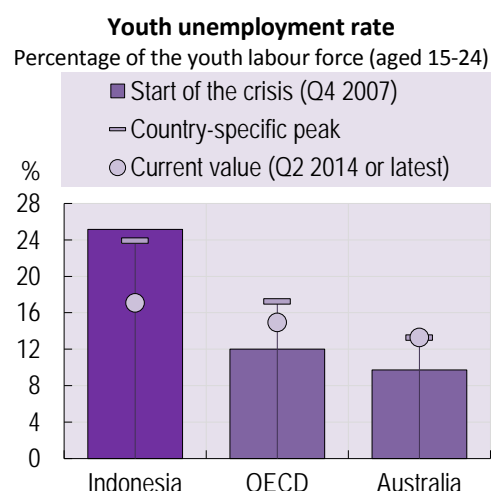


OECD Employment Outlook 2014

The 2014 edition of the OECD Employment Outlook reviews recent labour market trends and short-term prospects in OECD and key emerging economies. It zooms in on how the crisis has affected earnings, provides country comparisons of job quality, examines the causes and consequences of non-regular employment, and estimates the impact of qualifications and skills on labour market outcomes.

For further information: www.oecd.org/employment/outlook

DOI: [10.1787/empl_outlook-2014-en](https://dx.doi.org/10.1787/empl_outlook-2014-en)



Source: OECD Short-Term Labour Market Statistics (database) (<http://dx.doi.org/10.1787/data-00046-en>) and Indonesia's national labour force survey.

Indonesia's good labour market performance continues

The unemployment rate in Indonesia continues to trend downwards. At 5.7% in Q1 2014, Indonesia's unemployment rate is considerably below the levels observed in 2007 (above 9%). It is also now well below the OECD average of 7.4%. The youth unemployment rate has also been falling, but at a slower pace. After having exceeded 25% in 2007, the youth unemployment rate is now at 17.1%, compared to an OECD average of 14.9%.

But job quality needs to be improved

Improving job quality is major challenge facing Indonesia as in many other emerging countries and advanced economies. The 2014 *Employment Outlook* puts forward a new framework for measuring job quality along

three dimensions: earnings quality (level of earnings and degree of inequality); labour market security (risk of job loss and income support available); and quality of the working environment (work demands and conditions, and resources and support available to cope with work demands).

In Indonesia, reducing the incidence of informal and precarious work could contribute substantially to improving job quality and productivity. The majority of Indonesian employment is informal: in 2007, more than 6 in 10 workers belonged to the informal sector, although there has been some decline since. Reducing informality is an important challenge for Indonesia. Workers in the informal sector experience a higher degree of economic insecurity; informality limits economies of scale; and firms in the informal sector invest less in their workers which dampens productivity growth.

Promoting formal employment requires a comprehensive strategy to improve the business environment and incentives for the creation and registration of firms and their workers. Reducing the rigidities associated with hiring and firing in the formal sector may also increase the incentives for firms, the public sector and workers to engage in formal working arrangements. The strictness of employment protection for regular contracts is high in Indonesia when compared to OECD countries or other G20 countries. The strictness of employment protection for temporary contracts is also high (OECD, 2013). At the same time, the actual protection and social support of informal workers should be improved to help bridge the gap between formal and informal work arrangements.

Improving education and skills is essential

As shown in the 2014 *Employment Outlook*, education and skills are crucial for improving employment outcomes and promoting greater labour market participation. Implementing policies to enhance the coverage and quality of education and better linking education and training systems with employment demand may help to overcome not only skill deficits and mismatches but also promote growth and formal employment. In Indonesia, this also requires tackling large regional and urban/rural disparities in skills.

The government's efforts to extend the number of years of compulsory education and to reform and strengthen the National Vocational Training System are therefore welcome steps in the right direction.

References

OECD (2013), *OECD Employment Outlook 2013*, OECD Publishing.
(http://dx.doi.org/10.1787/empl_outlook-2013-en).

OECD Employment Outlook 2014 is available to journalists on the **password-protected** website or on request from the Media Relations Division. For further comment on Indonesia, journalists are invited to contact Mark Keese (+33 1 45 24 87 94; mark.keese@oecd.org) or Guillermo Montt (+33 1 45 24 92 92; guillermo.montt@oecd.org) from the OECD Employment Analysis and Policy Division.