

8 October 2012

PRESS RELEASE

ECB PUBLISHES THE 2012 STRUCTURAL ISSUES REPORT ON “EURO AREA LABOUR MARKETS AND THE CRISIS”

The European Central Bank (ECB) is publishing its 2012 Structural Issues Report today. This year the report focuses on “Euro area labour markets and the crisis”.

The report aims to explain the heterogeneity in the labour market adjustment across euro area countries during the crisis and to assess the potential medium-term consequences and policy implications of these developments.

In particular, the report shows that the reactions to the crisis across countries reflect not only differences in the severity of the crisis and in labour market institutions, but also the different nature of the shocks hitting euro area economies and the presence of imbalances in the run-up to the crisis. In addition, relatively limited wage adjustment has been observed in euro area countries despite the severity of the crisis, which points to downward wage rigidities.

In terms of the medium-term consequences of the crisis, the significant rise in skill disparities between labour demand and supply suggests that this increasing mismatch is one of the biggest challenges facing some euro area labour markets. Available estimates also show a recent marked upward trend in structural unemployment.

A flexible response of wages to labour market conditions should be a key priority in euro area labour markets. This would facilitate the necessary sectoral reallocation and support sustainable job creation and reductions in unemployment. Further major labour market reforms are therefore necessary to increase the flexibility of employment and wages across the euro area countries in order to reduce the risk of a permanent increase in structural unemployment and a decrease in potential output growth. This reform strategy is also a key ingredient for a solid economic recovery in euro area economies, which would also contribute to the correction and prevention of macroeconomic imbalances and fiscal consolidation. Greater flexibility in euro area labour markets would reduce the adjustment costs associated with economic shocks and enhance the efficiency and effectiveness of monetary policy. Furthermore, if the benefits of

labour market reforms are to be reaped in full, reforms must be accompanied by wide-ranging product market reforms.

The Structural Issues Report, which is prepared by a task force of the Monetary Policy Committee of the European System of Central Banks under the aegis of the ECB's Governing Council, identifies a topic on structural aspects of the euro area economy relevant for monetary policy. The report analyses this topic from a euro area and cross-country perspective, based on input from the staff of the ECB and of the ESCB national central banks.

The full report is available on the ECB's website.

European Central Bank

Directorate Communications, Press and Information Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404

Internet: <http://www.ecb.europa.eu>

Reproduction is permitted provided that the source is acknowledged.