

## Box 5

**SOME COUNTRY-SPECIFIC FACTORS BEHIND RECENT EURO AREA EMPLOYMENT DEVELOPMENTS**

Euro area employment data point to a gradual improvement in labour market conditions. According to national accounts data, euro area employment, measured in persons, rose by an average of 0.2% quarter on quarter from the beginning of 2004 to the third quarter of 2005, compared with just 0.1% during the years 2002 and 2003. However, when interpreting recent employment data, certain important country-specific factors should be taken into account. This box highlights the potential impact of various labour market reforms, as well as methodological and statistical changes, for some of the larger euro area countries. It concludes with an assessment of recent employment developments in the euro area as a whole against the background of these factors.

Labour market reforms have affected employment developments in a number of euro area countries. In Germany, while contracts in the form of full-time employment for an unlimited period have become less prevalent in the past few years, self-employment and part-time employment have been gaining importance.<sup>1</sup> These changes reflect the need for flexibility in enterprises and households, and have recently been further strengthened by measures introduced in the context of the Acts promoting modern labour market services (also known as the Hartz reforms). These include i) the introduction of financial assistance for unemployed persons setting up new businesses; ii) the promotion of part-time jobs paying up to €400 a month; and

<sup>1</sup> For a comprehensive overview see the Deutsche Bundesbank, "Rapid change in paid employment", Monthly Report, July 2005, pp. 13-25.

iii) the promotion since the beginning of 2005 of “one-euro” jobs, which allow the long-term unemployed to take up specifically allocated work and earn up to €2 per hour on top of their unemployment benefits. As a result of these measures, the employment figures measured in terms of persons have improved considerably more than employment measured in hours worked. In France, a special two-year contract, entailing no costs for dismissing new recruits for enterprises with less than 20 employees, was introduced in August 2005 to boost employment in the private sector. In Italy, new legislation implemented in 2003 (known as the Biagi Law) introduced measures to enhance flexibility in the labour market, mainly in the form of more flexible part-time contracts and non-standard labour contracts for temporary workers. In the Netherlands, the Act on the extension of continued payment of salary in case of illness provided that from January 2005 firms must pay an extra year of sick-leave before employees can qualify for the disability scheme. This has led to an increase in measured employment, as workers are counted as employed as long as they receive sick-leave payment from their employers.

Statistical and methodological changes have also been implemented in some euro area countries. In Spain, revised employment data for the period from 1996 to 2004, published in March 2005, showed both higher levels and growth rates of employment. These upward revisions are due to the incorporation of a higher number of immigrant workers than previously recorded. In particular, the level of employment in the fourth quarter of 2004 was increased by 965,000 persons as a result of this factor. The revised annual growth rates reflect the fact that the immigrant population has been rising more strongly over the last few years than initially recorded. Moreover, the national statistical institute introduced a second set of important methodological changes in April 2005, aimed at adjusting its labour force survey questionnaire to EU requirements.<sup>2</sup> In Italy, the budget laws for 2003 and 2004 introduced measures to legalise immigrant workers in the grey economy and an opportunity for retired persons who have continued to work to register as employed. As the employment data in the national accounts already include an estimate of employment in the informal economy, these measures amount only to a redistribution between official and grey economy workers, without affecting the overall employment figures.

Overall, recent employment figures in some of the largest euro area countries have been affected by labour market reforms and by methodological and statistical changes, influencing the data for the euro area as a whole. Although the impact on the euro area data is very difficult to quantify, the effects in some countries appear to be non-negligible, suggesting that caution is needed when interpreting recent euro area employment developments. More detailed employment data, for instance on hours worked, would help to better evaluate the impact of such country-specific factors. Nonetheless, even when these factors are taken into account, there are signs of improving labour market conditions, as indicated by a rising number of job vacancies and rising employment expectations in various surveys.

<sup>2</sup> For a more detailed explanation see the Banco de España, “La revisión de las cifras de la EPA”, Boletín Económico, April 2005, pp.14-15 and “EPA 2005: Resumen de los cambios metodológicos”, Boletín Económico, May 2005, p. 32.