

## Box 1

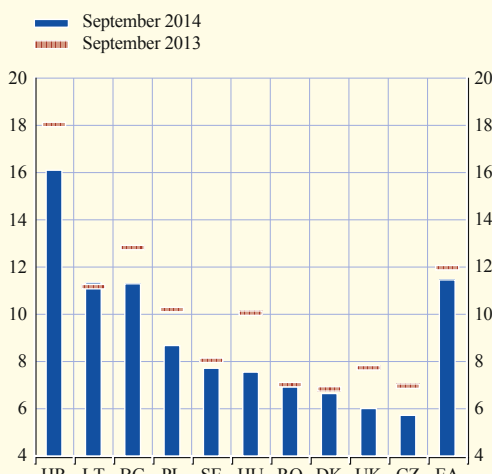
### CYCLICAL IMPROVEMENTS IN THE LABOUR MARKETS OF NON-EURO AREA EU COUNTRIES

Recent developments in the labour markets of most non-euro area EU countries<sup>1</sup> have generally been favourable, as reflected by the falling unemployment rates witnessed over the past year. In comparison with the euro area, this improvement has been quite remarkable given that the unemployment rates of these countries were already at lower levels one year ago. In September 2014 the euro area unemployment rate stabilised at 11.5%, while outside the euro area only Croatia and Bulgaria featured unemployment of a higher or similar magnitude (see Chart A). The jobless rate of Lithuania, which will become the nineteenth Member State to join the euro area on 1 January 2015, is also broadly comparable to that of the euro area. That being said, as with the euro area, there is significant heterogeneity across non-euro area EU countries.

<sup>1</sup> The group of non-euro area EU countries is composed of two parts: (i) Bulgaria (BG), the Czech Republic (CZ), Croatia (HR), Lithuania (LT), Hungary (HU), Poland (PL) and Romania (RO); and (ii) Denmark (DK), Sweden (SE) and the United Kingdom (UK) – the former being referred to as EU7 countries and the latter as EU3 countries.

Chart A Standardised unemployment rate

(percentage of labour force)

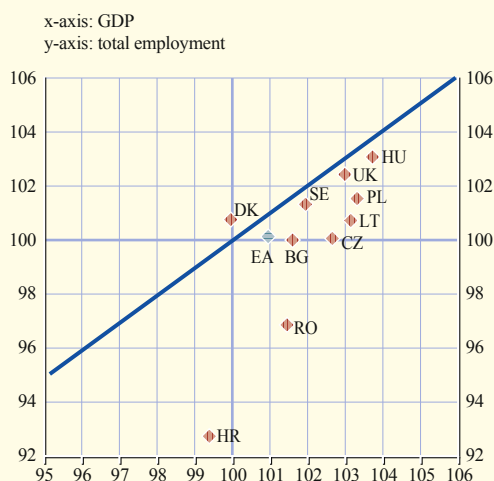


Source: Eurostat.

Notes: Based on seasonally adjusted data. EA refers to the euro area. The last observation refers to September (August in the case of Hungary and July in the case of the United Kingdom) 2014.

Chart B Economic activity and total employment

(Q2 2014; index: Q2 2013 = 100)



Sources: Eurostat and ECB calculations.

Notes: EA refers to the euro area. The observations for Croatia and the United Kingdom refer to the first quarter of 2014 (with the index having a value of 100 in the first quarter of 2013).

The decrease in unemployment rates mentioned above largely indicates that a growing number of jobless people have been able to find paid employment in non-euro area EU countries. In some countries, new entrants to the labour market who have immediately obtained work (and are included in labour force statistics for the first time) also contributed to the improvement here.

The labour market recovery generally reflects the fact that most non-euro area EU countries have seen more dynamic economic activity than the euro area during the past year.<sup>2</sup> In a number of such countries, employment actually expanded at a rate comparable to that of real GDP (see Chart B). In the case of the Czech Republic and Poland, however, the improvement in economic activity appears to have been less conducive to increased employment.<sup>3</sup> Meanwhile, the relatively robust job creation observed in Hungary is largely explained by the substantial expansion of a government-sponsored work scheme.<sup>4</sup>

Turning to recent structural labour market trends, the increase in hours worked per person employed was similar for non-euro area EU countries and the euro area. However, new job creation was significantly more pronounced in non-euro area EU countries, particularly in the United Kingdom, Denmark and Sweden (EU3 countries; see Chart C). There was also considerable heterogeneity regarding the number of hours worked across non-euro area EU countries – this figure increased substantially in EU3 countries, rising to levels markedly above their long-term averages, but remained broadly unchanged in the remaining non-euro area EU countries (referred to here as the EU7). As regards different contractual arrangements, in comparison with the euro area, the most vigorous growth was registered for the self-employed

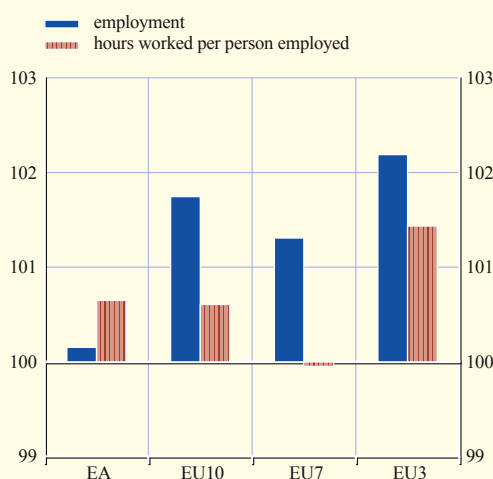
2 As regards the euro area, structural rigidities are in some cases impeding labour market adjustment. See “The impact of the economic crisis on euro area labour markets”, *Monthly Bulletin*, ECB, Frankfurt am Main, October 2014.

3 Croatia constitutes an outlier, as the contraction in total employment was disproportionate to the slowdown in economic activity experienced over the past year. This probably reflects the recent restructuring of state-owned enterprises.

4 Under the Public Work Scheme, on average, around 180,000 people (representing over 4% of total employment) were kept in employment during each relevant month of 2014.

**Chart C Employment and hours worked**

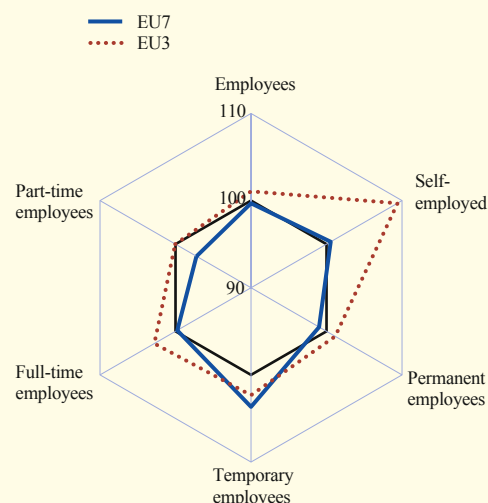
(Q1 2014; index: Q1 2013 = 100)



Sources: Eurostat and ECB calculations.  
Notes: EA refers to the euro area and EU10 refers to all non-euro area EU countries (see footnote 1). In addition, Croatia is excluded from the EU10 and EU7 aggregates owing to problems with data availability.

**Chart D Contractual arrangements in the labour market**

(change between the second quarter of 2014 and the second quarter of 2013; index: euro area change = 100)



Sources: Eurostat and ECB calculations.

in EU3 countries and temporary employees in EU7 countries (see Chart D). The relatively modest increase in the number of permanent employees and full-time workers (these still dominate the labour market by a wide margin) may suggest ongoing caution in hiring practices.

While any further improvement in the labour markets of non-euro area EU countries will hinge on the strength of the economic recovery, the latest developments provide some insights into the outlook for employment. In the United Kingdom, Denmark and Sweden, the current high level of hours worked per person employed implies that there is more limited scope for raising the amount of working time. The economic recovery is thus more likely to translate into job creation and/or rising wages. In contrast, other non-euro area EU countries appear to have more room for manoeuvre in this context. Here, increases in average working time may initially dilute the impact of the economic recovery on job creation. Finally – in line with the euro area – further labour market improvements will also depend on whether a number of country-specific structural weaknesses are addressed, including skill mismatches, a relatively low labour force participation rate or high youth unemployment.