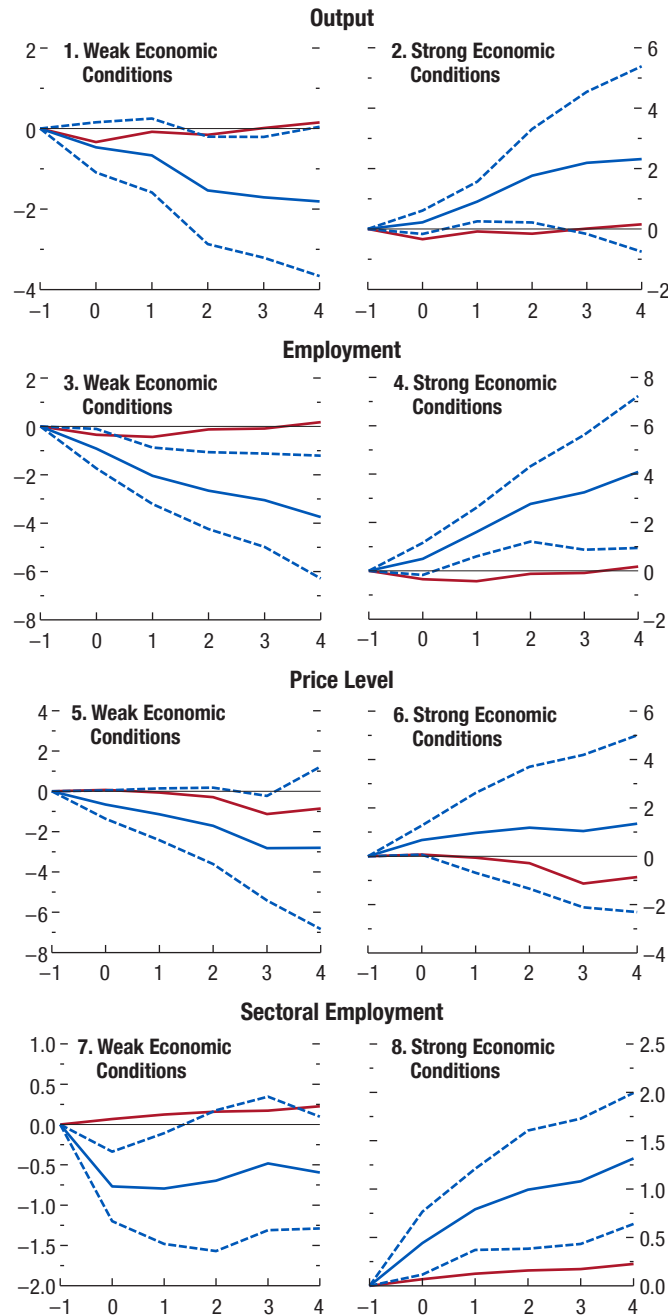


Figure 3.10. Macro and Sectoral Effects of Employment Protection Legislation Reforms
(Percent; years on x-axis)

Employment protection legislation reforms have a sizable positive impact on output and employment when economic conditions are strong, whereas the impact becomes contractionary if the reforms are undertaken during periods of slack.



Source: IMF staff estimates.

Note: $t = 0$ is year of the shock. Solid blue lines denote the response to a major reform in employment protection legislation; dashed lines denote 90 percent confidence bands; and solid red lines represent the unconditional result. The differential effect of employment legislation reforms for a sector with relatively high layoff constraints compared with a sector with relatively low layoff constraints is about 1¼ percent.