

## Talking point

### Youth unemployment in the EU: Are we improving?

November 2, 2016

**The European Commission proposed to increase the funds for fighting youth unemployment as part of the mid-term review of the EU budget. How to evaluate this idea in the light of the current labour market situation for young people in Europe?**

First, the good news: At present, there are 1.4 million fewer young people unemployed in Europe than three years ago. In 2013 the average youth unemployment rate (for 15-24 year-olds) in the EU peaked at 23.7. Currently, it is down to 18.6%. Alternative indicators such as the share of NEET (young, neither in employment nor education or training) or the youth employment rate for 15-24 year-olds similarly show improvements.

Today's lower EU average is mostly due to improvements in southern and eastern European countries. A total of nine member states record a decrease of 10 pp or more since 2013. Only Luxembourg, Austria and Finland saw slight increases in youth unemployment against the trend. Despite the overall drop, large differences between the member states persist - even when taking into account that comparing youth unemployment rates across countries can be tricky for methodological reasons and that the measure tends to amplify cross-country differences.<sup>1</sup>

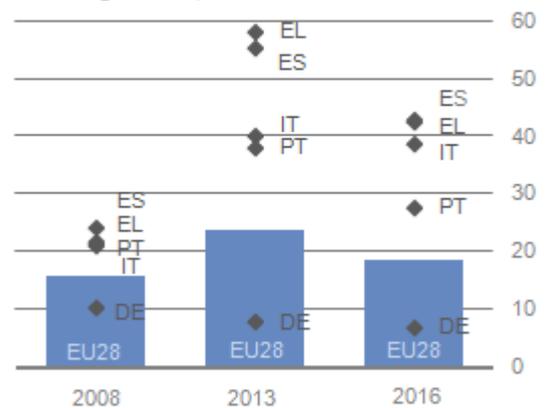
In particular, the labour market situation in Germany - the country with the lowest share of unemployed youth since 2011- continues to contrast with many other member states, particularly in southern Europe. In total eight member states still record youth unemployment rates above 20%. The share of unemployed people younger than 25 years in Spain and Greece today is still about six times larger than in Germany (ES: 43.2%, EL: 42.7%, DE: 6.9%), and the employment ratio (i.e. the unemployed as share of the total population in the same age group) about four times higher (ES: 15.5%, EL: 12.1%, DE: 3.5%).<sup>2</sup>

To some extent the reductions since 2013 reflect the general trend on the labour market (unemployment in the EU-28 decreased from 10.9% in 2013 to 8.6% in Aug. 2016). Youth unemployment stood at a higher level and has seen a more pronounced drop (-5.1 pp). At the same time a set of measures to improve the employment opportunities for young people have been started. The Youth Employment Initiative (YEI) is one dedicated program financed via the EU budget to support projects in countries and regions with particularly high youth unemployment. The program also aims to support the Youth Guarantee, i.e. member states' pledge to tackle youth unemployment issued in 2013.<sup>3</sup> The European Commission has now proposed to increase funds for the YEI - adding EUR 2 bn in support to the original budget of EUR 6.4 bn (2014-2020).<sup>4</sup> This prompts the question whether and to what extent the initiative has been effective and what could be achieved with additional funds.

The decrease in youth unemployment we currently see is due to a mix of cyclical effects and policy actions. Pinpointing the effects of the latter remains a challenging exercise, partly because policy actions' effects may only materialize with a time-lag. Similarly, reductions of the unemployment rate as well as information about the use of funding offer only limited insights in the effectiveness of actions. However, there is some indication that the Youth Employment Initiative contributed to the decrease we are now seeing.

#### Youth unemployment with declining trend

Unemployment rate for persons aged 15-24 yrs in %  
Data: August 2016, Annual values 2008 and 2013



Sources: Eurostat, Deutsche Bank Research



The YEI aims to initiate (labour market) policy reforms in member states and to support their implementation. Looking at the development of the youth unemployment rate compared to the total unemployment rate suggests that in economies with more reforms young unemployed people have been doing relatively better (chart 2).<sup>5</sup> Also, the employment rate<sup>6</sup> has more strongly increased in countries that started more actions.

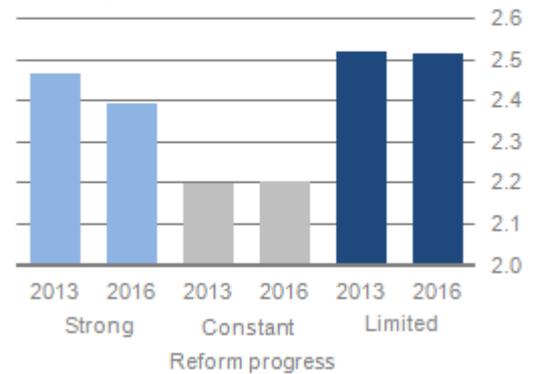
The country comparison clearly remains tricky. Actions taken are heterogeneous and measures such as wage subsidies for young employees or an improved vocational training differ in quality, effectiveness over time as well as sustainability.

What could additional funds for the YEI achieve? First, additional funding may provide incentives and support to continue reform processes. Notably, the added value of (further) carrying these forward is not limited to a reduction of youth unemployment now but also adds to labour markets long-term resilience. Second, additional funds can be deployed more quickly for upscaling actions, for example rolling out an initiative for specialized advice labour market advice for young people that proved successful at regional level on a larger scale. This should be easier now, building on past years' experiences as well as analyses of shortcomings in EU labour markets for young people and how to address them. Third, evaluation of the YEI so far suggests that for young people furthest away from the labour market, there remains considerable room for improvement. Additional funds could be employed to better reach this group and prevent continued disconnect from labour markets.

Original in German: October 25, 2016

## Less youth unemployment with reforms

UE-Rate 15-24 year-old relative to total UE-Rate  
Data: August 2016, Annual values 2013



Sources: Eurostat, Deutsche Bank Research

<sup>1</sup>) The share of persons in education or training is higher in this age bracket compared to others and the share of people aged between 15-24 years, who are part of the labour force, is smaller. The youth unemployment rate is computed as percentage of the unemployed aged between 15-24 years compared to the total labour force (both employed and unemployed). But since most students are not part of the labour force, the denominator is small and the unemployment rate is upward biased. See Vetter (2013) for further discussion.

<sup>2</sup>) Monthly values for the unemployment rate (end of August 2016); quarterly values for the employment ratio (Q2).

<sup>3</sup>) In addition, funding from the European Structural & Investment Funds can be employed to improve youth employment opportunities.

<sup>4</sup>) The European Commission suggests adding EUR 1 billion over 2017-2020 to the funds for the youth employment initiative and EUR 1 billion of matching funding to be provided from the European Social Fund.

<sup>5</sup>) Groups based on European Commission (4 October 2016): "The Youth Guarantee and Youth Employment Initiative three years on." Strong reform progress: BE, BG, FR, HR, HU, IT, LI, LV, PL, PT, SI; Constant reform progress: AT, DE, DK, EE, FI, IE, LU, MT, NL, SE, UK; Limited reform progress: CY, CZ, EL, ES, EU, SK. Note that in groups with strong and limited reform progress respectively all economies are eligible for YEI-funds. In the "Constant reform progress" group, only three countries are eligible. By and large, the last group has been characterized as already having a well-established policy framework to tackle youth unemployment and thus fewer additional reforms are currently required in this group.

<sup>6</sup>) Within „Strong reform progress“ about 3.2 pp, within „Limited reform progress“ about 1.8 pp.

Please see also:

Vetter, Stefan (2014). Who is Europe's "lost generation"? An anatomy of (un)employment demographics in Europe. Deutsche Bank Research. Research Briefing. 3. Februar 2014.

European Commission (2016). Communication "The Youth Guarantee and Youth Employment Initiative three years on". 4. Oktober 2016.

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