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Labor Shortages in the Central and Eastern Europe region: An Opportunity for Households but a Threat for Companies

Developments in Central and Eastern Europe (CEE) labor markets have been beneficial for households. Rising wages and low inflation, combined with improving consumer confidence, have led to lower unemployment rates and an increase in private consumption. But the upturn in the labor market means that companies are facing difficulties in recruiting, especially for qualified personnel. Manpower shortages and the consequential rise in labor costs are concerns for businesses.

Labor markets in the Central and Eastern Europe region are continuing to improve. Unemployment rates have fallen to the lowest level ever recorded and most CEE economies are enjoying better unemployment figures than the EU average. Growing wages, low inflation, and improving consumer sentiment have made household consumption the main driver of economic expansion. Since 2010, gross wages have jumped by more than 30% in Romania and Bulgaria and by more than 20% in Hungary and Poland.

Contributing Factors include Strengthened Wage Bargaining Power, Low Birth Rates and Emigration

While households and the region overall have benefitted from these developments, companies are suffering as they face strengthened wage bargaining power and higher compensation costs. Dynamic external and domestic demand, the low birth rate, and emigration to Western Europe have all contributed to labor shortages. A rising number of companies are reporting that this is a barrier to business expansion.

Even the companies that are paying higher wages are having a difficult time hiring employees. Job vacancies are particularly acute in the Czech Republic and Hungary, and wage increases are currently exceeding labor productivity gains.

Several solutions can be implemented

Companies will continue to be faced with labor shortages - particularly with regards to qualified employees. Recent surveys indicate that professions such as drivers and engineers are among the hardest vacancies to fill for employers in the CEE region.

Labor shortages could be alleviated by encouraging emigrants to return and by increased immigration. This would require improvements in governance and addressing the reluctance in accepting migrants. A sufficient return of emigrants to their home countries is very unlikely. Those



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hurt by Brexit (or similar future scenarios) will be more motivated to find work in other Western European countries due to the significant differences in income potential.

Encouraging labor participation among the ethnic minority, female (whose participation rate remains low compared to Western Europe: 61% in Poland, 59% in Hungary, 57% in Romania, compared to 79% in Sweden, 72% in Germany and 71% in Austria) and senior populations as well as boosting vocational training and education programs would also help to address the situation.

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