



EUROSÜSTEEM

# LABOUR MARKET REVIEW

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2020

## LABOUR MARKET REVIEW

The labour market review by experts from Eesti Pank covers developments in the supply and demand of labour in Estonia, and the cost of it in wages. The central bank observes the labour market for two reasons. Firstly, labour is an important production input, as a change in the supply or activity of labour can directly affect potential growth. Secondly, events in the labour market can have a major impact on inflation.

As the euro area monetary policy targets price stability, and the Estonian economy is very open, the economy adjusts to changes principally through the prices and volumes of production inputs. For this reason it is important for the labour market to be flexible and for wage rises to correspond to productivity growth, as otherwise the increase in production costs could lead to excessive inflation.

This review compares developments in Estonia with those in other European countries. It uses two types of figure for international comparison dividing countries into regional groupings for a long-term view and using unweighted averages. The exception is the EU15, for which a weighted average like that published by Eurostat is used. The Southern Europe group contains newer member states of the European Union: Croatia, Romania, Bulgaria, Malta, Cyprus and Slovenia. The Southern European countries Italy, Greece, Spain and Portugal are in the EU15 group. The Central and Eastern European countries in the CEE4 are Czechia, Hungary, Poland and Slovakia. In figures showing a single year, countries are shown in the colour representing the group that they are in.

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## SUMMARY

The coronavirus pandemic that started from China in early 2020 is set to affect the labour markets more than the last financial crisis did. The coronavirus crisis has hit the labour market much faster than the great financial crisis that started in 2008. Jobs have been lost quickly because demand and supply in the economy were hit simultaneously and the blow fell first of all on the labour-intensive service sector. This labour market review analyses the state of the Estonian labour market immediately before the coronavirus crisis, and reviews the flash statistics. Analysis of the direct impact of the crisis is made harder because the labour market reacts to such shocks with something of a lag and a majority of the data from surveys come in even later.

The Estonian labour market was starting to cool in the second half of 2019 and early 2020, though it was still in a very good position with particularly high employment, very low unemployment and strong growth in wages. Employment increased strongly in the service sector, where it was supported by strong consumer confidence and rising household incomes, while employment of Estonian residents in industry was falling. That the labour market was cooling was indicated by a rise in registered unemployment and a small fall in the number declared as receiving a wage. A regional exception was Ida-Virumaa, where employment and unemployment were affected by a loss of competitiveness in the oil shale sector, which led to large-scale redundancies in 2019. The developments of the previous year continued throughout almost the whole of the first quarter of 2020.

The impact of the coronavirus crisis started to be felt in Estonia shortly after the emergency situation was declared and the measures to prevent the spread of the virus were introduced on 13 March. The ability of companies to produce goods and services was affected by the restrictions introduced in Estonia and in other countries. This was a supply-side shock to the economy. The coronavirus shock hit first and hardest in parts of the service sector connected to tourism, hotels and restaurants, and leisure, entertainment and culture. The number of employment relationships registered in the employment register fell most in hotels and restaurants during the emergency situation. The decision to close shopping centres was also a supply-side shock to retail.

The crisis also affected the production capacity of companies through access to labour. The amount of labour in the economy is partly affected by the closure of borders, which led to a steady reduction in the number of short-term workers in Estonia. There is also a danger of some people who are particularly at risk from the virus leaving the labour market. They could do this by taking temporary sick leave or by retiring. Companies less affected by the crisis will have increased access to labour in the labour market from among the unemployed who have lost their jobs in companies that have been particularly hard hit. It is probable though that the profile of the newly unemployed will not match that of the jobs that are on offer.

On top of the supply-side shock has come a substantial drop in demand for the products and services of companies, even where the restrictions have not directly prohibited consumption. Lifestyles changed by remote studying and remote work, fear of infection, uncertainty, and expectations of a reduction in income have all changed household consumption, mostly reducing it. Passenger transport companies and catering companies are among those that have been hit more than others by the demand shock. On top of the fall in domestic demand, demand from abroad for the export products of Estonian companies has also fallen. This has then affected the manufacturing sector in Estonia.

The list of impact channels shows that the vulnerability to the coronavirus crisis varies across sectors and the reduction in jobs will also be affected by how labour-intensive the different sectors are. Looking over time, the difference can be made between the sectors that are hit in the first wave, and those where demand for goods and services is affected more through a fall in incomes rather than directly by the restrictions put in place to stop the coronavirus.

The coronavirus crisis will probably affect the gender gaps in the labour market in a different way to how other earlier crises have. This crisis has hit hardest in parts of the service sector where more

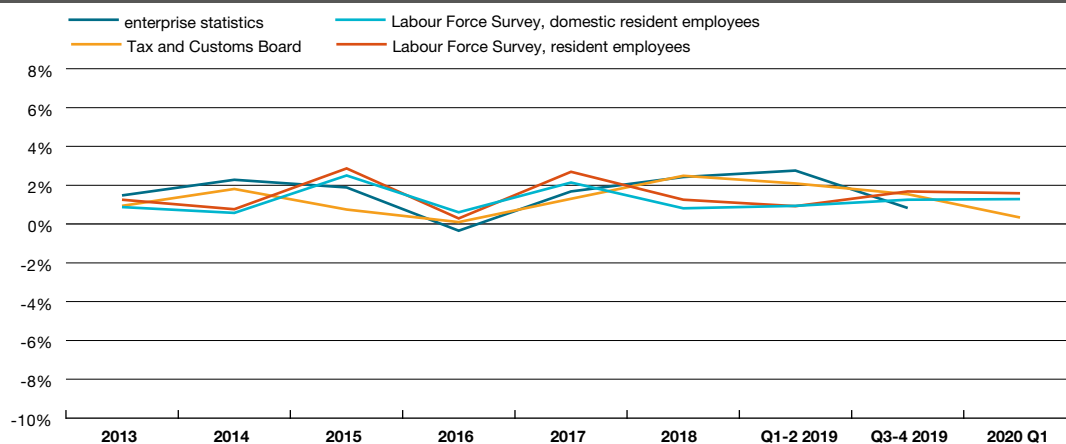
women are employed than men. There were more women than men among those newly registered as unemployed. The position of women in the labour market is also made harder by schools moving to remote studies and the great reluctance to leave children in kindergarten or with their grandparents. This has unfortunately increased the burden of care for women more than for men, and puts particular pressure on single parents, most of whom are women.

# LABOUR DEMAND

## EMPLOYMENT

The Estonian labour market was in a very strong position for employment and unemployment levels at the end of 2019 and in early 2020 before the outbreak of the coronavirus crisis, but several data sources indicated that the cooling of the economy had started to reach the labour market too. The labour force survey showed that companies based in Estonia employed an average of 666,000 Estonian residents in the second half of 2019, and 670,000 Estonian residents in the first quarter of 2020. The employment of Estonian residents<sup>1</sup> at companies based in Estonia was 1.7% more than a year earlier in the second half of 2019, and 1.5% more at the start of 2020 (see Figure 1). The number of Estonian residents working abroad fell by 9% in the data from the labour market survey in 2019, probably because they were better able to find work in Estonia, and the number of permanent residents of Estonia working abroad, mainly in Finland, averaged 15,400. The number continued to fall in early 2020. All the data sources indicate that employment had grown over the year, but data from the Tax and Customs Board and the enterprise statistics show that the growth was slowing in the second half of 2019 and in early 2020. The short-term employment of foreign labour boosted growth in total employment by around 1.2 percentage points in the second half of 2019. There were in total a little under 20,000 current registrations for short-term work in Estonia in the second half of 2019. Although this was more than there were a year earlier, the rate of growth in registrations was slowing each quarter, and there was no change in the number of short-term workers in the first quarter of 2020.

**Figure 1. Change in the number of employees by different data sources**



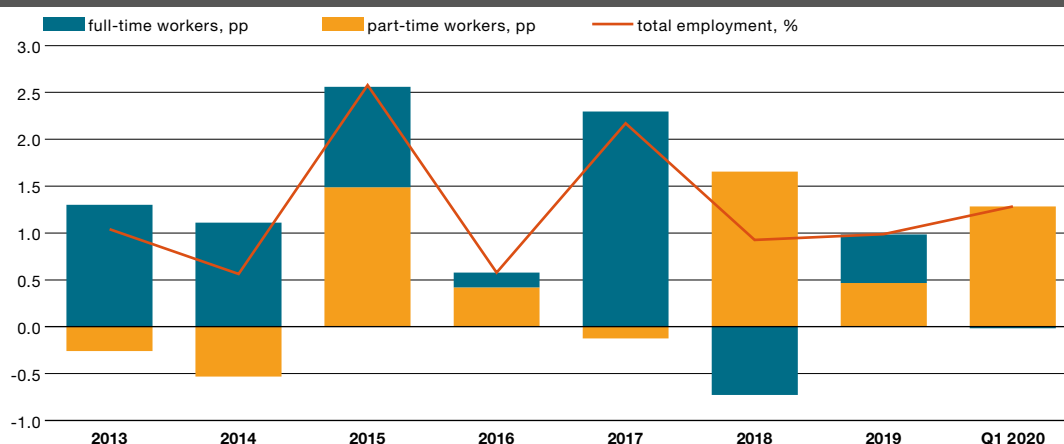
Sources: Statistics Estonia, Tax and Customs Board, Eesti Pank calculations

The number of hours worked per employee in Estonia has fallen since the second half of 2017, by a total of 4.8% over three years. In the same time the share of part-time employment has grown faster than the share of full-time employment, and in the second half of 2019 there were 18% more part-time workers than three years earlier but only 3.3% more full-time workers. This reflected increasing employment of the younger and older generations because of the shortage of available labour. Employment increased in the first quarter of 2020 entirely because of part-time employees, while there were the same number of full-time employees as a year earlier (see Figure 2). In the second half of 2019, 12.3% of those in employment were working part-time and at the start of 2020 14.7% were, which is the highest figure among the countries of Central and Eastern Europe though still well below the average for the 15 older member states of the European Union, where 23.7% of those in employment were working part-time in 2019.

<sup>1</sup> The general population used in the labour force survey is Estonian residents, meaning permanent residents who have lived in the country or plan to do so for at least 12 months and who spend the majority of their free time in Estonia.



**Figure 2. Change in the number of employees by full/part-time work**



Sources: Statistics Estonia, Eesti Pank calculations

The cooling of the economy that started from the external environment was reflected particularly in 2019 in a decline in employment expectations among companies in industry and construction, and a slower rate of growth of employment in manufacturing. It should be noted though that employment was still high in manufacturing, especially when short-term workers are included. Rapid growth also continued throughout 2019 in the service sector, where the expectations of companies for future employment remained positive. The good performance of the service sector was supported until the coronavirus crisis by rapid increases in household incomes and strong confidence among consumers. The number of people in employment remained high, though growth in employment was already slowing in the first quarter of 2020 before the emergency situation was declared. Data from the Tax and Customs Board show the number receiving a wage was higher than a year earlier until March, though it had been falling in monthly comparison since August 2019. The flash statistics from Statistics Estonia also show that the number of employment relationships registered in the register of employees rose over the year, but at a slowing rate.

## THE IMPACT OF THE CORONAVIRUS ON EMPLOYMENT

The Estonian economy has clearly been hit by two recessions in the past couple of decades, meaning it has gone through two classical economic cycles<sup>2</sup>. Unsurprisingly these crashes hit the labour market hard as unemployment rose while employment and wages fell. The first crash was at the end of the 1990s and unemployment peaked in the first quarter of 2000, when 100,000 people or 14.6% of the labour force were out of work. The second crisis started in the second half of 2008 and culminated in the first quarter of 2010 with the highest figure for unemployment since independence was regained of 19.8%, as 137,000 people were out of work.

In these previous recessions a fall was seen first in gross domestic product, with changes appearing in the labour market after a lag of around six months. As Estonia has a small and open economy, those earlier recessions were much deeper than the average for countries in Western Europe. The reaction of the labour market to these crashes was also strong as the unemployment figures for Estonia and the other Baltic states in the last recession were among the highest in the European Union and well above the average. The only countries where unemployment was higher than in Estonia at the end of 2010 were Spain, Lithuania, Latvia, Greece, Ireland and Slovakia<sup>3</sup>. Support measures were used little during the previous recession and spending by the general government and the private sector fell, so the economy could only rebalance through the labour market, which caused unemployment to rise, wages to fall, working time to be reduced, and more<sup>4</sup>.

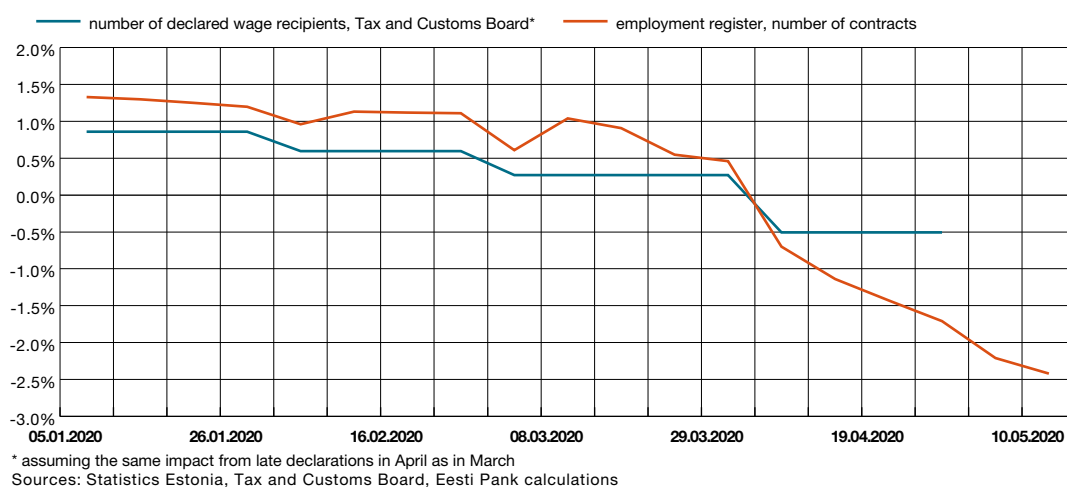
<sup>2</sup> The downturn in the classical economic cycle sees economic activity shrink in absolute terms, meaning growth rates are negative.

<sup>3</sup> Statistics Estonia, Eesti Statistika Kvartalikirii 2/11.

<sup>4</sup> Rosenblad Y. (2011), "Tööturg majanduskriisi teises pooles", Eesti Statistika Kvartalikirii 2/11.

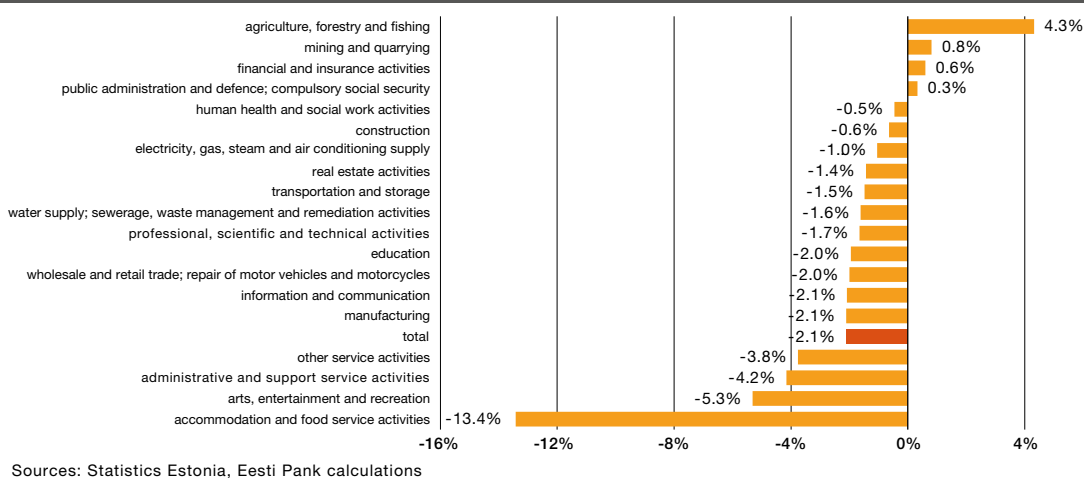
In contrast to the 2008 financial crash, when the recession reached the labour market after half a year, the coronavirus crisis hit the labour-intensive service sector fast and hard. Areas that were directly and firmly impacted by the restrictions started to terminate employment relationships at the beginning of the crisis. The number of agency and indirect contracts fell by 6% in the first two months, which was more than the fall of 1.9% in the number of employment contracts, according to data from the employment register. It is less expensive for companies to terminate indirect contracts, and such contracts do not qualify for wage compensation from Töötukassa. The register shows that the number of registered employment relationships was in total 1.4%, or 10,580, lower on average in April than a year earlier and was down 2.4% by the second week of May (see Figure 3).

**Figure 3. Change in the number of employees in different data sources in the first half of 2020**



From the declaration of the emergency situation to 18 May, the number of contracts in the employment register fell most in accommodation and catering and in arts and entertainment (see Figure 4), where there is probably a larger share of indirect contracts than the average elsewhere. The fall in employment has however happened widely across sectors, especially given that the seasonal increase in employment in several sectors was smaller than in 2019.

**Figure 4. Change in the number of contracts in the employment register from 15 March to 18 May 2020**

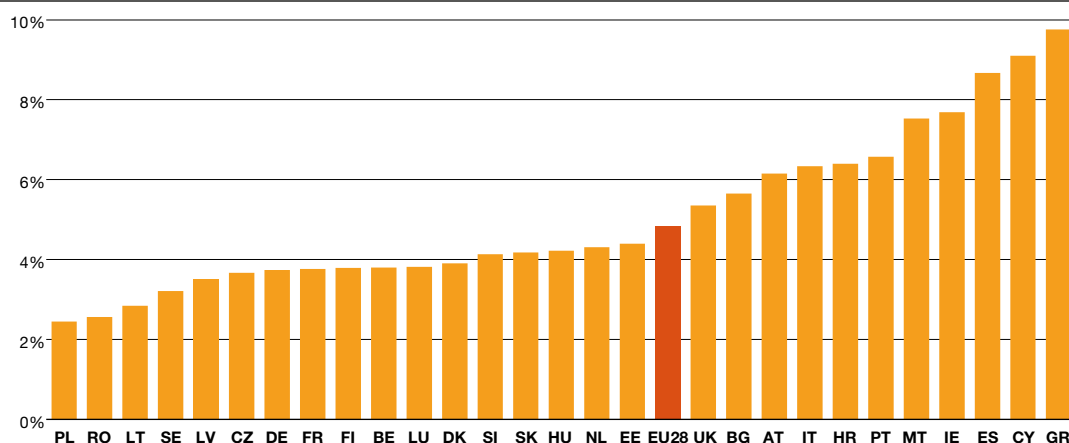


Labour force survey data show that 4.4% of all those employed in Estonia in 2019, or 20,000 people, were working in accommodation and catering, while the enterprise statistics put the figure at 25,000 and the employment register shows that around 30,000 employment relationships were registered in



the sector. Employment in the sector has remained at the same level since 2015. The share of employment in the sector in Estonia was at the average for other countries in the European Union, and was well below that in Mediterranean countries that are more oriented towards tourism (see Figure 5).

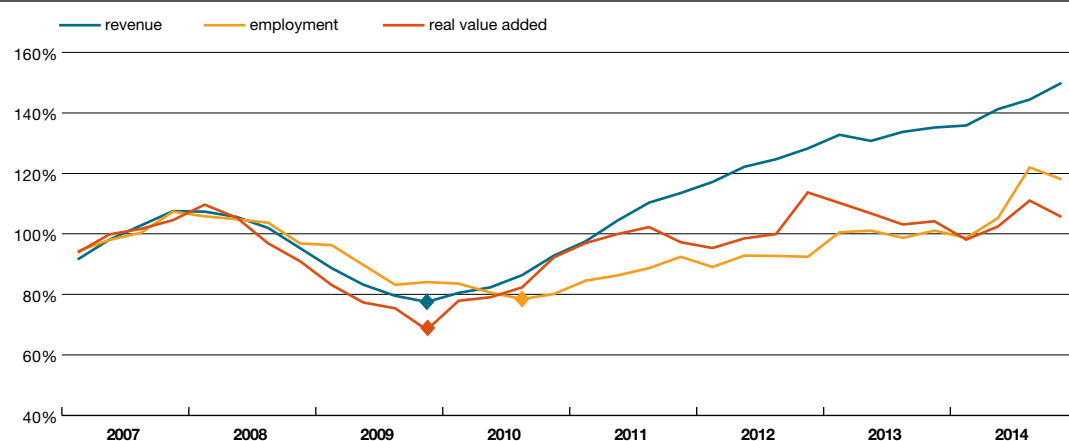
**Figure 5. The share of accommodation and food service activities in total employment**



Sources: Statistics Estonia, Eesti Pank calculations

A large part of the sales turnover in accommodation and catering comes from tourism and eating out, which are not primary needs, and so the sector is sensitive to the economic cycle. During the previous recession, when no restrictions were placed on economic activity, the sales turnover of accommodation and catering was down by 24% in 2009 and real value added was 28% lower than in the year before the crash. Employment at companies in the sector fell at essentially the same rate as sales with a lag (see Figure 6).

**Figure 6. Economic indicators of accommodation and food service activities, seasonally adjusted, 2007 average = 100%**

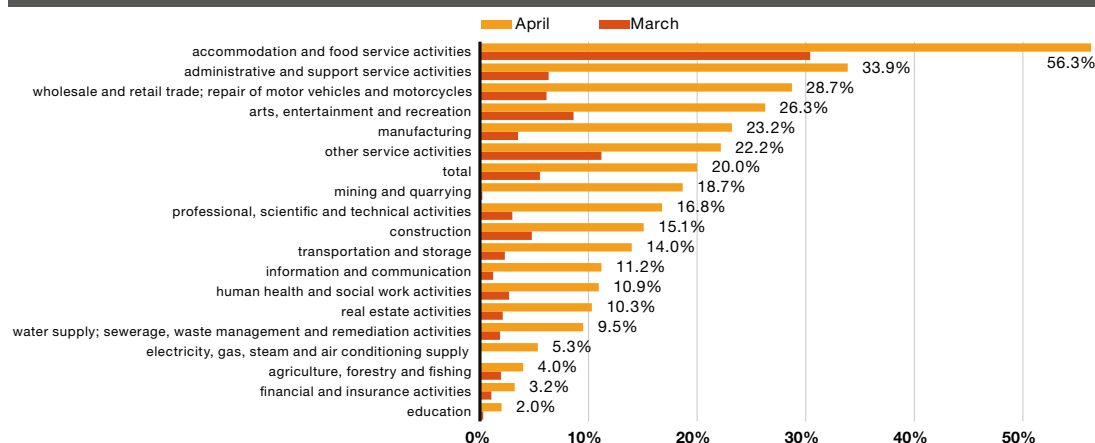


Sources: Statistics Estonia, Eesti Pank calculations

The main causes of the fall in demand for accommodation and catering during the financial crisis were the falls in household incomes and confidence. In the first stage of the coronavirus crisis though it was the measures taken to stop the spread of the virus that affected sales turnover in accommodation and catering and the drop in demand caused by fear of infection by the virus. The closure of borders and restrictions on travel caused sales to foreign tourists to disappear, while the transfer of schools to remote learning and of many employees to homeworking reduced demand for catering companies and institutions. Sales turnover in the sector was probably also affected substantially by the closure of shopping centres and the ban on organising events.

The sector also includes spas, which were closed because of the virus epidemic. In total the sales turnover of accommodation and catering fell sharply by around 70-80% because of the restrictions, which is much more than at the start of the financial crisis. Data from the employment register show the number of registered client relations in accommodation and catering was 16.4% or 5127 lower in the second week of May than a year earlier. The wage compensation measures from Töötukassa were being used in April for 16,440 workers in the sector<sup>5</sup>, which is 57% of the waged employees of the sector (see Figure 7). The number receiving wage compensation evidently does not reflect the number of jobs that are in danger of being lost, but is an indicator of companies that have been hit hard by the crisis. Some of the restrictions affecting accommodation and catering were eased in May as catering establishments in shopping centres were allowed to sell food for eating in when shopping centres opened for example. Companies in the sector were also affected by the reopening of swimming pools and spas, and the opening of borders with Latvia and Lithuania eased the restrictions on foreign tourism.

**Figure 7. The share of those employed receiving wage compensation by sector from the Labour Force Survey 2019**



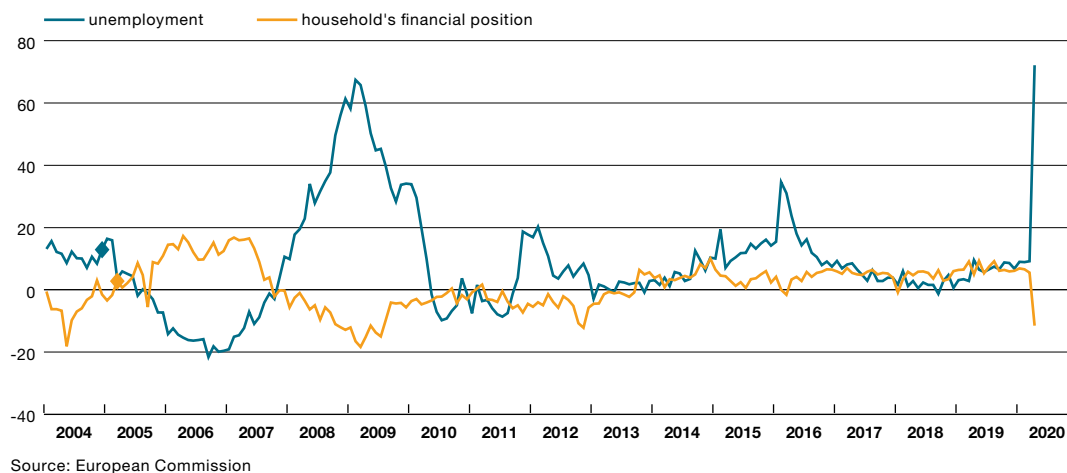
Sources: Statistics Estonia, Töötukassa, Eesti Pank calculations

All these developments can be seen as the first phase impacts from the current crisis, when the labour market is affected by the measures taken to stop the spread of the virus and by the changes people made to their own behaviour to avoid the risk of infection. It is probable that this will be followed by a second phase of the crisis when economic activity is restricted more by a general loss of confidence. This could bring domestic demand down sharply, which would then affect the economy more broadly. Sentiment surveys carried out in first two weeks of April by the Estonian Institute of Economic Research showed a serious fall in consumer confidence in early April. People were uncertain over a 12-month horizon whether they would have a job and would maintain their incomes (see Figure 8).

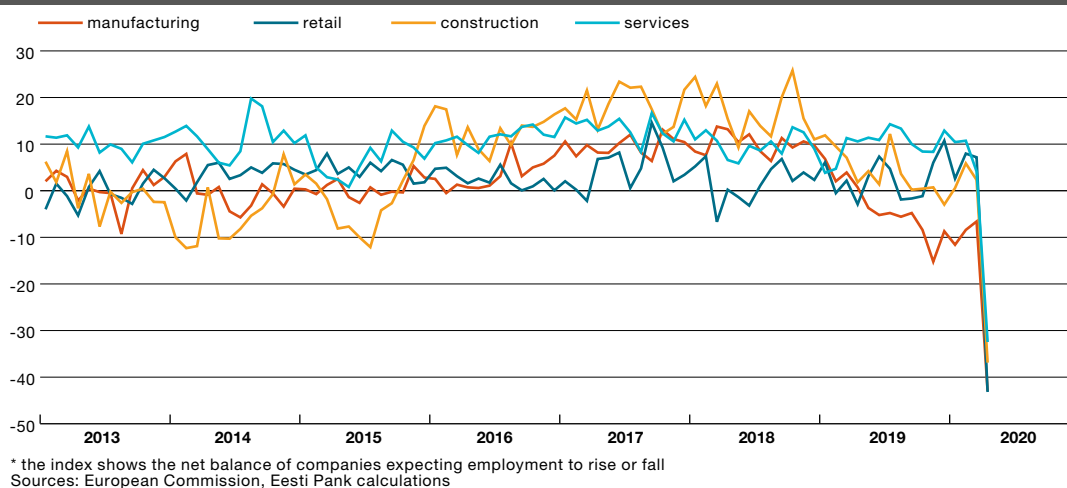
Foreign demand is falling at the same time since all countries are experiencing the same crisis, and a small and open economy like Estonia's is very dependent on the performance of trading partners. The drop in demand will be a blow to the non-financial sector focused on exports, but exports of services could also be reduced. The uncertainty caused by the decline in foreign demand is already evident in indicators of corporate confidence, which have fallen to historically low levels in industry, construction and other sectors. In the three-month horizon companies identify reductions in orders and in their ability to provide work for their employees, and expectations for employment have become much more pessimistic (see Figure 9). This could cause a new wave of problems in the labour market, with increasing unemployment, falling employment and slower wage growth or even wage cuts. These developments would be the second phase of the crisis in the labour market, and this would spread to

<sup>5</sup> As at 24 May 2020.

**Figure 8. Expectations of households for unemployment and their financial position in the next 12 months**



**Figure 9. Employment expectations\***



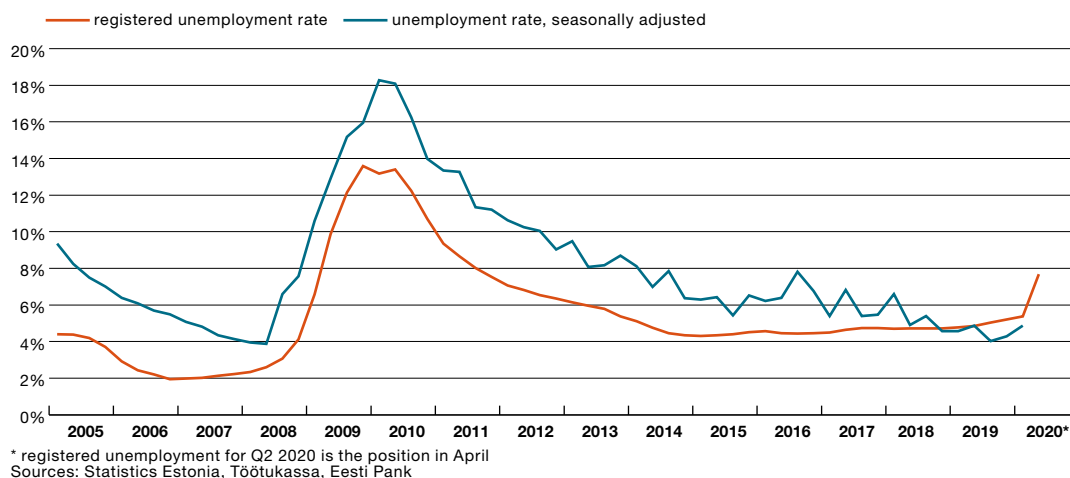
most sectors. The employment register shows that terminations of employment contracts have been seen between the middle of March and April in most sectors, and it may be estimated that more will be seen in the months ahead, especially once the state support measures have been withdrawn.

## UNEMPLOYMENT

The unemployment rate was very low in the second half of 2019, with the labour force survey putting it at 3.9% in the third quarter and 4.1% in the fourth quarter. As the emergency situation only affected two of the 12 weeks in the first quarter of 2020, the unemployment rate was also low in that quarter at 5% (see Figure 10). Registered unemployment was higher in 2019 than the unemployment rate in the labour force survey, averaging 5.9%. This occurs because the two indicators use different definitions. The labour force survey only considers people to be unemployed if they are ready to start a job within two weeks for example, while the registered unemployed do not have to be ready to start work if they are on a training course.

Registered unemployment mainly increased in the second half of 2019 in two regions of Estonia, Ida-Virumaa and Harjumaa. An important factor in Ida-Virumaa was the downturn in the oil shale sector, which lost competitiveness following the rapid rise in the price of emissions quotas that started in the middle of 2017. Unemployment increased in Ida-Virumaa primarily through redundancies, and the 899 of them in the second half of the year was 75% more than a year earlier. A further 416 redundancies were added to this in the first two months of 2020. The number registered as unemployed in Harjumaa

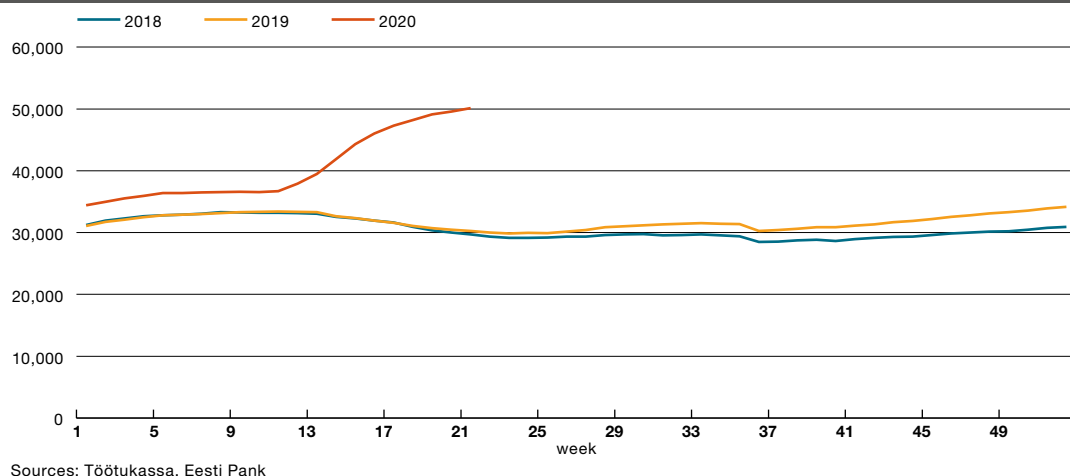
**Figure 10. Unemployment**



has been rising for several years, though the reason why is not clear. Unemployment increased further last year, though in contrast to Ida-Virumaa the increase in the number of employment relationships terminated had various causes.

There was a sharp rise in the number registered as unemployed after the emergency situation was declared on 13 March, and at the same time the probability of the registered unemployed finding a job declined. During the two months of the emergency situation, the number registered as unemployed rose from 38,000 people to a little over 50,000, and the rate of registered unemployment rose from 5% to 7.8% (see Figure 11). This meant there were around a third more registered unemployed than there were at the start of the emergency situation. Around 30% of those who became unemployed lost their jobs through redundancy. Registered unemployment grew fastest in Harjumaa, where the share of employment in accommodation and catering is above the average, and this accounted for more than half of the change in Estonia. A little over half of those made redundant were living in Harjumaa. The registered unemployment rate in Harjumaa is still below the average in Estonia, and it stood at 7% on 27 May. The highest rate was in Ida-Virumaa, where 13.2% of the labour force were registered as unemployed with Töötukassa.

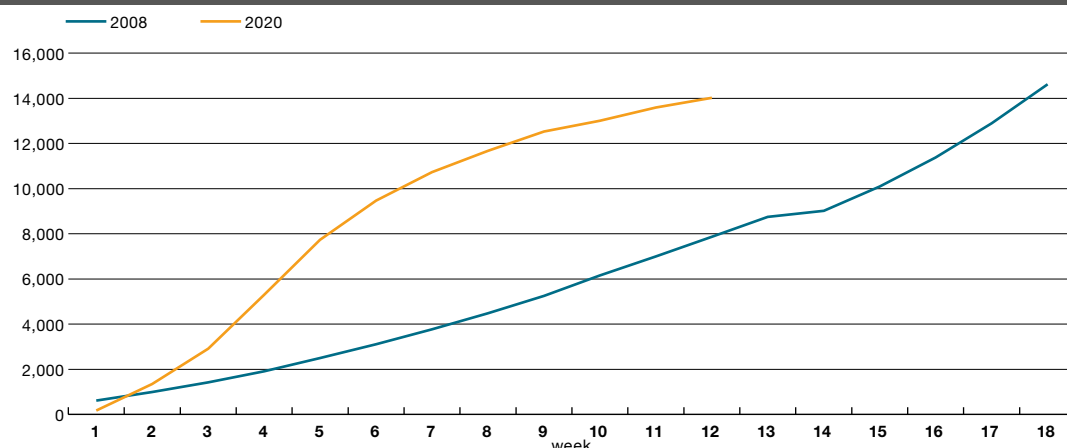
**Figure 11. The number registered as unemployed, weekly average**



The data for registered unemployment also show that the labour market was affected faster by the coronavirus crisis than it was by the 2008 great financial crisis. This is quite natural given that many

companies and sectors faced administrative restrictions on activity. If the financial crisis is taken as starting with the bankruptcy of Lehman Brothers in September 2008, which caused a sharp deterioration in financing conditions in financial markets, then registered unemployment increased in the first three months of the crisis by an average of 830 people a week. During the first eight weeks of the coronavirus crisis, registered unemployment rose by an average of 1550 people a week (see Figure 12).

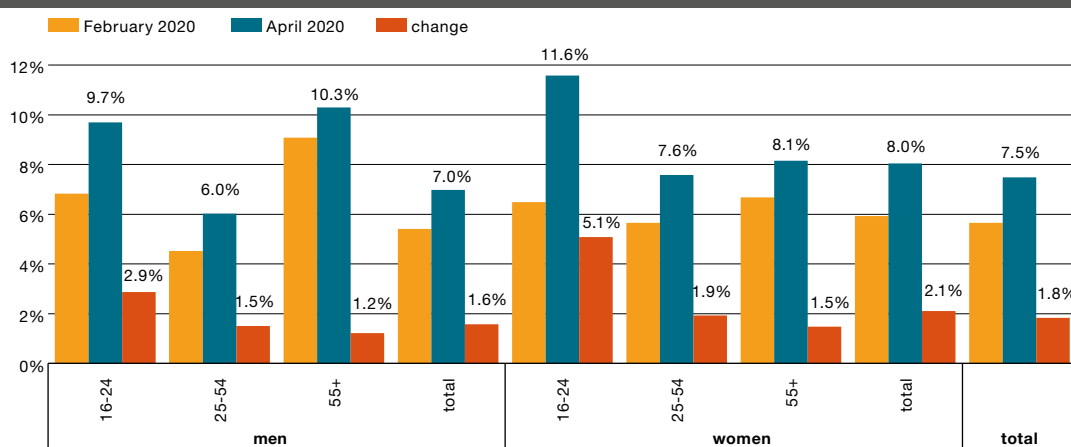
**Figure 12. Change in the number registered as unemployed against the month before the emergency situation and the average in August 2008**



Sources: Statistics Estonia, Töötukassa, Eesti Pank

The profile of the newly registered unemployed gives an indirect indication of which type of workers saw the fastest increase in unemployment. The change over two months from February to April saw the total number unemployed rise by 11,891 people, of whom 55% were women and 45% were men. The number of women registered as unemployed rose by 35.6%, which was faster than the rise of 29.1% in the number of men registered. The great financial crisis hit hardest in the male-dominated industrial sector, but the first phase of the coronavirus crisis hit the service sector, where women are in the majority. The age group with the highest registered unemployment rate was women aged 16-24, among whom it rose from 6.5% in February to 11.6% at the end of April (see Figure 13). The registered unemployment rate for women in middle and older age groups also rose somewhat faster.

**Figure 13. Registered unemployed rate by age and gender**

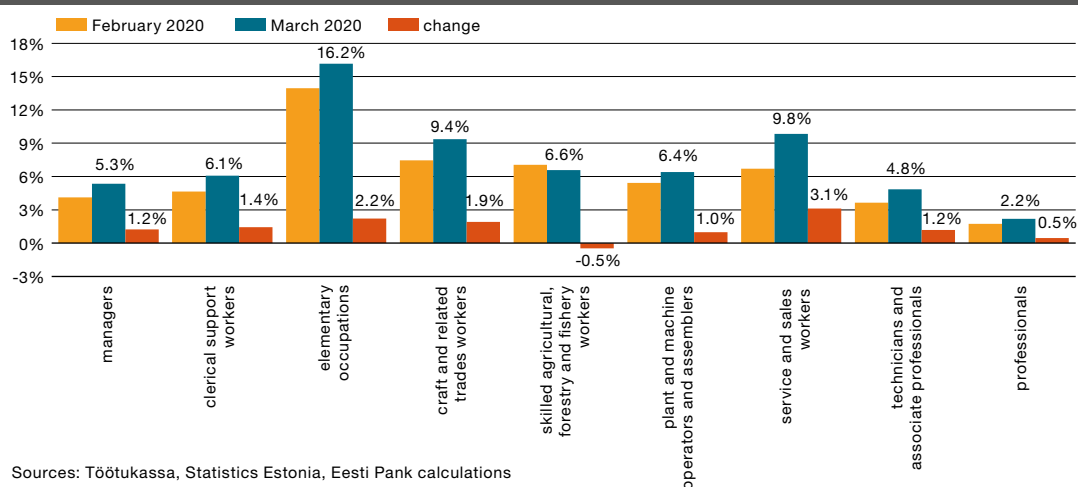


Sources: Töötukassa, Statistics Estonia, Eesti Pank calculations

With some reservations it is possible to find the unemployment rates in different occupations by taking the occupations people previously worked in and comparing the total number employed in that position currently and previously. It should be noted that this indicator does not cover those looking for work who did not previously have a job or whose previous job is not covered by the data. People may

also be applying for jobs that are different from their previous work experience and previous occupations. This means that the unemployment rates for particular occupations do not perfectly reflect the degree of competition for that type of job. Figure 14 shows that there are few professionals registered as unemployed as a proportion of the total number of professionals in employment, but the proportion for unskilled workers is much higher. The biggest increase of 28% in the number registered as unemployed came among service and sales staff, for whom the unemployment rate rose by 3.1 percentage points, and they were followed by unskilled employees. Service and sales jobs employed 27% of those aged 15-24 in 2019, and the share of younger employees in unskilled jobs was higher than the share of middle-aged workers.

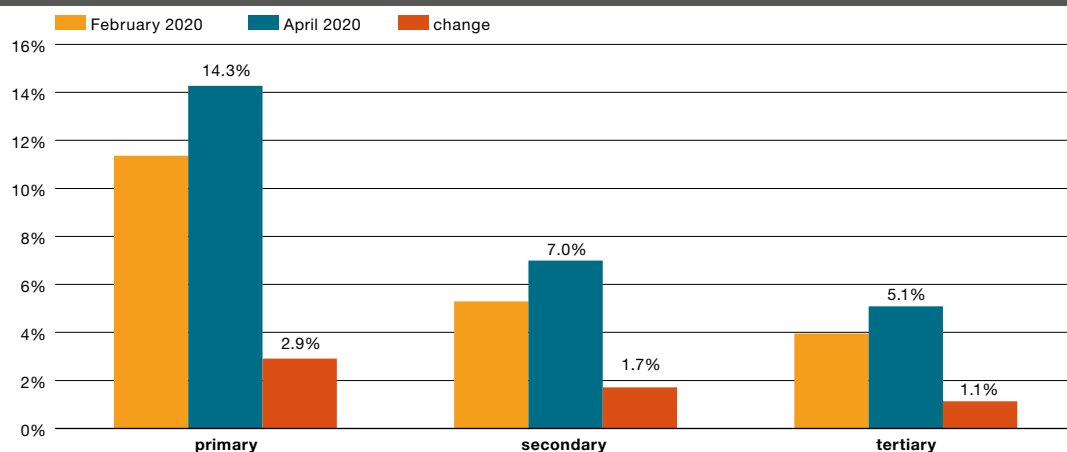
**Figure 14. Registered unemployment rate by occupation**



Sources: Töötukassa, Statistics Estonia, Eesti Pank calculations

Half of the newly registered unemployed had secondary education, meaning secondary school or vocational education, and a quarter of them had completed higher education. The unemployment rate among those with only basic education increased by the most though (see Figure 15). This could again be because of increased unemployment among the young who have not yet completed their secondary education. Around half of the registered unemployed listed their previous job. This shows the number registered as unemployed was raised most by job losses in catering, accommodation and tourism, followed by construction.

**Figure 15. Registered unemployment rate by level of education**



Sources: Töötukassa, Statistics Estonia, Eesti Pank calculations

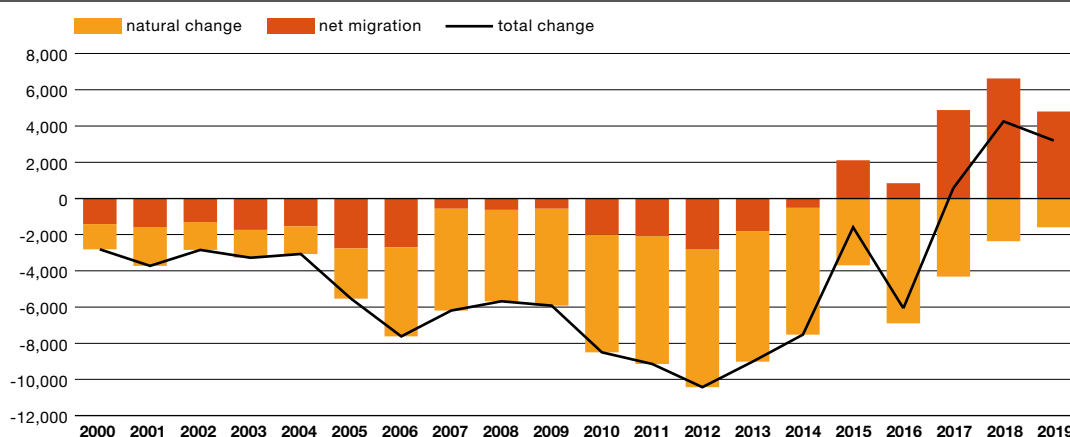


## LABOUR SUPPLY

The Estonian population has been growing since 2015. The initial estimate by Statistics Estonia is that it grew by 3540 people, or 0.3%, in 2019 and on 1 January 2020 there were 1,328,360 permanent residents of Estonia. The increase in population has come from migration, as the number moving to live permanently in Estonia has since 2015 exceeded the number leaving, with 5030 people arriving in 2019. Registered and unregistered immigration was estimated at 0.9% of the population registered at the start of the year in 2019, and emigration was at 0.5%. These figures cover only those who came to live permanently in Estonia or left permanently, meaning they planned to spend at least 12 months in Estonia or out of it, and so the population statistics do not cover the majority of people working short-term in Estonia or those posted to work in Estonia.

As the population has increased, so has the number of residents of working age, which is 15–74, and this number has also been raised by positive net migration (see Figure 16). The natural decline in the working age population has bitten less and less in recent years, as the cohorts exiting the labour market are the small ones that were born after the Second World War, and those entering the workforce in future will be slightly larger ones.

**Figure 16. Change in the working age population aged 15–74**

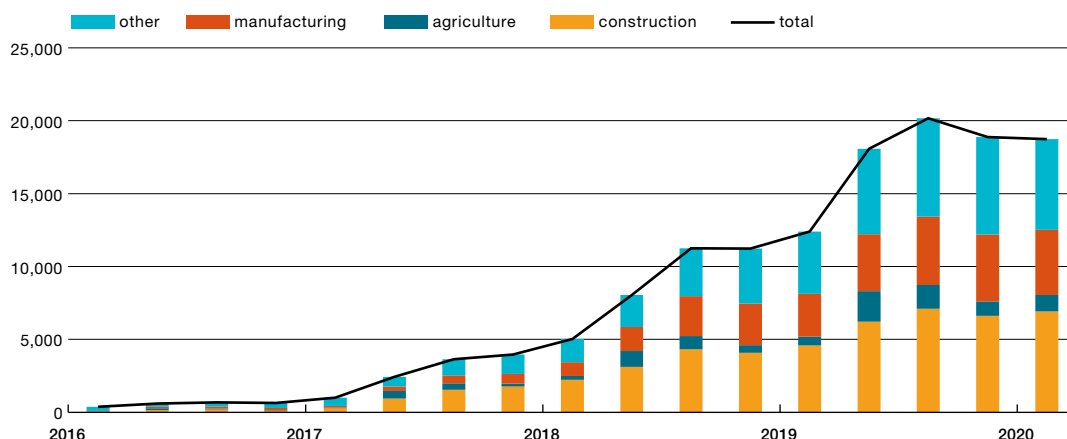


Sources: Statistics Estonia, Eesti Pank calculations

Strong growth in the economy in recent years has substantially increased the demand for labour. Growth in the domestic labour supply helped ease labour shortages in 2015–2018, but in 2019 the domestic labour supply in Estonia remained about the same as in the previous year. After falling a little in the first half of the year, the labour supply in Estonia increased in the second half of 2019 by 1550 people to 706,300 in the data from the labour force survey.

The population statistics and the estimates of employment and unemployment in the Estonian labour force survey exclude residents of other countries who are working temporarily in Estonia. The labour supply in Estonia has been increased in recent years by short-term workers from outside the European Union. Data from the Police and Border Guard Board show there were 18,741 current registrations for short-term work at the end of the first quarter of 2020 (see Figure 17), of which 37% were for work in construction and 24% for work in manufacturing. The quarterly growth in the hiring of short-term workers slowed in 2019. This reflects weaker demand for labour from the industrial sector. When the emergency situation was declared, the Estonian state border was closed to foreigners and long-term visas stopped being issued. The government also decided not to extend the right of short-term workers in Estonia to work in Estonia except in agriculture. This has meant the number of short-term workers in the Estonian labour market has gradually fallen since the start of the emergency situation. Data from the Ministry of the Interior show the number of short-term workers fell by 2200 from the end of March to the last week of May. The fall was somewhat slower than in previous quarters, as people whose

Figure 17. Number of current short-term registrations for work, end of quarter

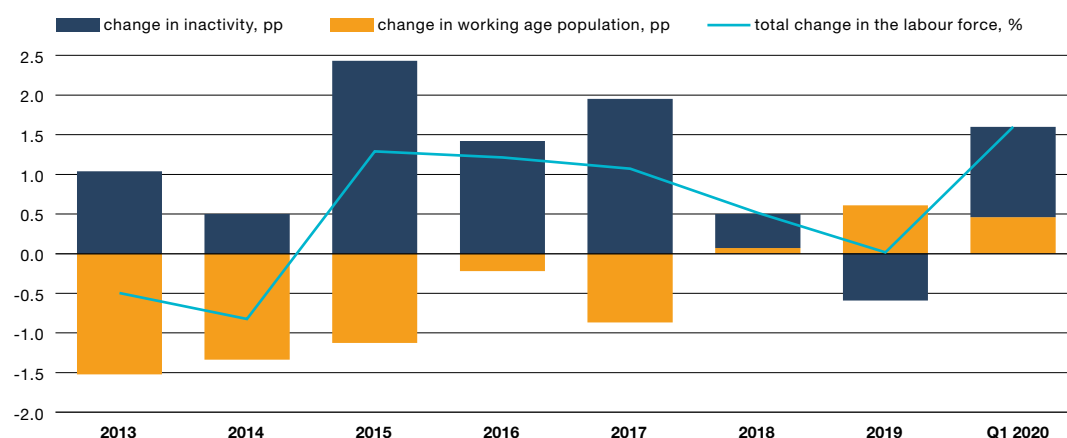


Source: Police and Border Guard Board

permission to work ended could take jobs in agriculture until 31 July, and more people are looking to work in Estonia until the end of their visa than was previously the case. The fall in the number of foreign workers means that Estonian companies will have to look for employees among local residents more than before, which has been made easier than before the crisis by the rise in unemployment. However, those who have recently lost their jobs may not be motivated to change sector and with support from unemployment insurance benefits may look for work that suits their training and experience. Moving to work in a sector with lower value added would mean losing the human capital they have built up through experience and knowledge.

The labour supply depends on the size of the working age population, and on how actively that population participates in the labour market. The rise in the number of residents active in the labour market was reined back last year because the working age population was less ready to participate in the labour market than a year earlier (see Figure 18). On average 71.6% of working-age residents were working or looking for work, which was 0.3 percentage point less than in 2018.

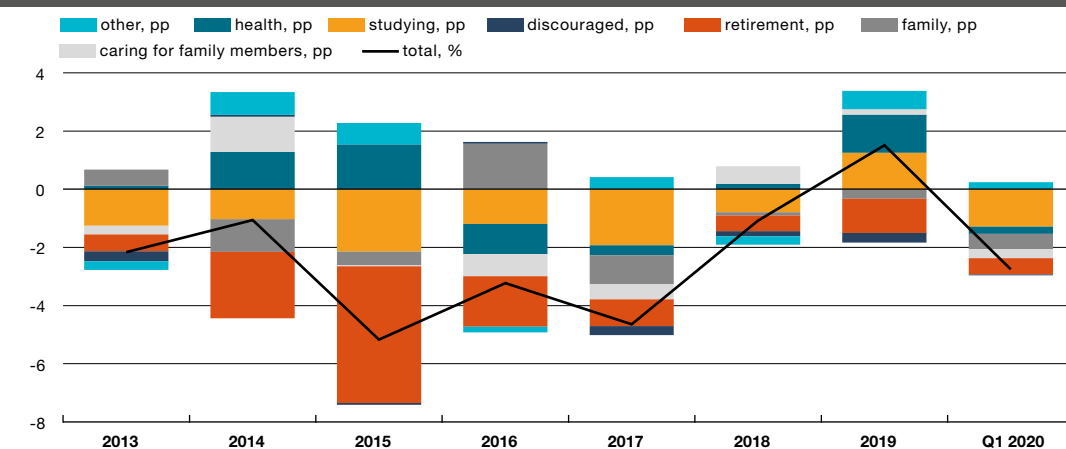
Figure 18. Yearly change in the labour force



Sources: Statistics Estonia, Eesti Pank calculations

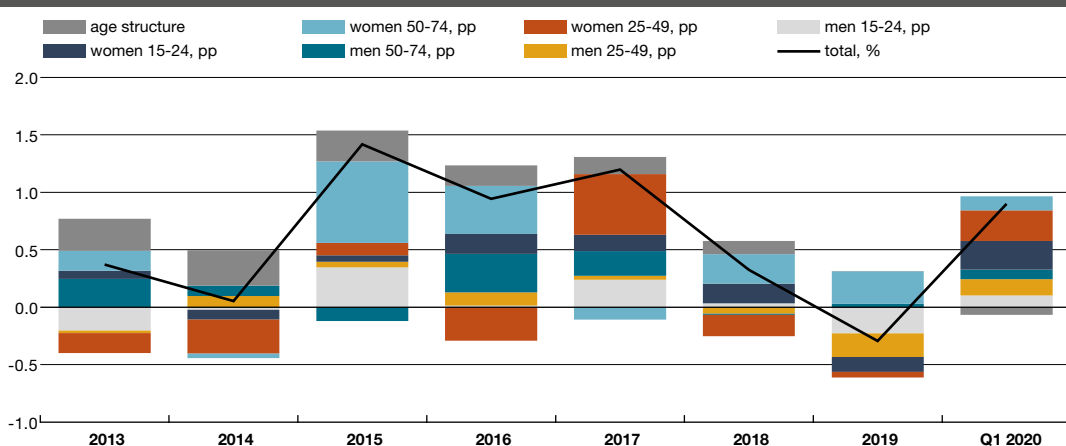
Those considered inactive in the labour market are residents aged 15-74 who are not engaged in work or looking for work, meaning they do not want to work or are not capable of doing so. The number of residents who were inactive in the labour market in the second half of 2019 was some 2750, or 1%, more than a year earlier. There were various reasons why the number of residents inactive in the labour market rose and the labour force participation rate fell in the second half of 2019 (see Figures 19 and 20).

**Figure 19. Yearly change in the number of non-participants**



Sources: Statistics Estonia, Eesti Pank calculations

**Figure 20. Contributions to the yearly change in the participation rate by age and gender**



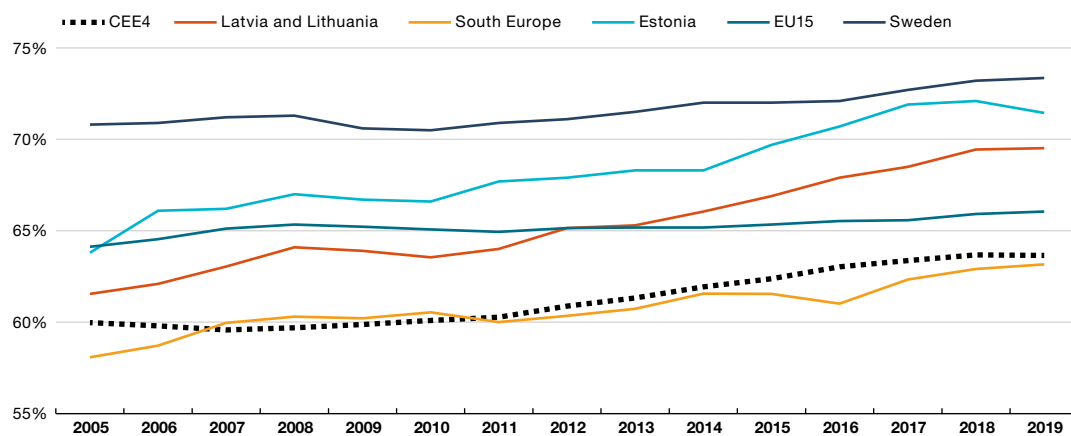
Sources: Statistics Estonia, Eesti Pank calculations

Inactivity for health reasons increased, as did the number of young people staying out of the labour market because of their studies. The number remaining outside the labour market because of studies has fallen over the years, but it stopped falling in the second half of 2018. This may be because the share of those aged 15–19, who are still studying in general schools and are very inactive in the labour market, increased among those aged 15–24. Those in older age groups are participating in the labour market ever more actively, and absence from the labour market because of retirement continues to decline. The labour market behaviour of the older age groups is probably affected partly by the continuing rise in the retirement age, and partly by the increased opportunity offered by labour shortages to remain in work or to find a new job.

Labour force participation during the coronavirus crisis will only be known about once Statistics Estonia publishes the data for the second quarter in August. Labour force participation usually increases during an economic crisis as the main earner in their household becoming unemployed encourages other adult members of that household to enter the labour market. As a rule it is women who were earlier looking after other family members who enter the labour market. This crisis will probably have a somewhat different impact, as there are fewer of the jobs that are typically easily available in the service sector, and many families face an increased burden of childcare because of remote studying. It is strongly recommended that not only schoolchildren but also kindergarten-age children are kept at home, even though kindergartens are officially open. These factors make it harder for women to enter the labour market. It is also possible that some older people in risk groups will temporarily stop working.

The labour force participation rate fell a little in 2019, but it remains one of the highest in the European Union (see Figure 21) and is exceeded only by that in Sweden. For this reason a slower rise in labour force participation is largely to be expected, and it may be assumed that it will rise more slowly in future than it did in 2015–2017. The rise in labour force participation has also slowed elsewhere in Europe, which may be because the improvement in the economic climate has also slowed.

**Figure 21. Labour force participation rate, age 15–74**



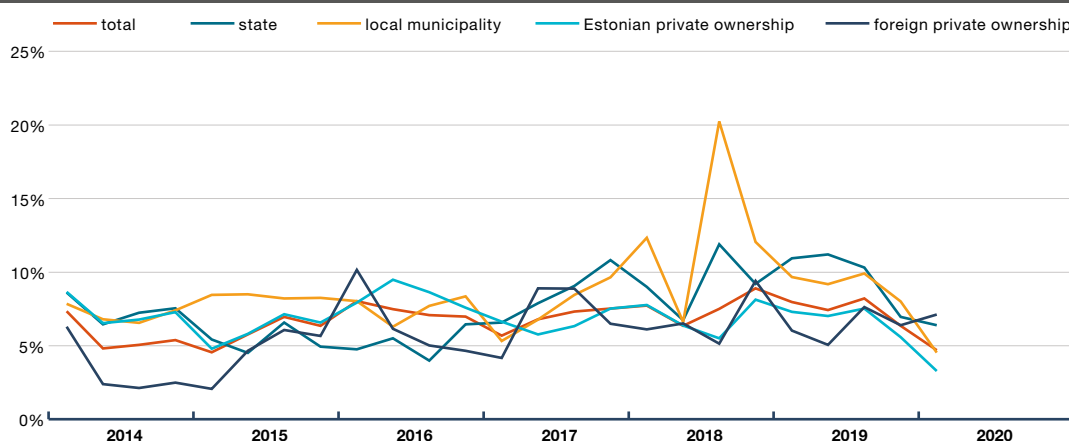
Sources: Eurostat, Eesti Pank calculations

## AVERAGE WAGES

The rate of wage growth slowed from 8.2% in the second half of 2018 to 7.7% in the first half of 2019, as it was 8% in the third quarter and 7.4% in the fourth. Slower growth in wages is in line with the fall in corporate expectations for employment and the general slowing of growth in the economy. Wage growth continued to decelerate in the first quarter of 2020, when it was just 4.8% year on year.

The average wage in the public sector rose faster throughout 2019 than that in the private sector. The slowdown in wage growth in the final quarter of the year was also sharper in the public sector than in the private sector (see Figure 22). At the beginning of 2020, wage growth slowed broadly across types of ownership, and wages continued to rise at the same pace as before only in foreign-owned firms. Retail and wholesale trade contributed significantly to the overall deceleration as the average wage there fell by 8.7% year on year. The Tax Board data on declared wages do not however show comparable dynamics in the first quarter of 2020. On a monthly frequency, wage growth was weakest in March due to the impact of the coronavirus crisis.

**Figure 22. Wage growth by type of ownership**



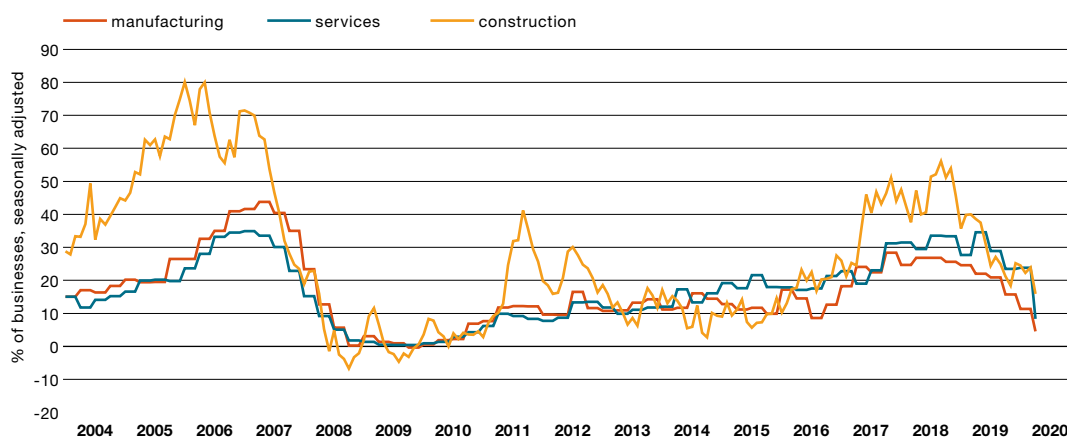
Sources: Statistics Estonia, Eesti Pank calculations

As wages are usually paid out for the previous month and only declared in the month after they are paid, the statistics published so far do not show wages from March and April. It can quite confidently be predicted though that the drop in demand for labour because of the coronavirus and the rise in available labour will have greatly reduced wage pressures. Wage setting will certainly have been affected a lot by the wage compensation support measure for companies that have fallen into difficulties because of the coronavirus crisis, which is counted in the statistics as the average wage. The wage compensation measure system helps companies to preserve jobs, but the formula used for calculating compensation makes it probable that the wages of those receiving it will on average have been cut. The compensation system that covered around 20% of waged employees may also function as a coordination mechanism that allows wage rises to be cancelled and the wages of some employees to be temporarily cut even at those companies that have not applied for the compensation. A more detailed description of the wage compensation measure is given in Box 1.

The reduced demand for labour because of the coronavirus crisis and the financial difficulties facing companies have changed the positions of the parties in wage negotiations. The share of companies that consider labour to be a factor restricting production fell in construction and manufacturing throughout 2019, and it fell particularly sharply in the service sector during the crisis. During the financial crisis the share of companies that considered labour shortages to be a restrictive factor fell essentially to zero for a long time (see Figure 23).

The number of vacancies registered with Töötukassa was also declining in the six months before the coronavirus crisis, and it declined more sharply in March and April. Töötukassa had on average 16%

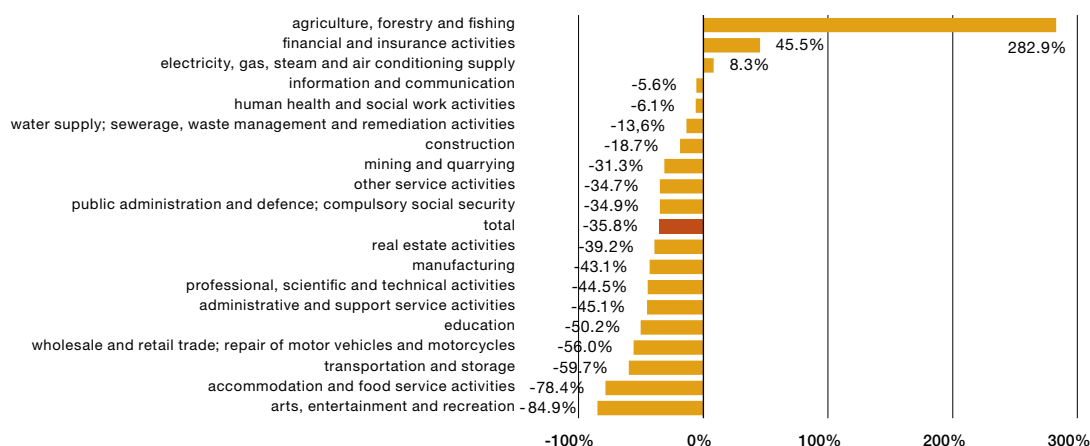
Figure 23. Labour shortages as the main factor limiting production



Source: European Commission

fewer vacancies in January and February than a year earlier, but in March and April it had over 30% fewer (see Figure 24). The number of vacancies dropped most in art, entertainment and leisure and in accommodation and catering, as may be expected. The number of vacancies in agriculture doubled over the year meanwhile as the closure of borders forced companies in agriculture to look for labour from the local market.

Figure 24. Yearly growth in the number of vacancies advertised in Töötukassa



Sources: Töötukassa, Eesti Pank calculations

## BOX 1. THE SUPPORT MEASURES FOR THE ESTONIAN LABOUR MARKET AND THOSE OF OTHER EUROPEAN UNION COUNTRIES

The European Commission passed a temporary framework in the middle of March to permit state aid to ease the economic and healthcare problems caused by COVID-19. The aim was to allow European Union member states to support businesses that had fallen into difficulties because of COVID-19 and provide a level playing field for that support.

One measure that was permitted was to help companies through wage support or wage subsidies. Governments could pay a part of the wages of companies in order to support or protect employment. Help could only be provided through wage support to sectors, companies or regions that had suffered relatively more from the COVID-19 outbreak. Offering such support to the whole of the economy would breach the limits on permitted state aid. The support for wages



paid by the state in a month could not exceed 80% of the average gross salary of workers. A higher ceiling than this could be set for those earning the minimum wage. As well as providing wage support, governments were allowed to apply social tax relief through a temporary reduction or a suspension of the requirement to pay.

The majority of European Union member states had introduced or planned employment support measures in some form by the end of May, through either wage support or temporary social tax relief. This tax relief could come in the form of a temporary cut in social tax, or a temporary suspension of the requirement to pay social tax for businesses in some sectors. Wage support measures have been used most widely in the countries of the European Union (see Table 1).

It was decided very early in the emergency situation that temporary subsidies would be paid

**Table B.1. Employment support measures in the members of the European Union**

Country	Companies or employees with contracts		Self-employed	
	Wage support	Temporary social tax relief	Subsidies	Temporary social tax relief
Belgium				
Bulgaria				
Estonia				
Spain				
The Netherlands				
Ireland				
Italy				
Greece				
Cyprus				
Lithuania				
Luxembourg				
Malta				
Poland*				
Portugal				
France				
Sweden				
Germany**				
Slovakia				
Slovenia				
Denmark				
Hungary				

Source: The OECD database of COVID-19 measures (data as at 01.06.2020)

\* Social tax relief in Poland applies only for companies with up to 45 employees.

\*\* Germany repays the social tax to the employee not the employer if the workload of the employee has been reduced.

in Estonia to those employees whose employer's activity has been substantially interrupted because of the outbreak of the coronavirus at 70% of the employee's average wage in a calendar month, and not more than 1000 euros per month. The employer has to pay the worker additionally at least 150 euros gross. This means the employee must receive at least the minimum wage in total from Töötukassa and their employer. Whether the employer is significantly impacted by the coronavirus is assessed using three criteria:

- the turnover or revenue of the employer in the month for which compensation is being applied for is at least 30% lower than in the same month a year earlier;
- the employer is unable to provide at least 30% of their employees with work;
- the employer has reduced the pay of at least 30% of employees by at least 30% or down to the minimum wage.

Denmark, Greece, France and Slovakia have put ceilings on the support paid by the state, like Estonia has. The ceiling in Estonia is 1000 euros, which is 71% of the average wage in 2019. The ceiling in Greece is 800 euros, which is a little above the minimum wage of 758 euros; the ceiling in Slovakia is 1100 euros or about 61% of the average wage; and the ceiling in Denmark is 3100 euros or about 70% of the average wage. The state support in Lithuania is limited to 90% of the employee's salary but not more than the minimum wage of 607 euros, or 70% of the employee's salary but not more than one and a half times the minimum wage, or 910 euros.

A cut in the pay of the employee is one condition out of three in Estonia that may or may not be met, but employees in Slovenia and Poland can only receive the compensation if their income has been reduced by a fifth. The state wage support in Ireland is 70% of the previous wage of the employee and 85% for the low-paid, and the employer does not have to add anything on top of that, which means a wage cut of 15-30% for employees whose employer does not continue to top up the subsidy.

It is required in Estonia that employers must add a minimum contribution of 150 euros gross to receive the wage support. If the employer does not try to maintain the previous income of their employee and contributes only the required minimum, the wage support in Estonia will lead to wage cuts for Estonian employees like those in other countries. The cut in wages for those earning the minimum wage will be small, but the higher the wage the larger the amount that could be lost. An employee on the average wage whose employer adds only 150 euros to the state support will lose around 20% of their income. Those earning more than the average wage will often lose even more if the employer pays the minimum amount, as the ceiling for the compensation is set at 1000 euros.

Under the initial rules in Estonia applications for wage compensation could be made for a two-month period from March to May 2020. On 21 May the Estonian government decided to extend the Töötukassa measures under stricter conditions into June as well. The initial cost of the measure was planned at around 250 million euros in Estonia, but allowing applications for support in June will raise the cost of the measure to an estimated 300-320 million euros.

The cost of such measures can be compared across countries as the cost relative to national GDP. Extending the wage support measure to June means that the Estonian wage support system will cost 1.1% of the GDP of 2019. The wage support measure in several countries is open-ended and has no fixed ceiling for the total amount, so it is very hard to estimate for most countries what the measure will cost. Only a few countries have announced the approximate cost of their wage support measure. Estonia stands out as having one of the most expensive wage support measures among those countries that have given an official estimate of the cost.