Eurozone employment outlook: two possible scenarios

Raymond Torres, Director, ILO Research Department
Outline of the presentation

I. Present situation: low unemployment in “north” and prolonged labour market recession in “south”

II. Three key factors at work

III. Two possible scenarios
Unemployment rates before crisis and latest

Source: Eurostat.
Incidence of long-term unemployment (percentage of unemployed looking for work for over one year)

Source: Eurostat.
Unemployment rate among youth (aged 15-24)

Source: Eurostat.
Percentage of population at risk of poverty and social exclusion

Source: Eurostat.
Note: The data for Ireland refers to 2011.
Participation rates

Source: Eurostat and BLS.
Investment as a per cent of GDP

Source: ILO Research Department based on IMF Statistics and Eurostat.
Note: The data for Ireland refers to 2012.
Factors at work: 1) internal devaluation in the south -- fiscal austerity & wage cuts

Growth in domestic demand (average growth rate)

Source: ILO Research Department based on Eurostat.
Note: Data for Ireland is available only up to 2012.
Factors at work: 2) Special type of reform

- labour market mainly: lower employment protection; less coverage of collective bargaining; in some cases cuts in welfare benefits

- little action with respect to financial reform, product markets
Factors: 3) Limited Euro-wide policy action: late reaction of ECB to debt crisis; late and slow action on bank union; limited role of EIB

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

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

=> Limited inter-country fiscal transfers. But pressures on the stability of Euro area.
Projected Eurozone growth and unemployment rate

# Projected unemployment rates in selected Eurozone countries

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<thead>
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<th>2007</th>
<th>2013</th>
<th>2015</th>
<th>2019</th>
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<tr>
<td>Germany</td>
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<td>5.3</td>
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<td>5.4</td>
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<tr>
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<td>16.5</td>
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<td>12.1</td>
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Relative Unit Labour Cost, 2000=100

Source: ILO Research Department based on ECB.
Relative Unit Labour Cost, 2000=100

Source: ILO Research Department based on ECB.
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.