Pressburg Economic Review
December 2021
Volume 1, No: 1 pp. 75-83
ISSN: 2754-2556
http://pressburgcentre.org/per

Received: 8 August 2021 Accepted: 15 December 2021
https://doi.org/10.5281/zenodo.7517325

THE IMPACT OF COVID-19 ON THE LABOUR MARKET

Hussein Mkiyes[1]

Abstract: *The COVID-19 pandemic had a tremendous impact on the global economy. The pandemic caused an economic downturn both in advanced and emerging economies worldwide, leading to an economic slowdown in the world economy. The European Union member states developed policy responses both to contain the spread of the virus and to support economic activity. Currently, the European economies face several challenges regarding macroeconomic indicators, particularly unemployment, employment, wages and inflation. The current article aims to study the impact of the COVID-19 pandemic on the labour market of the European Union member states with advanced and emerging economies in 2020 and 2021.*

Key words: Covid-19 pandemic, labour market, economic impact.

Introduction

The Covid-19 pandemic was the most disastrous for humanity in decades. As of March 2022, the World Health Organization (WHO) reported more than 500 million confirmed cases and 6.23 million confirmed deaths worldwide. The responses of individual countries to the Covid-19 pandemic were different, and the economic effects differed as well (Adams-Prassl et al., 2020). The first wave of the pandemic can be characterized by massive lockdowns worldwide. The lockdowns assumed shutting down some types of economic activities, such as the food and hospitality sector, stopping the spread of the virus. This caused a severe downturn in economic activity, the worst since World War II (IMF, 2021).
In the first stage, the economic crisis started as a supply shock due to the closure of some types of businesses that could not switch to remote work (Keogh-Brown et al., 2020; de Lucas Ancillo et al., 2020). However, the massive job layoffs lead to a decrease in the real income of the population, hence a demand shock (Cajner et al., 2020). Individual countries developed policy packages to support the businesses in the most harmed economic sectors. The governments' policy support packages and instruments differed in scope and volume (Huang et al., 2020). Combined with the

1 **Hussein Mkiyes**, Ing. Mgr.
✉ corresponding author: hussein.mkiyes@euba.sk

countries' institutional development level, it caused different impacts on the labour market in terms of unemployment and wages (ILO, 2020; Bianchi et al., 2021). According to another ILO report (ILO, 2021), the pandemic also resulted in reduced working hours.

The preliminary studies on the economic effects of the COVID-19 pandemic mainly focused on the short-term labour market impact of the pandemic due to massive lockdowns (Khanna, 2020; Kim et al., 2021). Regarding the long-term economic effects of a pandemic, some studies argue that it can change consumer behaviour, motivating peopled to increase their precautionary savings (Forsythe et al., 2020). Considering the mortality level it can harm the human capital (Couch et al., 2020), leading to a labour shortage (Arthi et al., 2020). Moreover, the panic among businesses and consumers disrupted not only supply chains but also consumer patterns leading to the development of market anomalies (Baker et al., 2020).

On the other hand, researchers argue that due to the rapid changes occurring during a pandemic, econometric models become useless for measuring the economic impact (Dasgupta & De, 2020; Dand & Viet Nguyen, 2020).

Previously it was considered that developed countries are relatively resilient to epidemics considering their robust healthcare systems (Fasanya et al., 2020; McKibbin & Fernando, 2020; Shaikh, 2020). However, the COVID-19 pandemic showed that advanced economies are even more vulnerable to the virus. The pandemic had an unprecedented impact on European countries, harming almost all the sectors of economic activity both in advanced and emerging economies (Demertzis et al., 2020).

Currently, the EU member states face several challenges regarding macroeconomic indicators, particularly unemployment and employment. Some articles show that the COVID-19 pandemic can cause a long-term economic slowdown in the European economies due to labour shortage (Wren-Lewis, 2020).

The current article aims to study the impact of the COVID-19 pandemic on the labour market of the European Union member states in 2020 and 2021. To define the possible differences in the effects depending on the level of development, we have used the IMF country classification. According to IMF, the following EU member states are considered advanced economies: Austria, Belgium, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain, Sweden. The following EU member states are considered emerging economies: Bulgaria, Croatia, Hungary, Poland, and Romania.

The labour market effects of COVID-19 in the European countries

The COVID-19 pandemic strongly affected the European Union member states. The European countries were among the first to apply lockdowns and workplace closures in response to the spread of the pandemic. As of 31 March 2020, all 27

Pressburg Economic Review
December 2021
Volume 1, No: 1 pp. 75-83
ISSN: 2754-2556
http://pressburgcentre.org/per

member states had some degree of workplace closure, with 12 of them applying the highest degree, including Austria, Belgium, Czechia, Estonia, France, Ireland, Italy, Lithuania, Luxembourg, Portugal, Slovakia, Spain and Croatia (Figure 1). The highest degree of workplace closure implies preventive measures required for all but key workers.
However, most of these countries weakened the COVID-19 measures during the upcoming months, and at the end of 2020, only six countries maintained the 3rd degree of preventive measures. Italy and Ireland are the countries with the strongest policy response against COVID-19 and maintained the strong prohibitions the longest, followed by Spain, France and Austria. As of the end of 2021, only Italy is applying the 3rd degree of workplace closure, while nine countries weakened the prohibitive measures to the lowest degree, including Estonia, Finland, Latvia, Lithuania, Luxembourg, Malta, Sweden, Croatia and Romania. In general, during the two years of the pandemic, Croatia, Romania, Sweden, Finland, and Luxembourg had, on average, the most liberal policy response.

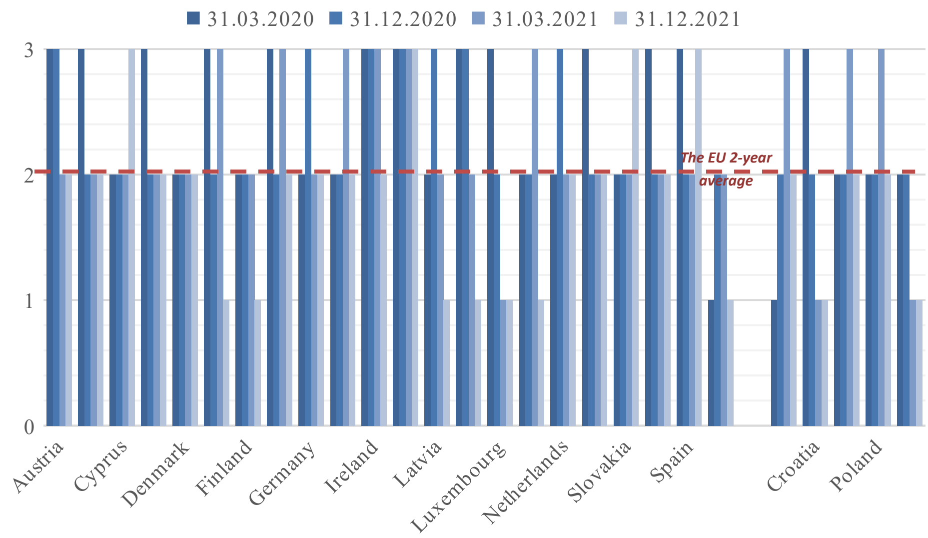

Figure 1. The degree of workplace closure due to COVID-19 (Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford).

In terms of the number of confirmed cases, Cyprus, Estonia, Belgium, Lithuania, Slovenia and Czechia have recorded the highest volumes, with more than 18% of infections among the population as of the end of 2021. These countries have a 2.25 two-year average degree of workplace closure which is slightly higher than the European average. On the other hand, Finland, Germany, Romania, Malta and Italy

Pressburg Economic Review
December 2021
Volume 1, No: 1 pp. 75-83
ISSN: 2754-2556
http://pressburgcentre.org/per

have the lowest volumes of infection ns not exceeding 10% of the population (Figure 2).

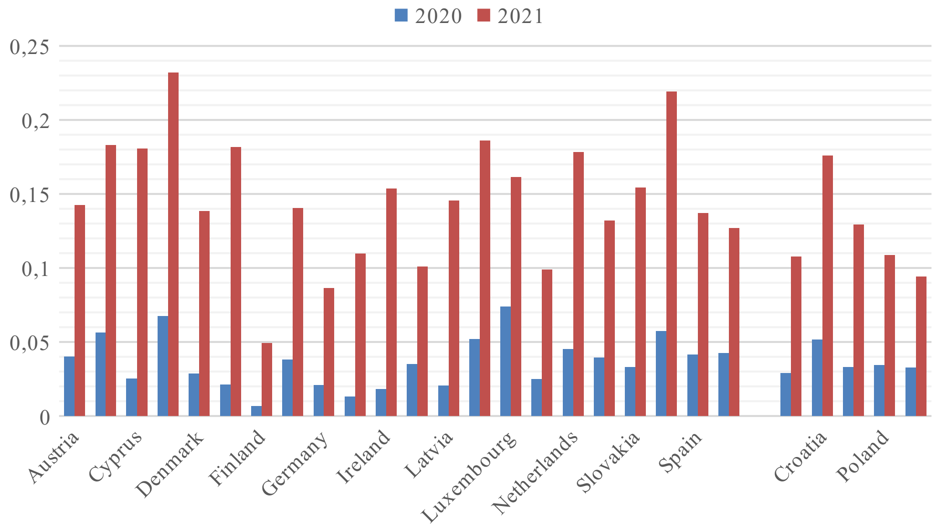

Figure 2. The number of confirmed cases of Covid-19 by country, % of the population (World Health Organization database).

On the other hand, Slovakia, Romania, Croatia, Czechia, Hungary and Bulgaria have recorded the highest mortality rates of more than 0.3% of the population as of the end of 2021. The countries with the lowest mortality rates not exceeding 0.01% of the population are Finland, Denmark, Cyprus and Malta (Figure 3).

Pressburg Economic Review
December 2021
Volume 1, No: 1 pp. 75-83
ISSN: 2754-2556
http://pressburgcentre.org/per

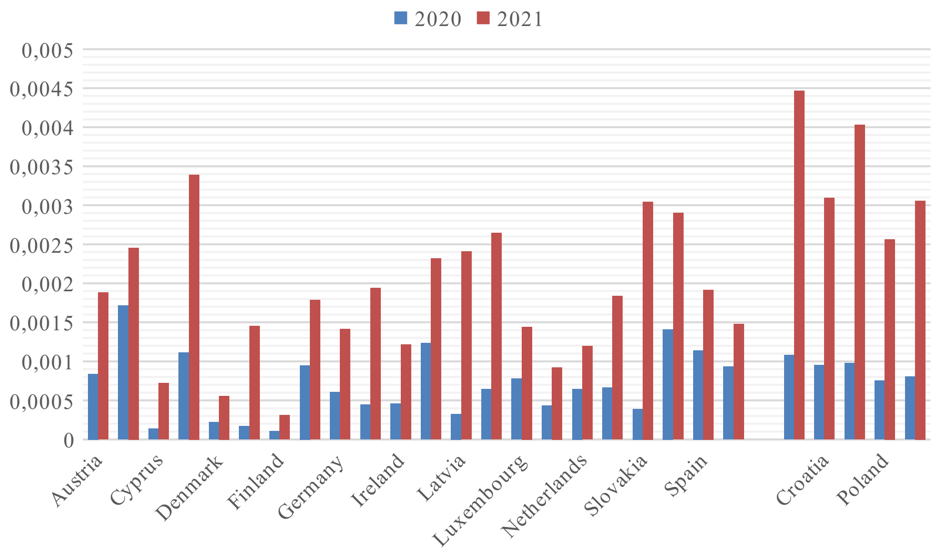

Figure 3. The number of confirmed deaths of Covid-19 by country, % of population
(World Health Organization database).

All the preventive measures, lockdowns and workplace closures resulted in a severe economic downturn in all the EU member states except Ireland. The latter recorded a 4.9% economic growth in 2020. Before the pandemic, in 2019, the average GDP growth rate in the 22 advanced economies of the EU accounted for 2.7%, while the emerging market economies were characterized by higher economic growth of 4.2% on average. The pandemic resulted in an almost equal average GDP decrease in the advanced and emerging economies accounting for -4.71% and -4.58%, correspondingly. The countries with the highest GDP decrease were Spain (-10.8%), Greece (-9%), Italy (-9%), Portugal (-8.4%), Malta (-8.3%), Croatia (-8.1%) and France (-7.9%) (Figure 4). As we can see, the countries that are highly dependent on the tourism and hospitality sector were the most affected due to the suspension in the tourism flows following the border closures. On the other hand, Lithuania, Sweden and Poland were the least affected countries, given the relatively liberal preventive measures.

The recovery of economic growth started in 2021 following the weakening of the COVID-19 preventive measures due to the increasing vaccination rates. The average GDP growth in advanced economies (5.9%) was slightly lower than in emerging market economies (6.7%). Ireland (13.5%), Croatia (10.2%), Malta (9.4%), Estonia (8.3%), Greece (8.3%) and Slovenia (8.1%) had the highest economic growth in 2021.

Pressburg Economic Review
December 2021
Volume 1, No: 1 pp. 75-83
ISSN: 2754-2556
http://pressburgcentre.org/per

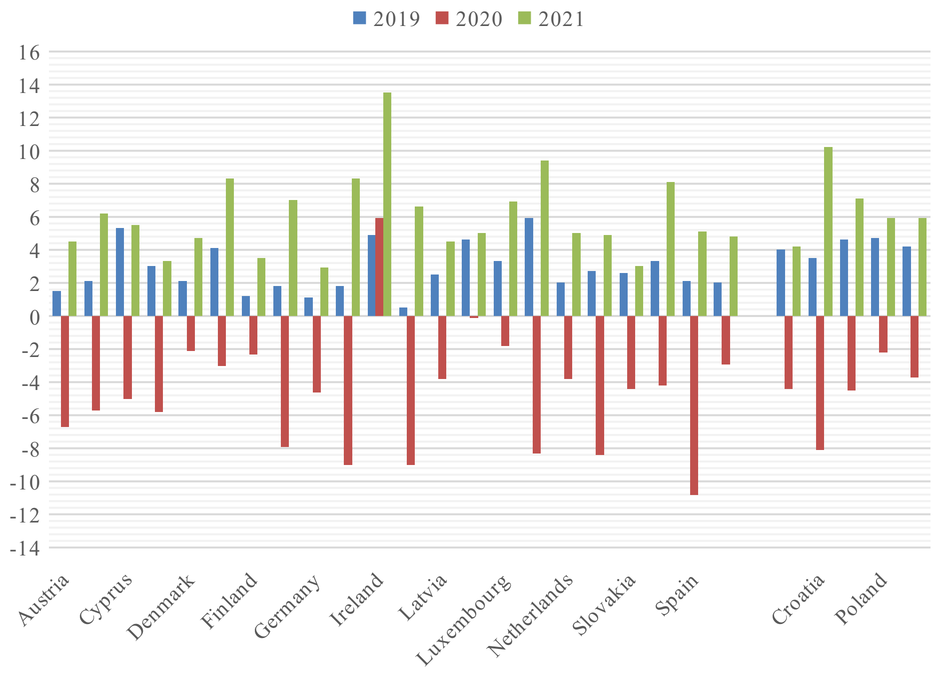

Figure 4. GDP growth by country, % (Eurostat).

On average, the unemployment level increased by 0.8% in the European Union in 2020 (Figure 5). The countries with the highest increase in unemployment were Estonia, Lithuania, Latvia, Sweden and Spain. However, considering the economic recovery started in 2021, if we compare the unemployment level in 2021 and 2019, the average figure increased by 0.4%, indicating that while the labour market began to recover along with the overall economy, the pandemic has a long-term impact on the unemployment.

Pressburg Economic Review
December 2021
Volume 1, No: 1 pp. 75-83
ISSN: 2754-2556
http://pressburgcentre.org/per

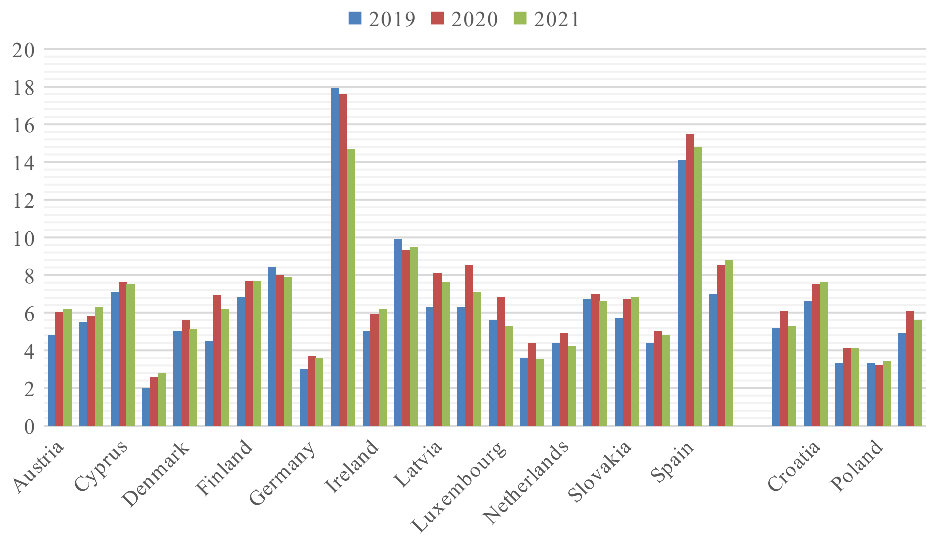

Figure 5. Unemployment rate by country, % (Eurostat).

Another indicator of the labour market effects is the level of labour remuneration (Figure 6). Considering the historically highest inflation levels in all the EU member states, the average volume of nominal wages increased. The countries that recorded a slight decrease in the annual net earnings in 2020 are Czechia, France, Germany, Greece and Spain. Interestingly, none of the developing countries experienced a reduction in nominal wages.

The Eurostat statistics of employment by the economic activity sectors show that the countries with the highest share of employment in the tourism and hospitality sector were affected the most in the early stages of the pandemic. In 2021, along with the population's vaccination and gradual elimination of the lockdowns and other preventive measures, the tourism flows and economic activity in the affected sectors started to recover. The latter boosted the overall labour market and economic recovery. However, the COVID-19 pandemic harmed the human capital and changed the way of job organization, which will have a long-term impact.

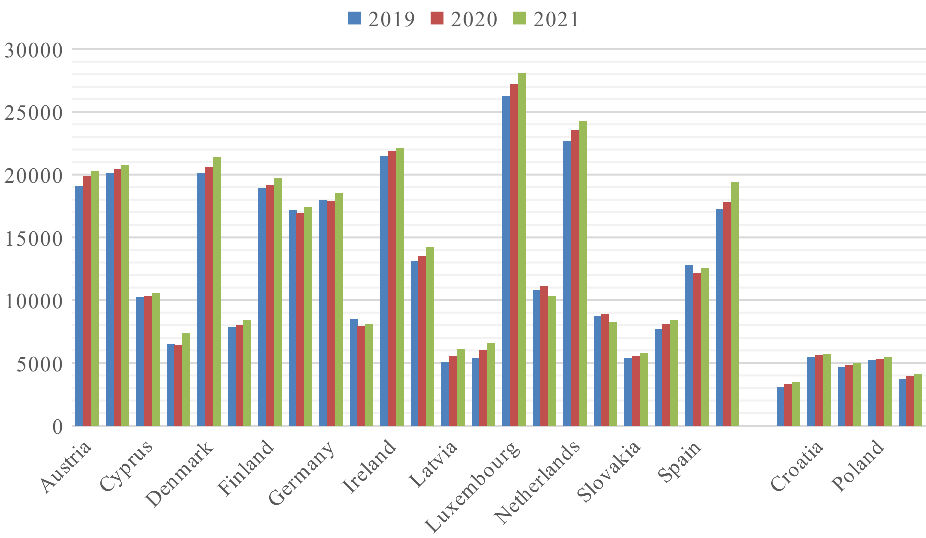

Figure 6. Annual net earnings by country, euro (Eurostat).

Conclusion

The COVID-19 pandemic has affected all the EU member states. The study showed that the advanced and emerging economies had similar negative economic effects from the pandemic. While the emerging EU economies experienced a deeper economic downturn in 2020, they also recorded higher recovery growth rates in 2021.

Regarding the labour market effects, we can conclude that the pandemic mainly affected the countries that are highly dependent on tourism and have a relatively large tourism and hospitality sector with a higher share of people employed.

Overall, eliminating the lockdowns allowed the economies to recover the economic activity in the affected sectors—the latter led to employment and overall economic recovery in the countries under discussion. However, the COVID-19 pandemic harmed the human capital and changed the way of job organization, which will have long-lasting effects changing and shaping the labour market in the upcoming years.

References

Couch, K. A., Fairlie, R. W., & Xu, H. (2020). Early evidence of the impacts of COVID-19 on minority unemployment. *Journal of Public Economics*, *192*, 104287.

Forsythe, E., Kahn, L. B., Lange, F., & Wiczer, D. (2020). Labor demand in the time of COVID-19: Evidence from vacancy postings and UI claims. *Journal of public economics*, *189*, 104238.

Khanna, A. (2020). Impact of migration of labour force due to global COVID-19 pandemic with reference to India. *Journal of Health Management*, *22*(2), 181-191.

Kim, A. T., Kim, C., Tuttle, S. E., & Zhang, Y. (2021). COVID-19 and the decline in Asian American employment. *Research in social stratification and mobility*, *71*, 100563.

Arthi, V., & Parman, J. (2021). Disease, downturns, and wellbeing: Economic history and the long-run impacts of COVID-19. *Explorations in Economic History*, *79*, 101381.

International Monetary Fund. (2021). World Economic Outlook, April 2021: Managing Divergent Recoveries.

ILO. (2020). ILO Monitor: COVID-19 and the world of work. Sixth edition. Updated estimates and analysis. 23 September 2020.

Adams-Prassl, A., Boneva, T., Golin, M., & Rauh, C. (2020). Inequality in the impact of the coronavirus shock: Evidence from real time surveys. *Journal of Public economics*, *189*, 104245.

Huang, A., Makridis, C., Baker, M., Medeiros, M., & Guo, Z. (2020). Understanding the impact of COVID-19 intervention policies on the hospitality labor market. *International Journal of Hospitality Management*, *91*, 102660.

Keogh-Brown, M. R., Jensen, H. T., Edmunds, W. J., & Smith, R. D. (2020). The impact of Covid-19, associated behaviours and policies on the UK economy: A computable general equilibrium model. *SSM-population health*, *12*, 100651.

Cajner, T., Crane, L. D., Decker, R., Hamins-Puertolas, A., & Kurz, C. J. (2020). Tracking labor market developments during the covid-19 pandemic: A preliminary assessment.

Dasgupta, P., & De, O. (2020). Sustainable recovery with Jobs and more: this is a pandemic, not a war. *Fighting COVID-19: assessments and reflection*, *61*.

Dang, H. A. H., & Nguyen, C. V. (2021). Gender inequality during the COVID-19 pandemic: Income, expenditure, savings, and job loss. *World Development*, *140*, 105296.

Baker, S. R., Bloom, N., Davis, S. J., Kost, K., Sammon, M., & Viratyosin, T. (2020). The unprecedented stock market reaction to COVID-19. *The review of asset pricing studies*, *10*(4), 742-758.

Demertzis, M., Sapir, A., Tagliapietra, S., & Wolff, G. B. (2020). *An effective economic response to the coronavirus in Europe* (No. 2020/06). Bruegel Policy Contribution.

ILO. (2021). Monitor: COVID-19 and the world of work. Seventh edition Updated estimates and analysis.

Wren-Lewis, S. (2020). The economic effects of a pandemic. Economics in the Time of COVID19, CEPR, 109–112.

Fasanya, I. O., Oyewole, O., Adekoya, O. B., & Odei-Mensah, J. (2021). Dynamic spillovers and connectedness between COVID-19 pandemic and global foreign exchange markets. *Economic Research-Ekonomska Istraživanja*, *34*(1), 2059-2084.

McKibbin, W., & Fernando, R. (2021). The global macroeconomic impacts of COVID-19: Seven scenarios. *Asian Economic Papers*, *20*(2), 1-30.

Shaikh, I. (2021). Impact of COVID-19 pandemic disease outbreak on the global equity markets. *Economic Research-Ekonomska Istraživanja*, *34*(1), 2317-2336.

de Lucas Ancillo, A., del Val Núñez, M. T., & Gavrila, S. G. (2021). Workplace change within the COVID-19 context: a grounded theory approach. *Economic Research-Ekonomska Istraživanja*, *34*(1), 2297-2316.

Bianchi, F., Bianchi, G., & Song, D. (2021). *The long-term impact of the COVID-19 unemployment shock on life expectancy and mortality rates* (No. w28304). National Bureau of Economic Research.