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Global Employment Trends: Supplement for Europe & Central Asia, February 2005

Abstract
[Excerpt] Europe and Central Asia only partly followed the world wide trends of improvements in labour markets. Despite the economic growth achieved in most economies over recent years, the region as a whole did not see any considerable improvements in terms of decreasing the total number of unemployed. In 2004 total unemployment in the region was 35 million, almost identical to the number in 2003. During 2004, employment grew by 2 million, which represents only 4 per cent of the employment increase in the world during this period. The employment-to-population ratio continued to decline, in keeping with the trend over the last ten year. Despite the stagnant trends in employment and unemployment in the region there is one labour market indicator which showed considerable improvements over the last five years: labour productivity. This is especially true for Central and Eastern Europe and CIS, which after the region of East Asia, saw the highest growth in productivity (measured as output per person employed) of all world regions.

The supplement prepared for the 7th European Regional Meeting describes the latest labour market trends in Europe and Central Asia and points out the challenges ahead.

Keywords
International Labour Organization, ILO, labor market, development, economic growth

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International Labour Office

GLOBAL EMPLOYMENT TRENDS

Supplement for Europe & Central Asia, February 2005

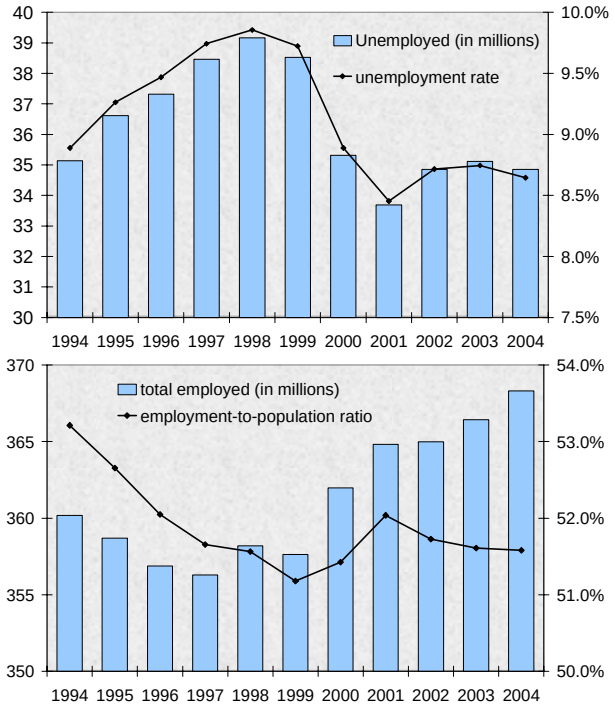
Labour market situation in the region

In 2004, Europe & Central Asia[1] witnessed only slight improvements in its labour market situation, despite the strong economic growth of 3.5 per cent. Total unemployment in the region stayed at its 2003 level of 35 million. The decline of the unemployment rate is very small in percentage terms (from 8.7 in 2003 to 8.6 in 2004), and the trend is only noteworthy in that it is the first decline since the global economic downturn in 2001.

A closer look at the sub-regions gives the following picture: the unemployment rate decreased from 9.1 per cent in 2003 to 9.0 per cent in 2004 in the EU-25; from 8.5 to 8.3 per cent in Central and Eastern Europe and CIS;[2] and from 4.2 to 4.1 per cent in Western Europe (non-EU).[3] The current unemployment rate is considerably lower in the EU-25 compared to ten years ago (where it was 11.2 per cent in 1994), but considerably higher in Central and Eastern Europe and CIS (where it increased from 6.5 per cent in 1994). In Western Europe (non-EU) the rates remained at very low levels, just above 4 per cent, during the ten year period. With the exception of Western Europe (non-EU), these regions have higher unemployment rates than the world average.

Employment in the region grew by only 2 million or 0.5 per cent during 2004. This is only 4 per cent of the employment created worldwide in this period. The employment intensity of growth

Unemployment and employment trends, 1994-2004



Source: ILO, *Global Employment Trends Model*, 2005; see also Technical Note in ILO, Global Employment Trends (Geneva, 2004). [4]

In 2004 the total number of unemployed people decreased slightly and the total number of employed increased. As these changes were very small, they hardly had an impact on either the unemployment rate, or the employment-to-population ratio.

[1] This document was prepared for the 7th European meeting of the ILO and the regional grouping "Europe and Central Asia" was developed specifically for that purpose. Consequently there is no comparable group in the GET Brief February 2005.

[2] Including Turkey and Israel.

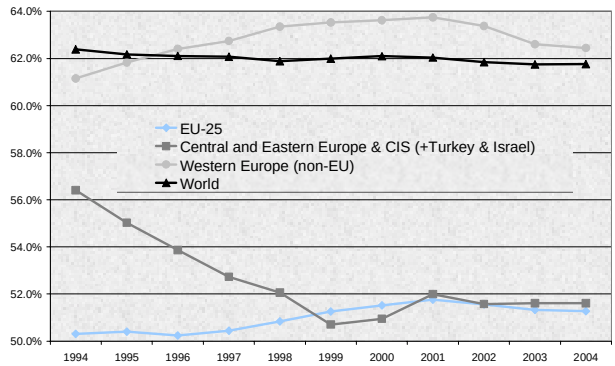
[3] Iceland, Norway, Switzerland.

[4] Differences from earlier estimates are due to revisions of the IMF estimates of GDP growth used in the model and from the inclusion of newly available unemployment data. For further technical information on the world and regional estimation processes, see http://www.ilo.org/public/english/employment/strat/wrest.htm.

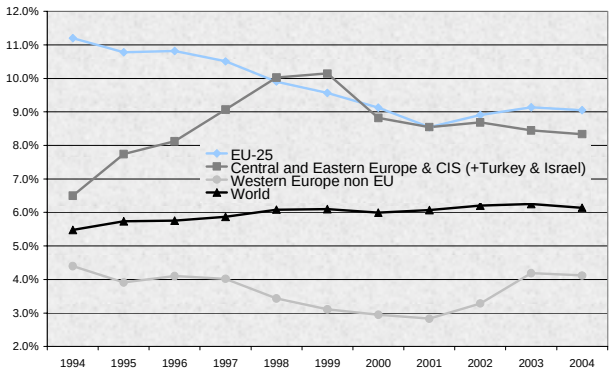
worsened compared to 2003 when GDP growth of 2.2 per cent led to employment growth of 0.4 per cent.

The employment-to-population ratio decreased slightly, thereby continuing the decreasing trend of the last 10 years (with the exception of the period between 1999 and 2001). The three sub-regions again followed different patterns. Inside the EU-25, as well as within the region of Central and Eastern Europe and CIS, employment as a share of the working age population remained stagnant at 51 per cent, which is much lower than the world's average. In Western Europe (non-EU), employment as a share of the working age population has been declining since 2001. In 2001 the employment-to-population ratio was 63.8 per cent and by 2004 it had decreased to 62.4 per cent.[5]

Employment-to-population ratios



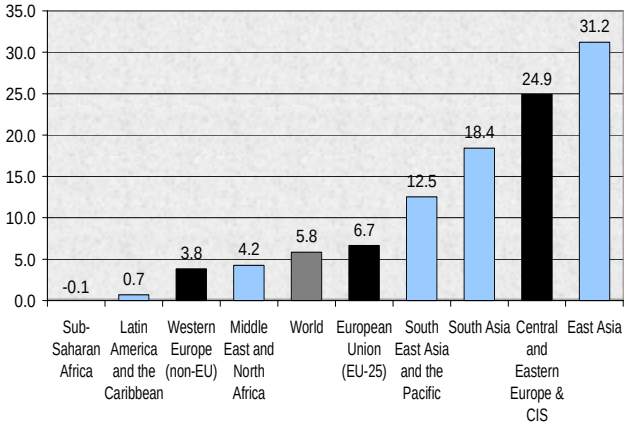
Unemployment rates



Source: ILO, *Global Employment Trends Model*, 2005; see also Technical Note in ILO, Global Employment Trends (Geneva, 2004).

Despite these rather stagnant trends in employment, as well as unemployment in the region, there is one labour market indicator which shows considerable improvement over the last ten years: labour productivity. This is especially true for Central and Eastern Europe and CIS which, after East Asia, has seen the highest growth in productivity (measured as output per person employed) of all world regions. Labour productivity grew by almost 40 per cent leading to an average annual growth rate of 3.2 per cent. The European Union (25) – especially the new Member States – also saw higher growth in productivity than the world on average.

Labour productivity, 1999-2004



Source: ILO, *Global Employment Trends Model*, 2005; see also Technical Note in ILO, Global Employment Trends (Geneva, 2004).

Challenges ahead[6]

The data summarized in this supplement gives rise to some concern for parts of the region. The good performance in terms of productivity was not followed by improvements in employment. This is especially true for Central and Eastern Europe and CIS and, to a lesser extent, for the EU-25, particularly the new Member States. In the long run this pattern cannot be sustained as no economy can afford high unemployment over long periods. Research done for the World Employment Report 2004-05, shows clearly that growth has been

[5] As mentioned in the GET brief February 2005, unemployment rates do not in themselves indicate changes in decent work "deficits". Unemployment is only the tip of the iceberg and a new job created in no way indicates its quality.

[6] The analysis that follows is based on more extensive research that can be found in ILO: *World Employment Report 2004-05* (Geneva, 2004) and ILO: *Managing transitions: Governance for decent work* (Geneva, 2005). For more information, see also http://www.ilo.org/trends and http://www.ilo.org/public/english/bureau/inf/event/budapest/index.htm.

sustained in those regions that have managed to balance productivity growth with employment creation.

Within the EU-25 unemployment remains *the* major challenge, especially in the new Member countries where unemployment rates vary between 13 and 15 per cent. The labour markets of these economies are characterized by serious regional and educational mismatches. In addition, the informal economy is a particular problem in some of the economies in Eastern Europe and the CIS where many who cannot find work in the formal economy seek employment.

The slow recovery of the labour markets in the EU-15 Member States makes it unlikely that they will reach the full-employment target set for 2010. The benefits incurred from a reasonably good performance in terms of productivity growth could, however, be offset if the unemployment problem is not solved in the near future, as this impacts on lower consumption, savings and investment and a slowing down of economic growth.

One of the main challenges within the EU-25 will be to close the income gap between the old and the new Member States. Despite their sustained economic growth, differences in real income between new EU Members and the EU-15 remain high. Approximately 92 per cent of the population in the new Member States live in regions where GDP per head is lower than 75 per cent of the EU-25 average.

Diversified as the region is, and as manifold as the problems within this region are, it is clear that higher employment rates would lead to greater social cohesion and higher living standards. This calls for strong, responsible and accountable governance to sustain balanced economic and social development. The majority of the economies in the region have a strong need to develop country-specific approaches to tackle the ongoing decent work "deficits". The challenges involved relate to a need to combine necessary levels of flexibility and renewable skills (to be more competitive in the global marketplace), while providing sufficient security for an adequate level of decent employment opportunities. The aging population, as well as the untapped youth potential, are also challenges to be met, as is the issue of an increasingly mobile international labour force.

Appendix

Labour Market Indicators

	GDP growth rate 2004 (%)	Change in unemployment rate (percentage point)	Unemployment rate (%)			Youth unemployment rate (%)		Annual productivity growth rate (%)	Employment-to-population ratio (%)		Annual labour force growth rate (%)
		1999-2004	1994	2003	2004	2003	2004	1999-2004	1994	2004	1999-2004
World	5.0	0.0	5.5	6.3	6.1	13.3	13.1	1.1	62.4	61.8	1.6
European Union (EU-25)	2.6	-0.5	11.2	9.1	9.0	18.4	18.0	1.3	51.3	51.3	0.4
Central and Eastern Europe & CIS (+Turkey & Israel)	7.2	-1.8	6.5	8.5	8.3	16.8	16.0	4.5	51.6	51.6	-0.1
Western Europe (non-EU)	2.3	1.0	4.4	4.2	4.1	9.8	9.6	0.8	62.6	62.4	0.6
Region total	3.5	-1.1	8.9	8.7	8.6	17.5	16.8	1.4	51.6	51.6	0.1

Source: ILO, Global Employment Trends Model, 2005; IMF, *World Economic Outlook*, 2004; see also Technical Note in ILO, *Global Employment Trends* (Geneva, 2004). Differences from earlier estimates are due to revisions of the IMF estimates of GDP growth used in the model as well as new regional groupings.