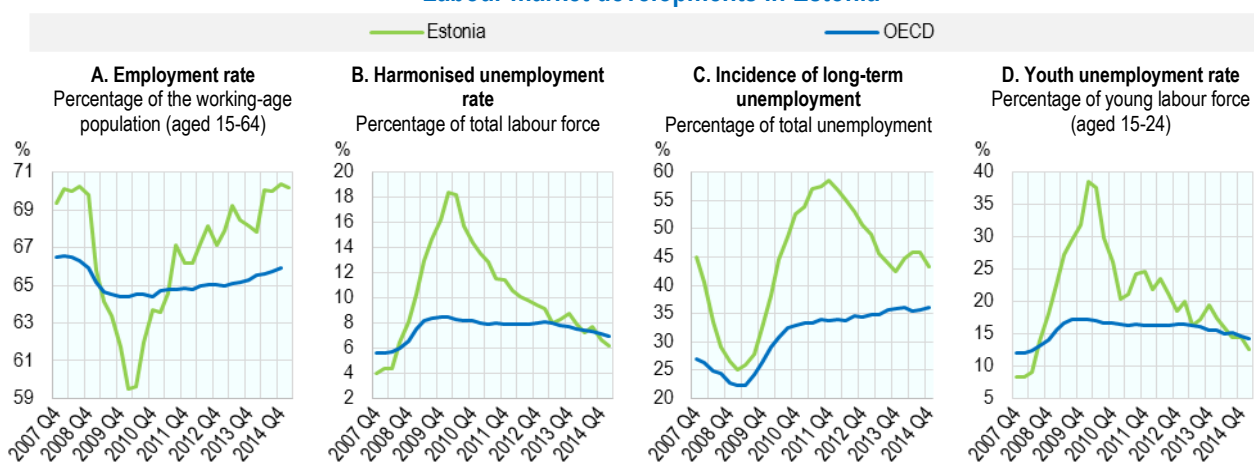


The 2015 edition of the OECD Employment Outlook provides an international assessment of recent labour market trends and short-term prospects with a special focus on statutory minimum wages. It also contains chapters on: skills and wage inequality; the role of activation policies to connect people with jobs; earnings mobility, labour market risk and long-term inequality; and job quality in major emerging economies.

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### Labour market developments in Estonia



Source: OECD Short-Term Labour Market Statistics database, <http://dx.doi.org/10.1787/data-00046-en>

#### RECENT LABOUR MARKET TRENDS AND PROSPECTS

Labour market conditions are improving in many OECD countries but the recovery from the recent economic crisis remains very uneven. Employment is still growing too slowly in the OECD area to close the jobs gap induced by the crisis, even by the end of 2016. Consequently, unemployment for the OECD as a whole is projected to continue its slow decline, reaching 6.6% by the end of 2016.

- The economic crisis had deep impacts on the Estonian labour market, but the recovery has been equally remarkable. The employment rate dropped from 70.3% in Q3 2008 to 59.5% in Q1 2010, but has since been increasing strongly. In Q1 2015 it reached the same level as before the crisis (70.2%) and four percentage points above the OECD average.
- After climbing to a dramatic peak (18.4%) in early 2010, the unemployment rate has been

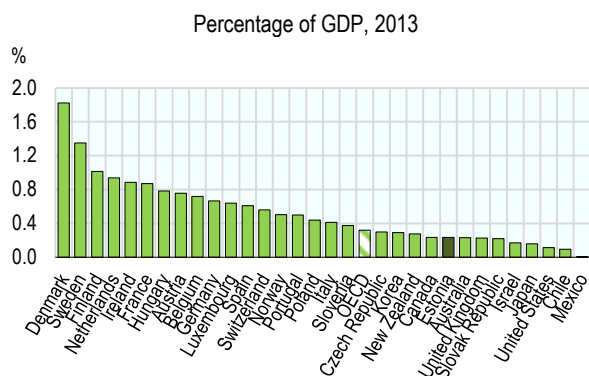
steadily decreasing to 6.2% in Q1 2015, just below the OECD average of 7.0%.

- The fall in unemployment has been equally remarkable among youth. After bearing the brunt of the crisis, workers aged 15-24 have seen their risk of unemployment fall significantly. Their unemployment rate has dropped from 38.5% in early 2010 to 12.5% in Q1 2015, again below the OECD average of 14.2%.
- However, long-term unemployment is still widespread. After falling sharply in 2012-13, the share of unemployed people who stay jobless for more than one year (43.3% in Q4 2014) remains far above the OECD average of 36%. As long-term unemployed people face the most significant risk of skill depreciation and discouragement, long-term unemployment constitutes a major challenge for the country.

## ACTIVATION POLICIES FOR MORE INCLUSIVE LABOUR MARKETS

Effective activation policies help connect unemployed and inactive people with jobs. To achieve this goal, such policies need to strengthen the motivation and employability of jobseekers while improving their job opportunities. Strong labour market institutions and policies are the keystone of any successful activation strategy.

### Expenditure on active labour market programmes



Source: OECD Employment Outlook 2015, Chapter 3.

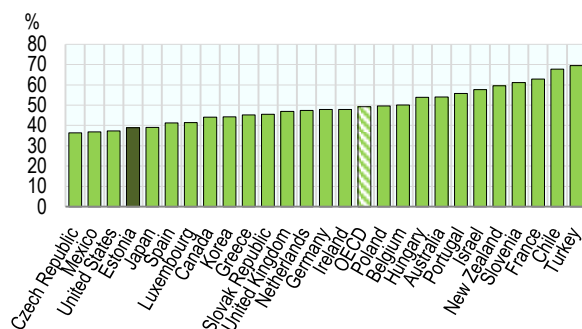
- At 0.23% of GDP, Estonia spends relatively little on active labour market programmes (ALMPs) compared with many other OECD countries.
- Further investments are needed to improve the employability of jobseekers, in particular those that are long-term unemployed. Enhanced job-search assistance and counselling, employment subsidies, training, direct job creation and entrepreneurship support can be particularly useful. Also the employment service system should be further strengthened.
- To ensure activation measures deliver cost-effective outcomes, they require careful monitoring and evaluation.

## MINIMUM WAGES

A growing majority of countries use minimum wages as a tool to raise wages at the bottom of the wage distribution and to prevent workers' families from falling into poverty. The effectiveness of these policies depends upon the level of the minimum wage, which could lead to job losses if set too high, and how much minimum-wage workers receive after taxes and benefits.

## Minimum wage

Minimum wages as a percent of full-time median earnings, 2013



Source: OECD Employment Outlook 2015, Chapter 1.

- At 38.8% of the median wage, the Estonian minimum wage is relatively low compared with the levels set in most of the other 25 OECD countries with a statutory minimum wage.
- In addition, the burden from income taxes and social contributions on minimum wage earners in Estonia is one of the highest among the countries analysed. Careful consideration of the interaction of the minimum wage with the tax-benefit system is necessary to avoid a negative impact on formal employment.
- The minimum wage is a blunt instrument to fight poverty and inequality, as it often fails to benefit the neediest. A single parent in Estonia with two children would need to work 60 hours a week on a minimum wage to escape poverty; a one earner couple with two children needs to work more than 70 hours.
- A modest increase could raise the incomes of workers at the bottom of the wage ladder with little or no adverse impact on employment. Policy makers should also consider alternative policies, such as better targeted social assistance.

**Contacts:** Division for Employment Analysis & Policy, Directorate for Employment, Labour and Social Affairs **Mark KEESE** (+33 1 45 24 87 94; mark.keese@oecd.org) or **Veerle MIRANDA** (+33 1 45 24 18 73; veerle.miranda@oecd.org).