



INTERNATIONAL MONETARY FUND

The background of the slide is a photograph of a car manufacturing plant. Two workers are visible: one in the foreground on the left, wearing a cap and looking at a device, and another in the background on the right, working on a car chassis. The scene is filled with industrial machinery and blue and yellow structural elements.

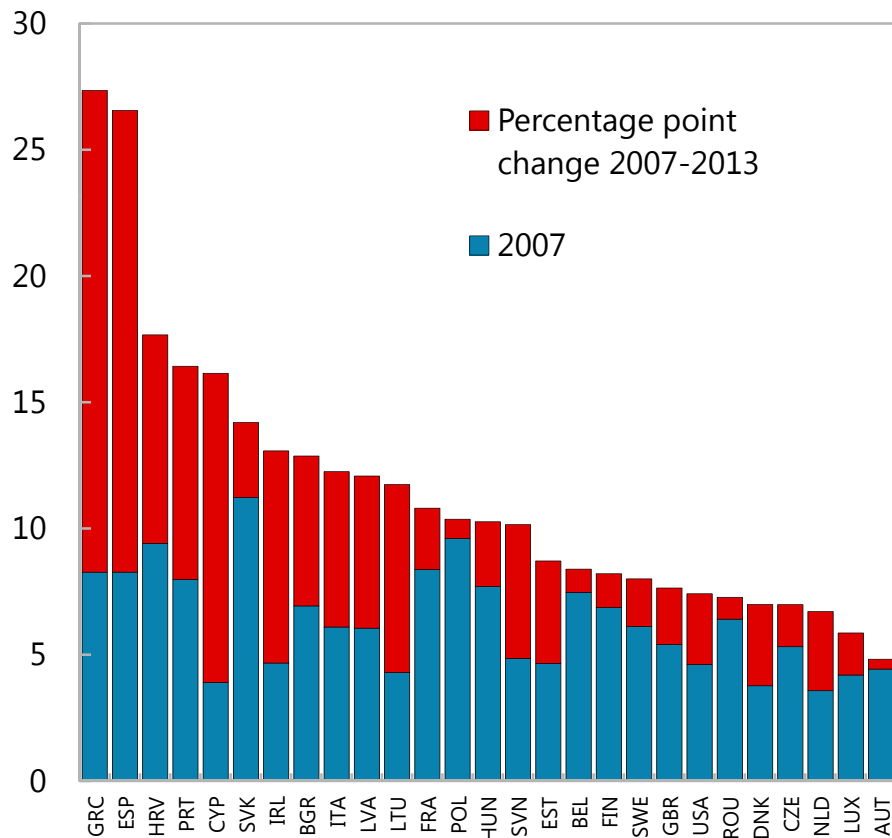
***Jobs and Growth:
Supporting the
European Recovery***

M. Schindler, H. Berger, B. B. Bakker, and A. Spilimbergo (eds.)



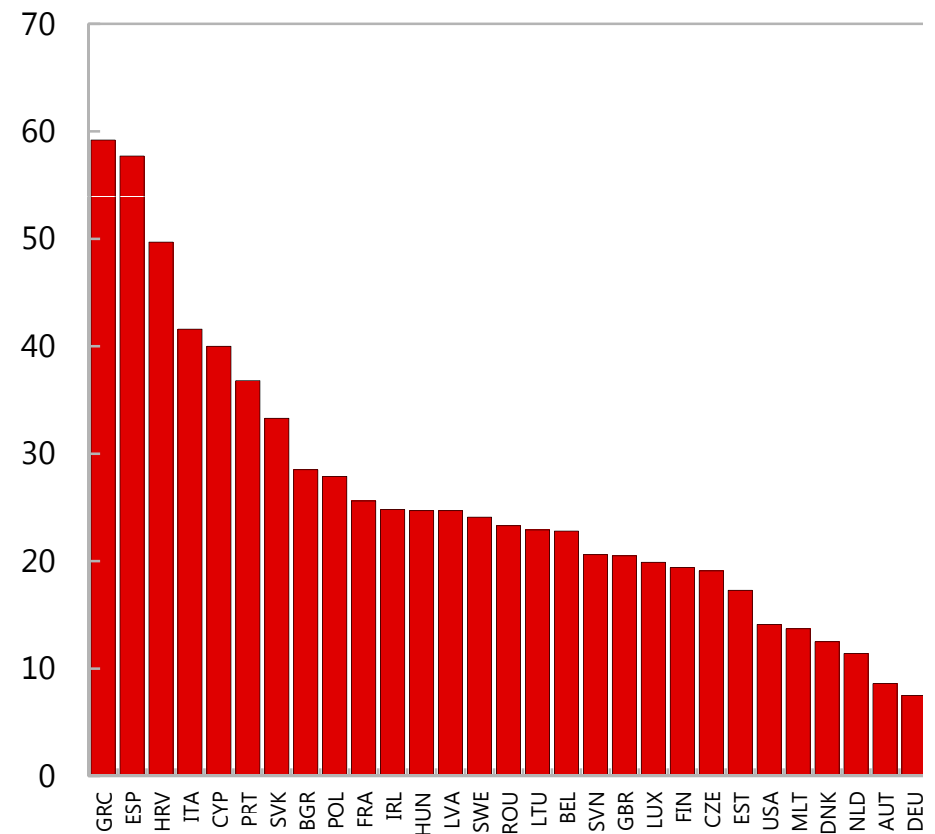
Unemployment is too high

Unemployment (Percent of labor force)



Sources: Eurostat, Haver Analytics, IMF World Economic Outlook and Fund staff calculations.

Youth Unemployment (Percent of labor force below age 25)



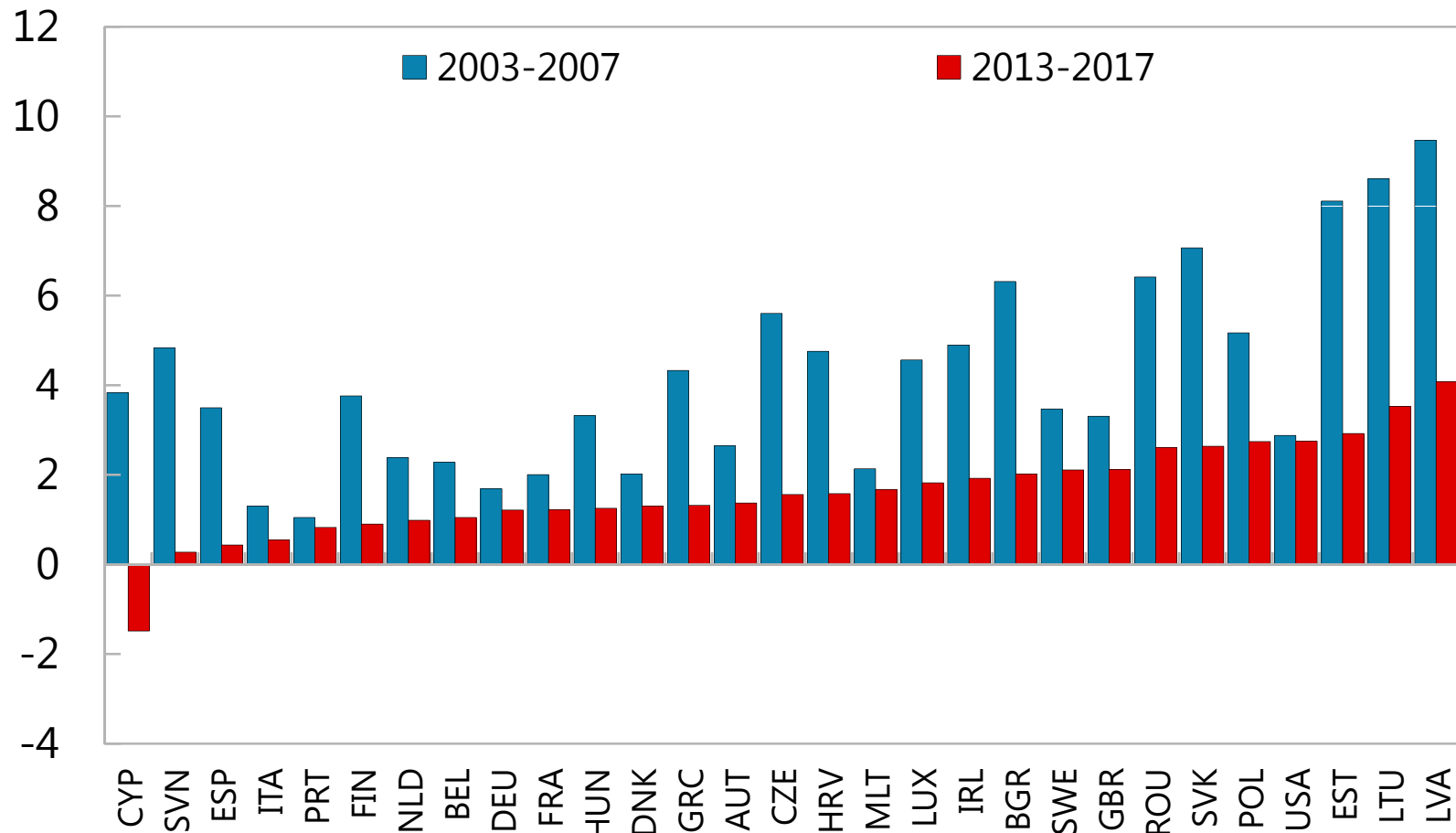
Sources: Eurostat, Haver Analytics and Fund staff calculations. Latest monthly observation (November 2013)



Outlook is for modest growth

Real GDP Growth

(Percent change)



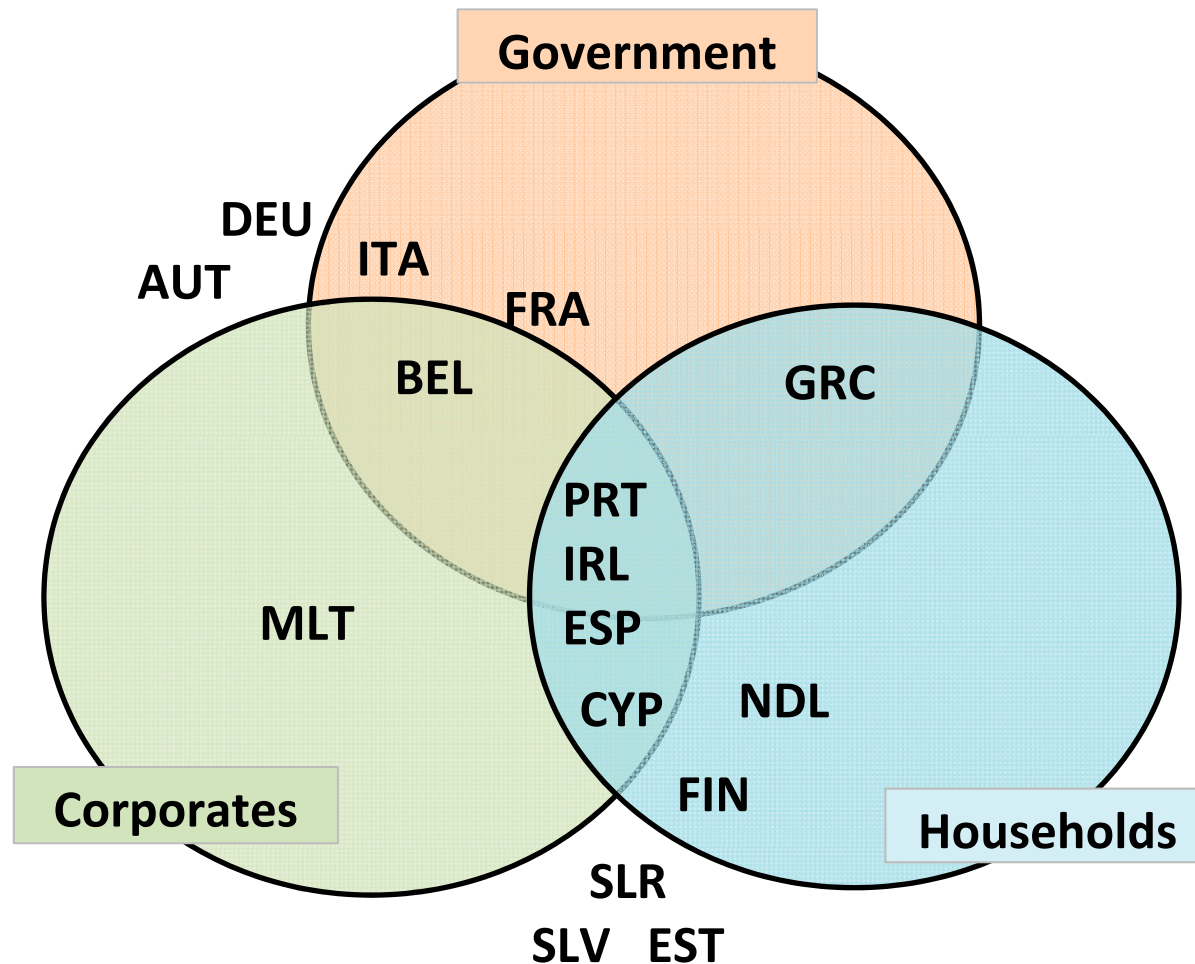
Sources: IMF World Economic Outlook and Fund staff calculations.



Deleveraging

Indebtedness in the Euro Area

(by country and sector, in sphere if debt higher than 60th percentile)



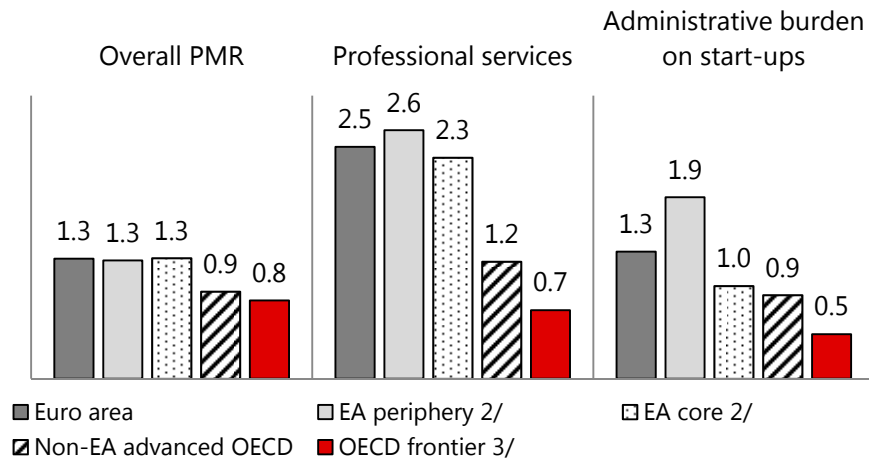
Sources: ECB, Haver Analytics, and IMF Staff estimates.



Reform gaps

Product Market Regulation

(Index scale of 0-6 from least to most restrictive; 2008) 1/

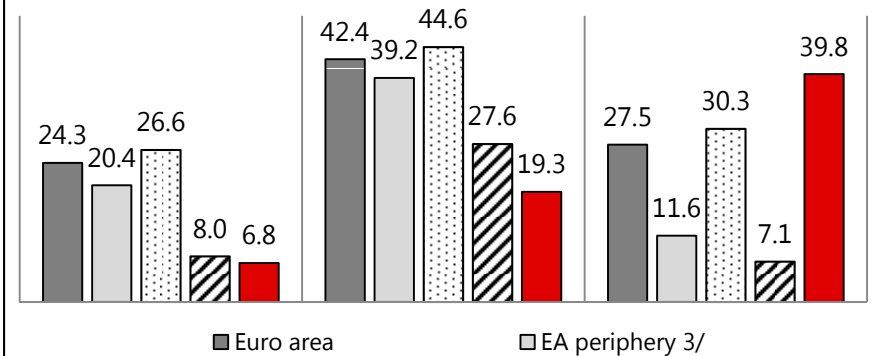


Sources: OECD (2013); and IMF staff estimates.

Notes: 1/ Averages are PPP-GDP weighted; 2/ EA periphery includes Greece, Ireland, Italy, Portugal, and Spain; EA core includes Austria, Belgium, Finland, France, Germany, and the Netherlands; 3/ Three counties with least restrictive regulations.

Labor Market Institutions 1/

EPL for regular employment (index from 0/least to 60/most restrictive, 2008) 2/ Tax wedge (percentage of total labor compensation, 2011) ALMP (percentage of GDP per capita, 2010)



Sources: OECD (2013); and IMF staff estimates.

Notes: 1/ Averages are PPP-GDP weighted; 2/ The original index is multiplied by 10; 3/ EA periphery includes Greece, Ireland, Italy, Portugal, and Spain; EA core includes Austria, Belgium, Finland, France, Germany, and the Netherlands; 4/ OECD frontier: for EPL = three counties with the least restrictive regulations; for tax wedge = three advanced OECD with lowest tax wedge; for Active Labor Market Policies (ALMP) = six countries with highest ALMP.



Jobs and Growth: Supporting the European Recovery

Roadmap

Immediate

Medium-term

Long-term

Macro policies

Private sector
deleveraging

Fiscal
consolidation

Structural reforms

Completing EA architecture



The Roadmap

Jobs and Growth

① Jobs and Growth: Supporting the European Recovery

Deleveraging

- ② Growth and the Importance of Sequencing Debt Reductions across Sectors
- ③ Reducing the Employment Impact of Corporate Balance Sheet Repair
- ④ Reducing Public Debt When Growth is Slow

Structural Reforms

- ⑤ What do Past Reforms tell us about Fostering Job Creation in Western Europe?
- ⑥ Challenges and Solutions for Fostering Job Creation in the Balkans
- ⑦ Assessing the Gains from Structural Reforms for Jobs and Growth
- ⑧ A Disaggregated Approach to Prioritizing Structural Reforms for Growth and Employment

Supply Chains

- ⑨ Making Current Account Adjustment in Europe Growth Friendly
- ⑩ The Role of Vertical Supply Links in Boosting Growth



The Roadmap

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Structural Reforms

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Jobs and Growth: Supporting the European Recovery

Growth and the Importance of Sequencing Debt Reductions across Sectors



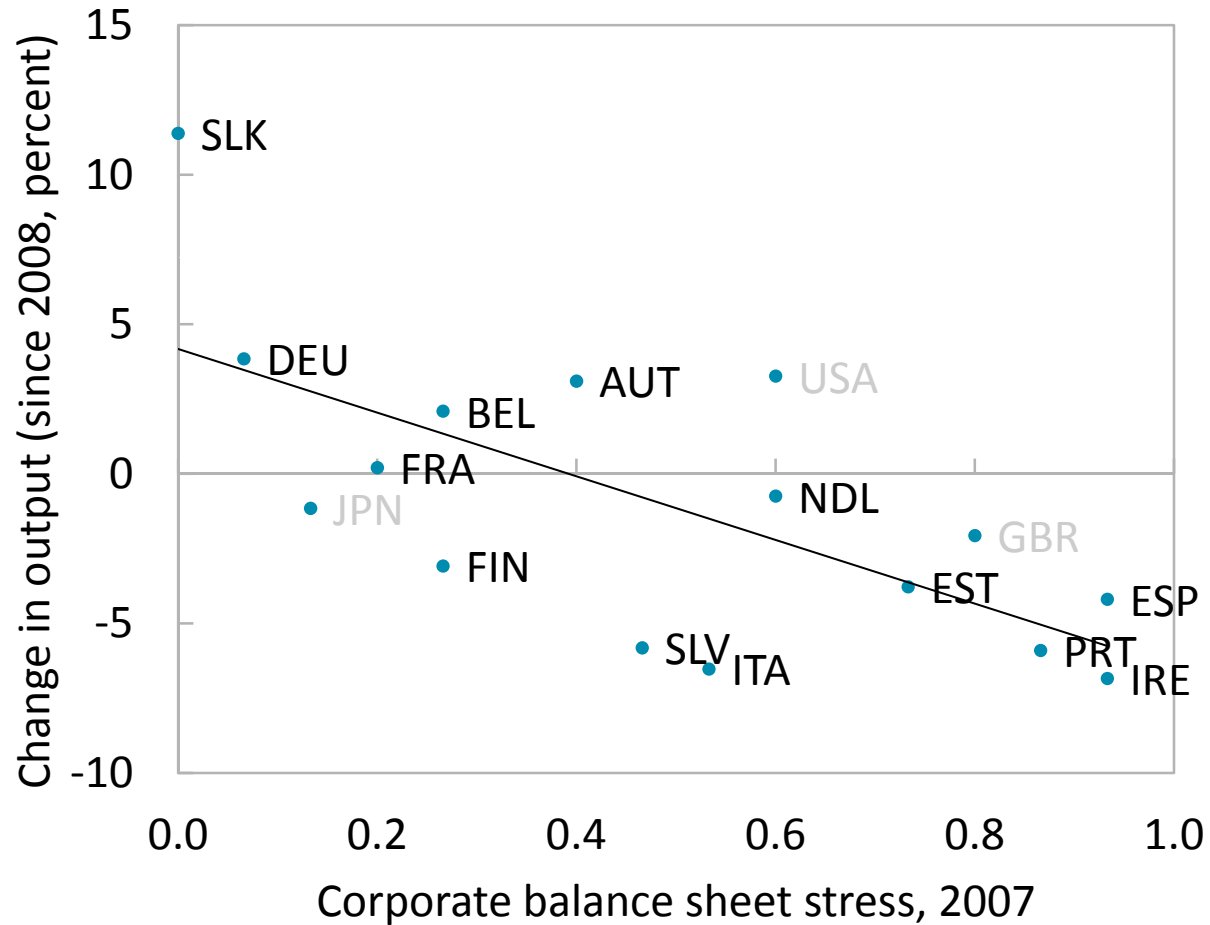


Main Messages

- Leverage is high across sectors and countries
- The growth impact of high debt depends on which, and how many, sectors are indebted
- Getting the sequence of deleveraging right and facilitating private sector debt workouts is key



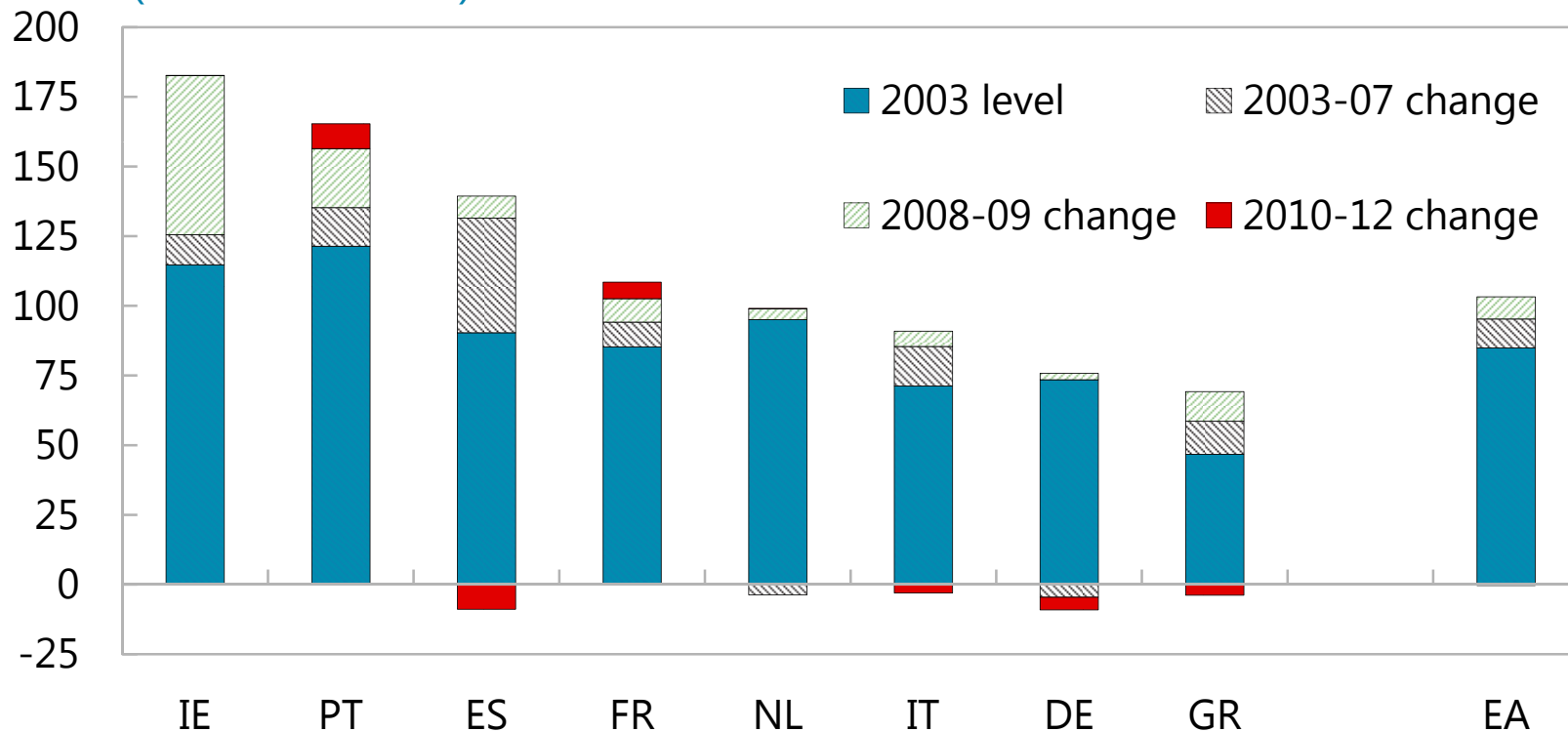
Pre-crisis balance sheet stress and post-crisis growth





Many firms are highly leveraged...

Non-Financial Corporate Sector Debt (Percent of GDP)



Note: Includes intercompany loans, see Cussen and O'Leary (2013).

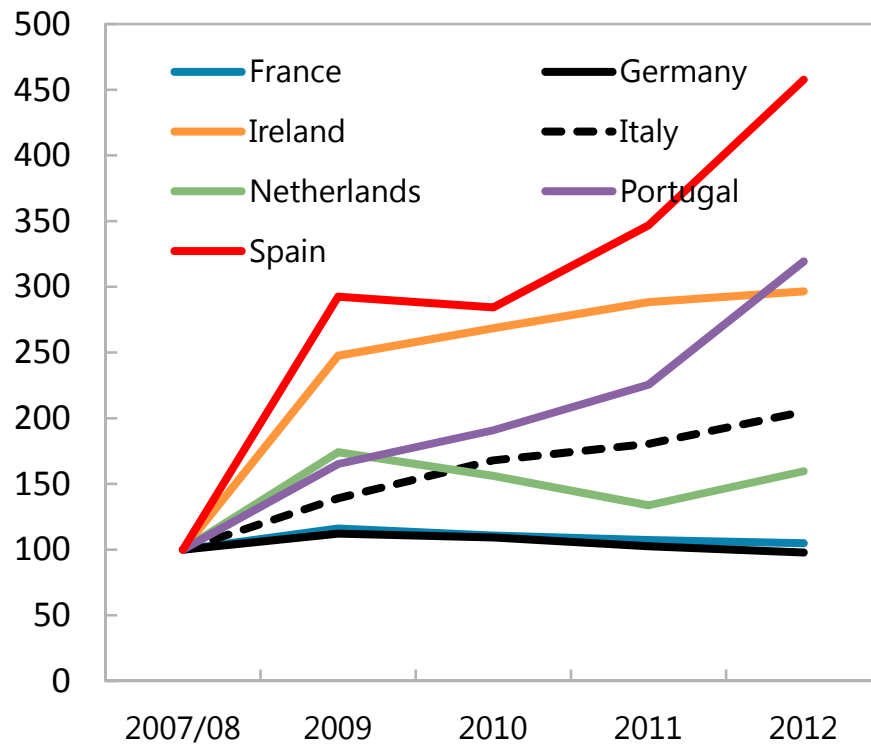
Source: ECB. First observation for the Netherlands is 2005.



...and in distress

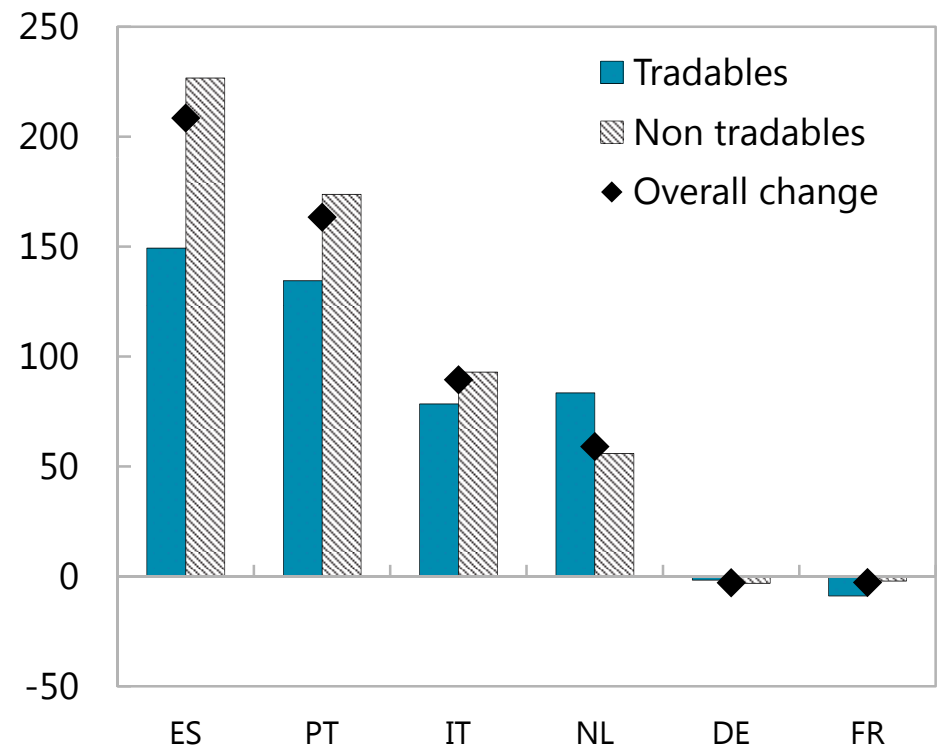
Corporate Insolvencies

(Index, 2007/08 = 100)



Increase in Corporate Insolvencies

(2008-12 growth, in percent, by sector)



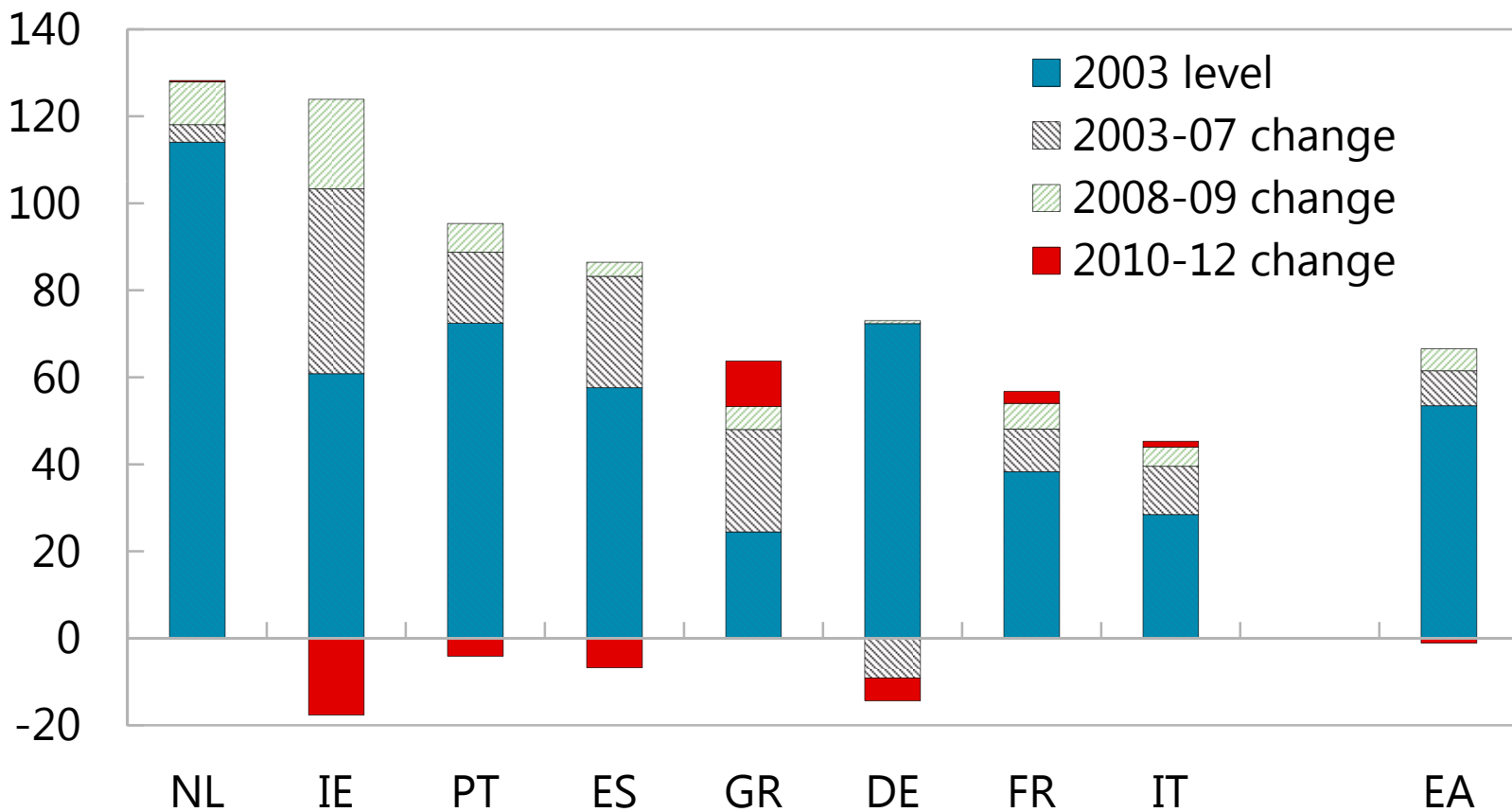
Source: Creditreform, IMF Staff Estimates.



Household debt is high...

Household Sector Debt

(Percent of GDP)



Sources: ECB. First observation for the Netherlands is 2005.

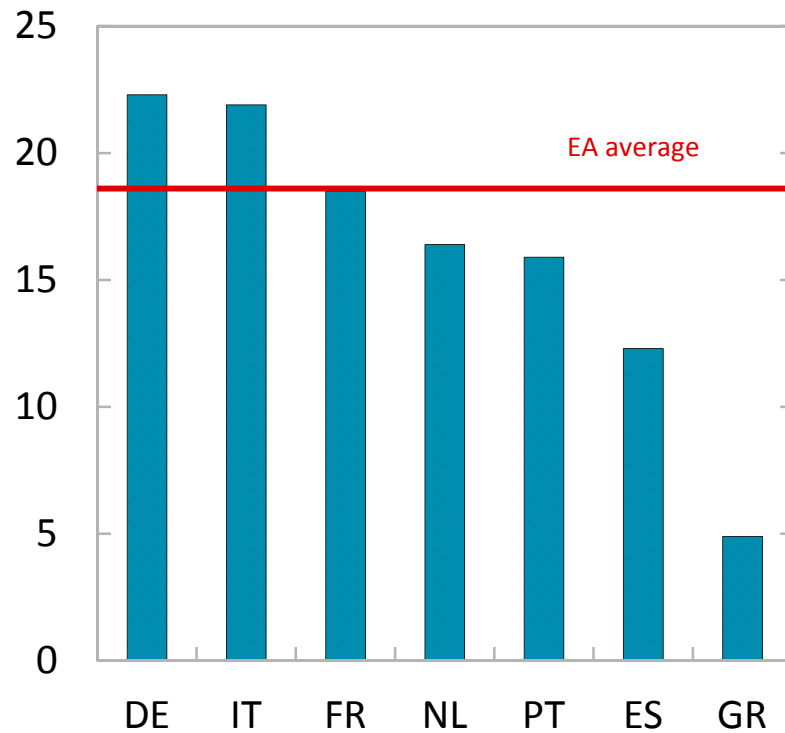


...and buffers are low

Assets may be high but illiquid

Net Liquid Assets of Indebted HHs

(Percent of annual gross income)

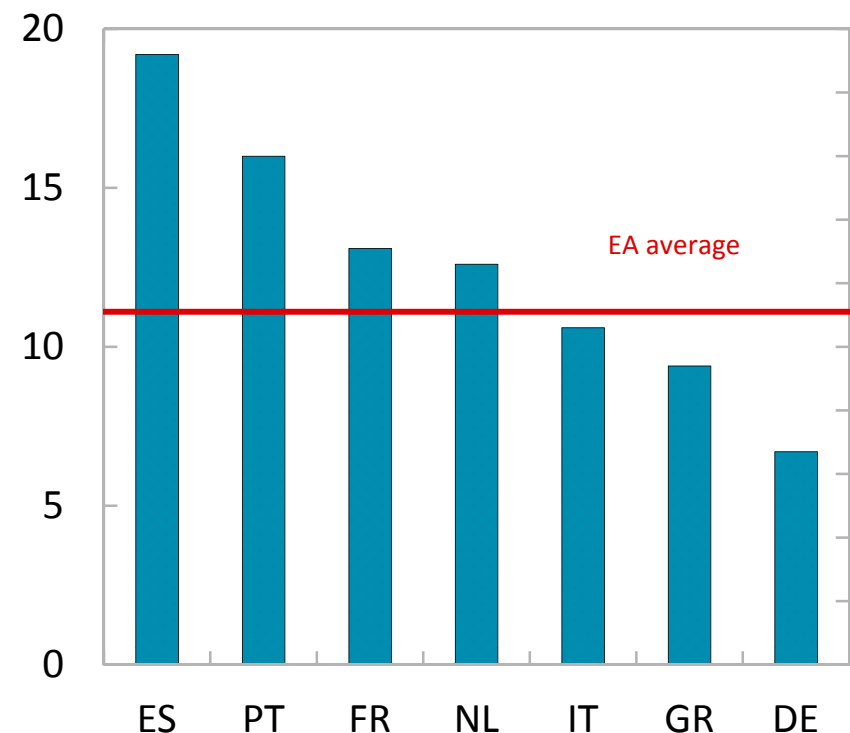


Source: ECB.

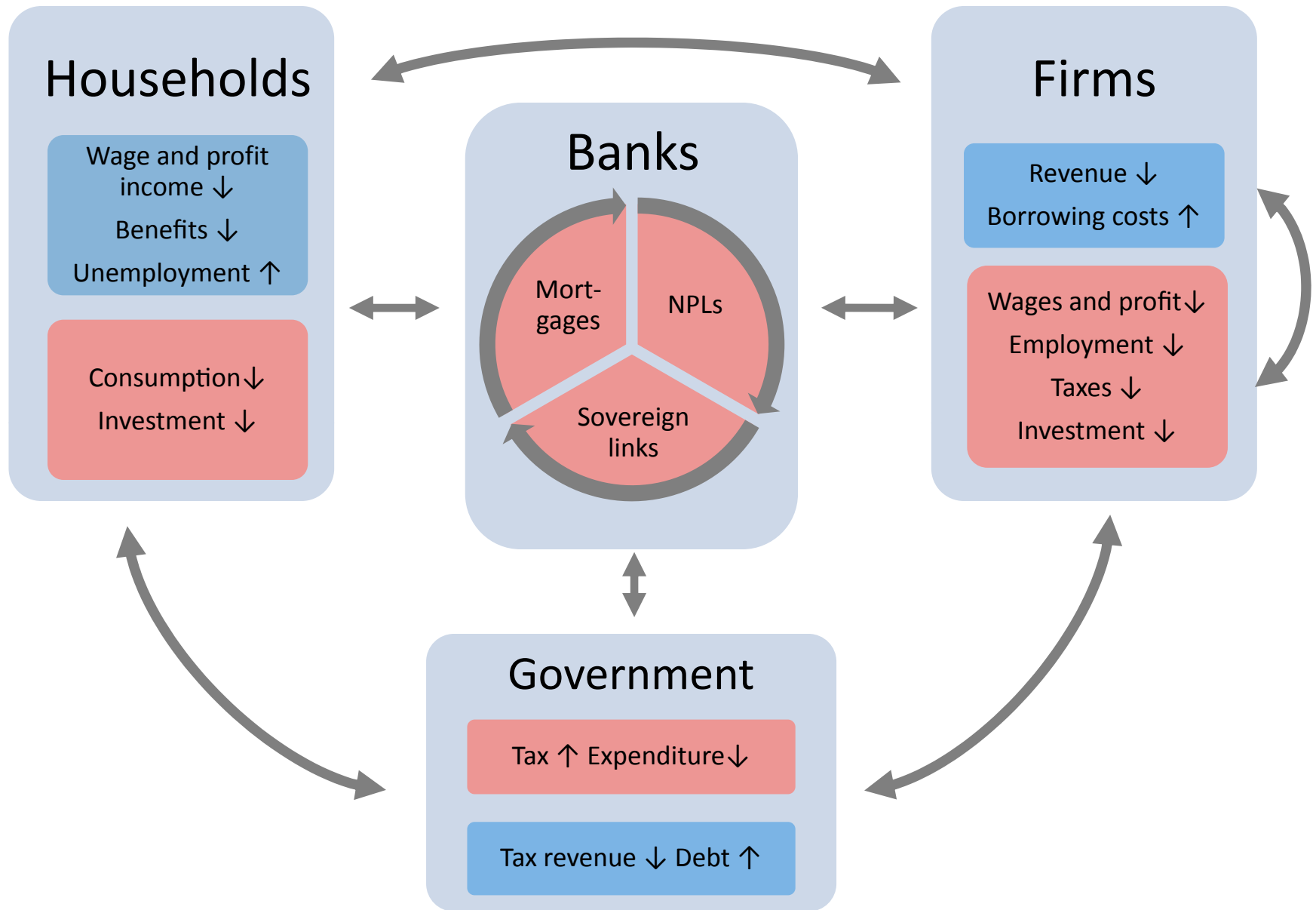
Debt service is high relative to income

Debt Service of Indebted HHs

(Percent of gross income)



Source: ECB.

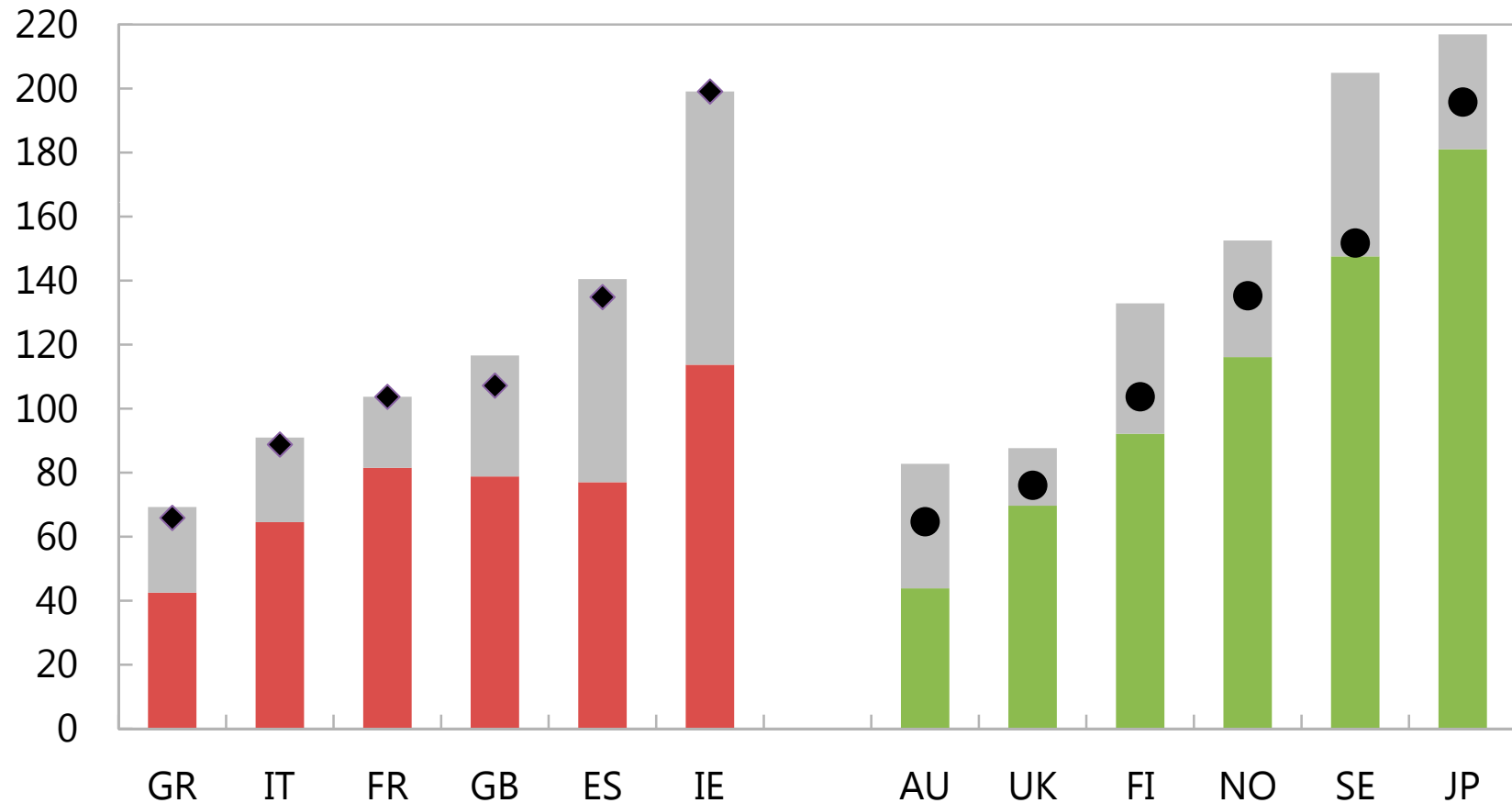




Corporate deleveraging has barely started

Corporate Deleveraging Episodes

(Corporate debt, percent of GDP)



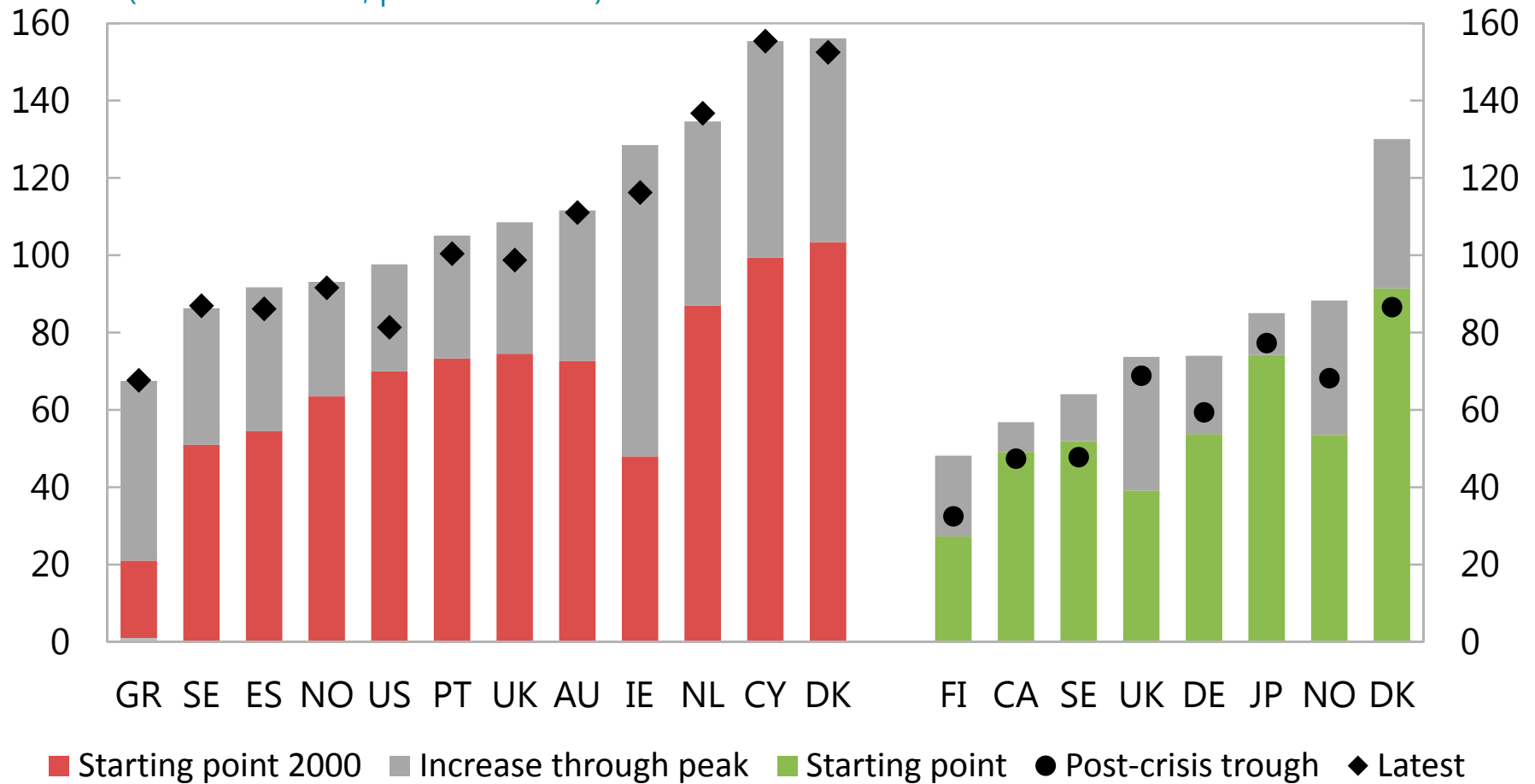
■ Increase through peak ■ Starting point 2001 ■ Starting point ● Post-crisis trough ◆ Latest



Unprecedented credit boom and lengthy deleveraging ahead

Household Deleveraging Episodes

(Household debt, percent of GDP)

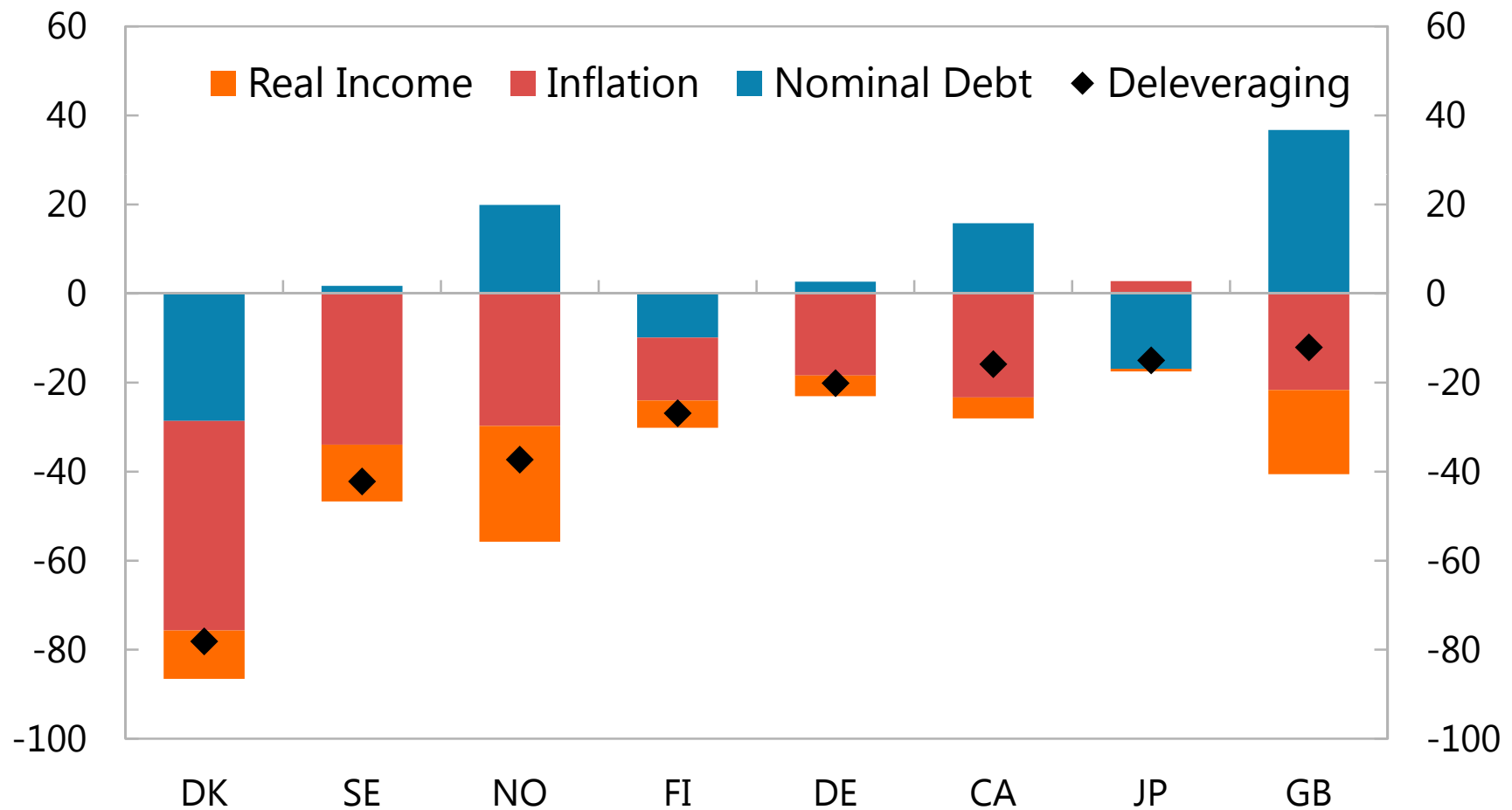




Income growth supported deleveraging in the past

Decomposition of Household Deleveraging Episodes

(percentage points of disposable income)

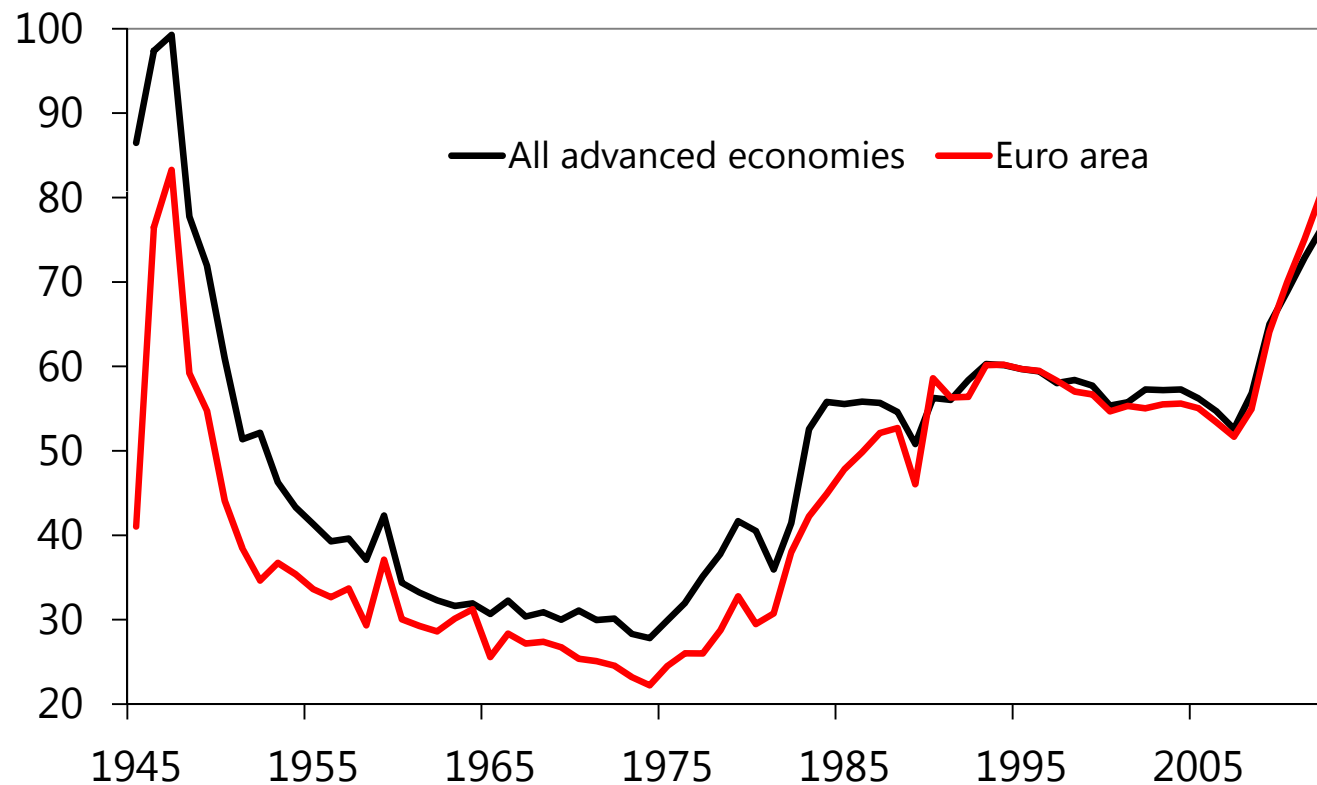


Source: WEO, Haver Analytics, OECD.



Sovereign debt is at historic highs

Gross Debt, 1945—2012
(Percent of GDP)



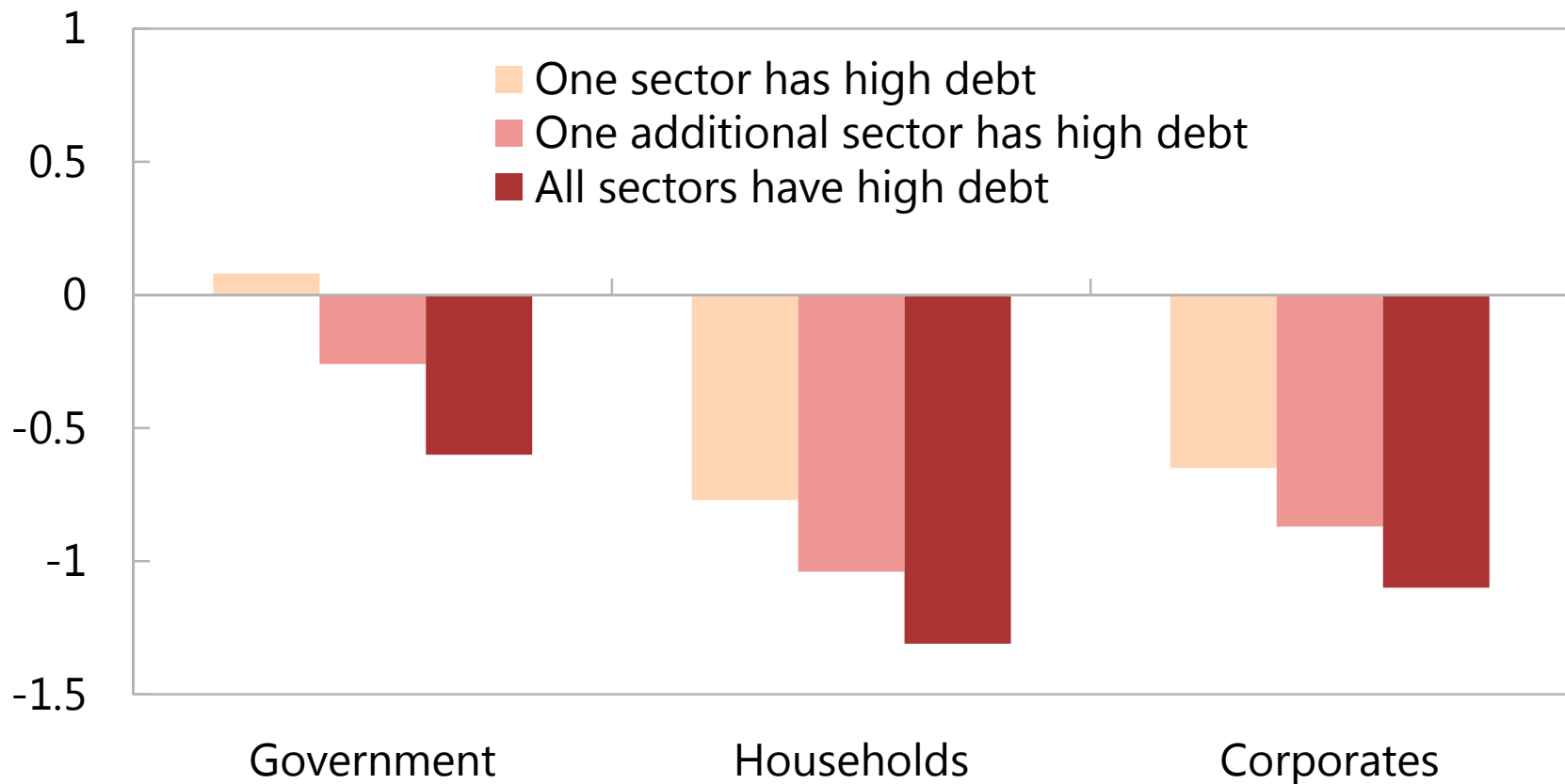
Sources: Historical Public Debt Database, IMF Fiscal Monitor, IMF World Economic Outlook, and Fund staff calculations.



Growth impact of debt

The Impact of High Debt on Growth

(by sector and indebtedness of other sectors, estimated coefficient)





Policy Implications

Macro

- Sequencing across sectors
- Structural reforms to foster growth

Micro

- Insolvency frameworks
- Support debt workouts



Jobs and Growth: Supporting the European Recovery

**What do Past Reforms tell us
about Fostering Job Creation
in Western Europe?**





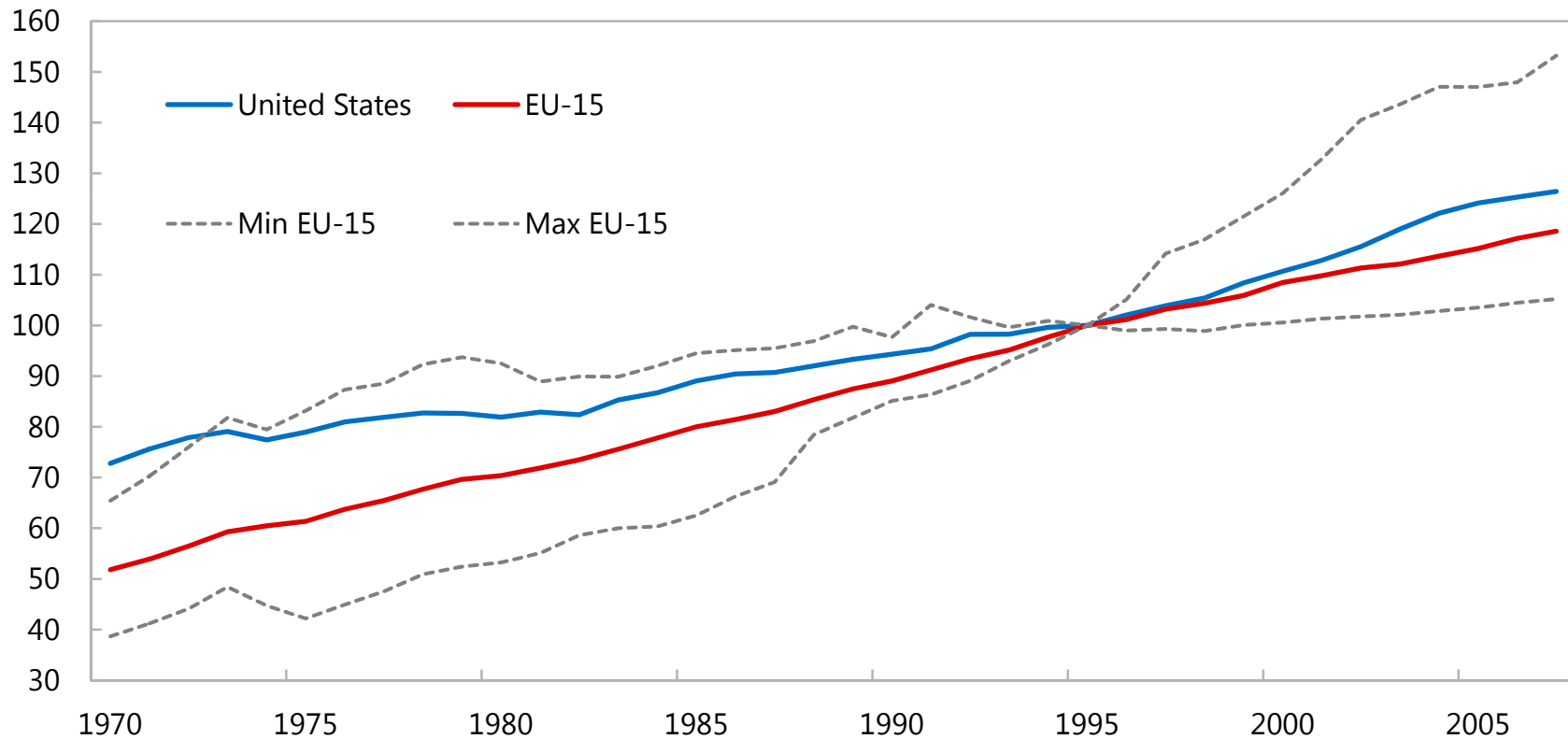
Main Messages

- The crisis has laid bare pre-existing weaknesses, including an inadequate response to the technology and globalization shocks
- Partial solutions resulted in a high degree of labor market duality in many countries
- This exacerbated the effect of the crisis, especially for the young
- Only comprehensive and country-specific reforms can tackle these structural weaknesses, reduce unemployment and mitigate the social cost of restructuring



Diverging Labor Productivity

Labor Productivity per Hour Worked (Index, 1995=100)

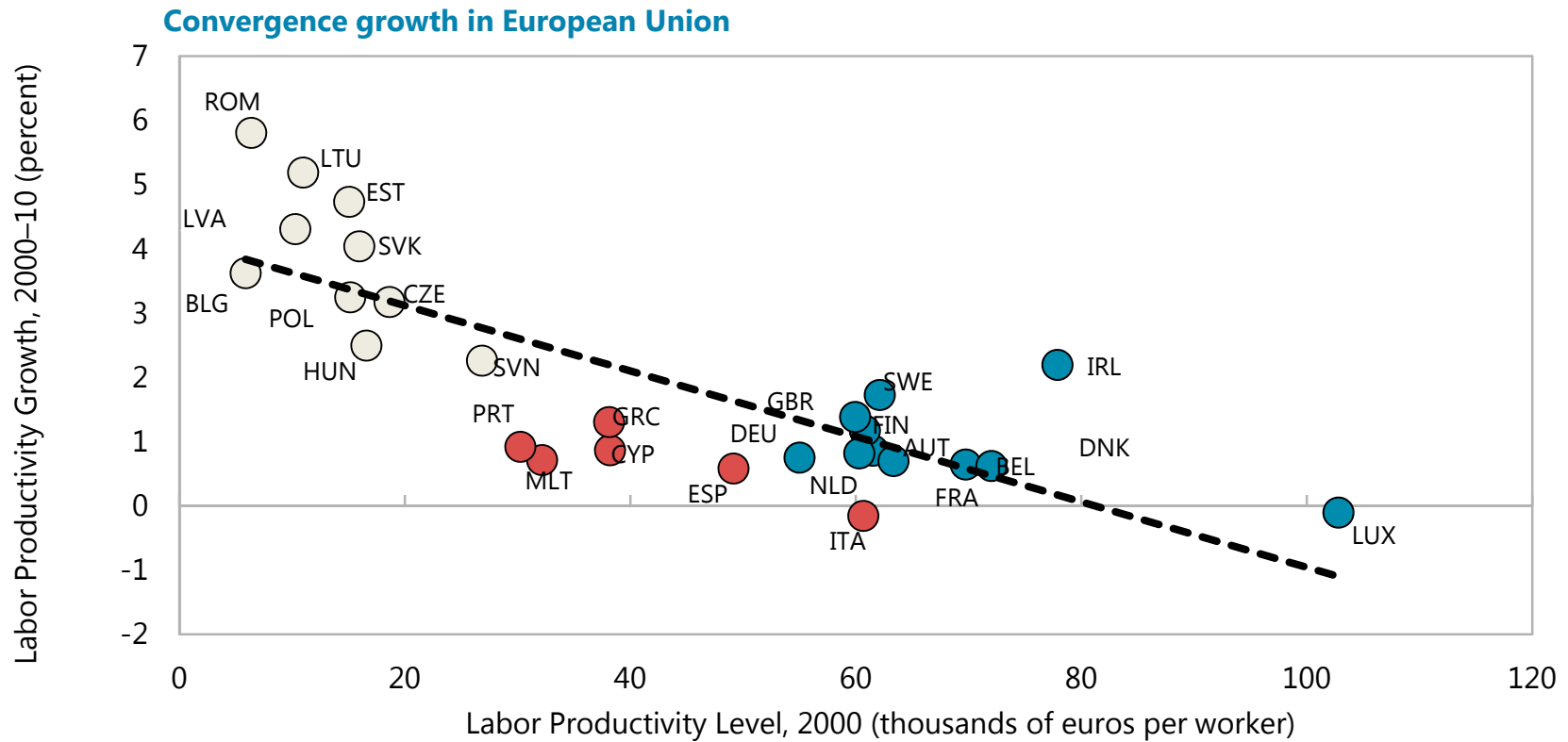


Source: Klems database.

Note: EU-15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.



Convergence Growth in the EU



Sources: AMECO database; and IMF staff estimates.



Four Models

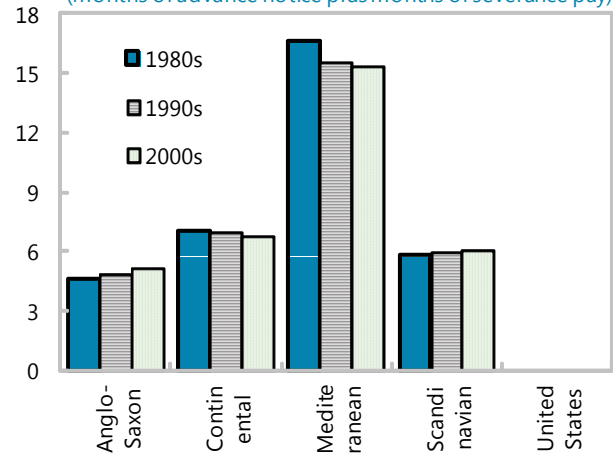
- *Anglo-Saxon* countries, featuring limited government intervention, small role for unions, decentralized bargaining allowing for substantial wage dispersion, low labor taxes, and employment-linked social benefits and active labor market (ALM) policies.
- *Continental European* countries, featuring large role for unions and centralized bargaining, high labor taxes, generous UI, and, in some cases, strong EPL.
- *Mediterranean* countries, relying heavily on stringent EPL and centralized bargaining, but offering low UI and limited ALM policies.
- *Scandinavian* countries, relying more on UI rather than EPL to address unemployment risk, and also featuring high labor taxes, large role for unions, and compressed wage structures.



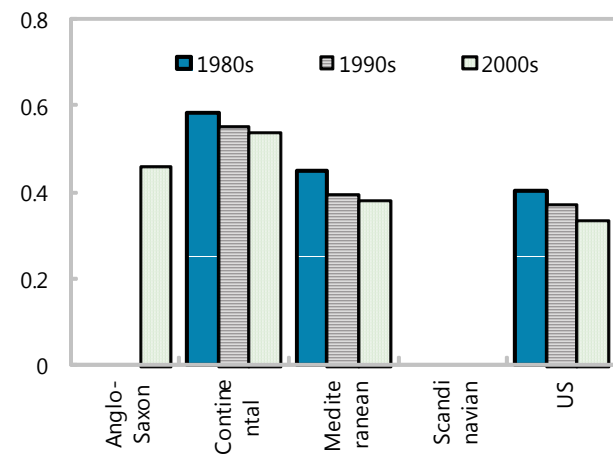
Labor Institutional Arrangements

Evolution of Labor Institutional Arrangements

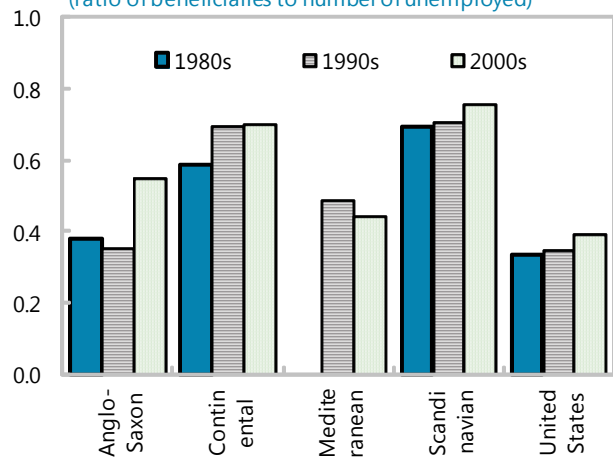
Employment Protection Legislation
(months of advance notice plus months of severance pay)



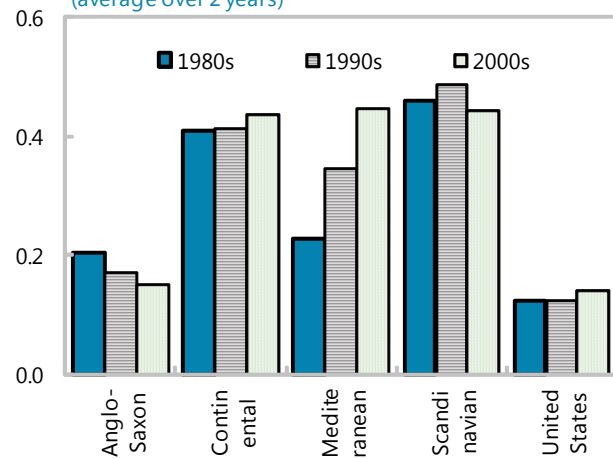
Ratio of Minimum Wage to Median Wage



Unemployment Benefits Coverage
(ratio of beneficiaries to number of unemployed)



Unemployment Benefits Gross Replacement Rate
(average over 2 years)

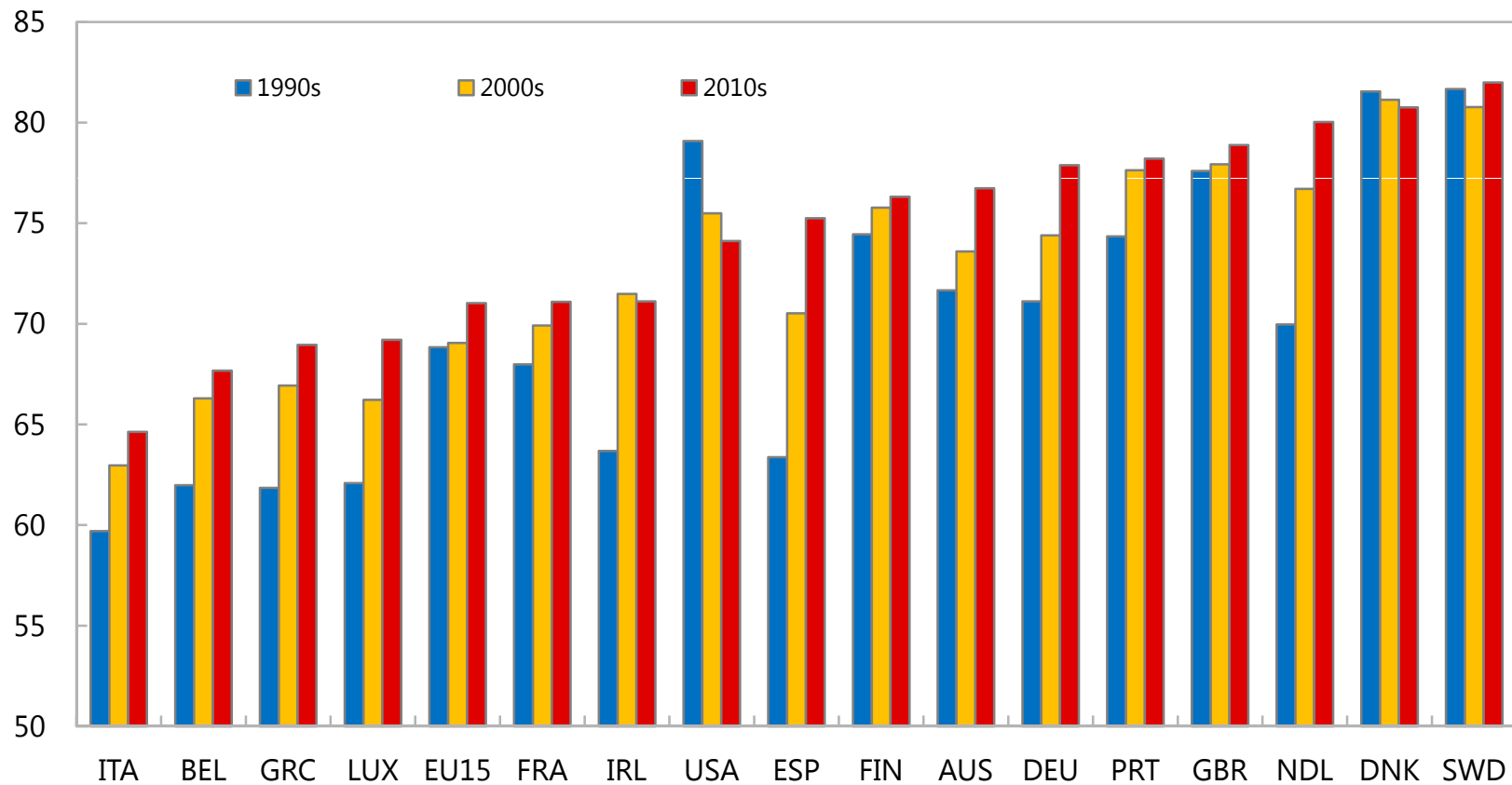


Source: Aleksynska and Schindler (2011).



Labor Force Participation Rate

Labor Force Participation Rate

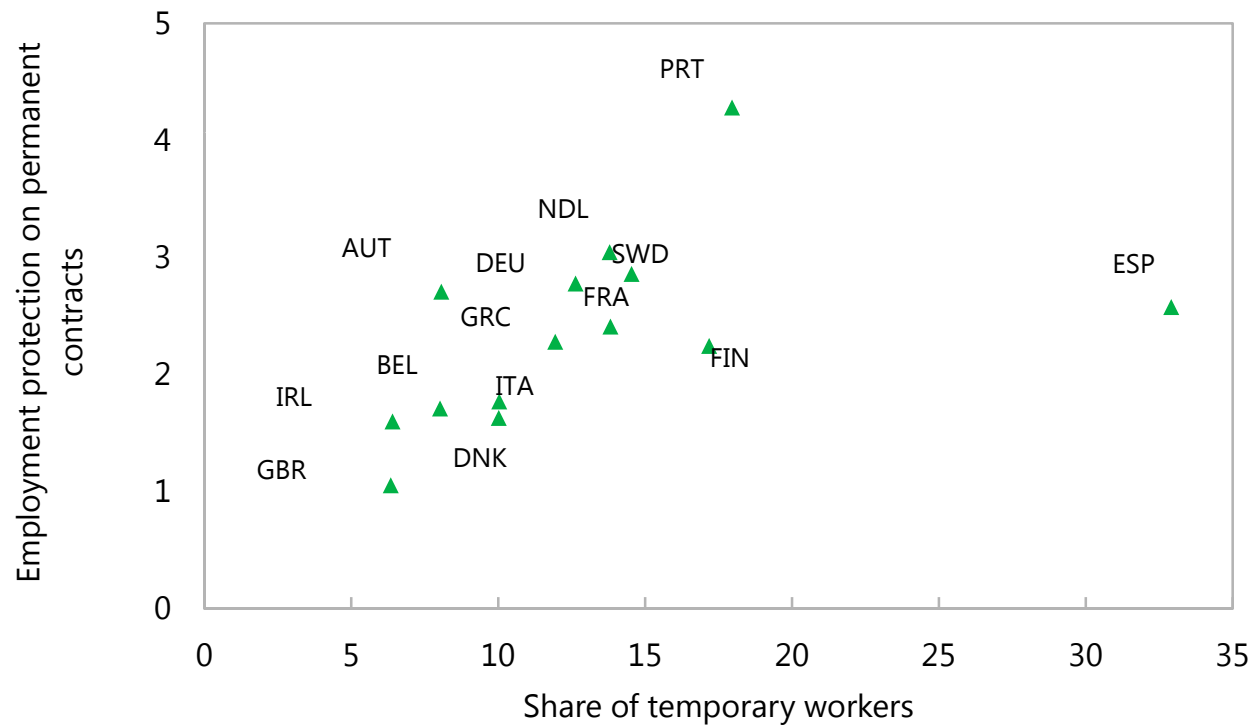


Source: OECD database.



EPL and Temporary Workers

EPL and Share of temporary workers, 1995-2007



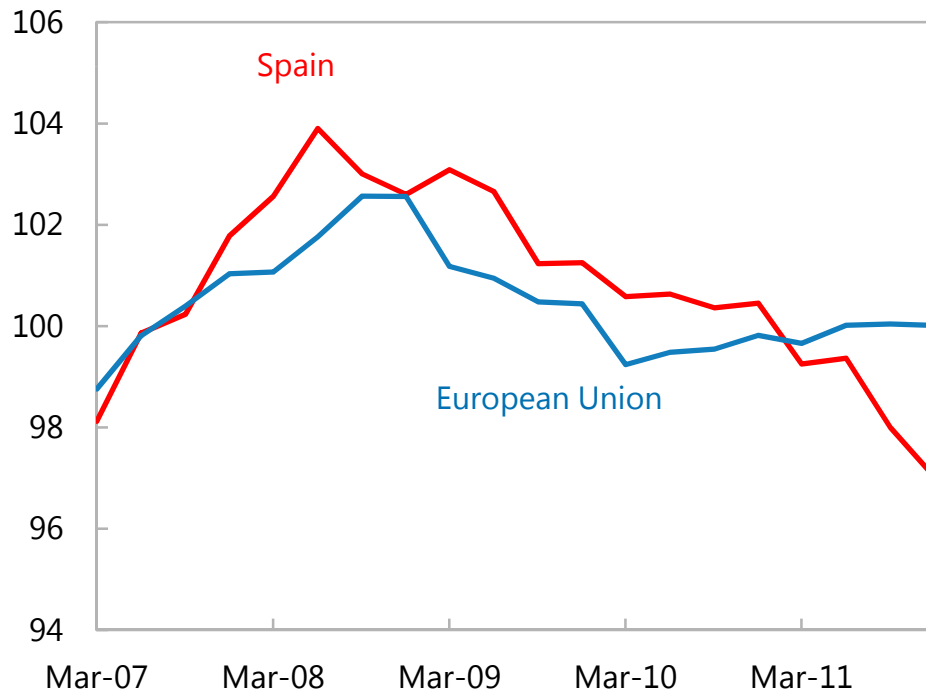
Sources: Eurostat; and OECD.



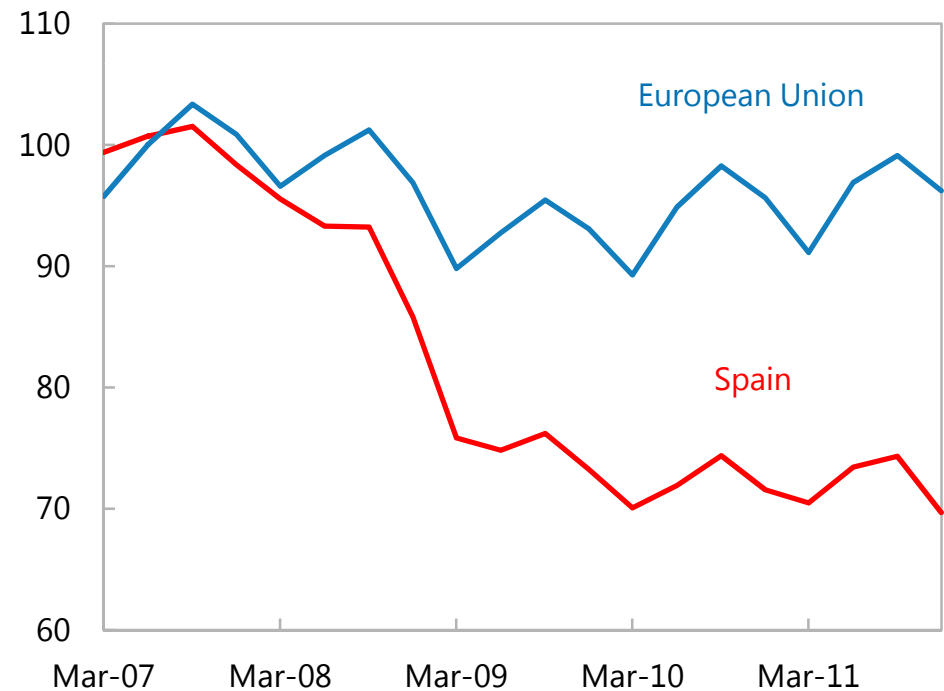
Spain

Spain: Employees on Open-Ended and Temporary Contracts

Open-Ended Contracts (Index, 2007=100)



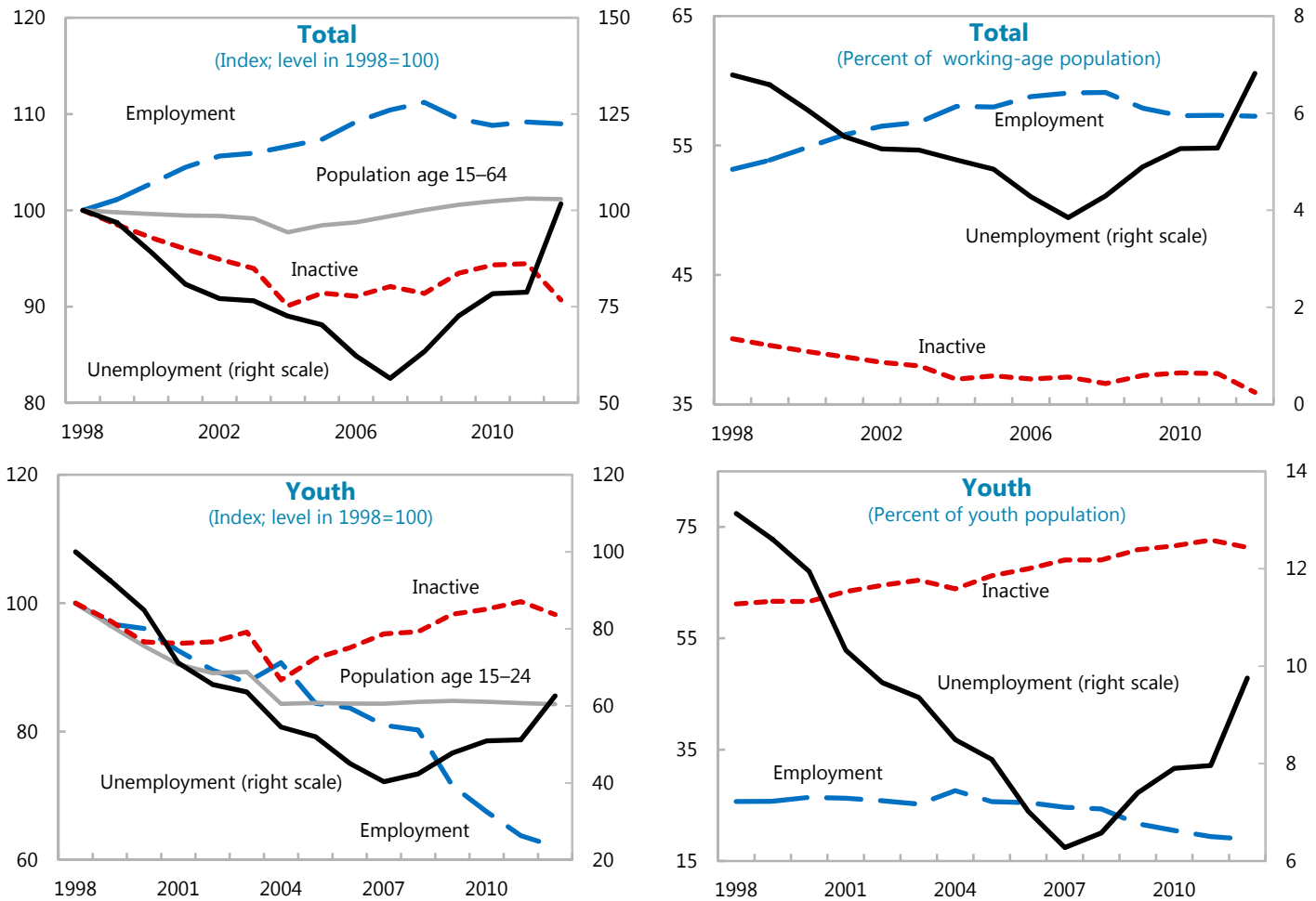
Temporary Contracts (Index, 2007=100)





Italy

Italy: Labor Market Evolution, 1998–2012

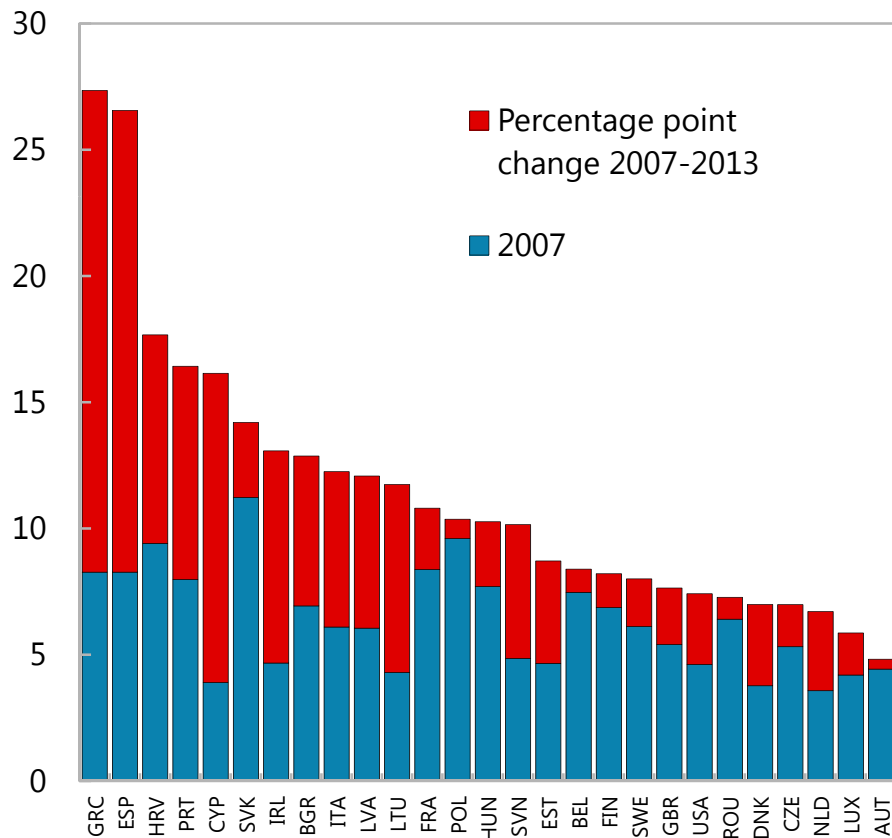


Sources: Istituto nazionale di statistica (Istat); and IMF staff calculations.



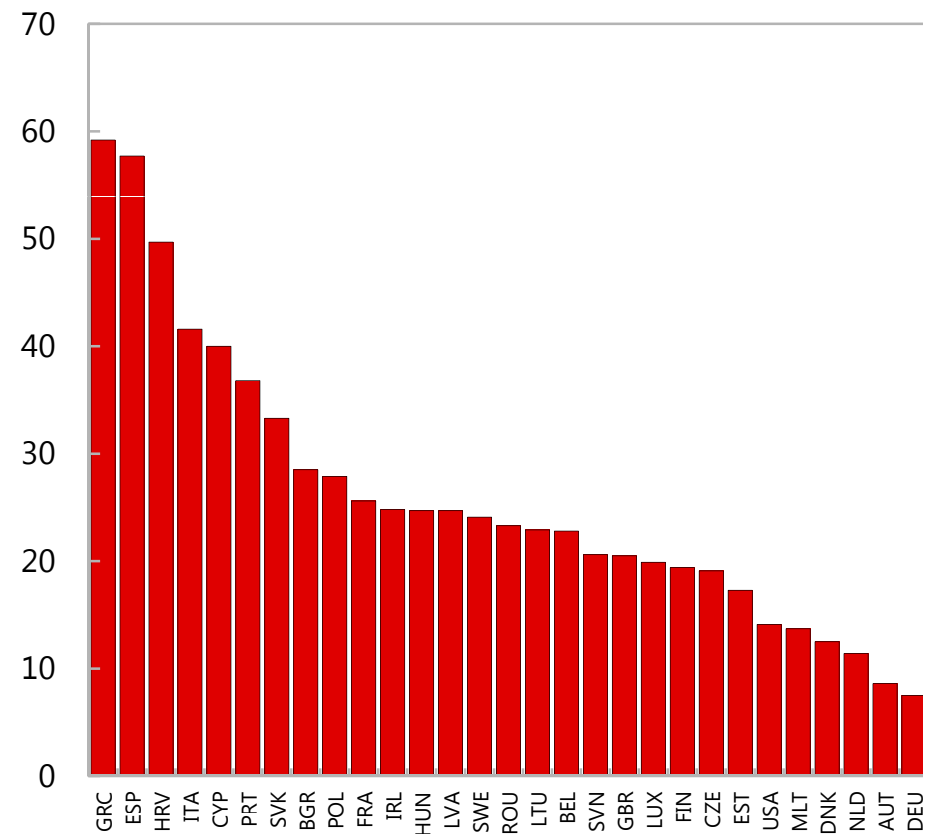
Unemployment is too high

Unemployment
(Percent of labor force)



Sources: Eurostat, Haver Analytics, IMF World Economic Outlook and Fund staff calculations.

Youth Unemployment, Nov. 2013
(Percent of labor force, age 25 and below)



Sources: Eurostat, Haver Analytics and Fund staff



Conclusions

- Unemployment is still too high (especially for the youth)
- The increase in unemployment during the crisis is due also to pre-existing weaknesses
- There is no unique silver bullet and solutions are country specific
- Addressing labor market problems also requires a comprehensive plan



Jobs and Growth: Supporting the European Recovery

A photograph of a factory interior. In the foreground, a woman wearing a light blue cap and a light blue shirt is looking at a tablet device. In the background, a dark-colored car body is being assembled on a production line. The scene is filled with industrial machinery, including blue and yellow overhead cranes and structural beams.

The Role of Vertical Supply Links in Boosting Growth



Key Messages

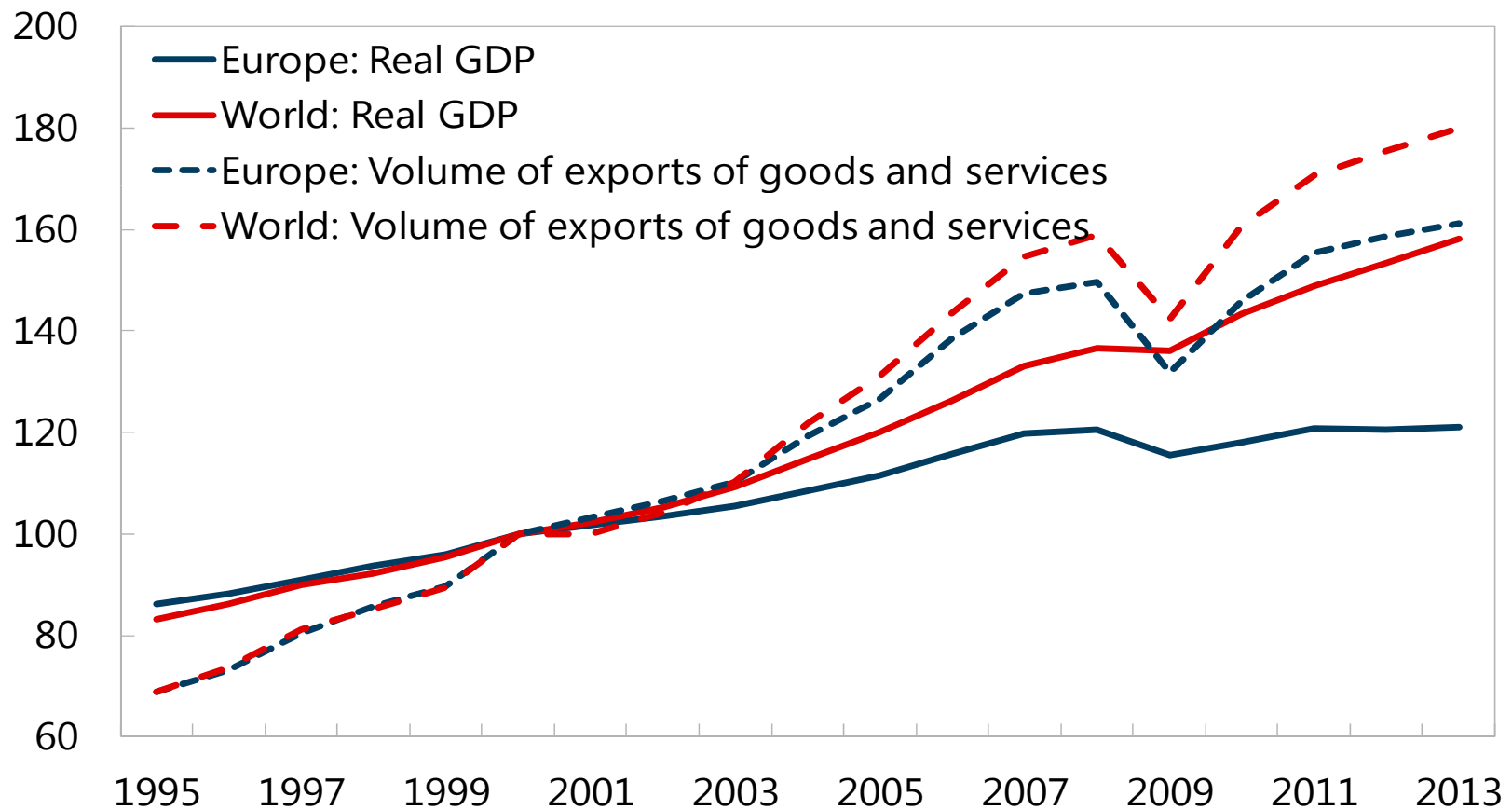
- Supply chains play a key role in exports
- Linking can bring potentially large benefits, including to Euro area periphery
- Policies should aim to ensure competitiveness, identify niche sectors and provide an enabling environment for trade



Exports have driven growth

Real GDP and Exports, World and Europe

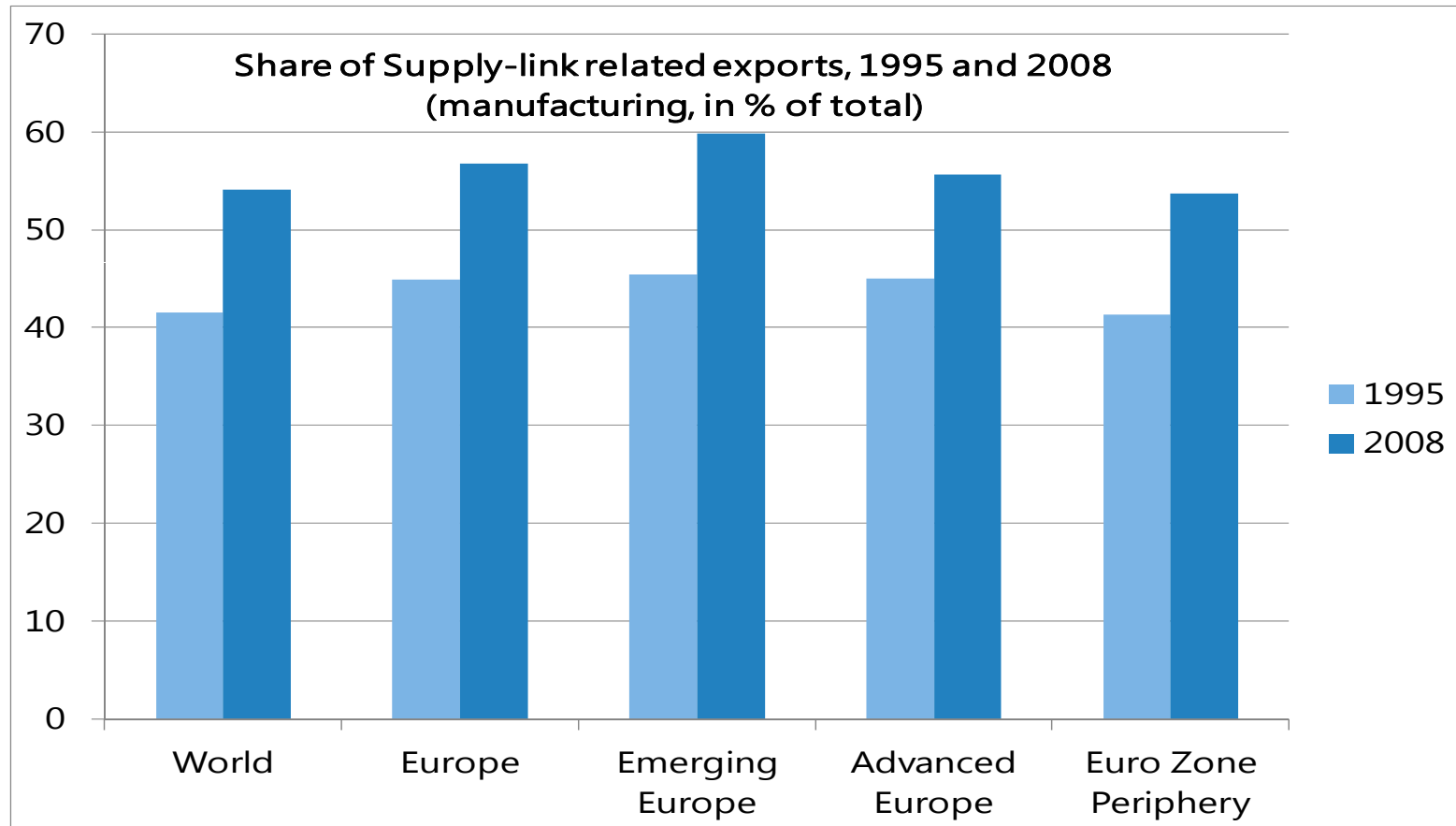
(Index, 2000 = 100)



Source: IMF, World Economic Outlook database.



Supply chains dominate exports





Supply chain in action: Nutella



Source: Ferrero, Sourcemap and various on-line sources.



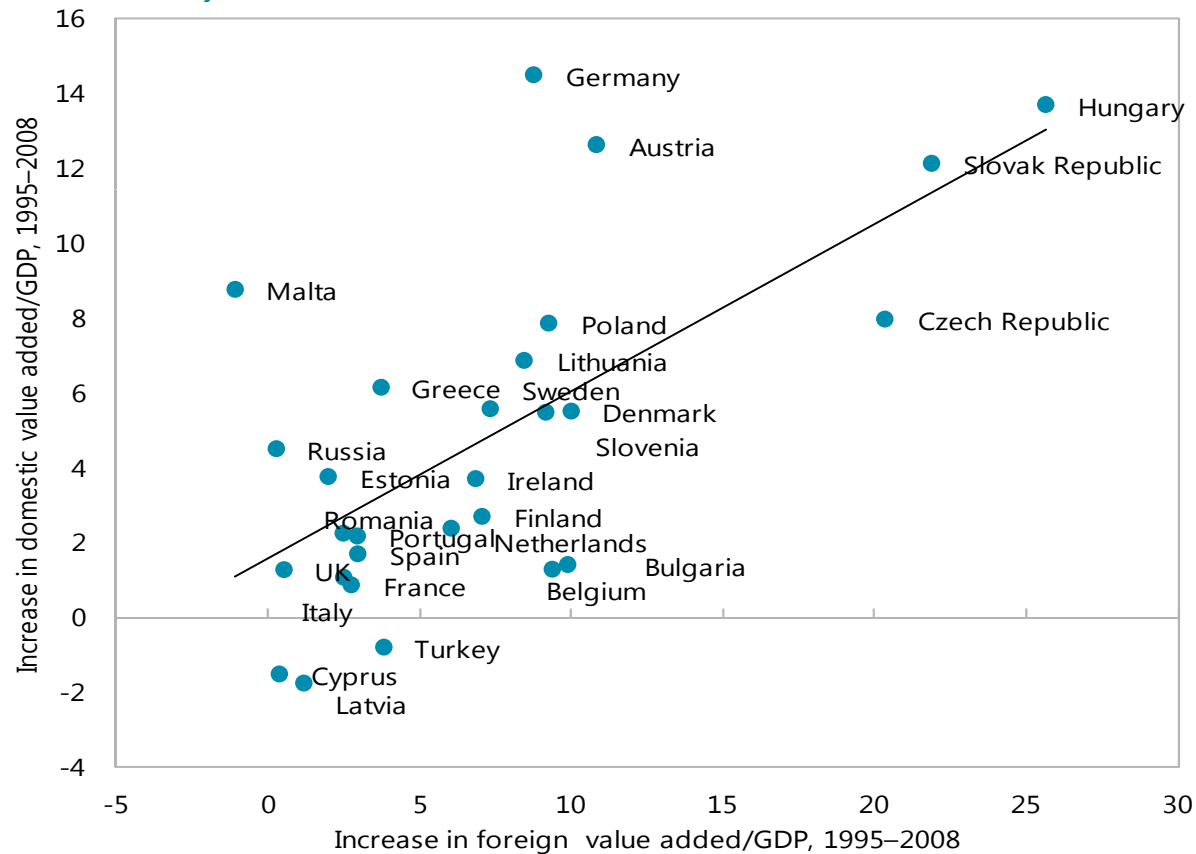
Key Questions

- How are supply chains beneficial?
- What factors help countries to link?
- What are the implications for Euro Area periphery recovery?



Supply chains add value

**Relationship between Foreign and Domestic Value Added
(Percent of GDP)**





Supply chains help produce more sophisticated exports

	<i>Manufacturing, 1995</i>			<i>Manufacturing, 2008</i>		
	Labor-intensive	Capital-intensive	Know ledge-Intensive	Labor-intensive	Capital-intensive	Know ledge-Intensive
Czech Republic	1.29	1.30	0.56	1.10	1.28	1.28
Hungary	0.68	1.06	0.50	0.42	0.85	1.26
Poland	1.95	1.39	0.59	1.72	1.41	1.01
Slovakia	1.05	1.61	0.60	1.09	1.41	1.14
	RCA* < 0.5					
	0.5 < RCA < 1					
	1 < RCA < 2					

* Revealed comparative advantage is defined as as the share of a sector in a country's total gross exports relative to the world average of the same sector in world exports.



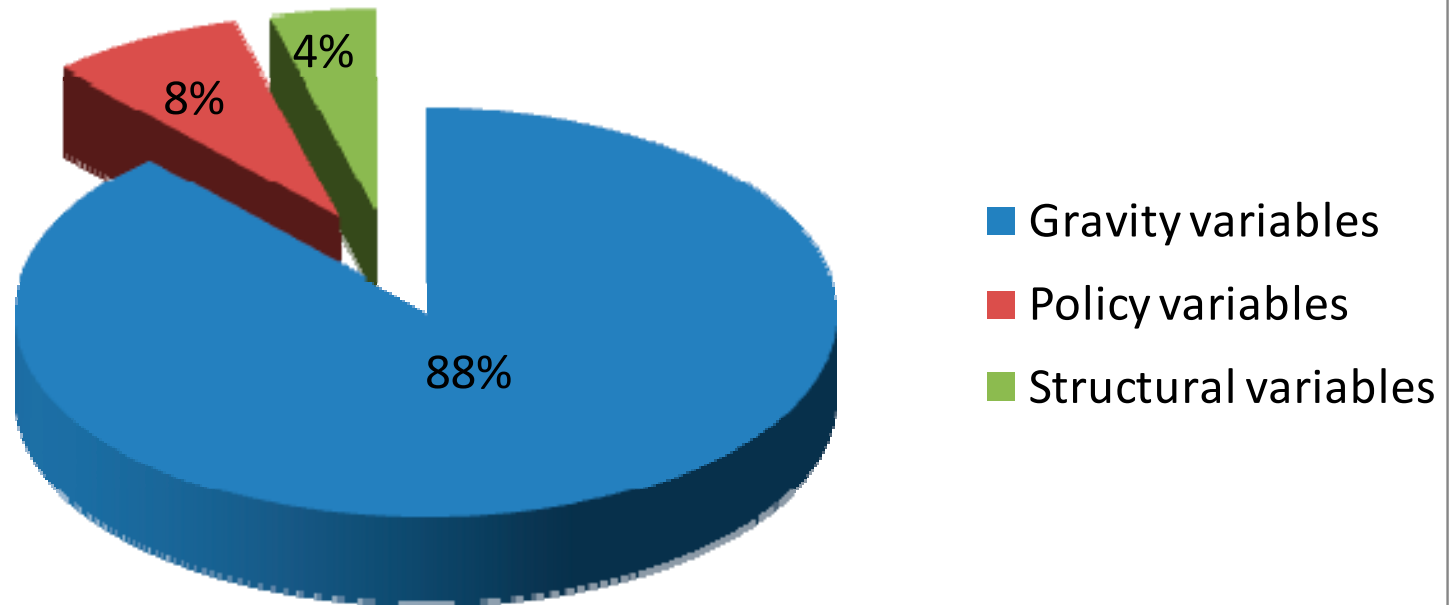
How to establish supply links

- We use an augmented gravity model
- Three types of variables:
 - **Gravity variables** (GDP, GDP pc, distance, common language, common border)
 - **Policy variables** (FTA dummy, downstream tariff, exchange rate volatility, difference in ULC)
 - **Structural variables** (resource rich dummy, export similarity)



Gravity variables rule, policies also matter

Explaining foreign value added: contribution of variables





Europe: not everybody is linked





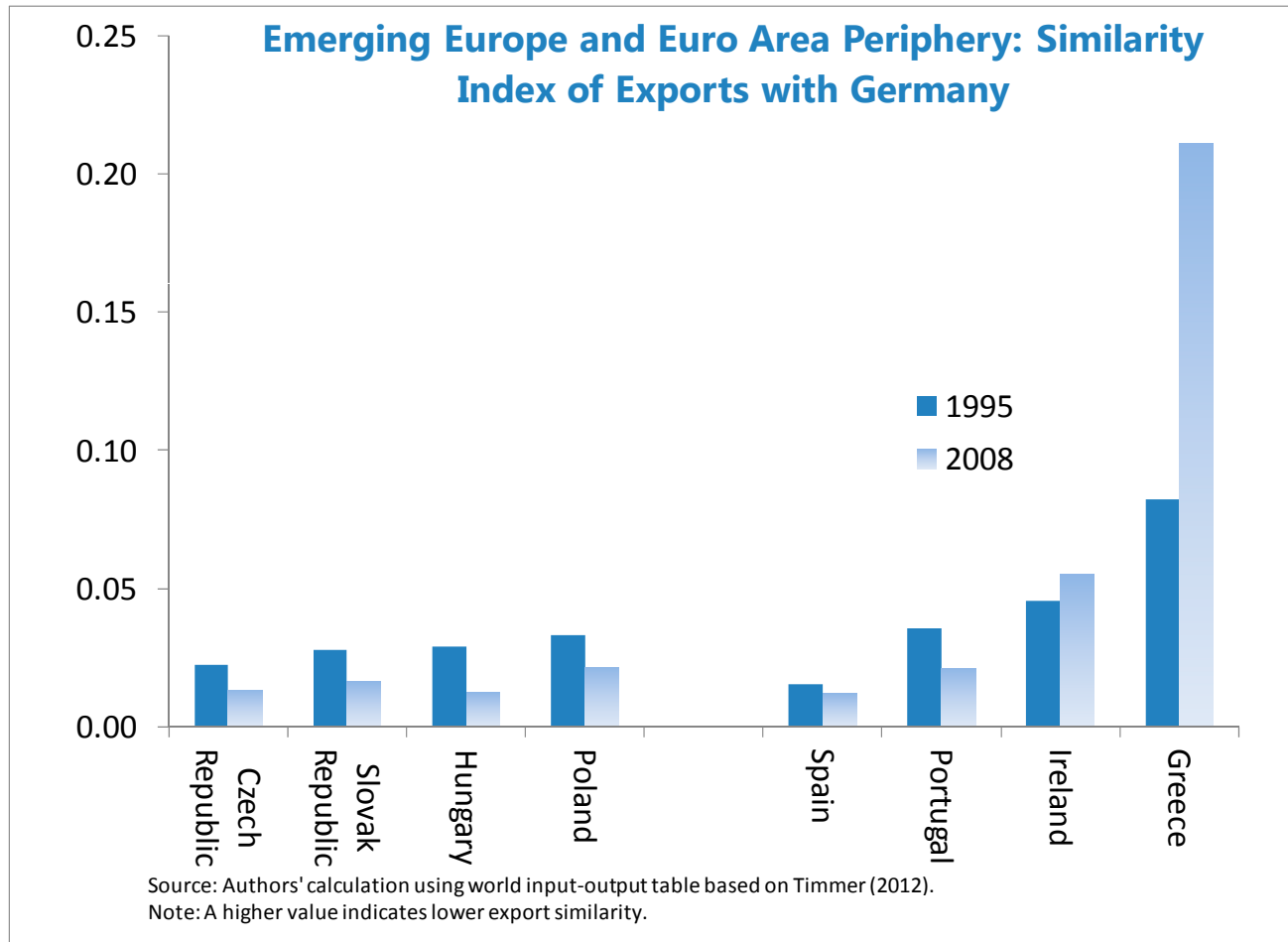
Euro area periphery better in services

	<i>Manufacturing</i>			<i>Services</i>		
	Labor-intensive	Capital-intensive	Knowledge-Intensive	Labor-intensive	Capital-intensive	Knowledge-Intensive
Portugal	2.40	1.25	0.72	1.26	2.45	0.89
Spain	1.04	1.40	1.07	0.55	1.26	1.59
Ireland	0.13	0.83	0.87	1.69	0.54	3.90
Greece	0.4	0.7	0.2	2.0	9.0	0.6
				RCA < 0.5		
				0.5 < RCA < 1		
				1 < RCA < 2		
				2 < RCA < 3		
				RCA > 3		

* Revealed comparative advantage is defined as as the share of a sector in a country's total gross exports relative to the world average of the same sector in world exports.



Germany may not be the right hub for everybody





Conclusions

- Supply chains are central to increasing exports
- Prospects for Europe, including euro area periphery countries, are bright
- Structural reforms that help growth can also help establish supply links



More information at

<http://www.imf.org/external/np/seminars/eng/2014/EURbook/index.htm>

Thank you!