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Effects of population changes in the labour market: an analysis of six European countries

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Effects of population changes in the labour market: an analysis of six European countries

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Abstract

The publication examines the labour market effects of demographic changes in six European countries: Germany, the Netherlands, Sweden, Latvia, Estonia and Finland. In all these countries, the ageing of population is weakening the old-age dependency ratio. In other words the proportion of those aged 65 or over to the working age population is growing. Fertility is not sufficient to ensure population increase in any of these six countries. This means immigration plays a major role in all countries. As the number of the working age population falls, employment rates tend to rise. This has happened in all countries in recent years, along with a decrease in unemployment rates. Labour productivity has not decreased in any of these countries; in some, it has actually increased.

Most recently, the old-age dependency ratio has remained largely unchanged in Germany and Sweden, while in other countries in has continued to decline. The development of fertility shows more variation. Germany and Latvia have recently succeeded in increasing fertility. With regard to immigration, Latvia differs from the other countries in that its net immigration is negative, although the situation is stabilising. Net immigration has increased lately in Estonia, Latvia (although the level remains negative), the Netherlands and Sweden. Eurostat's population scenarios indicate the significant impact of migration on demographic development by 2035. It seems that immigration could reverse the otherwise declining population trend in the Netherlands and Sweden, and to keep it almost unchanged in Finland. In the other three countries, population scenarios show a downward trend.

Policy responses are quite similar in all countries examined. They focus on pension systems, access to employment to those with weak labour market participation, labour market policy, competence development, family-friendly solutions, and immigration policy. The publication is based on the work of the international labour market forecasting network (ILMFN).

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Tiivistelmä

Julkaisussa tarkastellaan väestömuutosten työmarkkinavaikutuksia kuudessa Euroopan maassa: Saksassa, Alankomaissa, Ruotsissa, Latviassa, Virossa ja Suomessa. Kaikissa maissa väestö muuttuu niin, että vanhushuoltosuhde heikkenee. 65 vuotta täyttäneitä on siis koko ajan enemmän suhteessa työikäiseen väestöön. Missään näistä kuudesta maasta hedelmällisyys ei yllä väestön uusiutumisen tasolle. Näin ollen maahanmuutolla on suuri merkitys kaikissa maissa. Kun työikäinen väestö niukkenee, on työllisyysasteilla taipumus nousta. Näin on tapahtunut viime vuosina kaikissa maissa, vastaavasti työttömyysasteet ovat laskeneet. Viime vuosina työn tuottavuus ei ole laskenut missään näistä maista ja joissain se on noussut.

Vanhushuoltosuhteen kehityksessä Saksa ja Ruotsi ovat aivan viime aikoina pysyneet liki ennallaan, kun muissa maissa se on jatkanut heikentymistään. Hedelmällisyyden kehitys on vaihtelevampi, Saksa ja Latvia ovat viime aikoina onnistuneet kasvattamaan sitä. Maahanmuutossa Latvia poikkeaa muista siinä, että nettomaahanmuutto on negatiivinen, joskin tilanne on tasoittumassa. Nettomaahanmuutto on kasvanut viime aikoina Virossa, Latviassa (vaikka taso edelleen negatiivinen), Alankomaissa ja Ruotsissa. Eurostatin väestöskenaariot osoittavat, kuinka merkittäviä vaikutuksia maahanmuutolla on väestökehitykselle jo vuoteen 2035 mennessä. Maahanmuutto näyttäisi riittävän kääntämään muutoin laskevan väestömäärän kasvavaksi Alankomaissa ja Ruotsissa ja pitämään sen likimain ennallaan Suomessa. Muissa kolmessa maassa väestöskenaariot näyttävät laskevilta.

Politiikkavastaukset ovat varsin samantyyppisiä eri maissa. Ne keskittyvät eläkejärjestelmiin, heikosti työmarkkinoille kiinnittyneiden saamiseen työhön, työvoimapolitiikkaan, osaamisen parantamiseen ja perheystävällisiin ratkaisuihin sekä maahanmuuttopolitiikkaan. Julkaisu perustuu kansainvälisen työmarkkinaennusteverkoston (ILMFN) työhön.

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I publikationen granskas konsekvenserna av de demografiska förändringarna i sex europeiska länder: Tyskland, Nederländerna, Sverige, Lettland, Estland och Finland. I alla länder förändras befolkningsprofilen i en sådan riktning där äldreförsörjningskvoten försvagas. Således ökar andelen personer som fyllt 65 år i förhållande till befolkningen i arbetsför ålder. I inget av dessa sex länder når fertiliteten upp till en sådan nivå att befolkningen ökar. Därför är invandringen av stor betydelse i alla länder. När befolkningen i arbetsför ålder minskar, brukar sysselsättningsgraden stiga. Detta har varit trenden i alla länder under de senaste åren, och på motsvarande sätt har arbetslöshetsgraden sjunkit. Under de senaste åren har arbetsproduktiviteten inte sjunkit i något av dessa länder, utan i vissa länder har den i stället ökat.

När det gäller utvecklingen av äldreförsörjningskvoten har situationen i Tyskland och Sverige under den senaste tiden varit nästan oförändrad, medan den fortsättningsvis har försämrats i de andra länderna. Fertilitetsutvecklingen har varit mer varierande, och i Tyskland och Lettland har den till och med förbättrats. Vad gäller invandringen avviker Lettland från de andra länderna i det att nettoinvandringen har varit negativ, även om situationen nu håller på att jämna ut sig. Under de senaste åren har nettoinvandringen ökat i Estland, Lettland (även om nivån fortfarande är negativ), Nederländerna och Sverige. Eurostats befolkningsscenarier åskådliggör hur mycket invandringen påverkar befolkningsutvecklingen fram till år 2035. I Nederländerna och Sverige ser invandringen ut att kunna vända trenden med en sjunkande befolkningsmängd så att den börjar öka, och i Finland hålls den på så gott som oförändrad nivå. I de tre andra länderna ser befolkningsscenarierna ut att vara på nedåtgående.

De politiska svaren är relativt liknande i de olika länderna. De fokuserar på pensionssystemen, på att främja sysselsättningen bland dem som har svårt att komma in på arbetsmarknaden, arbetskraftspolitiken, förbättrandet av kompetensen och familjevänliga lösningar samt på migrationspolitiken. Publikationen baserar sig på det arbete som det internationella nätverket för arbetsmarknadsprognoser (ILMFN) utfört.

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Contents

1 Introduction: population and labour market developments in Estonia, Finland, Germany, Latvia, the Netherlands and Sweden

Tallamaria Maunu – Heikki Räisänen

Ministry of Economic Affairs and Employment of Finland

1.1 Background and motivation

This publication is a study of the effect of population changes on the labour markets in six European countries: Estonia, Finland, Germany, Latvia, the Netherlands, and Sweden. Researchers and analysts from Research Institutes, the Public Employment Services and Unemployment Insurance Funds and the Government met in Helsinki in May 2019 in the annual meeting of the International Labour Market Forecasting Network. This publication is based on the presentations and discussions in the meeting, which were later developed further for publication.

The study consists of this summarizing introduction and six country reports[1]. The structure of each of the country reports is the same: first, they draw a general picture of the state of the population and the labour market in the country. Second,

1 The country reports are produced by Margit Paulus and Teele Luhavee (Estonia), Liisa Larja (Finland), Sabine Klinger and Johann Fuchs (Germany), Vita Skuja and Normunds Ozols (Latvia), Jeroen van den Berg and Menno de Vries (the Netherlands) and Marcus Löwing and Petra Nyberg (Sweden).

the changes in the population developments and their labour market outcomes for coming years is under more detailed analysis, and finally, policy responses, i.e. how to react to these changes is presented, as well. The usual approach of the International Labour Market Forecasting Network is exchange of information and discussion on background presumptions behind the short-term labour market forecasts. In the 2019 meeting, however, besides this business as usual, our special thematic approach was to concentrate on learning from other countries´ situation and policy responses towards the population challenges and especially the labour market aspect of its effects.

It seems very much to be the case that all six European countries are struggling with the same problems: the ageing population, fertility rates that do not solve the issue, not-so-smooth immigration, rising statutory pensionable ages and yet, too many people in unemployment or outside the labour market. Each country has naturally its own context and specific situation in relation to the deepness of the issues, how rapidly the workforce is ageing, what is the role of immigration in the country, how fertility rates have developed, how large unemployment is or if there are any other remarkable groups outside the labour market. Also the policy challenges do vary depending on these issues. One important summary based on the country reports is that all countries have identified same type of "moving elements", i.e. affecting policy responses to react to the situation. One of the most interesting issues is changes taken already place or those planned in the statutory pensionable age. In Germany, there is discussion on raising the age limit up to 70 years of age. This is relatively far from the reality in some other countries. As many countries seem to use life-time expectancy as one criterion in the pension systems, we can just think where is at least the psychological limit (if not physical, functional or social) to raising the minimum pensionable age and where people start to think that (and vote for) cutting the future pension benefits is a more favourable solution? This is a matter, that affects especially those young people entering the labour market, and usually, pension issues are not those a young person first thinks in the beginning of his/her working life. It may also be relatively easy for the decision-makers to raise the age limits for the young people, as they themselves can leave the working life earlier. So, it is possible that decision-making could be age- or cohort-biased and at least calls for great responsibility from those making the decisions.

The ***effect*** of population changes on the labour market is remarkable in all countries covered in this publication. The situations differ, however. In Estonia and Latvia,

population is decreasing. In Sweden and Finland, on the other hand, population is increasing only because of immigration. However, regional differences are big. In Germany, the population reached an all-time high in the end of 2018. In the Netherlands, immigration explains four fifths of the population growth. What is common for all countries is that the share of working age population is expected to decrease.

The definitions used of "working age" differ from country to country, but a smaller share of people in working age means a heavier burden for the public finances. Fewer people in the workforce will reduce the amount of taxes paid and may hinder the provision of public services. On the other hand, the demand for healthcare and care services will increase as the population ages. However, the demand for some public services, such as daycare and schools, decreases as there are fewer children. With a smaller number of children, it is increasingly hard to provide services cost-effectively in the sparsely populated parts of a country.

Labour shortages are or are expected to become a problem in all countries covered in this publication. In Estonia, 25 – 28 % of employers report that labour shortages limit production. In Latvia, in some sectors a very large share of employees is retiring in the near future. In Germany, companies are reducing separation propensity and conducting anticipatory hires because of recruitment problems. In Sweden, future labour demand cannot be filled with people born in Sweden – immigration is needed. In Finland, recruitment problems rose to an all-time high in 2018 and are expected to rise still higher.

The countries are implementing different *policy measures* in order to respond to the problem of the shrinking labour force. In Estonia, the number of the employed has remained high, even though the number of people in working age has declined. This is because of increasing activity rate, falling unemployment, and immigration.

In many countries, there are plans to increase the *retirement age*. The elderly are already working more in many countries, such as in Latvia, where the activity rate for the aged is increasing. In Germany, the participation rate for women has increased and is expected to increase further. In Estonia, people with partial work ability receive improved support to find a job that matches their skills and abilities. In Finland and the Netherlands, for example, the retirement age will be linked to life expectancy.

All countries covered in this publication will need *immigration* in order to keep employment sufficiently high. However, the countries are in very different starting points. While countries such as Germany and Sweden have had high immigration rates for a long time, net migration in Estonia turned positive only a couple of years ago. In Latvia, net migration is still negative, although the trend is improving. Of course immigration per se is not enough, but the key question is how well foreign-born people establish themselves in the labour market. In Finland, population is only increasing because of immigration, and in the Netherlands, four fifths of population growth are explained by immigration.

Skills development and increasing the education level are important in countries where the working age population is reducing. In Germany, there are hopes that new technology will improve productivity. In Latvia, matching the skills for the labour force and the needs of the employers is a concern. Finland has introduced measures aiming at skills development and attracting foreign talent.

1.2 Comparisons across and within countries

Next, we do some preliminary comparison of the main population and labour market phenomenon both between countries and within countries. This gives us a picture where we are and where we are probably going to.

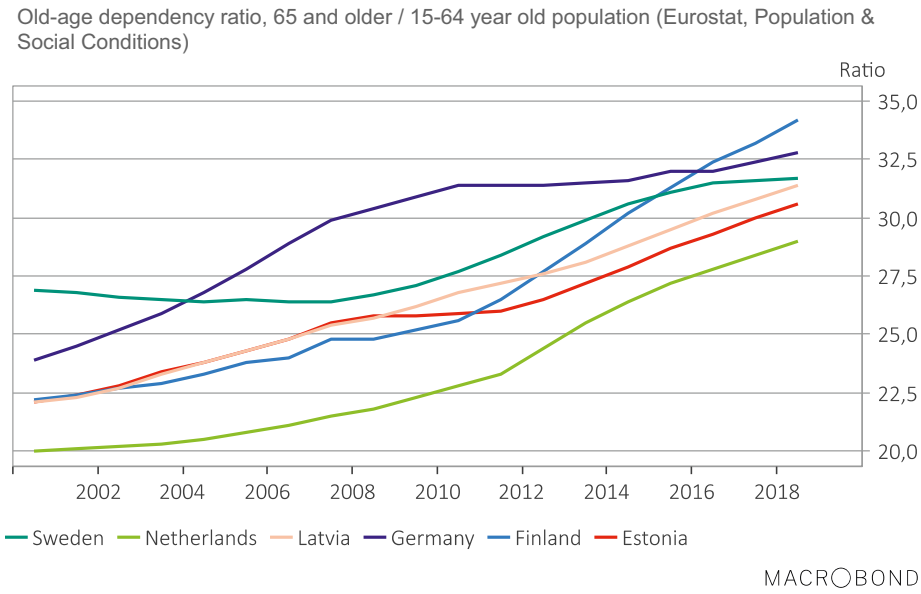


Figure 1. Old-age dependency ratio in 2000-2018

The ratio of population 65 years of age and older in relation to 15-64-year-old population is experiencing a trendwise rise in all six countries. This development is a outcome of two phenomena: first, the longer lives of people in our societies, which is a remarkable achievement of the modern society. Second, lower fertility rates and smaller younger age cohorts are the other side of the coin. The problem lies in the changing age structure of societies, lack of workforce and taxpayers. The old-age dependency ratio is especially worrying in Finland with a steeper rise and already a higher level than other countries in the comparison. Germany has been able to stabilize the developments in 2010s, and there is slight indication of the similar kind of developments in Sweden quite recently, as well. Besides Finland, Latvia, Estonia and the Netherlands seem to experience a rapid worsening of the old-age dependency ratio.

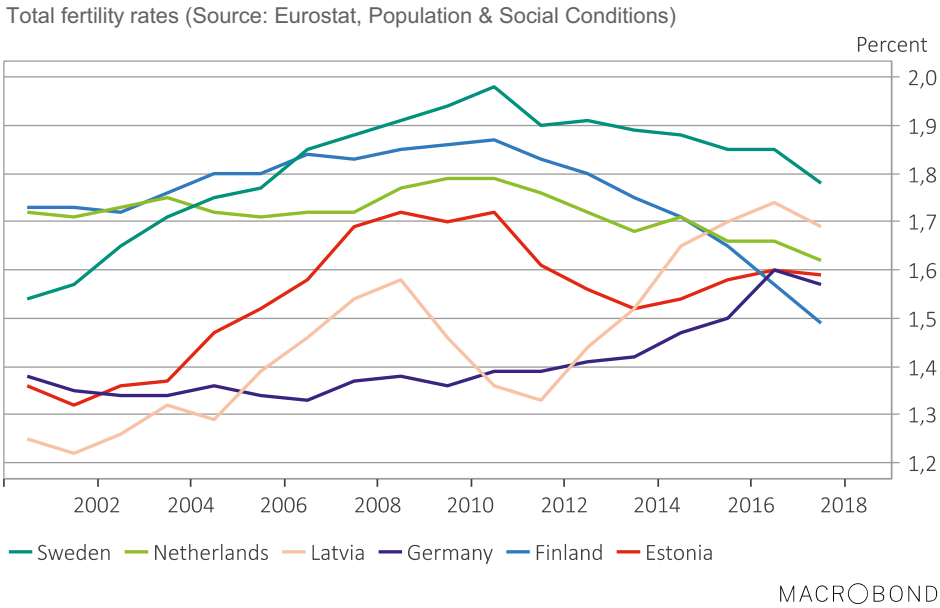


Figure 2. Total fertility rates in 2000-2018

As the population renews itself with a fertility rate of 2.1 children per woman, we can see that none of the countries has reached that level between 2000-2018. Sweden has done best in this respect, but after 2010, the figure has decreased also in Sweden. The steepest downward trend is found in Finland, which was on top of these countries for some years in the first years of 2000s, but in now found at the bottom. The levels are not so different between these six countries varying between about 1.5 and 1.8, but the trends are indeed. Latvia seems to have a rising trend, as does Germany.

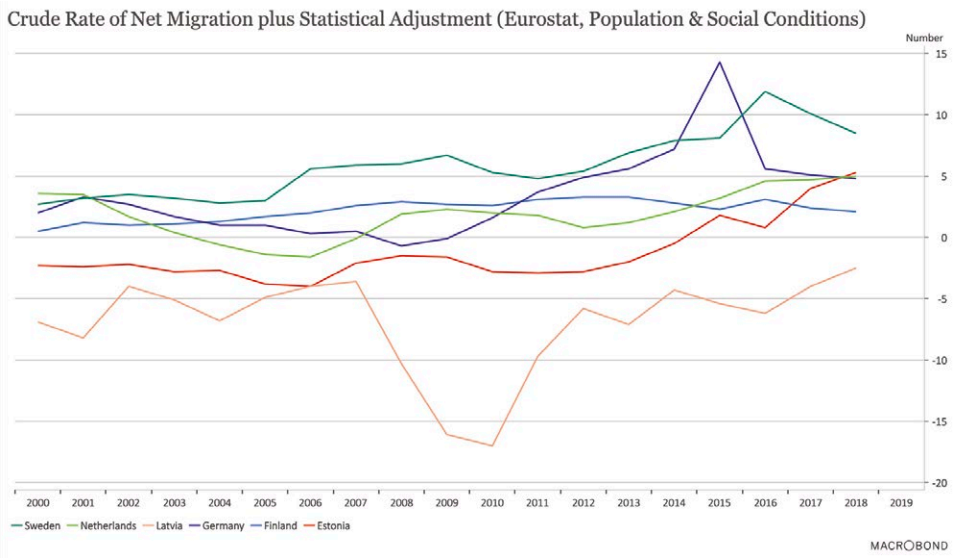


Figure 3. Net migration in 2000-2018

Net migration (here counted as crude rate of net migration plus statistical adjustment) gives us a picture of the total role of international mobility. Sweden has managed to attract immigrants more than others. At the other end lies Latvia, where many people left the country especially after the financial crisis. After that, the net development is still negative, but approaching closer to zero level. All other five countries have a positive migration balance, i.e. there are more immigrants than emigrants. Here it is also vital, what kind of people do leave and enter the country and how efficiently the newcomers get into work.

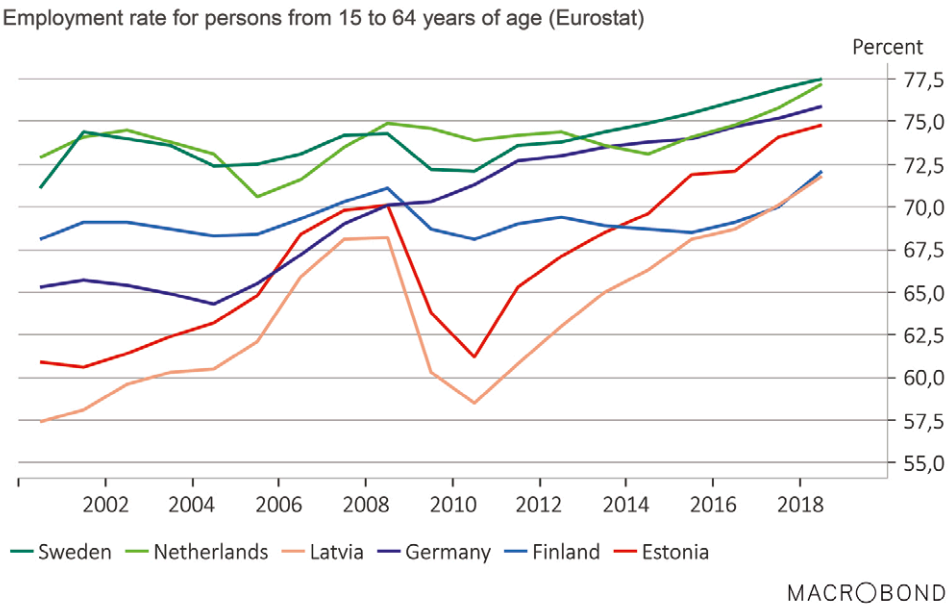


Figure 4. Employment rates in 2000-2018

In societies where the working-age population becomes a scarce resource, employment rates tend to rise. This has already happened in all six countries and is probably likely to continue for the coming years, as well. The steepest rises in employment rates can be observed in Estonia and Latvia with Estonia having somewhat higher level than Latvia. Sweden, the Netherlands, Germany and Estonia have higher employment rates than Finland and Latvia.

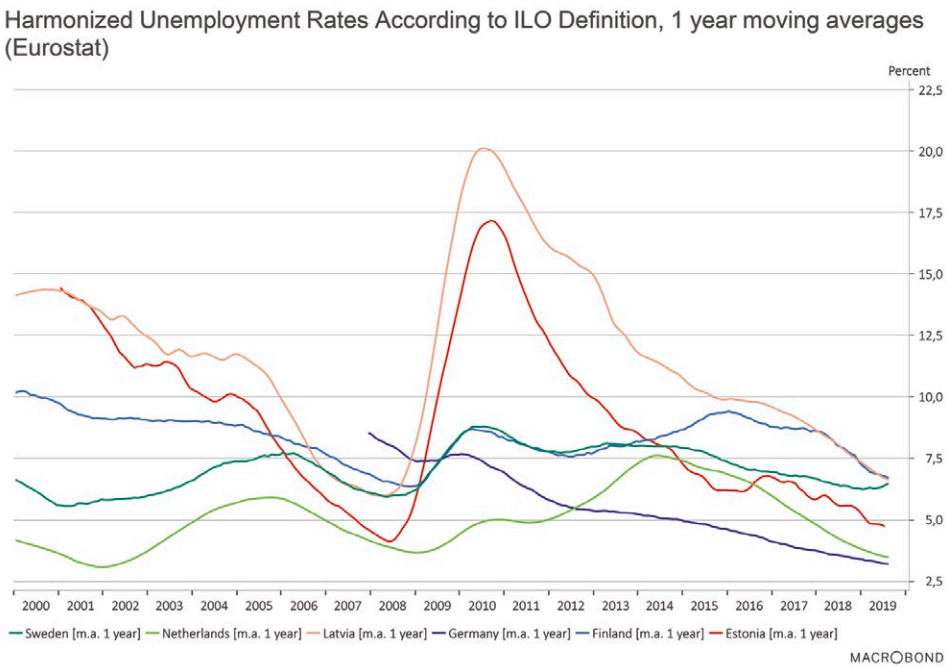


Figure 5. Unemployment rates in 2000-2019

Harmonised unemployment rates based on ILO definition show that also here, Latvia and Finland have gone really side by side in the last years. Latvia and Estonia have succeeded in rapid and steep decrease of unemployment after 2010. Germany and the Netherlands are doing best among these six countries in terms of unemployment. The general trend is downward unemployment rates in all countries during the last few years. This development is closely related to the rising employment rate developments, as the unemployed are usually the first workforce resources available to work.

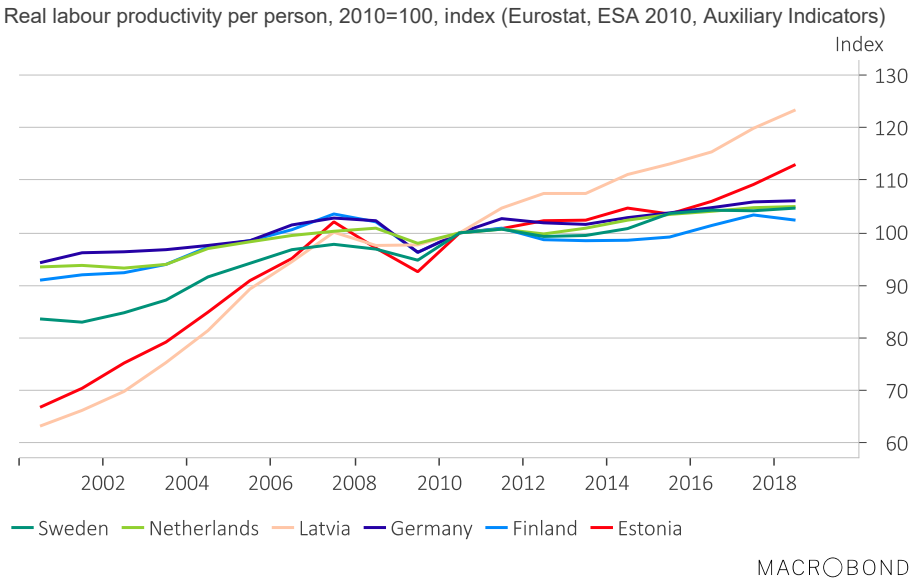


Figure 6. Labour productivity in 2000-2018

Real labour productivity is also an important indicator. This index represents the developments after 2010, where the index takes the level of 100 points. Latvia has done better in this respect after 2010 than others, also Estonia has improved its performance. The general picture is slight improvement of labour productivity.The differences between developments and levels between Germany, the Netherlands, Sweden and Finland are modest with Finland lagging somewhat behind.

Table 1. State of the phenomena compared to other countries (inter-country comparison) in the six countries during recent years

	EST	FIN	GER	LAT	NED	SWE
old-age dependency ratio	+	--	-	+/-	++	+/-
fertility rate	-	--	-	+	+/-	++
net migration	+	-	+	--	+	++
employment rate 15-64	+/-	--	+	--	++	++
unemployment rate 15-64	+	--	++	--	++	-
labour productivity	+	--	+/-	+ +	+/-	+/-

"++"=best state observed, "- -"=worst state observed, "+/-"=average state observed

It is not fully clear, whether the aspects under consideration here are the most relevant ones from the point of view of population and the labour market, but at least they are relevant. It is noteworthy, that Finland is at the bottom end of the state in five aspects out of six[2], as Latvia in three out of six. The state of the employment rate and the unemployment rate are equally worst among these six countries in Finland and Latvia. The Netherlands and Sweden are found at the other end of the state of affairs. Sweden has a relatively good situation among these countries, as the old-age dependency ratio is on average level, but both the fertility rate and net migration are the best among these six. For the Netherlands, the dependency ratio is the best and migration is relatively good while fertility on average level.

2 According to a recent Nordic comparison (Alatalo – Larja – Räisänen 2019), Finland was usually the last among the Nordics in employment rates for different groups, but did much better in the comparison of the labour market institutions and performance.

Table 2. Latest development compared to the previous trend in the country (within country comparison) and latest common trend

	EST	FIN	GER	LAT	NED	SWE	common develop-ment
old-age dependency ratio	-	--	+/-	-	-	+/-	--
fertility rate	+/-	--	+	+	-	-	-
net migration	++	+/-	+/-	+	+	+	+
employment rate 15-64	++	++	+	++	++	+	++
unemployment rate 15-64	+	+	+	++	++	+	+
labour productivity	+	+/-	+/-	++	+/-	+/-	+

"++"=improved development, "- -"=deteriorated development, "+/-" = unchanged development

Comparison can also be made within the country in question, namely, to observe, whether the developments during the last few years differ from the previous years´ trend. This shows clearly some interesting outcomes. The employment rates and unemployment rates have developed into positive direction in all countries in recent years. Also, net migration and labour productivity have either improved or remained at the previous trend in all countries. The old-age dependency ratio has not turned into positive direction in any of the countries recently. It is also possible to identify some common developments: the old-age dependency ratio is clearly worsening and it could be interpreted that the fertility rate is also slightly dropping. All other aspects are improving. Developments in fertility and net migration do have different timing of the effects: fertility is a longer-term issue from population and labour market point of view, as migration, depending on the type of it, may have even some short-term effects in the labour market, but has most likely medium- to longer term effects.

1.3 Pensionable age limits

Raising the statutory minimum **pensionable age** is one factor that gives an opportunity to boost labour supply. Also, incentives to continue working after that age is part of the policy. The *Estonian* pension age limit is 63 years and 6 months currently, but rises to 65 years of age by 2026. Life-time expectancy for 65-year-old persons will be taken into account in the Estonian pensions system from 2021 on. The *Finnish* pension reform rises the statutory pensionable age from 63 to 65

years in 2027 and for younger cohorts it is linked to the life-time expectancy of the year 2030. There are also economic incentives to work longer. In *Germany*, the statutory retirement age has risen stepwise and by the year 2029, it will reach 67 years. Also, there is discussion in Germany on the possible raise of the age limit up to 70 years of age. Flexible retirement arrangements are also being developed. In the *Latvian* country report, there is only a minor statement on the pressure on pensions spending. In the Latvian pension system, the statutory retirement age was raised to 63 years and 3 months in 2018 and it will be further raised to 65 years in 2025 (OECD 2018, 16). In the *Netherlands* the official retirement age was 65 years up to 2012 and it has steadily increased to 66 years in 2018 and will continue to rise to 67 years in 2024. After that, the retirement age will be coupled with the life expectancy. (see also OECD 2017). The *Swedish* pension system allows at the moment to get public pension already at the age of 61 years, which will be raised to 64 years in 2026. Life expectancy is also part of the Swedish policy. As the pension systems are complicated and interconnectd to other systems in the society, it is possible to have a preliminary consideration of the policy changes based on statutory age limit, only. It is a well-known fact that many people leave the labour market already before the pensionable age. However, it seems to be the case that Germany and the Netherlands have reacted to the population dynamics more in setting the age limits in the pension systems at 67 years, higher than other countries at this stage. In Estonia, Finland and Latvia, 65 years pensionable age is what has been decided. In most countries, life-time expectancy is or will be part of the pension system.

1.4 Other policy responses

The country reports are not intended to be interpreted as fully systematic or coverable reviews of the **policy responses**, however, it is interesting to list the policy responses mentioned by the authors of each country report. As the pension reforms has already been discussed, they are not listed here.

The *Estonian* country report mentions the workability reform, i.e. reform concerning the disability benefit recipients. The intention is to activate the benefit recipients by several means. Family-friendly policies are also discussed, especially parental benefits and child allowance. It is noteworthy, that in Estonia, parental benefit jointly with maternity benefit will retain the average monthly income of the parent

up to 1.5 years compared to the situation before the child´s birth. Short-term incentives to stay outside the labour market are really strong in this case. Migration is also discussed in the country report, both from the point of view of attracting emigrated Estonians to come back, and how to apply the immigration quota.

The *Finnish* country report mentions labour migration and special programmes, like the TalentBoost, to attract skilled workforce. Still, many foreigners with higher level degrees are in low-skilled jobs in Finland. New limits to special unemployment benefit rules for the elderly is discussed, as well as abolishing of the activation model, which intented to activate through setting benefit sanctions if the unemployed job-seeker did not show specially defined activity like temporary jobs, entrepreneurship or participation in ALMP programmes. Also the already terminated basic income pilot test is mentioned, as family benefits, especially the care leave benefit. Reforms in the education sector include Government proposal to extend the compulsory school age from 16 to 18 years of age. Also, the competitiveness pact is mentioned, which reduced labour costs by extending working hours without compensation and shifting some employer contributions to employees.

The *German* country report names certain policy responses that are not mentioned in other reports. Measures to enhance productivity like digitization and e-mobility may help to mitigate the declining labour supply via higher productivity. Working time arrangements by bringing e.g. the underemployed to increase their working hours is also discussed. Skilled labour immigration aims to persons who have either vocational or academic qualifications. More flexible entry into retirement is also one policy response mentioned, the methods used are flexible working time and shorter hours, which could help people to continue at work.

The policy challenges named in the *Latvian* country report include adult education, internal labour mobility, smart migration and remigration plan and besides these, establishing the Employment Board. The main problem is lack of qualified workforce. Adult education helps to reduce labour market mismatches and the numbers in adult education are increasing. Supporting construction of the rental housing aims to provide high-quality housing for population with average income. This promotes availability of labour in territories with higher economic activity and may also provide support for returning emigrants. Improving the immigration process for the Latvian employer is one specific issue mentioned. Remigration plan includes several measures, e.g. providing information on job and life opportunities in Latvia. The Employment Board coordinates inter-departmental labour market issues.

The *Dutch* country report mentions ceased early retirement scheme besides other pension reforms and discusses their effects in more detail. These reforms have increased the labour supply by almost 700,000 persons between 2005 and 2018.

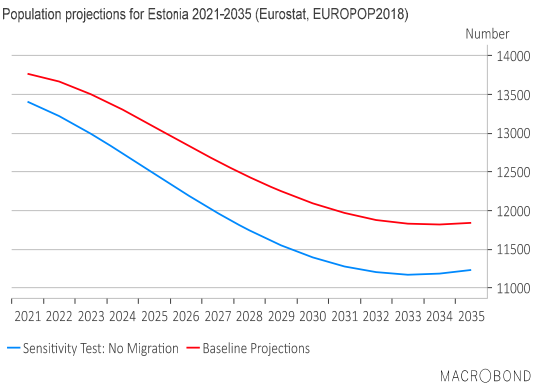
The *Swedish* country report identifies labour market integration of immigrants. Immigration has for a long period of time had a positive contribution to Swedish population growth. It is also mentioned that the supply of education will be increased, especially is mentioned that a large part of the unemployed lack education corresponding to upper secondary level. Asulym seeker immigration to Sweden is restricted.

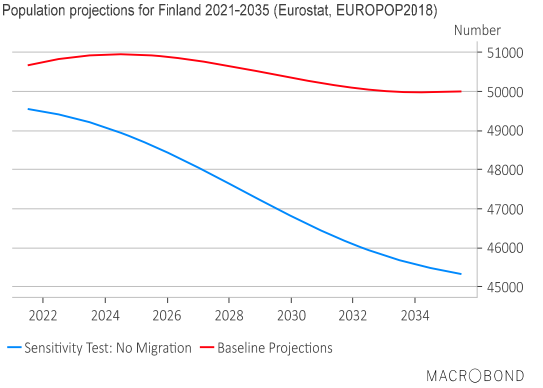
1.5 Outlook for the future of population and the labour market

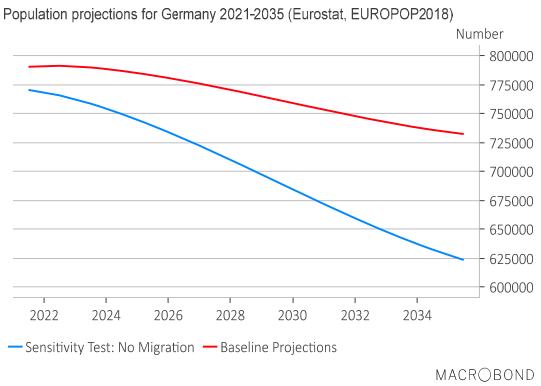
We take a look at the Eurostat one-year population scenarios for the six countries for a 15-year period of 2021[3] to 2035. This is of course, only a relatively brief period of time thinking of population changes, but shows the directions of the developments relatively clearly. We select a baseline scenario and a second scenario without migration. Interesting outcomes follow.

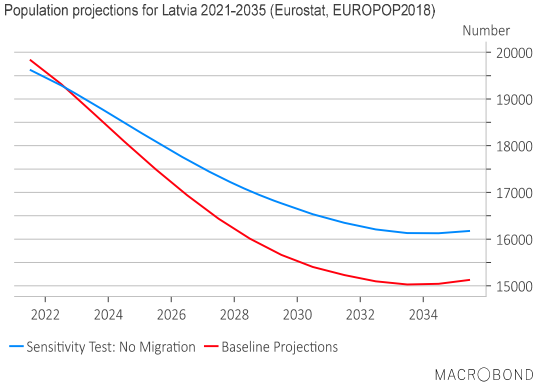
The baseline scenarios show a declining population trend for other countries, except for the Netherlands and Sweden. Eliminating the migration effect, there is a declining trend for all countries, however, for some years the scenarios for the Netherlands show a growth trend before decline begins. Immigration has relatively the largest population effects in Finland, the Netherlands and Sweden. The numbers are naturally largest for Germany, where the scenarios show a 10 million difference in the number of inhabitants for the year 2035 depending on migration. For Latvia, where net migration is negative, the effect of migration is the opposite compared to others.

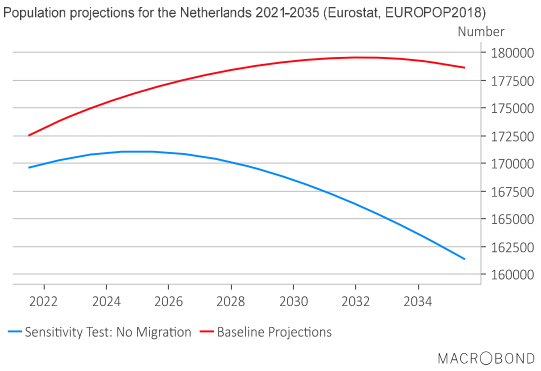
3 This year was selected as a starting point because of the somewhat odd outcomes of the first years of the scenarios in relation to the current population.











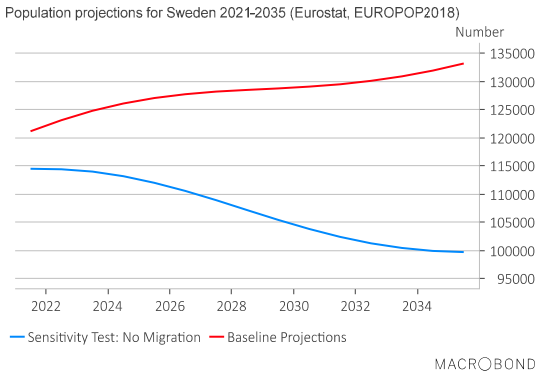


Figure 7 a-f. Population scenarios for the years 2021-2035, baseline and without migration, 100 persons (a), upper left, Estonia; (b), upper right, Finland; (c), middle left, Germany; (d) middle right, Latvia; (e), bottom left, the Netherlands; (f), bottom right, Sweden (Source: Eurostat population scenarios)

What will be the labour market effects of the population developments in the coming years in our societies? It seems very likely that the labour market becomes structurally tighter, there will appear more recruitment problems and real labour shortage, but on the other hand, those people who do not meet the skill demands of the employers, will still face unemployment. It is highly important that young people get adequate basic skills, on which to build their vocational skills and academic knowledge. Many European countries face a labour shortage in same occupations, e.g. in the health care and social service sector. The labour market participation of the elderly population, especially, but also other low-employment population groups are in the focus. Policy reforms can alleviate the situation: we can try to get as much labour input from the smaller working-aged population as possible. There are still relatively broad differences between countries in the participation of the elderly and partially capable people in the working life. There, as in other policy reforms, seems to be space for mutual learning.

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2 Country report: ESTONIA

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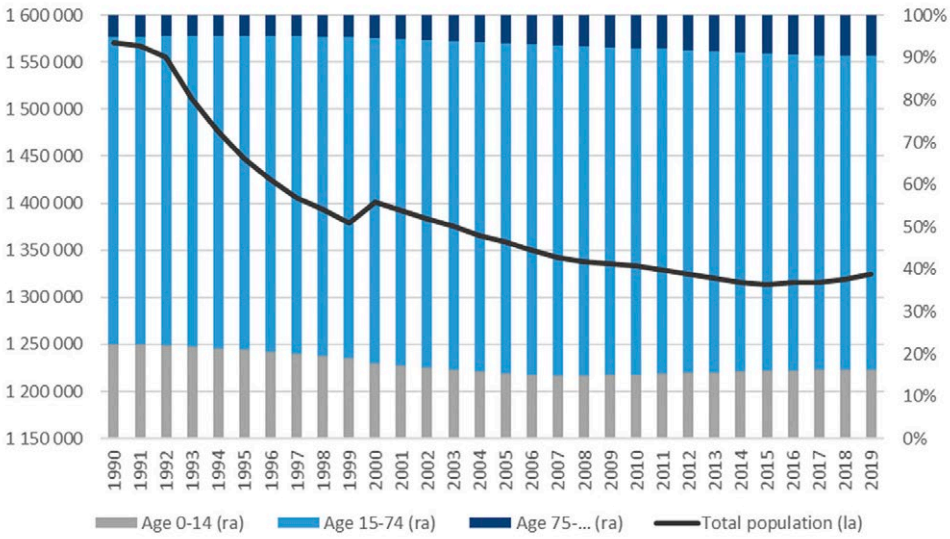
2.1 The state of the population and the labour market in Estonia

Estonia has an estimated population of 1.32 million people, consisting of 69 % Estonians, 25 % Russians and 6 % other nationalities. Over the recent decades, the population has remarkably declined and the share of older age groups increased (see figure 1). Demographic pressures have been and will remain one of the main sources of economic challenges for Estonia.



Source: Statistics Estonia Database

Figure 2.1. Population of Estonia 1990-2019

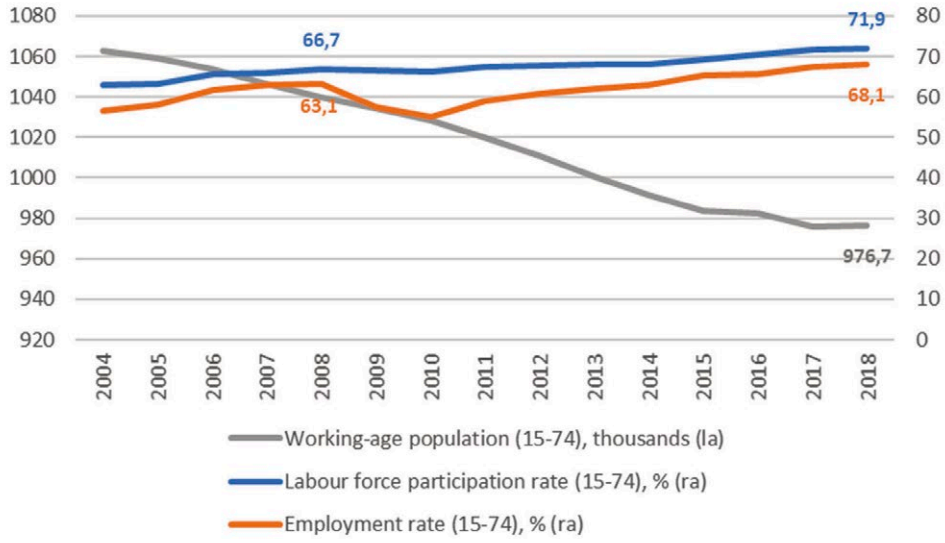
The working-age population (aged 15-74) in 2018 consisted of 976.7 thousand people (Statistics Estonia Database). In the last 10 years, Estonia has lost 7 % of its working-age population, amounting approximately to 63,000 people. The main factors for this have been population ageing and emigration. While the natural change of the population remains negative (1.4 thousand births less than deaths in 2018), immigration has outpaced emigration in the last four years (net migration 7 thousand people in 2018), though not sufficiently to reverse the trend of the shrinking working-age population. (Country Report Estonia 2019).

In recent years the labour market performance in Estonia has been continuously improving, benefiting from favorable economic climate. Despite the general cooling of European and World economy, the economic growth in Estonia in 2018 was strong. Gross domestic product (GDP) increased 3.9 % compared to 2017. For the third consecutive year the economic growth in Estonia was faster than 3 % (Statistics Estonia Database). The main driver for the growth has been domestic demand, with consumer spending playing a key role due to high employment and fast-growing wages. In addition, strong external demand and favorable world commodity prices helped sustain an increase in exports and industrial production in all sectors (Country Report Estonia 2019). Main contributors to a growth covering

the most of economic activities in 2018 were construction, manufacturing, professional, scientific and technical activities.

Despite the decline in working-age population, the number of employed in Estonia has remained high. In 2018, there were 664.7 thousand employed, which is even more than at the peak of the last economic-boom (Labour market indicators …). The high number of employed has been supported by three main factors: 1) increasing activity rate (more people over the age of 50, people with reduced work-ability and parents of small children are participating at the labour market), 2) declining unemployment and 3) positive net migration. Employment is also enhanced by flexible working conditions, e.g. part-time and remote work, and life-long learning opportunities, e.g. retraining and upgrading of professional skills. The opportunity to use social services, e.g. a place for child in a pre-school childcare institution, is also important. In 2016, the work ability reform was initiated with a goal to bring together employers and persons with reduced capacity for work. (Indicators of Sustainable Development 2018)

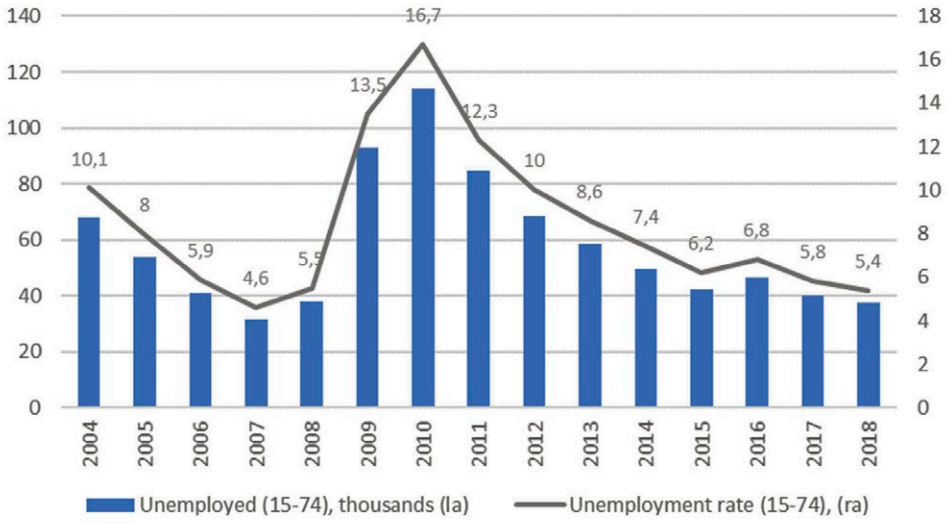
In 2018, labour force participation rate (15-74) in Estonia was 71.9 % and employment rate 68.1 %, both being at the highest level of the last decade (see figure 2) (Labour market indicators …). Employment rate has increased in most sub-groups, but differences remain. In 2018, the employment rate for men was 72.3 % and for women 64.1 %. By age groups, the employment rate was the highest for the 25-49-year-olds (83.9 %) and lowest for the 15-24-year-olds (41.2 %). Employment rate for Estonians was 69.8 % and for non-Estonians 64.3 %. The employment rate of non-Estonians has been constantly lower than for Estonians, partly due to different age structure. Non-Estonians' employment is more sensitive to labour market changes and it recovers more slowly. The employment rate by county was the highest in Harju county (73.9 %) and lowest in Valga (56.4 %) and Ida-Viru (56.8 %) counties. The regional differences in employment rates are due to better job opportunities in Harju county and higher shares of older population and non-Estonians in Valga and Ida-Viru counties.



Source: Statistics Estonia Database

Figure 2.2. Working-age population, employment and labour force participation rates in Estonia 2004-2018

In 2018, there were 37.8 thousand unemployed in Estonia. Unemployment rate was 5.4 %, being almost at the pre-crisis level (see figure 4). In recent years, unemployment has decreased in all age-groups. The unemployment rate among 25–49-year-olds was 4.5 % and among 50–74-year-olds 5.2 %. One of the goals of Estonian competitiveness strategy is bringing the unemployment rate among young people (15–24-year-olds) down to 10 %. In 2018, the goal was not reached yet, but the unemployment rate among young people has decreased year-on-year and was 11.8 % in 2018. The number of long-term unemployed (who have been looking for work for 12 months or longer) was 9,400, which is the lowest of the last 20 years.



Source: Statistics Estonia Database

Figure 2.3. Unemployment in Estonia 2004-2018

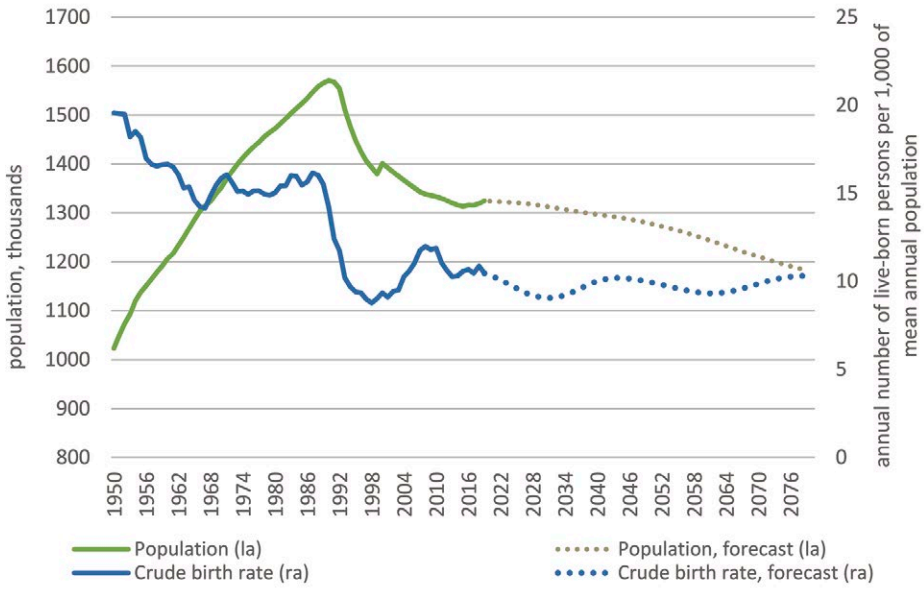
Due to good economic times and demographic pressures, Estonia's economy is close to full employment. According to projections, even if Estonia's activity rate remains at its current levels, employment is going to start falling due to ageing (Country Report Estonia 2019).

Many employers in Estonia are already facing labour shortages and the lack of an adequately skilled workforce is increasingly cited as a barrier to doing business. The proportion of employers reporting labour shortages in all three main economic sectors (industry, construction, services) in Estonia is higher than in the EU on average. In the first quarter of 2019, nearly 25 % of employers in industry and almost 28 % of employers in services indicated that labour shortages limited their production. The unmet demand for labour is particularly high in the information technology and communication sector, which with its related fields is expected to grow by 58 % in the next 10 years. (Ibid)

2.2 Main population changes and their labour market outcomes

In Estonia, the changes in population have been strongly impacted by the Soviet era and the regaining of independence in the 90s. During the Soviet era, people from other parts of Soviet Union migrated to Estonia. So, until the 1990s population in Estonia increased and reached 1.57 million inhabitants in 1990 (figure 4).

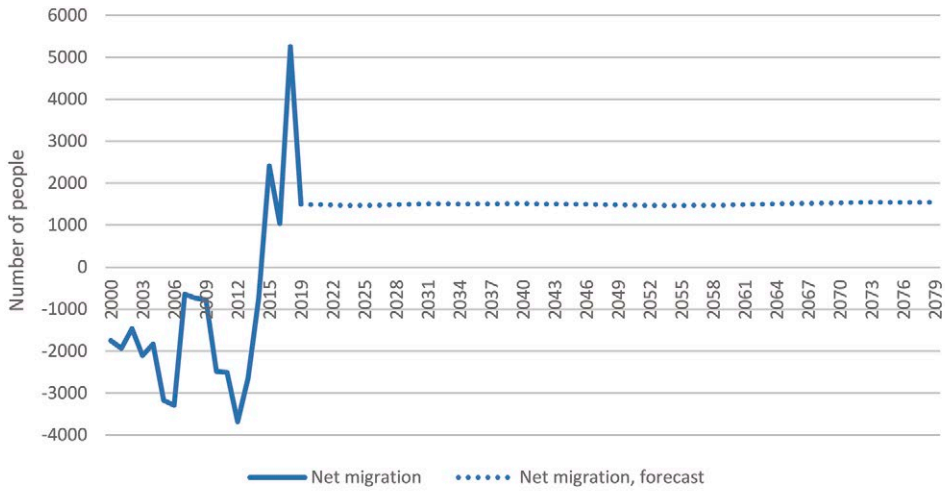
During the first years of re-independence, the population decreased rapidly, as many mostly Russian speaking migrants left from Estonia. At the same time, the birth rate decreased remarkably and that led also to a negative natural population change. The crude birth rate has remained low since then (figure 4), with slight increase during 2005-2010. This might have been due to a good economic state and supportive changes in the family benefit system. For the coming years, it is expected in the Statistics Estonia forecast that the birth rate remains low and decreases over the next decade back to the early 2000s level.



Source: Statistics Estonia Database

Figure 2.4. Crude birth rate in Estonia, from 1950 to 2018, forecast for 2019 to 2079

Migration flows in Estonia are relatively small in numbers and have a smaller impact on the population. Negative migration trends continued after the re-independence and as shown in figure 5, the net migration on average was -2,000 persons per year. In the last couple of years, the trend has changed and turned to positive as more people come to Estonia than leave. Immigrants mostly come from our neighbouring countries and Russian speaking countries like Ukraine. In 2017 also more Estonians came back than left. (Tammur, A. (2018)) For the coming years it is expected in Statistics Estonia main forecast that net migration remains positive and in each year population will increase by 1,500 from migration.



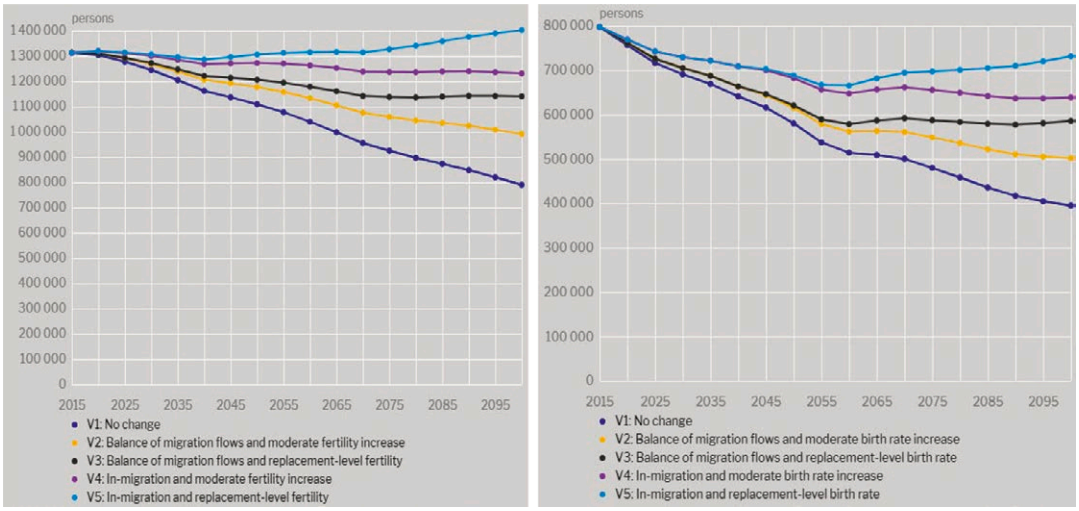
Source: Statistics Estonia Database

Figure 2.5. Net migration in Estonia, from 2000 to 2018, forecast for 2019 to 2079

To have a more insight, how demographic and migration trends impact Estonian population, an in-depth analysis for Estonian Human Development Report was made (Sakkeus, L., McKibben, J., Puur, A., Rahnu, L., Abuladze, L. (2017)). There they constructed 5 different scenarios, that cover most likely combinations of migration and birth rate trends. The results of those 5 scenarios on population and working-age population are shown in figure 6. In V1 scenario, the fertility and migration trends continue as they have done so far and that is the most negative outcome for population. By 2035, the population will have decreased by 100,000 inhabitants and working-age population even more. In scenarios V2 and V3, it is expected that

migration flows are in balance and fertility rate will have more positive trends. In that case the overall trend in respect to population and working-age population remains negative in next decades. In the long-run, the population will stabilize, but at a lower level, than it is today.

The most positive scenarios are V4 and V5, where it is expected, that in addition to positive trends in fertility rate, also migration flows will be positive and more people will migrate to Estonia than leave. Even then, the working-age population still will decrease in the coming decades, but at a slower pace.



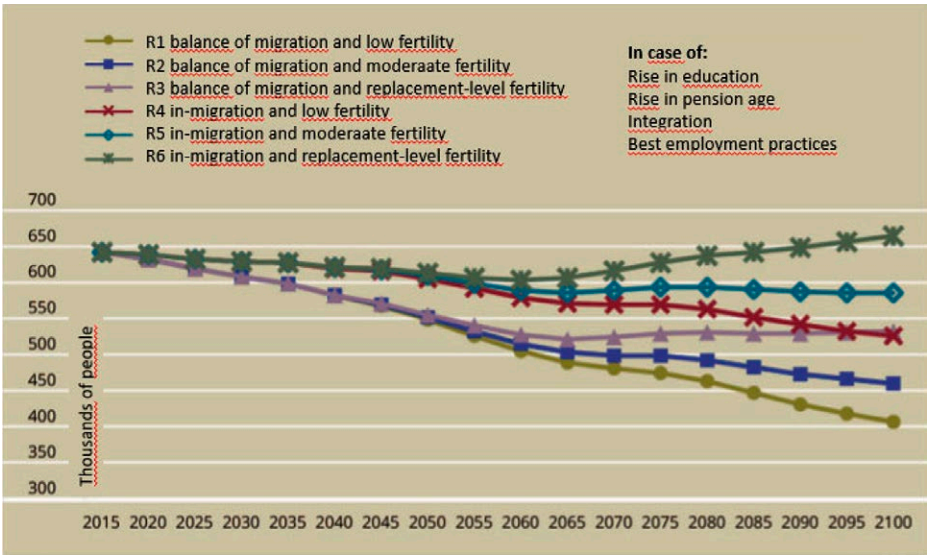
Source: Sakkeus, L., McKibben, J., Puur, A., Rahnu, L., Abuladze, L. (2017)

Figure 2.6. Projected population (left) and working-age population (right) in Estonia, 2015-2100

In conclusion to population forecasts, it is expected to have a decreasing working-age population in Estonia in the coming decades, even in the case of most positive population scenario. That will influence the labour market. In recent years, in terms of decreasing working-age population, on contrary the employment rate and the number of employed have increased as discussed in above section. The labour market forecast, that uses the population forecast scenarios, indicates, that employment trends might not be as negative. There are several factors, that can alleviate the negative impact from decreasing population. These factors are (Puur, A., Eamets, R., Piirits, M., Klesment, M. (2018)):

- Rise in working-aged population's education level (increases employment 1.9 % by 2035)
- Rise in pension age (increases employment 2.2 % by 2035)
- Integration of immigrants, so their employment rate would be as high as natives (increases employment 2 % by 2035)
- Implementation of best employment practices (such as increasing employment among segments that are not so active in the labour market; increases employment 6.2 % by 2035).

In figure 7 is shown the employment trends in case of different population scenarios. Here we can see a clear impact that migration could have on employment. In case of scenarios R1 to R3, where migration is in balance, employment will decrease by about 50,000 people by 2035. In case of positive in-migration scenarios, the decrease could be smaller, about 20,000 people.



Source: Puur, A., Eamets, R., Piirits, M., Klesment, M. (2018).

Figure2.7. Projected employment, 2015-2100

2.3 Policy challenges

As the process of declining population and workforce has been evident for many years, there have been a lot of discussion how to change these trends and what could be the actions on policy level. Several legislations change and reforms have been made since the early 2000s.

Pension system

As the population in Estonia is ageing, the number of people on retirement is increasing. Due to that, there has been a raise in the pension age during the last years and the pension age will continue to raise in the coming years. The first step of the reform was to equalize the retirement age for men and women, as women could retire earlier than men. Currently the pension age for both is 63 years and 6 months and by 2026 it will reach 65. In 2021 the pension legislation will be renewed and the pension age will depend on life expectancy of 65-years old. The effect from the pension age rise can be seen in the increasing employment rate in age group 60-64.

Another policy change concerns the early retirement under favourable conditions, as today the users of the early retirement option form 10 % of all pensioners. As working conditions have improved on these positions and studies show that those people are as healthy as others at their age, it is considered to abolish these pensions step-by-step. (Ministry of Social Affairs)

Workability reform

To bring more working-aged people to the labour market, one major policy change was made in 2016 concerning the disability benefit recipients. If a person has a reduced work ability because of a health problem, they receive work ability allowance. But in the new system, that person must be active in the labour market to receive the benefit. By active, it is meant that the person is employed, registered unemployed, studying or engaged in few other activities. To help people with reduced work ability to stay active in the labour market, the workability assessment is now in the Estonian public employment service's responsibility. There are also many labour market measures specifically targeted to those people to help them be active and employed. Around half of the registered unemployed with reduced work

ability participate in labour market measures. Moving back to employment takes more time for unemployed with reduced work ability and half of them are long term unemployed (over a year since last employment). The exiting to employment has improved in that group and over 40 % of new registrants find a job in a year since registering with the PES.

Family-friendly policies

In the field of family-friendly policies the biggest change was implemented in 2014, in the form of the Parental Benefit Act. The purpose was to compensate the previous income to a parent whose income decreased due to the raising of a child. The benefit is paid for approximately one year. Together with maternity benefit, a parent can have a paid leave for up to 1.5 years since the child's birth. During that time, the parent will retain their average monthly income that they had before the child's birth. (Parental Benefit Act) There were some increase in the birth rate during few years after the implementation of the Parental Benefit Act, but at the same time there was an economic upturn in Estonia that could have also had a positive effect on births.

More recent change in family-friendly policies was the general rise in child allowance and the rise in the family allowance in the case of the birth of a third child (policy changes in 2016-2017). According to Statistics Estonia, there have been an increase in the births of second and third child in 2018. (Kolmandaid lapsi… (2019))

Migration

As migration is one possible and quick way to relive current shortage of labour, it is often discussed how liberal Estonian migration policy should be and how to attract high-skilled migrants. The first preference is that the Estonians who have emigrated should return. To ease the labour shortage, some programs that aim to Estonian citizens to return have been implemented. It is expected, that talented Estonians who have studied or worked abroad would return and add value to the labour market and economy.

Overall, migration policy has been conservative since the re-independence, to recover from large-scale immigration during Soviet era and protect society's

integration capacity. The immigration quota has been around 1,600 immigrants per year. During the years, the migration policy has softened a little, as the list of countries whose citizens can immigrate to Estonia outside the quota, has expanded. At the moment, the quota only applies to citizens from third countries. There is also an exception by sector since 2017 – people who come to work in the ICT sector or in start-ups are outside the quota. (Maasing, H., Asari, E-M. (2017))

People who can come to Estonia without quota restriction are also restricted as they can stay in Estonia if they are working, studying or reunited with their family. In terms of working only high-skilled workers are allowed and therefore salary thresholds are implemented. (Maasing, H., Asari, E-M. (2017))

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3 Country report: FINLAND

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3.1 The state of the population and the labour market in Finland

Increasing labour force participation has become central to Finnish public debate as the population is ageing and the working age population is getting smaller each year. In 2020, there are 36 over 65-years-old persons for 100 working age persons – the highest ratio in Europe.

Last two years in Finland have marked an exceptional growth in employment. While at the beginning of the year 2017 the employment rate (15-64, SA) was still 68.9 percentages, two years after, at the beginning of 2019, the employment rate marked 72.4 percentages: 3.5 percentage points higher (Figure 1). The employment rate is now at its highest since 1990.

Unemployment is yet to reach the 2008 level, meaning that the labour force participation rate has grown. The unemployment rate (15-74, SA, Labour Force Survey) was 6.5 % in July 2019. For the ILO unemployment, changes have been modest, as during recessions many people stop looking for work and are counted outside the labor force – and again as unemployed as the economy starts picking up and searching for a job pays off. For registered unemployment, however, we saw a drop of 100,000 persons during 2017-2019. (Figure 2.) The speed of the drop

has been unprecedented. However, it seems that the boom is over and the level of unemployment (238,000) may not reach the 2008 level (199,000). Furthermore, in addition to 238,000 unemployed job-seekers, there are some 120,000 unemployed persons more who are in active labour market policy measures – compared to 80,000 in 2008.

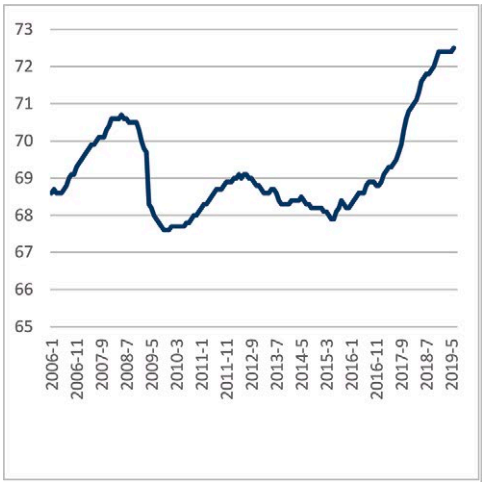


Figure 3.1. Employment rate (15-64), %, seasonally adjusted trend (Labour Force Survey)

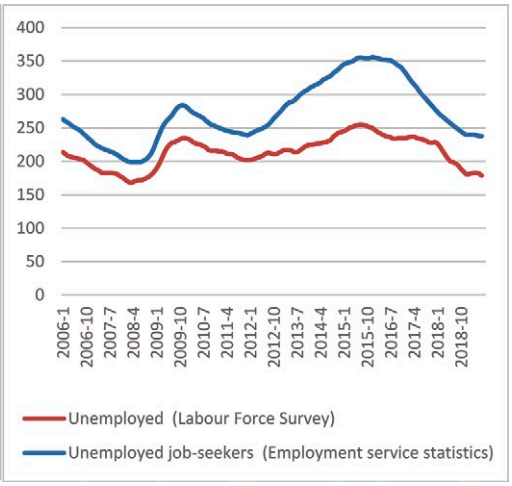


Figure 3.2. Number of ILO-unemployed (Labour Force Survey) and registered unemployed job-seekers (Employment service statistics), 1,000 persons, seasonally adjusted trend

During the same period economic growth has been good, but not exceptional (on average 2.2 %). The employment growth was boosted[4] by two labour market reforms: "competitiveness pact", which lowered labour costs by increasing working time and lowering employers' social security contributions, and "regular interviews" which introduced more regular contacts for PES unemployed.

4 Impact evaluation is difficult, as the reforms were made at the same time as the employment growth started. However, there is some evidence on the impact of the reforms, e.g. ETLA, 2019; Kärkkäinen & Tervola, 2018; Economic Policy Council Report, 2018.

Figure 3.3. Y/Y change in GDP volume (%, left axis) and number of employed persons (1,000 persons, right axis)

In 2019-2020, the economic growth is expected to slow down and consequently also the employment growth. The new government has set their target at 75 % employment rate in 2023, which based on current baseline forecasts remains a challenging goal.

There are still lots of open vacancies (Figure 4), but the employment growth seems to slow down due to the labour shortage. Although there are still plenty of unemployed people (Figure 2) and open vacancies are at record level (Figure 4), the duration of recruitment is picking up again (Figure 4) and over 40 % of the employers report problems in recruitment and 20 % labor shortage (Figure 5). Developments reflect the very high structural unemployment in Finland.

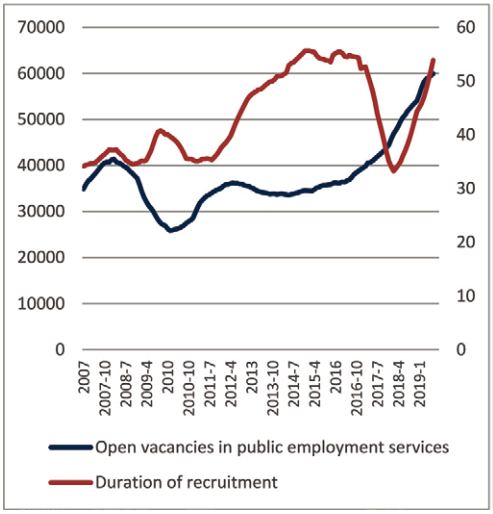


Figure 3.4. Open vacancies (number of vacancies, left axis) and duration of recruitment (days, right axis) in public employment services, 12 months moving average
(Employment service statistics)

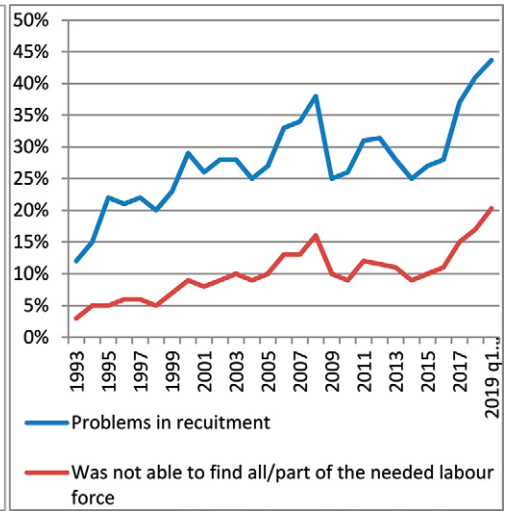


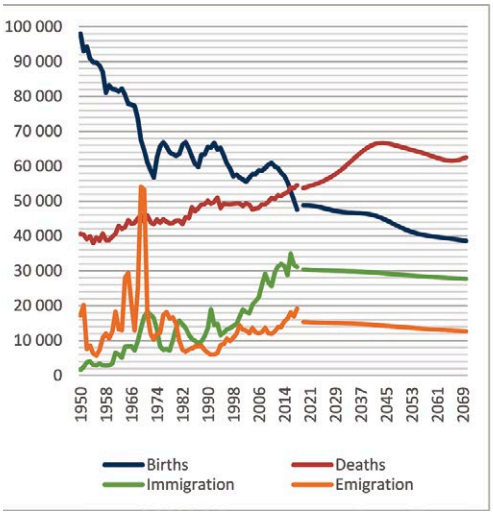
Figure 3.5. Share of establishments with problems in recruitment and labour shortage (Open Vacancies Survey)

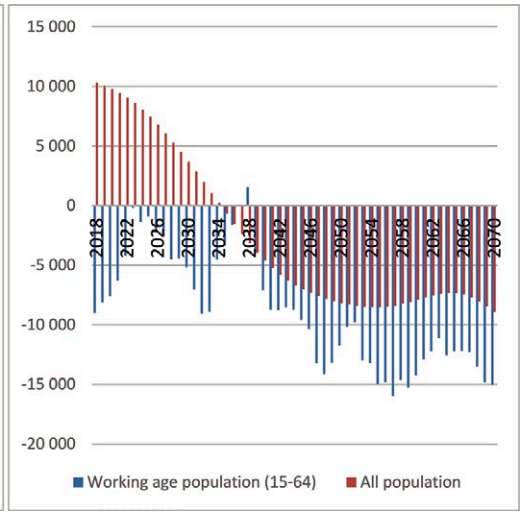
3.2 Main population changes and their labour market outcomes

High structural unemployment goes poorly together with ageing population. In the longer run, the public finances are strained by increasing age-related costs from health care and pensions. The natural population replacement rate is already negative – there are less babies born than people dying – and the fertility rate has been in free fall since 2011. The population forecast is calculated based on the fertility rate of 1.45, which is slightly more optimistic than the actual figures from 2018 (1.41). (Figure 6.)

Hence, the population growth is sustained only by immigration, which has been growing steadily, but the volumes remain still very small (yearly net migration ~15 000, or 0.3 % of the total population) (Figure 6). Despite the immigration, the number of working age population has been falling each year, although the total

population is still growing as the older age cohorts are getting larger (Figure 7). The population growth (sustained by growing number of pensioners) is projected to continue until 2034. In 2035, the population will start to shrink - if there are no changes in the assumption of the projection (fertility 1.45 and net-migration





15,000, mortality trend).

Figure 3.6. Population changes and projection until 2070. (Population statistics, Statistics Finland)

Figure 3.7. Year-on-year change in working age and total population. (Population projection, Statistics Finland)

Also the age-structure of working age population is changing, which will affect the employment rate, as the employment rate of the youngest and the oldest age groups is much lower than that of the prime-age group. Figure 8 shows the effect of age structure change on the employment rate, given that the 5-year age group employment rates would stay the same as in 2018. In 2022, there will be light downward pressure on the employment rate, as the younger cohorts are temporarily getting larger and hence the weight of the prime working age population in the total population is smaller (Figure 8). However, after 2028, the share of the oldest and the youngest age groups starts decreasing and there will be upward lift at the employment rate due to the larger weight of the prime-age population.

Also, during the 2028-2035 period the working age population is decreasing while the total population is still growing. The growing number of pensioners will sustain domestic consumption especially for health and care services, which currently employs 8 % of all the labour force. Theoretically, if the demand for labour would stay at the same level as in 2018, and the demand would need to be satisfied by the shrinking number of working age population, the employment rate would need to rise by one percentage point to 73.5 % during 2028-2035 (Figure 9). Hence, demographic changes are expected to create some upward lift on the employment rate during 2028-2035 period.

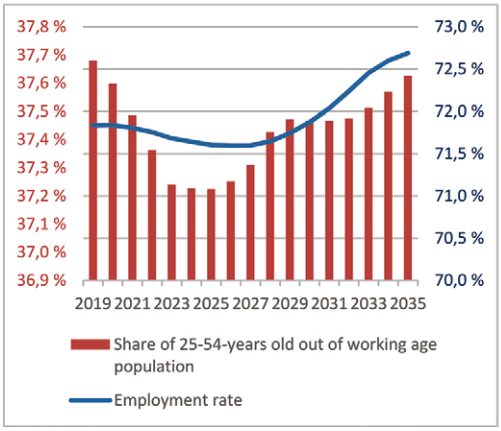


Figure 3.8. Effect of changes in the age structure of working age population on employment rate (15-64)

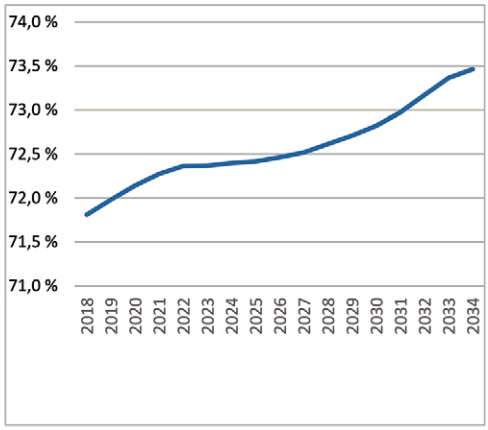


Figure 3.9. Effect of demographic changes on employment rate, if the number of jobs would stay at 2018 level

Any upward lift at the employment rate will certainly be needed to prevent the ratio of the non-working population to the working population (economic dependency ratio) from rocketing up. Indeed, although ageing poses quite a challenge on the economic dependency ratio – and hence the finances of a welfare society – the rate can be significantly affected by the level of employment rate (Figure 10). The economic dependency rate (currently 124) would decrease to 115, should the employment rate have reached 75 %. If we chose to be satisfied with current (2018, 124) balance, the effect of ageing would be countered by 75 % employment rate until 2042. After that, an even higher employment rate would be needed: 80 % by the year 2067.

Labour migration is often proposed as a solution for ageing societies. Indeed, as the migrants are typically young, and *labour* migrants have a decent employment rate, their effect on receiving society's economic dependency ratio is very beneficial. However, for Finland, as the migration volume is still very small (15,000 yearly), increasing the amount by 50 % (+ 8,000 yearly), would have significant effect on the economic dependency ratio only after 20 years (Figure 10). Hence, affecting the employment rate is a much faster solution.

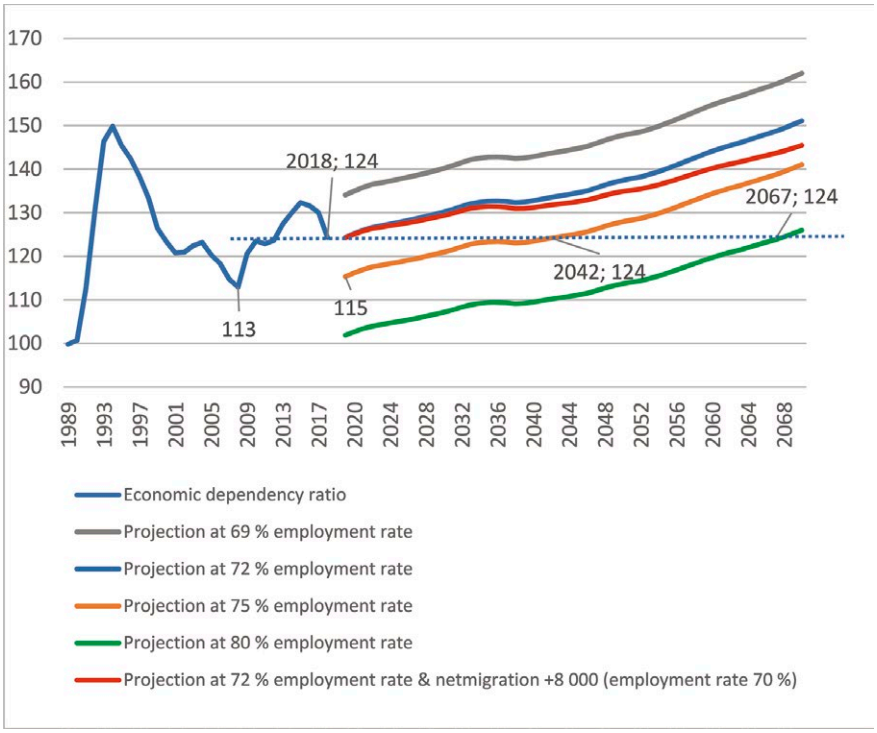


Figure 3.10. Economic dependency ratio (rate of non-employed population to employed population) with different scenarios of the employment rate and migration.

Another demographic change is urbanisation and intermunicipal migration. The current projections show the very high concentration of population to only three main urban centres in the South-West of Finland (Helsinki, Turku, Tampere) (Figure 11). Already now, housing poses a significant challenge on the labour market. The

main urban centres suffer from labour shortage, but the labour force movement is restricted by falling house prices in the rural area and lack of housing in the urban centres (figure 12).

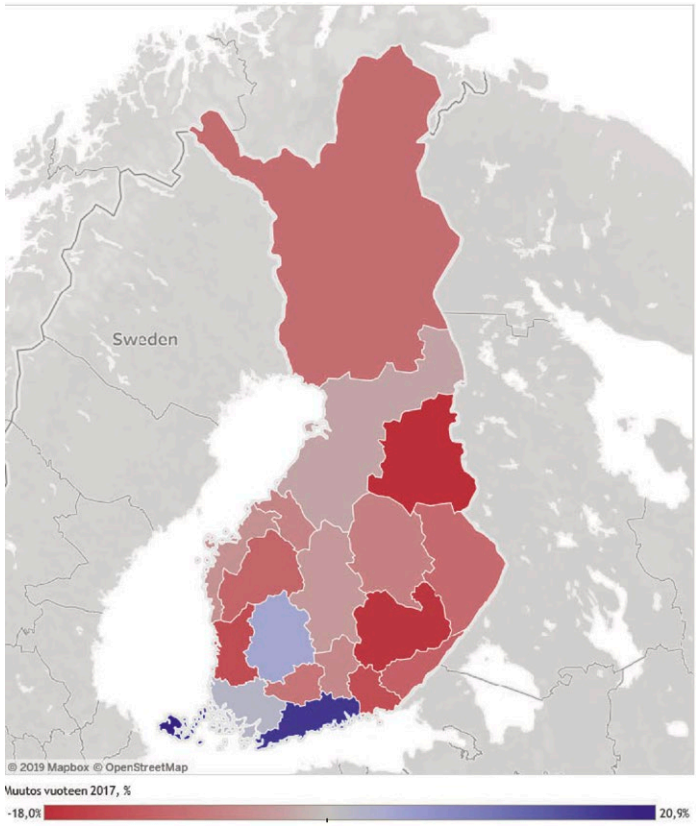


Figure 3.11. Population change in 2017-2040 by region (source: MDI, 2019).

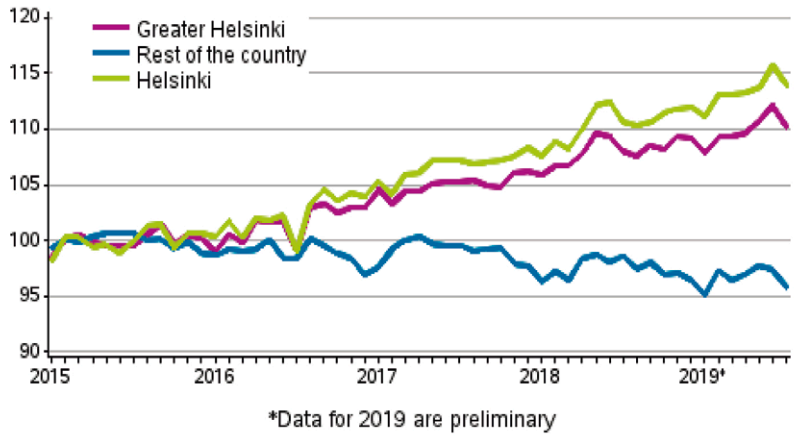


Figure 3.12. Development of prices of old dwellings in housing companies by month, index 2015=100.

3.3 Policy challenges

The current political debate reflects very well these demographic challenges. Raising the employment rate is the main goal of the current Government and was very central also for the previous Government. There have been various initiatives to raise labour supply. Most parties support **increasing labour migration** and special programs have been launched (e.g. TalentBoost), to attract skilled labour force. However, as pictured in Figure 10, the volumes are still too small to produce any large effects on the population level. Also, it has been proved tricky to absorb foreign talents to the Finnish labour market and many foreigners with higher level degrees are employed in low-skilled jobs.

A pension reform was recently completed and is expected to increase labour supply in the coming years. For persons born before 1955, the earliest retirement age is 63 and it rises to 65 for those born in 1962-1964. The retirement age of those born in 1965 or later will be linked to life expectancy as of the year 2030. If you work past your first retirement age, the pension funds that you have accrued will rise by 0.4 % for each month that you retire late. For a 35-years-old yours truly, the earliest retirement age is 67 and the target retirement age 70 years (under current life expectancy projections).

Under the current unemployment insurance system there is a special arrangement, **"unemployment tunnel"**, for unemployed persons, who are close to the retirement age. In practice, those who become unemployed after the age of 59 can receive earnings-related unemployment benefits until retirement. The eligibility age limits for the extended benefits have been gradually increased – and the increases have reduced entry into unemployment in the age groups affected by these changes. However, as the old-age retirement age is gradually increasing, the maximum length of extended benefits is likely to increase in the future, which will undermine the employment effects of the pension reform if the age limit is not raised regularly. Hence, further increases in the eligibility age for extended benefits or removal of the entire system remain topical issues in the public debate.

Inspired by the Danish model, in the beginning of 2018 the Government introduced "**activation model**", that cuts the unemployment benefits by 4.65 % of unemployed persons who fail to demonstrate sufficient activity by participating to labour market training or accepting part-time jobs. Cuts were made for over 50 % of unemployed. The model increased participation to labour market training, but employment effects are difficult to estimate due to the lack of comparison group (Kyyrä, et.al. 2019). Due to its unpopularity, the current Government aims to abolish the model and replace it by increasing the quality of public employment services and establishing a new program on enhancing work-ability. Furthermore, to support labour demand, an increase in employment incentives is planned.

In 2017-2018 also a 560 euros **basic-income** pilot-test was implemented for a sample of 2,000 unemployed persons. The participants got to keep the monthly benefit whether or not they find a job, or refused to participate in the labour market services. According to the first results, there were no effects on employment nor participation to labour market services.

Reforms on **family benefits** have been discussed extensively – especially concerning the care leave benefit, which is paid until the child turns 3 years if parents take care of her/him at home. However, under current Government it seems that no restrictions on care leave benefits are expected. There have also been several reforms on **education** sector to speed up transition from secondary to tertiary studies and to restrict years spend in tertiary education. However, the reforms have not been as successful as hoped. In addition, the share of tertiary educated youth has started to fall and number of NEET youth is still higher than in

2008. To combat marginalization and to increase skilled labour force in the future, the current Government has proposed extension of compulsory school age from 16 to 18.

To boost labour demand, a so-called **competitiveness pact** was negotiated in 2017, which reduced labour costs by 4.2 percent by extending working hours without compensation and shifting mandatory employer social security contributions to employees. This reform has been estimated to produce 23,000-42,000 jobs within five years. (Economic Council Report, 2018.) However, there is currently debate on whether or not this pact is permanent or should be terminated in the end of this year.

All in all, most of the measures still seem inadequate to rise to the demographic challenges. With shrinking working-age population and record-level labour shortage, a number of 346,000 job seekers (either unemployed or in labour market policy measures; some 11 % of the labour force), together with high level of recruitment problems and labour shortages, are strong signals of very high structural unemployment. Geographical and occupational mismatch would require more measures. A pressing problem are also the incentive traps, or unemployment traps, as the low-skilled jobs do not pay enough as compared to social benefits.

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4 Country report: GERMANY

Sabine Klinger - Johann Fuchs
IAB – Institute for Employment Research

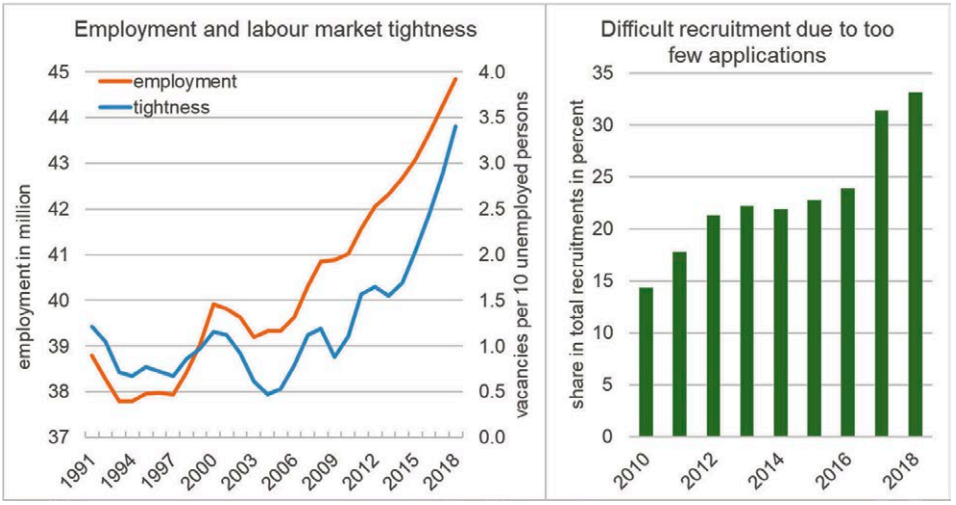
4.1 The state of the population and the labour market in Germany

The total population in Germany amounted to 83.0 million by the end of the year 2018 and exceeded the threshold of 83 million for the first time. The part of the population that is relevant for the labour market is called *labour force potential*. These people are either employed, unemployed (ILO) or belong to the hidden reserve. The IAB calculations comprise people aged 15 to 74 and take their specific participation rates into account. In 2018, labour force potential amounted to 47.5 million, about 57 percent of the total population. Labour force potential is driven by three components: demography, migration, and participation. The demographic component, which comprises an ageing of the population and a birth deficit, has a negative impact on the labour force. This effect has been compensated for the last decades by a positive migration inflow and rising participation rates. In the future, as section 2 shows, the demographic component is expected to outnumber the joint effect of migration and participation.

However, Germany has experienced a strong and long-lasting labour market upswing with record levels in employment year by year. In 2018, employment amounted to 44.8 million (Figure 1), which is about 94 percent of the labour force potential. Over the past 14 years, this exploitation rate has increased by remarkable

9 percentage points. Within the same time, the national unemployment rate decreased by more than 50 percent down to 5.2 percent.[5] Not surprisingly, labour shortage has become more and more virulent.

While there were only 0.5 vacancies per ten registered unemployed in 2005, the number has risen to 3.5 in 2018. Moreover, recruitment has become more time-consuming and costly. The share of hirings with difficulties because of a lack of applicants more than doubled up to 33 percent within a few years (Figure 1). The tight labour market raises incentives for companies to reduce their separation propensity to an all-time low or even conduct anticipatory hires. Hence, labour demand increased for the reason of labour shortage that already exists and/or is expected to become even more threatening. Higher labour demand could still be satisfied as migration and participation were large enough to ensure a sufficient increase in labour force potential.



Source: Destatis, Federal Employment Agency, German Job Vacancy Survey.

Figure 4.1. Employment, tightness and recruitment difficulties in Germany

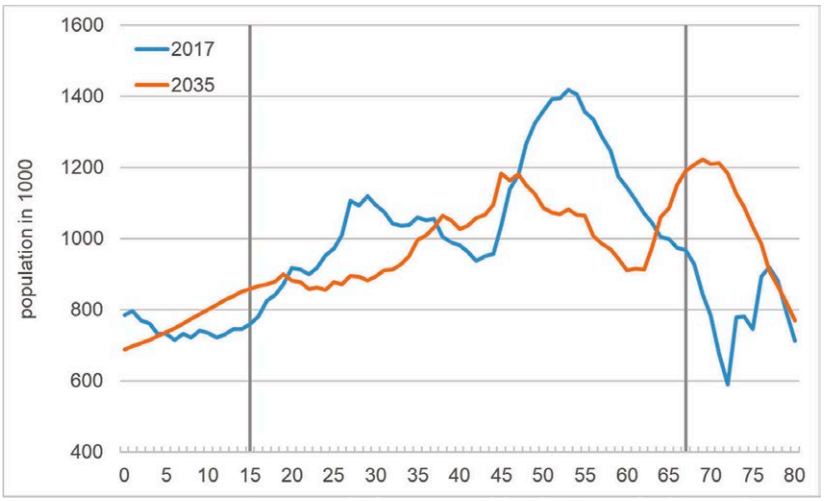
5 ILO unemployment dropped to one third at 3.5 percent (source: OECD).

However, net migration will not always be as high as in the recent past and there is hardly any potential to further increase participation rates, disregarding some minor population groups. Thus, regardless of cyclical fluctuations, there will be supply-side effects that slow-down and even delimit the steep upward trend in German employment in the near future.

4.2 Main population changes and their labour market outcomes

As explained above, the development of labour force potential is driven by demography, migration, and participation. As regards demography, fertility and mortality rates are in the focus. However, with respect to the next 15 years, they play hardly any role in changing the major trends in labour force potential (Fuchs/ Söhnlein 2006). On the one hand, mortality is almost irrelevant for the working age population, as simulations with halving mortality rates have demonstrated. On the other hand, although we observe a slight increase in the fertility of women in Germany (total fertility rate 1.332 in 1991 to 1.569 in 2018), it takes decades until such a change induces major effects on the labour force potential. Most important is the population already born and the size of the different age cohorts. Figure 2 shows the population by age projected for 2035 as compared to the situation given in 2017.

The shift of the age distribution to the right reveals different trends. In case of the working age population, aged 15-67, the lines in Figure 2 generally indicate strongly decreasing numbers caused by the ageing of the baby boom generation. (In Germany the baby boomers were born in the late 1950s and in the 1960s.) In 2017, the baby boom generation was about 55 years old. The projections show, that the cohorts forming this hump in the age distribution are going to leave the labour market during the 2020s. As a consequence, while nowadays the smallest cohorts are in retirement age, it will be the largest in about 10 to 15 years.



Notes: assumed net migration (1000): 2018: 430, 2019: 380, 2020: 310, onwards: 300.
Source: Destatis, IAB population forecast.

Figure 4.2. Population by age, 2017 and 2035

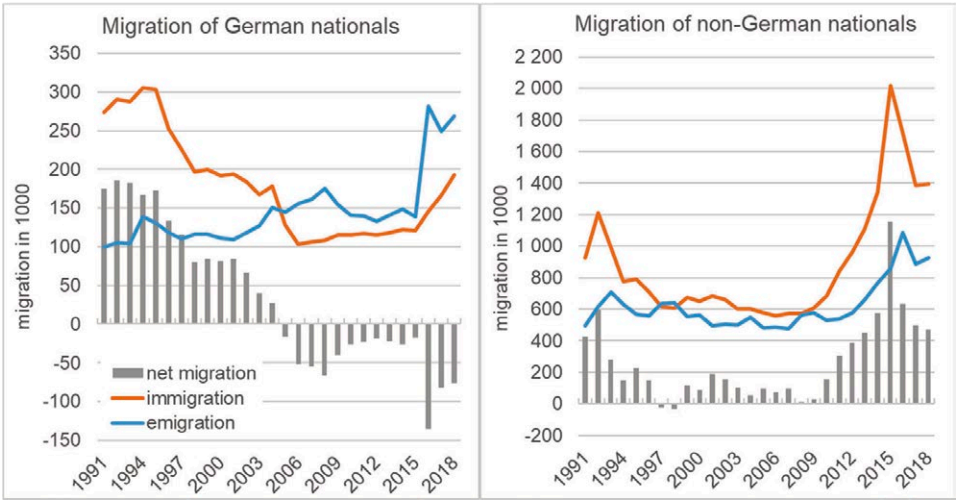
On the other edge of the age distribution, there will live more children and youngsters in Germany in 2035 than in 2017. The reasons are, firstly, the assumed migration is comparatively high, secondly, birth rates have been rising, and lastly, the children of the baby boom generation now become parents themselves.

The second component to influence the labour force potential is migration. Beyond the pure number of net migrants, migration has an impact on labour supply via the age distribution as well as via participation. Population ageing could be moderated because migrants are typically younger than the average population. Indeed, the cohort of people who were around 30 years old in 2017 and will just before 50 in 2035 will enlarge. But the migration effect is far too small to mitigate the ageing of the resident population. The main reason is that net migration is too small to change given structures and distributions considerably. On average of 1991 to 2018, net migration increased the total population by 0.4 percent per year only.

The age distribution of the migrants themselves has been rather stable over the past 30 years – with one exception: In the course of the refugee wave 2015/2016 more children than usual came to Germany. These are not relevant for the labour market yet but might become an important source of labour supply, given a successful integration and education. As immigrants are in general comparatively

young, they will stay in the labour force potential for a longer time. However, one should take into account that the more migrants Germany attracts for the labour market, the more migrants will have claims against the pension system once they have retired.

Migration is rather volatile and hard to forecast. Figure 3 shows the evolution of immigration, emigration and net migration.[6] For German nationals, the high inflow rates after reunification by German resettlers from Eastern and Southern Europe drive up the migration balance. Throughout the last decade, however, there were more Germans that emigrated than Germans that immigrated. This gives rise to worry about brain drain and it is a challenge to win those emigrants back.



Notes: 2016: Statistical adjustment for German nationals.

Source: Destatis.

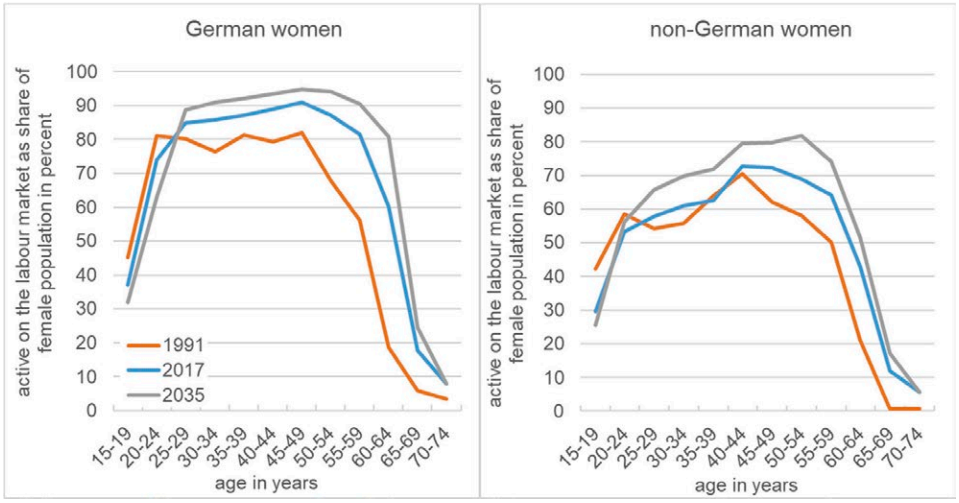
Figure 4.3. International migration, 1991-2018

6 There is a statistical break for German nationals in 2016 due to a new classification of formerly unknown migration cases.

With respect to non-German nationals, the high inflow since 2011 seems to be extraordinary and was caused by the EU financial crisis, immediately followed by the refugee wave. There might be single years with similarly high net migration – but this is not standard. Strong spikes in immigration always depend on changes in the institutional setting (EU enlargement, Brexit), and the social and economic well-being here and in the home countries. However, whenever there is high immigration, there is also high emigration – the dynamics altogether increase. On average, about 8 percent of the non-German population yearly emigrates.

Between 1991 and 2018, the average migration balance was 300,000 per year. As it has been influenced by several specific circumstances, an assumption of 200,000 net migrants per year to be used in labour supply forecasts seems to be quite reasonable, while an annual net inflow of 400,000 would declare extraordinary numbers to be the new standard.

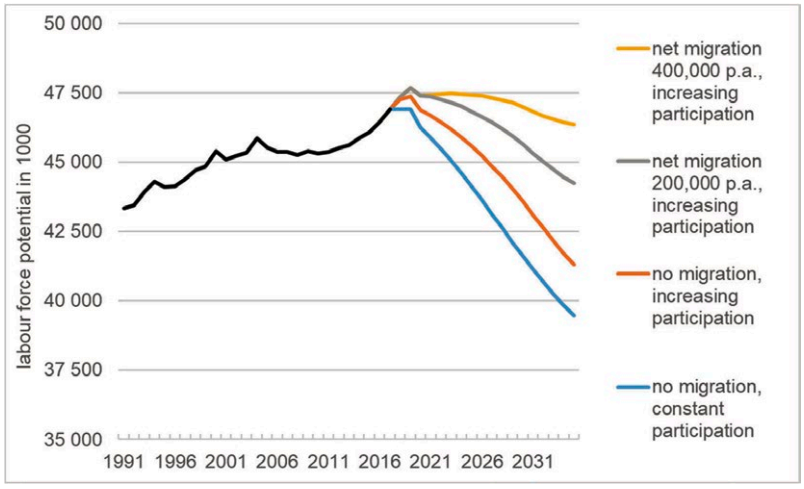
Finally, labour force potential is driven by participation. While participation rates of men are relatively high (99 percent at prime age) and stable, participation rates of women have changed over time and may increase further. However, participation rates of German women are high already. More than 90 percent of 40 to 49-year old German women already participate in the labour market (Figure 4). This limits the potential for a further increase. Any change depends on social norms as well as institutional settings regarding child care, other family work, part-time, and – for the elderly – the pension system. Furthermore, participation rates of non-German women are up to 20 percentage points lower than those of their German counterparts. Certainly, many female migrants are less integrated into society and culture as to adjust towards the German participation rates. If this could be managed successfully (targeting language skills, family responsibilities and traditional cultural differences), there would be a potential to increase the labour force by several hundred thousands (Fuchs/Söhnlein/Weber 2017).



Source: IAB (based on data from the labour force survey).

Figure 4.4. Age-specific labour participation rates of women, 1991-2035

Summarizing the three components leads to scenarios regarding the evolution of the German labour force potential (Figure 5). These scenarios differ with respect to the assumptions about labour participation and net migration.



Notes: Labour force potential aged 15-74. Assumed net migration in 1000: 2018: 430, 2019: 380, 2020: 310.

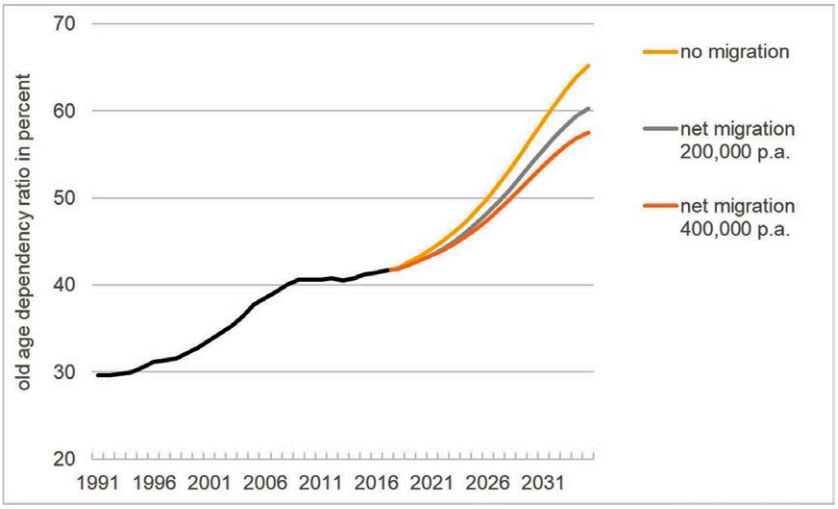
Source: IAB.

Figure 4.5. Labour force potential, 1991-2035

The picture is clear: As soon as the baby boom generation starts to retire, labour supply can be expected to shrink. The shrinkage would be delayed for a few years if net migration stayed extraordinarily high. Under more realistic assumptions (net migration 200,000), labour supply is going to shrink by 6 percent or 2.7 million people until 2035, as compared to the base year 2017. In fact, this decline is equivalent to about half of the employment increase that Germany has observed during the recent labour market upswing. The situation worsens even more, if the labour market cannot rely on migration at all. The labour force potential would decline by 16 percent (7.5 million) or – if at least participation rates further increased – by 12 percent (5.6 million).

The consequences of the demographic change will be manifold. Labour demand will have to adjust to mitigate further labour shortage. But first and foremost, the social security system is under threat. Obviously, a pay as you go-pension system as the one in Germany collapses in a shrinking economy. In an environment where the old-age dependency ratio[7] increases by about 40 percent (Figure 6), one can no longer rely on the so-called intergenerational contract according to which pensions of the previous working population are compiled by the current one. Similarly, an older population will be a stronger burden to the health insurance system.

7 We present a more adequate measure of the old-age dependency ratio that relates the older population to the labour force.



Notes: Relation of population aged 65 and older to the potential labour force aged 20-64. (The 15-19 year olds are excluded as most of them either participate in vocational training or work as a student. In both cases, social security contributions are negligible.)

Source: Destatis, IAB population forecast.

Figure 4.6. Modified old-age dependency ratio, 1991-2035

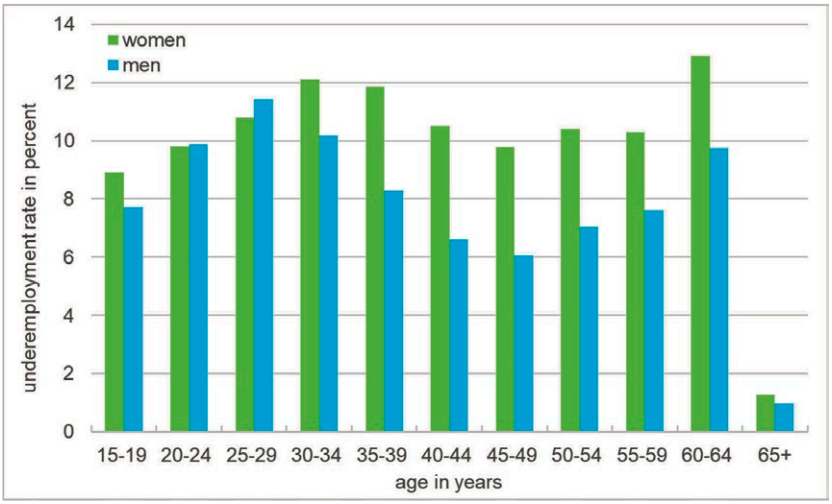
4.3 Policy challenges

The problem for social security, mainly pension and health care systems, must be tackled from either side: revenues as well as expenditure. Revenues could be raised by either higher productivity which yields higher income, or by a lower decline in the labour force not only with respect to numbers but also with respect to hours worked.

Productivity: Digitization and e-mobility may help to mitigate the decline in labour supply via higher labour productivity. This would also reverse a recent trend of low productivity growth in Germany. As a first hint, Carbonero et al. (2018) do not find any harmful effect of automation for labour markets in developed countries. In contrast, in developing countries where there is no ageing problem, automation substitutes workers.

Working time: Even though working time prolongations would have to be unrealistically high to compensate for the demography-driven loss in workers

(Fuchs/Wanger/Weber 2013), partial improvements can be achieved when the desired working time of both employed and unemployed would be realised. According to SOEP survey data of 2017, the share of involuntary part-timers in total part-time employment is one fourth. Even more precise, Figure 7 gives underemployment rates on an hourly basis, separately for age groups and gender. It takes into consideration that unemployed workers could find jobs with their preferred working time and workers who wish to work more could extend their working time, indeed. (A negative component of workers who wish to work shorter hours is also taken into account.) For example, the respective underemployment rate for 15-19 year-old women is about 9 percent. i.e., total hours worked by this group could be by 9 percent higher if they all found the appropriate job and working time arrangement.



Notes: Share of underemployed volume of work in total volume of work.

Source: Wanger/Weber (2016).

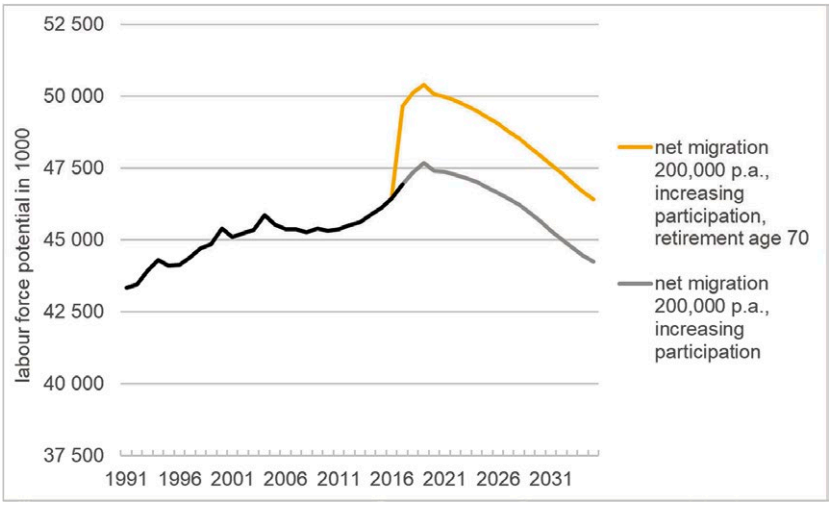
Figure 4.7. Underemployment rates on an hourly basis, 2014

The figure impressively shows that there is a limited overall potential to mitigate the decline in the labour force by longer hours of at best 13 percent. For male prime agers, however, an improvement by only 6 percent would be possible. In most age groups, there are more reserves with women than with men. Especially after the family starting phase, women would like to work longer than they do.

Immigration: As Germany competes with many other countries for well-skilled immigrants, a new law on skilled labour immigration has been launched (Brücker et al. 2019). It includes numerous changes to the existing law while at the same time adhering to the classifications and basic principles of the existing law. The most important change is the equality of skilled workers with vocational qualifications and skilled workers with academic qualifications. These two groups are the key target groups of the new immigration law. Moreover, the proof of precedence will be largely abolished. A few exceptions aside, the basic principle regarding the recognition of the equivalence of professional qualifications acquired abroad shall remain in place. Hence, the main obstacle to the immigration of skilled workers will persist. However, the options for job search, apprenticeship search, and residence for recognition of professional qualifications have been extended or newly created but are quite restrictive.

In order to limit the expenditures in the pension system, the regulations regarding the entry into retirement are frequently under discussion. While in the 1960s retirees had claims against the pension system for an average of 10 years, this period has doubled until 2015 (Ziemiak 2017). Pension entrance age did not rise adequately with life expectancy. This is why a link of pensions to life expectancy is often demanded, also because this is a reliable statistical measure and easier to practice than the current pension sustainability factor.

Higher retirement age: In 2017, the actual retirement age was 62 (source: Deutsche Rentenversicherung). However, starting in 2011, the legal retirement age has been rising stepwise. By the year 2029, it will have reached 67 years. The effect of this increase on the labour force potential has already been considered in the scenarios of Figure 5. As this might still not be sufficient to mitigate the ageing problem, a further increase of the legal retirement age up to 70 years is discussed (Figure 8). Naturally, the effect is large when the considered cohorts are large. In other words, an increase in the retirement age is especially effective if the baby boomers have not yet retired. Beyond these calculations, raising the retirement age to 70 is critizised because it does not consider the mental and physical ability of the elderly.



Notes: assumed net migration in 1000: 2018: 430, 2019: 380, 2020: 310.

Source: IAB.

Figure 4.8. Effect of an increase in the legal retirement age to 70 years

Early retirement: A publicly subsidized early retirement scheme was abolished in 2009.

Flexible entry into retirement: Based on the IAB Job Vacancy Survey (Czepek et al. 2017), around a third of the companies with workers who were or have become entitled to a pension within the last twelve months tried to keep the pensioners. These were especially small companies because for them, the age-related exit of even a few employees can imply a great loss of professional competence. Asked for successful measures, 60 percent of businesses reported shorter working hours, followed by 49 percent that offered very flexible working time. The Flexirents Act as of 2016/2017 provides measures to extend working life and make the transition to retirement more flexible, which the companies regard as predominantly positive. Particularly high is the agreement to the abolition of the unemployment insurance contributions and the more generous additional income opportunities in the context of a partial pension. Nevertheless, flexible retirement is still rarely used.

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5 Country report: LATVIA

Vita Skuja - Normunds Ozols
Ministry of Economics of the Republic of Latvia

5.1 The state of the population and the labour market in Latvia

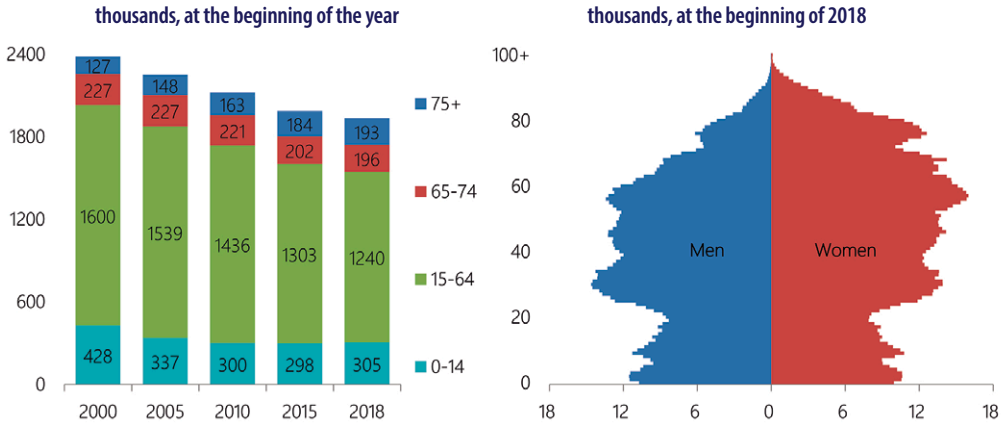
Demographic trends

Latvia, as most part of the developed world is experiencing the same trends of ageing population and smaller number of children being born per woman. Therefore, the population in Latvia has been decreasing for some time. In the period from 2000 to 2019 the decline was 19.4 %. At the beginning of 2019, there were 1,919,000 people in Latvia, which is by 0.7 % less than in the previous year. Main reasons for the decline are ageing, low birth rates and emigration. The most significant population decline has been observed in working age population - about half of the population drop was in the age cohort from 20 to 60 years. Meanwhile the average age of the population from 1997 to 2017 has grown by 5 years - from around 37 to 42 years.

Birth rates are insufficient to replace the existing population, they have been low for some time. From 2005 birth rates have also started to improve, both the number of newborns and the birth rate have risen. Due to the economic crisis, the number of newborns reduced in 2009, but in 2012 birth rate started to increase again, however in 2018 the indicator reduced by 7.3 % compared to 2017 and by 4.9 % in comparison

with 2000. The **death rate** in recent years has stabilised. In 2018 it was by 0.2 % higher than in 2017 and by 10.5 % lower than in 2000.

The **ageing process** of the population is also continuing – the number of people above working age is increasing. As the number of working age people decreases, the proportion of population beyond working age to working age population becomes higher. In 2018, when compared to 2000 the number of population aged 15 to 74 decreased by 22.7 % and was 1,410,900 in 2018.



Data source: Central Statistical Bureau of Latvia

Figure 5.1. Age structure of the population

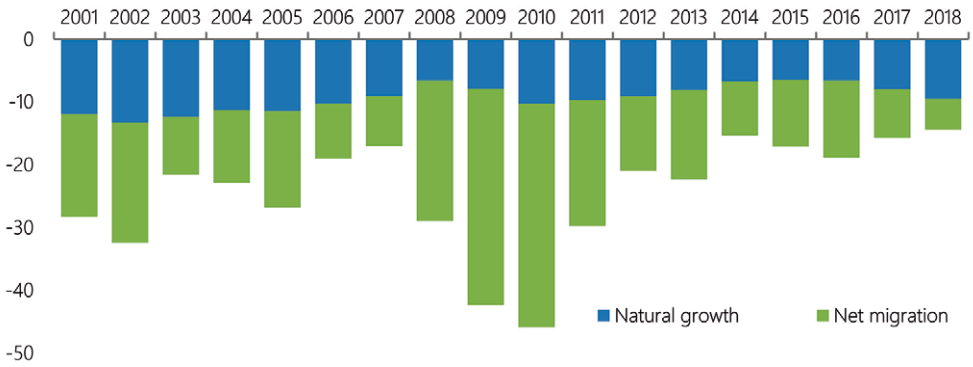
The pace of decline will accelerate in the coming decade and the working-age population will decline roughly twice as fast as it did during the 2000 – 2010. The average employee will continue to become older and will need to work longer in a more productive way, therefore life-long learning is essential tool for future labour market development and economic growth.

To mitigate the burden on the public sector and future employees, created by the ageing tendency, measures are required to promote the economic activity of the population and a longer stay in the labour market, and conditions for a faster entry of new specialists into the labour market should be created.

Main economic challenges related to aging and decline of working-age population

- Growth may be compromised by lack of labour.
- Shrinking domestic market may impact firms' ability to invest and grow.
- Falling population will require downscaling challenging the efficiency in education, healthcare, infrastructure and housing.
- Fiscal challenges such as rising pressure on public finances from pension and health spending will require to collect more taxes or spend less elsewhere.
- Positives: 'robots taking our jobs' less of a problem, scarcity of labour will force firms to find a way to do more with less.

Migration leaves a significant impact on the decrease in population. The negative net migration exceeds the negative natural increase of the population. As the economic situation worsened, migration flows to foreign countries increased rapidly. Negative net migration reached its peak in 2009 and 2010. The main reason for leaving the country was searching for job opportunities abroad. The majority of emigrants were people of working age. Also people from younger age groups are especially mobile. In the recent years the situation has been improving.



Data source: Central Statistical Bureau of Latvia

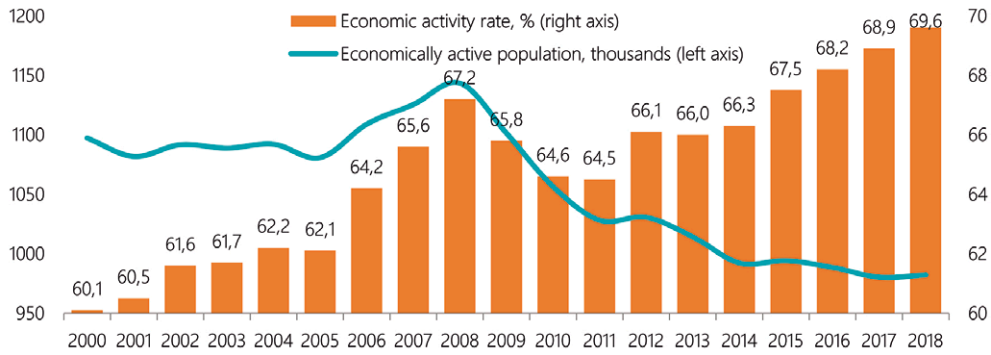
Figure 5.2. Factors affecting the changes in the number of the population, *thousands*

Negative net migration was improved not only by the reduction in the number of emigrants, but also by the increase in the number of immigrants. The situation improved in 2017 and 2018, as the number of immigrating population increased and the emigrating population decreased.

It should be noted that taking into account the free movement of labour force in the EU, it is not possible to perceive emigration flows completely precisely. Not only Latvia, but also other EU Member States have to deal with the problem of how to provide accurate data of those people leaving the country to search for job.

Participation of the population in the labour market and the labour supply

The demographic processes in the country have a direct reflection in **labour supply trends.** The working age population is shrinking as a result of ageing and emigration, which has adverse effect also on economically active population. Economically active population has been on decline since 2008.



Data source: Central Statistical Bureau of Latvia

* Available labour force resources are showed by economically active population, which includes employed population and job seekers.

Figure 5.3. Economic activity indicators*

The lowest economic activity rate was experienced during the crisis in 2010 and 2011. In the following years, this rate has been gradually growing. In 2018, the economic activity rate continued to increase reaching 69.6%.

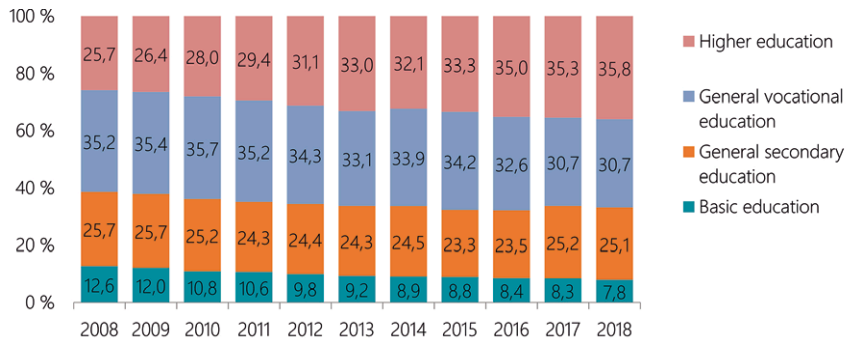
Table 5.1. Situation in the labour market in 2018, *thousands*

Population of working age (ages 15-74) – 1410,9

Employed 909,4	Unemployed 72,8	Economically inactive 428,7	
		Non-working pensioners	194.3
		Pupils, students	105.0
		Housewives/-men	55.2
		Disabled, permanently disabled persons	43.9
		Persons on child-care leave	6.4
		Other	24.0

Data source: Central Statistical Bureau of Latvia

Economic activity rate is relatively stable in almost all age groups. The biggest changes affected the involvement of elderly people in the labour market. The improvement of the economic situation and the increase of the retirement age caused a faster increase in the economic activity rate of the population aged above 60.



Data source: Central Statistical Bureau of Latvia

Figure 5.5. Breakdown of the economically active population by education level, *aged 15-74, %*

People are becoming increasingly aware of the importance of their education level in the labour market. The percentage of economically active population with higher education continues to increase gradually, and it was by 10.1 percentage points higher in 2018 than in 2008.

The labour force in Latvia is increasingly ageing in individual sectors and occupational groups, which can cause a drop in the supply in the future. These trends are becoming stronger over the years. Across sectors the largest share of the employed above 50 is in such industries as water supply, sewerage, waste management and remediation activities and in public services especially in the education sector and health care and social work activities.

The percentage of the employed above 50 years of age, in **high qualification occupations** is 31 %. The analysis of the structure of the employed by occupational groups shows that ageing of labour force does not affect occupations with high qualification in the same way. The ageing problems affect specifically hard health associate professionals and professionals, teaching professionals, as well as production and specialized services.

The percentage of the employed above 50 years of age, in **medium qualification occupations** is 35 %. Negative development trends of the labour force age structure also affect a range of medium qualification occupation groups. This trend mostly affects electrical and electronic trades workers, market-oriented skilled agricultural workers and personal care workers in health services.

The labour force age structure in various occupations is affected by several causes. Young people do not prefer certain studies/training or choose to work in a different occupation after studies due to different reasons. In some occupations low wage is one of the reasons why young people don't want to work there.

5.2 Main population changes and their labour market outcomes

Population projections

It is expected that population decline and ageing in Latvia could continue also in the medium and long-term, however the overall population decline will become more moderate. According to the population projections of the Ministry of Economics the total population size of Latvia may reduce by about 7 % or 132 thousand by 2035, which is half less than in previous decade (2008-2018). The population decline will be determined mainly by the negative natural increase, which in turn will be affected by the changes in the population age structure causing lower birth numbers and higher mortality.

Table 5.2. Main indicators of natural population movement, thousands

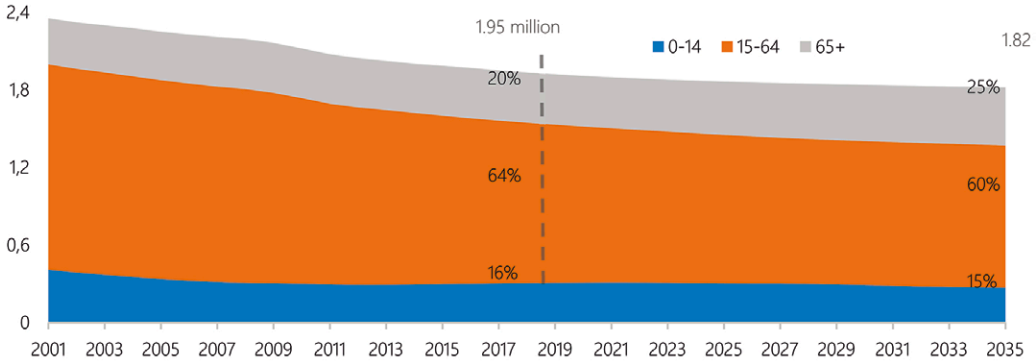
	2017	2025	2035
Population at the beginning of the year	1950.1	1864.0	1818.0
Changes in the population compared to 2017	–	-86.2	-132.1
incl. migration impact	–	-23.0	19.5
incl. natural growth impact	–	-63.2	-151.6

Source: Informative report on medium and long-term labour market forecasts, Ministry of Economics of (2018)

Meanwhile demographic tensions will continue to rise due to population ageing trends - the average age of the population might reach 45 years in 2035, compared to 42 years in 2018.

It is expected that until 2035 the population size in the age group 15–64 will decline by 157.2 thousand or approximately by 12 %, and at the same time the number of the population aged above 64 will increase by almost 59.8 thousand or by about 15

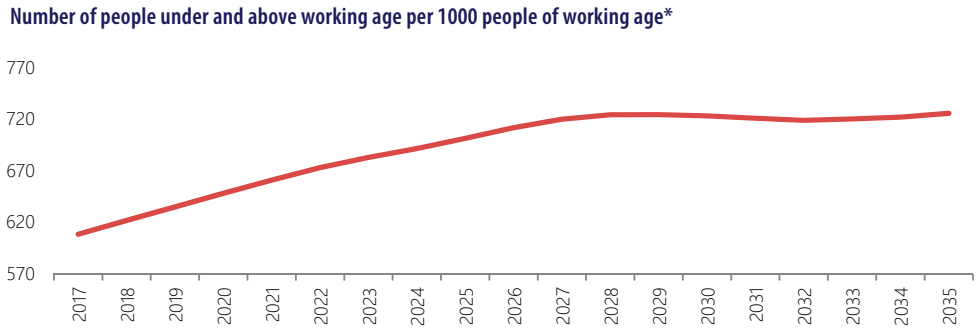
%. Overall, these trends will determine the reduction of the share of working age population (15–64) from 64 % in 2017 to 60 % in 2035, which could have a further going impact on the labour supply and exacerbate the overall labour shortage.



Source: Informative report on medium and long-term labour market forecasts, Ministry of Economics (2018)

Figure 5.6. Breakdown of the population by age groups, *million and %*

Along with the ageing population the level of demographic burden is expected to rise by almost 1/5 by 2035, compared to 2017. Considering this, in 2035 Latvia per 1,000 people in working-age may have about 726 people out of working-age, moreover about 65 % of them will be aged above 62.



*Working age from 15–62 (remains unchanged in the projected period)
Source: Informative report on medium and long-term labour market forecasts, Ministry of Economics (2018)

Figure 5.7. The demographic burden

It should be noted that demographic trends have considerable impact on the labour market. The unemployment rate has been dropping in Latvia for a long time influenced by demographic trends – in 2017 over 4/5 of the unemployment drop was due to demographic processes. As labour force reserves are rapidly declining, under existing economic model employers are facing acute shortage of employees more and more often, especially in economically active regions. In the medium-term and long-term Latvia will continue to focus on equalisation of the negative demographic balance.

Natural growth. In absolute terms the gap between newborns and deceased continues to increase. Overall base trends of birth indicators are expected to remain positive in the medium and long term, the total fertility rate might increase by almost 7 % compared to 2017 and in 2035 may reach the level which was observed in Latvia at the beginning of the 1990s. At the same time, it should be taken into account that the number of women in reproductive age (aged 15 to 49) continues to decrease (by almost 14.6 % or 62.2 thousand by 2035), therefore, despite the increase in birth rate the number of newborns continues to shrink in absolute terms.

Table 5.3. Main indicators of natural population movement

	Fact	Forecast	
	2017	2025	2035
Number of newborns per 1000 inhabitants	10.7	9.8	9.3
Death rate per 1000 inhabitants	14.7	14.4	13.9
Natural growth per 1000 inhabitants	-4.0	-4.6	-4.6
Total fertility rate	1.699	1.799	1.813
Average life expectancy at birth (years)	74.7*	76.6	78.8

* Estimate of the Ministry of Economics
Source: Informative report on medium and long-term labour market forecasts, Ministry of Economics (2018)

For a normal replacement of generations, the total fertility rate no less than 2 is needed. For the first time in Latvia the total fertility rate exceeds the level from almost 30 years ago – at the end of the 1980s.

Some improvements are expected in the death rate as well – death rates will decrease in all age groups until 2035, which will contribute to the reduction of the total number of deaths per 1,000 inhabitants. The average life expectancy at birth will also rise from the current 74.7 years to 78.8 years.

International migration

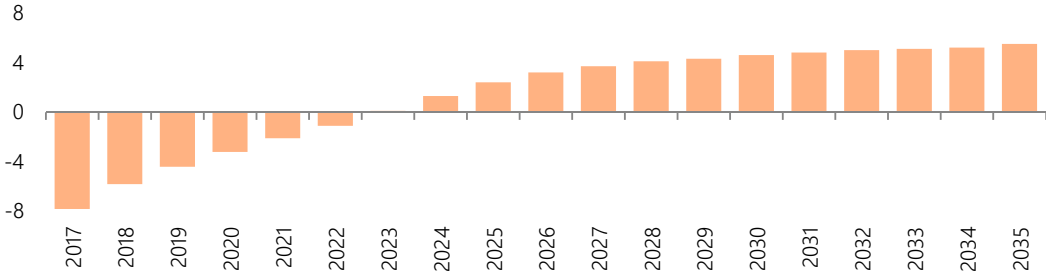
The demographic situation in Latvia is mainly affected by economic migration of the population, since the beginning of 2000 about 2/3 of the population decline was due to persistently negative migration balance. Although, overall improvements in migration trends are observed, about half of the declining population is related to the fact that more inhabitants are leaving the country than entering the country. Stable economic growth and more qualitative and well-paid jobs on the labour market is a considerable precondition for the change in migration flows. To keep the population from leaving to seek for better employment possibilities in other places, as well as to create a basis for contemplations on returning for those, who left earlier, the average wage in Latvia should be at least at the level of minimum wage in main target countries of Latvian migrants – at present, about 1,500 EUR per month.

Table 5.4. Main indicators of international migration of the population

	2017-2025	2026-2035
Emigration, thsd	121.0	84.7
Immigration, thsd	100.4	130.3
Net migration, thsd	-20.6	45.6

Source: Informative report on medium and long-term labour market forecasts, Ministry of Economics (2018)

The target scenario of economic growth envisaged that in the following years Latvian GDP per capita will continue to gradually converge to the average EU level, which will generally close the income gap with more economically developed EU Member States, and therefore also reduce the key economic migration drivers. It is expected that migration flows might balance out starting from the year 2023. In the medium term most of immigrants will still be Latvian nationals. At the same time, as the Latvian labour market balances with other EU countries, it will become even more attractive for immigrants from other EU countries, as well as for third country nationals. In view of this, it is expected that the composition of immigrants by nationality will change considerably in the long term. It should be noted that in the last 5 years the share of nationals of other countries in the total number of immigrants has almost tripled – from 16.2 % in 2012 to 46.5 % in 2017.



Source: Informative report on medium and long-term labour market forecasts, Ministry of Economics (2018)

Figure 5.8. Net international migration of the population, *thousands*

Despite the decline in economic migration flows in Latvia, along with the increasing globalisation trends (reduction of mobility obstacles in between countries, labour market liberalisation, expansion of information and communication links, etc.), and in context with the geopolitical processes, in the medium and long-term international migration motivated by other factors will generally increase.

In the medium term immigration of labour force will play an important role in securing the development of a balanced labour market, therefore the migration policy should be sound providing support for economic growth in the medium term, on the one hand, and not creating the risks for long-term development, on the other hand. It is important to continue reducing the obstacles for return migration of Latvian nationals, as well as to ensure such labour force immigration policy, which would provide support to sectors with a considerable investment in the economy.

5.3 Policy challenges

Taking into account negative demographic trends, in the Latvian labour market the main challenges are related to ageing of the labour force and shortage of labour force (lack of employees with relevant qualifications) in most economic sectors. Shortage of working hands can become a factor hindering the growth in the future. Thus the main measures to deal with these challenges are the following:

- **Adult education**. Taking into account that changes in formal education give a tangible effect in the long-term, adult education also plays a big role in the reduction of labour market mismatches, particularly when available labour force is shrinking. Although the involvement of the population in adult education is gradually increasing, it is still twice lower than the target set in Latvian policy planning documents – to reach that 15 % of the population aged 25 to 64 are involved in adult education measures by 2020.

  Since 2017, the employed have the possibility to increase their professional competence and competitiveness by applying for studies within the EU funds adult education programmes

improving the professional competence of employees implemented by the State Education Development Agency.

- **Internal labour mobility**. In order to promote the availability of labour force in the territories with higher economic activity, an offer to support construction of rental housing is being drafted. The purpose is to ensure the availability of high-quality housing for the population with average income. The programme would also provide additional support for the return of the people, who have emigrated from Latvia, taking into account that the matter of a place of residence is one of the most important, when deciding on returning.
- **Smart migration**. The shortage of highly qualified specialists, particularly in manufacturing and ICT sectors, is hindering Latvia's economic growth. The reduction of shortage of highly qualified labour force is set as one of priorities of the Ministry of Economics, therefore, the ministry in cooperation with other institutions is implementing activities to promote smart migration. The aim of the smart migration policy is to promote the attraction of highly qualified professionals from third countries. It should be emphasised that these measures do not focus on cancellation or facilitation of immigration of labour force from third countries in total but focus on the improvement of the process for the Latvian employer to be able to attract qualified employees as soon as possible.
- **Remigration plan**. One of solutions for the reduction of shortages in labour force in Latvia is to foster the return of the population living abroad. The availability of well-paid job offers is an important factor in promotion of remigration. However, the matters related to social guarantees, taxes, work environment, reintegration support measures, in particular the availability of kindergartens and schools and other matters are equally important. At the same time, it is also necessary to create and maintain a closer link with those who have left and to ensure the availability of latest information on job and life opportunities in Latvia. From 2019, the Diaspora Law entered into force, which sets specific measures for promotion and support of remigration.

- In order to foster changes in the labour market providing specialists required for economics and, thus, contributing to growing economy, in 2016, an **Employment Board** was established consisting of three ministers (ministers of economy, education and science, and welfare). The goal is to coordinate inter-departmental cooperation in planning, implementation, and monitoring of labour market reform, thereby reducing the disproportion in the labour market. The Employment Board has paid special attention to the matters of investment in human capital and the development of skills of labour force.

6 Country report: the NETHERLANDS

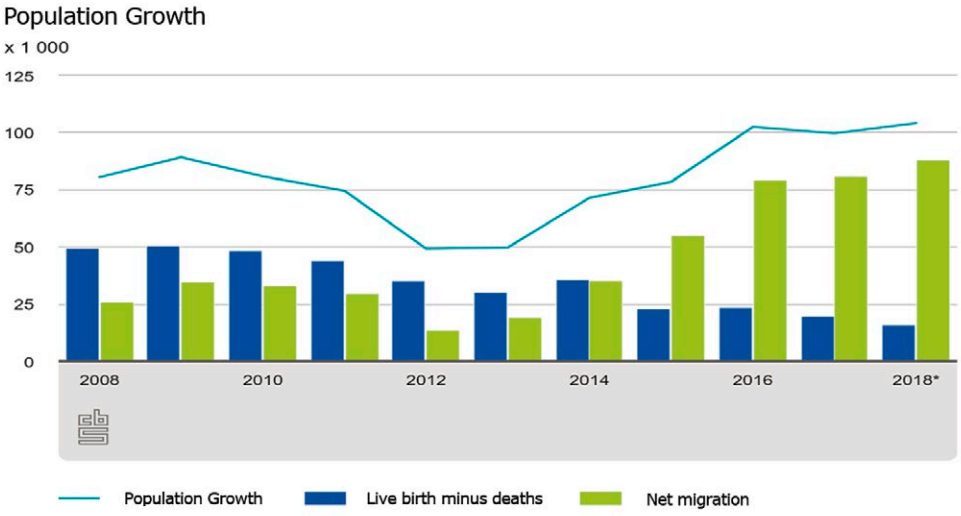
Jeroen van den Berg – Menno de Vries

6.1 The state of the population and the labour market in the Netherlands

Population growth increased

The population of the Netherlands has increased slightly faster in the last few years compared to the years before. In the time period 2016 - 2018, approximately 100 thousand new residents were added on balance annually, mainly as a result of increased net foreign migration. This has brought the total in 2018 to nearly 17.3 million registered inhabitants, according to the estimates by Statistics Netherlands (CBS).

The population growth rate was 0.6 % in 2018. Foreign migration accounts for more than four-fifths of the population growth. Statistics Netherlands projects that approximately 88 thousand more people settled in the Netherlands than left the country. This number is slightly higher than in 2016 and 2017. A much smaller portion of the population growth - almost one-fifth - can be attributed to natural growth (births minus deaths), which has been low for several years.



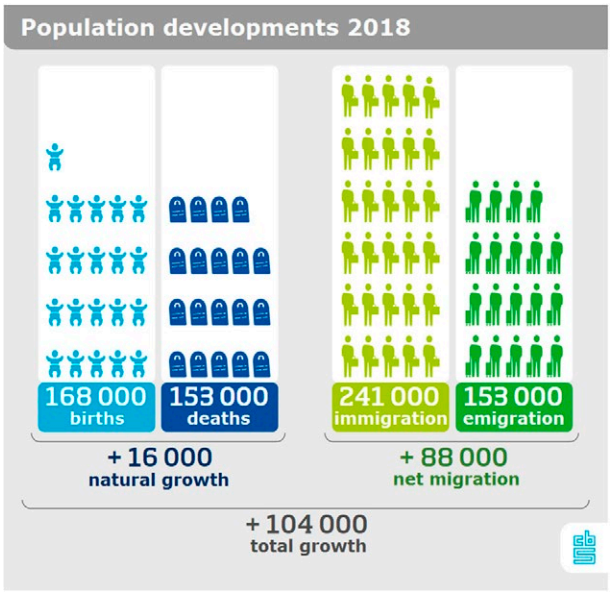
Source: CBS / Statistics Netherlands

Figure 6.1. Population Growth

Growth mainly due to immigration

In 2018 241,000 immigrants settled in The Netherlands, while 153,000 inhabitants left the country. Most immigrants (61%) originated from other European countries, one third of these European immigrants were from Middle- and Eastern European countries.

The low natural growth rate is not related only to a rise in mortality, but is also due to the relatively low number of births. For 2018, even fewer births are being projected than were recorded during the previous dip in the mid-1980s. In 1983, there were slightly over 170 thousand births.



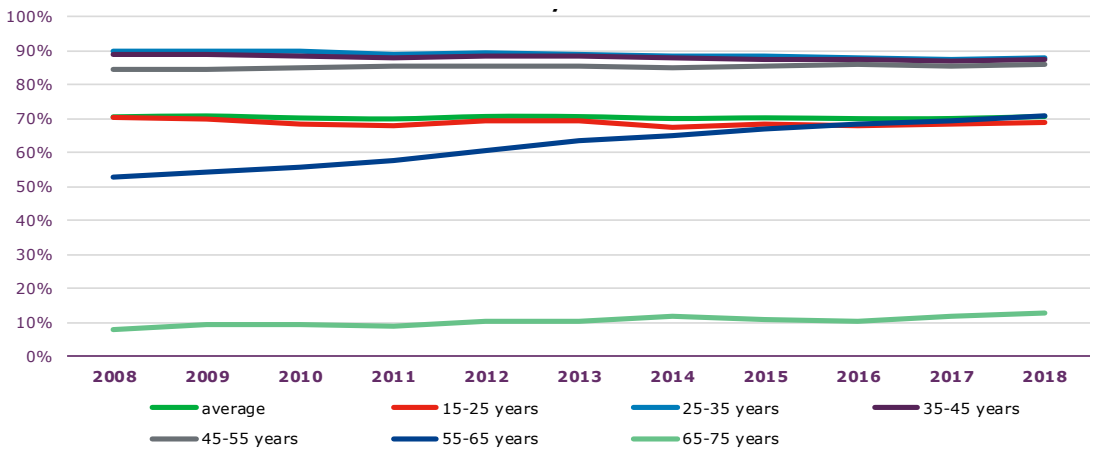
Source: CBS / Statistics Netherlands

Figure 6.2. Population developments in 2018

Participation on the labour market

In 2018, the number of people aged 15 to 74 in paid employment grew by 108 thousand compared to the previous year. The number of employed stood at 9.1 million. Labour participation increased from 70.1 percent in 2017 to 70.5 percent in 2018. The activity rate is still slightly lower than in 2009 (70.7 percent) when it reached an historical high.

The major force behind the growing share of people active on the labour market are the workers of 55 years and older. Since 2005 the average retirement age increased from 61 years to 65 years in 2018, due to policy measures (see paragraph 3 for more information).



Source: UWV Arbeidsmarktprognose 2019-2020 / UWV Labour Market Forecast 2019-2020

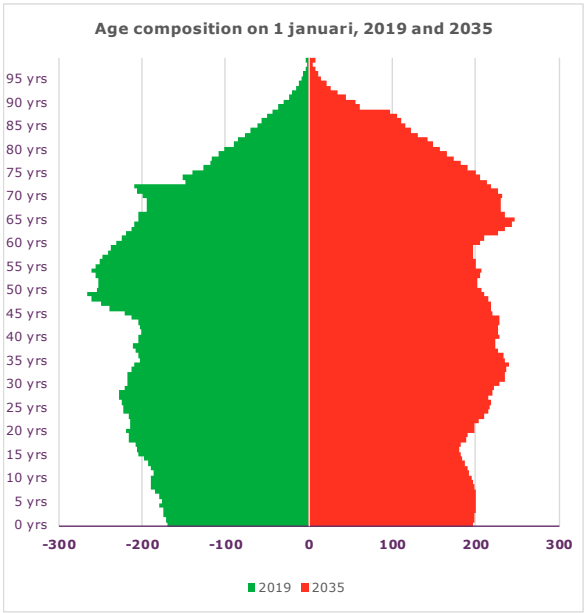
Figure 6.3. Activity rate

6.2 Main population changes and their labour market outcomes

Population growth continues

According to the latest forecast by Statistics Netherlands (CBS), the population of the Netherlands will continue to grow in the coming years. The 18 millionth inhabitant is expected to arrive in 2029. Nearly one-quarter of the population will then be aged 65 or over. The number of inhabitants is expected to reach 18.6 million in 2060. This forecast, made by Statistics Netherlands, is based on research assumptions regarding births, deaths, migration and life expectancy.

According to the forecast, there will be 4.6 million over-65s in the Netherlands by the year 2035, 1.3 million more than in 2019. This group will constitute 25 percent of the population by that year, versus 19 percent at present. The number of over-80s will rise in particular, from 0.8 million at present to 1.4 million by 2035. The increase in the number of elderly people is not only due to the post-war baby boom but also to higher life expectancy, which is expected to rise even further.



Source: CBS / Statistics Netherlands, Statline

Figure 6.4. Age composition in 2019 and 2035

More elderly than youth, fewer 20 to 64-year-olds

By 2035, the number of 0 to 19-year-olds will have remained more or less the same at 3.9 million. However, there will be fewer teenagers and more children under the age of seven. Relatively few babies have been born in recent years but an increase is expected for the next few years. In the Netherlands, people under the age of 20 currently outnumber those over the age of 65 by nearly half a million. Due to an ageing population, there will be an opposite ratio in 2035; the over-65s will outnumber young people by more than 700 thousand.

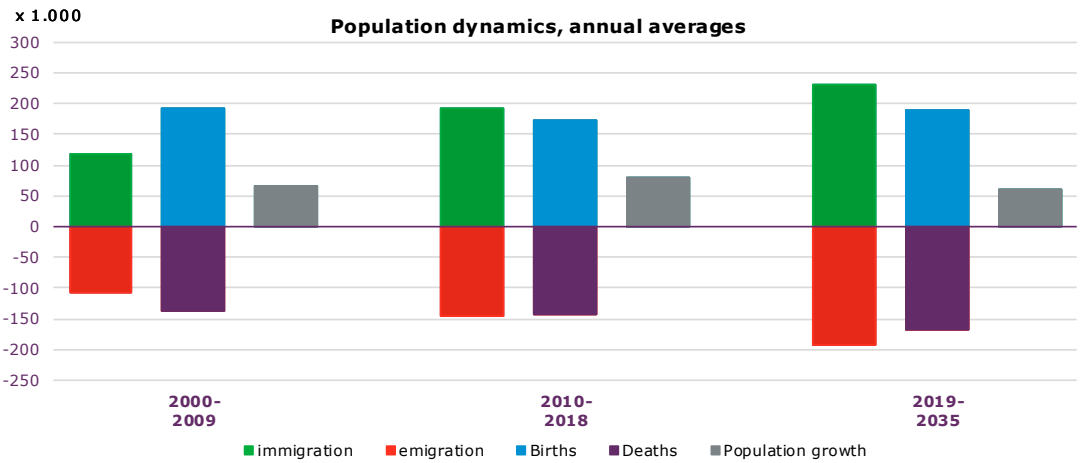
The number of 20 to 64-year-olds will decrease from 10.1 million currently to 9.8 million in 2035. Their share in the population will drop from 59 to 54 percent. The composition of this group will change: there will be fewer people in their forties and fifties, and more people in their thirties. The increase in this younger cohort mainly concerns individuals born in the Netherlands, including migrant children and grandchildren of the baby-boom generation. As a result, the number of live births will go up in the future.

Two-thirds of population growth due to migration

By the year 2035, the population is expected to have grown by almost 1 million. Two-thirds of the growth can be attributed to migration (more immigration than emigration), one-third comes from a higher natural growth (more live births than deaths). The share of inhabitants with a migration background will increase from 24 percent at the start of 2019 to 28 percent in 2035. This group includes people born abroad as well as their Dutch-born children.

Until 2035, an average of 231 thousand immigrants per year are expected to arrive in the Netherlands, while 193 thousand emigrants are expected to leave the country. For a large part, these are former immigrants leaving again. This would mean a net migration of 38 thousand per year on average, 10 thousand down on the period 2010-2018.

According to the forecast, the number of live births will rise by an average 190 thousand per year between 2019 and 2035. Due to an ageing population, mortality will go up as well, to 168 thousand on average during this period. The changes in these flows will have a downward effect on the population growth in the coming years.



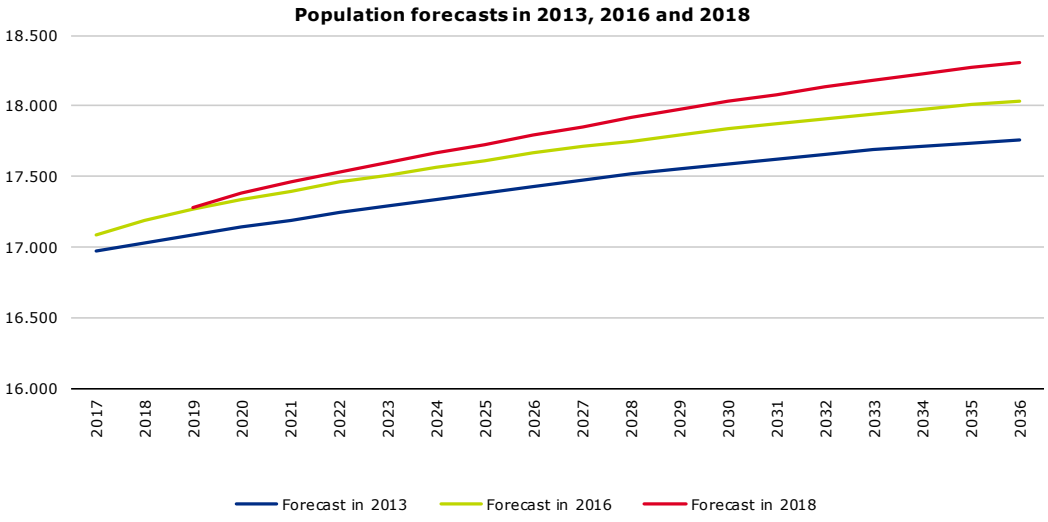
Source: CBS / Statistics Netherlands, Statline

Figure 6.5. Population dynamics, annual averages

Actual population forecast compared to previous calculations

The forecast figures are subject to uncertainties. For example, the number of migrants can fluctuate sharply from year to year. It is also uncertain whether the average life span will continue to rise at the same pace and whether Dutch households will keep their preference for having two children. Taking these uncertainties into account, further population growth remains likely at least until the late 2030s.

Population forecasts are adjusted annually, in line with the latest developments and new insights. The figure shows three consecutive forecasts, made in 2013, 2016 and 2018. The calculated population growth in 2013 has been adjusted upwards in 2016, which leads to a population of 275 thousand extra in January 2036. In the latest forecast, made in 2018, the calculated population has again been adjusted upwards by 270 thousand at the start of 2036. In other words, the calculated population in 2036 has been raised by almost 550 thousand in five years time. This shows the high uncertainties when forecasting the long run.



Source: CBS / Statistics Netherlands, Statline

Figure 6.6. Population forecasts in 2013, 2016 and 2018

The adjusted population forecast is mainly caused by changing views on migration. While the forecast made in 2013 projected an annual net migration of 40 thousand, recent data projects a net migration of 60 thousand per year. The calculated number of births and deaths in the period 2019-2035 hardly changed.

Table 6.1. Population forecasts

	Forecast 2013	Forecast 2018	Change in forecast 2013 & 2018
Population growth 2019-2035	**674**	**1.020**	**347**
Population 1 January 2019	17.086	17.285	199
Population 1 January 2036	17.760	18.305	546
Population growth, annual averages	**40**	**60**	**20**
Natural growth	20	22	1
Births	188	190	2
Deaths	168	168	0
Net migration	19	38	19
Immigration	154	231	77
Emigration	135	193	58

Source: CBS / Statistics Netherlands, Statline

Labour force will grow and age further

The UWV labour market forecast includes the years 2019 and 2020. The labour market developments after 2020 are considered to be too uncertain to make reliable forecasts. In our calculations, the labour force will grow to 9.3 million people by the end of 2020. This is an increase of 181 thousand people compared to 2018.

The size of the labour force depends on the number of people aged 15 to 74 (potential labour force) and their activity rate. The increase of the labour force is partly because the potential labour force is increasing. There are also people who now re-enter the labour market because they assess their chances positively. Another important cause of the increase is the growing participation of the 55 to 64-year-old group. The activity rate of this group will increase from 70.8 % to 74.1 % in this and next year. The activity rate of this group increases every year, but is still a lot lower than that of the 25 to 54-year-olds (87 % to 88 %). The activity rate for people aged 65 to 74 is considerably lower than the average, namely 13 %. The

working population is getting older. In 2008, 14 % of the labour force was 55 or older. In 2020 that will be 22 %.

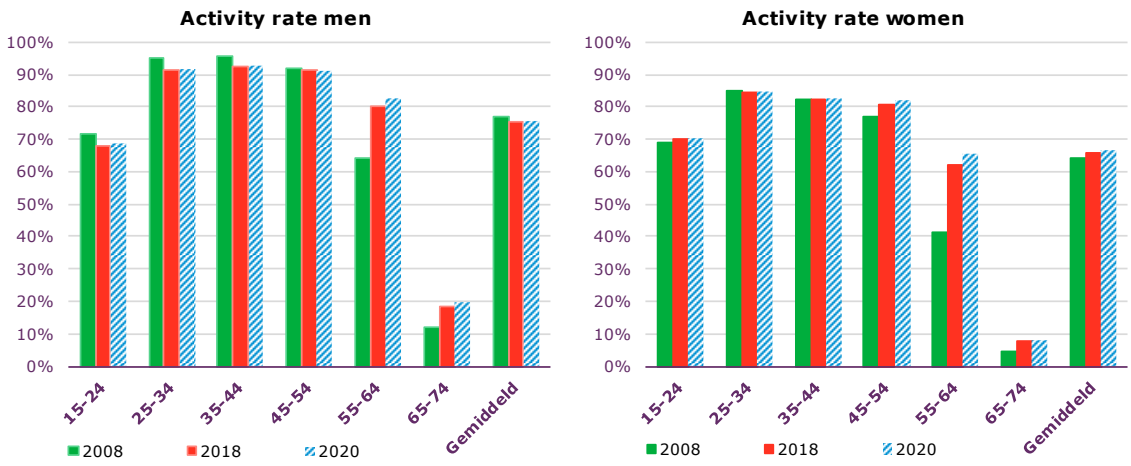
Table 6.2. Population by activity and age

		Number			Growth	
		2018	2019	2020	2019	2020
Population 15-74 years	x 1,000	12,936	13,010	13,065	0.6%	0.4%
Activity rate		70.5%	71.0%	71.2%	0.7%	0.3%
Labour force	x 1,000	9,124	9,240	9,305	1.3%	0.7%
Labour force by age class						
15-24 years	x 1,000	1,447	1,465	1,471	1.3%	0.4%
25-34 years	x 1,000	1,897	1,931	1,952	1.8%	1.1%
35-44 years	x 1,000	1,773	1,781	1,787	0.4%	0.4%
45-54 years	x 1,000	2,148	2,124	2,084	-1.1%	-1.9%
55-64 years	x 1,000	1,617	1,685	1,745	4.2%	3.6%
65-74 years	x 1,000	242	254	266	5.1%	4.7%

Source: UWV Arbeidsmarktprognose 2019-2020 / / UWV Labour Market Forecast 2019-2020

The left figure shows that the activity rate of men in 2020 is still somewhat lower than in 2008. It is especially the case for men up to the age of 44. According to CPB Economic Policy Analysis[8], it is mainly low-skilled single men whose participation lags behind. It may be difficult for this group to find a job because they do not have the desired skills or have an alternative use of their time. On the other hand, the participation for women (right figure) is higher than in 2008. The activity rate is still increasing among the over-55s, both among men and women.

8 CPB notitie (20 december 2018). Arbeidsparticipatie.



Source: UWV Arbeidsmarktprognose 2019-2020 / / UWV Labour Market Forecast 2019-2020

Figure 6.7. Activity rates for men and women

6.3 Policy challenges

Increasing demographic pressure

The increasing costs of an ageing population has been a point of concern for policy makers for quite some time. Over the last decades the demographic pressure has strongly increased. Demographic pressure is defined as the ratio of the non-productive population, approximated by the age groups 0-20 years old and over 65 years old, and the productive population, approximated by the 20-65 year olds. This ratio has increased from 0.608 in 1998 to 0.696 in 2018. This increase is almost completely caused by a rise in the so called 'grey' pressure. This is the number of over 65 year olds divided by the 20-65 year olds. The 'grey' pressure has increased by 50 % in this time period, from 0.217 in 1998 to 0.320 in 2018.

Policy measures to increase participation on the labour market

The increasing demographic pressure means that the labour force potential is a substantially smaller share of the total population. In order to sustain growth of the labour force, several measures have been implemented to increase the activity rate.

The early retirement arrangement (VUT) was originally implemented in the end of the 1970s to counter youth unemployment and was ceased in 2005. As a result the share of working population retiring at 60 years or younger has decreased from 56 % in 2006 to 13 % in 2011. See also the figure below. As a result, the actual retirement age increased from 60.9 years old in 2006 to 63.1 years old in 2011.

In 2013 further measures to increase the activity rate were put into effect. In particular, the official retirement age has been increased. Up to and including 2012 the official retirement age was 65 years. From 2013 on, it has steadily increased to 66 years in 2018 and will continue to rise to 67 years in 2024. From 2025 onwards, the official retirement age will be coupled with the life expectancy.

The measure to increase the official retirement age has caused a sharp increase in the share of the working population that retires at 66 years of age or older. In 2017 this share was below 10%. In 2018 it was almost 50% (see figure below). Naturally, the average actual retirement age has increased even further and lies at 65.0 years in 2018.

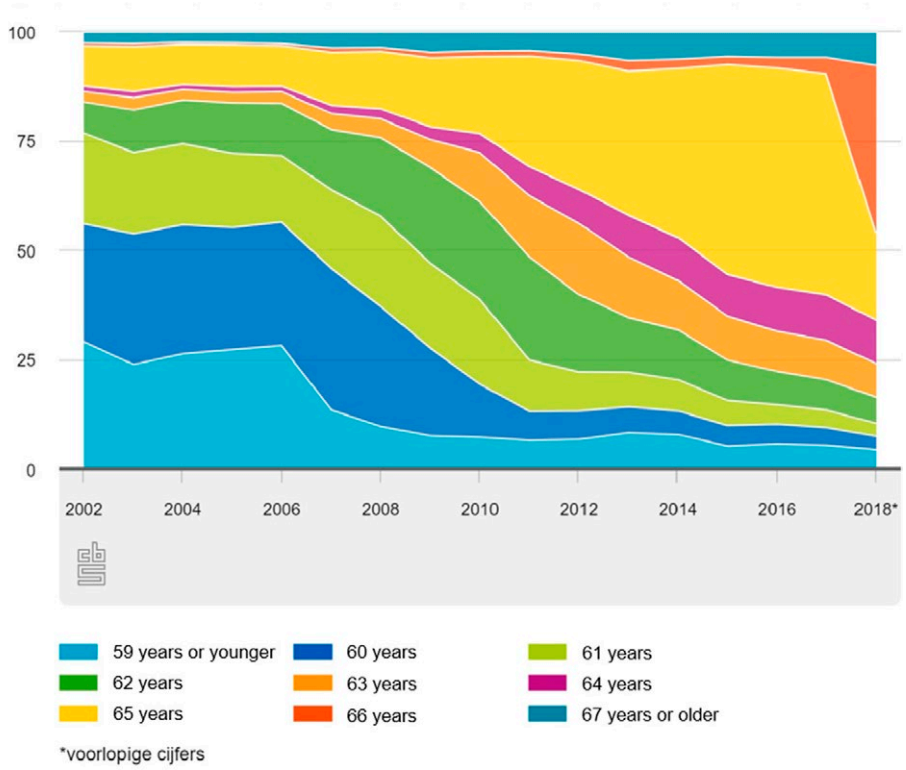


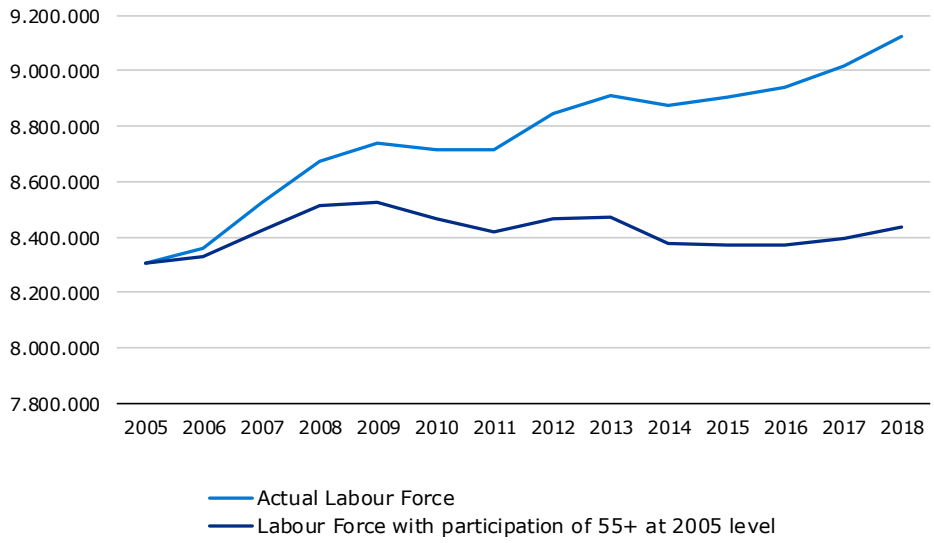
Figure 6.8. **Age at which employees retire**

Almost 700.000 larger labour force due to policy measures

The described policy measures have been aimed at increasing the participation of older workers on the labour market. The previous paragraphs have shown that Dutch workers indeed retire at a later age and that, as a result, the activity rate of the population over 55 years old has increased significantly over the last decade and a half. For the age group 55-65 years old the activity rate has increased from 46 % in 2005 before the policy measures, to 70.9 % in 2018. For the age group 65-75 years old the activity rate doubled in the same period, from 6.5 % in 2005 to 12.9 % in 2018.

In order to see the effect of the policy measures on the labour market in absolute terms, the increase in activity rate of the over 55 year olds needs to be separated from the population growth and the change in age distribution of the working age population. This is represented in the figure below. Specifically, the activity rate of the age groups 55-65 years old and 65-75 years old is kept at the level of 2005.

Between 2005 and 2018 the actual labour force has grown from 8.3 million to 9.1 million. With the activity rate of the over 55 population fixed at the 2005 level, the labour force would have grown to only slightly over 8.4 million. The policy measures have therefore resulted in almost 700.000 additional people in the labour force. This effect is expected to increase even further as the official retirement age continues to rise.



Source: CBS / Statistics Netherlands, edited by UWV

Figure 6.9. Labour force in The Netherlands (2003 – 2018)

Comparing the additional 700,000 in the labour force to the 350,000 unemployed at the end of 2018, demonstrates that without these policy measures to increase the participation of the population over 55 years old, the Dutch economy would have been at risk to experience diminished growth.

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7 Country report: SWEDEN

Marcus Löwing – Petra Nyberg
Swedish Public Employment Service

7.1 The state of the population and the labour market in Sweden

Swedish economy is slowing down

In the Swedish economy, activity continues to be relatively high, but there are clear signs that economic growth is in a slowdown phase. Despite a strong labour market, the consumer confidence has been falling since September last year according to statistics from NIER. Arbetsförmedlingen's (Swedish Public Employment Service) interviews with 10,500 private employers in the spring of 2019 confirm more cautious expectations in demand, both for services and goods as well as their employment plans, for the next year. However, the expectations are decreasing from a very high level. Lower global growth rate will affect Sweden and lead to a weakening growth rate in the domestic economy during 2019 and 2020.

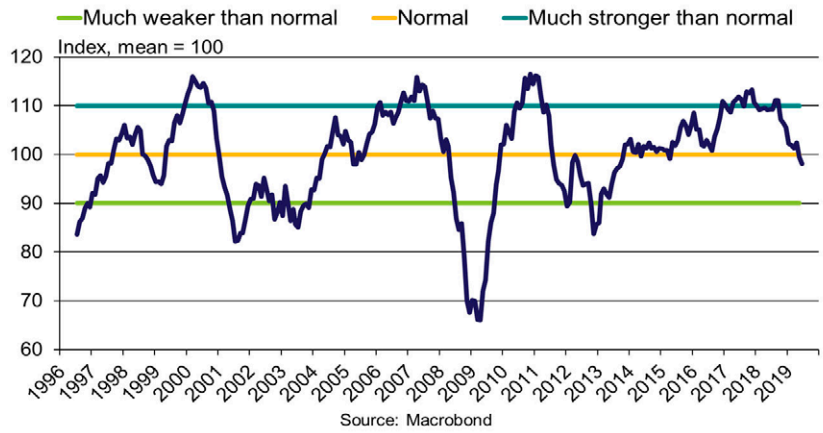


Figure 7.1. Economic tendency indicator, 1996-2019 (May).

Lower employment growth in 2019 and 2020

Arbetsförmedlingen's latest interview survey shows a continued strong but somewhat subdued demand for labour during the forecast period. However, the shortage of skilled labour remains high and continues to limit job growth. For 2019 and 2020, we estimate that the number of employed persons will increase by 120,000, corresponding to 1.4 per cent and 1.1 per cent respectively (ages 16-64). Metropolitan areas and larger cities continue to receive the largest share, more than 80 per cent, of the job growth. As the employment level for domestic-born people is close to its full potential, the increase in employment is dependent on foreign-born people getting employment. During the forecast period, nine out of ten new jobs are estimated to go to foreign-born people.

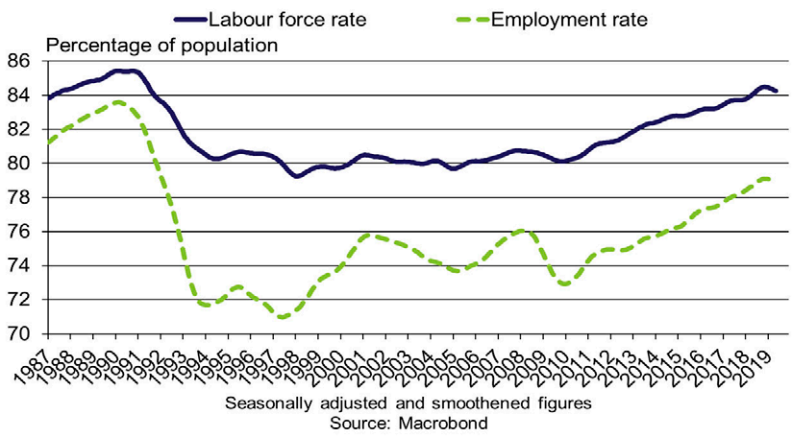


Figure 7.2. Labour force rate and employment rate, 16-64 years, 1987-2019 (May).

Unemployment is expected to rise until 2020

Both the labour force and the labour force participation have been rising for a long period due to the strong economy during recent years. The development of the employment rate has been especially good for the foreign-born population. However, the employment rate is still much lower amongst the foreign-born population compared to the domestic-born. The labour force will continue to increase during the forecast period, but in 2019 and 2020 the labour force will grow more slowly. Unemployment has fallen for several years but appears to have stopped trending down and is now expected to begin to rise in 2019 and 2020. The increasing labour force, a weaker economic activity in Sweden and fewer in subsidised employment are contributing factors. For the full year 2019, Arbetsförmedlingen estimates that unemployment will rise from 6.4 percent in 2018 to 6.5 per cent. In 2020, unemployment is projected to 6.7 percent. In total, 359,000 people are estimated to be unemployed in 2020, compared to 335,000 in 2018. Despite the positive development of the employment rate amongst foreign-born during recent years, the unemployment rate remains much higher for the foreign-born population compared to the domestic-born.

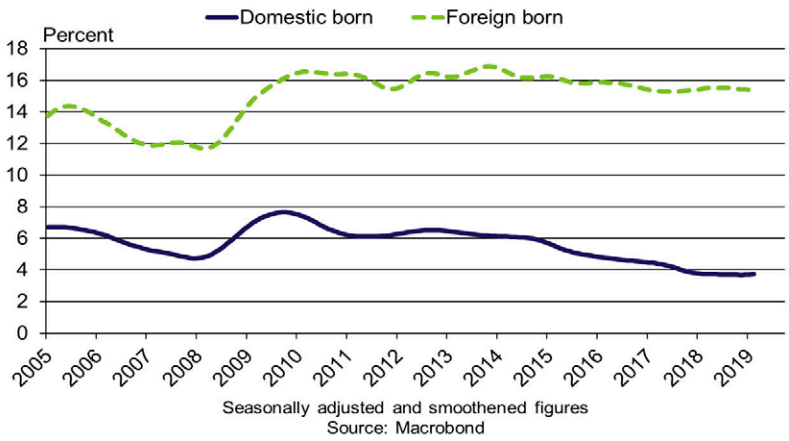
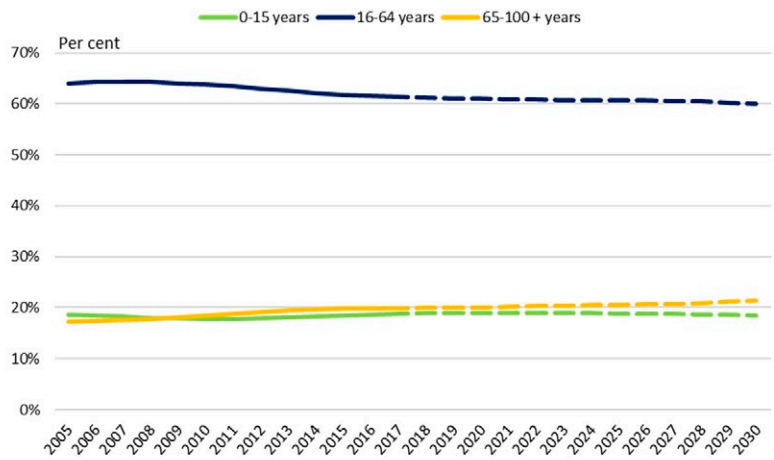


Figure 7.3. Unemployment rate, 16-64 years, by place of birth 2005-2019 (May).

7.2 Main population changes and their labour market outcomes

The population composition affects the conditions for access to labour, but also the municipalities' need for and requirements for livelihood, education and care for those who do not work. It is therefore important to forecast the development not only for the country as a whole, but also for different parts of the country. The forecast until 2030 is that the total population in Sweden will continue to increase by nine per cent - to achieve a total of 11.2 million people. However, the future development differs between different parts of the country, between the city and rural areas and between different age groups.

From a labour market perspective, it is particularly interesting to look more closely at developments in the working ages 16-64. This group is crucial for both the supply of skills and for how much employment can grow. The increase in working ages has been considerably weaker than for the total population during the last twelve years. When the population as a whole increased by 12 per cent during the period, the growth in the working age population has only been seven per cent. The forecast shows that the same group will increase by another seven per cent between 2018 and 2030, while the population in general will increase by nine per cent.



Source: Statistics Sweden.

Figure 7.4. Population development in Sweden, share 0-15 years, 16-64 years and 65 + years, 2005-2017, forecast 2018-2030.

The proportion of the population aged 0-15 has been relatively unchanged between 2005 and 2017. The share that is over 65 has increased and is expected to continue to increase to just over 21 per cent in 2030. Apart from this age group leaving the labour market, this development also affects the need of public security systems. At the same time, an increasing trend is that many people choose to continue working after retirement, which thus constitutes an important labour resource. However, the share aged 16-64 has decreased between 2005 and 2017. The forecast up to 2030 is that this share continues to decrease to 60 per cent of the population. At the same time, it is estimated that the age group 0-15 and 65+ years will increase, which will increase the pressure on public finances when fewer people will support more.

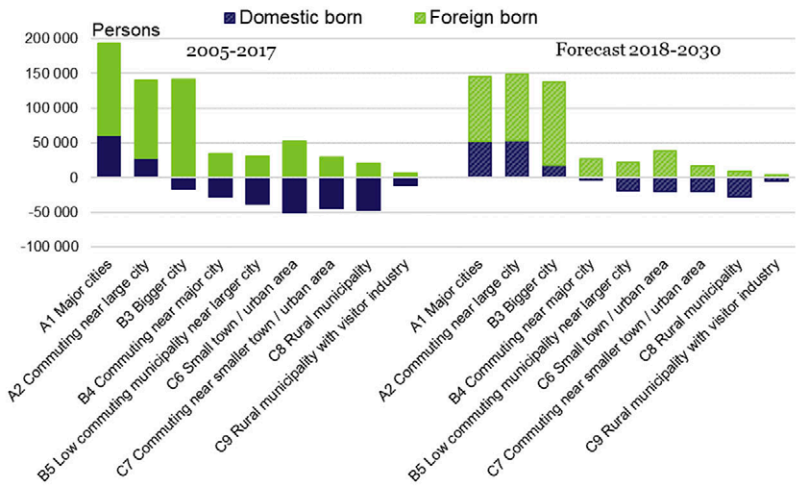
Thus, the supply burden is expected to rise for the next few decades for demographic reasons. How much it will change in the future is also affected by other factors such as growth in the economy and by the employment trend. In order to avoid the supply burden rising to such high levels that it severely degrades the public finances situation, it is important to maintain a sufficiently large increase in the population of working age and at the same time create favorable conditions for employment to increase at a good pace. This poses a major challenge, not least since the population development, both overall and divided into different age groups, differs widely between different parts of the country.

Great regional differences

Until 2030, the total population in all (21) counties in Sweden increases, except in Norrbotten. However, the reduction in Norrbotten County is small, only one per cent between 2018 and 2030. Stockholm County is increasing the most, by 13 per cent. The regional differences in population development are thus large. According to the forecast, the number of people aged 0-15 will increase by seven per cent between 2018 and 2030, and the age group will grow in all counties. The least increase will be in Västernorrland and Norrbotten County. The largest increase of young people will be in Uppsala County, followed by Södermanland, Västmanland and Östergötland County. Those who are 65 and older are also expected to increase by 18 per cent during the same period. The largest increase will be in Stockholm County and least in Västernorrland County.

With regard to the forecast population development between the ages of 16 and 64, it will decrease in six out of 21 counties between 2018 and 2030. The largest decrease is in Norrbotten County by five per cent. The forecast shows that the metropolitan counties account for as much as 77 percent of the increase in working age population. The largest increase is expected to be in Stockholm County by 13 per cent. In 2017, just over half of the people of active working age lived in metropolitan counties, and the proportion will increase marginally to the year 2030. The differences within the counties are often greater than the differences between different counties. When the figures are broken down at the municipal level, a clear division can be noted between metropolitan municipalities and sparsely populated and rural municipalities. From 2005 to 2017, the population aged 16-64 increased in 124 of 290 municipalities.

The next diagram shows clear differences between different municipal groups. Foreign-born people account for the increase in all municipal groups, not only historically but also according to the forecast until 2030. Domestic-born people, on the other hand, have decreased in all municipal groups except in the large cities and in municipalities with commuting to the large cities. Foreign-born people have accounted for the entire increase in the age group 16-64 in 18 of 21 counties between 2005 and 2017. Domestic-born people of working age have decreased in all counties except Stockholm, Uppsala and Halland and in 246 of the municipalities (85 per cent), of which the absolute majority are found in metropolitan or metropolitan areas. The foreign born, on the other hand, have increased in 287 municipalities (99 per cent).

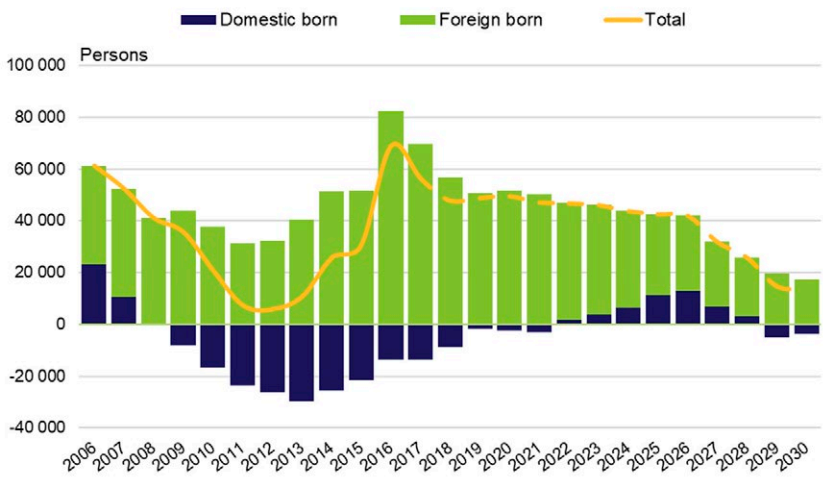


Source: Statistics Sweden.

Figure 7.5. Change in the number of domestic and foreign-born 16-64 years, divided into municipal groups.

Foreign-born people are crucial for the labour supply

Sweden is the European country that, in relation to its population, has received the most foreign-born during the great refugee flows in recent years. This has a positive effect on the future labour supply, since the foreign-born population accounts for the increase in the age group 16-64 in all counties. In recent years, the domestic-born population of working ages has decreased continuously. The population growth that has nevertheless occurred in working age has thus consisted entirely of foreign-born people. The development is a result of demographic factors where the inflow of younger domestic born to the labour force has been less than the outflow of the elderly, while the foreign-born population of working age has increased.



Source: Statistics Sweden.

Figure 7.6. Sweden's population aged 16-64, domestic and foreign born, change per year, forecast for 2018 – 2020.

According to Statistics Sweden's latest population forecast, the domestic-born part of the population will continue to decline until 2022, when it is expected to increase slightly. This means that the development in the Swedish labour market during the forecast period depends on how well foreign-born people establish themselves in the labour market. At the same time, there are relatively large differences in labour force participation between different groups, for example between younger and older people and between foreign born and domestic born. In addition, there is a gap between women and men, there labour force participation among foreign-born women is noticeably low both in comparison with foreign-born men but also with native-born women.

485,000 more employed are needed by 2030

An important goal for future employment should be to avoid increasing the dependency burden. If the dependency burden will not increase until 2030, a total addition of approximately 485,000 persons is needed in relation to the total population increase that takes place in the country during the period. This corresponds to an increase in employment with an average of just over 40,000 persons per year. The demographic projection based on the 2018 relative employment rate shows that employment among domestic-born people decreases

until 2030. At the same time, the general supply of labour can be limited during the period, which means that the use of labour resources needs to be high. In such cases, this means a high employment rate and permanent low unemployment among domestic-born persons. Although domestic-born people in favorable circumstances give a certain positive contribution to employment, among other things because a higher proportion of older people work, employment among foreign-born people needs to increase to a large extent.

Employment potential among foreign-born

In order to meet the changed composition of the population by 2030, it is important that the employment rate increases among both native and foreign-born. The employment rate among foreign-born persons has increased steadily in recent years despite the historically high net immigration. The employment rate for foreign-born persons is the highest since the current measurement methodology was introduced in 2005. In 2018 it amounted to 67.3 per cent, which can be compared with 65.5 and 66.8 per cent in 2016 and 2017 (16-64 years). In 2017 and 2018, foreign-born persons accounted for just over two-thirds of the total employment increase in the country. However, the unemployment rate among foreign-born persons continues to be at a significantly higher level than for other groups in the labour market, despite the strong job growth. The reason for the higher unemployment rate is the large inflow of new arrivals into the labour market. New people on the labour market, such as new arrivals and young people, have in common that they are in an establishment phase, which leads to higher unemployment than for other groups.

There is still great potential for increasing employment in the population, both from a gender and age perspective. Foreign-born women have a low employment rate for Swedish conditions, 63.6 per cent aged 16-64 (2018). The level can be compared with 81.6 per cent among domestic-born women, ie a difference of as much as 18 percentage points. It is, of course, difficult to assess how much the employment rate can increase for foreign-born women during the period up to 2030, but there is definitely a great potential for more women to be able to enter employment. If foreign-born women were to reach the same employment rate as domestic-born women, this would entail a theoretical employment supplement of just under 134,000 (2018). Among men, the corresponding potential was 87,000 people. That is, an employment potential of about 221,000 people in total.

7.3 Policy challenges

Changes in the pension system

On December 14, 2017, a political agreement was made on raising the retirement age of the public pension. This proposal will be decided by the Riksdag (the Parliament) in 2019. At present, it is possible to withdraw the public pension at the earliest from the age of 61. General pension is the state pension consisting of several different parts such as income pension, premium pension, guarantee pension, housing supplement, elderly support and survivor's pension.

As far as the guarantee pension is concerned, it can now be withdrawn by the age of 65 at the earliest. The guarantee pension is a basic protection in the public pension that is for persons who have had little or no income during their lives. It is based on marital status, the size of the income pension and how long you have lived in Sweden. The table below shows proposed changes that are subject to parliamentary decisions in 2019.

Table 7.1. Early pension withdrawal

Year	Early withdrawal of public pension	LAS-age*	Early withdrawal of guarantee pension
2020	62 years	68 years	65 years (no change)
2023	63 years	69 years	66 years
2026	64 years	69 years	67 years**

* The employment protection act, a labour market regulation

** In 2026, the age for when you receive a guarantee pension and housing supplement at the earliest should be linked to the development of average life expectancy, a so-called target age. The forecasts indicate that the target age from January 1, 2026 will be 67 years.

Labour market integration of immigrants

It is difficult to achieve an increase in employment of 485,000 people by 2030 within the existing population. A certain amount of labour is also needed through net immigration. Sweden has had a positive contribution to the population through immigration ever since 1930, with the exception of two years in the 1970s. According to Statistics Sweden's population forecast, the positive contribution will continue in the future. However, the need for net immigration during the period up

to 2030 - with regard to economic growth and employment - varies depending on how the employment rate develops during the period.

A net immigration of an average of more than 60,000 people per year is needed according to the 2018 employment rate among domestic and foreign-born persons, in order not to increase the dependency burden during the period. That is a "status quo alternative". If the employment rates continue to increase, a net immigration of between 30,000 to 50,000 people per year between the ages of 16-64 and the year 2030 may suffice. Much is related to the extent to which employment increases among foreign-born people during the period, but also the element of labour immigration affects the need.

The government initiative with more than 90,000 more educational sites by 2021 is strategically important for facilitating labour supply, especially since a large part of the unemployed lacks education corresponding to upper secondary level, which is often a requirement on the labour market. This initiative will provide better conditions for more unemployed people to be able to get further education, and an opportunity to get the required skills in order to get an employment.

In connection with the refugee situation in 2015, a temporary law was introduced in order to reduce asylum immigration to Sweden. Through the restrictions introduced, Sweden's asylum rules were lowered to the minimum level required by EU law and international conventions. After the temporary law was introduced in July 2016, the number of asylum seekers coming to Sweden has decreased. In 2017, approximately 26,000 asylum seekers came to Sweden, compared to the refugee situation in 2015, when just under 163,000 people applied for asylum. The law would apply until July 2019, but the Riksdag has decided to extend the law until July 2021. Temporary residence permits are the main rule for most asylum seekers, unlike the time before the temporary law when permanent permits were most common.

Conclusions and summary

The activity in the Swedish economy remains high but there are signs that indicates a slowdown during the next years. The lack of skilled labour is on a high level but the unemployment is still expected to rise until 2020.

The population composition affects the conditions for access to labour. The forecast until 2030 is that the total population in Sweden will continue to increase to achieve 11.2 million people. However, the increase in working ages has been considerably weaker than for the total population during the last twelve years and this group will continue to decrease according to the forecast. In recent years, the population growth that has nevertheless occurred in working ages has consisted entirely of foreign-born people.

In 2017 and 2018, foreign-born persons accounted for just over two-thirds of the total employment increase in the country. However, the unemployment rate among foreign-born persons continues to be significantly higher than for other groups, despite the strong job growth.

On December 14, 2017, a political agreement was made on raising the retirement age of the public pension. There is also a governmental initiative to expand the educational possibilities on different levels. The purpose is to reduce the gap between the competencies of the labour supply and the requirements from the employers, since upper secondary level is almost a prerequisite on the Swedish labour market.

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Effects of population changes in the labour market: an analysis of six European countries

The publication examines the labour market effects of demographic changes in six European countries: Germany, the Netherlands, Sweden, Latvia, Estonia and Finland. In all these countries, the ageing of population is weakening the old-age dependency ratio. In other words the proportion of those aged 65 or over to the working age population is growing. Fertility is not sufficient to ensure population increase in any of these six countries. This means immigration plays a major role in all countries. As the number of the working age population falls, employment rates tend to rise. This has happened in all countries in recent years, along with a decrease in unemployment rates. Labour productivity has not decreased in any of these countries; in some, it has actually increased.

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