

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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developments

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Employment developments in Central and Eastern Europe

Introduction

After a period of deepening recession, the signs of economic recovery which began to emerge in parts of Central and Eastern Europe in the second half of 1992 became more evident and more widespread during 1993. GDP continued to increase in Poland, where recovery dates back to the beginning of 1992, and, for the first time since the transition began, also rose in Romania and Albania. Moreover, while output declined in the other four countries included in this review, it did so at a slower rate than before. Furthermore, in the first quarter of 1994, industrial output expanded in Hungary and Slovakia as well as in Poland and Romania, and fell only slightly in the Czech Republic.

At the same time, though there was a continuing fall employment in 1993 throughout the region, the net rate of job loss was less than in earlier years. As a result, the rise in unemployment moderated significantly. Indeed in Hungary, despite declining employment, as well as in Albania — where it had reached a much higher level than elsewhere in the region — the rate of unemployment fell during 1993.

There were also, however, less encouraging signs which raise serious questionmarks over the sustainability of recovery in the countries where it has occurred and emphasise the difficulties of achieving economic growth at a desirable rate elsewhere. In particular, while inflation seems to have been kept under reasonable control in most places, it remains in double figures everywhere. More seriously, except in the Czech Republic, the internal and external debt burden has tended to increase significantly as economies have begun to recover. Imports have typically risen much faster than exports and balances of payments were in substantial deficit in most countries in 1993. Equally, tax revenue has not kept pace with public expenditure and budget deficits impose a major constraint on expansion everywhere, apart perhaps in Czech Republic, which has both budget and balance of payments surpluses.

In addition, though unemployment is increasing much less rapidly than before, it remains high in most parts

and substantial numbers in the regions have been out of work for a considerable time. With the constraints on welfare expenditure and real wages, this has led to an increasing incidence of poverty and growing social problems, which are not only of concern in themselves but are liable to undermine popular support for programmes of reform.

Moreover, for Romania, Bulgaria and Hungary, in particular, the continuing conflict in the former Yugoslavia and the trade embargo which this has caused have severely disrupted exports and have forced Bulgaria to suspend service of its foreign debt. With no end to the conflict in sight, this makes it even more difficult for countries to achieve satisfactory rates of economic growth and to attract the foreign investment which would make this easier.

On the other hand, economic recovery in Western Europe now seems to be firmly underway, which, given its major importance both as a market for exports from countries in the regions and as a source of direct investment, could help to ease problems of development.

Output

After three years of substantial decline in most parts of the region, GDP increased in 1993 in three of the seven countries. In Poland, it grew by almost 4%, following a rise of 2¹/₂% in 1992. In Romania, though growth was a modest 1%, this contrasts strongly with falls of 13-14% in both the preceding two years. In Albania, where the economy is much less developed than elsewhere and where more than half of GDP comes from agriculture, output is estimated to have expanded by 11% in 1993 as against a fall of almost 30% between 1990 and 1992 (though the estimates for Albania, both for GDP and other indicators, may be subject to a wider margin of error than for the other countries).

In the other countries, the fall in GDP was on a smaller scale than in 1991 or 1992, ranging from just over 4% in Bulgaria and Slovakia to an estimated 2% in Hungary and under 1¹/₂% in the Czech Republic.

Nevertheless, all of the countries, even those experiencing growth in 1993, have some considerable way to go before recouping the losses in output suffered since 1989. In Poland, after two years of growth, GDP in 1993 was some 12% below its level four years earlier. In the other countries, the reduction has been much greater. In the Czech Republic and Hungary, the decline in GDP over these four years amounted to around 20%, in Slovakia, to 23%, in Romania and Albania to just under 30% and in Bulgaria, to a massive 32% (Graphs 1-7).

The loss in industrial output over this period was even larger throughout the region as production shifted from industry to services. This continued to be the case in 1993, industrial output falling by more than GDP in all countries where the latter declined, except in Hungary, where industrial output increased by an estimated 4% despite the fall in GDP which was caused largely by a decline in output in agriculture, as noted below.

As a result, industrial production in 1993 was considerably below the level four years earlier in all of the countries. Even in Hungary and Poland, where industrial output rose by more than GDP in both 1992 and 1993, the reduction over this period was close to 30%. In the Czech Republic, it was 36% and in Slovakia, 43%, while in the other countries, it was as much as 50% or more. Indeed in Albania, estimates suggest that the level of production in the first quarter of 1994 was only around 30% of what it had been in 1989.

However, in four of the countries — the exceptions being the Czech Republic and Romania as well as Albania — industrial output was higher in the first quarter of 1994 as compared with the level one year earlier, the increase being just over 10% in Poland, almost 10% in Hungary and just under 9% in Bulgaria — the first rise in the latter since the transition began.

Throughout the region, agricultural production has declined considerably since the reform process began, especially in countries where agriculture had been relatively efficient. A major reason for this has not only been the way the privatisation of land has been implemented and the break-up of the former system of collectivisation, but also the substantial reduction in agricultural support, particularly for cooperatives, which has led to a lack of capital and poor equipment. In 1993, output fell significantly in Bulgaria and Hungary. In the former, because of the very slow implementation of the land reform and severe draught, production declined by 17% and in the latter, by 6%. Indeed in Hungary, output in 1993 was 30% lower than the average level over the period 1981 to 1984.

Agricultural production also fell in the Czech Republic in 1993, though by only 1%. On the other hand, in Romania, where output had also fallen sharply in

previous years, it increased by over 12% in 1993, assisted by government support for the purchase of equipment and fertilisers, favourable climatic conditions and an improved legal framework.

Trade developments

With the exception of the Czech Republic and Romania, the trade balance deteriorated in all the countries in the region in 1993, in some cases, significantly so. The most extreme case was Albania, where imports in US dollar terms increased by over three times during the year as GDP rose significantly. Though exports valued in the same terms also increased for the first time since 1989, the rise was nowhere near enough to match the surge in imports. As a result the trade deficit reached crisis proportions at four times the value of exports.

While the situation is less desperate in Hungary, the growth of consumers' expenditure in 1993 was accompanied by a rise in the dollar value of imports of some 13%. Since exports fell by 17% over the same period, the trade deficit increased markedly, to around 40% of the value of exports. There are, however, signs of an improvement in trade performance in the first half of 1994 with exports growing at constant prices by 18% relative to the same period one year earlier.

Growth of expenditure was also associated with a sharp rise in imports in Poland of 18% in dollar terms. Though exports also grew, assisted by the steady depreciation of the exchange rate, the rise (7%) was significantly less than this and the trade deficit, which was already substantial, almost doubled during the year. While imports also increased in Romania, the rise was smaller — reflecting a growth of essential items such as energy and raw materials, which accounted for over half of the import bill, rather than a rise in consumer goods — and was more than matched by an increase in exports (of 6%), so that the trade deficit narrowed slightly in 1993.

In Bulgaria, though imports declined, exports fell by more — by around 8% in dollar terms — with the result that the trade surplus was significantly reduced and problems of debt servicing became acute. (Figures from border declarations show a significant deficit rather than a small surplus in 1993 but a similar deterioration in trade performance — see Notes to statistical tables.) This was coupled with rising internal debt problems, with the budget deficit increasing to 9% of GDP reflecting not only the shrinking tax base but also the difficulty of collecting tax revenue. (In contrast, the budget deficit in Romania was reduced from 3¹/₂% in 1992 to only 2% in 1993.)

For the other two countries, the Czech and Slovak Republics, there are problems in assessing changes in trade performance, since before 1993 they were part of

the same country — the former Czechoslovakia. Trade between the two, therefore, changed from being internal to being external. The effect has been to improve the balance of payments accounts of the Czech Republic since it has a significant surplus on trade with Slovakia, and to worsen the accounts of the latter. The apparent shift from deficit to surplus in the Czech Republic in 1993, therefore, is wholly a consequence of this.

In sum, therefore, the Czech Republic was the only country of the seven with a trade surplus in 1993, though it was also the country where exports of services were most important (exports of goods were in deficit). All of the countries, however, have succeeded in shifting trade away from traditional markets to Western Europe, despite recession in the latter for much of the transition period. In the case of Czech Republic, for example, exports to the Community grew by 24% in 1993 and exports to developed countries amounted to 70% of the total, excluding trade with Slovakia.

Renewed growth of the Western European market as economic recovery occurs, given its new-found importance, can only help to relieve constraints on development in Central and Eastern European countries by boosting export earnings — and there are some signs of this occurring in the first part of 1994.

It is also likely to improve the prospects for direct investment which in some of the countries has been greatly depressed by the recession in the Community. In the Czech Republic, for example, investment inflows were down by 40% in 1993 and the United States was a far more important source of direct investment in the year than Germany or other Western European countries (accounting for 45% of the total, three times as much as Germany). On the other hand, in Slovakia, there was 63% more foreign capital in 1993 than in 1992, while in Romania, there was 46% more at the end of the year than at the beginning. In both countries, however, foreign investment had previously been at a relatively low level.

Countries in the region, however, are differentially placed to benefit from renewed expansion of foreign investment. Thus, whereas for the more developed countries in the region, most of the inflows come from advanced economies in Western Europe and from the United States, in the case of Bulgaria, for example, which is both less developed and less favourably regarded as a location for investment, most of the foreign capital comes from Greece, Turkey, a few Arab countries and Russia. Moreover, it very much tends to be concentrated in distribution and retailing rather than industry (there are 279 partly or wholly foreign owned companies in the former sector, just 44 in industry).

Employment

Despite the growth of GDP in three of the countries and the slowdown in the rate of decline elsewhere, employment continued to fall throughout the region in 1993. Except in Hungary and Romania, however, the fall was smaller than in the previous year, ranging from only around 1/2% in Poland (though if private agriculture is excluded the decline amounted to around 2% during 1993) and 1 1/2% in Bulgaria, the Czech Republic, Slovakia to almost 4% in Romania, 6% in Hungary and over 13% in Albania (which, however, was less than the 20% decline recorded in 1992). Moreover, in Hungary, data for the first half of 1994 show that the decline in employment has slowed down since 1993. (See the special article below for a discussion of what these changes imply for employment in relation to working-age population.)

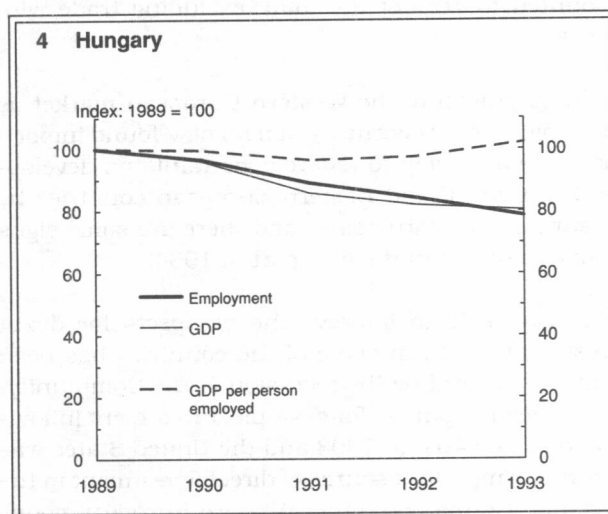
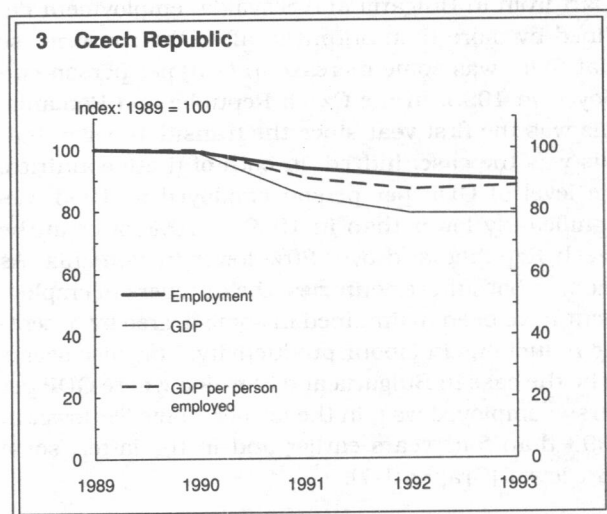
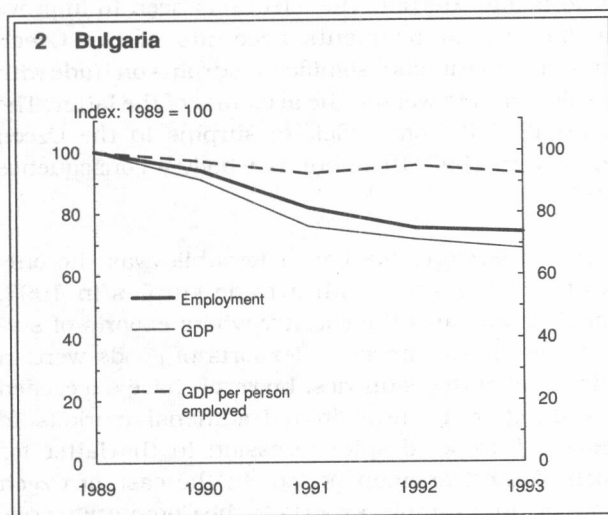
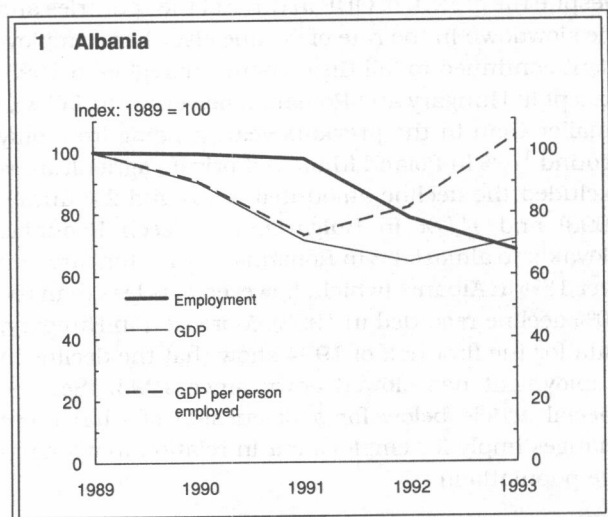
Nevertheless, in spite of the slowdown in net job losses, apart from in Bulgaria and Slovakia, employment declined by more than output in all of the countries so that there was some increase in GDP per person employed in 1993. In the Czech Republic and Romania, this was the first year since the transition began that this was the case. Indeed, in both of these countries, the level of GDP per person employed in 1993 was significantly lower than in 1989 — 10% lower in the Czech Republic and over 20% lower in Romania. As such, in both these countries, the numbers in employment have been maintained in some degree by accepting reductions in labour productivity. This also seems to be the case in Bulgaria and Slovakia where GDP per person employed was, in the former, some 8% lower in 1993 than four years earlier and in the latter, some 15% lower (Graphs 1-7).

By contrast, in Hungary and Poland, as well as apparently in Albania, labour productivity, as measured by GDP per person employed, increased slightly.

These different patterns of productivity change may reflect different policies towards the maintenance of employment in the different countries. At the same time, it is hazardous to read too much into them, if only because countries may well have started from different positions as regards the extent of overmanning. In Poland, for example, studies tended to show that the scale of overmanning was considerable in the late-1980s as the transition got underway (some estimates put the size of hidden unemployment represented by overmanning at around 25% of employment at this time).

In both the Czech Republic and Hungary, much of the fall in employment continued to be concentrated in agriculture. The numbers employed in this sector fell by 17% in 1993 in the former and by 24% in the latter, with the result that in the two countries, agriculture

Employment, output and productivity in Central and Eastern Europe, 1989-1993



provided only around half the jobs as in 1989 (just over half in the Czech Republic, just over half in Hungary). In both cases, however, this statistic may overstate to some extent the reduction which has actually occurred both because of organisational changes and some reclassification of activities from agriculture to industry and services.

In the other countries in 1993, there was either a much more modest reduction — as in Poland or Slovakia where the decline was only 2-3% — or a marked increase, partly due to the process of land reform and the restitution of agricultural land to its former owners. Thus, in Albania, employment in agriculture expanded by 18% and in Bulgaria, by 26% as the number of individual holdings increased by 200%. (In the latter, it should be noted, however, that those who are given back land are immediately classified as employed in the sector, whereas in practice there is usually a lag between when they become owners and when they actually start farming.) Similarly, agricultural employ-

ment increased for the third successive year in Romania — by 5% — the only country in the region where the numbers employed in the sector 1993 were higher than before the reform process began.

As in earlier years, job losses in 1993 were in most cases most pronounced in industry (including construction), despite growth of output in three of the countries. The decline was most dramatic in Albania where the numbers employed declined by 28%, with an apparent fall of over 70% in construction alone. Nevertheless, in both Bulgaria and Hungary, industrial employment was down by almost 10% over the year, the fall being particularly large in construction (14% in the former and in mining in the latter (20%). There were also significant reductions in Romania, Poland and Slovakia, the numbers employed falling by 6-7%. The figures in the latter two cases, however, conceal substantial increases in employment in power and water (17% and 38%, respectively) and large reductions in construction (down by 15% in Poland and 25% in Slovakia).