

## Global Economics View

### Taking Stock of Labour Market Rigidities and Reforms in the Euro Area

- This publication provides overviews of rigidities and reforms of the labour market and some related areas in 13 EA countries (Austria, Belgium, Cyprus, France, Finland, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Slovenia, Spain).
- A companion publication presents our assessment and conclusions about the extent of labour market reforms and the remaining rigidities.

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**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.**

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## Labour market rigidities and reforms

The rigidity of labour markets has long been seen as one the major structural weaknesses of euro area economies. On the other hand, recent years have seen a large number of initiatives to address these rigidities. This publication provides a detailed overview of labour market rigidities and labour market reform efforts in 13 EA countries (Austria, Belgium, Cyprus, France, Finland, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Slovenia, Spain).

Figure 1 is an overview of labour market and rigidities and related structural weaknesses, as regards education and training and labour force participation, taking into account – where possible – recent reform efforts. The colour coding denotes our assessment of the extent of the rigidity, whereby red denotes relatively intense rigidities, yellow a moderate degree of rigidity and white relatively low rigidities. In the next section, we discuss the different categories and our assessment of the extent of the rigidities in more detail. In many cases, a ‘red’ colouring can be understood as rigidities that go beyond those of non-EA OECD countries, at least when EA countries as a whole underperformed the OECD average. The colouring is ultimately qualitative, as for most indicators we relied on several related indicators, and also attempted to reflect recent reform efforts. Data availability across countries varied, sometimes complicating the assessment.

Figure 1. Labour market reform rigidities in euro area countries

	AT	BE	CY	DE	EL	ES	FI	FR	IE	IT	NL	PT	SI
<b>(Unit) labour costs</b>													
Labour tax wedge													
Generosity of UBs													
Public sector payroll													NA
<b>Flexibility</b>													
Bargaining flexibility/efficiency													
Minimum wage													
Wage indexation													
<b>Employment protection</b>													
Regular contracts			NA										
Temporary contracts			NA										
Collective dismissal			NA										
<b>ALMPs</b>													
<b>Education/Skills</b>													
Skill mismatch													
Educational achievement			NA										
<b>Labour force participation</b>													
Retirement age													
Female participation rates													
Elderly participation rates													

Note: Red, yellow and white denote acute, medium or modest rigidities. NA denotes lack of data. The colour coding is usually based on a range of indicators, see the relevant section below for further discussion.

Source: Citi Research

Figure 2 presents an overview of the extent of reform efforts in labour markets as well as education and pensions in these 13 countries, which we describe in detail in Section 3. We relied on a large number of sources, including official releases, reports by international institutions (such as the European Commission, IMF, or OECD) as well as independent reports and analyses. Nevertheless, we cannot make any claim to provide a fully exhaustive list. In the absence of official and/or independent ‘scoring’ for many of these reforms, the assessment necessarily involves a degree of subjectivity. Subjectivity also applies to the categorization of some reforms, as many could plausibly fit in at least two categories. Thus, changes in unemployment benefit regimes affect labour market participation incentives, and indirectly also wage outcomes (by lowering the reservation wages of workers). Since ALMPs also include training measures, the boundary between education and ALMPs is blurred, and our guiding principle has been to designate measures as

ALMPs if they are targeted at the unemployed (rather than the employed or those in full-time education). Changes are also not universally in the same direction. At times, some rigidities have been lessened, while others have been raised. For instance, many countries under troika programmes have attempted to lower social security contribution rates, but have also raised income taxes. When there were movements in opposite directions within the same category, we included two arrows pointing in different directions in the overview table before. In our detailed reform overview in the third section, we prefix such action with a 'But'.

Figure 2. Selected Countries – Past Reform Efforts, 2008 – 2013

	AT	BE	CY	DE	EL	ES	FI	FR	IE	IT	NL	PT	SI
<b>Labour costs</b>													
Labour tax wedge	↗	↗		↘	↗↘	↗		↘	↗			↗	↗
Generosity of UBs		↘				↘	↗		↘	↗		↘	↗
Public sector payroll		↘			↘	↘			↘	↘		↘	↘
<b>Flexibility</b>													
Bargaining flexibility/efficiency					↗	↗		↗		↗		↗	↗
Minimum wage				↗	↘	↘		↘				↘	↗
Wage indexation		↘	↘		↘	↘							
<b>Employment protection</b>													
Severance pay and notice periods			↘		↘	↘			↗	↘	↘	↘	↘
Severance regulations					↘	↘		↘		↘		↘	↘
Labour market duality					↘	↘		↘		↘			↘
<b>ALMPs</b>													
Subsidies	↗	↗		↗	↗	↗	↗	↗	↗	↗	↗	↗	↗↘
Training and PES	↗	↗		↗	↗	↗	↗	↗	↗	↗	↗	↗	↗
<b>Education/Skills</b>	↗	↗		↗	↗	↗		↗	↗	↗		↗	↗
<b>Labour Force Participation</b>													
Pension benefit reductions	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗	↗
Female participation	↗			↗↘					↗	↗	↗	↗	↗
Immigration deregulation/integration	↗						↗						

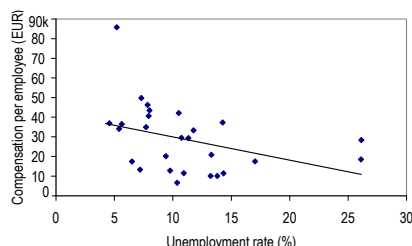
Note: UBs are unemployment benefits and ALMPs are active labour market policies. The direction of arrows reflects the change of indicators rather than our qualitative assessment of reforms. Diagonal arrows indicate that in our view the scale of change is rather limited. Two arrows in the same box indicate that some reform efforts were increasing rigidities, while others lessened them.

Source: Citi Research

Some abbreviations that are used repeatedly throughout the text are:

- **ALMPs:** Active labour market policies
- **CA:** Collective agreement
- **EPL:** Employment protection legislation
- **PES:** Public employment service
- **SSC:** Social security contribution
- **UB:** Unemployment benefit
- **UA:** Unemployment assistance

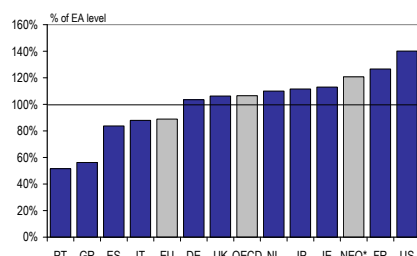
**Figure 3. EU Countries – Unemployment rate (%) and compensation per employee (EUR), Q4 2012**



Note: compensation per employee is the ratio of compensation of employees (National Accounts concept) and the number of employees (LFS concept).

Source: Eurostat and Citi Research

**Figure 4. Selected Countries – Nominal Compensation per Employee, % of EA level, 2012 Q4**



Note: compensation per employee is the ratio of compensation of employees (National Accounts concept) and the number of employees (LFS concept). Non-EU OECD (\*NEO) countries covered are US, Switzerland, Canada, Japan, Australia and South Africa, data are missing for Chile, Israel, Mexico, and Turkey.

Source: Eurostat, OECD and Citi Research

## Labour market rigidities in the euro area

### Labour costs

The lack of competitiveness of many EA countries is not due to high labour costs per se. Across the EU, the simple association between unemployment and labour costs is *negative* (see Figure 3) – countries with higher labour costs tend to have *lower*, not higher, levels of unemployment in the EU. Labour costs in Greece and Portugal, are much below EA and EU averages (and labour costs in most richer non-EU OECD countries), and a little below in Spain and Italy (Figure 4), too. Only in Ireland do they exceed the EA/EU average, despite substantial adjustment since 2009.<sup>1</sup>

The problem had of course been that many of these countries also had low productivity. Unit labour costs (ULCs) – calculated as the ratio of labour compensation and real output and therefore incorporate productivity levels – in EA periphery countries went from 10-30% below German levels at EMU entry to up to 15% above them in 2008, as wage increases far outpaced rises in productivity.

Unit labour costs have fallen substantially in many EA periphery countries since. From the peak, ULCs in nominal terms have fallen by 18% in Ireland, 16% in Greece, 8% in Spain, and 7% in Portugal. In real (inflation-adjusted terms), the declines have been even larger. In all of these countries, (nominal) ULC *levels* are now below the EA average level and Germany's (Italy's nominal ULCs are on par with Germany's, but remained relatively constant). However, no such adjustment has taken place in Belgium, France and the Netherlands, where nominal ULCs are still growing (or at best flat in real terms) and are above German or EA average levels. The reductions in ULCs in the periphery have also implied depreciations in these countries' real (effective) exchange rates – which matter much more than improvements in competitiveness relative to Germany, in our view – even though the euro's relative strength over the last 9 months has arrested these improvements.

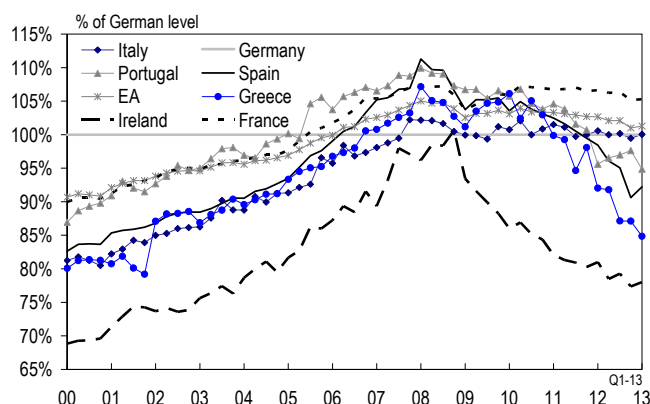
The significance of ULC reductions can easily be overstated. A number of costs and impediments to production are not captured in ULCs, and these tend to be aggravated by high uncertainty. ULCs are still much higher relative to Germany than they were at EMU entry for the EA periphery. ULC reductions are also less meaningful in the presence of large increases in unemployment: under these circumstances, a plausible interpretation of ULC reductions is that (the export-oriented) part of the economy has shed its unproductive labour (which was overpaid relative to its productivity level when it was employed). The resulting recorded increase in average labour productivity may have little to do with an increase in the efficiency of labour usage: the average is up because the low productivity workers have moved into unemployment. The average productivity of the continuing employed plus the no-longer-employed may in fact have gone down. This highlights the major concern of how to bring the unemployed (and presumably unproductive and uncompetitive) workers back into jobs without endangering that newly-found competitiveness.

For the EA periphery, the truth is probably somewhere in between: on the one hand, labour costs (say, per hour of work) have fallen much less than unit labour costs

<sup>1</sup> Figure 3 uses annual compensation per employee, calculated as compensation of employees (National Accounts concept) divided by employment (LFS concept), and converted to Euros for non-EA countries at average Q4 2012 exchange rates. Compensation of employees includes wages and salaries, and of employers' social contributions. The relative labour cost pattern is similar according to Eurostat's labour cost per hour measure, which is based on the four-yearly Labour cost survey. Of the periphery countries, only Ireland (€29.1) exceeded the EU (€23.4) and EA (€28) average in 2012. Italy (€27.4) was below the EA but above the EU average, while Spain (€21), Greece (€14.9) and Portugal (€12.2) were below both EA/EU averages.

(except in Greece), but on the other hand exports have grown (except in Greece), suggesting that at least some sectors of the periphery economies have shaped up.

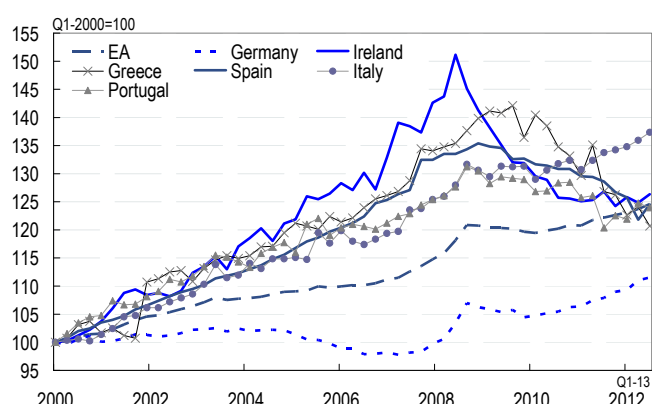
**Figure 5. Selected Countries – Relative Nominal Unit Labor Costs (% of German level), 2000 – 2013 Q1**



Note: Nominal unit labor costs are calculated as the ratio of compensation per employed over productivity per employed. Compensation per employed is the ratio of compensation of employees and the number of employed persons (employment excluding the self-employment). Productivity per employed is the ratio of real GDP and employed persons.

Source: Eurostat and Citi Research

**Figure 6. Selected Countries – Nominal Unit Labor Costs (Q1 2000=100), 2000 – 2013 Q1**



Note: Nominal unit labor costs are calculated as the ratio of compensation per employed over productivity per employed. Compensation per employed is the ratio of compensation of employees and the number of employed persons (employment excluding the self-employment). Productivity per employed is the ratio of real GDP and employed persons.

Source: Eurostat and Citi Research

Much of the future improvement in ULCs needs to come from the productivity side. However, in the short term cost reductions are usually much easier to achieve. With the exception of Ireland, we generally see cost competitiveness as an issue in *all* of the EA countries we consider.

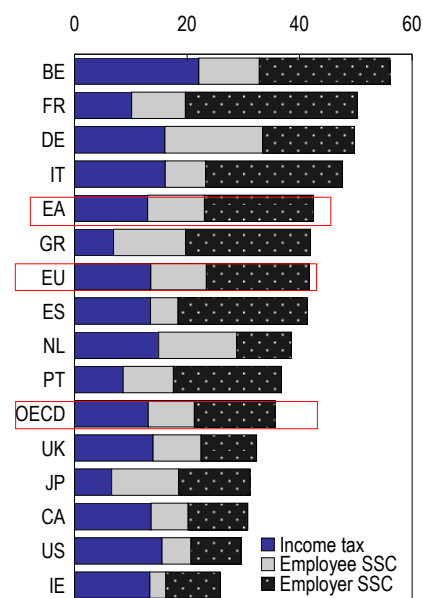
For the most part, labour cost reductions are to be achieved by employers and employees during wage bargaining. However, the government can help, e.g. by:

- Reducing the employee and employer tax burden on labour.
- reducing the 'reservation wage' of workers by:
  - making unemployment and other social benefits less generous (in their level, duration or eligibility);
  - reducing public sector wages and employment (which should reduce reservation wages by reducing labour market tightness, but often also by acting as a focal point for private wage bargaining);
- encouraging more efficient wage bargaining.

### Employer and employee labour taxes

Employee and employer social security contributions (SSC) and income taxes (which sum to the 'tax wedge') are generally quite high in the EA, compared to the non-EA EU countries or, even more so, non-EU OECD countries. Lowering these may require more fiscal space than many EA periphery countries currently possess, but a revenue-neutral shift from labour taxes and SSC towards consumption taxes could mimic the effects of a (nominal) depreciation, which is why it is sometimes referred to as a 'fiscal devaluation'. Just like nominal depreciations, fiscal devaluations would require nominal wage or price rigidities to translate into real

**Figure 7. Selected Countries – Composition of Tax Wedge (% of labour costs), 2012**



Note: For single individual without children at the income level of average worker. Includes payroll taxes where applicable. Data for Greece not available. SSC – social security contributions.

Source: OECD Taxing Wages (2013), and Citi Research

deprecations, but the limited empirical evidence that exists broadly supports that exports and GDP would be boosted (if modestly) by such fiscal devaluations.<sup>2</sup>

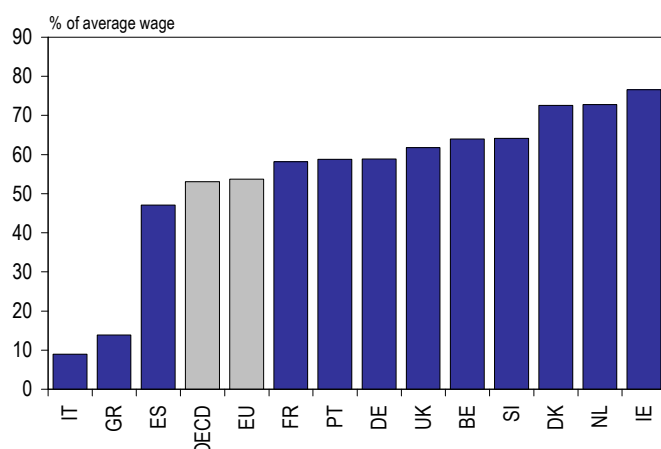
It is worth noting that the labour tax burden is actually highest in the EA in Belgium, France, Germany or Austria, where non-wage costs of labour are around or above 50% of total labour costs (Figure 7). Of the GIIPSSC countries, only Italy's labour tax burden was above the EA average, but in all GIIPSSC countries except Ireland the burden was above the OECD average. Employer SSCs are high in many EA countries. France, Greece, Ireland, Italy and Portugal have reduced SSCs for certain groups recently, but fiscal pressures imply that these reductions were quite modest and labour income taxes have risen (or tax credits reduced) in a number of countries (Greece, Portugal, Spain), particularly for high-earners, as part of these countries' fiscal consolidation processes.

### Unemployment and other social benefits

The generosity of unemployment benefits (UBs) depends on their level, duration and terms (eligibility, etc). In addition, many countries have unemployment assistance (UA) regimes which take over once time-limited UBs lapse (UAs have a limited time span too). On average, the level of UBs relative to average wages in the EA is about as high as the EU or OECD average. Within the EA, Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands have relatively high UB levels which do not fall substantially over time, and eligibility conditions are relatively soft (even though they sometimes look relatively tough on paper). Among the periphery countries, the picture is mixed: UBs can be quite high in Italy, Portugal and Spain at the outset (even after having been lowered in Portugal and Spain recently), but they fall fairly quickly. Italy does not offer any UA once its UBs run out after 12 months. Coverage is low in Italy and Greece and has been tightened quite a bit in Portugal and Spain recently. In Greece, both UBs and coverage is low. Among the GIIPS only in Ireland are UBs quite high and still-generous (UA is of unlimited duration, even though the duration of UBs has recently been cut from 9 to 6 months).

<sup>2</sup> de Mooij, R., and M. Keen (2011) find that fiscal devaluations in OECD countries were associated with a rise in net exports, and that the coefficient was higher and more significant in EA countries. A 1pp of GDP from SSC to VAT in Portugal, for instance, would raise net exports permanently by around 0.3% of GDP, similar to estimates by Bank of Portugal (2011) and ECB (2011)).

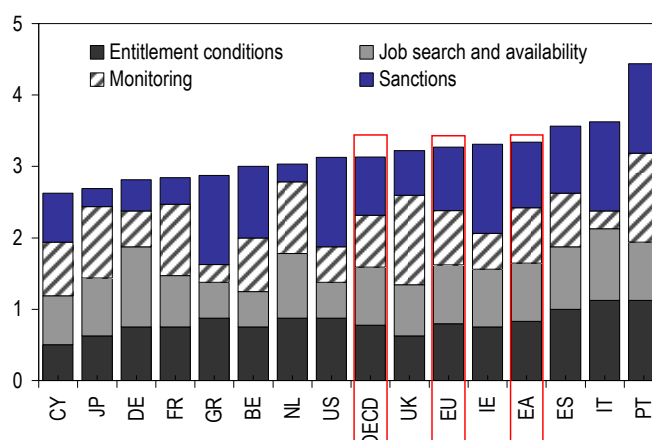
**Figure 8. Selected Countries – Average net replacement rates over 60 months of unemployment (% of average wage), 2011**



Note: Average over 4 family types (without children single and one-earner couple, and 2 children lone parent and one-earner married couple). For families which qualify for cash housing assistance and social assistance 'top ups'. The net replacement rates measure the fraction of net income in work that is maintained when becoming unemployed.

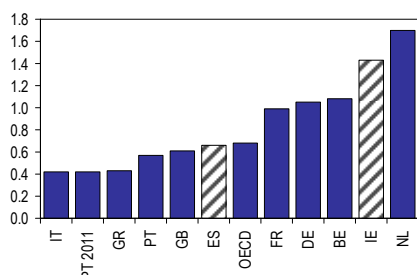
Source: OECD and Citi Research

**Figure 9. Selected Countries – Strictness of eligibility criteria for unemployment benefit, 2011**



Note: Index ranges from 1 (least strict) to 5 (most strict). Source: OECD and Citi Research

**Figure 10. Selected Countries – Ratio of unemployment benefit recipients to the number of unemployed, 2010**



Note: UB and UA recipients divided by LFS unemployment. Due to institutional specificities, the programme classification cannot ensure perfect cross-country comparability. OECD aggregate is unweighted average of data shown. For Portugal, the ratio dropped in 2011 due to withdrawal of temporary 2009-10 measures which eased access and extended duration. Changes in 2012 reform (expanding eligibility, see below) are not reflected.

Source: OECD and Citi Research

## Public payroll

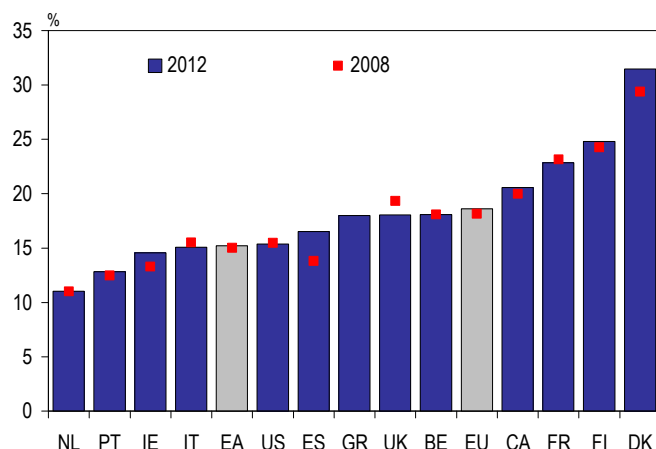
Public employment conditions can have a powerful effect on the labour market more generally. Pay cuts in the public sector can help establish norms of wage moderation, while reducing public employment can have similar effects by increasing the competition for jobs. Both wage moderation and job cuts in the public sector played a major role in most successful labour market reforms in Europe in recent decades.

Prior to the crisis, public employment, relative to total employment or to the labour force, was not particularly high compared to the EA or EU average in the EA periphery, even though the data are not all that reliable, as they e.g. often exclude at least some employees in public enterprises (which were large e.g. in Greece).

Consolidation of public sector employment and pay, of course, is proceeding in a number of EA countries, often mostly driven by fiscal reasons. According to OECD data, general government employment in 2013 will be 3% down from the 2010 peak for the OECD EA countries. In GIIPS countries, job reductions are more drastic (5% in Ireland, 6% in Italy, 11% in Spain and 12% in Portugal; comparable data for Greece are not available, but according to official sources public employment had fallen by around 10% already in early 2012), but were still proportionally smaller than private sector job losses. In all of these countries, as well as in Cyprus and Slovenia, significant additional job cuts are expected over the next few years.

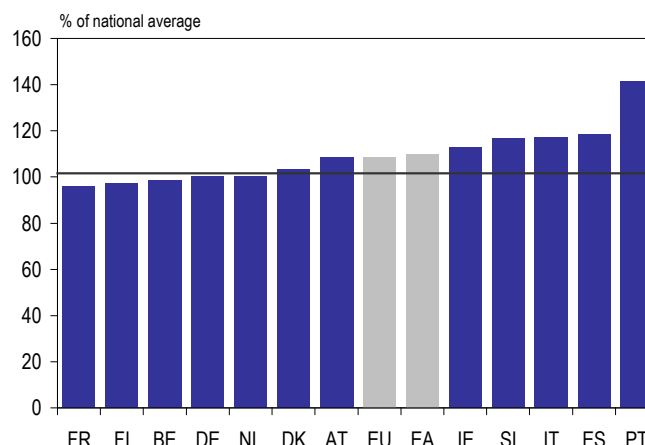


Figure 11. Selected Countries – Public employment (% of total), 2012



Note: *Public* refers to general government, mostly excluding public corporations. For the EA, data correspond to average across OECD members of EA only. For Greece, values are based on census estimate for 2011, divided by LFS estimate of total employment in 2011. Data for 2008 for Greece are not available. Source: Citi Research, OECD and Greek Reporter.

Figure 12. Selected Countries – Public sector compensation (relative to national average), 2008-2011 average



Note: ratios of nominal compensation. Data for the following countries are not available for Cyprus, Greece, Luxembourg, Malta, Poland, Romania and the UK. Source: Eurostat and European Commission

The countries with the largest share of public employment in the EA are Belgium, France, Finland, and the Netherlands (once employees of public enterprises are included). And in these countries job cuts have been lower than in the EA average, with the exception of the Netherlands where public sector jobs have already fallen by 3% in recent years.

Before the crisis, there was some evidence that public workers were overpaid relative to private sector workers in some EA countries. Thus, ECB (2011b) found that public sector pay on average was higher than in all EA countries surveyed (Austria, Belgium, Germany, Spain, France, Greece, Ireland, Italy, Portugal and Slovenia), even controlling for employees' education, labour market experience, type of work and demographic aspects, and that these wage premia were higher in GIIPS countries.

Public sector wages have also fallen in many periphery countries, and usually more so than private sector wages. In Portugal wages for a broad category of workers that includes most public employees have fallen a whopping 26% in nominal terms since 2009, according to Eurostat data. In Greece, the reductions were even higher, while wage reductions were smaller, but still high, in Spain, Slovenia, or Italy. In all GIIPSSC countries, further cuts to public sector pay are planned. In most other EA countries, public wage growth has also fallen in real terms recently, but much less.

## Employment protection

Employee protection legislation (EPL) includes legal notice periods and severance pay for redundancy dismissals, special requirements for collective dismissals or short-term work schemes, as well as the procedural requirements and constraints on dismissals, including the definitions of what would constitute fair or unfair dismissals. In both theoretical models and empirical studies, the effects of changing EPL are often ambiguous – higher EPL may impede hiring, but also firing, with uncertain effects on employment.<sup>3</sup> However, both ‘flexicurity’ and the Anglo-Saxon model of labour markets generally tend to feature modest EPL, which suggests to us that relatively low EPL can support high employment, at least in normal times.

Prior to the crisis, EP levels were high in the EA in general, and in many EA periphery countries in particular. Thus, according to the often-used OECD employment protection index, which codifies and summarizes a large number of EP indicators, Luxembourg, Spain, Portugal, France and Greece had among the strictest EPL among OECD countries in 2008, and were far above the EA and EU average, with Ireland being the main exception among the periphery countries.<sup>4 5</sup>

Since then, the EA periphery countries in particular have reformed EPL substantially, reducing severance pay and notice periods (Greece, Portugal, Spain), and streamlining bureaucratic and judicial procedures for dismissal (Greece, Italy, Portugal, Spain, see EC(2012b)). These reforms left Greece’s EPL below the OECD average for EPL (Figure 13). Ireland, on the other hand, slightly tightened EPL, but remained at the permissive end of the spectrum.

However, for many other EA countries, EP regulation still remains excessively high. In Portugal and Spain, for instance, EPL remains restrictive in international comparison despite substantial reforms. Even where the laws and rules have been changed, implementing and applying the changes remains uncertain, particularly when it comes to judicial procedures. Italy’s reform efforts lagged behind those of Greece, Portugal and Spain. Its levels of severance pay and notice periods were not as excessive as in other periphery countries to begin with, but its dismissal regulation and judicial procedures are particularly cumbersome (IMF(2012b)). A number of non-periphery countries (Austria, Belgium, France, Germany, Luxembourg) have done relatively little and remain excessively regulated.

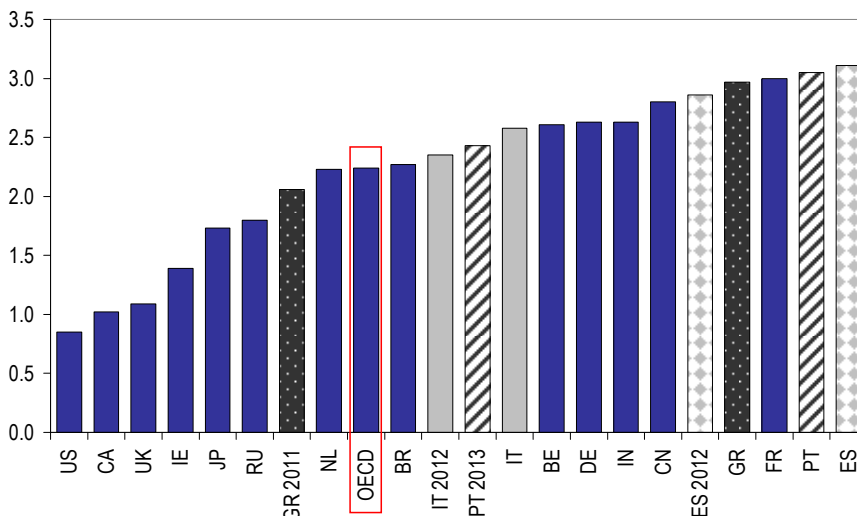
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<sup>3</sup> See e.g. Bertola, Boeri and Cazes (1999) for the theory. In terms of empirical studies, Lazear (1990) finds that EPL lowers employment, while Nickell (1997), among others, found no discernible effect on employment outcomes.

<sup>4</sup> The OECD EP index uses 21 different qualitative and quantitative indicators to calculate three aggregates for the 1) protection of permanent workers against individual dismissal, 2) regulations on temporary forms of employment and 3) specific requirements for collective dismissal and 4) an overall average.

<sup>5</sup> Other sources generally paint a similar picture. Thus, according to the World Economic Forum (WEF)’s Executive Opinion Survey 2012-2013 the regulation of hiring and firing practices in Greece, Italy, Portugal and Spain were in the strictest 30 out of 144 countries, and Belgium, Germany, France, Luxembourg, and Slovenia were in the strictest 20. In the World Bank’s Doing Business 2013 report, a simple sum of dismissal notice period and severance pay (for workers with 1, 5 and 10 years of tenure) confirms that i) Spain, Portugal, Greece, Germany and Luxembourg have high EP, while Ireland, Netherlands, Slovakia low EP; ii) on average, severance and notice period do not seem to be high in the EU/EA compared to the OECD average; iii) administrative rules for dismissal in EU and EA on average are more strict in the EA than in the EU or OECD.

Figure 13. Selected countries – Employment Protection Legislation Index, 2008 and latest

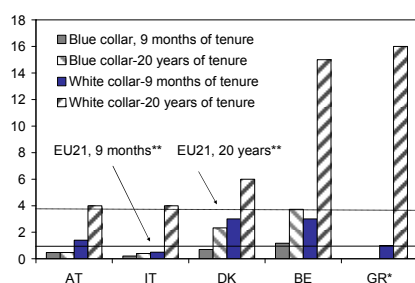


Note: Version 3 of the overall OECD Employment protection legislation index, with scale from 0 (least stringent) to 6 (most stringent). Reflects regulation as of 2008 for all countries. For selected countries, scores are recalculated to reflect recent reforms: for Portugal, the 2012 score includes Labour Code of August 2012. For Greece, 2011 score reflects changes up to end-2011, but not further reduction (in severance payments and notice periods) in 2012. For Italy, 2012 score reflects changes in dismissal regulation.

Sources: OECD and Citi Research

In most of these countries, the bureaucratic procedures and the constraints to dismissals make these EA countries stand out from a cross-country perspective rather than unusually high severance pay and notice periods. It is worth pointing out, however, that reducing job protection yields gains more quickly during 'good times', while in times of high uncertainty and weak effective demand – such as we face in several EA periphery countries – reducing firing costs can have a stronger effect on firing decisions than on hiring ones initially.<sup>6</sup>

Figure 14. Selected Countries – Notice periods for individual dismissals, 2008



Note: \*Greece reduced notice periods for individual dismissal to max 4mths for all workers in Dec-2012 after cutting by ~50% for white collar workers in Jul-2010. \*\*Average for both blue and white collar workers.

Source: OECD and Citi Research

A related problem in the EA has been labour market duality: In many countries where EPL is most restrictive, it is primarily so for employees on long-term contracts. Temporary employees on the other hand had little protection, and have borne the brunt of the job cuts. Aside from the social cost the high turnover imposes, it has also discouraged employers and employees from investing in the skills of the workforce. A number of countries, including Greece, Slovenia, and Spain, have subsequently reduced the discrepancy in EPL between long-term and temporary employees but the gap still remains large in many EA countries.

## Labour market flexibility

In the absence of insurance markets for many contingencies, rigid employment contracts contain an insurance element, and variations in compensation and non-wage terms of employment are not costless. But changing wages and non-wage terms is often less costly than variation in employment (e.g. due to fixed costs for employers and employees, or due to the many costs of unemployment, including skill degradation, social alienation, and idle resources). Making the terms of employment more flexible terms and linking them (in particularly pay) more closely to firm performance is among the most important areas of labour market reform in the EA today, in our view.

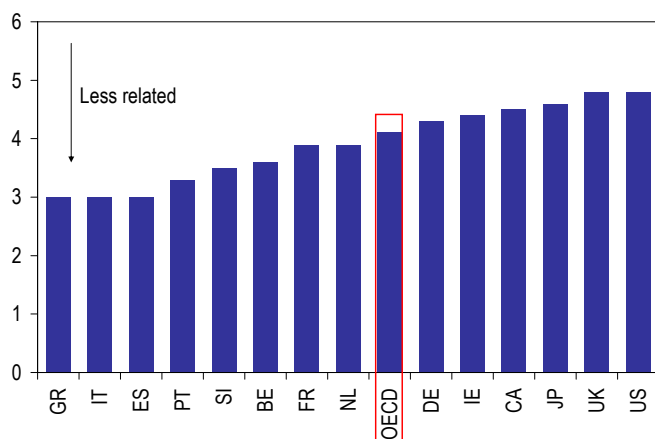
<sup>6</sup> Bouis et al. (2012)

The areas of labour market flexibility (other than redundancy rules) that we consider particularly relevant are the efficiency of the labour bargaining process, notably the constraints on renegotiating wage and non-wage terms, particularly at the firm level, and the lack of a link of wages to profits or productivity. In addition, wage indexation remains fairly common and minimum wages can be quite high.

Inflexible contracts and bargaining have long been a feature of EA labour markets, particularly in the EA periphery. For example, Spain, Italy and Greece had the worst scores in the EU in terms of the 'relation of pay to productivity index' of the World Economic Forum Executive Opinion Survey 2012. Portugal scored only slightly higher, and Belgium, France, the Netherlands and Austria were also below the OECD average. Among the long-standing EMU members, only Ireland, Austria, and to a lesser extent Finland compared well with the OECD average, and even these fell short of the performance of the UK, US or Korea.

Even though this survey is based on opinions of executives rather than any assessment of restrictions and rigidity, it does reflect the many constraints that exist to renegotiating wages and other employment terms, even at times of adversity. High statutory or customary amounts of paid annual leave, a large number of public holidays and restrictions on the maximum working days or hours per week can also reduce the ability to adapt to changing economic conditions and therefore discourage hiring, particularly when uncertainty is high. In recent years, a number of countries, including France, Greece, Portugal and Spain, have reduced these restrictions, but they still remain substantial.

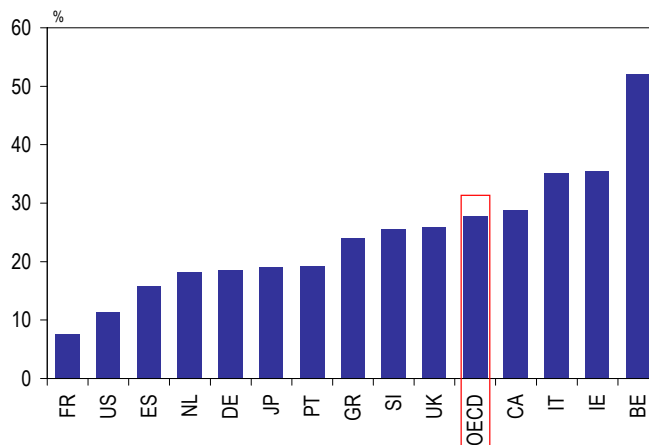
Figure 15. Selected Countries – Relation of Pay to Productivity, 2011-2012



Note: Based on results of executive opinion survey: "To what extent is pay in your country related to productivity?" 1 = not related to worker productivity; 7 = strongly related to worker productivity.

Source: World Economic Forum, and Citi Research

Figure 16. Selected Countries – Trade Union Density (%), 2011



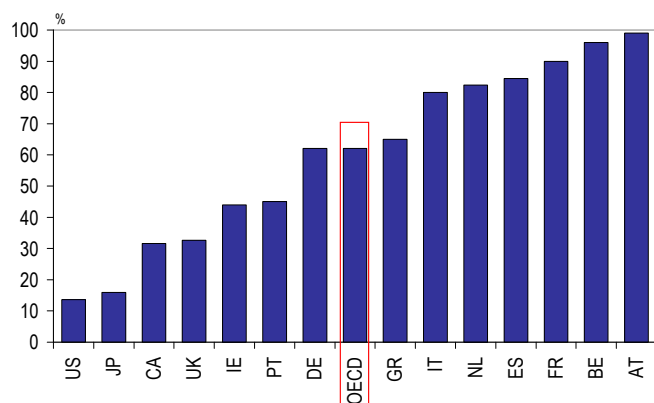
Note: Data for the latest year refer to 2011 for: Canada, Ireland, Japan, Netherlands, UK, US; 2010 for Austria, Germany, Italy, Portugal; 2009 for Belgium, Spain; 2008 for France, and Greece. Source: OECD and Citi Research

One source of rigidity is the degree of centralisation in bargaining. This is not simply about the power of trade unions. Where insider-outsider problems exist and labour relations are adversarial, reducing the bargaining power of unions could help achieving better labour market outcomes, such as in the UK in the 1980s. On the other hand, where relations between employers and employees are more cooperative, high levels of coverage of employee representation and collective bargaining can actually help adjusting to systemic changes, and union cooperation played a major role in the labour reforms in Germany, the Netherlands and elsewhere. A combination of economy-wide collective bargaining (for systemic or macroeconomic shocks) and decentralized/firm-level bargaining for firm-specific

conditions may be the most desirable outcome, as the relevant academic literature confirms.<sup>7</sup>

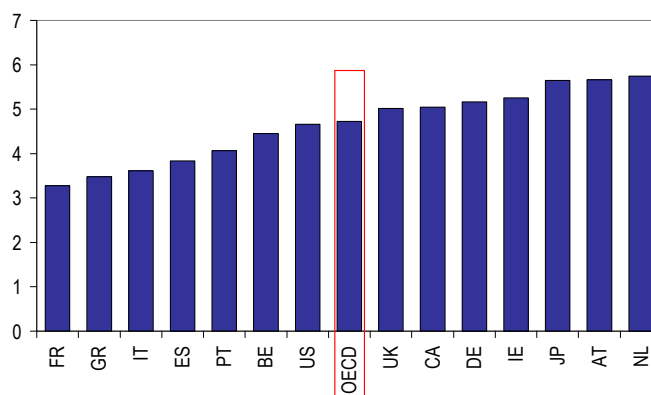
The least benign combination would presumably combine extensive collective bargaining coverage with adversarial labour relations. This is to some extent a feature of labour markets in France, Greece, Italy, and Spain. It is important to note that it is not union power per se that is harmful, but rather collective bargaining coverage *and* adversarial labour relations. In France, only 7.6% of employees were organized in unions, yet 90% of employees were covered by collective bargaining in 2008, and, while France is extreme, many countries in the EA combine limited unionization of the workforce with high collective bargaining coverage. Austria and Germany are among the countries with the most centralized wage bargaining process, yet also among the most cooperative labour-employer relations in the OECD, which are features that many Scandinavian countries also share. The cooperative labour relations are probably one reason why employment in Germany has been so resilient, as flexibility in working hours, and sometimes pay, effectively substituted for redundancies during the recession of '08-'09.

**Figure 17. Selected Countries – Collective bargaining coverage rate (%), latest**



Note: Data for the latest year refer to 2009 for Austria, Canada, Germany, Italy, Portugal, UK and US; 2008 for Belgium, France, Greece, Ireland, Japan, Netherland. Source: OECD and Citi Research

**Figure 18. Selected Countries – Cooperation in labor-employer relations, 2011**



Note: Based on results of executive opinion survey: "How would you characterize labor-employer relations in your country?" 1 = generally confrontational; 7 = generally cooperative. Source: World Economic Forum, and Citi Research

When it comes to effects of minimum wages on employment, some academic work suggests that their effect on employment may be small, or even positive (see e.g. Card and Krueger (1995). We remain skeptical of this view and consider a reduction in labour costs as often necessary to create employment for low-skilled workers in the EA. Belgium, Ireland, France and the Netherlands have very high minimum wages, both in absolute terms and relative to average wages, and minimum wages have not fallen in recent years. Of the periphery countries, minimum wages were only high relative to average wages in Greece prior to the crisis, but have now fallen by around 20%, even though not for all types of minimum wages. Not all EU countries have a statutory nationwide minimum wage – Sweden, Finland, Denmark, Germany, Austria, Italy, Cyprus, all currently do not have one, even though opposition parties in Germany are currently pressing for a nationwide minimum wage as part of their electoral campaign.

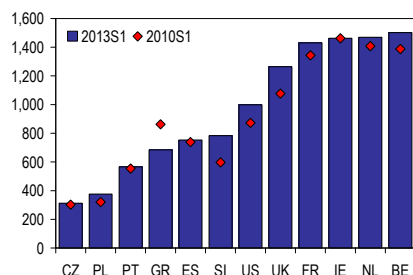
Wage contracts that are indexed, generally to inflation, used to be very common in EA countries and have probably been of the reasons why wages in the private sector have been quite sticky downwards in some EA countries. In Denmark, France, Spain, Italy, and the Netherlands wage indexation clauses are no longer

<sup>7</sup> Calmfors et al (1988)

statutory, but still remain common as part of collective agreements. Belgium, Cyprus, Luxembourg and Malta still have statutory indexation clauses, while the Czech Republic and Greece (until recently) had indexation clauses for minimum wages, and EU employee contracts also featured such clauses. In Spain, indexation clauses in CAs have been suspended, but not abolished, and a number of other countries have temporarily modified their indexation rules in light of the poor business environment.

However, it is important to keep in mind that wage indexation only aggravates the effect of other bargaining rigidities. Even under indexation, wage changes are usually not fully determined by the indexation clauses. Even with full indexation any level of real wage change would thus still be possible if there were no other restrictions on renegotiating wages. Limiting wage indexation alone thus has little prospect of tightening the link between pay and productivity. Reducing indexation alone is thus clearly in second-best territory: the first-best is for bargaining to be made more flexible (in which case indexation would probably not be particularly harmful). Only if other bargaining restrictions persist, could reducing the scope of wage indexation be somewhat powerful.

**Figure 19. Selected Countries – Minimum Wage (Euros per month), 2010 – 2013**



Source: Eurostat and Citi Research

## Active Labor Market Policies (ALMPs)

There is no precise or even a consistently used definition of ALMPs, but these are generally meant to cover training programmes, employment and start-up incentive schemes and subsidies, and employment support, usually combined with penalties for insufficient job search efforts.

There is plenty of evidence that ALMPs can improve labour market outcomes, even though the strength of the effect depends on the type of ALMPs and their design.<sup>8</sup> However, ALMPs can be quite costly (including the costs for administration, monitoring and tax expenditures). These costs mean that ALMPs may be effective, yet not be good value-for-money, or, more importantly, that the countries that could benefit from them may not be able to afford them. The clearest potential for ALMPs to be beneficial is in countries where large rebalancing needs leave plenty of workers ill-equipped to find new jobs. This would be the case, for example, in Ireland or Spain after the collapse of the housing sector.

Among the least costly ALMPs is job search assistance, despite it being shown to have a significantly positive effect on job finding rates and unemployment duration (see Blundell et al (2004) and Centeno et al (2009)), especially if complemented with increased monitoring and enforcement of work tests (Martin and Grubb (2001), Ende et al (2012)). Training and employment subsidies also tend to be effective, yet may be expensive, while direct job creation probably provides the least 'bang for the buck'.

Tracking and assessing ALMPs in various countries is very difficult. The difficulty arises from the fact that ALMPs are so diverse and difficult to categorise (or compare), that they can be initiated by quite a large number of institutions, and that data on ALMPs are generally scarce.

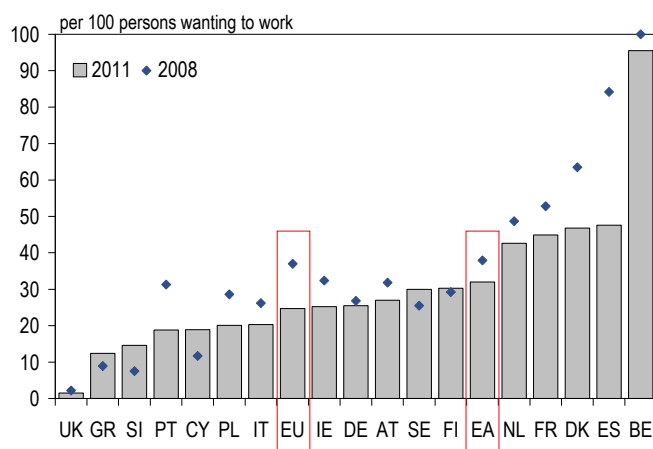
The latest comparative data on ALMP expenditure available are from 2010, when such expenditures were still modest in many EA periphery countries, despite already-high unemployment. Italy's low ALMP spending (0.5% of GDP) stood out,

<sup>8</sup> For example, Bouis et al (2012) find in a study of 30 OECD countries that increased training expenditures and employment incentives are associated with lower unemployment in the short-run. Martin and Grubb (2001) find that within-firm training, combined with counseling, start-up support and wage subsidies are the most effective ALMPs. Kluve, J. and C.M. Schmidt (2002) find that private sector subsidies are more effective than public sector programs.

while the other EA periphery countries were around the EA average of 1% of GDP. These expenditures failed to keep up with the increase in the number of the unemployed in many countries in the first few years of the crisis. ALMP spending per unemployed can vary greatly – in 2010, spending in Belgium or Denmark, the countries with the highest ALMP spending per employee in the EU was around five times or more of spending in Greece and Italy, more than four times that of Spain and roughly three times more than spending in Portugal.

Whether that money is well spent is a different matter entirely. Again, relevant data are hard to find. But the early data of the post-crisis period suggested that the bulk of spending had been on training and employment subsidies – which should be relatively effective. Training accounted for around half of ALMP spending in France, Ireland or Italy and 40% in the EA and EU as a whole in 2010. In addition, public employment subsidies were increased (they amounted to another 40-50% of ALMP spending in Belgium, Italy and Spain and 25% in the EA/EU average). These ranged from subsidised short-time work schemes in Belgium, Spain, Italy, Portugal to other wage subsidies and tax incentives for hiring in Cyprus, Spain, Belgium, France, Latvia, Greece, Sweden, Bulgaria, Hungary, Luxembourg, and were mostly focused on youth and elderly job-seekers, women, long-term unemployed. Direct job creation schemes have been less prominent in the EU (accounting for 14% of total ALMPs spending), and are generally seen to be quite ineffective. Ireland, Belgium and France spend disproportionately much on direct job creation.

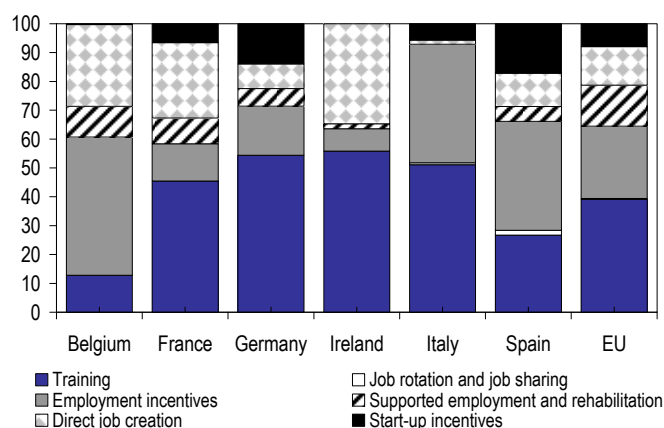
Figure 20. Selected Countries – ALMP participation (%), 2011



Note: data for the following countries refer to 2010 rather than 2011: Belgium, Ireland, Greece, Spain, France, Lithuania, Luxembourg, Hungary, Malta, Poland, Slovakia and UK.

Source: Eurostat and Citi Research

Figure 21. Selected Countries – ALMP expenditure by type of action (% of total ALMP expenditure), 2010

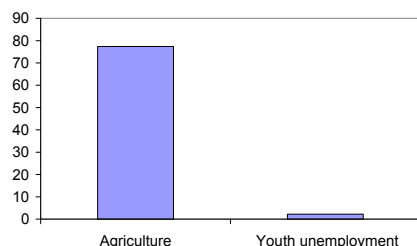


Source: Eurostat and Citi Research

High structural unemployment and the poor prospect for many of the low-skilled unemployed in particular to find jobs mean that ALMPs and investment in education will have a major role to play to contain and eventually reduce joblessness. But many of the EA countries hit hard by unemployment have the least fiscal space. External help may be necessary.



**Figure 22. EU Budget – Spending on agriculture and youth unemployment (thd € per affected person), 2014-2020**



Note: see footnote 11 for explanation.

Source: EC and Citi Research

There is certainly no shortage of initiatives. The latest EU Council had youth unemployment as its first agenda item and decided that measures tackling youth unemployment should be a focus for EU structural funds spending, e.g. by allowing unspent funds to be used on youth employment. It also decided to accelerate implementing the previously decided 'Youth Employment Package' and 'Youth Employment Initiative' (YEI), including encouraging and supporting countries to adopt a 'Youth Guarantee' (an offer of a job, education or training for young people within four months of leaving school or becoming unemployed) before the end of the year. In addition, the EU has promised to promote apprenticeships, traineeships and work-based learning through various initiatives, and further efforts to promote mobility both for workers and for students.

There are also wider EU efforts to support employment (not just youth employment), such as those included in the 'Employment Package' (a range of recommendations to national governments, EU initiatives and some EU funds to support job creation presented by the European Commission in April 2012).<sup>9</sup> These are complemented by some bilateral initiatives in the areas of training and technical assistance.

These measures will surely be useful, but probably only at the margin. The financial amounts involved are 'de minimis'. Thus, the funds allocated to the YEI under the new EU budget for 2014-20 are a mere €8bn over seven years (funds are meant to be spent in 2014-5 already), less than 1% of the total 2014-20 EU budget and less than 0.1% of EA GDP in 2012.<sup>10</sup> For comparison, the new EU budget envisages to spend on each farmer more than 30 times what will be spent on each unemployed youth.<sup>11</sup> And due to the recent attention that the topic of youth unemployment has received, there are proportionally more funds available to fight youth unemployment than unemployment more generally.

The €8bn figure understates the total amount of resources available to fight youth unemployment (or employment), as a number of other 'pots' of money are used at least in part to support employment (notably the European Social Fund and some of the funds left unspent in the EU budget) and the EIB is supposed to give preference to projects supporting employment prospects. But the conclusion remains that the scale of the external help available is very limited and unlikely to make a noticeable dent in the employment numbers.

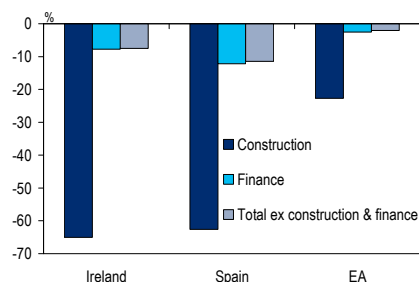
<sup>9</sup> For more detailed information, see <http://www.bruegel.org/nc/blog/detail/article/1110-blogs-review-tackling-youth-unemployment/> and <http://brusselsdiplomatic.com/2013/05/28/which-measures-takes-the-eu-to-tackle-unemployment/>

<sup>10</sup> There is some confusion about the amount allocated for youth unemployment. The official council conclusions mention €6bn, while several statements by European Council President van Rompuy confirm that the funds were raised to €8bn. See also [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ec/137702.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/137702.pdf)

<sup>11</sup> The calculation is based on an assumption of a budgeted allocation for agriculture and rural development of €387bn for the 2014-2020 EU budget (see <http://europa.eu/newsroom/highlights/multiannual-financial-framework-2014-2020/>) and 5m employees in the EA in agriculture, forestry vs €8bn allocated to 3.6m unemployed under the age of 25.



**Figure 23. Selected Countries – Change in Employment by Sector vs Peak (%)**



Note: Peak is post-2000 peak. Latest data correspond to Q1-2013.

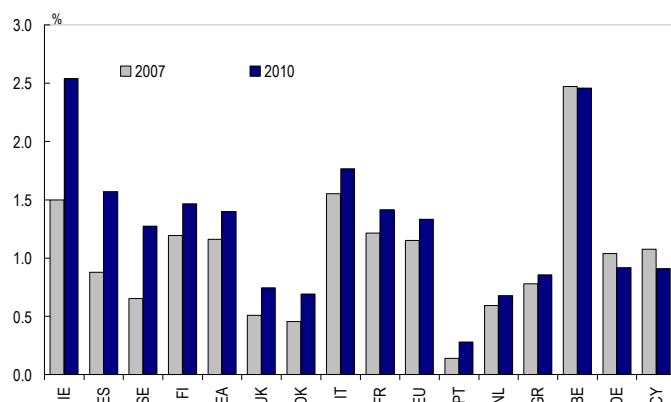
Source: Eurostat and Citi Research

## Skill levels and mismatch

A major problem in many EA countries is that skills in the population are out of line with the demands of competitive industries. It is notable that employment of high-skilled workers in the EA since the crisis has actually continued to go *up*, rather than fallen (ECB (2012)). On the other hand, low-skilled workers have been hit very hard by the crisis. Some of these trends are tied to the implosion of previously bloated real estate construction and development sectors, which have shed jobs as they shrank to size, and those workers were not easily re-absorbed by other sectors. Employment in the construction sector has slumped by 65% and 63% in Ireland and Spain, respectively, from their peaks in 2007-08, vs a 10% decline in the EA-ex Ireland and Spain.

The EC's skill mismatch index (EC (2011b)) measures the gap between the average proportion of the low-, medium- and high-skilled in the working age population and their corresponding proportion in employment (Figure 24). According to this measure, mismatch was particularly high in Ireland, Italy and Spain in 2010 (which is the latest available data). On the other hand, Portugal and Greece had low rates of mismatch.

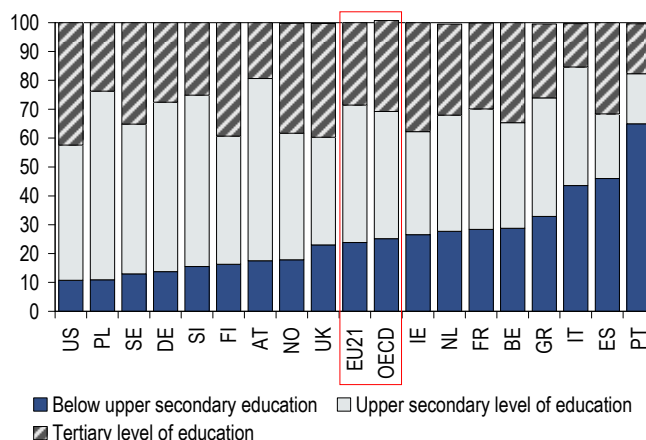
**Figure 24. European Union – Skill Mismatch Index, 2007 and 2010**



Note: Countries are ranked in decreasing order of the change in the index between the two periods.

Source: European Economic Forecast, Autumn 2011, and Citi Research

**Figure 25. Selected Countries – Educational Attainment (% of total population), 2011**

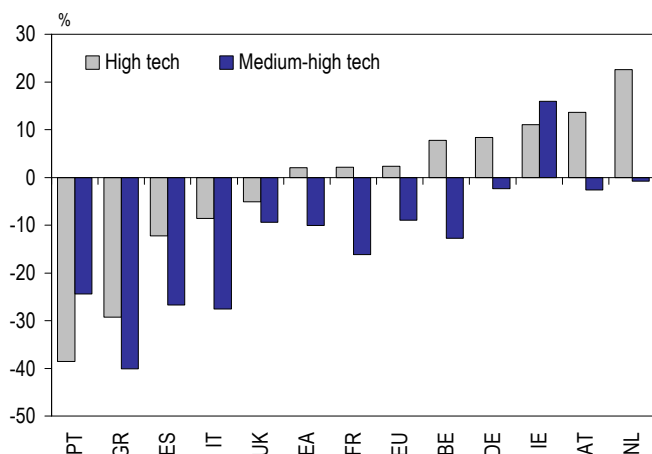


Note: for 25-64 year old group. EU21 are OECD EU members (EU members excluding Bulgaria, Croatia, Cyprus, Latvia, Lithuania, Malta, and Romania).

Source: OECD and Citi Research

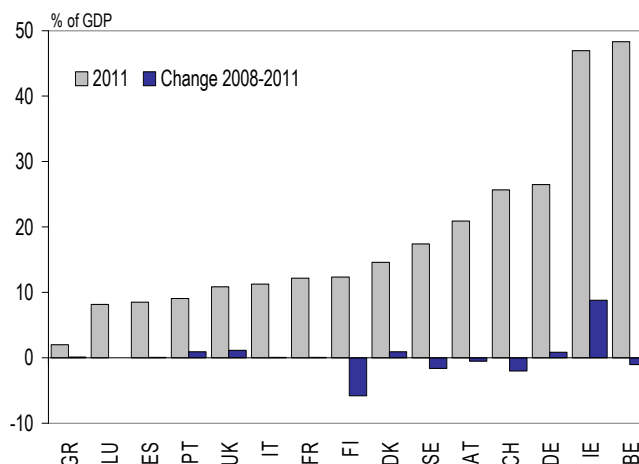
However, the EC measure of mismatch suffers from a major shortcoming. This is that the current composition of employment and output may be badly suited to generating strong employment and output, rather than that it is short of the appropriate workers. For instance, the share of medium- and high-tech exports relative to GDP remains very low in all GIIPSSC countries except Ireland, and growth of high- and medium-term production has also been low (Figure 26 and Figure 27). The skill level and employability of the labour force is therefore likely to be a major issue, which may at least in part be the result of levels of educational attainment (Figure 25).

**Figure 26. Selected Countries – Growth in High- and Medium-High Tech Production Output, 2008 – 2012 Q3**



Source: Eurostat and Citi Research

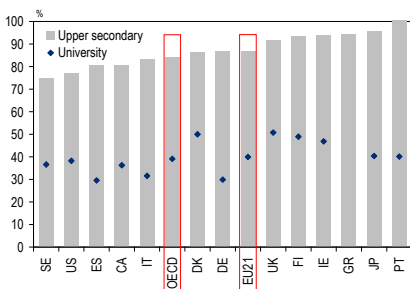
**Figure 27. Selected Countries – Exports of High-Tech and Medium-Tech Goods as Pct of GDP, 2008-11**



Source: OECD and Citi Research

The stock of skills available in the labour force is thus a major problem, but many EA countries also suffer from poor educational achievement and employability of school-leavers today. Thus, all GIIPS countries including Ireland underperformed the EA average in the latest (2009) PISA study of high school student proficiency in reading, mathematics, and science.

**Figure 28. Selected Countries – Upper secondary and university graduation rates (%), 2010**



Note: Graduation rates from tertiary-type 5A education (largely theory-based and designed to provide sufficient qualifications for entry to advanced research programmes and professions with high skill requirements, such as medicine, dentistry or architecture. They are not necessarily provided in universities). 2009 data for Canada. EU21 are OECD EU members (EU members excluding Bulgaria, Croatia, Cyprus, Latvia, Lithuania, Malta, and Romania). Source: OECD and Citi Research

In some countries, e.g. Italy and Spain, graduation rates even at secondary school level are relatively low, even though in Spain that was driven at least partly by the construction boom. In many other countries, university graduation rates are quite low. But more than graduation rates as such, the skill level achieved and the employability of these skills remain a problem. These are not necessarily highly correlated with achievement in the PISA studies, or high university graduation rates. Austria's students did quite poorly in the last PISA round, while university graduation rates are low in Germany. However, in both countries a tradition of vocational training, which is organised in close cooperation with employers, has managed to adapt the educational orientation towards labour market needs. We regard such apprenticeship or 'dual' training models to be quite a promising avenue for EA countries to attempt to increase the chances of school-leavers in the labour market. However, in addition to requiring some start-up investment for facilities, but also curricula, etc, the dual training model requires solving a potential 'free-rider' problem: as apprentices would be educated, yet are usually free to move on to the employer of their choice, the incentive for employers to participate may not be obvious.

More generally, investments in education and training (both classroom and on-the-job) are necessary to address the skill deficiencies in EA countries. In countries with high-performing school systems teacher excellence and generally also high teacher pay have played a key role. Both the supply of qualified teachers and the ability to pay for them may be a constraint in the current circumstances, which is yet another area where common EA/EU funds could be productively deployed. Both national and several EU initiatives exist to address the skill gaps, but these actions are generally still only in their very early stages.

**Figure 29. Selected Countries – PISA 2009 Results**

	Overall rank	Reading	Mathematics	Science
Shanghai-China	1	1	1	1
Korea	2	2	4	6
Finland	3	3	6	2
Hong Kong	4	4	3	3
Singapore	5	5	2	4
Canada	6	6	10	8
Japan	8	8	9	5
Australia	9	9	15	10
Netherlands	10	10	11	11
Belgium	11	11	14	21
United States	17	17	31	23
Germany	20	20	16	13
Ireland	21	21	32	20
France	22	22	22	27
United Kingdom	25	25	28	16
Portugal	27	27	33	32
Italy	29	29	35	35
Greece	32	32	39	40
Spain	33	33	34	36
Austria	39	39	24	30
Mexico	48	48	51	50
Brazil	53	53	57	53
Argentina	58	58	55	56

Note: Sample consists of 65 countries. Source: OECD and Citi Research

## Labour force participation and the EA's 'job paradox'

The paradox of the EA labour market is that while currently it is jobs that are scarce, a lack of workers could become a major problem in the not-too-distant future.

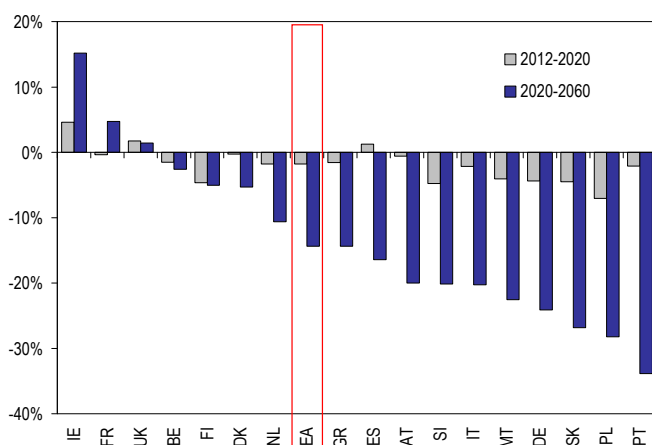
Assuming constant working lives and little migration into the EU, the UN expects the working-age population (15-64 years) to fall drastically in most European countries over the next 4-5 decades, by almost 15% in the EA average and around 20% in Germany and Italy. Even if the endogenous responses to the worker shortage (and the reduction in pension affordability that it entails) imply that the falls in labour supply will ultimately be less drastic, the demographic outlook suggests major challenges for the sustainability of pension and benefit systems in the EA.

Labour force participation rates (LFP, also called 'activity rates') in the EA and EU are currently close to the OECD average, but to us that mostly indicates that raising activity rates is also a task for countries outside of the EA/EU, particularly among countries with similar demographic profiles. In the cross-country comparison in the EA, Italy (63.8%) and Belgium (67.2%) stand out with the lowest activity rates, while many countries are quite close to the average, and the Netherlands (79.5%) is the only country that is comfortably above the OECD average.

But these average participation rates mask some large differences. For example, participation rates are particularly low for women in Belgium (61%), Greece (58%), and Italy (53%), and for the elderly (55-64yrs) in Austria (44%), Belgium (42%), France (47%), Greece (42%), Italy (42%), and Luxembourg (41%). Elderly participation rates generally are much lower in the EA (53%) than in other OECD countries (59%). By comparison, in the UK and the US, activity rates for those aged between 55 and 64 were 64% and 61%, respectively.

Activity rates in EA and EU have increased a little bit since the crisis, even though the aggregate masks wide cross-country differences (e.g. LFP has fallen by 3.4pp in Ireland, but risen by 2pp in Spain). Most of the increase in LFP has been driven by a rise in female participation rates, even though they remain on average still much (12.6pp in 2012) lower than male LFP.

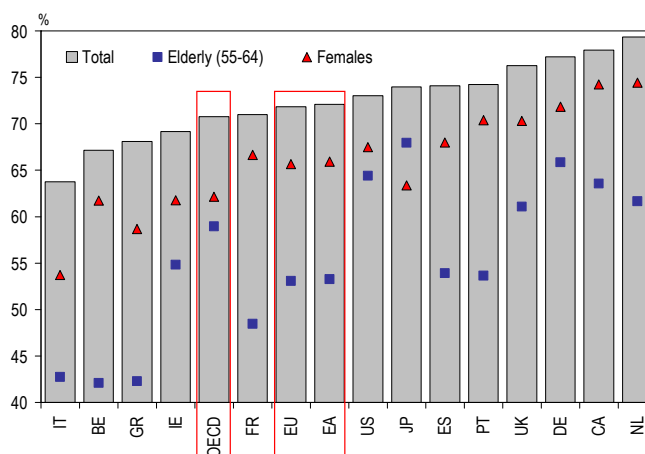
**Figure 30. Selected Countries – Change in Working Age Population (%), 2012 – 2060**



Note: Working age population of 15-64 year olds.

Source: UN and Citi Research

**Figure 31. Selected Countries – Participation Rates, 2012**

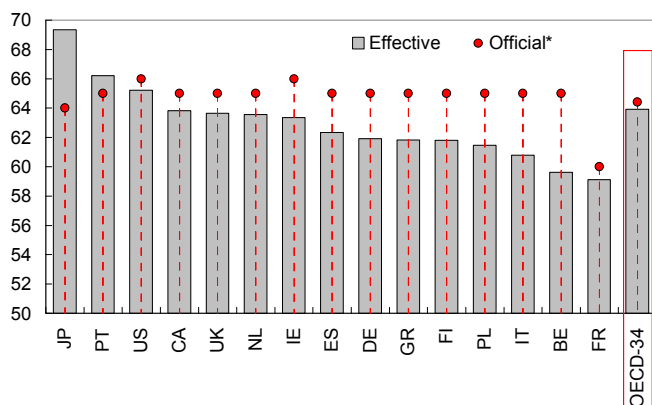


Note: The participation rate is calculated as the active population (employed plus unemployed) divided by the working age population (of respective age group). Source: OECD and Citi Research

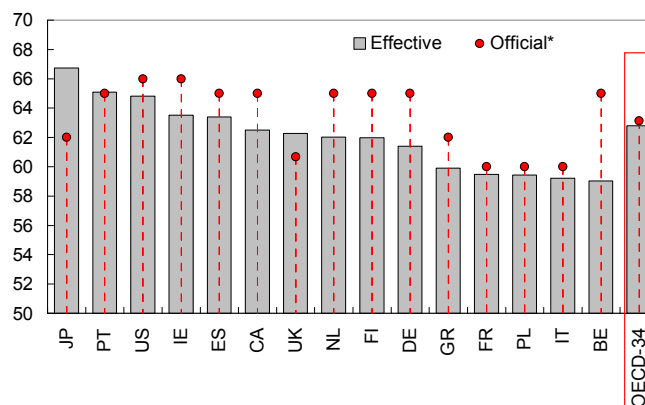
Pension and benefit systems are likely to be the first victim of the demographic change, which could be aggravated by high unemployment. These are therefore also the first areas that are likely to see – and in fact have seen – some government action. A particularly weakness of pension systems in many EA countries had been that incentives were skewed towards early retirement, giving rise to large differences between official and effective retirement ages, e.g. in Belgium, Italy and Finland, while effective retirement ages were also low in France, Germany and the Netherlands.

Virtually all EA countries have implemented some type of pension reforms in recent years, with the most significant in Greece and Italy (even though these were probably also among the countries facing the most unsustainable pension arrangements). These reforms have partially reduced the excessive incentives for early retirement, and generally raised contribution rates and retirement ages, even though in most cases the increases are phased in over a long period of time and are not necessarily indexed to life expectancy.

**Figure 32. Selected Countries – Male Effective and Official Retirement Age, 2006-2011**



**Figure 33. Selected Countries – Female Effective and Official Retirement Age, 2006-2011**



Note:\* Official retirement age is shown for 2010. For France, official age varies, table shows minimum wage, depends on conditions such as number of children raised or minimum insurance period completed. Greece equalised women and men's pension age limits in public sector, statutory age raised to 67 from Jan-2013. In Ireland, the official age will rise to 68 in 2028. Spain will gradually increase the legal retirement age from 65 to 67 between 2013 and 2027. In Italy, for women in private sector official age to rise to 62 from 60, and gradually rise to 66yrs 3mths by Jan-2018, for self-employed women to 63yrs 6mths (to rise to 66 yrs 3mths); for men in private and public sectors & women in public sector, to 66 from 65 to rise in line with life expectancy at 65; as of 2018-19, retirement age to become 67 for all workers. UK official age will rise to 66 by 2020 and 67 in 2028. The average effective age of retirement is defined as the average age of exit from the labour force during a 5-year period. Labour force (net) exits are estimated by taking the difference in the participation rate for each 5-year age group (40 and over) at the beginning of the period and the rate for the corresponding age group aged 5-years older at the end of the period. The official age corresponds to the age at which a pension can be received irrespective of whether a worker has a long insurance record of years of contributions.

Source: OECD and Citi Research

Raising female participation often requires improving childcare facilities, as well as redesigning tax and benefit systems to increase the attractiveness of having a 2<sup>nd</sup> earner in a household (e.g. by increasing parental leave system, providing more public daycare centres and providing financial incentives for part-time employment). Few attempts have been made across EA countries in recent years to provide greater incentives for female participation. The increase seen appears to be driven mostly by 'need', as household income has fallen in many countries.

Of course, the design of unemployment benefits and taxes also have a strong effect on participation incentives. Due partly to fiscal reasons, many countries have at least partly reformed these, which we already discuss above.

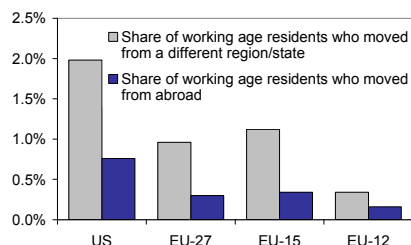
## Labour mobility

Mobility of the workforce could help narrow some of the substantial differences in unemployment between (and to some extent within) EA countries.

The main impediments to mobility, ignoring language and culture, are the differences in rules that determine social insurance coverage, the accrual of occupational pension rights, entitlements to social housing and other forms of assistance, and the recognition of professional qualifications and previous work experience across borders. High transaction costs that make it expensive or difficult to sell a house, and inefficient rental markets are among the most effective impediments to mobility, while generous unemployment benefits also act as deterrents to retraining and movement for workers with industry-specific or place-specific skills.

Changing these is not generally in the domain of labour market reform, except maybe offering certain mobility subsidies as ALMPs. Here, we therefore restrict ourselves to making two points: First, labour mobility in the EA is much lower than in the US. Second, it is probably rising.

**Figure 34. EU and US – Mobility of Working Age Population, 2006**



Note: For EU values correspond to share of the working age population who changed their region (at NUTS2 level) of residence in 2005-2006. Source: [http://ec.europa.eu/regional\\_policy/sources/docgener/focus/2008\\_02\\_labour.pdf](http://ec.europa.eu/regional_policy/sources/docgener/focus/2008_02_labour.pdf), and Citi Research

According to the European Commission, 1% of the EU working age population moved between different regions in EU in 2006, half of the level in the US. And in the EU, only 0.14% of the population moved between countries.<sup>12</sup> Aggregate intra-EU mobility flows actually dropped substantially after the start of the crisis, but mostly to do with the fall in emigration from recent EU accession countries. On the other hand, the number of recent movers from the EA periphery to other EU countries increased, by as much as 25% for Greece, 15% from Ireland, 7% from Spain, 3% from Italy, but fell by 35% from Portugal from 2008 to 2011.<sup>13</sup> Emigration from the periphery countries has probably continued, if not accelerated since.

We regard labour mobility as a big positive for EA countries, and in fact as an escape valve for the euro area periphery, where unemployment rates would otherwise have risen even further. However, it is worth keeping in mind that falling populations imply fewer workers and therefore also fewer people to pay taxes and service and repay debt. This problem is aggravated by the fact that those that leave are generally young and better-educated than those that stay behind. High mobility may therefore reduce debt sustainability in the 'origin' countries, even if it provides an 'escape valve' in the near term.

As regards the long-run problem of falling labour supply, intra-EU mobility can provide limited relief at best, as demographic challenges are quite common across EA countries. Openness to immigration from outside the EA and the EU may be a more plausible route to maintaining an adequate supply of labour, in addition to measures to raise activity rates.

<sup>12</sup> Source: Gáková and Dijkstra (2008).

<sup>13</sup> See EC (2012), pp. 37.

## An Overview of Labour Market Reforms by Country

### Austria

Austria's labour market is highly regulated yet unemployment remains very low. Consequently, the pressure to reform has been very limited. A number of ALMPs were implemented in the aftermath of the financial crisis, including the creation of a 'Youth Guarantee' of an offer of training or employment for young people, which is expected to be imitated more widely across the EU. In addition, several measures were taken to streamline the public education system (for both schools and universities), increase assessments and standards, and to raise funding for teaching and research in universities. On the other hand, Austria further increased its already-high tax wedge for higher-income workers.

For now, Austria's labour market is in a fairly benign equilibrium, where the benefits from its good labour relations and well-equipped workforce outweigh its substantial labour market rigidities. However, in our view, these rigidities should be addressed sooner rather than later, including reducing the excessive administrative burden and restrictions on dismissals and lowering employer SSCs. A pension reform could encourage longer working lives, while better childcare facilities, and redesigned tax benefits could help raise low female labour force participation.

Figure 35. Austria

Area	Implemented and planned reforms	Potential for further actions
(Unit) labour costs	• But: Increased SSC and income taxes for high-income earners.	• Reduce employer SSC rates
Employment protection		• Reduce administrative burden and restrictions for dismissals
Labour market flexibility		
ALMPs	<ul style="list-style-type: none"> <li>• Increased start-up counselling and management training courses to encourage entrepreneurship among the unemployed</li> <li>• Public employment services intensified provision of high-quality training in 2009-2010</li> <li>• Introduced in July-2009 an in-work benefit (a wage top-up) targeted at older workers, handicapped and long-term unemployed parents.</li> <li>• Enhanced rehabilitation efforts for disabled workers and tightened eligibility criteria.</li> <li>• In 2008, established a Youth Guarantee (offer of a job, training or education to all young school-leavers or unemployed)</li> <li>• Introduced 'Skilled workers package' from mid-2013 to help raise qualifications of low and medium skilled workers.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce high effective tax wedge for low-skilled workers.</li> <li>• Improve older workers' employability.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>• Compulsory pre-school education on half-day basis introduced in September-2010.</li> <li>• Primary and secondary schools strengthened by adopting a legal framework for educational standards, supporting language learning and improving school assessment practices.</li> <li>• New comprehensive school model to be gradually introduced (all existing lower secondary schools to be transformed to new model by 2018-19).</li> <li>• Increased financial support to improve teaching and research infrastructure in universities.</li> <li>• Adopted a new law on quality assurance in universities in March-2012.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve educational outcomes of disadvantaged young people.</li> <li>• Enhance measures to reduce drop-outs.</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>• Limited access to early retirement scheme by long-term contributors (to be tightened further in 2014). Penalty for regular early retirement scheme to be raised to 5.1% (from 4.2%) in 2017.</li> <li>• In July 2011, introduced new immigration scheme (<i>Red-White-Red Card Model</i>) to make immigration of qualified non-EU migrants more flexible.</li> <li>• But: abolished exemptions from unemployment contributions for older workers.</li> <li>• Increased investment in childcare facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Terminate early labour market exit without actuarially fair benefit reductions.</li> <li>• Bring forward harmonisation of pension age for men &amp; women.</li> <li>• Link statutory retirement age to life expectancy.</li> <li>• Further improve child care and long-term care services.</li> </ul>

Sources: Article IV (IMF, August 2012), Article IV Selected Issues (IMF, August 2012), Austria: OECD Economic Survey (July 2011) and Citi Research



## Belgium

Figure 36. Belgium

Area	Implemented and planned reforms	Potential for further action
(Unit) labour costs	<ul style="list-style-type: none"> <li>• 2011-12 wage agreement stipulated real wage increase of zero in 2011 and 0.3% in 2012, while 2013-14 agreement froze real wages, but kept inflation indexation and age-related increases.</li> <li>• Revised wage indexation formula to better reflect actual consumption patterns.</li> <li>• But: raised net replacement rate for UBs in Dec-2011 to 65% of last wage (from 60%) for first 3mths, declining to 60% after 3mths, and gradually further after 16-36mths (with steeper decline for shorter careers) to level just above social assistance.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce employer SSC rates</li> <li>• Reduce the duration of UBs and lower benefits over time</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>• 2011-2012 wage agreement gradually (for new hires) harmonised dismissal notification periods for blue- and white-collar workers (shorter periods for white-collar- and longer for blue-collar workers)</li> <li>• Broadened temporary unemployment program to white-collar workers (from blue-collar workers only) since 2009<sup>14</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Reduce dismissal regulation, for collective dismissals in particular</li> </ul>
Labour market flexibility		<ul style="list-style-type: none"> <li>• Decentralise wage negotiation and allow greater geographic and sectoral wage flexibility</li> <li>• Abolish wage indexation and make renegotiation of contracts more flexible</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>• Introduced plan 'Win-Win' (Jan-2010 until end-2011) to help young job-seekers by giving a work allowance up to €1.1k. and other programmes to encourage school-to-work transition.</li> <li>• Flanders increased wage subsidies for hiring most categories of older unemployed (+50 years).</li> <li>• Wallonia raised provision of subsidised jobs for youth in SMEs.</li> <li>• Boosted access to training for unemployed and PES capacity.</li> <li>• Reduced SSC for selected groups (elderly, young, low-paid).</li> <li>• Young school leavers and new graduates programme: extended the waiting period before provision of benefits to 1yr and limited allowances to 36mths and increased monitoring of job search efforts in Dec-2011.<sup>15</sup></li> <li>• Widened definition of 'suitable job' to include perimeter of 60km and doubled frequency of compliance for UB eligibility</li> </ul>	<ul style="list-style-type: none"> <li>• Reallocate ALMPs from employment subsidies towards intensified job search assistance.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>• In Flanders, introduced intensive language trainings for children failing language tests in primary education.</li> <li>• In Wallonia and in Brussels, integration of new immigrants in schools and teaching of French are being reinforced.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve education, lifelong learning and vocational training policies for old &amp; young people</li> <li>• Develop comprehensive social-inclusion strategies for people with a migrant background.</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>• In Dec-2011, raised minimum age for pre-pensions (UBs topped up by employers, with no obligation for job search, recently renamed 'system of unemployment with a company supplement') to 55 from 50 for workers who lost job due to collective dismissal, restructuring or closures; from 58 to 60 otherwise, and required career length to 40yrs. From 2013 pre-pension recipients below 55yrs (58 from 2016) need to actively search for job.</li> <li>• Raised min qualifying age for early retirement in 6mth steps to 62yrs (from 60) and extended min career in annual steps to 40yrs by 2016.</li> <li>• Raised qualifying age for unlimited career breaks (benefits are below UBs and are available for workers who take full-time career breaks and/or reduce working time for 5yrs, no time limitation existed for workers above 50) and part-time employment with benefits to 55yrs (50 previously). Career breaks will now only partially count towards pension benefits.</li> <li>• As of 2012 public sector employees are allowed to work after 65.</li> </ul>	<ul style="list-style-type: none"> <li>• Phase out early-exit systems</li> <li>• Phase out UBs after a fixed period of time.</li> <li>• Further tighten eligibility requirements for UBs, pre-pension, and early retirement benefits</li> <li>• Intensify monitoring of job search activities and increase sanctions on inadequate efforts.</li> </ul>

Sources: "Belgium: Article IV" (IMF, March 2012), "Belgium: Selected Issues Paper" (IMF, March 2012), Belgium: OECD Economic Surveys (July 2011, May 2013), "Bringing Belgian Public Finances to a Sustainable Path" (April 2012), and Citi Research

Against the backdrop of a heavily regulated labour market, generous social support and rising unemployment, only limited reforms have taken place in Belgium in recent years, even though that probably shouldn't be too surprising given that Belgium did not have a government for two of those years. Some harmonisation of dismissal notice periods for blue- and white-collar workers has taken place, and social partners agreed on wage moderation and an amended wage indexation formula. Furthermore, the qualifying age for early retirement was raised and the eligibility conditions tightened. In addition, already-extensive of ALMPs were further widened, including wage subsidies for new hires and reduced SSC rates for certain groups, and training offerings.

But in our view, the labour market in Belgium is still much too rigid. EPL is much too restrictive, particularly for collective dismissals, while wage bargaining is too complicated and firm-level bargaining subject to too many constraints. Wage indexation remains common. To reduce the tax wedge, we argue employer SSC rates should be lowered, while time-dependent UBs could raise job search incentives.

<sup>14</sup> Under temporary unemployment program, employer reduces temporarily working hours to accommodate reduced operations. Workers are compensated with partial UBs and often employer top-up payments, so that net income loss of workers is limited, see "Belgium: Selected Issues Paper" (IMF, March 2012)

<sup>15</sup> After 9mth waiting period, young school leavers can get to partial UBs ('waiting allowances'), without prior contributions, see IMF (2012), "Belgium: Selected Issues Paper"

## Cyprus

In Cyprus, recent years had only seen a pension reform which extended contribution years, increased contribution rates, and adapted payouts to life expectancy and inflation. In the context of the troika programme, wage indexation was also suspended.

Further reforms to wage indexation are planned (to reduce the frequency of adjustment to once instead of twice per year and introduce a mechanism for automatic suspension during adverse economic conditions and move from full to partial indexation of 50%), even though we think it would be advisable simply to scrap indexation altogether. The troika programme also foresees a ramp-up of ALMPs to support the reintegration of the unemployed into the labour market and to sharpen job search incentives.

Figure 37. Cyprus

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost	<ul style="list-style-type: none"> <li>• Suspended wage indexation in public sector for programme period (until end-2016).</li> </ul>	<ul style="list-style-type: none"> <li>• Abolish wage indexation.</li> </ul>
Employment protection		
Labour market flexibility		
ALMPs		
Education/ Training		
Labour force participation	<ul style="list-style-type: none"> <li>• Reform of compulsory pension scheme covering all employed (public, private and self-employed) GSIS: <ul style="list-style-type: none"> <li>▪ Extended contribution period (min qualifying period of paid contributions for old age pension from 3 to 10yrs and total period, including credited contributions, from 12 to 15yrs 3yrs starting from 2009. Minimum contribution period for entitlement to old age grant (payable where there is no entitlement to pension) was raised from 3 to 6yrs. Crediting of contributions for full time education for old age pension was restricted to 6yrs) in 2009.</li> <li>▪ Increased contribution rates in 2009</li> <li>▪ In 2013, introduced automatic adjustment of statutory retirement age every 5yrs in line with changes in life expectancy at statutory retirement age, to be applied for the first time in 2018.</li> <li>▪ Increased minimum age for entitlement to unreduced pension by 6mths/yr to align with statutory retirement age.</li> <li>▪ Gradual (1yr/yr) extension of minimum contributory period from the current 10yrs to at least 15yrs over 2013-17 period.</li> <li>▪ Introduced early retirement penalty of 0.5%/mth of early retirement to make early retirement actuarially neutral.</li> </ul> </li> <li>• Supplementary public sector pension scheme GEPS: <ul style="list-style-type: none"> <li>▪ Closed to new entrants since October 2011.</li> <li>▪ Increased statutory retirement age by 2yrs for the various categories of employees.</li> <li>▪ Increased minimum age for entitlement to unreduced pension (by 6mths/yr) to align with statutory retirement age.</li> <li>▪ While preserving acquired rights, introduced an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral.</li> <li>▪ Introduced automatic adjustment of statutory retirement age every 5yrs in line with changes in life expectancy at statutory retirement age, to be applied for the first time in 2018.</li> <li>▪ Introduce change of indexation of all benefits from wages to prices.</li> <li>▪ Pension benefits to be calculated on pro-rata basis taking into account life-time service.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Raise contribution years for pensions.</li> <li>• Remove incentives for early retirement.</li> </ul>

Source: "Cyprus: Article IV" (IMF, November 2011), "Cyprus: Selected Issues Paper" (IMF, November 2011), "Cyprus: Request for Arrangement under the Extended Fund Facility" (IMF, May 2013), "The Economic Adjustment Programme for Cyprus" (European Commission, May 2013), and Citi Research



## Finland

In Finland, reforms in recent years have been rare. The most prominent has been a 'Youth Guarantee', which guarantees young people a tailored response (offer of training or job) from employment offices within a few months of leaving school or becoming unemployed. In addition, the pension system has been reformed to increase the qualifying ages for part-time pensions and a special form of UB for older workers, and adapting payouts of new pensions to changes in life expectancy.

But in times of rising unemployment, many additional reforms could become necessary in due course. Among these are reductions in employer SSC rates, UBs (including reducing them over time), and the regulatory burden and notice periods for dismissals as well as strengthening work incentives for elderly workers (thus discouraging early retirement).

Further measures to raise the effective retirement age are in fact planned by the current government, even though they are not meant to be implemented before 2017. In addition, the current government also plans to extend ALMPs, including tax benefits for training purposes.

Figure 38. Finland

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost		<ul style="list-style-type: none"> <li>• Reduce employer SSC rates</li> <li>• Reduce level of UBs and make them time-dependent</li> </ul>
Employment protection		<ul style="list-style-type: none"> <li>• Reduce regulation and notice periods for dismissals</li> </ul>
Labour market flexibility		
ALMPs	<ul style="list-style-type: none"> <li>• From 2013 (till 2015) guaranteed all under-25yr olds and all recent graduates below 30 and unemployed for 3mths tailored response from employment offices.</li> <li>• Labour market subsidy increased from Jan-2012.</li> </ul>	<ul style="list-style-type: none"> <li>• Hiring subsidies and reductions in employer SSC rates for youth, LT-unemployed and old workers.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>• Reformed student selection process (developing joint electronic admission system for both universities and polytechnics)</li> </ul>	
Labour force participation	<ul style="list-style-type: none"> <li>• In Jan-2011, increased part-time pension age limit from 58 to 60.</li> <li>• Stepped-up support for integration of immigrants: conducting programmes for teachers in adult education, vocational apprenticeship training for (young) immigrants, information on working in Finland, becoming an entrepreneur has been added to internet portals and are available in several languages.</li> <li>• Increased qualifying age for unemployment 'pipeline' (extension of UBs beyond 500 days) from 59 to 60yrs in 2010.</li> <li>• But: basic unemployment allowance increased from Jan-2012.</li> </ul>	<ul style="list-style-type: none"> <li>• Tighten eligibility for disability benefits</li> <li>• Align the minimal statutory retirement age with life expectancy</li> </ul>

Source: Finland: OECD Economic Survey (February 2012), "Finland: Article IV" (IMF, August 2012), "Finland: Selected Issues Paper" (IMF, August 2012), <http://www.kela.fi/web/en/news-archive>, and Citi Research

## France

France's labour market remains heavily regulated, and the government is only just moving towards reforming it. The most significant recent reform is the agreement between social partners (approved as a law in May 2013) to adjust pay or working time for up to two years if orders are falling. In addition, a modest pension reform was put in place in 2008-10 (gradually raising the contribution period and retirement age), while subsidies for low-paid jobs were raised and SSCs for special groups reduced.

Much low-hanging fruit remains. EPL remains very arduous, including many administrative requirements and long notice periods. Minimum wages could be reduced, employer SSC rates cut and the level of UBs cut in level as well as duration. The pension system could be reformed to further discourage early retirement and raise the statutory retirement age as well.

A number of plans are in the works, but progress is slow. A pension reform is being negotiated, with discussion continuing between social partners over the summer. The current suggestions imply an increase in the contribution years for a full pension from 41.5 to 44 years, but no increase in the retirement age (the reform is meant to be approved in the autumn). Otherwise, the focus for now is on ALMPs: to create another 100K subsidised jobs in 2013 and 50K more in 2014 (all targeted at the low-skilled), to improve performance measurement and better target the needy (under the 'Pôle Emploi'), and to introduce the possibility of accumulating unused rights to UBs between different spells of unemployment.

Figure 39. France

Area	Implemented and planned reforms	Potential for further action
(Unit) labour costs	<ul style="list-style-type: none"> <li>• In 2007, exempted overtime from social and fiscal charges (in 2007), but cancelled in supplementary 2012 budget.</li> <li>• As of 2013 labour taxes reduced (by either providing a business tax credit or income tax credit, depending on the employer's tax regime) on earnings up to 2.5x minimum wage.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce employer SSC rates</li> <li>• Reduce duration of UBs, and lower benefit over time</li> <li>• Reduce minimum wage</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>• Instituted new provision for consensual termination of work contract (<i>rupture conventionnelle</i>) in Jun-2008.</li> <li>• Extended trial periods in Jun-2008 to 2mths for general employees, 3mths for skilled workers, 4mths for executives.</li> <li>• Reduced period workers can dispute unfair layoffs to 24mths (from 5yrs) and consultation period for layoffs to 4mths (from up to 12mths).</li> <li>• Increased welfare charges paid by employers on short-term contracts (from 4 to max of 7% for 1mth contracts) in 2013</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce regulation and notice periods for dismissal</li> <li>• Reduce labour market duality between permanent and temporary contracts.</li> </ul>
Labour market flexibility	<ul style="list-style-type: none"> <li>• Early-2013 reform allowed adjusting working time or pay for up to 2yrs quickly if orders are falling to avoid redundancies (if trade unions representing majority of employees or government agree, but wage cuts are recouped if situation improves).</li> <li>• Reduced increase in minimum wage in 2013 to 0.3% (to €9.43/hr).</li> </ul>	<ul style="list-style-type: none"> <li>• Decentralise wage bargaining</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>• Cut employers' social and family security contributions for low wages (as of Jan-2011)</li> <li>• Merged state-run placement services organization (ANPE) with unemployment insurance agency (UNEDIC, managed by social partners). Created one-stop shop ("Pole emploi").</li> <li>• Established subsidized work-study contracts for youth, with zero social charges for apprentices (Apr-2009 to end-2010)</li> <li>• Created 80K subsidized jobs in 2012</li> <li>• Introduced social benefit <i>Revenu de solidarité</i> (RSA) in Jun-2009 to encourage return to work by providing income support for poor working families.</li> <li>• Set up a fund (in Nov-2009) for skills training and retraining for low-skilled workers and job seekers.</li> <li>• Created 1yr subsidy <i>Aide au Retour à l'Emploi</i> (ARE) in Jul-2010 of 14% of gross salary (up to social security ceiling) for firms hiring unemployed over 55yrs for more than 6mths.</li> <li>• Created 'generational contracts' to encourage firms through reduced SSC to hire &lt;26yr olds while retaining a senior aged &gt;57; 500K such contracts expected by end-2017.</li> <li>• Introduced new 18-36mth fixed-term contract (<i>contrat à objet défini</i>) for specific tasks (Jun-2008).</li> <li>• Created a self-entrepreneur status (Jan-2009) with simplified administrative procedures and tax cuts in 1<sup>st</sup> year of business</li> </ul>	<ul style="list-style-type: none"> <li>• Extend access to RSA for youth &lt;25.</li> <li>• Strengthen public activation policies and the enforcement of job-search requirements.</li> <li>• Take further measures to improve transition from school to work.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>• In 2008, introduced student loans with income-independent repayment.</li> <li>• 2009 law improved guidance scheme helping pupils choose a course of study.</li> <li>• Increased autonomy of universities in January-2011 (90% of universities became autonomous).</li> <li>• National loan of €3.6bn was distributed for higher education, training and research in 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve teacher's training.</li> <li>• Extend autonomy of universities.</li> <li>• Increase training offers</li> <li>• Strengthen apprenticeship programmes for youth with low education.</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>• Public pension reform (2008-2010): <ul style="list-style-type: none"> <li>▪ Raised mandatory contribution period (reached 41yrs in 2012).</li> <li>▪ Entitlement age for full pension to gradually rise from 65 to 67 by 2023 (starting in 2010).</li> <li>▪ The minimum legal retirement age to gradually rise from 60 to 62yrs by 2018 (cancelled by new government)</li> <li>▪ Aligned contribution rates for civil service pensions with general system and procedures for granting guaranteed minimum, eliminated early (after 15yrs of service) departure provision for mothers with 3 children.</li> </ul> </li> <li>• Eliminated nearly all public subsidies for early retirement (as of May-2011).</li> <li>• But: removed active job-search dispensation for certain older workers in Jan-2012.</li> </ul>	<ul style="list-style-type: none"> <li>• Discourage early retirement, especially by adjusting UBs</li> <li>• Link pension age to life expectancy</li> <li>• Encourage participation of senior workers (providing training, adapting working conditions)</li> <li>• Harmonise multiple pension regimes</li> <li>• Shorten duration of parental leave allowance.</li> </ul>

Source: Article IV (IMF, July 2011, December 2012), "France: A Simplified Social Benefits System" (G20 Policy Briefs, September 2011), "Promouvoir La Croissance Et La Cohésion Sociale" (OECD, June 2012), France: OECD Economic Surveys (March 2011, March 2013), and Citi Research

## Germany

Since its labour market reform in the mid-2000s, Germany has mostly lost its reform drive and had little reason to return to it given the low level of unemployment. In recent years, there were thus 'only' a number of ALMPs to provide better training for the unemployed and to sharpen job search incentives as well as modest attempts to extend working lives.

Amid a relatively rigid labour market and a large demographic challenge, more needs to be done, in our view. We argue that dismissal regulation should be eased, and employer and employee SSC rates lowered, particularly for low-income workers. To boost labour force participation, the increase in the retirement age should be accelerated and incentives for early retirement weakened. Finally, childcare facilities should be increased, but a big challenge will be to tackle many of these issues without weakening work incentives by raising tax rates after the election.

Figure 40. Germany

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost	• But: Introduced minimum wage for temporary agency work in Jan-2012.	• Reduce employer and employee SSC rates
Employment protection		• Reduce regulation, notification periods and severance payments for dismissals
		• Introduce unified job contract with degree of protection rising with tenure.
Labour market flexibility		
ALMPs	<ul style="list-style-type: none"> <li>• In 2008 and 2009, government recruited additional case managers for PES.</li> <li>• Introduced new training schemes, adapted existing ones, expanded eligibility for further training to certain vulnerable groups (in 2009 and 2010).</li> <li>• 'Skilled Labour Strategy' of 2011 included measures to extend vocational training and reintegrate older unemployed into labour market.</li> <li>• But: Closed (for new entrants) subsidized part-time employment scheme for older employees from Jan-2010</li> <li>• In Dec-2012, extended duration of short shift working scheme (Kurzarbeit) from 6 to 12mths. Under Kurzarbeit, public sector labour agency provides employees with benefits of up to 60% of their net-income.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase activation and integration measures, especially for long-term unemployed</li> <li>• Reduce SSC rates for low-income earners</li> </ul>
Education/ Training	• Introduced additional financial support for students since 2011 (the 'Germany Scholarship' programme).	<ul style="list-style-type: none"> <li>• Improve educational outcomes of disadvantaged people</li> <li>• Improve quality of early childhood education</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>• Increased age threshold for early pension for unemployed from 60 to 63yrs (over a period 2006-08).</li> <li>• In Jun-2008, phased out benefits for unemployed aged &gt;58yrs without active job search.</li> <li>• Slightly increased minimum income tax allowance in 2014.</li> <li>• 'Skilled Labour Strategy' of 2011 included measures to improve availability of childcare facilities and promote family-friendly working hours.</li> <li>• But: Granted benefits for parents staying at home (in 2007 and 2012).</li> </ul>	<ul style="list-style-type: none"> <li>• Accelerate increase in retirement age</li> <li>• Reduce incentives for early retirement</li> <li>• Increase availability of child care facilities.</li> </ul>

Source: "Germany: OECD Economic Survey" (February 2012), "Germany: Reinforced Public Employment Services" (G20 Policy Briefs, September 2011), "Addressing the Competitiveness Challenges in Germany and the Euro Area" (October 2012), Germany: Article IV (IMF, July 2012), and Citi Research

## Greece

Greece has approved a large number of reforms that should over time increase the flexibility of its labour market and aid adjustment. For EPLs, these included reducing severance pay and notice periods as well as reducing the many administrative hoops firms had to jump through for individual or collective dismissal. The flexibility for renegotiating employment contracts has been boosted substantially on paper, including through reducing restrictions on firm-level bargaining, shortening the lifespan and scope of CAs, and the ability to introduce short-time work more flexibly. Trial periods have been raised, working hours can be averaged and overtime decided more flexibly. The divergence in EPL rules and bargaining flexibility between the public and private sector has also been narrowed, and the drastic fiscal tightening that Greece has gone through also implied substantial reductions in public sector pay and jobs (despite the fact that redundancies are still resisted). A reduction of minimum wages and of SSC rates should help to lower labour costs. Furthermore, a substantial pension reform that raises the retirement age, increases contribution years and indexes pension benefits to inflation as well as GDP growth was implemented in 2010. ALMPs have been tried, and the Greek government has also attempted to increase the monitoring for schools and universities, improve teacher training and boost vocational learning.

Of course, one major reason why Greece has undergone many reforms was that its labour market and social security systems were so uncompetitive to start with. Still more action could be taken, including streamlining bureaucratic and judicial procedures for dismissals, simplifying labour laws, removing EPL differences between blue- and white-collar workers, making it easier to strike firm-level agreements, lowering employer SSC rates, and increasing job search incentives for the unemployed. ALMPs could be substantially boosted and education/training systems strengthened, but fiscal constraints and the lag until gains can be reaped will limit the prospect for near-term progress on these. Of course, implementation of structural reforms remains a concern in Greece, too, and a number of liberalization measures in labour markets have only been introduced on a temporary basis so far.

As part of the current troika programme, the government still has a fairly full agenda. A review of the SSC system is due in November 2013 (simplifying it and lowering contribution rates by 3.9ppts) in 2014-2016. New procedures to set minimum wages are due. But a major element remains the reorganization of the public sector, which continues to lag programme schedules. 4K redundancies are due by end-13, 11K more by end-2014, and the overall goal is to cut the public sector workforce by 150k by 2015 relative to the end-2010 level. In the near term, a mobility scheme plan is supposed to include 12.5K workers by Jun-13 and 25K by end-13. Modest additional ALMPs, such as a short-term public works programme for LT unemployed and the young should be rolled out between mid-2013 and early 2015 and a 'National Strategy' for tertiary education is supposed to be agreed to reform university entry, the governance of universities, and academic assessment.

Figure 41. Greece

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost	<ul style="list-style-type: none"> <li>Abolished premia of 7.5% for working &lt;4hrs/day &amp; 10% for overtime of part-timers (in 2010)</li> <li>Cut monthly minimum wage for duration of Troika programme in Feb-2012 by 22% below the EGSEE level (from €751 to €586) and by 32% for those younger than 25 (to €511).<sup>16</sup></li> <li>Reduced SSC rates by 1.1ppts in September 2012.</li> <li>Created labour mobility scheme which puts employees in reserve with 20-25% wage reduction, to be reallocated to another position, or dismissed within 12mths (2K transferred by end-2012)</li> <li>Around 75K public sector jobs were cut by end-2012.</li> <li>Started wage cuts in March 2010, followed by additional cuts in 2010-11. Additional progressive cuts for staff under special wage regimes (doctors, judges, police, etc) implemented in 2012.<sup>17</sup></li> <li>Gradually cut and finally completely abolished (in Nov-2012) public workers' Christmas, Easter, and holiday bonuses (summing to 2 additional mths' pay/yr)</li> </ul>	<ul style="list-style-type: none"> <li>Reduce employer SSC rates</li> <li>Maintain minimum wage reduction</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>Capped severance payment at 12mths (in Nov-2012); accrued entitlement beyond cap preserved up to €2k/mth.</li> <li>Settlement for white collar workers modified: 2mth pay to be paid immediately, rest can be delivered in installments paid every 2mths. Cut severance pay for temporary workers.</li> <li>Reduced notice period for individual dismissal: to max 4mths for all workers in Dec-2012 after cutting by ~50% for white collar workers in Jul-2010</li> <li>Increased threshold for collective dismissal for firms with ≥20 employees: 6 employees for firms with 20-150 employees, from 4 for firms with 20-200 employees; for larger firms increased to minimum of 30 employees or 5% of workforce.</li> <li>Raised the number of times fixed term contracts can be renewed (from 2 to 3) and extended max span of temporary contracts from 24 to 36mths (in Jul-2011).</li> <li>In Feb-2012, converted public sector permanent contracts (could previously only be terminated when employee reached pension age) to CAs of indefinite duration, making termination possible, subject to notification and compensation regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Remove EPL differences between blue- and white-collar workers</li> </ul>
Labour market flexibility	<ul style="list-style-type: none"> <li>Froze maturity coefficients in contracts (for automatic salary increases irrespective of productivity and cyclical conditions) until unemployment falls &lt;10%.</li> <li>Extended trial period from 2 to 12mths in 2010 (longest in EU with UK and Ireland).</li> <li>In Oct-11, allowed formation of small associations of employees to sign firm level agreements, which can deviate from sectoral agreements for pay and employment terms (but not below min standards in NGCA)).</li> <li>Abolished extension of occupational and sectoral agreements to non-signatory firms.</li> <li>In Feb-2012, fixed max lifespan of CAs to 3yrs, shortened extension of expired CAs ('after-effects') to 3mths (from 6); thereafter, some allowances are suspended until new CA is agreed.</li> <li>In Feb-2012, modified rules to initiate arbitration for disagreements during CA bargaining only after mutual consent, and limited to basic salary and remuneration issues.</li> <li>Gave firms flexibility to introduce short-time (intermittent) work ('rotation work') for up to 9mths (6 previously) in event of activity slowdown (after consulting unions or work councils).</li> <li>Allowed 'averaging' of working hours for longer period through agreements at firm- or sectoral level from Jun-2011 to reduce use of overtime pay.<sup>18</sup></li> <li>In Dec-2012, eliminated obligation to ask for overtime pre-approval and ex-ante submission of work schedules to Labour Inspectorate.</li> <li>But: allowed max 6days/wk work in all sectors with limit of 40hr/wk. Min daily rest set at 11hrs while allowing consecutive min 2wk leave to be taken anytime during the year in all sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Ease requirements for firm-level agreements to override CAs</li> <li>Simplify Labor code</li> <li>Remove maturity coefficients permanently</li> </ul>

<sup>16</sup> However, extra provisions (for marital status and maturity allowance) have not been removed. This decision will be reviewed in early 2014.

<sup>17</sup> In Feb-2010, increase in salaries and benefits of public servants was prohibited and cut by 12% for 2010 (7% if employee received flat salary without bonuses), while Christmas, Easter and leave of absence bonuses were cut by 30%. In May-2010, bonuses capped at €1k and only paid to those earning under €3k/mth; announced further 8% cut in allowances for civil servants' under private-law contracts, and 3% pay cut for public utility employees. In Jan-2011, public enterprises saw 10% cut in wages above €1.8k, capped at €4k/mth. Further cuts in public enterprises of 17% on average were implemented in 2011, and again further 15% on average were cut in Nov-2011 after application of unified pay scale for public servants.

<sup>18</sup> By i) changing reference period from calendar year to 12mths; ii) increasing no. of mths during which working time can deviate from regular hours from 4 to 6mths; iii) relaxing conditions for approval of employer's proposal (increased working hours 'returned' by reduced hours, daily rest period, or both).

Figure 42. Greece, continued

Area	Implemented and planned reforms	Potential for further action
ALMPs	<ul style="list-style-type: none"> <li>From 2010, introduced 24 separate programmes to enhance job retention and adaptability of workers and enterprises, facilitate integration of unemployed in labour market, promote entrepreneurship of unemployed, and provide initial vocational training of young persons.</li> <li>Introduced contract for companies hiring young unemployed for at least 12mths with 20% below min wage and exemption from paying SSC (in May-2010).</li> <li>Created apprenticeship contracts with duration &lt;1yr with pay of 30% below min wage (in Jul-2010).</li> <li>Allowed company hiring unemployed to receive forgone UBs and get time-limited reduction in SSC if employment relationship continues.</li> <li>Launched action plan to strengthen youth employment and entrepreneurship in Jan-13 (backed by a €608mn fund).</li> <li>Reform public employment service aimed at improving matching and activation.</li> </ul>	<ul style="list-style-type: none"> <li>Tie UBs to job-search requirements with sanctions for non-compliance.</li> <li>Targeted training for long-term unemployed</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>In 2010, started the 'New School' strategy with the aim to modernise primary and secondary school curriculum and improve access to digital technologies, introduce school evaluation procedures, provide training for teachers, and promote school performance of vulnerable groups.</li> <li>Adopted a new framework law for higher education in 2011, introducing independent evaluation system of academics.</li> <li>Merged national centres for vocational guidance, life-long learning and qualification certification.</li> </ul>	<ul style="list-style-type: none"> <li>Increase teaching of core subjects</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>Pension reform (2010 and 2013 Budget): <ul style="list-style-type: none"> <li>Equalised women and men's pension age limits in public sector, statutory age raised to 67 from Jan-2013. Early retirement age raised to 62yrs &amp; pension reduced; Statutory retirement age and minimum retirement age indexed to life expectancy.</li> <li>Established that all pensions will be sum of basic allowance and contributory part (starting 2015). For latter, reduced statutory accrual.</li> <li>Pensions indexed to prices and GDP growth.</li> <li>40 yrs (before 35) of contributions required for full pension; entire career contributions to be taken into account for pension calculation (before top-paid 5 out of last 10yrs).</li> <li>Introduced new formula for calculating supplementary pension benefits with sustainability factor.<sup>19</sup></li> <li>Cut seasonal bonuses, made progressive cuts in pensions&gt;EUR1k/mth (5-20%, highest rate applied for pensions &gt;EUR3k).</li> <li>Unified all supplementary pension funds into a new single fund (ETEA) and created individual retirement accounts.</li> <li>Reduced new lump-sum benefits by 23% for public employees and social security funds.</li> <li>Set a strict link between contributions and benefits for lump-sum schemes to avoid further system deficits.</li> <li>But: Broadened tax base and introduced single rate scale applicable to most sources of income (incl. dividends). Abolished certain tax exemptions and included provisions for actual living standards for tax calculation (in Apr-2010 and Jun-2011).</li> <li>But: Imposed higher taxes on wages and pensions and reduced tax brackets from 8 to 3 (in Jan-2013).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Raise childcare benefits</li> </ul>

Sources: Eleni Petra, "Social dialogue and collective bargaining in times of crisis: The case of Greece" (ILO, 2012), "Greece: OECD Economic Survey" (August 2011), "Greece at a Glance: Policies for a Sustainable Recovery" (OECD, 2010), "IMF Staff Reports", March 2012 and January 2013 and June 2013, "The Second Economic Adjustment Programme for Greece First and Second Reviews - December 2012 and May 2013" (EC, 2012, 2013), "Greece: Article IV Consultation" (IMF, 2013), "Greece: Selected Issues" (IMF, 2013)

<sup>19</sup> New formula will be applied to benefits accumulated since 2001 for pensions paid starting 2015

## Ireland

Ireland has not carried out very many structural reforms in recent years, at least in part because it had a relatively flexible labour market to begin with. In fact, Ireland tightened EPL by removing the so-called redundancy rebate in Jan-2013, as it feared that redundancies in Ireland were in fact too easy. On the reform side, a 19% reduction in public employment and the so-called Croke Park agreement to make work arrangements in public sector more flexible were the major efforts. In addition, UBs were made a little less generous, and sectoral bargaining were revised to allow more flexible bargaining. Eligibility conditions for social benefits (particularly for job search) have been tightened and the retirement age raised to boost labour force participation. To tackle the problem of finding jobs for those previously employed by the construction sector, a number of ALMPs have been introduced, including training courses, internship schemes and hiring subsidies.

Further sharpening incentives for job search, by reducing UBs over time, lowering the tax wedge for low-paid employees and raise the penalties for refusing job offers would be reasonable, in our view. And ALMPs would probably need to be extended even further and kept in place for a long time, as finding jobs for many previous construction workers will likely remain difficult for some time.

Further actions planned are mostly in the area of public sector consolidation (further job cuts are planned to reach 25% target. The Croke Park II agreement includes agreements to freeze public sector wages for three years, to extend the minimum working week, to reduce high wages and pensions and overtime pay) and ALMPs (hiring subsidies, tax incentives and raising case officers for long-term unemployed, creating work activation places for social welfare recipients).



Figure 43. Ireland

Area	Implemented and planned reforms	Potential for further action
(Unit) labour costs	<ul style="list-style-type: none"> <li>Imposed pension levy of 7.5% on average in 2009, and ≥5% pay cut for public employees in 2010.</li> <li>Mar-2010 'Croke Park' agreement for public sector: more flexible working arrangements, use of shared services, and greater staff mobility in exchange for a commitment not to impose further pay cuts till end-2014.</li> <li>Reduced public administration employment by ~19% by end-2012.</li> <li>From Apr-2013, duration of Jobseekers' Benefit reduced from 9 to 6mths.</li> <li>But: PRSI paid by employees made payable on all sources of income and abolished PRSI-free weekly allowance.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce UBs with unemployment spell</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>But: increased redundancy costs for firms with removal of redundancy rebate in Jan-2013 (in Jan-2012 already reduced from 60% to 15%)</li> </ul>	
Labour market flexibility	<ul style="list-style-type: none"> <li>In July-2012 allowed for easier modification and cancellation of Registered Employment Agreement (REAs), and streamlined Employment Regulation Orders (EROs) by allowing for fewer sectors with EROs and lowering number of minimum wages set in each ERO. Work conditions set by other legislation such as Sunday pay rate are excluded from EROs.<sup>20</sup></li> <li>Allowed companies in distress to deviate from EROs and REAs.</li> <li>Removed non wage-setting aspects of EROs.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce national minimum wage</li> <li>Further reduce restrictions on bargaining implied by sectoral bargaining systems</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>Halved lower rate of employer SSC (Pay-Related Social Insurance, PRSI) until end-2013 for low-paid jobs.</li> <li>In 2011 started development of an integrated 'one-stop shop' to PES and benefit payment services</li> <li>Started wage subsidy scheme for workers with disabilities ('Jobs Initiative' 2012).</li> <li>Launched internship scheme for 2yrs with aim to provide 5k internships with 6-9mth duration ('JobBridge', mid-2011)</li> <li>Created skills training courses for employees in structurally weak sectors and adults with low educational background (22k places in activation programmes for training, education and upskilling, including Labour Market Education and Training Fund of €20m to support training and education of 6.5k long-term unemployed)</li> <li>In Feb-2012, adopted 'Pathways to Work' strategy to provide integrated services for unemployed to improve activation and training. Implementation has begun with pilot programmes, training staff, and intensifying engagement with employers.</li> <li>Improved profiling system for unemployed, and (in Apr-2011) introduced sanctions for refusal to engage in job search or activation programmes.</li> <li>Exempted employers from liability to pay PSRI for 18mths for new employees working &gt;30hrs/wk under <i>Employer Job Incentive Scheme</i></li> </ul>	<ul style="list-style-type: none"> <li>Enforce sanctions for non-compliant jobseekers.</li> <li>Retain reduced rate of PRSI for lowest pay beyond 2013 if planned evaluation of this measure shows it to be effective.</li> <li>Focus on activation of long-term unemployed.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li><i>Action Plan for Jobs 2012</i> has over 270 actions to strengthen education and its links to the labour market, including review of apprenticeship training model initiated in 2012.</li> <li><i>Education and Training Boards Bill</i> (2012) aims to better integrate skills and training into education (develop skills for employed and unemployed individuals, assist students' transition into the workplace, and provide literacy and numeracy skills to disadvantaged adults).</li> <li>The <i>Springboard</i> programme (2011) funds free part-time courses in higher education for unemployed individuals in areas with labour market skills shortages.</li> </ul>	
Labour force participation	<ul style="list-style-type: none"> <li>In Mar-2010 announced that the retirement age for state pension would be raised to 66 in 2014, 67 in 2021 and 68 in 2028.</li> <li>Tightened social welfare conditionality, introduced penalties for refusal of suitable job offers.</li> <li>Budget 2013 cuts entitlements for elderly, so that pensioners over 70 with income &gt;€60k/yr now pay Universal Social Charge (USC) standard rate rather than reduced rate.</li> <li>In 2010, government replaced Early Childcare Supplement by free Pre-School year (to 3-4yr-olds).</li> </ul>	

Sources: "Ireland: OECD Economic Survey" (2011), "IMF Staff Reports" (December 2012, April 2013), "Economic Adjustment Programme for Ireland Winter 2012 Review" (EC, 2013), and Citi Research

<sup>20</sup> In addition to national minimum wage, EROs (agreements on pay and conditions made by Joint Labour Committees) and REAs (collective agreements registered with Labour Court) cover pay and working conditions of employees covered and may be included in employee's contract. Following High Court decision, EROs ceased to have statutory effect from 7 July 2011.

## Italy

Figure 44. Italy

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost	<ul style="list-style-type: none"> <li>• Spending review, approved in Jan-2013, should result in ~8K public redundancies by end-2014.</li> <li>• But: Introduced new unemployment insurance regime (ASPI) to be gradually phased in from Jan-2013 until 2017, to cover workers with &gt;2yrs of contributions including apprentices and public and private workers under temporary contracts.<sup>21</sup> Duration of UBs to rise to 12 months for under-55s and 18 months for senior workers by 2017 (from 8 months for &lt;50yr-olds, and 12 months for senior workers)</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce employer SSC</li> <li>• Introduce regional differentiation in public sector wages</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>• In Jun-2012, introduced compulsory out-of-court settlement procedure for dismissal based on objective reasons.</li> <li>• Limited compensation for unfair dismissal: to 12mths plus reinstatement when objective reasons for dismissal were clearly non-existent. Otherwise compensation is limited to 24mths of wages without reinstatement. Previously no limit existed.</li> <li>• Limited cases when judges can order reinstatement for clear discrimination only.</li> <li>• Harmonised sanctions for illegal collective dismissal with those for individual dismissal.</li> <li>• Reduced appeal period against dismissal from 270 to 180 days, but dismissal notice now needs to state dismissal reason.</li> </ul>	<ul style="list-style-type: none"> <li>• Ease regulation for collective dismissals</li> <li>• Reduce compensation for unfair dismissals.</li> <li>• Encourage out-of-court dispute settlement and/or make court-based system quicker.</li> </ul>
Labour market flexibility	<ul style="list-style-type: none"> <li>• Agreement by social partners (in Jun-2011) modified the rules on representation and contract enforceability to foster wage bargaining decentralization, but OECD (2012) notes little progress on implementation.</li> <li>• In Aug-2011, allowed firm-level contracts to derogate from national contracts and labor law on working hours, tasks and job classifications, etc.</li> <li>• In Nov-2012 social partners signed "Productivity Pact": i) acknowledges need to link wages set in national contracts to economic conditions and ii) promotes efficient bargaining framework, iii) government support with tax rebates on productivity-related wage increases (budget earmarks €2.1bn in 2013-14)</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce constraints on firm-level bargaining.</li> <li>• Increase flexibility of open-ended contract that gradually increases employment protection with tenure</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>• In 2010-12, temporarily gave companies hiring unemployed on permanent contracts (including for short-time work) remaining UBs the newly-hired person was due to receive. Also, subsidies and tax incentives for unemployed to set-up own business and subsidized loans in south Italy.</li> <li>• Launched new job-search/vacancy-advertisement website in Oct-2010.</li> <li>• In mid-2011, introduced 3 types of open-ended apprenticeship contracts to suit needs of young people with varying levels of education, allowing lower pay than stipulated in CAs.</li> <li>• Temporarily exempted small enterprises from SSCs for hiring trainees, and gave tax incentives for companies investing in training programmes (in Jun-2012).</li> <li>• Increased number of apprentices company can hire (to 3 for every 2 employees, previously 1 for 1), but hiring new trainees now subject to having converted at least 30% of previous apprenticeship contracts to open-ended contracts over the last 3yrs, and &gt;50% after 3yrs. Apprenticeship contracts to last at least 6mths and up to 3yrs.</li> <li>• Extended wage supplementation scheme to additional sectors, financed by new solidarity funds from employees managed by national social security institute.</li> <li>• Created a special type of company for young (&lt;35yrs) who can deposit €1-10k of capital without making notary payments.</li> <li>• Introduced new PESs such as career orientation and vocational training activities.</li> <li>• Increased SSCs for temporary contracts (by 1.4ppts compared to open-ended contracts), up to 6 months of which can be recovered if contract is made permanent.</li> <li>• In 2012, lowered labour income taxation for new employees (more for women, young and Southern regions).</li> </ul>	<ul style="list-style-type: none"> <li>• Promote working time flexibility</li> <li>• Establish Youth Guarantee (offer of job, education or traineeship within 4mths of becoming unemployed or leaving school)</li> <li>• Facilitate transition to work and increase vocational training quality</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>• Strengthened school evaluation systems and enhanced school autonomy and accountability, including introducing new common electronic portal for recording exam results on a national basis, setting up electronic system with information on student careers, issuance of university degrees in English.</li> <li>• Allocated €1bn for activities such as improving school-to-work programmes, raising basic skills, improving foreign language skills, reducing drop-out rates, addressing structural weaknesses in Southern Italy.</li> <li>• Opened 27 specialised post-secondary vocational schools as of early 2013.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase teaching of core subjects at school</li> <li>• Strengthen teacher incentives</li> <li>• Increase employer engagement</li> <li>• Incentivize faster completion of university degrees</li> <li>• Rationalize university course offering</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>• Introduced mandatory paternal leave of 3 consecutive days within first 5 months after child birth, vouchers for baby-sitting services and tax incentives for hiring women, and protection against illegal 'blank resignations' for women.<sup>22</sup></li> <li>• Pension reform (2010 and 2011): <ul style="list-style-type: none"> <li>▪ Increased retirement age from Jan-2012: <ul style="list-style-type: none"> <li>- for women in private sector to 62 from 60, and gradually rise to 66yrs 3mths by Jan-2018, for self-employed women to 63yrs 6mths (to rise to 66 yrs 3mths)</li> <li>- for men in private and public sectors &amp; women in public sector, to 66 from 65 to rise in line with life expectancy at 65.</li> <li>- Increased age requirement for means-tested minimum social allowance from 65 in 2011-12 to 65 yrs 3mths in 2013, to be indexed to life expectancy thereafter.</li> <li>- As of 2018-19, retirement age to become 67 for all workers.</li> </ul> </li> <li>▪ Raised early retirement contribution requirement from 40 to 42yrs 1mth for men and from 40 to 41yrs 1mth for women.</li> <li>▪ Allowed early retirement for those previously under contribution-based system at 63yrs with at least 20yrs of contributions and pension benefit equal to at least 2.8 times social pension.</li> <li>▪ Moved benefit accumulation under earnings-related system to contributions-based system starting January 2012 (keeping accrued benefits unchanged)</li> <li>▪ Introduced penalty for people retiring before age of 62.</li> <li>▪ Introduced new rules for calculation of pension benefits (transformation coefficient now reflects demographic changes).</li> <li>▪ Increased contribution rates for self-employed from 21.3% to 24% by 2018.</li> <li>▪ Froze indexation for pensions above 3x min pension for 2012-13.</li> <li>▪ Committed to review system parameters from 2013 to align with changes in life expectancy.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Reduce marginal tax rates for married second-earners</li> <li>• Redistribute rights to parental leave to fathers and grandparents.</li> <li>• Increase public spending on childcare facilities and subsidies</li> </ul>

Sources: "Italy: Reviving Growth and Productivity" (OECD, Sep-2012), "Italy's Fiscal Consolidation and Structural Reforms" (Tesoro), "Italy: Policies to Promote the Return to Work" (Sep-2011), "Italy: OECD Economic Survey" (May-2011), "Labour Reform in Italy and its Implications for Labour Administration" (Casele and Fasini, ILO, 2012) Citi Research

<sup>21</sup> Benefit level will depend on total remuneration in previous 2yrs and decline over time (by 15% after 6mths, further 15% after 12mths); initial replacement rate of 75% for incomes up to €1,180/mth, plus 25% of difference between wages and €1,180 for higher incomes, up to indexed ceiling (€1,119.32/mth in 2012). Unemployed with shorter contribution history will be entitled to 'mini-ASP'.

<sup>22</sup> Strengthened administrative rules for validation of resignation by requiring either: i) both parties contact regulators about will to terminate contract, or ii) employer submits proof of notice of termination to regulator. Entitled new mothers to request payment of vouchers by end of compulsory maternity leave for the next 11mths as alternative to use of optional maternity leave.

Italy has lagged behind other periphery countries with rigid and product markets in implementing structural reforms, even though most reform areas have been touched and several smaller reforms had been introduced over the past 15 years. The most significant reform in recent years has been a pension reform approved in 2011-12 which raises retirement ages, increases contribution years, increases penalties for early retirement and adjusts benefits to life expectancy. On the labour market side, some measures were approved in 2012 under the Monti government to limit dismissal regulations (reducing the cost of unfair dismissals, as well as restricting the process to appeal against dismissal and the scope of reinstatement), and to introduce a more homogeneous unemployment benefit system. In addition, there were modest efforts to encourage firm-level bargaining and increase the flexibility to renegotiate labour contracts. In addition, a host of – often temporary – ALMPs have been used, while the previous government also tried to establish vocational schools and to raise the skills of school-leavers. Limited public sector job cuts have been made, while public wages were frozen. To raise female participation rates, which are very low in international comparison, the Monti government provided modest additional financial incentives and increased employment protection.

We believe much more can be done. First, firm-level bargaining should be strengthened further, as should be the freedom to renegotiate wage and non-wage terms of employment. These steps would allow wages to be more differentiated and more closely linked to productivity. Second, collective dismissals should be made easier and the costs of unfair dismissal reduced further. Third, Implementation – which remains a key concern throughout – of the out-of-court settlement procedure for dismissals needs to be monitored, and the efficiency of the court system also needs to be improved. Fourth, raising graduation rates as well as the skill profile of the population remain key priorities, and in the meantime, targeted ALMPs probably need to be extended and streamlined to contain any further rise in unemployment. Finally, better childcare facilities and tax incentives should help raise female participation rates.

The difficult political situation in Italy means that plans can change quickly, and implementation is by no means assured, but the government under new PM Letta just announced a set of new measures to tackle youth unemployment, including tax breaks for companies that hire young people, easing restrictions for firms to hire on temporary contracts (and thus revoking parts of the labour market reform passed last year) and promoting training schemes and cooperation between schools and companies. In addition, the Italian government had previously planned to liberalise placement services and increase their incentives to place disadvantaged workers.

## Netherlands

The Netherlands also has a relatively highly regulated labour market and is only beginning to address some of the rigidities amid rising unemployment and fiscal pressures. Only modest efforts have been made in recent years, such as capping severance payments for high-earners, and providing subsidies and tax incentives for the long-term unemployed and young people. In addition, an increase in the state pension age, subsidies for older workers and ending the transferability of tax credits for second earners, were at least partly aimed at raising participation rates.

Unsurprisingly, a lot could thus be done, including reducing severance pay and simplifying dismissal regulation, reducing UBs (level and duration), boosting firm-level bargaining, and discouraging early retirement. Planned reforms of generous UBs and restrictive severance legislation (to simplify the regulation and to shorten severance pay) have been pushed back, and are now only expected to enter into force in 2016.

Figure 45. Netherlands

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost		<ul style="list-style-type: none"> <li>• Reduce duration of UBs and lower benefits over time</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>• In 2008, capped severance payments at 100% of annual pay for high-earners.</li> <li>• Adopted new internal guidelines to determine amount of severance payments in court cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Cap severance pay.</li> <li>• Simplify dismissal system.</li> </ul>
Labour market flexibility		<ul style="list-style-type: none"> <li>• Limit or abolish ministerial extensions of sector CAs</li> <li>• Facilitate the use of CA opt-out clauses.</li> <li>• Boost firm-level bargaining</li> <li>• Reduce automatic tenure element in wages</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>• In 2008, started employment scheme to facilitate creation of jobs for those receiving benefits.</li> <li>• Starting October-2009, 'Young People Act' obliged authorities to offer work combined with schooling for youth applying for social assistance (benefits contingent on accepting schooling or work offer).</li> <li>• In 2009, introduced temporary cost subsidy for long-term unemployed under age of 50.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce effective marginal tax rate for second earners</li> </ul>
Education/ Training		
Labour force participation	<ul style="list-style-type: none"> <li>• From 2009, transferability of general tax credit for second earners to be phased out over 15yr period<sup>23</sup>.</li> <li>• In 2009, introduced bonus for older workers who continue working after 62.</li> <li>• In 2009, provided tax incentives to boost participation by vulnerable groups (lower-earning partners with children, elderly).</li> <li>• From Jan-2013, state pension age to start rising to 66yrs (currently 65) by 2019 and 67 by 2023. Second-pillar pension retirement age started rising to 67 by 2014. Made retirement age dependent on average life expectancy.</li> </ul>	<ul style="list-style-type: none"> <li>• Expand supply of high-skilled immigrants by granting them job-search visas</li> <li>• Facilitate job-search by non-EEA graduates</li> <li>• Limit routes to early retirement.</li> </ul>

Source: "Netherlands: OECD Economic Survey" (June 2012), "Netherlands: 2011 Article IV Consultation" (IMF, June 2011), "Kingdom of The Netherlands—Netherlands: Selected Issues and Analytical Notes" (IMF, 2011), "Making the Dutch Pension System Less Vulnerable to Financial Crises" (OECD, 2011)

<sup>23</sup> Tax system contains elements of joint taxation (on family not individual income), with right for non-working partner in single-earner couple to transfer general tax credit to the primary earner (when income is low). See "The Netherlands: OECD Economic Survey" (2012).

## Portugal

Portugal has undertaken a large number of labour market reforms since the start of their troika programme, notably reducing severance pay and restrictions, public sector wages and pensions, unemployment benefits (UBs) and the number of holidays. Training offers have been extended and SSCs reduced to support the unemployed, and both school autonomy and monitoring have been increased to strengthen school teaching.

After the recent reforms, Portuguese labour market flexibility is on paper close to the still-too-high EA average and its labour costs (not productivity-adjusted) are among the lowest in the EA. Still more action will probably be necessary to regain competitiveness, including easing further selective aspects of EPL (e.g. introducing binding arbitration in conflicts over dismissals, and reducing redundancy notice periods), lowering SSCs more generally (possibly in a revenue-neutral way), a modest further reduction in public wages and pensions, further easing firm-specific bargaining and increasing the incentives for the unemployed to search for jobs.

But Portugal's situation is among the most difficult in the EA. The most promising reform measures are likely to be either unaffordable (more extensive ALMPs), will take a long time to bring benefits (raising the skill profile of the population through extensive reform of the education and training system), or both (increasing teacher pay to attract high-achieving teachers). In addition, falling support for the government, more frequent (but still moderate) protests and numerous objections to reforms by the country's Constitutional Court (CC) complicate its reform efforts, as recent weeks have once again highlighted.<sup>24</sup>

Currently, the government plans a further reduction of severance pay to 12 days/year of tenure, and a package to replace the latest measures ruled out by the CC in April 2013 which includes a 30K (~5%) cut of public sector jobs in 2013-15, an increase in public sector working hours from 35 to 40 hours/week (to align it with the private sector), to reduce annual leave from 25 to 22 days, and a pension reform (increasing the statutory retirement age to 66 years from 65 through adjusting the demographic sustainability factor, and reducing public pension replacement rates from 90 to 80%).

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<sup>24</sup> On two instances, the CC has ruled out measures taken by the government:

In 2012, the government reduced pension expenditure by (i) suspending the 13th and 14th monthly payments for those with pensions >€1,100, (ii) suspending on average and in a progressive way the equivalent of one of those monthly benefits for those with monthly benefits of €600-1,100; (iii) freezing pensions <€600, (iv) but marginally increasing lowest pensions. The CC ruled in July 2012 that the cuts were unconstitutional and need to be amended starting in 2013 (but not retroactively).

For the 2013 budget, the government planned to cut the 14th monthly payment for pensions and public wages, the summer holiday bonuses for public sector workers; and reduce sickness benefits and UBs. The CC rejected these measures in April 2013.

On both occasions, the reason given for the ruling was that the measures would violate the principle of equality of the fair distribution of the public burden.

Figure 46. Portugal

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost	<ul style="list-style-type: none"> <li>In mid-2012 eliminated compensatory time-off and extra pay for overtime reduced to max 50%.<sup>25</sup></li> <li>Cut public sector wages by 5% for top earners in 2011, eliminated 13th and 14th monthly salaries in 2012 (translates into ~14% cut). Imposed cut 14th salaries for public servants and pensioners in 2013 were ruled unconstitutional.</li> <li>Froze public staff recruitment in 2011.</li> <li>Suspended 4 public holidays and 3 additional attendance-dependant vacation days for five years from 2013.</li> <li>In 2012, cut UBs by 1/6, with additional 10% reduction after 6 months. Cut duration of benefits for older workers, but partially compensated by extended provision of unemployment assistance (UA).<sup>26</sup></li> <li>But: expanded eligibility by lowering the minimum required contributory period to 12mths (from 15), and to self-employed.</li> <li>But: from 2011, reduced expense-related tax credits by imposing overall ceiling for two highest income tax brackets. Also, applied new annual surtax on individual income (introduced in Aug-2011) of 3.5% applied to income earned in 2011 above minimum wage income. In 2012, applied surtax of 2.5% to highest income bracket. In 2013 reduced personal income tax brackets from 8 to 5 &amp; introduced tax surcharge of 3.5% on all income.</li> </ul>	<ul style="list-style-type: none"> <li>Make UBs age-independent and shorten duration for older workers.</li> <li>Keep min wage unchanged until labor market recovers.</li> <li>Reduce employer SSC rates.</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>Reduced severance pay: in Nov-2011, for new hires on fixed &amp; open-ended contracts to 20 days/yr of service (from 30), capped them at 1yr, and eliminated 3mth minimum. Existing employees preserve accumulated rights to severance payments accrued until end-Oct-2012, but accumulate at new slower pace until 12mth ceiling is reached.</li> <li>For redundancies due to extinction of position, discontinued seniority rule and abolished requirement to transfer employee to another position.</li> <li>Allowed redundancies due to unsuitability without requirement of new technology or changes to the workplace.</li> </ul>	<ul style="list-style-type: none"> <li>Introduce binding arbitration in conflicts over dismissals.</li> <li>Cut redundancy notice periods to EA average or below.</li> <li>Increase trial period for open-ended contracts (now 90 days for most workers)</li> </ul>
Labour market flexibility	<ul style="list-style-type: none"> <li>Halted and subsequently (in Nov-2012) limited automatic extension of Collective Agreements (CAs) to those i) subscribed to by employers covering more than 50% of sector workers AND (unless extension concerns only firms with &gt;249 workers) ii) on request by both unions and employers' associations.</li> <li>Reduced threshold firm size to delegate power to make firm-level agreements to work councils to 150 workers (from 500)</li> <li>Eased restrictions on introducing 'working time accounts' (WTAs) to accumulate individual and group working hours<sup>27</sup></li> <li>Halted minimum wage rises (from May-2011) for duration of troika programme.</li> </ul>	<ul style="list-style-type: none"> <li>Abolish administrative extension of sectoral wage agreements unless opted in.</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>Reformed Public Employment Service (PES) to streamline and improve its services as of Feb-2012</li> <li>Reduced SSC for employers offering internships to young unemployed (Impulso Jovem programme)</li> <li>Entitled all newly unemployed to a training module within 45 days of enrolment in the PES (Vida Attiva initiative)</li> <li>Created subsidy of up to 60% of salary to employers giving training to those unemployed for &gt;6mths (Estimulo programme)</li> <li>Strengthened dual training for young employees (where teaching will be developed in cooperation with business)</li> </ul>	<ul style="list-style-type: none"> <li>Improve job search support.</li> <li>Increase benefit sanctions in case of non-compliance with job search requirements.</li> <li>Reduce employers' SSC on low-wage workers.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>Improved monitoring of school educational results with automatic monthly reports with data on public &amp; private schools.</li> <li>Published legislation to increase school autonomy in terms of pedagogical, curricular and organisational powers, with certain performance criteria.</li> <li>Since 2012 lengthened compulsory education up to the 12th grade (18yr old) from the 9th grade.</li> <li>In 2012, took measures to improve students' school performance, reduce drop-out rates and grade repetition.</li> <li>But: job losses in public education (2% target for 2012).</li> </ul>	<ul style="list-style-type: none"> <li>Increase teaching of core subjects.</li> <li>Raise teacher pay.</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>In Apr-2012, suspended early retirement until end-2014</li> </ul>	

Sources: "Portugal: Rebalancing The Economy And Returning To Growth Through Job Creation And Better Capital Allocation", (OECD, October 2012), OECD Economic Survey (July 2012), "Performing the State to Promote Growth" (OECD, May 2013), IMF reviews (October 2012, January 2013), EC recommendations (June 2013), "Going for Growth" (OECD, 2013), Citi Research

<sup>25</sup> Compensatory time off are days-off for overtime work equal to 25% of overtime hours worked.

<sup>26</sup> Duration of UBs for 45yr olds decreased from 38mths to 24mths, for 55yr olds from 38 to 26mths. Duration of UA increased from 19 to 24mths for the former, and from 19 to 26mths for the latter age group. See OECD Economic Survey on Portugal, July 2012

<sup>27</sup> WTAs can now be introduced through a CA (as before), a direct employer-employee agreement (capped at 150hrs/yr), an extension of the regime foreseen in the CA to other employees of a team, section or economic unit to whom the CA is not applicable (capped at 200hrs/yr). If >75% of workforce agree individually or >60% are covered by a collective regulation, WTA regime may be extended to the entire workforce.



## Slovenia

In Slovenia, the drive for reform was only triggered recently, with a reform of EPL (reducing severance pay and notice periods, easing notice procedures) in 2013 and a pension reform (raising retirement age, discouraging early retirement) in late 2012. Some minor ALMP measures have been taken to support employment, but prior to that, participation incentives were in fact lowered by widening UB coverage and raising rates and reducing tax rebates for young workers.

The measures could thus go a lot further. Dismissal regulation could be eased further, and so could UBs, social benefits and employee SSC rates. The pension age could also be raised further and/or replacement rates cut, and benefits adapted to changes in life expectancy. Further actions to reduce the public payroll, as well as tightening eligibility of UBs are expected to be taken by the government.

Figure 47. Slovenia

Area	Implemented and planned reforms	Potential for further action
(Unit) labour cost	<ul style="list-style-type: none"> <li>Introduced freeze on public sector wages in 2011, and 5% cut in 2012 &amp; 2013.</li> <li>But: raised minimum wage by 23% in 2010, and further 6.7% to €784 in 2013.</li> <li>But: in 2011, increased minimum (€350) and maximum (3x minimum) UBs.</li> <li>But: in 2011, increased UBs in first 3mths (80% of average wage, before 70%)</li> <li>But: in 2011, increased young workers' social protection by extending UBs to workers employed for 9mths during previous 24mths (previously 12mths in last 18mths).</li> <li>But: reduced period for determining the average wage to 8mths (previously 12).</li> </ul>	<ul style="list-style-type: none"> <li>Cut unemployment and social assistance benefits.</li> <li>Reduce employee SSC rates</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>2013 reform reduced severance pay for individual and collective dismissals for business or incapacity reasons: to 1/5 of base salary for employment from 1-10yrs (previously from 1-5yrs), 1/4 of base from 10-20yrs (previously from 5-10yrs), and 1/3 of base for &gt;20yrs (previously &gt;15yrs).</li> <li>Shortened notice periods and eased notification procedures (longest notification period cut from 120 to 60 days)</li> <li>Tightened conditions for 'unfair' dismissals.</li> <li>Introduced financial support to employers &amp; employees during notice period of consensual dismissals.</li> <li>BUT: tightened protection of fixed-term contracts by introducing redundancy payments and, with some exceptions, limiting up to 2yrs fixed-term employment for a given job.</li> </ul>	<ul style="list-style-type: none"> <li>Streamline reinstatement practices for unfair dismissals</li> <li>Further reduce labour market dualism by phasing out the preferential treatment of student work.</li> </ul>
Labour market flexibility		
ALMPs	<ul style="list-style-type: none"> <li>2013 reform introduced temporary/mini jobs for retired persons.</li> <li>Offered opportunity to unemployed people to work (for up to €200/mth), whilst preserving right to UBs</li> <li>BUT: introduced 25% cap for temporary agency workers in a company (except small firms).</li> <li>BUT: reduced tax relief for student work, which benefits from a preferential tax and regulatory treatment.</li> </ul>	<ul style="list-style-type: none"> <li>Broaden access to ALMPs, tailor to jobseeker profile.</li> <li>Improve vocational education and training programmes.</li> <li>Develop cooperation with relevant stakeholders in assessing labour market needs.</li> </ul>
Education/ Training		
Labour force participation	<ul style="list-style-type: none"> <li>Pension reform (Dec-2012): <ul style="list-style-type: none"> <li>Standard retirement age to rise to 65 by 2020 (from 63 for men and 61 for women).</li> <li>Tightened early pension rights: age limit raised to 60, required contributory period 40 yrs.</li> <li>Changed indexation formula (inflation weight 40% from of 30%; and 60% for national wage growth).</li> <li>Pension base raised from 18 to 24 best consecutive years of contributions.</li> </ul> </li> <li>New providers of early childhood care were established where local communities could not assure enough places.</li> </ul>	<ul style="list-style-type: none"> <li>Gradually raise pension eligibility age and contributory periods, eventually indexing them to life expectancy.</li> <li>Cut replacement rates further by lowering effective accrual rates and calculating pension rights over lifetime contributions</li> </ul>

Source: "Slovenia: OECD Economic Survey" (April 2013), "Republic of Slovenia: 2012 Article IV Consultation" (IMF, 2011 and 2012), In-depth review for SLOVENIA (EC, April 2013)

## Spain

After some relatively modest attempts in previous years, the labour market reform first passed by the Spanish government in February 2012 substantially lowered severance pay and dismissal regulation, increased the scope of firm-level bargaining, for the renegotiation of labour contracts in general, and suspended (but did not abolish) wage indexation clauses. Public sector wages and jobs have fallen, UBs have also been reduced, their eligibility somewhat tightened, and a raft of training programmes and hiring subsidies have been initiated. In addition, a pension reform in 2011 raised future retirement ages, increased required contribution years and discouraged early retirement.

These measures all sum to a substantial reform effort, yet in all areas more could be done. This is partly because some of the reforms are only reversing prior increases in recent years, such as for increases in public pay or in UBs. EPL remains relatively high, and so does labour market duality, while bargaining should be further decentralised and wage indexation abolished, not just suspended. Another pension reform will be due soon, and it should align pension treatments of private sector workers with public sector ones. Courts still play too large a role in employment disputes, in our view. Ramping up spending on ALMPs (in particular for the former construction workers and the young), lowering SSCs and quickly increasing the skill level of the workforce may be difficult for the Spanish government to achieve in the near term.

The reform pipeline of the Spanish government is still long, partly based on numerous recommendations by the EC. In 2013, the government is still planning to provide an independent evaluation of the 2012 labour market reform (due now), and to create a one-stop shop public employment service. On the education side, new professional training programmes are planned, as well as a 'comprehensive reform' of the education system, including reforming the status of universities as well as the salary system, performance evaluation and training of teachers. Finally, a group of Spanish 'wise men' presented a proposal for public pension reform in June, which was commissioned by the Spanish government, which is meant to be debated with other social partners and seems unlikely to be approved, yet alone implemented, this year (the proposal suggests introducing a 'pension sustainability factor' which takes into account the solvency of the social security system to replace the customary inflation-linked revaluation of pensions, and to tie pension payouts to life expectancy at retirement).



Figure 48. Spain

Area	Implemented and planned reforms	Potential for further action
(Unit) labour costs	<ul style="list-style-type: none"> <li>In July 2012, reduced UBs for those who have been unemployed for &gt;6mths (from 60% to 50% of base), and transferred obligation to pay SSC to beneficiary (previously covered by UB entity).</li> <li>Tightened conditions for receiving min income benefit (for persons not covered by general unemployment system).<sup>28</sup></li> <li>From 2011-14, froze public sector employment, with exceptions to partially replace departed education and health workers)</li> <li>Froze public sector wages in 2011, temporarily scrapped Christmas bonus in 2012</li> </ul>	<ul style="list-style-type: none"> <li>Consolidate UBs</li> <li>Reduce employer SSC rates</li> </ul>
Employment protection	<ul style="list-style-type: none"> <li>In 2012, reduced severance pay: For unjustified dismissals from 45 to 33days/yr of service with max of 24mths. For objective reasons to 20days with max of 12mths.</li> <li>In 2012, removed workers' right to receive wages for the whole duration of a process against unfair dismissal.</li> <li>In 2012, clarified conditions for justified dismissals on economic grounds (fall in sales or profit for 3 consecutive quarters).</li> <li>In 2012, reduced notice period for dismissal for 'objective' reasons from 30 to 15 days.<sup>29</sup></li> <li>In 2012, allowed dismissal in case of individual absenteeism irrespective of average level in the firm.</li> <li>In 2012, abolished the need for administrative authorisation of collective dismissals.</li> <li>In 2012, allowed collective dismissal in the public sector on economic, technical or organizational grounds.</li> <li>In 2012, increased compensation upon termination of temporary contracts gradually from 8 to 12days/yr of service by 2015 (and set the max duration to 2yrs).</li> <li>But: in 2012, abolished 'express dismissal' procedure.<sup>30</sup></li> </ul>	<ul style="list-style-type: none"> <li>Further reduce severance pay, in particular for unfair dismissals</li> <li>Introduce single open-ended contract with tenure-based severance payments.</li> <li>Streamline judicial treatment of employment disputes.</li> </ul>
Labour market flexibility	<ul style="list-style-type: none"> <li>2012 reform allowed firm-level agreements (with priority over higher-level ones) on basic salary, allowances, overtime compensation and distribution of working time.</li> <li>In 2012, allowed opt-out by employers from CAs for economic, technical or organizational reasons. Introduced obligatory arbitration if workers disagree with the opt-out.</li> <li>In 2012, increased flexibility to temporarily change pay, hours or activity of workers for economic, technical, organization and production reasons.</li> <li>In 2012, reduced automatic extension of CAs after expiration to a max of 1yr (previously no limit).</li> <li>In 2012, suspended (but not abolished) wage indexation clauses in CAs.</li> <li>In 2011, increased the working hours of civil servants to 37.5hrs/wk (from 35).</li> </ul>	<ul style="list-style-type: none"> <li>Further decentralise wage setting (e.g. by moving to 'opt-in' rather than 'opt-out' system for CAs).</li> <li>Abolish automatic continuation of agreements on expiry.</li> <li>Eliminate automatic wage indexation in CAs.</li> </ul>
ALMPs	<ul style="list-style-type: none"> <li>Allowed Temporary Employment Firms (ETTs) to act as private employment agencies.</li> <li>Created new permanent contract for SMEs (&lt;50 empl.), with extended trial period (1yr) and various tax credits.</li> <li>Created tax incentives for hiring first-time employees, and additional hiring incentives for young and long-term unemployed.</li> <li>March 2013 Youth Employment and Entrepreneurship Strategy 2013-16 allocated €3.5bn for 15 short-term and 85 longer-term measures (incl. fiscal rebates, subsidies for hiring, new contractual agreements) to support youth employment.</li> </ul>	<ul style="list-style-type: none"> <li>Improve targeting of ALMPs, by increasing use of training, advisory and job matching services, by strengthening links with passive policies, and by strengthening coordination between the national and regional PES.</li> <li>Increase penalties for rejecting job offers.</li> </ul>
Education/ Training	<ul style="list-style-type: none"> <li>Entitled employees (with tenure&gt;1yr) to 20hrs of professional training/yr with paid leave.</li> <li>Raised age limit to conclude apprenticeships and training contracts to 30yrs.</li> <li>Encouraged vocational training, including through pilot 'dual training' projects (Nov-2012): <ul style="list-style-type: none"> <li>Established a formal collaboration model between educational institutions and companies. Companies will run training activities which should result in attainment of professional qualification.</li> <li>Established a 'contractual' channel for dual training system, where trainees will be considered employees of the company governed by labour law. The max duration of such contracts is 3yrs, with set quota for training activities.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Widen access to upper secondary education</li> <li>Combine the school-based vocational education system and training contracts into one single scheme.</li> <li>Increase teaching of core subjects.</li> <li>Expand the dual programmes.</li> </ul>
Labour force participation	<ul style="list-style-type: none"> <li>Curbed access to early and partial retirement in early 2013 (tightened conditions to access UA for those over-55).</li> <li>Reform of pension system (approved Jun-2011): <ul style="list-style-type: none"> <li>Gradually increases legal retirement age from 65 to 67 between 2013 and 2027.</li> <li>Gradually lengthens earnings record taken into account to determine pension benefits from 15 to 25 yrs</li> <li>Gradually raises contribution years required for full pension from 35 to 37 (based on mths of contribution) and makes pension proportional to contribution years (50% of full pension for &lt;15yrs to 100% for 37yrs)</li> <li>Voluntary extension of working life is encouraged through increased bonuses.</li> <li>Option for early retirement delayed from 61 to 63 years and after 33 contribution years (from 31).</li> <li>Aligned pension system parameters to life expectancy at 67 every five years.</li> <li>Requires contribution for partial retirees and youth contracts.</li> </ul> </li> <li>But: temporarily (in 2012-13) raised personal income tax rates (by 0.75ppts for lowest tax bracket to 7ppts for income &gt;€300k), and introduced supplementary levy on savings income.</li> </ul>	<ul style="list-style-type: none"> <li>Align treatment of pensions for public workers with other public pensions</li> </ul>

Source: OECD Economic Survey on Spain (November 2012), "Improving Employment Prospects for Young Workers in Spain" (Anita Worlfi, OECD, 2013), "Promoting Quality Job Creation and Social Protection" (G20 Policy Briefs, September 2011)

<sup>28</sup> Candidates should have not rejected appropriate job offers and to attend activation and training sessions.

<sup>29</sup> 'Objective' dismissal requires technical, organisational or other production process-related changes (no longer proof that dismissal was necessary for future firm profitability, see OECD Economic Survey on Spain (Nov-2012)

<sup>30</sup> Under express dismissal, firms could declare the dismissal upfront as being "unjustified" and pay 45 days' wages per year of seniority to avoid litigation.

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## Appendix A-1

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