



# MONETARY POLICY AND THE EUROPEAN LABOUR MARKET

Mário Centeno  
Governor, Banco de Portugal



BANCO DE PORTUGAL  
EUROSISTEMA

FEB. 2024



# LABOUR MARKETS GAINED CENTRE STAGE – WHY?

- Transmission mechanism requires efficient markets
- Efficient markets react to incentives, are flexible, and adjust to economic conditions: no rents; no hysteresis
- The labour market generates and distributes the vast majority of our income
- A good time to be a labour economist



## LABOUR MARKETS GAINED CENTRE STAGE – WHY?

- The labour market reacts with a lag to economic conditions
- Wages (average) do not fall in a recession; the reverse in booms
- Productivity falls in periods of strong job creation (again a simple composition effect), be patient
- Second-round may occur, but they are rare



## LABOUR MARKETS GAINED CENTRE STAGE – WHY?

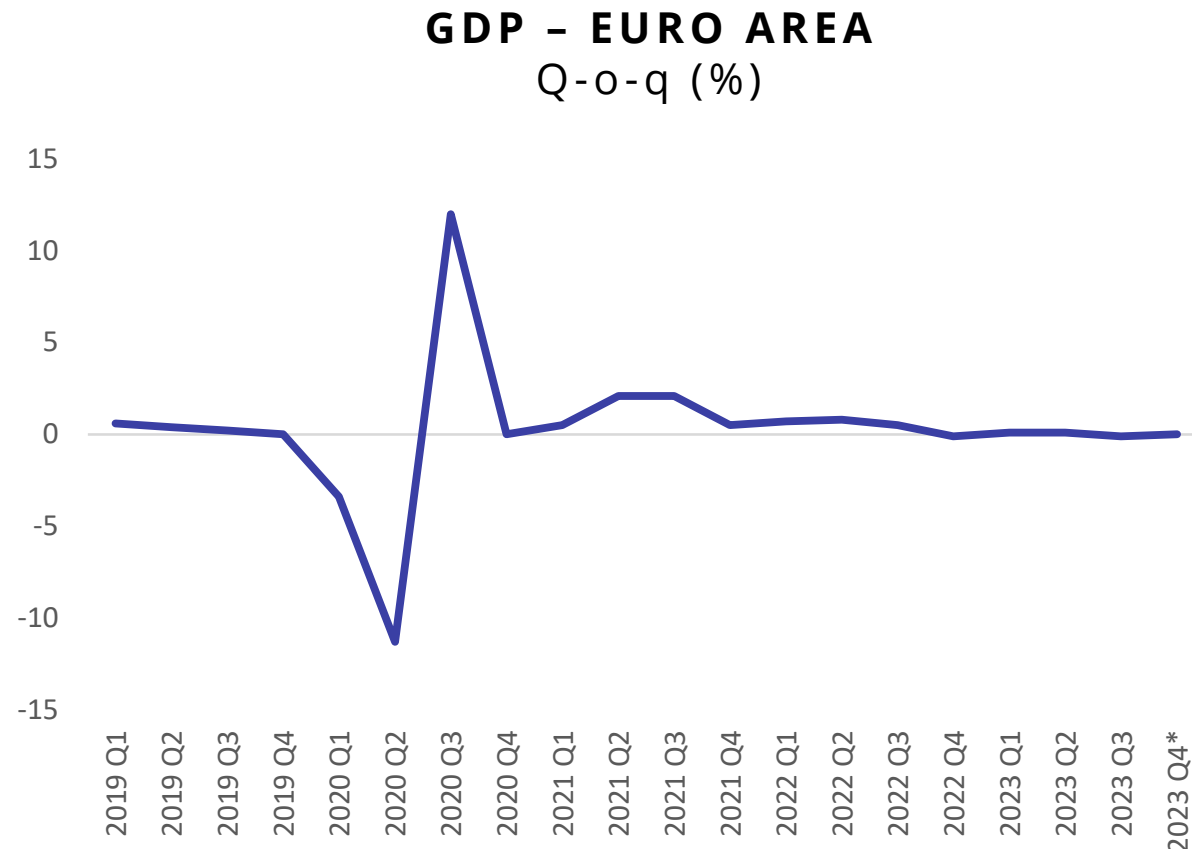
- If wages react with a lag to inflation:  
first we have losses in real terms, next they recover  
(EA: a 7pp loss, as of the third quarter 2023)
- Be prepared to a healthy recover of real wages in the near future
- The euro area: more flexible; larger labour market; low unemployment; hysteresis is gone
- This is the perfect time to be a labour economist in a monetary policy world



# STAGNANT EURO AREA ECONOMIC ACTIVITY

2024 - Weak global growth (geopolitical tensions; China slowdown)

- Internal demand as a source of growth (need for structural changes and policy stability)



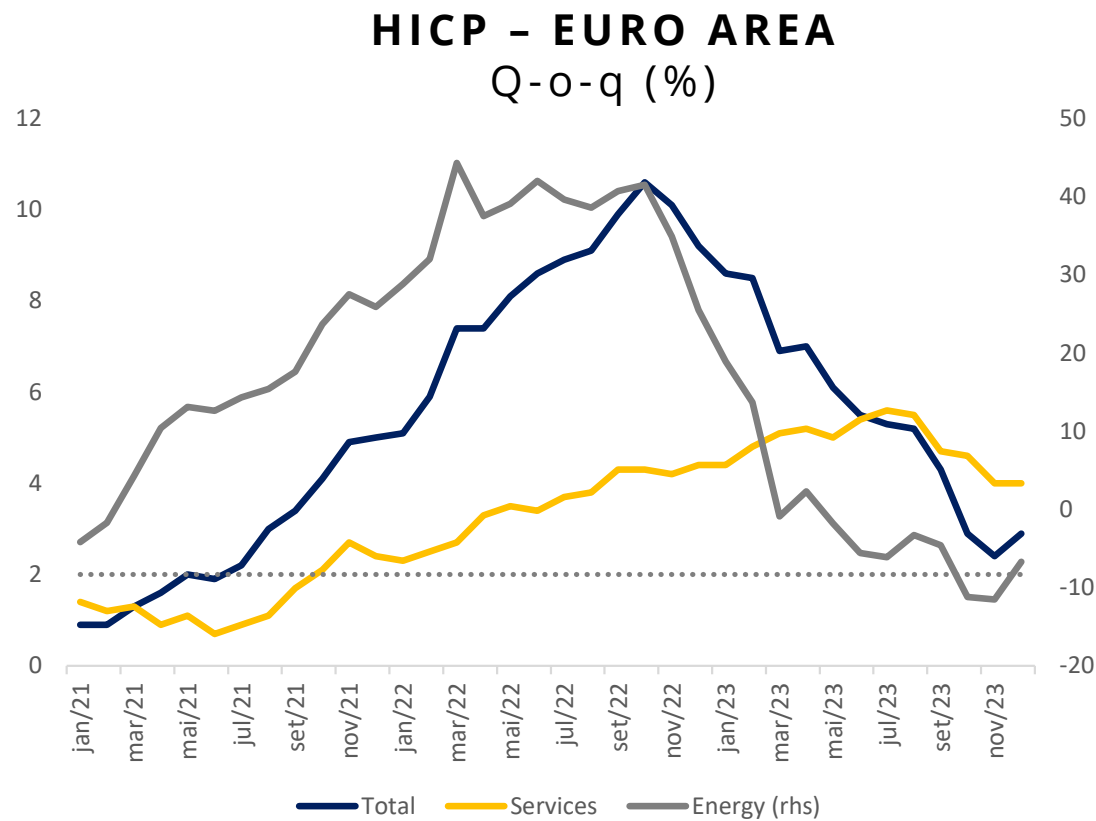
Source: Eurostat

Notes: \* 2023 Q4 Preliminary flash estimate



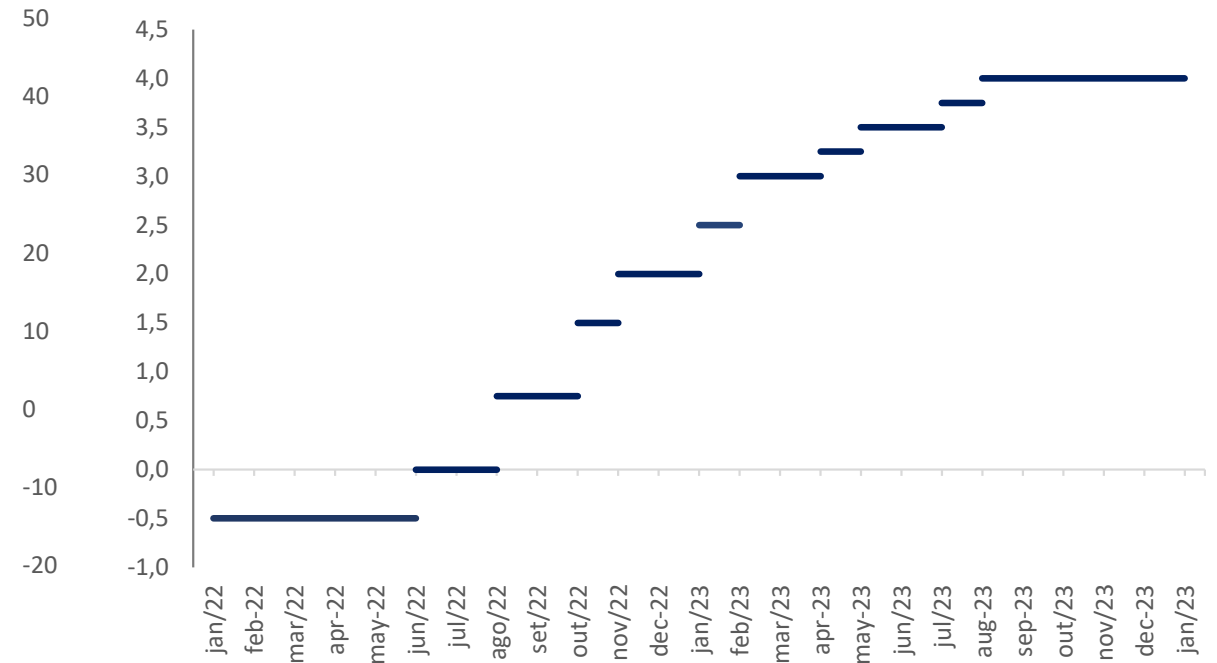
# INFLATION IS CONVERGING TO 2%

- Inflation is decreasing faster than anticipated and faster than it went up



Source: Eurostat

### DEPOSIT RATE FACILITY, ECB

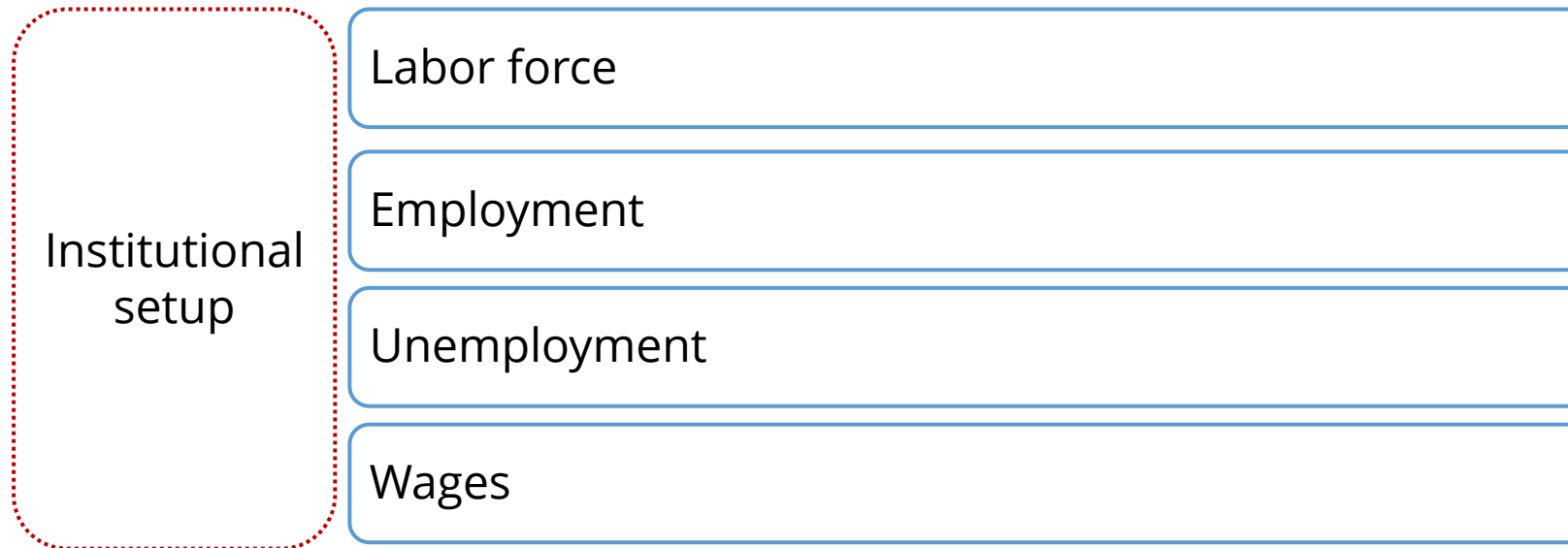


Source: ECB



# PRESSURE FROM WAGES?

- The assessment of potential pressures from wages needs a comprehensive consideration of all the underlying factors of the labour market dimensions:



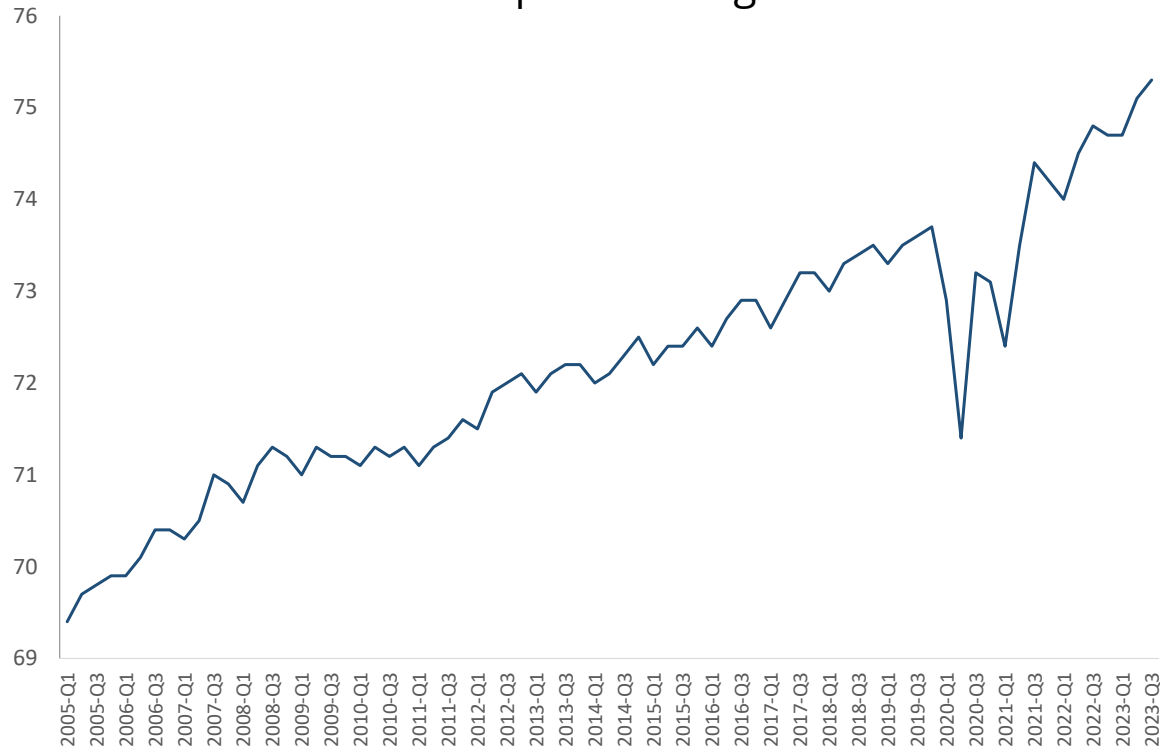


# PRAISE TO THE EUROPEAN LABOUR MARKET

- **Institutional improvement:** a more flexible and dynamic labour market
- **Beveridge curve:** same, but more dynamic curve in Europe; two realities (curves) in the US
- **Since the pandemic:** + 9 million jobs

### ACTIVITY RATES - EA

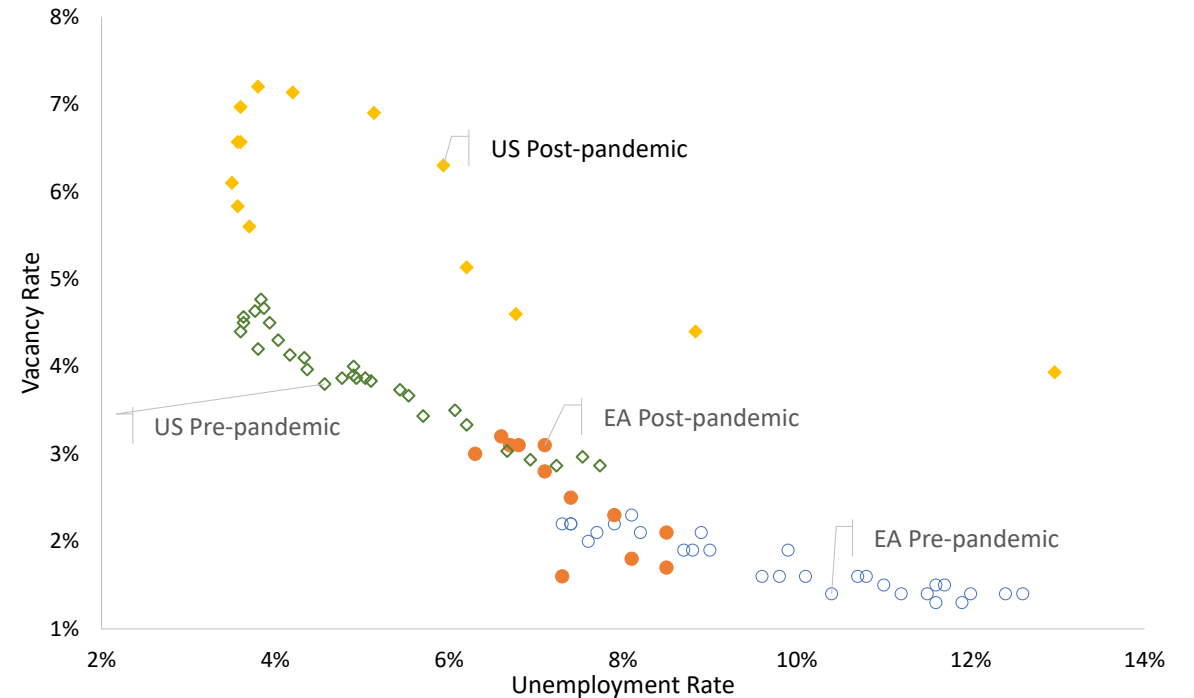
In percentage



Sources: Eurostat, Labour Force Survey

### BEVERIDGE CURVE - USA AND EA

In percentage



Sources: Eurostat and US Bureau of Labor Statistics



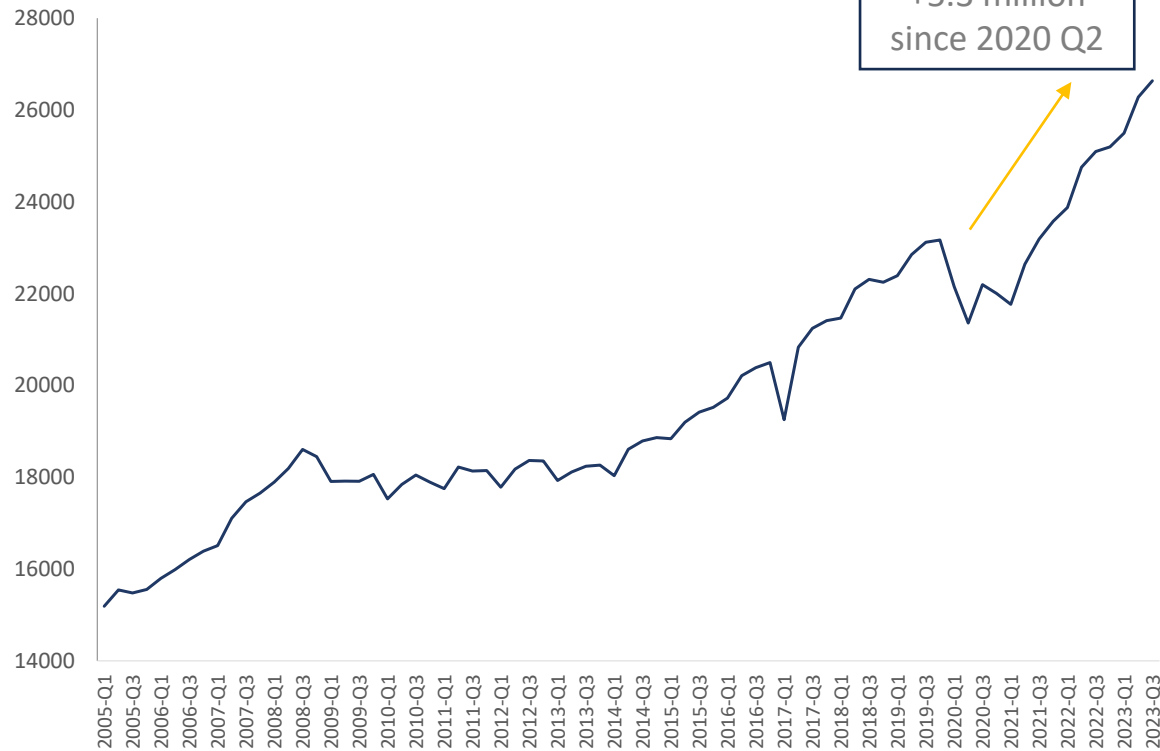


# PRAISE TO THE EUROPEAN LABOUR MARKET

- The mobility of workers enhances the capacity to align labour demand and labour supply

### EMPLOYMENT, PERSONS BORN OUTSIDE THE COUNTRY THEY WORK, EA

In thousands



Sources: Eurostat, Labour Force Survey

### UNDEREMPLOYED PERSONS WORKING PART-TIME, EA

In thousands



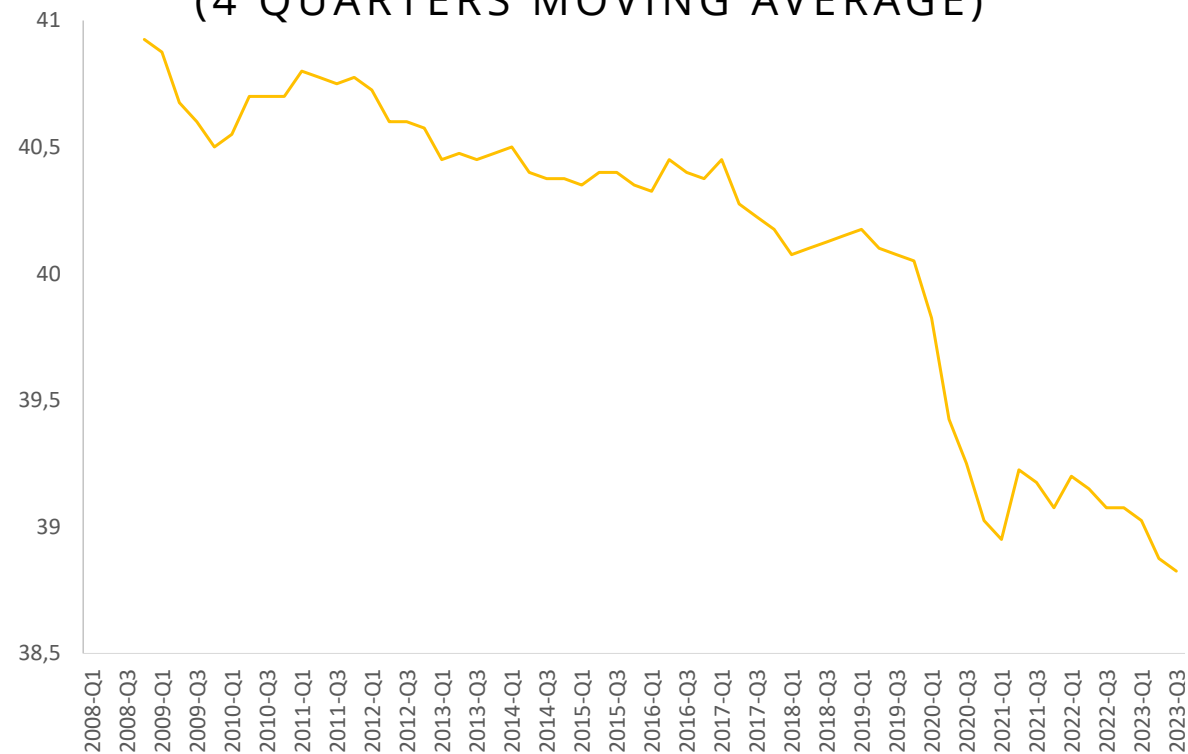
Sources: Eurostat, Labour Force Survey



# PRAISE TO THE EUROPEAN LABOUR MARKET

- Working shorter hours requires productivity gains (to avoid cost pressures), and implies less pressure on future wage demands

**TOTAL NUMBER OF HOURS ACTUALLY WORKED  
FULL TIME WORKERS, EA  
(4 QUARTERS MOVING AVERAGE)**



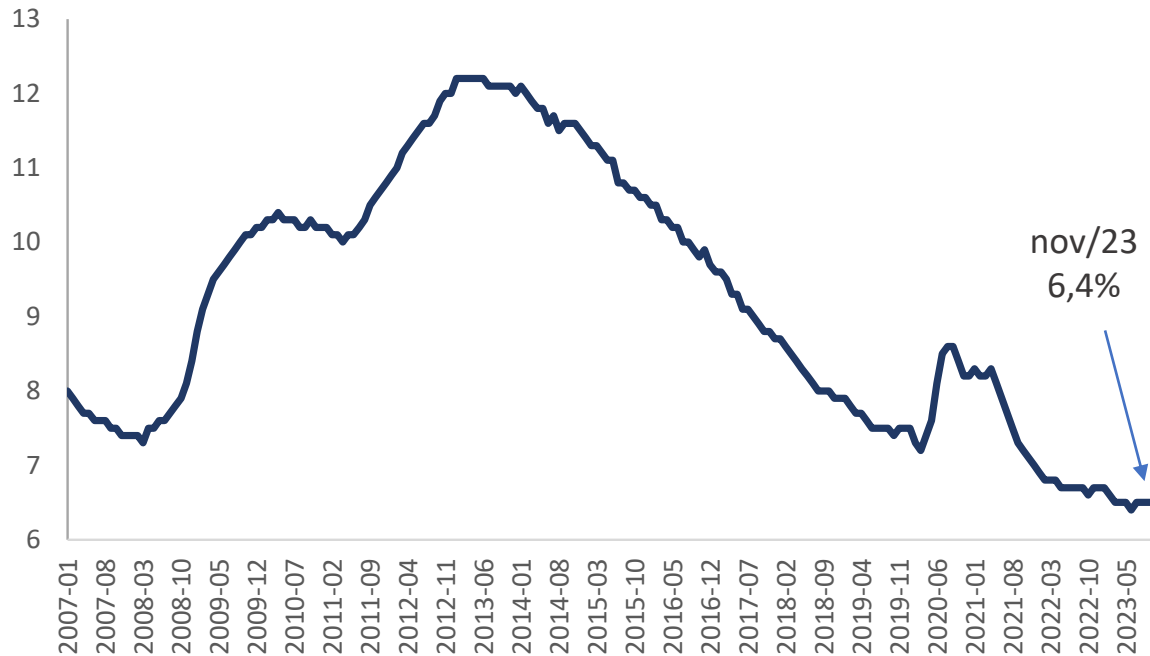
Sources: Eurostat, Labour Force Survey



# PRAISE TO THE EUROPEAN LABOUR MARKET

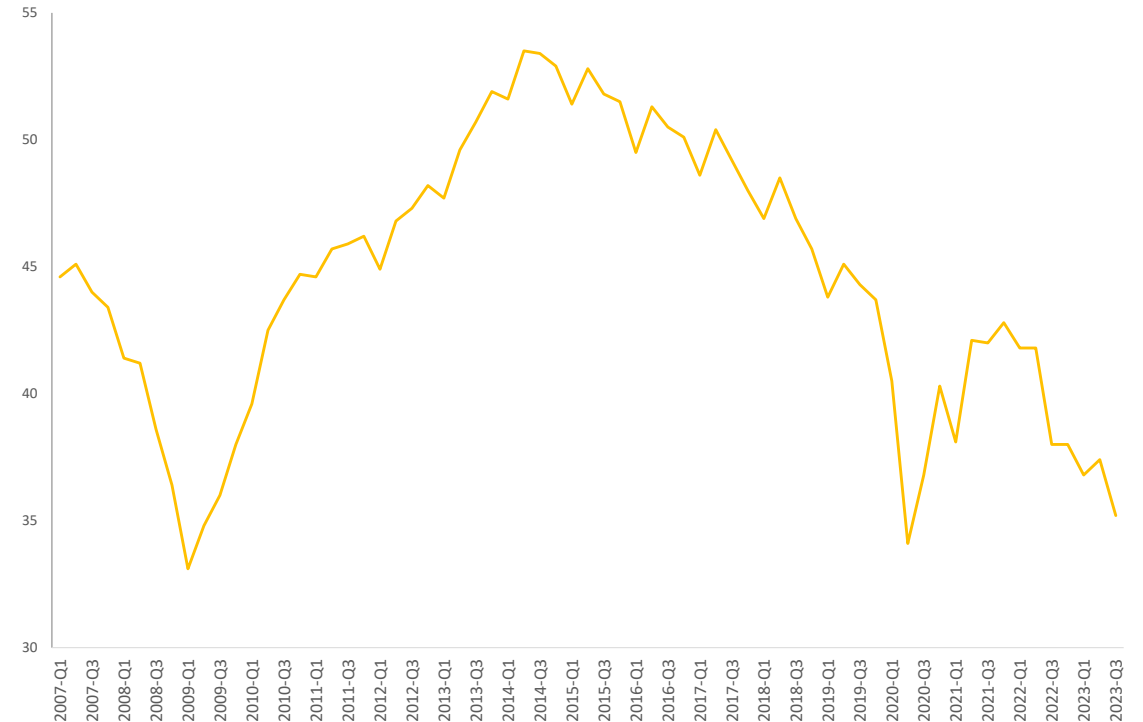
- Unemployment rate is at low(est) level: lower labour pool
- But decline in long-term unemployment: better labour matching pool

## UNEMPLOYMENT RATE In percentage



Sources: Eurostat, Labour Force Survey

## LONG-TERM UNEMPLOYMENT (share 12 of more months unemployed)

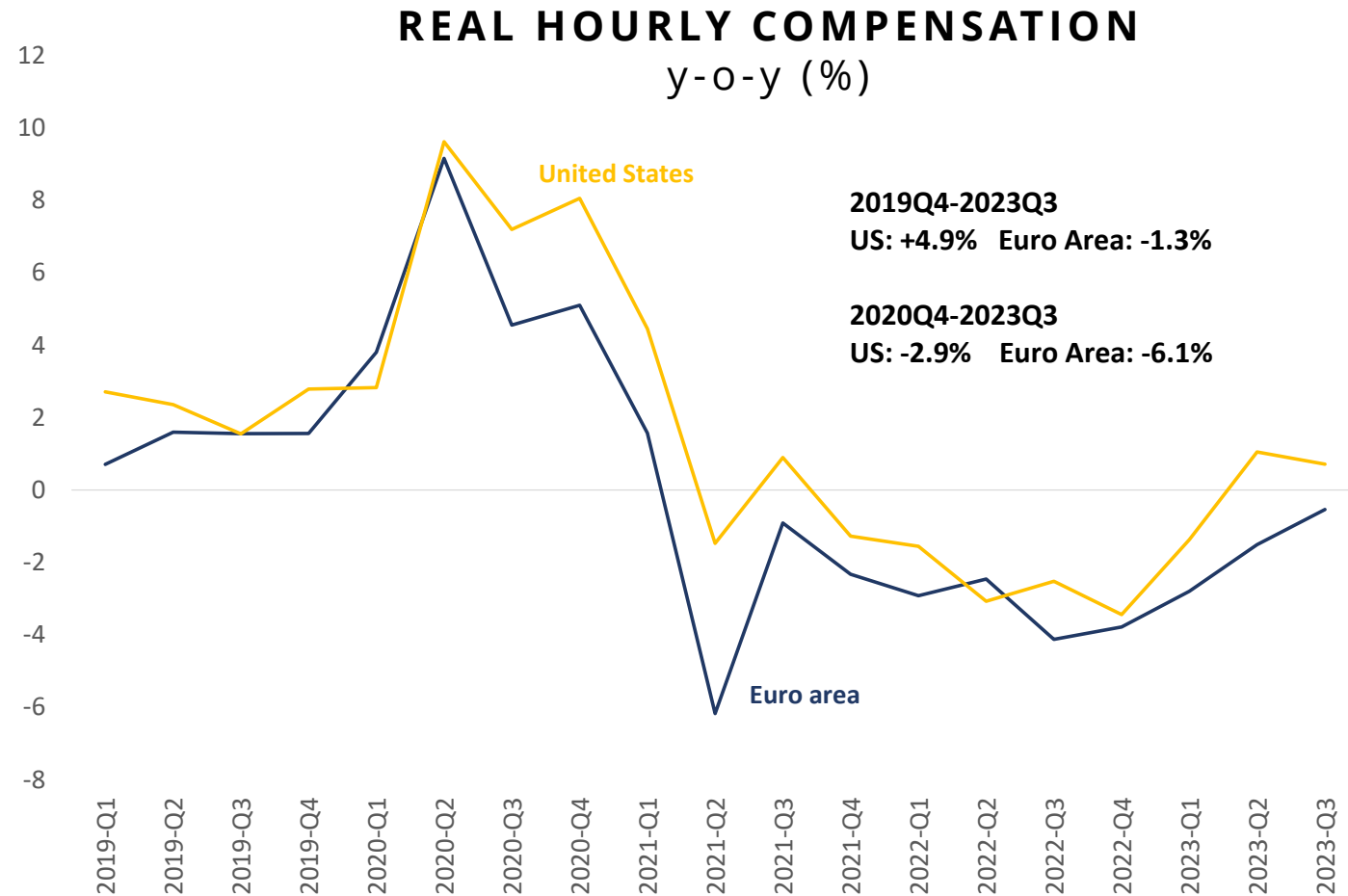


Sources: Eurostat, Labour Force Survey



# PRAISE TO THE EUROPEAN LABOUR MARKET

- Expect real wages recovery
- Wage increases should be driven by productivity gains





## PRAISE TO THE EUROPEAN LABOUR MARKET

- In the EA, the labour market has functioned as a safeguard shielding income from the unpredictable impacts of exogenous, supply-driven and inflationary shocks
- There is no evidence of second order effects due to wages pressures
- **But...**no room for complacency in the labour market itself – wage demands – and policy wise – fiscal and monetary.

Unfortunately, labour market slumps **do not** come gradually



# MONETARY POLICY

- Monetary policy has been at work, but with the usual transmission lag
  - Strong impact on financial conditions and aggregate demand
    - Contributes to the disinflationary process
    - Additional restrictive effect on consumption and investment
- Under current conjecture, need to carefully assess:
  - Risk of de-anchoring expectations (on the downside)
  - Risks of overshooting
- Going forward: gradual approach; remain *data dependent*

CREDIBILITY & PREDICTABILITY: KEY FOR STIMULATING ECONOMIC GROWTH



# MONETARY POLICY AND THE EUROPEAN LABOUR MARKET

Mário Centeno  
Governor, Banco de Portugal



BANCO DE PORTUGAL  
EUROSISTEMA

FEB. 2024