EUROFRAME

European Forecasting Research Association for the Macro-Economy

Economic Assessment of the Euro Area

Winter 2020/2021

February 2021

Ten independent Research Institutes throughout Europe have founded the EUROFRAME network, an initiative for improved forecasting and macroeconomic analysis in the European Union.

EUROFRAME

European Forecasting Research Association for the Macro-Economy

CPB - Netherlands Bureau for Economic Policy Analysis (The Hague)

DIW Berlin - German Institute for Economic Research (Berlin)

ESRI -The Economic and Social Research Institute (Dublin)

ETLA – Economic Research (Helsinki)

IfW -Kiel Institute for the World Economy (Kiel)

NIESR -The National Institute for Economic and Social Research (London)

OFCE -Observatoire Français des Conjonctures Economiques (Paris)

PROMETEIA -Associazione per le previsioni econometriche (Bologna)

WIFO - Austrian Institute of Economic Research (Vienna)

CASE -Center for Social and Economic Research (Warsaw)

Economic Assessment of the Euro Area: Winter 2020/2021

This EUROFRAME Report presents an assessment of the economic outlook for 2021 focuses on the euro area based on a synopsis of the forecasts of EUROFRAME institutes. Perspectives for UK and CEEs countries are described in Boxes A and B, respectively.

In the Focus section, we discuss a special topic, based on work done in the EUROFRAME institutes. This time, we discuss the impact that the COVID-19 crisis had on labour markets in Europe and policy responses to this challenge, based on the experience in the countries hosting EUROFRAME institutes.

The international outlook: the second wave of Covid-19 slows down the recovery

The coronavirus outbreak triggered a worldwide economic crisis without modern parallel. When the first wave of the pandemic hit countries at the beginning of 2020, governments closed all non-essential businesses and issued stay-at-home orders. The resulting economic losses were huge in terms of output, jobs and incomes. Global trade of goods fell dramatically. Services have been hit particularly hard, especially activities that rely on social interaction such as tourism, hotels, restaurants and entertainment.

As summer approached, the number of Covid-19 infections gradually decreased and most restrictions were lifted. Consumer expectations improved and activity had a "V shape" rebound, with some countries experiencing a steeper than expected recovery. However, only China regained its pre-crisis level of GDP. According to the CPB world trade monitor, global trade grew MoM since June and surpassed its pre-crisis level in November. According to recent data the current containment measures until now seem to have had little impact on the world trade in goods. However, the Covid-19 pandemic continues to weigh heavily on international trade in services.[1]

The epidemiological situation started to worsen again in autumn 2020, forcing governments to implement a new round of lockdowns. Although most of these shutdowns are less stringent than those enforced in spring (**Chart 1**),

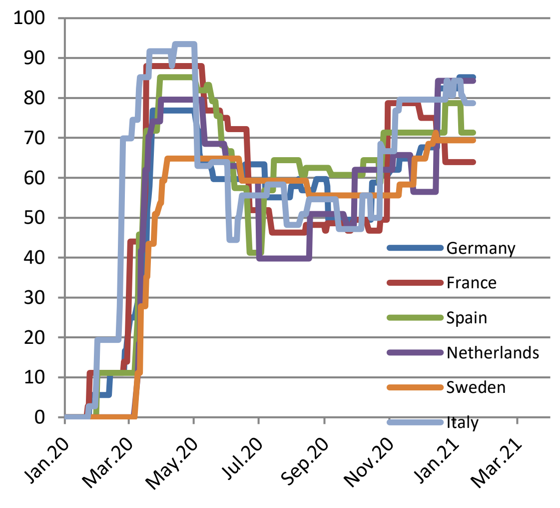
[1] Air traffic and international tourism remain on the downside. In November 2020, the number of passengers on international flights was 88 per cent lower than a year earlier.

these containment measures will reverse the summer's recovery in many countries and are likely to negatively affect growth prospects for 2021.

Monetary and fiscal policy remain crucial to support activity and incomes. Monetary easing by several central banks contributed to preserving favourable financing conditions throughout the pandemic period and will continue to do so going forward. The Fed at the end of August 2020 announced a shift in their

Chart 1 - Stringency index

100 = strictest level of policies



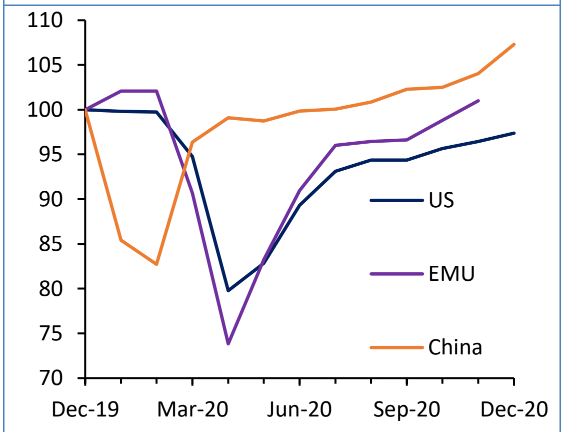
Source: Hale et al. (2020).
Note: Data updated to January 2021.

strategic objective toward a 2 per cent target on an average undetermined period and to shortfalls in full employment (rather than deviations from full employment), which would imply inflation to temporarily exceed 2 per cent in the coming years and could further delay the next interest rate hike. The ECB at the beginning of the crisis introduced additional policy tools (PELTROs, PEPP and more favourable conditions for TLTROs), which in December 2020 it reinforced and extended beyond 2021 and pledged to adjust according to the evolution of the health crisis.

China is leading the global recovery. The Chinese economy recovered well from the first wave of the pandemic. The continued growth of industrial production and an economic structure which is more manufacturing orientated contributed to this result (**Chart 2**). Moreover, it did not experience a second wave of infections so far, unlike other major economies. Asian economies are benefitting the most from China's growth and the pre-Covid trend towards trade regionalization in Asia is moving forward. The approval of the Regional Comprehensive Economic Partnership increases China's influence in the region, especially after the US withdrew from the Trans-Pacific Partnership in 2017. This moves the global centre of trade more toward Asia.

Chart 2 – Industrial production

December 2019 = 100



Source: Prometeia's calculations on National Statistical Offices data.
Note: Data updated to December 2020.

The start of a new era for US domestic and foreign policy. The worsening of the health crisis in the last part of 2020 will slow the recovery after the rebound of Q3-2020. While GDP in the fourth quarter continued to grow (by 1 per cent QoQ), economic activity clearly lost momentum. In December, the US labour market lost jobs for the first time after eight months, with leisure and hospitality the most seriously affected. In January 2021, despite a monthly gain of 49 thousand jobs, total employment was still around 9 million units lower than before the crisis. After four years of the Trump administration, the results of the 2020 elections represent a turning point for the country's domestic and foreign policy. President Biden will have room to advance his presidential domestic agenda, including an additional Covid-19 relief package (already presented) to support low-income households and further budget stimuli. A return of the US on the global stage is also to be expected. Biden's foreign policy plans include resuming US transatlantic relations and re-joining the Paris Agreement on climate change.

Moderate global growth in 2021 due to a bad start to the year. Recent shutdowns will weigh on growth in the first part of 2021. Nevertheless, public health conditions should gradually improve as the vaccination campaign progresses. The improvement of households and firms' confidence will positively affect both private consumption and investments and will contribute to strengthen the recovery in the second part of 2021.

Risks to the projections are mainly downward and linked to the development of the health crisis. An additional worsening of the pandemic, or delays in the availability and administration of the Covid-19 vaccines, could hamper household and corporate income growth. Moreover, China recently detected new coronavirus outbreaks and imposed regional level shutdowns to contain the spread of infections ahead of the Lunar New Year celebrations. If these containment measures slow down Chinese growth, the global economic outlook will be negatively affected too.

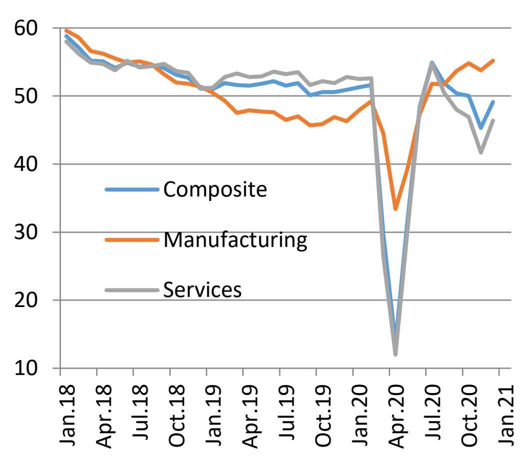
An upside risk is associated with the successful implementation of a strong stimulus by the Biden administration to promote the US recovery, with possible positive effects also for the global economy.

The Euro Area Outlook: strong but incomplete recovery in the third quarter, doubts about the short term.

The pandemic led to a historic contraction of economic activity in spring followed by a substantial but incomplete recovery in summer. Due to fewer restrictions, less risk of contamination and the reopening of factories and shops, the recovery in production in the eurozone in the third quarter of 2020 was substantial but incomplete. In the second quarter, the QoQ decline of GDP was the largest ever recorded, but after that, the increase in the third quarter was also the largest ever. This recovery has compensated at least for two-thirds of the previous production decline. Nevertheless, the remaining decline is still significant: in the third quarter, GDP in the euro area was still 4.4 per cent lower than at the end of 2019. Only the GDP decline at the start of the great recession was greater (-5.3 per cent).

With renewed containment measures in place during the fourth quarter and in the beginning of 2021, the short-term outlook for GDP has become less favourable. Resurging infection rates triggered renewed measures to contain the pandemic in autumn which derailed the recovery. Euro area GDP contracted by 0.7 per cent in the fourth quarter, according to the Eurostat flash estimate, with declines in output concentrated in France, Italy and Austria. PMI data indicate that the manufacturing sector still shows a sustained growth, whereas the service sector is increasingly constrained by severe social distancing measures **(Chart 3)**. The manufacturing data from PMI are corroborated by the industrial production data from Eurostat. The renewed measures will also have a negative impact on economic activity in the first quarter of 2021. A sustained recovery will only start after large scale vaccination amongst the general public reduces contaminations. Due to an anticipated relaxation of the containment measures, production and consumption are expected to pick up from the second quarter onwards. Initially, the recovery is quite strong because of pent-up demand, with GDP growing at 4.9 per cent in 2021 (average of the EUROFRAME institutes forecasts). In 2022, the recovery will continue, albeit at a more moderate growth rate of 3.1 per cent.

Chart 3 – PMI eurozone



Source: Refinitiv, IHS Markit

The Covid-19 crisis led to a sharp fall in hours worked, but comparatively modest rise in unemployment. In Europe, while the sharp fall in production has led to a decline in labour productivity, it has mainly resulted in a decrease in the number of hours worked.[2] In the EU, the number of hours worked per person employed fell by 11 per cent in the second quarter compared to the previous quarter. The sharp decline in the second quarter was followed by an increase of more than 15 per cent in the third quarter. Wage cost subsidies enabled this reduction in the number of hours worked per person employed and prevented a sharp rise in unemployment in Europe **(see Focus section)**. The advantage of the European approach is that the link between employee and company is maintained and production can be resumed more easily.[3] In 2020, unemployment in the euro area showed a modest increase to 8.0 per cent. In 2021, the average unemployment rate is expected to increase further before declining in 2022.

Governments have turned to massive support measures that have dampened the production decline caused by the corona outbreak. Together with the decline in GDP, this has led to rather large budget deficits. For the euro area, the budget deficit has widened from 0.6 per cent of GDP in 2019 to an expected 8.8 per cent of GDP in 2020. This will increase government debt in the euro area to more than 100 per cent of GDP. The European recovery program of 750 billion euros will have no effect on the economy or budgets in 2020. A limited effect is expected for 2021. In 2020, the European Commission itself issued bonds for SURE, the 100 billion euro programme mainly intended for wage cost subsidies.

Inflation has weakened further in the euro area. Prices even fell from August 2020 for the first time since May 2016. This weakening was due to both the fall in oil prices and lower core inflation. The average headline inflation in 2020 was 0.3 per cent. Temporary factors such as the VAT cut in Germany played a role in core inflation. For 2021, the decline of the negative base effects will lead to an increase in inflation, but inflation is expected to remain well below the ECB target.[4]

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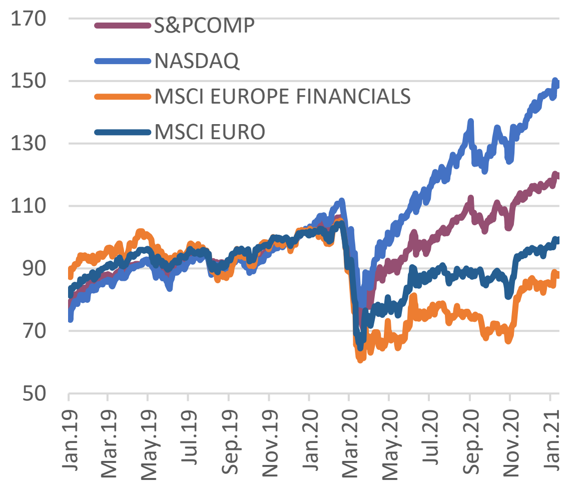
[2] In the US, the production decline and subsequent recovery in production was reflected in the unemployment rate, which rose from a record low of 3.5 per cent in February to 14.7 per cent in April, before declining to 6.9 per cent in October.

[3] The advantage of the US approach is that there are more financial incentives for shifts from contracting to growth sectors. Incidentally, in the US it is possible to be unemployed and still maintain a relationship with the last employer through a furlough scheme. See Eichhorst, W., P. Marx and U. Rinne, COVID-19 Crisis Response Monitoring; The Second Phase of the Crisis. IZA Research Report No. 105. IZA Institute of Labour Economics. 2021.

[4] Market expectations, based on inflation linked swaps, all show increases to pre-Covid levels after the large initial drop in February and March 2020.

Share prices were initially hit but partly recovered during 2020, while capital market interest rates were lower at the end of the year, at least in the euro area. Initially, stock prices fell sharply due to the corona outbreak, but after the rapid policy responses and initial signs of a recovery in global production, prices picked up again from the end of March **(Chart 4)**. At the end of 2020, US stock price indices were higher than at the end of 2019 and some significantly so (S&P 500: + 12 per cent, Nasdaq: +44 per cent). However, prices of European shares remained lower than at the end of 2019. (MSCI EURO: -4 per cent, MSCI EUROPE FINANCIALS: -16 per cent). The fall from the end of 2019 to the end of 2020 in the 10-year interest rate was 0.5 percentage points for the euro area as a whole.[5]

Chart 4 – Stock price indices



Source: Refinitiv.

Table 1 - Euro Area Forecasts - EUROFRAME Institutes average

GDP			CPI Inflation*			Unemployment Rate**		
2020	2021	2022	2020	2021	2022	2020	2021	2022
-7.4	4.9	3.1	0.2	1.2	1.4	8.0	8.8	8.2

* HICP

** Eurostat definition

Table 2 - Euro Area Forecasts

Institute	GDP			CPI Inflation*			Unemployment Rate**			Date of forecast
	2020	2021	2022	2020	2021	2022	2020	2021	2022	
Wifo	-7.5	4.8	3.1	-	-	-	-	-	-	18/12/2020
ETLA	-7.6	5.5	3	0.2	1.5	1.6	8	8.5	8	11/01/2021
OFCE	-7.2	5.7	-	-	-	-	-	-	-	10/2020
DIW	-7.5	4.8	2.9	0.0	0.8	1.3	8.2	9.8	9.5	10/12/2020
IfW	-7.2	4.9	4.0	0.3	1.7	1.4	8.1	8.4	7.4	16/12/2020
Prometeia	-7.2	4.3	2.6	0.2	1.1	1.2	8.0	8.5	8.1	08/02/2021
CPB	-8.2	5.5	3.2	0.4	0.9	1.4	-	-	-	11/2020
NIESR	-7.0	3.5	2.8	0.2	0.9	1.2	8.0	8.7	8.0	08/02/2021

* HICP

** Eurostat definition

[5] In the US, further easing of monetary policy and a bleaker economic outlook initially led to a decline in capital market interest rates of about 1 percentage point, but since August rates increased again to more than 1 per cent.

BOX A: CEEC Prospects

Economies of Central and Eastern European Countries (CEEC) suffered from the unprecedented Covid-19 epidemic in 2020. Recent projections show that the Czech Republic and Slovakia experienced the most substantial negative impact of Covid-19 in the region (6.8 per cent decline of GDP in 2020), whereas the economies of Poland and Lithuania are forecasted to decline at a relatively low pace (1.9 per cent and 3.5 per cent decline, respectively). The GDP decline in 2020 in Bulgaria, Estonia, Romania, and Latvia is expected to range from 4.5 up to 5.5 per cent. Unsurprisingly, private consumption and private investment in the second quarter of 2020 were the main drivers of the observed GDP decline. In Poland, the largest economy in the region, private consumption and investment fell in the second quarter by 10.5 and 9.0 per cent QoQ, respectively. The downfall in private consumption is expected to remain between -3.0 and -4.0 per cent in the vast majority of CEECs, whereas private investment was much more volatile across countries with the expected mean decline of over 8 per cent. A sharp decline in the economic activity could also be observed on the labour markets as the increase in unemployment rates ranged from 2.7 up to 3.5 percentage points over 2020.

The governments of CEECs responded to the Covid-19 pandemic through various fiscal measures. These measures are expected to increase government expenditure on average by 4.8 and 1.3 per cent YoY in 2020 and 2021, respectively. Along with decreased tax revenues, elevated expenditure will lead to a deterioration in the state of the public finances. The average budget balance-to-GDP ratio in the region is projected to reach -7.4 per cent in 2020 and -5.2 per cent in 2021. Overall, the general government debt-to-GDP ratio is expected to hit 46.1 per cent in 2020 and 48.2 per cent in 2021, in total in the region.

Due to the expected roll-out of the vaccine for the Covid-19 virus and the assumed easing of containment measures, CEEC economies are expected to rebound in 2021. However, GDP in real terms in all CEECs in 2021 will remain below the levels observed in 2019. A full recovery of CEE economies is expected no earlier than in 2022. GDP growth in 2021 is projected to reach up to 5.4 per cent year-over-year in Slovakia and as low as 3.1 per cent in Lithuania. Poland, Hungary, and Latvia are the other countries are expected to grow at the pace of over 4 per cent. The annual GDP growth for Poland is forecasted at 4.1 per cent and 4.0 per cent in 2021 and 2022, respectively. Hence, the Polish economy is expected to return to its pre-Covid growth trends.

The rebound will mostly be driven by the aggregates that suffered most throughout 2020, namely private consumption that is expected to increase at the highest pace in Latvia and Poland (5.7 and 4.5 per cent year-over-year growth in 2021, respectively). Private investment is projected to be the second most important engine of growth with year-over-year growth exceeding the increase in consumption expenditure. The fastest increase in private investment is forecasted for Slovakia (10.9 per cent growth in 2021) and Estonia (7.9 per cent growth). Government consumption in CEE as a whole is forecasted to grow at a decreasing rate whereas trade balances are projected to deteriorate in most of the countries in the region.

BOX B: UK prospects

The UK economy is forecast to grow by a moderate 3.4 per cent in 2021, after having contracted by 9.9 per cent in 2020. The majority of the fall in 2020 came in Q2, when activity fell by 18.8 per cent QoQ under lockdown restrictions. A fairly robust recovery in June and July slowed over the autumn, with activity returning to 94 per cent of February levels in October. November saw a second and less restrictive lockdown in England, output falling 2.6 per cent MoM. In January the resurgence of the virus forced a third lockdown which is likely to last through much of first quarter and is set to reduce activity to a level above that of April 2020 but below that of November.

The hospitality sector has borne the brunt of public health measures, operating at below 10 per cent of pre-Covid levels in April. Retail was initially badly affected but rebounded strongly through the reopening of shops (since reversed), switching to online retail, and substituting purchases for social consumption – food and drink in particular.

The other major economic risk faced by the UK economy in 2020 was the risk of a ‘no deal’ Brexit: something which was averted by the signing of a Trade and Cooperation Agreement with the EU in December, shortly before the transition period came to an end. This avoids the worst case scenario but is still likely to see the capacity of the UK economy smaller, though much of this gradual contraction will have taken place already since the referendum in 2016.

Business investment, long disappointing, may rise in 2021 as uncertainty from Covid and Brexit dissipates, but history cautions against forecasting any sort of boom in this category.

The UK is running one of the most succesful vaccine roll-out programmes in the world, but there is still a lot of uncertainty around as to how soon can Covid-19 restrictions be permanently lifted. Unemployment is likely to rise to 7-8 per cent after labour market support policies are withdrawn: currently expected to be in April.

Inflation has remained low in recent months and was at 0.6 per cent in December. A consumer recovery combined with increased supply costs as a result of Brexit and Covid-related corporate debt are likely to lead to a rise in inflation over the course of 2021, though probably not rising above its 2 per cent target.

Monetary and fiscal policy measures have been taken to support the economy. The Bank of England cut its interest rate from 0.75 per cent to 0.1 per cent and increased the size of its quantitative easing (QE) programme by £450 billion to £895 billion, almost doubling the size of its balance sheet and contributing to lowering rates on government bonds. Given the limited scope for reducing interest rates and the nature of the crisis, fiscal policy has played a larger role both in terms of the scale of the support and in the types of support given, pushing the public sector debt to GDP ratio above 100 per cent for the first time since 1961-62. With debt expected to reach 110 per cent of GDP in fiscal year 2021-22, there is pressure on the Chancelor of the Exchequer to announce a plan to reduce debt in the medium term while still supporting the economy in the short term. The Government’s next Budget is set for 3 March when more details about Covid and post-Covid tax and spending policies will be announced.

Table 3 - Individual Country Forecasts

Country	GDP growth (%)[a]			CPI Inflation (HICP, %)[b]			Unemployment Rate (Eurostat definition, %)			Date of forecast
	2020	2021	2022	2020	2021	2022	2020	2021	2022	
Austria (WIFO)**	-7.3	4.5	3.5	1.4	1.5	1.6	5.4	5.1	4.8	18/12/2020
Finland (ETLA)	-3.5	3	1.9	0.5	1.3	1.2	8.1	7.9	7.6	11/01/2021
France (OFCE)	-9.5	7.1	n.a.	0.5	0.5	-	8.4	10.1	-	12/2020
Germany (DIW)	-5.4	5.3	2.7	0.5	1.6	1.6	4.4	4.3	3.9	10/12/2020
Germany (IfW)	-5.2	3.1	4.5	0.5	2.6	1.7	4.2	4.8	4.1	16/12/2020
Italy (Prometeia)	-8.9	4.8	4.1	-0.1	0.7	1.0	9.1	11.0	10.7	08/02/2021
Ireland (ESRI)	3.4	4.9	-	-	-	-	18.4	14.5	-	17/12/2020
Netherlands (CPB)	-4.2	2.8	2.2	1.2	1.3	1.5	4.1	6.1	5.4	11/2020
Poland (Case)	-3.5	4.1	4.0	3.4	2.3	2.7	3.8	5.3	4.4	29/12/2020
United Kingdom (NIESR)	-9.9	3.4	4.3	0.8	1.0	1.9	4.6	6.5	7.1	08/02/2021

[a] working day adjusted

[b] France reports the private consumption deflator

** not working day adjusted

Focus: Labour markets in the pandemic

In the euro area, Covid-19 resulted in a reversal of recent trends as unemployment had decreased substantially amid a sustained period of uninterrupted growth from the high levels reached in the course of the Great Recession and the successive European sovereign bond crisis. In several countries, including Germany, the Netherlands and the UK, unemployment had even declined to long-term lows. This section takes a closer look at labour market developments during the Covid-crisis and labour market policy responses in the countries hosting the EUROFRAME institutes. The sharp drop in activity in spring 2020 led to a significant rise in unemployment in the euro area, from 7.2 per cent in February to 8.7 per cent in July, albeit with wide differences across countries. In the countries hosting EUROFRAME institutes the increase in the unemployment rate (Eurostat definition) from pre-crisis levels to the peak registered in the course of 2020 ranged from only 0.4 per cent in Poland and Italy to almost 2.5 per cent in Ireland. The increase in unemployment was, however, generally small compared to the size of the fall in output, and much smaller than in the United States, where the unemployment rate skyrocketed from 3.5 per cent in February to almost 15 per cent in April. In Europe the impact of the Covid-crisis on the labour market was generally mitigated by short-time work or furlough schemes which where adapted to the crisis and heavily used where available. The number of workers on these kind of schemes in relation to the labour force was as high as 20-30 per cent in spring in a number of countries, including France, Italy, Austria and the UK. The numbers on the schemes decreased substantially during the recovery phase in summer but started to rise again more recently reflecting renewed lock-down measures taking effect.

The governments of the EUROFRAME institutes host countries implemented a range of policy measures to support their labour markets. The most important labour market policy measures implemented were furlough schemes with country-specific generosities **(Table 4)**. The UK implemented a new scheme with an average (effective) replacement rate for workers of around 80 per cent in gross terms. The Netherland's government introduced a furlough scheme starting with a very high level of 90 per cent wage coverage, but it will be gradually reduced to 60 per cent. Germany, Italy, France, and Austria changed their pre-existing systems to cover additional workers, extend the period of eligibility, or increase the replacement rates, with their new systems consisting of an average (effective) replacement rate of between 60 and 87 in Germany, 80 per cent in Italy, and 84 per cent in France, in net terms, respectively, and between 80 and 90 per cent in gross terms in Austria. Poland's and Finland's furlough schemes are somewhat less generous. Poland introduced a new system with a replacement rate of up to 50 per cent of the gross salary, but no more than 40 per cent of the average monthly salary from the previous quarter, whereas Finland modified its pre-existing system slightly to cover additional workers and extend the period of eligibility, retaining the pre-crisis average (effective) replacement rate of between 43 and 56 per cent in gross terms. The furlough schemes with their improved features are temporary, with their end dates varying from March 31 (Italy) to December 31 (France and Germany) this year. Part of the extensions of Finland's scheme ended already in December 31 last year

Short-time work/Furlough Schemes

	Austria	Finland	France	Germany	Italy	Ireland	Netherlands	Poland	UK
In place before Covid-19	yes	yes	yes	yes	yes	no	no	no	no
Newly introduced	no	no	no	no	no	yes	yes	yes	yes
Extended	yes	yes	yes	yes	yes	yes	yes	no	
Characteristics									
max. possible length (months)	6 each phase	unlimited	24	24	8	unlimited	n.a.	3	unlimited
Average (effective) replacement rate (% of wage)	80 to 90% (gross)	43 to 56% (gross)	84 (net)	60-87% (net)*	80% (net) **	n.a. ***	n.a. ***	up to 50% (gross)	80% (gross)
In place until	Mar 31, 2021	Dec 31, 2020/ Mar 31, 2020	Dec 31, 2021	Dec 31, 2021	Mar 31, 2021/ Jun 30, 2021	Mar 2021	Jul 2021	no expiration date	Apr 2021
Other specific labor market support policies	yes	no	no	yes	yes	yes	yes	yes	no

*Depending on family status and duration of spell of short-time work;
** with a maximum of €1100 per month;
***wage subsidy for employers

Country Details

Austria

The Covid-19 pandemic hit the Austrian economy hard in 2020, with GDP expected to decline by 7.3 per cent. The trough was observed in spring, where the first hard lockdown with restrictive measures by the government to contain the pandemic took place (March and April). Public and economic life was reduced to a minimum. After a recovery period over the summer months with low infection figures, the second lockdown came into force on 3 November 2020, in response to the resurgence of infection figures; it was tightened starting 17 November and applied until 6 December. During this period, catering was restricted to pick-up, hotels were closed (except for business travellers), body-related services were prohibited, open commerce was restricted to grocery shops, pharmacies, drugstores and post offices, and customer contact was limited to non-body-related services. Restrictions on restaurants and hotels continued after 6 December, and the remaining regulations from the second lockdown were reinstated on 26 December. The full or partial closures affect mainly the retail sector, accommodation and food services as well as cultural, entertainment and recreational activities. The hard lockdown was ended on 7 February 2021, when shops and body-related services were allowed to re-open, whereas restaurants and hotels remained closed.

Labour market

The crisis is heavily affecting the Austrian labour market. In 2020 the number of persons in dependent active employment fell by 2.0 per cent and the unemployment rate (according to Eurostat definition) rose from 4.5 per cent in 2019 to 5.0 per cent (average January to November 2020). According to the national definition the unemployment rate increased by 2.5 percentage points to a record high of 9.9 per cent.

The Austrian Covid-19 short-time working scheme, called "Corona Kurzarbeit", prevented even stronger negative effects. Under this type of scheme, last used during the financial market crisis in 2009, employees reduce their working time and are compensated for the main part of the reduction in working hours, while companies save part of their personnel costs. The Covid-19 short-time working scheme was introduced in three phases, with employees' working hours reduced on average by 10 to 90 percent for a maximum of 6 months in each phase.

In the weeks of the first lockdown, with strict measures taken by the government to contain the pandemic, a massive drop in employment was recorded. In March and April, the number of employed persons declined by around 5 per cent compared to the previous year (as it was last seen almost 70 years ago). Most sectors of the economy were affected, services in particular, but also the industrial and the construction industry. Some of the decline was cushioned by the Covid-19 short-time working scheme, used lively by the companies. Utilization peaked in the last week of May with over 1.3 million registered cases of short-time work.

With the end of the first lockdown and the subsequent recovery during the summer months, the situation in the labour market improved temporarily. With the renewed increase in infection numbers in autumn and the subsequent reintroduction of the government's containment measures, employment declined again in November and December, albeit at a slower pace than in spring, as the industrial sector is now less affected. Since October unemployment increased again, and the unemployment rate based on the Eurostat definition reached 5.2 per cent in November. Also, the number of employees registered for Covid-19 short-time work rose again by the end of the year. Winter tourism and the seasonal labour market are strongly affected by the restrictions on restaurants and hotels continued after 6 December.

Outlook

The economic outlook for 2021 depends on the further development of the pandemic. Unemployment is expected to decline only at a slow pace and will remain above the pre-crisis level also in 2022.

Finland

The Covid-19 pandemic led the Finnish government to introduce a partial lockdown on the 17th of March. The lockdown was made more stringent by the isolation of Uusimaa, the largest region in Finland, and shutting down restaurants, cafes and bars at the end of March. The lockdown and restrictions were progressively softened from 14th May to 30th June. Amid rising infection levels, the government started to increase restrictions again in October, and they were progressively raised during winter. However at least until now, Finland has avoided a second lockdown.

Finland's GDP fell by 3.9 per cent QoQ in the second quarter of 2020, but recovered strongly in the third quarter amid the easing epidemic. The GDP growth in the fourth was probably slightly positive with the recovery in the service sector stagnating but the industrial sector's recovery accelerating. ETLA estimates that Finland's GDP fell by between 3.0 and 3.5 per cent on the whole of 2020.

Labour market

The unemployment rate in Finland was 6.7 per cent in 2019, and the employment rate 72.6 per cent in the same year. Thus, Finland's labour market confronted the corona shock in a rather healthy state, at least when measured by Finnish historical standards.

The labour market effects of the corona crisis were mitigated mainly due to the furlough scheme available already before the corona crisis. Basically, the system is available to all employers. It is probably the most important shock absorber mechanism in the Finnish la-bour markets. Employers can reduce their use of labour input via furlough schemes, which may range from days to several months, as specified by the employer. These may include a 100 per cent reduction in working time for a certain time span, or just reduced hours, for instance employees can be told to continue working 80 per cent of the normal weekly working hours. The system is effectively paid by social security contributions of firms and workers, that is, fundamentally by government mandated taxes.

The system was adjusted due to the corona crisis with four important measures: the legal process needed when using these policies was made less time-consuming and easier for employers, employee's own-risk period was shortened so that they could get their compensation payments with no delays, and general terms of the system were made somewhat more generous for workers, and, perhaps the most important addition, self-employed were made eligible to the compensation scheme as well.

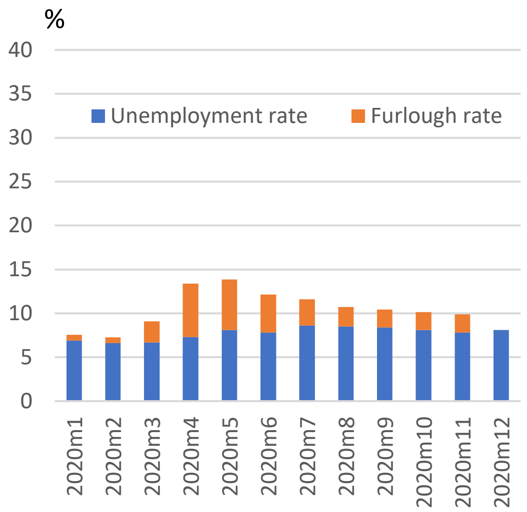
The labour market shock in the second quarter of 2020 was severe, but since that situation in the labour market has improved markedly. The number of furloughed people peaked in April, reaching 164 000 on a monthly average, but numbers have come down since that significantly, with the latest number from November, when on average 58 000 people were still on furlough schemes. Less dramatically, the official (trend) unemployment peaked in May, with an unemployment rate of 8.4 per cent. The latest available trend unemployment rate from November is 8.1 per cent **(Chart 5)**.

Outlook

ETLA forecasts that Finland's GDP will grow by 3.0 per cent in 2021. The growth is estimated to abate to around 2 per cent in 2022. The unemployment rate is estimated to decrease to 7.9 per cent this year and to 7.6 per cent in 2022.

These numbers would mean that there is probably not significant scarring in the labour market, although there is still room for unemployment to decrease. In the end, the pace of the recovery is dependent on the progress of the mass vaccination programme since the service sector's recovery cannot be completed until the immunity level in the population is close enough to what is needed for so called herd immunity to exist.

Chart 5 – Labour market Finland



Number of unemployed and workers on furlough schemes, respectively, in % of labour force
Source: Eurostat, national sources, own calculations.

Finland's decent record (at least until now) of controlling the pandemic, helped by some relative advantages such as not being very densely lived country, cultural factors, and the structure of the economy in which the indus-trial sector still contributes 20 per cent to total output, have helped the country recover from the pandemic. Similarly, they partly explain the relatively good economic performance of Finland in 2020 as compared to many other European countries. However, an aging population is expected to restrict the Finnish GDP growth in the medium run, and hence well-known challenges continue to lie ahead.

France

The Covid-9 pandemic resulted in the French government to introduce a stringent lockdown from 15 March to 11 May. The lockdown was progressively softened from 11 May to 15 June. A second but less stringent lockdown was introduced in several steps from 17 October to 30 October, including the closure of many services. The lockdown was eased on 28 November and strengthened again from 15 December especially through curfew measures.

French GDP fell by 5.9 per cent in the first quarter and by 13.8 per cent in the second quarter; it rebounded by 18.7 per cent in the third quarter. The first official estimate suggests GDP fell by 1.3 per cent in the fourth quarter. This led GDP to fall 8.3 per cent in 2020 and be 6.6 per cent below its trend level at the end of 2020.

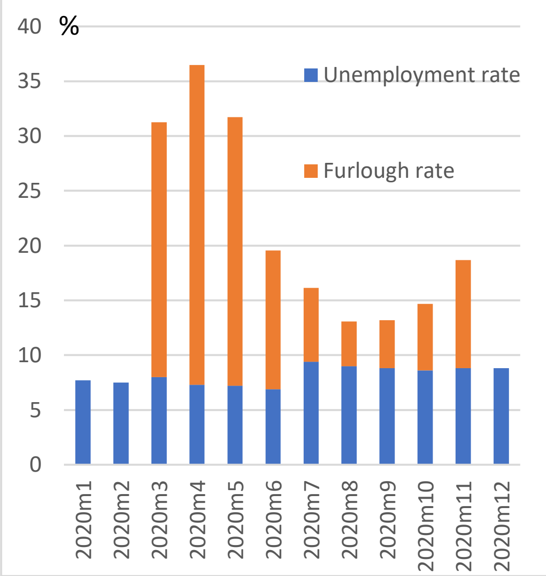
Labour market

In 2019, French GDP grew by a mere 0.8 per cent (Q4oQ4). But job creation kept on growing (1.1 per cent, +335,000 jobs). This reflected a structural slowdown in labour productivity growth, the impact of the abolishment of social contributions on low wages, and the impact of labour law deregulation measures which induced an increase in the number of precarious jobs. At the end of 2019, the unemployment rate stood at 8.1 per cent (i.e. a fall by 0.7 percentage point in a year). The unemployment rate had been decreasing since mid-2015, when it had reached a peak of 10.5 per cent; it had not yet reached its end of 2007 rate (7.2 per cent). From end 2007 to end 2019, the marginal labour force ('halo du chômage') clearly increased (from 4.4 per cent to 7.7 per cent of the labour force). The share of permanent contracts decreased from 77.6 per cent to 74.8 per cent. Conversely, the participation rate increased by 2.2 percentage points, although it fell by 1.1 percentage point for people aged between 15 and 24 years, by 2.3 percentage points for men aged between 25 and 49 years. The participation rate rose by 0.8 percentage point for women aged between 25 and 49 years and by 18.4 percentage points for people aged between 55 and 64 years. All in all, the employment rate increased by 1.4 percentage point (+2.2 per cent) despite a rise in the unemployment rate.

From end-2007 to end-2019, the labour force (in FTE and including marginal labour force) increased by 7 per cent: the number of jobs increased by 5.4 per cent, the 'broader' unemployment rate (in FTE including marginal labour force and involuntary part-time work) rose from 14.1 per cent to 15.4 per cent.

On 25 march 2020, in view of the magnitude of the Covid-19 crisis, the French government improved the short-time working (or unemployment) scheme. Under this scheme employees earn 70 per cent of their gross wages (84 per cent of their net wages, with a floor at the net SMIC level, 1231 euros per month); while the employer has nothing to pay (before 25 March, companies were allocated a refund of only 7.23 euro per hour up to a ceiling of 4.5 SMIC (SMIC: minimum wage, currently at 1,554.58 euros per month). From 1st June 2020, the scheme was made less generous, employers were now requested to cover 10 per cent of the gross wage, except in specific sectors (tourism, hotels, cafés, restaurant, culture, events). The short-time working scheme limited the rise in unemployment; 73 per cent of hours not worked were covered by this scheme (as compared to 7 per cent for a reduction in overtime and holidays, 20 per cent through jobs cuts). The costs of this scheme are estimated at 28 billion euros in 2020 (in gross terms, but it should be noted that the scheme reduced costs which would have occurred otherwise in terms of higher unemployment). The number of people in short-time work/unemployment reached 8.4 million in April (i.e. 5.4 million in FTE), it decreased to 1.2 million in August and rose again to 2.9 million in November **(Chart 6)**.

Chart 6 – Labour market France



Number of unemployed and workers on furlough schemes, respectively, in % of labour force
Source: Eurostat, national sources, own calculations.

Measures targeted at young people were introduced through a scheme called ‘1young people 1solution‘ (1jeune1solution): 4000 euros grant were provided to companies hiring a worker aged below 26, 5000 euros apprenticeship grant were provided (for people aged below 18) or 8000 euros (for young workers above 18, and an increase in the young workers’ schemes (‘Garantie jeunes’ and schemes designed to help young people to get their first job). However, it should be noted that young people initially mostly need jobs in line with their skills and qualifications.

Lockdowns led to a rise in temporary unemployment and ‘Halo’ of unemployment, which makes it difficult to assess unemployment, as many unemployed could not look for a job.

According to Pôle Emploi (the French unemployment agency) the number of workers in category A (people without a job and looking for a job) increased by 10.5 per cent between February and November 2020, i.e. from 3.245 to 3.586 million (+340,000). The number of unemployed in categories ABC (part-time workers, looking for a job) increased by 6.1 per cent between February and November 2020, i.e. from 5,385 to 5,714 million (+300,000). The unemployment rate increased for younger people rather than older people and for men rather than women.

Since early March 2020, 86,000 redundancies were made for economic reasons (i.e. 50,000 more than in the same period of 2019). This amounts to a small part only of the rise in the number of unemployed.

In the third quarter of 2020, the unemployment rate (ILO definition) stood at 9 per cent, i.e. +260,000 as compared to end 2019. The participation rate fell by 0.2 percentage point, the unemployment rate (relative to total population) increased by 0.6 percentage point; the employment rate fell by 0.9 percentage point (1.35 per cent). Employment fell more for young people (-2.7 per cent) than for older people (-0.6 per cent). Women were more affected than men by job losses, but female unemployment rose less than male unemployment, as more women left the labour market.

In the fourth quarter of 2020, GDP remained around 6.6 per cent below its pre-Covid trend level. The number of employees jobs fell strongly in the first half of the year (-700,000), before rising in the third quarter (+400,000), and is expected to have fallen again in the fourth quarter (-400,000). In the fourth quarter of 2020, as compared to the same quarter of 2019, the number of jobs would have fallen by 800,000 (-3.4 per cent), the number of unemployed (ILO definition) would have risen by 360,000 (i.e. an unemployment rate of 9.5 per cent), i.e. a fall by 400,00 in the labour force, this being explained by discouraged people, either for health reasons, in industries having been obliged to close (Hotels-cafés-restaurants, tourism, leisure, culture), or as in normal times, by discouraged people.

Outlook

The outlook for 2021 relies heavily on Covid-19 developments. In a very favourable scenario, French GDP would grow by 8 per cent in the fourth quarter of 2021 (Q4oQ4), +5.7 per cent on an annual average but output would remain 3.6 per cent below its trend level at the end of 2021.

Under this scenario, the number of jobs would remain roughly stable in 2021, the progressive return to ‘normal’ activity in many sectors being offset by jobs adjusting to a lower output level in many sectors and the impact of companies’ difficulties (according to a OFCE study,[6] companies’ bankruptcies could lead to 180,000 jobs losses. Firms would remain overstaffed by around 1.2 per cent). Only half of discouraged unemployed would return to the labour market. With rising unemployment (by 400,000), the unemployment rate would reach 11 per cent, i.e. 3 percentage points more than in the end 2019.

Germany

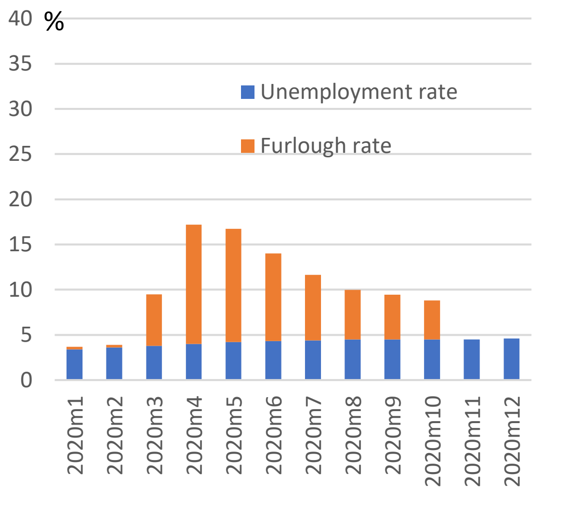
The German economy was heavily impacted by the economic repercussions of the Covid-19 pandemic, with a sharp contraction of GDP of 9.8 per cent in the second quarter followed by a rebound in the summer months as activity normalized in most parts of the economy (Q3: +8.5 per cent). In autumn, the progressive rise of infections led the authorities to re-introduce lockdown measures, which were limited to a small part of the economy initially (hospitality and entertainment mainly), but were extended to include large parts of the stationary retail sector and personal services before Christmas and in January 2021. The first official estimate put the decline of GDP in 2020 at 5.0 per cent.

Labour market

The German labour market had been in one of the longest upswings ever before the Covid crisis hit. Since 2006, employment had increased by 15 per cent and the unemployment rate more than halved, from 12 to 5 per cent (national measure) and 11 to 3 per cent (Eurostat measure), with only a minor interruption in the course of the Great Recession. With the Covid crisis unfolding in spring 2020, registered employment increased sharply from 2.3 million to 2.9 million persons, and the unemployment rate jumped to 6.4 per cent (national measure). The economic rebound during the summer led to a gradual decline to 2.8 million (6.1 per cent) by December 2020. So far, the re-introduction of lockdown measures in November and December have not yet had a visible impact on unemployment. According to the Eurostat definition, the increase was more gradual, but has not yet peaked in contrast to the national measure. The number of short-time workers skyrocketed in spring 2020, reaching an all-time high of 6 million people or 15 per cent of all employees **(Chart 7)**, with an average share of furloughed working time of 48 per cent. While short-time

[6] Eric Heyer : « Défaillances d’entreprises et destructions d’emplois – Une estimation de la relation sur données macro-sectorielles », *Revue de l’OFCE* 168, novembre 2020.

Chart 7 – Labour market Germany



Number of unemployed and workers on furlough schemes, respectively, in % of labour force

Source: Eurostat, national sources, own calculations.

work was reduced substantially during the summer, the number of short-time workers of 2 million in October (latest figure) was still markedly higher than at the peak of the Great Recession. To be sure, the increase in unemployment does not fully reflect the number of jobs lost in the economy. Many workers left or did not enter the labour force, as they are eligible neither for unemployment benefits nor for basic income support. In addition, net immigration – a significant source of additional employment in past years – decreased considerably in 2020.

Policy responded to the crisis by extending the duration of the short-time working scheme (STW) from 12 to 24 months and relaxing the rules for firms to apply for the scheme. Other STW-related measures include full reimbursement of STW-related social security contributions to firms and the increase of the STW allowance from 60 per cent of lost net earnings for employees without children and 67 per cent for employees with children, respectively, to 70/77 per cent from month 4 onwards and to 80/87 per cent from month 7 onwards, provided the reduction of working hours is at least one half. All STW extensions are limited until the end of 2021. The maximum duration of contribution-based unemployment benefits was extended by 3 months for those whose regular maximum duration was reached between May and December 2020. Tax-financed basic income support was made more generous with less strict means test (concerning protected assets) and increased reimbursement of accommodation and heating costs until March 2021. At the same time, active labour market policy measures (such as training measures) were reduced notably, mainly as a result of pandemic-related contact restrictions.

On the company level, the reduction of hours on working-time accounts and of overtime played only a minor role, according to our estimates. This is probably to a large extent due to the fact that the German economy was more or less at normal capacity utilization at the beginning of the crisis, with the manufacturing industry already in a downswing for two years. This contrasts sharply with the recession in 2008/2009, which hit the German economy in the middle of an economic boom with very high capacity utilization.

Outlook

The partial shutdown since November and the tightening of measures around the turn of the year are expected to lead to a renewed increase in short-time work and a decline in employment in the coming months, although to a much smaller extent than in last spring. In a scenario of progressive and sustained normalization of economic activity starting in spring this year, short-time work should quickly decline in the remainder of the year, and the recovery in employment is also expected to gain momentum towards the end of 2021. On an annual average, the unemployment rate will nevertheless increase again in 2021, albeit only slightly.

Ireland

The first lockdown in Ireland was put in place in March. This strict lockdown, in which many businesses were forced to shut, was extended to May. After this point there was a gradual easing of restrictions until September. However, due to an increase in cases at this time (the so called 'second wave') strict administrative closures were again brought in in the middle of October.

Cases fell sharply over this period and restrictions were again eased at the start of December. However, case numbers again increased rapidly through December and into January (third wave) and once again the strictest restrictions were brought in.

Labour market
The Irish labour market was performing very strongly before the crisis. The unemployment rate had been falling gradually since its peak after the GFC in 2012. The unemployment rate had fallen below 5 per cent which is around the rate considered to be full employment.

Two main labour market policy responses were triggered by the Covid-19 crisis: The Pandemic Unemployment Payment (PUP) and the Temporary Wage Subsidy Scheme (TWSS) which was later replaced by the Employment Wage Subsidy Scheme (EWSS).

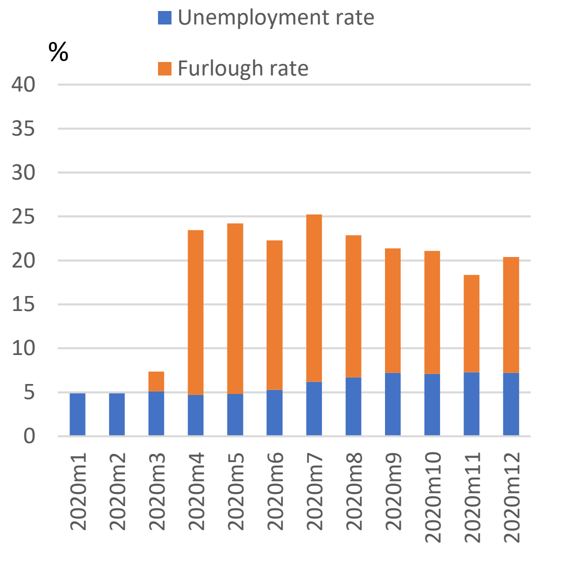
The PUP is welfare payment made to those who have lost their jobs because of Covid. i.e., because they were made unemployed due to the impact of the pandemic on their place of employment. It was initially a flat level of €350 but was later based on how much the employee was earning when they were employed.

The wage subsidy schemes were payments made to the employer for keeping their employees on the payroll.

The Central Statistics Office (CSO) releases two measures of unemployment, an upper bond and a lower bound. The upper bound includes all those on the PUP as being unemployed. As of December, the upper bound is 20.4 per cent while the lower bound is 7.2 per cent **(Chart 8)**. The true rate of unemployment likely lies somewhere between these two measures.

One of the potential reasons cited for the significant increase in cases in December has been the large Irish diaspora which returned home at Christmas. The open border with Northern Ireland means that the spread of the pandemic in the Republic of Ireland is influenced by Covid policy in that jurisdiction.

Chart 8 – Labour market Ireland



Number of unemployed and workers on furlough schemes, respectively, in % of labour force
Source: Eurostat, national sources, own calculations.

Outlook
As long as the pandemic is widespread the labour market will struggle. Further lockdowns through 2021 will likely result in the unemployment rate remaining elevated. However, as the vaccination programmes are rolled out through the year, we would expect there to be a strong recovery in the labour market. As the administrative restrictions were lifted following the initial lockdown in March, the unemployment rate (wide definition) fell very sharply from over 30 per cent in April to 15.9 per cent in September. This shows that the labour market can recovery strongly in a short period of time. However, undoubtably some businesses will cease trading altogether as a result of the pandemic and it will likely take an extended period of time before the labour market reaches full employment again.

Italy

The pandemic is imposing a very high price on Italy's labour market, notwithstanding government's actions to deal with the impact of the containment measures on the economy and the disruption to non-essential economic activities.

As the first European country to be hit by Covid-19, Italy entered lockdowns already at the end of February 2020, progressively extended till May. As a consequence, the drop in GDP in the second quarter amounted to -18.5 per cent compared to pre-crisis levels (2019Q4). After a strong rebound during the summer (+15.9 per cent QoQ), the second wave of the pandemic is expected to have reduced economic activity again during the winter (-2 per cent QoQ for 2020Q4 according to the official flash estimate).

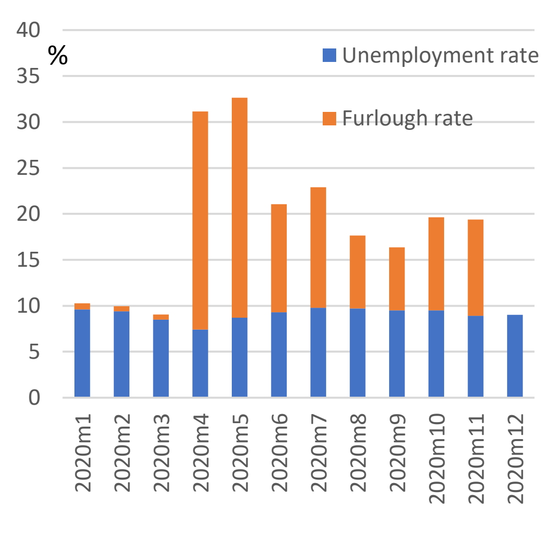
Labour market

Starting from March, the Italian government approved several interventions (Cura Italia "Save Italy", Decreto Liquidità "Liquidity Decree", Decreto Rilancio "Relaunch Decree", Decreto Agosto "August Decree", Decreti Ristoro "Relief Decrees"), overall amounting to 108 billion euros, in order to respond to the Covid-19 outbreak and support the economy. A sizable amount, about 20 billion euros, has been allocated to strengthen and broaden the tools for income support, focusing on preventing an excessive rise in unemployment and the preservation of jobs.

In particular, the Cassa Integrazione Guadagni (CIG, the pre-existing furlough scheme that allows workers to temporarily receive a benefit, generally equal to 80 per cent of their total salary, while still keeping their job) was extended to all categories of employees, regardless of firm size or sector of activity. Also, allowances for the self-employed and seasonal workers (two categories particularly hit by the crisis but that before did not have access to such benefits) were introduced. In addition, layoffs have been suspended. All these measures have been progressively extended in their duration and amount in order to cope with the second wave of the pandemic and are still in place.

Looking at unemployment, these measures seem to have been very successful. In fact, the unemployment rate in 2020 was on average 9.1 per cent **(Chart 9)**, lower than the pre-crisis level (9.6 per cent in January). However, this is the result of a sharp increase in the number of inactive people during the lockdowns (+7 per cent) and of the fact that furloughed workers are still counted as employed. Actually, according to own calculations, in April and May 2020 the number of full-time equivalent (FTE) workers on this short-time work schemes was around 6 million, equal to 26 per cent of the employees.

Chart 9 – Labour market Italy



Number of unemployed and workers on furlough schemes, respectively, in % of labour force
Source: Eurostat, national sources, own calculations.

So, to have a realistic picture of the labour market during this pandemic we have to look at hours worked, that in our estimate dropped by 12 per cent on average in 2020 (-21.6 per cent in the first half of the year), and at full-time-equivalent employees, which fell by 5 million units. In addition, one should consider that according to some studies, job creation was about 60 per cent lower than the one registered in the previous year and that several temporary and seasonal contracts disappeared. This has resulted in a very asymmetric labour market effect, as the crisis has hit young people, women, and low-skilled workers the hardest.

Outlook

To sum up, FTE employment is estimated to fall sharply in 2020 (-9 per cent), in line with GDP (-8.9 per cent), and not to return to pre-Covid levels in 2021. In headcount terms, the contraction is much smaller (-1.8 per cent) and this, coupled with the labour supply drop (-2.7 per cent), is mitigating the effect on unemployment (9.1 per cent in 2020 from 9.9 per cent in 2019). We expect the unemployment rate to peak in 2021 (11.0 per cent) when some previously inactive working-age people may re-enter the labour market and some workers will be laid off having been employed under the extraordinary short-time work scheme.

The Netherlands

After a relatively calm summer in 2020, Covid-19 cases in the Netherlands began to rise again, peaking at the end of October and again just before Christmas, this time the peak was higher than October. New, stricter lockdown measures were taken and cases have started dropping again. In total, over 925.000 people (or 5,4 per cent of the population) has been tested for Covid and over 13.000 people (or 0.08 per cent) have died.[7]

Schools and workplaces were closed from 16 March to 9 May and again from 16th of December until (now) February 9th (2021). Public events were cancelled throughout the period (from 12 March onwards), with a brief relaxation in the summer (30 June to 28 September). Also, restrictions on gatherings were relaxed after the 30th of June, but were tightened after the 18th of August and have remained in place since then. A curfew was imposed at the end of January 2021 until the beginning of March.[8]

Labour market
Employment growth continued combined with exceptionally low unemployment. In December and January of 2019, two record lows in unemployment were recorded since 2003 at 3.2 per cent and 3.0 per cent respectively. The unemployment rate was expected to average 3 per cent in 2020.[9]

The furlough scheme in the Netherlands is called NOW, an acronym that stands for "Temporary Emergency Bridging Measure for Employment". The NOW 1.0 was intended to accommodate employers facing loss of revenue due to the corona crisis. During the first application period, employers could continue to pay employees' wages in the event of (expected) loss of turnover of at least 20 per cent in a period of three months. The period of revenue loss had to start in March, April or May 2020. The first application period closed on June 6, 2020. The wage costs to compensate employer contributions were 30 per cent.

NOW 2.0 is the second scheme for compensation for wage costs of employers who again expected a loss of turnover of at least 20 per cent in a connected period of four months. The increase in wage costs to compensate employer contributions went up from30 to 40 per cent. The continuous period of loss of sales had to start in June, July or August 2020. If the company had received NOW in the first application period, the new period had to follow the previous period. The second application period closed on September 1, 2020.

For self-employed people a scheme called Tozo (Temporary bridging scheme for self-employed persons) was established, which consists of a supplemental subsistence allowance and a working capital loan to cover liquidity problems due to the corona crisis. The scheme applied retroactively from 1 March 2020 and expired at the end of May 2020. This scheme has been succeeded by Tozo 2.0' with a term until October 1.

So far, the Netherlands has witnessed a substantial decline in employment in persons, though the decline up to and including April (and May) was quite limited compared to other western countries and has even recovered somewhat in the last months of 2020. This is generally considered to be related to the special policy measures taken, including financial support for short-time work.

In the third quarter of 2020, 419 thousand people were unemployed, or 4.5 per cent of the labour force (seasonally adjusted). Compared to the second quarter of 2020, the number of unemployed has increased by 70 thousand. The

[7] Source: OCHA, retrieved 18th January 2021 at https://data.humdata.org/dataset/novel-coronavirus-2019-ncov-cases#

[8] Source: The Oxford Covid-19 Government Response Tracker (OxCGRT), retrieved 18th January 2021 at https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker

[9] Source: CPB, available at https://www.cpb.nl/centraal-economisch-plan-cep-2020-mlt

increase in unemployment in the second quarter is related to the decrease in the number of people in work in the first months of the corona crisis. Unemployment rose in the third quarter mainly because more people started looking for work, rather than because many people lost their jobs.

The total number of jobs for employees and self-employed persons came to 10 722 thousand in the third quarter of 2020. Compared to a year earlier, the number of jobs has fallen by 51 thousand. This labour market development has a clear seasonal pattern. After correction, the total number of jobs in the third quarter was 165 thousand higher than in the second quarter of 2020. That represents an increase of 1.6 percent. Such an increase has never happened before. In the second quarter, the number of jobs fell by 297 thousand. The number of jobs is now slightly above the level of the first quarter of 2019.

In general, there has been a large shift in hours worked at the workplace and hours worked from home. The drop in hours worked was most pronounced in sectors where there is a limited opportunity to work from home, like the catering sector, the culture and entertainment sector and the retail sector.

In March-May, 139 thousand firms with a total 2.7 million employees (36 per cent of all employees in the Netherlands) claimed short-time work subsidies from NOW1. In June-August this figure dropped to 63 thousand firms with a total of 1.3 million employees (18 per cent of all employees). As a result, the Dutch government has supported firms with an amount of 9.9 billion euro in March-May and 5.3 billion euro in June-August. Furthermore, it is estimated that around 374 thousand self-employed (25 per cent of all self-employed in the Netherlands) have claimed welfare from Tozo in March-May, which dropped to 103 thousand in June-August (7 per cent of all self-employed).[10]

Outlook

The short to midterm outlook is that unemployment will peak in 2021 and is expected to decline to its equilibrium level in subsequent years. The decline from 6.1 per cent in 2021 to 4.5 per cent in 2025 is due to the pick-up in employment growth. At 0.6 per cent a year, the growth of the labour force is lower than the 0.8 per cent in the previous period. Aging is slowing down the growth of the labour supply; the corona outbreak is slowing down labour migration.[11]

The response of the government during this unprecedented crisis has been unparalleled in terms of the speed and breadth of the interventions and this may have led to relatively mild consequences for employment from an international perspective. It is not unreasonable to assume that there will be an acceleration in working from home and a more rapid adoption of technologies to collaborate and work online. Furthermore, online shops are likely to get a boost. For the long term, an optimistic view is that the Covid pandemic was a prototypical external shock, not due to an imbalance in the system, which suggests that we may return to the growth path from before the Covid-19 pandemic eventually. [12]

The number of self-employed people is relatively high in the Netherlands: in 2018, the percentage of employees with a flexible employment relationship was 22.5 per cent, self-employed persons 16.5 per cent, self-employed persons without employees (ZZP) 12.2 per cent and employees with an employment relationship 61 per cent.[13]

[10] Jongen, E., P Verstraten. 2020. Netherlands (November 2020). IZA COVID-19 Crisis Response Monitoring. Available at: https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_nl_202011.pdf

[11] Source: CPB, 2020. Available at: https://www.cpb.nl/sites/default/files/omnidownload/CPB-Raming-Actualisatie-MLT-2022-2025-november-2020.pdf

[12] Source: Jongen, E., P Verstraten. 2020. Netherlands (November 2020). IZA COVID-19 Crisis Response Monitoring. Available at: https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_nl_202011.pdf

[13] Source: Statistics Netherlands https://longreads.cbs.nl/dynamiek-op-de-nederlandse-arbeidsmarkt-2019/arbeidsmarkttransities-in-nederland-een-overzicht/

Poland

In response to the Covid-19 pandemic and restrictions imposed on economic activity, GDP in Poland in the second quarter of 2020 went down by nearly 9 per cent quarter-over-quarter (QoQ). A 10.5 and 9.0 per cent QoQ decline in private consumption and fixed investment, respectively, in the second quarter were the main contributors to the overall plunge of GDP in 2020. In the third quarter of 2020, with the ease of containment restrictions, the Polish economy sharply rebounded and GDP soared by 7.9 percent QoQ. The 13.5 per cent QoQ increase in private consumption was the main driver of the sharp increase of GDP in the third quarter. The surge in new infections and the reintroduction of containment measures are expected to bring a halt to the recovery of the economy in the last quarter of 2020. Overall, the GDP decline in 2020 is expected to reach 3.5 per cent. As the Polish economy recorded a positive growth each year between 1991 and 2019 with an average annual growth rate equal to 4.2 per cent, the year 2020 will mark the worst performance of the economy in nearly three decades.

Labour market

As of March 2020, the Polish Parliament started adopting packages of legislative laws named as Anti-Crisis Shields, which up to January 2021 has been amended five times. The main employment-related means to prevent lay-offs introduced as the initial response to crisis were subsidies for employee remuneration costs and social security contribution measures for companies experiencing sharp decline in their turnover. In addition, furlough schemes of up to three months duration for a reduction of employee's working time by up to 20 per cent, but not more than to half time, were introduced. It is estimated that overall 44 thousand companies made us of the means introduced as the initial response to the crisis.

The unemployment rate in Poland has been gradually decreasing since 2013 reaching 3.3 per cent in 2019. Thanks to employment-related measures introduced by the government, the increase in the unemployment rate in 2020 was not proportional to the decline in economic activity. In November 2020, over 170 thousand companies utilized the employment-related measures with the statistics on the number of subsidised workplaces and furloughed persons unavailable. As a result, the number of employed went down by approximately 0.8 per cent leading to an increase in the unemployment rate from 3 per cent in January 2020 up to 3.8 per cent in November 2020. At the same time the number of vacancies decreased by nearly 27 per cent.

Outlook

The expected easing of the Covid-19 restrictions is expected to help the Polish economy recover at the pace of over 4 per cent in 2021 and 2022. Despite the recovery, the phase-out and time limitations to the labour market measures are expected to increase the unemployment rate. In order to restrict the increase in unemployment levels, the government introduced changes in employment conditions. Importantly, employees as of 2021 are allowed to force employees to vacation leave and thus reduce accumulated overtime and the stock of vacation period throughout 2021. Despite these measures and expected recovery, the lay-off and reduced number of vacancies are forecasted to result in the unemployment rate reaching 5.3 per cent in 2021.

United Kingdom

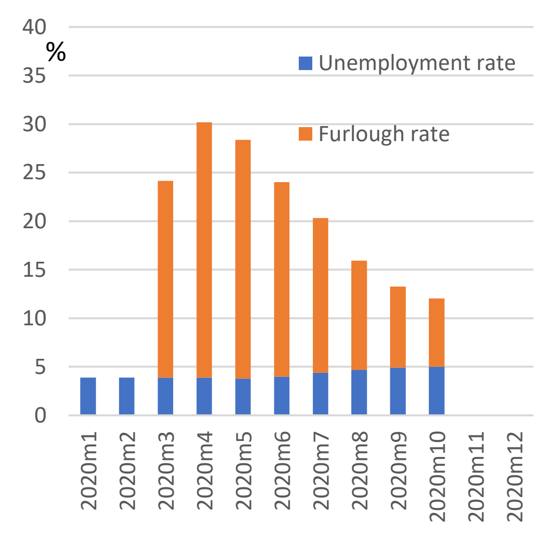
On many measures the UK has had the worst Covid economic impact of all major economies, with GDP shrinking by 18.8 per cent in Q2 and forecast to shrink by around 10% in 2020 compared with 2019. This includes a rise of 16 per cent in Q3 as the government attempted to ‘re-open’ the economy, including a subsidised restaurant and pub dining scheme. June and July were the strongest rebound months, with growth slowing to around 1 per cent per month in September and October. There is currently some discussion about the international comparability of the UK’s GDP figures owing to the different measurement of public sector output in the UK: health output is measured in terms of a normal set of services like operations and doctor visits, so despite increased spending and the NHS operating at capacity it appears that health output fell by 30 per cent between February and April.

However, even with any measure of adjusted statistics, the UK has still been very hard hit in economic terms as well as having one of the worst health outcomes in terms of deaths per head of population. The reasons for these are not yet entirely clear but it may be that the UK spends a relatively large proportion of national income on social consumption: the sectors which were disproportionately affected by the virus. Lockdowns vary between the nations of the UK but in England, the largest economy by some distance, the first and strictest lockdown in the spring was followed by a second, smaller one in November. The resurgence of the virus has led to a third beginning in January which is expected to have a larger economic impact than November's but smaller than April's.

Labour market

Before the pandemic the UK had low and stable unemployment of around 4 per cent. Since the financial crisis unemployment figures have repeatedly surprised in a positive way but this may have come at the expense of pay, investment and productivity, which all recovered very weakly post-GFC. Unemployment did not initially rise, but up to 9.5m people (around a third of the workforce) were furloughed on the Coronavirus Job Retention Scheme **(Chart 10)**. There was no furlough scheme in the UK before Covid. It was implemented relatively quickly and paid 80 per cent of normal earnings (with employers' option to 'top up' partly or fully); initially the CJRS was only full-time but from July there was the option of part-time furlough too.

Chart 10 – Labour market UK



Number of unemployed and workers on furlough schemes, respectively, in % of labour force

Source: Eurostat, national sources, own calculations.

Over the summer employer contributions were gradually increased from 0 per cent to 20 per cent but these were dropped when the resurgent virus caused the scheme to be extended to Spring 2021. This announcement was made within hours of the planned end of the scheme on 31 October, too late for many staff who had been given redundancy notices in anticipation of the end. Unemployment has gradually risen, from 3.8 per cent in May to 4.9 per cent in September, on the Eurostat measure. Alternative measures, including from tax authority data, suggest a larger decrease in the number on payrolls.

The extension of furlough meant the shelving of its proposed successor, the Job Support Scheme designed to support short-time working. Initially at least this was less attractive than the CJRS, with a minimum of 33 per cent hours worked and paid, plus employer contributions of 33 per cent of the unworked hours. The JSS was subsequently amended so that minimum hours were 20 per cent and employer contributions 5 per cent of unworked hours. A separate JSS scheme for sectors forced by restrictions to close entirely (effectively a continuation of the full-time CJRS) was announced, under which the government would pay 67 per cent of earnings and employers could choose whether to top this up. The JSS schemes were never put in place as the original furlough scheme was extended at the end of October. These are the principal labour market interventions, though there have been support programmes for the self-employed and businesses as well.

Outlook

Unemployment is widely expected to rise when the CJRS does come to an end: currently scheduled for April, but subject to further extensions. Policy debate has been around whether and when to extend it, with some keen to end the CJRS sooner and switch to active labour market policies for job creation. More information is expected at the Budget on 3 March. So far a small subsidy scheme for hiring young workers, and a lifetime entitlement to further study, have been announced.