

ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt, 4 July 2017

L/MD/17/267

Re: Your letter (QZ-041)

Honourable Member of the European Parliament, dear Mr Chountis,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 31 May 2017.

The box entitled “Assessing labour market slack” in the ECB’s Economic Bulletin¹ looks at developments in wider measures of labour market slack in comparison with the rather narrow definition of the unemployment rate. As explained in the box, the difference between the two metrics is due to the inclusion of estimates for three further groups in addition to the numbers counted as unemployed², namely:

- those available for but not seeking work (including “discouraged” workers);
- those seeking work but not available to take up work within the two weeks required to be considered unemployed according to the international definition;
- underemployed part-time workers who want to work more hours.

In addition, the denominators for the two metrics differ slightly. The broader measure adjusts the labour force to include the first two groups mentioned above, which are not usually included in the calculations behind the headline unemployment figures.

¹ ECB (2017), *Economic Bulletin*, Issue 3, available at https://www.ecb.europa.eu/pub/pdf/other/ebbox201703_03.en.pdf

² According to the International Labour Organization’s definition of unemployment (on which the euro area headline unemployment rate is based), jobseekers are considered unemployed if they are (i) without work, (ii) available to start working within two weeks and (iii) actively seeking work.

As per your specific request, ECB staff have calculated the ratios (available currently only to the fourth quarter of 2016, on a four-quarter moving average basis) and these are shown, alongside Eurostat's harmonised "headline" unemployment rates for the same quarter, in the Annex to this letter.

Given the widely recognised large cross-country differences in headline unemployment rates, it is perhaps not surprising to find that broader estimates of labour underutilisation also suggest divergent developments across countries. Thus while the latest estimate of broader labour market slack for the euro area is just under 18.5%, country estimates range from 7.3% and 9.6% of the extended labour force in Malta and Germany, respectively, to rates of 29.2% in Spain and 31.3% in Greece. Using the longest series available, data show that virtually all euro area countries saw a marked increase in broader slack measures over the course of the crisis – often as a consequence of marked increases in both unemployment rates and in broader underutilisation measures. The only exceptions are Germany and Slovakia, where estimates of broader labour market slack were relatively high even before the crisis.

All countries have seen some reductions since their respective unemployment peaks – regardless of whether the narrower "headline" unemployment rate or the broader underutilisation measure is used. Moreover, as Table 1 shows, six euro area countries – Germany, Estonia, Latvia, Lithuania, Malta and Slovakia – ended 2016 with lower rates of labour underutilisation than in the first quarter of 2006, of which three – Germany, Malta and Slovakia – also saw reductions in headline unemployment rates over this period (as shown in Table 2).

To conclude, let me reiterate that the ECB's monetary policy decisions primarily aim at maintaining price stability in the euro area as a whole. Monetary policy cannot be tailored to developments in particular countries, and – as I have had the opportunity to explain on many occasions before the European Parliament – all euro area countries are benefiting from the current accommodative monetary policy stance.

Yours sincerely,

[signed]

Mario Draghi

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Annex – Detailed data on labour underutilisation and unemployment rate in euro area economies

Table 1: Broad measure of labour underutilisation in the euro area and euro area countries, 2006Q1, crisis peak and 2016Q4

(% of extended labour force*)

	2006Q1	peak	2016Q4
euro area	16.1	20.6	18.5
BE	12.0	14.6	13.4
DE	19.4	16.9	9.6
EE	13.8	23.8	12.7
IE**	7.4	23.7	13.9
GR	12.9	33.9	31.3
ES	17.4	36.6	29.2
FR	15.1	19.2	18.7
IT	15.9	23.9	22.5
CY	10.0	27.8	24.3
LV	19.6	31.3	16.7
LT	12.3	22.3	10.9
LU	5.7	15.6	14.2
MT	10.9	11.3	7.3
NL	9.8	19.1	16.1
AT	13.1	14.2	14.0
PT	10.5	26.0	19.7
SI	10.5	15.5	12.8
SK	18.0	17.8	13.8
FI	16.0	19.4	19.1

Table 2: Unemployment rate in the euro area and euro area countries, 2006Q1, crisis peak and 2016Q4

(% of labour force)

	2006Q1	peak	2016Q4
euro area	8.7	12.1	9.7
BE	8.6	8.7	7.2
DE	10.5	7.8	4.0
EE	6.4	18.3	6.6
IE	4.5	15.1	7.1
GR	9.4	27.9	23.4
ES	8.8	26.2	18.7
FR	9.1	10.5	9.9
IT	7.3	12.8	11.8
CY	5.2	16.6	13.1
LV	8.2	20.4	9.4
LT	6.4	18.2	7.5
LU	4.6	6.5	6.2
MT	7.2	7.1	4.3
NL	5.4	7.8	5.5
AT	5.7	6.1	5.8
PT	8.7	17.4	10.4
SI	6.5	10.7	7.9
SK	14.7	14.8	9.0
FI	8.0	9.4	8.8

Source: Eurostat and ECB Staff calculations.

Note: *Extended labour force is calculated as the active labour force plus those available, but not seeking work and those seeking work, but not available. Data on underemployed part-time workers extended backwards using the growth rates of the interpolated annual time series on involuntary part-time workers. Peak is calculated over the interval from 2008Q1 to 2016Q4. **Data for Ireland start in 2006Q3 on a four-quarter moving average basis.

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