

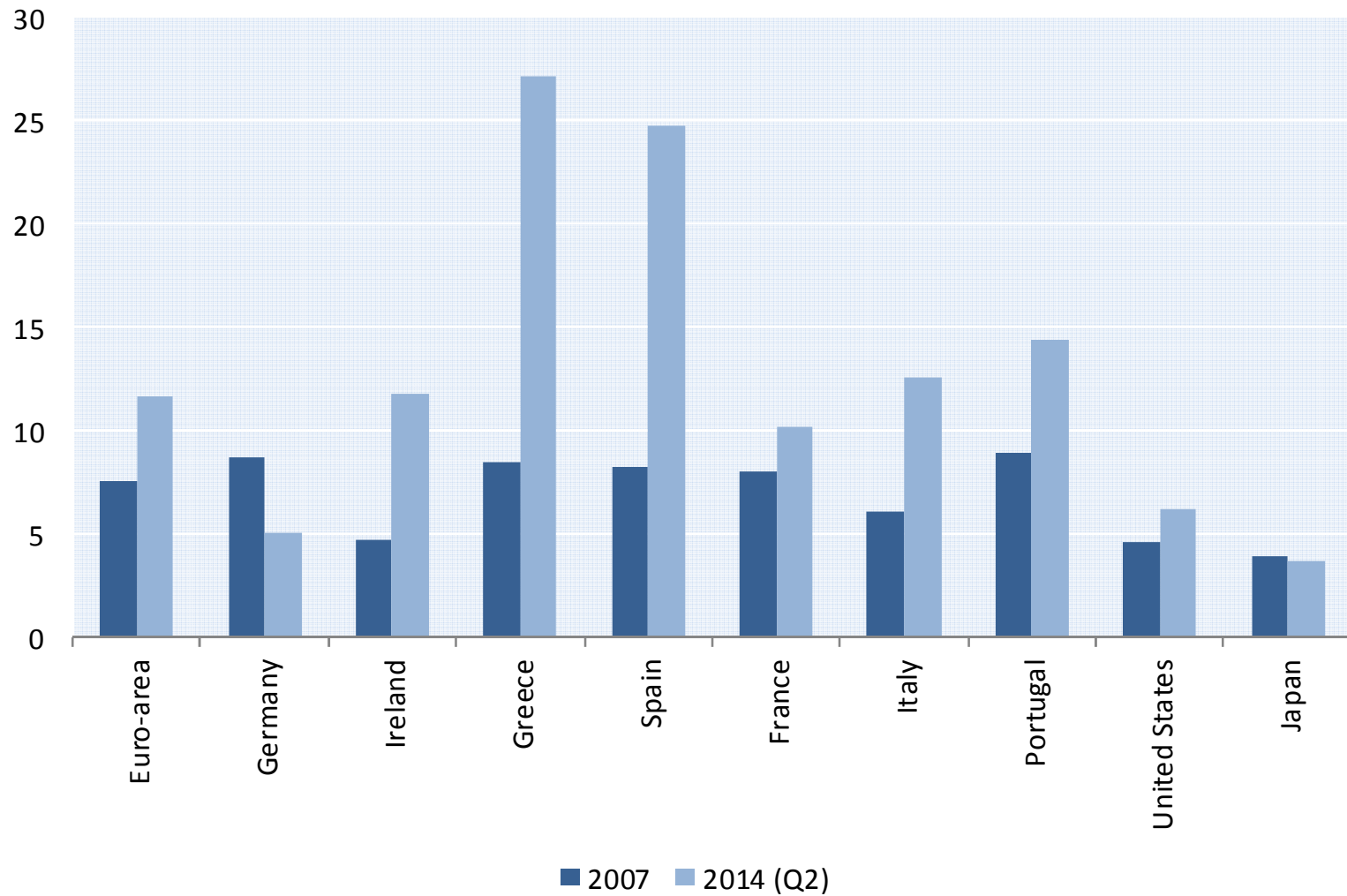
Economic recovery and employment in the EU

Raymond Torres, Director, ILO Research Department

Outline of presentation

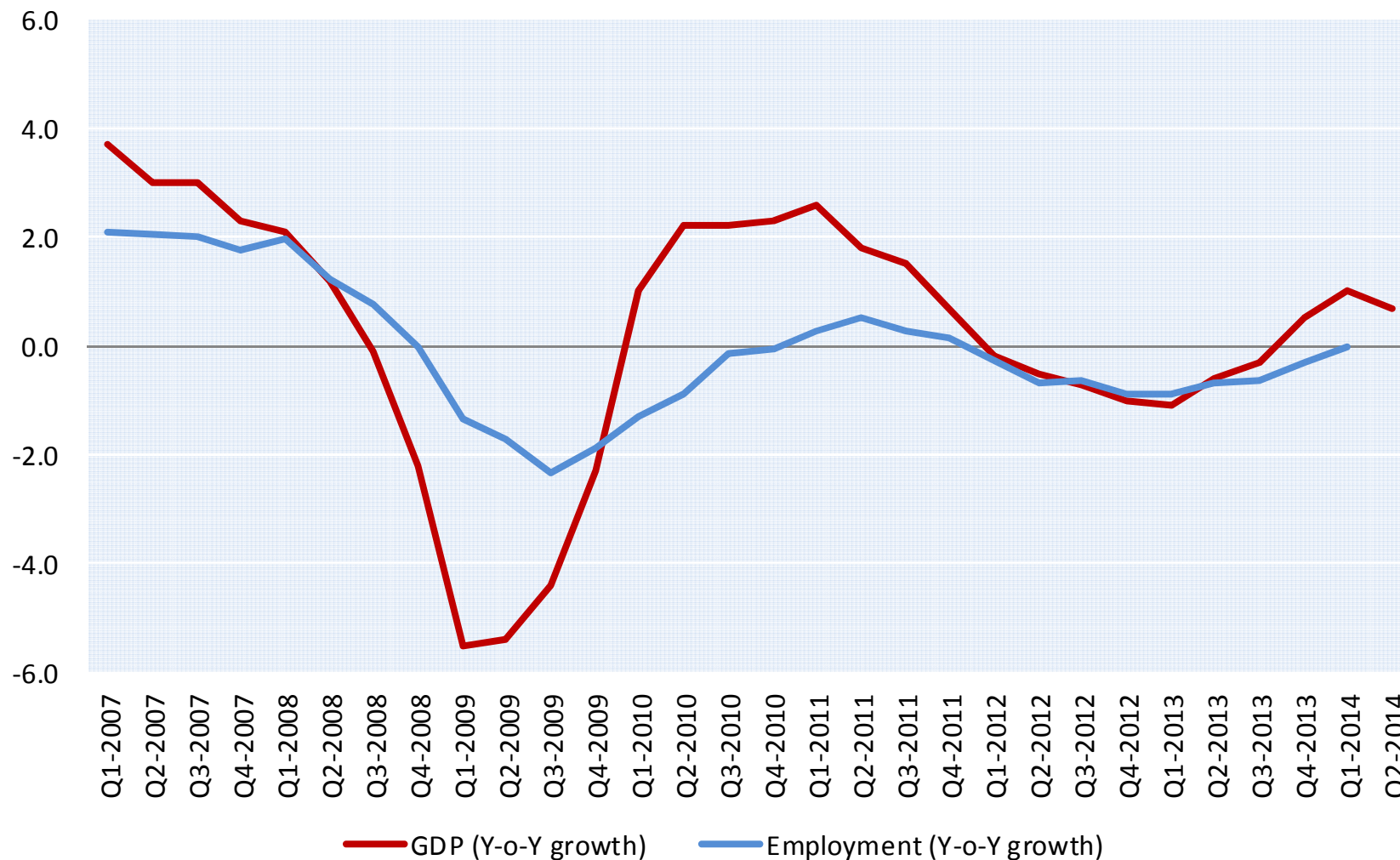
- I. Situation in the EU versus Japan and the US
- II. Role of macroeconomic policies and structural reforms in the present situation
- III. Two scenarios

Unemployment rates before crisis and latest



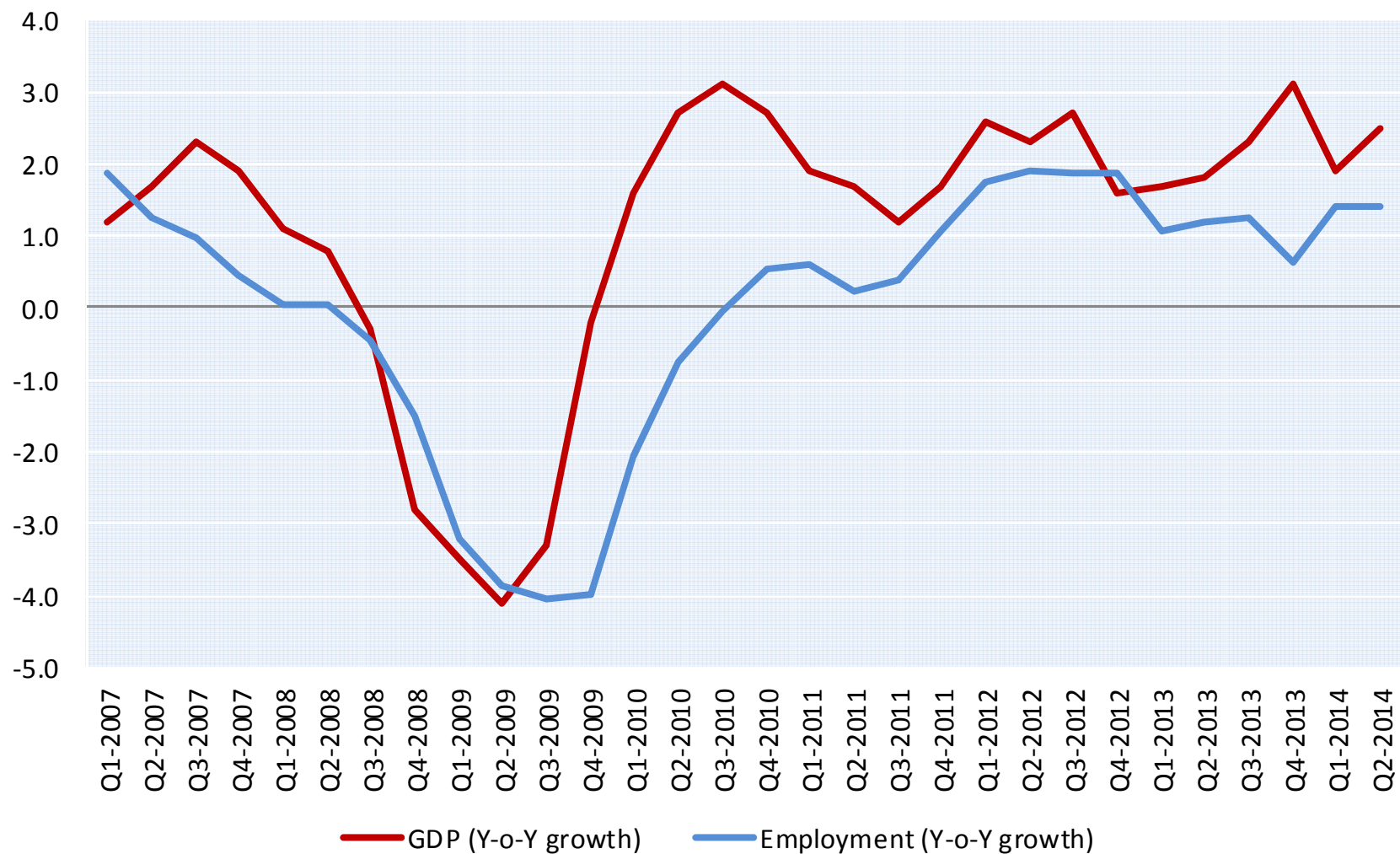
Source: Eurostat, OECD.

GDP growth and employment growth (per cent), Eurozone



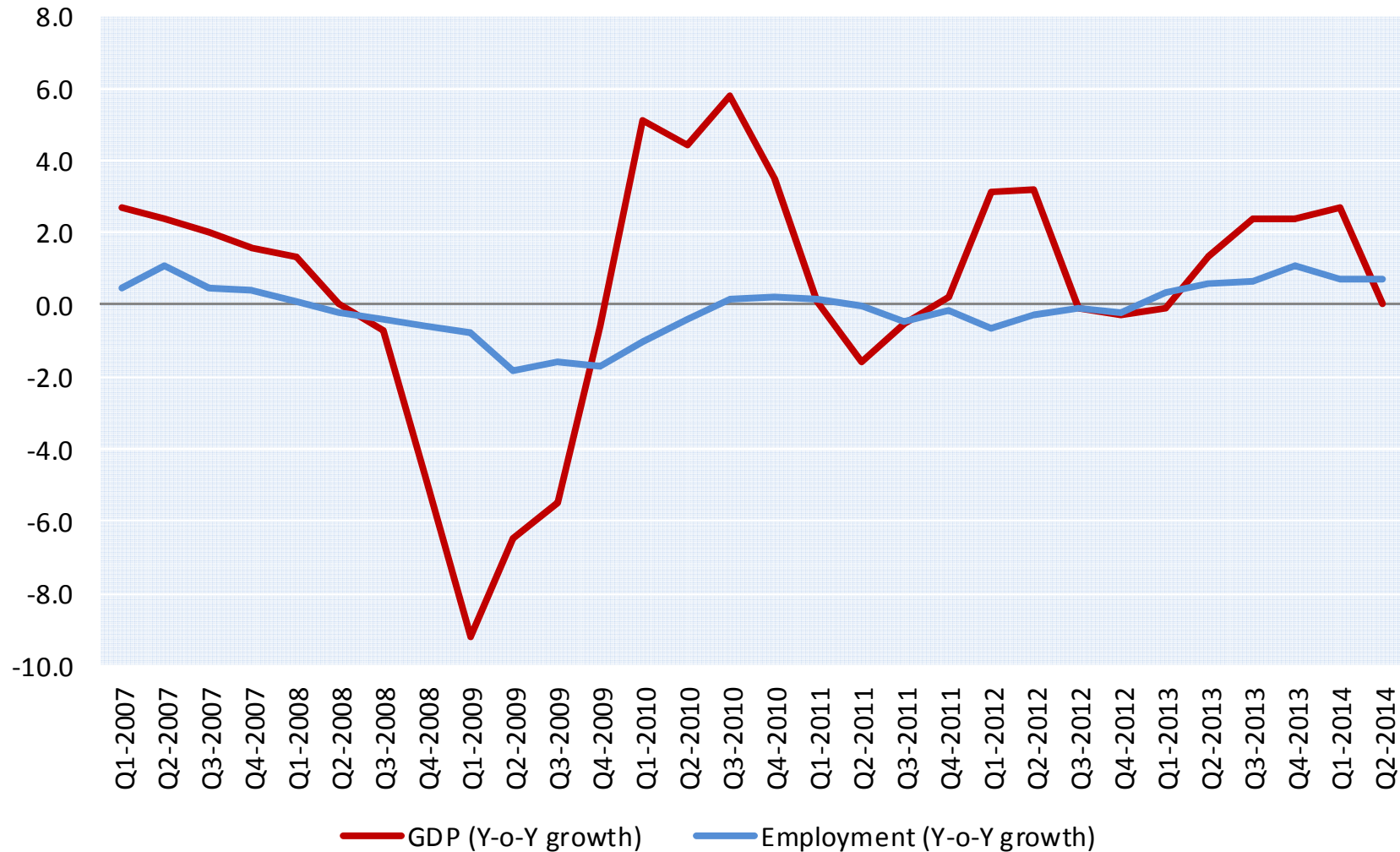
Source: OECD.

GDP growth and employment growth (per cent), United States



Source: OECD.

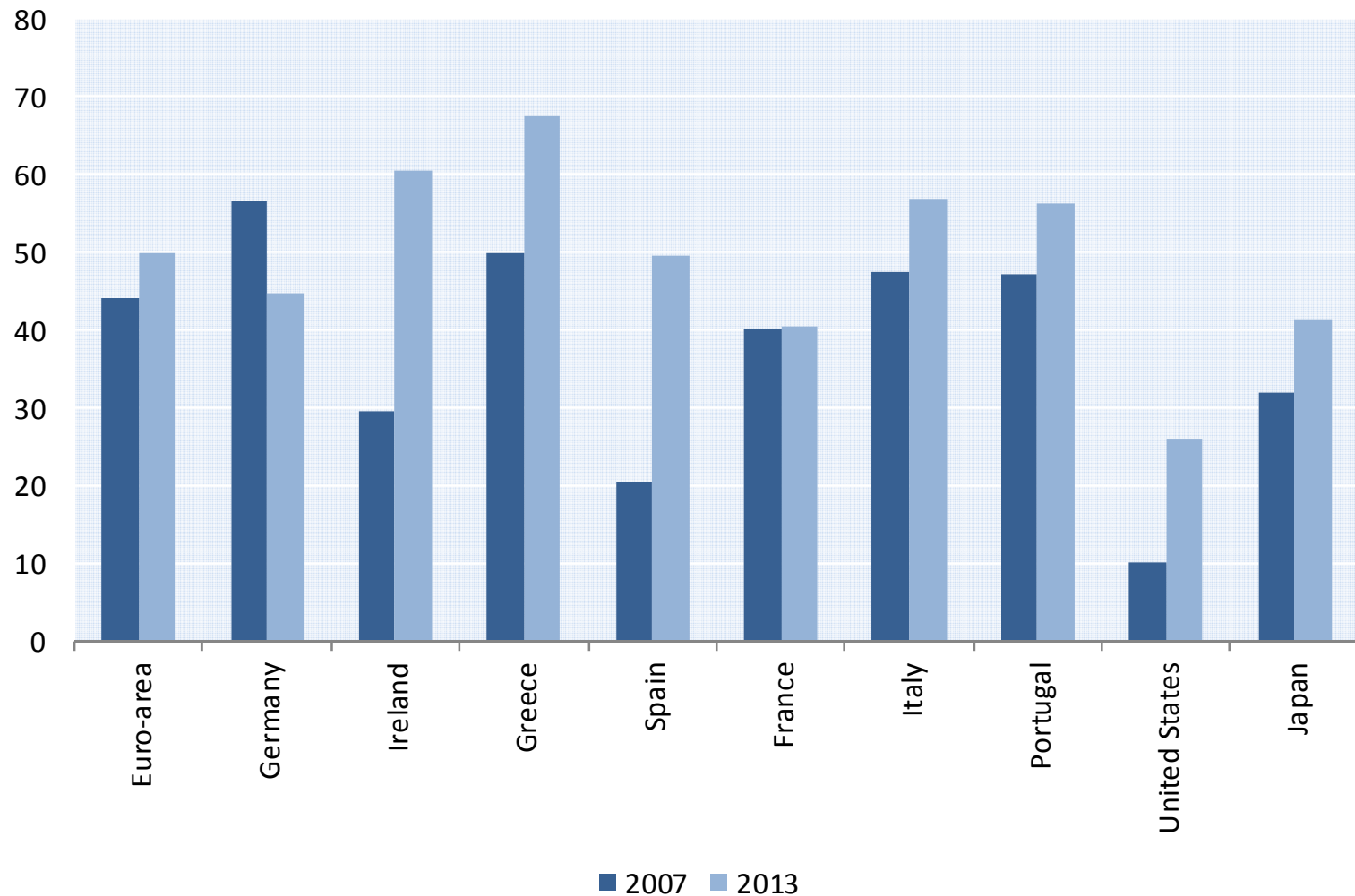
GDP growth and employment growth (per cent), Japan



Source: OECD.

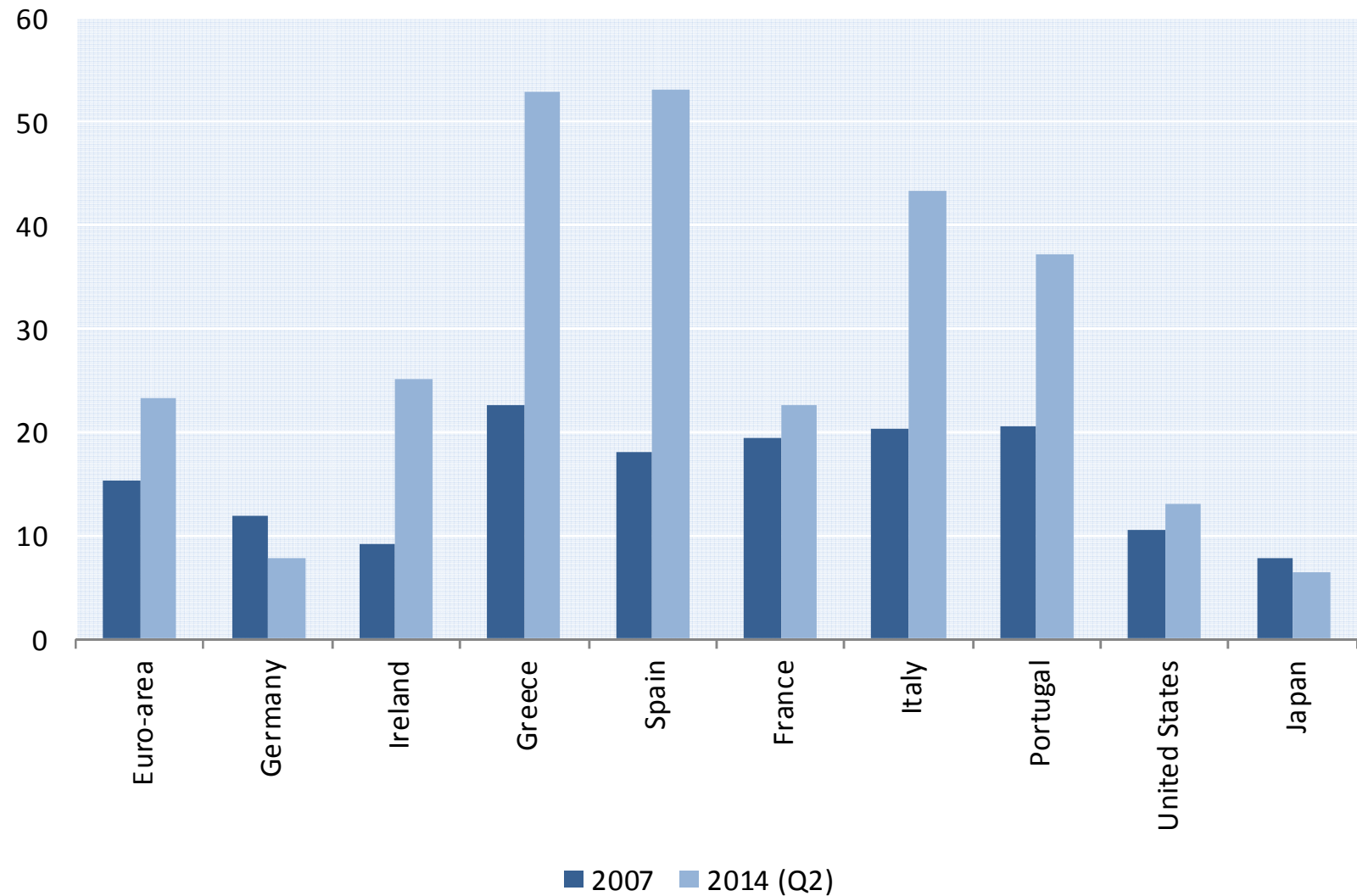
Incidence of long-term unemployment

(percentage of unemployed looking for work for over one year)



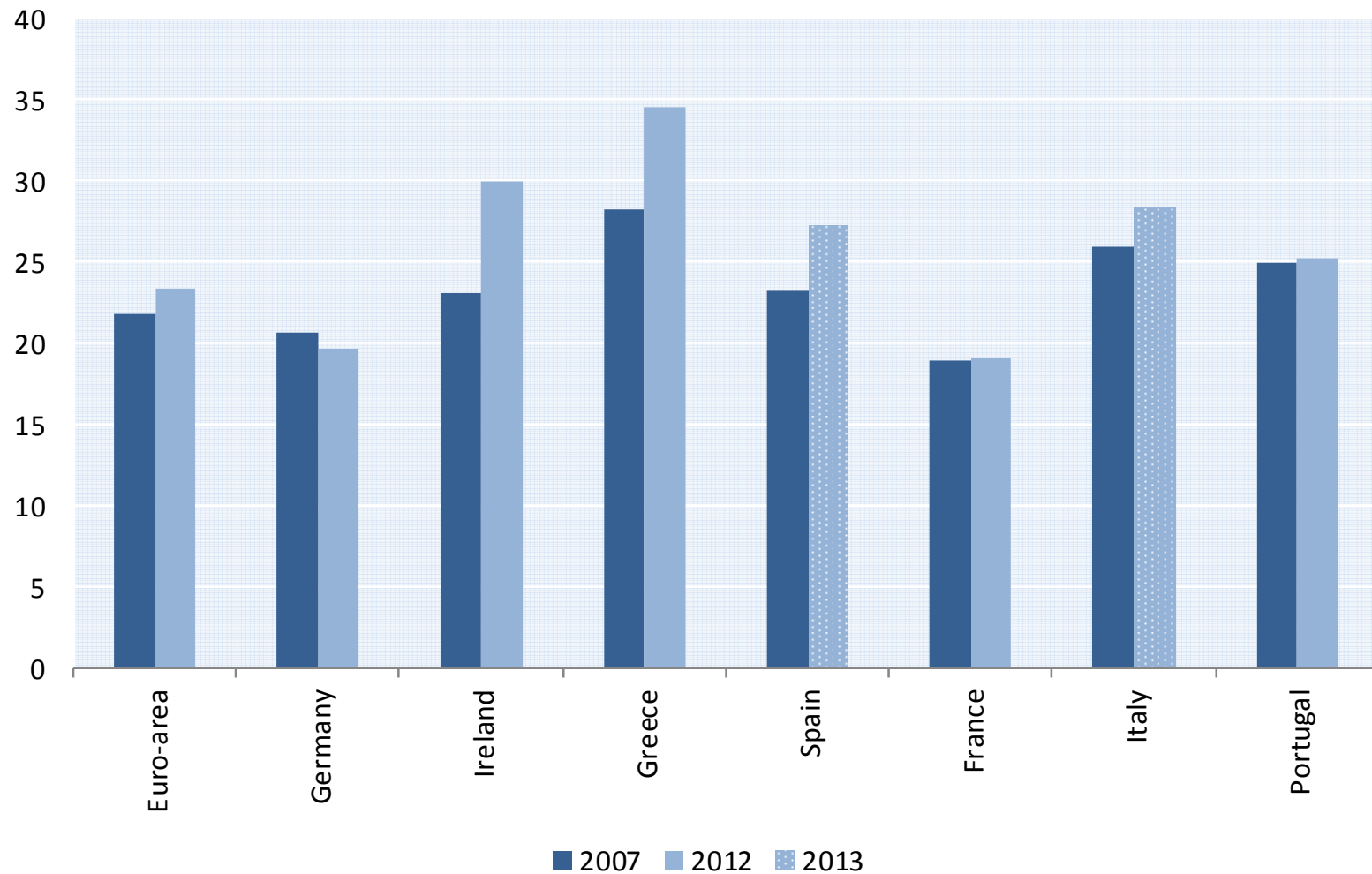
Source: Eurostat, OECD.

Unemployment rate among youth (aged 15-24)



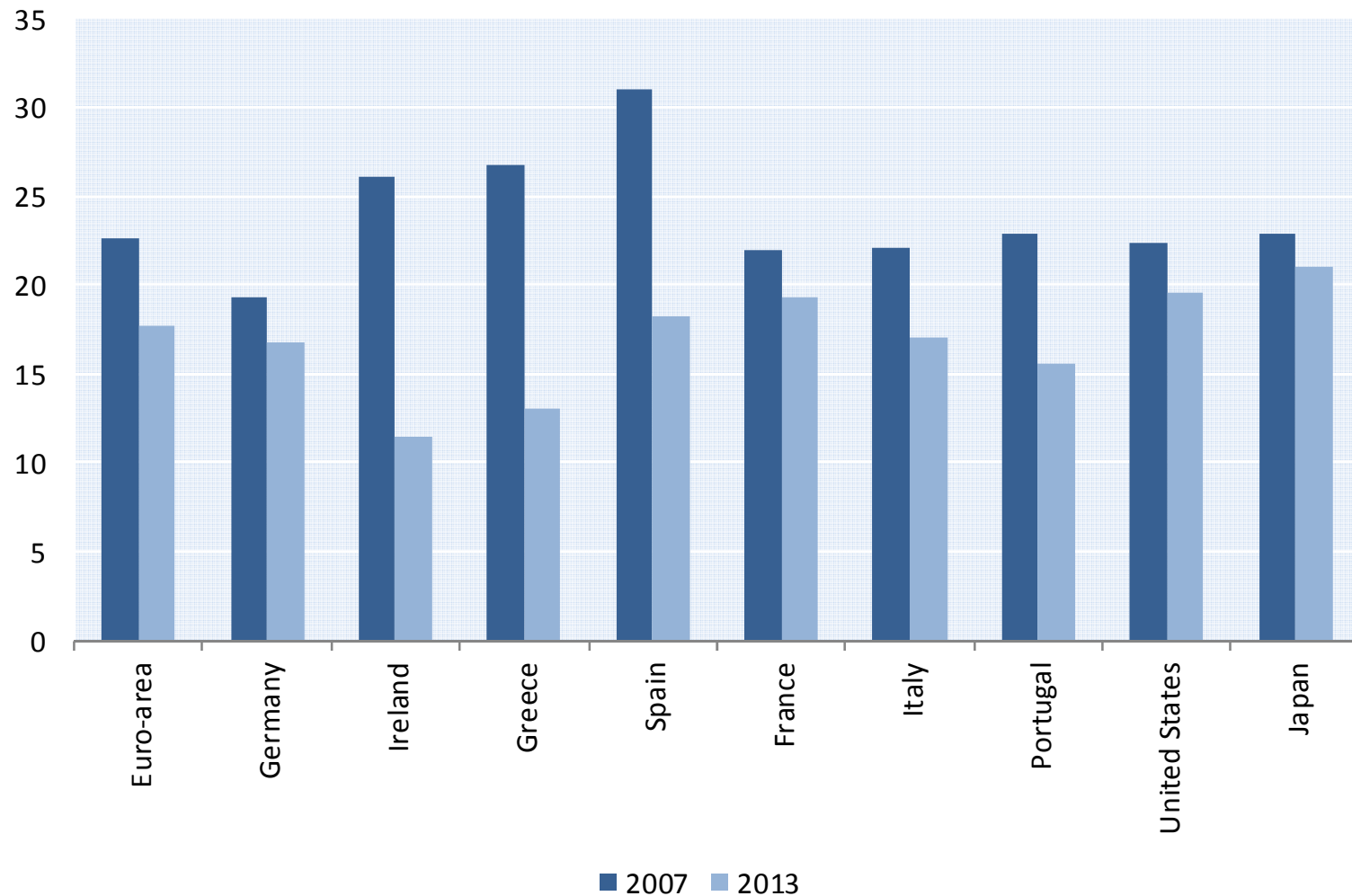
Source: Eurostat, OECD.

Percentage of population at risk of poverty and social exclusion



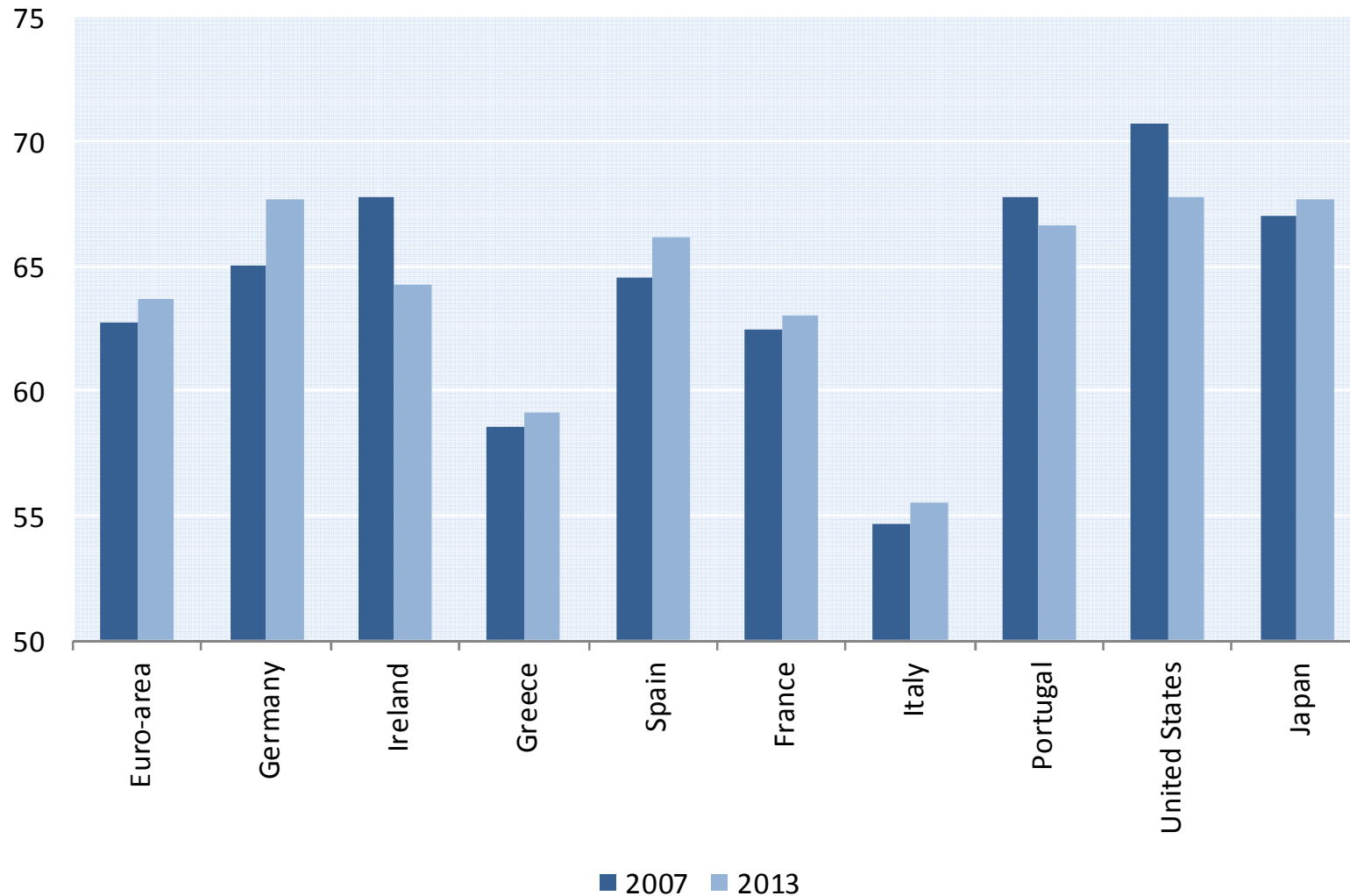
Source: Eurostat.

Investment as a per cent of GDP



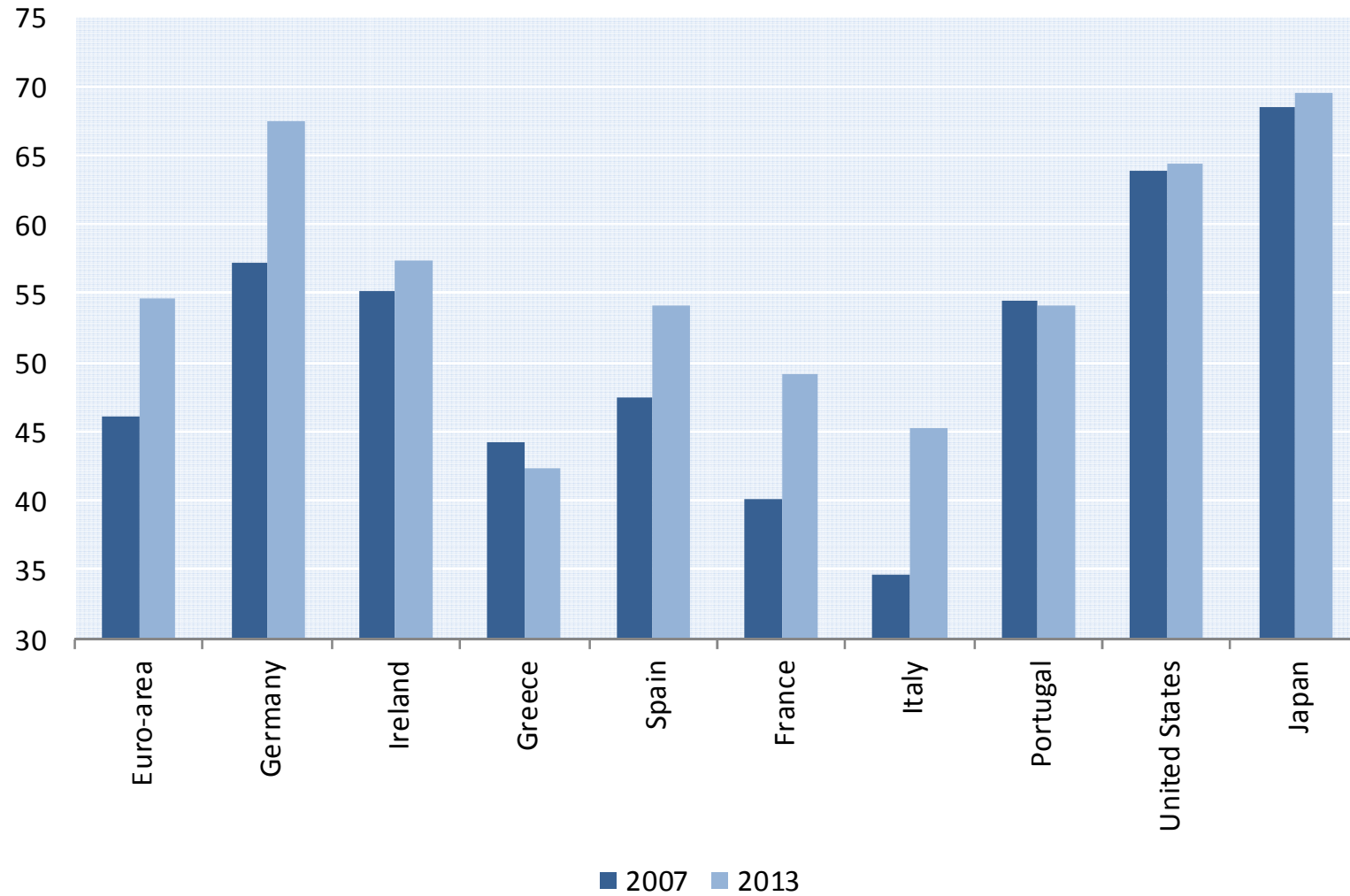
Source: IMF World Economic Outlook, April 2014.

Labour force participation rates (per cent)



Source: Eurostat, OECD.

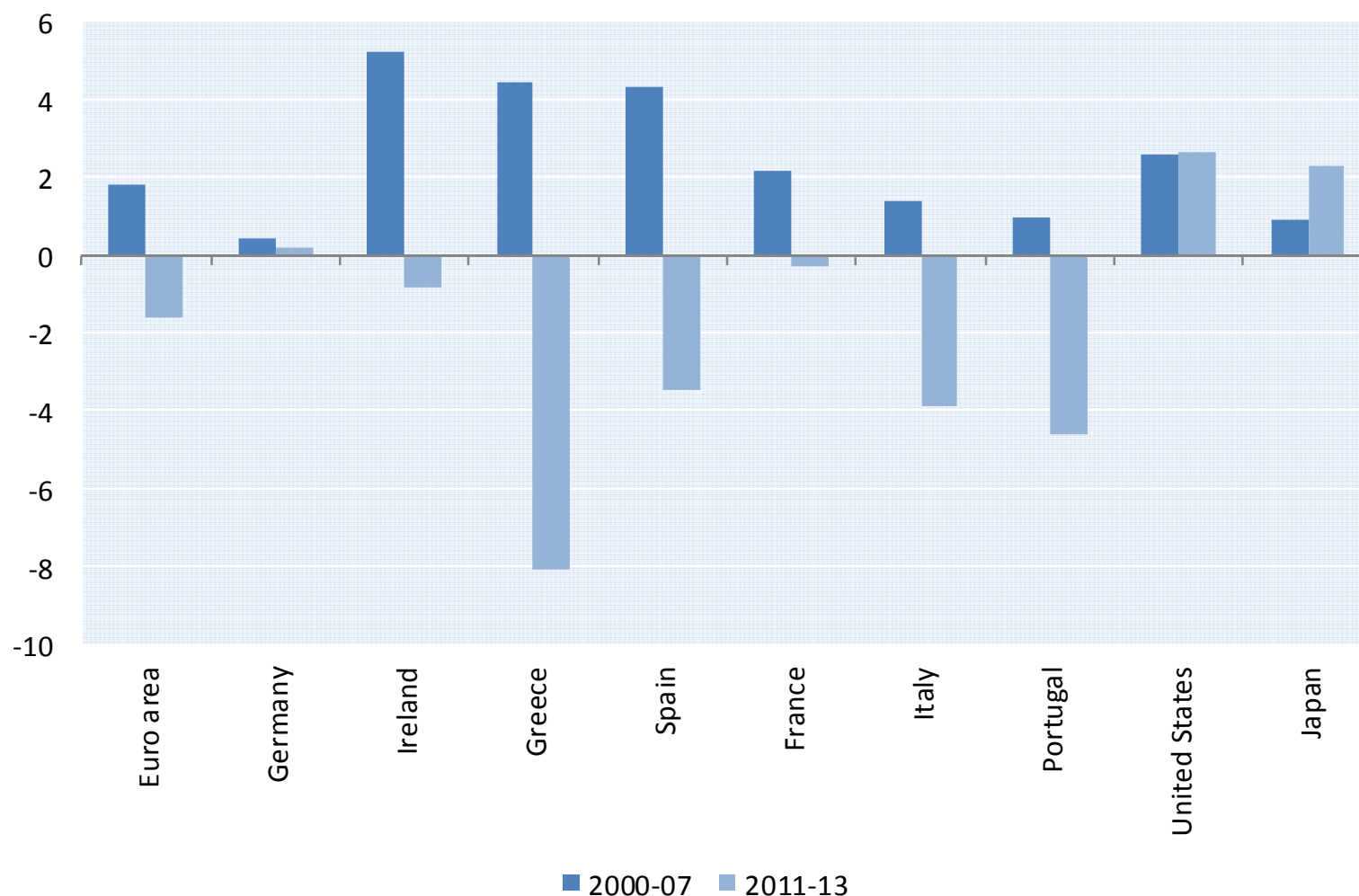
Labour force participation rates among workers aged 55-64 (per cent)



Source: Eurostat, OECD.

Factors behind EU weakening: 1) Aggregate demand

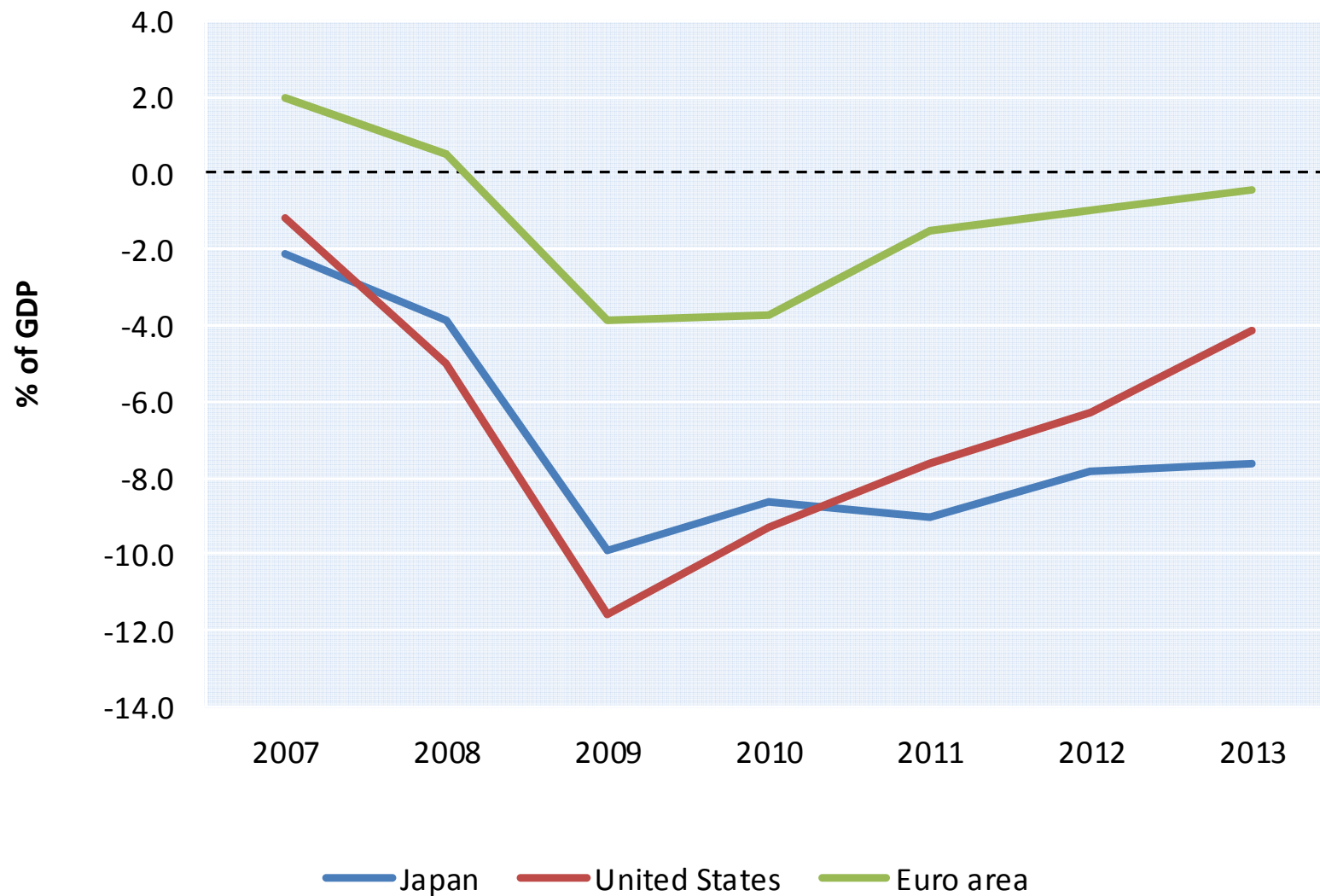
Growth in domestic demand (average annual growth rate in per cent)



Source: ILO Research Department based on Eurostat.

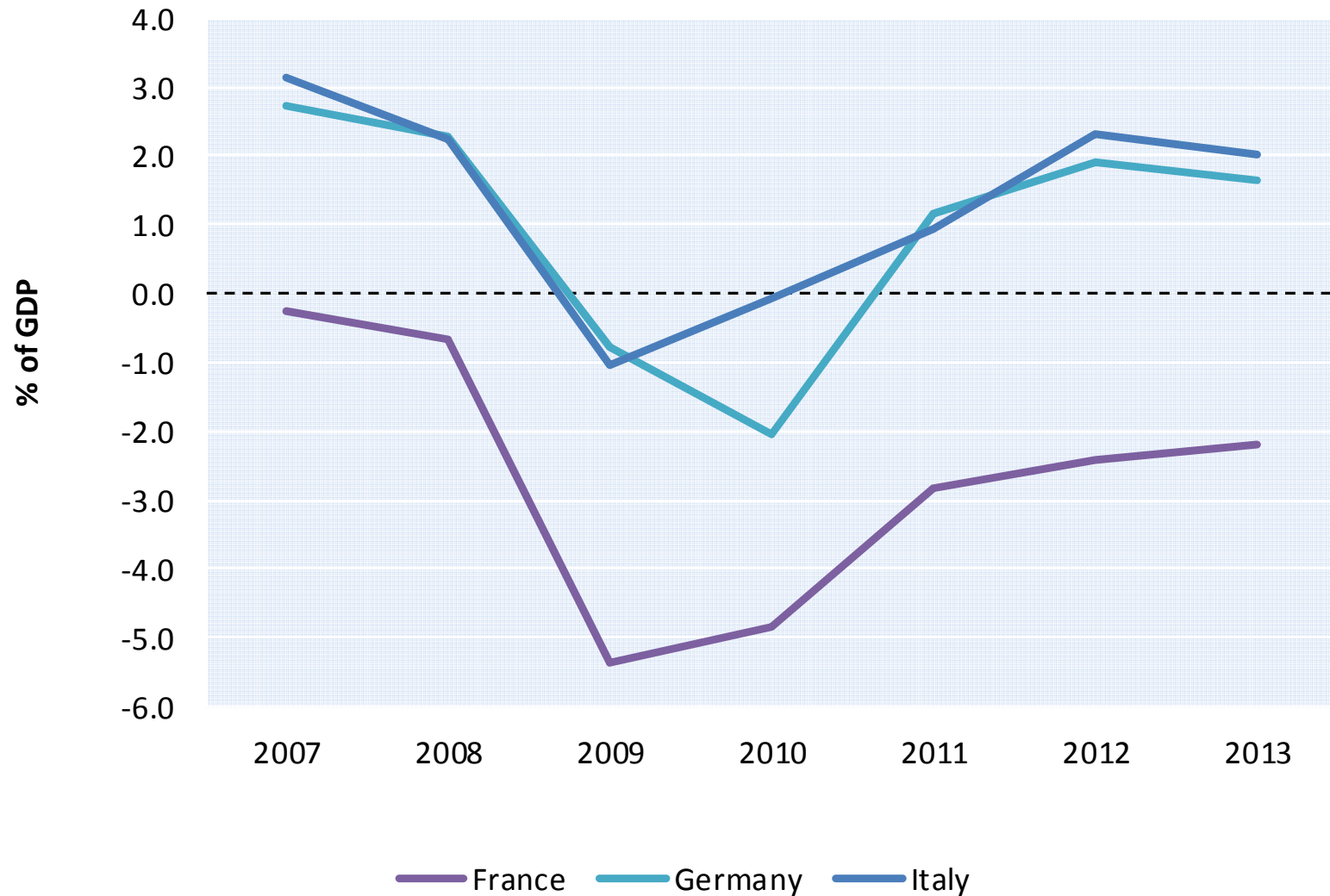
Note: Data for the United States and Japan are available only up to 2012.

Primary fiscal balance (in per cent of GDP)



Source: IMF World Economic Outlook, April 2014.

Primary fiscal balance (in per cent of GDP)



Source: IMF World Economic Outlook, April 2014.

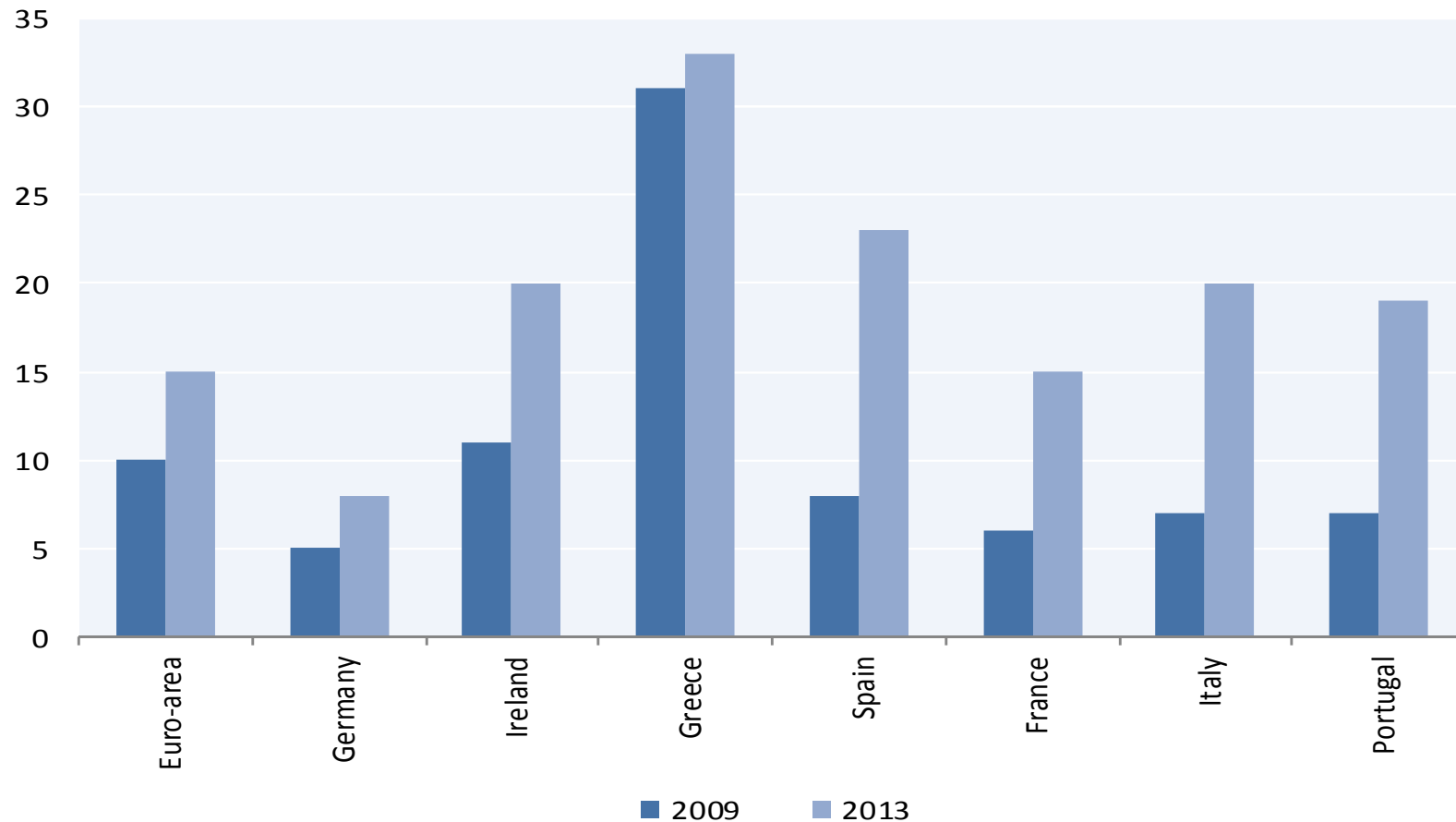
Government and private sector net lending positions (in per cent of GDP)

Country/Region		2007	2009	2013
Japan	Private	7.0	13.3	9.1
	Government	-2.1	-10.4	-8.4
United States	Private	-0.9	12.1	5.1
	Government	-4.0	-14.7	-7.3
Euro area	Private	1.0	6.6	5.9
	Government	-0.7	-6.4	-3.0

Source: ILO Research Department based on IMF World Economic Outlook, April 2014.

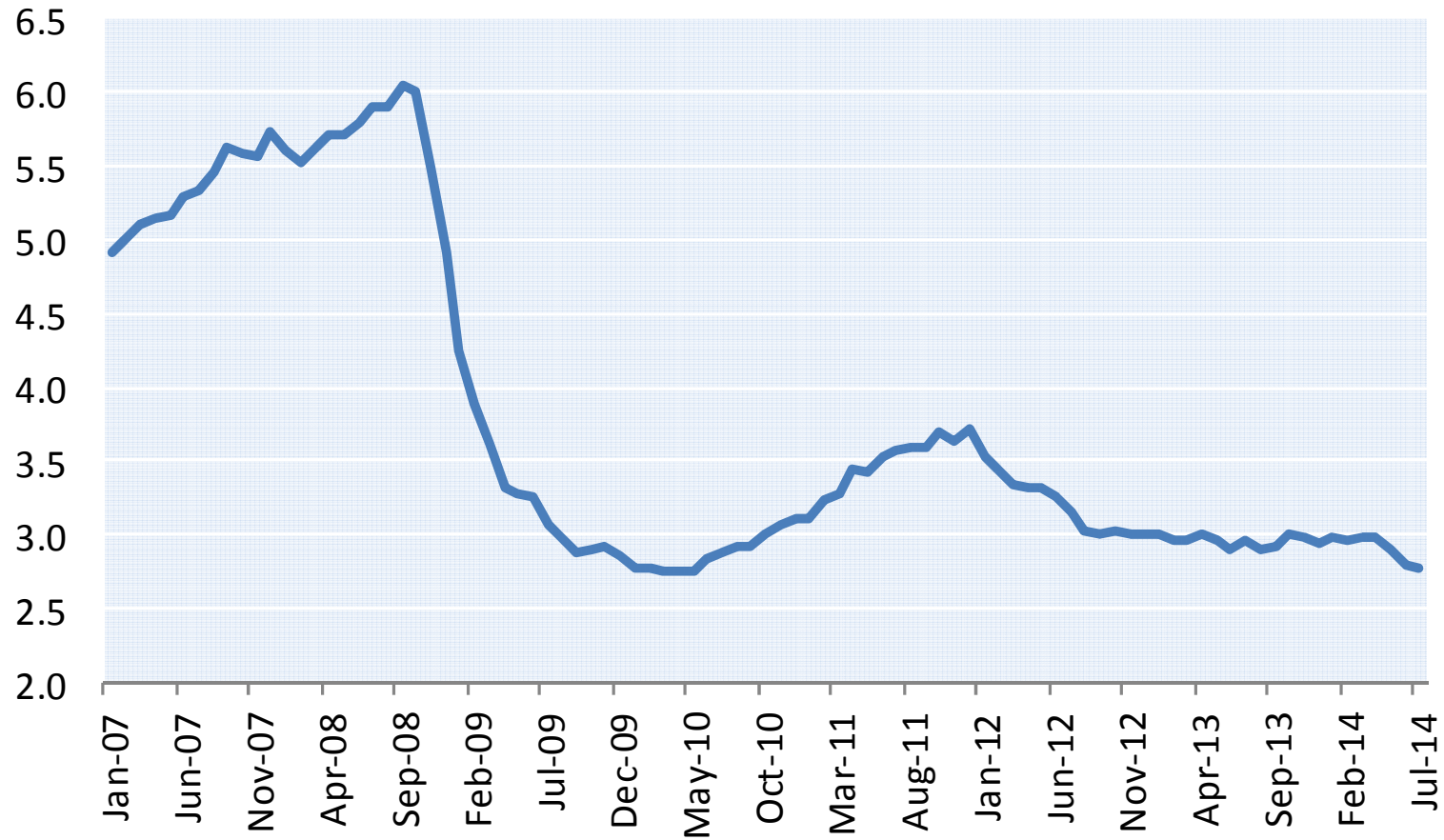
Tight credit conditions for SMEs

Share of SMEs reporting “Access to finance” as their most pressing problem



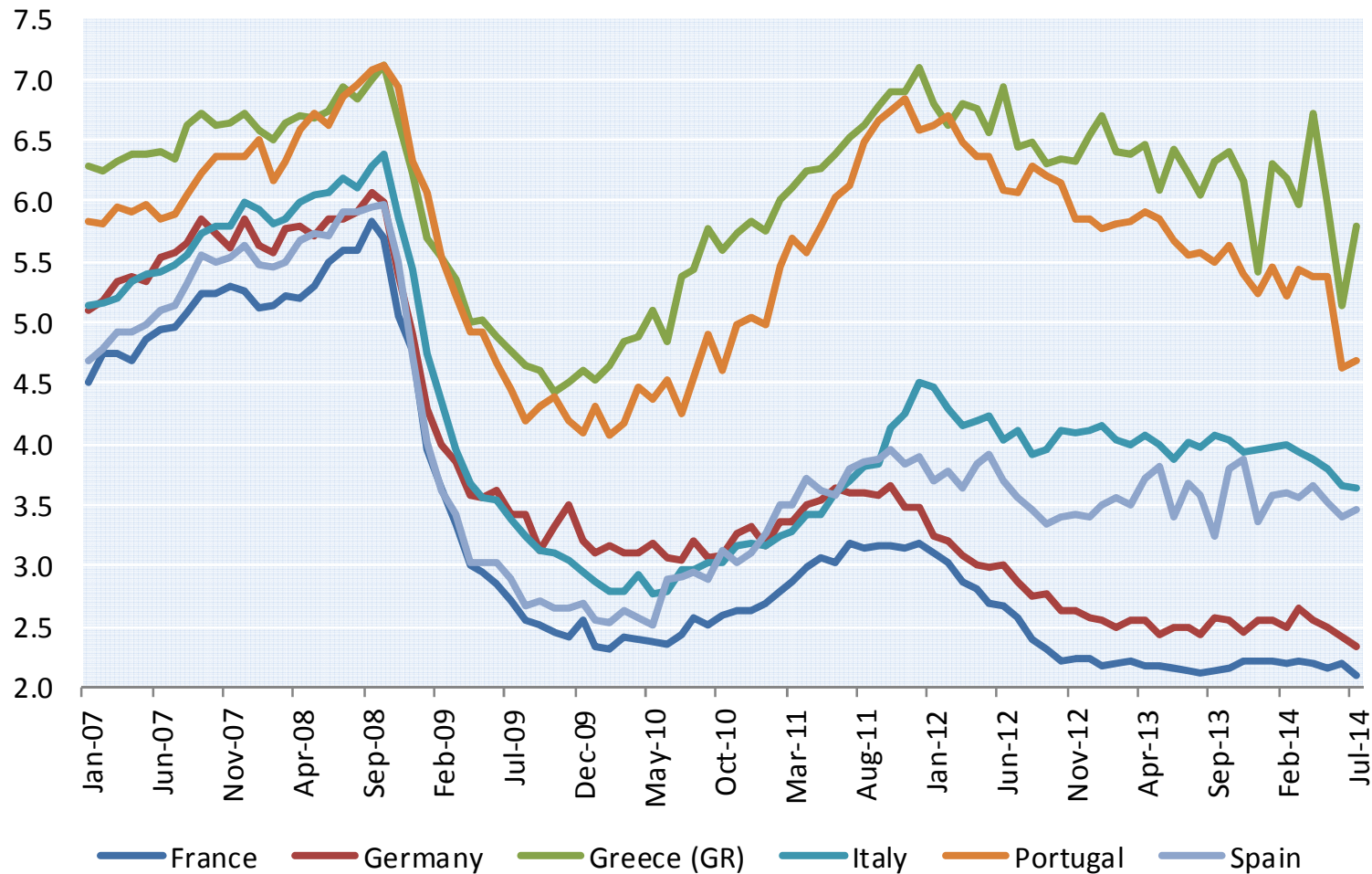
Source: ILO Research Department based on EU Commission 2013 Access to Finance Survey.

Composite cost-of-borrowing indicator, Euro area (average interest rate, percentage)



Source: European Central Bank.

Composite cost-of-borrowing indicator, selected Euro area countries (average interest rate, percentage)

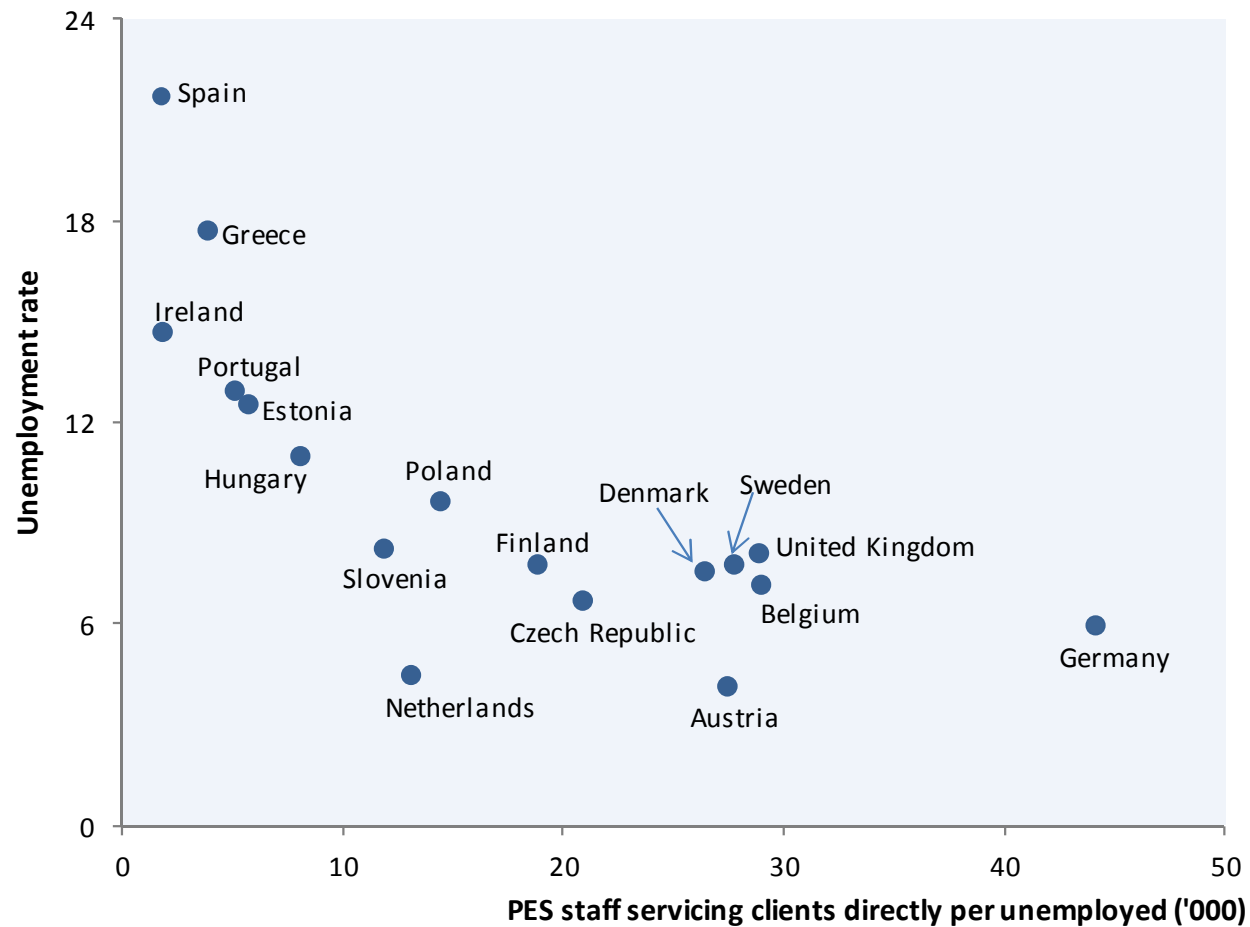


Source: European Central Bank.

Factors behind EU slowdown: 2) Unbalanced reforms

- Much of the reform in EU has focused on labour markets, less on product & financial markets or tax reform
- The type of labour market reform has tended to aggravate demand shortage and widen inequalities
 - Lower employment protection without compensating “activation” measures or skill development
 - Significant reduction in collective bargaining coverage in some countries

Link between PES staff servicing clients directly and the unemployment rate, 2011

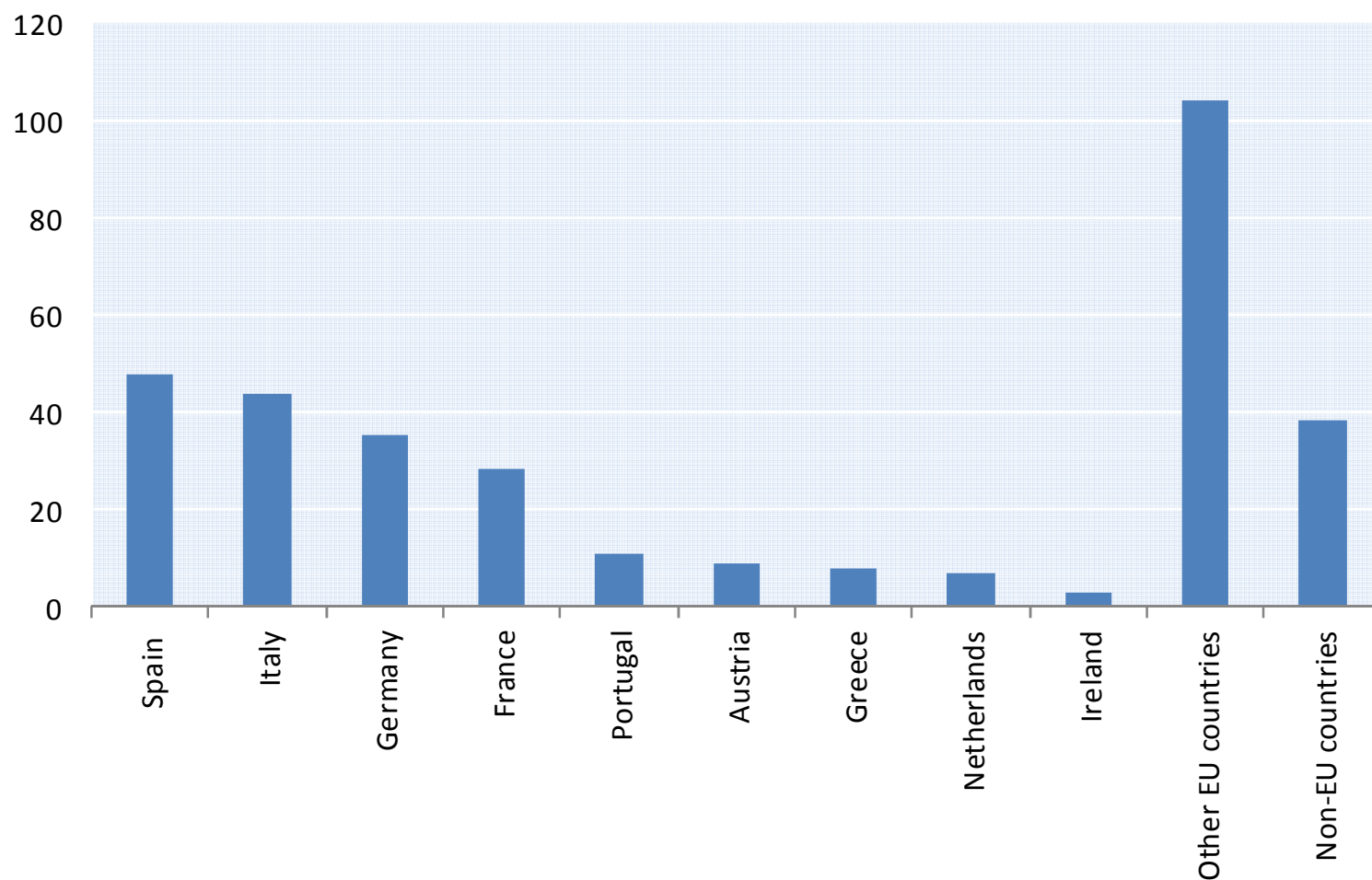


Source: European Job Mobility Laboratory and OECD.Stat.

Policy options

- Tackling the credit squeeze problem (QE measures)
- Coordinated EU-wide measures that support demand while improving supply conditions
 - e.g. energy, SME-driven public investment programme
 - Front-loading ESFs? Example of youth guarantee

Contracts signed by EIB (in billion EUR), 2009-13



Source: European Investment Bank (EIB).

Policy options -- balanced reforms

- More on services sectors, notably high-income protected professions, finance, education & training
- Inclusive labour markets
 - Reform without intensifying duality (Austria, Neth.)
 - Fight against undeclared work (Ireland, Poland, Turkey)
 - Social protection while strengthening activation (Germany, Nordics), prevent disability, tackle new issues like “dependent” own-account work (Spain)
- Make wages grow, as productivity permits

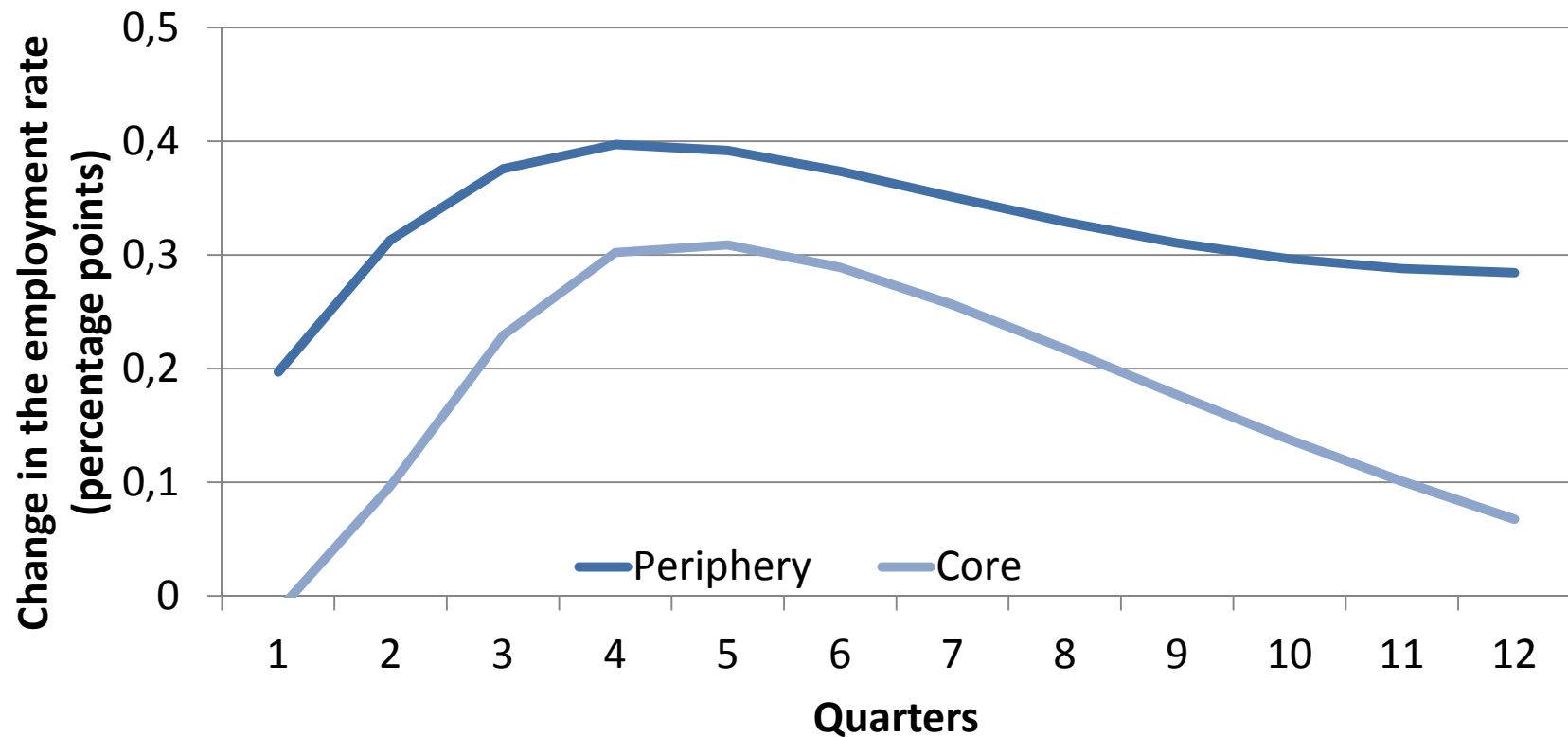
Policy coordination scenario

Coherent responses: i) faster demand growth in “north”; ii) balanced reforms; iii) banking union and fiscal coordination

Impacts: inclusive growth and lower unemployment in the area as a whole.

=> Genuine monetary union, more inter-country fiscal transfers and policy competencies at Euro-area level. But issue of democratic control and governance of Euro area.

Rebalancing Europe



Scenario: More demand in core, bank reform (more credit and lower interest rates in periphery)

Source: ILO Research Department simulations based on the GEL model.

Further “internal devaluation” scenario

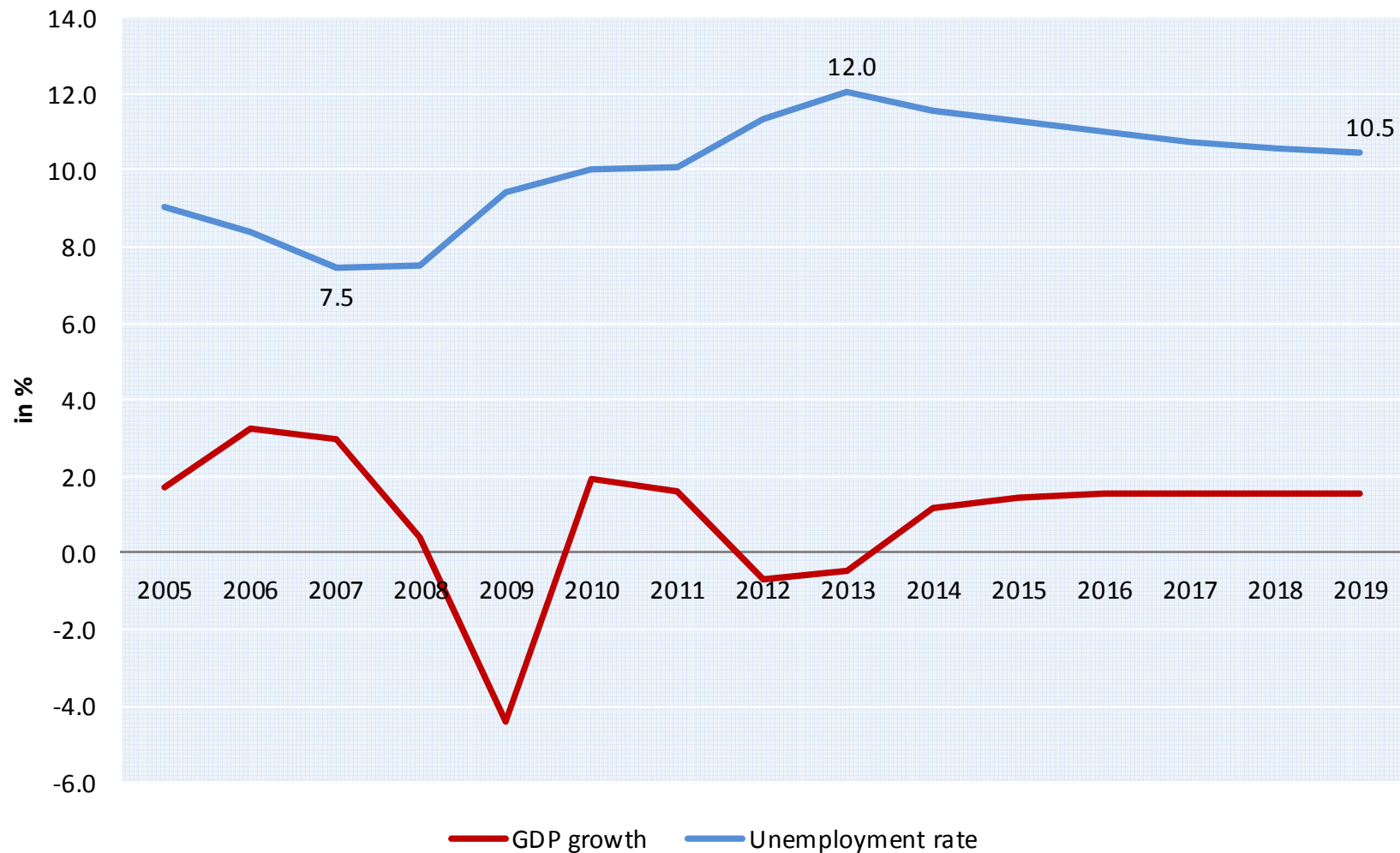
Asymmetric policy responses: i) less demand in south; ii) tough social reforms; iii) limited action at Euro-zone level.

Likely impact:

- Prolonged unemployment in south, leading to “hysteresis”, emigration, low-tech specialisation
- Intensified competition within Euro area, threatening other countries like France and Italy

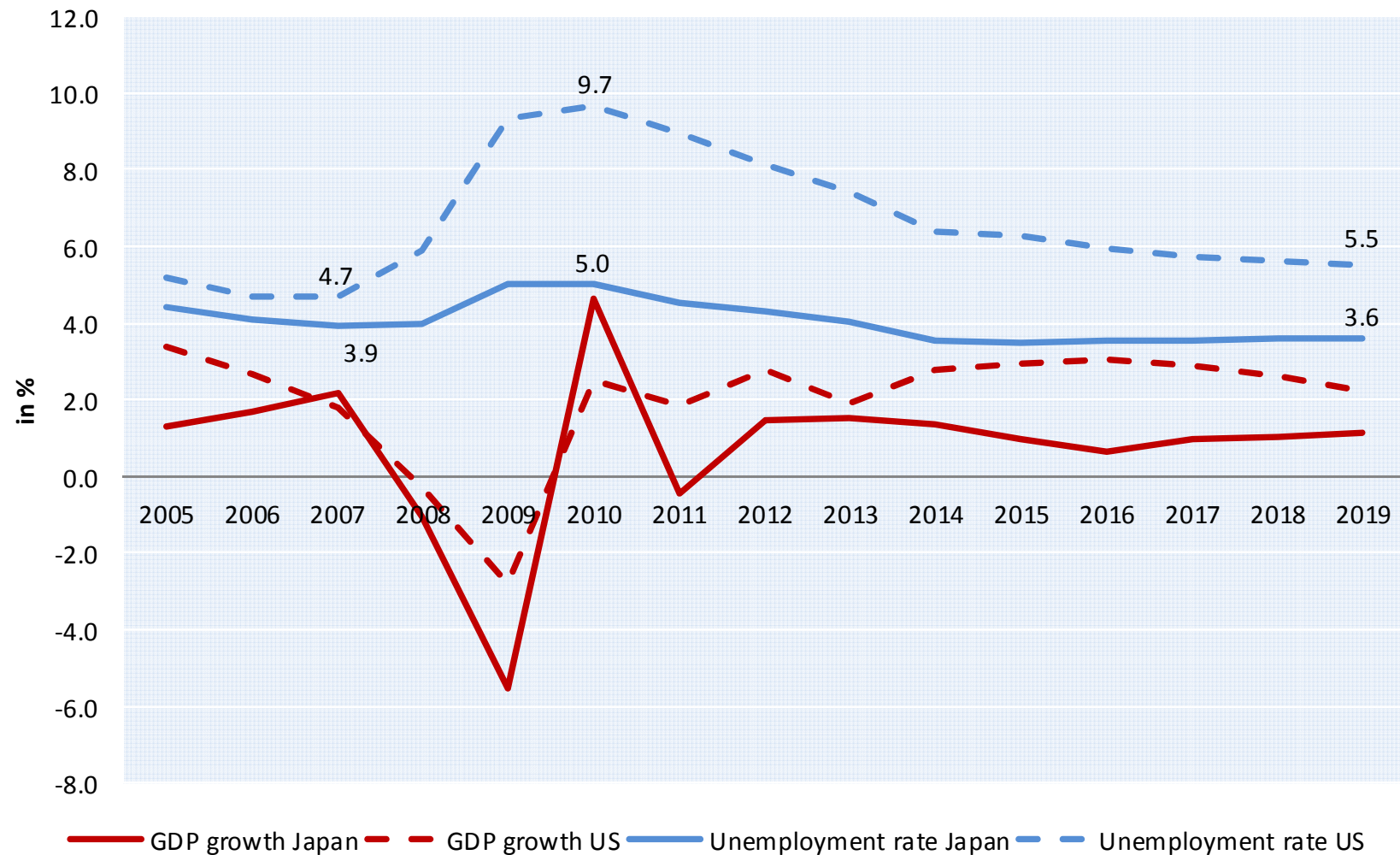
=> Limited inter-country fiscal transfers. But pressures on the stability of Euro area.

Projected growth and unemployment rate, Euro area



Source: ILO, Trends Econometric Models, July 2014 and IMF, World Economic Outlook, April 2014.

Projected growth and unemployment rate, US and Japan



Source: ILO, Trends Econometric Models, July 2014 and IMF, World Economic Outlook, April 2014.