Employment Recovery Stalls in Europe and Central Asia

Johannes Koettl, Elizabeth Mata, Gady Saiovici, and Indhira Santos

Key Messages

- GDP growth is slowing or stalling in most Europe and Central Asia (ECA) countries.
- Unemployment rates are stable, but still close to their peak values. Men and especially youth continue to be disproportionately hit; youth unemployment rates are above precrisis levels, and in most countries, are still at their peak.
- Long-term unemployment is still rising and is arguably the biggest labor market challenge ahead for ECA. Despite high unemployment rates, however, activity rates remain stable, with increasing participation of women.
- Work hours have not fully recovered, but productivity per hour has been rising.

Slowing Growth Recovery

GDP continues to recover in most Europe and Central Asia (ECA) countries, but the recovery remains fragile. In 18 ECA countries, year-on-year economic growth was positive by the third quarter of 2012, and in Armenia, Georgia, Latvia, Tajikistan, and Uzbekistan, growth was more than 5 percent (figure 1). However, in half of these 18 countries, economic growth is slowing (red bars in figure 1). Only Albania, Azerbaijan, Estonia, and Lithuania display positive and sustained GDP growth (green bars).

Growth prospects remain poor in a number of countries where GDP continues to decline. In Croatia, the Czech Republic, Hungary, the Kyrgyz Republic, Romania, Serbia, Slovenia, and Ukraine, output continues to fall more than three years into the financial crisis. In Romania, Serbia, and, Ukraine, growth deteriorated even further between the second and third quarters of 2012.

This slowdown in the economic recovery is also evident at the subregional level. ECA as a region experienced a strong recovery between 2010 and most of 2011, but growth rates have fallen since. The slowdown is most pronounced in the Baltic and Western Balkan countries. Turkey’s strong growth performance following the crisis is also weakening, though still positive. Frail economic prospects in Western Europe suggest a drawn-out period of recovery in ECA.

Unemployment Stable but High

Unemployment has stabilized, with an average unemployment rate of 12 percent across the ECA region. More recently, unemployment rates in most ECA countries have not substantially changed (blue bars, figure 2), or have improved noticeably only in Moldova, Serbia, and Ukraine. In contrast, in Croatia and Latvia, unemployment actually increased in late 2012.
As a result, ECA unemployment rates are still close to their peak values. Only in Kazakhstan, Macedonia, Russia, and Turkey have unemployment rates fallen below precrisis levels (figure 4). Compared to their peak values, though, unemployment rates have significantly fallen only in the Baltic countries and Moldova. However, the number of unemployed who also receive an unemployment cash benefit is significantly below its peak and in many cases, is even below precrisis levels. Especially in Estonia, Latvia, Lithuania, Romania, the Slovak Republic, and Turkey, the difference between the peak and current number of unemployment beneficiaries is significant, suggesting that many unemployed have exhausted their unemployment benefits.

Since the start of the crisis, men have been disproportionally hit by unemployment. In Lithuania, for example, the unemployment rate among men has increased by 11 percentage points since early 2008, compared to 8 percentage points among women (figure 5). With the exception of Romania, the impact of unemployment follows a similar gender pattern in other countries in the region. These differences partly reflect a smaller initial impact of the crisis on female unemployment, but also a more rapid recovery in female than male unemployment in most countries.

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Youth also continue to be particularly hard hit by unemployment. In all ECA countries (except Turkey) where data are available, youth unemployment rates have increased much more—in fact, by more than twice as much in most countries—than adult unemployment rates since the onset of the crisis (figure 6). In Slovakia, youth unemployment rates have increased almost five times more. In all cases, youth unemployment remains above precrisis levels, and with the exception of the Baltic countries, is at peak levels (figure 7).

Figure 6. Youth unemployment increases were higher

![Graph showing change in unemployment rates between Q3 2008 and Q3 2012](image)

Source: Authors’ calculations based on Eurostat non-seasonally adjusted data.

Figure 7. Youth unemployment still above precrisis levels

![Graph showing unemployment rate](image)

Source: Authors’ calculations based on Eurostat non-seasonally adjusted data.

Long-Term Unemployment and Activity Rates

The recent pace of job creation has not been sufficient to absorb the large pool of unemployed, resulting in growing long-term unemployment. The share of long-term unemployed among the overall unemployed is very high in ECA and has kept increasing since the onset of the crisis, particularly in the Baltic countries (figure 8). Critically, the latest trend indicates that the problem of long-term unemployment is becoming more acute; currently, roughly 40–60 percent of all unemployed have been looking for a job for more than 12 months in most ECA countries.

Figure 8. Long-term unemployment is increasing

![Graph showing change in long-term unemployment rates between Q2 2008 and Q2 2012](image)

Source: Authors’ calculations based on Eurostat non-seasonally adjusted data.

Note: Red bars indicate worsening trend in the last quarter; green bars, improving trend; and blue bars, stable trend.

Long-term unemployment is arguably ECA’s biggest labor market challenge. The fact that long-term unemployment is still on the rise carries the risk that in the future, more workers will become discouraged or hardly employable, thus exiting the labor force. This, in turn, will affect the ECA countries’ ability to recover from the crisis and, in the long run, to successfully meet the challenge of an aging and declining labor force.

Figure 9. Activity rates are improving

![Graph showing change in employment rates between Q2 2008 and Q2 2012](image)

Source: Authors’ calculations based on ILO and Eurostat non-seasonally adjusted data.

Despite the rise in long-term unemployment, activity rates have increased or remained constant in most countries since 2008 (figure 9). Moldova, where activity rates have fallen by 5 percentage points, is a notable exception. As expected, in countries where the unemployment rate increased the most, activity rates have fallen more—although on average, the relationship is weak. Still, activity rates increased in late 2012 in most countries, and as figure 10 shows, in all ECA countries where data are available, women’s participation has either

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1 This is defined as those who have not worked for more than 12 months but who keep actively looking for a job.
been increasing more or decreasing less than men’s. This could hint at an “added worker” dynamic, meaning that household members who are not the main breadwinner—especially women—are forced to work or look for work as a result of income shocks caused by the crisis, although no firm evidence of this trend can be provided.

Figure 10. Women’s participation is increasing more

Source: Authors’ calculations based on Eurostat seasonally adjusted data.

Recovering Work Hours and Rising Productivity

ECA labor markets adjusted to the crisis not only through higher unemployment, but also through fewer work hours. All ECA countries where data are available have cut down on hours worked since 2008 (figure 11). The Czech Republic and Latvia saw the largest decline in hours worked; only in Slovakia did hours worked increase. Although recent trends show that hours worked are either stable or on the rise everywhere, countries are still well below the level of hours worked before the crisis. This could delay the recovery of employment levels because employers might prefer a continued expansion in hours of the currently employed (intensive margin) over hiring new workers (extensive margin).

Hourly labor productivity in parts of the region has been rising. Relevant data are available only for European Union (EU) countries. Especially in Bulgaria, Latvia, Lithuania, and Poland, real hourly labor productivity has grown by more than 15 percent since early 2008 (figure 12). In fact, hourly productivity growth was much higher in the EU10 countries than in other EU countries. Hungary and Slovenia, on the other hand, have been lagging in productivity growth.

Figure 12. Hourly productivity has mostly been increasing

Source: Authors’ calculations based on Eurostat seasonally adjusted data.

Conclusion: a Stalling Employment Recovery

Unemployment in ECA is stabilizing at high levels and is stuck close to peak values. Going forward, three factors will undermine the employment recovery in ECA: (i) weak economic growth; (ii) a large pool of long-term unemployed who could become discouraged and increasingly harder to employ; and (iii) a recovery in hours worked rather than new hires. Thus far, activity rates do not seem to be negatively affected by the crisis, but as the long-term unemployed become discouraged, this could change. Given the already low levels of employment in the region and a bleak demographic outlook, avoiding labor market detachment among the long-term unemployed, the inactive, and youth is the main challenge for policy makers in the near term.

About the Authors

Johannes Koettl is a Senior Economist, Elizabeth Mata, a Junior Professional Associate, Gady Saiovici, a Junior Professional Associate, and Indhira Santos, an Economist in the Human Development Sector, Europe and Central Asia Region of the World Bank.