# G20 Country Briefs

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International Labour Office

G20 Meeting of Labour and Employment Ministers
20–21 April 2010 Washington, DC

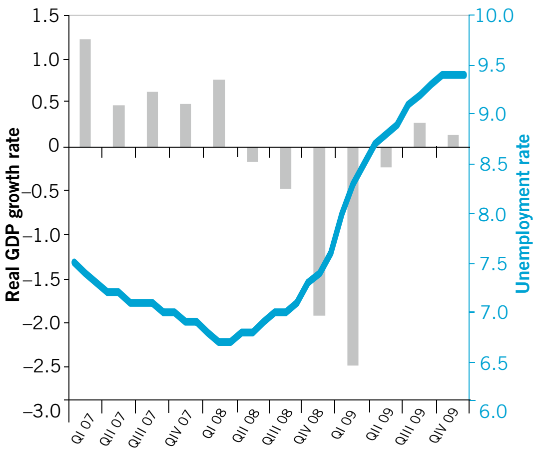
## EU'S RESPONSE TO THE CRISIS

### Performance and responses vary across countries

Following solid growth in the European Union of 3.2 per cent in 2006 and 2.9 per cent in 2007, along with labour markets that performed well, the spread of the 2008 global financial crisis threatened previous progress. Economic activity began to decline in the second quarter of 2008 leading to a weak, though positive, growth rate of 0.8 per cent in 2008. The situation deteriorated further in the first half of 2009 before growth returned in the third quarter of that year, after five consecutive quarters of contraction (figure 1). In 2009, GDP declined by 4.1 per cent in the EU and 4 per cent in the euro area.

While all Member States faced a similar shock due to the crisis, the impact has varied. The Baltic countries were the more severely hit, with GDP declining by more than 18 per cent in a two-year period.

**Figure 1. Unemployment rate and real GDP growth rate, by quarter, 2007–2009 (percentage)**



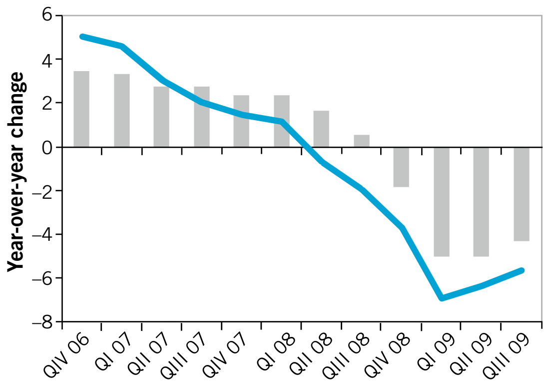

Real GDP growth rate (quarter-to-quarter change)

Unemployment rate

Source: EUROSTAT. Seasonally adjusted data.

Labour markets started to weaken considerably in the second half of 2008, and worsened in the course of 2009. Increased internal flexibility (flexible working time arrangements, temporary closures, etc.) coupled with nominal wage concessions in return for employment stability in some sectors appear to have prevented or delayed significant mass dismissals in most of the European Union countries. Even so, employment in the EU was down by 2.1 per cent (about 4.7 million people) between the fourth quarters of 2009 and 2008, resulting in a 1.8 per cent decline in annual employment in 2009.

**Figure 2. Temporary employment and GDP growth rates, by quarter, QIV 2006 – QIII 2009 (percentage)**




GDP growth rate (year-over-year change)

Temporary employees (% year-over-year change)

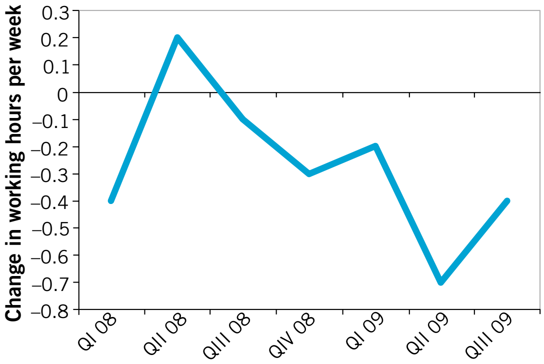
Source: EUROSTAT, national accounts and *Labour Force Survey*. Data on temporary employment are not seasonally adjusted.

In January 2010, the EU unemployment rate reached 9.5 per cent (23 million). The sharpest rises occurred in the Baltic countries, Ireland and Spain. A considerable increase in unemployment was registered among trades men and women and lower skilled workers (especially in services). Women have been less affected than men, given that the crisis had most impact on male dominated sectors, such as the car industry and construction.

The most vulnerable in the labour market with non-standard work contracts, such as young people, the low-skilled, and migrants, have borne the brunt of the recession so far: the youth unemployment rate reached 20.9 per cent in January 2010. Furthermore, the share of discouraged workers (inactive people, ready to work but not seeking a job) increased in 2009, reaching a peak in the third quarter of 2009. It is estimated at 8.4 per cent of the total inactive population (with sizable discrepancies between EU countries).

As mentioned above, workers with non-permanent contracts have been hit hard by the crisis: employment among temporary workers fell by 1.5 million, (of which 900.000 were in Spain) between the second quarters of 2009 and 2008. Another important adjustment pattern is reflected by a decline in most countries in average hours worked per person, which suggests that firms are labour hoarding.

**Figure 3. Actual working hours***




Source: Eurostat, Labour Force SDurvey. Data are not seasonally adjusted. Change in actual working hours per week, total employment.
* Changes in the number of working hours versus the corresponding quarter of the previous year.

## Stimulus package

The European Economic Recovery Plan (EERP) was proposed by the European Commission in November 2008 and endorsed by the European Council in December 2008. The Plan aimed to provide a framework for a coordinated crisis control policy, while also laying down guidance on principles governing the measures taken at national level.

**Size:** The Plan originally totalled €200 billion, or 1.5 per cent of EU GDP in 2009, to boost demand while respecting the Stability and Growth Pact. It was made up of a budgetary expansion by the Member States of €170 billion and EU funding to support immediate actions of about €30 billion. Total spending has been greater than initially foreseen, however, with outlays amounting to 1.4 per cent of GDP in 2010 in addition to the 2009 stimulus.

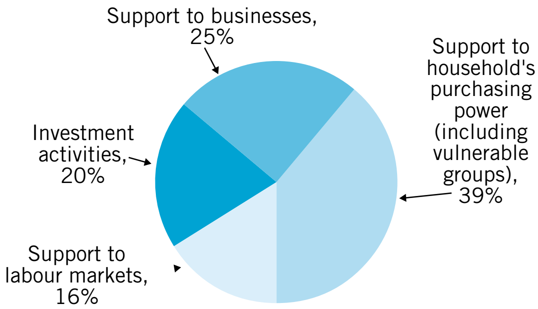
**Composition:** In line with the principles set out in the Plan, many Member States have adopted or announced significant fiscal stimulus packages to promote investment, support households' purchasing power, help enterprises and sustain labour markets. According to the progress report on implementation of the Plan, recovery plans have generally been timely, although some measures only took effect in the latter part of 2009.

They have generally been well targeted on policy areas identified in the Plan: about 39 per cent of the stimulus has been directed towards supporting households' purchasing power (including vulnerable groups), 16 per cent to supporting labour markets, 20 per cent to investment activities, and 25 per cent as support to businesses. About two thirds of support measures are temporary.

There was particular focus on the quickly deteriorating employment situation in the "Shared Commitment for Employment" initiative. In this Communication, the European Commission identified key actions to tackle the crisis and linked them tightly with EU financial instruments: the European Social Fund, the European Globalization Adjustment Fund and a new micro-finance facility.

Implementation of the Plan, accompanied by a major monetary policy response and support to financial markets, as well as the contribution of automatic stabilizers, have helped promote economic recovery and improve the difficult situation on labour markets.

**Figure 4. The elements of the EU stimulus plan***




Source: European Commission.
* Without the EU funding support of €30 billion.

## EU funding mechanisms

### The European Social Fund (ESF)

This Fund[1] is by far the EU's largest instrument to intervene on labour markets and invest in people. With more than €10 billion per year, it supports Member States to reform labour markets and their institutions and to equip Europe's workforce better for new, global challenges. The Fund was quickly called for to help mitigate the crisis: €19 billion of the ESF's operations in 2009-2010 was targeted to assist Member States put in place "rapid reaction packages" together with social partners.

The Fund's rules were simplified, with guidance on good practices to foster implementation. Interventions include targeted employment services with upskilling and training measures, mobility and entrepreneurship incentives, and support for those in particularly difficult situations, such as young people or older workers. The Fund also helps employment services intervene early and match skills and labour market needs better. Several training measures focused on the shift towards a green economy.

### The European Globalization Adjustment Fund (EGF)

This was created to support workers who lose their jobs as a result of changing global trade patterns. In cases where enterprises shut down, factories are relocated to a country outside the EU, or a sector loses many jobs in a region, the EGF can help redundant workers to find new jobs as quickly as possible. A maximum annual amount of €500 million is available to the EGF to finance such interventions. The EGF provides one-off, time limited individual support through active measures[2] such as:

- Job search assistance, occupational guidance, tailor-made training and retraining, including IT skills and certification of acquired experience, outplacement assistance and entrepreneurship promotion or aid for self-employment.
- Special time-limited measures, such as job search allowances, mobility allowances or allowances to individuals participating in lifelong learning and training activities.

Some amendments were introduced to broaden temporarily the EGF's scope and enable it to react more effectively.[3] Member States applying for an EGF contribution under the revised regulation[4] must establish a direct and demonstrable link between the redundancies and the economic crisis.

**Amendments to the EGF**

- The redundancy threshold was lowered.
- Subject to a ceiling of 0.35 per cent of the annual maximum amount of the EGF, funds can be used to finance administrative and technical assistance to the Member States.
- The co-financing rate was temporarily increased.
- In the case of grants, indirect costs (declared on a flat-rate basis) became eligible for a contribution from the EGF of up to 20 per cent of the direct costs of an operation.
- The period during which the eligible actions must be carried out was extended.

#### Impact following amendments

Almost 25,000 workers who lost their jobs in 2009 received support from the EGF. Between September and October 2009, several applications were approved:[5] in Belgium, a total of almost €9.2 million to help 2,168 Belgian textile workers; in Ireland, €14.8 million to assist 2,840 Dell workers; in the Netherlands, €386,114 to help back into employment 435 workers made redundant by a Dutch construction company; in Sweden, €9.8 million to help 1,500 workers made redundant in the motor industry find employment; and in Austria, €5.7 million to help 400 redundant workers in the automotive industry.

Services provided include individual job search assistance and career assistance, training and outplacement, entrepreneurship promotion, aid for self-employment, preparatory training, training and retraining. There are also some innovative measures, such as coaching of younger workers by older workers near retirement age.

## Europe 2020 strategy – New skills for new jobs

The European Union is currently putting in place a Europe 2020 strategy aimed at ensuring smart, sustainable and inclusive growth. This strategy provides the framework to address Europe's long-term challenges of climate change, an ageing population and globalization, while simultaneously responding to the crisis. The strategy aims to raise employment levels and contribute to the development of cohesive societies. A central element is supporting the modernization of labour markets with a view to managing economic change better, ensuring secure transitions between jobs and occupations and providing opportunities for all workers, including the particularly vulnerable.

### New Skills for New Jobs initiative

The 2020 Strategy contains a number of initiatives, including New Skills for New Jobs. This emphasizes skills anticipation, upgrading and matching.

Actions to develop skills of workers throughout their lifecycle include adapting the legislative framework to respond to evolving work patterns and new health and safety hazards. Priorities include reinforcing mobility through efficient employment services and better recognition of competences and skills, which also should help integration of non-EU born workers.

**Key elements of the initiative:**

- Skills anticipation: Regular forecasts on skills demand and supply at EU level.
- Bringing the world of education and training closer to the world of work, through better co-operation with social partners and business and a focus on learning outcomes.
- Skills matching: development of competence-based tools (in particular the European Skills Competences and Occupations Framework, or ESCO), with Public Employment Services playing a key role.

ESCO seeks to ensure that skills and competences of jobseekers or the requirements of a job formulated in a job vacancy are understood everywhere in the same way and can be easily transferred. It will relate employment classifications with levels of skills as measured by educational attainments (European Qualification Framework) and develop a common skills language, providing an important tool to master future skills challenges.

### Skills and the transition to a low-carbon economy

The move to a low-carbon economy is a good example of the profound changes occurring in skills needs. The crisis has fostered the restructuring process, with the decline of some industries and sectors; at the same time new jobs in different sectors are or will be created, requiring different and often higher

**References:**

European Commission (2008a): *A European Economic Recovery Plan,* Communication from the Commission to the European Council (COM(2008) 800 final), Nov.

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skills. One of the main forces driving this change is the move to a low-carbon economy: more than 20 million jobs can already be considered as green (10 per cent of total employment) and recent evidence suggests that jobs in the renewable energy sector alone (including its upstream supply chain) have a potential to double to 2.8 million by 2020.

The EU is committed to helping a range of economic sectors go green through its strategy to boost growth and jobs. The EERP seeks to promote economic growth and employment while addressing issues such as energy security and environmental sustainability. It proposes mobilizing existing funds – including social and cohesion funds, where up to €6.3 billion of payments will be brought forward – to help unemployed people, and assist training and retraining.

This fiscal stimulus and accompanying structural reforms are complemented by "smart investment" measures at both European and national level. A key aspect of the EERP involves a mix of regulation, research and development, national investment, European Commission funding, European Investment Bank support and public–private partnerships for forward looking investments.

The European Commission also has announced that the EU will invest €105 billion in the green economy through its cohesion policy. Money has been set aside to promote eco-innovation and the creation of "green-collar" jobs. The cohesion funds will provide €3 billion to help small and medium-sized enterprises develop environmentally friendly products and production processes. A clear aim of funding for research and innovation is to boost investment in green technologies.

## Outlook and challenges

The EU is recovering from recession, but the recovery is proving slow and fragile, as illustrated by the growth in GDP of just 0.1 per cent in the fourth quarter of 2009. The pace also varies, with some countries expected to remain in recession in 2010. Stronger than expected global growth and improved business and consumer confidence indicators have yet to be reflected in hard data. Retail sales and investment remain particularly weak, although industrial production and activity in temporary agency work showed some improvement in the beginning of 2010. Amid this uncertainty, the European Commission recently maintained its earlier forecast that GDP would grow by 0.7 per cent in 2010 and 1.6 per cent in 2011.

Regarding employment, the deterioration in the labour market is expected to level off during 2010 and the unemployment rate is likely to stabilize at under 10 per cent. Given the modest economic growth foreseen for 2010 and 2011, unemployment is only likely to begin declining in the course of 2011.

Key challenges for the EU and its Member States are linked to the balance and sequence of crisis exit strategies, such as the timing of withdrawal of major policy measures. This will be crucial in supporting further economic growth and employment. Moreover, a high priority should be assigned to minimizing the persistence of difficult labour market conditions during the recovery and beyond; this increases the need for labour market policies aimed at preventing long-term unemployment, and helping individuals remain in the labour force and find a job.

[1] Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999.

[2] The EGF does not finance company costs for modernization and structural adjustment, nor passive labour market measures, such as retirement pensions or unemployment benefits, which are the competence of Member States.

[3] The European Parliament and the Council adopted Regulation (EC) No 546/2009 amending Regulation (EC) No 1927/2006 on establishing the European Globalization Adjustment Fund on 18 June 2009.

[4] This shall apply to all applications submitted before 31 December 2011.

[5] All the applications are awaiting approval by the European Parliament and the Council.