in 2009 for hiring an intern with a permanent contract (€3000) has been also extended until June 2010.

On the top of these short-term answers to the crisis, a set of structural reforms have been undertaken. Since April 2009, the unemployment benefit managed by Unédic has been simplified and extended to people claiming 4 months of contribution. Before the reform, the limit was set at 6 months of participation. The experimental solidarity benefit for low-income working households (*Revenu de solidarité active* - RSA) was also introduced nation-wide from June 2009, as already foreseen in the framework of the government's work programme, with the primary medium-term objective to increase incentives to work and reduce poverty. Finally, following the temporary measures for youth (such as subsidies for hiring apprentices) decided in April 2009, a comprehensive plan was unveiled in September to deal with youth labour market participation and income. The so-called "*Plan Jeunes*" includes, among others, an extension of the RSA to people under the age of 25 with at least 2 years of work experience, and higher incentives to hire apprentices.

### 5.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES

Employment protection legislation remains strict, although it was partially loosened (at the margin) by liberalizing temporary contracts, which now account for about 70% of new hires. The conversion rate from temporary to permanent contracts is among the lowest in the EU, as only about 18% of those with a temporary contract in 2005 were employed in 2006 with a permanent contract (un-weighted average for the EU is about 30%).<sup>(47)</sup> In-work poverty risk of temporary contracts is at the EU average, however more than three times higher than for permanent contracts. In contrast, the OECD score index might suggest a tightening of EPL for permanent contract from the mid 1970s<sup>(48)</sup>.

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<sup>(47)</sup> This proportion is for young workers 21% (un-weighted EU average 35%), for prime-aged 17% (un-weighted EU average is 35%) and for older workers 9% (un-weighted EU19 average 29%). There is also a large gender difference in transition rates, 14% for female (un-weighted EU average of 34%) and 23% for males (un-weighted EU19 average of 36%).

<sup>(48)</sup> However, this result should be interpreted carefully. The high score index might mainly be driven by the theoretical

In any case, a tight EPL by stabilising employment fluctuation contributes to reduce the volatility of consumers' confidence in the short term. However, it could delay structural adjustment in declining sectors, influence adversely employment growth during the recovery (e.g. through the use of more distortive measures to shed labour such as early retirement). An increased adjustment capacity in the labour market, through more flexicurity and better activation policies, would support employment in the long run while reducing the segmentation between different types of contracts.

The merger of the agency paying unemployment benefits with the service responsible for the placement of job-seekers go in the direction of more individualised activation strategies. The creation of the "*pôles Emploi*", where all the agencies of labour market policy should be gathered, goes in the right direction. It is an important point that those *pôles* become "one-stop shops" for the unemployed, gathering together all the actors of labour market policy. However, the capacity of covering all the unemployed depends on the number of *pôles*. The international literature has shown that activation strategies should enhance the search effort of job seekers and facilitate their employability, while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level of training, job-search assistance and counselling. Early intervention by public employment services (PES) on non-working individuals, through monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of a strategy aimed at mobilising the labour supply. The August 2008 law establishes that the PES will support the unemployed in identifying employment plans that define a "reasonable job

offer" which if rejected twice leads to an automatic suspension of the unemployment benefits.

France has among the highest tax wedges in Europe let alone the social contribution exemptions on low wages (49.6% against an un-weighted EU27 average for the average workers of 41%, and 44.4% for low-wage workers, against un-weighted EU27 average of 37). Also, interaction of tax and benefits distort financial incentives to work, in particular for single parents and one-earner couples with two children. Recent welfare reforms (notably the introduction on an experimental basis of the *Revenu de solidarité active* - RSA) should contribute to reduce the risks of inactivity trap.

The minimum wage in France is among the highest in the EU (relative to both the median and the average wage) and it compresses wage distribution at the bottom end. This contributes to limiting job creation for the low-skilled and the labour market entrants. However the job effect is alleviated by social contribution exemptions on low wages.

Social security contributions paid by employer are high and strongly progressive at the bottom end of wage distribution - the SSC rate is about 18% at the minimum wage (which is set at about 45% of average wage) and about 33% at the 67% of average wage. This might create disincentive for employers to offer wages above the minimum wage. As a result, the minimum wage is binding for a large proportion of persons employed in non-agricultural sector even if this share has shrunk over years (about 13% in 2007 and 15.6% in 2005).<sup>(49)</sup>

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tight regulation on short or temporary contract (*CDD* and *interim*). The high share of new hires under these contracts (70%) suggests this regulation being not too tightening.

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<sup>(49)</sup> See OECD, Economic Surveys: France, 2009; French Ministry of Economics, [http://www.minefe.gouv.fr/directions\\_services/sircom/emploi/conf071023/smic.pdf](http://www.minefe.gouv.fr/directions_services/sircom/emploi/conf071023/smic.pdf) and EEAG Report, 2009, Chapter 4.

## 6. GERMANY

### 6.1. LABOUR MARKET SITUATION AND KEY TRENDS

#### 6.1.1. Recent trends

During the last decade, the labour market has improved significantly. In 2008, the total employment rate went above the Lisbon target (70.7%, +1.4 pps. with respect to 2007). Female employment rate was at 65.4% (+1.5 pps. from the previous year) and older workers' employment rate reached 53.8% (+2.3 pps. with respect to 2007 and an impressive +16 pps. with respect to 2000). The rhythm of expansion of employment slowed down only at the end of 2008. Yet, compared to other euro area- countries the increase of unemployment was relatively small, as it started to increase in 2009Q1 by only 1 pp. to 8%, owing to the massive increase in the use of short-time work schemes. The deceleration involved mainly male employment, which slowed to 0.5%, while female employment growth remained sustained (+2.6%).

Despite the improvements of recent years, concerns remain for structural weaknesses of the German labour market.

Firstly, activity and employment rates of high-skilled workers are respectively 35 pps. and 40 pps. higher than low-skilled; the low-skilled unemployment rate at 15.3%, among the highest in the euro area, is more than five times as large as the unemployment rate of high-skilled. These figures suggest that skill gaps reflect mainly an insufficient labour demand for less qualified workers.

Secondly, the proportion of unemployed for more than 12 months (long-term unemployed) at 53% is among the highest in the euro area.

Thirdly, despite recent progress, Germany shows very high dispersion of unemployment across regions (measured as standard deviations of regional unemployment rates). On the other hand, the regional dispersion of participation rates is much lower, pointing to weak labour demand as the main source of the regional imbalances in the labour market.

After being positive for many years, labour productivity stagnated in 2008, as a consequence of a falling GDP growth (from about 3% in 2007 to 1.8% in 2008) and a mainly unchanged employment growth owing to labour hoarding in the aftermath of the crisis, boosted also by the government support schemes.

#### 6.1.2. Outlook for the next two years

The fall in world trade has heavily hit German exports. The latest Commission forecasts for 2009 expect a fall of GDP by 5.1% (slightly better than the 5.4% expected in Spring owing to unexpected upsurge in growth in the first half of the year), followed by a light recovery in 2010 (0.3% according to the Spring forecast). The fall in output is reflected in the employment and unemployment forecasts. The employment is expected fall by 1.5% and 2.2% in 2009 and 2010 respectively (according to the Spring forecasts).



Table II.6.1: Short-term forecasts - DE

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	1,3	-5,4	0,3	-6,1	0,2	-6,2	-0,6
<b>Employment growth</b>	1,4	-1,5	-2,2	-0,7	-0,2	-0,4	-2,0
<b>Unemployment rate</b>	7,3	8,6	10,4	8,7	11,6	9,0	10,8

Source: EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database update July 2009).

Table II.6.2: Labour market indicators

	DE		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	65,7	70,7	62,5	65,9
Men	72,6	75,9	70,8	72,8
Women	58,7	65,4	54,3	59,1
<b>Employment rate 55-64</b>	37,7	53,8	37,5	45,6
Men	46,1	61,8	47,4	55,0
Women	29,3	46,1	28,2	36,9
<b>Participation rate 15-64</b>	71,3	76,5	68,5	70,9
Men	78,8	82,1	76,9	78,0
Women	63,7	70,8	60,2	63,9
<b>Participation rate 55-64</b>	42,8	58,8	40,1	48,1
Men	52,0	67,3	50,8	57,9
Women	33,6	50,6	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	7,6	7,3	8,5	7,0
Men	7,8	7,4	7,7	6,6
Women	7,4	7,2	9,4	7,5
<b>Long-term unemployment rate (2)</b>	50,4	52,6	46,8	37,0
<b>Self-employment (3)</b>	4,8	5,7	9,5	9,8
<b>Fixed term contracts (3,4)</b>	12,4	14,7	12,4	14,0
15-24	52,1	56,6	35,9	40,0
55-64	4,4	4,5	6,8	6,7
<b>Part-time contracts (4)</b>	19,9	25,2	:	17,6
Men	4,7	8,4	:	7,0
Women	39,0	44,9	:	30,6
<b>Employment rate 15-64</b>	65,7	70,7	62,5	65,9
Low-skilled	44,9	45,9	47,9	48,1
Medium-skilled	69,9	74,7	68,3	70,6
High-skilled	83,2	86,4	82,8	83,9
<b>Regional unemployment (5,7)</b>	14,8	12,5	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	16,8	26,7	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	12,7	22,5	18,0	22,5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

## 6.2. THE SHORT TERM RESPONSE TO THE CRISIS

Germany has adopted a wide ranging response to the crisis covering financial market, fiscal stimulus and structural measures. Its fiscal stimulus (around 1¾% of GDP on average per year) consisted of two packages: an autumn package with measures adopted in October and November 2008 (*Konjunkturpaket I*) and a second package adopted in January 2009 (*Konjunkturpaket II*). The measures focus on income support and income tax reductions, public and private investment, ensuring access to finance, reducing lay-offs, improving access to training and employment services, and instruments to support the automotive industry. In addition, a substantial increase in social expenditure and a significant decrease in tax revenue (estimated impact around 3% of GDP in 2009) were triggered by the automatic stabilisers.

To avoid massive labour shedding, the recovery plan extended the possibility to use short-time work, provided incentives to firms for the use of these schemes, and improved the access to training and qualifications as well as placement advisory services for jobseekers (around ¼ of GDP).

Measures to boost the uptake of short-time work to avoid redundancies have been introduced in three steps. In autumn 2008, the period of receipt of short-time allowance has been extended from 12 to 18 months. As from February 2009, social security contributions paid by employers on short-term allowances in 2009 and 2010 will be reimbursed up to 50% (approx. €1.7 billion of relief for 2009). Since January 2009, employers who during short-time work provided their workers with the opportunity to participate in qualification measures have been reimbursed with the full amount of their share of social insurance contributions. As of 5 June 2009, the duration of the short-time allowance has been extended to 24 months, and from the 7<sup>th</sup> month of short-time work onwards full reimbursement of the employer's share of social insurance contributions is no longer coupled with qualification and training measures and can be applied to all plants within a company, provided at least one plant has been using the short-time work scheme for 6 months. These measures are temporary and should apply to firms and workers eligible up to end 2009.

The application and procedure for the receipt of short-time allowance were also simplified and a Federal Programme for funding qualification measures for workers on short-time, supplementing the extension of the short-time work allowance, has been set up in January 2009 (until end 2010). Low-skilled workers who have performed for at least four years a job for which they have no certified vocational training, are fully refunded (including transport and childcare costs) for participating in education measures that lead to recognized vocational qualifications or partially qualify workers for the related tasks. For workers with certified qualifications, the amount of assistance varies between 25 and 80% of training costs, depending on the type of training, the size of the company and the persons participating in the scheme. Until the end of 2010, short-time allowance will be also granted to temporary agency workers.

To prepare the public employment service (PES) and the unemployment services to serve the additional unemployed and improve job placement activities, the German Employment Agency will recruit additional 5000 job-placement officers on open-ended contract to facilitate the placement of the most recent jobless persons. Further 1000 placement officers will be also recruited, limited to 2012. As to the training and skill development outside short-time work, the special programme to support training of older and low-skilled workers was extended to all workers irrespective of age and company size, provided that at least four years have passed since they completed their vocational training. The Federal Employment Agency bears the full cost of the further education efforts and a share of the wage costs for low skilled workers. Also, a new programme was established to support further vocational training for temporary workers who were employed in 2007 and 2008.

The capacity of the PES to deal with the expected increase in unemployment risks to be hampered by legal uncertainty, as long as there is no political agreement on the reform of the joint agencies (municipalities and PES), implementing the basic income support for jobseekers. This reform is required by a ruling of the Federal Constitutional Court within the deadline of December 2010.

**Box II.6.1: Recommendations (EU, OECD, IMF) - DE**

**EU (CSRs 2009):**

Proceed with planned measures that enhance the efficiency and effectiveness of job placement services and promote the integration of the low skilled and long-term unemployed into the labour market through a flexicurity approach which combines better access to qualifications with improved incentives to work.

**OECD (Going for Growth, 2009):**

Promote regular work contracts by relaxing employment protection legislation applicable to such arrangements.

Lower social security contribution rates, to reduce average tax wedges on labour income.

Reduce fiscal impediments to full-time female labour force participation by lowering the tax burden for second-earners through moving to individual taxation of couples and by introducing a health insurance charge for non-working spouses. Continue with plans to increase the number of childcare places to facilitate the employment of young mothers.

Increase participation in, and enhance the quality of, early child care and education to better prepare young people for subsequent studies. Make schools and teachers more accountable for outcomes and reduce the large degree of segmentation of the school system.

**IMF (Article IV, 2008):**

Increasing labour participation and improving education and training further are also necessities as Germany is expected to age faster than most other countries.

**6.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

The economic downturn stopped a prolonged recovery of the labour market, which benefited from structural reforms as well as favourable business cycle conditions. Despite its good labour market performance (Germany reached the Lisbon targets in 2008), structural weaknesses manifest in the disappointing outcomes for low skilled workers and the high long-term unemployment, which hampers German economic potential.

To mitigate the adverse impact of the crisis on labour demand, continued efforts are essential to ensure strong employment creation and raising labour productivity to support higher real wage growth. Labour market measures aimed at improving the functioning of the labour market and strengthening the growth potential will also need to be compatible with future fiscal

consolidation efforts (e.g. reforms of the tax-benefit system).

In Germany there has been a greater focus on internal flexibility. Reforms of the last 20 years have gradually liberalized the use of fixed-term and temporary-agency work, while the EPL for regular contracts remained relatively strict. Although a lack of external flexibility has been in part compensated by a relatively high internal flexibility, the challenge is to gradually increase the external flexibility of regular jobs, in particular to allow better reallocation in the face of the restructuring needs posed by the global recession.

Improving the incentives to work is essential to support transitions to employment. The Hartz IV reform merging unemployment assistance and social assistance into means tested benefits (*Arbeitslosengeld 2*) raised financial incentives, in particular for long-term unemployed. However, benefits recipients who may combine welfare

benefits with so-called mini/midi jobs which are taxed preferentially may face disincentives to take up work in the primary labour market. Also, second earners in households with children still face substantial disincentives to work. Joint taxation is one of the main reasons for the low incentives to work of second spouse, usually women, which adversely affect female labour supply. But non-tax driven factors should be taken into account as well. In particular, a reduction in non-wage labour costs, efficient activation strategies and a high-quality system of childcare and pre-schooling facilities (nurseries and kindergarten) could help to mobilise the labour supply.

Promoting the employability of low skilled and long-term unemployed within a flexicurity approach represents a major challenge, especially as the crisis can further deepen the labour market segmentation by skills. During the last years a series of measures were taken to enhance the effectiveness of the vocational training provided. In the face of the current recession, financial incentives have been provided to support workers' participation in qualification measures during short-time working schemes. Outside short-time working schemes, the special programme to support training of older and low-skilled workers was extended to all workers irrespective of their age and the company size - provided that at least four years have passed since they completed their vocational training.

Even so, participation in lifelong learning is generally low. Low skilled people need comprehensive strategies to support their employability and transitions into employment. Furthermore, Germany's comparative advantage in technology-advanced products combined with the growing bottlenecks on the German labour market, in particular in the area of high-skilled labour, call for continued efforts to increase the overall educational and skills levels and thus to reduce the skill gaps.

Flexible elements in collective agreements have been more frequently accepted by the social partners. This has implied higher flexibility at the firm level, which should contribute to the reduction of the regional imbalances. However, wage flexibility, in particular at the lower end of the wage distribution, can still be reduced by collective agreements declared generally binding by the government.

# 7. GREECE

## 7.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 7.1.1. Recent trends

Despite recent progress, labour market performance in Greece is still lagging far behind other European countries. The total employment rate at 61.9% in 2008 (0.5 pp. respect to 2007) is far away from the Lisbon target. The employment rate of older workers (42.8% in 2008, +0.3 pp. over 2007) and females (48.7% in 2008, +0.9 pp. over 2007) are below the euro-area average. Improvements in recent years were moderate as, since 2001, the total employment rate grew by only 5.5 pps.

The global crisis is cooling down the economy; yet the GDP growth remained positive in 2008. In response to these developments, the labour market indicators for 2008 kept on signalling improvements with respect to other countries. Thus, the unemployment rate reached 7.7% (-0.6 pp. from 2007), an all-time low for the country, while employment growth further increased (to 1.4% from 1.2% in 2007).

There are clear signs of segmentation in the labour market, with very pronounced gender and age gaps and a disproportionate share of young people with flexible working arrangements.

The gender gap is among the highest in Europe. In 2008, males activity and employment rates were much higher than females (by about 25 pps.), while the unemployment rate of females was more than twice as much as that of males (11.4% against 5.1%). However, these strong gaps registered a reduction in recent years. Other relevant gaps are especially evident across different age groups. While prime age males experience activity and employment rates even higher than EU27 and euro-area averages, young and (especially females) older workers have very low rates. Young active people amount to 30.2% of the working age population, while young employed are only 23.5% with young female employment rate amounting to 18.5%. As for older workers, even if their overall activity and employment rates are closer to the EU averages, the gender differences are much more pronounced (the employment rate of male older

workers is 59.1% against only 27.1% of females). Unemployment affects heavily the young, (22.1%), and especially the young female (28.9%), even though some improvements have been registered in the last few years.

Participation, employment and unemployment rates are very different for workers with different skill levels. In 2008 high-skilled had an activity rate of 87.7% and an employment rate of 82.1% (respectively, 20.9 pps. and 29.7 pps. higher than the low-skilled), as well as an unemployment rate of 6.4% against 8.8% and 7.6% for medium- and low-skilled respectively.

Temporary employment amounts to 11.5% of total employment, a low level compared to other European countries. However, the share of self-employed is quite high (20.5%), much higher than in the EU27 and the euro area. Among the young, the share of temporary contracts rises up to 29.2%. The share of those who declare to have a temporary contract against their will is very high (82.5% in 2008). Another sign of segmentation and lack of flexibility in the labour market is the high share of long-term unemployment (47.6% of total unemployment).

Regional imbalances are not very high compared to other European countries. The difference between the region with the highest unemployment rate and that with the lowest is 2.4 pps., less than the EU27 un-weighted average (3.2 pps. EU average) and also lower than in 2001 level (3.2 pps.).

### 7.1.2. Outlook for the next two years

According to the most recent forecasts (Table II.7.1), in 2009 and 2010 the international financial and economic crisis will hurt Greece, even if to a lower extent than other countries. After a still positive GDP growth in 2008 (+2.9%), output is seen shrinking by -0.9% in 2009 and slightly recovering by +0.1% in 2010, according to EU Commission estimates. This will lead to a sharp increase in unemployment rate which is expected to increase to 9.1% in 2009 and 9.7% in 2010, starting from the historical low rate of 7.7% in 2008.

Table II.7.1: **Short-term forecasts - EL**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	2,9	-0,9	0,1	-1,3	0,3	-0,2	-0,6
<b>Employment growth</b>	1,2	-1,1	-0,1	0,4	0,6	-1,0	-1,4
<b>Unemployment rate</b>	7,7	9,1	9,7	9,5	10,3	9,0	10,5

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.7.2: **Labour market indicators**

	EL		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	56,3	61,9	62,5	65,9
Men	71,4	75,0	70,8	72,8
Women	41,5	48,7	54,3	59,1
<b>Employment rate 55-64</b>	38,2	42,8	37,5	45,6
Men	55,3	59,1	47,4	55,0
Women	22,9	27,5	28,2	36,9
<b>Participation rate 15-64</b>	63,3	67,1	68,5	70,9
Men	77,1	79,1	76,9	78,0
Women	49,7	55,1	60,2	63,9
<b>Participation rate 55-64</b>	39,9	44,2	40,1	48,1
Men	57,7	60,9	50,8	57,9
Women	23,9	28,6	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	10,7	7,7	8,5	7,0
Men	7,2	5,1	7,7	6,6
Women	16,1	11,4	9,4	7,5
<b>Long-term unemployment rate (2)</b>	51,5	47,6	46,8	37,0
<b>Self-employment (3)</b>	22,5	20,5	9,5	9,8
<b>Fixed term contracts (3,4)</b>	13,5	11,5	12,4	14,0
15-24	29,2	29,2	35,9	40,0
55-64	8,9	6,3	6,8	6,7
<b>Part-time contracts (4)</b>	3,8	5,4	:	17,6
Men	2,0	2,5	:	7,0
Women	6,9	9,8	:	30,6
<b>Employment rate 15-64</b>	56,3	61,9	62,5	65,9
Low-skilled	49,1	52,4	47,9	48,1
Medium-skilled	57,1	61,2	68,3	70,6
High-skilled	79,5	82,1	82,8	83,9
<b>Regional unemployment (5,7)</b>	3,2	2,4	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	85,0	82,5	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	52,0	45,2	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.7.1: Recommendations (EU, OECD, IMF) - EL**

**EU (CSRs 2009):**

Within an integrated 'flexicurity' approach, modernise employment protection legislation, reduces non-wage costs to the low-paid, strengthen active labour market policies, and transforms undeclared work into formal employment; and accelerate the implementation of reforms on education and training, increase participation in lifelong learning and facilitate transition to work, particularly for the young.

**OECD (Going for Growth 2009):**

Ease entry to the labour market by reducing the minimum cost of labour through the setting of sub-minimum wages that take into account high unemployment rates of youth, and the lowering of social security contributions for low-paid workers.

Reduce tax wedges over the medium term. Continue efforts to combat tax evasion. A high tax wedge on labour income hampers employment creation, and encourages tax evasion and informal activities.

Raise the quality of formal education through improvements in teaching quality and advanced technology at schools. Address the school-dropout problem and facilitate the school to work transition through more flexible curricula.

Pension reform needs to proceed further, including a change in entitlement ages and accrual rates of the system. Access to disability pension should be strictly enforced on medical criteria.

**IMF (Article IV 2009):**

Promote a tripartite social contract between employers, unions, and the public sector, aimed at more cooperative bargaining to favour employment growth over income growth, requiring understandings on wage moderation in return for investment and employment promotion.

Facilitate part-time work to boost participation of youths and women in the labour force.

**7.2. THE SHORT TERM RESPONSE TO THE CRISIS**

The labour market response of the Greek authorities mostly consisted in reinforcing active labour market policies, especially for certain categories, as well as sectors of the economy most hit by the crisis (construction, tourism and technical professions). The Minister of Employment also announced a programme for the promotion of on-the-job training for workers in SMEs that have made use of provisions for shorter employment or for workers who are under suspension. The Christmas and Easter bonuses for the unemployed have been doubled and the level of the unemployment benefit increased (from 349,5€ in 2007 to 430,75 in September 2008 and further to 454 € in May 2009). The new package of ALMPs is aimed at the immediate inclusion or re-

inclusion of unemployed in the labour market. To this end, the public employment services (OAED) will provide twice as much resources than in the previous years (more than 1.1 billion €) for the creation of about 200.000 new jobs (employment and self employment), especially targeted at women, young people, older workers. A new programme was also decided, by means of which unemployment benefits can be converted into a sort of employment subsidy: unemployed people, instead of receiving the unemployment benefit, can be recruited for full or part-time employment, and the hiring companies registered in the programme are subsidized with the equivalent of the unemployment benefit. This measure, which could be welcome to address the expected increase in unemployment in the short term, risks to be expensive and could lead to deadweight costs.

### 7.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES

Labour market in Greece is traditionally affected by a strong segmentation, which is reflected in high gender, age and skill gaps. The high share of long-term unemployed and of young unemployment, and the low occupational mobility especially in the private sector, are all signs of a sclerotic labour market that misses easy and rapid transitions between labour market states. The recent economic growth above euro-area average brought a certain reduction in the unemployment rate, but the many problems of the Greek labour market are still on the ground.

Measures to address the crisis should be closely and systematically monitored. They should not undermine long-term policy goals and structural reforms aiming to address long-term constraints Greece is facing. In order to restore competitiveness, the country needs ambitious and comprehensive reforms of its labour market institutions. Issues such as high EPL, the reform of the wage bargaining system, or of the education system, have not been the main focus of policy actions. Yet, more recently, concerns about the sustainability of public finances raise attention to flexicurity approach as a cost effective way to solve the structural problems of the labour market.

Greece is an exception among Mediterranean countries, as OECD score on employment protection legislation (EPL) for temporary contracts is higher than for regular contracts. Greece has a below-the-EU27 average share of temporary workers (11%) and a large proportion (about 80%) of them declares to be involuntary. The high share of involuntary temporary workers can probably be explained by very high in-work risk of poverty rates associated to temporary contracts as well as a high probability of workers to get trapped in precarious jobs. In fact, the probability to stay in temporary contract (55%) is the highest in the EU while only 19% of temporary contracts were converted into permanent between 2005 and 2006. Strict regulation of temporary contracts delays the entrance to the labour market, in particular of young people who have unemployment rates three times as high as aggregate unemployment rate. As a result, the share of young in temporary employment is considerably below the EU average (27% versus

41%). In addition, there is no sub-minimum wage for young, which contributes to their high unemployment rate. To avoid further dualism in the labour market, the transition from temporary to permanent contracts should be facilitated by combining a reform of EPL for these contracts with a reduction of the high protection for permanent workers. High EPL for white collar workers and the high share of self-employed in the non-agricultural employment possibly contribute to the relevance of the shadow economy. The social costs of informal economy are high and are associated with precarious jobs, relatively low on-the-job training as well as limited upward mobility.

Another field that needs a special attention is the wage setting mechanism. Even if minimum wages as a percentage of median wages are not high in international comparisons, the absence of a specific sub-minimum for some categories impedes their employability. The young are among the most hurt. Concerns arise also for the mechanism that automatically extend to all firms the minimum wages agreed by social partners. In addition to this, high social security contributions make minimum labour cost particularly heavy, thus eroding the competitiveness of the country. Promoting the decentralization of the wage formation mechanism, by increasing the rate of wage bargained at firm level or strengthening the link between wage and productivity, could help. The announced public sector wage freeze, which could have a strong signalling effect on the private sector, is a step in the right direction. Furthermore, a reduction in social security contributions, well targeted to low-paid workers, would stimulate the demand for labour.

To reduce the risks of long-term unemployment, it is important to enhance active labour market policies and life-long learning. More efficient public employment services are needed to ease the matching between demand and supply of labour.

Finally, a general reform of the tertiary education system could help in enhancing the potential of the economy and reducing the mismatches in the labour market.



## 8. IRELAND

### 8.1. LABOUR MARKET SITUATION AND KEY TRENDS

#### 8.1.1. Recent trends

After many years of buoyant economic growth, in 2008 output declined by 3%, giving start to a very deep crisis which may put at risks the improvements registered by the labour market in the last ten years.

Against this recent outlook, the employment rate in 2008 hovered around 67.5% of the working age population, down by 1.5 compared to 2007 (yet still 1.8 pps. more than 2001). The female employment rate, which hit the Lisbon target in 2007, in 2008 was at 60.2% (-0.4 pp. with respect to 2007 but 5.3 pps. more than 2001). The older workers employment rate was 53.6% (-0.2 pp. with respect to 2007 but 6.8 pps. more than 2001).

Following many years of strong growth, employment shrank in 2008 by 0.6%, as a net result of a drop by 2% of male employment, so far the most hardly hit by the crisis, and an increase of 1.3% of female employment. The reduction in employment, together with the still positive increase in labour force (1%) led to a large increase in the unemployment rate that reached 6.3% in 2008.

In relative terms, gender gaps are not very pronounced. Interestingly, since many years females have experienced a lower unemployment rate than males and this tendency has been confirmed during the current recession, as the male unemployment rate surged to 7.5% in 2008 (+2.6 pps. with respect to 2007) while the female one increased by much more to 4.8% (+0.6 pp.). Since the female activity rate is lower than males, there is potential female labour supply that could further be activated.

The age gap is much lower than in other European countries. However, recent trends show a different response to the crisis by different age groups. The employment rate of older workers hardly decreased with respect to 2007 (53.6%, -0.2 pp.), while that of prime-age (77.3%, -1.4 pps.) and especially of young workers (46.0%, -3.9 pps.) suffered much more the effects of the crisis. The

result is the same if we look at the unemployment rate. The already higher young unemployment rate jumped up by 3.5 pps. to 12.6%, against 5.2% of prime-age and 3.2% of older workers. The gap among workers with different skills in terms of activity, employment and unemployment rates appeared in line with the euro-area average but the crisis seems to affect asymmetrically different typologies of workers. Indeed, the employment rate declined much more for low- (-2.4 pps. to 46.9%) and medium-skilled (-2.2 pps. to 71.9%) than for high-skilled (-1.5 pps. to 84.4%). A similar path can be observed for unemployment rate, which jumped to 10% (+2.4 pps.) for low-skilled, to 6.1% (+1.7 pps.) for medium-skilled and only to 3.4% (+0.8 pp.) for high-skilled.

Temporary employment represents 8.4% of the total, still increasing by 1.1 pps. with respect to 2007 and by 3.2 pps. with respect to 2001, and it is higher for females (9.8%) than for males (7.1%). Part-time contracts constitute almost one third of total female employment (31.7%) and their incidence over the total employment is at 18.1%.

The long-term unemployment rate was at 27.3% in 2008, with a remarkable decrease (2.8 pps.) with respect to 2007. This decline, in a period of increasing unemployment, is mainly due to a composition effect: new entrants into the unemployment pool reduce the incidence of long-term unemployed over the total. In 2008, labour productivity shrank by -1.4%, a big fall from 2007 (+2.4%). This is the most important factor in explaining the negative GDP growth (-2.3%), while the -0.8 pp. contribution of labour utilisation is the net outcome of a negative contribution of the employment rate (-2.5 pps.) and a positive contribution of population growth (+1.9 pps.)

#### 8.1.2. Outlook for the next two years

Forecasts for 2009 and 2010 are very negative for the Irish economy. According to the Commission forecast (Spring 2009), output is expected to shrink by 9% this year and 2.6% next year. Such a huge contraction will have negative effects on employment growth (-9% in 2009 and -4% in 2010) and the unemployment rate (up to 13.3% in 2009 and 16% in 2010).

Table II.8.1: **Short-term forecasts - IE**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	-2,3	-9,0	-2,6	-9,8	-1,5	-8,0	-3,0
<b>Employment growth</b>	-0,9	-9,0	-4,0	-2,3	0,5	-7,9	-2,9
<b>Unemployment rate</b>	6,3	13,3	16,0	12,2	14,8	12,0	13,0

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.8.2: **Labour market indicators**

	IE		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	65,8	67,6	62,5	65,9
Men	76,6	74,9	70,8	72,8
Women	54,9	60,2	54,3	59,1
<b>Employment rate 55-64</b>	46,8	53,6	37,5	45,6
Men	64,6	66,0	47,4	55,0
Women	28,7	41,0	28,2	36,9
<b>Participation rate 15-64</b>	68,6	72,0	68,5	70,9
Men	79,9	80,7	76,9	78,0
Women	57,1	63,1	60,2	63,9
<b>Participation rate 55-64</b>	48,0	55,4	40,1	48,1
Men	66,4	68,5	50,8	57,9
Women	29,4	42,1	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	4,0	6,3	8,5	7,0
Men	4,1	7,5	7,7	6,6
Women	3,8	4,8	9,4	7,5
<b>Long-term unemployment rate (2)</b>	33,0	27,3	46,8	37,0
<b>Self-employment (3)</b>	10,4	10,1	9,5	9,8
<b>Fixed term contracts (3,4)</b>	4,6	8,4	12,4	14,0
15-24	12,5	21,9	35,9	40,0
55-64	3,2	5,4	6,8	6,7
<b>Part-time contracts (4)</b>	16,2	18,1	:	17,6
Men	6,1	7,3	:	7,0
Women	30,5	31,7	:	30,6
<b>Employment rate 15-64</b>	65,8	67,6	62,5	65,9
Low-skilled	48,7	46,9	47,9	48,1
Medium-skilled	72,4	71,9	68,3	70,6
High-skilled	85,8	84,4	82,8	83,9
<b>Regional unemployment (5,7)</b>	0,0	0,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	29,0	:	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	15,0	:	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.8. 1: Recommendations (EU, OECD, IMF) - IE**

**EU (CSRs 2009):**

Foster a swift adjustment to sustainable medium-term growth by productivity enhancing measures, which will help restore competitiveness and adequate wage policies.

**OECD (Going for Growth 2009):**

Improve the targeting of child support to strengthen the incentives for second earners and lone parents with young children to work. Further increase the supply of childcare places.

Extend the availability of pre-primary education. Consider a system of upfront tuition fees for higher education financed by loans to make institutions more responsive to students' needs.

**8.2. THE SHORT TERM RESPONSE TO THE CRISIS**

Ireland's response to the crisis contains a wide range of measures addressing fiscal, financial markets, the labour market and structural issues. Fiscal policy is at the centre of the government's response to the crisis, while the nature of the measures has changed in view of the worsening economic outlook and shrinking room for fiscal manoeuvre.

As regards the labour market, new measures at a full-year cost of almost 0.1% of GDP (from within existing resources) were announced in the context of the Framework for Stabilisation, Social Solidarity and Economic Renewal published at the end of 2008 and the supplementary budget adopted in early April 2009.

The Framework mainly involves measures aimed at the activation and re-skilling of unemployed people through training, education and work/employment experience. Specific measures include an increase in the number of places in training programmes for newly unemployed people (51,000 new training places under the FÁS Training Initiatives Strategy); re-training for redundant construction workers in sustainable energy and 'green' technology; measures to allow redundant apprentices finish their on-the-job training with approved employers on a rotation basis; and facilitating access to enterprise and education-related allowances. The monthly capacity of job-search services to assist individuals

through the provision of guidance on employment, education and training opportunities has been increased. New schemes are being developed for re-skilling unemployed people through training, education and work/employment experience.

A limited number of recovery measures are targeted to support the employability and the income of the most vulnerable groups and to sectors expected to be most affected by the crisis. Labour market measures appear to be in line with the medium-term priorities of the country under the Lisbon reform agenda.

**8.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

Ireland has been hardly hit by the current economic crisis. The sharp adjustment in the housing market, coupled with the distressed financial sector, which represents a relevant share of the Irish economy, caused a first heavy contraction in output. The fall in global demand added to this negative impulse.

In response to the crisis, the Government has enacted measures aimed at activating and re-skilling those who have lost their jobs and preventing the drift towards long-term unemployment. This strategy is consistent with the need of promoting the reallocation from certain sectors of the economy to others. Such measures take time to have an effect and their impact on the economy could be appreciated only once the

recovery kicks in. However, these measures may be the only ones feasible in a situation where public finances are quickly deteriorating.

A small country like Ireland relies hugely on world trade. However to fully enjoy the recovery, the competitive position of the country must improve. This is possible if labour productivity regains a positive and sustained pace and if adequate wage adjustment take place. On one side, converting labour force skills to adapt them to the need of new sectors characterized by higher growth rates will have effect on labour productivity. On the other side, targeted re-skilling of unemployment is important to avoid bottlenecks that could give rise to spiralling inflation during the recovery.

Increasing labour supply among females and those at the margins of the labour force may be necessary to mobilise potential labour supply. The goal may be pursued through continued investment in activation measures and continued investment in the childcare system. Up-skilling the workforce, especially older and low-skilled workers will also continue to remain a priority. Another important measure is a moderation of wage settlements in public sector which often has higher wages in many areas. This would contribute to wage moderation in the private sector and then to competitiveness.

In the National Reform Program, Ireland has stated it aims to improve the quality of work as well as the amount of overall employment. This is important in the light of the high at-risk-of-poverty rate with about 30% of those at risk of poverty living in households where the main earner is in employment.

Employment Protection Legislation is among the less stringent in Europe, with the OECD's overall index at 1.4 against an un-weighted EU average of 2.4. To some extent the high external flexibility explains the sizeable increase in the Irish unemployment rate to the fall of GDP; yet, one would also expect that such flexibility would entail a rapid recovery as the economic growth rebounds.

High marginal effective tax rates are responsible for unemployment and inactivity traps, which depend also on the indefinite duration of means-tested payments, the high withdrawal rates, the loss of secondary benefits and the structure of the tax credit system for one-earner couples.

Together with a flexible labour market, a modern tax and social welfare system is necessary to have a balanced flexicurity approach, which promotes transitions from non-paid income to paid employment.

# 9. ITALY

## 9.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 9.1.1. Recent trends

In the second half of the 1990s, the performance of the Italian labour market improved in terms of employment, participation and unemployment rates. These improvements are reflected in the significant increase in the female and older workers participation rates driven by both socio-demographic changes and important policy measures.

Even so, the labour market is still characterised by relatively low employment and participation rates, with significant heterogeneities across age groups, gender and regions (Table II.9.2).

The overall employment rate (58.7%) remains largely below the EU average (65.9%) and far from the Lisbon target, owing to low female and older workers employment rates, which however grew also in 2008 (by about 0.7 pp. both), regardless of the incoming global downturn. After having hit the historically low rate of 6.1% in 2007, the unemployment rose sharply to 6.8% in 2008, indicating that the global financial turmoil had started to bite; yet it remained well below the rates recorded during the milder 2001 recession. The increase in the unemployment rate resulted from an increase in the working age population by 0.6% and in the participation rate by 0.8% not compensated by a sufficiently robust growth of employment (0.7% against 1% of one year earlier). Concerning vulnerable groups, unemployment is still very high and even increasing, at 21.3% for the young (up by 1 pp.) and the low-skilled (up by 1 pp. to 8.6% in 2008), who are so far the most hardly hit by the recession. In 2009q1, temporary and self-employment, the most prevalent contract types among young workers, plummeted respectively by 7% and 4.5% as compared to the previous quarter.

The gap with the EU employment and activity rates is mainly determined by the very low female components, below the EU average by more than 8 pps. and about 14 pps. respectively. For males, the gap is much smaller (-4 and -5 pps.), and is mainly due to the low older workers' participation rate

(more than 12 pps. below the EU average). Because of the low female employment rates, Italy ranks third in the list of countries with poor records in term of gender equality in employment rates. The age gap is even more pronounced, with very high activity and employment rates among prime age individuals and very low rates among young and old workers. Compared to the EU average of 38% and 45.5%, only about 24.5% of young individuals and 34.5% of old ones are employed.

The reforms undertaken since 1997 aimed at increasing the flexibility of work contracts for new entrants by reducing hiring and firing costs at the margin. The *Treu Package* of 1997 introduced for the first time flexible work arrangements (temporary contracts and temporary-agency work) and provided incentives for part-time work, while the 2003 *Biagi Reform* introduced new provisions related to the use of such atypical labour arrangements and set new forms of work such as on-call jobs, job sharing and occasional work. This deregulation probably had a welcome negative impact on undeclared work, but also increased the share of temporary workers, which, however, remains below the EU average (Table II.2.9.2). Flexible contracts are relatively more common among the young and represent the prevalent contract typology to enter into the labour market. In 2008 the percentage of young (15-24) with a temporary employment stood at 43.3%, up by 1 pp. compared to 2007. Yet, to assess the total amount of flexible work arrangements in Italy, one should consider that a share of self-employed workers usually have a stable or preferential relationship with one firm only, making them in practice not dissimilar from dependent workers as far as working hours, presence in the workplace and work organisation are concerned. The cost of this 'quasi-subordinate' labour and the protection and rights stipulated by law continue to be significantly lower than those granted to dependent employees. Compared to the largest European economies, Italy has a very high percentage of self-employed, (about 16% of total employment, lower than the 17.7% peak reached in 2004, but bigger than the almost 10% of the EU average). Most of this self-employment is voluntary but, as explained above, part of it could actually be considered almost equivalent to flexible dependent work, which the simple indicators of protection

legislation (valid only for dependent work) cannot capture. In addition to the above mentioned typologies of work, as elsewhere part-time work is to some extent used as flexible contractual arrangement. As suggested by the high share of women with children in part-time jobs and by their number growing with the number of children, part-time is usually chosen as a way to reconcile working life with family life (OECD, 2007). Yet, it is also a very common type of work among young women without children. For example, the fact that 40% of part-time working women aged between 15 and 39 and 60% of men of the same age declare to be in a part-time job because they could not find a full-time one - against respective EU average of 22.5% and 32.5% - suggests that this contractual arrangement is used by firms to increase the flexibility of their work organisation.

Finally, regional imbalances in the country are quite sizeable. The employment rate is highly dispersed across regions, with a gap of more than 21 pps. between north-eastern (67.6%) and southern regions (46.5%).

One of the most discussed characteristic of the Italian economy is the poor dynamic of labour productivity. After a steady decline in 2001-03, the path remained stagnant in 2005-2007 following an increase of 1.1% in 2004. However, 2008 was characterized by a strong decrease in labour productivity per worker (-1.4%), mainly due to labour hoarding in the first period of the crisis. The fact that hourly labour productivity declined by only 0.5% can be explained by the firms' massive use of wage supplementation schemes (*Cassa Integrazione Guadagni*) that has reduced the hours effectively worked.

#### 9.1.2. Outlook for the next two years

Consistently with those of other international institutions, the Commission's forecasts (Spring 2009) point to a strong deterioration of the economic situation in 2009 and 2010. After a fall by -1.0% in 2008, GDP is expected to shrink by 4.4% in 2009 (5% according to September 2009's Interim forecasts) and to only moderately recover in 2010 (0.1%). As a result, employment growth is expected to turn strongly negative in 2009 (-2.1) and to remain so in 2010 (-0.4).

## 9.2. THE SHORT TERM RESPONSE TO THE CRISIS

Italy has adopted recovery measures with limited budgetary impact (0.5% of GDP in 2009 and 0.2% in 2010), focusing on restoring confidence and offering some relief to distressed firms and households.

Besides a temporary extension to 2009 of the favourable fiscal treatment of performance-related pay to allow a better alignment of wage and productivity developments (0.03% of GDP), the intervention of the government to offset the employment impact of the crisis mainly consisted in *a*) a temporary extension of the coverage of the Wage Guarantee Fund (CIG); *b*) a temporary extension of unemployment benefits coverage to workers not covered by the ordinary benefit and suspended from work in time of crisis, for a maximum duration of 90 days per year; *c*) granting one-off payments to atypical workers in case of non-renewal of contracts over 2009-2010; *d*) better definition of the procedures for the application of sanctions in case of refusal of a suitable job offer or training proposal by the PES (access to unemployment benefits made conditional upon declaring immediate readiness to work or participate in training).

More recently, the government introduced a number of measures aimed mainly to reduce job losses and support investment.

With a view to limit collective dismissals, the so-called "solidarity contracts" (*Contratti di solidarietà*) are being strengthened. These contracts, introduced in 1991, involve employees accepting a reduction of working time and a corresponding pay cut. In general, the government integrates part of the lost wages. The newly introduced measure sets a higher public support (from 60% to 80% of the lost wage) to those workers accepting these contracts.

With a view to encourage self-employment and entrepreneurship, workers receiving transfers under existing wage supplementation schemes (such as CIGS or mobility allowances) can ask for a one-off payment of the remaining allowances they are entitled to.

Finally, with a view to accelerate workers' return to work, workers receiving CIGS transfers can be

Table II.9.1: **Short-term forecasts - IT**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	-1,0	-4,4	0,1	-5,5	0,4	-5,1	-0,1
<b>Employment growth</b>	0,3	-2,1	-0,4	-0,4	0,0	-1,7	-1,5
<b>Unemployment rate</b>	6,8	8,8	9,4	8,4	10,2	8,9	10,5

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database update July 2009).

involved in vocational training projects inside their workplaces. If they accept training, workers receive the entire wage rather than the partial wage as under the normal scheme (80% of the wage is financed as normal CIGS and the remaining 20% is financed by the State through the Social Fund for Employment).

In the current adverse cyclical conditions, the extended use of the wage supplementation scheme (CIG), whereby the employment relationship is maintained even in the case of interruption of the activity, has helped to limit the rise in unemployment so far.

However, if economic activity and labour demand remain subdued for a longer period, these schemes need to be further linked to training and re-training measures to facilitate restructuring. Moreover, the current crisis has highlighted the need to introduce a universal income-insurance scheme, partly financed by the private sector, which could replace or go along with existing ones.

Table II.9.2: **Labour market indicators**

	IT		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	54,8	58,7	62,5	65,9
Men	68,5	70,3	70,8	72,8
Women	41,1	47,2	54,3	59,1
<b>Employment rate 55-64</b>	28,0	34,4	37,5	45,6
Men	40,4	45,5	47,4	55,0
Women	16,2	24,0	28,2	36,9
<b>Participation rate 15-64</b>	60,6	63,0	68,5	70,9
Men	74,1	74,4	76,9	78,0
Women	47,3	51,6	60,2	63,9
<b>Participation rate 55-64</b>	29,2	35,5	40,1	48,1
Men	42,3	47,0	50,8	57,9
Women	16,9	24,7	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	9,1	6,8	8,5	7,0
Men	7,1	5,5	7,7	6,6
Women	12,2	8,5	9,4	7,5
<b>Long-term unemployment rate (2)</b>	62,2	45,6	46,8	37,0
<b>Self-employment (3)</b>	11,3	16,2	9,5	9,8
<b>Fixed term contracts (3,4)</b>	9,6	13,3	12,4	14,0
15-24	23,3	43,3	35,9	40,0
55-64	6,2	6,2	6,8	6,7
<b>Part-time contracts (4)</b>	8,3	14,1	:	17,6
Men	3,3	4,8	:	7,0
Women	16,6	27,8	:	30,6
<b>Employment rate 15-64</b>	54,8	58,7	62,5	65,9
Low-skilled	44,5	46,0	47,9	48,1
Medium-skilled	64,5	67,9	68,3	70,6
High-skilled	81,4	78,5	82,8	83,9
<b>Regional unemployment (5,7)</b>	17,2	9,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	57,1	64,9	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	37,7	39,5	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.



**Box II.9.1: Recommendations (EU, OECD, IMF) - IT**

**EU (CSRs 2009):**

To address the productivity challenge, improve the efficiency and outcomes of the education system, inter alia by closely monitoring quality standards, while paying attention to equity issues. Within a flexicurity approach and with a view to reducing regional disparities, reallocate social expenditure so as to put in place a uniform unemployment benefit system, ensure the efficient operation of employment services and promote lifelong learning, and further tackle undeclared work.

**OECD (Going for Growth 2009):**

Marginal tax rates should be decreased, especially for low-income groups, without introducing excessive complexity, financed by reduced public expenditures and strengthened tax enforcement. Since joint taxation is detrimental to women's labour force participation, already among the lowest in the OECD, separate taxation of couples should be maintained.

Reduce regional disparities in labour utilisation, promote decentralisation in wage bargaining, starting with differentiating wages in the public sector, so as to take into account regional differences in productivity and the cost of living.

Increase the amount of private financial investment in tertiary education through higher tuition fees and private sector financing, to increase the supply (quality and quantity) of university places and reduce drop-out rates.

**IMF (Article IV 2008):**

Encourage a second generation of labour market reforms to strengthen the link between wages and productivity, allow wages to better respond to regional differences, and make permanent contracts more flexible, in tandem with efforts to enhance the social safety net.

**9.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

The current global recession started to affect the Italian labour market in early 2009. The cyclical deterioration impinged upon well-known structural weaknesses, which are evident in sizeable differences in labour market outcomes (between various age groups, by gender and between regions) and in the uneven distribution across generations of flexible contracts, along with persistently high share of irregular jobs. The substantial degree of dualism of the Italian labour market is making the less attached workers to suffer most from the crisis.

A series of reforms, especially those aiming at broadening the use of non-standard contracts, have marginally but incrementally increased the

flexibility of the labour market. Together with the pension reforms, these measures improved the female and older workers' participation. The policies undertaken since 1997 have targeted flexibility of work contracts for new entrants, significantly reducing hiring and firing costs at the margin while leaving unchanged the legislation on incumbent permanent employment. Between 1998 and 2008 the overall EPL score (version 1) declined from 2.70 to 1.89, mainly owing to the decrease in the tightness of employment regulation for temporary contracts (from 4.0 to 2.25). Even so, these measures have not modified the traditional configuration of the Italian welfare system based on the protection of the male breadwinner whose permanent full-time job is sheltered by tight conditions for dismissals and who has a preferential access to a system of social shock absorbers, sometimes including early labour market exit if needed. The asymmetry in the

treatment of open-ended full-time workers vis-à-vis the proliferation of atypical and flexible forms of work has raised concerns related to the presence of a dual labour market. In addition, firms have made use of temporary contracts not only to cope with the uncertainty of production or as a way to test un-experienced workers before offering a permanent contract, but also as a way to circumvent the hiring and screening process and the costly procedure entailed by the standard permanent contract. The age and gender specific characteristics of workers with temporary contracts suggests that firms have decided to organise the production for normal periods around a pool of permanent workers smaller than would have prevailed in the absence of firing costs, while leaving to “marginal” workers the task of coping with temporary shifts in production. According to the special Eurobarometer survey made in 2006, insufficient flexibility is also reflected in a difficulty to find a new job (only 10% of respondents think that they would very likely find a new job in case they were laid-off) and small mobility across firms (only 3% of respondents changed their employer more than 6 times during their working life). The duration of short-term unemployment spells is indeed about 30% higher than the EU average, and even more for the younger cohorts.

Employment rigidities have also probably contributed to a large share of self-employed in non-agricultural sectors (19% in 2007), which is the highest in the EU after Greece and has strongly increased since 2001 (by almost 6.5p.p). The high share of self-employment includes to some extent “independent” (bogus self-employed) workers who are in fact engaged in regular activities with a single employer. The social costs of dualism are high, as they are associated with precarious jobs, low on-the-job training, as well as limited upward mobility. However, these costs need to be weighted against the likely benefits of the role of flexible arrangements in reducing undeclared work and the informal sector.

Labour market reforms contributed to a considerable reduction in the long-term unemployment rate since 1997 (by about 16 pps.), which however is still high at 45%, reflecting remaining employment rigidities, skills mismatches, regional imbalances, and other factors.

The policy response has been so far mild but adequate. The strategy of the Government has been to restore confidence and offer some relief to workers and firms to avoid further deterioration in internal demand, therefore reducing the impact on labour demand, while at the same time taking into account concerns about the budgetary impacts of more substantial reforms.

Yet, the structural problems of the labour market are still unsolved. Productivity and competitiveness remain the main challenges for the country. A comprehensive reform strategy would allow the country to gain from the world recovery. Labour market reforms in line with the flexicurity principles can play a key role in boosting economic activity and reducing the inequality in opportunities of a segmented labour market.

Reducing asymmetries between non-standard and standard employment, making open-ended contracts more attractive to firms, is prerequisite to distribute more equally across contract types the job created with the economic recovery. The proposal of introducing a unique labour contract, based on the so-called “*tenure track approach*” has been put forward in the policy debate. This kind of contract should be a permanent contract, but specific elements of protection (on top of the basics) can be built up progressively as the working relationship continues.<sup>(50)</sup>

A comprehensive reform of the currently segmented and partial social safety net, while strengthening incentives to work, appears also necessary. Yet, the tight budgetary situation constrains the amount of resources that can be devoted to new outlays, and suggests a redistributive approach across contract types.

Moreover, without reinforcing activation policies and incentives to work, while providing security through a universal scheme, the risk of hysteresis in

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<sup>(50)</sup> These elements of protection may concern notification periods, the amount of severance pay and procedural aspects of dismissal protection. At the same time, the (consecutive) use of fixed-term contracts should be limited and undeclared work should be reduced as rapidly as possible, notably by increasing effective inspections. Along these lines see also: “Flexicurity Pathways, Turning Hurdles into Stepping Stones” Report by the European Expert Group on Flexicurity, June 2007 <http://ec.europa.eu/social/BlobServlet?docId=1519&langId=en>

unemployment is high. At the same time, measures aimed at increasing the employability of workers through appropriate activation (ALMPs) and life-long learning measures should be reviewed, and a strict check of their effectiveness conducted, to ensure that they provide workers with the opportunity to work in a more flexible environment, while making them more employable and protected against the risks of marginalisation after restructuring.

The recent agreement between the social partners aimed at giving more weight to firm-level wage negotiations is an important development to align wages to productivity and a step to overcome the traditional regional imbalances. This measure, combined with a mobilisation of labour supply, should keep wage developments under control while increasing employment rates and productivity.

Italy has relatively centralised bargaining institutions. In particular, although in principle firm-level agreements are possible, nationally negotiated wages at sector level dominate and restrict the scope of negotiations at the firm level. Decentralised bargaining is common in large firms but rare in small ones. This has an adverse impact on regional differences in economic development. Collectively agreed wages impose a "de facto" wage floor even for workers not covered by collective bargaining. As mentioned above, the recent agreement between the social partners aimed at giving more weight at the firm's level wage negotiations goes in the right direction of making wage developments consistent with productivity developments at the firm level.

# 10. LUXEMBOURG

## 10.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 10.1.1. Recent trends

Over recent years, Luxembourg has registered only limited improvements in achieving the Lisbon's employment targets (Table II.10.2), despite a sustained job creation that affected mainly non-residents. The overall employment rate in 2008 was at 63.4%, down by 0.8 pp. from the 2007's level and only 0.4 pp. higher than in 2001. The female employment rate (55.1%) has registered only a mild long-term growth since 2001 (+4.3 pps.). The employment rate of older workers (age 55-64) was at 34.1%, among the lowest in the euro area, although since 2001 it increased by more than 9 pps.

According to national accounts, employment growth remained at a sustained pace in 2008 (+4.7%), even if Labour Force Survey's data registered a negative employment growth (-0.4% compared to +3.9% in 2007). The reversal was very strong for female employment (that went down from +5.8% in 2007 to -2.8% in 2008), while the employment growth of males remained positive (+1.6% down from 2.4%). The negative employment growth, together with the increase in labour force (+0.7%), explains why the unemployment rate moved up to 4.9% (from 4.2% in 2007), very close to the all-time high registered in 2004 (5%).

Even if not extremely deep, the gender gap is higher than the euro-area average, with females having activity (58.7%) and employment (55.1%) rates about 16 pps. lower than males. Age gaps even matter. Prime age workers have an activity rate of 83.4% and an employment rate of 80.0%, respectively 48.4 pps. and 45.9 pps. more than older workers. Young workers suffer an unemployment rate of 18%, four and a half times the prime age unemployment rate.

As for the nationality, Luxembourg is one of the European countries in which foreigners living in the country perform better than nationals in terms of attachment to the labour market. Foreigners have an activity rate of 71.9% (+9.2 pps. with respect to nationals) and an employment rate of 66.6% (+5.8 pps.). However, the unemployment rate of foreigners is at 7.3% against 3% for nationals.

The gap related to skills, even if pronounced, is not among the highest in Europe. Temporary employment is much less diffused than in other countries (6.2% of the total), and this share was decreasing in 2008 by 0.6 pp. from 2007's level, mainly because labour adjustment at the beginning of the crisis affects temporary contracts more hardly than permanent ones. Part-time contracts constitute an important part of the overall female employment (38.2%).

The long-term unemployment rate was at 32.9% in 2008, up by 4.4 pps. with respect to 2007. This important change, together with the increase in total unemployment, suggests that movements in unemployment in 2008 were due mainly to fewer outflows from unemployment rather than more inflows into unemployment. In 2008 labour productivity collapsed by -5.3%, partly as an effect of the drop in the value added, not accompanied by a corresponding shrinking in the employed labour force.

### 10.1.2. Outlook for the next two years

The financial crisis is expected to continue having an important impact on the Luxembourg economy. Table II.10.1 shows that the current recession may go on up to the next year, resulting in a strong deterioration of the labour market.

Table II.10.1: **Short-term forecasts - LU**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	-0.9	-3.0	0.1	-4.0	-0.4	-4.8	-0.2
<b>Employment growth</b>	4.7	0.5	-0.8	-1.2	-0.1	-1.4	2.4
<b>Unemployment rate</b>	4.9	5.9	7.0	6.0	7.2	6.8	6.0

Source: EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.10.2: **Labour market indicators**

	LU		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	63.0	63.4	62.5	65.9
Men	74.9	71.5	70.8	72.8
Women	50.8	55.1	54.3	59.1
<b>Employment rate 55-64</b>	24.9	34.1	37.5	45.6
Men	35.4	38.7	47.4	55.0
Women	14.6	29.4	28.2	36.9
<b>Participation rate 15-64</b>	64.1	66.8	68.5	70.9
Men	76.0	74.7	76.9	78.0
Women	51.9	58.7	60.2	63.9
<b>Participation rate 55-64</b>	24.9	35.0	40.1	48.1
Men	35.4	39.8	50.8	57.9
Women	14.6	30.4	30.1	38.8
<b>Unemployment rate 15+ (1)</b>	1.9	4.9	8.5	7.0
Men	1.6	4.0	7.7	6.6
Women	2.4	6.0	9.4	7.5
<b>Long-term unemployment rate (2)</b>	28.4	32.9	46.8	37.0
<b>Self-employment (3)</b>	2.2	3.8	9.5	9.8
<b>Fixed term contracts (3,4)</b>	4.3	6.2	12.4	14.0
15-24	19.5	39.3	35.9	40.0
55-64	:	0.9	6.8	6.7
<b>Part-time contracts (4)</b>	11.3	17.9	:	17.6
Men	1.7	3.8	:	7.0
Women	25.7	38.2	:	30.6
<b>Employment rate 15-64</b>	63.0	63.4	62.5	65.9
Low-skilled	51.1	48.4	47.9	48.1
Medium-skilled	69.5	65.3	68.3	70.6
High-skilled	83.8	83.7	82.8	83.9
<b>Regional unemployment (5,7)</b>	0.0	0.0	3.4	3.2
<b>Involuntary fixed-term contracts (6,7)</b>	15.5	36.5	53.7	60.2
<b>Involuntary part-time contracts (6,7)</b>	8.9	5.2	18.0	22.5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

## 10.2. THE SHORT TERM RESPONSE TO THE CRISIS

**Box II.10.1: Recommendations (EU, OECD, IMF) - LU**

**EU (2009, no CSR addressed):**

Luxembourg has made some progress to increase the employment rate of older workers, reduce the number of early school leavers and remove artificial barriers in the education system, and to make the economic environment more attractive. Further measures are needed to address these underlying challenges. The employment rate of the resident population remains below the European average with that of older workers being particularly low.

**OECD (Going for Growth, 2009):**

Decouple *revenu minimum garanti* (RMI) and complementary benefits from minimum wage increases. Tighten access conditions to unemployment benefits for the young.

Phase out existing pre-pension and early retirement schemes. Reduce the high net replacement rates that can reach more than 100% of the last wage for low-income earners who retire, preferably by adjusting the pension indexation mechanism.

Employment protection legislation is one of the strictest among the OECD countries. In particular, the regulation of collective dismissals should be made more flexible as it currently acts as a barrier to firm growth.

School autonomy should increase to allow headmasters and teachers to adjust their school programme in line with student needs. In addition, language education should be rebalanced in order to make school education better reflect labour market requirements.

Luxembourg has taken a wide range of measures to alleviate the impact of the economic downturn. Moreover, a set of measures already decided before the aggravation of the crisis can also serve that purpose. The bulk of the recovery package is made of cuts (and associated reforms) in taxes, especially in personal income tax, and of a large increase in government investment. The cuts in income tax are not planned to be temporary but, due to the very sound condition of public finances, this does not constitute a real risk for their sustainability.

Income tax brackets have been increased by 9% on 1st January 2009, following a similar increase by 6% in 2008. This increase had been decided in the 2009 budget in order to compensate for the non-indexation of tax brackets since 2001 and was thus not initially planned as a response to the crisis.

To support the labour market during the slowdown, Luxembourg has essentially encouraged the recourse to temporary unemployment in order to limit lay-offs, through

the lengthening of the coverage duration, the reimbursement of the employers' share of the benefit, and the increase in its level from 80% to 90% of the wage for workers following a training (0.4% of GDP).

**10.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

The current economic crisis is adding concerns for the proper functioning of the labour market in Luxembourg, which even before presented some long-term challenges, like the low employment rate of young and older workers.

The strong dependence of the economy from the world demand and its specialization in the financial services add other risks for the future. In particular, competitiveness is a key issue to guarantee the country will catch up the recovery, once it will appear. Last year's comparatively rapid increase in unit labour cost, which is projected to continue also in the following years due to the fall

in labour productivity, significantly weakened the competitiveness of the economy of the country.

Measures taken to address the crisis are not at odds with a long-term strategy aiming at solving more structural weaknesses. The extension of the partial unemployment scheme is likely to have an important effect to limit the rise in unemployment, at least in the short run, by giving firms an additional - and hopefully strong - incentive to limit lay-offs. The question arises, however, whether this incentive will persist in a longer perspective if enterprises have to face a protracted contraction in activity, which cannot be discarded at this stage.

Even more important is to evaluate if the combination of generous unemployment benefits and weak ALMPs can constitute an obstacle to matching the increase in labour demand that the recovery will bring. If disincentives to work lower labour supply, the increase in labour demand during the economic upturn will cause an adverse upward pressure on wages with negative consequences over unit labour costs and competitiveness. However, at the same time, Luxembourg would suffer the consequences of labour supply shortages to a lesser extent than other countries, given the large pool of available workers in the neighbouring regions.

To cope with the financial crisis and the rooted weaknesses of the country's labour market, a number of long-term reforms will need to be considered in a longer term perspective. In particular, even though a period of rising unemployment would suggest some caution, it would be important to modernise employment protection legislation in order to guarantee better transitions into employment for those that have lost their job, and notably for those specific categories, such as young workers, that have historically paid a high tribute to the rigidity of the labour market in terms of lower employment and higher unemployment rates. Together with this, and always taking due account of the caution required in periods of rising unemployment, disincentives to work that still lower young workers' labour supply should be reduced, notably through tightening access condition to unemployment benefits for this category. Finally, it would be advisable to avoid using traditional early retirement schemes to cope with the crisis, in order to escape further reductions in older workers' employment rates.

# 11. MALTA

## 11.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 11.1.1. Recent trends

Structural weaknesses continue to characterize the Maltese labour market, despite the last four years of sustained economic growth. The Lisbon targets are very far away with no evidence of catching up with the EU. Although increasing by 0.6 pp. in 2008, the employment rate of Malta remains the lowest in the EU (55.2%), primarily due to the extreme low female and older workers employment rates (respectively at 37.4%, +1.7% with respect to 2007 and at 29.1%, more or less the same rate as in 2001). It is worth noting that the employment rate for young women is well above the euro area and the EU27 average (43.8% against 35.1% and 34.5% respectively), while the employment rate for older females, at only 12.4% against 35.9% in the euro area and 36.9% in the EU27, is the lowest in the EU. With a participation and employment rate for women lower than for those men by respectively 36.7 and 35.1 pps., the gender gap is the highest in Europe. Thus the small difference between female and male unemployment rates (6.5% versus 5.6% respectively) indicates cultural factors and discouragement in searching, which explain the very low female labour market attachment.

Following a strong growth in 2007 (3.2%), employment grew at a lower pace (2.5%) in 2008. The employment growth rate was particularly high for females (7.9% in 2007 and 6.5% in 2008). With a labour force growing by 2.0% in 2008, still below the employment growth, the unemployment rate kept on declining, down to 5.9% in 2008 (from 6.4% in 2007). In 2008 the effects of crisis on the Maltese labour market were not particularly evident. Conversely, young workers participate in the labour market more than in the rest of the euro area (participation rate is 52.2% in Malta versus 45% in the euro area); on the other hand, the gap in employment rates between prime-age and older workers is huge (67.3% versus 29.1% respectively), even worse for males (+43 pps.) than for females (+31.7 pps.).

With such a high participation, the unemployment rate of young, even if declining, is still high (12.1%), 7.2 pps. higher than prime-age rate. Only 46% of the low-skilled are employed (-3.3 pps. since 2001), while medium- and high-skilled have much higher employment rates (72.5% and 85.7% respectively). On the contrary, the very low level of unemployment rate for high-skilled could be interpreted as a sign of shortage of this kind of workers in the labour market.

Temporary employment represents a very small fraction of the total employment compared to other countries (4.2%) with a slightly higher incidence among women (5.8%). Part-time contracts constitute a bit more than a quarter of total female employment (26.1%), while as a percentage of the total employment they amount to 11.3%, with a long-term growth by 4.2 pps. since 2001 but still well below the Euro Area average of 19.3%.

The long-term unemployment rate remained quite stable over the last decade and stood at 2.5% of the labour force in 2008, about half of the EU average. Labour productivity grew by 1.5% in 2008 (0.9% in 2007). As hourly labour productivity increased by 1.4%, the other main contributors to the GDP growth in 2008 were population (0.6%) and the share of working population (0.5%).

### 11.1.2. Outlook for next two years

The crisis is expected to have a minor impact on the Maltese economy. After a positive growth in 2007 (2.5%), the Commission expects an output fall by -0.9% in 2009 followed by a modest growth (0.2%) already in 2010, while IMF forecasts the same -1.5% this year and +1.1% the next one. This should imply a negative employment growth this year, equal to -0.5%. Finally unemployment rate should hover around 7% in 2009 and 7.6% in 2010.



Table II.11.1: **Short-term forecasts - MT**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	2,5	-0,9	0,2	:	:	-1,5	1,1
<b>Employment growth</b>	2,5	-0,5	0,2	:	:	-0,6	0,6
<b>Unemployment rate</b>	5,9	7,1	7,6	:	:	6,9	7,6

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.11.2: **Labour market indicators**

	MT		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	54,7	55,2	62,5	65,9
Men	76,6	72,5	70,8	72,8
Women	32,7	37,4	54,3	59,1
<b>Employment rate 55-64</b>	28,1	29,1	37,5	45,6
Men	48,7	46,5	47,4	55,0
Women	9,6	12,4	28,2	36,9
<b>Participation rate 15-64</b>	58,9	58,8	68,5	70,9
Men	82,1	76,8	76,9	78,0
Women	35,6	40,1	60,2	63,9
<b>Participation rate 55-64</b>	28,6	30,3	40,1	48,1
Men	49,2	47,9	50,8	57,9
Women	9,1	13,2	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	7,6	5,9	8,5	7,0
Men	6,9	5,6	7,7	6,6
Women	9,3	6,5	9,4	7,5
<b>Long-term unemployment rate (2)</b>	43,3	42,2	46,8	37,0
<b>Self-employment (3)</b>	8,1	8,9	9,5	9,8
<b>Fixed term contracts (3,4)</b>	4,1	4,2	12,4	14,0
15-24	9,4	9,2	35,9	40,0
55-64	:	:	6,8	6,7
<b>Part-time contracts (4)</b>	7,1	11,3	:	17,6
Men	3,0	3,9	:	7,0
Women	16,8	26,1	:	30,6
<b>Employment rate 15-64</b>	54,7	55,2	62,5	65,9
Low-skilled	49,3	46,0	47,9	48,1
Medium-skilled	67,4	72,5	68,3	70,6
High-skilled	86,0	85,7	82,8	83,9
<b>Regional unemployment (5,7)</b>	0,0	0,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	40,7	50,0	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	24,3	17,1	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.11.1: Recommendations (EU, OECD, IMF) - MT**

**EU (CSRs 2009):**

Step up efforts to attract more people, particularly women and older workers, into the labour market by, inter-alia, facilitating childcare; intensifying efforts to tackle undeclared work and encouraging participation in the labour market, including by tightening access conditions to the benefit system.

**11.2. THE SHORT TERM RESPONSE TO THE CRISIS**

Despite limited fiscal space as a result of the high general government deficit and debt ratios and a deteriorating competitive position, Malta has adopted several measures to support the economy in 2009. While these form part of a broader consolidation effort, they act as a stimulus on both the revenue (declining by a ¼% of GDP) and the expenditure (increasing by 1¼% of GDP) side. The total budgetary cost of the fiscal stimulus measures in 2009 is thus expected to amount to around 1½% of GDP.

Most measures have come into effect in 2009 and are aimed at increasing public investment on infrastructure and the environment (partly financed by EU funds), as well as at directly supporting the economy through supply-side initiatives (in particular for manufacturing, tourism and SMEs) and support of households' purchasing power.

The government is providing financial assistance aimed at encouraging crisis-affected companies to invest further while avoiding layoffs and return to normal working hours. The measures thus are securing employment, rather than supplementing household income through transfer payments. Moreover, Malta is envisaging implement a flexicurity roadmap to ensure an adequate supply of skills in emerging high-skill sectors of the economy while ensuring that those at the lower end of the skills spectrum are sufficiently skilled and motivated to take up work in the formal economy.

The 2009 revision in the personal income tax brackets, involving a broadening of the tax-free range of household income and income tax

brackets in general, and including specific fiscal measures aimed at encouraging higher female participation, is expected to support purchasing power and to improve the incentives to work. The budgetary impact of this measure is estimated to amount to some 0.2% of GDP.

More recently, the government has concluded tailor-made financial assistance to manufacturing firms in difficulties in return for increasing investment, training of employees and returning to normal working hours. Besides stimulating demand in the short term, public investment projects will also enhance long-term economic growth. Similarly, a number of structural measures, which are part of the longer-term policy reform agenda, such as the implementation of a flexicurity roadmap, will provide support in view of the challenges posed by the downturn by enhancing growth potential.

**11.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

The notable improvement of labour market conditions observed during recent years started to lose pace in 2008. As an initial response, companies have reduced the number of hours worked and adopted more flexible working time arrangements so as to avoid layoffs. In doing so, as in other EU countries, they benefited from public funding support.

In response to the crisis and despite the high public deficit and debt, Malta has adopted several measures to support the economy in 2009. To a large extent the measures enacted aimed at supporting sectors adversely affected by the global slowdown as well as households' incomes through

protecting jobs rather than through benefits paid to laid off workers. The implementation of a flexicurity roadmap will contribute to create an adequate supply of skills in emerging high-skill sectors while ensuring that those at the lower end of the skills spectrum are sufficiently skilled and motivated to take up work in the formal economy.

The recent measures in the area of tax and benefit systems may have a relevant impact on the financial incentives to work. However, more action needs to be brought up front so that results can be realised more quickly. Any actions that can improve the benefits system need to be tackled now rather than in a year's time. Initiatives to train those in and outside work should be given priority. Also, interventions for young people, women and older workers are vital early on, in order to prevent further action being necessary later in the lifecycle.

Significant efforts are being made to encourage more people into the labour market, particularly women, through steps to stimulate more part-time work, enhanced maternity leave, tax incentives on childcare provision and training for women re-entering the labour market.

Similarly, different labour market programmes are aimed at improving the employability of hard to place workers at higher risks of becoming long-term unemployed. Initiatives include a youth employment programme that covers job search assistance to youth, career guidance services and employment schemes, ICT job search facilities in the community, basic skills training and out reach programmes that target early school leavers.

Beyond facilitating upward shifts in value-added activity, cost competitiveness remains a key to a sustainable recovery in exports. This calls for ensuring a closer link between wage and productivity developments as well as taking further productivity-enhancing structural reforms including redirecting resources to growth-enhancing areas, investing in human capital development and in R&D.

# 12. THE NETHERLANDS

## 12.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 12.1.1. Recent trends

The Dutch labour market has historically been considered as an example of "best practice" and recent trends confirm this assessment. The Lisbon targets are fully reached and all indicators clearly signal a well functioning labour market. Yet, the welfare dependency remains high and the challenge of mobilising the labour supply is still valid.

The total employment rate in 2008 was at 77.2%, up by 1.2 pps. from the 2007's level (+3.1 pps. from 2001). The female employment rate was at 71.1% (+1.5 pps. with respect to 2007 and +5.9 pps. with respect to 2001) and represents a success story in the European panorama. The older workers' (55-64) employment rate, which was low in 2001 (39.6%), in 2007 overcame the Lisbon target of 50% and in 2008 moved up to 53% (+2.1 pps. with respect to 2007).

After a period of negative or null growth in 2003-05, employment regained a positive pace after 2006. In 2008, employment grew by 1.5%, slowing down from 2.4% in 2007. Male employment decelerated from 1.7% in 2007 to 0.9%, more than female employment (from 3.2% to 2.2%). The total labour force increased by 1.0% and unemployment rate went down to only 2.8% of the labour force. Thus, the effects of the global recession were still not reflected in the data from 2008.

In comparison with other countries, gender gaps do not appear to be very pronounced, thanks to very high female participation and employment rates. As for differences among age groups, prime-age workers have an employment rate of 86.8% or about 34 pps. more than older workers, which is a high gap, but still less pronounced than in the rest of the euro area.

The gap among workers with different skills in terms of activity, employment and unemployment rates appears less pronounced than in other euro area countries.

Temporary employment represents 17.9% of the total and it is higher for women (19.8%): this share increased remarkably since 2001 (+3.6 pps.). Part-time contracts constitute three quarters of total female employment, leading the share over total employment up to 46.8%, with a reduction in the last year (-0.9 pp.) after many years of stability.

Long-term unemployment rate as a percentage of total unemployment was at 34.3% in 2008, registering a remarkable decrease (5.1 pps.) with respect to 2007.

### 12.1.2. Outlook for the next two years

Due to the fall in world trade, the current recession is expected to have an important impact on the Dutch economy. After a still positive growth in 2008 (+2%), the European Commission (Spring 2009 Forecast) foresees output shrinking by 3.5% in 2009 (-4.5% according to September 2009's Interim Forecasts) and 0.4% in 2010. This should result in negative employment growth of 1.2% and 2.6% respectively this year and in 2010, while the unemployment rate should climb to 6.2% in 2010 (from 3.9% in 2009).

Table II.12.1: **Short-term forecasts - NL**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	2,1	-3,5	-0,4	-4,9	-0,4	-4,8	-0,7
<b>Employment growth</b>	1,5	-1,2	-2,6	0,0	0,1	-1,0	-1,4
<b>Unemployment rate</b>	2,8	3,9	6,2	4,0	7,0	4,1	5,0

Source: EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.12.2: **Labour market indicators**

	NL		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	74,1	77,2	62,5	65,9
Men	82,8	83,2	70,8	72,8
Women	65,2	71,1	54,3	59,1
<b>Employment rate 55-64</b>	39,6	53,0	37,5	45,6
Men	51,1	63,7	47,4	55,0
Women	28,0	42,2	28,2	36,9
<b>Participation rate 15-64</b>	75,8	79,3	68,5	70,9
Men	84,3	85,3	76,9	78,0
Women	67,1	73,3	60,2	63,9
<b>Participation rate 55-64</b>	40,2	54,7	40,1	48,1
Men	51,8	65,9	50,8	57,9
Women	28,4	43,5	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	2,2	2,8	8,5	7,0
Men	1,8	2,5	7,7	6,6
Women	2,8	3,0	9,4	7,5
<b>Long-term unemployment rate (2)</b>	:	34,3	46,8	37,0
<b>Self-employment (3)</b>	7,2	8,4	9,5	9,8
<b>Fixed term contracts (3,4)</b>	14,3	17,9	12,4	14,0
15-24	36,5	45,2	35,9	40,0
55-64	6,0	7,0	6,8	6,7
<b>Part-time contracts (4)</b>	41,9	46,8	:	17,6
Men	19,3	22,8	:	7,0
Women	71,2	75,2	:	30,6
<b>Employment rate 15-64</b>	74,1	77,2	62,5	65,9
Low-skilled	61,0	62,8	47,9	48,1
Medium-skilled	79,8	80,9	68,3	70,6
High-skilled	86,8	88,0	82,8	83,9
<b>Regional unemployment (5,7)</b>	1,0	0,9	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	32,4	37,9	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	2,8	5,1	18,0	22,5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

## 12.2. THE SHORT TERM RESPONSE TO THE CRISIS

Three fiscal stimulus packages have been adopted by the Dutch government, amounting to almost 2% of GDP, 1% of GDP respectively in 2009 and 2010. The measures focus on income support (notably through the abolition of unemployment benefit premiums payable by employees), increasing public and private investment, protecting employment, increasing the budget for education and retraining, ensuring access to finance and providing liquidity support to companies. In addition, automatic stabilisers will work fully, implying a substantial increase in social expenditure and a significant decrease in tax revenue. Stimulus packages also include structural measures such as the lowering of social security contributions, which aims at boosting labour demand while increasing labour supply at the same time, and the creation of mobility centres, which should ease the transition in the labour market and reduce labour shedding. These measures are broadly in line with the European Economic Recovery Plan (EERP) agreed in December 2008 by the European Council.

Up until mid 2008, the Dutch labour market was very tight, with a very low unemployment rate and a high vacancy rate. In the fourth quarter of 2008, the labour market started to loosen, with unemployment increasing and the number of unfilled vacancies dropping sharply, though remaining high. The Dutch recovery plans contain measures aimed at protecting employment, improving labour market transitions, tackling youth unemployment and improving access to training, totalling up to ¼% of GDP. Important measures in this regard are the introduction of the short-time employment and of the part-time unemployment schemes. <sup>(51)</sup>

The *Shortening Working Hours Scheme* enables companies to cope with a short-term fall in demand of at least 30% by shortening the working hours, while companies can hold on to valuable personnel, which will be needed when demand resumes. The initial budget allocated to this scheme was 200 million of euro (0.03% of GDP). This scheme was replaced in April 2009 by the *Part-time Unemployment Scheme*. With the *Part-time Unemployment Scheme*, companies can decide whether to benefit from this scheme and for which part of their personnel. The employees concerned by part-time unemployment have the obligation to follow training courses, thereby improving their qualifications. The budget for this scheme was 375 million of euro, increased to 950 million in July 2009. In net terms, the total budgetary impact of the measure is projected to cost €500 million.

Another important measure is the set-up of mobility centres, to facilitate labour market transitions. Mobility centres are temporary public-private partnerships with the goal of intensifying assistance to job seekers and businesses in order to prevent forced lay-offs as much as possible. Employees who are threatened by unemployment will be assisted in finding a new job, or temporarily be sent on secondment to other employers, if necessary through additional education and training.

While most of the instruments are of temporary nature, some of them will be permanent, in particular the lowering of social contributions. Thus, the full reversibility of the short-term measures adopted in response to the crisis is not ensured.

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<sup>(51)</sup> The part-time unemployment scheme replaced and more or less institutionalised the scheme of a temporary lowering of hours worked.

**Box II. 12.1: Recommendations (EU, OECD, IMF) - NL**

**EU (CSRs 2009):**

Develop further measures, including fostering labour market transitions within an integrated flexicurity approach, to improve the participation of women, older workers and disadvantaged groups with a view to raising overall hours worked.

**OECD (Going for Growth 2009):**

Make the current dual system of dismissal simpler and more predictable. In particular, the rules governing layoffs should be clearly specified in law, with appeal to local courts only possible as an ex post option, in case one of the parties feels unfairly treated. Moreover, in order to safeguard labour market opportunities for workers after the age of 50, the rate of accumulation of their severance payment rights should be aligned with that of other workers.

Strengthened further activation policies for the long-term unemployed to raise overall labour participation; and shorten benefit duration.

Phase out more rapidly the transferability of the individual tax credit. Moreover, more of the family-income-based child tax credit should be shifted to the individual or second-earner child tax credit. In addition, the tapering-off rate for housing and child benefits should be reduced further and certain work-related entitlements and tax credits could be conditioned on the number of hours worked.

Further limit or phase out the initial disability periods where benefits are based on previous earnings. Apply the new stricter medical testing criteria in the periodic medical reassessment to the existing pool of disability recipients.

**IMF (Article IV, 2008):**

Efforts to increase employment would ease growing labour shortages, support growth, and alleviate the effects of population aging. Despite relatively high employment rates and recent reforms, hours worked per employee are the lowest in the OECD. Reducing unemployment-benefit duration, which remains high by international standards, would raise labour participation while continuing to support job search. Further reduction in the still high effective tax rate on second family workers and faster elimination of the imputation of the general tax credit to the primary worker would encourage female employment. To stimulate elderly participation, the mission supports targeted increases of income tax credits for workers aged 57. Access to the young disabled scheme should be tightened. In addition, stricter enforcement of work availability requirements and extension of the new stringent rules for periodic reassessment of disability status to those aged 45 and over.

Strict EPL for regular employment results in high long-term unemployment and may hinder labour mobility or process innovation. Severance payments are relatively generous and may also reduce labour mobility to prevent loss of accumulated severance rights. To alleviate these concerns, the mission advocates relaxation of EPL and a funded severance pay scheme.

### Box II.12.2: Employment insurance

The employment insurance is geared towards the prevention of unemployment and a smooth transition to a new job. Employers are required to continue to pay 80 to 100 percent of the worker's wage payments for a maximum of six months after giving notice to the worker. During this so-called transfer period, the worker can fully devote himself or herself to finding new employment. If this time span does not suffice, the worker is dismissed, but not before the efforts of both the employer and worker have been evaluated. The unemployed worker then enters a reintegration scheme where the sector of industry bears the financial responsibility and where private or public reintegration organisations can be relied upon. If a new job still has not been obtained after another six months, the responsibility is shifted to the municipality. This new system also benefits the employer, as employment protection legislation is eased by abolishing the current pre-emptive testing of dismissals, conducted by the public employment services. At the same time, during the notice period, the worker may petition the courts to challenge the reason the employer gives for the prospective dismissal, although this notice period is shortened to only one month. Moreover, as indicated above, a gatekeeper (probably the public labour office) evaluates the efforts of the employer to help the employee find a new job during the transfer period.

#### The Work Budget

The Work Budget has a larger scope than life-course saving and can also be utilised to provide additional income in case of job transitions, setting up one's own business, part-time retirement, training, unpaid leave, a new job or position with lower earnings. The Work Budget is also available to flexible workers, such as workers with a fixed-term contract. The Work Budget is personal and portable, which means that the worker can transfer it from one job to another. It is designed to maintain the worker's employability level and can be used to finance the actual costs of training and schooling. Both the worker and the employer make financial contributions to the Work Budget. The most important sources for the employer's contributions are current severance payments. In the new system with employment insurance, severance pay is paid in addition to the payments during the transfer period only in special situations in which employers do not meet their contractual and other responsibilities towards workers who are laid off. Lower severance payments thus provide room for contributions into the Work Budget. This makes workers less vulnerable to the risk of firm-specific shocks: if the firm that employs them goes bankrupt, workers have already received payments in their Work Budget.

*Source:* Bovenberg, Wilthagen and Bekker, 2008

### 12.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES

Despite the low unemployment rate, the long-term unemployment rate is close to the EU average and reflects relatively high EPL for regular contracts and disincentives to take up work. Atypical work such as part-time work, fixed-term work and agency work is widespread in the Netherlands. The share of part-time workers is high (45% of employed). A high share of them works part-time voluntarily. The share of temporary workers is above the EU average, while the share of involuntary temporary employed workers (almost 40%) is much below the EU average (60%). Temporary workers are somewhat disadvantaged

in accessing the unemployment benefits compared to regular workers. In addition, their transition to permanent contracts is among the lowest in the EU (about 20%). However, their in-work at-risk-of-poverty rate is the lowest in the EU and (only) about 70% higher than in-work at-risk-of-poverty rate by permanent contract.

Disincentives to work created by the tax and benefit system, in particular high inactivity traps, contribute to a lower labour utilization of women. Although voluntary, part-time work reduces labour utilization and is highly persistent. Furthermore, a high incidence of part-time work may reduce the returns from human capital formation and has a negative impact on female careers and their upward wage mobility over their life cycle.



Labour supply could be increased in particular among social assistance recipients, females, older workers, long-term unemployed workers and disadvantaged people.

The Committee on Labour Market Participation (also known as the "Bakker Committee") has made proposals that aim at increasing the participation rate to 80% by 2016, by tackling with the main weaknesses of the Dutch labour market. These proposals include: measures that stimulate both the extensive (number of people in the labour force) and intensive margin (i.e. hours worked) to increase labour supply of vulnerable groups; the increase in the official retirement age as of 2016 (by one month per year); improved responsibility for employers, employees and municipalities to enhance the employability and the transitional security of workers.

A key element of the proposal is the change of the unemployment insurance into an employment insurance system which facilitates job-to-job transitions. The idea is consistent with the proposal of Blanchard and Tirole (2008) that introduces a price for firing to internalise the cost of unemployment and take efficient layoff decisions. In this context, the Life Course Savings scheme should be replaced by the Work Budget, which allows workers to draw from savings accumulated in the scheme to finance schooling or training and/or to support income when changing jobs. Both workers and employers contribute to the Work Budget. The contributions of the employers to the Work Budget come from the lower severance payments implied by the employment insurance (in fact severance payments will be paid only in exceptional cases) and should not raise the labour costs.

# 13. PORTUGAL

## 13.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 13.1.1. Recent trends

The relatively poor performance of the Portuguese economy in recent years is reflected in the fact that the total employment rate in 2008 is below the level of 2001 (68.2% versus 69% respectively). The employment rate for females and older workers is already in line with the 2010 Lisbon targets (62.5% and 50.8% respectively in 2008), but this was the case already in 2001.

With the spreading out of the crisis, the already below-EU-average GDP growth of Portugal fell to zero in 2008. The unemployment rate continued to decrease (0.4 pp., down to 7.7% in 2008), but in the second part of the year there were already clear signs of deterioration.

The gender gap is much less pronounced than in other southern EU countries. Considering labour supply, in 2008 males experienced an activity rate of 79.5%, only 10.6 pps. higher than females. However, the employment rate of males (74.0%) is 11.5 pps. higher than that of females, and females' unemployment rate is also much higher (9.0% against 6.6% for males).

The activity rate of young people (at 41.6% in 2008) is not low in comparison with other EU countries, but the labour demand for the young does not match well with labour supply and results in relatively high youth unemployment rate, equal to 16.4% (against 7.3% and 6.6% for prime-age and older workers respectively). Older workers (55-64) experience high participation and employment rates.

A peculiar characteristic of the Portuguese labour market is the distribution of employment across people with different skills. In contrast with other euro-area countries, skills are not very highly rewarded in terms of labour market outcomes, as it is shown by the almost equal activity and employment rates for low- and medium-skilled workers. Only high-skilled workers present clear-cut higher rates than the other two categories. This is a consequence of the fact that the catching-up

process of the Portuguese economy is still not over.

Like other southern EU countries, the Portuguese labour market achieved flexibility only at the margin, with a great diffusion of temporary contracts and self-employment, the latter often most probably dissimulating workers *de facto* engaged in regular activities with one single employer. Temporary workers are 22.8% of total employees (17.4% of total employment) and self-employment amounts to 13.3% of total employment.

As a summary of the structural weakness of the Portuguese labour market, long-term unemployment rate is very high, amounting to 47.4% of total unemployment, a considerable level especially if compared to the situation of 2001 when it stood at 38%. Deteriorating labour market performance caused many workers affected by job losses to remain trapped in long-term unemployment. Long-term unemployment has increased to almost 50% of total unemployment, despite a considerable share of temporary workers with a high labour turnover. This reflects difficulty in finding a new job and little mobility across firms, and can be attributed to the presence of employment rigidities, insufficient labour market adjustment and skills mismatch. In particular, job creation has been systematically below job destruction for many years. By reducing labour turnover and hiring, tight EPL may have also contributed to an increase in (long-term) unemployment. <sup>(52)</sup>

The deterioration in labour market performance has also caused many workers to move into precarious jobs. Portugal has a high share of temporary workers (22% in 2007) and a huge share of these contracts is involuntary (about 80%). Similar situation applies to young temporary workers, as their share reaches almost 50%, with about 70% of them involuntary. While the conversion rate from temporary to permanent contracts was relatively high at the beginning of 2000 (about half of all temporary contracts were converted to permanent contracts from 2000 to 2001), it dropped enormously in mid-2000 (only about 10% of all temporary contracts were

<sup>(52)</sup> See OECD, Economic Surveys: Portugal, 2008.

converted to permanent contracts from 2005 to 2006). Finally, while temporary workers do not face high in-work-risk-of-poverty rates (which are below the EU average), they are disadvantaged compared to regular workers in accessing unemployment benefits.

Finally, after some years of relatively slow growth, labour productivity declined by 0.4% in 2008, as a result of a still positive employment growth and flat GDP growth. This path can be partly explained by labour hoarding behaviour by firms at the onset of the crisis.

#### 13.1.2. Outlook for the next two years

According to the Commission's Spring 2009 forecasts (Table II.13.1), in 2009 and 2010 Portugal will be heavily affected by the international financial and economic crisis. After the stagnation of GDP in 2008, output is expected to shrink by -3.7% in 2009 and -0.8% in 2010. This will lead to a sharp increase in the unemployment rate, which will sky-rocket to 9.1% in 2009 and 9.8% in 2010, from 7.7% in 2008.

Table II.13.1: **Short-term forecasts - PT**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	0,0	-3,7	-0,8	-4,5	-0,5	-4,1	-0,5
<b>Employment growth</b>	0,4	-1,4	-0,6	-0,5	0,0	-1,8	-1,3
<b>Unemployment rate</b>	7,7	9,1	9,8	9,6	11,2	9,6	11,0

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.13.2: **Labour market indicators**

	PT		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	69,0	68,2	62,5	65,9
Men	77,0	74,0	70,8	72,8
Women	61,3	62,5	54,3	59,1
<b>Employment rate 55-64</b>	50,2	50,8	37,5	45,6
Men	61,6	58,4	47,4	55,0
Women	40,3	43,9	28,2	36,9
<b>Participation rate 15-64</b>	72,1	74,2	68,5	70,9
Men	79,6	79,5	76,9	78,0
Women	64,8	68,9	60,2	63,9
<b>Participation rate 55-64</b>	51,9	54,4	40,1	48,1
Men	63,6	63,0	50,8	57,9
Women	41,5	46,6	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	4,1	7,7	8,5	7,0
Men	3,2	6,6	7,7	6,6
Women	5,1	9,0	9,4	7,5
<b>Long-term unemployment rate (2)</b>	38,0	47,4	46,8	37,0
<b>Self-employment (3)</b>	15,4	13,3	9,5	9,8
<b>Fixed term contracts (3,4)</b>	20,0	22,9	12,4	14,0
15-24	42,8	54,2	35,9	40,0
55-64	10,9	10,1	6,8	6,7
<b>Part-time contracts (4)</b>	8,0	8,6	:	17,6
Men	3,6	4,1	:	7,0
Women	13,4	13,9	:	30,6
<b>Employment rate 15-64</b>	69,0	68,2	62,5	65,9
Low-skilled	67,7	65,8	47,9	48,1
Medium-skilled	63,7	65,8	68,3	70,6
High-skilled	89,9	84,7	82,8	83,9
<b>Regional unemployment (5,7)</b>	:	3,8	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	82,9	81,7	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	22,0	38,9	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

### 13.2. THE SHORT TERM RESPONSE TO THE CRISIS

Portugal has adopted a wide package of fiscal measures to stimulate economic activity as a response to the crisis. In line with the European Economic Recovery Plan (EERP), a package was adopted in December 2008, focused on support to employment, social protection, investment and exports. Overall, the package represents an impulse of 1¼% of GDP in 2009 (of which 0.8% of GDP is to be financed out of the national budget and the rest through EU funds). Most of the measures are temporary and limited to 2009, but others are permanent and some others are expected to extend their impact also to 2010 and 2011.

The Portuguese authorities undertook measures worth over 0.3% of GDP to help maintaining jobs, boost employment take-up by long-term unemployed and support the labour market participation of young workers. A 3% reduction in employers' social security contributions concerning workers aged over 45 and employed in micro and small enterprises has been implemented in 2009. Training opportunities up to six months have been offered for workers of firms facing a sharp fall in activity in 2009 through the Qualification-Employment measure (estimated to cover 450 companies, or 20.000 workers).

Other measures include an increase in the number of young people supported through professional placements and financial support to companies that contract young people aged under 35 and seeking first employment; subsidies and reductions of social security contributions (over two to three years) for the hiring of long-term unemployed; financial support to firm creation and to the return to the labour market by the unemployed, as well as training in targeted regions; internships in firms and not-for-profit institutions for long-term unemployed, more than 55 years old workers being enrolled in an Employment Centre as job seekers for more than 6 months and young workers; the expansion of the provision of job training to beneficiaries of guaranteed minimum income. Social protection was temporarily extended to an additional 6-months entitlement for those long-term unemployed who in 2009 were no longer entitled to initial or subsequent unemployment assistance.

**Box II.13.1: Recommendations (EU, OECD, IMF) - PT**

**EU (CSRs 2009):**

Continue the efforts to improve in a sustained way the overall efficiency of the education system, and develop a vocational training system relevant to labour market needs, by the full achievement of the National Qualifications Framework and with the involvement of appropriate stakeholders.

Implement the legislation to modernise employment protection, in order to reduce the high levels of labour market segmentation, within the flexicurity approach.

**OECD (Going for Growth 2009):**

Increase the adaptability of the labour market, while protecting workers at risk, and upgrading competences, by:

Increase the proportion of education spending on non-wage items: continue to strengthen teachers' initial and on-the-job training; fully implement a performance-based evaluation and career-progression system for teachers; continue developing vocational and technical education; monitor and evaluate results of the New Opportunities initiative.

Further ease restrictions for temporary employment: it is essential that the reform measures be implemented promptly and enforced.

**IMF (Article IV 2008):**

Further action, such as eliminating the automatic extension of collectively agreed contracts and broadening the scope for individual dismissals, could be considered.

**13.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

For many years Portugal has suffered a severe problem of low productivity. This reflects in turn a rigid economy and other structural weaknesses related to the accumulation of human capital and the skill levels that impede the relocation towards high-value added, high-tech productions. Compared to other low-growth and low-productivity countries, Portugal experienced also a relevant increase in unemployment, mainly in long-term unemployment.

Measures taken by the Government to cope with the effects of the crisis, even if well suited from a theoretical perspective, may be ineffective in a context like the current one. Indeed, most of the hiring incentives are conditional on hiring on a permanent basis and in an uncertain

macroeconomic environment employers may decide not to hire.

Rigid employment protection also contributes to a relatively large informal economy which is on the rise (since mid-2005 the share of employees without a written contract has almost doubled). The relatively high share of self-employed in non-agricultural sector (12%) includes to a large extent "independent" (self-employed) workers who are in fact engaged in regular activities with an employer. The social costs of informal sector are high as they are associated with precarious jobs, low on-the-job training as well as limited upward mobility.

To face the unavoidable increase in unemployment, it can be very useful to strengthen the adjustment capacity of the labour market, including by improving the effectiveness and efficiency of employment services and active labour market policy and by enhancing access to training and qualification. This kind of measures

can also make it more politically affordable to further ease the strict employment protection legislation, both for permanent and temporary workers. High labour market rigidities are hampering the necessary reallocation of human resources from contracting to expanding sectors. This has contributed to a decline in productivity growth and in competitiveness at least since 2001, with adverse impact on output, employment and long-term unemployment.

There is much scope to improve the effectiveness of ALMPs in Portugal.<sup>(53)</sup> ALMPs should be carefully evaluated in terms of their targets, cost and benefits. For example, ALMPs should be well targeted to tackle a persistent increase in long-term unemployment which reflects a rising skill mismatch between the unemployed and new job offers. From this perspective, effective training is needed to improve employability of new entrants and to help displaced workers in sectors affected by structural adjustments. Some of these shortcomings were addressed in 2006, when reform measures strengthened activation strategies for beneficiaries with a more intensive involvement of the PES and reinforced linkages between employment services and social security services.

Furthermore, a reinforced link between the Training Centres and the employers is desirable. ALMPs should be directed towards increasing employability of temporary workers who face a high labour turnover and potentially low on-the-job training. ALMPs should also be suitably adjusted to ensure employability of low-skilled workers as it is expected that the further restructuring of Portuguese economy will increase the unemployment rate of this segment of the workforce. Furthermore, as the lowering of EPL is expected to hurt more than proportionally low-skilled workers, in particular by increasing their inflow into unemployment, any potential EPL reform measures should be part of a broader policy package within a flexicurity framework that takes into account properly designed ALMPs.

A comprehensive strategy of reforming labour market institutions must be accompanied by a revision of the education system and by an enhancement of the life-long learning. Both are decisive to deal with one of the most relevant weaknesses of Portugal, namely the low share of skilled labour force. A revision of the education system has already started in 2005.

Over the past 10 years, wage increases in excess of productivity gains in the business sector have led to a considerable deterioration in cost competitiveness, as measured by relative unit labour costs. Maintaining sensible real wage increases while promoting faster productivity growth is important for economic performance.

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<sup>(53)</sup> See OECD, *Economic Surveys: Portugal*, 2008.

# 14. SLOVAKIA

## 14.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 14.1.1. Recent trends

Many years of buoyant economic growth have had a positive effect on the Slovak labour market, though to a lesser extent than one would have expected. Indeed, at the end of this prolonged expansion, the Lisbon targets are still far away.

The total employment rate was at 62.3% in 2008 (up by 1.6 pps. from the level of 2007 and only by 5.4 pps. from the level of 2001) while for the females it stood at 54.6. Older workers (55-64) had an employment rate of 39.2%, as a consequence of an impressive long-term employment growth over the last years (+16.9 pps. with respect to 2001), continued even in 2008 (+3.6% with respect to 2007).

Employment growth even accelerated in 2008 (+3.1%) with respect to 2006 (2.4%) and this acceleration was more evident for females (+3.3%) than for males (2.9%). Since the labour force grew only by 1.2% in 2008, the unemployment rate further decreased to 9.5%, a historical low for the country, which in 2001 had an unemployment rate as high as 19.3%. Therefore, the economic crisis, despite slowing down GDP growth from 10.4% in 2007 to 6.4% in 2008, had not much affected the labour market.

Gender gaps arise some concerns. Although remaining at the average of the euro area, in recent years, instead of closing, employment gaps have opened further up, from 10.2 pps. in 2001 to 15.3 pps. in 2008. All age groups contributed to this higher gap.

Looking at the age dimension, the gap across age groups is still remarkable. While the prime-age employment rate (88%) is in line with the EU27 average, older workers (39.2%) and especially young workers (26.2%) have employment rates by 6.4 pps. and 10.4 pps. respectively lower than the EU27. Again, the dynamics in recent years is worth noting. On one side, the activity rate of the young declined massively from 45.5% in 2001 to 32.4%. On the other side, the youth unemployment rate decreased from 42.1% in 2001 to 18.5% in

2008. The combination of the two movements may be due to both higher education levels attained by the young and some discouragement effects. As for older workers, the combined increase in activity rates (+16.5 pps. since 2001, up to 41.9% in 2008) and decrease in unemployment rates (-5.8% since 2001) seem to be the consequence of recent pension reforms that have introduced more incentives to postpone retirement for older workers.

The difference in labour market states between workers with different skills is striking. Low-skilled workers have the lowest employment rate in Europe (only 15.9%), which, once compared with 70.1% of the medium- and 83.9% of the high-skilled, results in a very huge skills gap. Again, this gap, instead of closing, has been opening since 2001.

Temporary employment represents only a tiny fraction (4.5%) of total employment and is evenly distributed between males and females. Part-time contracts are not diffused (2.5% of the total), even for females (only 4.1%). The share of temporary workers is low, at about 5% since 2001, and almost 70% of them are involuntarily in this type of employment. A low share of temporary workers could be explained by a generally weak employment security guaranteed by the Labour Code, as well as by the large disadvantage of temporary workers in accessing unemployment benefits, as compared to permanent workers. Although temporary workers are subject to looser eligibility criteria (2 years instead of 3 years of unemployment insurance contributions during the last 4 year), they are eligible for a shorter unemployment benefit duration (4 months instead of 6 months). Average conversion rates from temporary to permanent contracts are relatively high, as more than 45% of temporary contracts are converted into permanent ones. This rate is however very low for older workers (at about 15%). In-work at-poverty-risk by temporary contract is relatively low and twice as high as the in-work at-poverty-risk by regular contract. The share of self-employment is above the EU average. However, it has increased considerably since 2001 (by 5 pps. to about 12%).

The long-term unemployment ratio is the highest in the EU (about 70% of unemployed persons are



without work for more than a year) and is concentrated among the young. Despite some improvements in the last year (-5.0 pps. in 2007), it was in 2008 about 11 pps. higher than in 2001, signalling a problem of hysteresis in the unemployment rate. Even so, the long-term unemployment rate declined from 11.3% in 2001 to 6.6% in 2008.

In 2008, labour productivity grew only by 3.3%, down from +8.1% in 2007. As hourly employment growth amounted to 3.9% in 2008, down from the average 4.8% of the period 1999-2008, in 2008 labour utilisation can explain a higher portion of GDP growth than in the past (2.4 pps. instead of 0.3 in the average 1999-2008). The same applies for the employment rate, which To this among the factors that explain labour utilisation, is the one that explained more in 2008 (2.9 pps.).

#### 14.1.2. Outlook for next two years

The financial crisis is expected to have an important impact on the Slovak economy. According to ECFIN (Spring 2009 forecast), the GDP growth is expected to fall from +6.4% in 2008 to -2.6% in 2009, before an ailing recovery in 2010 (+0.7%). IMF is more positive both for 2009 (-2.1%) and for 2010 (+1.9%).<sup>(54)</sup> The effects in term of occupation will be remarkable. The employment growth will become negative in 2009 (-1.7%) before returning to be positive in 2010 (+0.4%), according to ECFIN forecasts. The unemployment rate is forecasted to reach 12% (11.5%) in 2009 and 12.1% (11.7%) in 2010 by ECFIN and IMF respectively.

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<sup>(54)</sup> The forecast of the Slovak government, concerning the GDP growth rate in 2009 is considerably different, at -6.2%.

Table II.14.1: **Short-term forecasts - SK**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	6,4	-2,6	0,7	-5,0	3,1	-2,1	1,9
<b>Employment growth</b>	2,9	-1,7	0,4	1,0	1,0	-1,5	0,1
<b>Unemployment rate</b>	9,5	12,0	12,1	11,8	13,6	11,5	11,7

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.14.2: **Labour market indicators**

	SK		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	56,8	62,3	62,5	65,9
Men	62,0	70,0	70,8	72,8
Women	51,8	54,6	54,3	59,1
<b>Employment rate 55-64</b>	22,4	39,2	37,5	45,6
Men	37,7	56,7	47,4	55,0
Women	9,8	24,2	28,2	36,9
<b>Participation rate 15-64</b>	70,4	68,8	68,5	70,9
Men	77,4	76,4	76,9	78,0
Women	63,7	61,3	60,2	63,9
<b>Participation rate 55-64</b>	25,5	41,9	40,1	48,1
Men	43,2	59,9	50,8	57,9
Women	11,0	26,4	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	19,3	9,5	8,5	7,0
Men	19,8	8,4	7,7	6,6
Women	18,7	10,9	9,4	7,5
<b>Long-term unemployment rate (2)</b>	58,6	69,3	46,8	37,0
<b>Self-employment (3)</b>	5,6	10,4	9,5	9,8
<b>Fixed term contracts (3,4)</b>	4,9	4,5	12,4	14,0
15-24	11,5	12,6	35,9	40,0
55-64	11,2	4,5	6,8	6,7
<b>Part-time contracts (4)</b>	2,2	2,5	:	17,6
Men	1,2	1,3	:	7,0
Women	3,5	4,1	:	30,6
<b>Employment rate 15-64</b>	56,8	62,3	62,5	65,9
Low-skilled	17,2	15,9	47,9	48,1
Medium-skilled	65,1	70,1	68,3	70,6
High-skilled	85,8	83,9	82,8	83,9
<b>Regional unemployment (5,7)</b>	0,0	0,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	84,9	68,8	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	18,1	13,4	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

#### 14.2. THE SHORT TERM RESPONSE TO THE CRISIS

In response to the crisis, Slovakia has adopted three stimulus packages accompanied by measures for the banking sector and structural measures. Overall, the stimulus packages appear to be broadly in line with the EERP. The first set of measures was adopted in November 2008 and two additional packages followed in February 2009. The total budgetary impact of the anti-crisis measures is estimated at around 1% of GDP. The measures can be considered as timely, as they were adopted when the economic situation started deteriorating and their implementation has started in most cases in the first quarter of 2009, despite the fact that the major part of the stimulus measures (0.6% of GDP) is budgeted for 2010 when the crisis is already expected to abate. Moreover, they are mostly temporary (with the exception of the changes of income taxes) and geared towards the most affected groups.

Labour market measures proposed by the Slovak government temporarily for 2009-2010 are aimed principally at maintaining jobs in the short term and creating more favourable conditions for self-employed and low-income employees. A temporary financial support for a maximum duration of 60 days was decided for employers who have to reduce by at least 4% the normal weekly working time of their employees, however without using the inactivity period for training activities. While the concerned employees are paid a wage replacement benefit, employers get a subsidy corresponding to the social security contributions paid by the employee and the employer, up to 339€ per employee per month in 2009. The government has estimated that the supported jobs will amount in average to 20,000 per year (2009, 2010).

Financial support (equal to 22% of the average wage) will be also provided to employees who have been registered as unemployed for at least 3 months, whose gross monthly wage amounts to maximum 1.7 times the subsistence minimum, and who find a job without government assistance, as well as to employers who hire a jobseeker who has been unemployed for 3 months and upon retaining him/her on a newly created job for at least 12 months. Further measures include a mobility allowance covering travelling costs for commuters, support for job creation and self-employment, an easing of the legislative requirements and financial assistance for the creation and functioning of social enterprises.

In order to cope with the significant increase of registered unemployed and to ensure smooth implementation of the new ALMP measure, the government approved a temporary staff reinforcement of labour offices by 350 persons. Yet, the newly introduced ALMP measures ask for regular monitoring and assessment as their up-to-date implementation show that some measures either duplicate already existing tools or require too complicated administratively procedures to apply.

With a view to reinforcing activation, and to supporting low-income and low-skilled workers, the government has provided additional tax relief for low-income earners, by increasing the tax-free threshold from € 3,435 per year to €4,027 per year. A temporary decrease in social security contributions for self-employed (from 4.75% to 2%), together with other measures concerning health and social insurance, will help sustain the self-employed.

**Box II.14.1: Recommendations (EU, OECD, IMF) - SK**

**EU (CSRs 2009):**

Within an integrated flexicurity approach, make progress in the implementation of the lifelong learning strategy and continue the reforms of education and training systems to address the skill mismatch, develop an active ageing strategy and enhance access to employment for the long-term unemployed and disadvantaged groups.

**OECD (Going for Growth 2009):**

Improve the activation of the long-term unemployed by expanding training measures, introducing job search and job acceptance requirements and strengthening the capacity of the public employment service. In addition, narrow the targeting of subsidised job creation to the long-term unemployed.

Shorten the duration of parental leave entitlements in favour of childcare subsidies. Reduce the tax wedge on second earners by cutting the tax allowance and by phasing out free health insurance for non-working spouses.

Foster the integration of Roma children into the education system and further reduce stratification of the school system. Make tertiary education more attractive by offering 2-3 year occupationally-oriented programmes.

**IMF (Article IV 2008):**

The authorities should avoid further large increases in the minimum wage as it would lead to wage drift and may harm employment prospects of low-skilled workers.

Consideration should be given to introducing earned income credit for low-income workers, with a view to stimulating job creation and further increasing incentive to work.

The authorities should also ensure that the amendments to the labour code do not lead to higher labour costs and reduce labour market flexibility.

**14.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES**

Despite years of strong economic growth, Slovakia still has a long way to go to reach all Lisbon targets, in particular for older workers, who however experienced a considerable improvement in their employment rate since 2001. The unemployment rate and the long term unemployment rate strongly decreased since 2001; however, the share of unemployed persons without work for more than a year increased to the highest level in the EU. Structural problems on the labour market are characterized by large and widening gender as well as skills gaps. As Slovakia is a small open economy, a sharp fall in exports due to recent economic downturn slowed down the GDP

growth; however labour market remained resilient in 2008, which more than halved labour productivity growth.

In response to the crisis, Slovakia has adopted three stimulus packages with the total budgetary impact of the anti-crisis measures at around 1% of GDP. Labour market measures are mostly temporary and aim principally at maintaining jobs in the short term as well as creating more favourable conditions for self-employed.

Reforms introduced in 2003 have promoted external and internal flexibility and contributed to relatively lax employment protection legislation for regular contracts, which is also reflected in a very low share of temporary contracts. Reforms in 2003 also injected additional flexibility in working

hours; however, incidence of flexible working time arrangements remains relatively low.

Slovakia has introduced a substantial reform of the social assistance and family policy, the pension system, the unemployment benefit and taxation in 2003, which replaced the traditional redistributive system. While these reforms considerably increased incentives to work, income security may not be sufficient during unemployment spell as a result of both, low coverage of unemployment benefit recipients, especially with a temporary contracts, as well as a sharp drop in benefit replacement rates set at the 6th month of unemployment. In addition to measures to activate labour supply, social security contributions paid by employers were also reduced to support, in particular, labour demand for low-wage workers.

Another challenge concerns low adaptability of workers, which contributes to high skills mismatches and high long-term unemployment. Although ALMPs improved their focus on disadvantaged groups and increased activation and incentives to work, a monitoring system for assessing the efficiency of individual ALMP tools and their eventual revision is still missing. Expenditures on ALMPs and activation strategies, in particular on training, are still very low, also because of the low coverage of persons benefiting from them. This is the case in spite of high long-term unemployment rate - which is widespread in particular among the young - and a very low employment rate/employability of low-skilled workers. As the structure of ALMP expenditures is strongly biased towards public job creations, it is essential to keep search activities of ALMPs participants intact in order to avoid the typical risks of lock-in effects associated to ALMPs.

Participation in lifelong learning declined since 2001 to one of the lowest in the EU, and is low regardless of educational attainment, economic activity and age. Older workers have among the lowest participation rates in lifelong learning, and it would be appropriate to raise it, along with the increase in the statutory retirement age and a comprehensive active aging strategy to ensure their adaptability to change. This is the case also for unemployed persons who fail to experience fast transition to employment and get trapped in long-term unemployment. Finally, Slovakia also faces challenges to further improve the quality of its education and training system to address persisting skills mismatch.

More regional and sectoral wage flexibility is essential to reduce regional imbalances in labour market performance and improve the adjustment capacity of the economy. In particular, notwithstanding minimum wages, more wage flexibility should be allowed at the bottom-end of the wage distribution. Furthermore, economy-wide sectoral wage agreements should allow for sufficient regional wage differentiation to take into account local labour market positions.

# 15. SLOVENIA

## 15.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 15.1.1. Recent trends

Despite years of strong economic growth, Slovenia has not yet met the Lisbon target on total employment, since its employment rate is at 68.6% in 2008 (up by 0.8 pp. from 2007). Female employment is instead over the Lisbon target, at 64.2% in 2008, while the older workers employment rate is very low, amounting only to 32.8% (0.7 pp. less than 2007).

The global downturn is significantly affecting Slovenia since the last quarters of 2008 through a sharp fall in exports. GDP growth slowed down to 3.5% in 2008 from 6.8% in 2007. The effects on the labour market are still not evident from the 2008 data, as unemployment rate went down to 4.4% (0.5 pp. less than 2007), thanks to an increase in the labour force of 1.4% and an employment growth of 1.9%, only slightly below the 2007 growth of 2.2%.

The gender gap is not very pronounced, as in many other Central Eastern EU countries. More substantial differences remain among age groups. The activity rate of older workers is very low both with respect to other age groups and to other EU countries. It was at 34.2% in 2008, 7.7 pps. higher than in 2001, but -0.4 pps. lower than the year before. The employment rate of older workers decreased by 0.7 pps. to 32.8% in 2008. As a consequence, the unemployment rate of this group rose to 4.0% from 3.3% of the 2007, very close to the last ten years' high. Economic crisis may be called to explain the last year path, as restructuring firms may prefer to substitute older and more costly workers with younger ones, thus pushing up unemployment and down activity rate (through discouragement effect) of older workers.

The share of temporary workers has increased strongly in recent years (by 5.4 pps. since 2001), reaching 18.5% in 2007. The increase has been even higher for young workers (17.3 pps. since 2001) reaching the highest share in the EU (close to 70%). This was followed by a strong reduction in the share of temporary contracts in 2008, of the magnitude of 1.1 pps., which can be imputed to

the first impact of the economic crisis on the labour market. In-work at-risk-of-poverty rates for temporary workers are below the EU25 average, however 2.5 times higher than for permanent contracts.

The share of long-term unemployment in the last years was largely affected by the buoyant economic growth, declining by 18.2 pps. since 2001 to 42.2% of total unemployment in 2008. However this percentage is still high and is a sign of a not well functioning labour market.

While labour productivity growth was particularly sustained between 2001 and 2007, it showed a clear deceleration in 2008 (+0.6%). This is the result of a halved GDP growth and of an only slight reduction in employment growth - a pattern that has been observed in all those countries where the crisis mainly hit through reduction in exports and not through deflation of building sector and financial services bubbles.

### 15.1.2. Outlook for next two years

According to the most recent forecasts, in 2009 and 2010 Slovenia will be heavily hurt by the international financial and economic crisis. After a GDP growth of +3.5% in 2008, output is seen shrinking by -3.4% in 2009, before a light recovery of +0.7% in 2010, according to EU Commission estimates. The effects of the slowdown over the labour market should lead to an increase in the unemployment rate up to 6.6% in 2009 and 7.4% in 2010, according to the EU Commission's forecasts.

Table II.15.1: **Short-term forecasts - SI**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	3,5	-3,4	0,7	:	:	-2,7	1,4
<b>Employment growth</b>	2,9	-4,7	-0,6	:	:	-2,4	0,0
<b>Unemployment rate</b>	4,4	6,6	7,4	:	:	6,2	6,1

**Source:** EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database April 2009 edition).

Table II.15.2: **Labour market indicators**

	SI		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	63,8	68,6	62,5	65,9
Men	68,6	72,7	70,8	72,8
Women	58,8	64,2	54,3	59,1
<b>Employment rate 55-64</b>	25,5	32,8	37,5	45,6
Men	35,9	44,7	47,4	55,0
Women	15,8	21,1	28,2	36,9
<b>Participation rate 15-64</b>	68,1	71,8	68,5	70,9
Men	72,8	75,8	76,9	78,0
Women	63,2	67,5	60,2	63,9
<b>Participation rate 55-64</b>	26,5	34,2	40,1	48,1
Men	37,5	46,4	50,8	57,9
Women	16,3	22,2	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	6,2	4,4	8,5	7,0
Men	5,7	4,0	7,7	6,6
Women	6,8	4,8	9,4	7,5
<b>Long-term unemployment rate (2)</b>	60,4	42,2	46,8	37,0
<b>Self-employment (3)</b>	7,1	6,1	9,5	9,8
<b>Fixed term contracts (3,4)</b>	13,0	17,3	12,4	14,0
15-24	51,0	69,8	35,9	40,0
55-64	7,6	6,6	6,8	6,7
<b>Part-time contracts (4)</b>	5,4	8,1	:	17,6
Men	4,4	6,2	:	7,0
Women	6,6	10,4	:	30,6
<b>Employment rate 15-64</b>	63,8	68,6	62,5	65,9
Low-skilled	41,9	42,9	47,9	48,1
Medium-skilled	69,3	72,0	68,3	70,6
High-skilled	85,7	87,5	82,8	83,9
<b>Regional unemployment (5,7)</b>	0,0	0,0	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	41,4	52,0	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	8,4	5,8	18,0	22,5

**Source:** Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.15.1: Recommendations (EU, OECD, IMF) - SI**

**EU (CSRs 2009):**

Reform the pension system and implements active ageing, with a view to increasing the employment rate of older workers and improving the long-term sustainability of public finances.

Within an integrated flexicurity approach counter labour market segmentation in particular by reviewing employment protection for permanent contracts and conditions for so-called student work.

**OECD (Accession Review of Labour Market and Social Policies in Slovenia):**

The existing relatively strict EPL should be modified to encourage a wider use of indefinite-duration contracts.

The conditions for eligibility to unemployment insurance (UI) could be made more generous to those with moderate work experience.

Student jobs should be regulated by ordinary labour legislation and the tax system should not discriminate according to the type of labour contract used.

A reduced minimum wage would be justified for youths up to age 25.

The PES needs to focus on its core activities.

The activation strategy should be revised to permit better monitoring and availability checks with regard to hard-to-place benefit recipients.

**IMF (Article IV):**

A further liberalization of employment protection legislation is necessary in the medium term.

**15.2. THE SHORT TERM RESPONSE TO THE CRISIS**

The Slovenian government has first adopted two packages to stimulate the economy: a first package of stimulus measures on 19 December 2008 and a second one on 19 February. The aim of the packages is to mitigate the impact of the crisis on productive capacity and jobs. Together, these measures are estimated by the government to cost around 1.1% of GDP in 2009 and 0.7% in 2010. A third package of anti-crisis measures was adopted at the end of May 2009.

A major measure to stem the rise in unemployment is a subsidy on wages (60€-120€ per employee per month) to companies that reduce their working time from 40 hours per week to 36 – 32 hours. Should an employer opt for a 36-hour week for a

full-time position, and then agree with the unions to ensure work to 35, 34, 33 or 32 hours a week, they will be entitled to an additional subsidy (depending on shortened hours) per month per employee under certain conditions. The subsidy is granted for a maximum period of 6 months and companies can apply until 31 March 2010. Companies benefitting from the scheme must agree not to dismiss employees for business reasons and not to pay out bonuses to management during the time subsidies are granted. Additionally, workers covered by the wage subsidy scheme have the opportunity, but not the obligation, to participate in training (financed from national sources), since these workers are eligible for co-financing under the programme of Employment Service of Slovenia for increasing the employability of workers, adopted subsequently.



This measure can help limit the rise in unemployment and thus provide some security to workers in the current adverse economic conditions, but would lead to an increase in labour market rigidity if not reversed as soon as economic conditions improve. Up to May 2009, its take up by employers has fallen short of the government's expectations, probably due to the stringent conditions attached to it. Overall, the government has initially put aside €230 million (0.6% of GDP) to fund it but, in view of the low take-up, the final cost is now estimated to be much lower: the second supplementary budget puts it down to €53 million in 2009.

The Partial Reimbursement of Payment compensation Act was adopted at the end of May, in the framework of the third package of anti-crisis measures. Subsidies are available to companies which are able to hold on at least 50% of their work force during the crisis. Workers on forced leave will receive 85% of their last three months average wage, with a state contribution of 50% and 35% from employers (contribution is limited to 805€ monthly per worker). Workers on so called forced leave for a maximum 6 months during a 12 month period are eligible for funds. Workers are obliged to spend 20% of the working time spent on forced leave on training, for which employers will receive a maximum of 500€ per employee. Training must be provided by the employer. The government has earmarked € 208.5 mio until April 2011 and additional € 11 million from the ESF will be provided for training.

Redundant workers should now be provided with intensive assistance, individual employment plans and individual consultations before entering the open unemployment. Immediately after registration at PES, they will be treated as a priority group for entering training and education schemes. Furthermore, they will be included into social entrepreneurship, training and self-employment programmes. New active labour market programmes were also devised and will focus on the promotion of employment for long-term unemployed, older people and young persons with tertiary education. The new programmes provide for job-oriented training workplaces and for subsidised employment in the later phase, including in the non-profit sector. Extra funds have been allocated to stimulate self-employment, for the education and training of those employed in

SME's and low-skilled workers in enterprises with subsidised full-time employment. A special financial incentive was introduced to accept jobs requiring a lower educational attainment and that are more remote from the place of permanent residence.

Finally, the government has implementing two programmes, consisting in the redesign and expansion of the programme of public works and in one-off solidarity assistance for individuals and families earning less than 60% or 70% of the minimum wage. Besides discretionary measures, additional funds for unemployment benefits have been budgeted for the period 2010-2011.

### 15.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES

Despite years of strong economic growth, Slovenia has not yet met the Lisbon targets concerning the total employment rate and the employment rate of older persons. Recent economic downturn strongly reduced the incidence of temporary contracts which were largely prevalent among the new employment contracts in the last years. The employment growth somewhat cooled down while labour productivity growth strongly declined in face of halved GDP growth.

Slovenia adopted three packages to stimulate the economy, affected by a sharp drop in external demand, and mitigate the impact of the crisis. Two major measures to stem the rise in unemployment are a short-time working arrangement - a subsidy to companies that reduce their working time which, however, fall short of government expectations, possibly due to stringent conditions attached - and the measures adopted at the end of May, which consist in a partial reimbursement of payments for workers on so-called forced leave. In line with the flexicurity principles, measures have also been taken to support employability of workers, with a particular emphasize on low-skilled workers in enterprises with subsidized full-time employment.

Very strict employment protection legislation for regular contracts and reforms liberalizing only on the margin have strongly pushed up the share of temporary contracts, in particular among young persons. According to the Eurobarometer, it is

relatively difficult to find a job, mobility between employers (external mobility) is among the lowest in the EU and job tenure is among the highest in the EU. An average conversion rate from temporary to permanent contracts is 46%, for young workers 30%. Furthermore, many young people have so called contracts for "student work" (status of student is required), with lower social protection and employment rights (neither the employer nor the student pay any social and pension contributions and the income is not subject to taxation until a certain limit.), which is causing "parallel" labour market. Reducing asymmetries between non-standard and standard employment within a flexicurity framework, and making open-ended employment in standard contracts more attractive to firms, is prerequisite to limit increasing labour market segmentation and make the recovery more equally distributed across contract types. Amendments to the Employment Relationship Act in 2007 only managed to increase internal flexibility and expand the legal basis for the flexible use of employment.

Very low coverage of unemployment benefits - as a result of stringent eligibility criteria, relatively short duration of unemployment benefits for persons with relatively short contribution periods and the exclusion of temporary contracts - has limited the ability of automatic stabilizers to act as shock absorbers. In particular, a strong fall in the share of temporary contracts in 2008 may increase the share of unemployed not eligible for unemployment benefits due to insufficient contribution period. On the other hand, further increase in incentives to work is essential to support transitions to employment, in particular for unemployed persons with poor income prospects. Step in this direction was the reform in 2007, which replaced unemployment assistance (that exceeded unemployment benefits due to exemptions from taxation and social security contributions) with social assistance, thereby raising incentives to work for persons who exhaust their eligibility to unemployment benefits.

Another challenge concerns the employability of workers and activation measures. PES has been modernized; however, expenditures on ALMP and activation strategies are still very low, also because of low coverage of persons benefiting from activation strategies, in spite of high long-term unemployment rate and very low employment

rate/employability of older workers. Participation in lifelong learning is generally high, though very low for older workers, which may hamper the prolongation of their working life. Therefore, increasing employability of older workers along with reforms of the pension system, including active ageing, would help to lift up their incentives to work and their employment rate. Finally, the link between the education system and the labour market should be further strengthened to support employment and employability of the young and of the low-skilled. The participation rate of less skilled people in lifelong learning also lags strongly behind the participation rate of tertiary educated and secondary educated people. This also represents a main challenge, insofar as higher participation in lifelong learning would contribute to raising the employability of the less skilled in the long run.

Slovenia is characterized by a high coverage of trade unions and collective bargaining. Collective bargaining is highly coordinated and has generally supported employment growth. However, competitiveness has deteriorated since 2006 as the overheated economy led to second round effects. Minimum wage is relatively high, at 44% of the average monthly earnings in industry and services, and is not differentiated by age. This may hamper wage flexibility at the lower end of the wage distribution, though a proportion of workers earning minimum wage is relatively low. Furthermore, as the minimum wage is not differentiated, it may hamper transitions to employment, in particular for young persons.

Measures recently adopted to address these long-term challenges, for implementation in 2010 and 2011, include: (a) changes in scholarship and student work to ease the transition of young people to the labour market; (b) changes in the unemployment insurance system (protection of specific categories of unemployed; renewed activation policies and modernisation of the PES, etc.); (c) modernisation of the pension system and of the health insurance system.

# 16. SPAIN

## 16.1. LABOUR MARKET SITUATION AND KEY TRENDS

### 16.1.1. Recent trends

The Spanish labour market is characterized by high segmentation that is reflected in huge gaps in activity, employment and unemployment rates across different groups, and by low labour productivity growth. In 2008, total employment (64.3% in 2008, -1.3 pps. over 2007), the employment rate of older workers (45.6% in 2008, +1.0 pp. over 2007) and the employment rate of women (54.9% in 2008, +0.2 pp. over 2007) were all quite low, still well below the Lisbon target, despite the progress made over recent years in terms of job creation.

After many years of sustained economic growth, which led the unemployment rate down to 8.3% in 2007, an all-time low for Spain, dramatic adjustment in a number of accumulated domestic imbalances, like those in housing sector, competitiveness and the external deficit, caused a remarkable economic deterioration soon reflected in labour market conditions. The unemployment rate rose up to 11.3% in 2008, as a result of a 2.9% increase in the labour force and a contraction of employment by -0.5%, according to LFS data. In July 2009, the unemployment rate has reached 18.5%, not very far from the historical high (19.8% in May 1994).

Despite recent progress, the Spanish labour market is still characterised by a relevant gender gap. Males have much higher activity and employment rates than females (+18.6 pps. for both rates in 2008) and lower unemployment rate (-2.9 pps. in 2008). The current economic crisis, hitting more pronouncedly some sector with a majority of male workers, like the construction sector, is reducing the gender gap.

Large differences remain among age groups due to very low young and older workers' activity and employment rates. Unemployment affects particularly young workers, whose unemployment rates rose up to 24.6% in 2008 (6.4 pps. more than in 2007). In the last year, young males suffered the highest increase in the unemployment rate among all the age / gender groups, namely +8.5 pps. up to

23.7%, signalling again that male occupation was the most affected by the crisis. The last available data, referring to July 2009, report a youth unemployment rate at an astonishingly high rate of 38.4%, more than 13 pps. higher than a year before.

Temporary employment represents a large share of total employment (29.3% in 2008). During the last year this share shrank by 2.4 pps., suggesting that firms largely faced the drop in demand by not renovating temporary contracts. Among young workers, the percentage of those with temporary contracts was 59.3% in 2008. Confronting this figure with the diffusion of temporary contracts in total employment, it is apparent that the burden of flexibility is mainly on the young. Up to now have indeed sustained most part of the adjustment required by the recession.

Reforms of job protection legislation passed over the last twenty years - there including the liberalisation of temporary contracts in the mid-80s and a number of still incomplete reforms to promote the use of permanent contracts in the 90s and the 2000s - have overall produced large labour market segmentation. Spain has the highest share of temporary workers (32% in 2007) and the highest, though declining, share of involuntary temporary workers in the EU 27 (85% in 2007, 95% in 1997). This is the case despite no disadvantage of temporary workers versus permanent workers in accessing unemployment benefits and relatively low in-work risk of poverty rates when in temporary contracts. The high share of involuntary employed temporary workers can be explained by high differences in severance payment between temporary and regular contracts and relatively low number of conversions of temporary contracts into permanent ones (about 30% of all temporary contracts were converted to permanent contracts from 2005 to 2006). However, as temporary contracts constitute a high share of all contracts in Spain, the effective number of contracts converted from temporary to permanent is above the EU average (4% in Spain versus 1.6% in the EU15).

A high share of temporary workers with a high labour market turnover has also contributed to a reduction in hysteresis on the labour market and to a large reduction in the long-term unemployment

rate until the crisis started to bite. This can explain the current relatively low levels of long-term unemployment. A relatively low long-term unemployment rate is also in line with Spain having a relatively low (below the EU average) share of staying with the current employer for more than 11 years (28%).

Rigid employment protection legislation for regular workers hurts in particular disadvantaged groups such as women, young and immigrants, trapping them in "precarious jobs" with high levels of employment insecurity and under-investment in firm-specific human capital. Close to 56% of immigrants have temporary contracts, nearly double the rate among native born.<sup>(55)</sup> However, the availability of fixed-term contracts eased the assimilation of the recent immigration boom. The high incidence of temporary contracts among better educated young cohorts is often detrimental for returns to education due to frequent underutilization of skills.

Low conversion rates from temporary to permanent contracts have negative implications on investing in specific human capital or on-the job training. Dolado and Stucchi (2008) attribute one-third of the fall in TFP in Spanish manufacturing firms during 2001-05 to the disincentive effects of the low conversion rates on temporary workers' effort.

Finally, long-term unemployed amounted to 17.9% in 2008, 2.6 pps. less than 2007. However this reduction can be mainly due to a composition effect, namely the massive injection into the unemployment pool of individuals with shorter unemployment durations during the last year.

Regional imbalances are still high compared to the EU27 average. The difference between the highest and lowest unemployment rates across Spanish regions in 2007 was 6.4 pps. (3.2 pps. in the EU27). However, a big improvement has been registered since 2001 when the difference was around 10 pps.

Labour productivity dynamic was poor in the last decade, with an almost null growth on a yearly average. Labour productivity nevertheless increased in 2008 (+1.6%) as a consequence of the job destruction in the building sector, that still has an important share of the Spanish value added. Indeed during the deflation of a bubble, there is no room for labour hoarding because the low level of demand is recognized as permanent and firms, if not gone bankrupted, prefer to destroy jobs very soon.

#### 16.1.2. Outlook for the next two years

According to the most recent forecasts, 2009 and 2010 will be very difficult years for economic activity in Spain. After a still positive GDP growth in 2008 (+1.2%), output is seen shrinking by -3.2% in 2009 (-3.7% according to September 2009's interim Forecasts) and -1.0% in 2010, according to EU Commission estimates. Other international institutions substantially agree with these figures, as IMF forecasts a -3.0% and -0.7% for GDP in 2009 and 2010 respectively. This will result in an acceleration of the job destruction process that already characterized the Spanish economy in 2008, as the EU Commission sees a very negative employment growth rate for both years (-5.3% in 2009 and -2.7% in 2010). As a result, the unemployment rate will reach historical records, as EU Commission previews 17.3% in 2009 and 20.5% in 2010.

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<sup>(55)</sup> OECD, Economic Surveys: Spain, 2008.

Table II.16.1: **Short-term forecasts - ES**

	EU Commission			OECD		IMF	
	2008	2009	2010	2009	2010	2009	2010
<b>GDP growth</b>	1,2	-3,2	-1,0	-4,2	-0,9	-4,0	-0,8
<b>Employment growth</b>	-0,5	-5,3	-2,7	-2,3	-0,6	-3,5	-1,0
<b>Unemployment rate</b>	11,3	17,3	20,5	18,1	19,6	17,7	19,3

Source: EU Commission (Ameco June 2009); OECD (Economic outlook 85 (June 2009)/84 (December 2008)); IMF (World Economic Outlook Database update July 2009).

Table II.2.16.2: **Labour market indicators**

	ES		EU27	
	2001	2008	2001	2008
<b>Employment rate 15-64</b>	57,8	64,3	62,5	65,9
Men	72,5	73,5	70,8	72,8
Women	43,1	54,9	54,3	59,1
<b>Employment rate 55-64</b>	39,2	45,6	37,5	45,6
Men	57,7	60,9	47,4	55,0
Women	21,7	31,1	28,2	36,9
<b>Participation rate 15-64</b>	64,7	72,6	68,5	70,9
Men	78,4	81,8	76,9	78,0
Women	50,9	63,2	60,2	63,9
<b>Participation rate 55-64</b>	41,9	49,2	40,1	48,1
Men	61,2	65,1	50,8	57,9
Women	23,7	34,2	30,1	38,8
<b>Unemployment rate 15+ (1)</b>	10,3	11,3	8,5	7,0
Men	7,5	10,1	7,7	6,6
Women	14,8	13,0	9,4	7,5
<b>Long-term unemployment rate (2)</b>	36,1	17,9	46,8	37,0
<b>Self-employment (3)</b>	12,4	10,7	9,5	9,8
<b>Fixed term contracts (3,4)</b>	32,1	29,3	12,4	14,0
15-24	66,6	59,4	35,9	40,0
55-64	12,8	12,2	6,8	6,7
<b>Part-time contracts (4)</b>	7,9	11,8	:	17,6
Men	2,7	4,0	:	7,0
Women	16,7	22,6	:	30,6
<b>Employment rate 15-64</b>	57,8	64,3	62,5	65,9
Low-skilled	52,6	55,5	47,9	48,1
Medium-skilled	56,4	67,4	68,3	70,6
High-skilled	76,8	81,7	82,8	83,9
<b>Regional unemployment (5,7)</b>	9,9	6,4	3,4	3,2
<b>Involuntary fixed-term contracts (6,7)</b>	93,5	84,5	53,7	60,2
<b>Involuntary part-time contracts (6,7)</b>	22,4	32,5	18,0	22,5

Source: Eurostat, European Labour Force Statistics. (1) Harmonized unemployment rate; (2) As % of total unemployment; (3) As % of total employment in the relevant group; (4) As % of all contracts; (5) Gap between the highest and the lowest unemployment rate at NUTS1 level (for EU27 average of the individual national gaps); (6) As % of total fixed-term contracts or part-time contracts; (7) 2007 data.

**Box II.16.1: Recommendations (EU, OECD, IMF) - ES**

**EU (CSRs 2009):**

Promote a swift transition into employment, further encouraging mobility, upgrading skills and countering segmentation in the labour market.

Ensure the effective implementation of education reforms, also at regional level, with the main objectives of reducing early school leaving and increasing the graduation rate in upper secondary education.

**OECD (Going for Growth 2009):**

Reduce labour-market duality by cutting the costs of EPL for regular workers - further reduce severance payments for workers with permanent contracts and promote a single contract by bringing in gradual increases in required severance payments linked to length of service.

Limit the administrative extension of collective agreements to promote greater flexibility in wage determination.

**IMF (Article IV, 2009):**

Reducing labour market segmentation would allow better trained young cohorts to flow more quickly from fixed-term to better-paid permanent jobs, thereby increasing returns to higher education (which are low).

**16.2. THE SHORT TERM RESPONSE TO THE CRISIS**

Spain has adopted a wide ranging response to the crisis aimed at stimulating the economy and stabilising the banking sector, covering the financial market and the real economy through fiscal stimulus and structural measures. These fiscal expansionary measures amount to around 3% of GDP in 2009, the largest stimulus in the euro area. Overall, the sizeable stimulus is well mixed, including both revenue and expenditure measures, and is mainly directed to investment activity, supporting household purchasing power and businesses. In addition, automatic stabilisers will work fully, implying a substantial increase in social expenditure and a significant decrease in tax revenue. Finally, the impulse of discretionary fiscal measures is supported by some new structural measures, which while being part of the longer-term policy reform agenda, will help to address the current challenges posed by the downturn.

Measures to improve the functioning of the labour market have been so far less relevant than other categories. They include, inter alia, the

introduction of an 'Extraordinary Plan for Orientation, Vocational Education and Training and Labour Insertion' including the hiring of 1500 professional employment advisors, the introduction of temporary incentives for firms hiring unemployed workers with children via permanent and full-time contracts through rebates on employers' social security contribution, the introduction of social security contributions bonuses for new employment in strategic sectors, and measures to allow undertake projects with a major impact on job creation, particularly in strategic sectors (Central Government's special fund to vitalise the economy and employment). The design of the unemployment scheme was modified to improve activation, by giving the unemployed who decide to become self-employed the possibility to draw 60% of their unemployment benefit rights all at once (instead of the current 40%).

Finally, a Decree on the recognition of professional competences acquired by work experience adopted in July 2009 will also allow for a better recognition of certificates held by immigrants. As residential construction activity adjusts to lower levels, this was needed to help

them shift to more productive activities commensurate to their skills.

From their part, the plans to support strategic sectors, such as the automotive, textile, manufacturing or leather industry, involve vocational training within enterprises, rebates on social security contributions for maintaining the employment of workers over 55 years, rebates on social security contributions with respect to open-ended contracts on redundant workers, subsidies during the process of job searching either for job seeking or participating in training activities and up-grading skills, subsidies to facilitate geographical mobility, subsidies to facilitate labour insertion of older workers, and subsidies to promote self-employment.

A strong increase in unemployment rate during the present crisis has been facilitated by the high share of temporary contracts. In these circumstances it is also expected that employers will convert very few temporary contracts into open-ended ones.

### 16.3. ADDRESSING THE CRISIS AND THE LONGER TERM CHALLENGES

Following a 14-year long period of expansion, Spain has entered a sharp downturn. The crisis, though still at an early stage, has exacerbated macroeconomic imbalances, which are quickly jeopardizing past achievements in employment. Unemployment has increased by more than 6 pps. since mid 2008 to reach 18.7% in May 2009 and Spain's competitiveness difficulties are far from dissipating.

Spain continues to rely on a set of exceptionally unemployment-prone labour institutions, in particular in the area of EPL, unemployment benefits and collective bargaining. This is because labour institutions were established in the transition from dictatorship to democracy and in the midst of the sharp recession of the 1970s, and thus were conceived to compensate for the lack of social protection in difficult times.

The large short-term fiscal stimulus that was provided in late 2008, which focused on labour-intensive public works, can be regarded as commensurate with the size of the downturn and is

helping to strengthen confidence and reduce the risks of further employment losses.

At the heart of the competitiveness weaknesses is the excessive growth of unit labour costs. Productivity growth in tradables relative to non-tradables has grown even below the euro-area average over 1999-2008. This excludes the Balassa-Samuelson effects as explanation of the deterioration of competitiveness. Authorities emphasize increased productivity (both through product and labour market reforms) as the best way to lower unit labour costs. Given lower average wages than in EU partners, wage moderation is not pursued as a means to improve competitiveness. It is also alleged that lower wages could reinforce activity losses via weaker consumption, thereby accentuating the large negative contribution of investment to private demand. Furthermore, trade unions are more than reluctant to accept wage cuts in the presence of high profit margins. This very much calls for a coordinated approach in labour and product market reforms, so as to avoid changes in the income distribution and enjoy stronger support from social partners, especially trade unions.

Dualism in the labour market may imply higher wage bargaining power of protected insiders. There is empirical evidence that fixed-term contracts have adverse effects on wage pressure in Spain (Bentolila, Dolado 1994). Beside that, nominal wage rigidities contribute to relatively high labour costs as wage negotiations are done at intermediate (industry or regional) level coupled with legal extensions to all firms and regions and further strengthened with the widely used indexation clauses. Wage indexation to past temporarily high inflation has caused wages to be rigid downwards, and has been detrimental to Spanish competitiveness in the recent past, given that this practice is not generally followed by other countries in EMU. Opt-out clauses are especially desirable when collective agreements take place at the intermediate level as a means to ensure that wages keep tied with productivity developments at the firm and/or local level. Wage bargaining in Spain is the domain of a small number of agents who mostly represent the interest of large firms and their permanent workers, in detriment of small firms and fixed-term employees. The regulation establishing the conditions that justify the non-application of automatic extension of labour

conditions agreed in industrial agreements to all firms is very strict and should be lifted. This is even more urgent during the crisis, as many companies do not have the possibility to invoke them in due time, going bankrupt and resulting in a loss of all jobs. From a long-term perspective, a reform which fostered decentralisation would help reduce unemployment by facilitating wage differentiation.

Excessive employment protection (EPL) of workers benefiting from regular contracts precludes wages to moderate in the presence of excess in labour supply. There is at present ample room for reforming the dual system of employment protection. A majority of labour economists in Spain are proposing to maintain the current average level of dismissal costs paid by firms while changing its distribution so that severance payments increase smoothly as workers accumulate job tenure (the so-called tenure track approach). This is probably more realistic than equalizing dismissal costs at a low level.

Together with the two-tier EPL system, unemployment benefits get too much blame for the rise in unemployment, in part because unemployment benefits are relatively high at the beginning of the spell, even if coverage rates are low. Enforcement criteria for benefit receipt are rather lax. Increasing strictness could prove very effective. An adequate level of coordination between the administration of benefits and activation would also be needed to lower the risk of benefit traps. More intense job search assistance, especially for workers over 45 years old, would be desirable.

Even if there has been some improvement in productivity outcomes in recent years, the underlying trend still appears weak. The policy challenge is to implement structural labour market reforms to exploit existing labour potential. These include, in the first place, improve the matching of workers to jobs. The Labour Ministry has indeed favoured improved job intermediation and activation of the unemployed by boosting the effectiveness of ALMP, which can be regarded as a step in the right direction. However, improved matching also calls for a reform of EPL that lowers the barriers for young qualified workers to obtain jobs commensurate with their skills. Although the ongoing large rise in tertiary attainment provides a significant potential to raise productivity growth, young qualified workers often face substantial barriers to obtain qualified jobs, in part as a result of strict EPL for incumbent workers and low mobility. Allow better trained young cohorts to flow more quickly from fixed-term to better-paid and qualified permanent jobs is therefore a prerequisite to fully exploit existing human capital. A second challenge is to better exploit the contribution the education system can make to raising long-term economic performance by making vocational training more effective. The supply of workers with intermediate vocational skills is very low. Vocational training, whose returns are high, needs to be made more attractive. The Spanish government is indeed planning to modernise the country's vocational training system as a means to improve the employability of young people in emerging sectors of economic activity.



# **Annex - Description of labour market institutions - EA country fiches**



# 1. AUSTRIA

## 1.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

### 1.1.1. Employment protection legislation

Employment protection legislation is relatively non-rigid and is determined by decentralized branch collective bargaining and by law. The most inflexible element regarding individual dismissals concerns the mandatory period of notice, which is high in particular for white-collar workers with longer job tenure. Also, reinstatement is always available as an option to compensation; however it is seldom taken up by the employee. Trial period is short. As to collective dismissals, the most inflexible element concerns the obligation of small firms (with 20-99 employees) to adhere to specific collective dismissals regulations already from 5 dismissals onwards. Finally, concerning the temporary employment, some rigidity is observed concerning the authorisation and reporting needs of temporary work agencies.

Individual dismissals are deemed to be lawful when based on a broad “serious reason”, including non-performance or lack of competence, and operational reasons or other business needs. In case of dismissal for operational reasons, the court may examine whether the dismissal was actually necessary or whether it would have been possible to transfer the worker to another post. Only those dismissals which would affect the dismissed employee more unfavourably than other comparable employees of the company, or which would impair the interests of the employee to a greater degree than the interest of the firm, and dismissals on inadmissible motive (e.g. discrimination) are considered unfair. The trial period is particularly short and is usually set at one month for all workers. Employers intending to terminate older workers’ contracts with job tenure of more than 2 years have to take social aspects into account if it appears to be difficult for such workers to get another job. The period of notice, as laid down by law or collective agreement or possibly specified in their individual contract, differ for manual workers and white-collar employees. In the case of white-collars, statutory periods of notice to be observed by the employer may not be shortened to the employee’s disadvantage. The basic period is of 6 weeks for up

to two years of job tenure and increases to respectively 2, 3, 4 and 5 months after a length of service in the establishment of 5, 15, 25 years and beyond. In the case of blue collars, a negotiable notice period of 14 days is provided for, which is usually shortened or lengthened by collective agreement (ranging from 1 day in construction industry to 5 months in some other collective agreements).

Following the major reform of the severance pay system introduced in 2003, severance pay entitlements, which were previously based on the length of the employment relationship (where the payment started with one month’s wage per year of tenure exceeding three years and reached a maximum of one year of pay after 25 years), have been replaced by a flexible system of individual severance accounts based on defined contributions. With the new regulation, in principle every private sector employee (with an employment contract of at least one month) is entitled to severance pay upon termination of an employment relationship, regardless of the reason for the termination of the contract, there including case of resignation by the employee. The employer is obliged to contribute 1.53% of monthly pay for all employees to a separate fund set up for this purpose, so that the claim increases progressively. The contribution periods of different employers will be cumulated. In the case of dismissal by the employer, an employee with at least three years of job tenure can chose between receiving his/her severance payment from the account, or saving the entitlement towards a future pension. If the employee quits or if job tenure is shorter than three years, no severance payment will be made but the balance of the account is carried over to the next employer. The amount of severance pay will depend on the capital accrued in the fund, the investment income earned and the capital guaranteed. By replacing lump-sum payments with portable individual severance accounts, the reform has eliminated uncertainty for firms, related to severance payments, and supported job mobility of workers as they do no loose entitlements to severance payments when quitting a job. A specific system of severance pay, based on the model developed for employees, has been established also for self-employed and freelancers in 2008. The employee has also the right to choose between reinstatement and compensation, although

this option is rarely taken up by the employee concerned. In the event of socially unjustified dismissal, the employee is also entitled to compensation equal to earnings between the dismissal and the legal settlement of the case. Sums earned by the employee in the interim are set off against the award.

Collective dismissals apply whenever, within a time lag of 30 days, 5 or more workers are dismissed in firms with 20 to 99 employees; or 5% of the workforce in firms with 100-599 employees; or 30+ workers in firms employing more than 600 people; and in any case when the dismissals concern at least 5 workers aged 50 years or more. The employer must notify the works council, as well as the local PES, of its intention to proceed with a collective dismissal. Consultations with the work council cover the alternatives to redundancy and possible ways to mitigate the effects of dismissals, there including the obligation to establish a social plan in firms with at least 20 employees. This involves a 30 days waiting period before the first notice can become effective. No legal requirements exist concerning the severance pay, but often this is part of the social compensation plans.

#### *Temporary employment*

In case of a first contract, fixed-term contracts can be signed with no need to indicate a specific reason. On the other hand, a succession of fixed-term contracts will automatically lead to an open-ended employment contract, unless objective or material reasons can justify the need to renew a fixed-term contract. In this case, no limits apply concerning the maximum cumulated duration of fixed-term contracts. Similarly, no restrictions apply to temporary agency work contracts concerning their maximum duration and number of renewals, on the condition that they are stipulated for "objective reasons". Authorisation and reporting needs for temporary work agencies are quite heavy and include special administrative authorisations as well as periodic reporting obligations. Regulations on equal treatment for TWA workers are also strict and concern pay and other working conditions.

#### 1.1.2. Working time and work organisation <sup>(56)</sup>

Austria has a relatively high incidence of flexible working time arrangements, intermediate work intensity and irregularity and intermediate incidence of rotation and team work as well as intermediate work autonomy and complexity.

In Austria, almost 50% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average) and about 32% of workers do not work the same number of days every week (about 25% in the EU27). For 48% of persons in employment working hours are set by the company with no possibility of changes. Relative to the EU27 average (56%), this indicates relatively flexible working time arrangements, though they are less flexible than in Sweden (34%), Netherland (36%) and Denmark (41%). Also, slightly more than 40% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Atypical work, in particular working in the night and in the evening is at about the EU27 average while working on the weekend is somewhat more widespread than in the EU15. Work complexity is among the highest in the EU as almost 85% of workers perceive their work to involve complex tasks (60% at the EU27 average) while work autonomy as measured by the ability of workers to change the order of tasks, methods of work and speed or rate of work is at the EU average. Finally, team work and rotation of tasks are close to the EU27 average; however teams and workers involved in tasks rotation are considerably more autonomous in their division of tasks than in the rest of the EU.

In terms of practices to organize working time flexibly, Austria has the highest share of companies with intermediate flexibility, in particular with a high incidence of overtime work (32% of all companies). Relative to the EU average distribution of companies, Austria also has a relatively high share of companies with

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<sup>(56)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

intermediate flexibility characterized by a high take-up of part-time work and a high incidence of unusual working hours which help these companies to cope with short-term (within a day or week) variability of the workload.

Many sectoral collective agreements contain "delegation clauses" designed to allow more flexibility as regards working hours. Since the mid-1980s, works agreements at company level have been acquiring growing importance in Austria as an instrument for the regulation of the terms and conditions of employment, as part of a generalized tendency towards greater flexibility. Recently, such delegation clauses have also been agreed for certain sectors with a view to increased pay flexibility. Working hours were made more flexible in most of the collective agreements signed in 2005, with longer calculation periods in industries such as electrical machinery and electronics, metal products and saving banks. The reform of the Working Hours Act, passed in 2007, provided for even greater flexibility in response to fluctuating work burdens. Collective bargaining parties are now given the right to stipulate up to a 10-hour normal working day, even without compensation in the form of longer weekly or monthly rest periods, and to introduce a working week of only four working days with extended normal working hours. Further flexibility has been also introduced with regard to the reference periods for overtime and with regard to shift work. At the same time, part-time workers have been given a legal claim to premium rates of pay for overtime.

### 1.1.3. Wage setting and bargaining systems

Austria is distinct from other EU countries in the scope and influence of its specific form of social partnership. In contrast to other countries, social partnership is not just a system of labour management relations or of wage bargaining, but one of institutionalised cooperation between labour, business, and government that covers all important aspects of economic and social policy. The social partnership was formed on a voluntary and informal basis to control post-war economic problems in the early 1950s. It developed later into a comprehensive system of influence in the fields of economic and social policy. The system has long been widely recognised as uniquely Austrian, creating political stability and social peace. In

Austria, the notion of social partnership stands for a durable and rather robust pattern of day-to-day policy making which is capable of solving political conflicts by a routine of policy cooperation (see the example of labour foundations, where former employers, the PES and employees provide financial and labour market support to help a smooth reallocation of dismissed employees).

The high degree of stability, in terms of structure and with regard to the practices of the wage bargaining agents, that characterises the Austrian wage bargaining system has been accompanied by a growing diversification and de-centralisation of the bargaining process with respect to the substantive outcomes of collective bargaining. Competences of lower-level bargaining actors have been widened since the mid-1990s, with the crucial competences remaining with the sectoral bargaining actors, and a part of the agreements being concluded at regional level. Although the peak employer and employee organisations possess the capacity to conclude collective agreements, national general agreements concluded at the central level are indeed very rare and never regulate pay. Wage levels at sectoral level are calculated on the basis of two main parameters: the prospective national inflation rate and productivity in the current and next year.

Minimum rates of pay are not fixed by law but are laid down in branch-level collective agreements. The wage level, agreed by social partners for the least skilled group of workers, determines a de facto minimum wage for the industry covered by the applicable collective agreement. In order to reduce existing pay differentials between sectors, sexes and employee categories and to set a minimum wage floor for all employees, the national-level social partners agreed in 2007 on the introduction of a monthly minimum pay rate of € 1,000, to be paid 14 times per year for all pay grades and in all sectors of the economy, beginning in 2009. This minimum pay rate relates to regular full-time work of more than 35 hours a week and does not include any form of additional pay.

#### 1.1.4. Tax and benefit systems <sup>(57)</sup>

Expenditures on passive labour market policies (1.2% of GDP) are above the EU27 average (1%). The benefit coverage of unemployed persons is relatively low as about 35 persons out of 100 persons wanting to work receive unemployment benefits (44 persons at the EU27 average). However, the coverage of unemployment benefit recipients increases among LFS unemployed and registered unemployed. Initial net replacement rates for low wage and average wage persons are at 55% and for one earner couple with children at 65% (66%, 59% and 67% at the EU27 average). As there is no guaranteed minimum income, low wage persons may have insufficient income security during transitions. Net replacement rates decline only marginally during the unemployment spell, thus remaining at relatively high levels after 5 years, at 51% for low wage and average wage persons, and at 53% (without social assistance) and 65% (with social assistance) for one earner couples with children.

Despite relatively low initial net replacement rates, marginal effective tax rates measuring financial incentives to take up work are relatively high. As out-of-work benefits are not taxed, taxation of earnings when taking up work, in particular social security contributions paid by employees, increases financial disincentives to work considerably. The tax wedge is relatively high, both for low wage (at 44%, 37% at the EU27 average) and average wage persons (at 49%, 41% at the EU27 average) and has not changed much over 2001-2007. Unemployment and inactivity traps are higher for family types with two children, in particular one earner couple and single parents, though these family types saw a reduction in their financial disincentives to work over 2001 – 2007.

Reductions in income taxes, along with a reduction in the number of tax brackets from four to three, and a small extension of the group of tax-exempt people, were passed in 2004. A further reform of the personal income tax system was passed in 2009

<sup>(57)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

including rate cuts for low-income individuals. On the other hand, cuts in non-wage labour costs were decided over recent years to stimulate the labour demand for specific groups, notably older workers and young apprentices. The integration subsidy given to employers for hiring long-term unemployed persons was converted in 2007 into a 'comeback cheque' for long-term unemployed people, to be used as a marketing tool when applying for a job. Particular age groups are eligible for the subsidy, which is negotiated between the PES and the employer.

Recent pension reforms (2000 and 2003) have strengthened incentives to work longer, but transition periods are long and early retirement is still a widely used option. Various measures have also been adopted to increase the incentives to hire older workers and to improve their employability and labour market attachment, there including exemptions to employers from paying unemployment insurance contributions when recruiting workers aged 50+, part-time allowances for older workers, employment promotion measures and special training and reintegration measures. The preparation of an activation strategy with respect to disability pensions was launched in 2007, while work incentives for parents on lower income brackets were increased in 2008 (raising the personal income tax allowance and exempting low-income parents from employee unemployment insurance contributions). 'Combination wages' for long-term unemployed, a form of in-work-benefits first introduced in 2006 to facilitate employment for low-skilled workers of specific age cohorts in very low paying jobs, have been extended in 2009.

#### *Unemployment insurance <sup>(58)</sup>*

##### *Eligibility conditions*

In order to be eligible for unemployment insurance benefits, applicants must have paid 52 weeks of contributions during the last 24 months. This condition is reduced to 26 weeks during the last 12 months for persons under 25 years of age. In case of repeated claims, the employment condition is 28 weeks during the past 12 months (or 52 weeks within the past 24 months). Employees employed

<sup>(58)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

on a limited basis (i.e. with employment earnings below € 341 per month in 2007), persons employed on the basis of a non-standard contract, civil servants and most self-employed persons are exempted from unemployment insurance. Self-employed have been given the option to enter a voluntary unemployment insurance scheme in 2001. As of 2008, bogus self-employed working under the same conditions as employees will be compulsorily covered by unemployment insurance or, like genuine self-employed people, may opt for this scheme on a voluntary basis. Unemployment assistance (*Notstandshilfe*) is paid to unemployed individuals who have exhausted their claim for unemployment benefits or transition benefits, are in financial distress and available for placement in a job.

#### *Replacement rates*

On average, the replacement rate is 55% of average net income over the previous year, subject to daily rates between €7 and €42. There is no guaranteed minimum income (introduction has been announced but implementation has been delayed), so persons previously in low-paid jobs suffer the problem of low unemployment benefits. The maximum benefit level is defined by the ceiling on insurable earnings (maximum basis for 2007 = €3,450). The level of unemployment assistance depends on the unemployment benefit previously paid. It amounts to 95% of the basic amount of the UB unless this basic benefit exceeds 1/30 of the equalisation supplement reference rate of € 726 in 2007 (i.e. € 24) and 92% for all other cases.

#### *Benefit duration*

The benefits are normally paid for 20 to 52 weeks depending on the length of time insured and on age. Duration can be extended if the beneficiary participates in active labour market measures.

#### 1.1.5. Active labour market policies

Since 1998 Austria gradually increased its expenditures on active labour market policies (from about 0.33% to about 0.51% of GDP in 2007), which slightly exceeded the EU27 average in 2007. The coverage of persons activated by active labour market policies is high, as more than 60 out of 100 persons wanting to work benefit

from regular activation (36 at the EU27 average). The majority of active labour market policies expenditures (73%) are directed towards training. Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are close to the EU27 average, at 0.17% of GDP. <sup>(59)</sup>

The job availability requirement index (which illustrates the strictness of availability criteria, primarily on the basis of formal rules in the labour market policy legislation) calculated for 2004, suggests that Austria has a relatively strict activation strategy.

The Austrian public-law service agency (AMS) is charged with responsibility for job placement and the provision of advisory services to job-seekers and employers regarding supply and demand in the labour market. Its main functions include matters associated with unemployment insurance benefits, public job placement and labour market. In specific circumstances, the AMS dispenses financial assistance for the creation, preservation and protection of jobs, and subsidies for short-time working. Its functions in connection with unemployment insurance include, in particular, the administration of unemployment benefit and unemployment assistance. Depending on the particular requirements involved, the functions of the AMS are performed at Federal, regional (Land) or local level. At the local level, it operates as an information and job-placement system between job-seekers and job-providers through local employment offices called AMS-Büros. In practice, this means that the actual enforcement of activation programmes differs according to local conditions and Land policies. In 2001, the obligation was introduced for regional AMS offices to ensure that people having difficulties in entering the labour market are offered a suitable job within 4 weeks, or are given the opportunity to participate in a training or reintegration programme. Since 2003, AMS offices must enable

<sup>(59)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

all unemployed persons under 25 and over 50 to participate in some training or re-integration programme if they cannot be offered any suitable job within three months.

During recent years, a large number of programmes were launched aimed at improving employment opportunities for young people. The "Employment Promotion Act" of 2005 provided a comprehensive framework for the implementation of all existing qualification and activation measures. Young job seekers are now provided with a personal coach to help them in their job search. In April 2008, the youth employment package was adopted that guarantees apprenticeships training and reformed the apprenticeship subsidies. The so-called "Blum Bonus" reform subsidises employers creating new apprenticeships places. The vocational education guarantee offers young people who are not able to find an apprenticeship place in a company vocational training in special training institutions. Grants were also introduced for further training measures for older employees and older unemployed people.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(60)</sup>

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<sup>(60)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

#### *Registration procedures and benefit entitlement*

Registration for placement and application for unemployment benefit take place at the same time. It is not possible to apply for benefit without registering for placement.

#### *Job-search requirements*

At the initial registration, applicants have to confirm (in written form) that they are available for work. The benefits could be cancelled if the PES offers vacancies, but the person cannot take up employment because of non-availability. Clients have to report in person, normally every week, at the local employment office, for control of their unemployment status. Moreover, they need to report their job-search efforts in person to the PES counsellors (AMS) every month on average, depending on the labour market situation or their previously concluded activity agreement). Unemployed participants in training and job creation programmes usually do not have to prove continuing independent job search and attend PES interviews.

#### *Direct referrals to vacant jobs*

About 9% of the notified vacancies are handled using a procedure of direct referral to "closed" vacancies. Other notified vacancies are usually advertised and receive also candidates by direct referral. The PES may undertake pre-selection interviews by phone or personally. This service is offered in 8.7% of direct referrals.

#### *Intensive interview*

The first intensive interview takes place either at registration (about 60%) or within a period of one month (40%). An action plan is created on this occasion, at the latest one month after initial registration. Thereafter, intensive interviews take place every three months as a minimum, based on the client's individual action plan. One collective information session is obligatory for newly-registered unemployed.

#### *Referral to ALMPs*

There is no general rule to attend an active labour market programme after a certain period of unemployment, but participation is obligatory after



a respective counsellor direction and is usually laid down in the jobseeker's individual action plans. PES-defined target groups, in particular youth and older people, enter ALMPs more frequently than non-target groups.

#### 1.1.6. Lifelong learning <sup>(61)</sup>

Austria scores relatively favourable in terms of human capital investment, implying relatively good employability of workers. <sup>(62)</sup>

Austria spent about 5.5% of GDP on education in 2005 (5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). About 63% of adults have medium education (47% at the EU27 average) while the shares of adults with low or high education is considerably lower, 20% and 18% respectively (29% and 24% at the EU27 average). Employability of medium educated workers is high as they have skills that are highly responsive to labour market needs. <sup>(63)</sup> The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is below the EU27 average (11% versus 15% respectively). However, it is particularly high among non-EU nationals, even for second level generation immigrants, who face large gaps in educational achievements. Results of PISA study reveal an average performance of Austria among OECD countries, despite relatively high per student spending on public education and GDP per capita.

Participation in LLL increased since 2000, by almost 5 pps. to 13%, which is above the EU27 average (10%), however much less than in Sweden (33%), Denmark (29%) and in the UK (27%). Yet, lifelong learning is largely addressed to already-qualified workers for up-skilling (participation in LLL for workers with high education is 24%; 19% at the EU27 average; for workers with medium education is 13%; 9% at the EU27 average), while workers with a weak basic educational background participate much less in LLL (4%, which is also at

the EU27 average). Participation in LLL of unemployed increased remarkably since 2000 (by 12 pps. to almost 20%), thus reaching more than double level of the EU27 average (at 8.5%). However, an increase in participation in LLL of employed and inactive was smaller reaching 14% and 9%, respectively (11% and 7%, respectively at the EU27 average). Finally, employability of older workers is considerably lower as only 6% of older workers participate in LLL (5% at the EU27 average). More than 65% of firms provide CVT courses (almost 50% at the EU27 average, more than 80% in Denmark, around 70% in Sweden, France, the Netherlands and Finland), however they spend on average 1.4% of total labour costs on CVT (1.6% at the EU27 average). About one third of workers participate in CVT courses (equal to the EU27) with almost no change since 1999 and they spent on average 9 hours on CVT courses in 2005 (equal to the EU27).

Austria still lacks a coherent lifelong learning strategy given its rather fragmented education system. The main reason is a lack of an educational and a governance approach for the implementation of LLL. The institutional framework and the pattern of coordination are quite unclear. Individuals have no explicit right to certain continuous pathways or individual qualification programmes provided by the PES (AMS) or the employer. Rather, it is up to the PES and the employer to decide which qualification measures to be taken. Nevertheless, workers employed for more than one year have the possibility, in agreement with their employer, to take from three months to one year of unpaid training leave during which they are entitled to a lifelong training allowance.

Policy measures in the area of lifelong learning generally include tax deductibility and incentives for firms regarding expenses related to lifelong learning (notably in the form of educational allowances, educational premium targeted at start-ups, and apprenticeship bonuses), the introduction of enabling training leaves, as well as vocational A-level exams and qualifications certificates. New forms of training have been also developed, including measures to reintegrate drop-outs and disadvantaged people, while a reform of apprentice training and vocational training centres has been launched in 2008-2009.

<sup>(61)</sup> Indicators on continuous vocational training (CVT) in this section refer to 2005 while most of other indicators refer to 2007 unless stated otherwise.

<sup>(62)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores Austria above the EU27 average in terms of on-the-job employability as measured by learning, training and task rotation.

<sup>(63)</sup> See OECD, Economics Surveys: Austria, 2007.

## 2. BELGIUM

### 2.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

#### 2.1.1. Employment protection legislation <sup>(64)</sup>

Employment protection legislation (EPL) is characterized by a degree of strictness similar to that of the EU average. The OECD's overall EPL indicator amounts to 2.6 against an un-weighted European average of 2.4. This overall performance is the outcome of a different behaviour in the sub-indicators. Indeed, the strictness of legislation regulating dismissals of individual workers with regular contracts is relatively low, with the corresponding indicator at 1.9 versus 2.3 on average for the other European countries. On the contrary, temporary jobs are more strictly regulated than the European average (2.7 versus 2.2) and collective dismissals' regulation is second only to Italy among the OECD countries, amounting to 4.1 against a European average of 3.2.

Despite considerable reform measures to liberalize fixed-term contracts during the 1990s, employment protection for fixed-term contracts continues to be one of the highest in Europe, and definitely higher than for regular contracts. This may be attributed to the fact that for Belgian labour law permanent contracts are still the standard, and temporary work is strictly regulated regarding duration and number of renewals. Maximum total duration of fixed-term contracts was lengthened in 2002, but only in those cases where it is justified by temporary increase in workload. Temporary employment agencies also face restrictions regarding the type of work for which they can engage temporary workers, and their regulation has remained largely unchanged since 1987. The moderate level of employment protection for permanent workers against individual dismissal is mainly due to the very limited terms of notice for blue-collar workers, which is set at only seven days for blue-collar workers with less than six months seniority, this implying lower compensation in the event of dismissal. White-collar workers are much more advantaged in employment protection, since notice periods for them are among the longest in the EU.

Besides, Belgium has strict employment protection legislation for collective dismissals.

Individual dismissals for blue collar workers are unfair if pronounced for reasons which have no connection with the capability or conduct of the worker or which are not based on the operational needs of the undertaking, establishment or department. For white collar workers, the concept of abusive dismissal does not exist in regulation. In this case the right to lay-off can be exerted in the interest of the company. The trial period is not legally required, but when introduced in the employment contract, a minimum and maximum duration is set by law, corresponding to 7 to 14 days for blue collars and to 1 to 6 months (up to 12 months if the annual salary exceeds a given amount) for white collars. No notice period is required during the trial period for blue collars. Afterwards, it corresponds to 7days for 6 months tenure, and it is then set to increase with job tenure (28 days for more than 6 months tenure; 35 days for 5 years tenure and so on, 42d<10y, 56d<15y, 84d<20y, 112d>20y). For white collars, the notice period is of 7 days during the trial period. It corresponds to 3 months for maximum 5 years tenure and then to three additional months for every following five years (e.g. 6m<10 years, 9m<15 years). This is the legal minimum. If the annual salary is above a give threshold, the parties must agree a notice period not less than the legal minimum. The compensation in case of unfair dismissal is at least equal to the notice period (in the event that notice was not given). White collars get an additional compensation for damages as determined by a judge, while for blue collars the additional compensation for damages always corresponds to six months' wages. There is no reinstatement option for the employee following unfair dismissal.

Collective dismissals apply quite extensively, whenever within a time span of 60 days 10 or more workers are dismissed in firms with 20-99 employees; or at least 10% of the workforce in firms with 100-300; or 30+ workers in firms with 300+ employees. The employer must inform and consult with the works council or trade union delegation on possible alternatives to redundancy and ways to mitigate its effects, and notify the local PES, by reporting on the results of consultations and giving full information of the

<sup>(64)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

planned dismissals. A social plan can be established. The procedure is indeed quite burdensome and the delay after notification to the local PES is quite long, fixed at 30 days with possibility to be lengthened to 60 days by the PES. The amount of the severance pay varies according to the length of the notice period. The longer the notice period, the lower the severance pay.

### *Temporary employment*

Fixed-term contracts are permitted without specifying an objective reason, for up to two years, or for up to three years with the authorisation of the social and labour inspectorate, with maximum four successive renewals. With objective reasons (replacement, temporary increase in workload, etc.) no time limits apply.

The regulation of temporary work agency (TWA) employment is more restrictive than for fixed-term contracts. TWA is limited to objective situations, including replacement of absent workers, temporary increases in workload or exceptional work. In case of replacement of absent workers, the maximum duration of a TWA contract is of 6 months renewable, with a 12 months limit. In case of temporary increases in workload, TWA contracts can be concluded for 18 months or more if extended by collective agreement. In case of exceptional workload they are limited to 3 months. TWA workers must receive equal pay and conditions to other workers in user firm with no exception.

#### 2.1.2. Working time and work organization <sup>(65)</sup>

In Belgium, more than 40% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, about 23% of workers do not work the same number of days every week compared to slightly more than 25% in the EU27. However, for 53% of persons in employment, working hours are set by the company with no possibility of changes. This indicates somewhat more flexible working time

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<sup>(65)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

arrangements than in the EU27 (56%), however considerably less than in Sweden (34%), Netherland (36%) and Denmark (41%). Almost 40% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. The incidence of atypical work is somewhat above the EU27 average, except working on Sunday. Work autonomy is relatively high, as many workers (about 75%) have the possibility to change or choose the order of tasks, methods of work and speed or rate of work (65-70% in the EU27). Finally, compared to the EU average, team work and tasks rotation are somewhat more widespread than in the EU and a degree of autonomy of teams and workers involved in tasks rotation in division of tasks is close to the EU27 average.

By distribution of companies according to their practices to organize working time flexibly, Belgium has the highest share of companies characterized by high flexibility which is driven in particular by companies' operational needs (26%) – such as unusual working hours and non-standard employment contracts – and companies characterized by low flexibility (26%).<sup>(66)</sup> These two types of companies are also the most prevalent establishment types within Europe, covering 43% of all establishments surveyed.

The Belgian government has been promoting flexible working time over recent years, notably by means of tax reductions. From 2006, the partial exemption from payment of withholding tax on premiums for shift-work and for night work has been raised from 2.5% to 5.63%. The annual limit of 65 hours' overtime work was doubled in 2005.

#### 2.1.3. Wage setting and bargaining systems

Wage bargaining is highly structured at three interlinked levels: the central cross-sector level

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<sup>(66)</sup> See Chung, et al, 2007. These results, in particular concerning a high share of "low flexibility" companies, are somehow different from the results of clustering reported by Employment in Europe, 2007. A discrepancy likely stems from the usage of a different survey (ESWT versus EWCS), different set of variables - which are in some cases slightly adjusted (e.g. indicators for part-time work, flexible working hours and overtime are replaced by indicators, which apply to at least 20% of the workers in a company) - and different clustering techniques.

covering the entire economy; an important intermediate level covering specific industrial sectors; and company-level negotiations as a complement or substitute for the sector-level bargaining. In principle, lower level agreements can only improve what has been negotiated at higher level for the employees. It is up to the social partners to agree on the wage evolution for the next two years in an inter-professional agreement. The inter-professional agreement defines an indicative national wage norm and a national minimum wage, which serve as the upper and lower limits for the subsequent sector and enterprise level wage negotiations. The indicative standard set by the inter-professional agreement can be exceeded by well-performing sectors, bearing in mind that since 1996 Belgian wages are not allowed to increase faster than wages in the three neighbouring countries (France, the Netherlands and Germany), though this average has been often breached without correction in subsequent periods. Extension mechanisms ensure that collective agreements cover almost the whole workforce. Belgium is also one of the few countries in the EU to still have an extensive automatic index-linking for setting wages. This means that pay and social security benefits are linked to a specific consumer price index (called health index). Since almost all sectoral collective agreements have their own way of implementing the indexing mechanism in setting wages, as a result, indexing has developed into a rather complex system that, in general, prevents downward tendencies in real wages. Favourable measures were introduced at the end of 2007, after agreement between the social partners, for employers to settle a system of flexible pay linked to employees' performance.

#### *Tax and benefit systems* <sup>(67)</sup>

Belgium has relatively high expenditures on passive labour market policies (2% of GDP compared to 1% at the EU27 average). This reflects relatively high unemployment rate, including a high long term unemployment rate, as well as a high benefit coverage of unemployed persons (there are more unemployment benefit recipients than persons wanting to work; at the EU27 average, about 44 persons out of 100 persons wanting to work are recipients of unemployment benefits).

Also, initial net replacement rates for low wage earners are relatively high (74%, 66% at the EU27 average) and remain relatively high also after 5 years (at 64%). Initial net replacement rates for average wage earners and one-earner are lower (55% and 66%, respectively; 59% and 67%, respectively at the EU27 average), however as they decline only slightly over unemployment spell, they are among the highest in the EU after 5 years. Belgium is also the only country in the EU that has unlimited duration of unemployment benefits, which may considerably reduce incentives to work, and even more so since the financial gain from taking up work is overall low. Tax wedge is among the highest in the EU, at 50% for the low wage person (37% at the EU27 average) and at 56% for the average wage person (41% at the EU27 average). The interaction between the withdrawal of unemployment benefits when taking up work and high taxation reduces incentives to work considerably, with financial gain when moving from unemployment to work in some cases below 20%. This applies in particular for unemployed and inactive persons taking up low-paid jobs. Financial disincentives to move from inactivity to work are also relatively high for the second spouse in the household with two children and one earning spouse - in particular due to income taxation - which depresses the participation rate of women. Finally, Belgium has a relatively high low wage trap, which discourages incentives

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<sup>(67)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedge and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

to increase hours worked. On the other hand, the at-risk-of-poverty rate before and after social transfers is relatively low for the inactive and the unemployed, with social transfers reducing the risk of poverty of unemployed by about 20%.

Recent reform measures have somewhat reduced all traps. As part of a long-term policy objective to shift the tax burden from labour to a broader base, since 2000 Belgium has constantly reduced social security contributions for employers and employees and in particular for low-wage workers. The reform efforts were accompanied by the introduction of various in-work benefits, notably to improve work incentives for long-term unemployed taking up paid work, for young unemployed and for older workers. In this context, the allowance for resuming work, a supplement to the normal wage for older unemployed people that begin to work again, which was originally only focused on the long-term unemployed, has been extended in 2006 to those short-term unemployed who find a new job and to older unemployed people who become self-employed. In 2005, a work bonus gradually replaced the previous tax credit scheme for low-wage workers which had been introduced with the 2001 tax reform. The work bonus became soon an important incentive to accept low-wage jobs rather than to apply for unemployment benefits, and consequently a good instrument to combat unemployment traps. The various pre-existing schemes to reduce employers' social security contributions (SSC) were also streamlined in 2002, while a substantial simplification of the SSC rebates for various target groups (such as low skilled workers, older employees and long-term unemployed) was decided in 2004.

#### *Unemployment insurance* <sup>(68)</sup>

##### *Eligibility conditions*

For employees, the qualifying period varies according to the age of the insured person, between 312 working days during the previous 18 months and 624 working days over the previous 36 months. Part-time workers must do at least 12 hours per week to qualify (or 1/3 of normal full-

time hours in the job). Eligibility then follows the same criteria as for full-time workers, except that the units are half-days and the reference period is increased by 6 months (e.g. the criterion for persons under 36 of age is 312 half-days in 24 months). For young people who have recently completed training a waiting allowance is payable, dependent on training record.

Those who do not qualify for unemployment insurance benefits can have access to unemployment assistance if are resident in Belgium, have an EU nationality or equivalent, are 18 years old, do not reach the subsistence level and are ready to take up work.

##### *Replacement rates*

Unemployment benefit pays up to 60% of previous average daily earnings, subject to minimum and maximum levels. The 60% is made up of a basic allowance of 35% plus supplements dependent on various circumstances (adaptation 20%, loss of sole income 5%, family 20%). The amounts are reduced after 1 year. For part-time workers, benefits are paid in proportion to hours worked, where full-time equals 35 hours. The waiting allowance for young persons after training is paid at a fixed flat-rate.

Unemployment assistance benefits are flat amounts fixed by law (€ 465.06 per person for people living together; €679.61 for a single person; € 930.14 per person for people having a family to support - as of 1st May 2008).

##### *Benefit duration*

In principle, duration is unlimited (but there may be some exceptions in the case of very long-term unemployed). The duration of unemployment assistance is also unlimited.

#### 2.1.4. Active labour market policies

In the framework of low financial gains from taking-up work or increasing work effort and unlimited unemployment benefit duration, active labour market policies are crucial to support transitions and prevent inflow into long-term unemployment. In Belgium, federal agencies collect social security contributions and distribute unemployment benefits, while regional agencies

<sup>(68)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

help with job search. Since the responsibilities in financing unemployment benefits and job search assistance are shared between federal and regional agencies, efficiency in reaching policy targets may be improved.

An index that measures the job availability requirement was calculated for Belgium in 2004 and its relatively low value points to relatively poor activation strategies [to add source in footnote]. To activate long-term unemployed, Belgium introduced a substantial reform of the active labour market policies in 2004 to improve incentives to job search. The old system of monitoring unemployed people was replaced by a new system managed by the federal agency in cooperation with the regions and communities, featuring an individualised approach to supervision and regular check-ups for long-term unemployed. Those unemployed who no longer actively look for work or refuse training or counselling can incur in financial sanctions.

Belgium has among the highest expenditures on active labour market policies (1 % of GDP, 0.5% at the EU27 average). About 88 persons out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). The highest share of ALMPs expenditures goes to employment incentives (40%) and direct job creation (32%) while relatively little share is devoted to training (17%). Employment incentives are especially important in case high labour costs depress labour demand. Therefore, Belgium offers several hiring subsidies to firms that recruit unemployed, young and older workers, workers in certain occupations. Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are relatively high, at about 0.22% of GDP (0.19% at the EU27 average).<sup>(69)</sup>

#### *Activation policies*

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<sup>(69)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work, who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(70)</sup>

#### *Registration procedures and benefit entitlement*

In order to receive unemployment benefits, the unemployed must register as job seeker at the regional PES, within eight days from the request of benefits. In Flanders, the registration as unemployed can be done through three channels (online, call centre and face-to-face) leading to an immediate employable file. From the first week the file is weekly matched with new vacancies. The second step is a telephonic screening done by the PES (VDAB) call centre: i) for the low-educated after three months of unemployment; ii) for the high-schooled unemployed below 25 years of age after four months of unemployment; iii) for the high-schooled unemployed above 25 years of age after six months of unemployment. If the person is still unemployed three months after the telephonic screening, they are invited for an intensive interview, the “intake” (the third step). The action plan is established during the intake (after six to nine months of unemployment). In Wallonia, when first registering as unemployed, the job seeker can benefit from a short interview of 10-15 minutes to analyse his/her needs. Depending on the result of the interview, the job seeker is directed either towards free access services or specialised services, such as professional advice. In the latter case, an intensive interview of 45-60 minutes is planned within one month. The basic service for all unemployed also includes a collective interview

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<sup>(70)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

of two hours and an orientation interview of one hour, to take place before the second month from registration as unemployed for those under 25 years of age and before the 7th month for those aged 25 and beyond.

#### *Job-search requirements*

The job seeker must certify his/her status of unemployed and provide evidence of autonomous job search activity. The evaluation of the job effort is done at the different individual interviews which take place starting from 15/21 days after registration as unemployed, and then after 4, 12 or 16 months of unemployment spell. The actual procedures slightly differ in Flanders and in Wallonia. Moreover, while in Flanders even during training and job-creation programmes, the jobseeker is expected to continue his/her job search, in Wallonia, the unemployed who take part in a training programme are covered by exoneration from job availability requirement for the duration of the programme.

#### *Direct referrals to vacant jobs*

All job vacancies are public. In the Flanders, the follow-up ensured to individual job offers depends on the score given to the various offers. In Wallonia, only 5 to 10% of job offers are managed by the PES, which makes a pre-selection of suitable candidates.

#### *Intensive interview*

In the Flanders, during the pathway guidance (starting after six to nine months as unemployed) jobseekers have at least a monthly interview with their pathway counsellor, unless they follow an intensive action (e.g. training) at that time. In Wallonia, the frequency of intensive interviews with PES (FOREM) varies according to the specific needs and characteristic of the unemployed. In the framework of the '*plan d'accompagnement*' of unemployed aged 25 to 50, which starts at the latest in the 7th month of their registration, it is generally foreseen either a specific action or an individual interview per month.

#### *Referral to ALMPs*

In Flanders there are no compulsory ALMPs where every jobseeker has to participate at a given duration of unemployment. It is always within a pathway guidance context, thus after thorough screening, that a jobseeker is engaged in an ALMP. Once an ALMP is decided within the pathway guidance and integrated in the action plan, the jobseeker is obliged to participate. These action plans are always written by the PES counsellor after thorough discussion with the jobseeker during one or more intensive interviews; once put in the action plan, the jobseeker is obliged to participate in the ALMP. In Wallonia, for unemployed registered since 2004, a follow-up is proposed before 3 months of unemployment to unemployed younger than 25, and before the 7th month of unemployment for those aged 25 and beyond. Job seekers have to sign a follow-up agreement ('*convention d'accompagnement*') where are detailed the actions to realise.

#### 2.1.5. Lifelong learning <sup>(71)</sup>

Belgium scores relatively favourable in terms of human capital investment, implying relatively good employability of workers. <sup>(72)</sup>

The country spent about 6% of GDP on education in 2005 (5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). The shares of low, medium and highly educated persons are all close to one third, thus deviating from the EU27 average in particular for medium educated (47% at the EU27 average) and highly educated persons (24% at the EU27 average). The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is below the EU27 average (12% versus 15% respectively).

Despite a favourable educational structure of adults, employability of workers may be hampered as only 7% of workers participate in life-long learning (LLL) (10% at the EU27 average, 33% in

<sup>(71)</sup> Indicators on continuous vocational training (CVT) in this section refer to 2005 while most of other indicators refer to 2007 unless stated otherwise.

<sup>(72)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores Belgium above the EU27 average in terms of on-the-job employability as measured by learning, training and task rotation.

Sweden, 29% in Denmark, 27% in the UK) with almost no change since 2000. Participation in LLL is relatively low regardless of educational attainment, though it is about 10 pps. higher for workers with a high education (13%; 19% at the EU27 average) than for workers with a low education (3%; 4% at the EU27 average). Participation in LLL of unemployed is at around the EU27 average (9%) while participation of employed and inactive is somewhat below the EU27 average (8% and 5%, respectively). Finally, employability of older workers is considerably lower as only 4% of older workers participate in LLL (5% at the EU27 average).

Almost half of the firms provide continuous vocational training (CVT) courses (roughly equal to the EU27 average, against more than 80% in Denmark, and around 70% in Sweden, France, the Netherlands and Finland) and they spend on average 1.6% of total labour costs on CVT (equal to the EU27 average). About 40% of workers participate in CVT courses (one third in the EU27) with no change since 1999 and they spent on average 12 hours in 2005 on CVT courses (9 hours at the EU27 average).

Lifelong policies in Belgium have mainly concentrated on investment in formal education. For example, training vouchers and competence centres were developed to lower formal learning barriers. The statistical results relating to the participation of workers to CVT show that training seems to be more often proposed to men without any foreign origin, people aged between 25 and 54 and with high qualifications. The participation rate is also different according to the three regions and it is more important in the region of Brussels and in the Flemish region than in the Walloon region.<sup>(73)</sup>

Adult education was indeed regionalized during the institutional reform of the State, so that vocational training now depends on the three regions (Brussels, Flanders and Wallonia) while initial training depends on the three linguistic communities (Dutch, French and German-speaking). Moreover, the social partners at all levels play a prominent role in devising, organizing and managing the Belgian CVT system. In some sectors, the social partners have even organized sector-based training funds, with the aim of financing training that better fits the demands of companies.

Following the youth employment scheme launched in 2000 and known as the "Rosetta Plan", in 2002 a new allowance was decided addressed to young people upon completion of training recognised by the regional PES. Aim of the initiative was to encourage young unskilled workers to undergo additional training or training leading to a qualification. The training was to be set out in a contract signed by the young person and the regional PES. A new system of allowances for vocational training was then set up in 2006, including a) a training allowance for the individual vocational training of employees in the enterprise; b) a traineeship paid by the unemployment service and aimed at the integration of unemployed people into the company; and c) a six-month allowance to help unemployed people aged at least 30 to set up their own business. The maximum number of hours for paid vocational training was increased in 2007 and employers' contributions to this system were also progressively increased. Further major initiatives in the field of vocational training are mainly taken at regional level.

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<sup>(73)</sup> See EIRO, "Belgium: Collective bargaining and continuous vocational training", 2008. Source: Continuous vocational training survey (2007), Federal Public Service Economy, Belgium.



## 3. CYPRUS

### 3.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

#### 3.1.1. Employment protection legislation <sup>(74)</sup>

The OECD score of tightness of EPL is not available for Cyprus. Legislation governing the termination of employment goes as far back as 1968 and covers all employers in the private and public sector. The law determines the period of notice that must be given to an employee and the conditions under which a dismissal can be deemed unfair and is, therefore, subject to compensation. The employer has the right to dismiss an employee as redundant. If the employee has been working continuously for 104 weeks, he or she has the right to compensation. Such payments are made from the Redundancy Fund which is entirely financed by employers' contributions.

#### *Temporary contracts*

Temporary employment includes people in paid employment with fixed-term or works contracts, and people employed on a seasonal basis. Since 1997 the law has regulates the operation of Private Employment Agencies, which must secure a license from the Ministry of Labour and Social Insurance. Temporary work employment is not permitted to replace workers on strike without informing the applicant of the situation. Temporary agency work is very rare. Temporary agency work is not governed by collective bargaining at any level, but the principle of non-discrimination between contracts types applies.

#### 3.1.2. Working time and work organization <sup>(75)</sup>

Cyprus has a very low incidence of flexible working time arrangements, low work intensity and irregularity and intermediate incidence of

rotation and team work as well as relatively low work autonomy and complexity.

In Cyprus, the share of workers which does not have fixed starting and finishing time is the lowest in the EU (about 20% compared to almost 40% at the EU27 average). Furthermore, for almost 75% of persons in employment working hours are set by the company with no possibility of changes. This indicates a low incidence of flexible working time arrangements (56% at the EU27 average), in particular if compared with Sweden (34%), Netherland (36%) and Denmark (41%). Only 23% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Furthermore, only 10% of workers do not work the same number of days every week compared to more than 25% in the EU27. The incidence of atypical work, such as working in the night, in the evening and on weekends is among the lowest in the EU. Work complexity is relatively low - as about 50% of workers perceive their work to involve complex tasks (60% at the EU27 average) - as also autonomy at work as measured by the ability to choose or change the order of tasks, methods of work and speed or rate of work. Finally, compared to the EU27 average, team work is somewhat less and tasks rotation somewhat more widespread, however, both workers involved in teams and in tasks rotation are the least autonomous in their division of tasks in the EU.

By distribution of companies according to their practices to organize working time flexibly, Cyprus has the highest share of companies characterized by low flexibility (33% of all companies). Relative to the EU average distribution of companies, Cyprus also has a high share of companies with intermediate flexibility characterized by a high incidence of overtime work.

<sup>(74)</sup> This section draws heavily from European Employment Observatory (2006), Contribution to the EEO Autumn Review 2006 "Flexicurity".

<sup>(75)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

### 3.1.3. Tax and benefit systems <sup>(76)</sup>

Cyprus spends below the EU27 average on passive labour market policies (about 0.6% of GDP compared to 1% at the EU27 average). This is due to relatively low benefit coverage of unemployed (about 36% of persons wanting to work are recipients of unemployment benefits compared to 44% at the EU27 average), low unemployment rate, including low long term unemployment rate, relatively low initial net replacement rates (at 59%, 58% and 70% for low wage, average wage persons and 1-earner couples compared to 66%, 59% and 67% at the EU27) as well as a strong reduction in net replacement rates after unemployed exhaust their unemployment benefits (after 7 months), in particular if they are not eligible for social assistance. Tax wedge is the lowest in the EU, both for low wage persons (12% vs. 37% at the EU27 average) and average wage persons (14% vs. 41% at the EU27 average). Furthermore, tax wedges saw a strong decline over 2001-2007, both for the low wage and average wage persons, in particular as a result of a reduction in social security contributions paid by employers and to a lesser extent due to a reduction in personal income tax. Overall, the interaction of taxes and withdrawal of benefits does not produce substantial financial disincentives to work, except for jobless households (with or without children) in which one spouse, either unemployed or inactive, considers taking up work.

#### *Unemployment insurance <sup>(77)</sup>*

The Unemployment benefit includes a basic part and a supplementary part. The unemployed person is entitled to unemployment benefits for 156 days in each period of interruption of employment <sup>(78)</sup> provided that he is insured with the Social

Insurance Scheme and satisfies certain contribution conditions. The same person can reclaim the benefit, provided that 26 weeks passed since the last days he had received the unemployment benefit and that that the person had worked for at least 26 weeks after the last day he had received it. Two or more of periods of interruption on employment are considered as one, if not separated by a period of more than 13 weeks.

#### *Eligibility conditions*

Unemployment benefit is payable to registered unemployed aged between 16 and 63 years old, including insured attending courses of occupational training. The age of 63 is extended to the age of sixty-five if the insured is not entitled to old age pension.

To claim benefits, an unemployed should

- be insured for at least 26 weeks before becoming unemployed and have paid contributions on insurable earnings not lower than 26 times the weekly amount of the basic insurable earnings. <sup>(79)</sup> Contributions by self-employed are not allowed.
- have paid <sup>(80)</sup> or been credited <sup>(81)</sup> with contributions in the previous contribution year <sup>(82)</sup> on insurable earnings not lower than 20 times the weekly amount of the basic insurable earnings.

In case the insured person is over 60 and is not entitled to a pension out of an occupational pension scheme, he can claim for the unemployment benefit provided that he has paid

<sup>(76)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(77)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

<sup>(78)</sup> It means two days of sickness or unemployment within a period of six consecutive days. Two or more of such periods are considered as being one, if they are not separated by a period of more than 13 weeks.

<sup>(79)</sup> The weekly amount of the Basic Insurable Earnings changes from year to year.

<sup>(80)</sup> *Paid Insurable Earnings*: Insurable Earnings on which contributions have been paid.

<sup>(81)</sup> *Credited Insurable Earnings*: Every insured person can be credited with insurable earnings for any period of full time education after the age of 16 years, for periods of serving in the National Guard, for periods who is in receipt of sickness, unemployment, maternity, injury benefits or invalidity pension out of the Social Insurance Fund and for the period of paternal leave or period of leave on grounds of force majeure.

<sup>(82)</sup> *Previous Contribution year*: For the first semester of each year it is the calendar year before the last and for the second semester it is the last calendar year i.e. for the first semester of 2006, the previous contribution year is 2004 whereas for the second semester of 2006, it is the year 2005.

contributions on earnings, not lower than 26 times the weekly amount of the basic insurable earnings and that 13 weeks have passed since the last day he had received the unemployment benefit.

#### *Replacement rate*

The Unemployment Benefit is composed of two parts - the basic and the supplementary part– and is calculated based on a system of insurance points set by the Ministry of Labour and Social Insurance and the gross earnings of the unemployed in the previous one or two years, depending on whether the unemployment starts after or before the first of July.

The weekly rate of the basic benefit equals 60% of the weekly average of the basic insurable earnings of the previous contribution year. An integration for the dependant spouse is paid, only if his/her earnings or the rate of the benefit he/she may receive from the Social Insurance, are not higher than the amount of increase for dependants. In the case both spouses are entitled to a benefit, the increase for dependants<sup>6</sup> is payable only to the spouse who is entitled to increase of benefit at a higher rate. In case the applicant has a dependent spouse, the weekly rate of the Basic Benefit will increase by 1/3. If the applicant has children or other dependants - up to two dependants-, the basic benefit is be increased by 1/6 for each dependent.

The weekly rate of supplementary benefit is equal to 50% of the weekly average of insurable earnings of the beneficiary in excess of the basic insurable earnings but in no case, the supplementary benefit is higher than the weekly amount of the basic insurable earnings.

#### *Benefit duration*

In the case of an employed person, the payment of the benefit starts from the forth day of unemployment and in the case of a voluntarily insured person (working abroad in the service of a Cypriot employer) the payment starts after the first 30 days of unemployment.

### 3.1.4. Active labour market policies

Expenditures on active labour market policies are among the lowest in the EU (about 0.1% of GDP compared to 0.5% at the EU27 average). About

63% of expenditures are directed towards employment incentives and about 25% to training. Only 11 out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are among the lowest in the EU, at 0.04% of GDP (0.19% at the EU27 average).<sup>(83)</sup>

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.

ALMPs are centred on, or co-ordinated by, the HRDA whose operations are funded by payroll taxes. A multitude of programmes exist. The main initial training activities consist of enterprise-based and institution-based initial training; training for tertiary education graduates who are about to enter the labour market; the Apprenticeship Scheme; and training for high school students to help improve their labour market orientation. These programmes improve the match between the skills of workers and those sought by employers, thereby reducing the probability of unemployment. The Ministry of Labour and Social Affairs also offers a number of ALMPs, including vocational guidance, help to

<sup>(83)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

tertiary education graduates, repatriated and disabled people who wish to become self-employed, and schemes aimed at increasing the participation rate of older workers. The overall participation rate in the various training programmes by individuals aged 25-64 was 5.9% in 2005, lower than the EU average of 11% and lower than the EU target of 12.5% by 2010.

Following the first phase of the reform measures for the transformation of the PES into a customer-orientated and decentralised service delivery system providing high quality and timely services, implemented during the period 2005 – 2008 with the financial support of the European Social Fund (ESF), a policy decision was taken to implement a Phase II. Relevant activities for this new Phase include:

- The adoption of a personalized customer-oriented approach to employers with the use of tailor made action plans and specialized tools;
- The development of close cooperation with local authorities and social partners in the promotion of employment of vulnerable groups;
- The upgrading of IT tools for the monitoring of labour market developments,
- The introduction of quality system in PES service delivery;
- The upgrading of vocational guidance services;
- The strengthening of the technical and administrative capacity of the PES to continuously monitor and evaluate labour market policies.

The enhancement and modernisation of the Public Employment Services is expected to contribute positively towards more effective and timely job placement, thus shortening the period of unemployment. More specifically, the main aim of this measure was the development of structures that will contribute to the implementation of a preventive and employability-oriented strategy. This implies that PES will be moving towards active engagement with the groups they aim to serve (workers and employers) leading to the

integration into employment of the inactive and persons receiving public assistance and unemployment benefit.

### 3.1.5. Lifelong learning

Significant progress has been achieved with respect to the lifelong learning. Life-long learning has increased from 5,9% in 2005 when the NRP started being implemented, to 7,1% in 2006 and to 8,4% in 2007, decreasing the gap with the EU27 average, which is at 9,7% (2007). The ratio of early school leavers decreased from 18,2% in 2005 to 16% in 2006 and dropped down to 12,6% in 2007, i.e. lower than the EU27 average of 14,8%. The educational attainment (20-24) kept increasing from 80,4% in 2005 to 83,7% in 2006 and reaching 85,8% in 2007, being well above the EU27 of 78,1%.

The National Strategy for Lifelong Learning (LLL) 2007-13 was approved by the Council of Ministers on 7.11.2007, and it is a comprehensive and coherent framework of strategic objectives, based on the following four pillars:

- Promoting access and participation in lifelong learning for all;
- Strengthening of lifelong learning infrastructures and systems;
- Promoting research and development for the support of lifelong learning;
- Effective governance of lifelong learning.

A Monitoring Mechanism for the implementation of the Lifelong Learning Strategy was set up in order to monitor, coordinate and promote all necessary actions for the realization of the National Lifelong Learning Strategy. Under the four pillars of the LLL strategy several actions are being promoted. Specifically:

- Promoting access and participation in lifelong learning for all;
- Establishment of new five new Universities in the last two years, increase of the intakes and departments in the University of Cyprus and in the Cyprus University of Technology;

- Promotion of accelerated vocational training programmes to the unemployed and unskilled young persons, upgrading of the Apprenticeship System, promotion of youth entrepreneurship and training for new farmers, promotion of training to enhance the employability of young secondary education school graduates, women and disabled, establishment of education centres which provide Greek language courses to speakers of other languages (children-adults), computer and foreign language courses;
- Enhancement and modernization of the Public Employment Services (including expansion of building network, improvement of service quality, personalized counselling, specialized studies, and upgrade of ICT systems), implementation of different education and training programmes on management skills aiming at providing lifelong learning opportunities for the employed people and at supporting enterprises;
- Lifelong-learning promotion in the Public Sector by offering courses on public administration and training for teachers.
- Strengthening of infrastructures and systems;
- Development of an integrated lifelong career guidance and counselling system;
- Continuation of the Education reform, strengthening of the quality and attractiveness of the Secondary Technical and Vocational Education (STVE) and setting up mechanisms to safeguard quality assurance in higher education;
- Provision of further support to the training institutions,
- Promotion of the reform of the curricula of all subjects so that they provide ICT as a learning tool and ensure that primary and secondary education teachers will become digitally literate;
- Establishment of a National Qualifications Framework and introduction of a Vocational Qualifications System;
- Research and development for the support of LLL.

## 4. FINLAND

### 4.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

#### 4.1.1. Employment protection legislation <sup>(84)</sup>

A quite substantial reform of the EPL for regular contracts was decided in 2001, with a) the reduction of the notice period related to the termination of employment contracts in the case of short-term employment relationships and the introduction of a longer notice period of six months once an employment relationship has continued for more than 12 years (from previously 15 years); and b) the introduction of a comprehensive compensation system for cases of groundless termination of the employment relationship by the employer, involving a compensation of minimum 3 months' and maximum 24 months' pay.

Individual dismissals are justified for “specific serious reasons”, including personal characteristics and urgent business needs. Dismissals for economic and personal reasons are valid only if employees cannot be reasonably, in view of their skills and abilities, transferred or retrained. Protection against individual dismissals applies after a trial period of 4 months for all workers. The notice period varies according to job tenure and goes from 14 days in case job tenure of maximum 1 year, to 1 month for maximum 4 years job tenure and so on, up to 6 months for more than 12 years of job tenure. The notification procedures in the case of individual dismissal of a worker with a regular contract are quite burdensome. In case of dismissal for personal reasons, the employer must proceed to an advance discussion with employee and trade union if requested by employee, and further provide him/her with a statement of reasons and information on appeals procedures. In case of dismissal for lack of work, in companies with 20 or more employees the employer must notify the employment office and trade union representatives and consult them for 14 days on the reasons and ways to avoid lay-off; in companies with less than 20 employees, only a notification to the employment office is required. There is no provision for severance pay under Finnish law, and

reinstatement is not contemplated. In case of unfair dismissal the employee can get a compensation of between 3 and 24 months of pay. When determining the amount of compensation, the estimated time without employment, the estimated loss of earnings, the duration of the employment relationship, and the degree of guilt found on the side of employer must be taken into account. The typical compensation at 20 years tenure amounts to 14 months.

Collective dismissals apply when more than 9 workers are dismissed in firms with more than 20 employees, in case of dismissal for financial or production-related reasons. The employer must notify the local employment office and the trade union or personnel representatives, and consult them on alternatives to redundancy and ways to mitigate the effects. When an employer with more than 30 employees is considering laying off at least 10 employees, the mandatory period for negotiating with employees or their representatives is extended from 14 days to six weeks. As laid down in collective agreements, selection procedure usually takes account of seniority, family circumstances and the retention of skilled personnel.

#### *Temporary employment*

Fixed-term contracts are permitted for temporary replacements, traineeship, and special business needs (unstable nature of service activity, etc.) with no limits on their cumulated duration. In case of successive contracts, the justification of limitation of a contract is subject to court examination. No limits apply also concerning the maximum duration and number of renewals of temporary agency work contracts; while the principle of equal treatment regarding pay and working conditions apply for TWA employees.

<sup>(84)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

#### 4.1.2. Working time and work organization <sup>(85)</sup>

Finland has a relatively high incidence of flexible working time arrangements, high work intensity and irregularity, intermediate incidence of rotation and team work and high work autonomy and complexity.

In Finland, more than 50% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, 29% of workers do not work the same number of days every week compared to slightly more than 25% in the EU27. For 45% of persons in employment working hours are set by the company with no possibility of changes. This indicates highly flexible working time arrangements (56% at the EU27 average). Also 46% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves (36% at the EU27 average). Atypical work, in particular working in the night, in the evening and on Sundays is very common while working on Saturdays is less widespread than in the EU27 average. Work complexity is high as about 75% of workers perceive their work to involve complex tasks (60% at the EU27 average). Furthermore, work autonomy is relatively high as measured by the ability of workers to change the order of tasks, methods of work and speed or rate of work. Finally, the team work is much more widespread than rotation of tasks between workers. However, both workers involved in teams and in tasks rotation are considerably more autonomous in their division of tasks than in the rest of the EU.

By distribution of companies according to their practices to organize working time flexibly, Finland has the highest share of companies with a high flexibility which aims at satisfying workers' work life balance needs and is characterized by high levels of flexible working hours, long-term leave arrangements, overtime and parental leave (33% of all companies). Relative to the EU average distribution of companies, Finland has also a high share of establishments with

intermediate flexibility which emphasizes arrangements to improve work-life balance throughout the worker's life course such as early retirement and longer periods of leave. To this respect, the 'job alternation' scheme, which enables employees to take a period of sabbatical leave while being temporarily replaced by an unemployed person, has been regularly renewed since it was first launched in 1996 with the aim of cutting unemployment and helping employee at work. The present scheme provides for a period of leave of between 90 and 359 days, agreed voluntarily between the employer and the employee with an unemployed person, obligatorily hired as a substitute worker during the absence of the permanent employee. The compensation for longer-serving workers who take leave has been increased and a requirement of 10 years prior employment introduced. During the leave, employees receive compensation equal to 70% of the unemployment benefit.

#### 4.1.3. Wage setting and bargaining systems

Collective bargaining at branch level is the main wage determinant in Finland. Wage bargaining rounds at sector level provide the framework for company level negotiations. Since sector-level collective agreements have *erga omnes* applicability, non-organised employers have to observe the collective agreement setting minimum terms and conditions of employment for their sector, and are not allowed to pay lower wages than those stipulated therein. Therefore, collective agreements define *de facto* minimum wages. If there is a collective agreement in a given sector, but it does not have "*erga omnes*" applicability, it is possible to regard wages that are stipulated in this agreement as normal and reasonable in that particular sector. If there no collective agreement has been signed in a given sector, normal and reasonable wages can be based on social partners' recommendations. If there are no such recommendations, then a full-time employee should be paid at least the wage that would give the employee the right to unemployment insurance. Employers can also make independent agreements with the respective trade unions. Yet, since the 2007 bargaining round there has been a significant shift towards company-level agreements, where the new sector-level collective agreements have delegated much power to the company level.

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<sup>(85)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

#### 4.1.4. Tax and benefit systems <sup>(86)</sup>

Expenditures on passive labour market policies are about 1.4% of GDP (1% at the EU27 average) and reflect a relatively high benefit coverage of unemployed persons (almost 50% of those wanting to work receive unemployment benefits, 44% at the EU27 average). Net replacement rates are at the beginning of the unemployment spell at intermediate to low level compared to the other EU countries (67% for the low-wage person and 52% for the average wage person), however as they taper off only slightly over time they get among the highest in the EU after 5 years, in particular if topped up with the social assistance (65% and 48% respectively). The net replacement rate for one earner couple with two children is among the highest at the beginning of the unemployment spell as well as after 5 years (84% if topped up with the social assistance). Tax wedges are relatively high, at 38% for the low wage person (37% at the EU27 average) and at 44% for the average wage person (41% at the EU27 average). However, tax wedges saw a considerably decline over 2001-2007, for both the low wage (by 3.2p.p.) and average wage persons (by 2.7p.p.), in particular as a result of a decline in personal income tax. Financial incentives for unemployed and inactive persons to take up low-paid work are low, notably for a spouse in a jobless household without children, though this family type saw a substantial decline in its marginal effective tax rates over 2001-2007. This family type also faces relatively high low-wage trap, which impairs spouse's incentives to increase hours worked. On the other hand, inactivity and unemployment traps are low for the second earner.

Since the mid-1990s a key objective of Finnish tax policy has been to promote employment by reducing the taxation of earned income. Work incentives for the lowest incomes were improved by significant increases in the coverage and generosity of the municipal-level earned-income tax allowance (EITA) and by relaxing the income tax scale in 2006-2007, besides an additional

inflation adjustment of two per cent to the income tax scale. In addition, an earned-income tax credit (EITC) was also introduced in January 2006, which can be used instead of the EITA in municipal taxation to lower the tax burden of low and medium income earners. The impact of the allowances on marginal effective tax rates (METRs) varies significantly along the income ladder. At low income levels it reduces the METR by 16.5 percentage points, while when phased out it increases the METR by between 1 and 2 percentage points. To reduce the negative impact of its withdrawal on work incentives for different income groups, the phasing out is very gradual and virtually every worker benefits from the allowance. About 55% of all taxpayers were entitled to both allowances in 2007. More recently, the Government initiated a comprehensive reform, by setting up a Committee in June 2007, to evaluate the tax and benefit system with the objective of promoting work incentives and poverty reduction and securing its financing. The resulting proposals for a comprehensive review of work incentives were ready in spring 2009, involving a €800 million cut in the taxes on earned income, and further adjustments to compensate for tax rises due to rising incomes. This follows a package of tax cuts on labour and improvements in benefits already introduced during the fall 2008. Pensioners' taxes will be lowered accordingly in order to maintain similar levels in labour income and pension income taxes.

Incentives to work for older workers are also affected by early retirement pathways such as the "unemployment pipeline" and disability pensions. The "unemployment pipeline" allow older persons to extend their entitlement to unemployment benefits up to the old-age pension. The beneficiaries are not subject to the early retirement penalty and they continue to pay pension contributions, which raise their final pension. Qualifying age for drawing on this scheme was gradually increased to 57 years in 2005. Another route to early withdrawal from the labour market is evidenced by a high share of persons receiving disability benefits. Finland has among the highest shares of medium and highly educated persons in the EU benefiting from these benefits. Finally, high implicit tax on continued work depresses effective labour supply of older workers even further.

<sup>(86)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.



### *Unemployment insurance* <sup>(87)</sup>

#### *Eligibility conditions*

In order to qualify for the basic unemployment allowance, one must have recorded 43 weeks of employment during the last 28 months and at least 18 hours of work per week during those weeks. A repeated claim requires 34 weeks of employment in last 24 months. To qualify for the earnings-related insurance, besides complying with the above requirements, applicants must also have been insured as a member of an unemployment fund (voluntary) for minimum 10 months. People who have already received the unemployment allowance for the maximum period or do not meet the minimum employment requirements for entitlement to unemployment allowance can apply for unemployment assistance, on the condition of completing the qualifying period of 5 months. The waiting period does not apply to persons who have just completed vocational training.

#### *Replacement rates*

The basic allowance is a flat rate benefit of € 24.51/day. Earnings-related benefits amount on average up to 45% of the difference between the previous daily wage and the basic allowance (subject to a threshold). For self-employed, benefits are related to the amount of income on which contributions have been based over the past 24 months. Unemployment assistance is a means-tested benefit equal to the full basic unemployment allowance. Labour market support is however paid without means-testing for 180 days after the unemployment allowance has been paid for a maximum of 500 days.

#### *Benefit duration*

The benefits are paid for maximum 500 calendar days (or until retirement if aged over 57). The duration of unemployment assistance is unlimited.

#### 4.1.5. Active labour market policies

Expenditures on active labour market policies are relatively high (about 0.7% of GDP, 0.5% at the

EU27 average) despite a relatively low share of persons wanting to work who are included in the regular activation (25% compared to 36% at the EU27 average). More than half of them are spent on training - followed by supported employment and rehabilitation, employment incentives and direct job creation - which has been increasingly gaining on importance compared to the supported employment. About one third of persons in subsidized employment are placed with municipalities while the remaining persons are placed with private companies. Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are 0.13% of GDP (0.19% at the EU27 average). <sup>(88)</sup>

Public employment services were comprehensively reformed between 2002 and 2007. Since 2004 a decentralised network of “one-stop-shop” Labour Force Service Centres has been established which brings together the resources of the central and municipal governments and the Social Insurance Institution, to provide more holistic and coordinated services to the unemployed, including income support, job search, training and activation programmes, as well as other medical and counselling services. A new “Change Security” programme was introduced in July 2005 in the framework of the comprehensive incomes policy agreement for 2005-2007, aimed at assisting workers who lose their jobs due to structural change. The programme puts a lot of emphasis on fostering co-operation between employment offices and the private sector in an effort to get the unemployed back into employment as quickly as possible through early intervention, training, and job search assistance. The programme also provides for those who are about to be dismissed to spend part of their work time doing on-the-job retraining and searching for work. Also if a worker

<sup>(87)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

<sup>(88)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

takes up training after the dismissal date, a supplement to income support can be paid. <sup>(89)</sup>

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply. <sup>(90)</sup>

#### *Registration procedures and benefit entitlement*

Unemployed persons need to register as jobseekers at the PES, which in turn informs the Social Insurance Institution or the competent Trade Union UI Fund of the jobseeker's unemployment status. Unemployment benefits can be paid starting from the date of registration-for-placement, not retroactively. A waiting period applies, of seven days for unemployment benefit and five days for labour market support (social assistance).

#### *Job-search requirements*

The jobseeker is supposed to apply for every vacancy and training possibility that is advised by the PES. According to the individual action plan, jobseekers need to report their job-search actions

<sup>(89)</sup> In detail, the programme includes: 1) a new right for the employee to get full pay leave during the period of notice in order to find a new job or to participate in employment-promoting measure; 2) the drawing up of an individual employment programme by the PES and the employee covered by the 'change security'; 3) an employment programme allowance to be paid for a total of 185 days on top of the unemployment benefit; such allowance is to be increased for persons with a long work history and entitled to basic daily allowance and to training allowance of the same level of the basic training allowance.

<sup>(90)</sup> This section is based on information collected in the OECD, 2007, Employment Outlook, chapter 5.

on a weekly or monthly basis, both to the Social Insurance Institute or the UI Fund (on how much work they have done during the last four weeks), and to the placement service, according to an agreed schedule. The minimum acceptable frequency of job applications and other activities appears in the individual job-seeking plan. Participants in active labour market programmes need to continue active job-search, particularly at the end of the programme, and will receive the appropriate assistance from the PES.

#### *Direct referrals to vacant jobs*

Most vacancies are advertised on internet by the PES, and most employers do not ask for direct referrals. About 20% of the vacancies might be handled using only direct referrals, if such a procedure is agreed with the employer. If a thorough pre-selection of candidates is required by the employer, it is usually a charged service, to be paid for by the employer.

#### *Intensive interview*

The first intensive interview with the PES is supposed to take place within a month starting from the initial registration. Newly registered job seekers are also invited to a collective information session. Intensive interviews take place in line with a mutual agreement between the PES and the jobseeker and are more frequent for younger jobseekers and for those in risk of long-term unemployment, and less so for older jobseekers. There is no minimum requirement on information sessions during the first 12 months of unemployment. However, most first-time jobseekers attend information sessions dealing with jobseekers' rights and obligations, PES services, useful job-seeking channels and the labour market situation. Further interviews are mutually agreed between the jobseeker and the PES. There can be several interviews in a year depending on the individual situation of the jobseeker.

#### *Action Plan*

An action plan is created at the latest after five months of unemployment. Since 2005, the target deadline is one month. Action plans may be delayed since extra motivation is often necessary to help jobseekers see their added value.

Jobseekers are obliged to follow their individual action plan, which often consists of active labour market measures as well as PES services and active job search. Young jobseekers are interviewed within a month from registration; for them, an individual action plan is established and tailored active labour market measures are offered within three months of unemployment.

#### *Referral to active labour market policies*

After being unemployed for 12 months (earlier if considered necessary, and youths below the age of 25 already within the first three months of unemployment), all unemployed jobseekers will be offered subsidised jobs or training possibilities. However, there is no exact unemployment duration at which a person is obliged to take part in active labour market measures. When an unemployed person over 25 years of age has received 500 days of labour market support (a flat-rate benefit payable after exhaustion of regular unemployment insurance benefit) or has been a customer of the municipal social services and received income support (by the local authorities) for 12 months, he/she is entitled and obliged to draw out an activation plan together with the PES and/or the municipality. This activation plan often consists of a variety of ALMPs or rehabilitative work. For an unemployed person under 25 years of age, the time period is reduced to 180 days of labour market support and four months of income support. They are offered a wide range of ALMP services both by the PES and by municipalities.

#### 4.1.6. Lifelong learning <sup>(91)</sup>

Finland scores in terms of human capital among the highest in the EU implying very good employability of workers.<sup>(92)</sup> Beside favourable educational attainment of adults, Finland also has a high participation in lifelong learning regardless of economic activity, age and education. However, there is a large difference in the participation in lifelong learning between core workers and less

attached worker groups, despite a decline in the gap since 2000.

Finland spent about 6.3% of GDP on education in 2005 (5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). The educational attainment of adults scores favourably compared to the EU15 average as the share of low educated is below the EU27 average (19% compared to 29% at the EU27 average), the share of highly educated workers is the highest in the EU (36% compared to 24% at the EU27 average) and the share of medium educated adults is close to the EU15 average (44% compared to 47% at the EU27 average). The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is among the lowest in the EU (8% versus 15% respectively).

Participation in lifelong learning (LLL) increased since 2000, by almost 6 pps. to 23% (10% at the EU27 average), however it is still lower than in Sweden (33%), Denmark (29%) and in the UK (27%). While participation in LLL is considerably above the EU27 average regardless of economic activity, age and education, there is a large gap in LLL participation between prime age, higher educated and more vulnerable workers, such as low educated, older, unemployed and inactive workers. For example, the difference in the participation in lifelong learning between all workers (23.4%; 10% at the EU27) and older workers (13.6%, 5% at the EU27 average) is among the highest in the EU, at (9.8 p.p.). This, together with the relatively low educational attainment of older workers, implies considerably lower employability of older workers. Also participation in LLL of workers with a high education (one third; 19% at the EU27) is considerably above the participation in lifelong learning of workers with low education (11%; 4% at the EU27), this being the case also for employed workers (25%, 11% at the EU27 average) compared to the unemployed (20%, 8.5% at the EU27 average) and inactive workers (17%, 7% at the EU27 average).

The share of firms providing continuous vocational training (CVT) courses is among the highest in the EU (about 70% compared to almost 50% at the EU27 average); however, firms spend on average 1.5% of total labour costs on CVT against 1.6% at

<sup>(91)</sup> Indicators on continuous vocational training (CVT) in this section refer to 2005 while most of other indicators refer to 2007 unless stated otherwise.

<sup>(92)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores Finland on the top in the EU in terms of on-the-job employability as measured by learning, training and task rotation.

the EU27 average. Participation of workers in CVT courses is 40% (one third on average in the EU27) and workers spent on average 10 hours on CVT courses in 2005 (9 hours at the EU27 average).

The Finnish education system is built on the principle of lifelong learning, i.e. on the idea of providing further study opportunities for people of all ages and with any level of education. Both certificate-oriented and non-certificate-oriented forms of education and training are available for adults. Some of these include education and training specifically for adults leading to initial qualifications, whereas others cover further education and training. The adult education sector is commonly divided into three parts: a) self-motivated learning, completely or partially funded by the education administration, to provide adults education and training appropriate to their own objectives, circumstances and level of education; b) labour market training for unemployed people, financed and managed by the Ministry of Labour; c) continuous vocational training, financed by individual employers and usually undertaken during working hours, with a view to increasing productivity and profitability and motivating personnel.

In-service training is promoted both in legislation and through general income policy agreements. Finnish legislation imposes an obligation on employers to provide training in situations where termination of employment can be prevented by means of vocational further education and training, and encourages the use of in-service training in situations where an enterprise's production structure changes so that staff competences no longer match the enterprise's operational models. The Act on Cooperation within Undertakings (last amended in 2005) requires enterprises with at least 20 employees to draw up annual training plans and to update them where the number of employees is reduced. Continuous vocational training can also be undertaken at school or as apprenticeship.

Every fourth year the government decides on future guidelines for education and training. This five-year plan forms the political basis for the development and reform of education in the coming years. Adult education and training also play a prominent role in collective agreements. A new scheme to provide financial support to employed people to undertake vocational training courses on their own initiative was launched in 2000, as part of a wider programme of adult training-related reform agreed by the social partners in 1995-1999 (the so-called "training guarantee scheme"). The benefit is to be granted to employees who have been with the same employer for at least one year and with a working history totalling a least five years, and only for full-time vocational training of up to one and a half year duration.

Further increases of on-the-job training, arranged as joint purchases between the labour authorities and employers, were decided in 2004, together with the introduction of regional action programmes to meet the challenges of adult education at regional level and the setting-up of a working group to introduce adult education vouchers in 2007 and to improve the participation of under-represented groups in adult education. Form its part, the 2004 Central Incomes Policy Agreement for the period 2005-2007 increased the allowances for redundant workers in the form of 'training support' for maximum 185 days, to which part-time workers also qualify on the condition that they have worked for the same employer at least 3 years. On-the-job basic vocational training and apprenticeship training were expanded in 2008 to prevent the social exclusion and to improve the employment of young people.

# 5. FRANCE

## 5.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

### 5.1.1. Employment protection legislation <sup>(93)</sup>

Past attempts to make labour market more flexible mainly managed to reduce employment protection for temporary workers, which, however, stays high for both fixed-term and temporary agency contracts.

#### *Individual dismissals*

Except in cases of serious cause related to personal characteristics of the employee, such as non-performance or lack of competence, or to employee's misconduct, individual dismissals are considered unfair and subject to a period of notice ranging from one to two months for all workers; in case of unfair dismissal (i.e. without a real and serious case), <sup>(94)</sup> the employee is also entitled to a compensation in addition to the regular severance pay. In case of dismissal for medical reasons the employer has the obligation to consider alternative solutions before dismissing a worker. The **trial period**, which was previously not particularly long (1-2 weeks for blue collars, 1 month for white collars, 3 months for executives), has been extended to between 1 and 4 months in 2008. Both the basic entitlement to and the amount of the **severance pay** are strictly dependent on length of continuous service and are regulated by law and collective agreement and, sometimes, by the individual contract of employment. Statutory severance pay does not become payable until after two years of continuous service and amounts to minimum 0.6 months up to 4 months for a job tenure of 20 years. Employees with at least 2 years

tenure and working in enterprises with more than 11 employees are entitled to an additional compensation of 6 months minimum (generally 12 to 24 months). For employees with less than 2 years service and /or working in a firm with fewer than 11 people, the judge can order compensation according to the loss suffered, but without any minimum.

Collective dismissal for economic reason applies in the case of more than 10 dismissals within 30 days. Before proceeding with collective dismissals, the employer must take account of criteria such as social characteristics, family responsibilities, seniority, age, disability and professional qualifications. The employees concerned by collective dismissals are given priority when rehiring during one year. Important procedural requirements apply in case of collective dismissal. This is reflected in the quite high strictness recorded for France in the OECD index on EPL concerning collective dismissals. The employer must give full information on planned dismissals for economic reasons to the personnel delegates or works council and hold with them consultation meetings. Moreover, the employer must notify the departmental labour market authorities. The consultations on alternatives to redundancy, such as redeployment or retraining, take place in several phases and include consultations on a 'social compensation plan' which is obligatory in companies with 50 or more employees. Employee representatives have no veto power, but labour market authorities have the possibility to reject the social plan. The whole procedure involves delays before notice, which amount to 30-60 days in firms with 50 or more employees, and 21 to 35 days in firms with fewer than 50 employees, depending on the number of proposed dismissals. No special regulations apply in case of collective dismissals concerning the severance pay.

#### *Temporary contracts*

Fixed-term contracts face quite high strictness according to the OECD's EPL index. Their recourse is restricted to "objective situations" (replacement, seasonal work, temporary increases in company activity). The maximum duration is of 18 month in principle but can vary from 9 to 24 months, for a maximum of two renewals. A new contract on the same post can only start after a

<sup>(93)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(94)</sup> The OECD, EPL sub-indicators quantifying the *Individual dismissal of workers with regular contracts* indicator is made of three aspects of dismissal protection: (i) procedural inconveniences that employers face when starting the dismissal process, such as notification and consultation requirements; (ii) notice periods and severance pay, which typically vary by tenure of the employee; and (iii) difficulty of dismissal, as determined by the circumstances in which it is possible to dismiss workers, as well as the repercussions for the employer if a dismissal is found to be unfair (such as compensation and reinstatement).

waiting period amounting to one third of initial contract. Moreover, fixed-term contracts are not allowed for a period of six months following dismissals for economic reasons. A new regulation on the use of fixed-term contracts in the public sector, passed in 2005, brought the maximum duration of fixed-term contracts to three years, plus the possibility to renew a contract up to maximum six years in total, after which employment can only be continued in the form of permanent contract. As concerns older workers, a new form of fixed-term employment contract for job seekers aged 57 or more, who either have been registered as jobseekers for more than three months or have signed a 'personal reclassification' agreement, has been created in 2006, for a maximum duration of 18 months and renewable once.

Also the recourse to temporary work agency (TWA) employment is quite restricted. Its use is limited to "objective situations" and the maximum duration is set at 18 month, varying in practice from 9 to 24 months depending on the reason. Only one prolongation is possible. A new contract on the same post can only start after a waiting period amounting to one third of the initial contract. TWA contracts are not allowed in a period of six months following dismissals for economic reasons. The delay before notice is of 30-60 days in firms with 50 or more employees; 21 to 35 days in firms with fewer than 50 employees (depending on number of proposed dismissals).

Despite the strict regulation on the use of temporary contracts, employers largely recruit on flexible forms of employment by taking advantage of the various forms of *ad hoc* fixed-term contracts for difficult-to-employ target groups (notably the young and the low-skilled) which have been promoted and financially supported in the course of the years by the various governments, de facto contributing to shape a segmented labour market, as the low conversion rate from temporary to permanent contracts (notably among young and low-skilled people) clearly shows.

Recent reforms measures have attempted to reduce labour market segmentation. A new type of open-ended contract for new recruits in firms up to 20 employees introduced in 2005, the so-called '*contrat nouvelle embauche*' (CNE), allows for a longer probation period of two years during which the employee could be dismissed orally with no

entitlement to severance payment (apart from an allowance of 8% of perceived gross salaries) <sup>(95)</sup>

A government proposal to introduce a single labour contract that gradually increases protection with seniority was rejected by the social partners in 2008.

The social partners' agreement of January 2008, and the ensuing law of June 2008, injects more flexibility on termination of employment contracts by defining a severance procedure in case firms and workers separate by mutual consent. In this case, workers benefit from higher severance payments (20% of the monthly wage per year of tenure instead of 10%) and are entitled to unemployment benefits. In the current framework, there is the risk that firms will terminate contracts with less productive workers aged around 55, which will be entitled to receive benefits until they reach the retirement age without a noticeable loss of pension benefits: the cost for public finances could be quite significant. Firms benefit from greater legal security as the scope for litigation after the separation is restricted. Furthermore, workers can benefit from some employer-based benefits within certain time limit over the unemployment spell (e.g. supplementary health insurance within 7 months of unemployment) which, however, effectively increase severance payments as well as net replacement rates. The PES must validate the procedure and can make interjection within 15 days. The agreement has also created a new temporary contract up to 36 months, on an experimental basis for a period of five years, for carrying out a defined assignment involving executives and engineers. The contract is subject to sectoral agreements and cannot be used in order to deal with a temporary increase in the workload. Finally, it has lengthened the probation period for permanent contracts between 1 and 4 months.

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<sup>(95)</sup> The CNE was challenged by the Paris Court of Appeal and all CNE's reclassified as open-ended contracts).

### 5.1.2. Working time and work organization <sup>(96)</sup>

France has intermediate incidence of flexible working time arrangements, low incidence of atypical work, intermediate work intensity and irregularity, relatively low incidence of rotation and team work and relatively high work autonomy and complexity. In France, close to 40% of workers do not have fixed starting and finishing time (at the EU27 average). Related, for 54% of persons in employment working hours are set by the company with no possibility of changes. This indicates that flexibility of working time arrangements is also close to the EU27 average (56%), however considerably lower than in Sweden (34%), Netherland (36%) and Denmark (41%). About 36% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Furthermore, 25% of workers do not work the same number of days every week (also at the EU 27 average). The incidence of atypical work, in particular working in the night, in the evening and in the weekend is among the lowest in the EU. Work complexity as measured by the share of workers perceiving their work to involve complex tasks is close to the EU27 average (57%). The ability of workers to influence the order of tasks, methods of work and speed or rate of work is above the EU27 average indicating relatively high work autonomy. Finally, team work and rotation of tasks are less widespread than in EU27 average. Workers have more autonomy in their division of tasks when involved in tasks rotation than in teams.

By distribution of companies according to their practices to organize working time flexibly, France has the highest share of companies characterized by high flexibility which is driven in particular by companies' operational needs (29%) – such as unusual working hours and non-standard employment contracts. This company type is also the most prevalent relative to the EU average distribution of companies. In 2002, France had

about the EU15 average share of companies organized as "learning organization" (almost 38%) which are associated with high learning and problem solving and high job satisfaction.

Despite the legal workweek of 35 hours, a large proportion of workers (80%) worked more than 35 hours per week in 2007, up from 2003 entirely due to an increase in proportion of workers working more than 40 hours per week, <sup>(97)</sup> but "the annual hours worked per employee is among the lowest in the OECD" (OECD, 2009). The implementation of the 35-hour week has been in practice widely eased since the beginning, while recent reform measures have further eased working time arrangements. In 2004 the possibility was introduced to adapt, and were necessary waive, in the form of majority agreements, the stipulation of sector agreements on working hours to the specific needs of each business. To increase labour supply on intensive margin, the so-called TEPA law implemented in 2007 introduced a tax break on overtime work (additional hours worked are exempt from social security contributions paid by employee and income tax) and increased overtime premiums in firms with less than 20 employees from 10% to 25%. More recently, with a view to ease working time management, the Law on 'social democracy and working time reform' of July 2008 gave directly to companies the possibility to negotiate the amount of overtime, which had so far been set at sectoral level, and introduced the 'annualisation of working time', allowing for variations in the weekly working time according to workload peaks. Overtime agreed by individual employees beyond the previous quota of 220 hours a year now have an upper limit of 405 hours and no longer require authorisation from the labour inspectorate. Time off in lieu is no longer mandatory for overtime exceeding the 220-hour annual quota.

### 5.1.3. Wage setting and bargaining systems

In France there are three levels of pay bargaining, namely multi-industry, industry wide and company level bargaining. Agreements at a lower level cannot be less favourable than those at a higher level. Originally, the industry-wide level was the most widespread, being the one at which collective agreements were negotiated. Overall coverage by

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<sup>(96)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

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<sup>(97)</sup> See EEAG Report, 2009, Chapter 4.

agreements has greatly increased in the last decade, with 97.7% of employees in the non-agricultural private sector covered by sectoral collective agreements in 2004. However, the real situation is increasingly different, with a mounting importance of company level bargaining over industry-wide collective agreements. Apart from workers who are paid close to the minimum wage, for whom pay is to a large extent controlled by government decisions regarding the level of minimum pay, social contributions and overtime, company level agreements are becoming decisive in the area of pay for all other employees. Various legislative changes have encouraged this shift.

The results of pay bargaining at company level vary significantly depending on company size and qualification levels. The trend towards individualization of pay and the development of non-wage remuneration, such as participation and profit-sharing, has also contributed to the increased fragmentation of pay bargaining. The loss of industry-wide solidarity has led the authorities to periodically initiate and facilitate multi-industry negotiations. It is indeed with the aim of reviving national cross-sector collective bargaining that the Law on Modernising Social Dialogue of January 2007 provides for compulsory consultations on any proposed reforms in the field of industrial relations, employment and vocational training, where the social partners can indicate whether or not they intend to embark on negotiations and how much time they need in order to reach an agreement.

#### 5.1.4. Tax and benefit systems <sup>(98)</sup>

Expenditures on passive labour market policies are about 1.3% of GDP (1% at the EU27 average) and reflect a high benefit coverage of unemployed persons (almost 70 out of 100 persons wanting to work receive unemployment benefits, 44 at the EU27 average). Net replacement rate at the beginning of the unemployment spell is high for low wage person (70%, 67% at the EU27 average)

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<sup>(98)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

and declines only gradually, reaching 46% after 5 years. Initial net replacement rates for average wage person and one earner couple are somewhat lower, though above the EU27 average (66% and 67%, respectively; 59% and 67% at the EU27 average) and they decline to 31% and 58% after 5 years. Tax wedges are among the highest in the EU, at 44% for the low wage person (37% at the EU27 average) and at 49% for the average wage person (41% at the EU27 average). However, tax wedge for a low wage person saw a substantial decline over 2001-2007 (by 3p.p.), in particular as a result of a strong reduction in social security contributions paid by employers. The interaction of taxes with a withdrawal of benefits produces high financial disincentives to work, in particular for a single parent and a spouse in a jobless household with two children. However, unemployment and inactivity traps were reduced across the board over 2001-2007, notably for low wage earners. The August 2008 law also loosed the eligibility criteria for accessing unemployment benefits from six to four months.

To tackle high inactivity trap, in particular disincentives to take up work among recipients of social assistance, France introduced a reform of welfare system, replacing the previous social assistance RMI with the new *Revenu de solidarité active* (RSA) scheme. This measure, introduced on an experimental basis in 2007, was expanded nationwide in June 2009. It is a form of earned income tax credit for low wage earners and aims to reduce inactivity traps. The new RSA system allows workers to combine wages with social assistance which is gradually reduced as hours worked increase. In this way, this reform increases incentives to work. The reform is also complemented by reinforced personalised support services for job searching and by the introduction of a single subsidized job creation scheme, the so-called *contrat unique d'insertion* (CUI). Furthermore, making some benefits means tested decreases the inactivity trap even further. While this reform creates incentives to take up part time work at the minimum wage it also provides incentives to reduce the hours worked paid at the minimum wage from full time work to part time work with an uncertain net effect on hours worked. <sup>(99)</sup> Furthermore, a potential increase in labour supply (hours worked) may not be absorbed

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<sup>(99)</sup> See EEAG Report, 2009, Chapter 4.



due to high minimum wage which poses a constraint on labour demand. <sup>(100)</sup>

The share of population receiving welfare benefits (old age and early retirement, sickness and disability and unemployment benefits) is among the highest in the EU (data for 1999). Implicit tax on continued work is very high.

#### *Unemployment insurance <sup>(101)</sup>*

##### *Eligibility conditions*

Eligibility for unemployment insurance is based on recent employment history. There is a minimum requirement to have worked in contributory employment for at least 6 months (182 days) during the previous 22 months (applicable since 2003 - before this the condition was for 4 months (122 days) in 18 months). Benefits are normally paid only to persons under the age of 60. However, persons aged between 60 and 64 may be entitled to benefit if they do not have adequate contribution history to be entitled to a full pension. Part-time workers must have worked at least 507 hours during the 335 days preceding the end of the employment contract. Seasonal workers must have worked at least 182 days during 2 of the last 3 years. Temporary workers must have worked at least 910 hours in the last 22 months.

##### *Replacement rates*

The amounts of benefit are linked to the previous level of earnings from contributory employment. 40.4% of reference daily wages + 10.46EUR/day or 57.4% of the reference daily wages within the limit of 75% of the reference daily wages. For part-time workers all fixed parts of the benefit (i.e. minimum benefit and fixed daily allowances) are reduced in relation to hours worked compared to full-time work. For seasonal workers - either people working only part of the year (e.g. on summer camps) or people who have been unemployed at the same period of the year for the last 3 years - the gross salary and the fixed part of benefit or the minimum benefit are reduced in accordance with the duration of employment

within the last 12 months. For example, a person who has worked 8 months over the last 12 months will have these parts of the benefit reduced by one third. There is a 7 day waiting period from the time of registration until benefits start.

##### *Benefit duration*

Unemployment insurance is payable for 7 to 36 months depending on the length of time that the person has been insured and on age:

- 7 months for persons who have worked in contributory employment for 6 months in previous 22 months
- 12 months for persons who have worked in contributory employment for 12 months in previous 20 months
- 23 months for persons who have worked in contributory employment for 16 months in previous 26 months
- 36 months for persons over 50 who have worked in contributory employment for 27 months in previous 36 months.

Only periods of employment that have not previously been used for eligibility to benefit can be taken into account to determine the duration of former employment on the basis of which the duration of benefits is to be calculated.

For those unemployed persons who have exhausted their entitlement to, or who are not entitled to, insurance benefits, different types of allowance exist, all paid as flat-rate benefits, up to an income threshold. In case of income above this but below the limit for means testing, the difference only is paid. There are three different allowances: a) the Specific Solidarity Allowance (ASS) for those who have exhausted their rights to unemployment benefit or for people aged 50 years or more who may opt either for unemployment benefit or solidarity allowance. The ASS amounts to € 442.20 /month for 6 months renewable, subject to reassessment of means and continuation of active job-search. In order to qualify for this allowance it is necessary to prove 5 years of employment during the previous 10 years; b) the Temporary waiting allowance (ATA) of €

<sup>(100)</sup> See EEAG Report, 2009, Chapter 4.

<sup>(101)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

311.40/month for maximum 12 months, which replaces the former Allowance for special categories of job seekers (*Allocation d'insertion - AI*) for persons who find themselves in a situation where they are not entitled to unemployment benefit, either because they have not worked, not worked enough or have not yet contributed; c) a retirement-equivalent benefit (*Allocation équivalent retraite - AER*) for those who prove 160 old-age pension contribution quarters. The AER amounts to maximum 968 Euro/month and can be paid for 12 months renewable.

#### 5.1.5. Active labour market policies

Expenditures on active labour market policies are relatively high (about 0.7% of GDP, 0.5% at the EU27 average) and most of them are spent on training (40%) and direct job creation (30%). More than 50% of persons wanting to work are included in regular activation (36% at the EU27 average). Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are relatively high, at 0.22% of GDP (0.19% at the EU27 average).<sup>(102)</sup>

Since 2009 the public employment service has been reorganized as one-stop shop (*Pôle emploi*) as the unemployment insurance agency (*ASSEDIC*) and an organization in charge of placement services for job seekers (*ANPE*) were merged. The August 2008 law strengthens the job counselling of the PES adjusted to individual needs. In particular, on the basis of individual plans respecting personal characteristics and job preferences a "reasonable offer of employment" is prepared which can be refused at most twice otherwise sanctions apply. Over unemployment spell, however job preferences which enter into preparation of a "reasonable offer of employment" get looser.

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<sup>(102)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(103)</sup>

#### *Registration procedures and benefit entitlement*

Following the reorganisation of the public employment service, a new national organisation (*France Emploi*) will be a) responsible for the registration as unemployed and the demand for benefits b) contact point for the job seekers; c) assist job seekers in defining an individualised employment plan that take into account their personal qualifications and work experience; The individualised employment plan will identify a "reasonable offer of employment". A person on unemployment insurance may not turn down more than two such offers without having his or her benefits suspended for two months. Overtime jobseekers are expected to revise downward their pay expectations and to broaden their geographical area of interest. A new social agreement on unemployment insurance lowers to four months (instead of six) the qualifying period for entitlement to benefits and foresees a single, uniform process, which improves the transparency and fairness of the benefit system. The agreement broadens the conditions of access to unemployment benefits in return for a cut in employers' contributions if the unemployment insurance system is in surplus.

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<sup>(103)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

### 5.1.6. Lifelong learning <sup>(104)</sup>

France scores intermediate in terms of human capital investment, implying average employability of workers. <sup>(105)</sup> Participation in lifelong learning is relatively low regardless of economic activity, age and education, though it increased since 2000.

France spent about 5.7% of GDP on education in 2005 (5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). The educational attainment of adults nearly coincides with the one at the EU15 average, though with small deviations from the EU27 average: the largest share of adults have medium education (42%; 47% at the EU27 average) while the shares of low educated and high educated persons are closer to each other, at 31% and 27% respectively (29% and 24% at the EU27 average, respectively). The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is below the EU27 average (12% versus 15% respectively).

Despite of an increase in the participation in LLL (by 5pp since 2000), employability of workers may be hampered as only 8% of workers participate in LLL (10% at the EU27 average, 33% in Sweden, 29% in Denmark, 27% in the UK). Participation in LLL is relatively low regardless of educational attainment, though it is 10pp higher for workers with a high education (13%; 19% at the EU27 average) than for workers with a low education (3%; 4% at the EU27 average). Also participation in LLL for employed and unemployed at 8% is relatively low (11% and 9%, respectively at the EU27 average) as well as for inactive at 5% (7% at the EU27 average). Finally, employability of older workers tends to be the lowest as only 3% of older workers participate in LLL (5% at the EU27 average).

CVT is considerably more important in France. The share of firms providing CVT courses is among the highest in the EU (about 70% compared

to almost 50% at the EU27 average) and they spend on average 2.3% of total labour costs on CVT (1.6% at the EU27 average). Also participation of workers in CVT courses is relatively high (above 45% compared to one third on average in the EU27) and they spent on average 13 hours on CVT courses in 2005 (9 hours at the EU27 average).

Various attempts have been made in recent years to improve the training system. The inter-sectoral agreement of September 2003 provided for the creation of an individual training entitlement, as well as for introduction of a "professionalisation contract" to promote the integration of young people and the reintegration of job seekers, and for improvements in the lifelong information and guidance systems. The Individual Right to Training (DIF) in particular, confirmed by Law of May 2004 and further extended to the public sector employees, aims to be one of the career tools for employed people. Employees with over a year of service in a company benefit from a credit of 20 hours training per year (pro-rata equivalent for part-time employees) which can be built up over six years. This credit enables employees to receive training during or outside working hours, in accordance with the provisions of the relevant sector-wide or company agreement. For hours of training received during working hours, the employee receives the normal salary, whereas hours of training received outside of working hours are paid at a rate of 50% of the net salary. The employee must take the initiative to implement his or her right to training although this must be covered by a formal agreement with the employer. Following the agreement of 2003, a large scale programme for the improvement, development and modernisation of apprenticeship was also launched in 2004, with the objective of raising the number of apprentices to 500,000 by 2009, and providing for assistance to replace employees on training leave to facilitate the development of training in SMEs. The apprenticeship system was further developed in 2005, with the involvement of the State, Regions of trade organisations.

<sup>(104)</sup> Indicators on continuous vocational training (CVT) in this section refer to 2005 while most of other indicators refer to 2007 unless stated otherwise.

<sup>(105)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores France close to the EU27 average in terms of on-the-job employability as measured by learning, training and task rotation.

In January 2009 the social partners reached a new agreement on vocational training, professional development and career security. Among its provisions: a) the establishment of a career security fund, to which labour and management would contribute equally, to support training for job seekers and less skilled workers; b) the possibility for the unemployed to retain individual training rights acquired in a previous job;

c) an individual education leave, allowing workers to take training for up to one year, leading to a qualification or a diploma; d) the introduction of training to develop a “socle de competences”, a basic set of knowledge and skills (teamwork, mastery of computer tools, competence in English, etc.) to facilitate adaptation and transition between jobs throughout a person's working life.

## 6. GERMANY

### 6.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

#### 6.1.1. Employment protection legislation <sup>(106)</sup>

According to the OECD indicator of employment protection, Germany has relatively strict employment protection legislation (EPL) for regular contracts (2.8), in particular due to relevant procedural inconveniences, with a high uncertainty concerning court ruling and the length of procedures, despite recent reform measures. EPL for collective dismissals is also high (3.8) involving a strict definition of collective dismissals, additional notification procedures, other special costs and delays.

Germany managed to introduce only partial (two tier) reforms over the last 20 years, which have lead to increased flexibility at the margin. In particular, the use of fixed-term and temporary agency work was gradually liberalized, resulting in relatively low EPL for temporary contracts (2). This has contributed to a strong increase in atypical employment. <sup>(107)</sup> The first two ‘Hartz Laws’ (entered into force in January 2003) promoted the use of temporary agency work and supported the recourse to mini-jobs <sup>(108)</sup> offered to the unemployed by the local PES and to self-employment, the latter with the introduction of the so-called ‘Ich-AG’s’ (Me-Inc.) state subsidy for setting-up a one-person company. Under the new regulations, publicly-funded personnel service agencies (PSA) were created to employ unemployed people and hire them out on a short-term basis.

As a general criterion, protection against individual dismissal is applicable only if the worker is employed in an establishment regularly employing more than 10 employees and has been working there without interruption for longer than 6 months (which is the length of the trial

period). <sup>(109)</sup> Employment relationships which do not meet these criteria can be terminated by the employer without any justifying reason. Otherwise, the employment relationship may be terminated by the employer with valid legal effect only by way of three exceptions: dismissal on grounds of personal capability; dismissal on grounds of conduct; redundancy. Dismissals in cases where the employee can be retained in another capacity within the same establishment or enterprise, and redundancy dismissals where due account has not been taken of “social considerations” (e.g. seniority, age, family situation) are deemed to be unfair. The notice periods vary according to the length of service and are respectively of 4 weeks, 1 month or 7 months, after 9 months, 4 years or 20 years of service with the same employer. If a dismissal is based on business needs or compelling operational reasons, the employee has a right to a severance payment if he does not bring his case to the court within 3 weeks. The amount of the severance payment is a half month pay for each year of tenure. Following unjustified dismissal, a reinstatement is possible, although rarely taken up by the employee concerned. Compensation up to 12 months, depending on the length of service, may be requested for by employees or employers during court action. It can be extended to 15 months for employees aged above 50 with at least 15 years of job tenure, and to 18 months for employees aged above 55 with at least 20 years of job tenure. In some cases, additional liability can be requested for wage losses from the expiry date of the notice to the conclusion of the court hearing.

In establishments where there are work councils or staff councils, protection against individual dismissal is supplemented by collective-law provisions. Under these provisions, the employer must inform the works council or staff council of a proposed dismissal and give it the opportunity of stating its position on the matter. If the employer pronounces a dismissal before the council has responded, or before one week in case of ordinary

<sup>(106)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(107)</sup> See OECD, 2006, Economic surveys, Germany.

<sup>(108)</sup> The mini/midi jobs are offered to the unemployed by the local PES against a small hourly compensation. They were introduced to supplement welfare benefits without replacing the jobs offered on the labour market.

<sup>(109)</sup> The threshold number of employees above which dismissal protection legislation is binding was raised from 5 to 10 employees in 2003 with regard to new hirings (apprentices are not counted and part-time employees are only counted proportionally). Employees in companies with more than five but not more than 10 employees will keep their statutory protection if employed before 1 January 2004.

dismissals with notice (three days in case of summary dismissals), the dismissal is invalid, irrespective of whether or not it is lawful in other respects. The works council or staff council has the right to object to a dismissal if it contravenes one of the agreed company guidelines on personnel policy, if the employee could continue to be employed in a vacant job in the same establishment or another establishment of the same company, or if re-training or further training can be offered by the employer or an amendment of the contract of employment would make continued employment possible. An objection by the works council or staff council has no direct effect on the validity of a dismissal. However, if a dismissed employee applies to the courts for protection against dismissal, an objection issued by the works council or staff council, if considered justified by the court, means that without any further assessment of the interests involved the court rules the dismissal to be unfair. An objection also secures the right for the employee to continued employment during dismissal proceedings.

In case of collective dismissals, establishments employing more than 20 employees must follow a special procedure, which is mainly intended to ensure that the employment authorities are given early warning of impending collective dismissals and hence have enough time to make arrangements to avoid dismissals and place employees in other jobs. Under German law, collective dismissal is a situation where, within a given period of 30 days, the employment relationships of a relatively large number of employees are actually terminated by the employer by way of ordinary termination with notice. The precise number of dismissals necessary to meet the definition depends on the size of the establishment; the figure lies between around 10 and 25 percent of the workforce for medium-sized establishments and decreases with increasing size of establishment (5+ workers in firms with 21-59 employees; 10% or 25+ workers in firms with 60-499; 30+ workers in firms with 500+ employees). The dismissal of at least 30 employees is always deemed to constitute collective dismissal. An employer who is planning collective dismissals must inform the works council at an early stage and consult with it on whether and how the measures envisaged can be avoided or mitigated. Before actually proceeding with collective dismissals, the employer must also notify the local PES; dismissals may not take effect until a period

of one month has elapsed after this notification. The PES can reduce this period or extend it to a maximum of two months, during which time it can authorize the introduction of short-time working arrangements. The 2003 reform operated a simplification of selection criteria to be considered by the enterprise in case of dismissals for operational reasons (now limited to disability of the employee, job tenure, age and presence of dependants in the household). Employees with special skills and employees necessary to maintain a well-balanced structure of the workforce can be excluded from dismissal. The possibility was also introduced for employees facing dismissal for operational reasons to choose between either seeking legal action against the dismissal or accepting a severance payment, equal to half month pay for each year of tenure.

#### *Temporary contracts*

Fixed-term contracts can be concluded without any justification being required for a maximum term of up to 2 years, or up to 4 years (since 2004) for newly created enterprises during the first four years after start-up. Four renewals are possible in total. Nevertheless, successive fixed-term contracts with objective reason can be concluded without any restrictions if there is an objective reason justifying each successive contract. With employees over 52 years of age and unemployed for more than 4 months or who participated in a public employment measure for more than 4 months, fixed-term contracts are possible for up to 60 months. Employers are obliged to inform with fixed-term employees about vacant permanent jobs, to allow them to participate in training measures and inform employee representatives about the proportion of fixed-term employment relationships within the company.

The assignment period for temporary agency work (TWA) was extended stepwise until 2004, when the upper limit was completely abolished, so that the duration of agency work is now unlimited. TWA employment is allowed for all types of work, with the exception of construction industry. However, the set-up of TWA agencies is cumbersome as it requires the authorisation by labour authority and regular reporting obligations. Temporary agency workers are entitled to equal pay and conditions with permanent workers in user-company, while collective bargaining over

their terms and conditions are promoted. The principle of equal treatment can indeed be waived as far as the employees are protected by applicable collective agreements in the TWA sector.

#### 6.1.2. Working time and work organization <sup>(110)</sup>

Germany has intermediate incidence of flexible working time arrangements, relatively low work intensity and irregularity, relatively low incidence of rotation and team work, low work autonomy and high work complexity. In Germany, about 35% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). For 58% of persons in employment working hours are set by the company with no possibility of changes. Relative to the EU27 average (at 56%) this indicates somewhat flexible working time arrangements, though they are less flexible than in Sweden (34%), Netherland (36%) and Denmark (41%). About 30% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Furthermore, slightly more than 25% of workers (at the EU27 average) do not work the same number of days every week. Atypical work, in particular working in the night, in the evening and on Sundays is low. Work complexity is among the highest in the EU as more than 70% of workers perceive their work to involve complex tasks (60% at the EU27 average) while work autonomy as measured by the ability of workers to change the order of tasks and speed or rate of work is low. Finally, team work and rotation of tasks is somewhat above the EU27 average, as well as the autonomy of teams and workers involved in tasks rotation in their division of tasks.

In terms of practices to organize working time flexibly, Germany has the highest share of companies with intermediate flexibility in particular with a high incidence of overtime (23% of all companies). Relative to the EU average distribution of companies, Germany also has a

high share of companies with intermediate flexibility, characterized by a high take-up of part-time work and a high incidence of unusual working hours which help these companies to cope with short-term (within a day or week) variability of the workload. Furthermore, Germany has a relatively high share of companies with a high flexibility which aims at satisfying workers' work-life balance needs and is characterized by high levels of flexible working hours, long-term leave arrangements, overtime and parental leave.

Since the beginning of the 1990s an increasing use of firm-level agreements (opening clauses from multi-firm collective contracts, single-firm collective agreements, contracts not covered by collective agreements) has contributed to the increased incidence of flexible working time arrangements. The 2000 Act on part-time work provided for great flexibility in the recourse to part-time work. Employers must now enable employees to switch from full-time to part-time work and employees are entitled to reduce their working time. Part-time workers requesting an increase of their working time or a transfer to their former full-time work are to be given preference when suitable vacancies are being filled unless their requests are contrary to urgent operational requirements, or conflict with working time requests of other workers enjoying higher priority.

Collective agreements at sectoral level have significantly boosted working time flexibility over recent years, with measures such as the introduction of 'long-term working time accounts' in the chemical industry in 2003, allowing employees to save working time 'credits' over a period longer than 12 months, or the extension of existing individual working-time accounts in the Volkswagen plants in 2004, or the reduction and extension of working time, with and without wage compensation, in the metalworking sector also since 2004.

In the case of temporary production shortfalls, companies can also apply for short-term benefits for their workers. The short-time allowance spans from 60% to 67 % of monthly earnings and is paid in proportion to the duration of non-productive times. Employers can apply for the allowance when the work-cut would affect at least 1/3 of the employees and would incur a gross salary loss of at least 10%. Normally, the benefit is terminated

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<sup>(110)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

within six months. Exceptions are allowed up to 24 months. In this case workers can be placed in other companies by the labour office. During the financial crisis that has hit the German labour market since the last quarter of 2008 exceptional conditions were temporarily set for the use of short-time work schemes (see the section on the short term response to the crisis).

### 6.1.3. Wage setting and bargaining systems

In Germany, the coverage of collectively agreed wages is much higher than the share of union members in the workforce. The collective agreement is legally binding only when the employee is member of the trade union concerned and the employing enterprise is member of the employers association, or it is party in the wage agreement. Typically, the contract is extended by individual agreement between the employers concerned and those employees that are not member of the trade union. The collective agreement can also be declared generally binding by the government. In this case it would apply to all employees and enterprises irrespective of their membership in the trade union and association, respectively. In practice, this implies that the government can fix sector-specific minimum wages. Wage agreements also continue to hold until they expire even if the enterprise leaves the employers' association. Thereby, enterprises which are member of employers' association have no possibility to adjust wages to firm-specific conditions unless an opt-out clause is explicitly agreed in the collective agreement.

Despite all this, the degree of flexibility embedded in the system has considerably improved over time. Social partners have increasingly agreed on including flexible elements in collective agreements. Opt-out clauses have gained a growing role since the mid-1990s. In 2005, 75% of establishments covered by collective bargaining made use of one or more opening clauses, aimed at ensuring the level of employment or the survival of the firm against concessions on pay or working conditions. Only a small share of these open clauses addresses basic pay, most of them aiming at a reduction of labour costs through one-time measures or changes in working time. Reportedly, breaches of contracts have also become more common, especially in East Germany. These developments have increased flexibility at the firm

level, without substantially undermining the system of collective wage bargaining.

### 6.1.4. Tax and benefit systems <sup>(111)</sup>

Expenditures on passive labour market policies are among the highest in the EU (1.6% of GDP compared to 1% at the EU27 average) as a result of a relatively high unemployment rate, including a high long term unemployment rate, as well as a high benefit coverage of unemployed persons (there are more unemployment benefit recipients than persons wanting to work; at the EU27 average, about 44 persons out of 100 persons wanting to work are recipients of unemployment benefits). Initial net replacement rates for low wage and average wage persons are at 59% (at 66% and 59% at the EU27) and for one earner couple with children at 65% (at 67% at the EU27). After 5 years, if topped up with social assistance, they are at 47%, 34% and 60%, respectively.

With the so-called Hartz III Reform, cuts in the duration of unemployment benefits were introduced with effect from 2006,<sup>(112)</sup> and job acceptance requirements for eligibility to unemployment benefits tightened and enforced more strictly. Recipients of unemployment benefits are now obliged to accept any legal job offer, regardless of the level of pay. If a recipient rejects a job, he/she will have to face sanctions in the form of a reduction of unemployment benefits for a limited period of time.

A set of measures for the activation of the unemployed, and in particular the long-term unemployed, were also included under the Hartz IV reform package (December 2003). As of January 2005, the wage-related unemployment assistance scheme and the flat-rate social assistance scheme were merged into the means-

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<sup>(111)</sup>In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(112)</sup>Prior to 2006, 12 up to 32 month of full unemployment pay (60-67% of previous salary) were followed by unemployment benefits of 53-57% of the last net salary (*Arbeitslosenhilfe*). From February 2006 on, reception of the full unemployment pay is restricted to 12 months in general and 18 months for over-55-year-olds.



tested Unemployment Benefit II Programme, *Arbeitslosengeld 2* - ALG2), which is conditional on job search. This reform involved substantial cuts in the unemployment benefits, approximately at the level of social assistance. However, it produced little improvements in work incentives for unemployed who exhaust their eligibility period to unemployment benefits, as they are eligible to two-year long supplementary benefits paying, in the first year, two thirds of the difference between the level of ALG2 and former unemployment benefit, and, in the second year, half of this amount. Furthermore, while this reform entailed a cut in benefits for a majority of unemployment assistance recipients, some social assistance recipients experienced an increase in benefits (for instance, the supplementary and one-off benefits, which were not paid automatically in the old system, are now integrated into ALG2) and their incentives to work may therefore be reduced. Recipients of ALG2 can also temporarily (for 6 months) benefit from employment schemes in the secondary labour market such as work opportunity schemes. In particular, a new category of low-paying jobs - the so-called 'mini-jobs' and 'midi jobs' - was introduced to supplement welfare benefits. The mini/midi jobs, which aim to test work availability of welfare recipients and facilitate their access to the primary labour market, are offered to the unemployed by the local PES against a small hourly compensation. Since they are treated preferentially in terms of taxation, may increase the overall income of ALG2 recipients beyond their potential market wage. <sup>(113)</sup> Therefore, ALG2 recipients benefiting from mini/midi jobs may face disincentives to take up work on the primary labour market. A step in the direction of bringing welfare recipients back to work was undertaken in 2005 when unemployment benefit withdrawal rates were reduced, allowing welfare recipients to combine income from the primary labour market with benefits up to a certain income, dependent on the family situation.

The tax wedge in Germany is among the highest in the EU and is at 47% for the low wage person (37% at the EU27 average) and at 52% for the average wage person (41% at the EU27 average). Interaction of taxes and benefits produces high financial disincentives to take up work. In particular, as out-of work benefits are not taxed, labour taxation contributes considerably to inactivity and unemployment trap. Marginal effective tax rates are high for all family types with children, in particular for a second earner in a household. For the latter, financial disincentives largely stem from a joint taxation with the first earner, which generates high marginal effective tax rate when second earner takes up work and its income reduces the so-called "splitting advantage". For the same reason, second earner faces a high low-wage trap, which explains relatively low number of hours worked of married women. Furthermore, preferential taxation of mini-jobs explains a high take-up rate of these jobs by second earners. For women, also non financial incentives to work, such as lack of childcare provision, matter and they tend to reduce their participation decision and hours worked.

Past reform measures have also aimed at increasing incentives to work of older workers, and have indeed contributed to considerably increasing the employment rate of older workers over the last years, helping Germany to reach the corresponding Lisbon target in 2007. Yet, the initial reduction of unemployment benefit duration for older workers above 58 from 32 to 18 months and a uniform imposition of 12 months of unemployment benefit duration for other workers in 2006 were partly reversed in 2007. In particular, the unemployment benefit duration was raised from 18 to 24 months for older workers above 58 and from 12 to 15 month for workers in the age 50-54 years; however this reform was accompanied by job search requirements and subsidies to wage costs.

<sup>(113)</sup> See OECD, Economic surveys: Germany, 2006.

### Box 6.1: Description of the German joint taxation system

A specific factor at play in the German case is the system of joint taxation (*Ehegattensplitting*) whereby the income tax of a married couple is calculated by first applying the tax function to half the sum of the spouses' income and then doubling the resulting tax amount. Thus, for married couples the income tax amount (on a given household income) is always the same, regardless of how the income is split between the two. This system results in a "splitting advantage", equal to the difference in income tax payments compared with a non-married couple, which depends on the income distribution between husband and wife.<sup>3</sup> The maximum tax advantage of joint taxation (with only one earner) is reached at a yearly household income of € 104 304 and adds up to € 7 914 (referring to year 2006; Sachverständigenrat, 2007). The more the second-earner contributes to household income, the smaller is the gain from joint taxation *vis-à-vis* a non-married couple. In other words, the second-earner's income has to offset the decrease in the splitting advantage before contributing to family net income. The marginal tax rate on second-earners thus is higher than for singles or in a system that taxes the individual and there is no fiscal incentive to distribute work more evenly among spouses.

**Source:** OECD, Economic Surveys, 2008.

#### *Unemployment insurance* <sup>(114)</sup>

Following recent reforms (Hartz 2) these are the new main benefit features of unemployment benefit system.

#### *Eligibility conditions*

To be eligible for benefits, job seekers must have done 12 months of contributory employment in the past 2 years. Income from any part-time work (less than 15 hours per week) reduces entitlement to unemployment benefit. An amount of €165 is not taken into account. Other income or assets are neither taken into account.

#### *Replacement rates*

Benefits correspond to 60% of net earnings (67% with children). Benefits are based on the salary, on the fiscal category figuring in the tax card and on the existence or not of children. The earnings taken as reference are the average daily wage during the last year up to a ceiling of benefits of €5250 per month in the old Länder and €4550 per month in the new Länder.

#### *Benefit duration*

Unemployment benefits are payable for 12-36 months depending on age and duration of contributory employment.

#### 6.1.5. Active labour market policies

Expenditures on active labour market policies are at the EU27 average (0.5 % of GDP). Almost 30 out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). Reform measures in the last years reversed the structure of active labour market policies towards more training and job search assistance while traditional active labour market policies such as large scale work provision schemes were cut. Therefore, about 55% of expenditures are devoted to training, followed by start up incentives (16%), direct job creation (13%) and employment incentives (12%). Also, public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are among the highest in the EU, at 0.27% of GDP (0.19% at the EU27 average). <sup>(115)</sup>

<sup>(114)</sup>The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

<sup>(115)</sup>The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share

The Hartz III reform package introduced an institutional reform of the PES, giving more scope for outsourcing to private employment services, and intensifying counselling and individual support for jobseekers and services for employers. Under the new activation rules, job seekers have access to a standardised and integrated system of provision of welfare benefits and active assistance at local level, while benefit eligibility criteria are enforced more strictly. The long-term unemployed and young people under the age of 25 have access to special assistance in the form of training, employment or qualification measures, while, to encourage the long-term unemployed to take a first step back to work, a new category of low-paying jobs (so-called "1-euro-jobs") was introduced to supplement welfare benefits. The 10 regional headquarters of the Employment Agency were made responsible for planning and control, and the 180 Labour Agencies given more powers. Integrated Labour Agency's Customer Centres were created, where employers are assigned permanent contact partners. As administering of ALG2 and designing of employment services for unemployment benefit recipients is divided between national and local governments, while the Federal Labour Office is responsible for financing of ALG2, their efficient interaction in achieving policy goals to avoid potential perverse effects is essential. <sup>(116)</sup>

Various other targeted labour market policies were also introduced during the last decade (e.g. benefits towards employment promotion and other wage subsidies, in-work benefits notably in the form of wage-supplementing payment for older workers, there including the "work opportunities" initiative with top-up compensation - the 1-euro-jobs - available to long-term unemployed and older unemployed for up to three years, publicly funded

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of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

<sup>(116)</sup> For example: (1) as municipalities and welfare institutions obtain a transfer from the Federal Labour Office if they offer WOs, they might have an interest in keeping WO workers on their scheme rather than fostering their transition into the primary labour market (2) Given that the Federal Labour Office is responsible for the financing ALG2, the municipalities may have an incentive to shift costs by classifying persons as being able to work who would otherwise obtain municipal social assistance benefits. See OECD, Economic surveys: Germany, 2006.

employment for the long-term unemployed), to improve the integration of long-term unemployed persons and of specific target groups such as the young, low-skilled and older workers.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(117)</sup>

#### *Registration procedures and benefit entitlement*

The registration as unemployed is tantamount to the application for the unemployment benefit and separate application is not required. The benefit is paid from the date of the registration, while retroactive payment is not possible. Employees need to register immediately after receiving notice, otherwise they can be sanctioned. When unemployed clients are placed in a job the same day that they register, they are not eligible for benefit payment. An application for benefit is not refused or delayed when a job is immediately offered, but a benefit sanction can be applied if the person does not accept a reasonable job offer.

#### *Job-search requirements*

With the initial registration, the unemployed person declares his/her obligations to notify changes in the unemployment status. There are no regular set intervals at which an unemployed person must report, nor general minimum acceptable frequency of job-search activities. Yet,

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<sup>(117)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

the PES can at any time ask clients to come for an interview and review whether the preconditions for the benefits still exist. Upon the request of the PES, unemployed clients must provide evidence of their independent job-search activities. In addition, independent activities are discussed during each counselling interview.

#### *Direct referrals to vacant jobs*

A job offer is supposed to be discussed with the jobseeker in person or by telephone before a direct referral takes place. Upon the request of an employer, pre-selection interviews are possible; this, however, usually is not the case. Of all advertised vacancies, 9 out of 10 are completely open, where applicants can directly contact the employer concerned (48% of all PES vacancies).

#### *Intensive interview*

The intensive interview takes place as early as possible – the current target being ten working days – after the first contact with the employment agency. Basically, an action plan is established in the first interview after initial registration. PES offices are required to draw up, together with the unemployed, an action plan ("individual integration agreement"), that details the office's placement support and the client's own placement efforts. The action plan is to be reviewed at the latest after six months for adults and three months for young persons. However, progress is reviewed during each further contact and the action plan is revised, if necessary.

#### *Referral to ALMPs*

Whether a jobless person is called upon to participate in ALMPs does not depend on the duration of unemployment but on the discretion of the PES counsellor. ALMPs are mainly used to avoid long-term unemployment and are laid down in an 'integration agreement' with the jobseeker. Refusal to participate entails suspension of benefit. Young school leavers can be provided by the PES with a place in a vocational training measure or various other measures. The Social Code prescribes particular target groups including long-term unemployed, severely disabled persons, elderly who are difficult to place, people re-entering the labour market, low-skilled persons and women.

#### 6.1.6. Lifelong learning <sup>(118)</sup>

Germany scores intermediate in terms of human capital investment, implying average employability of workers. <sup>(119)</sup> The country spent relatively little on education in 2005 (4.5% compared to 5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). However, the education of adults is relatively good, with a low share of adults with low education (16%; 29% at the EU27 average), high share of adults with medium education (60%; 47% at the EU27 average) and the EU27 average share of adults with high education (24%). The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is close to the EU27 average (14% versus 15% respectively). Among the specific joint objectives agreed by the federal government and the governments of the federal states at the education summit on 22 October 2008, is the allocation of 10 per cent of the German GDP to education and research by 2015 (currently 8.9 per cent) and to halve the number of young persons who drop out of school or do not complete vocational training.

Despite the relatively favourable educational structure of adults, employability of workers may be hampered as only 8% of workers participate in LLL (10% at the EU27 average, 33% in Sweden, 29% in Denmark, 27% in the UK) with only a small increase since 2000 (by almost 3pp). Participation in LLL is relatively low regardless of educational attainment, though it is 10 pps. higher for workers with a high education (13%; 19% at the EU27 average) than for workers with a low education (3%; 4% at the EU27 average). Participation in LLL is also very low for unemployed (5%; 9% at the EU27 average), while participation of employed and inactive is the same at 8% (11% at the EU27 average and 7% at the EU27 average, respectively). Finally, employability of older workers tends to be the lowest as only 3% of older workers participate in LLL (5% at the EU27 average).

<sup>(118)</sup> Indicators on continuous vocational training (CVT) in this section refer to 2005 while most of other indicators refer to 2007 unless stated otherwise.

<sup>(119)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores Germany close to the EU27 average in terms of on-the-job employability as measured by learning, training and task rotation.

About 55% of firms provide CVT courses (almost 50% at the EU27 average, more than 80% in Denmark, around 70% in Sweden, France, the Netherlands and Finland), however, they spend on average 1.3% of total labour costs on CVT (1.6% at the EU27 average). About 30% of workers participate in CVT courses (one third in the EU27) with almost no change since 1999 and they spent on average 9 hours in 2005 on CVT courses (equal to the EU27).

A great deal of attention was paid to the development of the vocational and training activities over recent years. The First Act on Modern Services on the Labour Market (or Hartz I), passed in 2002, simplified the right to training support with the introduction of training vouchers for employees for whom the employment office has established a training requirement. Labour-market conditions are now taken into account to identify the need for continuing vocational training and as a further condition for participation in a continuous vocational training programme beneficiaries need to have fulfilled a "pre-employment period". The reform process further initiated in 2004 involved the modernisation of the vocational training system in the direction of better integration of existing educational structures, experience and activities, so as to provide a more flexible framework for lifelong learning, and a better focus on persons with low qualifications, disadvantaged youth and older people.

Following the introduction of training vouchers for the unemployed and of an accreditation system of training providers in 2003, a new Vocational Training Act was passed in April 2005, providing for the revision of curricula, the approval of training components, more training opportunities for disadvantaged young people and the regionalisation of the system. More recently, the National Pact for Training and young Specialists, initially to expire by the end of 2007, was also extended for three more years in 2006, while a skills initiative "career through education" was launched in 2007, including a) improving upward mobility in training; b) improving chances for women; c) promoting life-long learning; d) an apprenticeship subsidy for employers engaging disadvantaged young people participating in preparatory measures for dual training. The initiative "Promotion through education" adopted by the federal government in early 2008, including the introduction of a training bonus for employers providing additional training places for the so-called "old applicants", shall further improve the quality and effectiveness of the German training and further training system.

# 7. GREECE

## 7.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

Greece belongs to the group of Mediterranean countries with low flexibility/adaptability and relatively low security/income protection. However, Greece is a unique case among Mediterranean countries to have overall employment protection legislation (EPL) for permanent workers below the EPL for temporary workers, with EPL for white-collar permanent workers being considerably stricter than the one for blue-collar workers. This calls for reform measures to facilitate the entrance to the labour market, combined with properly designed active and passive labour market policies to provide employment and income security.

### 7.1.1. Employment protection legislation <sup>(120)</sup>

Greece has one of the strictest employment protection legislations in Europe. According to OECD, the overall EPL indicator in 2008 was at 3.0, well above the un-weighted EU average (2.4) and with only two other countries doing worse, Spain (3.0) and Luxembourg (3.4). Interestingly, the country performs relatively well in the dismissal of individual workers with regular contracts (2.3, as for the EU average) and in collective dismissals (3.3 versus 3.2), while it has a very strict legislation for temporary jobs, with the relative index amounting to 3.5 against an EU average of 2.2. EPL for open-ended contracts is much stricter for white collars than for blue-collar workers (and the gap is much wider compared to other countries differentiating EPL by type of worker, such as Austria, Belgium, Denmark and Italy). This largely depends on the considerably higher level of severance payments for white collars as compared to blue collars. While remaining below the level of strictness for regular workers, EPL for temporary workers is also relatively high. This is reflected in the share of temporary workers, which is below the EU average (at 11%).

<sup>(120)</sup>The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

### *Individual dismissals*

The termination of an employment contract according to Greek law is a unilateral, non-causative legal act, except for those cases stipulated otherwise by law (e.g. discrimination). The definition of fair or unfair dismissal is based on case law. Generally, dismissals for non-performance of business needs are considered fair. In larger companies, dismissals have to be a "last resort" possibly only after exhaustion of oral and written warnings, pay reductions and suspensions, and after consultation with employer representatives. Protection in case of individual dismissal applies after a quite short trial period of two months for all employees. In case of unfair dismissal, the worker is entitled to a compensation corresponding to the regular severance pay plus a sum equal to earnings between the dismissal and the legal settlement of the case. Severance payments vary according to the length of service and according to the status of the employee. For example, severance payment amounts to 5.5 months of salary after 30 years for blue-collar workers <sup>(121)</sup> and to 12 months salary after 28 years for white-collar workers (24 without notification). The rule for white collars is in fact that the severance pay corresponds to half the notice period if written notice is given; otherwise, it equals the months of pay corresponding to the schedule for notice. Indeed, only white collar personnel must be notified in advance (30 days with between 2 months and 1 year of job tenure, 60 days with up to 4 years of job tenure, 3 months with maximum 6 years in the firm, 4 months < 8 years, 5 months < 10 years, plus one month per year of service, up to a maximum of 24 months). Notice can be waived if full severance pay is given. Reinstatement orders are frequent, accompanied by indemnity for the period of time between notice of termination and court ruling, unless a severance pay has been requested.

The definition of collective dismissals is large, as it covers all cases where, in the lapse of one month, at least four workers are dismissed in firms with between 20 and 200 employees; >2% or >30 workers in firms with at least 200 employees (at

<sup>(121)</sup>For shorter job tenures, severance pay for blue collars are as follows: 5 days < 1 year, 7 days < 2 years, 15 days < 5 years, 30 days < 10 years, 60 days < 15 years, 100 days < 20 years, 120 days < 25 years.

the beginning of the month). The employer must notify both employee representatives and the Prefect and Labour Inspection, with request for approval. In case no agreement is reached with employee representatives on dismissal procedures, then the Labour Ministry can impose its own terms. No special regulations apply concerning severance pay for collective dismissals.

#### *Temporary employment*

Fixed-term contracts are allowed for objective reasons only. If three renewals are made within a period of two years and in any case if the duration of successive fixed-term contracts exceeds two years in total, then the contract is assumed to cover a constant need of the firm and it is converted into an employment contract of an indefinite duration. The employment of temporary workers agency (TWA)'s workers is permitted in all forms of employment, but the length of time the temporary worker is employed may not exceed 8 months. A renewal with the same indirect employer is permitted on the condition that the total length of the renewal does not exceed eight months. In the event the employee continues in the employment of the indirect employer after the contract and any renewal thereof expires for a period of over two months, the employee's contract with the TWA shall be deemed to have been converted into an open-ended employment contract between the employee and the indirect employer. The maximum cumulated duration of TWA contacts is 16 months. It is set by law that the amount of the employee's pay cannot be lower than that set by the sectoral, occupation-based or enterprise-level collective agreements applicable to the indirect employer's staff. The procedure for setting up a temporary work agency is burdensome, as it requires administrative authorisation from the Ministry of Employment and Social Protection. The TWA is obliged to submit a report of activity (including in general elements of the contracted TWA work contracts) to the Ministry of Employment and Social Protection every six months, with copy to the national Employment Observatory.

Over 1998-2008, Greece slightly reduced EPL, mainly for temporary workers. Temporary Agency Employment was first introduced in 2001, with the provision that a temporary contract may not exceed 8 months in total, while some restrictions

were introduced regarding the use of successive fixed-term employment contracts. On the other hand, the basic laws regulating the termination of contracts date from the Twenties and have so far remained largely intact. Severance payments and notice requirements were reduced in 1990 and raised slightly by the 2003 National General Collective Agreement. More recently, the compensation levels for blue collar workers were modestly raised in the context of the National General Collective Labour Agreements for 2004-2005 and 2006-2007. This trend has increased the incidence of temporary work among young, thus facilitating their entry into the labour market. Yet, these reforms should be ideally combined with a reduction of the level of protection for white-collar permanent workers, so as to ensure that youth who start into temporary jobs can move into permanent arrangements and fully exploit their potential, and that those groups which are most subject to entry or re-entry problems, there including women and the long-term unemployed, are not harmed in their longer term employment prospects.

#### 7.1.2. Working time and work organization <sup>(122)</sup>

Greece has a relatively low incidence of flexible working time arrangements, intermediate work intensity and irregularity, intermediate to high incidence of rotation and team work as well as low work autonomy and complexity.

About 35% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Related, for almost 60% of persons in employment working hours are set by the company with no possibility of changes. This indicates somewhat less flexible working time arrangements than in the EU27 average (56%), and considerably less than in Sweden (34%), Netherland (36%) and Denmark (41%). About 37% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark.

<sup>(122)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

Furthermore, only about 17% of workers do not work the same number of days every week compared to more than 25% in the EU27. The incidence of atypical work, in particular working in the night, in the evening and in the weekend is among the highest in the EU. Work complexity as measured by the share of workers perceiving their work to involve complex tasks is close to the EU27 average (57%). Work autonomy is relatively low as about 60% of workers can influence the order of tasks and methods of work (about 65% at the EU27 average). Finally, compared to the EU27 average, team work is somewhat less and tasks rotation somewhat more widespread, however, teams and workers involved in tasks rotation are less autonomous in their division of tasks than in the rest of the EU.

By distribution of companies according to their practices to organize working time flexibly, Greece has half of all companies characterized by low flexibility (51% of all companies) which is more than double of the respective share in the EU (at 21%). This company type is also the most prevalent relative to the EU average distribution of companies.

New rules on overtime work and working time arrangements were adopted in 2005, with the introduction of two systems of working time arrangements, one on a four-month period and one on annual basis, and other forms of increased working time flexibility there including reduced rates for overtime exceeding maximum working hours.

### 7.1.3. Wage setting and bargaining systems

Greece is confronted with a rigid wage formation system, which hampers its labour market performance, contributes to a high share of informal economy as well as to high long-term unemployment rates. The basis for setting wages in the private sector is the National General Collective Labour Agreement (EGSSE), which usually has a term of two years and sets the overall minimum wages for white- and blue-collar workers in the private sector. Intermediate levels of bargaining (by industry or occupation) are widespread; they set minimum levels for the workers they cover and are coupled with extensions to the whole industry or occupation if parties to an agreement cover more than 51% of

workforce in an industry or occupation. Industry-wide and enterprise-level agreements usually contain more favourable provisions than the EGSSE. Furthermore, if a new EGSSE sets minimum wages for some workers that are higher than those set by another collective agreement or arbitration decision, then these agreements cease to apply and the minimum levels set in the new EGSSE are applicable. Finally, where no agreement applies, either of the sides can take the initiative to request an arbitration decision, which has the character of a collective agreement and is binding.

This wage setting and bargaining system has contributed to unfavourable matching of wage growth with productivity growth with an adverse impact on competitiveness, in particular relative to the rest of the euro area. Furthermore, due to the lack of an adequate benefit system, differentiated minimum wage is the only policy instrument to tackle poverty (of employed) prior to retirement in Greece, thus further reducing wage flexibility. <sup>(123)</sup>

### 7.1.4. Tax and benefit systems <sup>(124)</sup>

Greece does not have a well developed benefit system and mainly attempts to tackle in-work poverty with a differentiated minimum wage. <sup>(125)</sup> Thus, Greece spends considerably below the EU27 average on passive labour market policies (about 0.4% of GDP compared to 1% at the EU27 average). Initial net replacement rate are among the lowest in the EU, at 49% for low wage persons (at 66% at the EU27 average), at 36% for average wage persons (at 59% at the EU27 average) and 52% for one-earner couples with children (at 67% at the EU27 average). However, the risk of poverty rate of unemployed is somewhat below the EU15 average and temporary workers are not

<sup>(123)</sup> OECD, 2007, Economic Surveys, Greece.

<sup>(124)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(125)</sup> OECD, 2007, Economic Surveys, Greece. OECD recommendation: a well targeted tax and benefit system rather than differentiated minimum wage should be the instrument to address the need of low income earners with families.



disadvantaged in accessing the unemployment benefits compared to permanent workers.

Greece does not provide any financial support to unemployed who exhaust their unemployment benefits and their net replacement rates drop to zero. Due to the absence of social assistance, long-term unemployed persons remain practically without any income and have to rely on family support. As the long-term unemployment rate is very high (3.7% in 2008), the absence of social security net implies high at-poverty-risk rates.

Tax wedge is at about the EU27 average, at 37% for the low wage person and at 42% for the average wage person. Tax wedge for the average wage person saw a considerably increase over 2001-2007 (by 4.2 pps.), in particular as a result of an increase in personal income tax. Unemployment traps and inactivity traps are low, in particular due to low net replacement rates and practically absent social assistance and do not produce *per se* any financial disincentives to work. On the other hand, despite the adoption of incentives to prolong working life, the regulation of the pension system seems to remain an important impediment to the employability of older workers. The pension reform of 2008 stipulates a set of incentives to retire later in both the private and public sector, mainly in the form of increasing pension benefits for older workers opting for extension of working life up to 3 years and of a pension reduction of 6% for every year of retirement prior to normal retirement age.

### *Unemployment insurance* <sup>(126)</sup>

#### *Eligibility conditions*

Unemployment benefit applicants must have been occupied 125 days in contributory employment during the previous 14 months or at least 200 days in the previous 2 years, without taking into account the working days of the last two months. For first-time claimants the threshold is reduced to 80 days in the past 2 years. Special conditions apply for seasonal workers, while the self-employed persons are not covered.

#### *Replacement rates*

Basic unemployment benefit corresponds to 50% of the daily wage of blue-collar workers. An additional 10% increase of unemployment allowance is calculated for each dependent. Seasonal unemployed persons receive an annual lump-sum.

#### *Benefit duration*

A waiting period of 6 days applies before benefits are payable. The duration of payments is related to previous periods of employment and range from 5 months (in case of the minimum 125 days employment) up to 12 months (for 250 days of employment). Young persons, new to the labour market, may get a special benefit for 5 months.

To improve the situation of those not covered by the unemployment insurance, an annual income allowance for poor households (from 293,5 to 587 €) and a monthly allowance for low-income long-term unemployed aged 45-65 (€ 140,9 for maximum 12 months) were introduced in 2002. More recently, a Special Fund for Social Solidarity (ETKA) was set up in 2007, to provide increased incomes and social protection to long-term unemployed aged over 50, previously working in declining sectors or regions and at risk of social exclusion. The fund finances income support measures for the unemployed participating in (re)training activities by subsidising geographic, professional mobility and social work. The support granted to workers consists of either 80% of pay at

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<sup>(126)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

the time the employment relationship is terminated or of a sum of up to €900 for people taking part in training and retraining programmes. The regulatory framework of the unemployment insurance was slightly rationalised in 2008, concerning both the level and mode of calculation of benefits.

#### 7.1.5. Active labour market policies

Greece has very low expenditures on ALMP (about 0.1% of GDP compared to 0.5% of GDP at the EU27 average) despite the unemployment rate above the EU27 average and high long-term unemployment rate. Greece also spends a very low share of labour market policy expenditures on job search assistance and job counselling, which tend to be amongst the most effective instruments for re-employment. As incentives to work do not seem to be a problem due to low (unemployment and inactivity) traps, a development of well targeted ALMP - which typically focus on direct job creation and employment subsidies - may help to address the problem of skill-mismatch or low geographical mobility, thus reducing long term unemployment rate.

To improve the effectiveness of the job placement services, Employment Promotion Centres (KPA) were introduced in 2000 to provide first individualised services to the unemployed, while in 2003 the Government introduced an integrated system to registers the needs of the labour market at national and local level, aimed at facilitating the connection between labour supply and demand. Yet, these efforts seem to be quite limited and further adjustment and improvement in the capacity of ALMP should be foreseen to ensure employability of low-skilled workers, also in view of the further restructuring of Greek economy. The foreseen merger of the employment promotion centres and the local insurance services into a network of one-stop-shops across the country, to be completed by 2010, should go in the right direction.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status.

These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(127)</sup>

#### *Registration procedures and benefit entitlement*

The unemployed person needs to register for placement before applying for benefit. The unemployment benefit is paid from the day of applying for the benefit. When an unemployed person is referred to a vacancy at initial registration, his/her benefit application will not be delayed or suspended.

#### *Job-search requirements*

Unemployed clients (including those who participate in an ALMP) are not required to prove independent job search. Therefore, applications for vacancies are not a prerequisite for benefit payment. However, if during the benefit period the jobseeker refuses a placement within his/her professional sector, the provision of the benefit is interrupted. After initial registration the unemployed person reports once a month to the PES in order to sign in and declare any changes in the unemployment status.

#### *Direct referrals to vacant jobs*

The great majority of PES-advertised vacancies are published on the internet and are semi-open. jobseekers interested in a specific vacancy need to address a job counsellor for contact details and specific vacancy characteristics. There is no pre-selection procedure. The employment counsellor refers the unemployed person to relevant vacancies, provided the person has a clear occupational goal and is suitable for the job.

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<sup>(127)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

### *Intensive interviews*

An intensive interview takes place immediately after initial registration or within two or three days. Newly registered unemployed are not obliged to participate in any other specific events, but they are encouraged to engage in activities (such as collective information sessions) agreed within the framework of the personal action plan. There is no minimum or maximum number of interviews. The frequency of intensive interviews is decided by agreement between the jobseeker and the job counsellor and depends upon the needs of the jobseeker.

### *Action plan*

The personal action plan is discussed between the counsellor and the jobseeker and established as soon as possible after registration with the employment service. A thorough analysis of the jobseeker's situation and occupational profile is conducted in order to build a realistic action plan. Two or three separate interviews are usually involved in establishing the initial action plan. More specifically, during the first interview within the framework of the personal action plan, the appropriate course and actions to be taken are defined, and during the second interview the progress achieved is monitored and the personal action plan finalized. The unemployment course is monitored every 3, 6 and 12 months after the establishment and acceptance of the initial action plan. However, this is mainly carried out by letter or telephone, and more rarely by means of a personal interview, unless this is requested by the unemployed.

### *Referral to ALMPs*

Participation in ALMPs is not compulsory, but decided by agreement between the jobseeker and the job counsellor, as laid down in the individual's personal action plan. Jobseekers are strongly encouraged to act as agreed in the action plan and be engaged if necessary in an ALMP. The frequency of contacts is laid down in the personal action plan and adjusted for participation in active employment measures. Jobseeker activities are followed up at 3, 6 and 12 months from the creation of the action plan and at 3, 6 and 12 months after the completion of the first active measure.

#### 7.1.6. lifelong learning

Greece scores relatively poor in terms of human capital accumulation, implying relatively low employability of workers and poor adoption of new technologies (harmful for productivity growth). It has a relatively low educational attainment of adults (about half of adults have at most the lower secondary education) though around the EU27 average the share of early school dropouts. A lower employability of workers is further emphasized through very low participation of adults in life-long learning (LLL) (barely 2%), very low participation in continual vocational training (CVT) (15%), the lowest investment by enterprises in training of adults in the EU (less than 1%), *poor pupils' performance according to the PISA study* and among the lowest share of public expenditures on education (as a % of GDP).

Recent policy initiatives have attempted to improve the links between education, initial and continuing training, and labour market needs and also to regulate the provision of LLL services. The framework law adopted in 2003 was the first to provide for the development of a national system combining vocational education and training with employment, while the 2005 law on lifelong learning tried to rationalise the institutional set up for the provision of services in the field of lifelong learning. Following these laws, a "National Committee for Lifelong Learning" was created in 2006, to help boost mobility in the labour market and improve the matching between skills and jobs, and was charged with the diagnosis of the needs for lifelong learning and vocational training, with the general evaluation and coordination of the

different services and with their connection with the National System Linking Vocational Education and Training to Employment (ESSEKA). A National Scheme for the Certification of Job Qualifications was also discussed.

## 8. IRELAND

### 8.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

#### 8.1.1. Employment protection legislation <sup>(128)</sup>

The OECD's overall index at 1.4, against an EU un-weighted average of 2.4, implies that Ireland has one of the less stringent legislation on EPL in Europe (only UK has a less strict one). This score derives from a relatively low index (1.7 against an average of 2.3 for the EU countries), and, therefore, less onerous legislation, for dismissal of individual workers with regular contract, and a very low (i.e. less rigid rules) for both temporary jobs (0.7 against an average of 2.2 for the EU countries) and collective dismissals (2.4 against an EU average of 3.2). <sup>(129)</sup> For termination of open-ended contracts, notice periods are among the shortest in Europe <sup>(130)</sup> and the administrative procedures manageable. Similarly, severance payments are due only in redundancy cases and for long tenures: even in redundancy cases nothing is due for tenure less than 2 years, while after 4 years of tenure, the severance payment amounts to 9 weeks salary and after 20 years it amounts to 41 weeks salary.

#### *Individual dismissals*

There are no prescribed notification procedures in the case of individual dismissal of a worker with a regular contract. Notice may be oral or in writing but must be certain. There is no specific procedure outlined in the Minimum Notice and Terms of Employment Act 1973, but there is a Code of Practice on Grievance and Disciplinary Procedure, which sets out best practice in terms of procedures to be followed. In case of redundancy, a copy of official redundancy form has to be sent to the Department of Employment. In the legislation there are no specific details about delay involved before notice can start. In case of individual termination, it is advisable to give notice in writing

after warnings, specifying what aspect of behaviour is sub-standard. For all workers covered by the Minimum Notice & Terms of Employment Act, excluding inter alia, Defence Forces, Police and certain Merchant Shipping employment agreements, notice periods vary with tenure durations. <sup>(131)</sup> Severance payment is not previewed, unless in redundancy cases with at least two years tenure. In this case, it amounts to 1 week's pay ('bonus week'), plus two weeks' pay per year worked, subject to a ceiling on weekly pay of 600 EUR. Employers are reimbursed 60% by the redundancy fund financed by ordinary employer and employee social security contribution. Dismissals for lack of ability, competence or qualifications, conduct, or redundancy are allowed, while dismissals reflecting discrimination on grounds of race, religion, age, gender, etc., including when these factors bias selection during redundancies, can be considered unfair. The length of the trial period is normally fixed at 12 months (shorter trial periods are commonly agreed between employer and employee). In case of unfair dismissal, the maximum compensation amount to 104 weeks' pay. The compensations awarded are based on financial loss incurred by the fired worker. Where no loss is established, the maximum amount is 4 weeks' pay (average employment appeals tribunal awarded in 2007 was 7280 EUR). A reinstatement order, with back pay from the date of dismissal, is possible. Also re-engagement from a date after the dismissal with no back pay from date is possible. The deciding body must specify why the reinstatement/re-engagement was not applied if the compensation is awarded. In 2007, reinstatement was ordered in one case and re-engagement was ordered in four cases. An unfair dismissal claim can be made in 6 months from the dismissal notification (extendable to 12 months in exceptional circumstances).

<sup>(128)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(129)</sup> Much of the cross-country variation in employment can be attributed to differences in the regulation for temporary employment (OECD, 2009).

<sup>(130)</sup> The notice period is proportional to the tenure and it goes from a minimum of 1 week to a maximum of 8 weeks for longer tenures.

<sup>(131)</sup> With less than 13 weeks of tenure, there is no notice period; with a tenure between 13 weeks and 2 years the notice period lasts 1 week; it doubles to 2 weeks for workers up to 5 years of tenure; it doubles again to 4 weeks with tenure less than 10 years; it goes up to 6 weeks with a tenure of less than 15 years and finally it rises to 8 weeks for longer tenures.

### *Collective dismissals*

The procedure for collective dismissals can be called for if, within 30 days, firms are planning to dismiss a number of workers that depends on the size of the firm.<sup>(132)</sup> When the employer intends to open such procedure, he must inform and consult the competent trade union or employee representatives in non-union employment. Furthermore, the decision must be notified to the Ministry competent for Labour and Employment. Information to trade unions and to the Ministry is expected 30 days before the implementation. The consultation with trade unions is aimed at finding alternatives to redundancy and ways to mitigate its effects. Since 2000 Regulations, consultations must include employee representatives for non-unionised employment. Criteria for selection of workers to dismiss are not specified by the law. Also for severance payment there is no specific regulation but in case of mass redundancies legally required severance payments are usually topped up.

### *Temporary contracts*

Employers do not have to justify recourse to initial **fixed-term contracts**. The initial fixed-term contracts have no restrictions. The Protection of Employees Act 2003 provides that when an employer proposes to renew a fixed-term contract, the employee shall be informed in writing, not later than the date of renewal, about the objective grounds justifying the renewal and the failure to offer an open-ended contract. There is no limit for the number of renewals in case of objective grounds. However the maximum cumulated duration is 4 years. There is some possibility for unfair dismissal/penalisation claims under unfair dismissals/fixed-term legislation after having been employed for successive contracts.

**The temporary-work agencies employment** in Ireland is among the less restricted in Europe. There are no restrictions for types of work allowed, as well as for the number of job renewals,

the maximum cumulated duration and the specific obligation for equal treatment of regular and agency workers at the user firm. The Protection of Employees (Fixed-Term Work) Act 2003 does not apply to agency workers placed by a temporary work agency at the disposition of a user enterprise. The set-up of a Temporary Workers Agency requires a special administrative authorisation but no periodic reporting obligations.

### 8.1.2. Working time and work organization

Ireland has an intermediate incidence of flexible working time arrangements, intermediate work intensity and irregularity and an intermediate incidence of rotation and team work as well as relatively high work autonomy and complexity.

In Ireland, 37% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, 17% of workers do not work the same number of days every week compared to more than 25% in the EU27. However, for about half of the persons in employment, working hours are set by the company with no possibility of changes. This indicates that flexibility of working time arrangements is somewhat above the EU27 average (56%), however considerably lower than in Sweden (34%), Netherland (36%) and Denmark (41%). Almost 40% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. The incidence of atypical work, in particular working in the evening, in the night and on weekend, is more frequent than in the EU27.

Ireland has a high incidence of overtime work (29% of all companies). Relative to the EU average, Ireland has also a high share of companies with intermediate flexibility characterized by a high take-up of part-time work and a high incidence of unusual working hours which help these companies to cope with short-term (within a day or week) variability of the workload (10% of all companies).

<sup>(132)</sup> In firms with a number of employees between 20 and 49 the planned dismissals must be more than 5; in firms with 50-99 employees the number must be more than 10; in firms with 100-299 employees, the planned dismissals must amount to 10% of the total; finally in firms with more than 300 employees the planned dismissals must be more than 30.

### 8.1.3. Wage setting and bargaining systems <sup>(133)</sup>

Irish wage formation is regulated by a mixture of voluntary collective bargaining and statutory minimum wage legislation. Collective bargaining in Ireland, covering the unionized private and public sectors, is regulated by tripartite ‘social partnership’ agreements of which national wage agreements have been the central feature. There have been seven successive national wage agreements since 1987. The most recent national wage deal, concluded in September 2008, is called ‘Towards 2016’ Review and Transitional Agreement 2008 - 2009..

In recent years voluntarism and centralized collective bargaining have been supplemented as the primary wage-fixing mechanisms by increased legal regulation – notably through the introduction of a statutory national minimum wage. In addition, Joint Labour Committees (JLCs) are bodies established under the Industrial Relations Act, 1946, to provide a tool for fixing statutory minimum rates of pay and conditions of employment in various low pay sectors (pay and conditions are set by the statutory Employment Regulation Orders (ERO’s). <sup>(134)</sup>

Since 1987, collective bargaining in Ireland has primarily taken place at national level through seven successive national wage deals. Since 1987, centralised tri-partite agreements have established guidelines on minimum and maximum wage increases for companies and unions at company level. However, there is a certain paradox in the Irish industrial relations system, because although tri-partite bargaining at the macro level is the dominant form of collective bargaining, this has coincided with an increasing trend towards the decentralisation of collective bargaining to the micro level of the enterprise (company/workplace),

beginning in the 1980s and 1990s. This paradox of centralized bargaining and a trend towards single-employer enterprise bargaining was influenced by factors such as the increasing numbers of multinational companies locating in Ireland, the growth of international competition in domestic and foreign product markets and the increasing emphasis that employers placed on company level competitive strategy. As a consequence, sectoral bargaining has declined significantly, although it is still present in sectors characterised by the existence of many small to medium sized businesses operating in competitive product or service markets - for instance, printing, hotels and the construction industry. Also relevant here are the labour intensive and low-pay industries regulated at industrial (sectoral) level by JLCs. In the public sector, as well as being regulated by centralized pay bargaining, organisations may also negotiate over various issues at company level.

The industrial relations system in Ireland has been typified by a relatively stable employment relations environment, particularly as regards collective disputes. Social partnership agreements at national level and public agencies are charged with responsibility for assisting dispute resolution.

The most prominent of these institutions, the Labour Court, was established under The Industrial Relations Act (1946). <sup>(135)</sup> However, the Court’s recommendations are - apart from its special adjudication role in cases of disputes arising where it is not the practice of employers to engage in collective bargaining negotiations - not legally binding and the parties are not obliged to utilise the services of the Court in the event of a dispute. Moreover, access to the Court is dependent on both parties having exhausted all other dispute resolution procedures.

Since 1990, the Court’s conciliation service has been taken up by the Labour Relations Commission (LRC), which was established under the Industrial Relations Act (1990). The LRC also

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<sup>(133)</sup> See European Industrial Relations Observatory, Wage formation in the EU, 2009.

<sup>(134)</sup> JLCs may be established by the Labour Court on the application of: the Minister for Enterprise, Trade and Employment, or a trade union, or any organisation claiming to be representative of the workers or the employers involved. A JLC is made up of equal numbers of employer and worker representative appointed by the Labour Court and a chairman and substitute chairman appointed by the Minister for Enterprise, Trade and Employment. JLCs, of which there are currently sixteen, operate in areas where collective bargaining is not well established and wages tend to be low.

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<sup>(135)</sup> The Labour Court is an independent tri-partite body that was originally established to support collective bargaining through a conciliation and mediation service. The Court’s duties involve the investigation of industrial disputes that have not been resolved by the Labour Relations Commission (LRC), on the basis of submissions made by both employee and employer representatives, and the issuing of recommendations on the basis of this.

provides an advisory service for employers and unions, with the intention of promoting 'good industrial relations'.

In recent years, a new high-level informal dispute resolution institution, known as the National Implementation Body (NIB), has played a major role in resolving serious collective bargaining disputes. The NIB was created under Ireland's social partnership process and, as such, is not a formal dispute resolution agency. <sup>(136)</sup>

#### 8.1.4. Tax and benefit systems <sup>(137)</sup>

Expenditures on passive labour market policies are somewhat below the EU average (0.9% of GDP compared to 1% at the EU27 average). The benefit coverage of unemployed persons is high (about 80% of persons wanting to work are recipients of unemployment benefits compared to 44% at the EU27 average). Initial net replacement rates for low wage and average wage persons are at 77% and 56%, respectively (66% and 59% at the EU27 average), however they are considerably lower (at 49% and 36%, respectively) if they are not topped up with social assistance. Initial net replacement rate, however, is very high for one-earner couple with children, in particular if combined with social assistance (at 106%). As net replacement rates do not decline over unemployment spell, they are among the highest in the EU after 5 years of unemployment for all respective family types. High initial net replacement rates for either inactive or unemployed spouse in a jobless household (with or without children) are translated into large financial disincentives to take up low-paid work, despite substantial in-work benefits. Family types with children, in particular lone parent and one-earner couples, face also high low-wage trap, which may depress total hours worked. Tax wedge is among the lowest in the EU, for both

<sup>(136)</sup> Its members are the general secretary of the Irish Congress of Trade Unions, the HR/IR director of the Irish Business and Employers Confederation and the secretary general of the Department of An Taoiseach (Prime Minister).

<sup>(137)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children. The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

low wage person (15% vs. 37% at the EU27 average) and average wage person (22% vs. 41% at the EU27 average). Furthermore, tax wedges saw a considerable decline over 2001-2007, for both the low wage (by 2.3 pps.) and average wage (by 3.5 pps.) persons, in particular as a result of a decline in personal income tax.

In Ireland two schemes have been set in order to support incomes of unemployed workers: unemployment insurance and unemployment assistance. For both schemes, the main condition to be entitled is to be unemployed, to be available for job and to be capable of and genuinely seeking work.

#### *Unemployment insurance*

##### *Eligibility conditions*

The worker must have paid or credited 39 weekly contributions the year preceding the benefit year and 104 weekly contributions in total. The benefit is not means tested and the waiting period is short, only 3 days.

##### *Replacement rates*

There is no link with the previous earnings. The benefit is flat-rate and in 2009 it amounted to Euro 204.30 per week. Some supplements are previewed for family dependants: for an adult dependant the supplement amounts to Euro 135.60 per week, for child dependant the supplement amounts to Euro 26 per week. Benefits are subject to taxation (but the first Euro 13 of each weekly pay is exempted).

##### *Benefit duration*

12 months, limited to 9 if applicant has paid less than 260 weekly contributions since first entering insurance. If applicant is 65, the allowance will be paid until 66 (pension age) if 156 weekly contributions have been paid.

#### *Unemployment assistance*

##### *Eligibility conditions*

To have access to unemployment assistance, the workers must have insufficient resources. The benefit is means tested and the means test takes



into account the actual income, as well as the income of other relevant adults of the household.

#### *Replacement rates*

The amount of the benefit is flat-rate and equal to the unemployment insurance benefit. However this is not subject to taxation. Family supplements are the same.

#### *Benefit duration*

No limit up to the age of 66.

#### 8.1.5. Active labour market policies

Expenditures on active labour market policies are at the EU27 average (about 0.5% of GDP) as also the share of persons wanting to work who are included in regular activation (about 36%). Most of expenditures are directed towards training and direct job creation (about 45% each). Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are also at the EU 27 average, at about 0.2% of GDP.<sup>(138)</sup>

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active

programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(139)</sup>

#### *Registration procedures and benefit entitlement*

In Ireland, registration for unemployment benefit precedes that for placement. Further, after initial registration, entitlement to benefit can be retroactive back to the date of loss of work, but only if claimants convince deciding officers that there is a good reason for doing so. However, the extent of such back pay is reduced by a waiting period of three days. The first detailed interview can be taken up to one month later than registration: it is possible that a certain number of potential matches of jobseekers to suitable vacancies are missed. Reporting once a month to the PES is mandatory for the jobseeker and personal attendance is expected in most cases.

#### *Job-search requirements*

The frequency at which unemployed have to report their job-search activities is variable. The number of searching actions to be reported depends mainly by individual action plans or by decisions taken by a placement officer on the basis of client characteristics and the local labour market.

#### *Direct referrals to vacant jobs*

Direct referrals are not widely used by PES in Ireland. According to OECD, direct referrals are 1.5 per unemployed person-year. In general, Ireland is among the countries in which job advertising is fully open in the majority of cases. PES can also undertake more intensive pre-screening of candidates on the special request of employers, even if this practice may be rare.

#### *Intensive interview*

OECD estimates that during the unemployment spell, intensive interviews are scheduled from three to four times on average, between three and twelve months of unemployment. Furthermore, usually after three months of unemployment, an individual action plan is created by PES.

<sup>(138)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

<sup>(139)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

### *Referral to ALMPs*

There is no obligation to participate in ALMPs programs at a certain point of the unemployment spell. However, when this is referred by PES, participation is compulsory. During participation in ALMPs programs, job search requirement and verification are suspended.

#### 8.1.6. Lifelong learning

Continuous Vocational Training (CVT) has not yet acquired the status of an individual statutory right in Ireland – for instance, through provisions for statutory leave periods for further training and education. Take-up of CVT is still voluntary – in other words, negotiated between employers and employees and/or their representatives. The National Training Agency, FÁS (*Foras Aiseanna Saothair*), plays a central role in the Irish CVT system. The Labour Services Act (1987) established a number of important functions for FÁS including: the provision of training and retraining, the management and co-ordination of employment schemes, and the provision of an advisory service. However, in the period since 1987 there have been a variety of changes to its role. For instance, it has increasingly operated as a local or community service, and it has initiated reforms of the apprenticeship system. It has also placed an increased emphasis on job training schemes for the unemployed, in addition to providing CVT. There is a single national system in the sense that FÁS is responsible for CVT on a nationwide basis. But within that national structure, there are different regional/sectoral/occupational CVT provisions. Through a regional network of 66 offices and twenty training centers, FÁS operates training and employment programs; provides a recruitment service to jobseekers and employers, an advisory service for industry, and supports community-based enterprises. The organization operates throughout Ireland, divided into eight regions.

In excess of 115,000 employees, representing just under 7% of those at work, received formal education in 2003, including various FÁS programs, as well as other formal educational programs. Overall, in 2003, 48% of employees participated in some form of training provided by their employer over the previous two years.

All FÁS CVT programs are aligned to the ‘One Step Up’ concept, that is training programs assist individuals to obtain a recognized qualification within the National Framework of Qualifications. One Step Up aims to encourage employee training to increase competency levels and promote an ethos of lifelong learning in the workplace by striving to provide easy access to a range of learning initiatives such as tutor-led training and e-learning. The intention is to ensure that skill levels in the workforce match present and future human resource requirements for continuous economic growth and competitive advantage. It is also aimed at enabling employees to cope with ongoing changes in work practices.

Total FÁS expenditure in 2006 on its various programs for the employed and unemployed amounted to Euro 777.503. A substantial proportion of FÁS expenditure was on training allowances and wage payments to participants on employment programs. But funding to specifically encourage and assist CVT for companies and people in employment (Euro 40 million) remains low relative to the total spent by FÁS on training in 2006 (Euro 314 million) – of which Euro 113 million was spent on apprenticeships.

In terms of private expenditure on CVT, total expenditure by employers on training costs is estimated to have been around Euro 1 billion in 2003. This figure includes both the direct costs of training, including tuition fees, and the wage costs of employees while engaged in training. In Ireland, as of 2000, average expenditure by enterprises on training courses for employees was estimated to be 2.4% of total labour costs, which is near but still below the EU average.

# 9. ITALY

## 9.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

### 9.1.1. Employment protection legislation <sup>(140)</sup>

According to the OECD's overall index of EPL, the Italian legislation is relatively more stringent than in many Member States (with an EPL score of 2.6, against an EU un-weighted average of 2.4). This score derives from a relatively low index (1.7 against an average of 2.3 for the EU countries), for dismissal of individual workers with regular contract, and a relatively higher index (i.e. more rigid rules) for both temporary jobs (2.5 against an average of 2.2 for the EU countries) and collective dismissals (4.9 against an EU average of 3.2) – the rules concerning the latter being the most rigid in the OECD.<sup>(141)</sup> For termination of open-ended contracts, notice periods are relatively <sup>(142)</sup> short and the administrative procedures manageable. Similarly, severance payments following unjustified dismissal are moderate while for the just cause inexistent. Individual or collective dismissals for costs saving are not admitted.

Individual dismissals are only allowed when there is a just cause. The provisions following **unjustified dismissal** differ, depending on the firm size. Firms with more than 15 employees may be required to reinstate an unfairly dismissed employee in his/her previous position and pay him/her the equivalent of the salary accrued between the date of dismissal and the date of reinstatement. Companies employing less than 15 employees, accounting for 51% of total employment, may choose between the

reinstatement or a compensation equivalent to 2.5-6 months of salary (*tutela obbligatoria*) depending on firm size and seniority (up to 10 or 14 months of salary for seniority longer than 10 or 20 years respectively). The **probation period**, i.e. the period during which regular contracts are not covered by the protection legislation and workers cannot claim unfair dismissals, is short, about 1-2 weeks for blue collars and 3-8 for white collars against 6 months in Germany, 9 (12) for blue (white) collars in Denmark, not less than 2 months in Spain.

From the worker perspective, the restriction applied to firms with more than 15 employees does not provide an effective protection as the procedure entails long lags in courts' decisions and is highly uncertain.<sup>(143)</sup> Some contend that the different treatment of small and medium/large firms in the provision for unfair dismissal may discourage firms from growing above the threshold of 15 employees.<sup>(144)</sup> The small firm exemption also creates an asymmetry in the cost-reduction behaviour of small and medium/large firms, with the former adjusting more at the extensive margin (i.e. firing) and the latter more at the intensive margin (i.e. working hour adjustment) and/or with a larger use of non-standard forms of work (e.g. Boeri and Jimeno, 2005). The uncertainty of the litigation process is also a cost for firms, which may refrain from starting the procedure of dismissal even when they consider this appropriate. The long court proceedings (about 25 months, higher than in any EU countries) may add significantly to the costs of hiring and firing, making the tightness of the legislation effectively higher than what suggested by the OECD score.

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<sup>(140)</sup>The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(141)</sup>Much of the cross-country variation in employment can be attributed to differences in the regulation for temporary employment (OECD, 2009).

<sup>(142)</sup>Open-ended contracts are indefinite contracts with no specified contractual end date. In the case of workers with long tenure, the notice periods amounts to 12 days for blue collars and 4 months for blue collars, among the lowest notice periods in the EU. If the employers exempt the employee from working during the notice period, the employee receives always a payment equal to the normal salary with the exception of when the dismissal is for just cause or occurs during the trial period. Finally, collective bargaining does not make notice periods or severance payments provisions more generous than those in the legislation as for example in Germany and Austria.

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<sup>(143)</sup>According to the OECD (2004), the dismissal procedure takes about 2 years while 55% of all cases are ruled by the courts in favour of workers. In addition, the widespread use of non-regular contracts with workers' right not clearly defined increase the role of judges in the enforcement of EPL, adding to the uncertainty of the outcome. Ichino, A. Polo, M. and Rettore, E. (2003) show that local market conditions influence courts' decisions. Hence as long as these conditions are uncertain, the outcome of the litigation is uncertain as well.

<sup>(144)</sup>Schivardi, F and R. Torrini (2003), "Firm size distribution and EPL in Italy", William Davidson Institute WP No 613; EPL does influence firm size distribution but the effect is small as the average firm size would increase by less than 1% when removing the threshold effect.

Collective dismissals are possible only in the case of restructuring. Italy's definition for **collective dismissals** is relatively broad and procedures particularly cumbersome. Independently from the firm size,<sup>(145)</sup> the provisions for collective dismissals apply for firms with 15 and more employees, when the employer intends to dismiss at least 5 employees over a period of 120 days. The procedure to implement a collective dismissal lasts up to 75 days (37.5 days if the number of involved employees is less than 10). The employer must inform the work council and the trade unions of the intention of collective dismissals, indicating the reasons why it is not possible to take alternative measures, the number and the qualification of those to be made redundant and the date at which the dismissal is supposed to take place. The employees' representative may request a consultation examining the reasons for the excess labour and the possibilities of using the workforce differently. If the consultation reveals that dismissal is the only solution, social parties should find measures for retraining and re-employing dismissed workers. Failure to follow the procedure leads to the obligation to reinstate the employees unlawfully dismissed.<sup>(146)</sup> There is also a financial burden associated with collective dismissals. Dismissed employees in the industrial and construction sectors are entitled to be in the so-called mobility lists, from which other employers can hire at reduced social security charges. For every dismissed worker the employer is required to pay a contribution equal to six times the first month mobility allowance (which amount to 100% and 80% of the *Cassa integrazione Guadagni Ordinaria* for respectively the first 12 months and the successive periods). An income support (*Cassa integrazione Guadagni Ordinaria*) to employees suspended from work as a consequence of a reduction of production activity can temporarily be paid in the industrial and construction sectors.<sup>(147)</sup>

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<sup>(145)</sup> In countries such as Ireland, Denmark and the Netherlands the number of employees triggering a collective dismissal depends on firm size.

<sup>(146)</sup> If the infringement relates solely to the selection criteria applicable, the employer must reinstate the employees but is then able to proceed with the dismissals immediately, without needing to repeat the entire procedure, by applying the criteria correctly.

<sup>(147)</sup> Compared to the mobility allowance, the CIG allow employers not to have to terminate the employment relationship, while waiting for a recovery.

#### *Temporary contracts*

**Fixed-term contracts** are allowed when justified by technical, organisational and productive reason, including the need to replace other employees (with the only exception of companies engaging in collective dismissals). Only one renewal is possible, provided that the duration initially agreed is less than 3 years. Where the procedure for a fixed-term contract agreement is not followed or the contract lasts for more than 3 years, it is automatically transformed in an open-ended contract.

**Temporary work agencies (TWA)** were liberalised in 1997, yet according to the OECD scoring method, their regulation is relatively stringent.<sup>(148)</sup> Indeed, the 1997 Treu law established that TWA employment is allowed in almost all cases,<sup>(149)</sup> summarised in a low OECD score given for the types of work for which these contracts are allowed – lower than in countries such as France and Spain (3), as high as in Germany (1.5) but still higher than Ireland, UK, the Netherlands or the Scandinavian countries. As Belgium, France, Portugal and Spain, Italy requires that there are 'objective reasons' for using agency workers (e.g. temporary increases in workload or the need to replace a temporarily absent worker). There is no legal maximum duration of TWA contracts, but it is set by collective agreements applied by TWAs. Among the characteristics affecting the stringency of TWA regulation, two are particularly tight. The first concerns the cost of using temporary agency workers relative to hiring workers on permanent contracts. The law establishes equal pay and conditions between agency workers and equivalent workers in the user firm. The second relates to the periodic reporting obligations necessary to maintain the administrative authorisation. In addition to TWA workers there now exists staff leasing i.e. the supply of workers on permanent contracts, excluding for firms which have resorted to collective dismissals in the previous six months.

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<sup>(148)</sup> TWA employment is a triangular contract whereby an agency hires a worker for the purpose of placing him/her at disposal of another firm for a temporary assignment.

<sup>(149)</sup> Exceptions are: to substitute workers on strike, firms experiencing collective dismissals in the previous 12 months and jobs requiring medical vigilance.

### 9.1.2. Working time and work organization <sup>(150)</sup>

Italy has an intermediate incidence of flexible working time arrangements, relatively low work intensity; irregularity and low incidence of rotation and team work as well as relatively low work autonomy and complexity. In Italy, close to 50% of workers do not have fixed starting and finishing time, against 40% at the EU27 average; about 32% of workers do not work the same number of days every week against more than 25% in the EU27. Working hours are set by the company with no possibility of changes for about half of Italian employees against an average of 56% for the EU, and less than 40% for Sweden, Netherlands and Denmark. Similarly, almost 44% of employed can adapt working hours within certain limits or determine entirely their working hours, compared to an average of 60% of Sweden, 53% of the Netherlands and 50% of Denmark. From this perspective, Italy has relatively flexible working time arrangements, yet less flexible than the best performers as far as the labour market is concerned. Working in the evening and on Sundays is relatively common. Work complexity is relatively low, as only about 50% of workers perceive their work to involve complex tasks (against an EU27 average of 60%). Finally, the incidence of team work and rotation of tasks is among the lowest in the EU and workers involved either in teams or in task rotation are less autonomous in their division of tasks than in the rest of the EU.

When considering the distribution of companies according to the flexible work organisation practices, Italy has the highest share of companies characterized by low flexibility (40% of all companies). Relative to the EU average, Italy also has a high share of companies with intermediate flexibility, in particular with a high incidence of overtime work (26% of all companies).

<sup>(150)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

### 9.1.3. Tax and benefits <sup>(151)</sup>

The Italian welfare system does not provide a generous support to the unemployed and is practically missing for those experiencing long periods of unemployment. While the initial gross replacement rates are relatively high (at 60% for the first six months and at 50% for the following two months), they drop to zero after 8 months (12 months for workers aged over 50). Tax wedge is somewhat above the EU average, at 42% for the low wage person and 46% for the average wage person. Financial incentives for unemployed to take up low-wage work (as measured by marginal effective tax rates, METR) tend to be somewhat around the median in the EU, depending on the family type. In contrast to other EU countries, marginal effective tax rates in Italy tend to be higher for families without children as family benefits are conditioned on taking up work. In addition, financial incentives to take up low-wage work for family types with children, in particular for one earner couple with 2 children, are among the highest in the EU. The most generous schemes, however, is confined to a tiny minority of workers who risk losing their jobs when redundancies occur in large firms in the industrial sector. Moreover, when the period of receipt of unemployment benefits has expired there are no means-tested benefits supplementing the loss of income and the METR falls to low levels.

As the social security net is relatively less comprehensive, the risk of poverty for the long-term unemployed before and after social transfers, a risk that concerns about 45% of unemployed, is higher than the EU average. In addition, complex eligibility rules imply that only few unemployed actually receive such benefits. Only about 15% of those willing to work and about 40% of unemployed according to the LFS are recipients of unemployment benefits. This benefit coverage of unemployed, among the lowest in the EU, reflects also the difficult access of temporary workers to

<sup>(151)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

ordinary unemployment benefits.<sup>(152)</sup> As a result, Italy spends below the EU27 average on passive labour market policies (0.7 % of GDP, 1% at the EU27 average). Persons with no or little work experience, or employed with atypical contracts, have very limited access to benefits and often have to rely on family support. The lack of a comprehensive social safety net probably contributes to an inefficient labour reallocation across sectors, occupations and regions, implying low regional and occupational mobility. Moreover, the very low female employment could be to some extent related to low incentives for a second earner with children to take up work as the principal earner benefits from a tax rebate for dependant inactive persons – which include both children and second earner – while the access to early childcare is lower than in most EU countries.

#### *Unemployment insurance*<sup>(153)</sup>

The unemployment insurance system is characterized by a large number of schemes unevenly distributed across the different categories of workers as to eligibility conditions, replacement rates, duration of the benefits, usually without link with active policies and incentives to work.

There are three main types of unemployment benefits: a) ordinary unemployment benefits; b) the ordinary wage guarantee fund (*Cassa Integrazione Guadagni ordinaria* or *CIGo*); c) the special guarantee fund (*Cassa Integrazione Guadagni speciale* or *CIGs*) d) mobility allowances (*Indennità di mobilità*).

#### *Eligibility conditions*

Benefit eligibility depends on the accumulation of contributions, which leaves those searching for their first job and with frequent career interruptions exposed to income fluctuations.

- *Ordinary Unemployment Benefits* are limited in time and in access. They are paid to laid off

workers who have paid contributions for at least 52 weeks during the two-year period preceding unemployment or whose contribution seniority is of at least two years at the time of the application (ordinary requirement). Benefits may also be paid to those who worked at least 78 days over the last year with the same employer (reduced requirement). In the latter, the allowance is lump-sum and is computed on the number of days worked over the previous year, with a minimum of 3 up to a maximum of six months (i.e. the benefit is an ex-post income-support related to the labour market status during the previous year). Historically, the reduced requirement was introduced for seasonal workers in agriculture and for those employed in construction sector.<sup>(154)</sup> The lack of monitoring and the upward trend in temporary employment considerably increased the use of this scheme, also on a regular basis.<sup>(155)</sup>

- Ordinary Wage Guarantee Fund (*CIGo*) is an income integration paid to individuals employed in manufacturing, experiencing temporary suspension or reduction of their working hours owing to cyclical fluctuation or to specific circumstances not attributable to employers or employees (e.g. interruption due to a natural disaster), while the employment contract is still ongoing. Workers of firms with less than 15 employees are not entitled to *CIGo* allowances.
- Special Wage Guarantee Fund (*CIGs*) is an income integration in case of collective dismissal paid to individuals experiencing a total or partial reduction of their working hours because of restructuring, or asset liquidation under bankruptcy procedures. Workers entitled are those employed in manufacturing firms with more than 15 employees, and in publishing and trade companies with more than 200 employees.
- Mobility allowances (*Indennità di mobilità*) are benefits paid to workers - with at least 12 months of insurance, including at least 6

<sup>(152)</sup> Although temporary workers can benefit from an alternative scheme in case they fulfil eligibility criteria.

<sup>(153)</sup> The information in this section is based on Joint European Commission-OECD project LABREF, and European Commission, Fondazione Giacomo Brodolini, Veneto Lavoro Agenzia Lavoro Lazio, Agenzia della Campania per il Lavoro (2007), "Flexicurity in the Italian Labour Market: Evaluation of Implemented Policy Measures".

<sup>(154)</sup> Special unemployment benefits (building industry): 10 monthly or 43 weekly contributions during the past 2 years.

<sup>(155)</sup> See Sestito, 2005, Indicators and policies to make work pay: an Italian perspective, European Economy, Special Report, No 2.

months of effective work - dismissed from firms usually after a period of Special Wage Guarantee Fund (i.e. when the firm is not able to re-employ them) and waiting to be placed in other jobs.<sup>(156)</sup> Social security rebates to hire workers in mobility lists are paid to employers, while workers in these lists are required to accept job offers or the participation to training courses. Failure to do this would cause the exclusion from the list.

#### Replacement rates

- Until 2004, Ordinary Unemployment Benefits were paid at 40% (increased to 50% in 2005) of the last monthly wage for 6 months. Recent reforms (2005-2007) have increased the replacement rate, to 60% of reference salary for the first 6 months and to 50% for the following two months. After the first eight months, the benefit is set at 40% for workers aged 50 or above 4 additional months. In the case of reduced requirements, the replacement rate has been increased from 30% to 35% for the first 120 days and is set at 40% for the remaining 60 days. Different amounts hold for workers in the agricultural and in the building sector.
- The allowance for both *CIGo* and *CIGs* is 80% of total gross earnings lost due to non-worked hours, with a limit in 2008 of 858 euros (or 1031 euros for monthly wages higher than 1857 euros). It is co-financed by the employer.
- Mobility benefits are at 100% of *CIGs* for the first 12 months and reduced by 20% thereafter.

#### Benefit duration

- The maximum duration of the ordinary unemployment benefits has been recently (2005-2007) increased from 6 months to 8 months for the unemployed under 50 years old and from 9 to 12 months for unemployed aged

over-50. In the case of reduced requirements, duration is equal to the number of days previously worked. Different durations hold for workers in the agricultural and in the building sector.

- *CIGo* is granted for 13 weeks with possible prorogations until 12 months (24 months in some regions), whether consecutive or non-consecutive, over a period of two years.
- *CIGs* is granted for 12 to 24 months plus two prorogations of 12 months each if restructuring lasts more than 24 months, up to a maximum overall of not more than 36 months over 5 years.
- The duration of mobility benefits depends on the age of the recipient, on the location of the job, on the firm size (different from sector to sector). For instance, the reference length is of 12 months, which is increase up to 24 and 36 months for workers over 40 and 50 years old respectively. In the South and other disadvantaged regions, the duration is raised to 24, 36 and 48 months respectively.

#### 9.1.4. Active labour market policies

In terms of both beneficiaries and type of instruments, ALMPs are not less unbalanced than the unemployment benefit system. The lack of an efficient system of monitoring and sanctions obliges ALMPs to be based on automatic incentives, mainly tax credits granted to employers to hire young people.<sup>(157)</sup> Consequently, their training content is very limited.

Italy spends 0.4% of GDP on active labour market policies (0.5% of GDP at the EU27 average) and per beneficiary it spends less on active than on passive measures. Most active labour market policy expenditures are directed towards training (almost 50%), followed by employment incentives (40%). The coverage of persons wanting to work in regular activation measures is somewhat below the EU27 average as about 26 out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). Labour market policy expenditures on services (which cover the

<sup>(156)</sup>The *CIGo* benefit corresponds to 80% of total remuneration for a maximum period of 12 months. An upper limit is put on such benefit for the second period of 6 months. The *CIGs* provides also 80% of total pay with upper limit for hours not worked, for a maximum period of 36 months. The mobility allowance can last 36 months (48 months in Southern Italy) and provides 100% of the *CIGs* for the first year and 80% for the following months, with the same ceilings as for the ordinary unemployment benefit. It usually intervenes after the *CIG* has expired.

<sup>(157)</sup>Youth measures absorb about 45% of all expenditures for ALMPs.

costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are among the lowest in the EU (less than 0.05% of GDP against 0.2% of GDP at the EU27 average).<sup>(158)</sup>

With the abolition of the public monopoly on employment services and the liberalisation of job placement services in 1997, competences in the area of active labour market policies have been devolved to regions. Devolution to regions has increased the heterogeneity in the efficiency of the services provided, Northern regions usually being more efficient. Law 30/2003 further promoted the creation of Temporary Employment Agencies (i.e. private companies authorised to engage in activities such as staff leasing and job placement services, personnel recruitment and selection, and to support worker redeployment and outplacement). Yet, the public employment offices do not ensure any effective mediation between labour supply and labour demand. According to ISTAT (2008), only 25% and 20% of the unemployed search for a job through public or private agencies, while less than 5% find a job through PES.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level of training, job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of

strategies aimed at mobilising the labour supply.<sup>(159)</sup>

#### *Registration procedures and benefit entitlement*

Registration with the PES is a condition for entitlement to ordinary unemployment benefits which can be retroactive to the date of loss of work; yet the back payment is reduced by a waiting period of seven days. In the construction sector, registration is a condition both for payment and for the start of entitlement. Applying for vacancies is not a condition for benefits. There is a large variety across regions in the time required for a full registration and the interview following the initial registration, which should be done within three months. Thus, in some instances, long waiting periods between initial and detailed registration may lead jobseekers to miss suitable vacant posts. For ordinary unemployment benefit, there are no data about how frequently people lose unemployment status as a consequence of the refusal of a job offer or lack of cooperation with the PES, but the Ministry of Labour feels that this situation is not frequent and sanctions are applied only rarely.

#### *Job-search requirements*

In addition to previous requirements of “joblessness” and “immediate availability for work”, the Decree No. 297/2002 has included the requirement for the unemployed to engage in “the search for gainful employment in ways agreed with the relevant services” (EEOR, 2003, p. 19), which might have increased the search effort at initial registration. However, the bulk of people previously registered were transferred to the new status with no evidence of implementation of the job-search plans agreed by the individual and the PES. People registering to PES are required to declare at the moment of the initial registration that they have undertaken some search actions to find work, but there is no evidence that this principle has been enforced and monitoring of job-search activities is rare.

<sup>(158)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

<sup>(159)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.



### *Direct referrals to vacant jobs*

There are no open vacancies (i.e. vacancies are not advertised). The PES provides information on the employer only at request of the jobseeker.

### *Intensive interview*

There is no established practice. The interview can occur at the registration or within three months of registration as unemployed. There is usually no schedule of intensive interviews, except for certain PES offices with specific career guidance services. Individual action plan is established at initial PES registration or during the first intensive interview.

### *Referral to ALMPs*

Participation in ALMPs after having experienced certain unemployment spell is not compulsory, but there is the obligation to participate if this is required by the PES. Yet, a strong limit is that PES is not required to verify job-search activities.

### 9.1.5. Lifelong learning

Italy has a relatively low educational attainment of adults (almost 50% of adults have at most the lower secondary education) and above EU27 average share of early school dropouts (over 20% of young have at most lower secondary education and are not in further education or training). A relatively low employability of workers is further emphasized through low participation in life-long-learning, the relatively low participation in continual vocational training (CVT), the low investment by enterprises in training of adults, low pupils' performance according to the OECD's PISA indicators and below EU average public expenditure in education (as a % of GDP).

The Italian continuous vocational training (CVT) system is very recent: its design started in 1993 and was achieved in 2003 with the establishment of the CVT Observatory involving both public institutions and social partners, reflecting the key role of tripartite social dialogue over time. The system is not yet complete because of the lack of nationwide professional and training standards and because of incomplete monitoring from the Regions, which are responsible for the management and the administration of dedicated public funds. However, public financing play a

minor role in firms training expenditure because of administrative costs.

### **The regulation of self-employment in Italy <sup>(160)</sup>**

The notion of self-employment comprises different forms of work, from occupations with professional registers (lawyers, doctors, notaries etc.) to personal services, to new occupations produced by the restructuring of the economy since the 1970s. It includes also the *para-subordinate* work, which is midway between dependent and self-employment. Within this typology, *employer-coordinated freelance work* or *project work* become most widespread in recent years. The *employer-coordinated freelance work* is defined by: a) the continuity of the contractual obligation which concerns the generic availability of the worker to perform certain activities during a certain span of time; b) even if work does not involve subordination, it must be coordinated with the functional requirements of the principal's organisation; c) the work must mainly involve the use of personal labour, means and equipment, but must not extend into entrepreneurial activities. Recent regulation relates the freelance relationship to the contractual form regulating 'project work', defining more stringent criteria for its use.

*Project workers* autonomously manage a specific project and their relative employment contract expires when the project is completed. On-call contracts can be made with unemployed workers aged under 26 and workers aged 45+ who have been made redundant or are on mobility schemes or registered as unemployed. Contracts can be either with or without a standby allowance. Where a stand-by allowance is paid, the worker is bound to accept an offer to work. Refusal to work in this situation is grounds for termination. On-call contracts can be used in all firms except public administration and those which have made workers redundant in the last six months. Project- and on-call workers, account for 7% of total employment (OECD, 2009) and are exempt from employment protection.

Para-subordinate work usually is not covered by legal and/or trade-union protections of subordinate

<sup>(160)</sup> Italy: self employed workers,  
<http://www.eurofound.europa.eu/comparative/tn0801018s/it0801019q.htm>

workers while many self-employed are under the umbrella of *ordini* or some other professional association. As regards social security, old-age protection for self-employed workers is mainly provided by public schemes financed by compulsory insurance or by basic pension schemes. For dependent employees, 2/3 of the contribution is paid by the employer and 1/3 by the worker, while the entire amount is paid by self-employed workers. In the case of the social security schemes managed by the INPS (National Institute for Social Protection), the contribution rates differ considerably between subordinate employees and self-employed workers: the former, in fact, pay 33%, while self-employed workers and *para-subordinate* workers enrolled with the INPS pay rates varying between 17% and 25%. The 1995 pension reform introduced a special scheme which extended social security coverage to certain categories of self-employed workers. This scheme finances a compulsory fund which guarantees a pension calculated using the contributions-based system if a minimum of five years' contributions have been paid. There are currently two rates for semi-subordinate work: the first rate - applying to all workers not covered by compulsory schemes other than the INPS separate scheme - is 25.72%<sup>(161)</sup>; the second rate (17%) applies to workers and professionals enrolled with other compulsory social security schemes, to direct pension-holders (that is, persons entitled to pensions deriving from contributions paid), and to the holders of a survivor's pension. For *para-subordinate* workers, 2/3 of social security contributions are paid - as for subordinate employees - by the firm and 1/3 by the worker.

In order to prevent the abuse of semi-subordinate work, the 2003 labour market reform introduced the project work, whereby the job is referred to one or more specific projects thereby reducing the range of application of employer-coordinated freelance contracts. The reform extended to freelancers the health and safety rules applying to dependent employees when the work is performed on the principal's premises; it also allowed employer-coordinated freelancers to protection in case of pregnancy, sickness and injury. In these cases, the principal cannot resolve the contractual relationship as previously; only the pay is suspended, for not more than one sixth of the established duration of the contract. For pregnant female freelancers the duration of the relationship is extended by at least 180 days. Since 1 January 2007, employer-coordinated freelancers enrolled with the separate INPS scheme and not contributing to other compulsory social security schemes, have been entitled to a daily sickness allowance, for episodes lasting no more than four days and with a maximum number of days equal to 1/6 of the general duration of the employment relationship (and in any case for no less than 20 days in the calendar year). The level of the allowance is 50% of the amount paid to this category of workers for hospitalisation. The same law introduced an allowance for parental leave which is paid for a three-month period within the first year of the child's life and to an amount equal to 30% of the income taken as the benchmark for calculation of maternity allowance.

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<sup>(161)</sup>It also includes a contribution of 0,72% for financing family, sickness and maternity allowances,

# 10. LUXEMBOURG

## 10.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

Luxembourg's labour market institutions are characterized by very strict employment protection legislation, especially for the regulation of temporary contracts and collective dismissals. The design of the unemployment benefit system presents potential disincentives to work.

### 10.1.1. Employment protection legislation <sup>(162)</sup>

Luxembourg has the strictest employment protection legislation in Europe (among the OECD countries only Turkey has a stricter one). The overall average score of the OECD's EPL indicator is 3.4, against an EU un-weighted average of 2.4. This overall performance is confirmed in each sub-indicator, but it is particularly evident for the temporary jobs, whose strictness indicator peaks 3.9 against an EU average of 2.2. The indicator regarding dismissal of individual workers with regular contracts registers an average of 2.7 against a European average of 2.3. Finally, the indicator of strictness of collective dismissals is at 3.9 against an EU average of 3.2.

#### *Individual dismissals*

Along with employees, the labour inspectorate and the enterprise's works council (if applicable) must also be notified of impending dismissals. The notice period starts either on the 1st or 15th day of the month following notice being received by the employee, whichever is earliest. In the event of dismissal, the employment contract ends: after two months' notice for an employee with less than five years' continuous service; after four months notice for an employee with between five and ten years of continuous service; after six months notice for an employee with ten years of continuous service. Employees with at least five years of continuous service are entitled to severance pay if their indefinite contract is terminated by the employer. The severance pay shall not be less than one month salary after five years service; three months after 15 years service; six months after 20 years service; nine months after 25 years service; and 12 months

after 30 years' continuous service. Firms with less than 20 employees can choose between making severance payments or giving additional notice equivalent to the amount of severance pay. Dismissal is fair if it is based on serious misconduct, worker capability, and economic needs of the business. In assessing the conduct of the employee in unfair dismissal cases, judges take into account education, work histories, social status and elements affecting the employee's responsibility and consequences of dismissal. The maximum length of the trial period for a contract of unlimited duration is 6 months. If the dismissal is found to be unfair, the employer may be required to pay damages to the employee. In determining the amount of damages, the court will consider a period which should have been sufficient for the employee to find a new job (typically 4-6 months). The dismissed employee must demonstrate that he/she has taken necessary steps to find a new job. The court also takes into account various factor such as seniority, age and family situation. The typical compensation at 20 years of tenure is 5 months. When ruling of unfair dismissal, judges may request that the employee is reinstated. If the employer does not want to reinstate the employee, he/she can pay additional compensation of one months' salary. The time limit for making a claim of unfair dismissal is three months from the date of the dismissal or the date when the employee requested/received reasons for dismissal.

#### *Collective dismissals*

Additional regulations apply for dismissals of 7 or more workers within a 30 day period or 15 or more workers within a 90 day period. Once notification has been given, negotiations start on a social plan, which must be finalised within 2 weeks. After the social plan has been agreed to, individual notification can be given to workers after 75 days. The social plan typically contains internal and external reclassification measures and the amount of additional compensation payable.

#### *Temporary employment*

**Fixed-term contracts** can be used in one of the following cases: to replace temporarily absent employees (except where the absence is due to an industrial dispute); where the work is of a

<sup>(162)</sup>The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

seasonal, temporary, urgent or occasional nature; in response to a temporary increase in work in the enterprise; to hire approved categories of unemployed persons register with the Employment Administration (authorisation takes into account age, training and duration of unemployment); and, with the authorisation of the Labour Ministry, to promote the hiring of some categories of workers or to engage in training. A fixed-term contract can be renewed twice. The contract cannot exceed 24 months in duration (including renewals). Fixed-term contracts for seasonal work cannot exceed 10 months in a 12 month period. Some categories of workers (teachers, artists, performers, athletes, coaches) are not subject to restrictions on renewals of fixed-term contracts.

**Temporary work agency (TWA) workers** may be employed in the following circumstances: to replace absent people or employees whose employment contract is suspended for a reason other than labour dispute; to replace an employee whose position became vacant before the entry into service of his successor; for seasonal jobs; for jobs in specific sectors or occupations where the nature of the work is temporary; and to perform urgent work. The contract can be renewed twice, but except for seasonal jobs, the contract should not exceed 12 months in duration for the same employee in the same job, including renewals. In order to operate, TWA require authorization from the Ministry of Labour, which is granted initially for 12 months. A request for extension of authorization must be made three months before the expiry of the authorisation. If granted, authorisation runs for a further two years. After a period of three years of authorised operation, the agency will be granted unlimited authorisation. A TWA worker is required to receive the same pay and conditions as an employee with the same or an equivalent qualification hired by the user firm as a permanent employee.

#### 10.1.2. Working time and work organization <sup>(163)</sup>

Luxembourg has an intermediate incidence of flexible working time arrangements, low work intensity and irregularity and an intermediate incidence of rotation and team work as well as relatively high work autonomy and complexity.

In Luxembourg, about one third of workers does not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, 17% of workers do not work the same number of days every week compared to more than 25% in the EU27. Working hours are set by the company with no possibility of changes for 57% of persons in employment. This indicates that flexibility of working time arrangements is close to the EU27 average (56%), however, considerably lower than in Sweden (34%), Netherland (36%) and Denmark (41%). In addition, only 35% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. The incidence of atypical work, in particular working in the evening, in the night and on weekend is among the lowest in the EU27.

Luxembourg has the highest share of companies characterized by low working time flexibility (23% of all companies). Relative to the EU average, Luxembourg has also a high share of companies with intermediate flexibility characterized by a high incidence of overtime work.

#### 10.1.3. Wage setting and bargaining systems <sup>(164)</sup>

Wage setting in Luxembourg depends either on legislation (in the case of public sector pay and the minimum (social) wage) or on collective agreements, while it may also be negotiated individually by the two parties in an employment contract. The latter, however, must take account of the existence of a minimum social wage or pay

<sup>(163)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

<sup>(164)</sup> See EIRO (2009).

scales specified in applicable collective agreements.

The minimum (social) wage is set by law. Every two years the government submits a report to the Chamber of Deputies on changes to overall economic conditions and incomes, and on the basis of this the minimum wage may be increased. The law specifies a minimum wage for unskilled workers and for skilled workers (20% higher than that for unskilled workers). Workers are considered to be skilled if they are working in a job that requires a professional qualification, normally acquired through education or training and resulting in an official certificate. The minimum wage for workers aged below 18 years is fixed as a percentage of the minimum wage for adult workers (80% for 17-18 year olds and 75% for 15-17 year olds).

Salary and wage levels deriving from a law, collective agreement or employment contract are adjusted to reflect variations in the cost of living. This means that a loss of purchasing power due to inflation is automatically compensated for by an increase in income (wages and salaries but also benefit payments, etc.). This price-indexation mechanism operates according to a threshold system: as soon as the cumulative increase in consumer prices reaches 2.5%, the mechanism is triggered, and an increase becomes due. The system is based on a non-centered six-monthly average in order to smooth out extreme variations in prices.

Collective bargaining is a major determining factor in wage formation. Depending on the sector, negotiation at the sectoral level has an impact on all companies in the sector concerned (when these agreements become general obligations). In the tertiary sector, security and caretaking companies, insurance companies, banks, private coach companies, the graphics industry, road haulage and the cleaning sector also have collective agreements which apply to all companies in these sectors. The agreements can also be signed at the company level or by a group of companies. All disputes that arise during collective agreement negotiations are required to undergo a conciliation process at the National Office for Conciliation. This body has been set up under the auspices of the Minister of Labour. It is chaired by the Minister or his representative, and is made up of a joint

commission of eight members (four from the employers' federations and four from the trade unions).

#### 10.1.4. Tax and benefit systems <sup>(165)</sup>

Expenditures on passive labour market policies are relatively low (0.5% of GDP compared to 1% at the EU27 average) as a result of relatively low unemployment rate. The benefit coverage of unemployed is high (about 66% of persons wanting to work are recipients of unemployment benefits compared to 44% at the EU27 average) and initial net replacement rates are among the highest in the EU, either for low wage, average wage persons or one-earner couple with children (85%, 87% and 95%, respectively). Despite net replacement rates decline substantially after 1 year for low wage and average wage person, they remain substantially above the EU average after 5 years for one-earner couple, though only if topped up with the social assistance. Tax wedge is below the EU27 average for both low wage (31%; 37% at the EU27 average) and average wage person (38%; 41% at the EU27 average). A withdrawal of benefits substantially reduces financial incentives to work, in particular of unemployed persons, regardless of their family type, as well as of an inactive spouse in jobless households (with or without children).

#### *Unemployment insurance* <sup>(166)</sup>

##### *Eligibility conditions*

Unemployment insurance is compulsory. The claimant has to be registered and to be available and fit for work. It is available for people aged between 16 and 64. Moreover, the claimant needs to be resident in Luxembourg and must have been employed for 26 weeks in the 12 months preceding unemployment.

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<sup>(165)</sup>In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(166)</sup>The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

### *Replacement rates*

A benefit of 80 per cent of the average wage during the three months immediately preceding unemployment is increased to 85 per cent if the beneficiary has dependent children. The maximum benefit level amounts to 250 per cent of the social minimum reference salary for the first six months, 200 per cent afterwards. The benefit is not income tested anymore. Income from accessory work is compatible with the unemployment benefit as long as it does not exceed 10% of the reference salary (3 months are taken for the computation of reference salary). If the income is higher than 10% of the reference salary, the amount in excess is deducted from the benefit. Unemployment benefits are taxable. The tax base is the same as that for earned income, including the work-related expenses allowance. Social contributions are due for health care, long term care and for pensions (old age, disability and survivors).

### *Benefit duration*

The maximum benefit period is 1 year in a 24-month period. The benefit is paid from the first day of unemployment; there is no waiting period.

#### 10.1.5. Active labour market policies

Expenditures on active labour market policies are at 0.4% of GDP (0.5% at the EU27 average) despite a large coverage of persons in regular intervention. Namely, the number of persons benefiting from regulation intervention exceeds the number of persons wanting to work. A majority of expenditures (57%) are directed towards employment incentives and about 27% to training. Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are among the lowest in the EU, at 0.05% of GDP (0.19% at the EU27 average).<sup>(167)</sup>

<sup>(167)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(168)</sup>

### *Registration procedures and benefit entitlement*

The entitlement to unemployment benefit starts before the registration for placement. The benefit is paid retroactively back to the date of loss of work. Within two weeks, the unemployed is evaluated in order to assess whether he/she is available to work and can be placed immediately in a vacant job. After the registration, every 2 weeks the unemployed reports his/her status.

### *Job-search requirements*

Up to 2006, no specific requirements of reporting job-search activities had to be fulfilled. Since 2007, the unemployed person has to prove his/her searching activity.

### *Direct referrals to vacant jobs*

Vacancies in the PES are not published but can be consulted under anonymity by all job-seekers through some interactive databases. An estimate, done by the Government for the OECD in 2004, reports that on average there are 5 direct referrals per each unemployed person. Before being interviewed by the potential employer, the job-seeker may be called by the PES for a pre-selection interview.

<sup>(168)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

*Intensive interview*

Every two months an intensive interview is scheduled for the unemployed worker. Within three months of unemployment t spell for youth and within six months for others, an individual action plan is created.

*Referral to ALMPs*

Participation in ALMPs is not compulsory at any point of the unemployment spell, unless it is referred by PES. A negative feature is that, during participation to ALMP programs, there is no requirement to continue job searching.

# 11. MALTA

## 11.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

### 11.1.1. Employment protection legislation <sup>(169)</sup>

The OECD score of tightness of EPL is not available for Cyprus and the information on EPL is taken from a third source. <sup>(170)</sup>

Individual dismissals are only allowed on the basis of:

- a good and sufficient cause- a term which has no statutory definition;
- redundancy. The employer has to terminate the contract of the last person engaged in employment (“Last In First Out”), with the exception of when the employer the last employed are related by consanguinity or affinity up to the third degree, in which case the employer may, instead of terminating the employment of such person, terminate that of the person next in turn;
- the employee reaching retirement age.

The trial period, i.e. the period during which regular contracts are not covered by the protection legislation and workers cannot claim for unfair dismissals - provided that at least 1 week’s notice of termination is given by the terminating party to the other party where the employment relationship has exceeded 1 month-, is relatively short (6 months unless the parties agree to a shorter term). By way of exception to this rule, in the case of contracts of service, or collective agreements in respect of employees holding technical, executive, administrative or managerial posts whose wages are at least double the applicable minimum wage, such probation period is of 1 year unless a shorter period is agreed upon in the contract of service or in the collective agreement.

The advance notice to be given by the terminating party to the other party is calculated according to the period for which the employee has been in the employment of the same employer continuously up to a maximum of 20 weeks for tenure longer than 7 years. Longer notice periods may be agreed upon in the case of technical, administrative, executive or managerial posts due to the nature or responsibilities involved in such roles and the hand-over usually required in such cases.

In cases where employment is terminated for good and sufficient cause, the employer is not required to give advance notice of termination and/or pay the employee for any wages relating to such notice period or the unexpired period of a definite term agreed upon. Typically, the employer would be expected to provide a very compelling reason for the dismissal of any employee on this ground, particularly more so when the dismissal is not preceded by any verbal or written disciplinary warnings given by the employer to the employee over a period before the dismissal. Two written warnings given by the employer over a reasonable period of time prior to the final warning and contemporaneous dismissal should serve to demonstrate a degree of prudence on the part of the employer if such dismissal is challenged by the employee as unfair. If the business in which the employee is engaged has undergone a transfer of ownership, the employer is not allowed from using the "good and sufficient cause" for terminating the employment of any employee/s.

Additional protection from termination of employment is given to:

- employees suffering from any personal injury by accident in the course of their employment or any occupational disease occurring in the service of that employer;
- full-time female employees during the period of maternity leave for the period of 5 weeks following the end of such maternity leave, during which she may be incapable of working. However, if the employee does not resume work after the birth of her child or, having resumed work, terminates her employment without good and sufficient cause within 6 months of the resumption of work, she would

<sup>(169)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(170)</sup> This information draws heavily on Zammit & Associates Advocates (2009) Employment law overview: Malta <http://www.zammit-law.com/legal-articles/employment-law-malta.pdf>



liable to refund the wages received during the maternity leave.

#### *Collective dismissals*

In any such circumstances, the employer is expected to comply with the procedure of consulting with the employee's representative covering ways and means of avoiding the collective redundancies or reducing the number of employees affected by such redundancies. The employer must also provide the employees' representative and the Director of Labour with a written statement providing information about the reasons for the redundancies, the number of employees he intends to make redundant, the number of employees normally employed by him, the criteria proposed for the selection of the employees to be made redundant, details regarding any redundancy payments which are due and the period over which redundancies are to be effected.

The collective redundancies may only become effective within 30 days from the date when the employees' representative and the Director of Labour are notified about the intended redundancies, unless this 30 day period is shortened or extended by the Director of Labour. If no resolution to the redundancies is attained, the employer would be bound to lay off the persons engaged last in the employment types affected by such redundancies.

#### *Temporary contracts*

A fixed-term contract can be successively renewed up to a maximum of 4 years, after which the contract is transformed in an open-ended contract. The exception occurs when the employer has justifiable reasons for retaining the employee on a fixed-term contract. If the employer does not offer a contract within 12 days following the expiry of the previous fixed-term contract, the contract is transformed in an open-ended contract. Termination of the contract by one of the party before the established term requires the terminating party to pay to the other a penalty which equals half the wages that the employee would have earned in the remaining period of employment. The employee with an indefinite term contract, on the other hand, is free to terminate the contract without any reason.

#### 11.1.2. Working time organization <sup>(171)</sup>

Malta has a low incidence of flexible working time arrangements, intermediate to low work intensity and irregularity, intermediate incidence of rotation and team work as well as high work autonomy, though low work complexity.

In the 2008 Budget, Government announced the launch of a part-time work register for individuals wishing to work on part-time basis only. The register is mainly intended to provide assistance to those who wish to obtain employment that is flexible and helps them combine work and family life. The register may be considered as one measure that assists part-time workers and follows the lowering of national insurance contributions that have to be paid by part-time workers.

In Malta, only 27% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, for almost ¾ of employed, working hours are set by the company with no possibility of changes. This indicates a low incidence of flexible working time arrangements (56% at the EU27 average), in particular if compared with Sweden (34%), Netherland (36%) and Denmark (41%). Only about ¼ of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Furthermore, only about 18% of workers do not work the same number of days every week compared to more than 25% in the EU27. The incidence of atypical work, in particular working in the night and on weekend is more frequent than in the EU27 average while working in the evening is relatively uncommon. Work complexity is low as about half of workers perceive their work to involve complex tasks (60% at the EU27 average). However autonomy at work is high as measured by the ability to choose or change the order of tasks, methods of work and speed or rate of work. Finally, rotating tasks between workers is as common as in the EU27 while team work is

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<sup>(171)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

considerably more widespread. However, both workers involved in teams and in tasks rotation are less autonomous in their division of tasks than in the EU27 average.

### 11.1.3. Tax and benefit systems <sup>(172)</sup>

Malta spends considerably below the EU27 average on passive labour market policies (about 0.4% of GDP compared to 1% at the EU27 average). This is due to both, relatively low benefit coverage of unemployed persons (about 37% of persons wanting to work are recipients of unemployment benefits compared to 44% at the EU27 average) as well as relatively low initial net replacement rates for low wage, average wage persons and one-earner couples, even if topped up with the social assistance (at 59%, 45% and 65%, respectively compared to 66%, 59% and 67% at the EU27). However, net replacement rates practically do not change over the unemployment spell, thus remaining at a relatively high level after 5 years of unemployment. Tax wedge is among the lowest in the EU, for both low wage persons (19%; 37% at the EU27 average) and average wage persons (24%; 41% at the EU27 average). Overall, the interaction of taxes with a withdrawal of benefits tends to keep financial incentives to work relatively high, though it may contribute to long-term benefit dependency.

#### *Unemployment insurance* <sup>(173)</sup>

##### *Eligibility conditions*

All individuals making at least 52 monthly contributions, of which 20 should have been contributed in the benefit year, are entitled to unemployment benefits or the Special Unemployment Benefit. To be able to receive the unemployment benefit (a contributory short-term benefit) a person: a) must be registering for work with the national employment agency; b) the

person must be over 16 but under 61 years old. If the criteria for social assistance are satisfied the Unemployment Benefit is increased and converted to, a Special Unemployment Benefit (SUB). Should the SUB not be sufficient for the unemployed person, this is complemented by additional social assistance. Self-employed persons who become unemployed are not entitled to UB or SUB but may qualify for Unemployment Assistance if they satisfy the means test criteria. A person may be deprived of the Unemployment Benefit or the Special Unemployment Benefit, should s/he fail to:

- attend interviews for potential jobs indicated by the employment service (ETC) and/or decline any offer for employment
- attend any training which the ETC deems suitable for increasing the unemployed chances of finding a job
- is found working whilst registering for work

##### *Benefit duration*

The Unemployment Benefit or Special Unemployment Benefit is given for a maximum of 156 days to employees only and depends on the number of contributions made. On exhaustion of special unemployment benefit, a client becomes normally entitled to unemployment assistance on re-assessment.

##### *Unemployment assistance*

Unemployment assistance is given to those persons who are unemployed and who have their application reassessed following 6 months from the receipt of Unemployment Benefit or Special Unemployment Benefit. In order to qualify for the receipt of such benefit, the applicant must satisfy a means test. Other eligible persons are applicants (employees) who have not enough social security contributions to qualify for UB or SUB as well self-employed persons who become unemployed.

Unemployment assistance is given to employees when the 156 days of unemployment benefit or special unemployment benefit have elapsed. Another way of getting unemployment assistance is when an employee who has become unemployed

<sup>(172)</sup>In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(173)</sup>The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

has not enough social security contributions to qualify for UB or SUB. Unemployment assistance can also be availed of by the self-employed. Unemployment Assistance is given for an indeterminate period or until the head of household stops registering for work with the public employment office or when capital and income means test is exceeded through changes in the family's financial situation.

#### *Employment conditional benefits*

Government Statutory Bonus and Income Supplement are given to all employees. Payment of the statutory bonus is effected in June and December, whereas payment for the income supplement is effected in March and September.

#### 11.1.4. Active labour market policies

Expenditures on active labour market policies are among the lowest in the EU (about 0.03% of GDP compared to 0.5% at the EU27 average) which reflects a very low coverage of persons wanting to work in regular activation measures. In particular, only 3 out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). About 46% of expenditures are directed towards training and about 41% to employment incentives. Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are at 0.11% of GDP (0.19% at the EU27 average).<sup>(174)</sup>

#### *Direct job creation and employment subsidies*

The ETC submitted an application for funding under the European Social Fund Programme 2008-2013 to launch an Employment Aid Programme. The aim of the programme is to promote access to employment of disadvantaged groups (youth, inactive, individuals over 50 years of age, long-term unemployed, individuals who had a substance abuse problem, individuals leaving correctional

facilities and persons with disability). Employers who employ individuals from these target groups will benefit from a subsidy consisting of half the minimum wage and half the national insurance contributions paid by the employer for a minimum of 26 weeks to a maximum of 52 weeks. The Budget for 2008 expounded on the Gozo<sup>(175)</sup> Employment Aid Scheme, which finances a substantial part of the expenses incurred by employers who employ unemployed individuals. The original scheme requested the creation of 5 new jobs to be eligible for assistance. The eligibility criterion was changed to one new job in order to make the scheme more attractive to micro enterprises are even more prevalent than in Malta.

The scheme announced in the 2007 NRP was launched to target the long term unemployed. Individuals participating in this scheme are employed for a period of three months working a maximum of 30 hours per week with private companies. Government contributes towards 75 per cent of the national minimum wage.

All schemes are intended to encourage employers in employing individuals who are most at risk of becoming long term unemployed. Alleviating their training costs and giving them the work exposure required to make them adaptable. These schemes are intended mainly to interact with training measures by the public employment services to train unemployed and employed individuals.

#### *Public employment services*

The ETC has launched a Youth Strategy for 2008 and 2009 targeted to youth who between 16 and 25 years not in post-secondary or tertiary education to help them make a successful transition to work by offering them specialised services covering job search assistance, training and work exposure. Apart from accessing ETC mainstream programmes youth will have the possibility to participate in programmes that are tailor made to their needs and circumstances. Initiatives include a youth employment programme that covers job search assistance to youth, career guidance services, and employment schemes, ICT job search facilities in the community, basic skills training

<sup>(174)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

<sup>(175)</sup> Gozo is the second largest island of the Maltese Archipelago.

and out reach programmes that target early school leavers.

To help the unemployed, particularly youth, to acquire work experience while seeking more stable forms of employment, registered unemployed accepting temporary employment arrangements will not lose their ranking order on the unemployment register. Social security contributions will be credited by the Government once their temporary employment ends.

#### 11.1.5. Lifelong learning

The Budget for 2008 announced the setting up of a Research and Training Centre in partnership with the University of Malta. Apart from initiating reforms in the training given to public sector employees, the Centre also conducts research in policy areas which are of relevance to Malta. Government committed €93,100 as “seed capital” for the immediate launching of the project.

Another initiative targeting lifelong learning in the country is the Government scholarship scheme for Masters and Ph.D. level degree courses. The scheme was reissued for the third consecutive year. The Budget for 2008 allocated €465,900 for this initiative. Furthermore, the Malta Council for Science and Technology has applied for funding under the European Social Fund 2008-2013 to introduce a bursary scheme for postgraduate studies at both Masters and Doctoral level. The latter initiative was reported in the National Reform Programme of 2007.

In order to continue consolidating Malta’s strength in the ICT sector, the Budget for 2008 provided additional funds to the My Potential II initiative, in order to extend the range of training and certification opportunities available under this programme. The initiative provides financial assistance to approximately 330 students and unemployed wishing to train in technology, as well as loan arrangements with banks.

# 12. NETHERLANDS

## 12.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

The Wassenaar Agreement of 1982 can be considered as a landmark in the transformation of the Dutch economy, and more particularly, of the Dutch labour market. The main terms of the agreement included moderate wage increases (with overall productivity growth as the main guideline), more room for part-time jobs in order to allow for a certain redistribution of jobs among workers and the unemployed, and more labour market flexibility. Throughout the 1980s and 1990s, several measures were taken to allow for more flexible labour contracts and gradually flexible workers became an accepted phenomenon (see for all the Flexibility and Security Act, entered into force in January 1999). Today, the Dutch labour market functions well, but still faces strong employment gaps between insiders and outsiders, in particular related to the position of the low skilled, disabled and older workers, while the work-life balance and the career opportunities for women are another key challenge.

### 12.1.1. Employment protection legislation <sup>(176)</sup>

EPL is among the highest in the EU for regular workers, in particular as a result of high regular procedural inconveniences and difficulty of dismissals, while for temporary workers EPL is low. <sup>(177)</sup>

Individual dismissals are considered unfair in case of “obviously unreasonable” terminations, and in case of dismissals of pregnant women, disabled, new mothers and works council members. Lay-offs have to obey to quite cumbersome procedures and can occur through two channels: a) a private sector employer wishing to terminate unilaterally an employment contract can require prior permission from a public administrative body, the Centre for Work and Income (CWI). This procedure acts as a preventive check to determine the reasonableness of any intended dismissal. It is financially less onerous than the alternative but much longer; b) instead of turning to the public employment service, both employers and employees can request a local court to dissolve the employment contract “for important reasons”. While in the first case employers are faced with long notice periods (from one to three months, depending on the tenure of the employee) and a more bureaucratic and time-consuming dismissal procedure, the second route is faster, but also more expensive as firms are faced with much higher severance pay obligations, especially for long job tenures (from 6 up to 35 months for job tenure of 20 years). <sup>(178)</sup> Nevertheless, this route has increasingly been taken, in particular by large companies, as the costs for an individual layoff rapidly declines relative to the CWI route when the salary of the person concerned increases, as it usually does with the size of the company. Severance payments are tenure dependant (1 month of salary per year up to the age of 40, 1.5 months of salary per year up to the age of 50 and 2 months of salary per year up to the age of 65). Somebody with 20 years of job tenure who gets fired at age 60, will receive 35 months of severance pay according to this scheme. The trial period – i.e. the period within which, regular

<sup>(176)</sup>The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(177)</sup>The OECD employment protection indicators are compiled from 21 items covering three different aspects of employment protection: **Individual dismissal of workers with regular contracts**: incorporates three aspects of dismissal protection: (i) procedural inconveniences that employers face when starting the dismissal process, such as notification and consultation requirements; (ii) notice periods and severance pay, which typically vary by tenure of the employee; and (iii) difficulty of dismissal, as determined by the circumstances in which it is possible to dismiss workers, as well as the repercussions for the employer if a dismissal is found to be unfair (such as compensation and reinstatement). **Additional costs for collective dismissals**: most countries impose additional delays, costs or notification procedures when an employer dismisses a large number of workers at one time. This measure includes only additional costs which go beyond those applicable for individual dismissal. It does not reflect the overall strictness of regulation of collective dismissals,

which is the sum of costs for individual dismissals and any additional cost of collective dismissals. **Regulation of temporary contracts**: quantifies regulation of fixed-term and temporary work agency contracts with respect to the types of work for which these contracts are allowed and their duration. This measure also includes regulation governing the establishment and operation of temporary work agencies and requirements for agency workers to receive the same pay and/or conditions as equivalent workers in the user firm, which can increase the cost of using temporary agency workers relative to hiring workers on permanent contracts.

<sup>(178)</sup>Recently the formula for the calculation of severance pay has been changed, essentially lowering it.

contracts are not fully covered by employment protection provisions and unfair dismissals cannot usually be made - is of 1 month for contracts of up to 2 years; 2 months for contract with more than 2 years duration. The option of reinstatement is rarely made available to the employee. Notwithstanding court rulings, employers in practice can choose to replace reinstatement in the previous job by payment of compensation. The amount of compensation is governed by the application of a regular severance pay formula.

Collective dismissals occur in case at least 20 workers have been dismissed by one employer in the same region over a period of three months. In this case, the employer must provide data on the financial state of the company, prove that alternatives to redundancy have been considered, and justify the selection of dismissed employees ("last in – first out" principle, or age/sex balance of the workforce, for example). The employer must inform and consult with works council and trade-union delegates on alternatives to redundancy and ways to mitigate the effects and notify the competent regional employment office. A social plan will normally be agreed outlining transfers, re-training, early retirement measures and financial compensation. A thirty days' waiting period allows for social plan negotiations, unless the social partners have agreed in writing to refrain from the waiting period. While there is no legal entitlement to severance pay in case of collective dismissal, social plans often contain severance pay or top-ups to unemployment benefits.

#### *Temporary employment*

Law permits three successive fixed-term contracts not exceeding an overall period of 3 years. A fourth renewal or a renewal exceeding a total period of 3 years will alter the fixed-term contract automatically into a contract of indefinite time. The number of renewals and/or the duration can be changed (more/less) by collective agreement. No limit applies on the duration for the first fixed-term contracts, but the 3 years rule applies in case of renewals.

Temporary work agency (TWA) is also generally permitted, with the exception of seamen. After the first year, 8 renewals are allowed, each for 3 months. After 3 years of cumulated duration, the contract will be transformed into a contract for an

indefinite period with the temporary work agency. The current set up for TWA employment largely results from the 1999 Flexibility and Security Act. The Act abolished the permit system of temporary agencies with respect to their placement services and established a standard employment contract between the TWA and the worker. Temporary agency workers were given, depending on tenure, a right to fixed-term or permanent contract with the agency, an individual budget for training and pension. A key role was given to collective labour agreements in the TWA sector. Furthermore, only after 26 weeks of working for the same company, TWA workers are on par with employees in that company concerning pay.

#### 12.1.2. Working time and work organization <sup>(179)</sup>

In the Netherlands, almost 50% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, 28% of workers do not work the same number of days every week compared to slightly more than 25% in the EU27. Only 36% of persons in employment working hours are set by the company with no possibility of changes. This indicates highly flexible working time arrangements (56% at the EU27 average). Also, 53% of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves (36% at the EU27 average). Atypical work, in particular working in the night and on Sundays is relatively infrequent and below the EU 27 average while working in the evening and Saturdays is somewhat more widespread than in the EU27. Work complexity is relatively high as about 65% of workers perceive their work to involve complex tasks (60% at the EU27 average). Furthermore, work autonomy is high as measured by the ability of workers to change the order of tasks, methods of work and speed or rate of work. Finally, the incidence of team work and rotation of tasks are among the highest in the EU. Workers involved either in teams or in tasks rotation are

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<sup>(179)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

considerably more autonomous in their division of tasks than in the rest of the EU.

Looking at the distribution of companies according to the practices used to organize working time, the Netherlands has the highest share of establishments with intermediate flexibility. The Netherlands has also a high share of companies with intermediate flexibility, characterized by a high take-up of part-time work and a high incidence of unusual working hours. These working time arrangements help companies to cope with short-term (within a day or week) variability of the workload.

Despite flexible working time arrangements, the overtime regulation does not allow for annual working time accounts as working time cannot exceed 48 hours per week over 16 week period and 60 hours per week. This contributes to the low usage of overtime which is below the EU average. The standard working week is restricted by collective agreements and totals on average 37 hours per week.

Two acts have been essential for increasing internal and functional flexibility: the Prohibition of Discrimination by Working Hours Act and the Working Hours Act (WHA). The first one forbids employers to discriminate between employees on the basis of a difference in working hours in the conditions under which those employees enter, extend or terminate a contract of employment. The amendments to the Working Hours Act, introduced in 1996 to encourage the development of more flexible work patterns, provide more opportunities for employers and employees to come to a joint agreement on working hours, within certain limits. The further simplification of the Working Hours Act passed in 2006 gives employers and workers more opportunity to negotiate working hours at the local/organisational level. Several limitations and restrictions, following from the WHA, were also relieved and maximum daily working hours were increased from 10 to 12 hours. The Working Hours Adjustment Act adopted in 2000 further supports flexibility as it allows workers to increase or reduce their working hours irrespective of their reasons for wishing to do so. Employers can only refuse a request to adapt weekly working hours if such a reduction or increase would lead to serious problems for the organisation itself.

Employers can also draw either from a general tax-favoured savings scheme or a life-course saving scheme. The latter scheme allows workers to save income or time to be spent on leave periods. Individuals can save a maximum of 12 percent of yearly gross income up to 210 percent of their annual pay, for a maximum of three years of leave (against 70 percent of the wage). Employers may contribute to such a scheme, which can be specified in collective agreements. The employee can save for periods of unpaid leave, e.g. care-leave, sabbatical, terminal care, parental leave, training leave or early retirement. The most important part regarding this scheme is that pension rights are kept during leave. A sabbatical will therefore not lead to future lower (pension) earnings.

Collective bargaining parties are expected to incorporate and facilitate the Life Course Savings scheme into their agreements, and employers are obliged to offer the Life Course Savings scheme to their employees.

### 12.1.3. Wage setting and bargaining systems

The system of wage formation in the Netherlands is fairly stable. Collective bargaining coverage is more than 80% (including extension). The sector level is dominant, but the number of wage agreements at company level is increasing. When employees are not covered by an agreement, the employer and the individual employee negotiate the wage. In some cases, works councils negotiate the wage agreement. There are also companies that closely follow their sector's agreement, without being legally bound to do so.

### 12.1.4. Tax and benefit systems <sup>(180)</sup>

Expenditures on passive labour market policies are relatively high (1.4% of GDP compared to 1% at the EU27 average) as well as the benefit coverage of unemployed (almost 75 persons out of 100 wanting to work receive unemployment benefits,

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<sup>(180)</sup>In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

compared to 44 persons at the EU27 average). Also, net replacement rates are high at the beginning of the unemployment spell - at 73% for the low wage and average wage person (at 66% and 59%, respectively at the EU27 average) and at 89% for the one earner couple (67% at the EU27 average). As net replacement rates taper off only gradually over the unemployment spell or even slightly increase (in particular if topped up with the social assistance), they are among the highest in the EU after 5 years. The Netherlands has relatively high tax wedges, at 40% for the low wage person (37% at the EU27 average) and at 44% for the average wage person (41% at the EU27 average). Tax wedge for the average wage person saw a considerably increase over 2001-2007 (by 4.2 pps.), in particular as a result of an increase in social security contributions paid by employers and personal income tax.

Despite social transfers are very effective in reducing poverty rate, in particular of the unemployed, inactive and low educated, the fast withdrawal of benefits and their interaction with taxes produce low incentives to work across the board, in particular of inactive persons. In particular, the second earner's incentives to work are strongly affected by the general tax credit of a non-participating partner which is transferred within a couple for income levels below 6070 €. Women's participation is further discouraged by unconditional child benefits and income-tested child tax credit.<sup>(181)</sup> A phasing out of the transferability of the general tax credit was started in 2009, while in 2008 the tax discount for children was converted into a child allowance, with foreseeable positive impact on the reduction of the inactivity trap. According to the government's estimations, women account for approximately 75% of the untapped labour resources in the Netherlands. To encourage women to take up a job/increase their number of hours worked, the government is taking several measures, including investments in child care and measures aimed at reducing the high marginal tax on the second earner. Individual child tax credit and child tax credit for second earners aim to support work incentives for women, though a greater shift from the family income based child tax credit to the individual or second earners child tax credit would

help to increase labour supply of women even further.<sup>(182)</sup>

Older workers also face disincentives to work longer despite reform measures that removed tax incentives for early retirement and eliminated pre-pension schemes.<sup>(183)</sup> Older workers represent in fact the second largest source of untapped labour potential in the Netherlands. As unemployment benefit duration is relatively long and unemployment benefits can be topped up with severance payments, which are tenure dependant, older workers may use unemployment as a transition to retirement. Furthermore, labour contracts legally end together with the obligation to pay severance payments when workers get 65 years old. As employers continue to be obliged to pay wages for the first two years of sickness absence, they generally prefer to terminate the job, thus depressing labour demand.

#### *Unemployment insurance*

##### *Eligibility conditions*

In order to receive salary-related benefits, applicants must fulfil the weeks' condition and the years condition, i.e. they must have completed at least 26 weeks of employment during the last 36 weeks (1 day/week is sufficient to qualify as a working week). Weeks during which claimants worked as self-employed do not count. Applicants must also have been in employment in at least 4 years during the last 5 calendar years, in each of which a salary over 52 days was paid (4-out-of-5 condition). It is not required that these 52 days be an uninterrupted period of time (1 day/week is enough) and the number of hours of work are irrelevant. Years spent caring for children aged below 6 are fully taken into account in this calculation and years spent caring for those aged 6-12 count for 50%. People working less than 5 hours per week do not qualify for unemployment benefits.

##### *Replacement rates*

In the first 2 months the replacement rate is of 75% of the wage most recently earned (maximum € 177.03 per day), thereafter it stands at 70%. Levels

<sup>(181)</sup> See OECD, Employment Outlook, 2006.

<sup>(182)</sup> See OECD, Economic Surveys: Netherlands, 2008.

<sup>(183)</sup> See OECD, Economic Surveys: Netherlands, 2008.



of benefit below the social minimum can be topped up under the Supplementary Benefit Act.

#### *Benefits duration*

The benefits will be payable for as many months as the number of years in employment (with a maximum of 38 months).

#### 12.1.5. Active labour market policies

Expenditures on active labour market policies are relatively high (about 0.7% of GDP, 0.5% at the EU27 average) and most of them are spent on supported employment and rehabilitation (70%), followed by employment incentives and training (about 15% each). About 40 out of 100 persons wanting to work benefit from activation (36 persons at the EU27 average). Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are the highest in the EU, at 0.4% of GDP (0.19% at the EU27 average).<sup>(184)</sup>

The job availability requirement index calculated for 2004 shows that the Netherlands have the strictest activation strategy in Europe. To further support incentives to work, unemployment benefit duration was reduced from 5 years to a maximum of 38 months in 2006. In 2007, a new system of monitoring job search was introduced, which is based on individual targets and after 6 months the initial definition of a suitable job is widened.<sup>(185)</sup> Concerning social assistance, the efficiency of municipalities in monitoring and activating social assistance benefit recipients was raised in 2004 when the budgetary and implementation responsibilities of the social assistance scheme were transferred from the national level to the municipalities, allowing them to use the budget surpluses for other purposes. Social assistance benefit recipients are offered a job or training from

the start and they can top-up income from work with benefits. To reduce the high inactivity trap for second earners, transferability of the general tax credit within a couple will be gradually phased out (over a period of 15 years) with some exceptions concerning mothers with children under the age of 6 years and tax payers born after 1971.

The public employment service (CWI) places job seekers into two profiles according to their characteristics to reintegrate into employment. In the first profile everyone is capable of job search while in the second profile job seekers face certain obstacles for job searching and reintegration. The unemployment agency (UWV) further profiles job seekers that are contracted out to private replacement providers, which provide most of job placement and reintegration services. Recent reform strategies have focused on improving the employment prospects of target groups most difficult to employ, through training, education, apprenticeships, wage subsidies and/or working while retaining benefits. Benefits for young people under 27 years of age were scrapped in 2007 and replaced by an apprenticeship/work obligation, with the social partners contributing to create more apprenticeship positions. New individualised action plans were also decided, to reduce the number of young people on disability benefit, whose number has increased as the conditions to access unemployment schemes were tightened. In addition, some 10,000 subsidised 'bridging positions' were created in 2007, for cases where disability claimants lose their benefits as a result of their claims being re-examined. An Action Plan 45+ was also adopted in 2007 to improve the labour market prospects of older workers, while wage subsidies of up to 50% of the statutory minimum wage were introduced in 2008 to help the long-term unemployed back to work.

#### *Activation policies*

The role of activation strategies is to enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance

<sup>(184)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

<sup>(185)</sup> Recently, mobility centres were set up to facilitate re-activation.

and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(186)</sup>

#### *Registration procedures and benefit entitlement*

In order to be eligible for benefits, the unemployed needs to register both for placement and benefit at the local PES (CWI). Since work availability and active job search are the main aspects of the conditionality of benefits, the PES (CWI) assesses these aspects at the beginning of the process. However, the CWI cannot refuse to support people applying for benefits. The unemployment agency (UWV) and municipalities make the final assessment of entitlement to benefits.

#### *Job-search requirements*

The continuation of the unemployment status is discussed in the context of regular interviews at CWI which, however, does not confirm the entitlement to the benefits. An agreement on job-search activities is normally concluded between the jobseeker and the CWI counsellor/case manager. This agreement sets the framework for monitoring and assessing the efforts of the jobseeker, where specific requirements depend on the capabilities of the individual jobseeker. In accordance with individual possibilities, periodic targets for job search are set on an individual basis and controlled by the case managers. The periodicity of the monitoring depends on the capabilities of the individual jobseeker.

#### *Direct referrals to vacant jobs*

Employers can request a particular number of jobseekers to be referred to a vacancy. In the case of both “closed” and “semi-open” vacancies, the adviser may send jobseekers a letter drawing their attention to suitable vacancies. Pre-selection interviews may take place if this is agreed with the employers.

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<sup>(186)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

#### *Intensive interview*

At the initial registration, the jobseeker’s distance from the labour market is assessed by the CWI. Those who are ready to work may be asked to attend collective information sessions. Those who are not job-ready receive another intensive interview to formulate an advice with regard to reintegration activities, after which they are transferred to the UWV or municipalities for a “reintegration trajectory”. The frequency and intensity of the interviews depend on the circumstances of the individual jobseeker. In general, the support becomes more intensive as the unemployment spell increases in duration.

#### *Referral to active labour market policies*

The CWI does not create action plans for those clients who are ready to work, but provides reintegration advices to UWV and municipalities after a qualifying interview for clients that are not considered “job-ready”. These advices on reintegration activities could be understood as an action plan. UWV and the municipalities are responsible for the reintegration of hard-to-place clients, who tend to be contracted out to private and community providers. Participation in these activities is compulsory and does not depend on the duration of the unemployment spell. The CWI co-operates with the Taskforce Youth Unemployment to enhance the efforts to integrate young people in the labour market. There is a variety of opportunities for young people promoted by CWI, e.g. work experience or training on the job. The targets of the Taskforce (40 000 jobs for youth) was reached in 2007, so the Taskforce has ended recently.

#### *12.1.6. Lifelong learning*

The Netherlands scores favourable in terms of human capital and good employability of workers. Its share of public expenditures on education in GDP is close to the EU15 average (5.2 %). The education of adults scores favourable compared to the EU15 average, with an equal share of medium educated adults (42%), below the EU15 average share of low educated (27%) and above the EU15 average share of high educated workers (31%). The share of early school leavers is below the EU27 average. The Netherlands has relatively high on-the-job employability as measured by learning,

training and task rotation.<sup>(187)</sup> Participation in lifelong learning (17%) is above the EU average regardless of economic activity, age and education. However, it has remained largely stable over recent years, despite an ambitious national target (20% by 2010) and commitments of social partners. Moreover, the difference in the participation in lifelong learning between older (7.9%) and prime age (16.6%) workers is among the highest in the EU implying considerably lower investment in the employability of older workers. Furthermore, participation in lifelong learning of inactive (10%) is much lower than participation in lifelong learning of employed and unemployed (18% both). Participation in continuous vocational training courses is slightly above the EU25 average and expenses on continuous vocational training (CVT) courses account for almost 2% of total labour costs.

The Dutch system of CVT is based on the 1996 Adult and Vocational Training Act, which does not set any individual statutory right to educational leave for employees, but gives them the possibility to save money for leave periods, through the so-called "life course" arrangement since 2006.

While the government is responsible for the education of the unemployed in the context of reintegration measures - where the UWV, besides providing unemployment benefits, also reimburse the costs of work-oriented training for a period of maximum three months - employers and employees are responsible for the education of workers beyond initial education. To this end, they have established the so-called Education and Development Funds to promote vocational training- and employability policies at company level and to fund vocational training of individual companies.

With the aim of increasing the share of people with intermediate vocational training and of stimulating additional education both by the employed and unemployed, a 'temporary agency on work and education programmes' was launched in 2005, initially for a period of two years, then further extended till 2011. Its aim was to develop and implement individual projects combining learning and working and jointly organised by employment agencies, employers and education institutions, as well as to implement education projects for the weakest groups of unemployed people; and to provide young workers with a certification of competencies and experience acquired.

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<sup>(187)</sup> See Pacelli for the construction of the indicator, 2008.

# 13. PORTUGAL

## 13.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

Portugal belongs to the group of Southern Europe countries with low flexibility/adaptability and relatively low security/income protection. Current labour market institutions have not allowed for a smooth adjustment to globalization after Portugal entered EMU. Addressing rigidities in the labour market within the flexicurity framework (as a policy package) is essential to enhance the adaptability of the labour force and to address long-term labour market challenges. This is also a major focus of the first flexicurity pathway.

The new labour code adopted in September 2008 is a first step in the direction of reducing the segmentation of the labour market and increasing its adaptability. Besides facilitating and streamlining the procedural requirements for dismissals, it has facilitated internal flexibility for companies, rationalised collective bargaining and encouraged firm-level agreements.

### 13.1.1. Employment protection legislation <sup>(188)</sup>

Portugal has the highest employment protection legislation for regular workers in Europe, with particularly high severance payments. The OECD's indicator for the strictness of employment protection for regular workers is at 3.5 (2.3 at unweighted EU average). This has produced a high share of fixed-term workers, despite relatively high employment protection legislation for fixed-term workers (the employment protection index is at 2.8 against 2.2 at the EU average). While the conversion rate from temporary to permanent contracts was relatively high at the beginning of 2000 (about half of all temporary contracts were converted to permanent contracts from 2000 to 2001) it dropped enormously in mid-2000 (only about 10% of all temporary contracts were converted to permanent contracts from 2005 to 2006). On the contrary, the indicator related to collective dismissals is at 1.9, the lowest in Europe.

Individual dismissals are permitted for economic reasons and for lack of professional or technical capability. Dismissals for individual redundancy must not involve posts also manned by people on fixed-term contracts. Dismissals for lack of competence are only possible after the introduction of new technology or change to job functions. Where some of the formalities are not followed or where the grounds for dismissal are declared unfounded by a judge or lacking fundamental procedural aspects, then the dismissal is deemed to be unfair. The burdensome of procedural requirements associated with individual dismissals score high in the OECD's EPL index. The employer must address a written notice to employee and employee representatives justifying the reasons for dismissal and the lack of suitable alternatives. In case of individual termination for unsuitability, a replacement must be hired. In case of economic redundancy, the employee and the employee's representatives have, if they wish, 3 working days to call in the Labour Inspectorate and the latter has 7 days to react and verify justification of dismissal. The notice period varies according to tenure durations, and it stands at 15 days for 9 months tenure, 30 days for 4 years tenure, and at 75 days for 20 years tenure. The severance pay is one of the highest in the EU, and amounts to 1 month pay per year of service for all workers, starting from a minimum of 3 months. The trial period for open-ended contracts, that's the period during which the protection against individual dismissal does not apply, is relatively long as it stands at 90 days for general workers, 180 days for jobs with technical complexity or requiring special skills or trust or that imply high levels of responsibility, and 240 days for managers and senior officers/top executives. In case the dismissal is irregular because some of the formalities have not been properly followed, the worker has no right to back pay, nor to reinstatement, but only to a compensation of 7.5-22.5 days of pay per year of service (typically up to 15 days per year of service). In case of illegal dismissal because the grounds for dismissal are declared unfounded by a judge, back pay is limited to one year and the worker can choose between reinstatement and compensation, typically of one month of pay per year of service (with minimum payment of 3 months). In the second half of 2008, the government put forward new legislation that, starting from 17 February 2009, will significantly

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<sup>(188)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

simplify dismissal procedures. The most important changes include notice periods for dismissals being reduced for employees with less than four years tenure, a distinction to be made between dismissals that are illegal and those that are merely irregular, and the length of time that employees will have to launch an unfair dismissal claim will be reduced from one year to 60 days.

The procedure and guarantees for collective dismissals apply already when only 2 or more workers are dismissed within 90 days in firms with less than 51 employees or 5+ workers in firms employing at least 51 employees for structural, technological or market reasons. All in all, the criteria to be applied in case of collective dismissal are less strict than for individual dismissals. The employer has the duty to inform and consult with works council or trade union delegations on alternatives to redundancy, on the selection standards and on possible ways to mitigate the effects of collective dismissal. It must also notify the service in charge of labour relations. No specific regulations exist concerning severance pay or selection criteria to apply in case of collective dismissal. In particular, there is no duty to retrain or transfer workers to another post and no priority rules exist based on tenure or occupation.

#### *Temporary employment*

Fixed-term contracts are permitted, *inter alia*, for a) business start-ups, b) launching a new activity of uncertain duration and c) recruiting workers in search of their first job and long-term unemployed. Since the reform of the Labour Code adopted in 2008, the maximum duration of fixed-term contracts is three years when there is a fixed date of termination and six years where there is no fixed date of termination (e.g. for completion of a particular task), for a maximum of four renewals.

Temporary work agency (TWA) employment is allowed to cover "objective situations", including seasonal activity and substitution of absent workers. Work contracts are concluded between the temporary employee and the TWA, while the TWA concludes a different type of contract with the final user. Contracts between the temporary employee and the TWA may be entered into for an unlimited duration, with no restrictions on the number of renewals and prolongations. Contracts between the TWA and the final user have a

maximum duration of two years. Existing regulations ensure equal treatment of regular workers and agency workers at the user firm.

The reform of the labour code introduced in 2003 eased the procedures for collective dismissals. However, in practice it did not add much to labour market flexibility. As a result, employers still typically use temporary contracts to adjust labour input, which results in a high share of temporary workers. Alternatively, employers contract out arrangements to "independent" (bogus self-employed) workers who are in fact engaged in regular activities with a single employer. The 2003 reform also partly reduced incentives for self-employment, as the more favourable treatment of self employment for social security purposes was reduced to converge to the regular dependent employees' treatment. However, the share of self-employed in non-agricultural sector remains relatively high (12% in 2008). Besides legislation rigidities concerning hiring and firing, also the implementation of procedures is cumbersome, thus reducing the effectiveness of workers' protection and further increasing dismissal costs for employers. Despite the 2003 reform also provided for more flexibility in the use of fixed-term contracts and expanded the scope for flexibility in collective agreements at the firm level regarding dismissal rules, EPL for fixed-term contracts continues to be relatively high and to hamper the labour market entrance of young, who experience high unemployment rates in Portugal. Cross country-comparison shows that in particular low educated young find it more difficult to find permanent jobs.<sup>(189)</sup> More recently, the possible duration of temporary agency work was extended to 24 months (from previously 12 months) in 2007, while the new Labour Code adopted in 2008, has eased and simplified the procedural requirements for the dismissal of employees. As of January 2009, the individual dismissal procedure consists of three steps (worker notification; worker defence allegations; employer's final decision). Also, the maximum duration of fixed-term contracts has been fixed at three years when there is a fixed date of termination of the contract, and at six years where there is no fixed date of termination (e.g. for completion of a particular task).

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<sup>(189)</sup> OECD, 2008, Economic Surveys, Portugal.

### 13.1.2. Working time and work organization <sup>(190)</sup>

In Portugal, only less than 25% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). Furthermore, for 75% of persons in employment their working hours are set by the company with no possibility of changes. This indicates a low incidence of flexible working time arrangements (56% at the EU27 average), in particular if compared with Sweden (34%), Netherland (36%) and Denmark (41%). Only one fifth of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Furthermore, only 13% of workers do not work the same number of days every week compared to more than 25% in the EU27. The incidence of atypical work, such as working in the night, in the evening and on weekends is among the lowest in the EU. Work complexity is somewhat lower than in the EU27 - as about 55% of workers perceive their work to involve complex tasks (60% at the EU27 average) - as also autonomy at work as measured by the ability to choose or change the order of tasks, methods of work and speed or rate of work. Finally, the incidence of team work and rotation of tasks is among the lowest in the EU and teams and workers involved in tasks rotation are considerably less autonomous in their division of tasks than in the rest of the EU.

Portugal has the highest share of companies characterized by low working-time flexibility (39% of all companies). This company type is also the most prevalent relative to the EU average distribution of companies.

Existing restrictions on the flexibility of working hours and low adaptability of practices in the workplace have lead to scarce internal flexibility, which may be impinging on firms' productivity, whereas some margins for companies to adopt flexible working hours had been created in 2003.

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<sup>(190)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

The new Labour Code adopted in 2008, besides facilitating and streamlining the procedural requirements for dismissal, also facilitates internal flexibility for companies, rationalise collective bargaining and encourages firm-level agreements, by giving more room for manoeuvre to agreements at the enterprise level. On working time, the new labour code has introduced annual 'working time accounts' of 200 hours and more adaptability at the workplace, there including the possibility to work on 'concentrated schedules'.

### 13.1.3. Wage setting and wage bargaining systems

Wage formation in the private sector is largely underpinned by collective bargaining, mainly at branch level. The government plays a role in wage setting directly by extending collective agreements if both signatory parties ask for it, and indirectly by publishing official previews of the expected inflation, which is also used for wage negotiations. Changes in the collective bargaining procedure, to enhance the responsiveness of wage settings to productivity and skill differentials across sectors, were introduced in 2003 and further on in 2006.

Due to the numerous small companies in the majority of sectors, wages agreed upon in these branch agreements tend to be considerably below the effectively paid remunerations in larger companies and in companies with high productivity.

### 13.1.4. Tax and benefit system <sup>(191)</sup>

Expenditures on passive labour market policies are close to the EU average (1.1% of GDP, 1% of GDP at the EU27 average). The benefit coverage of unemployed is somewhat above the EU27 average (more than 50 persons out of 100 persons wanting to work are recipients of unemployment benefits; 44 persons at the EU27 average). Unemployed persons benefit from both generous unemployment benefits, as demonstrated by high

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<sup>(191)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

initial net replacement rates (78% for low wage persons, 84% for average wage persons and 75% for one-earner couples with children), as well as generous severance payments in case of dismissal on regular contract. This is in line with Portugal having a relatively low (and below the EU15) average risk of poverty rate among the unemployed. However, after unemployment benefits are exhausted, the net replacement rates drop to zero, unless they are topped up with the social assistance (amounting only 24% for low wage persons, 17% for average wage persons and 47% for one-earner couples with children). As long-term unemployment rate in Portugal is high (almost 50%), this may increase overall at-risk-of-poverty rates in the country. To partly overcome these limitations in the social safety net, the minimum guaranteed income was replaced in 2003 by the social insertion income, a scheme with increased benefits for large households and stronger activation measures for the beneficiaries. Temporary workers are only partially eligible for unemployment benefits (and unemployment assistance) which leads to their considerable disadvantage compared to permanent workers.

Tax wedge is relatively low, for the low-wage person at 33% (37% at the EU27 average) and for the average-wage person at 37% (41% at the EU27 average). However, marginal effective tax rates are relatively high for certain population groups. To improve the incentives to work and to facilitate the transition from unemployment to work, Portugal reformed its unemployment benefits system in 2006, by tightening eligibility criteria, establishing a closer link between the duration of benefits and the contribution period, strengthening availability to work conditions (with the introduction of an obligation to report to the PES every two weeks) and by introducing stricter sanctions for fraud/non-compliance. The way benefits are calculated was modified to avoid situations where benefits were higher than the net reference wage. Stricter rules were also introduced for the long-term unemployed to limit the current high access to earlier retirement without pension cuts.

### *Unemployment insurance* <sup>(192)</sup>

#### *Eligibility conditions*

To benefit from unemployment insurance, the claimant must have at least 450 days of salaried work and contribution payment, or assimilated situation, in the past 24 months. There is no possibility of voluntary insurance. Those unemployed who do not qualify for unemployment insurance can still benefit from the means-tested unemployment assistance if they have done at least 180 days of salaried work in the past 12 months; have a monthly household income per capita not exceeding 80% of the Social Support Index (IAS); and have exhausted entitlement to primary benefit or don't have completed the qualifying period for unemployment benefit.

#### *Replacement rates*

The unemployment benefit amounts to 65% of reference earnings up to a limit of 3 times the IAS. The unemployment benefit cannot be superior to the reference earnings minus workers' social contributions and withhold tax. The reference earnings is defined as  $R/360$ , where  $R$  = total registered earnings within the first 12 months prior to the 2nd month preceding the date of unemployment. The minimum payable is equal to the level of the IAS except where previous earnings were lower than this level. Concerning the self-employed, if during the qualifying period the employee had simultaneously also a self-employed activity with revenue inferior to 50% of IAS, then once in unemployment (from the salaried work), eligibility to unemployment insurance still prevails. Unemployment assistance amounts to 80% of the IAS for persons without dependents and 100% for those with dependents. The reference earnings is defined as  $R/180$ , where  $R$  = total registered earnings within the first 6 months prior to the 2nd month preceding the date of unemployment. The amount of the unemployment assistance granted after the exhaustion of the primary benefit cannot be superior to the amount of the precedent primary benefit.

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<sup>(192)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

### *Benefit duration*

The duration of benefits is proportional to age and length of contribution (between 9 and 30 months). The duration of unemployment assistance is the same as for primary benefit; if unemployment assistance is granted after the exhaustion of primary scheme benefit, then the assistance is restricted to half of the period.

#### 13.1.5. Active labour market policies

Portugal spends 0.4% of GDP on active labour market policies (0.5% at the EU27 average) and, per beneficiary, it spends less on active than on passive measures. About half of expenditures on active labour market policies are directed towards training and about one third on employment incentives. The coverage of persons wanting to work in regular activation measures is somewhat below the EU27 average as about 29 out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). As it is also the case in other Southern Europe countries, Portugal has also relatively low expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditure of the public employment services, including overheads and functions such as benefit administration where relevant), despite an increased inflow into unemployment since 2001 (0.12% of GDP compared to 0.19% of GDP at the EU27 average).<sup>(193)</sup>

### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance

<sup>(193)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(194)</sup>

### *Registration procedures and benefit entitlement*

Applicant for unemployment benefits must register at the Employment Centre within 90 days from the beginning of unemployment, and then apply for unemployment benefits at the Social Security Centre. Unemployment benefits are paid as from the date of the application for benefit. While determining the rights to benefit, PES has an obligation to check whether there are not any suitable vacancies, apprenticeships, appropriate training slots or other active labour market programmes available for the jobseeker.

### *Job-search requirements*

Benefit recipients need to regularly present themselves either at the placement service, the benefit office or another competent administrative office. Independent job search is compulsory since 2007, but the terms of the required proofs vary from one beneficiary to another, depending mainly on their personal employment plan. There is no minimum required intensity job-search activities set by law. The PES and the beneficiary jointly define in the personal employment plan the job-search activities to be undertaken in a given period. When jobseekers participate in labour market programmes, they are no longer considered available for taking up employment and therefore have no longer to comply with job availability requirements.

### *Direct referrals to vacant jobs*

Candidates are convened by the PES in order to be given information on suitable job offers and to verify qualifications, experience and personal abilities in relation to specific job requirements. When the candidate and the employment counsellor agree on a suitable offer, the candidate

<sup>(194)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.



is referred to the employer. The employer's contact details are generally not made public. The PES is working at increasing the degree of "openness" of vacancies by expanding available on-line services.

#### *Intensive interview*

Whenever possible, the first interview takes place during the initial registration for placement, when the client's occupational profile and life history are identified, and his/her employability assessed. Jobseekers are asked for an interview as often as necessary to comply with the various stages defined in their personal employment plan. The number of interviews depends on the client's employability profile and his/her distance from the labour market.

#### *Action Plan*

Unemployed persons are convoked to define their personal employment plan three months (in case of youth) or six months (in case of adults) at the maximum after registration at the PES. Depending on the individual characteristics of each candidate, the personal employment plan may be defined either collectively or individually. Usually, the action plan is defined in one intervention only. Whenever necessary (for example in situations of unemployment persistence at 6 or 12 months) additional individual interviews can be held.

#### *Referral to active labour market policies*

Jobseekers are required to agree to participate in active employment policies proposed by the PES, regardless of their classification in any target group. While targeted jobseekers such as young public are given priority, the intensity of interventions is rather similar to ordinary unemployed.

#### 13.1.6. Lifelong learning

Portugal scores relatively poor in terms of human capital investment, implying relatively low employability of workers and poor adoption of new technologies (harmful for productivity growth). It has a significantly low educational attainment of adults (more than 70% of adults have at most the lower secondary education) and a high

share of early school dropouts (above 40% of young have at most lower secondary education and are not in further education or training) implying persisting gap in human capital compared to the other EU countries. A low employability of workers is further emphasized by low participation in life-long-learning (LLL), low and declining (over 1999-2005) participation in continual vocational training (CVT), low investment by enterprises in training of adults and poor pupils' performance according to the PISA study. However, the public expenditures on education (as a % of GDP) are slightly above the EU average.

To tackle the shortage of human capital, coupled with a poor catch-up pace, Portugal has launched several reform measures, including the New Opportunities Initiative, started in 2001. The programme aims to improve the employability of adult workers and reduce the number of school dropouts through widening the options in vocational education and providing double-certification courses (general and professional). The initiative could play an important role in facilitating labour market adjustment, provided it is implemented on a large scale and effectively. The aims, tools and methods of the initiative have been confirmed in the tripartite agreement on vocational education and training (VET) signed in 2007. This agreement paves the way for a much needed reform of the Portuguese VET, largely amending the basic law on vocational education and training dating from 1991. The agreement has defined the strategic objectives of the system, introduced new tools and redesigned the institutional framework of vocational training. A National Catalogue of Qualifications has been created, including occupational profiles and training guidelines, as well as an Individual Competences Notebook registering all the competences acquired over the life course. The system of national certification has been also reformed, with the setting-up of a National System of Qualifications, and the creation of a 'vocational training cheque', a public tool for the direct funding of individual training needs aimed at ensuring the right to individual vocational training. From its part, the Labour Code passed in 2003 stipulates that the employer has to ensure that every year 10% of workers with permanent contracts take part in a training activity, and that workers have the right to take a minimum of 35 hours of VET per year.

# 14. SLOVAKIA

## 14.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

### 14.1.1. Employment protection legislation <sup>(195)</sup>

Employment protection legislation was liberalized in 2003 for workers on both permanent and temporary contracts. The valid cases for fixed-term contracts, the number of possible renewals and the maximum overall duration of temporary employment were increased, while the valid reasons to terminate a work contract and the regulations for collective dismissals were both relaxed. EPL index for regular contracts (2.4) is close to the EU average and is pushed up by regular procedural inconveniences, notably long notice period, and relatively high severance payments for workers with short job tenure. However, as worker capability or job redundancy are adequate and sufficient ground for dismissal, unjustified dismissals with a reinstatement apply only in cases discriminating on the basis of the race, etc. EPL strictness for collective dismissals is relatively high (3.8) as procedures involve the notification of third parties, thus producing significant delays and related costs. EPL strictness for temporary contracts is low (1.2) as hiring regulations for both fixed term contracts and contracts with temporary work agency are loose.

#### *Individual dismissals*

Individual dismissals are allowed for redundancy on the basis of economic and organizational reasons as well as personal reasons (such as continual minor breaches of work discipline or unsatisfactory work results). In the latter case, notice can be given to an employee, provided that he was, in the last six months, advised of the possibility of notice in writing, in conjunction with the breach of work discipline or unsatisfactory work results. Notice periods are among the longest in the EU for workers with short job tenures as they stand at 2 months for workers with between 9 months and 4 years of job tenure (3 months for workers above 5 years of job tenure), regardless of underlying reasons for dismissal. Also severance payments which apply for workers dismissed on

the grounds of redundancy are relatively high for workers with short job tenure and amount 2 average monthly earnings for workers with between 9 months and 4 years of job tenure (3 average monthly earnings for workers above 5 years of job tenure). The employee is entitled to severance payments if he/she agrees with the termination of employment relationship before the commencement of the notice period. An employee who is made redundant or whose employment is terminated due to organisational or health reasons is entitled to receive severance pay which is equal to at least double his/her average monthly earnings. After 5 years of tenure with an employer, such employee is entitled to receive severance pay which is equal to at least triple his/her average monthly earnings. Higher severance pay may be agreed in an employment contract or collective labour agreement. An unfair dismissal claim can be made no later than 2 months from the date upon which the employment was to terminate. Compulsory compensation for unfair dismissal equals to 12 monthly wages. Further compensation is to be determined by the courts if an employer does not allow the employee to work or if a law suit in respect of unfair dismissal takes longer than 12 months.

The trial period may be agreed in the employment contract for a maximum of three months and may not be prolonged. The contracting parties may agree on a longer notice period and higher severance pay in an employment contract, as well as in a collective labour agreement. Most collective agreements contain provisions that are about the same as those in legislation, with the exception of those in the mining, manufacturing and electricity, gas and water supply industries where provisions are slightly more generous. However, collective bargaining coverage is very low (less than 5% of employees) in these industries.

#### *Collective dismissals*

Procedures for collective dismissals are quite cumbersome, in particular as they involve the notification of third parties. Collective dismissals apply from 20 workers onwards in the course of 90 days, and require the written notification of employee representatives (with full information about reasons, number and categories of workers

<sup>(195)</sup>The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

to be dismissed, selection criteria) and public authorities (National Labour Office). The employee representatives may submit comments to the National Labour Office and an employer shall negotiate with the National Labour Office the measures enabling the prevention or limitation of collective redundancies (in particular, negotiation over conditions for maintaining employment; possibilities of employing discharged employees with other employers; possibilities of discharged employees applying themselves at work in the event of their retraining). Only after agreement with employee representative is reached, which produces a delay of at least one month, the notice period can start. No special regulations apply for collective dismissals concerning the severance pay.

#### *Temporary employment*

A fixed term employment may be agreed, extended or renewed for a maximum of three years without specifying an objective reason. It can only be extended or renewed once within the 3-year period. Another extension or renewal of fixed-term employment may only be agreed for material or objective reasons. The cumulated 36-month maximum duration of successive fixed-term contracts shall not apply if fixed-term contracts are concluded for material or objective reasons. Temporary work agency (TWA) employment is generally allowed with no restrictions on types of work, number of renewals and cumulated duration of temporary work agency contracts. However, the set up of a temporary work agency appear be cumbersome as it requires both special administrative authorisation and reporting requirements. Working conditions, including wage conditions and employment conditions for TWA workers must be equally favourable to those of comparable workers at the user firm, with the exception of wage conditions which do not need to be equally favourable during a three month period.

#### 14.1.2. Working time and work organization <sup>(196)</sup>

Slovakia has low incidence of flexible working time arrangements, intermediate incidence of atypical work, high work intensity and irregularity, intermediate to high incidence of rotation and team work, low work autonomy and intermediate work complexity. In Slovakia, about 35% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average) and do not work the same number of days every week (slightly more than 25% in the EU27). However, for 70% of persons in employment working hours are set by the company with no possibility of changes. This indicates a low incidence of flexible working time arrangements (56% at the EU27 average), in particular if compared with Sweden (34%), Netherland (36%) and Denmark (41%). Only one fifth of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Atypical work, in particular working in the night, in the evening and during the weekend, however, is more widespread than in the EU average. Work complexity as measured by the share of workers perceiving their work to involve complex tasks is close to the EU27 average (62%). Autonomy at work is low as measured by the ability of workers to choose or change the order of tasks, methods of work and speed or rate of work as well as solve unforeseen problems on their own. The incidence of team work and rotation of tasks, on the other hand, is above the EU average; however teams and workers involved in tasks rotation are much less autonomous in their division of tasks than in the rest of the EU.

To increase labour-market flexibility, the 2003 Labour Code deregulated working time. Maximum working time with one employer is set at 48 hours per week, including over time. The new law also allows more flexible working hours as employers can design working time either evenly or unevenly across weeks. Maximum limit for required

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<sup>(196)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

overtime is set at 150 hours a year and an additional overtime can be agreed upon with employees, up to 250 hours a year.

In the same vein, the new legislation adopted in 2003 restricted the protection of employees in the case of termination of employment concluded for a working-time shorter than 20 hours a week. This relation may be terminated by both employers and employees for any reason or without statement of reason. The notice period is 15 days (compared with 2-3 months for regular employees) and the employee is not covered by employment protection provisions relating to permanent or fixed-term contracts or collective redundancies. However, this employment protection exemption for part-time workers has had little impact on the use of part-time work as low average wages, a weak network of family service and traditions render part-time work unattractive for workers.<sup>(197)</sup>

#### 14.1.3. Wage setting and bargaining system

The Slovak wage formation system is a mixture of different approaches. Approximately 30% of all employees are covered by collective agreements, the higher share of them working in the public sector. State authorities play a role mainly in defining the minimum level of wages and in defining the wage of civil servants and certain other public employees. While collective bargaining is predominant at the sectoral level in both the public and the private sector, in the latter collective bargaining can also take place at the company level.

Nation-wide sectoral wage agreements can be legally extended to companies that are not covered by these agreements or did not participate in the bargaining process. While legal extensions have existed in the Slovak Republic since 1991, they were first abolished (i.e. made conditional upon written consent of non-participating firms) in 2004, and then reintroduced in 2007 with the possibility for individual employers to request exoneration from legal extension on grounds of firm characteristics or local labour market conditions. On the occasion of the entry of Slovakia into the euro area on 1 January 2009, it was agreed by the government and the social

<sup>(197)</sup> See Vagac, 2006, Contribution to the EEO Autumn Review 2006 "Flexicurity", European Employment Observatory.

partners that in future the indicators of labour productivity growth would have been respected as a decisive factor for their wage policy.

#### 14.1.4. Tax and benefit systems <sup>(198)</sup>

Expenditures on passive labour market policies (0.3 % of GDP in 2007) are among the lowest in the EU (at 1.0% of GDP at the EU27 average), despite a high unemployment rate, including very high long term unemployment rate. The reason is very low benefit coverage of unemployed persons as only about 20 out of 100 persons wanting to work are recipients of unemployment benefits (44 persons at the EU27 average). Initial net replacement rates are 61%, 64% and 58% for the low wage, average wage person and one earner couple with two children (66%, 59% and 67%, respectively at the EU27 average), however, they drop to 0% after 6 months, reaching the net replacement rate of 28%, 20% and 44% respectively, only if topped up with the social assistance.

Slovakia has introduced substantial reforms of its social assistance, unemployment insurance and taxation systems. The Social Insurance Act of 2004 introduced somewhat stricter eligibility criteria (required contribution period of 3 years within the past 4 years instead of 2 years within the past 3 years)<sup>(199)</sup>, reduced unemployment benefit replacement rates (to 50% of the assessment base over the entire unemployment spell) and benefit duration (unified to 6 months from previously 6-9 months). Also means-tested benefits were substantially reduced, in particular benefit replacement rates after expiry of unemployment benefits. A new set of motivating benefits were introduced instead, which are conditional on the activity of the recipient (e.g. means-tested activation benefits granted to persons who take part in education and retraining or small municipal works). Also, the tax wedge decreased

<sup>(198)</sup> In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(199)</sup> In 2006, the required contribution period for fixed term employees was reduced to 2 years within the last 4 years, with lower unemployment benefit duration (4 months).

substantially, for low wage persons by 4.9 pps. to 35.6% (37% at the EU27 average), and for average wage persons by 3.2 pps. to 38.5% (41% at the EU27 average), in particular as a result of a reduction in social security contributions paid by employer. Furthermore, in 2003 a comprehensive tax reform introduced a flat 19% income tax rate, which strongly increased the incentives to work, in particular for higher-wage single persons and one earner couple (with or without children). This has reduced the unemployment and inactivity traps from the highest levels in the EU to levels considerably below the EU median. To decrease the effective tax burden of low-income tax payers and therefore support transitions from inactivity to work, since January 2009 an Employee Tax Bonus is being granted as a tax credit to employees on regular job contracts for a period of at least 6 months and with salaries close to the minimum wage (which benefits at most one working parent who earns more than 50% of the earnings of a full time worker earning the minimum wage).

#### *Unemployment insurance* <sup>(200)</sup>

##### *Eligibility conditions*

Unemployment benefits are paid to laid off workers who have paid contributions for at least 3 years of employment (2 years in case of temporary employment) during the last 4 years. Unemployed should be capable for work and available for the labour market without any restrictions. Therefore they should register as job seeker and to be at the disposal and actively seek employment. Furthermore, unemployment benefits could be combined with work if not exceeding 64 hours a month with an upper threshold of SKK 3,200 (€ 106.2 95) per month.

##### *Replacement rates*

Unemployment benefits amount 50% of the average gross earnings over the period of the last 3 years (or 2 years in case of temporary employment). The ceiling for the calculation of the benefit is 3-times the national average monthly wage.

<sup>(200)</sup>The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

#### *Benefit duration*

Unemployment benefits are uniform and paid for 6 months (4 months in case of temporary employment).

#### 14.1.5. Active labour market policies

Expenditures on active labour market policies (0.1 % of GDP) are among the lowest in the EU (0.5% of GDP at the EU27 average). About 70% of expenditures are devoted equally to start-up incentives and direct job creation and less than 5% to training. The coverage of persons wanting to work in regular activation measures is relatively low (about 25 persons out of 100 persons wanting to work benefit from regular activation compared to 36 persons at the EU27 average) considering a high unemployment rate, in particular of low skilled persons. Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit administration where relevant) are at 0.11% of GDP (0.19% at the EU27 average). <sup>(201)</sup>

ALMPs saw a substantial transformation in recent years, as part of a wider reform of labour market and social policies. Activation policies and incentives to work were step up and the focus on disadvantaged groups increased. The first step of the 2003 reform included a reorganisation of public administration in the area of PES and social affairs and the formation of a network of offices of labour, social affairs and family. The Employment Service Act of 2003 also introduced a new set of ALMPs measures to motivate job seekers to activity. The 2008 comprehensive amendment to this Act has further strengthened the implementation of the 2007 life-long learning strategy by better linking it to the needs of the labour market, extended the competency of the PES and introduced a new set of active measures targeted at the prevention of the labour market exclusion of specific groups, there including allowances for training disadvantaged jobseekers,

<sup>(201)</sup>The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

and support for maintaining a job in the case of low-wage employees and for self-employment. However, reforms have so far overall largely failed to reduce existing high long-term unemployment rates. Therefore, there remains a strong need for active labour market policies to address the skills mismatch of long-term unemployed by a greater emphasis on education and training programmes. Special attention require in particular young, low skilled and older persons.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply. <sup>(202)</sup>

#### *Registration procedures and benefit entitlement*

Registration for placement at the PES is a prerequisite for the award of unemployment benefit by the Social Insurance Agency. If the person has satisfied the contribution conditions for unemployment insurance, benefit entitlement arises from the date the person was placed on the Jobseeker Register. Applying for vacancies is not a condition for benefits. However, during initial registration the availability of applicants is checked by the PES, and vacancies may also be offered.

#### *Job-search requirements*

The unemployed must prove their job-search actions in person to the PES by means of employer

statements that the jobseeker applied, job applications countersigned by the employer, copies of mailed job applications and similar documents, depending on the particular requests by the PES office. Long-term unemployed must report on their job-search activities four times a month, other groups of registered unemployed every two weeks (once a month if participating in an activation measure). Participants in the public job creation programme are required to report to the Offices for Labour every month, whereas non-participants are required to report to the Labour Offices every week.

#### *Direct referrals to vacant jobs*

Both open and semi-open vacancy types are available. As a rule, however, the employer's full contact details are not publicised unless he wishes potential jobseekers to contact him directly. In most cases, employers want the PES to make a pre-selection for them and send the profiles of suitable candidates. Therefore, the majority of vacancies are handled using the procedure of direct referrals, i.e. the jobseeker is selected for a particular vacancy and must directly apply to the employer. There can be up to 24 direct referrals per registered unemployed person, depending on personal and local labour market characteristics.

#### *Intensive interview*

The first intensive interview occurs at initial registration at the PES. Intensive counselling interviews are conducted by vocational counsellors within six months, when an individual action plan is established. Over the unemployment spell, intensive interview should occur at least once a month.

#### *Referral to active labour market policies*

Participation in active labour market policies after having experienced certain unemployment spell is not compulsory, even if it is referred by the PES. However, job search requirement and its verification apply also during participation in active labour market policies as participants need to attend the PES once a month.

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<sup>(202)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

#### 14.1.6. Lifelong learning

Slovakia scores somewhat more favourable in terms of human capital than the EU27 average. <sup>(203)</sup>

Slovakia spent relatively little on education in 2005 (below 4% compared to 5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). A large majority of adults has a medium education (75%, 47% at the EU27 average) with only 14% of adults having high education (24% at the EU27 average) and 11% of adults having low education (29% at the EU27 average). The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is among the lowest in the EU27 (6% versus 15% respectively).

Participation in lifelong learning declined by 5 pps. to one of the lowest in the EU (4%; 10% at the EU27 average), thus further widening the gap with best performers such as Sweden (33%), Denmark (29%) and the UK (27%). Participation in lifelong learning is below the EU27 regardless of educational attainment, economic activity and age. Participation in lifelong learning of persons with high education is 11% (19% at the EU27 average) while participation in lifelong learning of persons with low education is only 2% <sup>(204)</sup> (4% at the EU27 average). Also participation in lifelong learning for employed, unemployed and inactive is very low, at 5%, 3% and 2% which is considerably less than 11%, 9% and 7%. Finally, employability of older workers is low as only 2% of them participate in lifelong learning (5% at the EU27 average).

Almost 40% of firms provide CVT courses (almost 50% at the EU27 average, more than 80% in Denmark, around 70% in Sweden, France, the Netherlands and Finland) and they spend on average 1.8% of total labour costs on CVT (1.6% at the EU27 average). Furthermore, almost 40% of workers participate in CVT courses (one third in the EU27) and they spent on average 12 hours in 2005 on CVT courses (9 hours at the EU27 average).

Reforms in the education system are essential for improving structural functioning of the labour market. Education and training reform has progressed by the recent adoption of the new School Act establishing rules for functioning of primary and secondary education (including vocational education and training at secondary level), and introducing the national and school educational programmes. The latter ones are to be designed by schools so that they better matched with the needs of the labour market. In 2007, the Government also adopted the Strategy of Lifelong Learning and Lifelong Career Counselling, and an act on vocational education and training is planned for adoption by 2009, involving among others the creation of a coordinated system of lifelong programmes and career counselling for labour market needs.

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<sup>(203)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores Slovakia above the EU27 average in terms of on-the-job employability as measured by learning, training and task rotation.

<sup>(204)</sup> The participation in LLL persons with low education refers to 2002.

# 15. SLOVENIA

## 15.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

### 15.1.1. Employment protection legislation <sup>(205)</sup>

Employment protection legislation for regular contracts is among the strictest in the EU (at 3), being higher only in Portugal. It is notably characterized by high procedural inconveniences and restrictive definition of unfair dismissals, which often result in reinstatements. On the other hand, the employment protection legislation for temporary workers is at the EU average. The labour code reform of 2007 liberalized the use of fixed term contracts and simplified the rules on termination of permanent contracts. <sup>(206)</sup>

#### *Individual dismissals*

Individual dismissals are cumbersome as the employer cannot proceed to dismissal without authorisation from a third party. In case of dismissals for business reasons, the employer must notify the worker in writing of an intended dismissal. Where the worker so requests, the employer must notify in writing the union to which the worker belongs at the beginning of the procedure of an intended dismissal for reasons of incapacity or for business reasons. The union may give its opinion (within a deadline of eight days) and may oppose the dismissal if it believes that there are no justified reasons for it or that the procedure was not carried out in accordance with legal requirements. Notice period is relatively long for short job tenures amounting 30 days if the employee has less than 5 years of tenure with the

employer. Severance payments are relatively high for dismissed workers with longer job tenure though they are capped to 10 months pay. <sup>(207)</sup> The severance payment, however, may be reduced in the case of forced settlement if a large number of jobs at the employer would be threatened. Definition of unfair dismissals is restrictive and is often followed by the reinstatement. If there is no reinstatement, the court may grant the worker tenure and other rights from the employment relationship and appropriate monetary compensation up to a maximum amount of 18 months of average wages paid in the last three months prior to dismissal. The probation period (the period within which regular contracts are not fully covered by employment protection provisions and unfair dismissal claims can usually not be made) can last maximum six months. It can be extended in the event of temporary absence from work. Unsuccessful completion of the probation period is a reason for extraordinary dismissal without notice period.

#### *Collective dismissals*

In Slovenia, collective dismissal procedures apply from 10 dismissals onwards (at least 10 workers at an employer employing 20-99 workers; at least 10% of workforce at an employer employing 100-299 workers; at least 30 workers at an employer employing 300 or more workers) in a period of 30 days. In case of collective dismissal, the employer is obliged to inform and consult with the unions and to notify the Employment Service (PES). The employer may dismiss redundant workers in accordance with the programme of redundancies not prior to the expiry of a 30-day period from fulfilment of the obligation to notify the PES. The employer is bound to take into account possible proposals from the PES on measures to prevent or limit the termination of employment of workers and on measures to mitigate the consequences of such dismissals. An employer who dismisses a large number of workers for business reasons is also bound to formulate a worker redundancy programme that must be financially validated, besides dealing with and taking into account possible proposals from the PES.

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<sup>(205)</sup> The information in this section is taken from the OECD (2008); detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(206)</sup> This notably includes: a) standardising and shortening the minimum periods of notice in both cases when the employment contract is terminated by the employer due to business reasons or due to reasons of incapacity; b) introducing unambiguous and more effective regulation of the procedures which an employer must follow when terminating an employment contract; and c) exempting the previous employer from paying the severance pay when the employer terminates the employment contract and during the notice period the worker accepts a new employment contract with another employer. This rule only applies if the new employer agrees in the new contract to take into account the worker's years of service under the previous employer when determining the minimum period of notice and severance pay.

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<sup>(207)</sup> However, Vodopivec, et al (2009) report that about one-third of dismissed workers did not receive the severance pay to which they were entitled.



### *Temporary employment*

Legislation concerning fixed term contracts is relatively loose. Employment contracts may be concluded for a fixed term in the cases provided for by law, firm-level collective agreements or sector-level collective agreements for SMEs. There are no limits to the number of successive renewals of fixed-term contracts, within a 2-year period. With the exception of individual cases set out by law (such as project work, substitution, management workers), there including a 3-year time limit applicable to SMEs up to 2010, employers may not conclude one or more successive fixed-term contracts with the same worker for the same job for an uninterrupted duration longer than two years. Temporary work agency employment is generally allowed, apart from few specific exceptions (e.g. substituting for striking workers; where the user has laid off large numbers of workers in the previous 12 months; in cases involving hazardous work that is performed for shorter durations). There are no restrictions to the number of renewals, within a maximum cumulated duration of one year.

Temporary agencies may not employ a same agency worker without interruption, or with interruptions of up to one month, for longer than a year if this involves for the entire period the performance of the same work with the same user company. The setup of temporary work agency requires both authorisation and reporting requirements. Furthermore, regulations fully ensure equal treatment of regular and agency workers at the user firm. The level of pay and compensation, as set in the agency work contract, will depend on the actual performance of work at the user firm, taking into account collective agreements and general acts binding on the user firm.

### 15.1.2. Working time and work organization <sup>(208)</sup>

Slovenia has intermediate to low incidence of flexible working time arrangements, high incidence of atypical work, relatively high work intensity and irregularity, high incidence of rotation and team work and intermediate to low incidence of work autonomy and complexity.

In Slovenia, more than 40% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average) and 30% of workers do not work the same number of days every week (slightly more than 25% at the EU27 average). However, for 65% of persons in employment working hours are set by the company with no possibility of changes. This indicates a relatively low incidence of flexible working time arrangements (compared to 56% at the EU27 average), in particular if compared with Sweden (34%), Netherland (36%) and Denmark (41%). Also, only one third of persons in employment can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Atypical work, in particular working in the night, in the evening and on Saturdays, however, is among the highest in the EU. Work complexity as measured by the share of workers perceiving their work to involve complex tasks is close to the EU27 average (61%). Autonomy at work is relatively low as measured by the ability of workers to influence the order of tasks, methods of work and the timing of break. Team work and rotation of tasks, on the other hand, tend to be the most widespread in the EU. In particular, about 85% of workers are involved in a team work and more than 70% of workers rotate tasks with colleagues compared to about 55% and 45% at the EU average. However, teams and workers involved in tasks rotation are relatively less autonomous in their division of tasks than in the rest of the EU.

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<sup>(208)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

In terms of practices to organize working time flexibly, Slovenia has the highest share of companies characterized by low flexibility (27% of all companies). Relative to the EU average distribution of companies, Slovenia also has a relatively high share of companies with intermediate flexibility, in particular concerning the incidence of overtime work.

Despite a relatively low incidence of flexible working time arrangements, the rules about allocation of the weekly working time are flexible by most international standards.<sup>(209)</sup> A full-time work schedule, to be set up annually, should cover four to six days per week if the working time is evenly distributed. But uneven distributions are generally allowed within a limit of 56 hours in any week. Employers can also impose a temporary redistribution of the working time, having only to give one to three days' notice. The 2007 labour law reform enhanced the internal flexibility of companies by allowing for employment contracts with broader rather than detailed job descriptions. Employees can now also request a different allocation of working time for family reasons, while employers can refuse such requests for work process reasons, but they must motivate their decisions in writing. Since 2007, overtime can be extended to 230 hours per year, with the written consent of the worker. The 2007 reform also ensured a better implementation of the principle of proportionality concerning the rights of part-time employees, there including the right to receive pay for annual leave and a retirement bonus.

#### 15.1.3. Wage settings and bargaining system

Slovenia is characterized by high coverage of trade unions and collective bargaining. Collective bargaining is highly coordinated which has supported employment growth.

Collective bargaining on wage setting takes place at sectoral level in the private sector, and at national level in the public sector. The wage system in the private sector is still largely based on basic wages and not calculated according to productivity, despite recent developments in this direction. The system is regulated by the intersectoral Collective Agreement on the Pay

Adjustment Method, the Refund of Work-related Expenses and the Annual Leave Bonus, which is negotiated by seven representative trade union confederations and four employers' organisations at the central level. The most recent intersectoral agreement, on Extraordinary Pay Adjustment for 2007 and on the Pay Adjustment Method, the Refund of Work-related Expenses and the Annual Leave Bonus for 2008 and 2009, was reached in May 2008, after several negotiation rounds. The agreement covers around 40,000 mainly private sector workers who are not covered by a relevant sectoral collective agreement. The agreement foresees that those companies that are operating at a deficit are allowed to postpone the basic pay rise by six months in agreement with the trade unions represented in the company. Moreover, the social partners are to incorporate a provision on productivity growth into the sectoral collective agreements.

From its part, the broader tripartite Social Agreement, setting the overall private-sector pay policy for the period 2007-2009, provided that: (1) pay growth in real terms is maintained at a steady level so that levels of pay in Slovenia gradually approach those in more developed countries; (2) pay growth takes into account inflation and productivity; (3) the pay adjustment (pay growth rate) – taking into account inflation and productivity – may be agreed at the following three levels: in sectoral collective agreements; in the private sector's intersectoral collective agreement on the pay adjustment method, on the refund of work-related expenses and on the annual leave bonus; and in company collective agreements; (4) due to the specific situation of individual companies, conditions may be agreed in sectoral collective agreements and in the intersectoral collective agreement under which it is possible for the company-level pay adjustment to diverge from the provisions of the two higher levels of agreement.

<sup>(209)</sup> See OECD, 2009, Accession review of labour market and social policies of Slovenia.

#### 15.1.4. Tax and benefit systems <sup>(210)</sup>

Expenditures on passive labour market policies are among the lowest in the EU (about 0.3% of GDP compared to 1% at the EU27 average); as a result of relatively low unemployment rate as well as a low benefit coverage of unemployed. Only about 17 persons out of 100 persons wanting to work (44 persons at the EU27 average) and about one fourth of registered unemployed are recipients of unemployment benefits. This reflects very strict eligibility criteria as persons have to be employed for at least 12 months during the last 18 months and relatively short duration of unemployment benefits for persons with a shorter contribution period (unemployed persons with 1-5 years of contribution period are eligible for only 3 months of unemployment benefits). Furthermore, persons working via "student work" (status of student is required) obtained through special employment agencies are not covered by the unemployment insurance scheme as neither the employer nor the student pay any social and pension contributions and the income is not subject to taxation until a certain limit. As a result, a large share of unemployed receives either social benefits (38%) or no benefits at all (39%). The unemployment insurance scheme is, however, relatively generous for persons with longer job tenure and may last up to 2 years for older persons. As a result, the composition of unemployment benefit recipients is strongly skewed towards older unemployed persons and those with longer job tenure. <sup>(211)</sup> These data point to a limited ability of automatic stabilizers to act as shock absorbers and relatively

low income protection when experiencing transitions.

Initial net replacement rates are relatively generous, at about 72% (66% at the EU27 average) for low wage persons, 62% (59% at the EU27 average) for average wage persons and 82% (67% at the EU27 average) for one-earner couples with children. In the 13th month of unemployment spell, net replacement rates drop to 48%, 33% and 69%, respectively. Tax wedges are relatively high, at 40% for the low wage person (37% at the EU27 average) and at 44% for the average wage person (41% at the EU27 average). Tax wedge for the low wage person saw a slight reduction since 2001 (by 1.2 pps.), in particular due to a reduction in personal income taxation. Also the gradual reduction of payroll taxes since 2005, which were completely phased out in 2009, contributed to a reduction in the tax wedge. In 2007, a new law on personal income tax replaced the 5 tax rates (from 16% to 50%) with 3 tax rates (16%, 27% and 41%), which however mostly reduced the tax burden on high-wage persons. In 2008, the level of general and special personal income tax allowances was also raised, lowering the tax burden, in particular for low income earners, and the existing special allowances were reduced and simplified. Financial incentives to take up low-paid work (at 67% of average wage) tend to be low for unemployment benefit recipients (previously earning 67% of average wage) regardless of the family type, as their net financial reward is only 20% of gross earnings and even less, 10%, for single parents with children. Inactivity trap exceeds 80% for a spouse in the jobless household with children taking up low-paid work at 67% of average wage and is among the highest in the EU for second-earner couples. Also the low wage trap is among the highest in the EU for one-earner couples who would like to increase their wages from 67% of average wage to 100% of average wage.

In 2006, stricter rules were introduced regarding the obligations of the unemployed: they are obliged to actively search for employment and after three (six) months of unemployment they have to accept a job offer from the PES for which the education is one level (two levels) below the education level of the unemployed person. If the unemployed person does not comply with these rules the cash benefit is cut in half for a period of

<sup>(210)</sup>In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

<sup>(211)</sup>In fact, persons aged less than 40 years represent two thirds of registered unemployed persons and only 21% of unemployment insurance beneficiaries. Only 4% of registered young unemployed and only 8% of registered prime age unemployed (in the age of 25-39) receive unemployment benefits compared to 56% registered unemployed in the age above 40. Related, persons with less than 10 years of work represent half of registered unemployed persons and only 15% of unemployment insurance beneficiaries. Only 7% of persons with less than 10 years of work receive unemployment benefits compared to 74% of registered unemployed with more than 30 years of work experiences (See the Table 2.5 in OECD, 2009).

two months. While the level of unemployment benefits has not changed over recent years, the unemployment assistance was abolished in 2006. Instead, the unemployed can get means-tested social assistance after the expiration of unemployment benefits. The 2006 reform therefore substantially decreased the traps for unemployed persons who exhaust their entitlements to unemployment benefits as they are not anymore eligible for the unemployment assistance, but rather for the social assistance. <sup>(212)</sup>

#### *Unemployment insurance <sup>(213)</sup>*

##### *Eligibility conditions*

Unemployment benefits are paid to laid off workers who have paid contributions for at least 12 months of employment (full time equivalent) during the previous 18 months. Temporary jobs obtained through special employment agencies for students and participation in public work are not covered by the unemployment insurance scheme. Unemployment insurance contributions are mandatory for employees and voluntary for self employed.

Unemployment insurance benefits are not paid when a dismissed claimant receives severance pay or financial compensation instead of a notice period and during education or on-the-job training under active labour market policies.

##### *Replacement rates*

Unemployment benefits amount to 70% of the reference wage during the first three months and they drop to 60% of the reference wage for the remaining entitlement period. The lower limit and the upper ceiling are set at 45.56% and 137% of the minimum wage, respectively. Reference wage is defined as the average monthly earnings (no ceiling) received during the 12 months before the termination of employment, including social

security contributions for health and invalidity insurance and old-age insurance.

Concerning earning disregards, a benefit recipient may have supplementary income from work if declared to the PES. The benefit is then reduced by 50% of that income, unless it is lower than EUR 41.73 per month. In this case, however, in presence of children, the benefit is increased by 10% of the full benefit amount for every child below 18 who is in regular schooling, though it cannot exceed the full benefit amount.

##### *Benefit duration*

Depends upon length of insurance and amounts to 3 months for insurance period of 1 to 5 years, 6 months for insurance of 5 to 15 years, 9 months for insurance of 15 to 25 years, 12 months for insurance of 25 years or more, 18 months for insured persons over 50 years of age and insurance period of more than 25 years and 24 months for insured persons over 55 years of age with an insurance period of more than 25 years. In the period 1998-2006, unemployed who exhausted their entitlements to unemployment benefits could receive means-tested unemployment assistance (UA) for additional 15 months. Since 2007, UA scheme was removed and merged with social assistance.

#### 15.1.5. Active labour market policies

Expenditures on active labour market policies are among the lowest in the EU (about 0.1% of GDP compared to 0.5% at the EU27 average). Almost 50% of expenditures are devoted to direct job creation, followed by training (30%) and employment incentives (17%). The coverage of persons wanting to work in regular activation measures is relatively low as only 12 out of 100 persons wanting to work benefit from regular activation (36 persons at the EU27 average). Public expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditures of the public employment services, including overheads and functions such as benefit

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<sup>(212)</sup> While unemployment benefits were taxed and subject to social security contributions, unemployment assistance was free of both deductions. As a result, persons who exhausted their entitlements to unemployment benefits, and were entitled to unemployment assistance experienced a financial windfall and their METRs sharply increased.

<sup>(213)</sup> The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

administration where relevant) are at 0.09% of GDP (0.19% at the EU27 average).<sup>(214)</sup>

Despite active labour market policies have been reinforced with the recent modernisation of the PES and have been redirected towards more extensively addressing the problems of people aged 55-64 and other disadvantaged groups,<sup>(215)</sup> there is a strong need for effective active labour market programmes, in particular re-training courses to effectively monitor and support the transition into employment of older and long term unemployed persons.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability, while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level of training, job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.

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<sup>(214)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

<sup>(215)</sup> The Active Labour Market Policy Programme for the period 2007-13 envisages measures in four areas: i) counselling and assistance for employment; ii) training and education; iii) promotion of employment and self-employment; and iv) programmes for increasing social inclusion. The programme is complemented by action plans which are confirmed by the government for each budget period. New ALMP envisaged for 2009 include a subsidy programme to promote employment of young people with tertiary education and of older and long-term unemployed persons; the promotion of part-time work; and education and training programmes for unemployed who wish to become self-employed and for employees of micro and small firms and of firms with subsidised full-time employment. See OECD, 2009.

A worker who becomes unemployed should register at the PES within 30 days. The right to unemployment benefits begins on the first day of unemployment. The profile of job seeker is established on the basis of a questionnaire which is taken into account for setting the timetable for the first interview. By law, the first interview is envisaged within 2 months; however, in practice, it is set within 2 weeks for persons without employment obstacles. During the first interview an individual action plan is set, which is relatively early compared to other OECD countries, as at the beginning of the unemployment spell many unemployed can find a job by themselves. Further interviews for youths and unemployment benefit recipients are foreseen every two months and for the others every three months.<sup>(216)</sup> PES also organises for youth after four months of unemployment and for the others after nine months of unemployment "team reviews" which allow for a joint discussion of individual cases. The PES partially subcontract employment services to private agencies, however only for unemployment benefit recipients aged over 50 and those with three months of unemployment, provided that the jobs last at least 12 months.

The job availability requirement index (which illustrates the strictness of availability criteria, primarily on the basis of formal rules in the labour market policy legislation) calculated for 2004, points that Slovenia has very strict activation strategy. Every registered unemployed person must be available three hours a day to receive job offers from the PES. Sanctions for non-compliance are very severe as they include a six months withdrawal of unemployment benefit payments.<sup>(217)</sup>

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<sup>(216)</sup> However, this target is under current circumstances quite unrealistic considering a lack of front-line office staff and workload. OECD emphasizes the need to sharpen the work focus of the PES and reduce administrative burden of job counsellors to free their time for job counselling. See OECD, 2009.

<sup>(217)</sup> In the first three months of benefit receipt, a job can be refused if it does not match the qualification level of the job held for most of the last 12 months. For labour-market entrants the actual education attainment is considered. Commuting times longer than an hour in one direction can also be refused in the first three months. The acceptable qualification level is reduced by one step (according to an official scale) after three months and by another step after six months of unemployment. Commuter times of up to 1½ hour in one direction must also be accepted after three

#### 15.1.6. Lifelong learning <sup>(218)</sup>

Slovenia scores favourable in terms of human capital, implying good employability of workers. <sup>(219)</sup>

Slovenia spent almost 6% of GDP on education in 2005 (5% at the EU27 average, 8.3% in Denmark, around 7% in Sweden and Cyprus). About 60% of adults have medium education (47% at the EU27 average) while the shares of adults with low or high education are considerably lower, at 18% and 22% respectively (at 29% and 24% at the EU27 average). The share of early school leavers (young persons with at most lower secondary education and not in further education or training) is among the lowest in the EU (5%, 15% at the EU27 average).

The Slovenian educational and the lifelong learning system improved remarkably since 2000. The young stay longer in education also on the tertiary level. In the year 2000 the certification system was introduced for enabling dropouts and older workers without vocational qualifications to acquire it through the system of assessing and certifying previous acquired knowledge and experience. There are two separate networks for career guidance and career counselling. One is operating through the National Employment Service network and is intended mostly for the unemployed population, while the second is established by the National Institute for Adult Education and is intended for the whole adult population.

Participation in lifelong learning strongly increased since 2000, by 7.5 pps. to 15%, which is above the EU27 average (10%), however much less than in Sweden (33%), Denmark (29%) and in the UK (27%). Yet, lifelong learning is largely addressed to already-qualified workers for upskilling (participation in lifelong learning for workers with high education is 26%; 19% at the EU27 average; for workers with medium education is 14%; 9% at the EU27 average), while workers with low educational attainment participate much less in lifelong learning (4%, which is also at the EU27 average). Furthermore, while participation in life-long learning is similar for employed and unemployed (at about 17%; 11% and 9%, respectively at the EU27 average), it is considerably lower for inactive (about 8%, 7% at the EU27 average). Finally, employability of older workers is considerably lower as only 5% of older workers participate in lifelong learning (also 5% at the EU27 average).

More than 60% of firms provide continuous vocational training courses (compared to almost 50% at the EU27 average, more than 80% in Denmark, around 70% in Sweden, France, the Netherlands and Finland) and they spend on average 2% of total labour costs on continuous vocational training (1.6% at the EU27 average). About 50% of workers participate in continuous vocational training courses (one third at the EU27 average) and they spent on average 14 hours on continuous vocational training courses in 2005 (9 hours at the EU27 average).

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months, except if the claimant has children. See OECD, 2009.

<sup>(218)</sup> Indicators on continuous vocational training (CVT) in this section refer to 2005 while most of other indicators refer to 2007 unless stated otherwise.

<sup>(219)</sup> See also Pacelli et al (2008) for a construction of an indicator, which scores Slovenia above the EU27 average in terms of on-the-job employability as measured by learning, training and task rotation.

# 16. SPAIN

## 16.1. DESCRIPTION OF LABOUR MARKET INSTITUTIONS

Spain belongs to the group of Mediterranean countries with low flexibility/adaptability and relatively low security/income protection. Past two-tier reforms have produced significant labour market segmentation. Although fixed-term contracts have been instrumental in increasing employment, a high segmentation between permanent and temporary workers has been implying negative spillovers in human capital investment. The generalised use of fixed-term contracts, coupled with a high turnover rate of temporary jobs, give in fact little incentives to employers to invest in human capital.

### 16.1.1. Employment protection legislation <sup>(220)</sup>

Tackling labour market segmentation is indeed a major challenge for Spain. The country inherited rigid labour market legislation from the Franco period. The 1984 reform, which as a response to the high unemployment rate after the second oil shock eliminated most of the previous restrictions to the use of temporary contracts, contributed to serious labour market segmentation, with the share of temporary workers rapidly increasing and reaching levels above 30% already in the early Nineties. The persisting high rate of temporary contracts (twice as much as the European average level) tends to be concentrated on disadvantaged groups such as low qualified workers, youth and women.

A large share of temporary workers in the mid-90s would have provided a good opportunity for reforming of employment protection legislation of regular workers, to stimulate the use of open-ended contracts and the conversion of temporary contracts into permanent ones. However, reforms in 1994 and 1997 only partially increased the attractiveness of regular contracts to employers, and the difference in dismissal costs between different types of contracts still remains large. While the 1994 reform lifted important restrictions on part-time work, the 1997 labour reform mainly introduced a new type of contract, the so-called

"permanent employment promotion contract" (PEPC), with a reduced compensation payable for dismissal. The use of these special open-ended employment contracts was consolidated on a permanent basis and extended to further cases in 2001. The 2001 reform introduced further flexibility in the use of part-time work. Finally, the reform of 2006 extended the possibilities to hire temporary workers under PEPC and expanded the financial incentives to convert temporary contracts into PEPC, so as to stimulate hires in particular for low-wage workers. The use of temporary contracts was also restricted to two consecutive contracts on the same post, covering no more than 24 months within a period of 30 months, after which the employee is entitled to an open-ended contract. Bentolila et al. (2008) document the success of these reforms in reducing the share of temporary contracts since 2006. However, they also acknowledge their short-lived impact.<sup>(221)</sup> Furthermore, the introduction of incentives to convert temporary contracts into regular ones has not succeeded in bringing the share of temporary workers below 30%, insofar as such reforms have not substantially modified the heavy protection provided to those on permanent contracts.

Today, three types of contracts coexist: two permanent contracts - namely regular contracts (with a severance payment of 45 days' wages per year of seniority up to a ceiling of 42 months in case of "unfair dismissal", see below) and the so-called "permanent employment promotion contract" (with a severance payment of 33 days' wages per year of seniority) - and a fixed term contract with a severance payment of 8 days' wages per year of seniority.

Individual dismissals are deemed to be fair if based on a set of well defined 'objective grounds', including economic conditions, absenteeism and lack of skill for the job. When none of the above pre-defined causes is proven, the dismissal is considered as unfair. Dismissals based on discrimination or carried out with violation of fundamental rights, as well as those based on situations derived from maternity, are null and void. There is no legal provision on the duration of the trial period, which can vary according to collective agreements. In any case, this period may

<sup>(220)</sup> The information in this section is taken from the OECD (2008), Detailed description of employment protection in OECD and selected non-OECD countries.

<sup>(221)</sup> See Bentolila, Dolado and Jimeno, 2008, CESifo.

not be longer than six months for qualified experts or two months for other workers (three months in enterprises with less than 25 workers). The notification procedure involves a reasoned written notice addressed to the employee and a notification to workers' representatives. In the case of disciplinary dismissal, the notice of dismissal will contain the facts on which the dismissal is based and the date of effect. The notice period is of 30 days for all workers under open-ended contract. The severance pay for workers dismissed on 'objective grounds' amounts to 2/3 of a month's pay per year of service up to a maximum of 12 months. When the employer acknowledges unfair dismissal, he can deposit 45 days pay per year of service up to a maximum of 42 months' wages to the Labour Court within two days of giving notice, thus avoiding the possibility of paying back to workers if the dismissal is subsequently found to be unfair by the courts. For the new permanent employment promotion contract after 1997, severance pay in case of unfair dismissal amounts to 33 days pay per year of service, with a maximum of 24 months pay. The employee can apply immediately for unemployment benefits because the dismissal is assumed to be unfair. In the case where the dismissal has been declared unfair, the employer has a choice between reinstatement and compensation, except where the dismissed employee is a legal representative of the workers or a union delegate, in which case the employee can choose between reinstatement and compensation. If the dismissal was found to be discriminatory, the worker should always be reinstated.

As a result of these rigid EPL binds, the data show that about 90% of cases at courts are found to be unfair dismissals. At the same time, the long and variable delays that characterise the administrative and judicial procedures used to implement EPL tend to increase the costs beard by firms for adjusting their workforce.

The procedure involving a collective dismissal is launched when 10 or more workers are dismissed within 90 days in firms with less than 100 employees, when at least 10% of workforce is dismissed in firms with 100-299 employees or at least 30 workers in firms seized 300+ employees. In this case, the employer must inform and consult with works council or trade union delegates on the grounds for labour force adjustment plan and on

the possible avoidance or reduction of their effects, as well as on the measures needed to alleviate their consequences for the affected workers and to allow for the continuity and feasibility of the business. The employer must also apply for authorisation with the local labour authority. If the 30 days period of consultation (15 days in enterprises of less than 50 workers) with employee representatives ends with an agreement, the labour authority issues a resolution within 15 days authorising the expiry of the contracts. If no agreement has been reached, the resolution, issued within 15 days, will accept or reject the expiry of all or part of the contracts applied for. No additional regulations apply for collective dismissal concerning severance pay or possible selection criteria.

#### *Temporary employment*

Fixed-term contracts can be used for objective reasons (for specific work, due to accumulation of tasks, replacement, etc.) or for one of the following purposes: training contracts; to hire workers with disabilities; to cover the part of the working day left uncovered by an employee close to retirement. No notice period applies in case of dismissal under contracts shorter than one year. When the fixed-term contract has lasted at least one year, the notice period is of 15 days. The severance pay amounts to 8 days per year of service except for replacement contracts. Concerning the duration and maximum number of renewals the following rules apply: a) in case of fixed-term contracts for a temporary increase in workload, the maximum duration is six months, which may be extended to 12 months through collective agreement. One renewal is possible within this maximum duration limits; b) in case of contracts drawn for other objective reasons, no limits on duration apply as long as the objective reasons continue to exist. However, for those workers who have been under contract for more than 24 months within a period of 30 months (continuously or not, in the same job and in the same enterprise, with two or more temporary contracts regardless of whether they have been directly hired or hired through a temporary work agency) the contract will become permanent; c) training contracts may be extended for six months up to maximum two years. This time limit can be further extended to three years by collective agreement and up to four years if the training contract is drawn up with a worker with



disabilities; d) all workers with disabilities may be hired for minimum periods of one year up to maximum three years, therefore allowing for two extensions; e) contracts for the replacement for workers close to retirement can last maximum five years, extendable in yearly periods if the partially retired worker decides to continue his/her activity after the age of 65, with the contract expiring when the replaced worker reaches the age of full retirement.

Temporary work agency (TWA) employment is allowed in case of broadly defined "objective situations". There is no maximum cumulated duration in case of substitution and for contracts related to a specific task, while a time limit of 6 months applies for temporary increase in workload, and 3 months is the maximum duration allowed to cover temporarily a post while carrying out a selection process. TWA workers are entitled to receive at least the total remuneration established for the work to be performed in the statutory collective agreement applied to the user enterprise. Remuneration should include, if appropriate, the proportionate part corresponding to the weekly days off, extra payments, public holidays and annual leave. Severance pay: Workers under temporary contracts: workers under contract with temporary agencies and the handicap get 12 days per year of service.

#### 16.1.2. Working time and work organization <sup>(222)</sup>

Spain has a low incidence of flexible working time arrangements, low work intensity and irregularity and low incidence of rotation and team work as well as low work autonomy and complexity.

Only 30% of workers do not have fixed starting and finishing time (almost 40% at the EU27 average). For two thirds of persons in employment, working hours are set by the company with no possibility of changes. This indicates a low incidence of flexible working time arrangements (56% at the EU27 average), in particular if

compared with Sweden (34%), Netherland (36%) and Denmark (41%). Only one-fourth of employees can adapt working hours within certain limits or determine working hours entirely by themselves, compared to 60% in Sweden, 53% in the Netherlands and 50% in Denmark. Furthermore, only about 17% of workers do not work the same number of days every week compared to more than 25% in the EU27. The incidence of atypical working time, in particular working in the night and in the evening, is somewhat more frequent than in the EU27 average while working on weekends is less widespread than in the EU27 average. Work complexity is among the lowest in the EU as only 40% of workers perceive their work to involve complex tasks (60% at the EU27 average). Also autonomy at work is relatively low as measured by the ability to choose or change the order of tasks, methods of work and speed or rate of work. Finally, the incidence of team work and rotation of tasks is among the lowest in the EU and teams and workers involved in tasks rotation are less autonomous in their division of tasks than in the rest of the EU.

By distribution of companies according to their practices to organize working time flexibly, Spain has the highest share of companies characterized by low flexibility (40% of all companies). This company type is also the most prevalent relative to the EU average distribution of companies.

Following the changes in the legal regime for part-time contracts introduced in 2001, to make them more flexible, a contract is now considered part-time when the number of hours contracted is less than that of a comparable full-time worker; regulation for working hours additional to the agreed part-time hours has also been made more flexible, as they can be distributed over the year, with seven days' notice given to the worker.

#### 16.1.3. Wage setting and bargaining systems

The Spanish wage bargaining system does not help to ensure an efficient allocation of labour and does not allow wage agreements to properly reflect firm-level conditions. Wage negotiations are done mainly at the industry or at the regional (provincial) level, but legal extension clauses for many agreements result in their application to all firms and regions, including firms that do not take

<sup>(222)</sup> Indicators in this section are taken from the fourth European Working Condition Survey (EWCS), which was carried out in 2005 and Establishment Survey on Working Time (ESWT), which was carried out in 2004 for the EU15 and in 2005 for the NMS6. Furthermore, this section uses also input from Chung et al (2007) and Employment in Europe (2007).

part in the negotiations. Collective agreements are in fact “generally effective”, i.e. the conditions agreed collectively are applied to all workers and companies included in the area defined in the agreement, regardless of their relationship with the signatories. Moreover, wage bargaining agreements provide for full ex-post indexation to inflation shocks.

Pay negotiations at either the company or national level are rare. Whereas company agreements represent about 75% of collective agreements in 2008, they only include about 13% of all workers covered by collective bargaining. Agreements reached above the firm level contain opt-out clauses that allow individual firms to deviate from the conditions set in the agreement, but in practice these clauses are subject to restrictive conditions on firm performance and have been rarely used by firms. The agreements at levels higher than the company are more important in wage bargaining and have traditionally achieved the highest pay rises. Provincial sectoral agreements - an intermediate level between the company and the sector at national level - represent 20% of all agreements and affect more than half of the workers covered by collective bargaining. At national level, pay bargaining falls within the framework of the inter-sectoral agreements for collective bargaining (AINC), signed annually since 2002 by the most representative social partners. These agreements establish the criteria that should guide collective bargaining at the lower levels.

#### 16.1.4. Tax and benefit systems <sup>(223)</sup>

Spain's expenditures on passive labour market policies are above the EU average (1.4% of GDP; 1% at the EU27 average). The benefit coverage of unemployed is close to the EU27 average (45 persons out of 100 persons wanting to work are recipients of unemployment benefits). Relatively high initial net replacement rates - for low wage persons at 78% (66% at the EU27 average), for

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<sup>(223)</sup>In this section, expenditures on passive labour market policies, benefit coverage of unemployed, tax wedge data and marginal effective tax rates refer to the year 2007 unless stated otherwise. Marginal effective tax rates, tax wedges and net replacement rates are calculated for a person, 40 years old and with 22 years of uninterrupted employment record, living in a household without or with two children.

average wage at 62% persons (59% at the EU27 average) and for one-earner couples with children at 75% (67% at the EU27 average) - decline gradually over the unemployment spell. However, after unemployment benefits are exhausted, the net replacement rates drop to zero, unless they are topped up with the social assistance (amounting 33% for low wage persons, 24% for average wage persons and 41% for one-earner couples with children). Temporary workers are not disadvantaged in the access to unemployment benefits compared to permanent workers.

Tax wedge is close to the EU27 average, for the low-wage person at 36% (37% at the EU27 average) and for the average-wage person at 39% (41% at the EU27 average). However, marginal effective tax rates (METR), in particular the unemployment trap, are relatively high in Spain, implying potential disincentives for unemployed persons to take-up work. For example, for a single unemployed person (with or without children) previously employed at a low wage level of 67% of average wage and taking up a new job at the same wage level as before unemployment, the net financial reward is only 20%. To avoid potential underutilization of labour, unemployment benefits should be conditional on effective job search. For that a better coordination between the administration of unemployment benefits and activation policies to ensure incentives to work is needed. A partial reform of the personal income tax to reduce the tax burden on workers, in particular those with the lowest incomes, was introduced in 2002.

#### *Unemployment insurance <sup>(224)</sup>*

##### *Eligibility conditions*

To access unemployment benefits, applicants must have worked at least 360 days of contributory employment during the previous 6 years. For part-time workers in contributory employment, each day worked is considered as a day of contribution, whatever the duration of the working day. When the worker has 2 part-time jobs and loses one of them, he/she is entitled to the corresponding unemployment benefits. The law however restricts

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<sup>(224)</sup>The information in this section is based on the Joint European Commission-OECD project and Labour Market Reforms Database LABREF.

unemployment benefit payments to those on permanent intermittent employment ("contratos fijos discontinuos"), used in the sector of seasonal activities with uncertain duration and date within the normal volume of activity of the company. Although in most countries unemployment benefits are not payable in the absence of a minimum employment record or period of unemployment insurance contributions, young unemployed over 20 years old are nevertheless eligible for benefits of last resort such as social assistance. Minimum age requirements in France and Spain are set at 25 and 24 respectively, thus stricter than standard rules in other European countries. Thus unemployed people below that age who have no employment history are eligible for neither unemployment benefits nor social assistance and depend on the family support networks when they exist. Those persons, whose rights to contributory benefits have been exhausted or who do not qualify for insurance and do not have income from any source exceeding 75% of the minimum wage, can qualify for unemployment assistance. To qualify for unemployment assistance, persons without rights to contributory benefits have to fulfil a basic requirement of 3 months of contributions if they have family responsibilities, 6 months if without family responsibilities or 6 years if over 52 of age.

#### *Replacement rates*

The replacement rates are 70% of reference earnings (average gross earnings over the last 180 days) for the first 180 days, 60% thereafter. The upper threshold linked to multiples of minimum wage and affected by number of dependent children (from 175% to 220%), while the minimum amount equals 107% of minimum wage if the recipient is with children, 80% if not. Rates for part-time workers are calculated in proportion to the number of day-equivalents worked. Unemployment assistance benefits are flat-rate and equivalent to 80% of the minimum wage.

#### *Benefit duration*

The benefit duration varies from 4 months to 2 years, depending on the duration of the contribution period over the past 6 years (in principle benefits are payable for 1/3 of the contribution period), one of the longest in the EU (maximum benefit duration for an unemployed

person with a long employment history is the longest in Denmark, Iceland, Norway, Portugal and Spain). On the other hand, unemployment assistance is time limited and normally payable for 6 months, extensible to 18 months.

#### 16.1.5. Active labour market policies

Spain spends 0.6% of GDP on active labour market policies (0.5% at the EU27 average). However, their structure is markedly biased towards employment and wage subsidies, mostly for the promotion of permanent contracts for unemployed people and for the conversion of temporary contracts into permanent ones (about 50% of all ALMP expenditures in 2007). As a result, the number of persons benefiting from regulation intervention exceeds the number of persons wanting to work. As it is also the case in other Mediterranean countries, Spain has also relatively low expenditures on labour market policy services (which cover the costs of providing services for jobseekers together with all other expenditure of the public employment services, including overheads and functions such as benefit administration where relevant), about 0.1% of GDP (0.2% of GDP at the EU27 average).<sup>(225)</sup>

Services for jobseekers, such as job-search assistance and counselling, seem to need to be further developed. The decentralized structure of the Spanish administration is one of the main features concerning the organization of ALMPs, where the Autonomous Communities are responsible for managing the main actions through their own Public Employment Services, whereas the central administration plays an important role in coordination, planning and budgetary issues. Indeed, while the central government level is responsible for financing unemployment benefits and part of the PES' activities, since 2002 regional governments run the placement services. It has been argued that this split in the assignment of responsibilities risks weakening incentives for effective placement.

<sup>(225)</sup> The data in this section concerning ALMP expenditures as % of GDP, their breakdown by main components, the share of persons wanting to work who participate in activation measures and expenditures on labour market policy services as % of GDP refer to the latest available data in 2007, unless stated otherwise.

The Spanish government has recognised the importance of ALMPs and has been working over recent years to improve activation policies and to increase resources for the public employment services. A broad reform of the PES was adopted in 2003, so as to provide more efficient employment services and a better coordination between central and regional employment services. The reform included the introduction of personalized and preventive ALMPs, and stricter job availability requirements for job-seekers at both the modernisation plan for the PES adopted in 2006 and the 2008 special plan for the activation of unemployed workers, aimed at increasing the capacity and efficiency of the PES, and reinforcing training and other insertion measures.

Yet, there is scope to further improve the effectiveness of ALMPs, by means of a reduction in expenditures on employment subsidies and their redirection towards better targeted ALMPs, greater evaluation of active labour market programmes, better coordination between the administration of unemployment benefits and the activation policies to ensure proper incentives to work and to job mobility, increased efficiency of central government and regions in managing ALMPs.<sup>(226)</sup> Furthermore, as in segmented labour market the flexibility is typically achieved at the margin, ALMPs should be directed towards increasing employability of temporary workers who face a high labour turnover and potentially low on-the-job training. ALMPs should also be tailored to immigrants' needs as they are increasingly important on the labour market.

#### *Activation policies*

Activation strategies should enhance the search effort of job seekers and facilitate their employability while reducing their welfare dependency and easing transitions from unemployment and inactivity to a working status. These strategies are based on the principle of mutual obligations, whereby benefit recipients are required to accept job or training offer as pre-conditions to get benefits, while receiving an adequate level training, of job-search assistance and counselling. Early intervention by PES with non-working individuals, monitoring work availability and search actions, mandatory job-

search requirements and sanctions, referral of unemployed to vacant posts and to active programmes represent the core elements of strategies aimed at mobilising the labour supply.<sup>(227)</sup>

#### *Registration procedures and benefit entitlement*

In order to entitle for contributory unemployment benefit, the unemployed person must introduce an application for benefits and register as a job-seeker with the regional public employment services office (PES) within 15 working days from the start of the legal status of unemployed. Benefits are paid from the first day of unemployment, with no waiting period, and back pay is available for up to two weeks from the initial time of registration.

#### *Job-search requirements*

When applying for benefits the unemployed must subscribe to an activity agreement undertaking to actively seek work, accept appropriate job offers and return proof of a job referral to the regional PES office. Unemployment benefit recipients are obliged to personally communicate situations that suspend their entitlement, including job placement. Regular controls are made via personal visits to PES once every three months. Entitlement can be suspended when the PES learns through a data match of a placement. Benefits cease at the same time as cancellation of jobseeker registration. Following cessation of employment, the worker must reapply for jobseeker registration and request the restoration of benefit entitlement within 15 working days. There is a general requirement of active job search, and relevant job-search actions are reported and discussed during intensive interviews.

#### *Direct referrals to vacant jobs*

In Spain, most vacancies are “closed” – that is, they are not advertised and are directly offered to the job-seeker by the regional PES administrator. In general, the PES sends vacancy notices to pre-selected candidates apt for the vacancy after consultation of its data bank. However, it can also carry out interviews and skill or psycho-technical

<sup>(226)</sup> See OECD, 2008, Economic surveys, Spain.

<sup>(227)</sup> This section is based on information collected in the OECD Employment Outlook (2007), chapter 5.

tests, or do further pre-selection at the Employment Office.

#### *Intensive interview*

A first detailed interview is done in most cases within two weeks of registration, after which a level of employability is determined and an individual action plan is drawn up. The individual plan can contain, inter alia, the following: a personal training and employment plan, counselling to improve self-esteem and motivation, and active job search (classes on job-search and interview skills). The actions included in the personalised plan are compulsory and, in case of non-compliance, benefits can be cut or, for those not receiving any, access to public employment services can be suspended. Newly-registered unemployed are asked to participate in collective information sessions only in certain regions. Other intensive interviews take place at a later stage in the unemployment spell, depending on participation in programmes, and with an average of six interviews per year. There is also a wide offer of guidance services, including those of non-profit organisations collaborating with the PES, and a large number of intensive interviews at these services are requested by the jobseeker.

#### *Referral to ALMPs*

Individual action plans are generally offered after six months (youths) or 12 months (adults) of unemployment. There is an average of four interviews per individual action plan. Beneficiaries must agree on an obligation to participate in ALMPs and can incur in sanctions in case of non respect of their commitment. When a job seeker starts a training action, the job search is suspended and the participation in a training action is enough to demonstrate active job search.

#### 16.1.6. Lifelong learning

Spain scores relatively poor in terms of human capital development, implying relatively low employability of workers and poor adoption of new technologies (harmful for productivity growth). It has a relatively low educational attainment of adults (about 50% of adults have at most lower secondary education) and a high share of early school dropouts (30% of young have at most lower secondary education and are not in

further education or training), implying persisting gap in human capital compared to the other EU countries. While progress in the last years has been very modest, the school leaving rates have been even worsening since 2007. In this respect, the new education law (LOE), which entered into force in April 2006, aims to raise quality and increase equality in education. It contains measures to reduce early school leaving and improve the integration of immigrant pupils at school, and foresees free pre-school education for children between three and six years old. Its effective implementation, notably at regional level, is crucial.

With the exception of participation in life-long learning, which is at about the EU27 average, most of the other indicators providing some information about employability of workers see Spain performance below the EU27 average: participation in continual vocational training is relatively low and declining over 1999-2005, investment by enterprises in training of adults and public expenditures on education (as a % of GDP) are relatively low and pupils' performance according to the PISA study is poor. Furthermore, returns of education are relatively low as labour market segmentation hampers the transition from temporary to permanent contracts for better trained young cohorts.

The Spanish system of continuous vocational training has developed in the framework of the social dialogue since its creation in 1993. Following the third tripartite agreement (December 2000) on renewing the institutional framework of vocational training for employed people, a first reform of continuous vocational training was adopted in 2003, aimed at streamlining the system and introducing a flexible funding system for company-led training. The reform also established a National List of Professional Qualifications, which includes the professional qualifications that form the basis for drawing up training programmes and for recognising and accrediting the skills acquired.

A new regulation to integrate vocational training for unemployed and employed workers and to establish the framework for a more efficient use of financial resources was passed in 2007, following the 2006 tripartite agreement on vocational training. The 2007 reform led to the recognition of the right to continuous training for all workers, whether occupied or unemployed, through the integration of continuous and occupational training

into a single system of vocational training for employment. By establishing that all workers, whether occupied or unemployed, and even those who do not pay vocational training contributions, are eligible for the training, the single framework of regulation aimed at fostering access to the different possibilities of continuous training.

# Statistical Annex





# 1. AUSTRIA

Table 1.1: Main indicators - AT

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	8045	8109	8155	8191	8220	0.4	%
<b>2 Population (working age:15-64)</b>	5485	5516	5532	5551	5576	0.5	%
as % of total population	68.2	68.0	67.8	67.8	67.8	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	3911	3994	4077	4148	4182	0.8	%
Male	2141	2177	2215	2257	2259	0.1	%
Female	1770	1816	1862	1891	1923	1.7	%
<b>4 Activity rate (as % of population 15-64)</b>	71.3	72.4	73.7	74.7	75.0	0.3	p.p.
Young (15-24)	57.4	59.2	59.4	60.8	60.8	0.0	p.p.
Prime age (25-54)	86.3	86.4	87.1	87.4	87.3	-0.1	p.p.
Older (55-64)	29.9	33.0	36.8	39.8	41.9	2.1	p.p.
<b>Male</b>	78.5	79.3	80.5	81.7	81.4	-0.3	p.p.
Young (15-24)	61.7	63.6	63.9	65.0	64.6	-0.4	p.p.
Prime age (25-54)	92.9	92.8	93.2	93.7	93.0	-0.7	p.p.
Older (55-64)	40.6	43.0	47.3	51.3	52.8	1.4	p.p.
<b>Female</b>	64.2	65.6	67.0	67.8	68.6	0.8	p.p.
Young (15-24)	53.3	54.8	55.1	56.7	56.9	0.2	p.p.
Prime age (25-54)	79.6	79.9	80.9	81.1	81.5	0.5	p.p.
Older (55-64)	19.9	23.5	26.9	28.9	31.6	2.7	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	67.8	68.6	70.2	71.4	72.1	0.7	p.p.
Young (15-24)	51.9	53.1	54.0	55.5	55.9	0.3	p.p.
Prime age (25-54)	82.6	82.6	83.5	84.0	84.4	0.4	p.p.
Older (55-64)	28.8	31.8	35.5	38.6	41.0	2.4	p.p.
<b>Male</b>	74.9	75.4	76.9	78.4	78.5	0.0	p.p.
Young (15-24)	56.0	56.8	58.2	59.6	59.5	-0.1	p.p.
Prime age (25-54)	89.4	89.1	89.9	90.6	90.2	-0.4	p.p.
Older (55-64)	38.9	41.3	45.3	49.8	51.8	2.0	p.p.
<b>Female</b>	60.7	62.0	63.5	64.4	65.8	1.4	p.p.
Young (15-24)	47.9	49.4	49.9	51.5	52.3	0.7	p.p.
Prime age (25-54)	75.8	76.0	77.0	77.5	78.6	1.2	p.p.
Older (55-64)	19.3	22.9	26.3	28.0	30.8	2.8	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	3716.4	3786.3	3881.3	3963.2	4019.8	56.6	Th.
Male (as % of total)	55.0	54.7	54.6	54.7	54.2	-0.5	p.p.
Female (as % of total)	45.0	45.3	45.4	45.3	45.8	0.5	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	1.4	1.5	1.4	1.8	1.8		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	-1.3	1.9	2.5	2.1	1.4		p.p.
Male	-1.6	1.3	2.3	2.3	0.5		p.p.
Female	-0.8	2.6	2.7	1.8	2.6		p.p.
<b>8 Self employed (% of total employment )</b>	7.0	6.9	6.8	6.6	6.4	-0.2	p.p.
Male	7.7	7.3	7.3	6.9	6.9	0.0	p.p.
Female	6.3	6.4	6.3	6.3	5.8	-0.5	p.p.
<b>9 Temporary employment (as % total)</b>	9.7	9.1	9.0	8.9	9.0	0.0	p.p.
Male	10.2	9.3	9.1	8.9	8.9	0.0	p.p.
Female	9.0	8.8	9.0	9.0	9.1	0.1	p.p.
<b>10 Part-time (as % of total employment )</b>	19.6	20.8	21.3	21.8	22.6	0.7	p.p.
Male	4.5	5.6	5.8	6.2	6.9	0.7	p.p.
Female	37.9	39.1	39.9	40.7	41.1	0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	4.9	5.2	4.8	4.4	3.8	-0.6	p.p.
Young (15-24)	9.7	10.3	9.1	8.7	8.0	-0.6	p.p.
Prime age (25-54)	4.2	4.4	4.1	3.8	3.3	-0.5	p.p.
Older (55-64)	3.8	3.6	3.6	3.0	2.1	-0.9	p.p.
<b>Male</b>	4.5	4.9	4.3	3.9	3.6	-0.3	p.p.
Young (15-24)	9.3	10.7	8.9	8.3	7.9	-0.4	p.p.
Prime age (25-54)	3.8	4.0	3.6	3.3	3.1	-0.2	p.p.
Older (55-64)	4.2	4.1	4.3	2.9	1.8	-1.1	p.p.
<b>Female</b>	5.4	5.5	5.2	5.0	4.1	-0.9	p.p.
Young (15-24)	10.1	9.9	9.3	9.1	8.2	-0.9	p.p.
Prime age (25-54)	4.8	4.9	4.8	4.5	3.6	-0.9	p.p.
Older (55-64)	3.1	2.7	2.3	3.1	2.5	-0.6	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	27.5	25.2	27.5	26.8	24.2	-2.7	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	39.3	38.7	38.5	38.0	37.7	-1.0	%
Male	43.3	42.7	42.6	42.2	41.7	-1.1	%
Female	34.0	33.5	33.2	32.8	32.5	-0.7	%
<b>14 Sectoral employment growth</b>							
Agriculture	5.0	7.4	-2.4	-4.4	-1.5		p.p.
Building and construction	1.3	0.8	0.0	2.0	0.8		p.p.
Services	1.5	1.5	1.7	2.2	2.1		p.p.
Manufacturing industry	0.1	-0.5	2.2	2.3	1.8		p.p.

Source: Eurostat, Labour Force Survey.

Table 1.2: **Indicator board on wage developments - AT**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	0.9	2.4	3.0	3.1	3.2	3.3	3.2	3.1	2.3
Compensation of employees per Hour Worked	0.7	3.2	4.2	4.2	3.6	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	-1.3	3.9	2.2	3.5	3.0	5.1	3.2	4.5	:
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	-0.2	1.4	1.0	1.3	2.9	1.6	2.0	1.9	4.3
Real unit labour costs deflated by GDP deflator.	-1.8	-0.7	-0.7	-0.7	0.9	-0.8	-0.8	-0.3	3.7
Wage and salaries	1.6	1.4	3.0	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	-0.6	1.4	0.9	1.3	3.1	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	65.2	64.6	63.9	63.5	64.0	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	27.1	27.0	27.3	27.2	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	72.9	73.0	72.7	72.8	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	63.4	63.5	63.2	63.4	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	48.1	47.9	48.1	48.5	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	43.0	42.9	43.2	43.9	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	24.2	24.2	24.5	24.3	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.8	2.8	2.9	2.9	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.1	1.0	2.0	1.7	0.3	1.7	1.1	1.2	-1.9
Hourly Labour Productivity	1.3	2.0	3.0	2.6	0.4	:	:	:	:
GDP	2.5	2.5	3.5	3.5	2.0	3.4	3.0	2.3	-0.3
ECFIN NAIRU estimate	4.2	4.4	4.6	4.8	5.0	:	:	:	:
Output gap (%)	-1.4	-0.5	1.2	2.7	2.9	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.0	2.1	1.7	2.2	3.2	3.2	3.7	3.7	2.2
Underlying inflation (exc. energy and unprocessed food)	1.6	1.5	1.3	1.9	2.4	2.2	2.5	2.6	2.5
GDP deflator	1.7	2.1	1.6	2.1	2.0	2.4	2.9	2.2	0.6
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	0.0	13.4	-2.5	-12.0	1.4	-1.8	-6.1	-1.6	2.9
Industry excluding construction	-2.2	-1.6	-3.7	-0.3	0.1	-2.1	-1.6	-1.0	5.1
of which: manufacturing	-1.3	-2.0	-3.9	-1.7	0.5	-1.5	-1.5	-0.9	5.0
Construction	0.0	1.0	2.2	2.2	4.1	-1.0	0.7	4.3	5.3
Trade, transport and communication	0.1	2.1	2.9	1.3	4.1	1.9	4.4	5.3	7.1
Finance and business services	-1.1	-1.3	2.6	0.8	5.2	2.5	4.3	4.8	6.0
Non-market related services	2.1	1.8	2.5	4.0	3.3	3.6	2.3	2.2	1.5
Market-related sectors	-1.0	0.5	0.2	0.1	3.0	0.5	1.6	2.4	5.6
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	0.9	2.4	3.0	2.3	3.0	:	:	:	:
Agriculture and fishery	2.6	3.8	-0.3	0.0	3.5	6.4	1.0	6.5	1.3
Industry excluding construction	1.7	2.5	2.9	2.3	2.2	1.8	2.2	2.6	2.7
of which: manufacturing	1.4	3.0	2.6	3.3	2.6	1.1	1.4	3.5	3.5
Construction	0.2	1.5	2.6	2.8	3.3	4.7	3.8	4.5	2.9
Trade, transport and communication	0.9	3.0	3.1	1.8	3.0	2.4	2.8	3.3	3.6
Finance and business services	-0.9	0.8	2.3	1.6	4.1	4.1	4.8	4.4	3.7
Non-market related services	1.6	2.5	3.5	2.7	3.0	2.9	2.9	2.8	3.1
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	2.7	-8.5	2.3	13.5	2.1	8.3	7.5	8.2	-1.5
Industry excluding construction	3.9	4.2	6.9	2.6	2.1	4.0	3.9	3.7	-2.3
of which: manufacturing	2.7	5.1	6.8	5.1	2.1	2.7	2.9	4.4	-1.4
Construction	0.2	0.4	0.4	0.6	-0.8	5.8	3.1	0.2	-2.2
Trade, transport and communication	0.8	0.9	0.2	0.5	-1.1	0.4	-1.5	-1.8	-3.2
Finance and business services	0.2	2.2	-0.3	0.8	-1.0	1.6	0.4	-0.4	-2.1
Non-market related services	-0.5	0.7	1.0	-1.3	-0.3	-0.7	0.6	0.6	1.5
Market-related sectors	1.7	1.8	2.6	2.0	0.2	2.3	1.5	1.1	-2.3

Source: Ameco, Eurostat-National Account, ECB.

## 2. BELGIUM

Table 2.1: Main indicators - BE

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	10396	10477	10546	10614	10708	0.9	%
<b>2 Population (working age:15-64)</b>	6818	6876	6941	7008	7073	0.9	%
as % of total population	65.6	65.6	65.8	66.0	66.1	0.0	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	4493	4589	4616	4701	4747	1.0	%
Male	2528	2557	2562	2595	2609	0.5	%
Female	1965	2032	2054	2106	2138	1.5	%
<b>4 Activity rate (as % of population 15-64)</b>	65.9	66.7	66.5	67.1	67.1	0.0	p.p.
Young (15-24)	35.3	35.0	34.7	33.9	33.4	-0.5	p.p.
Prime age (25-54)	83.4	84.6	84.5	85.3	85.7	0.4	p.p.
Older (55-64)	31.2	33.3	33.6	35.9	36.1	0.2	p.p.
<b>Male</b>	73.4	73.9	73.4	73.6	73.3	-0.3	p.p.
Young (15-24)	37.7	37.6	37.4	36.1	36.0	-0.2	p.p.
Prime age (25-54)	91.8	92.2	91.9	92.5	92.3	-0.2	p.p.
Older (55-64)	40.4	43.4	42.7	44.4	44.4	0.0	p.p.
<b>Female</b>	58.2	59.5	59.5	60.4	60.8	0.4	p.p.
Young (15-24)	32.8	32.3	31.9	31.6	30.8	-0.8	p.p.
Prime age (25-54)	74.8	76.8	77.0	78.0	79.0	0.9	p.p.
Older (55-64)	22.1	23.4	24.6	27.5	27.9	0.4	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	60.3	61.1	61.0	62.0	62.4	0.4	p.p.
Young (15-24)	27.8	27.5	27.6	27.5	27.4	-0.1	p.p.
Prime age (25-54)	77.3	78.3	78.4	79.7	80.5	0.8	p.p.
Older (55-64)	30.0	31.8	32.0	34.4	34.5	0.1	p.p.
<b>Male</b>	67.9	68.3	67.9	68.7	68.6	-0.1	p.p.
Young (15-24)	30.1	29.7	30.4	29.9	29.7	-0.2	p.p.
Prime age (25-54)	85.8	86.1	85.9	87.0	87.0	0.1	p.p.
Older (55-64)	39.1	41.7	40.9	42.9	42.8	0.0	p.p.
<b>Female</b>	52.6	53.8	54.0	55.3	56.2	0.8	p.p.
Young (15-24)	25.4	25.2	24.7	25.0	25.0	0.0	p.p.
Prime age (25-54)	68.5	70.4	70.7	72.3	73.8	1.5	p.p.
Older (55-64)	21.1	22.1	23.2	26.0	26.3	0.3	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	4113.6	4199.3	4232.9	4348.1	4413.7	65.6	Th.
Male (as % of total)	56.8	56.2	56.0	55.7	55.3	-0.4	p.p.
Female (as % of total)	43.2	43.8	44.0	44.3	44.7	0.4	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.7	1.3	1.4	1.8	1.6		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	1.7	2.1	0.8	2.7	1.5		p.p.
Male	1.6	1.1	0.4	2.1	0.7		p.p.
Female	1.7	3.4	1.3	3.5	2.5		p.p.
<b>8 Self employed (% of total employment )</b>	8.3	8.5	8.6	8.7	8.5	-0.2	p.p.
Male	9.9	10.2	10.4	10.4	10.3	-0.1	p.p.
Female	6.2	6.4	6.3	6.6	6.3	-0.2	p.p.
<b>9 Temporary employment (as % total)</b>	8.7	8.9	8.7	8.7	8.3	-0.4	p.p.
Male	6.4	6.8	6.9	6.8	6.6	-0.3	p.p.
Female	11.7	11.4	10.9	10.8	10.2	-0.6	p.p.
<b>10 Part-time (as % of total employment )</b>	21.2	21.7	22.0	21.9	22.4	0.5	p.p.
Male	6.6	7.1	7.0	7.1	7.5	0.4	p.p.
Female	40.4	40.4	41.0	40.5	40.8	0.3	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	8.4	8.5	8.3	7.5	7.0	-0.5	p.p.
Young (15-24)	21.2	21.5	20.5	18.8	18.0	-0.9	p.p.
Prime age (25-54)	7.4	7.4	7.2	6.6	6.1	-0.5	p.p.
Older (55-64)	3.7	4.4	4.8	4.2	4.4	0.1	p.p.
<b>Male</b>	7.5	7.6	7.4	6.7	6.5	-0.2	p.p.
Young (15-24)	20.2	21.0	18.8	17.1	17.3	0.2	p.p.
Prime age (25-54)	6.6	6.6	6.5	5.9	5.7	-0.3	p.p.
Older (55-64)	3.2	3.9	4.2	3.5	3.6	0.0	p.p.
<b>Female</b>	9.5	9.5	9.3	8.5	7.6	-0.9	p.p.
Young (15-24)	22.4	22.1	22.6	20.9	18.7	-2.2	p.p.
Prime age (25-54)	8.4	8.4	8.1	7.4	6.6	-0.8	p.p.
Older (55-64)	4.8	5.5	5.7	5.3	5.5	0.2	p.p.
<b>12 Long-term unemployment rate</b> (as % of total unemployment)	49.1	51.7	51.2	50.4	47.7	-2.6	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	36.5	36.7	36.8	37.0	36.8	-0.7	%
Male	40.1	40.1	40.5	40.5	40.3	-0.6	%
Female	31.8	32.1	32.1	32.6	32.3	-0.8	%
<b>14 Sectoral employment growth</b>							
Agriculture	-1.2	0.0	-1.2	-1.2	-1.2		p.p.
Building and construction	0.0	1.3	3.8	4.0	2.3		p.p.
Services	1.4	1.8	1.7	2.2	2.0		p.p.
Manufacturing industry	-2.0	-1.0	-1.0	-0.9	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 2.2: **Indicator board on wage developments - BE**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	1.9	2.1	3.3	3.8	3.4	2.7	2.8	2.1	4.3
Compensation of employees per Hour Worked	3.7	1.1	2.9	4.2	3.9	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	2.2	2.5	2.6	3.8	:	2.9	1.3	3.4	:
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	-0.4	1.5	1.7	2.8	3.9	3.2	2.3	2.4	5.6
Real unit labour costs deflated by GDP deflator.	-2.7	-0.9	-0.6	0.4	2.2	1.4	0.6	0.7	3.9
Wage and salaries	1.4	1.9	3.1	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	0.0	1.8	2.1	3.2	4.5	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	68.8	67.9	67.5	67.4	68.6	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	31.6	30.8	30.8	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	68.4	69.2	69.2	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	59.9	60.7	60.7	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	55.4	55.5	55.4	55.5	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	51.2	51.3	51.2	51.4	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	31.1	30.3	30.3	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	0.5	0.5	0.5	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	2.3	0.5	1.6	0.9	-0.5	-0.5	0.4	-0.3	-1.2
Hourly Labour Productivity	4.0	-0.5	1.2	1.3	-0.2	:	:	:	:
GDP	3.0	1.8	3.0	2.8	1.1	1.9	2.0	1.5	-1.0
ECFIN NAIRU estimate	7.6	7.8	8.0	8.1	8.3	:	:	:	:
Output gap (%)	0.3	0.5	1.6	2.5	1.9	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.9	2.5	2.3	1.8	4.5	3.8	5.0	5.6	3.6
Underlying inflation (exc. energy and unprocessed food)	1.4	1.4	1.6	1.9	2.7	2.5	2.5	2.9	2.9
GDP deflator	2.4	2.4	2.3	2.4	1.7	1.7	1.7	1.7	1.6
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-0.8	11.3	10.0	2.8	3.7	1.8	4.8	8.1	15.6
Industry excluding construction	-1.7	0.4	-0.7	1.4	2.4	3.2	-1.4	2.8	6.0
of which: manufacturing	-2.2	-0.2	-0.1	0.9	:	:	:	:	:
Construction	-0.1	-1.8	-1.4	3.4	4.7	2.9	8.7	4.2	1.5
Trade, transport and communication	0.7	3.8	3.9	0.8	4.3	2.5	2.6	4.6	7.8
Finance and business services	0.5	-1.6	1.5	5.9	2.6	3.5	2.1	2.6	2.4
Non-market related services	1.5	3.5	3.2	3.4	4.9	4.0	4.2	4.9	6.5
Market-related sectors	-0.2	0.5	1.3	2.9	3.1	3.1	1.6	3.4	4.8
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	1.9	2.1	3.3	3.8	3.4	:	:	:	:
Agriculture and fishery	5.7	-1.7	6.6	7.6	1.8	6.0	4.8	4.6	6.3
Industry excluding construction	3.3	1.6	3.7	4.7	2.1	4.2	-0.6	3.1	2.0
of which: manufacturing	3.4	1.4	3.9	4.5	:	:	:	:	:
Construction	3.5	0.6	3.1	3.0	4.2	2.7	7.3	5.5	0.6
Trade, transport and communication	1.8	1.3	4.2	4.2	3.8	3.9	3.1	4.4	3.9
Finance and business services	1.1	1.7	2.1	3.2	1.8	1.5	1.7	2.4	1.2
Non-market related services	1.6	3.5	3.0	3.4	4.8	3.9	4.0	4.7	6.4
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	6.5	-11.6	-3.1	4.6	-1.9	4.2	0.0	-3.2	-8.1
Industry excluding construction	5.0	1.3	4.5	3.2	-0.3	0.9	0.9	0.4	-3.7
of which: manufacturing	5.6	1.6	4.0	3.6	:	:	:	:	:
Construction	3.5	2.4	4.5	-0.4	-0.5	-0.2	-1.3	1.2	-0.9
Trade, transport and communication	1.1	-2.4	0.3	3.3	-0.5	1.4	0.5	-0.1	-3.6
Finance and business services	0.6	3.4	0.6	-2.6	-0.9	-2.0	-0.4	-0.2	-1.2
Non-market related services	0.0	0.0	-0.2	-0.1	-0.2	-0.1	-0.2	-0.2	-0.1
Market-related sectors	2.3	0.9	2.0	1.0	-0.5	0.1	0.3	0.2	-2.4

Source: Ameco, Eurostat-National Account, ECB.

# 3. BULGARIA

Table 3.1: Main indicators - BG

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	7786	7747	7706	7673	7640	-0.4	%
<b>2 Population (working age:15-64)</b>	5306	5283	5238	5198	5169	-0.6	%
as % of total population	68.1	68.2	68.0	67.7	67.7	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	3277	3281	3376	3448	3505	1.6	%
Male	1741	1751	1782	1820	1859	2.1	%
Female	1535	1530	1595	1628	1646	1.1	%
<b>4 Activity rate (as % of population 15-64)</b>	61.8	62.1	64.5	66.3	67.8	1.5	p.p.
Young (15-24)	28.9	27.9	28.9	28.9	30.1	1.2	p.p.
Prime age (25-54)	79.9	80.2	82.3	84.5	85.5	1.0	p.p.
Older (55-64)	36.2	38.0	43.0	45.7	48.7	3.1	p.p.
<b>Male</b>	66.4	67.0	68.8	70.6	72.5	1.9	p.p.
Young (15-24)	31.8	31.1	31.3	31.7	34.0	2.3	p.p.
Prime age (25-54)	82.9	83.3	85.1	87.5	88.8	1.3	p.p.
Older (55-64)	47.2	49.9	53.6	55.3	58.7	3.4	p.p.
<b>Female</b>	57.2	57.3	60.2	62.1	63.1	1.0	p.p.
Young (15-24)	25.9	24.5	26.4	26.0	26.1	0.1	p.p.
Prime age (25-54)	76.8	77.2	79.4	81.4	82.1	0.7	p.p.
Older (55-64)	26.8	27.8	33.9	37.2	40.2	2.9	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	54.2	55.8	58.6	61.7	64.0	2.2	p.p.
Young (15-24)	21.5	21.6	23.2	24.5	26.3	1.8	p.p.
Prime age (25-54)	71.2	73.0	75.7	79.4	81.3	1.9	p.p.
Older (55-64)	32.5	34.7	39.6	42.6	46.0	3.5	p.p.
<b>Male</b>	57.9	60.0	62.8	66.0	68.5	2.5	p.p.
Young (15-24)	23.2	23.9	25.4	27.1	29.3	2.2	p.p.
Prime age (25-54)	73.5	75.7	78.6	82.5	84.7	2.2	p.p.
Older (55-64)	42.1	45.5	49.5	51.8	55.8	3.9	p.p.
<b>Female</b>	50.6	51.7	54.6	57.6	59.5	1.9	p.p.
Young (15-24)	19.6	19.4	21.0	21.8	23.1	1.3	p.p.
Prime age (25-54)	68.8	70.3	72.8	76.2	77.9	1.7	p.p.
Older (55-64)	24.2	25.5	31.1	34.5	37.7	3.2	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	2876.9	2947.0	3071.7	3208.8	3306.2	97.5	Th.
Male (as % of total)	52.8	53.2	52.9	53.0	53.1	0.1	p.p.
Female (as % of total)	47.2	46.8	47.1	47.0	46.9	-0.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	2.6	2.7	3.3	2.8	3.3		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	3.3	2.4	4.2	4.5	3.0		p.p.
Male	3.6	3.2	3.7	4.6	3.2		p.p.
Female	2.9	1.5	4.9	4.3	2.8		p.p.
<b>8 Self employed (% of total employment )</b>	8.5	8.2	7.6	6.9	7.3	0.4	p.p.
Male	10.5	9.9	9.1	8.3	8.7	0.4	p.p.
Female	6.3	6.3	5.9	5.3	5.7	0.4	p.p.
<b>9 Temporary employment (as % total)</b>	7.3	6.3	6.1	5.1	4.9	-0.2	p.p.
Male	7.7	6.6	6.2	4.8	5.5	0.6	p.p.
Female	6.9	6.1	6.0	5.4	4.4	-1.1	p.p.
<b>10 Part-time (as % of total employment )</b>	2.0	1.8	1.7	1.4	2.0	0.5	p.p.
Male	1.7	1.5	1.2	1.1	1.6	0.6	p.p.
Female	2.4	2.2	2.2	1.9	2.4	0.5	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	12.1	10.1	9.0	6.9	5.6	-1.3	p.p.
Young (15-24)	25.8	22.3	19.5	15.1	12.7	-2.4	p.p.
Prime age (25-54)	10.9	9.0	8.0	6.1	4.9	-1.2	p.p.
Older (55-64)	10.3	8.6	7.9	6.8	5.5	-1.3	p.p.
<b>Male</b>	12.6	10.3	8.7	6.5	5.5	-1.0	p.p.
Young (15-24)	27.0	23.4	18.9	14.5	13.7	-0.8	p.p.
Prime age (25-54)	11.3	9.1	7.7	5.7	4.7	-1.0	p.p.
Older (55-64)	10.7	8.8	7.6	6.4	5.0	-1.3	p.p.
<b>Female</b>	11.5	9.8	9.3	7.3	5.8	-1.5	p.p.
Young (15-24)	24.3	21.0	20.3	15.9	11.4	-4.6	p.p.
Prime age (25-54)	10.4	9.0	8.3	6.5	5.2	-1.3	p.p.
Older (55-64)	9.6	8.3	8.3	7.4	6.1	-1.3	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	59.5	59.9	55.8	59.2	51.8	-7.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	40.6	40.6	41.1	41.1	41.0	-0.2	%
Male	41.1	41.1	41.6	41.7	41.6	-0.1	%
Female	40.1	40.2	40.4	40.5	40.4	-0.3	%
<b>14 Sectoral employment growth</b>							
Agriculture	-0.8	-1.5	-1.3	-0.9	0.9		p.p.
Building and construction	7.3	17.0	25.1	9.7	11.7		p.p.
Services	4.2	3.7	3.4	3.6	4.3		p.p.
Manufacturing industry	2.2	2.2	3.3	2.8	1.2		p.p.

Source: Eurostat, Labour Force Survey.

Table 3.2: **Indicator board on wage developments - BG**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	4.9	5.9	7.4	17.9	19.3	:	22.8	16.9	:
Compensation of employees per Hour Worked	3.7	7.3	8.7	18.4	19.7	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	4.7	5.7	5.5	17.5	19.4	18.8	20.3	18.9	18.3
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	1.0	2.4	4.4	14.2	16.2	:	18.8	12.8	:
Real unit labour costs deflated by GDP deflator.	-4.0	-1.3	-3.8	5.9	4.3	:	4.9	2.0	:
Wage and salaries	7.6	13.9	10.2	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	56.0	56.0	54.5	56.8	59.5	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	27.5	24.9	21.5	20.0	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	72.5	75.1	78.5	80.0	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	61.9	65.3	69.0	71.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	38.9	38.9	35.4	36.5	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	38.9	32.4	29.4	31.4	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	25.2	24.0	20.9	19.9	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.3	0.9	0.7	0.1	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	3.9	3.5	2.9	3.3	2.7	2.0	3.4	3.6	1.7
Hourly Labour Productivity	2.5	3.8	3.2	2.8	2.7	:	:	:	:
GDP	6.6	6.2	6.3	6.2	6.0	7.0	7.1	6.8	3.5
ECFIN NAIRU estimate	12.6	10.9	9.4	8.1	7.3	:	:	:	:
Output gap (%)	2.7	2.9	3.3	3.6	3.7	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	6.1	6.0	7.4	7.6	12.0	12.4	14.0	12.5	9.0
Underlying inflation (exc. energy and unprocessed food)	5.9	3.6	8.1	8.2	12.0	12.1	13.8	12.5	9.6
GDP deflator	5.1	3.8	8.5	7.9	11.4	11.6	13.2	10.6	10.5
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	2.1	21.1	8.5	56.0	0.2	20.4	16.0	-11.1	-1.3
Industry excluding construction	0.4	4.9	5.7	8.7	19.4	18.3	17.5	19.6	22.8
of which: manufacturing	2.1	3.4	2.6	:	:	17.5	16.4	21.7	20.6
Construction	-5.1	3.0	15.0	:	:	31.2	35.0	29.0	27.1
Trade, transport and communication	0.4	0.6	1.9	:	:	12.0	18.0	12.3	16.4
Finance and business services	12.1	12.7	11.9	:	:	17.8	27.8	14.6	23.4
Non-market related services	7.4	2.6	8.8	:	:	29.9	22.6	16.6	22.4
Market-related sectors	0.5	4.5	5.1	203.0	17.4	14.7	18.5	10.7	17.6
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	4.7	5.8	7.4	17.9	19.3	:	:	:	:
Agriculture and fishery	5.4	11.2	8.8	10.6	23.7	18.8	28.8	25.4	23.9
Industry excluding construction	1.5	6.6	9.0	19.9	20.1	23.4	23.5	19.0	15.6
of which: manufacturing	1.7	8.0	10.5	21.2	19.7	23.1	22.7	19.6	14.6
Construction	-1.0	-3.3	1.2	25.3	27.2	32.0	30.4	25.7	21.0
Trade, transport and communication	1.6	5.0	5.2	17.1	10.6	9.4	13.8	6.8	12.9
Finance and business services	6.7	18.7	14.3	15.9	26.1	26.1	36.3	18.3	27.1
Non-market related services	9.8	3.6	6.3	16.4	20.9	18.6	19.7	22.1	23.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	3.2	-8.1	0.2	-29.1	23.4	-1.3	11.1	41.1	25.6
Industry excluding construction	1.1	1.6	3.1	10.3	0.6	4.3	5.1	-0.5	-5.9
of which: manufacturing	-0.4	4.5	7.7	:	:	4.8	5.4	-1.7	-5.0
Construction	4.2	-6.1	-11.9	:	:	0.6	-3.4	-2.6	-4.8
Trade, transport and communication	1.1	4.4	3.3	:	:	-2.3	-3.6	-4.9	-3.0
Finance and business services	-4.8	5.3	2.1	:	:	7.1	6.7	3.2	3.0
Non-market related services	2.3	0.9	-2.3	:	:	-8.6	-2.4	4.7	1.0
Market-related sectors	2.0	2.4	2.9	-60.8	1.2	4.4	3.9	4.5	0.1

Source: Ameco, Eurostat-National Account, ECB.

# 4. CYPRUS

Table 4.1: Main indicators - CY

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	711	727	737	752	758	0.8	%
<b>2 Population (working age:15-64)</b>	476	494	500	518	524	1.0	%
as % of total population	66.9	67.9	67.9	68.9	69.1	0.2	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	345	357	365	383	386	0.6	%
Male	191	199	202	209	210	0.4	%
Female	155	159	164	174	176	0.9	%
<b>4 Activity rate (as % of population 15-64)</b>	72.6	72.4	73.0	73.9	73.6	-0.3	p.p.
Young (15-24)	41.7	42.6	41.5	41.7	41.7	0.0	p.p.
Prime age (25-54)	86.1	85.7	86.2	86.7	86.5	-0.3	p.p.
Older (55-64)	52.7	52.4	55.5	57.7	56.6	-1.1	p.p.
<b>Male</b>	83.0	82.9	82.7	82.9	82.0	-1.0	p.p.
Young (15-24)	45.7	46.6	44.9	43.9	43.1	-0.7	p.p.
Prime age (25-54)	95.4	95.3	95.3	95.0	94.0	-1.0	p.p.
Older (55-64)	74.4	73.2	74.1	74.9	73.0	-1.9	p.p.
<b>Female</b>	62.9	62.5	63.8	65.4	65.7	0.2	p.p.
Young (15-24)	38.3	39.0	38.3	39.7	40.5	0.8	p.p.
Prime age (25-54)	77.4	76.5	77.4	78.7	79.1	0.4	p.p.
Older (55-64)	32.0	32.7	37.8	41.5	41.0	-0.5	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	69.1	68.5	69.6	71.0	70.9	-0.1	p.p.
Young (15-24)	37.3	36.7	37.4	37.4	38.0	0.5	p.p.
Prime age (25-54)	82.7	81.8	82.6	83.8	83.7	-0.1	p.p.
Older (55-64)	50.1	50.6	53.6	55.9	54.8	-1.1	p.p.
<b>Male</b>	80.0	79.2	79.5	80.0	79.2	-0.8	p.p.
Young (15-24)	41.4	40.5	41.0	39.1	39.3	0.3	p.p.
Prime age (25-54)	92.8	91.8	92.0	92.4	91.4	-1.1	p.p.
Older (55-64)	71.0	70.8	71.7	72.5	70.9	-1.6	p.p.
<b>Female</b>	59.0	58.4	60.3	62.4	62.9	0.5	p.p.
Young (15-24)	33.6	33.3	34.0	36.0	36.8	0.7	p.p.
Prime age (25-54)	73.1	72.2	73.6	75.5	76.3	0.8	p.p.
Older (55-64)	30.4	31.4	36.6	40.2	39.4	-0.8	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	328.6	338.0	348.3	367.9	371.1	3.2	Th.
Male (as % of total)	55.9	56.1	55.6	54.8	54.7	-0.2	p.p.
Female (as % of total)	44.1	43.9	44.4	45.2	45.4	0.2	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	3.8	3.6	1.8	3.2	2.6		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	3.7	2.9	3.0	5.6	0.9		p.p.
Male	5.9	3.1	2.1	4.2	0.6		p.p.
Female	0.9	2.5	4.3	7.4	1.3		p.p.
<b>8 Self employed (% of total employment )</b>	12.8	12.4	12.1	11.6	11.7	0.0	p.p.
Male	16.6	15.1	14.5	14.4	14.4	0.1	p.p.
Female	8.1	8.9	9.1	8.2	8.3	0.1	p.p.
<b>9 Temporary employment (as % total)</b>	13.0	14.0	13.2	13.3	14.0	0.7	p.p.
Male	8.6	9.0	7.9	7.6	8.2	0.6	p.p.
Female	17.6	19.5	19.0	19.2	20.0	0.8	p.p.
<b>10 Part-time (as % of total employment )</b>	7.4	7.6	6.6	6.4	6.8	0.4	p.p.
Male	3.2	3.2	2.8	3.0	3.5	0.4	p.p.
Female	12.7	13.2	11.3	10.4	10.8	0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	4.7	5.3	4.6	4.0	3.8	-0.2	p.p.
Young (15-24)	10.6	13.9	10.0	10.2	8.9	-1.3	p.p.
Prime age (25-54)	4.0	4.5	4.1	3.4	3.2	-0.2	p.p.
Older (55-64)	4.8	3.6	3.3	3.1	3.2	0.1	p.p.
Male	3.6	4.3	4.0	3.4	3.3	-0.1	p.p.
Young (15-24)	9.3	13.0	8.8	11.0	8.8	-2.1	p.p.
Prime age (25-54)	2.7	3.6	3.5	2.7	2.8	0.1	p.p.
Older (55-64)	4.7	3.3	3.2	3.2	2.9	-0.3	p.p.
Female	6.0	6.5	5.4	4.6	4.3	-0.3	p.p.
Young (15-24)	12.3	14.5	11.2	9.2	9.2	0.1	p.p.
Prime age (25-54)	5.5	5.6	4.9	4.1	3.6	-0.6	p.p.
Older (55-64)	5.0	4.1	3.2	3.1	3.9	0.8	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	27.4	23.4	19.6	18.9	13.5	-5.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	39.7	39.2	39.2	39.0	39.0	-0.1	%
Male	41.9	41.3	41.1	40.8	40.8	-0.1	%
Female	36.9	36.3	36.7	36.7	36.6	-0.4	%
<b>14 Sectoral employment growth</b>							
Agriculture	3.5	-5.6	-14.1	10.7	-4.0		p.p.
Building and construction	5.9	5.9	3.9	4.9	3.2		p.p.
Services	3.7	4.4	2.6	2.9	3.1		p.p.
Manufacturing industry	2.5	0.6	1.0	1.0	-1.0		p.p.

Source: Eurostat, Labour Force Survey.

Table 4.2: Indicator board on wage developments - CY

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	1.9	1.8	3.0	2.1	4.0	6.6	10.4	8.9	6.4
Compensation of employees per Hour Worked	4.2	4.0	4.0	3.5	7.0	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	5.1	3.9	4.7	6.8	6.4	5.0	5.7	6.2	7.2
Negotiated wages (Euro-area only)									
Nominal Unit labour costs	1.5	1.4	0.6	0.9	3.0	5.1	8.1	5.9	3.8
Real unit labour costs deflated by GDP deflator.	-1.7	-0.9	-2.3	-2.4	-1.8	-0.3	2.8	0.9	-0.1
Wage and salaries	1.6	0.3	3.6	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	68.5	68.3	67.3	67.5	66.3	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	15.5	15.6	15.1	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	84.5	84.4	84.9	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	84.5	84.4	84.9	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	18.6	13.6	14.1	13.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	16.8	12.0	12.6	12.5	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	15.5	15.6	15.1	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	0.0	0.0	0.0	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	0.4	0.3	2.3	1.2	1.0	1.4	2.2	2.9	2.6
Hourly Labour Productivity	2.4	2.0	1.5	1.5	0.9	:	:	:	:
GDP	4.2	3.9	4.1	4.4	3.7	4.3	3.8	3.4	2.8
ECFIN NAIRU estimate	4.2	4.2	4.3	4.5	4.8	:	:	:	:
Output gap (%)	-0.4	-0.3	0.5	1.9	2.2	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.9	2.0	2.2	2.2	4.4	4.4	4.7	5.1	3.3
Underlying inflation (exc. energy and unprocessed food)	0.8	0.8	0.8	1.7	2.7	2.5	2.6	2.9	2.8
GDP deflator	3.3	2.4	3.0	3.4	4.8	5.4	5.2	4.9	3.9
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-16.9	14.7	33.3	-3.7	:	4.0	10.6	-1.9	2.5
Industry excluding construction	6.3	2.3	9.7	0.5	:	2.9	3.5	2.4	5.2
of which: manufacturing	4.3	4.3	6.9	3.2	:	:	:	:	:
Construction	2.3	-1.7	1.9	-3.6	:	1.8	4.2	2.5	-0.8
Trade, transport and communication	1.9	-1.2	-2.9	-0.8	:	1.2	3.9	2.2	-0.1
Finance and business services	9.5	7.0	1.5	-3.7	:	-0.5	6.4	-1.4	-0.7
Non-market related services	0.6	3.1	3.7	2.8	:	6.5	7.3	4.8	3.0
Market-related sectors	3.5	2.0	-0.2	-1.5	1.6	1.0	4.5	1.0	-0.2
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	2.2	2.9	3.0	0.9	3.4	:	:	:	:
Agriculture and fishery	-19.1	17.4	35.0	-12.3	:	10.7	14.4	-2.9	5.2
Industry excluding construction	5.5	2.0	4.3	2.1	:	6.9	6.8	5.4	4.4
of which: manufacturing	2.9	2.8	1.4	3.1	:	:	:	:	:
Construction	1.3	-3.3	6.3	-2.0	:	2.6	3.3	3.9	3.5
Trade, transport and communication	5.4	0.1	-0.9	1.3	:	2.7	4.9	1.1	0.2
Finance and business services	7.3	7.8	7.3	-3.7	:	2.8	9.6	1.3	2.9
Non-market related services	-0.4	0.9	5.1	2.2	:	6.3	7.0	2.5	1.4
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	-2.7	2.4	1.3	-8.9	-1.9	6.4	3.4	-1.0	2.6
Industry excluding construction	-0.7	-0.3	-4.9	1.6	1.2	3.9	3.1	2.9	-0.7
of which: manufacturing	-1.3	-1.5	-5.1	0.0	:	2.3	3.1	2.5	0.3
Construction	-1.0	-1.6	4.3	1.7	1.9	0.8	-0.9	1.3	4.3
Trade, transport and communication	3.4	1.3	2.1	2.2	0.4	1.4	1.0	-1.1	0.4
Finance and business services	-2.1	0.7	5.7	0.0	4.7	3.3	3.0	2.8	3.6
Non-market related services	-1.0	-2.2	1.3	-0.6	-0.4	-0.2	-0.3	-2.1	-1.5
Market-related sectors	0.7	1.1	2.8	1.7	1.7	2.6	1.7	0.9	1.9

Source: Ameco, Eurostat-National Account, ECB.



# 5. CZECH REPUBLIC

Table 5.1: Main indicators - CZ

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	10196	10229	10265	10320	10422	1.0	%
<b>2 Population (working age:15-64)</b>	7231	7270	7307	7347	7410	0.9	%
as % of total population	70.9	71.1	71.2	71.2	71.1	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	5063	5119	5140	5132	5163	0.6	%
Male	2815	2857	2873	2888	2922	1.2	%
Female	2248	2262	2267	2244	2241	-0.2	%
<b>4 Activity rate (as % of population 15-64)</b>	70.0	70.4	70.3	69.9	69.7	-0.2	p.p.
Young (15-24)	35.2	34.0	33.5	31.9	31.1	-0.8	p.p.
Prime age (25-54)	87.8	88.3	88.2	87.8	87.3	-0.5	p.p.
Older (55-64)	45.1	46.9	47.7	48.2	49.5	1.3	p.p.
<b>Male</b>	77.9	78.4	78.3	78.1	78.1	0.0	p.p.
Young (15-24)	38.7	38.9	37.7	36.7	35.9	-0.8	p.p.
Prime age (25-54)	94.6	94.8	94.8	95.0	94.8	-0.3	p.p.
Older (55-64)	60.2	62.1	62.7	62.5	64.2	1.7	p.p.
<b>Female</b>	62.2	62.4	62.3	61.5	61.0	-0.4	p.p.
Young (15-24)	31.5	28.9	29.2	26.9	26.1	-0.7	p.p.
Prime age (25-54)	80.9	81.6	81.3	80.3	79.6	-0.7	p.p.
Older (55-64)	31.3	32.9	34.0	35.2	36.1	0.9	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	64.2	64.8	65.3	66.1	66.6	0.5	p.p.
Young (15-24)	27.8	27.5	27.7	28.5	28.1	-0.4	p.p.
Prime age (25-54)	81.4	82.0	82.5	83.5	83.8	0.4	p.p.
Older (55-64)	42.7	44.5	45.2	46.0	47.6	1.6	p.p.
<b>Male</b>	72.3	73.3	73.7	74.8	75.4	0.6	p.p.
Young (15-24)	30.1	31.3	31.4	32.8	32.4	-0.5	p.p.
Prime age (25-54)	89.2	89.8	90.4	91.7	92.1	0.4	p.p.
Older (55-64)	57.2	59.3	59.5	59.6	61.9	2.3	p.p.
<b>Female</b>	56.0	56.3	56.8	57.3	57.6	0.3	p.p.
Young (15-24)	25.4	23.4	23.7	23.9	23.5	-0.4	p.p.
Prime age (25-54)	73.4	74.0	74.5	74.9	75.2	0.3	p.p.
Older (55-64)	29.4	30.9	32.1	33.5	34.4	0.9	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	4638.5	4710.0	4769.4	4855.9	4933.5	77.6	Th.
Male (as % of total)	56.4	56.7	56.7	56.9	57.2	0.2	p.p.
Female (as % of total)	43.6	43.3	43.3	43.1	42.8	-0.2	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.3	1.0	1.9	2.7	0.9		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	-0.2	1.5	1.3	1.8	1.6		p.p.
Male	-0.2	2.2	1.2	2.2	2.0		p.p.
Female	-0.2	0.7	1.3	1.3	1.1		p.p.
<b>8 Self employed (% of total employment )</b>	12.1	11.4	11.3	11.7	11.7	0.0	p.p.
Male	15.5	14.7	14.3	14.8	14.8	0.0	p.p.
Female	7.7	7.1	7.3	7.5	7.6	0.0	p.p.
<b>9 Temporary employment (as % total)</b>	8.4	7.9	8.0	7.8	7.2	-0.6	p.p.
Male	7.0	6.9	6.8	6.5	5.7	-0.8	p.p.
Female	10.0	9.2	9.4	9.4	9.1	-0.3	p.p.
<b>10 Part-time (as % of total employment )</b>	4.3	4.4	4.4	4.4	4.3	-0.1	p.p.
Male	1.7	1.6	1.7	1.7	1.6	-0.1	p.p.
Female	7.7	8.0	8.0	7.9	7.8	-0.1	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	8.3	7.9	7.2	5.3	4.4	-0.9	p.p.
Young (15-24)	21.0	19.2	17.5	10.7	9.9	-0.9	p.p.
Prime age (25-54)	7.3	7.1	6.4	4.9	4.0	-1.0	p.p.
Older (55-64)	5.4	5.2	5.3	4.6	3.9	-0.8	p.p.
<b>Male</b>	7.1	6.5	5.8	4.2	3.5	-0.7	p.p.
Young (15-24)	22.2	19.3	16.6	10.6	9.8	-0.7	p.p.
Prime age (25-54)	5.6	5.3	4.7	3.5	2.8	-0.7	p.p.
Older (55-64)	4.9	4.5	5.1	4.5	3.5	-1.1	p.p.
<b>Female</b>	9.9	9.8	8.9	6.7	5.6	-1.1	p.p.
Young (15-24)	19.5	19.1	18.7	11.0	9.9	-1.0	p.p.
Prime age (25-54)	9.3	9.3	8.3	6.7	5.4	-1.3	p.p.
Older (55-64)	6.1	6.3	5.6	4.8	4.6	-0.3	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	51.0	53.0	54.3	52.2	49.3	-2.8	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	41.7	41.7	41.4	41.3	41.3	0.1	%
Male	43.7	43.6	43.3	43.1	43.2	0.1	%
Female	39.0	39.1	38.9	38.8	38.8	-0.1	%
<b>14 Sectoral employment growth</b>							
Agriculture	-3.9	-3.5	-0.7	-1.1	-4.6		p.p.
Building and construction	1.9	0.1	2.0	4.3	-1.0		p.p.
Services	0.6	1.6	2.0	3.3	1.4		p.p.
Manufacturing industry	0.3	1.3	2.3	1.8	1.5		p.p.

Source: Eurostat, Labour Force Survey.

Table 5.2: Indicators board on wage developments - CZ

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	5.7	4.9	5.9	6.3	6.7	9.9	8.0	6.9	5.7
Compensation of employees per Hour Worked	5.7	5.1	6.3	7.2	6.7	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	6.2	3.5	6.4	7.9	7.9	9.7	7.9	5.2	8.3
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	1.5	-0.3	1.1	2.9	4.5	8.2	4.8	4.1	7.8
Real unit labour costs deflated by GDP deflator.	-2.9	0.0	0.0	-0.5	2.7	5.6	3.5	3.3	5.9
Wage and salaries	5.7	5.3	6.0	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	58.1	58.1	57.7	57.6	59.5	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	28.1	27.5	27.4	27.7	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	71.9	72.5	72.6	72.3	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	63.0	63.8	64.0	63.2	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	43.5	43.8	42.6	42.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	40.5	40.5	39.4	37.4	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	26.9	26.2	26.1	26.9	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	1.2	1.3	1.3	0.8	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	4.1	5.2	4.8	3.4	2.1	1.6	3.0	2.6	-1.9
Hourly Labour Productivity	3.7	4.6	5.2	4.0	2.3	:	:	:	:
GDP	4.5	6.3	6.8	6.1	3.0	3.5	4.9	4.1	-0.6
ECFIN NAIRU estimate	7.3	7.1	7.0	6.6	6.2	:	:	:	:
Output gap (%)	-1.6	0.9	3.8	5.9	5.3	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.6	1.6	2.1	3.0	6.3	7.6	6.7	6.5	4.4
Underlying inflation (exc. energy and unprocessed food)	2.5	0.9	0.9	3.1	5.8	6.9	6.2	5.9	4.3
GDP deflator	4.5	-0.3	1.1	3.4	1.7	2.4	1.3	0.8	1.8
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-4.2	-3.6	28.2	24.5	1.1	49.5	81.2	35.4	-39.5
Industry excluding construction	-5.4	2.9	-0.4	1.9	12.8	15.7	14.3	16.5	10.0
of which: manufacturing	-5.3	-5.3	-6.0	-0.2	0.6	15.3	15.3	16.6	7.5
Construction	0.7	13.8	8.6	5.3	27.7	48.3	44.4	29.6	21.1
Trade, transport and communication	7.6	4.8	3.6	7.0	13.0	13.7	18.2	19.8	14.4
Finance and business services	3.6	8.4	14.4	3.9	22.9	19.7	24.5	28.3	22.5
Non-market related services	5.0	13.5	11.0	9.5	17.3	12.7	16.6	19.3	10.2
Market-related sectors	1.2	4.9	4.7	4.9	16.7	18.4	20.5	21.5	13.1
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	5.5	12.4	11.7	8.6	18.3	:	:	:	:
Agriculture and fishery	7.5	11.0	10.9	11.5	20.5	19.9	21.6	26.6	12.1
Industry excluding construction	6.6	12.0	11.3	8.1	18.4	22.4	23.5	23.8	10.6
of which: manufacturing	7.0	4.6	5.2	7.1	6.1	22.1	23.7	23.5	9.9
Construction	4.5	12.2	12.0	7.9	18.7	24.5	25.2	26.2	13.8
Trade, transport and communication	6.5	11.5	12.2	9.2	19.5	18.5	24.7	27.3	15.2
Finance and business services	4.5	11.0	12.4	7.7	21.1	22.0	24.0	26.4	18.9
Non-market related services	3.4	13.8	10.8	8.5	14.6	13.2	17.3	19.0	10.9
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	12.1	15.1	-13.5	-10.4	19.2	-19.8	-32.9	-6.5	85.3
Industry excluding construction	12.7	8.8	11.7	6.1	5.0	5.7	8.1	6.2	0.5
of which: manufacturing	12.9	10.5	12.0	7.3	5.5	5.8	7.2	5.9	2.2
Construction	3.7	-1.4	3.1	2.4	-7.1	-16.0	-13.3	-2.6	-6.0
Trade, transport and communication	-1.0	6.3	8.3	2.1	5.7	4.3	5.5	6.3	0.7
Finance and business services	0.9	2.3	-1.7	3.6	-1.5	1.9	-0.4	-1.4	-2.9
Non-market related services	-1.5	0.3	-0.2	-0.9	-2.3	0.4	0.5	-0.2	0.6
Market-related sectors	5.1	6.6	6.5	3.7	3.7	2.7	3.2	3.6	0.6

Source: Ameco, Eurostat-National Account, ECB.

# 6. DENMARK

Table 6.1: Main indicators - DK

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	5379	5396	5415	5431	5483	1.0	%
<b>2 Population (working age:15-64)</b>	3559	3566	3569	3573	3591	0.5	%
as % of total population	66.2	66.1	65.9	65.8	65.5	-0.3	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	2852	2846	2875	2866	2902	1.2	%
Male	1511	1504	1516	1513	1528	1.0	%
Female	1342	1341	1360	1353	1374	1.5	%
<b>4 Activity rate (as % of population 15-64)</b>	80.1	79.8	80.6	80.2	80.8	0.6	p.p.
Young (15-24)	67.9	68.1	69.9	70.9	72.5	1.7	p.p.
Prime age (25-54)	88.2	88.1	88.9	89.0	90.2	1.2	p.p.
Older (55-64)	63.9	62.8	63.2	60.8	58.7	-2.1	p.p.
<b>Male</b>	84.0	83.6	84.1	83.9	84.4	0.5	p.p.
Young (15-24)	69.7	70.0	70.5	72.3	73.3	1.0	p.p.
Prime age (25-54)	91.5	91.7	92.3	92.5	93.4	0.9	p.p.
Older (55-64)	71.3	68.7	69.6	67.0	66.0	-0.9	p.p.
<b>Female</b>	76.2	75.9	77.0	76.4	77.1	0.7	p.p.
Young (15-24)	66.0	66.2	69.3	69.4	71.7	2.4	p.p.
Prime age (25-54)	84.8	84.5	85.4	85.4	87.0	1.6	p.p.
Older (55-64)	56.5	56.8	56.7	54.6	51.5	-3.1	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	75.7	75.9	77.4	77.1	78.1	0.9	p.p.
Young (15-24)	62.3	62.3	64.6	65.3	67.0	1.7	p.p.
Prime age (25-54)	83.7	84.5	86.1	86.3	88.0	1.6	p.p.
Older (55-64)	60.3	59.5	60.7	58.6	57.0	-1.6	p.p.
<b>Male</b>	79.7	79.8	81.2	81.0	81.9	0.9	p.p.
Young (15-24)	63.4	63.9	65.0	66.3	68.3	1.9	p.p.
Prime age (25-54)	87.6	88.3	90.0	90.2	91.3	1.1	p.p.
Older (55-64)	67.3	65.6	67.1	64.9	64.3	-0.6	p.p.
<b>Female</b>	71.6	71.9	73.4	73.2	74.3	1.0	p.p.
Young (15-24)	61.1	60.5	64.1	64.2	65.7	1.5	p.p.
Prime age (25-54)	79.8	80.6	82.0	82.4	84.6	2.2	p.p.
Older (55-64)	53.3	53.5	54.3	52.3	49.8	-2.5	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	2693.4	2706.3	2761.7	2756.5	2804.0	47.5	Th.
Male (as % of total)	53.2	53.1	53.0	53.0	52.8	-0.2	p.p.
Female (as % of total)	46.8	46.9	47.0	47.0	47.2	0.2	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-0.6	1.0	2.0	2.7	0.8		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	1.0	0.5	2.0	-0.2	1.7		p.p.
Male	0.2	0.3	1.9	-0.3	1.4		p.p.
Female	2.0	0.7	2.2	-0.1	2.0		p.p.
<b>8 Self employed (% of total employment )</b>	4.1	4.0	4.1	4.2	4.3	0.1	p.p.
Male	5.8	5.3	5.2	5.5	5.7	0.2	p.p.
Female	2.3	2.6	2.7	2.7	2.7	0.0	p.p.
<b>9 Temporary employment (as % total)</b>	9.4	9.8	8.9	8.7	8.3	-0.4	p.p.
Male	8.6	8.4	7.9	7.5	7.6	0.1	p.p.
Female	10.3	11.3	9.9	9.9	9.1	-0.9	p.p.
<b>10 Part-time (as % of total employment )</b>	21.5	21.5	22.9	23.4	23.9	0.4	p.p.
Male	11.2	11.7	12.3	12.5	13.1	0.6	p.p.
Female	33.3	32.5	34.9	35.8	36.0	0.2	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	5.5	4.8	3.9	3.8	3.3	-0.5	p.p.
Young (15-24)	8.2	8.6	7.7	7.9	7.6	-0.2	p.p.
Prime age (25-54)	5.1	4.1	3.2	3.0	2.5	-0.5	p.p.
Older (55-64)	5.6	5.2	3.9	3.5	2.9	-0.7	p.p.
<b>Male</b>	5.1	4.4	3.3	3.5	3.0	-0.5	p.p.
Young (15-24)	9.0	8.6	7.9	8.2	6.9	-1.3	p.p.
Prime age (25-54)	4.3	3.7	2.4	2.6	2.3	-0.3	p.p.
Older (55-64)	5.6	4.6	3.5	3.1	2.6	-0.5	p.p.
<b>Female</b>	6.0	5.3	4.5	4.2	3.7	-0.5	p.p.
Young (15-24)	7.4	8.6	7.5	7.5	8.4	0.9	p.p.
Prime age (25-54)	5.8	4.5	4.0	3.5	2.7	-0.8	p.p.
Older (55-64)	5.6	5.8	4.3	4.1	3.2	-0.9	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	21.6	23.5	20.9	16.1	13.7	-2.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	34.7	35.1	34.9	34.9	34.7	-0.5	%
Male	37.6	37.9	37.7	37.6	37.2	-1.1	%
Female	31.3	31.7	31.4	31.6	31.7	0.2	%
<b>14 Sectoral employment growth</b>							
Agriculture	-4.5	-1.2	-2.4	1.2	1.2		p.p.
Building and construction	0.0	6.8	5.8	4.9	-1.0		p.p.
Services	0.3	1.3	2.3	2.7	0.8		p.p.
Manufacturing industry	-4.3	-2.3	-0.3	1.8	1.8		p.p.

Source: Eurostat, Labour Force Survey.

Table 6.2: **Indicator board on wage developments - DK**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.3	3.6	3.6	3.1	4.9	5.7	3.4	3.3	2.9
Compensation of employees per Hour Worked	3.4	3.8	3.4	2.1	4.4	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.3	3.0	2.9	3.5	3.6	4.1	3.3	4.0	3.3
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	0.4	2.2	2.2	4.2	7.1	6.9	4.5	7.2	9.1
Real unit labour costs deflated by GDP deflator.	-1.9	-0.7	0.3	2.2	3.0	2.8	0.3	2.4	5.9
Wage and salaries	2.1	3.6	5.0	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	1.2	2.5	2.5	4.3	7.6	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	67.1	67.0	67.4	68.8	70.4	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	13.0	13.3	14.2	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	87.0	86.7	85.8	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	70.6	70.3	69.4	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	41.3	41.4	41.3	41.3	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	37.9	38.1	37.9	38.1	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	10.2	10.9	11.6	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.8	2.4	2.6	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	2.9	1.4	1.3	-1.0	-2.0	-1.1	-1.1	-3.7	-5.7
Hourly Labour Productivity	2.7	1.4	0.9	-1.9	-2.5	:	:	:	:
GDP	2.3	2.4	3.3	1.6	-1.2	-0.2	0.8	-1.5	-3.8
ECFIN NAIRU estimate	4.6	4.4	4.3	4.4	4.2	:	:	:	:
Output gap (%)	-0.2	0.8	2.4	2.4	-0.2	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	0.9	1.7	1.9	1.7	3.6	3.2	3.7	4.6	3.0
Underlying inflation (exc. energy and unprocessed food)	0.9	1.0	1.3	1.6	3.0	2.7	2.9	3.5	2.9
GDP deflator	2.3	2.9	2.0	2.0	4.0	3.9	4.2	4.7	3.0
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	0.2	9.0	8.8	32.6	-13.2	4.3	-11.5	-9.4	21.6
Industry excluding construction	-2.1	2.6	3.9	6.8	6.3	12.1	5.1	9.4	8.4
of which: manufacturing	-2.0	2.5	0.5	2.2	8.4	11.6	5.5	9.2	7.5
Construction	2.9	6.3	-5.6	4.8	10.4	11.7	11.2	12.9	11.2
Trade, transport and communication	1.3	3.4	0.3	3.3	8.8	8.3	5.8	8.6	14.4
Finance and business services	0.4	3.0	5.7	6.2	7.6	4.1	6.2	5.7	6.2
Non-market related services	3.5	2.7	3.1	1.6	4.7	2.4	2.7	5.0	5.5
Market-related sectors	0.0	3.7	2.5	5.8	7.7	8.2	5.8	7.7	9.9
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	3.2	3.5	3.5	3.3	4.6	:	:	:	:
Agriculture and fishery	4.2	2.2	5.5	5.0	4.3	4.3	8.6	6.8	3.4
Industry excluding construction	4.1	5.0	4.7	4.5	4.0	2.7	5.7	5.4	5.0
of which: manufacturing	4.1	5.4	4.9	4.0	4.6	2.7	5.7	5.4	4.9
Construction	3.1	3.2	4.3	3.8	4.5	6.8	6.7	5.6	5.9
Trade, transport and communication	2.2	4.5	2.1	2.6	4.7	7.2	6.1	4.1	5.4
Finance and business services	3.5	3.1	3.0	2.8	4.0	2.6	4.0	3.9	3.0
Non-market related services	3.3	2.2	3.5	3.0	5.0	5.2	2.7	5.4	6.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	4.0	-6.2	-3.0	-20.8	20.2	0.0	22.7	17.9	-15.0
Industry excluding construction	6.4	2.4	0.8	-2.1	-2.2	-8.5	0.6	-3.7	-3.1
of which: manufacturing	6.1	2.9	4.4	1.8	-3.5	-8.0	0.2	-3.4	-2.4
Construction	0.1	-3.0	10.5	-0.9	-5.3	-4.4	-4.1	-6.5	-4.8
Trade, transport and communication	1.0	1.0	1.8	-0.7	-3.7	-1.0	0.3	-4.2	-7.8
Finance and business services	3.0	0.1	-2.6	-3.2	-3.4	-1.4	-2.1	-1.7	-3.0
Non-market related services	-0.1	-0.5	0.4	1.4	0.3	2.7	0.0	0.4	1.0
Market-related sectors	3.1	0.6	0.8	-2.3	-2.7	-3.2	-0.3	-2.9	-4.8

Source: Ameco, Eurostat-National Account, ECB.

# 7. ESTONIA

Table 7.1: Main indicators - EE

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	1348	1343	1339	1338	1336	-0.1	%
<b>2 Population (working age:15-64)</b>	910	910	913	909	907	-0.2	%
as % of total population	67.5	67.7	68.1	68.0	67.9	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	636	638	661	663	671	1.3	%
Male	322	319	332	338	340	0.7	%
Female	314	319	329	325	331	1.9	%
<b>4 Activity rate (as % of population 15-64)</b>	70.0	70.1	72.4	72.9	74.0	1.1	p.p.
Young (15-24)	34.7	34.6	35.9	38.3	41.4	3.0	p.p.
Prime age (25-54)	86.5	86.0	89.1	88.5	88.1	-0.4	p.p.
Older (55-64)	55.7	59.0	61.0	62.2	65.1	2.9	p.p.
<b>Male</b>	74.4	73.6	75.8	77.5	78.3	0.8	p.p.
Young (15-24)	41.6	39.7	41.2	44.2	45.2	1.0	p.p.
Prime age (25-54)	90.1	89.2	92.8	93.6	92.9	-0.7	p.p.
Older (55-64)	60.7	63.0	61.6	63.7	68.8	5.2	p.p.
<b>Female</b>	66.0	66.9	69.3	68.7	70.1	1.4	p.p.
Young (15-24)	27.8	29.4	30.6	32.3	37.5	5.1	p.p.
Prime age (25-54)	83.2	83.1	85.8	83.7	83.6	-0.1	p.p.
Older (55-64)	51.9	56.0	60.5	61.0	62.3	1.3	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	63.0	64.4	68.1	69.4	69.8	0.4	p.p.
Young (15-24)	27.2	29.2	31.6	34.5	36.4	1.9	p.p.
Prime age (25-54)	78.8	79.6	84.2	84.8	83.8	-0.9	p.p.
Older (55-64)	52.4	56.1	58.5	60.0	62.4	2.4	p.p.
<b>Male</b>	66.4	67.1	71.0	73.2	73.6	0.4	p.p.
Young (15-24)	32.8	33.1	37.0	38.8	39.5	0.7	p.p.
Prime age (25-54)	81.6	81.9	87.5	89.7	88.4	-1.3	p.p.
Older (55-64)	56.4	59.2	57.5	59.4	65.2	5.8	p.p.
<b>Female</b>	60.0	62.1	65.3	65.9	66.3	0.4	p.p.
Young (15-24)	21.6	25.1	26.1	30.0	33.2	3.2	p.p.
Prime age (25-54)	76.2	77.5	81.1	80.2	79.6	-0.6	p.p.
Older (55-64)	49.4	53.7	59.2	60.5	60.3	-0.2	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	573.3	586.3	621.1	630.7	633.5	2.8	Th.
Male (as % of total)	50.2	49.6	50.0	50.6	50.6	0.0	p.p.
Female (as % of total)	49.8	50.4	50.0	49.4	49.4	0.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.0	2.0	5.4	0.8	0.2		p.p.
Employment growth ( %) (LFS - age 15-64)	0.1	2.3	5.9	1.6	0.4		p.p.
Male	-1.5	1.1	6.9	2.7	0.3		p.p.
Female	1.7	3.5	5.0	0.4	0.5		p.p.
<b>8 Self employed (% of total employment )</b>	6.0	5.1	5.2	5.5	4.3	-1.2	p.p.
Male	7.7	6.9	7.0	7.4	5.3	-2.1	p.p.
Female	4.2	3.4	3.4	3.5	3.1	-0.3	p.p.
<b>9 Temporary employment (as % total)</b>	2.6	2.7	2.7	2.2	2.5	0.3	p.p.
Male	3.5	3.9	3.6	3.1	3.5	0.3	p.p.
Female	2.2	2.5	2.7	:	1.8	:	p.p.
<b>10 Part-time (as % of total employment )</b>	6.9	6.6	6.7	7.2	6.4	-0.8	p.p.
Male	4.7	:	:	:	5.0	:	p.p.
Female	9.1	9.1	9.7	10.6	9.3	-1.3	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	9.7	7.9	5.9	4.7	5.5	0.8	p.p.
Young (15-24)	21.7	15.8	12.0	10.0	12.0	2.0	p.p.
Prime age (25-54)	8.9	7.5	5.5	4.2	4.9	0.6	p.p.
Older (55-64)	5.9	5.0	4.1	3.5	4.1	0.6	p.p.
Male	10.4	8.8	6.2	5.4	5.8	0.4	p.p.
Young (15-24)	21.3	16.6	10.1	12.1	12.5	0.4	p.p.
Prime age (25-54)	9.5	8.2	5.6	4.2	4.8	0.7	p.p.
Older (55-64)	7.2	5.9	6.7	6.7	5.2	-1.5	p.p.
Female	8.9	7.1	5.6	3.9	5.3	1.4	p.p.
Young (15-24)	22.4	14.8	14.8	7.2	11.3	4.1	p.p.
Prime age (25-54)	8.3	6.8	5.4	4.3	4.9	0.6	p.p.
Older (55-64)	4.9	4.2	2.2	0.9	3.2	2.3	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	52.5	53.5	48.2	49.1	31.3	-17.8	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	39.8	39.9	39.9	39.6	39.2	-1.1	%
Male	41.3	41.3	41.2	41.0	40.3	-1.6	%
Female	38.2	38.5	38.5	38.2	38.0	-0.6	%
<b>14 Sectoral employment growth</b>							
Agriculture	-5.3	-7.0	-2.5	-3.2	-17.0		p.p.
Building and construction	7.8	2.6	25.1	27.6	-3.8		p.p.
Services	-3.4	4.6	7.0	-1.4	1.4		p.p.
Manufacturing industry	5.0	-1.3	-2.3	-1.8	2.9		p.p.

Source: Eurostat, Labour Force Survey.

Table 7.2: Indicator board on wage developments - EE

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	11.5	10.7	14.1	26.4	13.0	18.0	14.3	15.7	3.0
Compensation of employees per Hour Worked	9.9	12.0	14.6	25.1	16.4	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	6.3	10.6	16.8	20.2	13.8	17.6	16.3	13.2	8.5
Negotiated wages (Euro-area only)									
Nominal Unit labour costs	3.7	3.4	8.9	19.8	17.5	19.5	15.3	19.7	13.8
Real unit labour costs deflated by GDP deflator.	0.4	-1.8	1.7	9.3	9.0	10.3	4.7	11.2	7.9
Wage and salaries	14.4	14.0	11.2	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	54.9	54.6	55.7	61.0	65.7	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	26.7	26.6	26.4	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	73.3	73.4	73.6	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	41.3	41.1	40.2	40.1	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	37.0	38.3	37.9	38.1	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	25.3	25.3	25.1	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	1.4	1.3	1.3	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	7.6	7.0	4.7	5.5	-3.8	-1.3	-0.8	-3.3	-9.5
Hourly Labour Productivity	7.0	6.3	5.2	5.7	-2.3	:	:	:	:
GDP	7.5	9.2	10.4	6.3	-3.6	0.2	-1.1	-3.5	-9.7
ECFIN NAIRU estimate	9.4	8.6	8.0	7.6	7.5	:	:	:	:
Output gap (%)	1.6	4.4	8.8	10.4	3.3	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	3.0	4.1	4.4	6.7	10.6	11.3	11.5	11.0	8.7
Underlying inflation (exc. energy and unprocessed food)	2.5	2.6	3.5	6.5	8.8	9.5	9.0	9.2	7.6
GDP deflator	3.3	5.3	7.0	9.6	7.8	8.4	10.0	7.6	5.5
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	16.0	15.2	10.4	45.7	-0.4	14.9	9.6	-2.3	-4.3
Industry excluding construction	-0.6	2.6	4.4	13.1	16.0	11.7	12.2	24.2	15.8
of which: manufacturing	-1.1	1.8	4.3	11.4	15.0	9.4	9.9	22.8	16.2
Construction	7.0	8.3	22.1	27.0	16.1	4.5	-1.9	9.0	0.5
Trade, transport and communication	5.8	0.2	5.8	21.1	14.4	26.6	24.0	21.1	10.0
Finance and business services	1.2	-0.5	20.5	22.2	27.0	21.7	13.6	24.1	16.1
Non-market related services	8.3	8.1	8.1	19.5	17.3	22.0	15.8	16.6	16.1
Market-related sectors	3.6	2.8	10.3	21.0	14.9	18.3	13.9	18.7	9.3
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	11.5	10.7	14.2	26.4	12.9	:	:	:	:
Agriculture and fishery	11.5	17.2	10.0	35.1	26.9	26.9	35.7	36.8	31.1
Industry excluding construction	1.2	14.4	18.4	25.5	8.4	15.6	-0.5	13.6	3.6
of which: manufacturing	4.4	14.6	19.5	23.8	7.3	13.7	-1.6	13.4	2.1
Construction	9.6	30.3	16.5	9.4	12.2	0.5	1.1	7.0	-4.2
Trade, transport and communication	18.5	4.1	11.8	31.9	4.0	20.6	26.0	13.0	-17.2
Finance and business services	23.3	-2.2	25.8	21.8	17.5	23.8	10.4	2.3	10.5
Non-market related services	12.0	10.9	6.8	27.3	22.3	19.0	23.7	27.4	20.3
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	-3.8	1.7	-0.3	-7.3	27.3	10.5	23.8	39.9	36.9
Industry excluding construction	1.8	11.5	13.4	11.0	-6.5	3.5	-11.3	-8.5	-10.5
of which: manufacturing	5.6	12.6	14.6	11.1	-6.7	3.9	-10.5	-7.7	-12.2
Construction	2.5	20.2	-4.6	-13.8	-3.4	-3.8	3.1	-1.8	-4.8
Trade, transport and communication	12.0	3.9	5.6	8.9	-9.0	-4.7	1.6	-6.7	-24.7
Finance and business services	21.7	-1.7	4.4	-0.3	-7.4	1.8	-2.8	-17.5	-4.8
Non-market related services	3.4	2.6	-1.2	6.6	4.2	-2.5	6.8	9.3	3.6
Market-related sectors	7.9	7.5	6.3	4.1	-5.1	-1.0	-2.2	-5.5	-11.0

Source: Ameco, Eurostat-National Account, ECB.

# 8. FINLAND

Table 8.1: Main indicators - FI

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	5205	5224	5242	5266	5289	0.4	%
<b>2 Population (working age:15-64)</b>	3467	3476	3484	3497	3514	0.5	%
as % of total population	66.6	66.5	66.5	66.4	66.4	0.0	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	2574	2597	2620	2642	2669	1.0	%
Male	1332	1338	1350	1358	1376	1.4	%
Female	1242	1259	1270	1284	1293	0.7	%
<b>4 Activity rate (as % of population 15-64)</b>	74.2	74.7	75.2	75.6	76.0	0.4	p.p.
Young (15-24)	49.7	50.7	51.8	53.4	53.5	0.1	p.p.
Prime age (25-54)	87.4	87.7	87.8	88.0	88.6	0.6	p.p.
Older (55-64)	54.9	56.6	58.5	58.8	59.7	0.9	p.p.
<b>Male</b>	76.4	76.6	77.1	77.2	77.9	0.7	p.p.
Young (15-24)	50.5	50.9	52.6	53.3	53.4	0.2	p.p.
Prime age (25-54)	90.1	90.3	90.3	90.4	91.3	0.8	p.p.
Older (55-64)	55.6	56.9	58.8	59.1	60.6	1.5	p.p.
<b>Female</b>	72.0	72.8	73.3	73.8	73.9	0.1	p.p.
Young (15-24)	48.9	50.4	51.0	53.6	53.5	-0.1	p.p.
Prime age (25-54)	84.5	85.1	85.3	85.6	85.9	0.3	p.p.
Older (55-64)	54.3	56.4	58.2	58.4	58.8	0.4	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	67.6	68.4	69.3	70.3	71.1	0.8	p.p.
Young (15-24)	39.4	40.5	42.1	44.6	44.7	0.1	p.p.
Prime age (25-54)	81.0	81.7	82.4	83.4	84.3	0.9	p.p.
Older (55-64)	50.9	52.7	54.5	55.0	56.5	1.4	p.p.
<b>Male</b>	69.7	70.3	71.4	72.1	73.1	1.0	p.p.
Young (15-24)	39.4	40.4	42.6	44.5	44.3	-0.2	p.p.
Prime age (25-54)	83.8	84.4	85.2	86.0	87.3	1.3	p.p.
Older (55-64)	51.4	52.8	54.8	55.1	57.1	2.0	p.p.
<b>Female</b>	65.6	66.5	67.3	68.5	69.0	0.5	p.p.
Young (15-24)	39.4	40.6	41.6	44.7	45.1	0.4	p.p.
Prime age (25-54)	78.2	78.9	79.6	80.6	81.2	0.6	p.p.
Older (55-64)	50.4	52.7	54.3	55.0	55.9	0.9	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	2344.8	2377.6	2416.1	2458.5	2497.2	38.7	Th.
Male (as % of total)	51.8	51.6	51.7	51.6	51.7	0.2	p.p.
Female (as % of total)	48.2	48.4	48.3	48.4	48.3	-0.2	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.4	1.3	1.8	2.2	1.6		p.p.
Employment growth ( %) (LFS - age 15-64)	0.0	1.4	1.6	1.8	1.6		p.p.
Male	0.1	1.1	1.7	1.5	1.9		p.p.
Female	-0.1	1.7	1.5	2.1	1.2		p.p.
<b>8 Self employed (% of total employment )</b>	7.9	8.0	8.0	7.6	8.0	0.4	p.p.
Male	9.8	9.9	10.2	9.7	10.0	0.3	p.p.
Female	5.9	5.9	5.6	5.5	6.0	0.5	p.p.
<b>9 Temporary employment (as % total)</b>	16.1	16.4	16.3	15.8	14.9	-0.9	p.p.
Male	12.6	12.8	12.5	12.2	11.1	-1.2	p.p.
Female	19.5	20.0	20.0	19.4	18.7	-0.7	p.p.
<b>10 Part-time (as % of total employment )</b>	13.2	13.2	13.5	13.4	12.7	-0.7	p.p.
Male	8.4	8.6	8.6	8.3	7.9	-0.4	p.p.
Female	18.3	18.2	18.7	18.8	17.8	-1.0	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	8.8	8.4	7.7	6.9	6.4	-0.5	p.p.
Young (15-24)	20.7	20.1	18.7	16.5	16.5	0.0	p.p.
Prime age (25-54)	7.3	6.8	6.1	5.3	4.9	-0.5	p.p.
Older (55-64)	7.3	6.9	6.8	6.3	5.4	-0.9	p.p.
Male	8.7	8.2	7.4	6.5	6.1	-0.4	p.p.
Young (15-24)	22.0	20.6	19.0	16.4	17.1	0.7	p.p.
Prime age (25-54)	7.0	6.5	5.6	4.9	4.4	-0.5	p.p.
Older (55-64)	7.4	7.2	6.9	6.8	5.8	-1.0	p.p.
Female	8.9	8.6	8.1	7.2	6.7	-0.5	p.p.
Young (15-24)	19.3	19.5	18.4	16.6	15.8	-0.8	p.p.
Prime age (25-54)	7.6	7.2	6.6	5.8	5.4	-0.4	p.p.
Older (55-64)	7.1	6.6	6.7	5.9	5.0	-0.9	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	24.3	26.1	25.6	23.0	18.6	-4.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	37.0	37.1	36.9	36.8	36.8	0.0	%
Male	39.2	39.2	39.2	39.0	38.9	-0.1	%
Female	34.5	34.6	34.3	34.2	34.3	0.3	%
<b>14 Sectoral employment growth</b>							
Agriculture	-2.0	-0.4	0.3	0.2	-0.3		p.p.
Building and construction	2.3	4.6	4.1	7.3	3.9		p.p.
Services	1.3	1.5	1.9	2.3	2.1		p.p.
Manufacturing industry	-2.5	0.2	0.8	0.5	-0.9		p.p.

Source: Eurostat, Labour Force Survey.

Table 8.2: **Indicator board on wage developments - FI**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.6	3.8	2.9	3.4	5.3	5.3	5.7	5.7	5.3
Compensation of employees per Hour Worked	3.4	4.2	3.0	3.7	4.3	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	2.3	5.3	2.1	2.4	5.4	4.8	5.5	6.2	5.6
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	0.3	2.3	-0.2	1.5	5.9	5.1	5.1	5.0	8.8
Real unit labour costs deflated by GDP deflator.	-0.3	1.9	-1.6	-1.7	4.1	3.1	2.7	3.4	7.5
Wage and salaries	2.7	4.3	3.1	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	0.7	2.4	-0.2	1.5	6.1	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	62.1	63.4	62.2	60.9	63.3	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	22.2	22.1	22.0	21.8	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	77.8	77.9	78.1	78.2	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	65.8	66.0	66.1	66.2	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	44.5	44.6	44.1	43.7	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	41.2	41.5	41.1	40.7	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	21.0	20.9	20.7	20.6	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	1.2	1.2	1.2	1.2	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	3.3	1.4	3.1	2.0	-0.6	0.2	0.5	0.7	-3.2
Hourly Labour Productivity	3.0	1.7	3.4	2.2	-1.4	:	:	:	:
GDP	3.7	2.8	4.9	4.2	1.0	2.6	2.5	1.7	-2.3
ECFIN NAIRU estimate	7.7	7.6	7.5	7.5	7.4	:	:	:	:
Output gap (%)	-0.3	-0.1	2.4	4.1	2.7	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	0.1	0.8	1.3	1.6	3.9	3.4	3.9	4.5	3.8
Underlying inflation (exc. energy and unprocessed food)	-0.1	0.3	0.8	1.4	2.9	2.2	2.6	3.1	3.6
GDP deflator	0.6	0.5	1.3	3.2	1.8	2.0	2.4	1.6	1.2
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-0.9	-2.7	-0.7	-6.5	10.0	2.2	4.9	8.8	4.3
Industry excluding construction	-2.8	0.4	-5.2	-4.8	4.0	1.6	2.0	-0.3	10.7
of which: manufacturing	-2.9	0.0	-6.0	-5.2	3.6	3.4	2.5	-0.3	8.9
Construction	1.8	6.0	2.4	4.8	11.6	7.1	8.9	12.9	13.2
Trade, transport and communication	-1.3	0.2	-2.2	2.6	5.4	4.0	2.9	3.8	9.6
Finance and business services	1.4	5.4	4.5	5.4	7.7	9.9	9.7	9.8	10.7
Non-market related services	4.4	4.2	3.3	4.4	5.8	6.3	6.4	7.2	3.4
Market-related sectors	-0.9	1.8	-1.5	0.3	6.3	4.8	5.0	4.7	11.4
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	3.5	3.8	2.8	3.4	5.6	:	:	:	:
Agriculture and fishery	2.3	1.8	1.4	3.9	-2.3	3.8	6.0	6.6	-2.5
Industry excluding construction	4.6	3.8	3.7	2.9	7.4	6.2	4.4	0.4	6.7
of which: manufacturing	4.7	3.8	3.9	2.8	4.3	6.2	4.5	0.3	6.8
Construction	2.9	2.7	3.0	4.3	7.5	3.7	3.6	10.3	9.5
Trade, transport and communication	2.8	3.3	2.0	2.8	7.5	3.7	4.3	6.0	6.6
Finance and business services	4.2	3.7	2.7	4.0	-0.3	1.8	8.5	9.8	6.5
Non-market related services	3.4	4.2	2.5	3.7	5.5	7.1	5.4	6.3	2.7
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	3.1	4.6	2.1	11.2	-11.2	1.6	1.1	-2.0	-6.5
Industry excluding construction	7.7	3.4	9.3	8.1	3.3	4.5	2.4	0.7	-3.6
of which: manufacturing	7.8	3.8	10.4	8.4	0.7	2.7	2.0	0.6	-2.0
Construction	1.1	-3.0	0.6	-0.5	-3.7	-3.1	-4.8	-2.3	-3.3
Trade, transport and communication	4.1	3.1	4.3	0.2	2.0	-0.4	1.3	2.0	-2.7
Finance and business services	2.7	-1.6	-1.7	-1.4	-7.4	-7.4	-1.0	0.0	-3.8
Non-market related services	-0.9	0.0	-0.7	-0.7	-0.3	0.8	-0.9	-0.8	-0.7
Market-related sectors	4.6	1.7	4.5	3.0	-0.9	-0.8	0.3	0.7	-4.2

Source: Ameco, Eurostat-National Account, ECB.



# 9. FRANCE

Table 9.1: Main indicators - FR

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	59275	59605	59948	60283	60606	0.5	%
<b>2 Population (working age:15-64)</b>	38777	38989	39274	39493	39677	0.5	%
as % of total population	65.4	65.4	65.5	65.5	65.5	0.0	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	27122	27322	27496	27719	27923	0.7	%
Male	14470	14531	14584	14628	14713	0.6	%
Female	12652	12792	12912	13091	13209	0.9	%
<b>4 Activity rate (as % of population 15-64)</b>	69.9	70.1	70.0	70.2	70.4	0.2	p.p.
Young (15-24)	38.3	38.5	38.4	38.8	39.3	0.5	p.p.
Prime age (25-54)	87.3	87.6	87.8	88.3	88.8	0.6	p.p.
Older (55-64)	39.9	40.9	40.5	40.4	40.2	-0.2	p.p.
<b>Male</b>	75.4	75.4	75.1	74.9	75.0	0.1	p.p.
Young (15-24)	42.0	42.3	42.2	42.1	42.8	0.7	p.p.
Prime age (25-54)	94.0	94.0	94.2	94.2	94.5	0.3	p.p.
Older (55-64)	43.8	43.9	43.1	42.8	42.7	-0.2	p.p.
<b>Female</b>	64.6	64.9	65.0	65.6	65.9	0.3	p.p.
Young (15-24)	34.6	34.6	34.6	35.4	35.7	0.3	p.p.
Prime age (25-54)	80.9	81.3	81.7	82.5	83.3	0.8	p.p.
Older (55-64)	36.2	37.9	38.0	38.1	37.8	-0.3	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	63.7	63.9	63.8	64.6	65.2	0.6	p.p.
Young (15-24)	30.8	30.7	30.2	31.5	32.2	0.6	p.p.
Prime age (25-54)	80.5	80.7	81.2	82.1	83.2	1.1	p.p.
Older (55-64)	37.6	38.7	38.1	38.3	38.3	0.0	p.p.
<b>Male</b>	69.4	69.3	69.0	69.3	69.8	0.5	p.p.
Young (15-24)	34.1	34.2	33.8	34.5	35.0	0.4	p.p.
Prime age (25-54)	87.6	87.6	87.9	88.3	89.2	0.9	p.p.
Older (55-64)	41.4	41.6	40.5	40.5	40.6	0.1	p.p.
<b>Female</b>	58.2	58.5	58.8	60.0	60.7	0.7	p.p.
Young (15-24)	27.4	27.1	26.6	28.5	29.3	0.8	p.p.
Prime age (25-54)	73.6	74.0	74.7	76.2	77.4	1.2	p.p.
Older (55-64)	34.0	36.0	35.9	36.2	36.1	-0.1	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	24716.3	24897.3	25068.1	25509.9	25863.6	353.6	Th.
Male (as % of total)	53.9	53.7	53.5	53.1	53.0	-0.1	p.p.
Female (as % of total)	46.1	46.3	46.5	46.9	47.0	0.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.1	0.6	1.0	1.4	0.5		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	0.6	0.7	0.7	1.8	1.4		p.p.
Male	0.3	0.4	0.3	1.0	1.2		p.p.
Female	0.8	1.2	1.1	2.6	1.6		p.p.
<b>8 Self employed (% of total employment )</b>	5.3	5.4	5.8	5.7	5.2	-0.5	p.p.
Male	6.7	7.0	7.3	7.3	6.5	-0.8	p.p.
Female	3.5	3.7	4.1	3.9	3.7	-0.2	p.p.
<b>9 Temporary employment (as % total)</b>	13.5	14.2	14.1	14.3	14.1	-0.2	p.p.
Male	12.3	13.4	13.4	13.3	13.0	-0.3	p.p.
Female	14.9	15.0	14.9	15.5	15.4	-0.1	p.p.
<b>10 Part-time (as % of total employment )</b>	16.6	16.9	17.0	17.1	16.7	-0.3	p.p.
Male	5.2	5.5	5.6	5.5	5.6	0.1	p.p.
Female	29.8	30.1	30.1	30.2	29.3	-0.9	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	9.3	9.2	9.2	8.3	7.8	-0.5	p.p.
Young (15-24)	19.7	20.2	21.3	18.7	18.1	-0.6	p.p.
Prime age (25-54)	7.8	7.8	7.6	6.9	6.3	-0.6	p.p.
Older (55-64)	5.6	5.2	5.7	5.1	4.6	-0.5	p.p.
<b>Male</b>	8.4	8.4	8.5	7.8	7.2	-0.6	p.p.
Young (15-24)	18.8	19.1	20.1	18.0	18.2	0.3	p.p.
Prime age (25-54)	6.8	6.8	6.7	6.3	5.6	-0.7	p.p.
Older (55-64)	5.4	5.3	5.9	5.3	4.8	-0.5	p.p.
<b>Female</b>	10.3	10.2	10.1	8.9	8.3	-0.6	p.p.
Young (15-24)	20.7	21.5	22.9	19.6	18.0	-1.6	p.p.
Prime age (25-54)	8.9	8.9	8.5	7.6	7.1	-0.6	p.p.
Older (55-64)	5.9	5.1	5.6	4.9	4.4	-0.5	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	40.6	41.1	42.0	40.1	37.6	-2.6	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	36.6	36.8	36.8	36.8	36.8	-0.1	%
Male	39.7	39.9	39.8	39.8	39.7	-0.3	%
Female	32.9	33.1	33.1	33.3	33.4	0.4	%
<b>14 Sectoral employment growth</b>							
Agriculture	-0.6	-1.1	-2.4	-2.7	:		p.p.
Building and construction	1.5	3.6	4.4	4.7	:		p.p.
Services	0.7	0.8	1.4	1.7	:		p.p.
Manufacturing industry	-3.5	-2.0	-1.9	-1.4	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 9.2: Indicator board on wage developments - FR

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.4	3.2	3.3	2.7	2.7	0.8	1.5	1.4	1.7
Compensation of employees per Hour Worked	1.5	3.2	4.5	2.5	2.3	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.6	3.5	3.3	3.4	2.6	2.7	2.6	2.5	2.4
Negotiated wages (Euro-area only)									
Nominal Unit labour costs	1.1	1.8	2.0	1.8	2.8	1.4	1.8	2.2	4.0
Real unit labour costs deflated by GDP deflator.	-0.5	-0.2	-0.3	-0.7	0.3	-1.2	-0.5	0.0	1.3
Wage and salaries	3.3	2.4	2.4	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	1.8	2.5	2.5	2.5	3.7	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	66.2	66.2	65.9	65.3	65.3	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	33.0	33.0	32.8	32.8	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	67.0	67.1	67.2	67.2	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	59.2	59.7	59.9	59.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	49.9	50.1	50.2	49.2	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	46.2	46.4	46.5	46.2	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	28.7	28.7	28.5	28.5	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	4.4	4.3	4.3	4.3	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	2.4	1.3	1.2	1.0	-0.1	-0.5	-0.3	-0.8	-2.2
Hourly Labour Productivity	0.5	1.5	2.4	0.6	-0.5	:	:	:	:
GDP	2.5	1.9	2.2	2.3	0.4	1.7	1.4	0.4	-1.7
ECFIN NAIRU estimate	9.2	9.2	9.2	9.1	9.1	:	:	:	:
Output gap (%)	1.0	1.2	1.7	2.2	1.7	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.3	1.9	1.9	1.6	3.2	3.3	3.7	3.6	2.0
Underlying inflation (exc. energy and unprocessed food)	2.4	1.2	1.3	1.5	2.3	2.3	2.5	2.3	2.1
GDP deflator	1.6	2.0	2.4	2.5	2.5	2.6	2.3	2.2	2.7
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-15.0	8.5	4.5	2.1	:	0.2	-2.7	-4.4	-4.1
Industry excluding construction	0.3	-0.4	1.3	0.4	:	2.3	1.6	4.1	8.5
of which: manufacturing	0.3	-1.0	1.1	:	:	1.6	0.8	3.5	9.9
Construction	4.5	3.2	4.6	3.9	:	4.6	5.5	7.4	9.6
Trade, transport and communication	2.0	1.8	0.7	1.7	:	1.6	1.8	3.0	4.5
Finance and business services	1.2	2.4	3.2	2.4	:	1.8	1.9	2.0	0.3
Non-market related services	1.6	2.9	2.8	2.8	:	2.0	2.1	2.1	3.0
Market-related sectors	0.8	1.7	2.0	1.8	:	2.0	2.0	3.0	3.9
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	3.4	3.2	3.2	2.9	:	:	:	:	:
Agriculture and fishery	3.1	3.7	5.4	2.1	:	4.2	2.6	2.0	1.3
Industry excluding construction	5.0	3.0	4.0	3.3	:	3.5	3.3	3.3	2.9
of which: manufacturing	4.9	3.3	4.2	:	:	3.3	3.1	3.1	2.7
Construction	4.6	2.5	4.0	2.4	:	3.5	3.4	3.7	3.0
Trade, transport and communication	3.4	3.3	3.1	2.7	:	2.7	2.9	3.2	2.7
Finance and business services	3.0	3.6	4.3	2.5	:	2.3	2.4	2.7	1.4
Non-market related services	3.0	3.0	1.8	2.1	:	2.0	2.6	2.8	3.5
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	21.3	-4.5	0.9	0.0	:	4.0	5.5	6.7	5.6
Industry excluding construction	4.6	3.3	2.6	3.0	:	1.2	1.6	-0.8	-5.2
of which: manufacturing	4.6	4.3	3.0	2.7	:	1.7	2.2	-0.4	-6.5
Construction	0.1	-0.7	-0.6	-1.4	:	-1.1	-2.0	-3.4	-6.0
Trade, transport and communication	1.4	1.5	2.5	1.1	:	1.1	1.1	0.2	-1.7
Finance and business services	1.7	1.2	1.1	0.1	:	0.5	0.5	0.7	1.0
Non-market related services	1.4	0.1	-1.0	-0.7	:	0.0	0.5	0.7	0.4
Market-related sectors	2.9	1.6	1.9	1.0	:	0.9	0.8	0.0	-1.6

Source: Ameco, Eurostat-National Account, ECB.

# 10. GERMANY

Table 10.1: Main indicators - DE

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	81563	81529	81489	81363	81265	-0.1	%
<b>2 Population (working age:15-64)</b>	54501	54765	54533	54226	54066	-0.3	%
as % of total population	66.8	67.2	66.9	66.6	66.5	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	39280	40706	41078	41207	41374	0.4	%
Male	21701	22210	22343	22317	22353	0.2	%
Female	17579	18496	18735	18890	19021	0.7	%
<b>4 Activity rate (as % of population 15-64)</b>	72.1	74.3	75.3	76.0	76.5	0.5	p.p.
Young (15-24)	47.5	49.9	50.3	51.4	52.5	1.0	p.p.
Prime age (25-54)	85.9	87.1	87.6	87.8	87.9	0.1	p.p.
Older (55-64)	47.5	52.1	55.2	57.5	58.8	1.4	p.p.
<b>Male</b>	79.0	80.6	81.3	81.8	82.1	0.4	p.p.
Young (15-24)	50.5	52.5	52.9	53.7	54.8	1.1	p.p.
Prime age (25-54)	92.9	93.6	93.8	93.8	93.6	-0.2	p.p.
Older (55-64)	57.2	61.2	64.0	66.1	67.3	1.2	p.p.
<b>Female</b>	65.1	68.0	69.3	70.1	70.8	0.7	p.p.
Young (15-24)	44.4	47.3	47.6	49.0	50.0	1.0	p.p.
Prime age (25-54)	78.8	80.6	81.4	81.8	82.1	0.3	p.p.
Older (55-64)	37.9	43.1	46.6	49.1	50.6	1.5	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	64.3	66.0	67.5	69.4	70.7	1.4	p.p.
Young (15-24)	41.3	42.2	43.4	45.3	46.9	1.6	p.p.
Prime age (25-54)	77.2	78.2	79.4	80.9	81.8	0.9	p.p.
Older (55-64)	41.4	45.4	48.4	51.5	53.8	2.3	p.p.
<b>Male</b>	70.0	71.3	72.8	74.7	75.9	1.3	p.p.
Young (15-24)	42.7	43.7	45.1	47.0	48.8	1.8	p.p.
Prime age (25-54)	83.1	83.7	84.9	86.4	87.2	0.8	p.p.
Older (55-64)	49.8	53.5	56.4	59.7	61.8	2.1	p.p.
<b>Female</b>	58.5	60.6	62.2	64.0	65.4	1.5	p.p.
Young (15-24)	39.8	40.7	41.6	43.5	45.0	1.5	p.p.
Prime age (25-54)	71.1	72.5	73.7	75.2	76.3	1.1	p.p.
Older (55-64)	33.1	37.5	40.6	43.6	46.1	2.5	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	35022.5	36137.6	36833.4	37611.5	38238.7	627.2	Th.
Male (as % of total)	54.9	54.4	54.3	54.2	54.0	-0.1	p.p.
Female (as % of total)	45.1	45.6	45.7	45.8	46.0	0.1	p.p.
<b>7 Employment growth ( % ) (National accounts)</b>	0.4	-0.1	0.6	1.7	1.4		p.p.
<b>Employment growth ( % ) (LFS - age 15-64)</b>	-1.4	3.2	1.9	2.1	1.7		p.p.
Male	-1.5	2.1	1.8	1.9	1.4		p.p.
Female	-1.3	4.5	2.0	2.4	2.0		p.p.
<b>8 Self employed ( % of total employment )</b>	5.5	6.0	6.0	5.8	5.7	-0.1	p.p.
Male	6.7	7.2	7.0	6.7	6.6	-0.1	p.p.
Female	4.1	4.7	4.7	4.7	4.6	-0.1	p.p.
<b>9 Temporary employment (as % total)</b>	12.5	14.2	14.5	14.6	14.7	0.1	p.p.
Male	12.7	14.5	14.8	14.7	14.8	0.1	p.p.
Female	12.2	13.9	14.2	14.6	14.7	0.1	p.p.
<b>10 Part-time (as % of total employment )</b>	21.9	23.4	25.2	25.4	25.2	-0.2	p.p.
Male	5.9	6.9	8.5	8.5	8.4	-0.2	p.p.
Female	41.3	43.0	45.1	45.3	44.9	-0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	9.8	10.7	9.8	8.4	7.3	-1.1	p.p.
Young (15-24)	13.0	15.5	13.7	11.9	10.5	-1.4	p.p.
Prime age (25-54)	10.2	10.3	9.5	7.9	6.9	-1.0	p.p.
Older (55-64)	12.8	12.8	12.4	10.3	8.5	-1.8	p.p.
<b>Male</b>	10.3	11.2	10.2	8.5	7.4	-1.1	p.p.
Young (15-24)	15.4	16.8	14.8	12.6	11.0	-1.6	p.p.
Prime age (25-54)	10.5	10.6	9.5	7.8	6.9	-1.0	p.p.
Older (55-64)	12.9	12.6	11.9	9.7	8.2	-1.5	p.p.
<b>Female</b>	9.1	10.1	9.4	8.3	7.2	-1.1	p.p.
Young (15-24)	10.2	13.9	12.5	11.1	9.9	-1.1	p.p.
Prime age (25-54)	9.8	10.0	9.4	8.0	7.0	-1.0	p.p.
Older (55-64)	12.7	13.0	13.0	11.2	9.0	-2.2	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	51.8	53.1	56.5	56.6	52.6	-4.0	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	36.9	36.9	36.0	36.0	35.9	-0.3	%
Male	41.5	41.6	40.8	40.8	40.6	-0.7	%
Female	31.2	30.9	30.1	30.2	30.3	0.3	%
<b>14 Sectoral employment growth</b>							
Agriculture	-0.8	-2.3	-3.2	2.3	1.3		p.p.
Building and construction	-2.9	-3.1	-0.4	1.6	-0.7		p.p.
Services	1.3	0.7	1.2	1.9	1.6		p.p.
Manufacturing industry	-1.5	-1.6	-0.8	1.2	1.6		p.p.

Source: Eurostat, Labour Force Survey.

Table 10.2: **Indicator board on wage developments - DE**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	0.4	-0.1	1.1	1.2	1.8	1.1	2.0	1.3	0.7
Compensation of employees per Hour Worked	-0.2	0.0	1.2	1.1	2.1	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	1.3	0.7	1.6	1.2	2.5	1.8	0.8	2.9	4.3
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	-0.4	-1.0	-1.2	0.4	2.0	1.3	-0.3	1.8	4.2
Real unit labour costs deflated by GDP deflator.	-1.4	-1.6	-1.8	-1.4	0.4	0.0	-1.7	0.5	1.9
Wage and salaries	0.4	-1.1	0.8	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	-0.7	-0.8	-1.2	0.2	2.1	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	64.5	63.6	62.6	62.2	62.4	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	23.8	23.5	23.8	23.3	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	76.2	76.5	76.2	76.7	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	64.3	64.6	64.4	64.8	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	53.2	52.4	52.5	52.2	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	48.8	48.0	48.1	47.9	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	23.4	23.1	23.3	22.9	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	0.4	0.4	0.4	0.4	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	0.8	0.9	2.3	0.8	-0.1	-0.2	2.3	-0.6	-3.4
Hourly Labour Productivity	0.6	1.4	2.5	0.6	0.0	:	:	:	:
GDP	1.2	0.8	3.0	2.5	1.3	2.1	3.4	1.4	-1.7
ECFIN NAIRU estimate	8.8	9.0	9.1	9.3	9.4	:	:	:	:
Output gap (%)	-0.9	-0.9	1.1	2.7	3.0	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.8	1.9	1.8	2.3	2.8	3.1	3.0	3.3	1.7
Underlying inflation (exc. energy and unprocessed food)	1.6	1.0	0.8	2.1	1.8	2.2	1.8	1.8	1.4
GDP deflator	1.0	0.7	0.5	1.9	1.5	1.3	1.4	1.4	2.2
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-25.0	16.8	1.4	0.1	0.4	0.8	1.2	0.6	-0.5
Industry excluding construction	-4.0	-3.7	-2.9	-2.4	2.7	1.1	-3.1	1.9	10.6
of which: manufacturing	-3.1	-4.3	-4.0	-3.0	2.2	1.1	-3.4	1.5	10.4
Construction	0.9	1.2	3.0	1.0	-2.3	-1.2	-5.9	-2.9	-1.1
Trade, transport and communication	-2.9	-0.5	-3.1	2.2	1.5	-0.1	-1.7	3.9	4.3
Finance and business services	3.4	0.9	0.6	1.8	2.9	2.4	2.2	3.5	3.3
Non-market related services	1.3	-0.9	-0.1	0.0	2.1	1.6	2.6	1.4	3.4
Market-related sectors	-1.6	-1.1	-1.4	0.1	1.8	0.9	-1.3	2.5	5.5
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	0.4	-0.1	1.0	1.1	2.0	:	:	:	:
Agriculture and fishery	-2.2	0.3	1.4	1.9	3.0	3.5	3.3	4.0	2.1
Industry excluding construction	2.0	0.6	3.8	1.6	1.7	2.0	1.4	1.5	0.8
of which: manufacturing	2.0	0.5	3.8	1.7	1.3	1.9	1.3	1.5	0.5
Construction	0.2	-0.7	1.0	1.9	1.8	1.9	1.4	0.9	0.8
Trade, transport and communication	-1.0	0.4	0.7	1.1	2.7	1.2	1.2	5.3	2.9
Finance and business services	-0.1	1.2	-0.7	1.9	1.8	1.5	1.5	2.1	2.2
Non-market related services	0.6	-1.5	-0.2	0.2	1.8	1.2	2.5	0.9	2.4
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	30.4	-14.2	0.0	1.8	2.6	2.6	2.1	3.5	2.6
Industry excluding construction	6.2	4.4	6.8	4.0	-1.0	0.9	4.6	-0.4	-8.9
of which: manufacturing	5.2	5.0	8.1	4.8	-0.9	0.9	4.9	-0.1	-9.0
Construction	-0.7	-1.9	-2.0	0.9	4.2	3.1	7.8	3.9	1.9
Trade, transport and communication	1.9	0.9	3.9	-1.1	1.1	1.2	3.0	1.4	-1.4
Finance and business services	-3.4	0.3	-1.4	0.1	-1.1	-0.9	-0.7	-1.3	-1.1
Non-market related services	-0.7	-0.6	-0.1	0.1	-0.3	-0.4	-0.2	-0.5	-0.9
Market-related sectors	1.9	1.6	3.0	1.4	0.0	0.8	2.8	0.3	-3.5

Source: Ameco, Eurostat-National Account, ECB.

# 11. GREECE

Table 11.1: Main indicators - EL

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	10616	10657	10710	10754	10780	0.2	%
<b>2 Population (working age:15-64)</b>	7129	7132	7158	7208	7232	0.3	%
as % of total population	67.2	66.9	66.8	67.0	67.1	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	4740	4763	4799	4829	4851	0.4	%
Male	2801	2811	2825	2849	2860	0.4	%
Female	1938	1952	1974	1981	1991	0.5	%
<b>4 Activity rate (as % of population 15-64)</b>	66.5	66.8	67.0	67.0	67.1	0.1	p.p.
Young (15-24)	36.7	33.7	32.4	31.1	30.2	-0.9	p.p.
Prime age (25-54)	81.1	81.5	82.0	81.9	82.0	0.1	p.p.
Older (55-64)	41.3	43.2	43.9	43.9	44.2	0.3	p.p.
<b>Male</b>	79.0	79.2	79.1	79.1	79.1	0.0	p.p.
Young (15-24)	40.0	37.1	36.1	34.7	34.3	-0.3	p.p.
Prime age (25-54)	94.6	94.6	94.7	94.6	94.4	-0.2	p.p.
Older (55-64)	58.9	60.8	61.0	60.8	60.9	0.1	p.p.
<b>Female</b>	54.1	54.5	55.0	54.9	55.1	0.1	p.p.
Young (15-24)	33.4	30.4	28.7	27.6	26.1	-1.5	p.p.
Prime age (25-54)	67.6	68.2	69.1	69.1	69.4	0.4	p.p.
Older (55-64)	25.2	27.1	28.0	28.2	28.6	0.4	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	59.4	60.1	61.0	61.4	61.9	0.5	p.p.
Young (15-24)	26.8	25.0	24.2	24.0	23.5	-0.4	p.p.
Prime age (25-54)	73.5	74.0	75.3	75.6	76.1	0.6	p.p.
Older (55-64)	39.4	41.6	42.3	42.4	42.8	0.3	p.p.
<b>Male</b>	73.7	74.2	74.6	74.9	75.0	0.1	p.p.
Young (15-24)	32.3	30.1	29.7	29.2	28.5	-0.7	p.p.
Prime age (25-54)	89.3	89.5	90.0	90.1	90.2	0.1	p.p.
Older (55-64)	56.4	58.8	59.2	59.1	59.1	0.1	p.p.
<b>Female</b>	45.2	46.1	47.4	47.9	48.7	0.9	p.p.
Young (15-24)	21.3	19.8	18.7	18.7	18.5	-0.2	p.p.
Prime age (25-54)	57.6	58.5	60.5	60.8	61.9	1.1	p.p.
Older (55-64)	24.0	25.8	26.6	26.9	27.5	0.5	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	4234.8	4286.7	4365.3	4423.5	4473.7	50.2	Th.
Male (as % of total)	61.7	61.5	61.0	61.0	60.6	-0.4	p.p.
Female (as % of total)	38.3	38.5	39.0	39.0	39.4	0.4	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	2.3	1.0	2.1	1.3	1.2		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	1.3	1.2	1.8	1.3	1.1		p.p.
Male	0.7	0.9	1.0	1.3	0.5		p.p.
Female	2.2	1.8	3.1	1.3	2.1		p.p.
<b>8 Self employed (% of total employment )</b>	21.7	21.5	21.2	20.7	20.5	-0.2	p.p.
Male	24.9	24.6	24.1	23.7	23.0	-0.7	p.p.
Female	16.6	16.6	16.6	15.9	16.6	0.6	p.p.
<b>9 Temporary employment (as % total)</b>	12.0	11.9	10.7	10.9	11.5	0.6	p.p.
Male	10.5	10.1	9.1	9.3	9.9	0.7	p.p.
Female	14.1	14.3	13.0	13.1	13.7	0.5	p.p.
<b>10 Part-time (as % of total employment )</b>	4.4	4.8	5.5	5.4	5.4	0.0	p.p.
Male	2.0	2.1	2.6	2.5	2.5	0.1	p.p.
Female	8.3	9.0	9.9	9.9	9.8	-0.2	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	10.5	9.9	8.9	8.3	7.7	-0.6	p.p.
Young (15-24)	26.9	26.0	25.2	22.9	22.1	-0.9	p.p.
Prime age (25-54)	9.5	9.1	8.1	7.8	7.2	-0.6	p.p.
Older (55-64)	4.5	3.8	3.7	3.4	3.2	-0.1	p.p.
<b>Male</b>	6.6	6.1	5.6	5.2	5.1	-0.1	p.p.
Young (15-24)	19.1	18.7	17.7	15.7	17.0	1.2	p.p.
Prime age (25-54)	5.7	5.4	5.0	4.7	4.5	-0.2	p.p.
Older (55-64)	4.2	3.3	3.1	2.9	2.9	0.0	p.p.
<b>Female</b>	16.2	15.3	13.6	12.8	11.4	-1.4	p.p.
Young (15-24)	36.3	34.8	34.7	32.1	28.9	-3.2	p.p.
Prime age (25-54)	14.8	14.3	12.5	12.0	10.9	-1.1	p.p.
Older (55-64)	5.0	4.7	5.0	4.3	3.9	-0.4	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	53.2	52.1	54.4	50.0	47.6	-2.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	41.9	41.9	41.5	41.2	41.1	-0.3	%
Male	43.6	43.8	43.5	43.1	42.9	-0.4	%
Female	39.0	38.9	38.4	38.1	38.1	0.0	%
<b>14 Sectoral employment growth</b>							
Agriculture	-11.9	-0.6	-1.5	-2.3	0.0		p.p.
Building and construction	1.3	3.2	0.2	8.9	-3.4		p.p.
Services	6.2	1.2	3.0	1.3	2.5		p.p.
Manufacturing industry	-0.5	-0.4	1.4	-0.1	-2.5		p.p.

Source: Eurostat, Labour Force Survey.

Table 11.2: **Indicator board on wage developments - EL**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	5.1	4.9	1.0	9.1	7.5	7.6	7.9	7.9	7.7
Compensation of employees per Hour Worked	9.6	3.9	-1.0	8.2	8.8	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	8.9	0.6	7.8	3.6	13.6	5.1	9.8	:	11.7
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	2.5	2.9	-1.3	6.3	5.7	5.3	5.9	6.0	6.2
Real unit labour costs deflated by GDP deflator.	-0.8	-0.5	-4.4	3.3	2.2	1.8	2.2	2.1	3.1
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	3.0	3.8	-0.8	7.2	6.3	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	60.1	59.8	57.5	59.5	60.5	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	:	:	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	:	:	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	40.2	41.0	41.8	43.3	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	39.7	40.6	41.4	43.4	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	2.5	1.9	2.3	2.7	1.7	2.3	1.9	1.8	1.4
Hourly Labour Productivity	5.1	1.1	-1.0	1.6	2.4	:	:	:	:
GDP	4.9	2.9	4.5	4.0	2.9	3.4	3.3	2.9	2.2
ECFIN NAIRU estimate	9.7	9.5	9.3	9.2	9.0	:	:	:	:
Output gap (%)	2.2	1.3	2.0	2.5	2.5	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	3.0	3.5	3.3	3.0	4.2	4.3	4.8	4.8	3.1
Underlying inflation (exc. energy and unprocessed food)	3.4	3.2	2.9	3.2	3.4	2.9	3.6	3.8	3.5
GDP deflator	3.3	3.4	3.2	2.9	3.4	3.4	3.6	3.8	3.0
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-1.7	-3.6	23.9	21.8	-0.8	3.9	1.3	-0.1	-3.8
Industry excluding construction	1.2	-15.1	3.0	6.5	4.2	5.7	5.4	2.6	3.6
of which: manufacturing	-1.2	-17.6	0.3	3.9	2.8	3.6	2.8	2.1	3.1
Construction	-0.2	-8.7	-6.4	24.2	13.8	9.1	18.7	30.3	0.7
Trade, transport and communication	-4.9	18.5	1.5	3.1	2.9	0.3	2.6	3.2	5.4
Finance and business services	13.0	4.0	8.9	-7.0	11.2	15.5	10.9	8.8	11.0
Non-market related services	9.0	-1.4	-4.9	11.4	5.2	4.3	4.5	4.1	7.7
Market-related sectors	-1.2	3.9	3.3	3.6	5.1	4.6	5.4	5.7	5.1
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	5.1	4.9	1.0	9.1	7.5	:	:	:	:
Agriculture and fishery	17.1	-1.7	3.1	11.0	4.3	4.9	5.2	5.7	5.7
Industry excluding construction	6.8	-3.1	3.7	8.2	7.8	8.1	8.5	7.9	7.5
of which: manufacturing	6.6	-5.3	4.3	7.2	6.9	7.0	7.0	7.0	7.0
Construction	2.8	-6.6	2.9	22.4	6.9	7.0	7.0	7.0	7.0
Trade, transport and communication	2.7	11.8	2.6	11.1	6.8	6.5	6.8	7.1	6.9
Finance and business services	0.7	2.6	14.1	-6.8	7.0	7.4	8.2	7.1	6.7
Non-market related services	5.3	6.5	-5.2	12.0	8.0	7.8	8.1	8.9	7.3
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	19.2	1.9	-16.7	-8.9	5.2	1.0	3.8	5.9	9.8
Industry excluding construction	5.5	14.2	0.7	1.6	3.5	2.3	3.0	5.1	3.8
of which: manufacturing	7.9	14.9	4.0	3.2	4.0	3.2	4.1	4.8	3.8
Construction	3.1	2.2	9.9	-1.4	-6.0	-2.0	-9.9	-17.9	6.3
Trade, transport and communication	8.0	-5.7	1.1	7.7	3.8	6.2	4.1	3.7	1.4
Finance and business services	-10.8	-1.4	4.8	0.1	-3.8	-7.0	-2.4	-1.6	-3.9
Non-market related services	-3.4	7.9	-0.3	0.5	2.7	3.4	3.4	4.6	-0.4
Market-related sectors	5.8	-0.1	1.8	3.5	2.1	2.3	1.9	1.6	2.3

Source: Ameco, Eurostat-National Account, ECB.

# 12. HUNGARY

Table 12.1: Main indicators - HU

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	9944	9931	9921	9907	9893	-0.1	%
<b>2 Population (working age:15-64)</b>	6826	6815	6816	6800	6794	-0.1	%
as % of total population	68.6	68.6	68.7	68.6	68.7	0.0	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	4127	4180	4222	4209	4178	-0.7	%
Male	2239	2260	2286	2290	2267	-1.0	%
Female	1888	1920	1936	1919	1911	-0.4	%
<b>4 Activity rate (as % of population 15-64)</b>	60.5	61.3	62.0	61.9	61.5	-0.4	p.p.
Young (15-24)	27.9	27.1	26.8	25.6	25.0	-0.6	p.p.
Prime age (25-54)	77.9	78.7	79.6	80.0	80.1	0.1	p.p.
Older (55-64)	32.0	34.3	34.9	34.5	33.1	-1.4	p.p.
<b>Male</b>	67.2	67.9	68.7	69.0	68.3	-0.7	p.p.
Young (15-24)	31.4	30.3	30.1	29.3	28.6	-0.7	p.p.
Prime age (25-54)	85.0	85.5	86.5	86.9	87.0	0.1	p.p.
Older (55-64)	39.7	42.4	43.1	43.6	40.5	-3.1	p.p.
<b>Female</b>	54.0	55.1	55.5	55.1	55.0	-0.1	p.p.
Young (15-24)	24.3	23.8	23.4	21.8	21.3	-0.5	p.p.
Prime age (25-54)	70.9	72.1	72.9	73.2	73.3	0.1	p.p.
Older (55-64)	25.8	27.7	28.2	27.3	27.0	-0.2	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	56.8	56.9	57.3	57.3	56.7	-0.7	p.p.
Young (15-24)	23.6	21.8	21.7	21.0	20.0	-1.0	p.p.
Prime age (25-54)	73.6	73.7	74.2	74.6	74.4	-0.2	p.p.
Older (55-64)	31.1	33.0	33.6	33.1	31.4	-1.6	p.p.
<b>Male</b>	63.1	63.1	63.8	64.0	63.0	-1.0	p.p.
Young (15-24)	26.3	24.4	24.5	24.2	23.2	-1.0	p.p.
Prime age (25-54)	80.5	80.3	81.0	81.3	81.0	-0.3	p.p.
Older (55-64)	38.4	40.6	41.4	41.7	38.5	-3.2	p.p.
<b>Female</b>	50.7	51.0	51.1	50.9	50.6	-0.3	p.p.
Young (15-24)	20.8	19.2	18.8	17.8	16.8	-0.9	p.p.
Prime age (25-54)	67.0	67.2	67.6	67.9	67.9	0.0	p.p.
Older (55-64)	25.0	26.7	27.1	26.2	25.7	-0.5	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	3874.7	3878.6	3906.0	3897.0	3849.2	-47.8	Th.
Male (as % of total)	54.2	54.2	54.3	54.5	54.4	-0.2	p.p.
Female (as % of total)	45.8	45.8	45.7	45.5	45.6	0.2	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-0.7	0.0	0.7	-0.1	-0.5		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	-0.6	0.1	0.7	-0.2	-1.2		p.p.
Male	-0.5	0.0	1.0	0.2	-1.5		p.p.
Female	-0.7	0.3	0.4	-0.7	-0.9		p.p.
<b>8 Self employed (% of total employment )</b>	7.7	7.3	6.6	6.6	6.6	0.0	p.p.
Male	9.5	8.8	8.1	7.8	7.9	0.1	p.p.
Female	5.7	5.5	4.9	5.2	5.0	-0.2	p.p.
<b>9 Temporary employment (as % total)</b>	6.8	7.0	6.7	7.3	7.8	0.6	p.p.
Male	7.5	7.5	7.3	7.7	8.6	0.9	p.p.
Female	6.1	6.4	6.0	6.8	7.0	0.1	p.p.
<b>10 Part-time (as % of total employment )</b>	4.4	3.9	3.8	3.9	4.3	0.4	p.p.
Male	3.0	2.4	2.4	2.5	3.0	0.5	p.p.
Female	6.0	5.6	5.4	5.5	5.8	0.2	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	6.1	7.2	7.5	7.4	7.8	0.4	p.p.
Young (15-24)	15.5	19.4	19.1	18.0	19.9	1.8	p.p.
Prime age (25-54)	5.4	6.4	6.8	6.8	7.1	0.3	p.p.
Older (55-64)	3.1	3.9	3.9	4.2	5.0	0.8	p.p.
<b>Male</b>	6.1	7.0	7.2	7.1	7.6	0.5	p.p.
Young (15-24)	16.3	19.6	18.5	17.6	19.1	1.5	p.p.
Prime age (25-54)	5.3	6.0	6.4	6.5	6.9	0.5	p.p.
Older (55-64)	3.3	4.2	4.0	4.5	5.0	0.4	p.p.
<b>Female</b>	6.1	7.4	7.8	7.7	8.1	0.4	p.p.
Young (15-24)	14.4	19.1	19.8	18.6	20.9	2.3	p.p.
Prime age (25-54)	5.6	6.8	7.2	7.2	7.4	0.2	p.p.
Older (55-64)	2.8	3.5	3.9	3.9	5.1	1.2	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	44.0	45.1	45.1	46.9	46.5	-0.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	40.6	40.3	40.2	39.9	40.0	0.1	%
Male	41.9	41.5	41.3	41.0	40.9	-0.2	%
Female	39.0	38.8	38.8	38.6	38.8	0.5	%
<b>14 Sectoral employment growth</b>							
Agriculture	-5.0	-5.2	-1.7	-4.1	-2.3		p.p.
Building and construction	3.2	1.9	1.7	2.6	-5.6		p.p.
Services	0.5	1.2	1.0	-0.3	2.5		p.p.
Manufacturing industry	-3.6	-2.9	-0.6	0.8	7.9		p.p.

Source: Eurostat, Labour Force Survey.

Table 12.2: **Indicator board on wage developments - HU**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	11.3	7.4	4.7	6.8	7.0	:	:	:	:
Compensation of employees per Hour Worked	2.3	8.2	6.5	7.4	8.0	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	8.6	7.2	8.9	9.6	8.0	9.3	7.3	7.7	7.7
<b>Structure of labour costs:</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	5.6	3.3	1.4	5.4	5.8	:	:	:	:
Real unit labour costs deflated by GDP deflator.	1.1	1.0	-2.5	-0.5	1.9	:	:	:	:
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	62.5	62.8	60.7	60.9	62.5	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	30.6	29.6	30.9	28.9	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	69.4	70.4	69.1	71.1	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	65.7	66.2	65.0	68.8	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	51.8	50.5	51.0	54.4	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	46.4	45.2	45.4	49.1	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	27.8	27.4	26.9	26.1	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.8	2.1	4.0	2.8	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	5.4	3.9	3.3	1.4	1.1	3.4	4.1	1.9	-1.8
Hourly Labour Productivity	-2.2	4.1	3.8	1.6	1.8	:	:	:	:
GDP	4.7	3.9	4.0	1.2	0.6	1.8	2.1	1.3	-2.5
ECFIN NAIRU estimate	5.7	6.2	6.9	7.8	8.6	:	:	:	:
Output gap (%)	0.9	1.6	3.6	3.3	3.0	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	6.8	3.5	4.0	7.9	6.0	6.9	6.8	6.3	4.2
Underlying inflation (exc. energy and unprocessed food)	6.4	2.7	2.5	6.7	5.1	5.9	5.6	5.2	3.8
GDP deflator	4.5	2.3	4.0	5.9	3.8	4.5	5.0	2.3	3.8
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-39.3	4.8	4.7	38.4	:	:	:	:	:
Industry excluding construction	7.1	4.4	-7.9	6.3	:	:	:	:	:
of which: manufacturing	4.8	1.2	-2.5	0.4	:	:	:	:	:
Construction	10.0	9.0	1.4	14.4	:	:	:	:	:
Trade, transport and communication	17.6	1.3	-5.9	8.3	:	:	:	:	:
Finance and business services	-1.2	9.7	-8.2	14.0	:	:	:	:	:
Non-market related services	9.2	5.2	-3.1	11.2	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	12.2	8.9	-1.7	11.6	7.9	:	:	:	:
Agriculture and fishery	-2.3	6.8	0.2	11.8	:	:	:	:	:
Industry excluding construction	15.2	10.8	-2.5	12.8	:	:	:	:	:
of which: manufacturing	13.0	9.6	4.3	7.3	:	:	:	:	:
Construction	10.3	10.4	1.5	2.6	:	:	:	:	:
Trade, transport and communication	23.1	1.7	-0.2	11.9	:	:	:	:	:
Finance and business services	-1.8	16.2	-4.3	14.9	:	:	:	:	:
Non-market related services	9.8	9.6	-2.7	10.3	:	:	:	:	:
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	61.0	1.9	-4.3	-19.2	46.2	23.0	52.0	78.0	71.1
Industry excluding construction	7.5	6.1	5.9	6.1	-5.9	8.2	6.4	-1.0	-7.7
of which: manufacturing	7.8	8.3	7.0	6.9	-8.2	6.6	5.3	-3.2	-10.9
Construction	0.3	1.3	0.1	-10.3	0.5	-12.9	2.0	0.8	9.3
Trade, transport and communication	4.7	0.4	6.1	3.3	-1.4	2.5	2.1	-0.9	-3.2
Finance and business services	-0.6	5.9	4.2	0.8	-15.3	-4.3	-9.0	-11.5	-15.7
Non-market related services	0.6	4.2	0.4	-0.8	-0.3	0.4	3.1	1.3	1.5
Market-related sectors	7.9	3.5	4.4	0.9	-2.0	4.8	4.9	3.1	-2.5

Source: Ameco, Eurostat-National Account, ECB.



# 13. IRELAND

Table 13.1: Main indicators - IE

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	4059	4149	4253	4359	4440	1.9	%
<b>2 Population (working age:15-64)</b>	2761	2831	2913	2993	3041	1.6	%
as % of total population	68.0	68.2	68.5	68.7	68.5	-0.2	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	1919	2004	2092	2168	2189	1.0	%
Male	1108	1149	1198	1231	1235	0.4	%
Female	810	854	893	937	953	1.7	%
<b>4 Activity rate (as % of population 15-64)</b>	69.5	70.8	71.8	72.4	72.0	-0.5	p.p.
Young (15-24)	52.4	53.3	54.7	55.0	52.7	-2.3	p.p.
Prime age (25-54)	79.9	80.9	81.5	82.0	81.6	-0.4	p.p.
Older (55-64)	50.8	53.1	54.4	55.2	55.4	0.2	p.p.
<b>Male</b>	79.9	80.6	81.5	81.4	80.7	-0.7	p.p.
Young (15-24)	55.9	56.6	59.0	58.3	55.2	-3.1	p.p.
Prime age (25-54)	91.8	92.1	92.1	91.6	91.3	-0.3	p.p.
Older (55-64)	66.9	67.7	68.7	69.7	68.5	-1.2	p.p.
<b>Female</b>	59.0	60.8	61.9	63.3	63.1	-0.1	p.p.
Young (15-24)	48.8	49.9	50.2	51.5	50.0	-1.5	p.p.
Prime age (25-54)	68.0	69.6	70.7	72.2	71.8	-0.4	p.p.
Older (55-64)	34.4	38.2	40.0	40.4	42.1	1.7	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	66.3	67.6	68.6	69.1	67.6	-1.5	p.p.
Young (15-24)	47.7	48.7	50.0	49.9	46.0	-3.9	p.p.
Prime age (25-54)	76.8	77.9	78.4	78.7	77.3	-1.4	p.p.
Older (55-64)	49.5	51.6	53.1	53.8	53.6	-0.2	p.p.
<b>Male</b>	75.9	76.9	77.7	77.4	74.9	-2.5	p.p.
Young (15-24)	50.7	51.5	53.6	52.5	46.8	-5.6	p.p.
Prime age (25-54)	87.8	88.4	88.4	87.7	85.5	-2.1	p.p.
Older (55-64)	65.0	65.7	67.0	67.9	66.0	-1.9	p.p.
<b>Female</b>	56.5	58.3	59.3	60.6	60.2	-0.4	p.p.
Young (15-24)	44.7	45.9	46.2	47.4	45.2	-2.2	p.p.
Prime age (25-54)	65.8	67.3	68.3	69.6	69.0	-0.5	p.p.
Older (55-64)	33.7	37.3	39.1	39.6	41.0	1.4	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	1830.2	1915.1	1998.8	2067.1	2055.1	-12.0	Th.
Male (as % of total)	57.5	57.2	57.2	56.6	55.8	-0.8	p.p.
Female (as % of total)	42.5	42.8	42.8	43.4	44.2	0.8	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	3.1	4.7	4.3	3.6	-0.9	p.p.	
Employment growth ( %) (LFS - age 15-64)	3.1	4.6	4.4	3.4	-0.6	p.p.	
Male	2.9	4.0	4.3	2.4	-2.0	p.p.	
Female	3.3	5.5	4.5	4.8	1.3	p.p.	
<b>8 Self employed (% of total employment )</b>	10.3	9.9	9.6	9.9	10.1	0.2	p.p.
Male	15.1	14.6	14.2	14.6	14.8	0.2	p.p.
Female	3.8	3.7	3.4	3.7	4.1	0.4	p.p.
<b>9 Temporary employment (as % total)</b>	4.1	3.7	3.3	7.3	8.4	1.1	p.p.
Male	3.7	3.1	2.9	6.0	7.1	1.1	p.p.
Female	4.7	4.3	3.9	8.6	9.8	1.2	p.p.
<b>10 Part-time (as % of total employment )</b>	16.5	16.5	:	17.7	18.1	0.4	p.p.
Male	5.6	5.7	:	6.6	7.3	0.8	p.p.
Female	31.2	30.8	:	32.1	31.7	-0.5	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	4.5	4.4	4.5	4.6	6.3	1.7	p.p.
Young (15-24)	8.9	8.6	8.6	9.1	12.6	3.5	p.p.
Prime age (25-54)	3.8	3.7	3.8	4.0	5.2	1.2	p.p.
Older (55-64)	2.6	2.8	2.4	2.4	3.2	0.8	p.p.
Male	4.9	4.6	4.7	4.9	7.5	2.6	p.p.
Young (15-24)	9.3	9.1	9.1	10.0	15.2	5.2	p.p.
Prime age (25-54)	4.3	4.0	4.0	4.3	6.3	2.0	p.p.
Older (55-64)	2.8	3.0	2.4	2.6	3.6	1.0	p.p.
Female	4.1	4.0	4.2	4.2	4.8	0.6	p.p.
Young (15-24)	8.5	7.9	8.0	8.1	9.7	1.6	p.p.
Prime age (25-54)	3.2	3.2	3.4	3.6	3.8	0.2	p.p.
Older (55-64)	2.1	2.5	2.4	2.0	2.6	0.6	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	35.0	33.6	32.4	30.1	27.3	-2.8	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	37.3	37.3	37.1	36.8	36.3	-1.3	%
Male	41.5	41.5	41.1	40.9	40.3	-1.4	%
Female	31.4	31.4	31.3	31.0	30.8	-0.6	%
<b>14 Sectoral employment growth</b>							
Agriculture	-2.6	-0.9	1.2	0.0	:		p.p.
Building and construction	10.4	14.2	9.8	3.6	:		p.p.
Services	3.6	5.2	4.6	4.4	:		p.p.
Manufacturing industry	-1.6	-2.9	-0.9	0.9	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 13.2: **Indicator board on wage developments - IE**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	5.3	6.4	4.6	6.0	5.5	5.8	3.0	1.3	1.3
Compensation of employees per Hour Worked	5.6	7.3	5.7	5.3	5.1	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	5.0	4.4	4.4	5.1	3.0	4.5	2.1	2.8	2.8
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	3.7	4.7	3.2	3.6	7.0	10.5	5.3	1.1	5.3
Real unit labour costs deflated by GDP deflator.	1.7	2.3	-0.2	2.2	7.3	13.5	8.5	1.3	4.1
Wage and salaries	5.4	4.9	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	4.7	5.3	4.0	4.6	9.0	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	54.1	55.5	55.9	56.8	60.0	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	:	:	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	:	:	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	25.0	23.5	23.1	22.3	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	20.1	18.3	17.8	16.8	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.6	1.6	1.4	2.4	-1.4	-4.3	-2.2	0.1	-3.8
Hourly Labour Productivity	1.7	1.7	1.7	2.7	-1.4	:	:	:	:
GDP	4.7	6.4	5.7	6.0	-2.3	-1.4	-1.6	-1.0	-8.0
ECFIN NAIRU estimate	3.6	4.0	4.8	5.9	7.6	:	:	:	:
Output gap (%)	0.8	1.9	2.7	5.0	0.8	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.3	2.2	2.7	2.9	3.1	3.4	3.6	3.3	2.1
Underlying inflation (exc. energy and unprocessed food)	2.1	1.5	2.2	2.6	2.5	2.9	3.1	2.3	1.9
GDP deflator	2.0	2.3	3.4	1.4	-0.3	-2.6	-2.9	-0.1	1.1
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	2.9	19.0	2.2	-14.1	19.4	14.7	-1.2	-14.9	-16.0
Industry excluding construction	0.3	3.6	-3.1	-6.0	7.7	7.6	0.4	1.9	13.1
of which: manufacturing	0.9	5.4	-1.6	-6.4	:	:	:	:	:
Construction	5.1	9.8	4.4	8.7	7.7	10.5	1.0	0.2	2.1
Trade, transport and communication	3.9	6.2	5.6	5.0	9.9	10.7	7.0	6.7	4.2
Finance and business services	1.2	4.3	5.2	3.4	14.1	10.3	4.5	-5.3	-6.7
Non-market related services	6.9	6.3	6.1	6.8	3.2	6.1	4.0	5.4	8.9
Market-related sectors	2.6	6.5	3.1	-1.2	5.1	7.9	0.8	-2.0	1.5
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	5.4	6.4	4.6	6.0	5.5	:	:	:	:
Agriculture and fishery	6.9	1.7	-3.6	18.4	15.5	9.0	-4.2	-17.1	-29.4
Industry excluding construction	4.7	9.2	2.1	4.2	10.6	13.5	10.6	9.2	2.8
of which: manufacturing	4.4	10.4	2.6	2.4	:	14.0	11.4	10.2	5.0
Construction	3.5	5.0	1.2	5.3	0.8	6.0	2.3	1.1	-1.1
Trade, transport and communication	4.2	7.0	6.7	6.4	5.9	5.9	3.2	4.6	4.9
Finance and business services	6.0	7.7	8.2	5.8	7.1	8.5	2.0	-1.0	-2.0
Non-market related services	5.0	3.2	4.2	6.8	4.6	3.9	2.6	1.6	2.5
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	3.9	-14.5	-5.7	37.8	-3.2	-5.0	-3.0	-2.5	-15.9
Industry excluding construction	4.3	5.4	5.4	10.8	2.7	5.5	10.2	7.2	-9.1
of which: manufacturing	3.5	4.7	4.3	9.4	:	:	:	:	:
Construction	-1.5	-4.4	-3.1	-3.1	-6.4	-4.1	1.2	0.9	-3.1
Trade, transport and communication	0.3	0.7	1.0	1.4	-3.6	-4.3	-3.5	-2.0	0.6
Finance and business services	4.7	3.3	2.9	2.2	-6.1	-1.6	-2.3	4.5	5.0
Non-market related services	-1.8	-2.9	-1.8	0.0	1.4	-2.0	-1.4	-3.6	-5.9
Market-related sectors	2.8	1.2	1.7	5.6	-1.6	-0.3	2.9	4.5	-1.0

Source: Ameco, Eurostat-National Account, ECB.

# 14. ITALY

Table 14.1: Main indicators - IT

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	57442	58077	58435	58880	59336	0.8	%
<b>2 Population (working age:15-64)</b>	38292	38588	38726	38946	39182	0.6	%
as % of total population	66.7	66.4	66.3	66.1	66.0	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	24014	24099	24287	24350	24696	1.4	%
Male	14274	14360	14445	14483	14571	0.6	%
Female	9740	9739	9842	9867	10125	2.6	%
<b>4 Activity rate (as % of population 15-64)</b>	62.7	62.5	62.7	62.5	63.0	0.5	p.p.
Young (15-24)	36.1	33.8	32.5	30.9	30.9	0.0	p.p.
Prime age (25-54)	77.5	77.4	77.8	77.6	78.1	0.5	p.p.
Older (55-64)	31.8	32.6	33.4	34.6	35.5	0.9	p.p.
<b>Male</b>	74.9	74.6	74.6	74.4	74.4	0.0	p.p.
Young (15-24)	40.5	38.7	37.8	36.1	35.9	-0.2	p.p.
Prime age (25-54)	91.4	91.2	91.3	91.0	91.0	0.0	p.p.
Older (55-64)	44.0	44.3	45.0	46.3	47.0	0.6	p.p.
<b>Female</b>	50.6	50.4	50.8	50.7	51.6	1.0	p.p.
Young (15-24)	31.7	28.7	26.9	25.5	25.7	0.2	p.p.
Prime age (25-54)	63.6	63.6	64.3	64.1	65.2	1.1	p.p.
Older (55-64)	20.4	21.5	22.5	23.5	24.7	1.2	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	57.6	57.6	58.4	58.7	58.7	0.1	p.p.
Young (15-24)	27.6	25.7	25.5	24.7	24.4	-0.3	p.p.
Prime age (25-54)	72.2	72.3	73.3	73.5	73.5	0.0	p.p.
Older (55-64)	30.5	31.4	32.5	33.8	34.4	0.7	p.p.
<b>Male</b>	70.1	69.9	70.5	70.7	70.3	-0.4	p.p.
Young (15-24)	32.1	30.4	30.6	29.6	29.1	-0.4	p.p.
Prime age (25-54)	86.7	86.6	87.2	87.3	86.7	-0.6	p.p.
Older (55-64)	42.2	42.7	43.7	45.1	45.5	0.3	p.p.
<b>Female</b>	45.2	45.3	46.3	46.6	47.2	0.6	p.p.
Young (15-24)	23.1	20.8	20.1	19.5	19.4	-0.2	p.p.
Prime age (25-54)	57.8	57.9	59.3	59.6	60.2	0.6	p.p.
Older (55-64)	19.6	20.8	21.9	23.0	24.0	1.0	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	22059.7	22214.5	22618.5	22846.2	23010.5	164.3	Th.
Male (as % of total)	60.5	60.6	60.3	60.2	59.8	-0.5	p.p.
Female (as % of total)	39.5	39.4	39.7	39.8	40.2	0.5	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.4	0.6	2.0	1.2	0.3		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	1.6	0.7	1.8	1.0	0.7		p.p.
Male	-0.6	0.8	1.4	0.8	-0.1		p.p.
Female	5.2	0.5	2.5	1.3	1.9		p.p.
<b>8 Self employed (% of total employment )</b>	17.7	17.1	16.9	16.7	16.2	-0.4	p.p.
Male	19.9	19.4	19.1	19.0	18.6	-0.3	p.p.
Female	14.2	13.6	13.5	13.2	12.7	-0.6	p.p.
<b>9 Temporary employment (as % total)</b>	11.8	12.3	13.1	13.2	13.3	0.1	p.p.
Male	9.9	10.5	11.2	11.2	11.6	0.4	p.p.
Female	14.5	14.7	15.8	16.0	15.6	-0.4	p.p.
<b>10 Part-time (as % of total employment )</b>	12.5	12.7	13.1	13.4	14.1	0.6	p.p.
Male	4.4	4.3	4.3	4.6	4.8	0.3	p.p.
Female	24.8	25.6	26.4	26.8	27.8	0.9	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	8.1	7.7	6.8	6.1	6.8	0.7	p.p.
Young (15-24)	23.5	24.0	21.6	20.3	21.3	1.0	p.p.
Prime age (25-54)	6.9	6.7	5.9	5.3	6.0	0.6	p.p.
Older (55-64)	4.1	3.5	2.9	2.4	3.1	0.7	p.p.
<b>Male</b>	6.4	6.2	5.4	4.9	5.5	0.6	p.p.
Young (15-24)	20.6	21.5	19.1	18.2	18.9	0.7	p.p.
Prime age (25-54)	5.2	5.1	4.5	4.0	4.7	0.6	p.p.
Older (55-64)	4.1	3.6	2.8	2.6	3.2	0.7	p.p.
<b>Female</b>	10.6	10.1	8.8	7.9	8.5	0.6	p.p.
Young (15-24)	27.2	27.4	25.3	23.3	24.7	1.3	p.p.
Prime age (25-54)	9.2	8.9	7.8	7.1	7.7	0.6	p.p.
Older (55-64)	4.0	3.2	2.9	2.1	2.9	0.8	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	49.2	49.9	49.7	47.4	45.6	-1.8	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	38.1	38.1	38.0	38.0	37.7	-0.8	%
Male	41.0	41.0	40.8	40.9	40.6	-0.9	%
Female	33.5	33.5	33.5	33.3	33.1	-0.6	%
<b>14 Sectoral employment growth</b>							
Agriculture	1.3	-0.4	2.0	-2.4	-2.2		p.p.
Building and construction	2.1	4.5	1.3	3.3	-0.8		p.p.
Services	0.7	0.6	2.4	1.4	1.1		p.p.
Manufacturing industry	-0.9	-0.7	0.9	0.7	-1.2		p.p.

Source: Eurostat, Labour Force Survey.

Table 14.2: **Indicator board on wage developments - IT**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.3	2.9	2.2	2.0	2.8	3.4	2.4	2.5	0.6
Compensation of employees per Hour Worked	3.1	4.6	2.8	2.3	4.3	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	2.4	2.8	0.9	2.0	4.4	5.6	2.9	4.8	:
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	2.2	2.8	2.1	1.6	4.2	4.6	3.9	4.0	3.9
Real unit labour costs deflated by GDP deflator.	-0.5	0.7	0.3	-0.7	1.3	2.3	0.7	1.1	0.7
Wage and salaries	3.1	4.0	2.9	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	2.6	3.0	1.8	1.7	4.3	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	61.7	62.3	63.0	62.4	62.6	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	:	:	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	:	:	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	45.4	43.4	43.2	45.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	43.2	43.1	43.0	42.7	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.1	0.1	0.1	0.3	-1.4	-1.2	-1.4	-1.4	-3.2
Hourly Labour Productivity	1.1	0.5	0.3	0.2	-0.5	:	:	:	:
GDP	1.5	0.7	2.0	1.6	-1.0	0.2	-0.2	-1.0	-3.1
ECFIN NAIRU estimate	8.5	8.5	8.3	8.1	8.1	:	:	:	:
Output gap (%)	0.5	0.6	1.9	2.6	0.9	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.3	2.2	2.2	2.0	3.5	3.3	3.8	4.1	2.9
Underlying inflation (exc. energy and unprocessed food)	2.3	2.0	1.8	1.9	2.8	2.6	2.8	3.0	2.8
GDP deflator	2.6	2.1	1.8	2.4	2.8	2.2	3.2	2.9	3.1
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-10.0	8.7	4.4	0.7	-3.6	4.1	-6.5	-3.7	-3.5
Industry excluding construction	2.0	1.8	0.6	1.9	4.7	4.2	1.3	5.2	9.2
of which: manufacturing	2.5	1.9	0.5	1.7	6.3	6.2	2.8	7.1	9.9
Construction	4.2	3.6	1.8	6.5	3.8	2.4	-0.7	6.6	7.3
Trade, transport and communication	1.8	0.8	1.7	0.5	3.9	3.3	2.1	4.5	6.3
Finance and business services	3.2	4.0	3.4	3.6	3.9	10.0	0.3	4.5	1.8
Non-market related services	1.5	3.9	3.2	0.6	4.5	3.4	11.1	3.4	0.9
Market-related sectors	2.0	2.2	1.8	2.1	3.7	5.1	0.9	4.4	4.9
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	3.3	2.9	2.2	2.0	2.8	:	:	:	:
Agriculture and fishery	0.3	4.3	1.3	2.9	0.9	-0.9	-0.2	0.9	3.3
Industry excluding construction	4.0	2.3	2.9	3.0	2.7	5.0	2.2	3.2	0.8
of which: manufacturing	4.1	2.3	2.9	3.0	2.6	4.9	2.2	3.2	0.7
Construction	3.6	1.3	2.3	3.1	3.4	3.2	1.6	6.4	2.6
Trade, transport and communication	3.4	2.4	0.5	1.2	1.8	2.7	0.3	2.7	2.0
Finance and business services	2.1	3.1	3.3	2.7	2.3	5.0	-1.3	4.1	2.2
Non-market related services	3.4	4.1	2.4	0.9	3.4	3.3	7.7	3.4	0.3
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	11.5	-4.1	-3.0	2.2	4.7	-4.8	6.7	4.8	7.1
Industry excluding construction	1.9	0.5	2.2	1.1	-2.0	0.8	0.8	-1.9	-7.7
of which: manufacturing	1.6	0.5	2.5	1.3	-3.5	-1.2	-0.6	-3.7	-8.4
Construction	-0.6	-2.2	0.4	-3.2	-0.4	0.8	2.4	-0.2	-4.4
Trade, transport and communication	1.6	1.7	-1.2	0.7	-2.0	-0.5	-1.8	-1.7	-4.0
Finance and business services	-1.1	-0.9	-0.1	-0.9	-1.5	-4.5	-1.6	-0.3	0.4
Non-market related services	1.9	0.2	-0.8	0.3	-1.0	-0.2	-3.1	0.0	-0.6
Market-related sectors	1.1	0.1	0.3	0.4	-1.2	-0.8	0.0	-0.8	-3.1

Source: Ameco, Eurostat-National Account, ECB.

# 15. LATVIA

Table 15.1: Main indicators - LV

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	2319	2305	2294	2281	2271	-0.5	%
<b>2 Population (working age:15-64)</b>	1587	1583	1580	1573	1568	-0.4	%
as % of total population	68.4	68.7	68.9	69.0	69.0	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	1105	1101	1126	1145	1166	1.8	%
Male	568	567	581	591	597	1.0	%
Female	538	534	545	555	570	2.7	%
<b>4 Activity rate (as % of population 15-64)</b>	69.6	69.6	71.3	72.8	74.4	1.6	p.p.
Young (15-24)	37.3	37.7	40.8	43.0	42.9	-0.1	p.p.
Prime age (25-54)	86.3	85.6	86.4	87.2	88.9	1.7	p.p.
Older (55-64)	52.3	53.8	57.1	60.3	63.3	3.0	p.p.
<b>Male</b>	74.3	74.4	76.2	77.6	78.6	1.0	p.p.
Young (15-24)	43.3	43.8	47.8	48.9	48.8	-0.1	p.p.
Prime age (25-54)	89.7	89.4	90.0	91.0	92.2	1.2	p.p.
Older (55-64)	60.4	61.0	64.4	67.9	68.7	0.8	p.p.
<b>Female</b>	65.3	65.1	66.7	68.3	70.5	2.2	p.p.
Young (15-24)	31.0	31.3	33.6	36.8	36.7	-0.2	p.p.
Prime age (25-54)	83.1	82.0	82.9	83.6	85.7	2.1	p.p.
Older (55-64)	46.1	48.5	51.6	54.6	59.2	4.6	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	62.3	63.3	66.3	68.3	68.6	0.3	p.p.
Young (15-24)	30.5	32.6	35.9	38.4	37.2	-1.1	p.p.
Prime age (25-54)	77.9	78.4	81.1	82.3	82.6	0.3	p.p.
Older (55-64)	47.9	49.5	53.3	57.7	59.4	1.7	p.p.
<b>Male</b>	66.4	67.6	70.4	72.5	72.1	-0.4	p.p.
Young (15-24)	36.4	38.7	42.8	43.4	42.4	-1.0	p.p.
Prime age (25-54)	80.5	81.7	83.7	85.6	85.4	-0.2	p.p.
Older (55-64)	55.8	55.2	59.5	64.6	63.1	-1.5	p.p.
<b>Female</b>	58.5	59.3	62.4	64.4	65.4	1.0	p.p.
Young (15-24)	24.4	26.3	28.7	33.1	31.9	-1.2	p.p.
Prime age (25-54)	75.5	75.3	78.6	79.1	79.9	0.8	p.p.
Older (55-64)	41.9	45.3	48.7	52.4	56.7	4.3	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	988.4	1001.9	1047.3	1075.1	1076.3	1.2	Th.
Male (as % of total)	51.3	51.4	51.3	51.3	50.9	-0.5	p.p.
Female (as % of total)	48.7	48.6	48.7	48.7	49.2	0.5	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	1.1	1.7	4.7	3.6	0.7		p.p.
Employment growth ( %) (LFS - age 15-64)	0.7	1.4	4.5	2.7	0.1		p.p.
Male	0.7	1.7	4.2	2.8	-0.8		p.p.
Female	0.7	1.0	4.9	2.5	1.1		p.p.
<b>8 Self employed (% of total employment )</b>	6.0	5.6	6.3	5.5	5.3	-0.2	p.p.
Male	6.9	6.4	7.3	6.7	6.4	-0.3	p.p.
Female	5.1	4.8	5.2	4.3	4.1	-0.1	p.p.
<b>9 Temporary employment (as % total)</b>	9.5	8.4	7.2	4.3	3.3	-1.0	p.p.
Male	11.6	10.6	8.9	5.7	4.7	-1.0	p.p.
Female	7.3	6.2	5.4	2.9	1.9	-0.9	p.p.
<b>10 Part-time (as % of total employment )</b>	9.7	7.6	5.8	5.6	5.5	-0.1	p.p.
Male	7.1	5.6	4.3	4.4	3.9	-0.5	p.p.
Female	12.4	9.7	7.4	6.9	7.1	0.2	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	10.4	8.9	6.8	6.0	7.5	1.5	p.p.
Young (15-24)	18.1	13.6	12.2	10.7	13.1	2.4	p.p.
Prime age (25-54)	9.7	8.4	6.1	5.6	7.1	1.4	p.p.
Older (55-64)	8.4	8.0	6.6	4.4	6.2	1.8	p.p.
Male	10.6	9.1	7.4	6.4	8.0	1.6	p.p.
Young (15-24)	16.0	11.8	10.5	11.2	13.1	1.9	p.p.
Prime age (25-54)	10.3	8.6	7.0	5.9	7.3	1.4	p.p.
Older (55-64)	7.6	9.4	7.6	4.8	8.2	3.4	p.p.
Female	10.2	8.7	6.2	5.6	6.9	1.3	p.p.
Young (15-24)	21.3	16.1	14.7	10.1	13.1	3.0	p.p.
Prime age (25-54)	9.2	8.2	5.2	5.3	6.8	1.5	p.p.
Older (55-64)	9.1	6.7	5.7	4.0	4.3	0.3	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	43.7	45.8	36.3	26.1	26.0	-0.1	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	41.0	41.4	41.3	40.5	39.4	-2.7	%
Male	42.6	43.0	42.8	41.7	40.4	-2.9	%
Female	39.3	39.6	39.7	39.2	38.3	-2.4	%
<b>14 Sectoral employment growth</b>							
Agriculture	-10.0	0.5	-3.1	-8.3	-18.0		p.p.
Building and construction	16.9	4.6	17.5	19.4	1.3		p.p.
Services	2.5	3.3	4.1	3.9	3.9		p.p.
Manufacturing industry	-2.5	-3.6	5.7	-0.4	2.0		p.p.

Source: Eurostat, Labour Force Survey.

Table 15.2: **Indicator board on wage developments - LV**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	14.3	25.3	23.6	34.8	16.7	21.5	16.8	17.8	12.5
Compensation of employees per Hour Worked	15.7	28.9	23.6	38.7	18.0	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	10.7	15.1	23.3	30.3	23.4	30.9	25.2	21.1	17.7
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	6.4	15.2	15.3	27.0	23.2	26.8	22.7	24.5	18.5
Real unit labour costs deflated by GDP deflator.	-0.6	4.6	4.9	5.6	7.0	5.3	5.4	9.1	6.7
Wage and salaries	17.5	26.0	31.8	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	51.0	53.5	56.4	59.2	62.1	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	21.4	21.5	21.3	21.1	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	78.6	78.5	78.7	78.9	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	73.4	73.4	73.7	73.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	42.5	42.2	42.9	42.4	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	38.1	37.5	39.9	37.0	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	20.5	20.7	20.6	20.4	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	0.8	0.8	0.8	0.8	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	7.5	8.7	7.2	6.2	-5.3	-4.2	-4.8	-5.3	-5.1
Hourly Labour Productivity	8.7	10.3	7.2	7.9	-4.8	:	:	:	:
GDP	8.7	10.6	12.2	10.0	-4.6	0.5	-1.9	-5.2	-10.3
ECFIN NAIRU estimate	10.2	9.4	8.9	8.9	9.7	:	:	:	:
Output gap (%)	1.3	4.6	10.1	15.0	6.6	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	6.2	6.9	6.6	10.1	15.3	16.3	17.5	15.6	11.9
Underlying inflation (exc. energy and unprocessed food)	5.8	5.5	5.1	9.7	13.8	15.6	15.8	13.7	10.2
GDP deflator	7.0	10.2	9.9	20.3	15.2	20.4	16.4	14.1	11.1
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	1.6	11.0	24.5	30.4	1.5	16.0	1.6	-2.0	-2.2
Industry excluding construction	-0.3	8.1	15.5	20.4	24.1	25.9	24.2	26.1	19.0
of which: manufacturing	3.3	13.1	16.4	25.2	22.1	24.5	20.8	23.5	17.7
Construction	11.9	63.5	28.7	46.1	15.8	21.4	15.0	15.5	6.0
Trade, transport and communication	-2.5	7.1	14.7	21.8	23.6	24.4	22.7	23.8	21.4
Finance and business services	10.2	12.7	15.4	38.6	22.5	25.8	16.8	27.4	19.4
Non-market related services	8.4	8.8	15.1	29.0	21.6	31.4	26.7	24.8	6.5
Market-related sectors	0.7	11.0	16.9	28.2	19.0	23.0	18.0	20.5	15.7
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	10.2	19.6	23.5	34.2	16.2	:	:	:	:
Agriculture and fishery	17.3	20.4	22.0	53.8	22.8	37.4	27.7	25.1	14.6
Industry excluding construction	7.8	18.6	15.5	21.2	17.9	17.1	12.9	17.3	17.3
of which: manufacturing	12.9	24.3	17.0	26.3	11.9	11.4	7.5	12.3	14.4
Construction	8.9	80.2	33.8	40.7	11.9	25.6	8.9	7.5	16.8
Trade, transport and communication	4.6	18.2	26.1	27.3	14.9	20.1	13.5	15.3	11.5
Finance and business services	19.2	35.5	-5.3	46.4	13.3	13.1	11.3	7.0	-0.9
Non-market related services	12.3	9.0	28.5	35.7	17.3	23.2	22.4	21.6	6.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	15.4	8.4	-2.0	18.0	21.0	18.4	25.7	27.7	17.2
Industry excluding construction	8.1	9.7	0.0	0.7	-5.0	-7.0	-9.1	-6.9	-1.4
of which: manufacturing	9.4	9.8	0.5	0.9	-8.4	-10.6	-10.9	-9.1	-2.9
Construction	-2.7	10.3	4.0	-3.7	-3.4	3.5	-5.2	-6.9	10.2
Trade, transport and communication	7.2	10.3	9.9	4.5	-7.0	-3.4	-7.5	-6.9	-8.1
Finance and business services	8.2	20.2	-18.0	5.6	-7.5	-10.1	-4.7	-16.1	-16.9
Non-market related services	3.5	0.2	11.6	5.2	-3.5	-6.2	-3.4	-2.6	0.1
Market-related sectors	8.7	11.2	4.4	4.9	-3.1	-1.7	-3.5	-4.5	-2.9

Source: Ameco, Eurostat-National Account, ECB.

# 16. LITHUANIA

Table 16.1: Main indicators - LT

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	3434	3424	3403	3385	3366	-0.5	%
<b>2 Population (working age:15-64)</b>	2310	2322	2321	2319	2316	-0.1	%
as % of total population	67.3	67.8	68.2	68.5	68.8	0.3	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	1596	1587	1565	1575	1584	0.6	%
Male	811	807	790	796	801	0.6	%
Female	786	780	775	779	783	0.5	%
<b>4 Activity rate (as % of population 15-64)</b>	69.1	68.4	67.4	67.9	68.4	0.5	p.p.
Young (15-24)	26.2	25.1	26.3	27.4	30.8	3.4	p.p.
Prime age (25-54)	88.7	87.9	86.2	86.0	85.5	-0.4	p.p.
Older (55-64)	52.6	52.8	52.9	55.6	55.6	0.0	p.p.
<b>Male</b>	72.8	72.1	70.5	71.0	71.4	0.5	p.p.
Young (15-24)	30.9	29.5	29.3	31.8	35.4	3.6	p.p.
Prime age (25-54)	90.7	90.1	88.7	87.9	87.4	-0.5	p.p.
Older (55-64)	63.7	63.8	59.9	63.4	63.0	-0.4	p.p.
<b>Female</b>	65.6	64.9	64.6	65.0	65.5	0.5	p.p.
Young (15-24)	21.4	20.5	23.1	22.8	26.0	3.2	p.p.
Prime age (25-54)	86.8	85.8	83.8	84.2	83.8	-0.4	p.p.
Older (55-64)	44.3	44.4	47.6	49.7	50.0	0.3	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	61.2	62.6	63.6	64.9	64.3	-0.6	p.p.
Young (15-24)	20.3	21.2	23.7	25.2	26.7	1.5	p.p.
Prime age (25-54)	79.4	81.0	81.7	82.5	81.2	-1.4	p.p.
Older (55-64)	47.1	49.2	49.6	53.4	53.1	-0.3	p.p.
<b>Male</b>	64.7	66.1	66.3	67.9	67.1	-0.8	p.p.
Young (15-24)	24.0	24.8	26.4	29.6	30.9	1.3	p.p.
Prime age (25-54)	81.7	83.3	84.1	84.3	82.7	-1.7	p.p.
Older (55-64)	57.6	59.1	55.6	60.8	60.2	-0.6	p.p.
<b>Female</b>	57.8	59.4	61.0	62.2	61.8	-0.4	p.p.
Young (15-24)	16.5	17.4	20.8	20.5	22.2	1.7	p.p.
Prime age (25-54)	77.3	78.8	79.5	80.8	79.7	-1.1	p.p.
Older (55-64)	39.3	41.7	45.1	47.9	47.7	-0.2	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	1413.1	1454.0	1475.9	1505.8	1490.2	-15.6	Th.
Male (as % of total)	51.0	50.9	50.4	50.5	50.4	-0.1	p.p.
Female (as % of total)	49.0	49.1	49.6	49.5	49.6	0.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.0	2.5	1.8	2.8	-0.5		p.p.
Employment growth ( %) (LFS - age 15-64)	0.3	2.9	1.5	2.0	-1.0		p.p.
Male	1.6	2.7	0.5	2.4	-1.2		p.p.
Female	-1.0	3.1	2.6	1.7	-0.8		p.p.
<b>8 Self employed (% of total employment )</b>	12.9	11.9	11.0	9.6	7.8	-1.8	p.p.
Male	15.2	14.2	13.1	11.8	9.8	-1.9	p.p.
Female	10.4	9.5	8.9	7.4	5.7	-1.6	p.p.
<b>9 Temporary employment (as % total)</b>	6.3	5.6	4.5	3.5	2.4	-1.1	p.p.
Male	8.8	7.6	6.5	4.9	2.9	-1.9	p.p.
Female	3.9	3.6	2.7	2.3	1.8	-0.5	p.p.
<b>10 Part-time (as % of total employment )</b>	8.3	6.8	9.5	8.1	6.5	-1.6	p.p.
Male	6.4	4.9	7.5	6.5	4.7	-1.8	p.p.
Female	10.3	8.8	11.5	9.7	8.3	-1.5	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	11.4	8.3	5.6	4.3	5.8	1.5	p.p.
Young (15-24)	22.7	15.7	9.8	8.2	13.4	5.2	p.p.
Prime age (25-54)	10.4	7.8	5.2	4.0	5.1	1.1	p.p.
Older (55-64)	10.4	6.8	6.1	3.8	4.4	0.6	p.p.
<b>Male</b>	11.0	8.2	5.8	4.3	6.1	1.8	p.p.
Young (15-24)	22.6	15.9	9.9	6.9	12.6	5.6	p.p.
Prime age (25-54)	9.9	7.5	5.2	4.0	5.4	1.4	p.p.
Older (55-64)	9.7	7.4	7.2	4.1	4.4	0.2	p.p.
<b>Female</b>	11.8	8.3	5.4	4.3	5.6	1.3	p.p.
Young (15-24)	22.9	15.2	9.6	10.1	14.6	4.6	p.p.
Prime age (25-54)	11.0	8.2	5.1	4.0	4.9	0.9	p.p.
Older (55-64)	11.2	6.1	5.2	3.6	4.6	1.0	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	51.4	52.2	44.0	31.9	20.5	-11.5	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	37.9	38.1	38.1	38.6	39.2	1.5	%
Male	38.9	39.4	39.2	39.5	40.1	1.5	%
Female	36.7	36.7	37.1	37.6	38.3	1.7	%
<b>14 Sectoral employment growth</b>							
Agriculture	-11.5	-9.3	-9.9	-14.2	-23.8		p.p.
Building and construction	8.9	14.1	12.7	15.9	-2.4		p.p.
Services	3.6	4.1	3.6	4.6	3.9		p.p.
Manufacturing industry	-3.6	4.4	-0.6	1.7	-0.3		p.p.

Source: Eurostat, Labour Force Survey.

Table 16.2: **Indicator board on wage developments - LT**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	10.9	11.5	16.7	16.9	14.5	18.7	18.7	17.0	8.1
Compensation of employees per Hour Worked	12.0	10.0	19.6	18.4	15.5	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	4.5	11.5	18.4	20.9	17.2	23.6	18.8	16.0	11.3
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	3.3	6.0	10.1	10.3	10.6	11.0	11.5	12.0	9.3
Real unit labour costs deflated by GDP deflator.	0.8	-0.6	3.4	1.4	0.3	-1.7	0.0	1.2	2.2
Wage and salaries	10.7	8.0	22.0	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	55.0	54.4	56.4	57.7	57.9	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	28.5	28.5	28.5	28.5	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	71.5	71.5	71.5	71.5	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	66.3	66.5	66.5	66.6	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	43.7	40.1	46.3	43.0	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	42.9	40.1	43.2	40.5	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	28.2	28.1	28.2	28.2	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	0.3	0.3	0.3	0.3	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	7.4	5.2	5.9	6.0	3.5	6.9	6.5	4.5	-1.1
Hourly Labour Productivity	6.0	1.7	6.9	4.7	1.9	:	:	:	:
GDP	7.4	7.8	7.8	8.9	3.0	7.0	5.2	2.9	-2.2
ECFIN NAIRU estimate	11.9	10.2	8.7	7.7	7.5	:	:	:	:
Output gap (%)	3.5	4.7	6.1	8.9	7.6	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.2	2.7	3.8	5.8	11.1	10.8	12.3	12.0	9.4
Underlying inflation (exc. energy and unprocessed food)	0.7	1.3	2.4	5.2	9.3	9.0	10.6	9.8	7.8
GDP deflator	2.5	6.6	6.5	8.8	10.3	13.0	11.5	10.7	6.9
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	7.5	-7.6	2.6	-6.1	-9.0	-7.2	-6.7	-14.3	0.0
Industry excluding construction	2.8	7.2	4.4	7.4	13.6	15.3	12.9	21.8	6.8
of which: manufacturing	3.6	6.0	3.2	6.6	13.2	13.8	12.4	21.9	3.8
Construction	15.2	18.6	23.7	17.6	12.6	11.3	14.6	16.8	8.3
Trade, transport and communication	5.2	7.7	16.3	11.8	8.2	11.1	9.4	5.6	8.8
Finance and business services	3.1	16.1	6.4	35.5	12.2	13.6	19.1	18.9	1.4
Non-market related services	7.0	7.0	13.9	10.4	18.9	19.0	19.4	19.8	17.4
Market-related sectors	3.0	6.6	9.4	11.5	7.6	8.5	8.4	9.6	5.6
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	10.9	11.5	16.7	16.9	14.5	:	:	:	:
Agriculture and fishery	20.8	4.0	2.4	23.8	21.6	34.0	28.2	21.1	5.4
Industry excluding construction	17.2	11.8	12.6	12.3	15.8	17.5	16.2	23.3	8.3
of which: manufacturing	20.1	10.2	13.7	12.7	16.0	20.6	14.8	21.0	6.6
Construction	12.7	16.7	32.2	23.1	16.7	20.9	14.7	23.6	12.5
Trade, transport and communication	7.6	16.9	15.1	19.7	9.1	17.4	11.8	7.4	2.6
Finance and business services	10.0	15.8	-0.3	39.1	-5.9	-4.4	2.8	-1.4	-16.4
Non-market related services	8.0	5.0	22.4	7.7	23.5	20.4	29.6	23.2	20.5
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	12.4	12.5	-0.2	31.9	33.7	44.4	37.4	41.4	5.4
Industry excluding construction	14.0	4.3	7.8	4.6	1.9	1.9	2.9	1.3	1.4
of which: manufacturing	15.9	4.0	10.2	5.7	2.4	6.0	2.2	-0.8	2.7
Construction	-2.2	-1.6	6.9	4.7	3.7	8.7	0.1	5.9	3.9
Trade, transport and communication	2.3	8.5	-1.1	7.1	0.8	5.6	2.3	1.7	-5.7
Finance and business services	6.7	-0.3	-6.3	2.7	-16.1	-15.8	-13.6	-17.1	-17.5
Non-market related services	0.9	-1.9	7.5	-2.5	3.9	1.2	8.5	2.8	2.7
Market-related sectors	9.1	7.3	4.2	8.0	3.5	7.2	4.6	4.5	-1.8

Source: Ameco, Eurostat-National Account, ECB.



# 17. LUXEMBOURG

Table 17.1: Main indicators - LU

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	446	450	456	465	467	0.6	%
<b>2 Population (working age:15-64)</b>	301	304	307	316	318	0.8	%
as % of total population	67.5	67.6	67.2	68.0	68.1	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	198	202	205	211	213	0.7	%
Male	115	116	115	118	120	2.4	%
Female	83	86	90	94	92	-1.4	%
<b>4 Activity rate (as % of population 15-64)</b>	65.8	66.6	66.7	66.9	66.8	-0.1	p.p.
Young (15-24)	28.1	28.8	27.8	26.5	29.1	2.5	p.p.
Prime age (25-54)	83.0	83.9	84.5	84.8	83.4	-1.3	p.p.
Older (55-64)	30.8	32.4	33.7	32.7	35.0	2.3	p.p.
<b>Male</b>	75.6	76.0	75.3	75.0	74.7	-0.3	p.p.
Young (15-24)	29.3	32.2	30.5	30.7	31.0	0.2	p.p.
Prime age (25-54)	95.3	95.5	95.3	94.9	93.7	-1.2	p.p.
Older (55-64)	38.8	39.7	38.8	36.5	39.8	3.4	p.p.
<b>Female</b>	55.9	57.0	58.2	58.9	58.7	-0.2	p.p.
Young (15-24)	26.2	25.4	24.8	22.5	27.1	4.7	p.p.
Prime age (25-54)	70.4	72.2	73.8	74.7	72.9	-1.8	p.p.
Older (55-64)	22.6	25.1	28.7	29.1	30.4	1.3	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	62.5	63.6	63.5	64.2	63.4	-0.8	p.p.
Young (15-24)	23.2	25.0	23.2	22.5	23.8	1.3	p.p.
Prime age (25-54)	79.3	80.6	81.0	81.9	80.0	-1.9	p.p.
Older (55-64)	30.3	31.8	33.1	32.0	34.1	2.1	p.p.
<b>Male</b>	72.8	73.3	72.7	72.3	71.5	-0.9	p.p.
Young (15-24)	26.2	28.4	25.6	26.5	27.0	0.5	p.p.
Prime age (25-54)	92.2	92.8	92.7	92.2	90.2	-2.0	p.p.
Older (55-64)	38.4	38.1	38.8	35.5	38.7	3.2	p.p.
<b>Female</b>	51.8	53.7	54.6	56.1	55.1	-1.0	p.p.
Young (15-24)	20.6	21.5	21.4	18.5	20.5	2.0	p.p.
Prime age (25-54)	66.2	68.4	69.4	71.7	69.6	-2.2	p.p.
Older (55-64)	22.1	24.7	27.9	28.5	29.4	0.9	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	188.0	193.2	194.9	202.6	201.8	-0.8	Th.
Male (as % of total)	58.9	58.1	56.8	56.0	57.1	1.1	p.p.
Female (as % of total)	41.1	41.9	43.2	44.0	42.9	-1.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	2.2	2.9	3.6	4.5	4.7		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	1.0	2.8	0.9	3.9	-0.4		p.p.
Male	0.2	1.4	-1.3	2.4	1.6		p.p.
Female	2.1	4.8	4.1	5.8	-2.8		p.p.
<b>8 Self employed (% of total employment )</b>	4.9	4.9	4.9	4.1	3.8	-0.3	p.p.
Male	5.4	5.0	5.2	4.2	3.3	-0.9	p.p.
Female	4.3	4.8	4.5	3.9	4.4	0.4	p.p.
<b>9 Temporary employment (as % total)</b>	4.8	5.3	6.1	6.8	6.2	-0.6	p.p.
Male	4.1	4.9	5.7	6.2	5.9	-0.3	p.p.
Female	5.8	5.8	6.6	7.6	6.7	-1.0	p.p.
<b>10 Part-time (as % of total employment )</b>	:	:	:	17.8	17.9	0.1	p.p.
Male	:	:	:	2.8	3.8	1.0	p.p.
Female	:	:	:	37.1	38.2	1.1	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	5.0	4.6	4.6	4.2	4.9	0.7	p.p.
Young (15-24)	17.6	13.4	16.4	15.1	18.0	2.9	p.p.
Prime age (25-54)	4.5	3.9	4.1	3.4	4.1	0.8	p.p.
Older (55-64)	1.4	2.0	1.8	1.9	2.5	0.6	p.p.
<b>Male</b>	3.6	3.6	3.6	3.4	4.0	0.6	p.p.
Young (15-24)	10.7	11.9	16.3	13.6	12.7	-0.8	p.p.
Prime age (25-54)	3.3	2.8	2.8	2.9	3.8	0.9	p.p.
Older (55-64)	1.1	4.2	0.0	2.6	2.8	0.2	p.p.
<b>Female</b>	6.8	6.0	6.0	5.1	6.0	0.9	p.p.
Young (15-24)	21.5	15.4	13.8	17.8	24.5	6.6	p.p.
Prime age (25-54)	6.0	5.3	5.9	4.0	4.6	0.6	p.p.
Older (55-64)	2.0	1.7	2.8	1.8	3.1	1.4	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	21.0	26.4	29.5	28.5	32.9	4.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	38.2	37.9	37.6	37.6	37.2	-1.0	%
Male	41.4	41.2	40.8	40.8	40.5	-0.8	%
Female	33.3	33.0	33.0	33.2	32.6	-1.7	%
<b>14 Sectoral employment growth</b>							
Agriculture	0.0	0.0	2.1	2.0	0.0		p.p.
Building and construction	2.9	3.4	4.5	5.1	4.3		p.p.
Services	2.7	3.3	4.2	5.1	5.2		p.p.
Manufacturing industry	-0.6	0.0	-0.3	0.0	1.4		p.p.

Source: Eurostat, Labour Force Survey.

Table 17.2: **Indicator board on wage developments - LU**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.7	3.7	3.1	4.3	1.5	6.4	4.2	6.8	9.5
Compensation of employees per Hour Worked	3.8	5.2	3.7	4.1	1.9	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	2.3	4.2	2.6	2.1	3.5	2.7	3.6	3.1	4.2
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	1.4	1.4	0.4	3.6	7.2	3.4	7.0	7.1	12.3
Real unit labour costs deflated by GDP deflator.	-0.4	-2.9	-4.8	1.5	5.5	-0.7	6.2	5.3	12.1
Wage and salaries	3.7	2.1	5.4	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	3.0	2.6	0.9	4.0	7.6	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	57.3	55.5	52.6	53.5	56.2	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	2.3	2.2	2.7	0.7	-5.3	2.9	-2.7	-0.3	-2.5
Hourly Labour Productivity	2.2	3.5	3.1	0.3	-5.1	:	:	:	:
GDP	4.5	5.2	6.4	5.2	-0.9	1.0	1.1	-0.9	-4.8
ECFIN NAIRU estimate	3.9	4.1	4.6	4.9	5.3	:	:	:	:
Output gap (%)	-0.5	0.9	3.9	5.6	1.2	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	3.2	3.8	3.0	2.7	4.1	4.2	4.8	5.1	2.2
Underlying inflation (exc. energy and unprocessed food)	2.5	2.5	2.3	2.6	3.0	2.7	3.1	3.2	2.8
GDP deflator	1.9	4.5	5.4	2.0	1.6	4.1	0.7	1.7	0.2
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	81.5	16.1	-34.6	8.0	7.6	12.3	14.7	4.3	-7.2
Industry excluding construction	-0.9	3.4	12.7	-1.0	7.5	2.3	1.7	-1.2	20.8
of which: manufacturing	-0.9	3.1	11.7	-1.4	8.1	3.8	1.5	-0.7	23.1
Construction	1.2	0.7	-1.3	6.7	2.9	6.8	3.2	1.6	5.1
Trade, transport and communication	0.9	3.0	-0.8	0.5	3.2	4.9	4.6	7.9	11.9
Finance and business services	1.4	0.8	-1.8	6.9	11.9	9.2	10.7	15.1	13.3
Non-market related services	5.8	1.3	1.1	3.8	4.5	4.0	5.1	3.3	5.3
Market-related sectors	0.6	1.8	-0.2	2.6	9.1	6.8	7.2	9.8	12.7
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	3.9	3.5	3.2	4.3	1.5	:	:	:	:
Agriculture and fishery	82.0	-0.5	-38.7	8.1	4.5	1.8	1.6	2.1	-0.5
Industry excluding construction	2.8	4.3	5.0	1.0	3.2	2.1	4.8	1.8	0.7
of which: manufacturing	3.2	4.3	5.3	0.7	1.5	1.7	4.6	1.6	0.4
Construction	3.7	2.0	0.6	4.6	2.9	2.0	2.6	3.3	2.1
Trade, transport and communication	4.7	3.9	1.4	5.9	-1.5	1.6	2.2	3.3	2.3
Finance and business services	2.6	4.7	2.9	4.3	0.9	0.5	1.4	2.3	1.4
Non-market related services	5.5	1.3	4.0	3.7	1.9	1.7	2.7	2.2	2.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	0.3	-14.3	-6.2	0.1	-2.9	-9.4	-11.3	-2.1	7.3
Industry excluding construction	3.7	0.9	-6.8	2.0	-3.9	-0.2	3.0	3.0	-16.7
of which: manufacturing	4.2	1.2	-5.8	2.1	-6.1	-2.0	3.0	2.2	-18.5
Construction	2.4	1.3	2.0	-2.0	-0.1	-4.5	-0.6	1.7	-2.9
Trade, transport and communication	3.8	0.9	2.2	5.4	-4.6	-3.2	-2.3	-4.3	-8.5
Finance and business services	1.2	3.8	4.8	-2.4	-9.9	-8.0	-8.4	-11.2	-10.5
Non-market related services	-0.3	0.0	2.9	-0.1	-2.5	-2.3	-2.3	-1.0	-2.6
Market-related sectors	2.7	2.4	3.3	1.0	-6.2	-4.6	-4.1	-6.2	-9.6

Source: Ameco, Eurostat-National Account, ECB.

# 18. MALTA

Table 18.1: Main indicators - MT

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	400	402	406	409	411	0.7	%
<b>2 Population (working age:15-64)</b>	272	274	281	285	289	1.4	%
as % of total population	68.1	68.1	69.2	69.7	70.2	0.5	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	158	159	162	166	170	2.0	%
Male	110	109	111	112	113	0.2	%
Female	49	50	51	54	57	5.6	%
<b>4 Activity rate (as % of population 15-64)</b>	58.2	58.2	57.6	58.4	58.8	0.3	p.p.
Young (15-24)	55.3	54.4	52.5	53.1	52.2	-0.9	p.p.
Prime age (25-54)	65.3	65.7	67.9	69.7	70.8	1.1	p.p.
Older (55-64)	32.3	31.9	30.6	29.6	30.3	0.7	p.p.
<b>Male</b>	80.2	79.1	78.1	77.6	76.8	-0.8	p.p.
Young (15-24)	59.9	56.3	56.6	57.1	55.3	-1.8	p.p.
Prime age (25-54)	93.3	93.2	93.9	94.2	93.7	-0.5	p.p.
Older (55-64)	54.8	53.1	50.5	47.3	47.9	0.6	p.p.
<b>Female</b>	36.0	36.9	36.5	38.6	40.1	1.5	p.p.
Young (15-24)	50.6	52.4	48.2	48.9	49.0	0.0	p.p.
Prime age (25-54)	36.8	37.6	40.8	44.0	46.8	2.7	p.p.
Older (55-64)	12.0	12.5	11.2	12.4	13.2	0.8	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	54.0	53.9	53.6	54.6	55.2	0.6	p.p.
Young (15-24)	46.2	45.4	44.2	45.7	45.9	0.2	p.p.
Prime age (25-54)	62.1	62.4	64.4	66.2	67.3	1.1	p.p.
Older (55-64)	31.5	30.8	29.8	28.5	29.1	0.5	p.p.
<b>Male</b>	75.0	73.8	73.2	72.9	72.5	-0.4	p.p.
Young (15-24)	50.3	46.6	46.9	48.1	47.6	-0.5	p.p.
Prime age (25-54)	88.8	88.9	89.6	90.0	89.5	-0.5	p.p.
Older (55-64)	53.5	50.8	49.4	45.9	46.5	0.6	p.p.
<b>Female</b>	32.7	33.7	33.4	35.7	37.4	1.7	p.p.
Young (15-24)	41.7	43.9	41.3	43.2	43.8	0.6	p.p.
Prime age (25-54)	34.8	35.4	38.1	41.2	44.1	2.9	p.p.
Older (55-64)	11.5	12.5	10.8	11.6	12.4	0.9	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	146.9	147.6	150.7	155.5	159.4	3.8	Th.
Male (as % of total)	69.8	68.9	69.3	67.9	66.7	-1.2	p.p.
Female (as % of total)	30.2	31.1	30.7	32.1	33.3	1.3	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-0.6	1.3	1.3	3.1	2.5		p.p.
Employment growth ( %) (LFS - age 15-64)	0.0	0.5	2.1	3.2	2.5		p.p.
Male	0.9	-0.7	2.7	1.1	0.6		p.p.
Female	-2.0	3.3	0.9	7.9	6.5		p.p.
<b>8 Self employed (% of total employment )</b>	9.3	9.0	9.4	9.1	8.9	-0.2	p.p.
Male	11.5	11.2	11.5	10.8	10.9	0.1	p.p.
Female	4.1	6.0	4.4	5.5	4.8	-0.7	p.p.
<b>9 Temporary employment (as % total)</b>	3.8	4.5	3.7	5.1	4.2	-0.9	p.p.
Male	3.4	3.6	2.6	3.7	3.3	-0.4	p.p.
Female	5.7	6.2	5.8	7.7	5.8	-1.9	p.p.
<b>10 Part-time (as % of total employment )</b>	8.3	9.4	9.7	10.6	11.3	0.6	p.p.
Male	3.7	4.2	4.5	4.0	3.9	-0.2	p.p.
Female	19.0	20.9	21.4	24.6	26.1	1.5	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	7.4	7.2	7.1	6.4	5.9	-0.5	p.p.
Young (15-24)	16.5	16.6	15.8	14.1	12.1	-2.0	p.p.
Prime age (25-54)	5.0	5.0	5.2	5.0	4.9	-0.1	p.p.
Older (55-64)	2.3	3.4	2.7	3.6	3.9	0.3	p.p.
Male	6.6	6.4	6.3	5.9	5.6	-0.3	p.p.
Young (15-24)	15.9	17.2	17.2	15.8	14.0	-1.9	p.p.
Prime age (25-54)	4.8	4.6	4.5	4.5	4.4	-0.1	p.p.
Older (55-64)	2.3	4.3	2.1	2.9	2.9	0.0	p.p.
Female	9.0	8.9	8.7	7.6	6.5	-1.1	p.p.
Young (15-24)	17.6	16.3	14.3	11.8	10.6	-1.1	p.p.
Prime age (25-54)	5.5	5.9	6.8	6.3	5.6	-0.7	p.p.
Older (55-64)	3.9	0.0	3.3	6.4	5.7	-0.7	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	46.7	46.4	40.6	41.8	42.2	0.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	40.0	39.2	38.7	38.9	39.0	0.1	%
Male	41.6	41.2	40.3	41.0	41.0	0.1	%
Female	36.2	34.4	34.9	34.3	34.7	1.2	%
<b>14 Sectoral employment growth</b>							
Agriculture	:	:	:	:	:		p.p.
Building and construction	:	:	:	:	:		p.p.
Services	:	:	:	:	:		p.p.
Manufacturing industry	:	:	:	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 18.2: **Indicator board on wage developments - MT**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	1.4	2.2	3.6	1.6	3.6	2.5	3.0	1.6	3.8
Compensation of employees per Hour Worked	1.5	2.2	4.4	1.6	4.8	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	:	:	:	:	:	:	:	:	:
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	-0.2	-0.4	1.6	0.5	3.5	2.1	0.3	1.8	6.5
Real unit labour costs deflated by GDP deflator.	-1.8	-3.0	-1.4	-2.1	1.0	-0.4	-2.6	-0.2	3.8
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	59.7	58.1	57.1	55.9	56.3	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	7.9	8.0	6.9	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	92.1	92.0	93.1	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	23.6	23.9	24.5	23.6	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	23.6	23.9	24.5	23.2	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	7.9	8.0	6.9	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.6	2.7	2.0	1.1	0.1	0.4	2.7	-0.2	-2.6
Hourly Labour Productivity	2.1	2.7	2.7	1.1	1.3	:	:	:	:
GDP	1.0	4.0	3.3	4.2	2.5	3.4	4.2	3.1	-0.3
ECFIN NAIRU estimate	7.2	7.1	7.0	6.9	6.9	:	:	:	:
Output gap (%)	-3.4	-1.5	-0.2	1.4	1.8	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.7	2.5	2.6	0.7	4.7	4.0	4.2	5.3	5.2
Underlying inflation (exc. energy and unprocessed food)	2.9	1.9	1.8	0.8	3.9	3.3	3.6	4.8	3.8
GDP deflator	1.6	2.6	3.1	2.7	2.5	2.5	3.0	2.0	2.6
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	:	:	:	:	:	:	:	:	:
Industry excluding construction	:	:	:	:	:	:	:	:	:
of which: manufacturing	:	:	:	:	:	:	:	:	:
Construction	:	:	:	:	:	:	:	:	:
Trade, transport and communication	:	:	:	:	:	:	:	:	:
Finance and business services	:	:	:	:	:	:	:	:	:
Non-market related services	:	:	:	:	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	0.8	2.3	3.0	1.8	3.4	:	:	:	:
Agriculture and fishery	:	:	:	:	:	:	:	:	:
Industry excluding construction	:	:	:	:	:	:	:	:	:
of which: manufacturing	:	:	:	:	:	:	:	:	:
Construction	:	:	:	:	:	:	:	:	:
Trade, transport and communication	:	:	:	:	:	:	:	:	:
Finance and business services	:	:	:	:	:	:	:	:	:
Non-market related services	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	:	:	:	:	:	:	:	:	:
Industry excluding construction	:	:	:	:	:	:	:	:	:
of which: manufacturing	:	:	:	:	:	:	:	:	:
Construction	:	:	:	:	:	:	:	:	:
Trade, transport and communication	:	:	:	:	:	:	:	:	:
Finance and business services	:	:	:	:	:	:	:	:	:
Non-market related services	:	:	:	:	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:

Source: Ameco, Eurostat-National Account, ECB.

# 19. NETHERLANDS

Table 19.1: Main indicators - NL

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	16119	16107	16142	16180	16190	0.1	%
<b>2 Population (working age:15-64)</b>	10960	10943	10964	10986	10970	-0.1	%
as % of total population	68.0	67.9	67.9	67.9	67.8	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	8398	8414	8484	8622	8704	1.0	%
Male	4650	4618	4636	4680	4705	0.5	%
Female	3747	3796	3848	3942	3999	1.5	%
<b>4 Activity rate (as % of population 15-64)</b>	76.6	76.9	77.4	78.5	79.3	0.9	p.p.
Young (15-24)	71.6	71.0	70.8	72.7	73.2	0.4	p.p.
Prime age (25-54)	85.9	86.5	87.1	87.6	88.5	0.9	p.p.
Older (55-64)	46.9	48.1	49.6	52.8	54.7	2.0	p.p.
<b>Male</b>	83.9	83.7	83.9	84.6	85.3	0.7	p.p.
Young (15-24)	72.0	71.2	71.5	73.0	73.7	0.7	p.p.
Prime age (25-54)	93.7	93.8	94.1	94.0	94.5	0.5	p.p.
Older (55-64)	59.1	59.5	60.4	64.0	65.9	1.9	p.p.
<b>Female</b>	69.2	70.0	70.7	72.2	73.3	1.1	p.p.
Young (15-24)	71.1	70.8	70.1	72.4	72.6	0.2	p.p.
Prime age (25-54)	78.0	79.0	80.1	81.2	82.5	1.3	p.p.
Older (55-64)	34.4	36.5	38.6	41.4	43.5	2.1	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	73.1	73.2	74.3	76.0	77.2	1.2	p.p.
Young (15-24)	65.9	65.2	66.2	68.4	69.3	0.9	p.p.
Prime age (25-54)	82.5	82.9	84.2	85.4	86.8	1.3	p.p.
Older (55-64)	45.2	46.1	47.7	50.9	53.0	2.1	p.p.
<b>Male</b>	80.2	79.9	80.9	82.2	83.2	0.9	p.p.
Young (15-24)	66.3	65.5	67.2	68.9	69.8	0.8	p.p.
Prime age (25-54)	90.2	90.3	91.4	92.1	93.0	0.8	p.p.
Older (55-64)	56.9	56.9	58.0	61.5	63.7	2.1	p.p.
<b>Female</b>	65.8	66.4	67.7	69.6	71.1	1.5	p.p.
Young (15-24)	65.4	64.9	65.1	67.9	68.8	0.9	p.p.
Prime age (25-54)	74.6	75.5	77.0	78.7	80.5	1.8	p.p.
Older (55-64)	33.4	35.2	37.2	40.1	42.2	2.1	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	8013.9	8013.4	8152.0	8345.1	8467.6	122.5	Th.
Male (as % of total)	55.5	55.0	54.8	54.5	54.2	-0.3	p.p.
Female (as % of total)	44.5	45.0	45.2	45.5	45.8	0.3	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-0.9	0.5	1.7	2.6	1.4		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	-0.3	0.0	1.7	2.4	1.5		p.p.
Male	-0.7	-0.8	1.4	1.7	0.9		p.p.
Female	0.1	1.0	2.2	3.2	2.2		p.p.
<b>8 Self employed (% of total employment )</b>	7.3	7.5	7.8	8.1	8.4	0.3	p.p.
Male	8.1	8.4	8.8	9.2	9.5	0.2	p.p.
Female	6.4	6.5	6.7	6.8	7.2	0.4	p.p.
<b>9 Temporary employment (as % total)</b>	14.6	15.4	16.4	17.9	17.9	0.0	p.p.
Male	13.3	14.1	15.2	16.5	16.2	-0.3	p.p.
Female	16.3	16.9	17.9	19.6	19.8	0.3	p.p.
<b>10 Part-time (as % of total employment )</b>	45.1	45.7	45.8	46.3	46.8	0.5	p.p.
Male	21.5	21.8	22.1	22.5	22.8	0.3	p.p.
Female	74.6	75.0	74.5	74.8	75.2	0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	4.6	4.7	3.9	3.2	2.8	-0.4	p.p.
Young (15-24)	8.0	8.2	6.6	5.9	5.3	-0.7	p.p.
Prime age (25-54)	4.0	4.1	3.3	2.5	2.0	-0.5	p.p.
Older (55-64)	3.5	4.1	3.8	3.6	3.2	-0.4	p.p.
<b>Male</b>	4.3	4.5	3.5	2.8	2.5	-0.3	p.p.
Young (15-24)	7.9	8.0	6.1	5.6	5.4	-0.3	p.p.
Prime age (25-54)	3.7	3.8	2.9	2.0	1.7	-0.3	p.p.
Older (55-64)	3.8	4.4	4.1	3.9	3.4	-0.5	p.p.
<b>Female</b>	4.8	5.1	4.4	3.6	3.0	-0.6	p.p.
Young (15-24)	8.1	8.4	7.1	6.2	5.2	-1.1	p.p.
Prime age (25-54)	4.2	4.5	3.8	3.1	2.4	-0.6	p.p.
Older (55-64)	2.9	3.6	3.4	3.2	3.0	-0.3	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	34.1	40.3	42.9	39.4	34.3	-5.1	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	31.5	31.6	31.9	31.8	31.7	-0.3	%
Male	36.8	37.0	37.2	37.1	37.0	-0.3	%
Female	24.5	24.7	25.1	25.1	25.2	0.6	%
<b>14 Sectoral employment growth</b>							
Agriculture	-2.6	-1.9	-1.6	-1.1	-1.4		p.p.
Building and construction	-1.8	0.1	1.9	1.2	1.9		p.p.
Services	-0.4	1.0	2.1	3.2	1.6		p.p.
Manufacturing industry	-3.1	-2.1	:	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 19.2: **Indicator board on wage developments - NL**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.4	1.1	2.2	2.8	3.6	3.8	4.6	3.9	2.4
Compensation of employees per Hour Worked	3.2	1.3	2.1	3.0	3.6	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.4	1.3	2.7	3.0	3.7	3.4	4.2	4.9	:
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	0.2	-0.4	0.6	1.9	2.9	1.9	2.7	3.2	4.9
Real unit labour costs deflated by GDP deflator.	-0.5	-2.8	-1.1	0.4	0.2	-0.3	0.7	0.3	0.9
Wage and salaries	0.4	0.5	2.1	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	1.0	-0.3	0.8	1.6	3.5	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	66.7	65.0	64.5	64.7	64.4	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	23.5	23.1	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	76.5	76.9	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	66.3	66.6	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	38.8	38.9	44.4	44.0	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	35.9	35.9	41.5	40.9	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	21.4	21.0	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.1	2.1	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	3.1	1.5	1.6	0.8	0.7	1.9	1.9	0.6	-2.4
Hourly Labour Productivity	3.3	2.0	1.5	0.8	0.4	:	:	:	:
GDP	2.2	2.0	3.4	3.5	2.1	3.6	3.2	1.9	-0.7
ECFIN NAIRU estimate	2.9	3.1	3.2	3.5	3.7	:	:	:	:
Output gap (%)	-1.4	-0.9	0.7	2.4	2.7	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.4	1.5	1.7	1.6	2.2	1.9	2.0	2.9	2.0
Underlying inflation (exc. energy and unprocessed food)	1.3	0.6	0.8	1.3	1.8	1.6	1.6	1.9	2.1
GDP deflator	0.7	2.4	1.7	1.5	2.7	2.1	1.9	3.0	4.0
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-8.0	1.0	2.4	-0.9	3.4	3.7	8.0	4.8	4.5
Industry excluding construction	-3.0	-1.6	0.8	1.1	2.3	-0.6	0.3	3.2	8.6
of which: manufacturing	-2.4	-2.9	:	:	:	3.5	3.9	4.0	8.1
Construction	5.5	-1.6	1.7	-0.9	-1.2	-2.5	-0.9	-0.4	2.8
Trade, transport and communication	-0.9	-3.6	-2.0	0.8	4.2	1.8	3.5	3.9	5.7
Finance and business services	0.6	1.0	2.8	4.8	2.0	3.3	1.7	3.3	-0.7
Non-market related services	2.5	1.6	2.0	1.8	3.5	2.8	3.1	2.6	5.2
Market-related sectors	-0.7	-1.2	0.9	2.1	2.6	1.4	1.9	3.2	3.8
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	3.4	1.1	2.4	2.9	4.0	:	:	:	:
Agriculture and fishery	-0.1	2.4	2.2	1.6	5.1	7.1	7.0	8.5	3.9
Industry excluding construction	3.8	0.9	3.2	3.1	3.6	5.3	4.8	3.7	1.4
of which: manufacturing	4.3	1.2	:	:	:	5.3	4.6	3.7	1.0
Construction	4.3	1.5	2.3	3.6	4.3	5.3	6.2	4.8	3.0
Trade, transport and communication	3.7	1.0	2.7	2.3	3.5	2.4	3.2	4.0	2.7
Finance and business services	3.8	0.2	1.4	3.9	2.6	3.8	3.6	4.0	-0.6
Non-market related services	2.8	1.5	2.2	2.4	4.2	2.9	3.2	3.2	5.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	8.5	1.4	-0.1	2.5	1.7	3.3	-0.9	3.5	-0.5
Industry excluding construction	7.1	2.5	2.3	1.9	1.3	6.0	4.5	0.4	-6.6
of which: manufacturing	6.8	4.2	:	:	:	1.7	0.7	-0.3	-6.6
Construction	-1.1	3.1	0.6	4.5	5.5	8.1	7.1	5.3	0.2
Trade, transport and communication	4.6	4.7	4.8	1.5	-0.7	0.6	-0.2	0.0	-2.8
Finance and business services	3.2	-0.8	-1.4	-0.8	0.5	0.5	2.0	0.7	0.2
Non-market related services	0.3	-0.1	0.3	0.6	0.7	0.1	0.1	0.6	0.4
Market-related sectors	4.4	2.1	1.7	1.0	0.6	2.3	2.1	0.8	-2.5

Source: Ameco, Eurostat-National Account, ECB.

# 20. POLAND

Table 20.1: Main indicators - PL

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	31123	31258	37446	37277	37158	-0.3	%
<b>2 Population (working age:15-64)</b>	26142	26211	26325	26299	26266	-0.1	%
as % of total population	84.0	83.9	70.3	70.5	70.7	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	16727	16873	16679	16610	16765	0.9	%
Male	9077	9191	9127	9086	9170	0.9	%
Female	7651	7682	7552	7524	7595	0.9	%
<b>4 Activity rate (as % of population 15-64)</b>	64.0	64.4	63.4	63.2	63.8	0.7	p.p.
Young (15-24)	35.9	35.7	34.2	33.0	33.1	0.1	p.p.
Prime age (25-54)	81.9	82.5	81.7	81.7	82.5	0.7	p.p.
Older (55-64)	29.6	30.5	30.7	31.8	33.3	1.5	p.p.
<b>Male</b>	70.1	70.8	70.1	70.0	70.9	0.9	p.p.
Young (15-24)	39.7	39.5	37.5	36.5	36.5	0.0	p.p.
Prime age (25-54)	87.8	88.7	88.2	87.9	88.8	0.8	p.p.
Older (55-64)	39.1	40.9	42.6	44.7	46.8	2.0	p.p.
<b>Female</b>	57.9	58.1	56.8	56.5	57.0	0.5	p.p.
Young (15-24)	32.0	31.8	30.7	29.3	29.6	0.2	p.p.
Prime age (25-54)	76.0	76.4	75.4	75.6	76.3	0.6	p.p.
Older (55-64)	21.4	21.5	20.3	20.6	21.6	1.0	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	51.7	52.8	54.5	57.0	59.2	2.2	p.p.
Young (15-24)	21.7	22.5	24.0	25.8	27.3	1.5	p.p.
Prime age (25-54)	68.2	69.6	71.8	74.9	77.5	2.5	p.p.
Older (55-64)	26.2	27.2	28.1	29.7	31.6	1.9	p.p.
<b>Male</b>	57.2	58.9	60.9	63.6	66.3	2.7	p.p.
Young (15-24)	24.8	25.4	26.9	29.2	31.0	1.7	p.p.
Prime age (25-54)	73.9	76.1	78.3	81.1	84.0	2.8	p.p.
Older (55-64)	34.1	35.9	38.4	41.4	44.1	2.6	p.p.
<b>Female</b>	46.2	46.8	48.2	50.6	52.4	1.8	p.p.
Young (15-24)	18.6	19.6	21.0	22.4	23.7	1.3	p.p.
Prime age (25-54)	62.6	63.1	65.3	68.8	71.0	2.3	p.p.
Older (55-64)	19.4	19.7	19.0	19.4	20.7	1.3	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	13503.5	13834.2	14338.5	14996.5	15557.4	561.0	Th.
Male (as % of total)	54.8	55.2	55.3	55.1	55.1	0.0	p.p.
Female (as % of total)	45.2	44.8	44.7	44.9	44.9	0.0	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	1.3	2.3	3.3	4.1	4.0		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	1.3	2.4	3.6	4.6	3.7		p.p.
Male	1.8	3.3	3.7	4.2	3.8		p.p.
Female	0.8	1.4	3.6	5.1	3.7		p.p.
<b>8 Self employed (% of total employment )</b>	16.7	16.0	15.3	14.7	14.3	-0.4	p.p.
Male	19.3	18.6	17.9	17.2	16.7	-0.5	p.p.
Female	13.5	12.8	12.2	11.7	11.4	-0.3	p.p.
<b>9 Temporary employment (as % total)</b>	22.6	25.6	27.2	28.2	26.9	-1.3	p.p.
Male	23.6	26.4	28.4	28.4	26.2	-2.2	p.p.
Female	21.5	24.6	25.9	27.9	27.6	-0.3	p.p.
<b>10 Part-time (as % of total employment )</b>	9.8	9.8	8.9	8.5	7.7	-0.7	p.p.
Male	7.2	7.0	6.2	5.8	5.1	-0.7	p.p.
Female	12.9	13.3	12.2	11.7	10.9	-0.8	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	19.0	17.8	13.9	9.6	7.1	-2.5	p.p.
Young (15-24)	39.5	36.9	29.8	21.7	17.3	-4.4	p.p.
Prime age (25-54)	16.7	15.7	12.2	8.4	6.1	-2.3	p.p.
Older (55-64)	11.4	10.8	8.5	6.8	5.3	-1.5	p.p.
<b>Male</b>	18.2	16.6	13.0	9.0	6.4	-2.6	p.p.
Young (15-24)	37.7	35.7	28.3	20.0	15.2	-4.7	p.p.
Prime age (25-54)	15.8	14.3	11.2	7.7	5.4	-2.3	p.p.
Older (55-64)	12.6	12.2	9.8	7.4	5.8	-1.6	p.p.
<b>Female</b>	20.0	19.2	14.9	10.4	8.0	-2.4	p.p.
Young (15-24)	42.0	38.3	31.6	23.8	19.9	-3.9	p.p.
Prime age (25-54)	17.7	17.4	13.4	9.0	6.8	-2.2	p.p.
Older (55-64)	9.4	8.4	6.2	5.7	4.4	-1.4	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	54.1	57.7	56.2	51.2	33.5	-17.7	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	40.4	40.3	40.3	40.3	40.1	-0.6	%
Male	42.7	42.5	42.5	42.4	42.1	-0.7	%
Female	37.5	37.4	37.5	37.6	37.5	-0.3	%
<b>14 Sectoral employment growth</b>							
Agriculture	1.3	2.3	3.3	:	:		p.p.
Building and construction	1.3	2.3	3.2	:	:		p.p.
Services	1.3	2.3	3.3	:	:		p.p.
Manufacturing industry	2.1	3.2	3.3	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 20.2: **Indicator board on wage developments - PL**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	1.8	1.5	1.8	3.7	7.6	5.9	6.7	6.5	11.5
Compensation of employees per Hour Worked	2.6	2.3	3.9	5.7	8.1	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.4	3.8	5.8	11.2	10.9	13.2	10.2	9.4	10.0
Negotiated wages (Euro-area only)									
Nominal Unit labour costs	-2.1	0.3	-1.1	1.2	6.6	4.2	4.4	4.7	12.1
Real unit labour costs deflated by GDP deflator.	-6.0	-2.3	-2.5	-2.7	3.5	0.4	0.7	2.3	9.4
Wage and salaries	4.5	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	56.0	55.3	54.2	52.8	54.8	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	19.8	19.8	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	80.2	80.2	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	74.2	74.2	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	43.3	43.6	43.7	42.8	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	43.3	43.6	43.7	39.7	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	16.6	16.6	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	3.3	3.3	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	4.0	1.3	2.9	2.4	0.9	1.7	2.2	1.8	-0.6
Hourly Labour Productivity	4.0	0.7	3.2	2.6	1.0	:	:	:	:
GDP	5.3	3.6	6.2	6.6	5.0	6.3	5.8	5.5	2.4
ECFIN NAIRU estimate	17.4	16.2	14.4	12.6	11.0	:	:	:	:
Output gap (%)	0.6	0.1	1.7	3.4	3.5	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	3.6	2.2	1.3	2.6	4.2	4.5	4.3	4.4	3.6
Underlying inflation (exc. energy and unprocessed food)	2.8	1.2	0.6	2.0	3.6	3.7	3.8	3.7	3.1
GDP deflator	4.1	2.6	1.5	4.0	3.1	3.8	3.7	2.4	2.4
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-7.7	16.5	-6.0	-0.9	:	32.9	21.8	31.6	-10.3
Industry excluding construction	-7.2	13.0	0.0	3.1	:	11.7	11.8	19.5	10.8
of which: manufacturing	-6.7	-1.7	-8.4	:	:	12.9	10.5	18.8	9.5
Construction	-2.7	12.9	1.5	3.6	:	25.3	17.2	22.6	15.1
Trade, transport and communication	-8.1	12.7	5.1	2.9	:	9.9	16.2	20.0	6.5
Finance and business services	1.6	9.9	9.2	11.1	:	19.0	20.0	18.9	5.0
Non-market related services	-0.2	18.0	7.1	9.9	:	21.7	23.1	22.7	11.9
Market-related sectors	-6.0	11.1	1.5	4.1	:	12.7	14.6	18.3	7.3
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	-1.0	14.5	5.1	6.8	16.0	:	:	:	:
Agriculture and fishery	-0.4	16.9	-1.9	2.1	:	23.5	28.2	36.1	8.4
Industry excluding construction	-0.5	13.6	4.9	5.5	:	11.9	16.3	20.6	8.9
of which: manufacturing	3.0	-0.8	3.0	:	:	13.0	17.1	20.3	8.5
Construction	1.0	14.8	3.8	5.2	:	8.8	17.7	25.1	9.3
Trade, transport and communication	-4.8	14.0	6.0	3.6	:	13.2	14.5	20.3	5.7
Finance and business services	-4.1	10.2	10.6	3.5	:	12.3	7.9	19.2	6.4
Non-market related services	1.5	16.8	3.5	12.8	:	15.1	21.0	24.7	15.3
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	8.0	0.4	4.4	3.1	:	-7.1	5.3	3.4	20.9
Industry excluding construction	7.2	0.6	4.8	2.3	:	0.2	4.1	0.9	-1.6
of which: manufacturing	10.4	0.9	12.5	:	:	0.1	6.0	1.3	-0.9
Construction	3.9	1.7	2.2	1.6	:	-13.2	0.4	2.1	-5.0
Trade, transport and communication	3.6	1.2	0.8	0.7	:	3.0	-1.4	0.3	-0.8
Finance and business services	-5.6	0.3	1.3	-6.9	:	-5.6	-10.1	0.3	1.3
Non-market related services	1.7	-1.0	-3.3	2.6	:	-5.4	-1.7	1.6	3.1
Market-related sectors	4.3	1.6	4.2	1.6	:	-0.4	0.2	2.4	0.2

Source: Ameco, Eurostat-National Account, ECB.



# 21. PORTUGAL

Table 21.1: Main indicators - PT

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	10504	10563	10586	10604	10623	0.2	%
<b>2 Population (working age:15-64)</b>	7084	7114	7116	7135	7145	0.1	%
as % of total population	67.4	67.4	67.2	67.3	67.3	0.0	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	5170	5222	5258	5284	5299	0.3	%
Male	2768	2778	2796	2801	2811	0.4	%
Female	2403	2443	2462	2484	2488	0.2	%
<b>4 Activity rate (as % of population 15-64)</b>	73.0	73.4	73.9	74.1	74.2	0.1	p.p.
Young (15-24)	43.8	43.0	42.7	41.9	41.6	-0.3	p.p.
Prime age (25-54)	86.3	87.1	87.7	87.8	88.0	0.2	p.p.
Older (55-64)	53.2	53.8	53.5	54.4	54.4	-0.1	p.p.
<b>Male</b>	79.1	79.0	79.5	79.4	79.5	0.1	p.p.
Young (15-24)	47.9	47.0	46.6	45.3	44.4	-0.8	p.p.
Prime age (25-54)	92.2	92.4	92.9	92.8	93.2	0.3	p.p.
Older (55-64)	62.8	62.4	62.7	63.0	63.0	0.0	p.p.
<b>Female</b>	67.0	67.9	68.4	68.8	68.9	0.1	p.p.
Young (15-24)	39.5	38.8	38.7	38.4	38.6	0.2	p.p.
Prime age (25-54)	80.6	81.8	82.7	82.8	82.9	0.1	p.p.
Older (55-64)	44.8	46.1	45.1	46.7	46.6	-0.1	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	67.8	67.5	67.9	67.8	68.2	0.4	p.p.
Young (15-24)	37.1	36.1	35.8	34.9	34.7	-0.2	p.p.
Prime age (25-54)	81.1	80.8	81.3	81.0	81.6	0.7	p.p.
Older (55-64)	50.3	50.5	50.1	50.9	50.8	-0.1	p.p.
<b>Male</b>	74.2	73.4	73.9	73.8	74.0	0.2	p.p.
Young (15-24)	41.5	40.5	39.8	39.1	38.5	-0.6	p.p.
Prime age (25-54)	87.4	86.7	87.4	87.2	87.6	0.4	p.p.
Older (55-64)	59.1	58.1	58.2	58.6	58.4	-0.1	p.p.
<b>Female</b>	61.7	61.7	62.0	61.9	62.5	0.6	p.p.
Young (15-24)	32.5	31.4	31.6	30.6	30.8	0.2	p.p.
Prime age (25-54)	74.9	74.9	75.3	74.9	75.8	0.9	p.p.
Older (55-64)	42.5	43.7	42.8	44.0	43.9	-0.1	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	4806.3	4800.0	4830.3	4836.6	4872.2	35.6	Th.
Male (as % of total)	54.0	53.8	53.9	53.9	53.7	-0.1	p.p.
Female (as % of total)	46.0	46.2	46.2	46.1	46.3	0.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-0.1	-0.3	0.5	0.0	0.4		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	0.3	-0.1	0.6	0.1	0.7		p.p.
Male	-0.1	-0.6	0.8	0.1	0.5		p.p.
Female	0.8	0.4	0.4	0.1	1.0		p.p.
<b>8 Self employed (% of total employment )</b>	14.4	14.1	13.6	13.5	13.3	-0.2	p.p.
Male	14.1	13.5	13.2	13.6	13.0	-0.6	p.p.
Female	14.7	14.7	14.0	13.4	13.6	0.2	p.p.
<b>9 Temporary employment (as % total)</b>	19.9	19.6	20.6	22.4	22.9	0.5	p.p.
Male	18.7	18.7	19.6	21.8	21.7	-0.1	p.p.
Female	21.2	20.5	21.7	23.1	24.3	1.2	p.p.
<b>10 Part-time (as % of total employment )</b>	8.2	8.2	8.1	8.8	8.6	-0.1	p.p.
Male	3.9	3.8	4.1	4.7	4.1	-0.6	p.p.
Female	13.2	13.2	12.7	13.6	13.9	0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	6.7	7.7	7.8	8.1	7.7	-0.4	p.p.
Young (15-24)	15.3	16.1	16.3	16.6	16.4	-0.1	p.p.
Prime age (25-54)	6.1	7.3	7.3	7.8	7.3	-0.5	p.p.
Older (55-64)	5.6	6.2	6.3	6.5	6.6	0.1	p.p.
<b>Male</b>	5.9	6.8	6.6	6.7	6.6	-0.1	p.p.
Young (15-24)	13.5	13.6	14.5	13.5	13.3	-0.2	p.p.
Prime age (25-54)	5.1	6.2	5.8	6.1	6.0	-0.1	p.p.
Older (55-64)	5.9	6.9	7.3	7.1	7.3	0.1	p.p.
<b>Female</b>	7.7	8.8	9.1	9.7	9.0	-0.7	p.p.
Young (15-24)	17.6	19.1	18.4	20.3	20.2	-0.1	p.p.
Prime age (25-54)	7.1	8.4	9.0	9.6	8.6	-1.0	p.p.
Older (55-64)	5.1	5.3	5.2	5.8	5.8	0.0	p.p.
<b>12 Long-term unemployment rate</b> (as % of total unemployment)	44.2	48.1	50.2	47.1	47.4	0.3	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	38.4	38.4	38.3	38.0	37.9	-0.1	%
Male	40.2	40.2	40.0	39.6	39.7	0.2	%
Female	36.1	36.3	36.3	36.0	35.8	-0.4	%
<b>14 Sectoral employment growth</b>							
Agriculture	-3.9	-1.6	0.0	0.4	-0.9		p.p.
Building and construction	-1.5	-3.9	-2.1	2.0	-2.9		p.p.
Services	1.9	1.4	1.6	0.6	2.0		p.p.
Manufacturing industry	-2.5	-2.9	-1.3	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 21.2: **Indicator board on wage developments - PT**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	2.6	4.7	2.1	3.3	3.1	:	:	:	:
Compensation of employees per Hour Worked	2.3	5.9	2.3	4.9	3.6	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.3	2.0	1.7	3.9	4.3	3.5	3.3	5.2	4.6
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	1.0	3.4	1.3	1.4	3.6	:	:	:	:
Real unit labour costs deflated by GDP deflator.	-1.4	0.8	-1.5	-1.6	1.7	:	:	:	:
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	1.8	4.2	1.7	2.0	4.0	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	70.6	71.8	71.3	70.1	70.7	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	22.5	22.5	22.5	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	77.5	77.5	77.5	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	71.6	71.6	71.6	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	37.1	36.5	36.5	37.4	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	34.5	34.0	34.0	35.1	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	21.2	21.2	21.2	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	1.3	1.3	1.3	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.6	1.2	0.9	1.9	-0.4	-0.4	-0.8	0.5	-1.5
Hourly Labour Productivity	0.4	1.9	0.5	3.7	-0.4	:	:	:	:
GDP	1.5	0.9	1.4	1.9	0.0	0.6	0.6	0.4	-1.7
ECFIN NAIRU estimate	6.1	6.7	7.2	7.8	8.2	:	:	:	:
Output gap (%)	-1.1	-0.9	-0.2	1.3	0.8	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.5	2.1	3.0	2.4	2.7	3.0	2.9	3.1	1.6
Underlying inflation (exc. energy and unprocessed food)	2.6	1.7	2.4	2.2	2.5	2.8	2.4	2.5	2.2
GDP deflator	2.4	2.5	2.8	3.0	1.8	2.1	1.9	2.2	1.4
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	:	:	-2.4	:	:	:	:	:	:
Industry excluding construction	:	:	0.8	:	:	:	:	:	:
of which: manufacturing	0.4	2.1	1.2	:	:	:	:	:	:
Construction	:	:	4.8	:	:	:	:	:	:
Trade, transport and communication	:	:	2.3	:	:	:	:	:	:
Finance and business services	:	:	2.3	:	:	:	:	:	:
Non-market related services	:	:	0.9	:	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	2.6	4.7	2.1	3.4	3.1	:	:	:	:
Agriculture and fishery	:	:	0.0	:	:	:	:	:	:
Industry excluding construction	:	:	4.3	:	:	:	:	:	:
of which: manufacturing	3.3	4.1	4.2	:	:	:	:	:	:
Construction	:	:	3.4	:	:	:	:	:	:
Trade, transport and communication	:	:	2.3	:	:	:	:	:	:
Finance and business services	:	:	2.4	:	:	:	:	:	:
Non-market related services	:	:	0.6	:	:	:	:	:	:
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	10.1	-4.0	2.5	-3.9	5.2	3.4	6.0	7.0	4.9
Industry excluding construction	3.3	1.7	3.4	4.6	-0.1	1.2	0.1	1.9	-3.4
of which: manufacturing	2.8	2.0	3.0	:	:	:	:	:	:
Construction	1.3	0.8	-1.3	-0.4	-2.4	-3.5	-0.3	-1.0	-4.9
Trade, transport and communication	0.9	0.2	0.0	2.6	-2.3	-0.9	-3.1	-2.0	-3.0
Finance and business services	-1.0	-0.8	0.1	-0.8	0.1	-1.7	1.6	0.3	0.6
Non-market related services	0.1	1.0	-0.3	1.6	0.0	0.1	-0.8	1.4	-0.5
Market-related sectors	2.3	1.1	1.5	2.3	-0.2	0.2	-0.1	0.7	-1.3

Source: Ameco, Eurostat-National Account, ECB.

# 22. ROMANIA

Table 22.1: Main indicators - RO

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	21638	21609	21575	21551	21517	-0.2	%
<b>2 Population (working age:15-64)</b>	14964	15021	15035	15046	15042	0.0	%
as % of total population	69.2	69.5	69.7	69.8	69.9	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	9434	9355	9566	9483	9457	-0.3	%
Male	5195	5180	5287	5261	5294	0.6	%
Female	4239	4176	4278	4222	4164	-1.4	%
<b>4 Activity rate (as % of population 15-64)</b>	63.0	62.3	63.6	63.0	62.9	-0.2	p.p.
Young (15-24)	35.8	31.2	30.6	30.5	30.4	-0.1	p.p.
Prime age (25-54)	78.3	78.2	79.9	79.0	78.3	-0.7	p.p.
Older (55-64)	37.9	40.4	42.8	42.4	44.2	1.8	p.p.
<b>Male</b>	70.0	69.4	70.7	70.1	70.6	0.4	p.p.
Young (15-24)	40.5	35.9	35.1	35.9	35.9	0.0	p.p.
Prime age (25-54)	85.7	85.8	87.1	85.9	85.8	-0.1	p.p.
Older (55-64)	44.9	48.4	52.0	52.1	55.1	3.0	p.p.
<b>Female</b>	56.2	55.3	56.6	56.0	55.2	-0.7	p.p.
Young (15-24)	31.0	26.5	25.9	24.9	24.7	-0.2	p.p.
Prime age (25-54)	70.9	70.7	72.6	72.0	70.7	-1.3	p.p.
Older (55-64)	31.9	33.5	34.8	33.9	34.7	0.8	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	57.7	57.6	58.8	58.8	59.0	0.3	p.p.
Young (15-24)	27.9	24.9	24.0	24.4	24.8	0.4	p.p.
Prime age (25-54)	72.9	73.3	74.7	74.6	74.4	-0.2	p.p.
Older (55-64)	36.9	39.4	41.7	41.4	43.1	1.7	p.p.
<b>Male</b>	63.4	63.7	64.6	64.8	65.7	0.8	p.p.
Young (15-24)	30.7	28.2	27.3	28.3	29.1	0.8	p.p.
Prime age (25-54)	79.2	80.0	80.8	80.6	80.9	0.3	p.p.
Older (55-64)	43.1	46.7	50.0	50.3	53.0	2.7	p.p.
<b>Female</b>	52.1	51.5	53.0	52.8	52.5	-0.3	p.p.
Young (15-24)	25.1	21.6	20.6	20.2	20.2	-0.1	p.p.
Prime age (25-54)	66.6	66.5	68.6	68.5	67.8	-0.6	p.p.
Older (55-64)	31.4	33.1	34.5	33.6	34.4	0.8	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	8635.0	8651.3	8837.6	8842.5	8882.2	39.8	Th.
Male (as % of total)	54.5	55.0	54.7	55.0	55.4	0.5	p.p.
Female (as % of total)	45.5	45.0	45.3	45.0	44.6	-0.5	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-1.7	-1.5	0.7	0.4	0.3		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	0.4	0.2	2.2	0.1	0.4		p.p.
Male	-0.3	1.2	1.6	0.6	1.3		p.p.
Female	1.2	-1.0	2.9	-0.6	-0.6		p.p.
<b>8 Self employed (% of total employment )</b>	16.0	17.2	16.6	17.0	16.8	-0.2	p.p.
Male	21.4	22.7	22.0	22.2	21.9	-0.4	p.p.
Female	9.6	10.5	10.1	10.6	10.6	-0.1	p.p.
<b>9 Temporary employment (as % total)</b>	2.5	2.4	1.8	1.6	1.3	-0.4	p.p.
Male	2.9	2.8	2.0	1.7	1.3	-0.4	p.p.
Female	2.1	1.9	1.6	1.5	1.1	-0.4	p.p.
<b>10 Part-time (as % of total employment )</b>	9.5	9.2	8.6	8.6	8.6	0.0	p.p.
Male	9.3	9.1	8.7	8.3	8.1	-0.3	p.p.
Female	9.8	9.2	8.5	8.9	9.3	0.3	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	8.1	7.2	7.3	6.4	5.8	-0.6	p.p.
Young (15-24)	21.9	20.2	21.4	20.1	18.6	-1.6	p.p.
Prime age (25-54)	6.9	6.4	6.4	5.6	5.0	-0.6	p.p.
Older (55-64)	2.8	2.5	2.6	2.3	2.5	0.2	p.p.
<b>Male</b>	9.1	7.8	8.2	7.2	6.7	-0.5	p.p.
Young (15-24)	24.2	21.5	22.3	21.1	18.8	-2.3	p.p.
Prime age (25-54)	7.6	6.7	7.2	6.2	5.8	-0.4	p.p.
Older (55-64)	4.0	3.4	3.8	3.5	3.8	0.3	p.p.
<b>Female</b>	6.9	6.4	6.1	5.4	4.7	-0.7	p.p.
Young (15-24)	18.9	18.4	20.2	18.7	18.3	-0.5	p.p.
Prime age (25-54)	6.2	6.0	5.5	4.9	4.0	-0.9	p.p.
Older (55-64)	1.3	1.2	0.9	0.7	0.7	0.0	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	58.9	56.7	57.7	49.9	41.3	-8.6	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	40.0	40.1	39.8	39.7	39.6	-0.4	%
Male	41.0	41.0	40.7	40.7	40.5	-0.4	%
Female	38.7	39.0	38.8	38.6	38.4	-0.6	%
<b>14 Sectoral employment growth</b>							
Agriculture	-13.1	-1.5	-7.5	:	:		p.p.
Building and construction	11.2	5.8	8.1	:	:		p.p.
Services	6.6	0.0	5.6	:	:		p.p.
Manufacturing industry	2.7	-5.2	3.0	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 22.2: **Indicator board on wage developments - RO**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	13.7	28.6	12.4	22.4	22.0	:	:	:	:
Compensation of employees per Hour Worked	24.9	25.1	15.2	:	:	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	16.1	14.6	19.0	21.1	21.4	19.2	22.5	21.6	21.2
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	3.1	21.6	4.9	15.7	14.3	:	:	:	:
Real unit labour costs deflated by GDP deflator.	-10.8	8.4	-5.1	2.6	0.2	:	:	:	:
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	60.4	66.4	62.7	64.6	64.5	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	26.0	26.5	28.0	26.5	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	74.0	73.5	72.1	73.5	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	66.8	66.4	65.2	66.5	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	45.8	44.0	43.7	43.4	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	41.7	40.9	40.9	39.9	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	23.1	25.0	26.1	24.9	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.9	1.5	1.8	1.6	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	10.3	5.8	7.1	5.8	6.8	8.1	8.8	10.0	2.2
Hourly Labour Productivity	9.8	5.4	6.2	:	:	:	:	:	:
GDP	8.5	4.2	7.9	6.2	7.1	8.2	9.3	9.2	2.9
ECFIN NAIRU estimate	6.8	6.9	6.9	7.0	7.0	:	:	:	:
Output gap (%)	2.2	2.1	5.4	6.6	8.5	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	11.9	9.1	6.6	4.9	7.9	8.0	8.6	8.2	6.9
Underlying inflation (exc. energy and unprocessed food)	12.2	6.3	5.8	5.5	7.6	7.8	8.3	7.6	6.6
GDP deflator	15.5	12.2	10.6	12.7	14.0	14.9	14.3	13.4	14.1
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-50.5	110.8	20.7	:	:	:	:	:	:
Industry excluding construction	3.3	34.9	6.9	:	:	:	:	:	:
of which: manufacturing	10.1	20.2	3.6	:	:	:	:	:	:
Construction	17.4	29.6	-3.5	:	:	:	:	:	:
Trade, transport and communication	-1.1	25.6	3.8	:	:	:	:	:	:
Finance and business services	16.8	26.4	16.3	:	:	:	:	:	:
Non-market related services	15.1	36.1	38.5	:	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	5.4	43.8	15.5	29.5	10.6	:	:	:	:
Agriculture and fishery	-32.4	77.2	34.9	:	:	:	:	:	:
Industry excluding construction	8.6	46.0	11.6	:	:	:	:	:	:
of which: manufacturing	17.3	31.4	8.4	:	:	:	:	:	:
Construction	15.4	36.3	10.0	:	:	:	:	:	:
Trade, transport and communication	2.7	40.2	11.4	:	:	:	:	:	:
Finance and business services	4.2	39.7	22.4	:	:	:	:	:	:
Non-market related services	9.0	40.1	20.5	:	:	:	:	:	:
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	36.6	-15.9	11.8	:	:	:	:	:	:
Industry excluding construction	5.2	8.2	4.4	:	:	:	:	:	:
of which: manufacturing	6.5	9.3	4.7	:	:	:	:	:	:
Construction	-1.7	5.2	14.0	:	:	:	:	:	:
Trade, transport and communication	3.9	11.6	7.3	:	:	:	:	:	:
Finance and business services	-10.8	10.5	5.2	:	:	:	:	:	:
Non-market related services	-5.3	2.9	-13.0	:	:	:	:	:	:
Market-related sectors	13.4	5.8	10.8	:	:	:	:	:	:

Source: Ameco, Eurostat-National Account, ECB.

# 23. SLOVAKIA

Table 23.1: Main indicators - SK

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	5370	5379	5389	5391	5396	0,1	%
<b>2 Population (working age:15-64)</b>	3792	3824	3862	3873	3892	0,5	%
as % of total population	71	71	72	72	72	0,3	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	2642	2636	2650	2646	2679	1,2	%
Male	1437	1452	1468	1464	1481	1,2	%
Female	1205	1184	1182	1182	1197	1,3	%
<b>4 Activity rate (as % of population 15-64)</b>	70	69	69	68	69	0,5	p.p.
Young (15-24)	39	37	35	35	32	-2,2	p.p.
Prime age (25-54)	89	88	88	87	88	0,9	p.p.
Older (55-64)	32	35	37	39	42	3,1	p.p.
<b>Male</b>	77	76	76	76	76	0,4	p.p.
Young (15-24)	43	41	40	39	38	-1,0	p.p.
Prime age (25-54)	94	94	94	93	93	0,3	p.p.
Older (55-64)	52	55	55	57	60	2,9	p.p.
<b>Female</b>	63	62	61	61	61	0,6	p.p.
Young (15-24)	36	32	31	30	27	-3,5	p.p.
Prime age (25-54)	84	82	81	81	82	1,4	p.p.
Older (55-64)	15	18	21	23	26	3,2	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	57	58	59	61	62	1,6	p.p.
Young (15-24)	26	26	26	28	26	-1,3	p.p.
Prime age (25-54)	75	75	77	78	80	2,1	p.p.
Older (55-64)	27	30	33	36	39	3,6	p.p.
<b>Male</b>	63	65	67	68	70	1,6	p.p.
Young (15-24)	28	28	29	31	31	-0,1	p.p.
Prime age (25-54)	80	81	84	85	86	1,4	p.p.
Older (55-64)	44	48	50	53	57	4,1	p.p.
<b>Female</b>	51	51	52	53	55	1,6	p.p.
Young (15-24)	25	23	23	24	21	-2,7	p.p.
Prime age (25-54)	69	69	70	71	74	2,8	p.p.
Older (55-64)	13	16	19	21	24	3,0	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	2160	2207	2295	2350	2423	73,0	Th.
Male (as % of total)	55	56	56	56	56	-0,1	p.p.
Female (as % of total)	45	44	44	44	44	0,1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0	1	2	2	3		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	0	2	4	2	3		p.p.
Male	1	3	5	2	3		p.p.
Female	-1	1	3	2	3		p.p.
<b>8 Self employed (% of total employment )</b>	9	9	9	10	10	0,8	p.p.
Male	11	13	13	13	14	0,8	p.p.
Female	5	5	5	5	6	0,7	p.p.
<b>9 Temporary employment (as % total)</b>	5	5	5	5	5	-0,5	p.p.
Male	6	5	5	5	4	-0,5	p.p.
Female	5	5	5	5	5	-0,4	p.p.
<b>10 Part-time (as % of total employment )</b>	3	2	3	2	3	0,1	p.p.
Male	1	1	1	1	1	0,3	p.p.
Female	4	4	5	4	4	-0,2	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	18	16	13	11	10	-1,6	p.p.
Young (15-24)	33	30	27	20	19	-1,3	p.p.
Prime age (25-54)	16	14	12	10	9	-1,5	p.p.
Older (55-64)	15	13	10	8	6	-1,8	p.p.
Male	17	16	12	10	8	-1,5	p.p.
Young (15-24)	35	31	26	20	18	-1,9	p.p.
Prime age (25-54)	15	13	10	9	7	-1,2	p.p.
Older (55-64)	16	13	10	8	5	-2,4	p.p.
Female	19	17	15	13	11	-1,8	p.p.
Young (15-24)	31	29	27	20	20	-0,4	p.p.
Prime age (25-54)	18	16	14	12	10	-1,8	p.p.
Older (55-64)	15	14	10	9	8	-0,6	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	65	72	76	74	69	-5,0	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	41	41	40	40	40	-1,1	%
Male	42	42	41	42	41	-1,4	%
Female	39	40	39	39	38	-0,8	%
<b>14 Sectoral employment growth</b>							
Agriculture	1	-2	-7	-6	6		p.p.
Building and construction	4	3	5	7	10		p.p.
Services	0	3	3	2	4		p.p.
Manufacturing industry	-1	-1	1	3	3		p.p.

Source: Eurostat, labour force survey

Source: Eurostat, Labour Force Survey.

Table 23.2: **Indicator board on wage developments - SK**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	8,5	9,7	7,6	8,8	8,7	11,0	10,5	7,9	5,6
Compensation of employees per Hour Worked	2,5	6,7	7,3	8,3	8,6	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	5,8	8,5	7,4	7,3	5,8	5,5	7,6	5,3	5,1
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	2,9	4,3	1,5	0,6	5,2	4,4	5,3	5,8	5,9
Real unit labour costs deflated by GDP deflator.	-2,8	1,9	-1,4	-0,5	2,2	1,0	2,1	2,8	3,7
Wage and salaries	9,2	8,3	11,9	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	46,7	48,0	46,7	46,6	47,1	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	5,4	5,1	6,1	8,1	3,3	6,4	4,9	2,0	-0,3
Hourly Labour Productivity	2,0	3,0	5,8	7,9	3,9	:	:	:	:
GDP	5,2	6,5	8,5	10,4	6,4	9,3	7,9	6,6	2,5
ECFIN NAIRU estimate	16,7	15,5	14,2	13,1	12,3	:	:	:	:
Output gap (%)	-1,6	-0,7	1,8	6,5	8,0	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	7,5	2,8	4,3	1,9	3,9	3,4	4,0	4,5	3,9
Underlying inflation (exc. energy and unprocessed food)	6,5	1,7	2,1	1,9	3,9	3,5	4,0	4,2	3,9
GDP deflator	5,9	2,4	2,9	1,1	2,9	3,3	3,1	3,0	2,1
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	10,3	11,8	-6,3	9,4	8,5	-1,8	21,4	14,5	3,4
Industry excluding construction	-7,2	2,0	-0,4	9,1	23,4	5,7	14,4	35,5	42,6
of which: manufacturing	-11,2	-4,7	-0,5	-6,4	12,0	3,1	9,7	35,7	40,2
Construction	15,7	-7,3	0,9	15,9	-0,8	-4,0	4,5	6,5	-7,3
Trade, transport and communication	9,5	12,5	10,7	8,9	4,5	1,5	10,3	5,2	2,6
Finance and business services	24,8	22,5	-2,7	23,3	11,7	13,3	11,4	12,3	10,9
Non-market related services	16,3	11,3	10,9	7,0	14,9	16,4	13,2	15,8	15,1
Market-related sectors	5,2	8,1	2,0	12,0	:	4,9	12,5	19,7	19,1
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	12,4	13,7	11,6	19,9	17,7	:	:	:	:
Agriculture and fishery	7,5	17,6	12,2	28,6	14,2	3,6	16,2	20,2	17,9
Industry excluding construction	10,6	11,4	15,3	20,5	17,0	14,1	19,2	20,9	15,3
of which: manufacturing	6,2	7,9	11,3	8,6	7,8	14,3	19,3	21,7	15,9
Construction	20,4	9,1	16,1	16,1	5,0	-2,8	4,8	6,0	9,3
Trade, transport and communication	14,3	14,2	5,2	18,3	16,5	11,7	17,8	20,3	17,1
Finance and business services	14,1	12,1	8,8	30,3	17,5	15,8	16,0	21,2	18,0
Non-market related services	10,1	16,4	13,0	16,0	23,7	26,1	24,5	25,1	20,5
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	-2,5	5,2	19,7	17,5	5,2	5,5	-4,2	5,0	14,0
Industry excluding construction	19,1	9,2	15,8	10,4	-5,2	7,9	4,2	-10,8	-19,2
of which: manufacturing	19,6	13,2	11,9	16,0	-3,8	10,8	8,8	-10,3	-17,4
Construction	4,1	17,7	15,1	0,2	5,9	1,2	0,3	-0,4	18,0
Trade, transport and communication	4,3	1,5	-5,0	8,7	11,5	10,1	6,8	14,4	14,1
Finance and business services	-8,6	-8,4	11,7	5,7	5,2	2,2	4,2	7,9	6,5
Non-market related services	-5,3	4,6	1,9	8,4	7,7	8,4	10,0	8,0	4,7
Market-related sectors	7,7	4,2	9,1	8,2	1,6	6,6	3,8	-0,1	-2,7

Source: Ameco, Eurostat-National Account, ECB.

# 24. SLOVENIA

Table 24.1: Main indicators - SI

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	1997	1999	2006	2015	2033	0.9	%
<b>2 Population (working age:15-64)</b>	1405	1402	1407	1412	1422	0.7	%
as % of total population	70.4	70.1	70.1	70.1	70.0	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	981	991	997	1007	1021	1.4	%
Male	530	535	537	547	554	1.4	%
Female	450	456	461	460	466	1.4	%
<b>4 Activity rate (as % of population 15-64)</b>	69.8	70.7	70.9	71.3	71.8	0.5	p.p.
Young (15-24)	40.4	40.5	40.6	41.8	42.9	1.0	p.p.
Prime age (25-54)	88.6	88.8	89.0	89.3	90.1	0.8	p.p.
Older (55-64)	29.9	32.1	33.4	34.6	34.2	-0.4	p.p.
<b>Male</b>	74.5	75.1	74.9	75.8	75.8	0.0	p.p.
Young (15-24)	45.1	44.5	44.4	47.6	47.7	0.1	p.p.
Prime age (25-54)	91.0	91.1	91.0	91.3	91.6	0.3	p.p.
Older (55-64)	42.5	45.4	45.8	46.7	46.4	-0.3	p.p.
<b>Female</b>	65.0	66.1	66.7	66.6	67.5	0.9	p.p.
Young (15-24)	35.3	36.3	36.4	35.4	37.4	2.0	p.p.
Prime age (25-54)	86.1	86.4	87.0	87.3	88.5	1.2	p.p.
Older (55-64)	18.1	18.9	21.4	23.1	22.2	-0.9	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	65.3	66.0	66.6	67.8	68.6	0.8	p.p.
Young (15-24)	33.8	34.1	35.0	37.6	38.4	0.8	p.p.
Prime age (25-54)	83.8	83.8	84.2	85.4	86.8	1.4	p.p.
Older (55-64)	29.0	30.7	32.6	33.4	32.8	-0.7	p.p.
<b>Male</b>	70.0	70.4	71.1	72.7	72.7	0.0	p.p.
Young (15-24)	38.8	38.1	39.2	43.2	43.0	-0.2	p.p.
Prime age (25-54)	86.4	86.4	87.1	88.1	88.6	0.5	p.p.
Older (55-64)	40.9	43.1	44.5	45.2	44.7	-0.5	p.p.
<b>Female</b>	60.5	61.3	61.8	62.6	64.2	1.6	p.p.
Young (15-24)	28.6	29.8	30.3	31.4	33.2	1.7	p.p.
Prime age (25-54)	81.2	81.1	81.2	82.4	84.8	2.4	p.p.
Older (55-64)	17.8	18.5	20.9	22.2	21.1	-1.1	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	917.5	924.9	936.7	957.0	975.2	18.3	Th.
Male (as % of total)	54.3	54.3	54.4	54.8	54.5	-0.3	p.p.
Female (as % of total)	45.7	45.7	45.6	45.2	45.5	0.3	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.3	-0.1	1.5	3.0	2.9		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	4.4	0.8	1.3	2.2	1.9		p.p.
Male	4.0	0.7	1.5	2.9	1.4		p.p.
Female	4.9	1.0	1.0	1.3	2.5		p.p.
<b>8 Self employed (% of total employment )</b>	5.9	6.1	6.8	6.7	6.1	-0.6	p.p.
Male	7.8	8.2	9.5	8.8	8.1	-0.7	p.p.
Female	3.6	3.5	3.6	4.1	3.7	-0.4	p.p.
<b>9 Temporary employment (as % total)</b>	17.6	17.2	17.1	18.4	17.3	-1.1	p.p.
Male	16.4	15.4	15.2	16.3	15.2	-1.1	p.p.
Female	18.9	19.2	19.1	20.7	19.6	-1.1	p.p.
<b>10 Part-time (as % of total employment )</b>	7.9	7.8	8.0	8.1	8.1	0.0	p.p.
Male	6.5	6.1	6.0	6.5	6.2	-0.3	p.p.
Female	9.7	9.8	10.4	10.0	10.4	0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	6.3	6.5	6.0	4.9	4.4	-0.5	p.p.
Young (15-24)	16.2	16.0	13.9	10.1	10.4	0.3	p.p.
Prime age (25-54)	5.4	5.6	5.4	4.4	3.7	-0.7	p.p.
Older (55-64)	3.2	4.2	2.6	3.3	4.0	0.7	p.p.
<b>Male</b>	5.9	6.1	4.9	4.0	4.0	0.0	p.p.
Young (15-24)	13.9	14.6	11.6	9.3	9.8	0.5	p.p.
Prime age (25-54)	5.1	5.2	4.4	3.4	3.3	-0.2	p.p.
Older (55-64)	3.8	5.0	2.7	3.1	3.7	0.6	p.p.
<b>Female</b>	6.9	7.1	7.2	5.9	4.8	-1.1	p.p.
Young (15-24)	19.1	17.8	16.9	11.2	11.3	0.1	p.p.
Prime age (25-54)	5.8	6.2	6.6	5.6	4.2	-1.4	p.p.
Older (55-64)	1.7	2.4	2.3	3.8	4.9	1.1	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	51.4	47.5	49.4	45.6	42.2	-3.4	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	40.2	40.2	39.5	39.6	39.5	-0.3	%
Male	41.3	41.4	40.5	40.6	40.6	0.0	%
Female	38.9	38.7	38.2	38.2	38.0	-0.4	%
<b>14 Sectoral employment growth</b>							
Agriculture	-2.5	-2.6	-3.1	-2.3	-1.7		p.p.
Building and construction	-1.6	4.4	6.9	10.9	12.0		p.p.
Services	1.8	0.7	3.2	3.9	3.8		p.p.
Manufacturing industry	-0.8	-2.0	-1.6	0.8	-0.5		p.p.

Source: Eurostat, Labour Force Survey.

Table 24.2: **Indicator board on wage developments - SI**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	7.8	5.3	5.5	6.3	8.5	8.3	10.7	8.7	6.8
Compensation of employees per Hour Worked	7.1	5.7	6.5	6.5	9.0	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	7.3	5.0	6.3	5.4	9.6	9.2	8.1	11.4	9.7
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	3.7	0.8	1.1	2.5	7.9	3.8	4.6	6.3	9.5
Real unit labour costs deflated by GDP deflator.	0.3	-0.8	-0.9	-1.5	3.7	-1.4	0.3	2.6	6.3
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	72.2	71.5	70.3	68.9	71.1	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	17.5	17.8	17.4	17.3	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	82.5	82.2	82.6	82.7	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	65.8	65.6	65.9	66.0	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	42.6	42.4	44.0	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	40.2	39.2	38.6	:	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	13.0	13.2	13.4	14.0	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	4.5	4.6	4.0	3.3	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	4.0	4.5	4.3	3.7	0.6	4.3	5.8	2.3	-2.5
Hourly Labour Productivity	3.2	4.5	5.3	3.7	0.7	:	:	:	:
GDP	4.3	4.3	5.9	6.8	3.5	5.7	5.5	3.9	-0.8
ECFIN NAIRU estimate	6.0	5.8	5.7	5.7	5.8	:	:	:	:
Output gap (%)	-1.1	-0.4	1.7	4.5	3.2	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	3.7	2.5	2.5	3.8	5.5	6.5	6.4	6.2	3.1
Underlying inflation (exc. energy and unprocessed food)	3.7	1.3	1.5	3.4	5.0	5.4	5.7	4.8	4.0
GDP deflator	3.4	1.6	2.0	4.1	4.0	5.3	4.4	3.6	3.0
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-5.8	-0.1	5.7	27.7	10.5	15.2	11.0	8.2	5.6
Industry excluding construction	0.3	0.0	-2.8	1.1	9.1	7.5	7.1	10.0	12.6
of which: manufacturing	2.9	0.1	-2.9	-0.2	:	7.2	6.7	9.8	13.9
Construction	6.7	5.0	-1.2	3.2	5.5	-3.7	8.3	6.5	11.9
Trade, transport and communication	3.1	-0.1	1.9	3.5	7.8	7.2	7.8	7.7	6.5
Finance and business services	2.9	-0.1	5.6	4.1	10.6	7.5	10.9	11.2	11.4
Non-market related services	2.8	0.6	4.1	3.7	9.2	6.3	7.1	10.8	12.0
Market-related sectors	1.4	0.8	0.4	2.4	8.5	6.2	8.1	8.9	10.1
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	5.4	5.1	5.5	6.4	8.5	:	:	:	:
Agriculture and fishery	7.7	0.9	4.8	16.3	9.7	13.3	9.4	10.3	6.6
Industry excluding construction	6.2	5.8	5.9	6.7	8.2	8.7	10.3	9.7	4.5
of which: manufacturing	8.4	5.9	6.0	6.7	:	8.6	10.3	9.5	3.9
Construction	10.2	6.5	6.3	9.3	7.0	7.9	9.4	9.1	4.6
Trade, transport and communication	7.2	4.4	5.9	6.3	8.3	8.2	9.0	9.0	6.2
Finance and business services	3.4	6.1	5.5	9.3	7.8	8.6	9.5	9.0	4.7
Non-market related services	3.3	3.1	3.8	3.5	9.9	7.4	7.4	11.9	12.9
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	14.4	1.1	-0.8	-9.0	-0.7	-1.6	-1.5	1.9	0.9
Industry excluding construction	5.9	5.8	9.0	5.6	-0.8	1.1	3.1	-0.3	-7.2
of which: manufacturing	5.4	5.8	9.2	6.9	-1.0	1.3	3.4	-0.2	-8.8
Construction	3.3	1.4	7.5	5.9	1.4	12.0	1.0	2.4	-6.5
Trade, transport and communication	4.0	4.4	3.9	2.7	0.5	1.0	1.2	1.2	-0.3
Finance and business services	0.5	6.3	0.0	5.0	-2.6	1.1	-1.3	-2.0	-6.0
Non-market related services	0.5	2.5	-0.2	-0.2	0.7	1.0	0.3	1.0	0.8
Market-related sectors	4.7	5.0	5.6	4.9	-0.3	2.2	1.5	0.5	-4.3

Source: Ameco, Eurostat-National Account, ECB.



# 25. SPAIN

Table 25.1: Main indicators - ES

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	42440	43141	43835	44630	45329	1.6	%
<b>2 Population (working age:15-64)</b>	29227	29755	30255	30808	31252	1.4	%
as % of total population	68.9	69.0	69.0	69.0	68.9	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	20073	20743	21435	22043	22689	2.9	%
Male	11834	12155	12432	12702	12933	1.8	%
Female	8239	8587	9003	9341	9756	4.4	%
<b>4 Activity rate (as % of population 15-64)</b>	68.7	69.7	70.8	71.6	72.6	1.1	p.p.
Young (15-24)	45.1	47.7	48.2	47.8	47.7	-0.1	p.p.
Prime age (25-54)	80.6	80.9	82.0	82.8	83.8	1.0	p.p.
Older (55-64)	44.4	45.9	46.8	47.4	49.2	1.8	p.p.
<b>Male</b>	80.4	80.9	81.3	81.4	81.8	0.3	p.p.
Young (15-24)	50.2	52.3	52.2	52.1	51.5	-0.6	p.p.
Prime age (25-54)	92.5	92.4	92.5	92.6	92.6	0.0	p.p.
Older (55-64)	62.7	63.2	63.5	63.1	65.1	2.0	p.p.
<b>Female</b>	56.8	58.3	60.2	61.4	63.2	1.8	p.p.
Young (15-24)	39.8	42.9	43.9	43.3	43.7	0.4	p.p.
Prime age (25-54)	68.3	69.0	71.2	72.7	74.7	2.1	p.p.
Older (55-64)	27.2	29.6	31.0	32.5	34.2	1.7	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	61.1	63.3	64.8	65.6	64.3	-1.3	p.p.
Young (15-24)	35.2	38.3	39.5	39.1	36.0	-3.2	p.p.
Prime age (25-54)	72.7	74.4	75.8	76.8	75.3	-1.5	p.p.
Older (55-64)	41.3	43.1	44.1	44.6	45.6	1.0	p.p.
<b>Male</b>	73.8	75.2	76.1	76.2	73.5	-2.7	p.p.
Young (15-24)	40.8	43.5	44.4	44.2	39.3	-4.9	p.p.
Prime age (25-54)	86.1	86.9	87.6	87.6	84.4	-3.2	p.p.
Older (55-64)	58.9	59.7	60.4	60.0	60.9	0.9	p.p.
<b>Female</b>	48.3	51.2	53.2	54.7	54.9	0.2	p.p.
Young (15-24)	29.3	32.8	34.4	33.8	32.5	-1.3	p.p.
Prime age (25-54)	58.9	61.5	63.7	65.6	65.9	0.3	p.p.
Older (55-64)	24.6	27.4	28.7	30.0	31.1	1.1	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	17861.2	18833.7	19600.3	20211.3	20102.8	-108.5	Th.
Male (as % of total)	60.8	60.0	59.4	58.8	57.8	-1.0	p.p.
Female (as % of total)	39.2	40.0	40.6	41.2	42.2	1.0	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	3.5	4.1	3.9	3.0	-0.5		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	3.9	5.4	4.1	3.1	-0.5		p.p.
Male	2.7	4.0	3.1	2.1	-2.2		p.p.
Female	5.9	7.8	5.6	4.6	1.9		p.p.
<b>8 Self employed (% of total employment )</b>	11.0	11.2	10.9	10.9	10.7	-0.2	p.p.
Male	12.6	12.8	12.6	12.6	12.5	-0.1	p.p.
Female	8.6	8.9	8.4	8.5	8.2	-0.2	p.p.
<b>9 Temporary employment (as % total)</b>	32.5	33.4	34.1	31.7	29.3	-2.4	p.p.
Male	30.6	31.7	32.1	30.6	27.7	-3.0	p.p.
Female	35.2	35.7	36.8	33.1	31.4	-1.8	p.p.
<b>10 Part-time (as % of total employment )</b>	8.7	12.1	11.8	11.6	11.8	0.2	p.p.
Male	2.7	4.2	4.1	3.9	4.0	0.1	p.p.
Female	17.9	23.8	23.0	22.7	22.6	-0.1	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	10.6	9.2	8.5	8.3	11.3	3.0	p.p.
Young (15-24)	22.0	19.7	17.9	18.2	24.6	6.4	p.p.
Prime age (25-54)	9.8	8.0	7.5	7.2	10.2	2.9	p.p.
Older (55-64)	7.1	6.1	5.7	5.9	7.3	1.4	p.p.
<b>Male</b>	8.0	7.1	6.3	6.4	10.1	3.7	p.p.
Young (15-24)	18.7	16.7	15.0	15.2	23.7	8.5	p.p.
Prime age (25-54)	6.9	5.9	5.4	5.4	8.9	3.5	p.p.
Older (55-64)	6.0	5.4	4.8	4.9	6.4	1.5	p.p.
<b>Female</b>	14.3	12.2	11.6	10.9	13.0	2.1	p.p.
Young (15-24)	26.4	23.4	21.6	21.9	25.8	3.8	p.p.
Prime age (25-54)	13.8	10.9	10.5	9.7	11.8	2.1	p.p.
Older (55-64)	9.4	7.5	7.4	7.7	8.9	1.2	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	32.0	24.5	21.7	20.4	17.9	-2.6	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	38.2	38.6	38.6	38.4	38.3	-0.4	%
Male	40.2	41.3	41.2	41.0	40.9	-0.2	%
Female	35.1	34.6	34.7	34.7	34.6	-0.1	%
<b>14 Sectoral employment growth</b>							
Agriculture	-1.4	0.2	-5.7	-2.0	-5.0		p.p.
Building and construction	5.8	7.7	6.0	6.0	-10.8		p.p.
Services	4.2	4.7	5.3	3.7	2.1		p.p.
Manufacturing industry	0.8	0.6	0.0	-0.6	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 25.2: **Indicator board on wage developments - ES**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	2.2	2.9	3.1	3.6	5.1	5.1	5.5	5.0	5.2
Compensation of employees per Hour Worked	3.3	4.5	4.5	5.1	5.6	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	4.0	3.7	4.0	4.0	5.0	5.2	5.0	5.6	4.2
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	:	:	:	:
Nominal Unit labour costs	2.5	3.3	3.1	2.9	3.4	3.8	3.5	3.8	2.9
Real unit labour costs deflated by GDP deflator.	-1.5	-0.9	-0.9	-0.2	0.4	0.5	0.4	0.2	0.5
Wage and salaries	2.6	0.6	2.0	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	2.3	3.0	3.0	3.6	5.1	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	62.5	62.3	61.9	61.2	60.2	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	26.6	26.6	26.6	26.7	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	73.4	73.4	73.4	73.3	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	66.9	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	38.7	38.9	39.1	38.9	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	37.4	37.6	37.8	37.3	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	24.9	24.9	24.9	25.0	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	1.7	1.7	1.7	1.7	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	-0.3	-0.5	0.0	0.6	1.6	1.2	2.0	1.2	2.3
Hourly Labour Productivity	0.7	0.8	0.9	1.8	2.1	:	:	:	:
GDP	3.3	3.6	3.9	3.7	1.2	2.9	2.3	0.4	-0.8
ECFIN NAIRU estimate	9.9	9.7	10.1	10.8	12.4	:	:	:	:
Output gap (%)	-0.5	-0.3	0.6	1.4	0.9	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	3.1	3.4	3.6	2.8	4.1	4.5	4.7	5.0	2.5
Underlying inflation (exc. energy and unprocessed food)	2.8	2.7	3.0	2.7	3.2	3.3	3.3	3.5	2.7
GDP deflator	4.0	4.3	4.0	3.2	3.0	3.3	3.0	3.6	2.4
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	4.4	11.3	-2.2	-4.3	-1.0	-3.4	-1.7	0.2	0.1
Industry excluding construction	1.4	2.9	3.1	1.2	5.4	5.5	5.3	5.9	5.3
of which: manufacturing	1.7	2.9	2.7	1.3	:	6.7	6.1	6.8	5.7
Construction	4.7	7.6	7.2	4.8	-2.9	0.7	-0.1	-2.2	-9.4
Trade, transport and communication	1.8	2.6	1.4	1.4	5.4	5.3	5.2	5.5	5.8
Finance and business services	1.8	2.3	3.2	3.1	2.2	1.9	1.3	2.8	3.0
Non-market related services	3.4	3.7	4.3	3.8	3.8	3.5	3.6	4.1	3.8
Market-related sectors	2.2	3.7	2.8	2.0	2.5	3.3	2.7	2.9	1.6
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	2.2	2.9	3.1	3.6	5.1	:	:	:	:
Agriculture and fishery	3.5	2.0	6.3	0.5	3.6	4.4	2.4	3.2	3.8
Industry excluding construction	1.2	3.4	4.6	4.4	4.5	3.3	4.7	4.6	6.2
of which: manufacturing	1.4	3.3	4.7	4.6	:	3.3	4.6	4.7	6.3
Construction	4.0	5.1	6.2	2.3	5.3	5.2	6.7	5.7	5.6
Trade, transport and communication	0.4	1.7	-0.1	1.4	4.4	3.7	4.5	4.8	5.0
Finance and business services	1.2	2.3	2.9	1.6	3.7	3.7	3.0	3.7	4.3
Non-market related services	3.9	2.4	2.7	6.0	6.3	7.7	7.1	5.6	4.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	-0.9	-8.4	8.7	5.1	4.7	8.1	4.2	3.1	3.7
Industry excluding construction	-0.2	0.4	1.4	3.2	-0.8	-2.1	-0.6	-1.2	0.9
of which: manufacturing	-0.3	0.4	1.9	3.3	:	-3.2	-1.3	-1.9	0.5
Construction	-0.7	-2.3	-0.9	-2.4	8.5	4.5	6.9	8.1	16.5
Trade, transport and communication	-1.4	-0.8	-1.5	0.0	-0.9	-1.5	-0.7	-0.6	-0.7
Finance and business services	-0.6	0.0	-0.3	-1.5	1.4	1.7	1.6	0.9	1.3
Non-market related services	0.5	-1.2	-1.5	2.1	2.4	4.1	3.3	1.4	0.8
Market-related sectors	-0.7	-0.6	0.4	0.6	1.9	0.8	2.0	1.8	3.4

Source: Ameco, Eurostat-National Account, ECB.

# 26. SWEDEN

Table 26.1: Main indicators - SE

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	9006	9041	9084	9147	9203	0.6	%
<b>2 Population (working age:15-64)</b>	5855	5898	5951	6002	6046	0.7	%
as % of total population	65.0	65.2	65.5	65.6	65.7	0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	4519	4614	4687	4750	4797	1.0	%
Male	2353	2411	2452	2482	2508	1.1	%
Female	2165	2203	2235	2268	2289	0.9	%
<b>4 Activity rate (as % of population 15-64)</b>	77.2	78.2	78.8	79.1	79.3	0.2	p.p.
Young (15-24)	47.2	49.9	51.3	52.2	52.8	0.6	p.p.
Prime age (25-54)	87.7	88.8	89.4	90.0	90.4	0.4	p.p.
Older (55-64)	72.7	72.7	72.8	72.8	72.8	-0.1	p.p.
<b>Male</b>	79.1	80.5	81.2	81.4	81.7	0.3	p.p.
Young (15-24)	47.1	49.0	50.8	51.8	52.6	0.9	p.p.
Prime age (25-54)	90.0	91.7	92.5	92.9	93.1	0.2	p.p.
Older (55-64)	75.6	76.4	76.0	76.2	76.5	0.3	p.p.
<b>Female</b>	75.2	75.9	76.3	76.8	76.9	0.2	p.p.
Young (15-24)	47.3	50.8	51.9	52.7	53.1	0.3	p.p.
Prime age (25-54)	85.3	85.9	86.3	87.1	87.6	0.5	p.p.
Older (55-64)	69.7	69.0	69.6	69.4	69.0	-0.4	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	72.1	72.3	73.1	74.2	74.3	0.1	p.p.
Young (15-24)	39.2	39.0	40.3	42.2	42.2	0.0	p.p.
Prime age (25-54)	82.9	83.5	84.7	86.1	86.5	0.4	p.p.
Older (55-64)	69.1	69.5	69.6	70.0	70.1	0.1	p.p.
<b>Male</b>	73.6	74.3	75.5	76.5	76.7	0.2	p.p.
Young (15-24)	38.6	38.2	40.2	42.0	42.2	0.2	p.p.
Prime age (25-54)	85.0	86.1	87.8	89.1	89.4	0.3	p.p.
Older (55-64)	71.2	72.4	72.3	72.9	73.4	0.5	p.p.
<b>Female</b>	70.5	70.2	70.7	71.8	71.8	0.1	p.p.
Young (15-24)	39.7	39.7	40.4	42.3	42.1	-0.2	p.p.
Prime age (25-54)	80.9	80.8	81.5	83.0	83.5	0.5	p.p.
Older (55-64)	67.0	66.7	66.9	67.0	66.7	-0.3	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	4220.3	4263.2	4351.9	4453.3	4493.8	40.5	Th.
Male (as % of total)	51.9	52.2	52.4	52.4	52.4	0.1	p.p.
Female (as % of total)	48.1	47.8	47.6	47.6	47.6	-0.1	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	-0.7	0.3	1.7	2.2	0.9		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	-0.5	1.0	2.1	2.3	0.9		p.p.
Male	-0.2	1.6	2.5	2.3	1.0		p.p.
Female	-0.8	0.4	1.6	2.3	0.8		p.p.
<b>8 Self employed (% of total employment )</b>	6.0	6.0	6.0	5.8	5.7	0.0	p.p.
Male	8.4	8.2	8.1	7.7	7.5	-0.2	p.p.
Female	3.4	3.5	3.6	3.7	3.7	0.1	p.p.
<b>9 Temporary employment (as % total)</b>	15.3	15.7	17.0	17.2	15.8	-1.4	p.p.
Male	13.3	13.6	15.0	14.7	13.2	-1.5	p.p.
Female	17.3	17.6	18.9	19.7	18.5	-1.2	p.p.
<b>10 Part-time (as % of total employment )</b>	22.8	23.4	23.6	23.5	25.7	2.2	p.p.
Male	10.8	10.5	10.3	10.3	11.9	1.6	p.p.
Female	35.7	37.5	38.3	38.0	40.8	2.8	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	6.3	7.4	7.0	6.1	6.2	0.1	p.p.
Young (15-24)	17.0	21.9	21.5	19.3	20.2	0.9	p.p.
Prime age (25-54)	5.4	6.0	5.3	4.4	4.3	-0.1	p.p.
Older (55-64)	4.9	4.4	4.4	4.0	3.8	-0.2	p.p.
<b>Male</b>	6.5	7.5	6.9	5.8	5.9	0.1	p.p.
Young (15-24)	18.0	22.0	21.0	18.8	19.7	1.0	p.p.
Prime age (25-54)	5.6	6.0	5.2	4.1	4.0	-0.1	p.p.
Older (55-64)	5.8	5.2	4.9	4.3	4.1	-0.3	p.p.
<b>Female</b>	6.1	7.4	7.2	6.4	6.5	0.1	p.p.
Young (15-24)	16.0	21.8	22.0	19.8	20.7	0.9	p.p.
Prime age (25-54)	5.2	5.9	5.5	4.7	4.7	-0.1	p.p.
Older (55-64)	4.0	3.4	3.8	3.5	3.4	-0.1	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	19.3	17.0	15.3	14.0	12.8	-1.2	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	35.4	35.6	35.5	35.5	35.5	-0.1	%
Male	37.9	38.3	38.1	38.1	38.0	-0.3	%
Female	32.4	32.4	32.4	32.4	32.5	0.2	%
<b>14 Sectoral employment growth</b>							
Agriculture	-3.7	-4.6	-2.1	3.3	-0.9		p.p.
Building and construction	0.6	3.2	6.5	5.7	5.1		p.p.
Services	0.2	0.5	2.0	2.2	1.0		p.p.
Manufacturing industry	-4.5	-1.1	-0.8	0.5	-0.5		p.p.

Source: Eurostat, Labour Force Survey.

Table 26.2: **Indicator board on wage developments - SE**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	4.0	3.1	2.1	5.1	1.6	1.3	1.8	1.9	0.6
Compensation of employees per Hour Worked	2.2	3.2	2.5	4.2	1.2	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.2	3.2	1.6	3.5	2.6	:	:	:	:
Negotiated wages (Euro-area only)									
Nominal Unit labour costs	-0.8	0.1	-0.4	4.7	2.6	2.3	0.7	2.1	5.9
Real unit labour costs deflated by GDP deflator.	-1.1	-0.8	-2.1	1.7	-0.5	-0.8	-1.7	-1.3	2.0
Wage and salaries	2.3	3.9	3.6	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	0.0	0.7	-0.2	4.8	3.2	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	68.9	68.3	67.1	68.3	69.1	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	33.8	33.8	33.8	33.8	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	66.2	66.2	66.2	66.2	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	57.2	57.2	57.2	57.2	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	48.4	47.9	47.9	45.4	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	45.5	45.2	44.8	42.4	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	30.6	30.6	30.6	30.6	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	3.3	3.3	3.3	3.3	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	4.9	3.0	2.5	0.4	-1.1	-1.0	1.2	-0.2	-5.0
Hourly Labour Productivity	3.3	3.1	2.9	-0.6	-1.7	:	:	:	:
GDP	4.1	3.3	4.2	2.6	-0.2	1.0	3.0	0.6	-4.9
ECFIN NAIRU estimate	5.3	5.7	5.9	6.1	6.7	:	:	:	:
Output gap (%)	0.8	1.7	3.2	3.3	0.9	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.0	0.8	1.5	1.7	3.3	3.1	3.6	4.0	2.7
Underlying inflation (exc. energy and unprocessed food)	0.8	0.2	0.5	1.8	2.3	2.4	2.5	2.2	2.0
GDP deflator	0.2	0.9	1.7	3.0	3.2	3.2	2.4	3.4	3.9
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-5.4	4.0	-22.2	11.5	-6.3	-1.2	-2.3	-4.3	-13.8
Industry excluding construction	-7.0	-3.6	-3.4	4.3	-0.4	1.3	0.2	-1.7	0.4
of which: manufacturing	-7.2	-2.4	-6.6	4.5	4.6	1.9	0.2	-1.3	2.4
Construction	-0.5	0.6	3.4	7.1	-0.9	1.9	0.6	3.2	-7.5
Trade, transport and communication	-1.5	-3.4	-0.1	5.0	-1.6	-2.1	-2.0	-1.4	-2.4
Finance and business services	1.8	-0.8	0.9	5.9	-0.2	1.2	1.4	1.2	-5.1
Non-market related services	2.3	0.5	3.2	4.2	-2.6	-1.2	-2.1	-0.7	-6.9
Market-related sectors	-2.4	-2.3	-1.4	5.4	-0.5	0.5	0.1	-0.4	-2.7
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	4.0	1.3	2.4	5.2	-2.3	:	:	:	:
Agriculture and fishery	5.9	3.8	-3.8	6.7	-1.7	0.5	1.8	2.9	-8.9
Industry excluding construction	6.1	1.5	1.9	6.3	-2.4	0.0	1.2	-0.4	-9.6
of which: manufacturing	6.1	3.2	1.5	6.4	1.5	0.1	0.9	-0.4	-9.4
Construction	3.9	1.9	0.8	6.3	-3.0	-1.3	2.2	-0.8	-10.6
Trade, transport and communication	3.3	1.0	2.4	4.5	-3.1	-3.3	0.9	-0.8	-9.1
Finance and business services	5.1	1.1	4.4	5.5	-5.1	-1.6	-2.5	-4.0	-11.5
Non-market related services	2.9	1.3	2.3	4.1	-0.9	-0.4	2.0	1.1	-5.6
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	11.9	-0.2	23.7	-4.3	4.9	1.7	4.1	7.6	5.7
Industry excluding construction	14.1	5.3	5.6	1.9	-2.0	-1.3	1.0	1.3	-9.9
of which: manufacturing	14.4	5.8	8.7	1.8	-3.0	-1.8	0.7	0.9	-11.6
Construction	4.4	1.3	-2.5	-0.8	-2.2	-3.1	1.6	-3.8	-3.3
Trade, transport and communication	4.8	4.5	2.5	-0.5	-1.5	-1.2	2.9	0.6	-6.9
Finance and business services	3.3	1.9	3.5	-0.4	-4.9	-2.8	-3.9	-5.2	-6.8
Non-market related services	0.6	0.8	-0.8	0.0	1.8	0.8	4.1	1.8	1.4
Market-related sectors	7.3	3.6	4.1	0.0	-2.6	-2.0	0.2	-1.0	-7.5

Source: Ameco, Eurostat-National Account, ECB.

# 27. UNITED KINGDOM

Table 27.1: Main indicators - UK

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	58815	59156	59518	59862	60310	0.7	%
<b>2 Population (working age:15-64)</b>	38821	39153	39540	39845	40097	0.6	%
as % of total population	66.0	66.2	66.4	66.6	66.5	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	29222	29511	29935	30089	30412	1.1	%
Male	15826	15951	16159	16260	16419	1.0	%
Female	13396	13561	13776	13829	13993	1.2	%
<b>4 Activity rate (as % of population 15-64)</b>	75.3	75.4	75.7	75.5	75.8	0.3	p.p.
Young (15-24)	63.2	62.3	62.5	61.7	61.7	0.0	p.p.
Prime age (25-54)	83.8	84.1	84.5	84.5	84.9	0.4	p.p.
Older (55-64)	57.8	58.4	59.1	59.3	59.9	0.6	p.p.
<b>Male</b>	82.1	82.0	82.3	82.2	82.4	0.3	p.p.
Young (15-24)	65.7	65.3	65.1	64.5	64.8	0.3	p.p.
Prime age (25-54)	91.0	91.1	91.6	91.6	91.6	0.1	p.p.
Older (55-64)	68.1	68.3	68.4	69.0	69.9	0.9	p.p.
<b>Female</b>	68.5	68.8	69.2	69.0	69.4	0.4	p.p.
Young (15-24)	60.5	59.2	59.7	58.7	58.4	-0.3	p.p.
Prime age (25-54)	76.7	77.3	77.6	77.6	78.2	0.7	p.p.
Older (55-64)	47.9	48.9	50.1	50.0	50.2	0.2	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	71.7	71.7	71.6	71.5	71.5	0.0	p.p.
Young (15-24)	55.6	54.4	53.8	52.9	52.4	-0.5	p.p.
Prime age (25-54)	80.9	81.2	81.2	81.3	81.4	0.0	p.p.
Older (55-64)	56.2	56.8	57.3	57.4	58.0	0.6	p.p.
<b>Male</b>	77.9	77.7	77.5	77.5	77.3	-0.2	p.p.
Young (15-24)	57.0	56.0	54.9	54.4	53.8	-0.5	p.p.
Prime age (25-54)	87.7	87.8	87.9	88.2	87.7	-0.5	p.p.
Older (55-64)	65.7	65.9	66.0	66.3	67.3	1.0	p.p.
<b>Female</b>	65.6	65.8	65.8	65.5	65.8	0.3	p.p.
Young (15-24)	54.1	52.7	52.6	51.4	51.0	-0.4	p.p.
Prime age (25-54)	74.2	74.8	74.6	74.6	75.2	0.6	p.p.
Older (55-64)	47.0	48.0	49.0	48.9	49.1	0.2	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	27834.8	28089.5	28306.7	28477.7	28673.5	195.8	Th.
Male (as % of total)	53.9	53.8	53.8	53.9	53.7	-0.2	p.p.
Female (as % of total)	46.1	46.2	46.2	46.1	46.3	0.2	p.p.
<b>7 Employment growth ( % ) (National accounts)</b>	1.1	1.0	0.9	0.7	0.7		p.p.
<b>Employment growth ( % ) (LFS - age 15-64)</b>	1.0	0.9	0.8	0.6	0.7		p.p.
Male	0.9	0.7	0.7	0.8	0.4		p.p.
Female	1.2	1.2	0.9	0.4	1.1		p.p.
<b>8 Self employed ( % of total employment )</b>	9.3	9.4	9.6	9.8	9.8	0.0	p.p.
Male	12.6	12.6	12.7	13.0	12.9	0.0	p.p.
Female	5.5	5.6	5.9	6.0	6.2	0.1	p.p.
<b>9 Temporary employment (as % total)</b>	5.9	5.7	5.7	5.7	5.3	-0.4	p.p.
Male	5.4	5.2	5.0	5.1	4.7	-0.5	p.p.
Female	6.5	6.2	6.4	6.4	5.9	-0.5	p.p.
<b>10 Part-time (as % of total employment )</b>	24.8	24.2	24.2	24.1	24.2	0.1	p.p.
Male	9.1	9.1	9.2	9.3	9.7	0.4	p.p.
Female	43.1	41.8	41.7	41.4	40.9	-0.4	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	4.7	4.8	5.4	5.3	5.6	0.3	p.p.
Young (15-24)	12.0	12.8	14.0	14.3	15.0	0.7	p.p.
Prime age (25-54)	3.5	3.4	4.0	3.8	4.1	0.4	p.p.
Older (55-64)	2.8	2.7	3.0	3.2	3.1	-0.1	p.p.
<b>Male</b>	5.1	5.2	5.8	5.6	6.1	0.5	p.p.
Young (15-24)	13.2	14.3	15.7	15.8	17.0	1.2	p.p.
Prime age (25-54)	3.7	3.6	4.1	3.7	4.3	0.6	p.p.
Older (55-64)	3.5	3.4	3.5	3.9	3.7	-0.2	p.p.
<b>Female</b>	4.2	4.3	4.9	5.0	5.1	0.1	p.p.
Young (15-24)	10.6	11.0	12.0	12.5	12.7	0.2	p.p.
Prime age (25-54)	3.2	3.3	3.9	3.8	3.9	0.1	p.p.
Older (55-64)	1.9	1.9	2.3	2.2	2.3	0.1	p.p.
<b>12 Long-term unemployment rate</b> (as % of total unemployment)	20.4	21.0	22.2	23.7	24.2	0.5	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	35.8	35.8	35.7	35.8	35.5	-0.7	%
Male	40.5	40.4	40.3	40.3	39.8	-1.1	%
Female	29.9	30.2	30.3	30.3	30.3	-0.1	%
<b>14 Sectoral employment growth</b>							
Agriculture	2.6	:	:	:	:		p.p.
Building and construction	4.7	:	:	:	:		p.p.
Services	1.5	:	:	:	:		p.p.
Manufacturing industry	-4.3	-5.1	:	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 27.2: **Indicator board on wage developments - UK**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	3.8	3.3	4.2	4.9	2.3	3.6	2.6	1.9	0.8
Compensation of employees per Hour Worked	4.0	3.5	4.1	4.6	3.0	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	6.9	3.5	3.6	5.3	4.7	6.0	4.4	2.8	6.1
Negotiated wages (Euro-area only)									
Nominal Unit labour costs	1.9	2.1	2.2	3.0	2.3	3.3	2.5	1.8	1.7
Real unit labour costs deflated by GDP deflator.	-0.6	0.1	-0.6	0.1	-0.3	-0.1	-0.6	-0.3	-0.1
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	2.4	2.7	2.8	3.8	2.9	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	70.9	70.7	70.2	70.3	69.6	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	:	20.4	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	80.0	79.6	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	69.0	71.0	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	33.4	33.5	33.9	34.1	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	31.0	31.2	31.6	32.0	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	18.1	18.1	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	2.0	2.4	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.9	1.1	2.0	1.9	0.0	0.4	0.1	0.1	-0.9
Hourly Labour Productivity	2.2	0.9	2.4	1.8	0.6	:	:	:	:
GDP	3.0	2.2	2.9	2.6	0.7	2.0	1.4	0.7	-1.1
ECFIN NAIRU estimate	4.9	5.1	5.5	5.9	6.4	:	:	:	:
Output gap (%)	1.0	0.8	1.4	2.4	1.6	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	1.3	2.0	2.3	2.3	3.6	2.4	3.4	4.8	3.9
Underlying inflation (exc. energy and unprocessed food)	1.1	1.4	1.4	1.9	2.2	1.7	2.1	2.7	2.2
GDP deflator	2.5	2.0	2.8	2.9	2.6	3.4	3.1	2.1	1.9
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	:	:	:	:	:	:	:	:	:
Industry excluding construction	:	:	:	:	:	:	:	:	:
of which: manufacturing	-1.4	1.1	:	:	:	:	:	:	:
Construction	:	:	:	:	:	:	:	:	:
Trade, transport and communication	:	:	:	:	:	:	:	:	:
Finance and business services	:	:	:	:	:	:	:	:	:
Non-market related services	:	:	:	:	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	6.2	3.3	4.5	3.3	-10.8	:	:	:	:
Agriculture and fishery	:	:	:	:	:	:	:	:	:
Industry excluding construction	:	:	:	:	:	:	:	:	:
of which: manufacturing	5.3	6.4	:	:	:	:	:	:	:
Construction	:	:	:	:	:	:	:	:	:
Trade, transport and communication	:	:	:	:	:	:	:	:	:
Finance and business services	:	:	:	:	:	:	:	:	:
Non-market related services	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	:	:	:	:	:	:	:	:	:
Industry excluding construction	:	:	:	:	:	:	:	:	:
of which: manufacturing	6.8	5.2	:	:	:	:	:	:	:
Construction	:	:	:	:	:	:	:	:	:
Trade, transport and communication	:	:	:	:	:	:	:	:	:
Finance and business services	:	:	:	:	:	:	:	:	:
Non-market related services	:	:	:	:	:	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:

Source: Ameco, Eurostat-National Account, ECB.

# 28. EURO AREA

Table 28.1: Main indicators - EA

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	305733	308088	309797	313603	316455	0.9	%
<b>2 Population (working age:15-64)</b>	204548	206288	207201	209577	211280	0.8	%
as % of total population	66.9	67.0	66.9	66.8	66.8	-0.1	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	141551	144654	146446	148931	151111	1.5	%
Male	79586	80801	81500	82564	83423	1.0	%
Female	61965	63852	64946	66367	67688	2.0	%
<b>4 Activity rate (as % of population 15-64)</b>	69.2	70.1	70.7	71.1	71.5	0.5	p.p.
Young (15-24)	43.9	44.7	44.6	44.7	45.0	0.3	p.p.
Prime age (25-54)	83.5	84.0	84.5	84.8	85.2	0.4	p.p.
Older (55-64)	41.6	43.8	45.1	46.3	47.1	0.9	p.p.
<b>Male</b>	77.8	78.3	78.5	78.6	78.8	0.2	p.p.
Young (15-24)	47.4	48.2	48.1	48.0	48.2	0.2	p.p.
Prime age (25-54)	92.7	92.9	93.1	93.0	93.0	0.0	p.p.
Older (55-64)	52.3	53.8	54.7	55.6	56.4	0.8	p.p.
<b>Female</b>	60.6	61.9	62.8	63.5	64.2	0.7	p.p.
Young (15-24)	40.2	41.0	40.9	41.3	41.6	0.3	p.p.
Prime age (25-54)	74.1	75.1	75.9	76.5	77.4	0.8	p.p.
Older (55-64)	31.3	34.3	35.9	37.3	38.2	1.0	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	62.8	63.8	64.8	65.7	66.1	0.4	p.p.
Young (15-24)	36.2	36.8	37.3	38.0	38.0	0.0	p.p.
Prime age (25-54)	76.6	77.3	78.3	79.2	79.5	0.3	p.p.
Older (55-64)	38.3	40.6	41.8	43.3	44.4	1.0	p.p.
<b>Male</b>	71.3	71.9	72.7	73.4	73.4	0.0	p.p.
Young (15-24)	39.4	40.0	40.6	41.2	40.9	-0.3	p.p.
Prime age (25-54)	86.1	86.4	87.1	87.7	87.5	-0.2	p.p.
Older (55-64)	48.4	49.9	50.9	52.3	53.3	0.9	p.p.
<b>Female</b>	54.3	55.7	56.8	58.0	58.8	0.8	p.p.
Young (15-24)	32.9	33.5	33.8	34.7	35.1	0.4	p.p.
Prime age (25-54)	67.1	68.2	69.4	70.6	71.5	0.9	p.p.
Older (55-64)	28.6	31.7	33.1	34.7	35.9	1.2	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	128527.7	131654.3	134191.9	137780.4	139722.4	1942.0	Th.
Male (as % of total)	56.8	56.4	56.2	55.9	55.6	-0.4	p.p.
Female (as % of total)	43.2	43.6	43.8	44.1	44.4	0.4	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.8	0.9	1.6	1.8	0.8		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	0.6	2.4	1.9	2.7	1.4		p.p.
Male	0.0	1.7	1.6	2.2	0.8		p.p.
Female	1.3	3.4	2.4	3.3	2.2		p.p.
<b>8 Self employed (% of total employment )</b>	9.6	9.6	9.6	9.4	9.2	-0.3	p.p.
Male	11.3	11.4	11.3	11.2	10.9	-0.3	p.p.
Female	7.2	7.4	7.3	7.2	7.1	-0.2	p.p.
<b>9 Temporary employment (as % total)</b>	15.3	16.3	16.8	16.8	16.4	-0.4	p.p.
Male	14.3	15.6	16.0	15.9	15.4	-0.5	p.p.
Female	16.5	17.2	17.7	17.8	17.6	-0.2	p.p.
<b>10 Part-time (as % of total employment )</b>	:	18.4	18.9	19.1	19.3	0.1	p.p.
Male	:	6.3	6.7	6.9	7.0	0.1	p.p.
Female	:	33.9	34.4	34.7	34.7	-0.1	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	8.8	8.9	8.3	7.4	7.5	0.1	p.p.
Young (15-24)	17.5	17.6	16.4	15.0	15.4	0.5	p.p.
Prime age (25-54)	8.2	8.0	7.4	6.6	6.7	0.1	p.p.
Older (55-64)	7.9	7.4	7.2	6.3	5.9	-0.5	p.p.
<b>Male</b>	7.9	8.1	7.4	6.6	6.9	0.3	p.p.
Young (15-24)	16.9	16.9	15.6	14.2	15.2	1.0	p.p.
Prime age (25-54)	7.2	7.0	6.4	5.7	5.9	0.3	p.p.
Older (55-64)	7.5	7.2	6.9	5.9	5.6	-0.3	p.p.
<b>Female</b>	10.0	9.9	9.4	8.4	8.2	-0.2	p.p.
Young (15-24)	18.2	18.5	17.5	16.0	15.7	-0.2	p.p.
Prime age (25-54)	9.5	9.2	8.6	7.7	7.6	-0.1	p.p.
Older (55-64)	8.5	7.7	7.8	6.9	6.2	-0.7	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	43.8	44.5	45.4	43.5	38.7	-4.8	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	37.2	37.3	37.0	37.0	36.8	-0.5	%
Male	40.7	40.9	40.6	40.5	40.3	-0.6	%
Female	32.6	32.5	32.3	32.3	32.3	0.0	%
<b>14 Sectoral employment growth</b>							
Agriculture	-2.0	-0.6	-1.8	-1.3	:		p.p.
Building and construction	1.3	2.7	2.6	4.0	:		p.p.
Services	1.5	1.4	2.2	2.1	:		p.p.
Manufacturing industry	-1.4	-1.2	:	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 28.2: **Indicator board on wage developments - EA**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	2.2	2.0	2.3	2.6	3.1	:	:	:	:
Compensation of employees per Hour Worked	1.9	2.5	2.7	2.9	3.6	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	2.5	2.4	2.5	2.7	3.6	3.2	3.4	3.7	3.8
<b>Structure of labour costs</b>									
Negotiated wages (Euro-area only)	:	:	:	:	:	2,84	2,87	3,44	3,58
Nominal Unit labour costs	0.9	1.3	1.0	1.6	3.2	:	:	:	:
Real unit labour costs deflated by GDP deflator.	-1.1	-0.8	-1.0	-0.7	0.9	:	:	:	:
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	64.4	64.1	63.7	63.2	63.4	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	:	:	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	:	:	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	:	:	:	:	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	1.4	0.8	1.3	0.9	0.0	:	:	:	:
Hourly Labour Productivity	1.2	1.2	1.5	1.0	0.2	:	:	:	:
GDP	2.2	1.7	2.9	2.7	0.7	:	:	:	:
ECFIN NAIRU estimate	8.3	8.3	8.5	8.6	9.0	:	:	:	:
Output gap (%)	-0.1	0.0	1.4	2.5	2.0	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.1	2.2	2.2	2.1	3.3	3.4	3.6	3.8	2.3
Underlying inflation (exc. energy and unprocessed food)	2.1	1.5	1.5	2.0	2.4	2.5	2.5	2.5	2.2
GDP deflator	2.0	2.0	2.0	2.3	2.3	:	:	:	:
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-11.1	8.7	3.1	1.6	-0.2	:	:	:	:
Industry excluding construction	-1.2	-1.1	-0.7	-0.5	3.5	:	:	:	:
of which: manufacturing	-0.7	-1.6	:	:	:	:	:	:	:
Construction	3.1	3.0	3.4	3.9	2.1	:	:	:	:
Trade, transport and communication	-0.1	1.3	0.1	1.5	3.6	:	:	:	:
Finance and business services	2.4	2.1	2.5	2.8	3.0	:	:	:	:
Non-market related services	2.1	2.0	2.1	2.2	3.1	:	:	:	:
Market-related sectors	:	:	:	:	:	:	:	:	:
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	2.1	1.9	2.2	2.2	3.0	:	:	:	:
Agriculture and fishery	1.6	2.2	3.1	2.3	3.1	:	:	:	:
Industry excluding construction	2.9	1.7	3.5	2.3	2.9	:	:	:	:
of which: manufacturing	3.0	1.8	:	:	:	:	:	:	:
Construction	2.8	2.0	3.4	2.6	3.7	:	:	:	:
Trade, transport and communication	1.3	2.1	1.5	2.0	2.8	:	:	:	:
Finance and business services	1.7	2.4	2.3	2.1	2.3	:	:	:	:
Non-market related services	2.3	1.8	1.5	2.2	3.4	:	:	:	:
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	14.3	-6.0	0.0	0.7	3.3	:	:	:	:
Industry excluding construction	4.2	2.9	4.2	2.8	-0.6	:	:	:	:
of which: manufacturing	3.7	3.4	:	:	:	:	:	:	:
Construction	-0.2	-0.9	0.0	-1.2	1.6	:	:	:	:
Trade, transport and communication	1.5	0.8	1.4	0.5	-0.7	:	:	:	:
Finance and business services	-0.7	0.3	-0.2	-0.7	-0.6	:	:	:	:
Non-market related services	0.3	-0.1	-0.6	0.1	0.3	:	:	:	:
Market-related sectors	1.9	1.0	1.8	0.8	-0.1	:	:	:	:

Source: Ameco, Eurostat-National Account, ECB.



# 29. EUROPEAN UNION

Table 29.1: Main indicators - EU

	2004	2005	2006	2007	2008	Changes 2007-2008	in
<b>1 Population (total) 1000 pers.</b>	475099	478036	486302	488327	490450	0.4	%
<b>2 Population (working age:15-64)</b>	323879	326312	327846	329164	330379	0.4	%
as % of total population	68.2	68.3	67.4	67.4	67.4	0.0	p.p.
<b>3 Labour force (15-64) 1000 pers.</b>	224168	227902	230453	232096	234389	1.0	%
Male	124251	125895	127003	127672	128608	0.7	%
Female	99917	102008	103450	104424	105781	1.3	%
<b>4 Activity rate (as % of population 15-64)</b>	69.2	69.8	70.3	70.5	70.9	0.4	p.p.
Young (15-24)	43.9	44.3	44.2	44.2	44.5	0.3	p.p.
Prime age (25-54)	83.4	83.8	84.3	84.4	84.8	0.4	p.p.
Older (55-64)	43.4	45.3	46.4	47.3	48.1	0.8	p.p.
<b>Male</b>	76.9	77.3	77.6	77.7	78.0	0.3	p.p.
Young (15-24)	47.4	47.8	47.6	47.6	47.9	0.3	p.p.
Prime age (25-54)	91.5	91.7	92.0	91.9	92.0	0.1	p.p.
Older (55-64)	53.9	55.3	56.2	57.1	57.9	0.9	p.p.
<b>Female</b>	61.5	62.4	63.0	63.4	63.9	0.6	p.p.
Young (15-24)	40.3	40.7	40.7	40.7	41.0	0.3	p.p.
Prime age (25-54)	75.2	75.9	76.5	76.9	77.6	0.7	p.p.
Older (55-64)	33.6	35.8	37.2	38.1	38.8	0.8	p.p.
<b>5 Employment rate (as % of pop. 15-64)</b>	62.8	63.6	64.5	65.4	65.9	0.5	p.p.
Young (15-24)	35.7	36.1	36.6	37.4	37.6	0.2	p.p.
Prime age (25-54)	76.6	77.2	78.2	79.1	79.6	0.5	p.p.
Older (55-64)	40.5	42.3	43.5	44.7	45.6	1.0	p.p.
<b>Male</b>	70.2	70.8	71.7	72.5	72.8	0.3	p.p.
Young (15-24)	38.6	39.0	39.6	40.4	40.4	0.1	p.p.
Prime age (25-54)	84.7	85.2	86.0	86.8	86.9	0.1	p.p.
Older (55-64)	50.1	51.6	52.7	53.9	55.0	1.0	p.p.
<b>Female</b>	55.4	56.3	57.3	58.3	59.1	0.8	p.p.
Young (15-24)	32.8	33.1	33.5	34.3	34.6	0.4	p.p.
Prime age (25-54)	68.4	69.2	70.3	71.5	72.3	0.9	p.p.
Older (55-64)	31.4	33.6	34.9	36.0	36.9	0.9	p.p.
<b>6 Employed persons (age15-64 -Th. pers.)</b>	203337.9	207394.0	211410.4	215353.9	217845.6	2491.7	Th.
Male (as % of total)	55.8	55.6	55.5	55.3	55.1	-0.2	p.p.
Female (as % of total)	44.2	44.4	44.5	44.7	44.9	0.2	p.p.
<b>7 Employment growth ( %) (National accounts)</b>	0.7	1.0	1.6	1.8	1.0		p.p.
<b>Employment growth ( %) (LFS - age 15-64)</b>	0.5	2.0	1.9	1.9	1.2		p.p.
Male	0.2	1.7	1.7	1.6	0.7		p.p.
Female	1.0	2.4	2.2	2.2	1.7		p.p.
<b>8 Self employed (% of total employment )</b>	10.1	10.1	10.0	10.0	9.8	-0.2	p.p.
Male	12.4	12.3	12.2	12.1	11.9	-0.2	p.p.
Female	7.3	7.4	7.3	7.3	7.2	-0.1	p.p.
<b>9 Temporary employment (as % total)</b>	13.2	14.0	14.4	14.5	14.0	-0.4	p.p.
Male	12.6	13.6	13.9	13.8	13.2	-0.6	p.p.
Female	13.9	14.5	15.0	15.2	14.9	-0.3	p.p.
<b>10 Part-time (as % of total employment )</b>	:	17.1	17.4	17.5	17.6	0.1	p.p.
Male	:	6.7	6.9	6.9	7.0	0.1	p.p.
Female	:	30.2	30.4	30.6	30.6	0.0	p.p.
<b>11 Unemployment rate (Harmonised:15-74)</b>	9.0	8.9	8.2	7.1	7.0	-0.1	p.p.
Young (15-24)	18.5	18.5	17.3	15.4	15.5	0.1	p.p.
Prime age (25-54)	8.2	7.9	7.2	6.2	6.1	-0.1	p.p.
Older (55-64)	6.9	6.4	6.2	5.5	5.1	-0.4	p.p.
Male	8.5	8.3	7.6	6.6	6.6	0.0	p.p.
Young (15-24)	18.5	18.4	16.9	15.1	15.6	0.4	p.p.
Prime age (25-54)	7.5	7.1	6.5	5.6	5.6	0.0	p.p.
Older (55-64)	7.0	6.6	6.2	5.5	5.1	-0.4	p.p.
Female	9.8	9.6	8.9	7.8	7.5	-0.3	p.p.
Young (15-24)	18.5	18.7	17.7	15.8	15.5	-0.3	p.p.
Prime age (25-54)	9.1	8.8	8.1	7.1	6.7	-0.3	p.p.
Older (55-64)	6.8	6.2	6.1	5.5	5.1	-0.5	p.p.
<b>12 Long-term unemployment rate (as % of total unemployment)</b>	44.9	46.1	45.5	42.7	37.0	-5.7	p.p.
<b>13 Worked hours (average actual weekly hours)</b>	37.6	37.7	37.5	37.4	37.3	-0.4	%
Male	40.9	41.0	40.7	40.6	40.4	-0.5	%
Female	33.4	33.5	33.3	33.3	33.3	-0.2	%
<b>14 Sectoral employment growth</b>							
Agriculture	:	:	:	:	:		p.p.
Building and construction	:	:	:	:	:		p.p.
Services	:	:	:	:	:		p.p.
Manufacturing industry	:	:	:	:	:		p.p.

Source: Eurostat, Labour Force Survey.

Table 29.2: **Indicator board on wage developments - EU**

	annual percentage change								
	2004	2005	2006	2007	2008	08-Q1	08-Q2	08-Q3	08-Q4
<b>Different measures of wage/labour costs:</b>									
Compensation per employee	2.7	2.8	2.7	3.5	3.5	0.1	0.2	-0.6	:
Compensation of employees per Hour Worked	2.7	3.1	3.2	:	:	:	:	:	:
Hourly labour costs (Eurostat labour cost index)	3.5	2.7	3.0	3.6	4.2	4.0	4.1	4.2	4.3
<b>Negotiated wages (Euro-area only)</b>									
Nominal Unit labour costs	0.7	1.6	1.0	2.2	3.5	0.1	-0.6	-0.5	:
Real unit labour costs deflated by GDP deflator.	-1.7	-0.6	-1.2	-0.6	0.7	-0.8	-1.3	-1.0	:
Wage and salaries	:	:	:	:	:	:	:	:	:
Compensation per employee adjusted by Total Factor Productivity	:	:	:	:	:	:	:	:	:
Adjusted wage share (% of GDP at current market prices)	65.5	65.2	64.7	64.4	64.4	:	:	:	:
<b>Structure of labour costs</b>									
Share of indirect costs in total labour costs	:	:	:	:	:	:	:	:	:
Total wage (as a percentage of total labour costs) ANNUAL	:	:	:	:	:	:	:	:	:
Direct remuneration and bonuses (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with no children, 100% and 100% of AW	45.2	44.7	44.9	44.8	:	:	:	:	:
Total tax wedge (including employers SSC) - Married couple with 2 children, 100% and 100% of AW	42.0	41.7	41.9	41.6	:	:	:	:	:
Employers' social security contributions (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
Other indirect costs (as a percentage of total labour costs)	:	:	:	:	:	:	:	:	:
<b>Memo items: determinants or benchmarks according to which wage developments can be assessed</b>									
Labour productivity (GDP/Person Employed)	2.0	1.2	1.7	1.3	0.1	0.0	0.8	0.0	-2.0
Hourly Labour Productivity	1.6	1.3	1.9	:	:	:	:	:	:
GDP	2.7	2.2	3.3	3.0	1.1	2.0	2.1	1.0	-1.5
ECFIN NAIRU estimate	8.5	8.4	8.3	8.3	8.5	:	:	:	:
Output gap (%)	0.1	0.3	1.5	2.6	2.0	:	:	:	:
Headline inflation (harmonised consumer price index 1996=100)	2.3	2.3	2.3	2.4	3.7	3.5	3.9	4.3	2.9
Underlying inflation (exc. energy and unprocessed food)	2.1	1.5	1.6	2.2	2.7	2.7	2.8	2.9	2.5
GDP deflator	2.4	2.2	2.3	2.9	2.8	0.9	0.7	0.5	-0.5
<b>Sectoral breakdown of unit labour costs</b>									
Agriculture and fishery	-15.5	10.1	1.4	4.0	1.2	3.8	1.7	0.7	-0.7
Industry excluding construction	-1.2	0.1	-0.2	0.4	2.3	0.9	-1.0	1.9	6.6
of which: manufacturing	:	:	:	:	:	:	:	:	:
Construction	3.7	3.8	3.5	3.6	0.1	0.6	-0.4	1.3	0.5
Trade, transport and communication	0.2	1.1	0.4	1.6	0.8	0.5	-0.3	1.0	1.9
Finance and business services	3.0	2.1	2.6	3.0	-0.4	0.6	-0.4	-0.4	-1.5
Non-market related services	3.2	3.0	2.8	2.6	0.9	1.5	1.9	0.4	0.0
Market-related sectors	0.0	1.3	0.7	1.7	0.4	0.6	-0.6	0.7	1.7
<b>Sectoral breakdown of compensation per employee</b>									
Total industries	2.7	2.7	2.6	3.0	0.8	:	:	:	:
Agriculture and fishery	-1.6	5.4	4.3	3.7	5.7	5.8	5.4	6.3	3.3
Industry excluding construction	3.1	2.9	3.3	3.0	1.4	1.4	0.9	1.3	0.2
of which: manufacturing	:	:	:	:	:	:	:	:	:
Construction	3.5	1.5	3.1	2.8	1.4	1.5	2.0	2.3	0.6
Trade, transport and communication	2.0	2.3	2.0	2.7	0.3	0.8	0.0	1.1	-0.5
Finance and business services	2.7	3.3	2.9	2.9	-0.7	-0.6	-0.8	-0.4	-1.4
Non-market related services	3.2	2.7	2.0	3.2	1.3	1.6	2.2	1.1	0.4
<b>Sectoral breakdown of labour productivity</b>									
Agriculture and fishery	16.4	-4.3	2.8	-0.2	4.5	1.9	3.7	5.5	4.0
Industry excluding construction	4.3	2.8	3.6	2.6	-0.8	0.5	1.9	-0.6	-6.1
of which: manufacturing	:	:	:	:	:	:	:	:	:
Construction	-0.1	-2.1	-0.4	-0.8	1.3	0.9	2.5	1.0	0.1
Trade, transport and communication	1.7	1.2	1.6	1.1	-0.4	0.3	0.3	0.1	-2.3
Finance and business services	-0.3	1.2	0.3	-0.1	-0.3	-1.2	-0.5	0.0	0.1
Non-market related services	0.0	-0.3	-0.8	0.5	0.4	0.1	0.2	0.7	0.5
Market-related sectors	2.5	1.4	2.2	1.3	0.0	0.2	1.1	0.4	-2.1

Source: Ameco, Eurostat-National Account, ECB.

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