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Quarterly review

June 2020



**Employment
and Social
developments
in Europe**

June 2020

With regularly updated data and charts downloadable [here](#)

The Employment and Social Developments Quarterly Review provides an in-depth description of recent labour market and social developments. It falls under the responsibility of the Directorate Employment and Social Governance of the Directorate-General for Employment, Social Affairs and Inclusion and is prepared by the Thematic Analysis Unit. The main contributors for part I were F. De Franceschi, L. Moreau and L. Pappalardo. The main contributor for part II was A. Fulvimari.

A wide range of information sources have been used to produce this report, including Eurostat statistics¹, reports and survey data from the Commission's Directorate-General for Economic and Financial Affairs.

Charts and tables are based on the latest available data at the time of publication, and include Eurostat data on national accounts (employment and GDP) for the first quarter of 2020 (2020 Q1), Eurostat data on the Labour Force Survey fourth quarter of 2019 (2019 Q4) and Eurostat data on monthly unemployment concerning April 2020. Data on which the report is based are the latest available as of 09/06/2020.

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¹ To access them, see [codes] mentioned under the charts, to be used with the Eurostat data search engine: <https://ec.europa.eu/eurostat/web/main/home>



Just a few months ago, I had the pleasure to announce the highest level in employment in Europe and the constant fall in unemployment figures. Unfortunately, the coronavirus has since shaken Europe and the world to its core. This quarterly review shows that the health crisis and the necessary containment measures adopted to fight the pandemic have taken a toll on the EU economy and notably employment. In the first quarter of 2020, employment in Europe declined after almost seven years of continuous growth. Even though short-time work schemes have slowed down significantly the reduction in employment, the Commission predicts a 4.4% decline of total employment in 2020. Unemployment rose to 14.1 million unemployed people in the EU and 11.9 million in the euro area in April 2020. I am particularly concerned about the rise of youth unemployment as we cannot accept that another generation is sacrificed. Against this background, I am pleased to present a first ESDE quarterly review, which combines the information on recent labour market trends with a thematic focus on the adequacy of unemployment benefit systems in the EU and their importance in the light of the COVID-19 crisis, which is of particular political relevance in the current context. The in-depth analysis shows in particular how different unemployment systems provide income support and alleviate poverty while promoting work incentives and reskilling. In line with the positive experience and key role of short-time work schemes during the crisis, this should guide us to strengthen unemployment benefit and social protection systems going forward. Enhancing social resilience and supporting firms and workers during the recovery, and will also help achieving a fair transition towards a more climate-neutral and sustainable economy in the long run. On 27 May, the Commission adopted a major recovery plan, the “Next Generation EU”, to turn these challenges into opportunities. This recovery must foster resilience and upward convergence by putting people at the centre.

Nicolas Schmit

Commissioner for Jobs and Social Rights

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Part I: Main economic and social developments

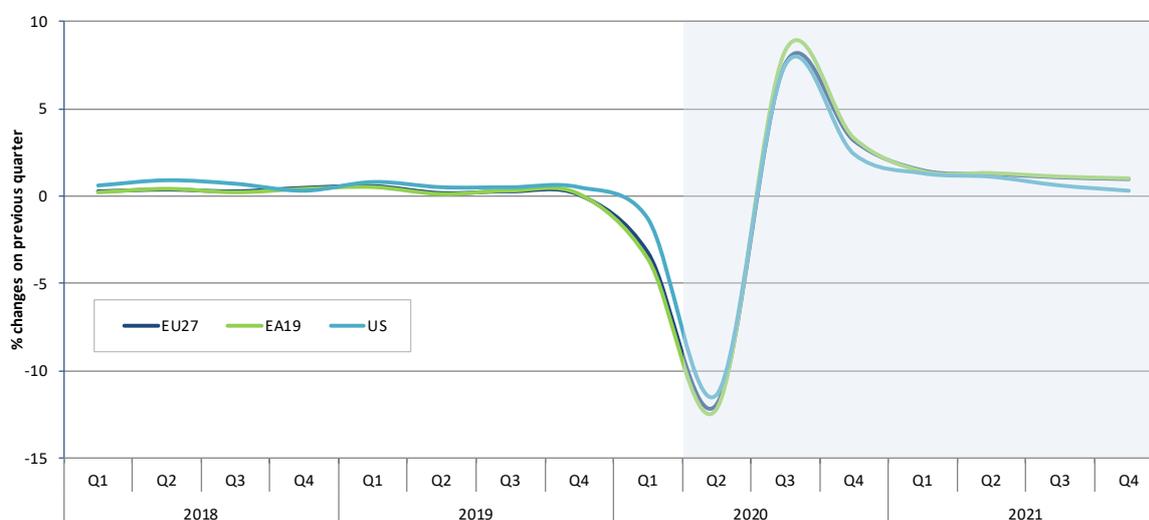
1. Macroeconomic outlook

Worldwide and EU GDP plummeted in the first quarter of 2020. GDP decreased by 3.2% in the EU and 3.6% in the euro area compared to the previous quarter. The year-on-year decline in the first quarter of 2020 was 2.6% in the EU27 and 3.2% in the euro area. The US economy declined at a slower pace, with real GDP decreasing by 1.3% over the last quarter of 2019 and a year-on-year growth of 0.3% (Chart 1).

The Commission's Spring economic forecast published on 6 May 2020² projects an even sharper decline in GDP in the second quarter of 2020 in the EU, before rebounding in the second half of the year. The expected improvements in the second half of 2020 and throughout 2021 are unlikely to be large enough to revert to the situation of end 2019. GDP is expected to decline by 7.4% in 2020 and to grow by 6.1% in 2021.

GDP declined in almost all Member States. Compared to the last quarter of 2019, the sharpest declines were observed in Italy, France (both -5.3%), Spain and Slovakia (both -5.2%). Ireland (1.2%), Romania, Bulgaria (both 0.3%) and Sweden (0.1%) are the only Member States where GDP increased in the first quarter of 2020. Year-on-year growth became also negative for most Member States, with the largest declines in Italy (-5.4%) and France (-5.0%), while Ireland (4.5%) and Romania (2.7%) recorded the strongest growth.

Chart 1: Real GDP growth – EU, euro area and US, 2018-2020 and forecast



Source: Eurostat, National Accounts, seasonally and calendar adjusted data [namq_10_gdp, naidq_10_gdp]. European Commission Spring Forecast for 2020Q2 onwards

Notes: Forecasts are in the shaded area

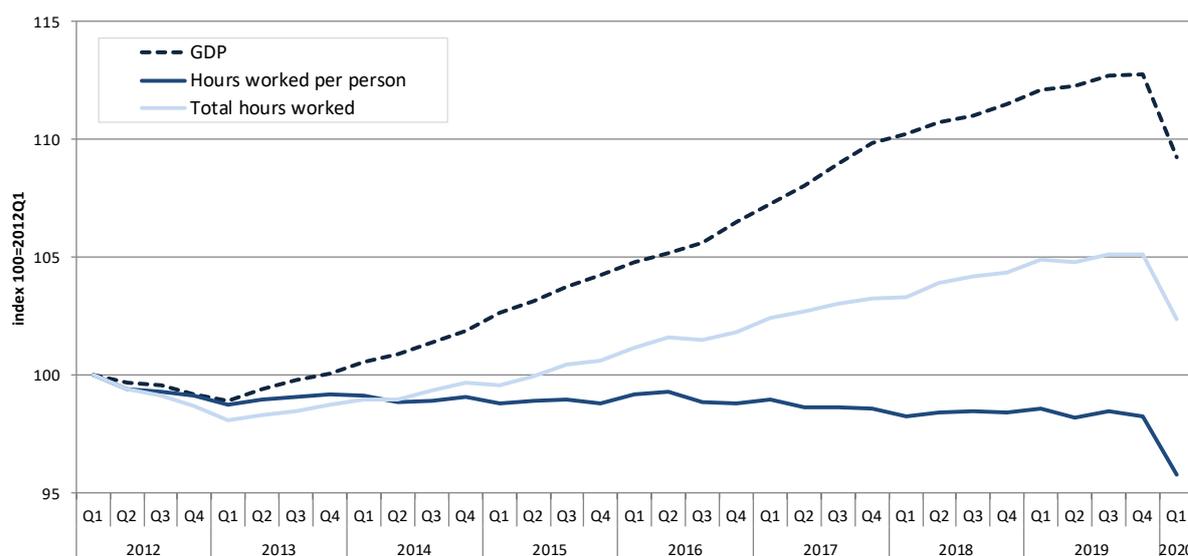
[Click here to download chart.](#)

In the first quarter of 2020, the COVID-19 pandemic had a very strong impact on both total hours worked and hours worked per person employed. The number of hours worked decreased by 3.1% in the euro

² European Commission (2020), *European Economic Forecast. Spring 2020*, Institutional paper 125, Luxembourg: Publications Office of the European Union. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/spring-2020-economic-forecast-deep-and-uneven-recession-uncertain-recovery_en

area and by 2.6% in the EU in the first quarter of 2020, compared to the previous quarter. Hours worked per person employed went again below 400 hours in the EU, reaching 396, and decreased to 381 in the euro area. Hours worked per person were already on stagnant trend before the COVID-19 crisis, and they are now more than 4% below the level in 2012. (Chart 2). As the crisis reduces considerably the hours worked, short-term work schemes can to a large degree soften the reduction in the number of jobs.

Chart 2: GDP and hours worked (total and per employed person), 2012-2019



Source: Eurostat, National Accounts [namq_10_gdp, namq_10_a10_e, namq_10_pe], seasonally and calendar adjusted data
Click here to download chart.

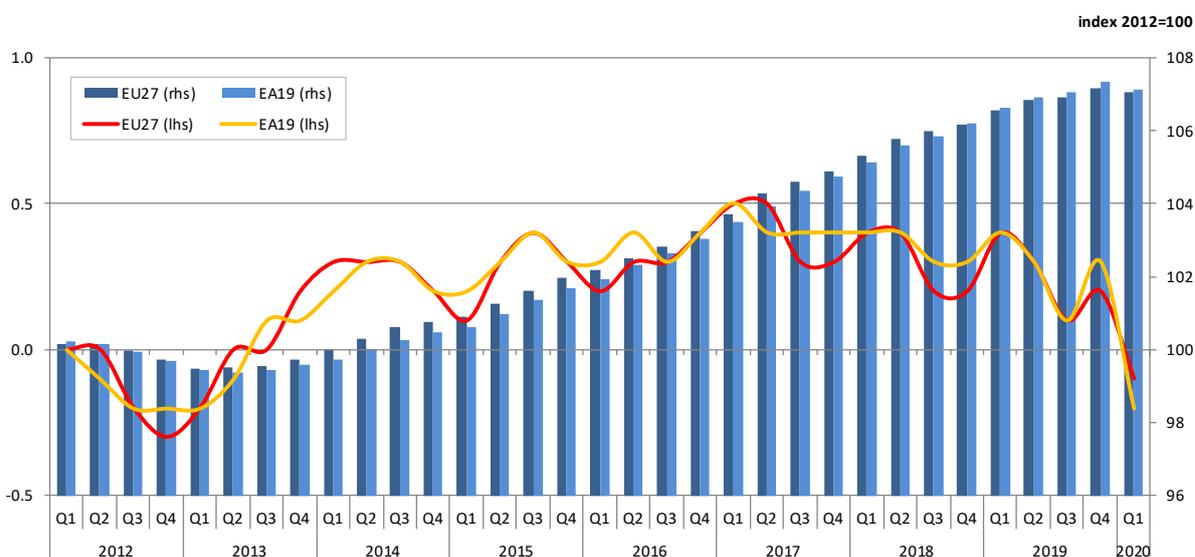
2. Employment

Before the beginning of the COVID-19 crisis, employment in the EU was on a moderately positive trend. In the last quarter of 2019³, the employment rate in the EU reached 73.3%, up 0.1pp from the third quarter of 2019 and up 0.6pp compared to the same quarter of 2018. On an annual basis the employment rate increased in almost all Member States. Also, permanent jobs increased by 2.6 million compared with the same quarter of the previous year and full-time employment creation accelerated in the last quarter of 2019, with an increase of 1.6 million people on an annual basis. Over the same period, the EU employment rate increased for almost all population groups, and especially for people aged 60-64 (1.7pp). The gender employment gap was 11.7pp in the last quarter of 2019, 0.1pp lower than in the last quarter of 2018.

However, employment declined in the first quarter of 2020 and is expected to decline by 4.4% in 2020 as a whole. The quarter-on-quarter decline in the first quarter amounted to 0.1% in the EU and by 0.2% in the euro area, whereas, building on progress in 2019, employment was 0.4% higher both in the EU and in the euro area compared to the first quarter of 2019 (Chart 3). Measures of employment protection, such as short-time work schemes, are likely to have slowed down the reduction in employment in the first quarter. It remains to be seen whether the interaction of sustained GDP reduction and policy measures will impact employment in the coming quarters. The Commission's Spring economic forecast predicts that after a decline of total employment by 4.4% employment will rebound by 3.3% in 2021.

³ Data on the employment rate and breakdowns for sex, age and type of contract are provided by the Labour Force Survey, whose latest release covers the last quarter of 2019. This is before EU Member States implemented the confinement measures to tackle the COVID-19 pandemic.

Chart 3: Employment level and employment growth – EU and euro area, 2012-2020



Source: Eurostat, National Accounts, seasonally and calendar adjusted data [namq_10_pe]

Note: Cumulative growth (bars, right-hand scale), % change on the previous quarter (lines, left-hand scale)

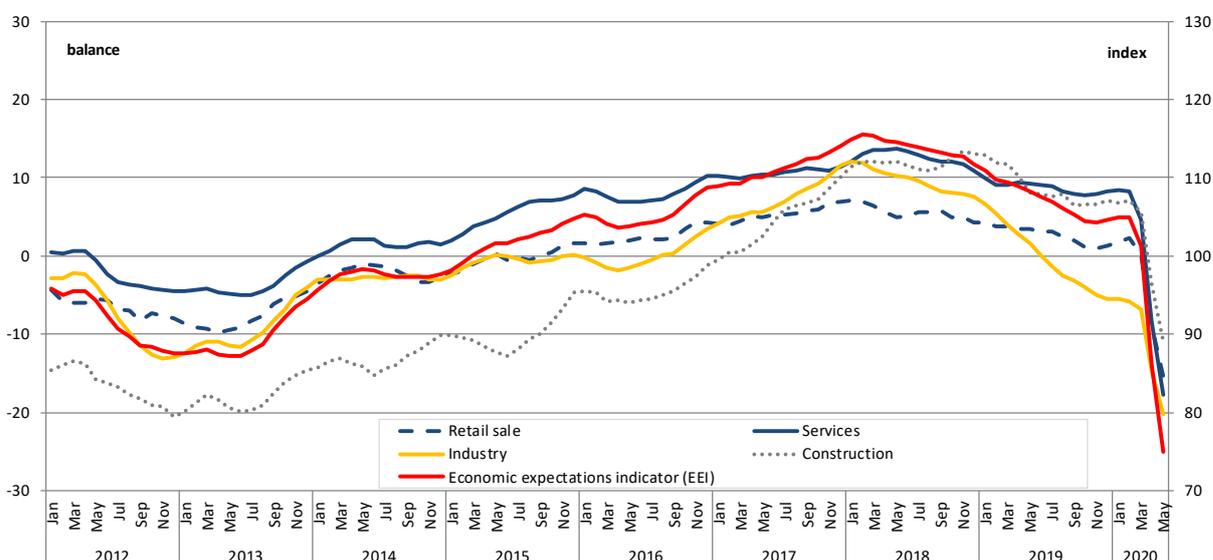
[Click here to download chart.](#)

In the first quarter of 2020, there were 209.1 million people in employment in the EU, of which 160.4 million in the euro area. Even though the number of employed people was respectively 0.2 million and 0.3 million lower than in the last quarter of 2019, it was still higher than in any previous reporting period. Total employment actually increased in several Member States in comparison to the last quarter of 2019, and in particular in Lithuania (1.6%) and Malta (1.3%), Croatia (1.0%) and Poland (0.9%). It fell however in twelve Member States and most notably in Spain (-1.0%), Bulgaria (-0.9%). Compared to the first quarter of 2019 it expanded in most Member States, and especially in Malta (6.4%) and Cyprus (2.4%), while the largest declines were observed in Bulgaria (-1.3%), Portugal and Slovakia (both -0.5%).

EU employment is behaving quite differently depending on the sector. Employment declined strongly from the last quarter of 2019 in agriculture (-0.8%), “real estate activities” (-0.6%) and “trade, transport, accommodation and food service activities” (-0.5%). On a quarterly basis, it grew the most in “information and communication” (0.9%) and “financial and insurance activities” (0.7%). Compared to the same quarter of 2019, “Information and communication” (3.1%) and construction (2.1%) are the sectors growing the most, while agriculture (-2.6%) and industry (-1.1%) are those recording the strongest declines in employment.

In May 2020, employment expectations plummeted across all sectors, as measured by the moving average of the last three months of the Employment Expectations Indicator (EEI) index. They are the lowest in the industry sector, although the sharpest change in comparison to February 2020 occurred for the services sector (Chart 4). However, the EEI index recovered in May compared to April (from 59.6 to 70.9), which is not yet visible in the three-months moving average.

Chart 4: Employment expectations by sectors – EU, 2012–2020



Source: European Commission, Business and Consumer Surveys [ei_bsee_m_r2]. Data seasonally adjusted, moving averages over last three months

Notes: Retail sale, services, industry and construction indicators are on the left-hand scale. The balance is between the share of respondents who expect higher unemployment and those who expect a lower one. The EEI is a composite measure (right-hand scale, average=100). [Click here to download chart.](#)

3. Unemployment

The unemployment rate in the EU and euro area increased slightly in April 2020, when most Member States had COVID-19 containment measures in place. In April 2020, it rose to 6.6% in the EU and 7.3% in the euro area, in both cases 0.2pp more than in March. Compared to the unemployment rate recorded in the same month of the previous year, this represents a reduction of 0.2pp in the EU and 0.3pp in the euro area (Chart 5). The change in trend towards an increase in unemployment rates could in any case accelerate in the coming months, due to the prolongation of the economic crisis and depending on the measures taken by Member States and companies to preserve employment⁴.

In April 2020, there were 14.1 million unemployed people in the EU and 11.9 million in the euro area, compared to 13.7 million and 11.7 million, respectively, in March 2020. The unemployment rate is higher for women than for men by 0.4pp, a difference that is becoming narrower in recent months (it was between 0.6 and 0.8 for most of 2019 and beginning of 2020).

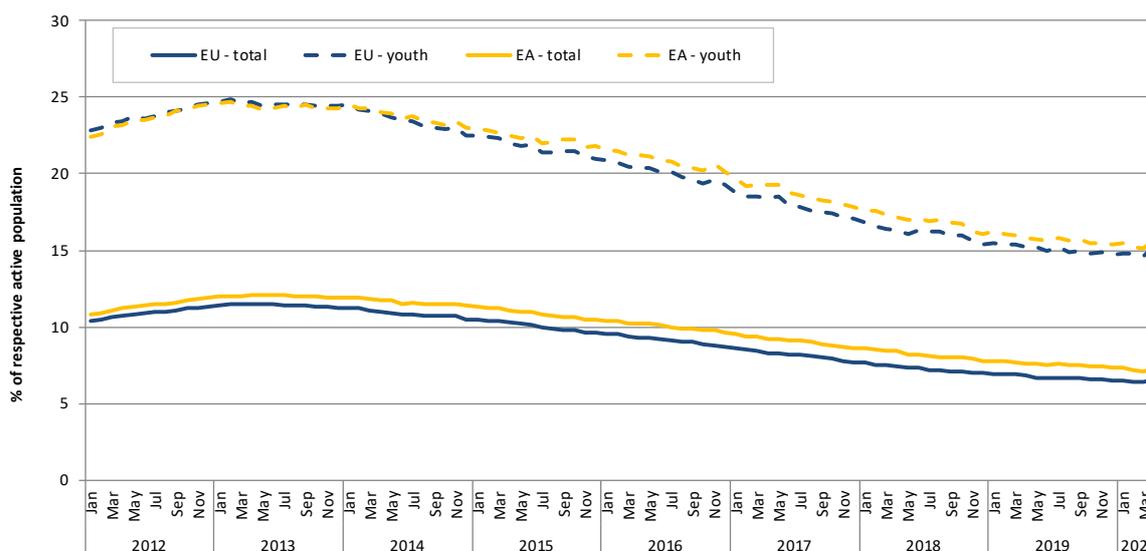
The unemployment rate increased in almost all Member States, but with some notable exceptions. On a monthly basis, the largest increase was registered in Cyprus (2.2pp), Lithuania (2pp) and Bulgaria (1.7pp), while Italy recorded a sharp decrease (-1.7pp), Denmark a small reduction (-0.1pp), and Germany, Poland, Austria and Finland no change. Compared to March 2020, the unemployment rate for women declined strongly in Italy (2.6pp) and recorded the largest increase in Cyprus (2.7pp), Lithuania (1.9pp) and Latvia (1.8pp).

In April 2020, youth unemployment stood at 15.4% in the EU, 0.8pp higher than in the previous month. In the euro area the increase was 0.7pp compared to March 2020. There were in April 2020 2.8 million young unemployed people in the EU and 2.2 million in the euro area, against 2.6 and 2.1, respectively, in the previous month.

⁴ European Commission (2020), op. cit., p.53.

Most Member States recorded an increase in youth unemployment compared to March 2020. Compared to the previous month, the highest increases were observed again in Bulgaria (7.5pp), Sweden (5.6pp) and Slovakia (4.6pp), while the largest decreases were recorded in Italy (-6.2pp) and Czechia (-0.4pp). The youth unemployment rate in Greece remained the highest in the EU (35.6%, February data), on the rise in the last four recorded months, followed by Spain (33.2%) and Luxembourg (24.7%).

Chart 5: Unemployment rate and youth unemployment rate – EU and euro area, 2012–2020

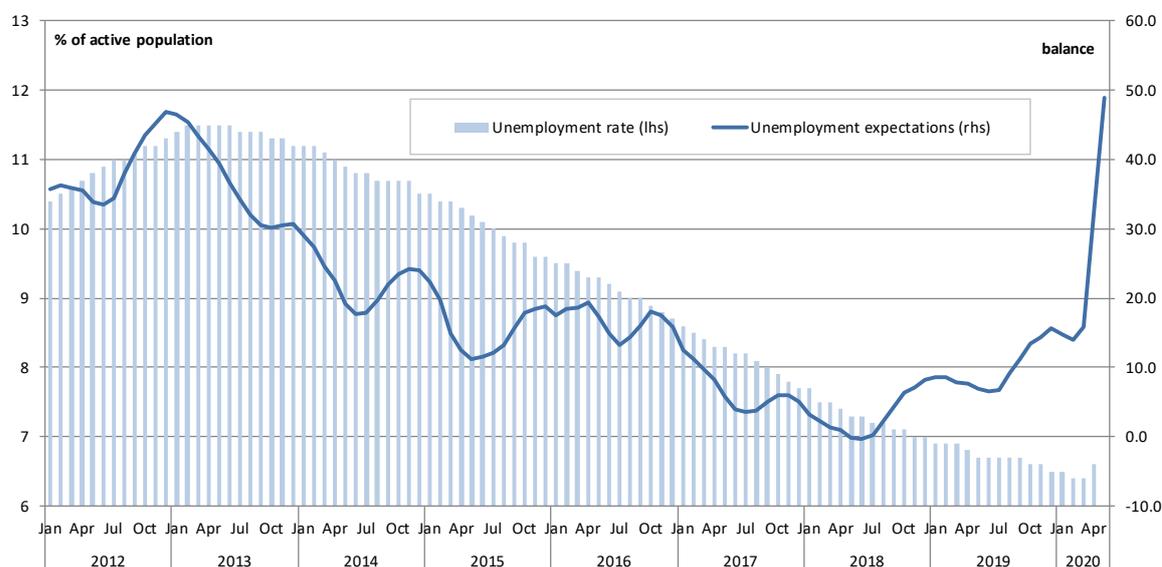


Source: Eurostat, series on unemployment, seasonally adjusted data [une_rt_m]
[Click here to download chart.](#)

Unemployment expectations, measured within the EU Business and Consumer Surveys (BCS), skyrocketed in April and May 2020 following the moderate positive trend that had started in mid-2018. The worsening of expectations (Chart 6) is coherent with the rise in unemployment foreseen by the European Commission Spring Forecast in the second half of 2020.

The Commission’s Spring economic forecast predicts a rise of the unemployment rate to 9.0% in 2020, followed by a decline to 7.9% in 2021. Forecasts by the IMF World Economic Outlook point to slightly higher unemployment rates in the euro area than what the European Commission predicted.

Chart 6: Unemployment rate versus unemployment expectations – EU, 2012–2020



Source: European Commission, Business and Consumer Surveys and Eurostat, LFS, seasonally adjusted data [ei_bscs_m, une_rt_m]

Notes: Unemployment expectations: consumers' expectations for unemployment in the country over next 12 months, moving average over past 3 months. The balance is between the share of respondents who expect higher unemployment and those who expect a lower one
[Click here to download chart.](#)

4. Long-term unemployment and additional potential labour force

In the fourth quarter of 2019, long-term unemployment, which captures people in unemployment for a year or more, decreased by 0.3pp compared with the same quarter of the previous year and reached 2.7%. The very long-term unemployment rate, which captures people in unemployment for at least two years, decreased also by 0.3pp, to 1.6% of the labour force.

There were around 5.7 million people in unemployment for more than a year in the EU, of whom 3.5 million for more than two years. This number observed in the fourth quarter of 2019 represented 700 thousand fewer people in long-term unemployment than in the fourth quarter of 2018, including 400 thousand less in very long-term unemployment. The share of long-term unemployed in total unemployment declined at 40.8%, 2.3pp less than in the last quarter of 2019, while the share of very long-term unemployed in total unemployment also declined by 2.1pp and was 24.9%.

The activity rate in the EU for the 15 to 64 age group reached 73.6% of the population in the last quarter of 2019, 0.4pp higher than in the same quarter of 2018. With just a few exceptions, all Member States, registered a year-to-year increase in their activity rates. The strongest increases were observed in Bulgaria (1.9pp) and Romania (1.3pp), while decreases occurred in Slovenia, Belgium (both -0.4pp) and Czechia (-0.1pp). The activity rate of men in the EU is 1pp higher than that of women (79.1% and 68.1%), a difference that has roughly remained stable in the last months.

In the EU, the share of people aged 15-24 who are neither in employment nor in education or training (NEET) reached 9.9% in the fourth quarter of 2019, decreasing by 0.2pp in the EU compared with the same quarter of the previous year. In the euro area it also decreased by 0.2pp to reach 10.0%.

Compared with the last quarter of 2018, the NEET rate increased in about half of the Member States and shrank in the other half. The strongest decreases were recorded in Estonia (-5.8pp), Latvia (-1.9pp) and Greece (-1.8pp). The NEET rate rose most largely in Slovakia (1.8pp), Slovenia (1.0pp), Denmark and Belgium (both 0.9pp). Italy remained the Member State with the highest rate (17.8%) and the Netherlands the one with the lowest one (4.2%).

The three supplementary indicators to unemployment ('available for work but not seeking', 'underemployed' and 'seeking but not available for work') used to monitor the evolution of underemployment and the potential additional labour force keep their moderately decreasing trend in the last quarter of 2019.⁵ However, it will be crucial to monitor the behaviour of these indicators when the data for the first quarter of 2020 are released, as they can identify some of the people left at the edge of the labour force during the COVID-19 lockdown. The proportion of workers in the EU who are 'Available to work but not seeking' (which includes the so-called category of 'discouraged') stood at 3.0% of the labour force in the last quarter of 2019, down 0.3pp compared to the same quarter of the previous year. 'Underemployment', i.e. the proportion of those who would like to work additional hours and are available to do so, decreased by 0.2pp and represented 2.9% of the labour force. The rate of those 'Seeking but not available for work' has remained stable at 0.9% of the labour force for the last years.

5. Labour demand

The level of the unmet demand for labour, as expressed by the job vacancy rate⁶, decreased after remaining stable at a high level for six quarters at 2.2%. In the first quarter of 2020, the vacancy rate stood at 1.9% in the EU27 (-0.3pp compared to the previous quarter). In the euro area, this indicator was at 2.0%, -0.2pp compared to the previous quarter. At the same time, the labour shortage indicator⁷, a sentiment indicator in the manufacturing sector, remained broadly stable in the first quarter of 2020 at 14.0% after having decreased five times in a row. However, as a consequence of the COVID-19 crisis, this indicator sharply dropped at 8.6% in the second quarter (-5.4pp compared to the previous quarter and -8.6pp compared to the same quarter of the previous year), representing the lowest level since the second quarter of 2016. Until this last value, these developments already suggested that, despite the fact that labour markets were still tight in most Member States, labour shortages were shrinking. At national level, the job vacancy rate ranged⁸ from 0.7% in Greece to 5.7% in Czechia. Unfortunately, most values for Member States refer to 2019 Q4 and some to 2020 Q1 are difficult to compare due to the effect of the crisis.

While labour shortages continued to decrease, unemployment remained stable. In the fourth quarter of 2019, the unemployment rate in the EU stood at 6.3%. Overall, for more than one year, the Beveridge curve (Chart 7), which plots the unemployment rate against the labour shortage indicator, started a new trend towards a decrease in labour shortages. As already mentioned above, more recent developments suggest a sharp decrease in the second quarter of 2020 as a result of the COVID-19 crisis.

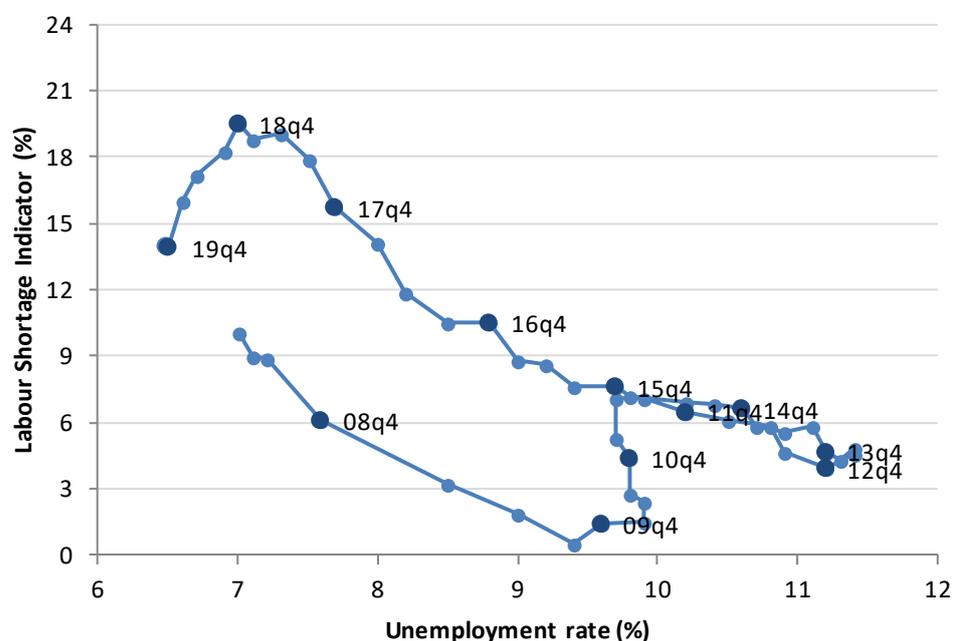
⁵These indicators are measured as a percentage of the labour force. They are also called supplementary indicators to unemployment (SIU).
https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Underemployment_and_potential_additional_labour_force_statistics

⁶ The Job Vacancy rate is the number of job vacancies divided by the sum of occupied posts and job vacancies.

⁷ The indicator presented here is published as part of the EU Business and Consumer Surveys. It reflects to what extent businesses see the availability of labour as a factor that limits production.

⁸ While EU27 and EA averages are available for 2020 Q1, the latest observation is 2019 Q4 for most individual Member States.

Chart 7: Beveridge curve – EU, 2008-2019



Source: Eurostat, LFS and European Commission, Business and Consumer Surveys [une_rt_q, ei_bsin_q_r2]. Seasonally-adjusted data.

Note: Labour shortage indicator derived from EU business survey results (% of manufacturing firms pointing to labour shortage as a factor limiting production).

[Click here to download chart.](#)

In the fourth quarter of 2019, stability in employment and exit from unemployment were high probably denoting an important hiring activity in the EU. In the fourth quarter of 2019, at EU level (excluding Germany and Malta), the transition rates of people aged 15-74 from one status on the labour market to another remained similar to those in the previous quarter. 96.4% of the people in employment in the third quarter of 2019 were still working in the fourth quarter. In the same period, 21.2% of the unemployed were back to work, while 23.1% of the same group moved to inactivity. 6.6% of the inactive people changed their status, half to employment (3.3%) and half to unemployment (3.3%).

6. Income and financial situation of households

In the fourth quarter of 2019, the financial situation of households continued to improve in the EU driven by the growth in compensation of employees. The impact of COVID-19 crisis is still not reflected in available data, but the last ECFIN forecast projects a decrease of real GDHI by around -1.5% in 2020 and a partial rebound by about 1% in 2021⁹. Aggregate labour income is foreseen to decrease in 2020 due to deferred decisions about hiring new employees, the reduction of hours or staff numbers, effects that are expected to be only partially mitigated by public measures. Current data show that the real gross disposable income of households per capita rose for 26 consecutive quarters in the EU and for 25 quarters in the euro area. It has been higher than GDP growth in the last four quarters, even if the pace remained slightly slower in the latter. In the EU, the fourth quarter of 2019 was 2.3 points higher¹⁰ than in the same quarter of 2018 (1.9 points in the euro area), and 9.5 points above the average level recorded in 2012 (7.9 points in the euro area). Income from work continued to be the main driver of this growth in real GDHI, with a growth of 1.8% in the compensation of

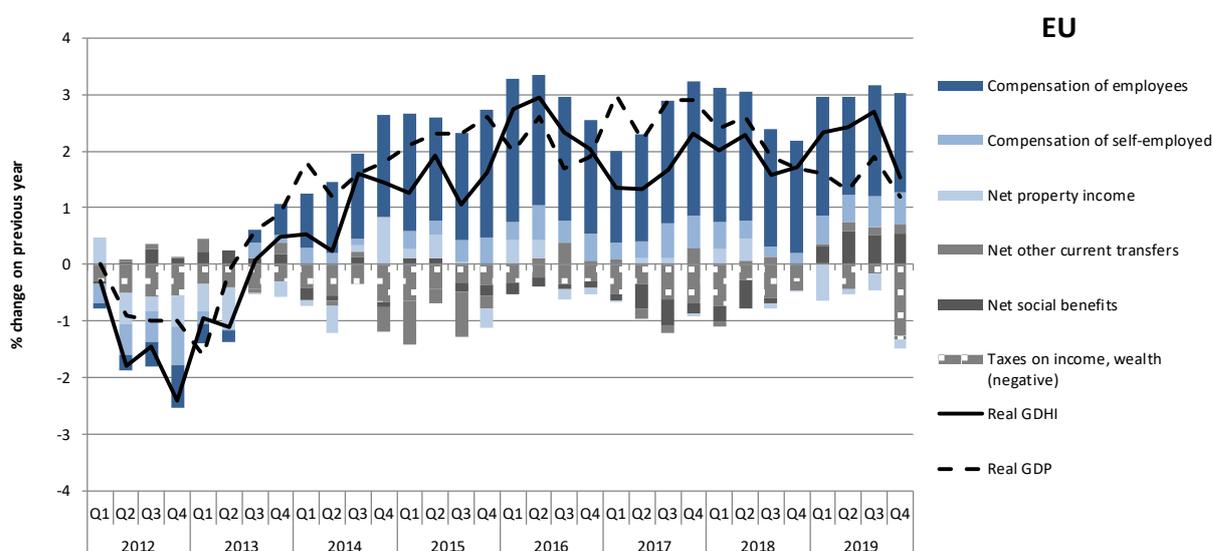
⁹ European Commission (2020), op. cit.

¹⁰ Index: 2012Q4=100

employees. In the last four quarters, net social benefits increased for the fourth time in a row (growth rate of 0.5% for the fourth quarter) and net property income decreased for the sixth consecutive quarter (-0.2%).

Developments of real GDHI per capita were positive in almost all Member States. In the fourth quarter of 2019, real GDHI per capita¹¹ grew on a yearly basis in all the Member States with available information, except Finland (-4.4 points) and France (-1.1 points)¹². The pace of GDHI growth was strong in most of them, with an increase of 10.9 points in Poland and equal or above 3.0 points for Romania (8.6 points), Czechia (6.4 points), Ireland (3.2 points) and Denmark (3.0 points). At the same time, GDHI growth in Italy, the Netherlands and Slovenia displayed low increases equal or below 0.5 points (0.5, 0.4 and 0.3 points, respectively).

Chart 8: Real GDP growth, real GDHI growth and its main components, 2012-2019



Source: Eurostat, National Accounts, unadjusted data [namq_10_gdp, nasq_10_nf_tr] (DG EMPL calculations)

Note: GDHI EU aggregate for Member States for which data are available, GDP for EU27.

[Click here to download chart.](#)

Despite the positive developments of GDHI in 2019, the latest data available confirmed that the proportion of people reporting financial distress has increased unevenly. Reported financial distress¹³ is defined as the need to draw on savings or to run into debt to cover current expenditures, based on personal perceptions. From its historical peak of 17.4% recorded in March 2014, it gradually declined to 12.7% of the population and remained stable from February to May 2019, but it has slowly increased since then (Chart 8). In May 2020, 13.7% of the population – an increase of 1.3pp compared to the same month one year before – declared the need to draw on savings (9.9%; +0.8pp) or to run into debt (3.8%; +0.5pp). However, no strong effect of the COVID-19 crisis was detected in the April and May 2020 data, also in view of the forecasted drop in private consumption.

Financial distress increased especially for those on low incomes. In May 2020 this indicator value reached 23.3% (+2.0pp) for the lowest quartile of incomes, in contrast with 7.6% (+1.0pp) for the wealthiest quartile (Chart 98). Increases were also recorded for the second and third quartiles of the population (respectively at 15.4% (+1.6pp) and 12.0% (+1.9pp)).

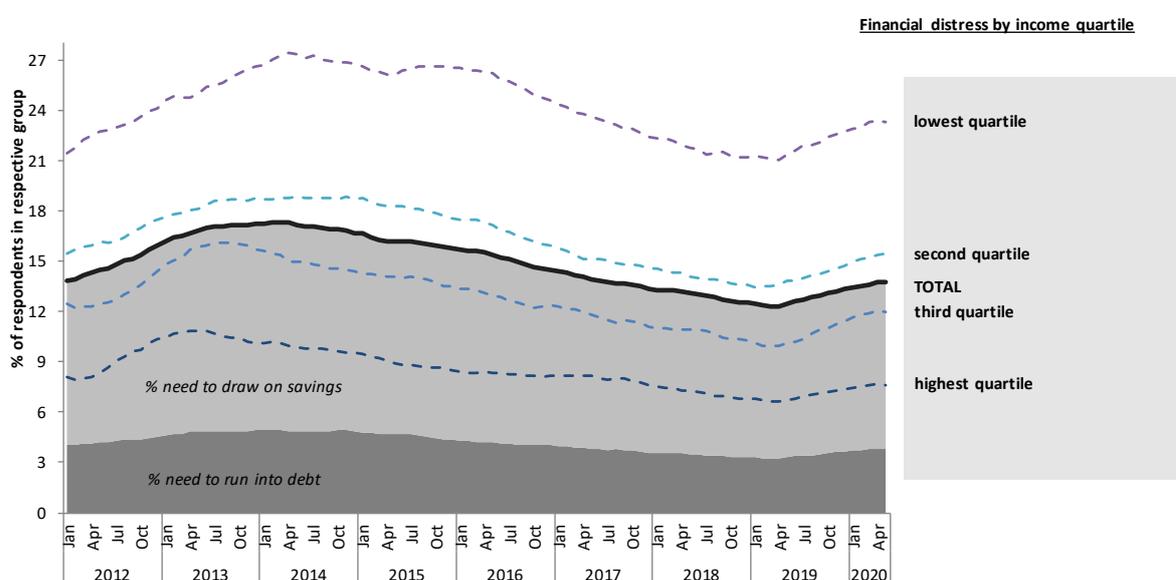
¹¹ Idem.

¹² Considering that the data are not seasonally adjusted these figure can change from quarter to quarter.

¹³ For details on Business and Consumer Surveys, including consumer survey's question on the current financial situation of households, see http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm

Reported financial distress has increased for the lowest income quartile in several Member States, but a large diversity in levels and trends persists. In the first quarter of 2020, and on a yearly basis, financial distress increased in several countries and especially in Germany (+9.1pp; at 16.4%), Belgium (+6.6pp; at 36.6%), Finland (+4.8pp; at 25.4%), Czechia (+4.6pp; at 14.9%) and Lithuania (+3.9pp; at 16.1%). France was the country with the highest overall share (37.4%; +0.1pp), followed by Belgium (36.6%; +6.6pp) and Spain (30.8%; -2.5pp), all above 30.0%¹⁴. The strongest decreases were recorded in Malta (-14.4pp; at 14.5%), the Netherlands (-7.0pp; at 26.5%) and Portugal (-4.6pp; at 15.0%). Estonia remains at very low levels (0.7%; -2.8pp), while Sweden and Luxembourg are the only other countries to record a share of financial distress for the lowest income quartile below 10% (respectively at 6.7% (-1.1pp) and at 9.9% (+2.9pp)).

Chart 9: Reported financial distress by income quartile – EU, 2012-2020



Source: European Commission, Business and Consumer Surveys, unadjusted data, 12-months moving average (DG EMPL calculations).
Note: Horizontal lines show the long-term averages for financial distress for the population as a whole and for households in the four income quartiles. The overall share of adults reporting having to draw on savings and having to run into debt are shown respectively by the light grey and dark grey areas, which together represent total financial distress.
[Click here to download chart.](#)

¹⁴ In the fourth quarter of 2012, the share of population in financial distress was above 30.0% in eleven countries.

Part II – Thematic focus:

Unemployment benefit systems: an analysis of their adequacy so far and their importance in the light of the COVID-19 crisis

The COVID-19 crisis is expected to have unprecedented consequences on the labour market as suggested by the number of people already laid off due the pandemic across the EU. Against this background and the generalised call for EU solidarity, the European Commission proposed a major recovery instrument called “Next Generation EU” on 27th May 2020. Its aim is “to help repair the economic and social damage brought by the coronavirus pandemic, kick-start European recovery, and protect and create jobs”.¹⁵ This exceptional instrument is expected to provide support to Member States facing budgetary pressures of unemployment benefit schemes that will very likely remain elevated in the medium term following projections of high unemployment also after 2021.¹⁶ Vulnerable workers, such as young people with short contribution records and low wage levels, seem to be the most at risk of unemployment¹⁷ (as it happened during the 2008 crisis¹⁸). Therefore, shedding light on the different length and level of income protection for people who lose their job, based on their previous career history and wage level, could be informative in the current situation. However, it is important to stress that many Member States have currently reinforced their unemployment benefits to cope with the COVID-19 crisis (e.g. by extending duration or easing eligibility requirements). Therefore the situation depicted here, which is based on 2019 policy rules, may not be fully representative of the current reality.

The main elements of the design of unemployment benefit systems are the duration and the level.

The initial income support for the unemployed is provided through contributory unemployment insurance systems in which the income support depends on the previous wage, as well as from the contribution record of the person. Contributory unemployment insurance systems are typically time-limited, their amount usually decreases over time and their duration can be either fixed or increasing with the length of the contribution record. Unemployment insurance benefits are limited in time as they are meant to only provide effective protection against temporary income losses associated with joblessness. After rights to contributory unemployment insurance systems are exhausted, many EU countries have a second tier benefit, such as unemployment assistance targeted at the unemployed, and generally means-tested. Once this is exhausted, beneficiaries need to rely on generic social assistance programmes, such as minimum income schemes, which main objective is to alleviate poverty and smooth consumption.

Another important aspect of the design unemployment benefit systems concerns the eligibility. In all Member States, entitlement to unemployment insurance benefits depends on previous contributions records. Stricter eligibility conditions translate into less unemployed being entitled to benefits, thus lower coverage. To be entitled, unemployed are generally required to have a minimum contribution record and as a consequence, individuals with short employment spells and less continuous work histories are often less covered by unemployment benefits. Age is another aspect that may have an influence on entitlement to unemployment benefits. For instance, in some countries such as Belgium and Portugal, different age brackets are considered, and for each of them a different amount of working days is required within a certain reference time.

Based on the OECD TaxBen model,¹⁹ this Section proposes a comparative analysis of different types of workers: short vs. long term contribution records (e.g. from 2 months to more than 5 years) and minimum wage and low-wage (67% of the average wage) vs. average wage. The adequacy of unemployment benefits for

¹⁵ https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en

¹⁶ European Commission (2020), Staff Working Document accompanying the EU Communication “Europe’s moment: Repair and Prepare for the Next Generation” (COM(2020) 456 final).

¹⁷ ILO (2020), “ILO Monitor: COVID-19 and the world of work. Fourth edition Updated estimates and analysis”: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_745963.pdf

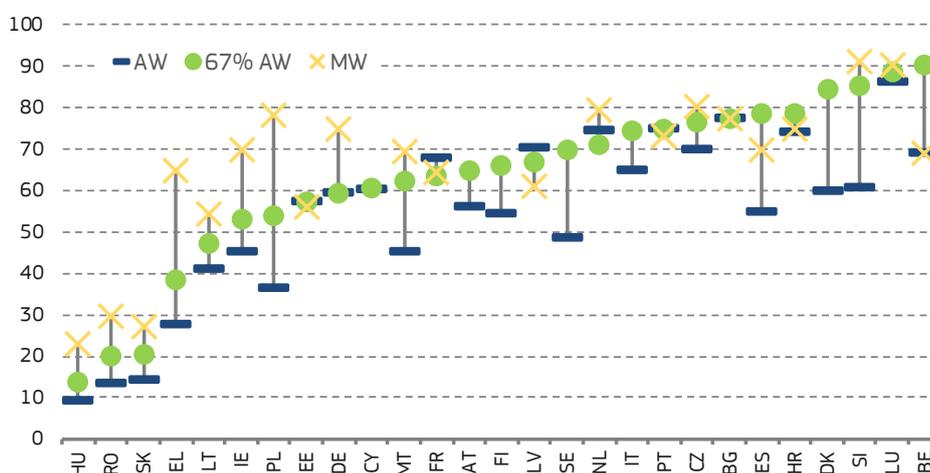
¹⁸ European Commission (2017), “Employment and Social Developments in Europe Review”: <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8030>

¹⁹ Information on the OECD TaxBEN model are available at: <http://www.oecd.org/social/benefits-and-wages/>.

different types of workers and at different unemployment spells is analysed through net replacement rates²⁰ (NRRs), which show the proportion of the net household income before the job loss that is maintained when the job loss occurs. Net replacement rates can be analysed at any particular month of the unemployment spell. The following analysis focuses on single person households aged 30 years old. Given that young workers are disproportionately affected by the COVID-19 crisis²¹ the relatively young age of the typical individual has been selected on purpose.

The adequacy of unemployment benefits varies significantly across the EU. When comparing net replacement rates for low-wage individuals (i.e. with previous earnings equal 67% of the average wage), who are generally among the main beneficiaries of unemployment benefits, it emerges that these range from below 20% in Hungary to 90% in Belgium, with most countries ranging between 60% and 80% of the previous income (Chart 10, green dot). The indicator presented in Chart 10 is one of the indicators agreed by the Employment Committee (EMCO) in the context of the benchmarking²² exercise of unemployment benefits and ALMPs. The benchmarking framework on unemployment benefits and ALMPs was first used in the 2018 European Semester, including indicators on the generosity and coverage of unemployment benefits and related activation policies.²³

Chart 10: Net replacement rates for individuals previously earning different wage levels, 2019



Source: DG EMPL elaborations based on OECD TaxBEN model.

Note: The different wage levels considered in the Chart are: average wage (AW), 67% average wage (67% AW) and minimum wage (MW). Calculation for a single person household aged 30 years old, at the 2nd month of unemployment and with 1 year of contribution records. This Chart includes the different income components, unemployment benefits and other benefits (such as social assistance and housing benefits). No statutory minimum wages exists in Cyprus, Italy, Austria, Finland, Sweden and Denmark.

The proportion of the net household income before the job loss that is maintained when people lose the job is generally higher the lower the wage was before losing the job. For instance, minimum wage workers receive the highest share of their previous income once they become unemployed compared to all other workers in the majority of countries with a statutory minimum wage in place (Chart 10, yellow cross). There are however few exceptions such as Latvia, Belgium, Spain but also to a lesser extent Croatia, Portugal, France and

²⁰ The net replacement rate (NRR) is defined as the net household income before the job loss divided by the net household income after t months of unemployment. The net replacement rate includes different types of benefits available such as social assistance and housing benefits (to factor in possible interrelations with other benefits) and is calculated in terms of a specified percentage of previous earnings (also reflecting the levels of floors and ceilings).

²¹ ILO (2020), *ibid*.

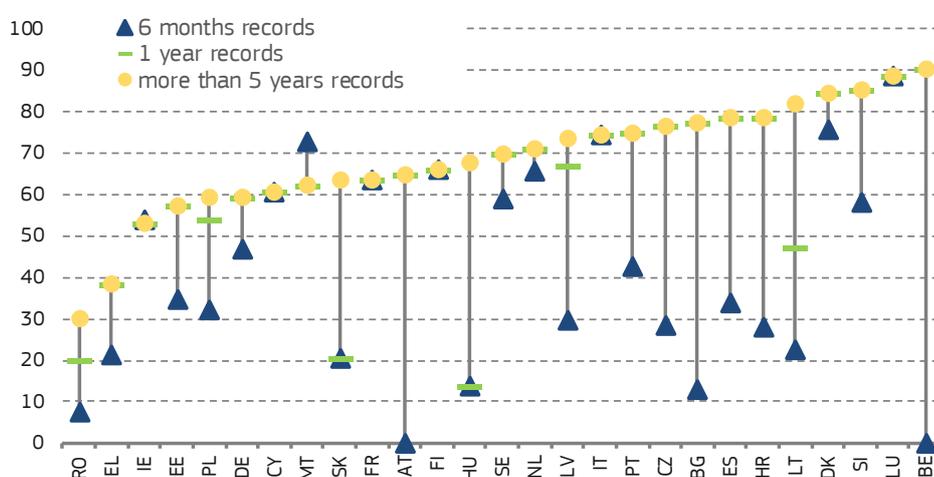
²² The Communication of 26 April 2017 establishing a European Pillar of Social Rights (COM(2017) 250 final) identified benchmarking as a key tool to support structural reforms and foster upward convergence in the employment and social fields within the European Semester.

²³ Work is ongoing on the development of indicators to finalise the framework in relation to the quality of early-support services to job seekers.

Estonia. Due to benefit ceilings, in the majority of EU countries net replacement rates are lower for individuals with average wage (Chart 10, blue bar).

The initial income support for the unemployed (i.e. at the second month of unemployment) depends not only on the previous wage but also on the length of contribution records. In most countries, individuals with long career histories (i.e. with more than 5 years of contribution records) have the highest net replacement rates (Chart 11, yellow dots).²⁴ In some countries, their entitlement does not differ from that of individuals with short contribution records (i.e. one year, green bars in Chart 11), and less often does not differ from the entitlement of individuals with very short contribution records (i.e. 6 months, blue triangles in Chart 11). Overall, net replacement rates seem to depend on the length of contribution records in one way or another, with the only exception of Ireland, Cyprus, France, Finland, Italy and Luxembourg where the initial unemployment benefit (i.e. at the second month of unemployment) is the same, irrespective of the months worked.

Chart 11: Net replacement rates for individuals with different contribution records, 2019



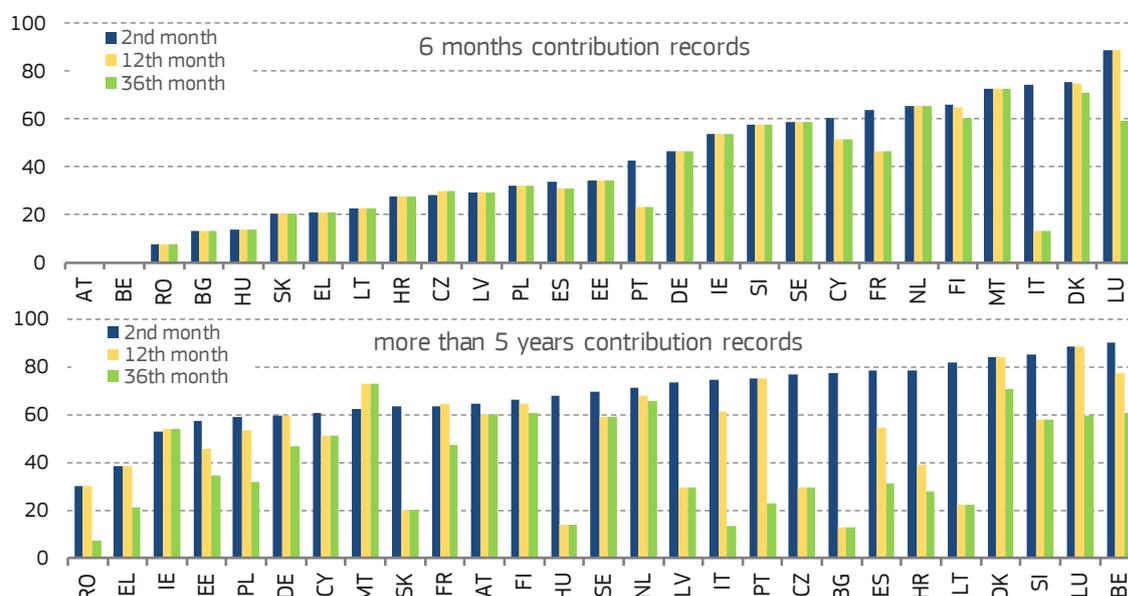
Source: DG EMPL elaborations based on OECD TaxBEN model.

Note: Calculation for a single person household aged 30 years old, at the 2nd month of unemployment, previously earning 67% AW. This Chart includes the different income components, unemployment benefits and other benefits (such as social assistance and housing benefits).

The income support received over time (during different unemployment spells) generally decreases due to the transition from unemployment insurance to unemployment assistance. In the majority of EU countries very short contribution records (i.e. of 6 months) provide entitlements to social assistance benefits, but not to unemployment insurance. For this reason, net replacement rates for unemployed with very short career histories are generally low and stable over the different unemployment spells (Chart 12, first panel), with the exception of Portugal, Cyprus, France, Finland, Italy, Denmark and Luxembourg. Unemployed people with long work histories (Chart 12, second panel) generally have higher income support than those with short careers at the beginning of the unemployment spell (comparison of blue bars between first and second panel in Chart 12). This is due to the fact that they are entitled to unemployment insurance. When the unemployment insurance expires, the transition to unemployment assistance (or social assistance) leads to a decline in net replacement rates. The maximum duration of unemployment insurance benefits varies from less than six months in Hungary to close to three years in Sweden.

²⁴ The only exception is Malta where individuals with very short contribution records have the highest net replacement rates. This is due to the fact that the unemployment assistance (the only one to which individuals with very short contribution records have access to) is higher than the unemployment insurance in Malta and the two benefits cannot be combined.

Chart 12: Net replacement rates at different unemployment spells, 2019



Source: DG EMPL elaborations based on OECD TaxBEN model.

Note: Calculation for a single person household aged 30 years old and previously earning 67% AW. This Chart includes the different income components, unemployment benefits and other benefits (such as social assistance and housing benefits). In the first panel no values are reported for Austria and Belgium as unemployed people with 6 months of contribution records are not entitled to unemployment benefits in these countries.

The design of unemployment benefit systems differs across Member States and in some countries it has evolved significantly over time. The generosity of the unemployment benefits, as measured by net replacement rates for low-wage individuals (i.e. with previous earnings equal 67% of the average wage) with one year of contribution records at the second month of unemployment, remained rather stable in the majority of EU countries between 2005 and 2019 (Chart 13). However, in some Member States significant changes were registered. This is notably the case of Belgium where until 2012 more than one year of contribution records was required to get the unemployment benefit. This condition was changed by a reform of the unemployment benefit system in 2012 that also extended the number of workers facing declining unemployment schedules over the unemployment spell and made the decline generally steeper.²⁵ Portugal experienced a sharp decline in net replacement rates between 2006 and 2007, and then a sharp increase between 2011 and 2012 following reforms of unemployment benefits systems. Other countries with significant changes in unemployment benefit's generosity over time are Hungary, Lithuania, Romania, Greece, Malta, Sweden and Czechia.

²⁵ OECD (2020) "The design of unemployment benefits schedules over the unemployment spell: The case of Belgium".

Chart 13: Net replacement rates' trends, 2005-2019



Source: DG EMPL elaborations based on OECD TaxBEN model.

Note: Calculation for a single person household aged 30 years old, at the 2nd month of unemployment, previously earning 67% AW and with 1 year of contribution records. This Chart includes the different income components, unemployment benefits and other benefits (such as social assistance and housing benefits). Between 2005 and 2012 the NRR is zero in Belgium as more than 1 year of contribution records were required to be entitled to unemployment benefits.

This Section has illustrated how unemployment benefit systems differ widely across the EU, with various levels of net replacement rates for different former wage levels, contribution records and unemployment spells. This is translated into different levels of financial work incentives. Overall, the proportion of the net household income before the job loss that is maintained when people lose the job ranges from below 30% in some Eastern European countries (i.e. Hungary, Romania and Slovakia) to above 80% in Belgium, Luxembourg, Denmark and Slovenia. While it is clear that higher net replacement rates play an important role in terms of poverty reduction, their impact depends on the interaction with other benefits and the whole taxation system.

Particularly in the context of a crisis, it is crucial that unemployment benefits are designed in such a way as to keep a balance between adequate income replacement and sufficient incentives to work.

A way to maintain high work incentives for unemployment benefit recipients is to promote ALMPs (including job search) and trainings (meant to re-skilling and up-skilling) during the whole unemployment spell. Maintaining high work incentives is important also in the case of short time working (STW) schemes²⁶ that are being widely used following the COVID-19 outbreak.²⁷ In addition, a good balance between in-work and out-of-work benefits must be promoted through national debates. Finally, in order to help alleviating poverty, unemployment benefits must not only be adequate (while maintaining strong work incentives), but should also provide high coverage.

²⁶ STW schemes are defined in the "2020 European Commission regulation proposal on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak" (COM(2020) 139 final). STW are "public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked".

²⁷ As STW schemes consist in subsidized reductions in working time they can "induce inefficient reductions in working time in the absence of work incentives that would limit their recourse" (Cahuc, P. (2020) "Short-time work compensation schemes and Employment" IZA World of Labor 2019: 11 doi: 10.15185/izawol.11.v2.).

Annexes

- 1) Quarterly recurrent Excel file with main charts
- 2) Excel files with charts per Member State and for the EU and euro area
 - i. Real GDP growth, real GDHI growth, employment growth and unemployment rates
 - ii. Real GDP growth, employment growth, real GDHI growth and its main components
 - iii. Employment growth by sectors
 - iv. Beveridge curves

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