EMPLOYMENT OBSERVATORY

Central & Eastern Europe

Employment Trends and Developments

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European Commission
Directorate-General for Employment, Industrial Relations and Social Affairs

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Employment developments in Central and Eastern Europe

The improvement in the economic situation in Central and Eastern Europe which was evident in 1994 continued in the first half of 1995. Where estimates are available, GDP expanded significantly and all countries, bar Albania, experienced strong growth in industrial output. The numbers in employment either increased or fell at a slower rate and unemployment declined throughout the region. Moreover, the rate of inflation also came down in most countries, though it remained in double digits everywhere — but only just in the Czech Republic — and there was some growth in real wages in the majority of cases.

The growth in output, however, has been accompanied, in all countries apart from Bulgaria, by widening trade deficits as imports have expanded faster than exports in US dollar terms. Although imports seem to an important extent to have gone into strengthening the productive base of the economies rather than merely into private consumption, the deficits have added to external debt problems which in most cases were already severe.

Output

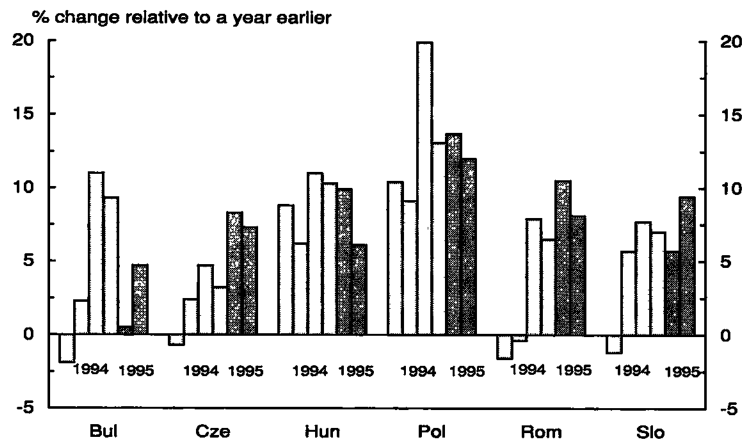
In the three countries for which data are compiled on a quarterly basis — Bulgaria, the Czech Republic and Slovakia — GDP increased at a higher rate in the first half of 1995 than during 1994. The largest gain was in Slovakia where it rose by over 6% in this period as against 5% in the second half of 1994 (all percentage figures in this section relate to the change over the 12 months preceding the period referred to). In the Czech Republic, growth in both the first two quarters of 1995 was around 4%, slightly lower than in the last quarter of 1994 but double the rate in the first three quarters of the year. In Bulgaria, GDP was up by just under 3% in the second quarter of 1995 as compared with a year earlier after growing by 2% in the first quarter and by 1$^1/_2$% in 1994.

Although no quarterly figures for GDP are available for Poland and Hungary, the official forecast for the former is for growth of 6% in 1995, slightly higher than in 1994 (5%) and 1993 (just under 4%) and giving four years of steady growth. For Hungary, growth of 0–1% is forecast for 1995, down from the 3% achieved in 1994.

Data for the first half of 1995 are available for industrial output, however, for all the countries. Apart from Albania, where industrial production continued to fall sharply, these show a significant increase during this period. In Poland, industrial output was up by almost 13% as compared with a year earlier, in Romania, by over 9% and in the Hungary, the Czech Republic and Slovakia by 8% or just below. In Romania, the Czech Republic and Slovakia, this represented a larger rise than in the second half of 1994 — a very small one in the case of the latter — and an even bigger increase in relation to the first half of 1994. Some acceleration of growth is, therefore, evident in these three countries (Graph 1, which shows the growth each quarter relative to a year earlier).

In Hungary and Poland, though growth in the first half of 1995 was higher than in the same period of 1994, it was below the rate in the second half of 1994 which

1 Quarterly pattern of industrial output growth in 1994 and the first half of 1995



Bars represent % change in industrial output in each quarter compared with the same quarter a year earlier.

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suggests a possible slowdown (though since the series for industrial output are not seasonally adjusted, some caution is needed in drawing any conclusion from the quarterly pattern of change, in the sense that growth in the second half of the year could pick up as it did in 1994). Nevertheless, the rate of increase in production achieved in both countries during this period was relatively high. At the same time, restrictive measures were introduced in Hungary in March aimed at slowing down inflation and correcting external imbalance. As noted above, the latest forecast is for GDP growth of only 0–1% over 1995 as a whole, which implies that the rate of industrial output growth is likely to fall in the second half of the year.

In Bulgaria, growth during the first half of the year ($2^1/_2$%) was less than elsewhere apart from in Albania, and also lower than in the preceding half year (10%), in this case considerably so. Again, however, it was higher than a year earlier and only time will tell whether this represents a slowdown or merely a seasonal fluctuation (third quarter estimates show growth of $3^1/_2$%, well down from growth in the latter part of 1994).

Much of the growth in output which occurred went to exports, as described below, and production for the domestic market rose by significantly less than the total. There is also evidence that growth has been underpinned by increased investment. In Poland, where output growth was highest, gross fixed capital formation in the first six months of 1995 is estimated to have been $17^1/_2$% higher than in the corresponding period in 1994, in Slovakia 16% higher — a marked improvement compared with 1994 when investment fell by 7% — and in Hungary, the Czech Republic and Romania 6–7% higher. In Bulgaria, investment expanded by 4% over this period, less than in 1994 when it rose by $5^1/_2$%.

Within industry, there was some variation in the sectoral breakdown of growth between the countries, though in all four countries for which estimates are available — Bulgaria, the Czech Republic, Hungary and Poland — one of the highest rates of increase in production during the first half of 1995 was in the metals industry as well as in paper and printing. Other industries showing relatively high rates of output growth were rubber and plastics (in the Czech Republic), electrical and optical equipment (also in the Czech Republic), engineering (in Hungary), furniture (in Poland), chemicals and glass (in Bulgaria) and food processing (in Bulgaria and Hungary).

In all countries, the private sector continued to expand relatively rapidly. In Slovakia, for example, private sector investment was almost 40% higher in the first half of 1995 than a year earlier. In Bulgaria, the private sector share of GDP rose from 27% in the first quarter of 1995, and an average of 24% in 1994, to 30% in the second quarter. As elsewhere, most private activity was in services and, on the latest estimates, this was responsible for 16% of GDP as compared with $6^1/_2$% of GDP in the case of private firms in industry. Much the same was the case in Romania, where 70% of retail sales went through private businesses, though only 14% of industrial output, a figure which is set to increase markedly as recent privatisation legislation takes effect (see Box).

Foreign investment

As Western European economies have recovered from recession, direct investment in Central and Eastern Europe has risen. In the Czech Republic, a prime destination for foreign capital in the region, direct investment from abroad exceeded $400 million in the first six months of 1995, one-third higher than in the same period the previous year. Investment continued to be channelled into a wide range of activities, including, in particular, the car industry and the production of transport equipment, textiles, glass, china, furniture and food as well as into banking and construction. Germany remained the main country of origin, accounting for 36% of total direct investment, followed by the US with 19% and France with 14%.

These countries with Austria, are also the most important sources of foreign investment for Slovakia, where the value of direct investment in national currency terms was some 6% higher in June 1995 than at the end of 1994, almost half of it going into manufacturing industry.

In Bulgaria, the growth of foreign investment in the first half of 1995 was particularly marked, flows during this period being 73% higher than in 1994.

In Romania, foreign direct investment was some 58% higher in the first three-quarters of 1995 than in the same period a year earlier to reach a cumulative total of over $\$1^1/_2$ billion by the end of September.

In Hungary, the amount of foreign capital invested in new companies declined in the first half of the year, though the share of investment in such companies with foreign participation emanating from abroad increased at the same time from 75% in 1994 to 80% in 1995, 69% of these companies being founded with 100% foreign capital.

Growth of direct investment was accompanied in a number of cases by even larger growth in short-term capital inflows of a speculative nature, attracted in part by increased economic and financial stability, freer convertibility and relatively high rates of interest as compared with most Western European economies. Such inflows were both encouraged by and contributed to maintaining stable exchange rates in most countries.

International trade developments

Although exports increased significantly in US dollar terms in the first half of 1995 in most of Central and Eastern European countries, imports generally rose by even more. All of the countries covered, apart from Bulgaria, had visible trade deficits in the period, in most cases of significant amounts and in all cases — though only marginally in the case of Poland and Slovakia — larger than in the second half of 1994 and even more so than in the first half of 1994.

In Albania, the trade deficit, which was already considerable, continued to increase in the first half of 1995, when it amounted to over three times the value of exports. There were signs of encouragement, however, insofar as exports in US dollar terms went up by over 50% between the first half of 1994 and the first half of 1995, significantly more than imports, though these still rose by 36%.

In the Czech Republic, the trade balance went from surplus in the first six months of 1994 to a deficit in the second six months and a much larger deficit in the first six months of 1995, larger in fact than the sizeable surplus on services, especially on tourism and transport, so that the balance of payments on current account was in deficit for the first time since the split with Slovakia. While exports were almost 20% higher in US dollar terms in the first half of 1995 than a year earlier, imports in the same terms were up 47%. This disparity, in some degree, reflects the significant appreciation in the real exchange rate which has occurred over a number of years as Czech inflation, though lower than elsewhere in the region, outpaced that in developed countries in the West which have become the main destination for Czech exports, while the nominal exchange rate has remained largely unchanged (boosted by confidence in the Czech economy and the surplus on invisibles). Even so, despite the sizeable trade deficit, convertible currency reserves continued to expand. Moreover, much of the growth in imports took the form of increases in capital goods and intermediate products used in the production process, such as chemicals, machinery and semi-manufactured goods, which both stand to strengthen industrial capacity and are a reflection of foreign investment in manufacturing in the economy.

In Hungary, the trade deficit, which was substantial in both 1993 and 1994, increased further in the first two quarters of 1995, to over 40% of the value of exports, adding significantly to the country's foreign debt problems. While exports were almost 13% higher in dollar value terms than in the same two quarters a year earlier, and industrial exports were almost 26% higher, imports were up by over 16%. It remains to be seen whether the package of restrictive measures introduced in March will be sufficient to limit the growth of imports by enough to correct the trade imbalance.

In Poland, the trade deficit in the first half of 1995 was only slightly larger than in the second half of 1994 (at around 23% of the value of visible exports) but up significantly on its dollar value in the first half. Exports were over 40% higher in dollar terms than a year earlier and exports to the European Union 46% higher. Imports, however, were up by even more, though those from the Union increased by slightly less than those from elsewhere (by 34%), so that the trade balance with the Union at least improved.

In Romania, the trade deficit which had declined between 1993 and 1994, widened in both the first two

Privatisation in Romania

Up to mid-1995, 1,330 companies had been privatised in Romania since the beginning of the process. This represents $20^1/_2$% of the total number of State-owned commercial companies. Altogether, they employ some 570 thousand people, 18% of the total employed in State-owned companies. In the first half of 1995 alone, 303 companies were privatised, 26 of them large and 139 medium-sized, employing around 212 thousand. The privatisation process, therefore, has moved on to progressively larger companies.

Privatisation was, first, concentrated on companies operating in areas which were relatively attractive to investors, such as food, commerce, tourism, light industry, transport, construction and local services, but has recently been extended to mechanical and electrical engineering and chemicals. In order to accelerate the privatisation process, legislation was passed in June 1995 enabling mass privatisation to take place instead of proceeding company by company. As part of the process, coupons were distributed to eligible Romanian citizens in August and September giving them the right to subscribe to over 4,000 State-owned companies from the beginning of October. Under the legislation, up to 60% of the equity of each company included in the programme will be distributed free of charge, while the remainder will be sold to home and foreign investors.

At the end of September 1995, private businesses accounted for 70% of retail sales, 43% of non-collective services, 40% of exports, 45% of imports and 14% of industrial output.

quarters of 1995 as it had done in the last quarter of 1994. As elsewhere in the region, exports were substantially higher in the first half of 1995 than the same period a year earlier (26% higher — over 60% of total exports going to developed economies as against 56% in 1994), but, again as elsewhere, the growth of imports was even larger (37% — just under 60% of imports coming from developed countries). Third quarter figures show a continuation of the same kind of trend.

In Slovakia, trade was only in small deficit in the first half of 1995 and both exports and imports were up by over 35% in dollar terms as compared with a year earlier.

Finally, in Bulgaria, the only country in the region to be in trade surplus — as it was in 1994 — both exports and imports were also higher in the first half of 1995 than in the same period of 1994 — the former by over 12%, the latter by 9%.

The overall picture, therefore, is one of significant growth of exports but accompanied by rapidly rising imports, generally at an even higher rate, though much of the growth in the latter seems to be taking the form of producer goods rather than consumer goods and may, therefore, help to strengthen the productive base of the economies.

Employment

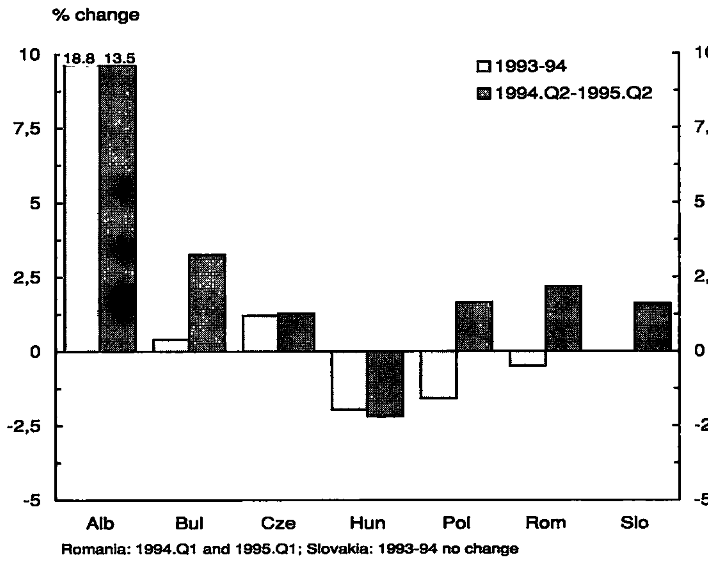
The growth of output in the region seems to be gradually giving rise to a growth in employment after a prolonged period of significant decline. In six of the countries, the number employed in the second quarter of 1995 was higher than a year earlier. In the seventh, Hungary, however, it was lower (Graph 2 — though for Romania, data are available only for the first quarter of 1995). In most of the countries, labour force surveys are either now well established and or in the process of being so, so that the data on employment are becoming increasing more reliable (most countries also have quarterly surveys, the exception — apart from Albania, where there is yet no LFS — being Romania which is planning to introduce these to supplement the annual survey conducted in March).

Growth in employment was especially high in Albania in the first half of 1995, continuing the rise experienced during 1994, though this was starting from a particularly low base since employment had fallen by 30% between 1991 and 1993. Nevertheless, according to official statistics, the numbers in work in the second quarter of 1995 were $13^1/_2$% higher than a year earlier, most of the growth occurring in agriculture in response to the restitution of land.

In Bulgaria, total employment was almost 4% higher in the second quarter of 1995 than in the same period one year earlier (according to LFS data), following the rise of just under $^1/_2$% between 1993 and 1994 (though it should be noted that the annual figures are on a different basis than the quarterly ones — see Notes to the Statistical Tables at the back of this Bulletin).

In the Czech Republic, the growth in employment of just over 1% in 1994 seems to have continued during 1995. In the first quarter, the number employed was $1-1^1/_2$% higher than a year earlier. In both Poland and Slovakia, the increase over this period was slightly greater, in the former, following a decline in employment in 1994 and in the latter little change.

2 Changes in employment, 1993-94 and 1994.Q2-1995.Q2



Romania: 1994.Q1 and 1995.Q1; Slovakia: 1993-94 no change

In Hungary, however, employment was down by some 2% in the first half of 1995 as compared with the same period in 1994, much the same rate of decline as occurred in the average level between 1993 and 1994 (though because the figures include an estimate for conscripts, they may overstate the fall in civilian employment). The restrictive measures taken during 1995 are unlikely, at least in the short-term, to help reverse this trend (estimates for the third quarter indicate a continuing fall in the latter part of the year).

Four of the five countries for which quarterly data for employment are available by sector (no data are available for Albania and Bulgaria, except for the state and cooperative sectors) experienced a decline in the numbers employed in agriculture in the first half of 1995, continuing the downward trend evident since the transition began. In Hungary, the fall between the first halves of 1994 and 1995 was almost 12% and in Poland and Slovakia, 6–7%, though there were signs of some slowdown in the rate of exodus from the sector in the Czech Republic, where the fall was around 5% as compared with over 10% in both 1993 and 1994. In Romania, however, employment in agriculture was $5^1/_2$% higher in the first quarter of 1995 than a year earlier, according to LFS figures (the forecast for output in this sector in 1995 is for a similar rate of growth).

In the Czech Republic and Hungary, there was also a fall in employment in manufacturing in the first half of 1995, again continuing the downward trend since the transition began. In Hungary, numbers were down by over $4^1/_2$%, following a fall of $5^1/_2$% in 1994, in the Czech Republic, by $2^1/_2$%, a larger rate of decline than during 1994 (only $^1/_2$%). In Romania, the fall was even greater between the first quarters of 1994 and 1995, by as much as 7%, despite the significant growth in industrial output.

In both Poland and Slovakia, on the other hand, there was some increase in manufacturing employment in the first half of 1995 after more or less continuous reductions over the preceding four years. In Slovakia, the number employed in the sector was over 2% higher than a year earlier, in contrast to a decline of 2% between 1993 and 1994 (after adjusting the figure for 1993 in the Statistical Tables at the back of this Bulletin to exclude women on additional maternity leave), while in Poland, it was almost 1% higher following a fall of 2% in 1994. Since the figures for Poland, in particular, tend to fluctuate somewhat from quarter to quarter, however, some caution is necessary before concluding that this growth presages an expansion during 1995 as a whole.

In the other sectors of industry, three of the five countries for which estimates are available showed a significant decline in employment in mining in the first half of 1995, though both Poland and Romania experienced a small rise ($^1/_2$% or less); Poland, Romania and the Czech Republic showed a rise in power and water and only Hungary an increase in employment in construction.

The implication of the changes in employment in industry, combined with the changes in output described above, is that there seems to have been a marked rise in labour productivity in the five countries for which there are data. Output per person employed in the second quarter of 1995 was some 8% higher than a year earlier in the Czech Republic, Poland and Slovakia and around 11% higher in Hungary, while in Romania, labour productivity is estimated to have risen by 14% between the first three quarters of 1994 and 1995.

As throughout the transition period, the growth of employment which occurred in the first half of 1995 was largely concentrated in services. In all countries in the region, the number employed in this sector increased between the first halves of 1994 and 1995 (though as before, there are no data for Albania and Bulgaria). The rise was particularly pronounced in Poland and Slovakia — around 5% in each. It was also significant in the Czech Republic, where it amounted to $3^1/_2$%, though this was less than the average growth in 1994 of $4^1/_2$%. In Hungary, on the other hand, the rise was very much less, under $^1/_2$%, following only a marginal increase in 1994. In Romania, employment in services was 4% higher in the first quarter of 1995 than a year earlier.

Within services, the highest rates of job growth occurred generally in trade and catering (where in the Czech Republic, Poland and Slovakia, the numbers employed in the first half of 1995 were in each case over 8% higher than a year earlier, and in Romania in the first quarter of 1995, $5^1/_2$% higher than a year before, though employment was slightly lower in the first half of 1995 in Hungary) and financial services (where the increase, apart from in Poland, where it was very small, was 10% or more). Apart from in Hungary, employment also expanded in transport and, apart from in the Czech Republic, in public administration. On the other hand, apart from in Poland, employment declined in health and education, which was a major area of employment in all the countries.

Growth in services is reflected in the figures for the numbers of self-employed, which in all countries, with the exception of Poland, where most of the self-employed work in agriculture, increased in the first half of 1995. The rise was especially marked in the Czech Republic where it amounted to 16% as compared with a year earlier and accounted for almost all of the growth in employment which occurred over this period. The increase in the numbers employed, therefore, as elsewhere, was very much concentrated in very small businesses in private services.

In Hungary also, there was a significant rise in self-employment, of 4% between the first halves of 1994 and 1995, accompanied by an increase in the numbers employed in businesses with less than 10 employees which almost fully offset a fall (of $4^1/_2$%) in those employed in larger enterprises.

Unemployment

Growth in employment was accompanied by a fall in unemployment in the first half of 1995, continuing the decline which occurred during the course of 1994 in Hungary and Poland and signalling the first significant reduction in unemployment in Slovakia and Bulgaria since the beginning of the transition (Graph 3).