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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
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PART 2/6

COMMISSION STAFF WORKING DOCUMENT

European Employment and Social Outlook, 2026

1. Main labour market and social developments

1.1. INTRODUCTION

EU labour market and social developments were supported by resilient GDP growth in 2025. Despite rising geopolitical tensions, real GDP continued to grow, at 1.5% in 2025. The labour market remained robust, with positive but decelerating employment growth. Similarly, the unemployment rate stayed at a historic low, and the share of persons at risk of poverty remain broadly stable. At the same time, there have been some signs of weakening, with GDP growth being less job rich than before.

Looking ahead, the energy shock, as well as ongoing structural transformations pose challenges to the labour market. With the energy shock caused by the conflict in the Middle East that started early in the year, GDP growth decelerated to 0.8% in the first quarter of 2026, but bounced back to 1.4% in the second quarter ([1]). It is forecast to reach 1.1% in 2026, and 1.4 in 2027. Also, employment growth is set to further moderate. At the same time, inflation is forecast to increase to 3.1% in 2026, weighing on real wage growth. The energy shock hit the EU economy when it already showed signs of slowing down and productivity in the manufacturing sector declined considerably. The EU labour market also faces structural challenges linked to increased global competition, weak productivity growth, the twin transition, and demographic change.

Social outcomes in the EU marked modest progress in 2025. Real gross disposable income growth slowed down after expanding in 2024, reflecting weaker real wage growth and lower contribution of social benefits. By 2025, 3.5 million people had been lifted out of poverty and social exclusion compared with 2019. Faster poverty reduction is necessary to make progress towards the EU's 2030 headline target, in particular with regard to child poverty, where the gap to achieving the target is still close to 5 million. While wellbeing in the EU remained high by international standards, some groups remain very vulnerable. Particularly the unemployed and those further away from the labour market experience markedly higher AROPE and material-and-social-deprivation rates.

This chapter discusses main labour market and social developments and its underlying drivers. Section 1.2. outlines main macroeconomic developments and its implications for the EU labour market. Section 1.3. presents recent labour force developments, Section 1.4. discusses wage developments. Section 1.5. focuses on the evolution of living conditions and poverty as well as broader economic strain and wellbeing in the EU and Section 1.6. informs on spending on labour market policies and social protection. Section 1.7. concludes.

1.2. GENERAL LABOUR MARKET CONDITIONS

The EU labour market continues to be resilient, despite some easing in 2025. Although geopolitical and trade tensions were mounting, real GDP growth picked up to 1.5% in 2025, from 1.1% in 2024. GDP growth was mainly driven by private consumption and a rebound in public investment, whereas net exports contributed negatively ([2]). At the same time, employment growth, while remaining positive, continued to decelerate, from 0.8% in 2024 to 0.5% in 2025, the second lowest growth rate since 2013 ([3]) (Chart 1.1). This slowdown partly reflects the continuation of the labour market easing witnessed already in 2024, weaker economic activity and slowing labour demand in some sectors, notably

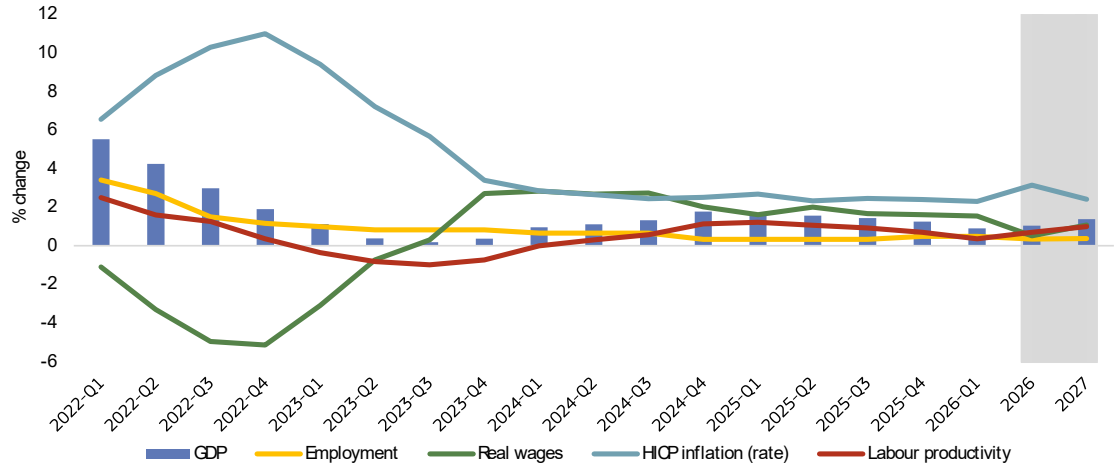
([1]) (European Commission, 2026) and Eurostat.

([2]) Growth performance varied significantly across the Member States, ranging from 0.1% in Finland and 0.2% in Germany to 10.7% in Ireland.

([3]) Employment declined by 1.4% in 2020 in the context of the COVID-19 pandemic crisis.

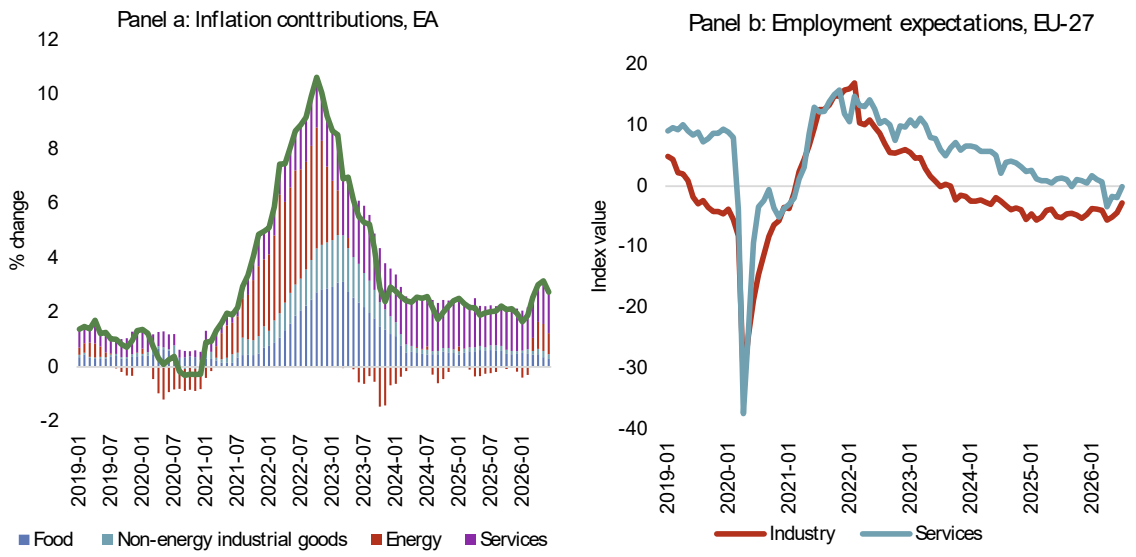
manufacturing ([4]). The unemployment rate remained stable, at the historically low level of 6%, partly due to still-tight labour markets and slower growth of the working age population.

Chart 1.1: **Key labour market indicators, annualised growth rates, EU**



Source: Eurostat, Ameco, Commission Spring Forecast 2026.

Chart 1.2: **Inflation and employment expectations**



Source: Eurostat, European Commission business and consumers' surveys.

In the first half of 2026, the conflict in the Middle East triggered a surge in energy prices, driving up inflation and dampening economic growth. In 2025, inflation dropped marginally, to 2.5% from 2.6% in 2024, amid lower price pressures in services and processed food, as well as continued energy deflation. However, with the energy shock, energy prices turned again into the main driver of headline inflation, alongside services (Chart 1.2). Inflation has picked up to 3.2% in the second quarter of 2026 driven mainly by energy prices. At the same time, GDP growth, which had decelerated already to 0.2% in the fourth quarter of 2025, declined further to 0.8% in the first quarter of 2026 but increased in the

([4]) (European Commission, 2026), (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025c)

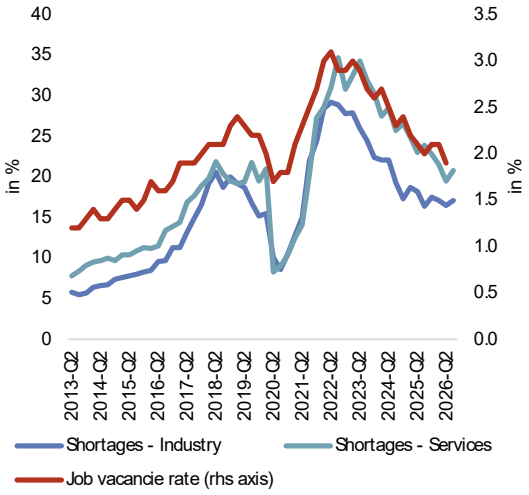
second quarter, to 1.2%. Overall, GDP growth is set to moderate to 1.1% and inflation to reach 3.1% in 2026.

The surge in inflation and deceleration in GDP growth fuel the ongoing slowdown in the EU labour market. Employment expectations dropped below their historical average for both industry and services for the first time since the COVID-19 pandemic in early 2026 (Chart 1.2). Nonetheless employment growth has increased, from 0.3% in the second quarter of 2025 to 0.5% in the first and second quarter of 2026. At the same time, the unemployment rate has remained stable, at 6%. For 2026 as a whole, employment growth is set to fall to 0.3% and the unemployment rate to remain stable at 6%. Simulations show that depending on the severity of the conflict in the Middle East, employment growth would be between 0.2 and 0.4 pp lower in 2026 (see Box 1.1.).

Labour market outcomes reflect cyclical developments linked to the new energy shock, alongside other macroeconomic challenges and structural drivers. In particular, substantial uncertainty persists due to geopolitical and trade tensions, which undermines investment activity and job creation. Moreover, the twin transition, the need to reinforce strategic autonomy, and rapid advances in generative AI are fuelling both optimism – in terms of productivity growth – and concerns – related to possible job displacement and widening inequalities ([5]). Demographic change is mitigating the effect of labour market easing on the unemployment rate by reducing labour supply. However, demographic change may also exacerbate labour and skill shortages, which risks undermining potential growth and the EU's competitiveness (see also Section 1.3) ([6]). Persistent labour shortages and untapped labour market potential also have a clear territorial dimension. Where employment is high and the working-age population is shrinking, additional labour can come mainly from more mobility and from mobilising under-represented groups, whose participation gaps are unevenly distributed across the EU ([7]).

Labour shortage indicators also suggest that the labour market remains tight but is easing. The latest Commission business surveys show a continued reduction in the share of firms citing labour force shortages as a factor limiting production in both industry and services (Chart 1.3). In the first quarter of 2026, this number declined to 21.5% for services, and 17.2% for industry, back to levels comparable to those witnessed before the COVID-19 pandemic. However, they are still high compared to their historical averages between 2013 and 2019, at 11.6% for

Chart 1.3: **Labour market tightness**



Labour shortages are represented by the average across sectors of the proportion of firms reporting that labour is a factor limiting their production. The vacancy rate is calculated as the number of job vacancies divided by the sum of occupied posts and job vacancies.

Source: Business and consumer's surveys. Eurostat, Labour Force Survey (LFS).

([5]) While the effect of AI on productivity and employment remains uncertain, ECB estimates suggest that faster adoption could yield large potential TFP gains of 0.3-0.4 pps per year over the coming decade. Slow adoption would instead lead to TFP increases of around 0.2 pps per year. AI is associated with higher employment, and might particularly complement labour in high-skilled occupations and for countries with stronger technological capabilities. (Guarascio and Reljic, 2025).

([6]) (Knez and Arpaia, 2026).

([7]) See forthcoming 10th Cohesion Report of the European Commission.

industry and 14.1% for services (Chart 1.3) ([8]). Developments in the job vacancy rate also point to a cooling of labour markets at levels close to those observed in 2019. From a peak of 3% in 2022, it declined to 2.1% in 2025; and to 1.9% in the second quarter of 2026. Declining vacancies have not yet translated into higher unemployment for a number of reasons. First, vacancies are relatively abundant in historical terms, which means that jobseekers still have better job-finding opportunities than a decade ago. Second, demographic change constrains the size of the labour force. This is partially offset by high and increasing activity rates and net immigration in many countries. Finally, recent labour shortages and an ageing workforce may have made firms reluctant to lay off workers given that hiring could prove difficult later ([9]). In this context, the labour hoarding index increased from 9.2% in August 2025 to 10% in June 2026 but is still well below its COVID-19 pandemic peak (30.9% in April 2020) ([10]).

While declining in manufacturing, employment increased in services and construction. Between 2019 and 2025, employment in construction increased by 1.6% annually and by 4% year-on-year in the first quarter of 2026 ([11]). Also, the services sector registered an increase in employment, by 1.3% annually, with the strongest annual growth in ICT (4%) and health care (1.9%) ([12]). Meanwhile, employment in manufacturing declined by 0.7% in 2025 and by 0.4% in the first quarter of 2026 compared to the same quarter of the previous year. This decrease in employment has been accompanied by a rise in job reductions due to restructuring events ([13]). Labour productivity growth in manufacturing also decreased, from 1.8% annually in the six years preceding the COVID-19 pandemic, to 0.2% during 2022-25. This raises concerns about the future main driver of productivity growth and whether the service sectors can absorb displaced workers and create quality jobs at a larger scale than in the past ([14]).

Box 1.1: Labour market impacts of the conflict in the Middle East

The Middle East conflict caused a major energy shock in the EU. Disruptions to global oil and gas infrastructure increased energy prices and market uncertainty with firms facing higher production costs. However, the EU is more resilient than during the 2022 energy crisis due to lower fossil-fuel dependence and greater use of renewable energy.

The energy shock is expected to reduce economic growth and increase inflation. The Spring Economic Forecast revises the GDP growth from 1.4% to 1.1% for 2026 and from 1.5% to 1.4% for 2027. Inflation is expected to reach 3.1% in 2026, compared with the previous forecast of 2.1%. A prolonged crisis would cause stronger effects (GDP growth would drop by 0.7 pp in 2026 and 0.8 pp in 2027 and inflation increase by approximately 1.4 pp in both years).

Facing higher operating expenses, firms are expected to hire less and, in some cases, even reduce staff. In 2026, the employment growth in the EU is projected at 0.3%, against the 0.5% expected before

([8]) The EU is also facing a growing shortage of digital and green skills, which makes it harder for the EU to progress on the twin transition (European Labour Authority, 2026a)

([9]) (European Commission, 2026)

([10]) The European Commission's Labour Hoarding Indicator (LHI) is a survey-based indicator that measures the percentage of business managers who expect their firm's output to decrease but still plan to keep or increase their workforce.

([11]) This was supported by sustained demand for housing (also linked to the green transition) and public infrastructure/ (Cousin et al., 2025), (European Commission, Recovery and Resilience Scoreboard), (European Commission, Connecting Europe Facility (CEF) (2021/2027)).

([12]) The pandemic has notably accelerated digitalisation in some services sectors, while there was a shift in consumer habits that boosted demand for digital services (Eurofound, 2025). In addition, employment in other service sectors, which were hit during the pandemic, such as hospitality and retail, strongly rebounded from 2021 and continued to grow at a lower pace after 2022 (ESDE, 2025). Moreover, demographic trends also strengthened the demand for healthcare.

([13]) Announced net job losses due to restructuring events in the total economy have increased since 2024 (roughly 100,000 in 2024; 70,000 in 2025) compared to the pre-COVID19 pandemic period (20,000 annually on average between 2013 and 2019) (Source: Eurofound's European Restructuring Monitor).

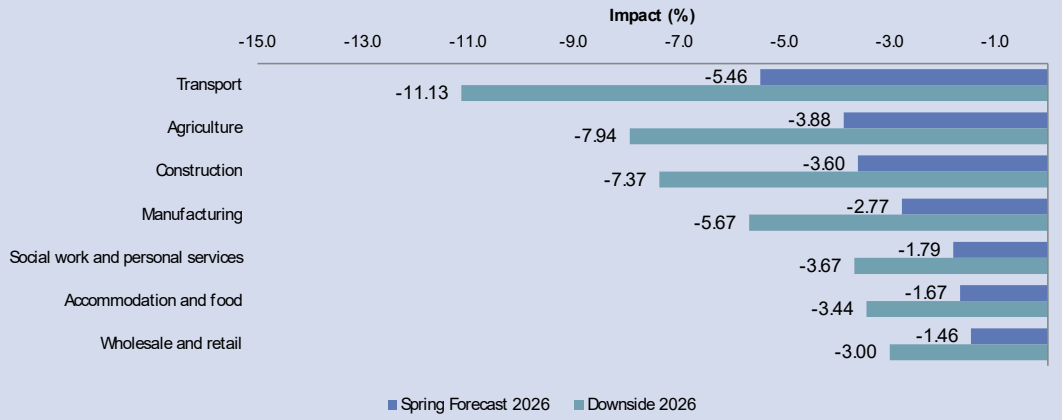
([14]) (European Commission: Directorate-General for Employment, 2026), (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025c)

the conflict, corresponding to around 440 000 fewer jobs created. In a downside scenario, employment growth remains close to zero in 2026, which means around 900 000 fewer jobs created ([1]). This slowdown in employment growth adds to already weakening labour markets. The economic context is hence different from the 2022 energy crisis, when employment rebounded strongly in contact-intensive services following the COVID-19 ([2]).

Real wage growth is also expected to moderate substantially, but remains positive. Real wage growth would fall to 0.4%, while before the conflict, it was expected to reach 1.2% in 2026. This reduction to roughly a third of the pre-conflict forecast mainly reflects that nominal pay adjusts to inflation with a lag. In 2027 real wage growth rebounds to 1.1%. In the downside scenario, it is held to around 0.2% in 2026 and close to zero in 2027. In neither scenario real wages decline, in contrast with the deep losses experienced in 2022.

Fewer jobs expected to be created throughout the economy, and the impact differs substantially across sectors. Transport, agriculture, construction and manufacturing are the most affected, reflecting their energy intensity (Chart 1). Agriculture stands out, being exposed to higher prices for fertilisers as well as for energy. In absolute terms the ranking differs, as it also reflects the size of each sector: manufacturing, transport, construction and wholesale and retail trade together account for 241 000 of the around 440 000 foregone jobs in 2026, rising to 494 000 out of around 900 000 under the downside scenario, while agriculture accounts for 35 000 (72 000 under the downside scenario). In construction, the shock would stall further job creation after several years of sustained employment growth, while in manufacturing it compounds a continued decline in employment ([3]).

Chart 1: **Sectoral Employment Impact (% of Employment)**

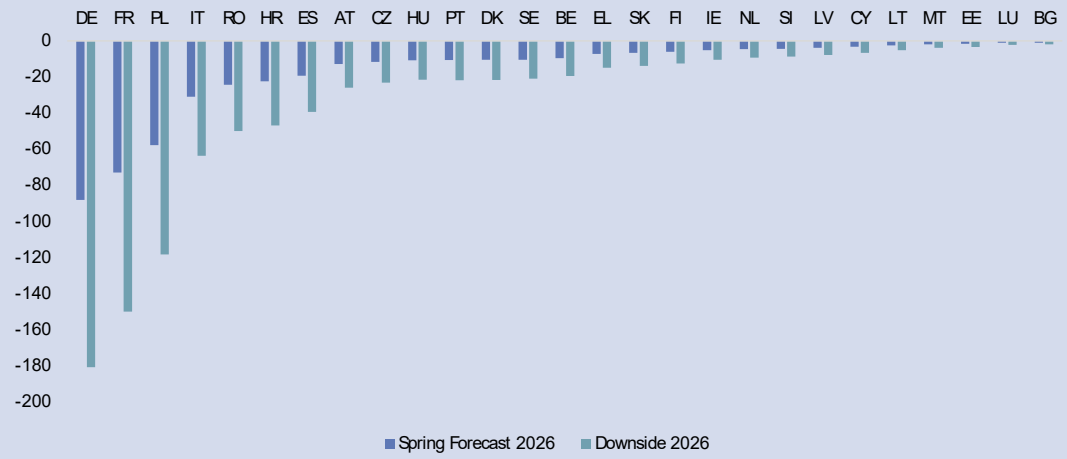


Notes: The markers show foregone job creation as a share of total employment in each sector. Behavioural responses and government support measures are not taken into account.

Source: Commission services based on FIDELIO modelling and the ECFIN-JRC Global Multi-Country model.

The impact differs across EU countries. Germany, Poland, France, and Italy account for more than half of the employment effects (Chart 2). Together, they represent about 222,000 of the 440,000 fewer jobs. Croatia, Czechia, and Spain are also significantly affected. Other countries, including Luxembourg and the Netherlands, face smaller employment effects.

Chart 2: **Foregone Job Creation (in thousands)**



Notes: The markers show foregone job creation in thousands across countries. Behavioural responses and government support measures are not taken into account.

Source: Commission services based on RHOMOLO modelling and the ECFIN-JRC Global Multi-Country model.

(1) This analysis is based on (Amores et al., 2026). The analysis considers both the central scenario of the 2026 Commission Spring Economic Forecast, and a more pessimistic downside scenario involving a prolonged crisis and an extended closure of the Strait of Hormuz. Behavioural responses and government support measures are not taken into account.

(2) EU employment growth reached 2.2% in 2022, against 1.4% in 2021, in part reflecting the post-pandemic rebound in contact-intensive service sectors.

(3) Between 2019 and 2025, employment in construction increased by 1.6% annually, while employment in manufacturing declined by 0.4% annually.

Despite a recent pick-up, productivity growth remains low and is set to decline again. On an annual basis, labour productivity growth, measured as value added per worker, increased to 1% in 2025, compared to 0.3% in 2024 and 0.5% on average over the past decade (Chart 1.1). However, labour productivity growth gradually declined towards the end of 2025, to 0.8%, and further decelerated in the first quarter of 2026 (0.5%). This reflects the fact that employment adjusts more slowly than output during economic slowdowns. Labour productivity is set to increase strongest in Portugal (3.3%), Lithuania (3.1%) and Bulgaria (2.2%) ([15]). Productivity growth remains constrained by structural factors. High energy prices, subdued innovation, particularly digital innovation, and limited investment, fragmented markets, skill mismatches and labour shortages are pushing labour productivity down in the EU. Low productivity growth constrains the scope for larger wage increases, as wages growing faster than productivity risk undermining a country's cost competitiveness (see also Section 1.4).

Going forward, the EU economy and labour market are likely to continue to slow. The Commission's European Economic Forecast Spring 2026 predicts GDP growth to accelerate to 1.4% in 2027, supported mainly by private consumption and a recovery of net exports. Inflation is forecast to decelerate again, to 2.4%, as the effects of the energy crisis are expected to fade (Chart 1.1). Employment growth is forecast to remain positive but low, at 0.4% in 2027. This can be attributed to a small increase in the working-age population and participation rates. The unemployment rate is forecast to remain stable at 6% in 2027. Real wage growth is set to slow down in 2027, amid higher inflation, which will hold back disposable income growth (Section 1.5.).

([15]) The decline in labour productivity in Ireland in 2026 reflects volatile GDP figures (European Commission, 2026). Real GDP increased at an exceptional rate of 12.3% in 2025, primarily driven by strong pharmaceutical exports due to frontloaded shipments in anticipation of US tariffs and strong global demand for products produced in Ireland. Following the surge in 2025, GDP is projected to contract by 1.2% in 2026.

1.3. LABOUR FORCE

1.3.1. Participation in the labour market

In 2025, the labour force continued to expand, largely due to the extended activity of older people ([16]). This is demonstrated for example by the additional 7.2 million people aged 65 or over participating in the labour market compared to ten years earlier, an increase of 80% ([17]). From 2024 to 2025, the whole labour force increased by 1.6 million additional people, aged 15 years or more joining the labour market. The labour market participation rate (15-64) reached another record high at 75.7%, ranging from 66.7% in Italy to 85.6% in the Netherlands. Within this, participation of those aged 55-64 increased fast. Nevertheless, it remains relatively low for women at 63.7%, 11.9 pp less than for men of the same age group (55-64). Older workers, as well as migrants, were the primary drivers in the rise of the labour force ([18]) (Chart 1.4).

Participation rates of non-EU born people (migrants) and native-born people ([19]) remained at high levels, at 74% and 75.7%, respectively ([20]). This gap is similar to 10 years ago ([21]). Also, the prime-age labour force (25-54-year-olds) remained broadly stable in 2025, at 152.1 million people, thanks to a 0.9 million increase in the number of non-EU born people. The prime-age labour force would have contracted by 0.8 million compared to the previous year without this contribution, a pattern that can be observed almost all years since 2009. However, for recent migrants, participation still remained behind the broader population at 66.8% (76.2% for men and 58.2% for women), due to multiple obstacles, such as language barriers, lower educational attainment ([22]), difficulties with qualification recognition and discrimination ([23]). Despite higher participation rates of older people and migrants, the pressure on social security systems, especially on health care, pension and other age-related public expenditure, is expected to further increase due to population ageing ([24]). In 2025, the old age dependency ratio already corresponded to three working-age individuals (15–64) for every person aged 65 or over. Forward looking, the share of the EU population aged 65 or more is expected to reach 29% in 2050, up from 22% in 2025 ([25]).

([16]) For more analysis on the impacts of demographic changes, see (European Commission: Joint Employment Centre, 2026).

([17]) 3.2% of the labour force in 2025 (+0.5 million in 2025 to 7.2 million), and 1.9% (4 million) in 2015.

([18]) For an analysis of underrepresented groups in the labour market, the challenges and the barriers they face, see (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025b).

([19]) 'Native-born people' are born in their country of residence. 'EU-born people' reside and are born in an EU country; the country of residence and the country of birth can be the same or not. 'Migrants' or 'Non-EU-born people' reside in an EU country and are born outside the EU.

([20]) While migrant men have a higher participation rate than their domestic-born counterparts (82.9% against 79.5%), migrant women are lagging behind (65.3% against 71.8%).

([21]) For an analysis of the structural changes of the labour force between 2014 and 2024, see (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025b). The relative share of non-EU born people in the population aged 20-64 remains small compared to the non-migrant population, at around 12% (31 million) in 2024.

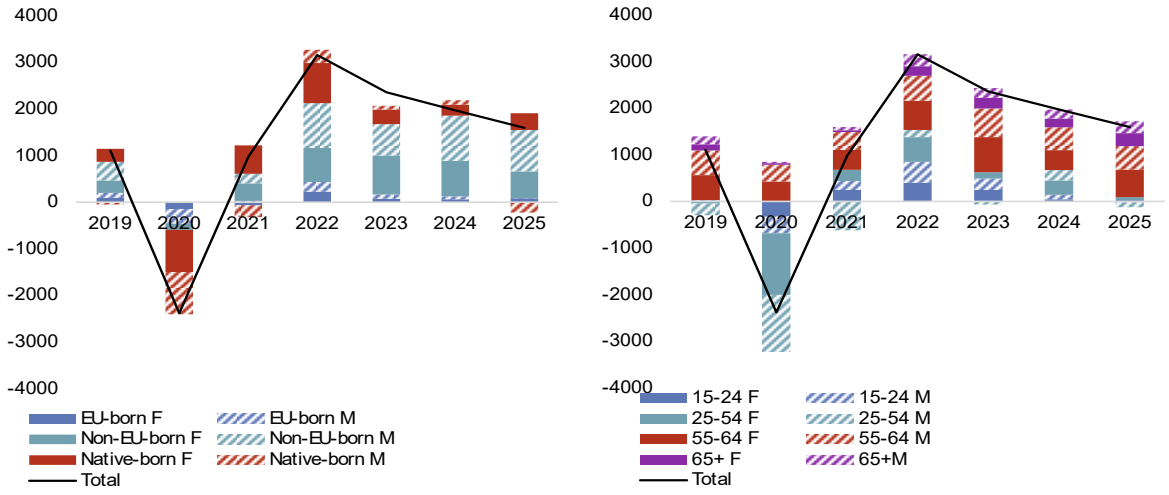
([22]) In general, labour market participation is much lower for people with low educational attainment, particularly for women (36.3% against 53.2% for men), than for people with high educational attainment (84.7% for women and 89.4% for men).

([23]) See (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025b).

([24]) (European Commission: Directorate-General for Economic and Financial Affairs, 2024) and (European Commission: Directorate-General for Employment, Social Affairs and Inclusion; European Council: Social Protection Committee, 2024).

([25]) Population structure and ageing - Statistics Explained - Eurostat

Chart 1.4: **Contribution to the change of the labour force (15-74) by sex, and by country of birth (left) or by age group (right), 2019-2025, EU (thousand people)**



Source: Eurostat, Labour Force Survey, [lfsa_pgacws]

Compared to 10 years ago, all population groups benefited from labour market improvements, either through higher participation or lower unemployment. While participation rates changed little for groups like low-skilled workers and migrants, their unemployment fell sharply. Conversely, groups with already low unemployment in 2015 together with low participation, such as older workers (55–64), experienced the strongest growth in labour market engagement (See Chart 1.5).

Chart 1.5: **Participation, employment and unemployment (20-64) by group of population, EU, 2015 and 2025**



Source: Eurostat, Labour Force Survey, [lfsi_emp_a], [une_rt_a], [lfsa_ergaedn], [lfsa_urgaed], [lfsa_ergaedcob], [lfsa_urgacob]

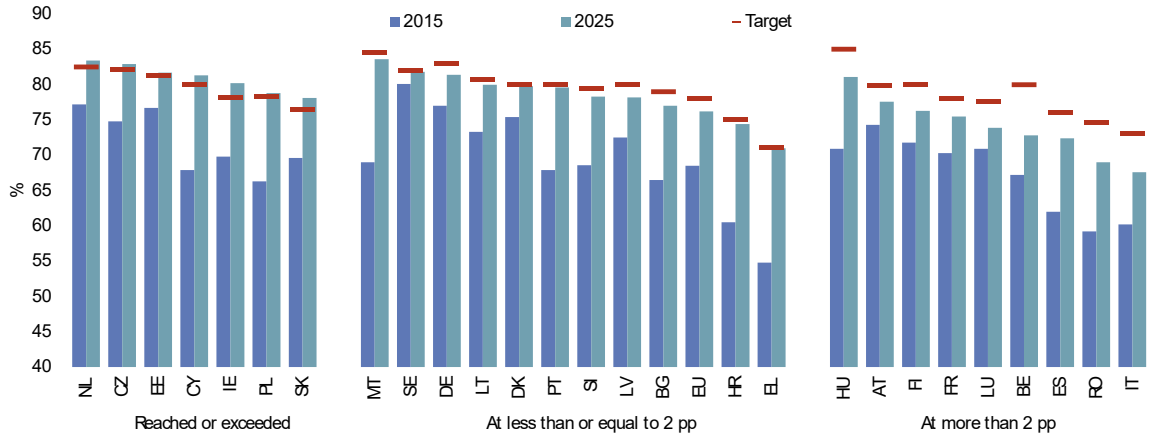
1.3.2. Employment rates

Demonstrating its labour market resilience, the EU edged closer to its 2030 employment target. In 2025, with an employment rate of 76.1% in 2025, the EU was only 1.9 pp short of the 78% goal. Seven countries already met or exceeded their 2030 national targets ([26]). However, disparities persisted. Nine countries were still lagging behind their targets by more than two percentage points, including three

([26]) The Netherlands (83.4%, -0.1 pp), Czechia (82.9%, +0.6 pp), Estonia (81.7%, -0.1 pp), Cyprus (81.3%, +1.5 pp), Ireland (80.2%, +0.4 pp), Poland (78.8%, +0.4 pp), and Slovakia (78.1%, +0.0 pp). 2030 national targets vary between 71.1% (Greece) and 85.0% (Hungary). In 2024, Denmark was above its target (80.0%), but due to a 0.4 pp decrease is now below at 79.8%

countries ([27]) by more than five percentage points, whereas Eleven countries achieved employment rates of or above 80% ([28]) (Chart 1.6). The employment rate continued to rise in Q1 and Q2 2026, reaching a new record high of 76.4%.

Chart 1.6: **Employment rate (%) and target achievement by EU country, 2015 and 2025**



Source: Eurostat, Labour Force Survey, [lfsi_emp_a]

For some specific groups the employment rate remains below the EU average. This includes, not exhaustively, women, people aged 55-64, non-EU born, or those with low educational attainment ([29]). Furthermore, at 24.2%, the disability employment gap remains a concern, in particular for individuals with severe limitations who face more difficulties ([30]). In addition, complementary sources show that groups such as Roma and more generally persons with a minority racial or ethnic background face barriers in the labour market ([31]).

Although employment rates have generally improved, they fell for some groups, especially young people aged 15-24 and those with lower levels of education. For these two groups, the employment rate fell by 0.4 pp to 34.5% and by 0.3 pp to 58.2% between 2024 and 2025, respectively. Moreover, parents with low educational attainment saw their employment rates decline by 0.7 pp, after having increased since 2014. With this their employment rate reached 55.3% in 2025. The decline was more pronounced for parents in larger families (-1.7 pp for 3 children or more to 46.0%) and for parents with young children (less than 6 years old), particularly mothers (20-49) whose employment rate declined by 3 pp, reaching 32.6% ([32]). Beyond these developments, the widespread increase in employment rates across almost all groups indicates that higher employment among people born outside the EU did not negatively affect the employment of native-born people. Instead, it helped alleviate labour supply bottlenecks ([33]).

The employment rate for 55-64-year-old women increased by more than 15 pp since 2015 and surpassed 60% for the first time. In fact, their employment rate rose by 1.5 pp to 60.8% in 2025, while

([27]) Belgium (72.8%, +0.5 pp), Romania (69.0%, -0.5 pp) and Italy (67.6%, +0.5 pp), the latter two being the only countries below 70% (one country less than in 2024).

([28]) One country more than in 2024.

([29]) The employment rates for these groups stood at 66.4% (+1.2 pp), 68.7% (+0.7 pp), and 58.2% (-0.3 pp), respectively. Among individuals aged 25-54 with a medium educational attainment (ISCED 3-4), those with vocational education exhibit higher employment rates (85.1%) compared to those holding a general diploma (77.0%).

([30]) Eurostat, Survey on Income and Living Conditions, [hlth_dlm200].

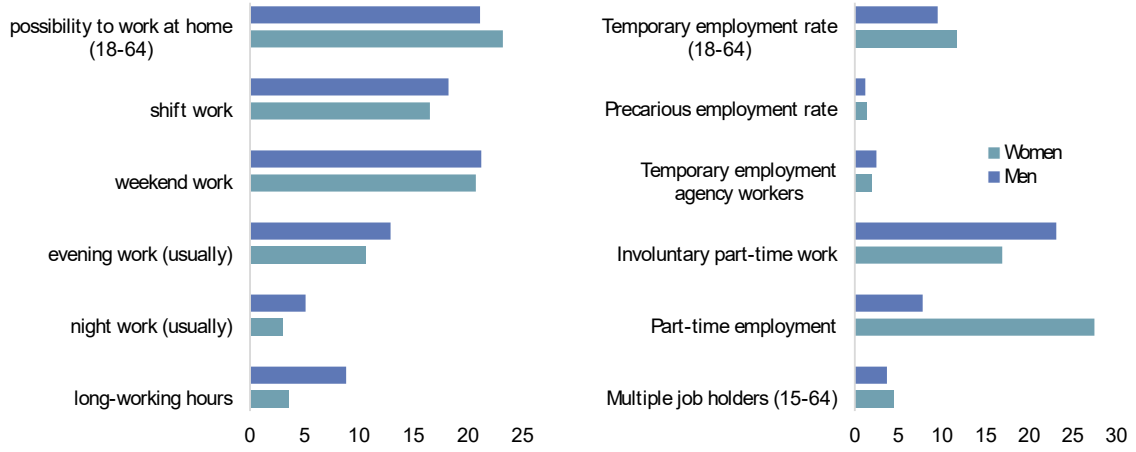
([31]) For more information on the situation of Roma and persons with a minority racial or ethnic background and on the EU strategies on the matter, see (European Commission, 2026e) and (European Commission: Directorate-General for Justice and Consumers, 2020).

([32]) Eurostat, Labour Force Survey, [lfst_hheredch].

([33]) See (European Commission: Directorate-General for Economic and Financial Affairs, 2026).

it stood at only 45.1% a decade before ([34]). Compared to the previous year, women's overall employment grew by 0.6 pp to 71.4%, above the growth rate of 0.2 pp for men (81%). The employment rate for 55–64-year-old women rose significantly, by 1.5 pp (to 60.8%), compared to 0.9 pp for men (to 72.3%) ([35]). The gender employment gap (20-64) was for the first time slightly below 10 pp ([36]). These developments signalled progress made towards more gender equality in the labour market. Nonetheless, the EU remains far from its 2030 target of halving the gender employment gap compared to 2019, which has narrowed by only 1.7 pp since. In addition, gender inequalities are persistent in contractual and working arrangements, as women disproportionately shoulder unpaid care responsibilities ([37]). Mothers of young children or larger families disproportionately work from home or part-time. In 2025, 27% of women with children reported working from home. Part-time work was also more prevalent among women (27.5% versus men 7.8%) ([38]). However, involuntary part-time work, where workers sought but could not secure full-time employment, affected a higher share of men (23.1%) than women (16.9%) ([39]) (Chart 1.7).

Chart 1.7: **Selected working time and contractual arrangements, by sex, EU, 2025**



Source: Eurostat, Labour Force Survey, [lfsa_lfsa_qoe_3a2], [lfsa_ewpnig], [lfsa_ewpeve], [lfsa_qoe_3b3], [lfst_hhwahchi], [lfsa_esegatyp], [lfsa_ewpshi], [tqoe3a5], [lfsa_epgar], [lfsa_qoe_4a6r2], [lfsa_qoe_4ax1r2]

In 2025, most forms of temporary and atypical working arrangements continued their long-term decrease. However, they still represented a substantial share of employment. For instance, night work accounted for 4.1% of employment, while 11.8% worked evenings, 21% during weekends, and 17.4% in shifts. Additionally, 6.3% of employees worked long hours ([40]), and 4.1% held multiple jobs, a potential indicator of insufficient income or hours from a single position. Temporary contracts covered 11.5% of the workforce ([41]) (Chart 1.7), and have been declining since 2017 (14.7%), with an exception during the COVID-19 years. Atypical contracts and working arrangements may indicate greater job precarity, yet they can also provide necessary flexibility for both employees and employers. For instance, such arrangements enable quicker adaptation to labour market shifts, facilitate labour market access for those who struggle to secure standard contracts, and accommodate work-life balance preferences. Shift, weekend, and night work reflect the need for service continuity in sectors such as emergency and

([34]) In 2025, the employment rate for men grew by 0.9 pp to 72.3%. 10 years before, it was at 58.1%.

([35]) Eurostat, Labour Force Survey, [lfsi_emp_a].

([36]) Eurostat, Labour Force Survey, [tesem060].

([37]) See (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025b).

([38]) On average 17% of all employees worked reduced hours.

([39]) On average it affected 18.4% of all part-time employees in 2025, it has been following a decreasing trend since 2014 (32.7%).

([40]) 49 hours or more per week.

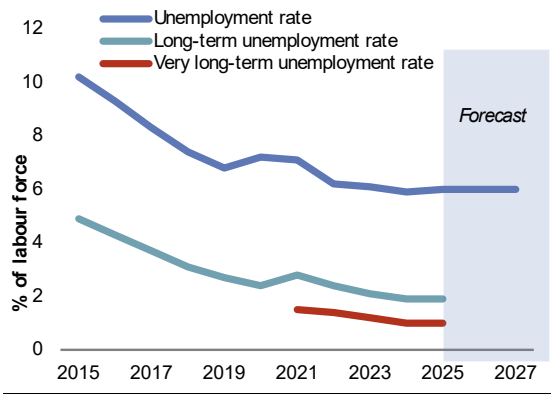
([41]) Fixed-term contracts, in relative terms, affect disproportionately elementary occupations and service and sales workers.

transport services, as well as for retail opening hours beyond standard office times. Thus, they are expected to remain an integral part of the labour market.

1.3.3. Unemployment

The EU unemployment rate remained at historic lows. Over the last decade the unemployment rate almost halved and ([42]) stabilised at 6.0% ([43]). At the same time, long-term unemployment and very long-term unemployment ([44]) also remained at their record low, 1.9% and 1%, respectively (Chart 1.8). These trends reflect different movements between labour market statuses. In some countries unemployed people found a job more quickly, while, in others, workers lost their jobs less often ([45]). Nevertheless, with economic uncertainty, unemployment expectations rose sharply from 23.5% in February to 32% in May 2026, before slowly declining until 28.3% in August ([46]). At the national level, unemployment rates ranged from 2.8% (+0.2 pp) in Czechia to 10.5% in Spain (-0.9 pp). Since 2022, persistently low unemployment has coexisted with high but falling labour shortages (See Section 1.2.), as strong job creation absorbed the additional labour supply ([47]) and firms opted to retain experienced workers rather than face recruitment and training costs due to a projected decline in the working-age population. These elements can explain the stabilisation of unemployment despite the softening of the labour market ([48]). Looking ahead, the EU unemployment rate is forecast to remain stable at 6.0% in 2026 and 2027 ([49]). In Q2 2026, it was 6.1%, up 0.1pp on the previous quarter and close to its historical low. In the EU's major economies, unemployment changed little between Q1 and Q2 2026: +0.8pp in Italy, +0.2pp in Germany, +0.1pp in France, and -0.1pp both in Spain and the Netherlands.

Chart 1.8: **Unemployment rate (%), 2015-2025, EU**



Source: Eurostat, Labour Force Survey, [une_rt_a], [une_ltu_a], and European Commission Economic Forecast Spring 2026

Chart 1.9: **Unemployment rate by EU country, 2015 and 2025**

([42]) Individuals aged 15-74. The lower unemployment rate since the series began in 2009 happened in 2024 (5.9%).

([43]) Marginal increase of 0.1 pp compared to 2024. Due to this stabilisation, unemployment rates are no longer contributing to employment growth, contrary to increased labour force participation rates and the slightly growing working-age population (European Commission, 2026).

([44]) Long-term unemployment = over one year; Very long-term unemployment = over two years.

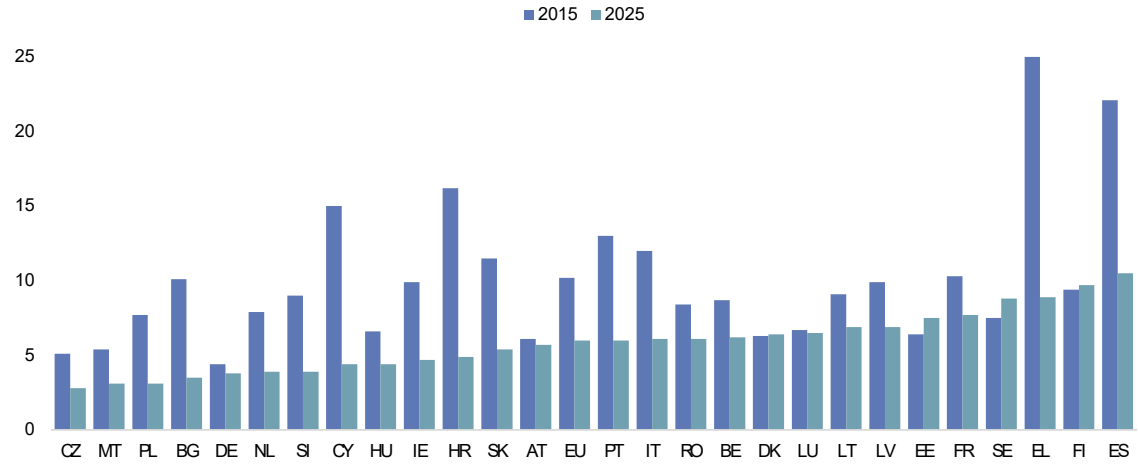
([45]) (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2026b)

([46]) While this indicator usually has a strong predictive power, it tends to react earlier and stronger to bad news and crises than the unemployment rate.

([47]) Labour supply rose due to decreasing unemployment rates, increasing labour force participation rates and a slightly growing working-age population.

([48]) While improved labour market matching could also play a role, there is currently no evidence to support this hypothesis (European Commission, 2026).

([49]) (European Commission, 2026)



Source: Eurostat, Labour Force Survey, [une_rt_a]

The labour market slack, a broader measure of the unmet needs for employment, remained at its record low of 11.8% of the extended labour force. In 2025, this indicator amounted to 27 million individuals aged 15-74 (+0.2 million) ([50]). Of this total, 13.3 million are unemployed (+0.22 million), while the remaining 13.7 million (-0.02 million) consisted of individuals available to work but not seeking employment, part-time workers wishing to work more hours, and those seeking work but not immediately available ([51]).

The youth unemployment rate slightly deteriorated for the second year in a row. In 2025, 15.2% of young people aged 15-24 in the EU were unemployed (+0.2 in 2025 and +0.4 in 2024) ([52]). Increases were particularly pronounced in Romania (+2.2 pp), Finland (+3.0pp), and Estonia (+1.6pp), where levels were also alarmingly high ([53]). In Q2 2026, the youth unemployment rate reached 15.6%, continuing its gradual upward trend. Beyond young people, other vulnerable groups continued to face significant challenges, such as individuals with lower levels of education (12.1%, +0.3 pp), those with general upper secondary education (8.0%, -0.1 pp), and non-EU born individuals (10.7%, stable). Meanwhile, overall unemployment rates remained unchanged for both men (5.8%) and women (6.2%) ([54]).

The labour market slowdown is further evidenced by shifting transition patterns, declining hiring, and a reduction in temporary and agency work. Transitions into employment or to more conventional or secured contracts, such as full-time or permanent contracts, decelerated ([55]). In addition, temporary employment agency work and short-term fixed contracts, particularly those of shorter duration, also diminished. These types of contracts often tend to be the first ones not to be renewed when labour market slows down ([56]). Moreover, transitions from outside the labour force to employment or from unemployment to employment decreased (by -0.6pp and -0.5pp, respectively), while remaining outside the labour force or unemployed are on the rise (both by +0.4pp) ([57]). At the same time, the

([50]) Despite stable relative figures, the absolute figures increased due to a growing number of people participating in the labour market.

([51]) Eurostat, Labour Force Survey, [lfsi_sla_a].

([52]) See subsection 1.3.4. on education and skills for additional information on the situation of young people.

([53]) Unemployment rates for young people (15-24) are above 20% in Romania (26.1%, +2.2 pp), Spain (24.9%, -1.6 pp), Sweden (24.3%, stable), Finland (21.8%, +3.0 pp), Estonia (20.7%, +1.6 pp) and Italy (20.6%, +0.3 pp).

([54]) Eurostat, Labour Force Survey, [une_rt_a], [lfsa_urgaed], [lfsa_urgacob].

([55]) Transitions from unemployment or from outside the labour force to employment, from fixed term contracts to permanent contracts or from part-time work to full-time work.

([56]) However, it may indicate implementation of reforms discouraging short-term contracting or labour hoarding (See Section 1.2.).

([57]) Eurostat, Labour Force Survey, [lfsi_long_a].

decline in hiring is reflected in a smaller share of recent job starters, dropping from 4.5% of total employment in Q2 2022 to 3.8% in Q4 2025 and 3.7% in Q2 2026, or in the proportion of workers with job tenures of less than one year ([58]).

1.3.4. Education and skills

The EU made some progress in reducing early leaving from education and training in 2025. The rate of early leavers from education and training (18–24) decreased by 0.3 pp to 9.1% and the NEET rate (15–29) by 0.1 pp to 11%, the latter ranging from 5.3% in the Netherlands to 19.2% in Romania. However, early leavers face significant challenges when entering the labour market, which is reflected in their low employment rate (46.2% in 2025) ([59]). Geographic disparities persisted, with cities (8.0%) at the level of the 2030 EU target of under 8% of early leavers, while towns and suburbs (10.1%) and rural areas (9.6%) ([60]) were lagging slightly behind. Experiencing interruptions in education is not rare. In 2024 ([61]), 17.2% of 25–34-year-olds had left formal education or training at least once. The primary reason for leaving was courses not meeting expectations or being too difficult (39.4%). Financial reasons were quoted by 6.8%. Critically, young people who had left education at least once were far more likely to be NEET, in particular the youngest ones ([62]).

([58]) Eurostat, Labour Force Survey, [lfsi_sta_q].

([59]) In addition, 30.8% were unemployed but wanted to work, and 23.1% were not employed and did not want to work.

([60]) Respondents are classified according to their place of residence.

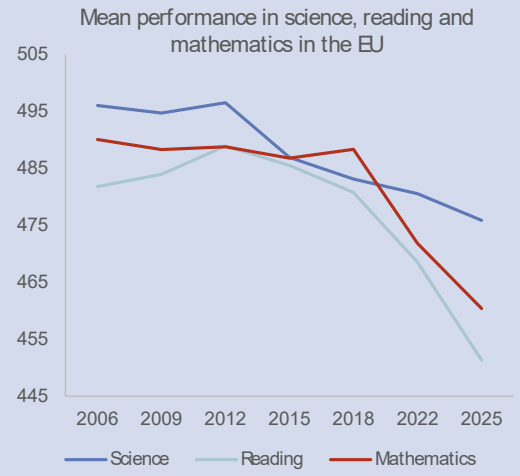
([61]) 8-yearly rolling module of the Labour Force Survey on Young people and the labour market (2024). Results were published at the end of 2025.

([62]) Young people dropping out of education and labour market participation and (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2026a)

Box 1.2: Record lows in education performance

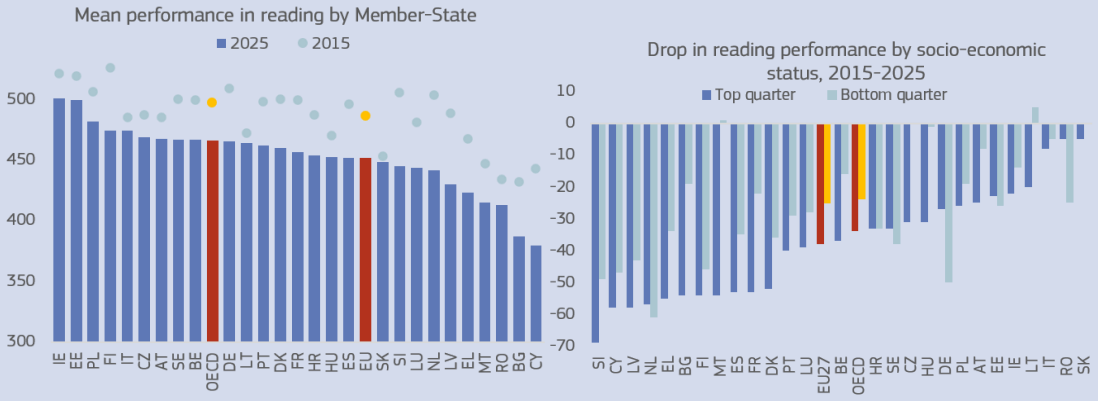
Over the last decade the EU experienced a substantial deterioration in student performance, especially in reading and mathematics. After already reaching record lows in 2022, PISA results ([1]) show a further fall in 2025, particularly in reading (Chart X). Between 2015 and 2025, the EU average score plummeted by 34 points in reading and 26 in mathematics, with a 20-point drop equivalent to one year of schooling ([2]). However, this decline is not limited to the EU. It is part of a global trend. with the OECD ([3]) experiencing a similar trend. These medium-term trends suggest that COVID-19 intensified underlying multifactorial structural weaknesses rather than caused them. Factors underlying these trends include greater difficulty maintaining attention and falling student engagement. All these elements can be somewhat attributed to the negative cognitive impacts resulting from the excessive use of handheld digital devices and consumption of short video content by young people. While evidence also shows that young people still read and write extensively, this often happens in digital environments. Digital texts tend to be shorter and favour functional reading. Students switch tasks more frequently, and devote less time to sustained reading, which is closely linked to reading comprehension. While this does not establish a causal link between online activities and declining reading performance, sustained reading, information integration and critical evaluation are practiced less and thus also impact the development of these skills. Additional factors behind the falling performance include teacher shortages, limited teaching materials, changes in the classroom environment with more complex needs in increasingly diverse classes, weaker family support, and the slow adaptation of education systems ([4]). The 2026 Council recommendation on human capital aiming at tackling labour and skills shortages highlighted the necessity to strengthen basic skills and to invest in education, among others ([5]).

Chart 1: **Mean performance in science, reading and mathematics**



Source: PISA 2025

Only Estonia features among the ten best-performing education systems. The EU performs between 6 to 15 points lower than the OECD across science, reading and mathematics, with the most pronounced difference in reading. Only Belgium, Czechia, Estonia, Ireland and Poland are above the OECD average in all three areas, and 15 countries score below the OECD average in every subject ([6]). Between 2022 and 2025, Slovakia was the only EU country to improve in all subjects (by 1 point reading, 5 points in mathematics and 13 points in science). In science, five other EU countries also recorded improvements ([7]).

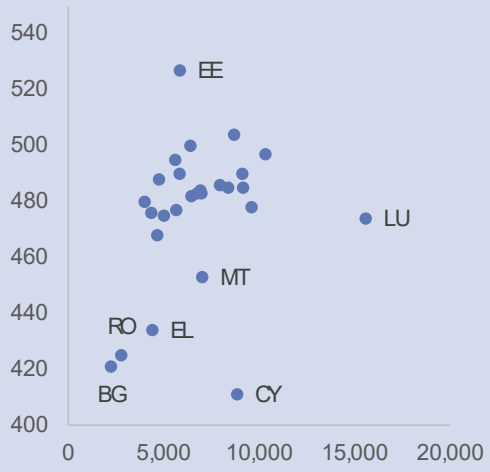


Reduced inequalities conceal a sharp deterioration in performance of advantaged students. In the EU, the difference in performance between students in the top and bottom socio-economic quarters ([8]) narrowed by 12 points in science and mathematics, and by 18 points in reading between 2022 and 2025. These changes were broadly similar to those in the OECD ([9]). However, this reduced gap was primarily

driven by a strong decline in performance among students with the highest socio-economic status. In fact, their score fell by 23 points in reading, 16 points in mathematics and 8 points in science, while students of the bottom quarter demonstrated an increased performance in science (+4 points) and a less pronounced decline in reading and mathematics (-5 and -4 points, respectively). This points to a systemic challenge rather than progress in equality.

Higher public spending per student does not automatically translate in better quality in education or higher performance scores. Across OECD countries, GDP per capita explains for only 9% of the variation in performance ([10]). Well-designed policies and efficient allocation of financial resources are far better indicators of PISA outcomes than how much is spent per student. For instance, Luxembourg, the highest spender on education, allocated on average 15,571 PPS per full-time equivalent pupil in primary and lower secondary education each year between 2014 and 2023, yet its outcomes in all domains were well below those of Estonia, which spent on average 5,835 PPS per pupil and is the leading EU performer and among the strongest worldwide (Chart X). Several elements of the Estonian education system help explain strong learning outcomes from moderate resources ([11]). For instance, Estonia's decentralised governance is a crucial feature of its efficient spending model. In fact, Estonia has a national framework, but schools and teachers have considerable freedom over how they achieve the educational objectives, reinforcing professional autonomy and individual engagement. Despite reports of teacher shortages, Estonia displays moderate class sizes, strongly rising teachers' salaries, and relatively limited compulsory instruction time with emphasis on core learning. In addition to PISA high scores, this system achieves high inclusion and relatively low socio-economic inequality too.

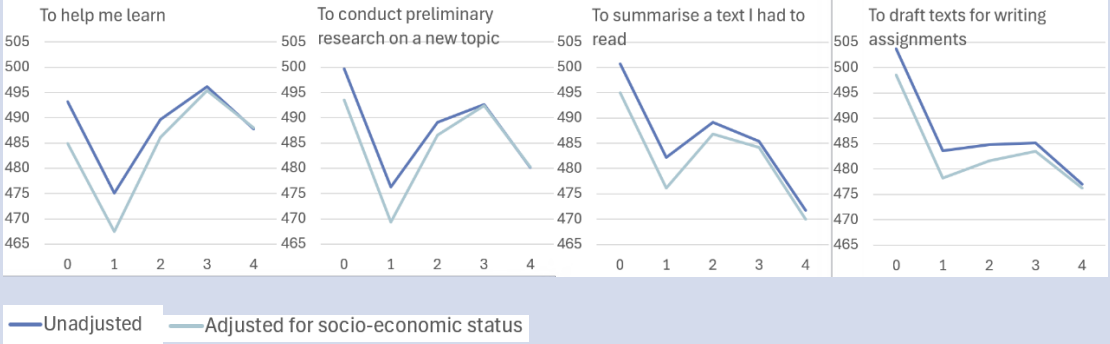
Chart 2: **2025 PISA results in science and average public spending (PPS, 2014-2023) in primary and lower secondary school per full-time equivalent**



Source: PISA 2025 and Eurostat [XXX]

Students who achieve the highest results are mostly those who do not rely on artificial intelligence. Chart X shows that, when AI is used in active learning and to support research an intentional and moderate use (once or twice a month or week) can enhance PISA scores for student performance in science. Specifically, this applies to using AI for learning purposes or to conduct preliminary research on a new topic, also accounting for the socio-economic status. However, using AI for replacing tasks, such as summarising texts or draft assignments is largely associated with lower scores. This is especially important at a time when reading skills have declined most in areas that require critical thinking, such as weighing up evidence and distinguishing facts from opinions. When students are clearly taught how to critically interpret and assess the information produced by AI tools it can support student progress ([12]) and help reducing socio-economic inequalities.

2025 PISA results in science by purpose and frequency of AI use, EU



0 = Never or almost never; 1 = About once or twice a year; 2 = About once or twice a month; 3 = About once or twice a week; 4 = Every day or almost every day

(1) The Programme for International Student Assessment (PISA) tests the knowledge and skills of students directly, using an internationally agreed metric to collect data from students, teachers, schools and systems to understand performance differences.

(2) OECD reference. https://www.oecd.org/en/publications/pisa-2025-results-volume-i_73451bc5-en/full-report.html

(3) OECD average-23: arithmetic mean across OECD Member countries excluding Austria, Chile, Colombia, Costa Rica, Estonia, Israel, Lithuania, Luxembourg, the Netherlands, Slovakia, Slovenia, Spain, Turkey, the United Kingdom and the United States, to allow performance comparisons across PISA cycles from 2000 to 2025.

(4) OECD report on 2025 PISA.

(5) Council Recommendation of 9 March 2026 on human capital in the European Union - Publications Office of the EU

(6) Bulgaria, Croatia, Cyprus, France, Germany, Greece, Hungary, Latvia, Luxembourg, Malta, Portugal, Romania, Slovakia, Slovenia and Spain.

(7) Austria (6 points), Estonia (1), Italy (6) and Lithuania (3).

(8) The top and bottom quarters refer to the 25% of students with the highest and lowest values of the PISA index of economic, social and cultural status (ESCS), respectively, within each country. More information on Avvisati, F. and C. Wuyts (2024), 'The Measurement of Socio-economic Status in PISA', OECD Education Working Papers, No. 321, OECD Publishing, Paris, https://doi.org/10.1787/0c5b793c-en.

(9) -13, -17 and -11 points, respectively.

(10) Countries with higher national incomes tend to score better in PISA assessments, and 50% of the variation in performance is 'explained' by the per capita GDP when considering all participating countries (simple bivariate relationship). However, in OECD countries this share falls to only 9%, because the relationship is not linear and levels off among countries with higher national incomes.

(11) OECD references (PISA, Education at a glance, country notes, TALIS 2024).

(12) OECD PISA 2025 report.

Vocational Education and Training (VET) provides learners with labour market relevant skills. About 57% of workers in shortage occupations hold medium-level qualifications acquired through vocational education and training. By contrast, 20% of workers in surplus occupations have medium-level qualifications from general secondary education, which provides broader rather than occupation-specific preparation. In addition, eight of the top ten shortage occupations require a medium-level vocational qualification ([63]). This highlights the importance of VET for the current labour market needs. VET professionals are also key for growth and competitiveness of EU strategic sectors, notably the ones with medium-level vocational STEM qualifications. 36.5% of all pupils enrolled in medium-level VET were in STEM fields in 2024 – still far from the EU target of 45% to be reached by 2030 ([64]). Work-based learning is an effective learning environment to acquire labour market relevant skills and hands-on experience in real workplaces. The EU exceeded its 2025 target for work-based learning, with 66% of recent VET graduates participating, surpassing the 60% goal. In 2025, the employment rate for recent VET graduates reached 80.2%, just 1.8 percentage points below the 82% target. Additionally, VET offers pathways to higher education: 21% of young people with a medium-level vocational qualification progress to tertiary studies ([65]).

Tertiary education attainment in the EU reached a new record high in 2025, while basic digital literacy remains a challenge. In 2025, 44.8% of 25-34-year-olds held a tertiary education qualification

([63]) The eight of the top ten shortage occupations requiring medium-level vocational education are: Welders and flame cutters; Building and related electricians; Nursing professionals; Plumbers and pipe fitters; Bus and tram drivers; Heavy truck and lorry drivers; Sheet metal workers; Health care assistants. The additional two occupations of this top ten are: Specialist medical practitioners; Generalist medical practitioners. For more details, see (European Labour Authority, 2026b).

([64]) With a least one out of every five students female, see (European Commission, 2025a).

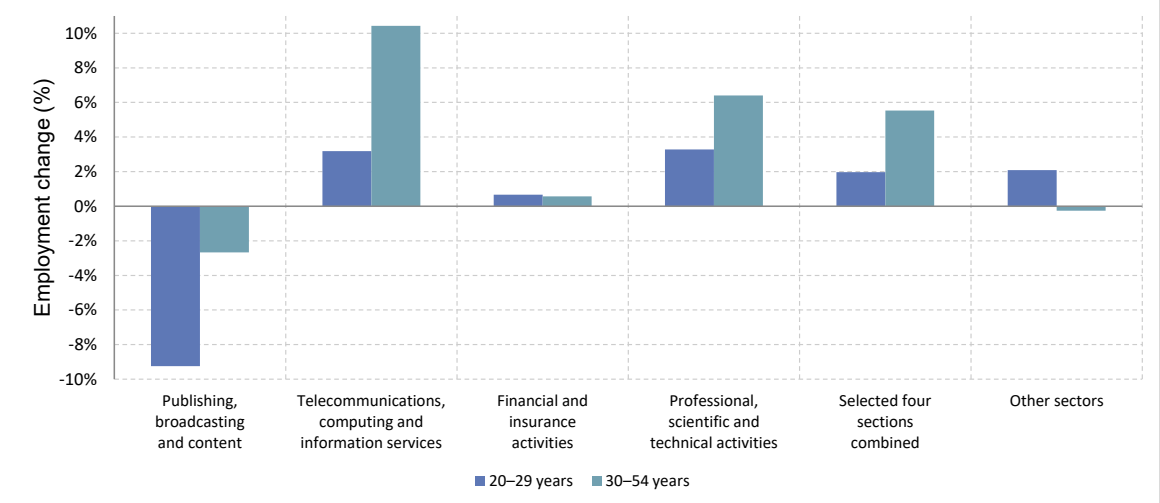
([65]) (European Commission: Directorate-General for Education, Youth, Sport and Culture, 2025)

(+0.7 pp from 2024), marking a new peak in educational attainment, although still below the 2030 EU target of 47%. Among the 4.5 million tertiary education graduates in 2024, 20.3% were following a curriculum in STEM ([66]), 9% in education and 14.7% in health and welfare. However, this masks enduring challenges: 13.4% of the same age group had not progressed beyond lower secondary education. Digital skills gaps remain particularly acute, with only 60.4% of the EU population aged 16-74 possessing at least basic digital literacy in 2025. The younger generation is not exempt from difficulties with 74.7% of 16-29-year-olds meeting the threshold ([67]).

Employment outcomes for recent graduates improved slightly. In 2025, the employment rate for recent graduates ([68]) aged 20-34 showed gains (+0.8 pp to 82.1%), particularly for the lower-qualified (56.9%; +4.4 pp). Those with tertiary education maintained the highest employment rate (87.0%; +0.3 pp), followed by those with vocational upper secondary education (80.2%) and those with general upper secondary education (66.8%). At the national level, figures ranged from 54.5% in Greece to 85.7% in Czechia ([69]).

Between 2022 and 2025, EU employment in sectors which seem particularly exposed to artificial intelligence (AI) breakthroughs grew slower among young people than in other age groups. These sectors include publishing, broadcasting and content; telecommunications, computing and information services; finance and insurance; and professional, scientific and technical activities. Over this period, employment in these sectors grew by 2.0% among 20–29-year-olds, compared with 5.5% among 30–54-year-olds. This pattern is consistent with recent evidence of weaker relative outcomes for junior or young workers in specific sectors without economy-wide displacement. In addition, several studies have found a potential negative impact of AI on entry-level jobs where AI automates tasks rather than creating employment ([70]) (see also Section 2.6. on how the digital transition is shaping job quality).

Chart 1.10: **EU employment growth, 2022-2025 in specific age groups and industries**



Source: Labour Force Survey

([66]) The EU target is a share of students enrolled in STEM fields at tertiary level should of at least 32 %, with at least two female students out of every five students, by 2030.

([67]) From 64.6% of young people with low educational attainment, to 87.8% of those with high educational attainment. The EU has set a target that, by 2030, fewer than 15% of eighth-grade students should be low achievers in computer and information literacy.

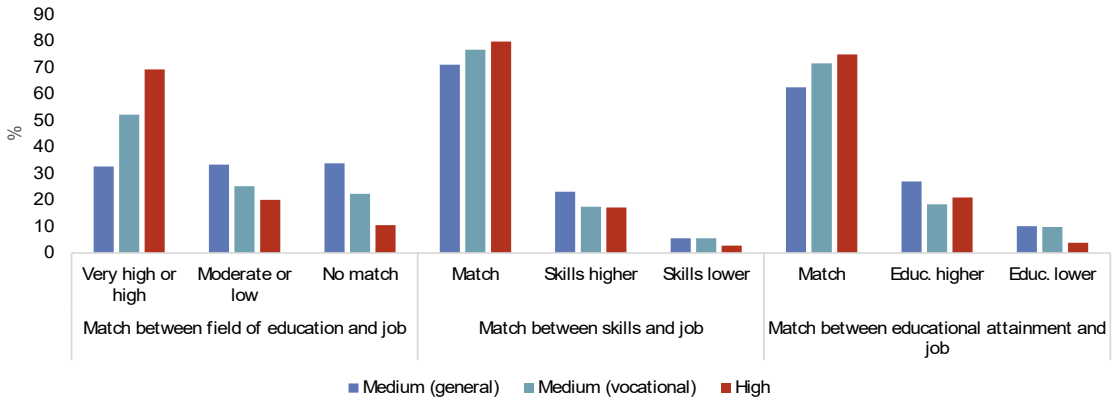
([68]) Graduation from 1 to 3 years before the survey.

([69]) Eurostat, Labour Force Survey, [edat_lfse_24].

([70]) These studies refer to the US: (Brynjolfsson, Chandar and Chen, 2025) and (Hosseini Maasoum and Lichtinger, 2025).

Overqualification remains persistently high in the EU, indicating ongoing inefficiencies in labour allocation and skills utilisation. In 2025, the overqualification rate ([71]) stood at 21.4%, with particularly elevated levels in sectors such as households as employers (95.2%), agriculture (71.2%), and accommodation and food services (66.5%). Disparities by origin are high in the overall economy: 35.7% of non-EU-born individuals aged 20–64 were overqualified in their current job, compared to 26.8% of EU mobile workers and 19.6% of domestic-born workers. The over-qualification rate of non-EU born workers is the highest in Greece (58.4%), Estonia (52.2%) and Italy (50.4%). Mismatches extend beyond education levels, with gaps in field-of-study alignment and skills utilisation. Recent data ([72]) show that among 25-34-year-olds, 20% were overqualified. At the same time, 17.4% reported being over-skilled ([73]). The most striking figures is the field-of-study misalignment, with 40.5% of those with medium or high education levels described a poor or no match between their qualifications and their current or previous job (Chart 1.11).

Chart 1.11: **Match between educational attainment, skills or field of education and the current or last main job, 25-34, EU, 2024**



Source: Eurostat, Labour Force Survey, [lfso_24match06]

1.4. WAGE DEVELOPMENTS

Nominal wage growth in the EU slowed down in 2025, but remained significantly above pre-COVID-19 rates ([74]). It decelerated markedly from a peak of 5.9% in 2023 to 4.3% in 2025 (Chart 1.12). This reflects in particular a moderation in negotiated wage growth linked to the continued recovery from past losses in purchasing power amid the high inflation in 2022 and 2023, but also the labour market slowdown (Chart 1.13). At the same time, nominal wage growth remained above its pre-COVID-19 pandemic average of 1.8%, reflecting some delayed effects from high inflation and still tight labour markets.

([71]) Share of people aged 20–64 who had a higher education level than required in their job. This is not a self-assessment. The over-qualification rate is the percentage of employed persons with a tertiary level of educational attainment who are employed in a low- or medium-skilled occupation. More information on the definition and the methodology can be found in Migrant integration statistics - over-qualification - Statistics Explained - Eurostat.

([72]) Labour Force Survey on Young people and the labour market (2024).

([73]) Overqualified: the respondent's educational attainment level is higher than the job requirements (self-assessment); Over-skilled: the respondent's skills exceed the job requirements (self-assessment). 'Skills' refers to the knowledge, abilities, competences and experience that a person has gained as part of their education, training, learning, internships and working activities.

([74]) Nominal wage growth is computed as nominal compensation per employee, based on Ameco.

Chart 1.12: **Nominal compensation per employee, annual percentage change**

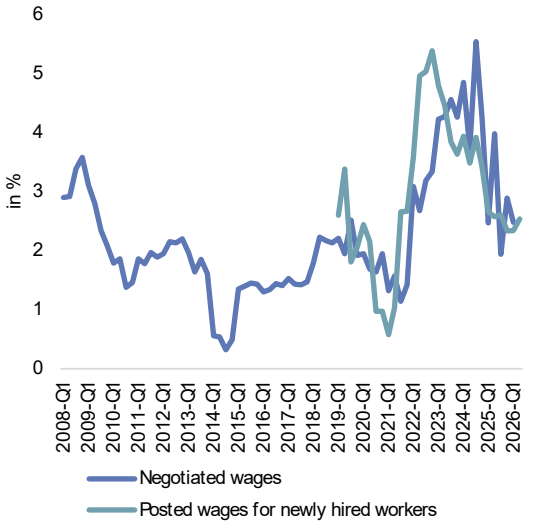


(1) Nominal compensation per employees is calculated as the total compensation of employees divided by the total number of employees. EA20 - the 20 countries in the euro area. Data for 2026 reflects projections calculated on the basis of the Commission's European Economic Forecast Spring 2026

Source: AMECO database and Eurostat, National accounts [namq_10_gdp, namq_10_a10_e].

Looking forward, nominal wage growth is set to continue decelerating, but at a slower pace. Nominal wage growth is forecast to slow to 3.7% in 2026 and 3.5% in 2027. In the context of the new energy crisis, the economic slowdown will reduce wage growth, notably in sectors directly impacted. Instead, the overall increase in inflation will exert an upward pressure on wages (see also Box 1.1). Negotiated wage growth and wages in job postings for newly hired workers also point to a further slowdown in nominal wage growth (Chart 1.13).

Chart 1.13: **Growth of negotiated wages and of wages in job postings (%), euro area**



(1) The negotiated wages indicator also covers the wages offered to incumbent workers. Q1 - first quarter; Q2 - second quarter: Q3 - third quarter: Q4 - fourth quarter.

Source: European Central Bank [STS.Q.U2.N.INWR.000000.3.ANR.]

Wage developments differ widely across Member States. In 2025, nominal wage growth was highest in Croatia (10.9%), Bulgaria (10.4%) and Lithuania (10%). This is to some extent consistent with the catching-up of these economies with EU peers. In some cases, fast wage growth was not matched by productivity increases, and therefore weighed on cost competitiveness ([75]). By contrast, wage growth was lowest in Sweden (1.7%), France (2.2%) and Finland (2.6%). In 2026, a marked slowdown in wage growth is expected in Bulgaria, Croatia, Lithuania and Romania. Hungary (9.4%), Lithuania (7.4%), Latvia (7%), and Croatia (7%) are forecast to see the highest nominal wage increases, while Belgium (2.4%) and Austria (2.5%) will experience the lowest.

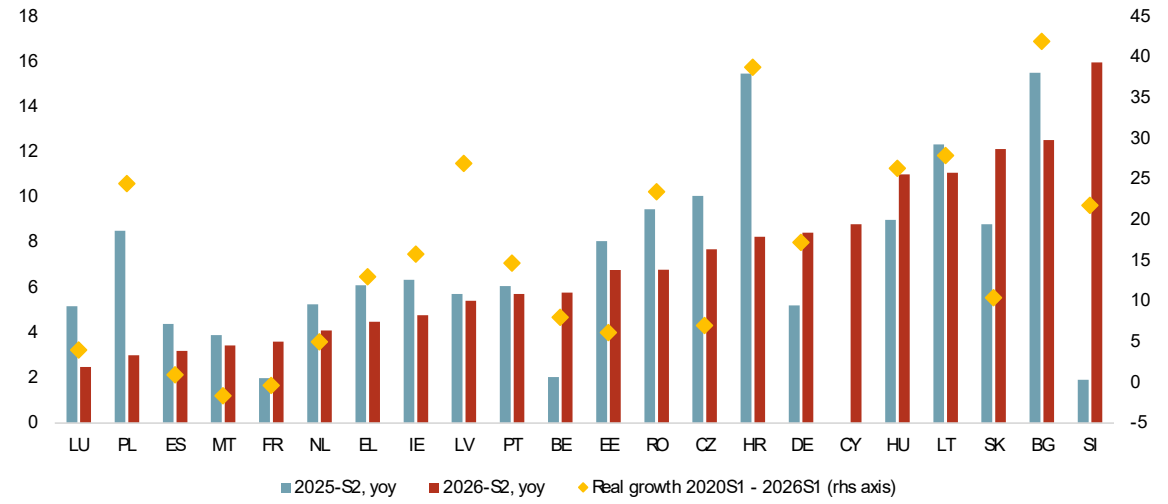
At the same time, minimum wages have continued to increase strongly in most Member States ([76]). After substantial increases in national minimum wages in nominal terms in most Member

([75]) (Výškrabka and Bodea, 2026). One reason for faster wage growth in catching up economies is the Balassa-Samuelson effect. It says that in a catching-up economy an increase in wages in the tradable goods sector also pushes wages up in the non-tradable (services) sector. In turn, inflation is also higher.

([76]) All but five Member States (Denmark, Italy, Austria, Finland and Sweden) have national minimum wages. Cyprus introduced a national minimum wage in 2023. Please note that in this report any use of the term 'national minimum wages' or 'statutory minimum wage' is without prejudice to the assessment that the Commission will carry out of the different systems of

States in 2024, they continued to rise at a rapid pace also between July 2025 and July 2026. The strongest increases were registered in Slovenia (16%), Bulgaria (12.5%), Slovakia (12.1%), Lithuania (11.1%) and Hungary (11%); they increased least in Luxembourg (2.5%) (Chart 1.14). 15 of the 21 Member States with national minimum wages recorded a more subdued increase compared to 2025 . Between July 2025 and July 2026, minimum wages in real terms also increased in almost all Member States with national minimum wages, except in Cyprus (-2.8%) and Slovenia (-0.4%). They increased the most in Croatia (9.9%), Lithuania (8.6%), and Czechia (6.9). Minimum wage increases not only support the concerned workers directly; they can also lead to wage increases for workers with salaries above the national minimum wage level. A 1% increase in minimum wages results on average in a 0.3% increase in the wages of the 25% lowest paid employees ([77]).

Chart 1.14: **Developments in national minimum wage, in Member States where they exist**



(1) Five Member States (Denmark, Italy, Austria, Finland and Sweden) do not have national minimum wages. S2 refers to the second Semester of the year.

Source: Eurofound and Eurostat [earn_mw_cur, prc_hlcp_mldx].

Wage growth remains be below what can be predicted on the basis of its main macroeconomic drivers in the majority of Member States ([78]). The growth of nominal compensation per employee can be compared with a 'benchmark' growth rate predicted by the main macroeconomic drivers of wages, including inflation, unemployment, and productivity. In 2025, wage growth remained below its benchmark (reflected by a 'negative gap') in 12 Member States (Chart 1.14). This represents a continuation of the overall slowdown in wage growth that started in 2024. The highest positive gaps were registered in Bulgaria (3.4 pp), Romania (3.2 pp) and Slovenia (1.8 pp), and the most negative gaps in Sweden (-2.1%), Ireland (-1.7 pp), Belgium (-1.2 pp) and Estonia (-1.2 pp). In 2026, all Member States, except Bulgaria, Latvia and Slovenia, are expected to register a negative wage gap, amidst higher inflation caused by higher energy prices (see also Box 1.1.). The gap in wage growth is estimated to be most negative in Slovakia (-2.3 pp), Belgium (-2 pp) and Czechia (-2 pp). Over the longer horizon,

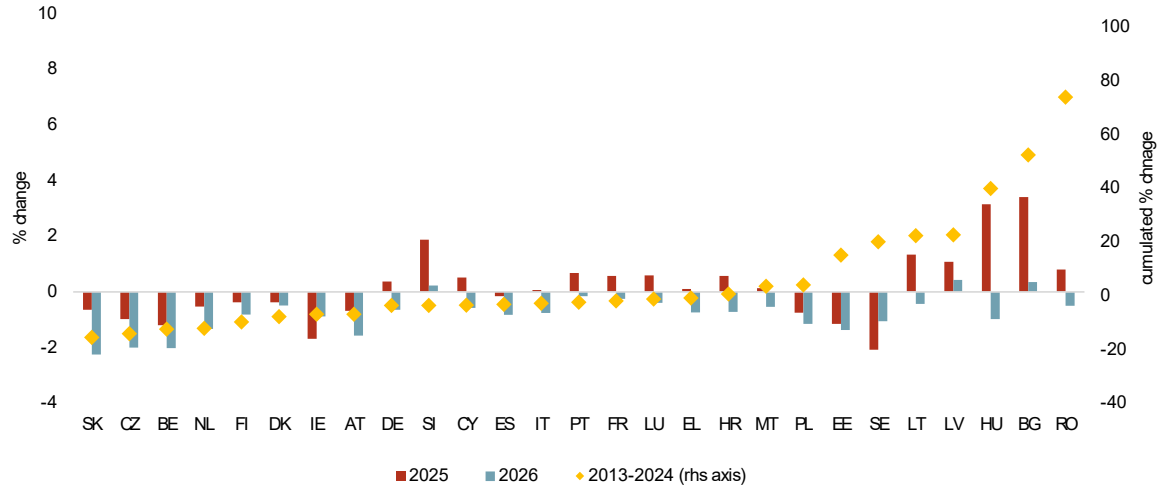
minimum wage protection in line with the definition of 'statutory minimum wage' contained in Article 3(2) of Directive (EU) 2022/2041 on adequate minimum wages.

([77]) Larger minimum wage increases tend to have a stronger impact: Changes of less than 5% have little measurable effect. Larger hikes – those above 15% – have by far the most statistically significant and sizeable impact (Eurofound, 2025b).

([78]) The benchmark allows to assess if wage growth is broadly in line with the equilibrium in the domestic labour market. Assessing the appropriateness of wage growth is key to understand risks to the living standards of workers and cost competitiveness developments over time. However, such wage benchmarks need to be interpreted with caution, especially when used to assess current and future wage developments. For instance, their explanatory power may decrease in case of structural or policy changes.

between 2013-2024, wage growth was well above its benchmark by 40 pp or more in Bulgaria, Hungary and Romania. Nonetheless, wage levels remain low in these countries compared to the EU average.

Chart 1.15: **Gap in wage growth relative to its benchmark (%)**



(1) Wage benchmark is predicted by developments in inflation, productivity and unemployment rate. A positive value indicates that nominal wages are above what could be predicted based on macroeconomic developments.

Source: Own calculations based on AMECO [1100 OVGD, 1000 NETD, 3099427 XUNRQ, 1000 ZCPIH, 1000 ZUTN, 1000 UWCD, 1000 NWTD] and Eurostat [ert_eff_ic_a, une_rt_a_h].

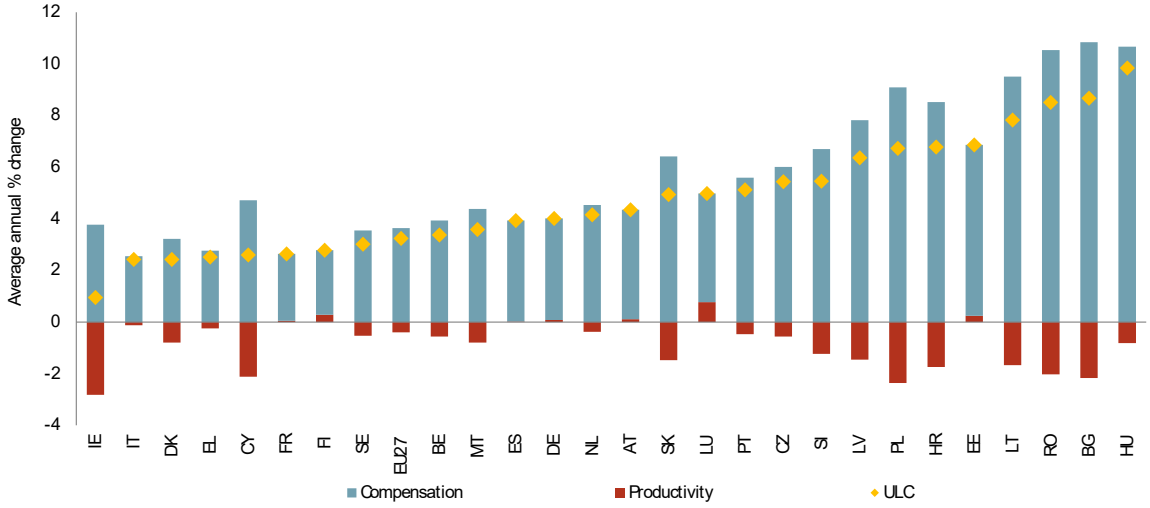
Since the COVID-19 pandemic, some Member States have experienced significant unit labour cost (ULC) increases, which affected their cost competitiveness. Wage increases need to go hand in hand with competitiveness to ensure sustainable economic growth and job creation ([79]). However, weak productivity growth since 2019, at 0.4% annually on average in the EU, has constrained the scope for wage increases without hampering cost competitiveness. Between 2019 and 2026, ULCs have increased in all Member States and strongly increased in some Member States, particularly in Central and Eastern Europe, amid a sharp rise in inflation (Chart 1.16) ([80]). The strongest annual increases have been registered in Hungary (9.8%), Bulgaria (8.7%), Romania (8.5%) and Lithuania (7.8%), all Member States with wage growth above their wage benchmarks (Chart 1.14). Among these countries, labour productivity grew most in Bulgaria and Romania, at 2.2% and 2% respectively. Despite the notable rises in unit labour costs, these Member States have witnessed increases in export market shares over the period 2021-2025, reflecting strong gains in non-cost competitiveness ([81]). By contrast, several countries have improved their cost competitiveness positions relative to the EU average, amid moderate wage growth, including Denmark, Finland, France, Greece, and Italy.

([79]) ULCs, the ratio of nominal compensation to productivity, is a commonly used measure of cost competitiveness. (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025c).

([80]) (European Commission: Directorate-General for Economic and Financial Affairs, 2026) and (Výškrabka and Bodea, 2026)

([81]) Non-cost competitiveness can play an important role in supporting productivity and higher wages. If non-cost aspects of competitiveness such as the business environment or the quality of exported goods increase, demand is less likely to decline in response to higher prices and labour costs (European Commission: Directorate-General for Employment, Social Affairs and Inclusion, 2025c). Infact, despite marked increases in unit labour costs, export market shares increased in Romania (56.2%) Lithuania (35.4%), Bulgaria (32.7), and Hungary (6.2%), between 2012 and 2025.

Chart 1.16: **Unit labour costs, wages and productivity across countries, 2019-2026**

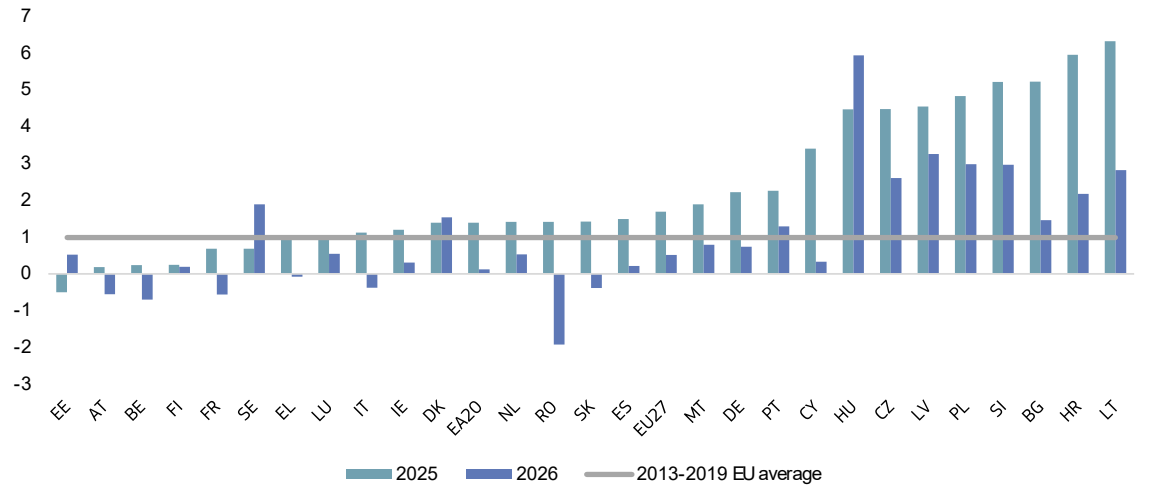


Unit labour costs are defined as the ratio of total labour compensation per employee to output per persons employed (labour productivity). Therefore productivity growth is shown with a negative sign.

Source: AMECO, European Commission spring 2026 economic forecast [1.0.0.0.UWCD,1.0.0.0.NWTD,1.0.0.0.NETD,1.0.0.0.OVGD].

Real wage growth also slowed down and is forecast to slow further. The rebound in real wages since mid-2023 has supported household consumption, in turn driving GDP growth. Real wage growth declined from 2.6% in 2024 to 1.7% in 2025, mainly due to the drop in nominal wage growth. It picked up towards the end of 2025 but has started to decline again in early 2026. This reflects the increase in inflation in the second quarter of 2026, to 3.2%, compared to 2.3% in the first quarter, due to the surge in energy prices caused by the conflict in the Middle East (see Box 1.1). For the year as a whole, real wage growth is forecast at 0.5% in 2026 (Chart 1.17), with the highest growth forecast in Hungary (5.9%), Latvia (3.3%), Poland (3%) and Slovenia (3%). It is set to be negative in Austria (-0.6%), Belgium (-0.7%), France (-0.6%), Italy (-0.4%) and Romania (-1.9%) and Slovakia (-0.4%). The decrease in real wage growth between 2025 and 2026 would be marked (more than 3 pp) in Bulgaria, Cyprus, Croatia, Lithuania and Romania. Going forward, real wages are projected to increase in 2027 by a moderate 1.1% in the EU, under the assumption that the effects of the conflict in the Middle East will subside.

Chart 1.17: **Real wages, annual percentage change**

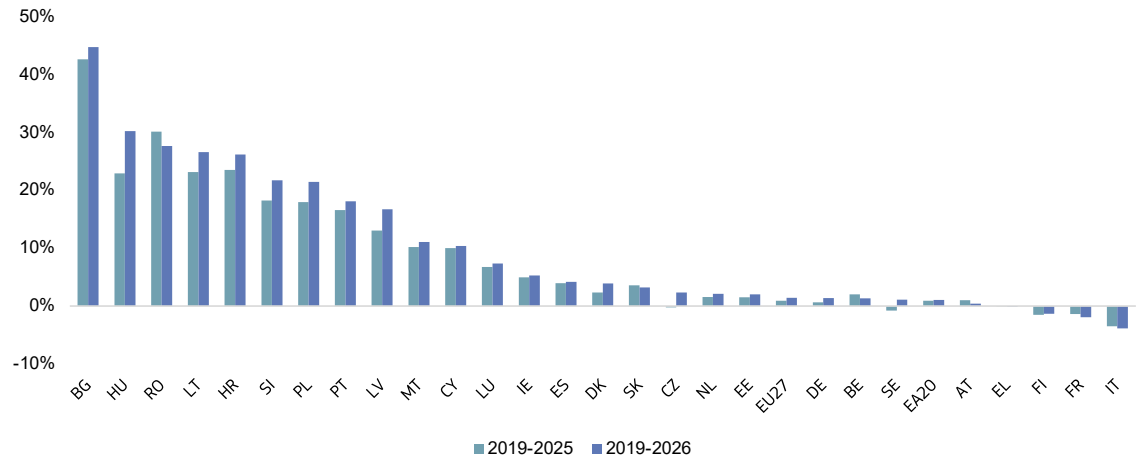


(1) EA-20, the 20 countries that have adopted the euro. Real wages were computed using the harmonised index of consumer prices as deflator. Data for 2026 reflects projections calculated on the basis of the Commission's European Economic Forecast Spring 2026.

Source: AMECO [5 0 0 0 HWWDW, 5 0 0 0 ZCPIH] and Eurostat [namq_10_gdp, namq_10_a10_e,prc_hicp_midx].

The successive crises since 2019 have taken a toll on households' purchasing power. Taking a longer perspective, real wages in 2026 are set to be only 1.4% higher than in 2019 (Chart 1.17). This means that while the losses incurred during the COVID-19 pandemic and the 2022 energy crisis have been recovered, households have not witnessed substantial improvements in their labour income over the last eight years. For 2026, real wages are forecast to remain below their 2019 levels in Greece (-0.1%), Finland (-1.3%), France (-2.4%), and Italy (-3.9%). In ten other countries they are also higher by less than 5% than in 2019 (Austria, Belgium, Czechia, Denmark, Estonia, Germany, The Netherlands, Slovakia, Spain and Sweden). Over the same period, in 13 countries real wages have increased by more than 5%. This concerns mainly catching-up countries, but also Cyprus (10.4%), Ireland (5.3%), Luxembourg (7.3%), Malta (11.1%) and Portugal (18.1%). They have increased the strongest in Bulgaria (44.8%), Hungary (30.3%), Romania (27.7%), Lithuania (26.6%), and Croatia (26.2%).

Chart 1.18: **Real wage changes (%) compared with pre-pandemic levels (2019)**



(1) Real wages were computed using the harmonised index of consumer prices as a deflator. EA-20 = the 20 countries in the euro area. Data for 2026 reflects projections calculated on the basis of the Commission's European Spring 2026 Economic Forecasts.

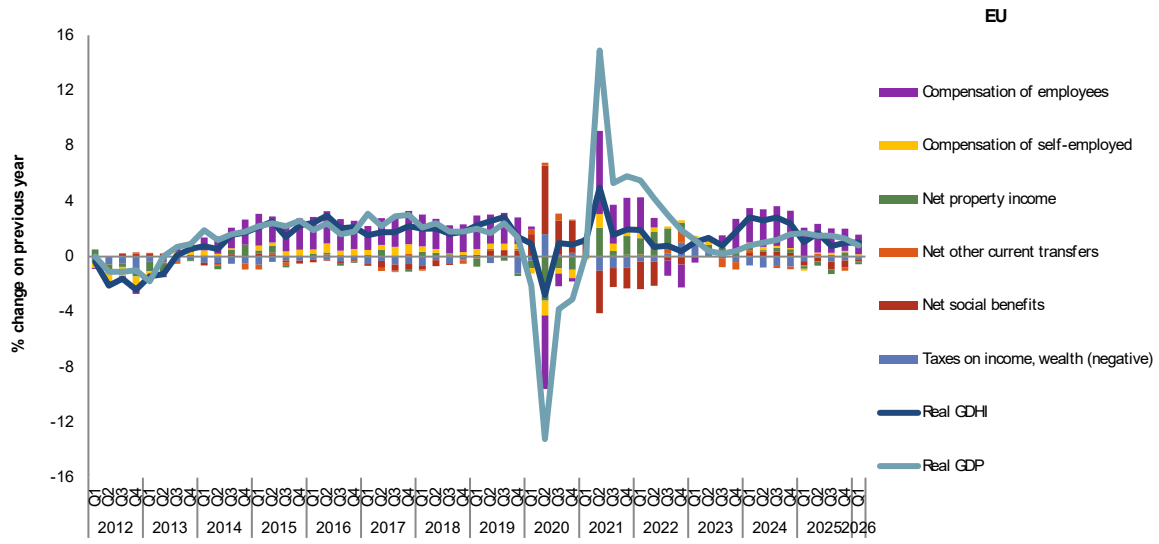
Source: AMECO [5 0 0 0 HWWDW, 5 0 0 0 ZCPIH].

1.5. LIVING CONDITIONS, POVERTY, INCOME DEVELOPMENTS

1.5.1. Income and consumption trends

After expanding considerably in 2024, real gross disposable household income (GDHI) grew more moderately in 2025. Reflecting the broader macroeconomic and labour market slowdown, it rose by 1%% in Q4 2025, slowing from 2.4% recorded in Q4 2024. This constitutes a slower expansion compared to real GDP (1.3%). This reverses the pattern seen throughout 2024 when household income outpaced output growth. The main driver of GDHI growth was the compensation of employees, followed by compensation of the self-employed. These positive contributions were partially offset by negative contributions from net social benefits reflecting the continued unwinding of support measures, net property income and other net current transfers (Chart 8). Against the backdrop of the new energy shock, slowing employment growth and the broader challenges discussed in Sections 1.2 and 1.4, household incomes might come under increasing pressure, raising concerns for lower and middle-income households.

Chart 1.19: **Real GDHI and real GDP (% change on previous year), and contribution of GDHI components (pp), 2012-2025, EU**



(1) Nominal GDHI and its components are converted into real terms by deflating with the households and NPISH final consumption expenditure price index [namq_10_gdp].

Source: DG EMPL calculations based on Eurostat data, national accounts [nasq_10_nf_tr] and [namq_10_gdp], data non-seasonally adjusted

Growth in real median household income slowed after the pandemic ([82]). Compared to pre-pandemic levels, the overall growth has been much slower (1.6% on average from 2020 to 2025 against 3.6% on average from 2015 to 2020). This pattern broadly mirrors the real wage developments described in Section 1.4. However, household income proved somewhat more stable during the crisis years, as social benefits partially cushioned the impact (Graph 1.20).. Between 2015 and 2025, the real median income increase (+29.3%) was mostly driven by significant growth in Eastern European Member States, more than doubling in Romania (+165.2%) and almost doubling in Bulgaria (+95.3%). By contrast, growth was minimal in several western and northern Member States, including France (+0.2%), Finland (+4.6%) and Denmark (+6.9%).

During the same period, sharp rise in prices of essential items particularly impacted the living standards of lower-income households. Between 2015-2025, overall prices increased by 32.9%, with even higher rates for electricity, gas and other fuels (+62.7%) and food prices (+48%) ([83]). These essential items and services represent a particularly large share of the consumption basket of low-income households, and this surge disproportionally impacted this group. This affects their ability to acquire basic goods, smooth consumption overtime, build wealth and savings and reduces their ability to protect themselves from unforeseen economic shocks. As a result, 61.2% of people at-risk-of poverty were unable to face unexpected financial expenses in 2025, up from 59.8% in 2024 (but down from 71.9% in 2015) ([84]). With geopolitical tensions in the Middle East risking further price increases, this vulnerability may worsen (see Box 2.1).

In 2025, income is expected to have grown in both nominal and real terms, though at a slower pace than in 2024 ([85]). According to Eurostat flash estimates based on 2025 incomes, the EU median

([82]) Measured using Eurostat's EU-SILC indicator on income in real terms [ilc_di18] based on equivalised disposable household income. Total household income includes income from work (employee and self-employment income) and private income from investment and property, plus transfers between households; disposable income adds social transfers (e.g., pensions, unemployment, family, and housing benefits) and deducts taxes and social contributions.

([83]) Eurostat [prc_hicp_ainr] [tipsho20]

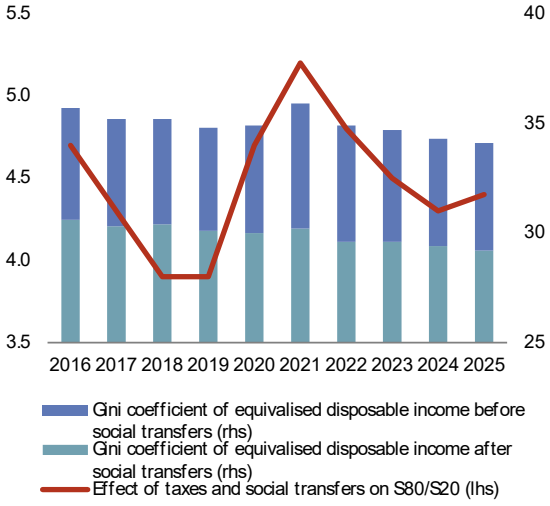
([84]) Eurostat [ilc_mdes04]

([85]) In May 2026, Eurostat published early estimates for 2025 incomes (2026 EU-SILC survey year). These estimates provide more timely information compared to standard information from the National Statistical Institutes, which are generally available

equivalised disposable income is expected to have increased by 3.5% in nominal, and by 1.2% in real terms. This largely reflects labour market and wage developments in 2025, as wages represent the largest component of household disposable income ([86]). Among EU Member States and compared with 2024 incomes, 2025 nominal income is projected to rise in all countries for which data are available, whereas 2025 real income is expected to increase in 18 out of 25 countries, and to stagnate in the remaining seven ([87]).

1.5.2. Income and wealth inequality

Chart 1.20: **GINI coefficient before and after social transfers and effects of taxes and social transfers on income quintile share ratio**



Note: (1) GINI coefficient and S80/S20 are computed from equivalised disposable incomes

Source: Eurostat [ilc_di11i] [ilc_di12] [ilc_di12c]

Income inequality remained stable in 2025. The income quintile share ratio (S80/S20), i.e. the total income received by the top 20% relative to the bottom 20%, remained around 4.62 in 2025 (4.66 in 2024). Across Member States, income inequality ranged from 3.25 in Belgium to 6.94 in Bulgaria ([88]). Tax-benefit systems, and especially non-means tested benefits continued to play a significant role in complementing households' income in 2025. As a result, social transfers (excluding pensions) reduced income inequality, leading to a decrease of the Gini coefficient from 34.1 before social transfers to 29.2 after their disbursement in 2025 (Chart 1.20). Yet, the impact of social transfers seems to have weakened since 2021, possibly reflecting the recovery in employment after the pandemic, which reduced households' reliance on them.

Income inequality in the EU stood well below levels in the US and China. The US Gini coefficient stood at 41.8 in 2024, surpassing the highest level of inequality within the EU (38.4 in Bulgaria in 2024). In parallel, income inequality in China has been on a declining trend since 2017, falling from 43.7 to 36 in 2022, the latest available year, placing it above the EU average but below the US ([89]).

Chart 1.21: **Distribution of net personal wealth among groups of income, Euro area vs international comparison**

with more delay – e.g. EU-SILC 2025 data were released in April 2026 and refer to 2024 incomes. For more information on flash estimates, see Eurostat - Statistics Explained.

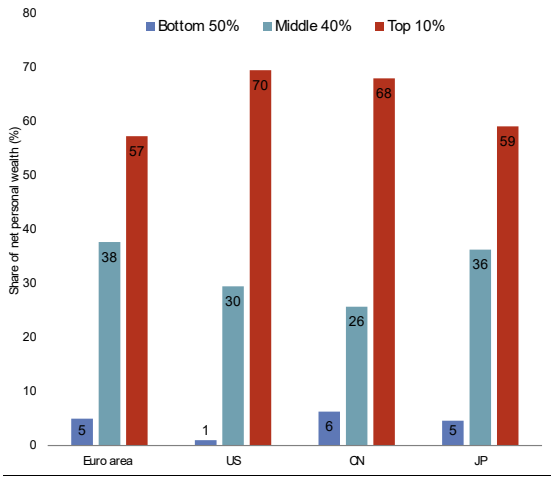
([86]) This is broadly consistent with wage developments in Section 1.4, though the projected income rise (3.5% nominal, 1.2% real, per Eurostat flash estimates) is somewhat below realized 2025 wage growth (4.3% nominal, 1.7% real). This partly reflects scope differences, as income covers all household sources, including negative self-employment income and social benefits, whereas wages reflect compensation per employee only. The income figure is also a preliminary estimate, subject to revision once final EU-SILC 2025 data are available.

([87]) Data not available for Poland and Slovakia.

([88]) Eurostat [ilc_di11]. The EU-27 value for this indicator is the population-weighted average of Member States' national S80-S20 values, rather than a figure computed on a single pooled EU-wide income distribution.

([89]) GINI coefficients and S80/S20 are computed from equivalised disposable incomes. Data is not available starting from 2025 for the US, and from 2023 for China. Given the data lags for both the US and China, direct year-on-year comparisons with the EU should be treated with caution. Source: Eurostat [tessi190] for the EU and World Bank [SI.POV.GINI] for the US and China.

In the EU, wealth concentration is pronounced, yet significantly lower than the one observed in the US and China. According to the European Central Bank 2025 data for the Euro area, the wealthiest 10% owned around 57% of total net wealth of households (largely unchanged compared to 2023), whilst the bottom 50% owned around 5% ([90]). While such low proportions of wealth owned by the bottom 50% is common across non-EU countries as well, wealth concentration at the top in other major economies such as the US and China tends to be more pronounced where the wealthiest 10% account for close to 70% of total net wealth (Chart 1.21). In contrast, the middle 40% of the wealth distribution holds around 38% of household net wealth in the euro area, compared to around 30% in the US and 26% in China, showing that wealth in the EU is more broadly shared across the middle class.



(1) Net wealth is the total value of non-financial assets (housing, land, deposits, bonds, equities, etc.) held by households, minus their debts, it includes all households and private individuals (including those living in institutions), as well as unincorporated enterprises whose accounts are not separated from those of the households who own them.

Source: European Central Bank for the average of Euro area quarterly figures (2025 values); World Inequality database for international comparisons (2024 values) [shwealj992]

Wealth inequality in the Euro area ([91]) has remained broadly unchanged between 2010-2021, being more resistant to change than income inequality ([92]). Between 2017 and 2021, 28% of individuals moved from the bottom to the middle class when class is defined by income, compared with 22% when class is defined by wealth ([93]). Inheritances further entrench these disparities: the net wealth gap between those who inherit and those who do not is statistically significant across all age and education groups. These transfers are also highly concentrated: in many EU countries, the top decile of inheritance recipients receives close to half of the total value transferred ([94]). This confirms that wealth status is more stable over time than income status.

The wealth of the world's top 0.0001% amounts to over 13% of global GDP ([95]). This group is composed of roughly the top 3,000 billionaire households. Over the last three decades, their wealth grew at an average real rate of 7.1% per year, far outpacing the growth of average global wealth per adult (3.2%) ([96]). Within the EU, the wealth share of the top 0.01% rose from 4.5% in 1995 to 5.7% in 2023, driven in part by rising asset prices and continued growth in pension and financial portfolios

([90]) ECB [DWA]. This is also confirmed by estimates from other data sources covering most EU Member States such as The World Inequality Database and the OECD database on income and wealth distribution.

([91]) This analysis is based on a report from Eurfound, which draws on the ECB's Household Finance and Consumption Survey (HFCS). The 2010–2021 trend uses the EU-15 aggregate, the 15 countries with data available in all four survey waves (2010, 2014, 2017, 2021): Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, Slovakia and Spain, rather than the full EU-22 sample, to avoid distortions from countries joining the survey in later waves. All 15 countries in this aggregate are euro-area members. This survey is not conducted at an EU level – it is coordinated by the ECB.

([92]) (Eurofound, 2025d)

([93]) Low, middle and high class are defined as follows. Under the income-based definition, the low class is below 75% of the national median gross income, the middle class is between 75% and 200% of median gross income, and the high class is above 200%. Under the wealth-based definition, the low class is the bottom quintile (0–20th percentile) of the net wealth distribution, the middle class is the middle three quintiles (21st–80th percentile), and the high class is the top quintile (80th–100th percentile). The 2010–2021 'no change in overall inequality' finding is based on a cross-sectional analysis: it compares the Gini coefficient calculated independently at each of the four HFCS survey waves (2010, 2014, 2017, 2021). Conversely, the 28%/22% mobility figures come from a panel analysis, following the same households across two waves to observe how individuals moved between classes. This panel could only be constructed for the 2017–2021 wave-pair, because of data limitations.

([94]) (OECD , forthcoming)

([95]) (Zucman, 2024a)

([96]) Idem

among the wealthiest ([97]). The wealth of the top 1% has risen from 22.6% to 25.0% of total EU wealth over the same period ([98]). This concentration is further reinforced by low effective tax rates. This largely stems from the individual income tax failing to capture the full extent of economic income at the top: controlling shareholders can instruct their companies to withhold dividend distributions, retaining and reinvesting profits instead, which raises the share price without generating taxable income. By then holding onto their shares rather than selling, they also avoid realising (and thus being taxed on) the resulting capital gains ([99]). This pattern is also observed at EU level, where unrealised capital gains, heavily concentrated among the wealthiest, largely escape taxation ([100]).

In France and the Netherlands, where comparable data is available, billionaires pay markedly less taxes than the rest of the population ([101]). In France, for instance, they pay only 27% of their income in taxes, about half the rate paid by the rest of the population, when their income is measured to include not only declared income, but also profits that companies retain and reinvest rather than distribute as dividends ([102]). Additionally, recent analysis in France and the Netherlands indicates that, once individual income and wealth taxes are combined and expressed as a share of wealth, billionaires pay the equivalent of only around 0.1–0.2% of their wealth annually. Furthermore, evidence from Italy shows that effective tax rates start to decline from around the top 5% of the income distribution ([103]). This largely reflects the mechanisms described above, whereby billionaires report little taxable income ([104]). This low effective tax burden further reinforces wealth concentration at the top, as it allows a larger share of returns on already substantial wealth to be retained and reinvested rather than being redistributed through taxation ([105]). This growing concentration of wealth is not only a matter of rising inequalities. It also translates into significant economic and, in some cases, political influence ([106]). Additionally, this also carries a fiscal cost: the revenue foregone from low effective tax rates could otherwise help finance public investment in areas such as education, health, infrastructure, and the green transition ([107]).

1.5.3. Risk of poverty and social exclusion

The share of persons at risk of poverty or social exclusion (AROPE) remained broadly stable. It declined only marginally from 21.0% in 2024 to 20.9% in 2025 ([108]). Similarly, the share of people living in households with very low work intensity (7.9% in 2024 to 8.0% in 2025) ([109]) and those in severe material and social deprivation rate (6.4% to 6.3%) ([110]) remained broadly stable between 2024 and 2025. Significant disparities persist across and within EU countries ([111]), with AROPE rates ranging from

([97]) (Robaszewski et al.VATT Institute for Economic Research (VATT), 2026)

([98]) Idem

([99]) Idem

([100]) (European Commission: Directorate-General for Taxation and Customs Union, 2025)

([101]) Idem. Analysis of the effective tax rates of the ultra-wealthy remains limited, as tax data on this group are generally confidential and not published by statistical offices. Comparable estimates are currently available for only a few EU Member States, notably France and the Netherlands and, to a more limited extent, Italy. For more information about this topic read (Zucman, 2024a) and (Robaszewski et al.VATT Institute for Economic Research (VATT), 2026)

([102]) Idem

([103]) (Zucman, 2024a)

([104]) (Zucman, 2024a) and (Robaszewski et al.VATT Institute for Economic Research (VATT), 2026)

([105]) Idem

([106]) (Zucman, 2024b)

([107]) (Zucman, 2024a)

([108]) Eurostat [ilc_peps01n]

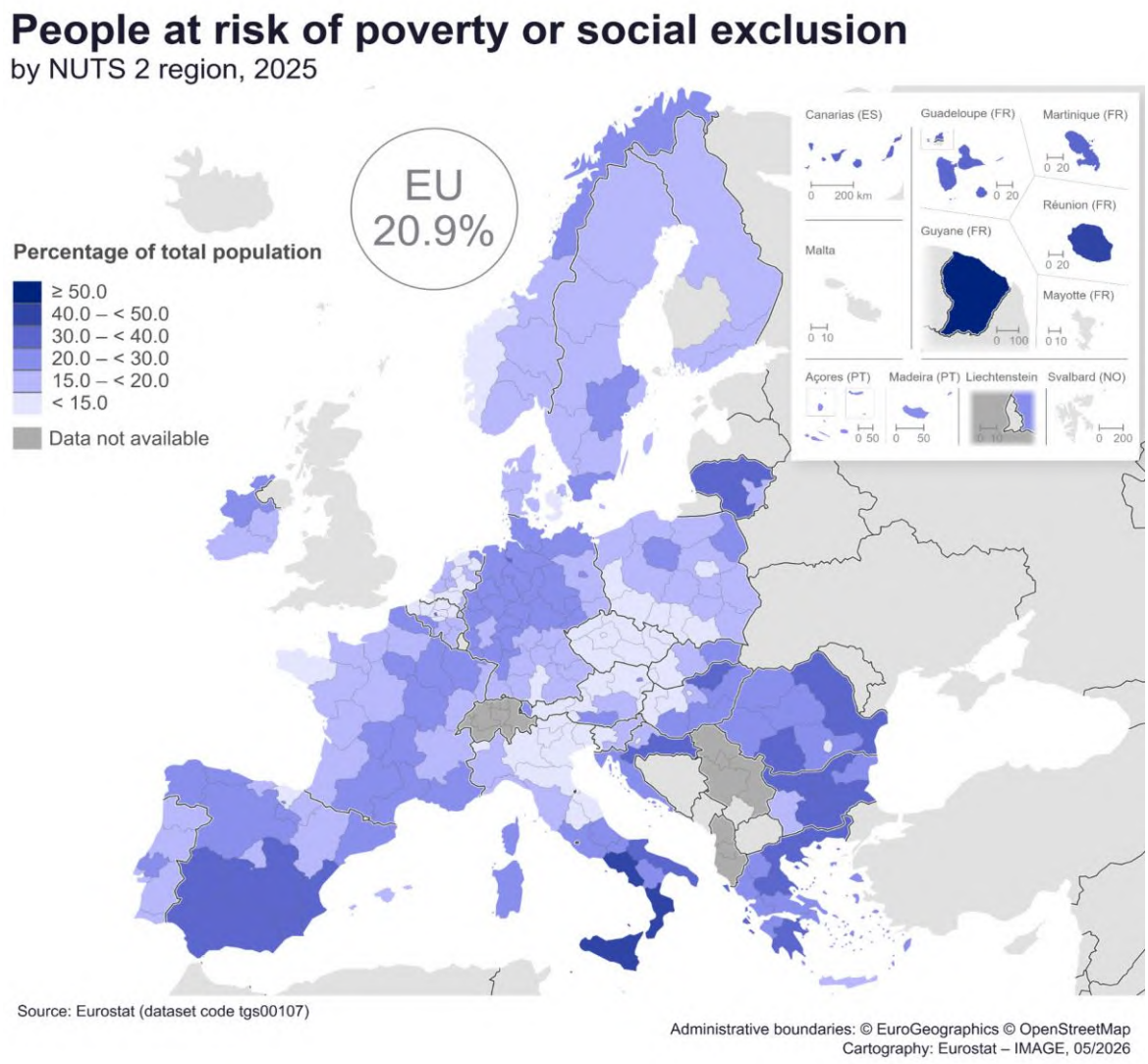
([109]) Eurostat [ilc_lvhl13n]

([110]) Eurostat [ilc_mdsd11]

([111]) The [10th Report on Economic, Social and Territorial Cohesion] (Chapter 1.2) notes that poverty and social vulnerability remain highly uneven across EU regions, and progress has been particularly limited in parts of the south, where employment losses from past crises have had more persistent social effects.

11.5% in Czechia (followed by 15% in Poland and 15.5% in Slovenia) to 29% in Bulgaria (followed by 27.5% in Greece and 27.4% in Romania) ([112]). The unemployed and people outside the labour market are at significantly higher risk of poverty or social exclusion. In 2025, 44.3% of the EU population outside the labour market and 66.3% of the unemployed were living in a household at-risk-of-poverty or social exclusion, compared to 10.9% for employed people (Chart 1.23). Additionally, within the EU, non-EU migrants (38.9%), those with low educational attainment (34.2%), persons with disabilities (28.8%) are also particularly vulnerable to poverty or social exclusion (Chart 1.23). Moreover, complementary data from the EU Agency for Fundamental Rights (FRA) show that Roma population remains markedly more exposed to poverty and social exclusion. For instance, in 2024, 70% of Roma and Travellers across 13 surveyed EU countries were at risk of poverty ([113]).

Chart 1.22: **At risk of poverty or social exclusion rate, by NUTS2 region, 2025**



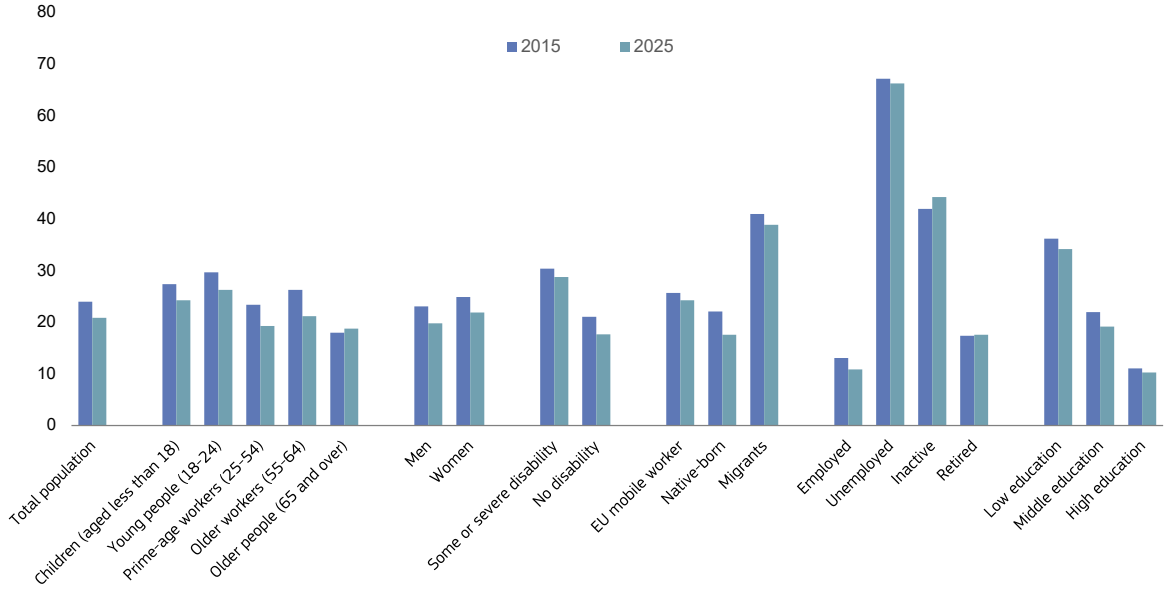
Further efforts are needed to achieve the 2030 target of lifting at least 15 million people out of poverty, including at least 5 million children. In 2025, a total of 92.7 million people, including 19.3 million children (under 18 years old), were at-risk-of-poverty or social exclusion (AROPE). This represents

([112]) Eurostat [ilc_peps01n]

([113]) (European Parliamentary Research Service , 2026). For more information on the situation of Roma and persons with a minority racial or ethnic background and on the EU strategies on the matter, see (European Commission, 2026e) and (European Commission: Directorate-General for Justice and Consumers, 2020).

a reduction of 3.5 million people compared to 2019 (-0.5 million compared to 2024), though progress for children has stalled, with numbers remaining broadly unchanged since 2019 (-0.2 million compared to 2024) ([114]). Yet, progress was still achieved in a context of multiple crises (COVID-19 pandemic, Russia's war of aggression against Ukraine and energy crisis). To meet the 2030 target, the EU would need to reduce the AROPE population by an average of 2.3 million per year ([115]), meaning the gap to achieving the target now stands at around 11.5 million ([116]). Across the Member States, progress towards national targets varied significantly, with only Belgium and Cyprus having achieved their targets for overall and child poverty reduction respectively. To bridge this gap, the European Commission adopted the EU Anti-Poverty Strategy in May 2026, aimed at accelerating progress by addressing the structural drivers of poverty through strengthened measures on child poverty, labour market inclusion, housing, and access to essential services ([117]).

Chart 1.23: **At-risk-of-poverty or social exclusion (AROPE) rates by socio-demographic characteristic, EU, 2015 vs 2025**



Note: AROPE refers to 2025 EU-SILC year, i.e. that values refer to 2024 for AROP and VLWI, and to 2025 for SMSD

Source: Eurostat [ilc_peps01], [ils_peps06n], [ils_peps02n], [ils_peps04n], [hlth_dpe010]

The share of people at-risk-of-poverty (AROP) remained stable, ticking up marginally from 16.2% in 2024 to 16.3% in 2025 ([118]). Social transfers continued to play a crucial role in supporting households and keeping a significant share of the population above the poverty line, with the AROP rate before social transfers (excluding pensions) standing at 24.4% ([119]). According to Eurostat flash estimates for 2025 incomes, the EU AROP rate is expected to remain broadly stable compared to 2024 incomes (2025 EU-SILC survey), stagnating in 18 Member States, decreasing in Spain and Romania, and rising in Germany, Croatia, Hungary, Ireland and Slovenia ([120]).

([114]) The EU aggregate for 2030 AROPE target uses figures for 'Metropolitan France' rather than 'France' to be in line with the 2019 figure for France.

([115]) Eurostat [ilc_peps01n] and Eurostat [ilc_pecs01]

([116]) Eurostat [ilc_peps01n] and Eurostat [ilc_pecs01]

([117]) For more information about the Anti-Poverty strategy visit EU Anti-Poverty Strategy - Employment, Social Affairs and Inclusion

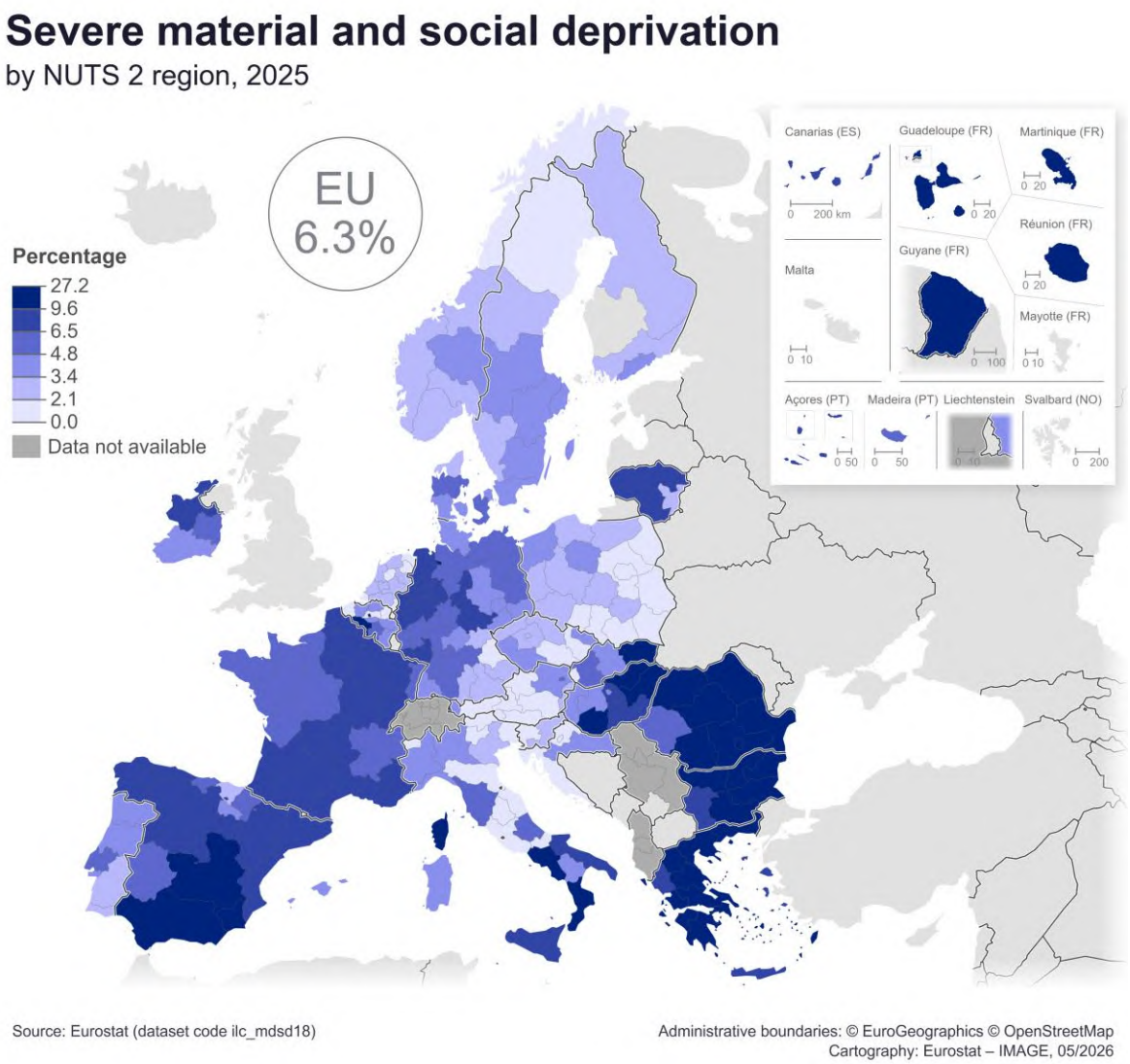
([118]) The at-risk-of-poverty rate refers to the share of people living in households where equivalised disposable income is below 60% of the national median. In EU-SILC, the 2025 AROP figure is based on 2024 income data.

([119]) Eurostat [ilc_li10]

([120]) Data not available for Poland and Slovakia.

Severe material and social deprivation in the EU remained broadly unchanged between 2024 and 2025 and remains high for vulnerable groups. It affected 6.3% of the population in 2025, down slightly from 6.4% in 2024 ([121]). Important disparities remain within ([122]) and across Member States (Graph 1.24) as well as across different population subgroups. The unemployed (23%), those in the lowest income quintile (18.1%), those outside the labour market (11.3%), non-EU migrants (12.6%), and people with low educational attainment (11.9%) face the highest rates of severe material deprivation ([123]). Severe material and social deprivation is consistently higher among children under 18 than for the total population, standing at 7.9% in 2025 ([124]).

Chart 1.24: **Severe material and social deprivation rate, by NUTS2 region, 2025**



([121]) Eurostat [ilc_mdsd11]

([122]) While EU averages remain broadly stable, severe material and social deprivation is regionally concentrated, particularly across parts of southern and eastern Europe (10th Report on Economic, Social and Territorial Cohesion, Chapter 1.2 (European Commission 2026).

([123]) Eurostat [ilc_mdsd12, ilc_mdsd13, ilc_mdsd14, ilc_mdsd16]

([124]) Eurostat [ilc_mdsd11]

In 2025, falling interest rates and rising real incomes helped offset accelerating house prices (+5.5% in EU-27), slightly easing the overall financial burden of housing costs ([125]). Housing costs ([126]) as a share of households' disposable income slightly decreased to 18.9% (19.2% in 2024) ([127]), reversing a steady increase since 2020 (Chart 1.25). Despite this decline, the housing cost overburden rate ([128]) remains high for women (8.2% vs. 7.2% for men), non-EU migrants (15.5% vs. 6.8% for nationals), and individuals with disabilities (9.9% vs. 7.2% for those without disabilities) ([129]). Additionally, 29.1% of those at-risk-of-poverty and 25.9% in the lowest income quintile continue to experience housing cost overburden (Chart 1.25) ([130]). Across Member States, the housing cost overburden rate ranged from 2.4% in Cyprus to 26.4% in Greece. The housing cost overburden rate was higher in cities (9.6%), compared to towns and suburbs (7.1%) and rural areas (5.6%) ([131]). At the same time, housing affordability, including the concentration of demand pressures in urban and capital regions, the fall in residential building permits and an under-utilised housing stock remains strongly differentiated across EU regions, as discussed in the [10th Report on Economic, Social and Territorial Cohesion, Chapter 2.4].

While the housing cost overburden rate has been recently declining, other indicators suggest that housing affordability pressures persist, or are intensifying. EU house prices rose by around 62% (Chart 1.25) in nominal terms since 2015 ([132]). In real terms, house prices rose strongly until 2022 (+28.7% since 2015), before moderating in 2023 as inflation accelerated. In 2024 and 2025, the upward trend resumed (+24.8% since 2015). Since 2016, house price growth has consistently outpaced income growth across the EU, a gap that widened sharply during the pandemic and has only partially closed since ([133]). The house price increases were much sharper in capital and high-demand cities. For instance, in Lisbon, nominal house prices rose by around 130% since 2013, reaching more than double the national price per square metre. Additionally, flat prices in Prague nearly tripled since 2015 and Amsterdam prices rose by close to 11% in 2025 alone ([134]).

The decline in the overburden rate may partly reflect the decline in real terms of rents and a switch in households' choices. Over the last 15 years, while nominal rents increased by 25%, real rents declined by 10% ([135]). Additionally, households may forego housing upgrades, choose to live in an overcrowded or suboptimal housing unit, or move further away from their workplace to reduce housing costs, often at the expense of longer commutes ([136]). For instance, almost half of young people aged 18–34 still live with their parents ([137]). Additionally, 26.9% of 15–29-year-olds lived in overcrowded housing in 2025 (26.5% in 2024), 10.1 percentage points above the general population (16.8%) ([138]).

([125]) (ECB, 2025) and Eurostat [prc_hpi_a]

([126]) Housing costs refer to monthly costs connected with the household's right to live in the accommodation as well as the costs of utilities, gross of housing benefits. Only housing costs that are actually paid are considered. They are measured based on income from the previous year. For more information, see EU-SILC - Housing conditions (methodology)

([127]) Eurostat [ilc_mded01]

([128]) The **housing cost overburden rate** refers to the percentage of the population living in households where the total housing costs represent more than 40 % of disposable income. For more information about this indicator visit Glossary:Housing cost overburden rate - Statistics Explained - Eurostat

([129]) Eurostat [ilc_lvho07a, ilc_lvho26, hlth_dhc060]

([130]) Eurostat [ilc_lvho07a, ilc_lvho07b]

([131]) Eurostat [ilc_lvho07d]

([132]) (European Commission , 2025b)

([133]) (European Commission , 2025b)

([134]) (Balouktsi et al., 2026) and CBS [Existing own homes; purchase prices, price index 2020=100, region] and Czech Statistical Office [Price indices of real estate – territorial comparison]

([135]) 2ad4c9f2-602b-43ba-9ed9-ef2ee059cf97_en

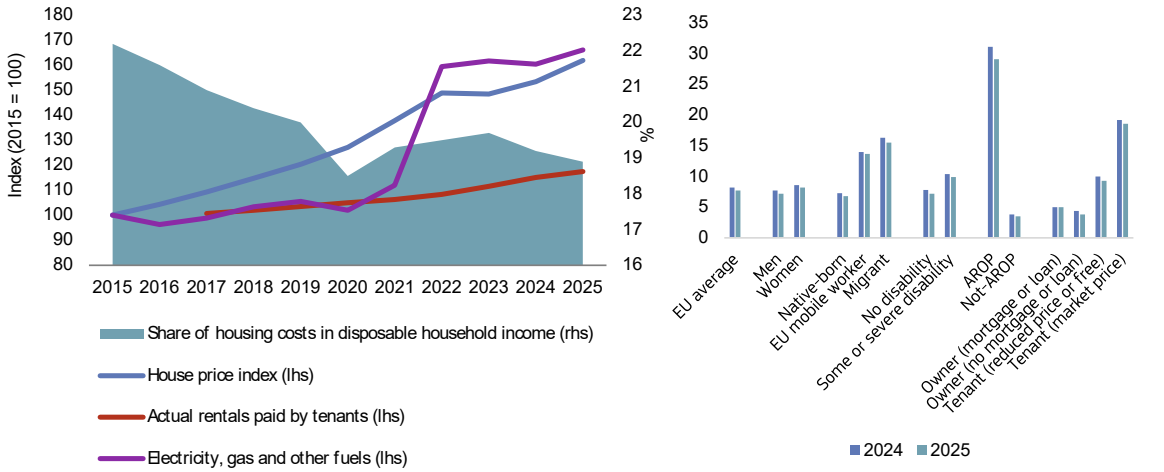
([136]) (European Commission , 2025b)

([137]) (European Commission , 2025b)

([138]) Eurostat [ilc_lvho05]

Housing insecurity has also risen sharply. The share of the EU population perceiving a high risk of losing their home within three months due to affordability increased six-fold, from 1% in the preceding decade to 6% in 2020–2022 and further increased to 7.6% in 2025 ([139]). Buying is out of reach for many altogether. Low-income households now need more than a lifetime of earnings to purchase a 70m² home ([140]). The pressure is also strong for middle-income households, particularly in regions offering the best employment opportunities, where even 30% of average households' income is no longer enough to secure a small apartment on a 30-year mortgage ([141]). Social housing also remains scarce across most of the EU: the Netherlands, Austria and Denmark hold the largest stocks (21–34% of total housing), France, Ireland, Finland and Poland range between 6.6% and 14.0%, and most other Member States fall below 5%, with the share declining in nearly all countries with comparable data since 2010 ([142]).

Chart 1.25: **Left-chart: Share of housing costs in disposable household income and prices of selected items, EU; Right-chart: Housing cost overburden rate by socio-demographic characteristic, EU**



Note: (1) On the left chart, yearly average of monthly values has been computed for actual rents paid by the tenants and energy prices

Source: Eurostat [ilc_mded01] [prc_hicp_midx] [prc_hpi_a] [ilc_lvho07a] [ilc_lvho07c] [ilc_lvho26] [hlth_dhc060

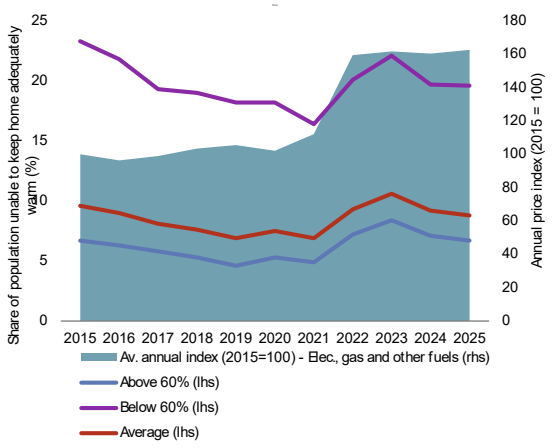
Chart 1.26: **Share of population below/above the at-risk-of-poverty threshold (60%) unable to keep home adequately warm (lhs), and average annual index (2015=100) for electricity, gas and other fuels (rhs), 2015-2025, EU**

([139]) (European Commission , 2025b) and Eurofound [Living and Working in the EU e-survey 2025]

([140]) (European Commission , 2025b)

([141]) (European Commission , 2025b)

([142]) OECD [Affordable Housing Database]



Source: Eurostat [ilc_mdes01] [prc_hicp_aind]

Prior to the 2026 energy shock, energy poverty in the EU had declined for the second consecutive year. Energy poverty, measured as the share of individuals unable to keep their homes adequately warm due to financial reasons, decreased from 9.2% in 2024 to 8.8% in 2025 (Chart 1.26) – pre-dating the 2026 energy shock. Unlike in 2024, this improvement was not driven by falling energy prices but by a more modest, though continued, rise in real income (see Section 1.5.1). Despite this, nearly one-fifth of those at-risk-of-poverty (AROP) still faced energy poverty in 2025 (19.6%), a significantly higher share than the non-AROP population (6.7%). The gap slightly widened compared to 2024. Albeit most EU countries experienced a decline in energy poverty, significant disparities, including large intra-national disparities ([143]), persist, with rates exceeding 15% in Bulgaria, Greece, Lithuania, Portugal, and Spain ([144]). In parallel, the proportion of individuals encountering utility bill arrears remained stagnant at 7% ([145]).

The sharp increase in transport fuel prices driven by the conflict in the Middle East is a growing source of affordability pressure for households reliant on private transport. Unlike energy prices such as electricity, gas and other fuels, which rose more modestly (between 0.0% and 1.1% month-on-month) throughout the first half of 2026, transport fuel and lubricant prices rose sharply following the onset of the conflict in the Middle East. They increased by 13.5% month-on-month in March 2026 alone, and by a further 4.8% in April. While prices eased in May and June, falling by 1.9% and 5.0% month-on-month respectively, the scale of the earlier spike means price levels are still significantly above the levels of the same month of the previous year. The annual inflation rate amounts to 13.7% in July ([146]). This induces affordability problems for low- and middle-income households dependent on private vehicles. For a more detailed analysis of the oil shock, see Box X.

1.5.4. Economic strain

As of the beginning of 2026, the decline in financial distress observed over the previous two years stagnated, likely reflecting the impact of the conflict in the Middle East ([147]). The share of people reporting financial distress in the EU has moved only marginally since January 2026, from 14.5% to 14.4% in July (Chart 1.27). Comparing year-on-year, however, some progress is still visible: financial distress in July 2026 stood 0.5 pp below its July 2025 level (14.9%). Those in the lowest income quartile remain most exposed: 25.3% reported experiencing financial distress in July 2026, 0.2pp more than a year earlier (25.1%). Among those reporting financial distress, 10.4% had to draw on savings, (11% in July 2025), and 4.1% had to run into debt (4% in July 2025).

Making ends meet remains a challenge for a significant share of EU households, particularly single-parent and families at risk of poverty. In 2025, 6.4% of EU households reported making ends meet with great difficulty, 11.2% with difficulty, and a further 24.9% with some difficulty, broadly stable compared to 2024 ([148]). Taken together, over four in ten EU households experience strain to make ends

([143]) Energy vulnerability shows a strong territorial gradient running south, concentrated where lower incomes intersect with poorer housing quality, see the Regional Energy Poverty Index in the [10th Cohesion Report, Chapter 1.2].

([144]) Eurostat [ilc_mdes01]

([145]) Eurostat [ilc_mdes07]

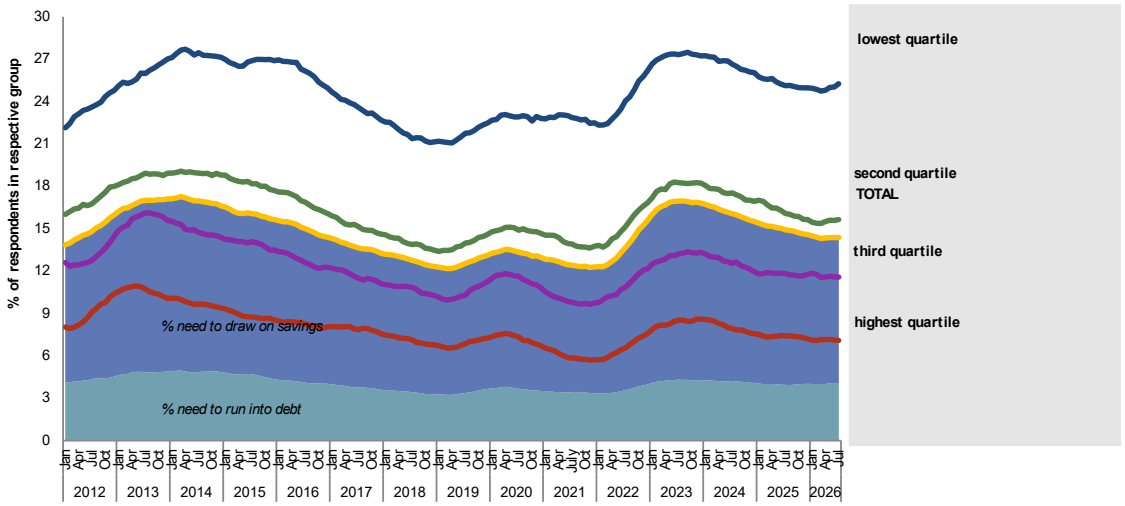
([146]) Eurostat [prc_hicp_minr]. Against an annual inflation rate was at 5% for electricity, gas and other fuels.

([147]) Financial distress is defined as the perceived need to draw on savings or to run into debt to cover current expenditures, calculated as a moving average over 12 months. For further analysis on the social impacts of the Middle East energy shock on social impacts see: (De Agostini et al., 2026)

([148]) Eurostat [ilc_mdes09]

meet. Among those at risk of poverty, nearly seven in ten struggle to make ends meet. Single parents are the most exposed, with nearly four in ten single-parent households facing serious financial strain.

Chart 1.27: **Reported financial distress by income quintile, EU**



Note: Reported financial distress by income quartile and its components (share of adults reporting necessity to draw on savings and share of adults reporting need to run into debt)

Source: DG EMPL calculations based on Business and Consumer Survey, 12-months moving average

While the financial burden of healthcare on the EU population has grown, unmet medical needs have remained low across the EU. In 2025, 13.5% of the population reported a high financial burden from medical care (up from 11.6% in 2017), indicating that healthcare affordability concerns are spreading beyond those at risk of poverty, even as the share among this group eased slightly to 19.1% (from 19.6% in 2017) ([149]). Unmet needs for medical care due to cost, distance, or waiting lists stayed broadly stable in 2025, affecting 3.6% of people aged 16+ (and 5.9% among those at risk of poverty) ([150]). This suggests that public health systems have remained accessible despite rising pressures. The picture is less positive for dental care, with its financial burden considerably higher than other medical care across all income groups, and 6.3% of the total population reporting unmet dental care needs in 2025 ([151]).

1.5.5. Wellbeing

Though still the dominant yardstick of economic output, GDP has always been considered an imperfect proxy of living standards or human wellbeing. During the setup of the UN's System of National Accounts, the production-focused GDP concept prevailed for reasons of comparability over the proposal of household (and personal) income and consumption-based aggregates. Since the early 2000s, efforts to go 'beyond GDP' have advanced under the auspices of the United Nations and national governments. These have urged emphasis on distribution, non-market activity, and multidimensional quality of life. Measures aiming to capture directly and comprehensively what the economy does for human societies, include the Human Development Index (UNDP, from 1990), satellite accounts within

([149]) Eurostat [ilc_hch01]

([150]) Eurostat [hlth_silc_08b]. Percentage of persons having needs for medical examination.

([151]) Eurostat [hlth_silc_09b]. Percentage of persons having needs for dental examination.

the System of National Accounts, and the UN Statistical Commission's measurement of sustainable development including SDG indicators ([152]).

The wellbeing of citizens is an overarching objective of the European Union. Article 3(1) TEU states that 'The Union's aim is to promote peace, its values and the well-being of its peoples'. Accordingly, to better capture the benefits of the economy for current and future generations, the European Commission has developed measures of wellbeing adapted to policy needs, such as the Sustainable and Inclusive Wellbeing dashboard (SIWB), as a multidimensional conceptual and measurement framework, with 140 indicators streamlined into a smaller dashboard of 50 indicators (for a detailed explanation see Annex 1). A similar approach, albeit based solely on self-reported subjective scores, is Eurostat's framework of '8+1 quality of life' indicators. While eight indicators concern capabilities for pursuing self-defined wellbeing, this report looks closely at the '+1' indicator 'overall life satisfaction' as it is a summative appraisal of one's experience of life. Some of the other 8 dimensions are already covered in the previous sections (e.g. education).

In 2025, EU residents on average rated their overall life satisfaction at 7.2 on a scale of 1-10, unchanged from 2024. The highest average scores occurred in Finland and Romania (7.8), followed by Denmark, Austria and Poland (7.7), while Bulgaria (6.3, up from 6.2 in 2024), Greece (6.9, up from 6.7 in 2024) and Latvia (stable at 6.9) registered the lowest scores. All Member States averaged life satisfaction scores over 6, indicating more satisfied than dissatisfied respondents ([153]).

Self-reported life satisfaction in the EU increased with income and education levels, while it varied little between men and women. Average life satisfaction in 2025 as well as in previous years increases progressively across income quintiles, from 6.7 among individuals in the lowest income quintile to 7.8 among those in the highest income quintile ([154]). This substantial gap of 1.1 points between the lowest and highest income groups highlights meaningful differences in perceived life satisfaction by income level ([155]). Also, life satisfaction varied from 6.9 among people with less than primary to lower secondary education, to 7.2 for people with upper secondary and post-secondary non-tertiary education, culminating at 7.6 for tertiary education graduates ([156]). In the same year, women reported an average life satisfaction score of 7.2 and men 7.3 ([157]).

Citizen wellbeing in the EU and its Member States has also improved over the last 15 years, by most measures. Chart 1.28 shows this improvement by three different measures: a) GDP; b) overall life satisfaction; and c) 'wellbeing' (See Annex 1). This last indicator aggregates key variables including employment rate, household income, housing cost overburden, life satisfaction, the NEET rate, the AROP rate, the road deaths, the suicide mortality rate, trust in government. The charts indicate improvement in the EU and in the majority of Member States across all three measures. A more nuanced view emerges from a closer look into each of these measures:

([152]) 'Beyond GDP' metrics can be uni- or (most often) multi-dimensional, objective or subjective, expressed in raw or synthetic values, and in monetary or other terms.

([153]) Eurostat ilc_pw01]

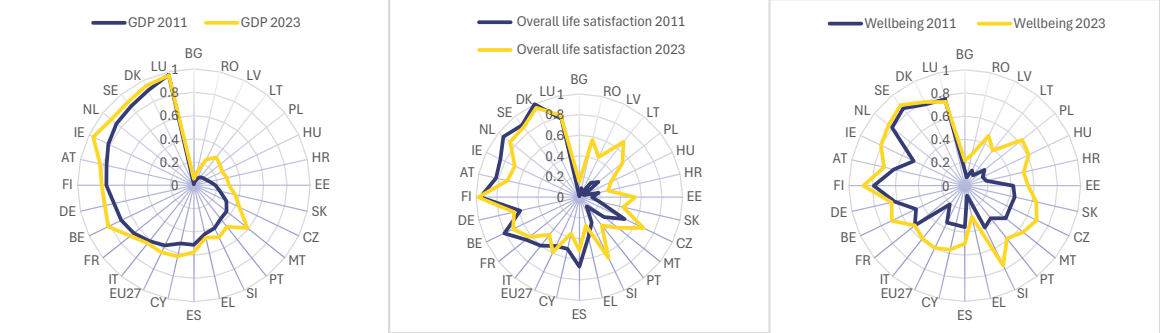
([154]) Eurostat [ilc_pw02]

([155]) The positive relationship between life satisfaction and income is consistent with research (Filip Fors Connolly, 2023) finding that higher incomes are associated with better living conditions, greater financial security and lower economic stress. This can be explained by the fact that higher income enables broader access to opportunities, healthcare, leisure activities and social participation, while it facilitates individuals' evaluations of life satisfaction in relation to their perceived socio-economic position.

([156]) This is consistent with the recurrent empirical finding that higher levels of education are associated with higher income.

([157]) Eurostat [ilc_pw01];

Chart 1.28: **GDP per capita, overall life satisfaction, and wellbeing in the EU and MS, 2011,2023**



(1) MS sorted by the 2011 GDP/capita values in all measures. All indicator values are normalised on a 0-1 scale, based on their percentile position in the pooled distribution of all EU MS values in 2011-2023. Higher values always indicative of more favourable outcomes. The synthetic index for Wellbeing is the median value across the normalized values of all corresponding indicators.

Source: JRC elaboration based on data from Eurostat, AMECO, EEA, Eurobarometer, European Social Survey, OECD, UN, WHO, EUROSTAT/Figaro, SDG Transformation Center, World Bank, World Happiness Report/Gallup. The overall life satisfaction is sources from the latter.

- **At the EU level, GDP and overall life satisfaction improved modestly, while the improvement of wellbeing was more pronounced.** Hence, the EU did better in delivering wellbeing to citizens, suggesting that wellbeing is driven by more than economic factors. Nevertheless, stronger economic performance could have enabled even higher levels of wellbeing.
- **Citizen wellbeing varied across Member States, converging faster than GDP, demonstrating that the 'EU convergence machine' delivers efficiently what matters to people.** In Romania, Latvia, Lithuania, Poland, Hungary, Croatia, Estonia, Slovakia, Czechia, Malta, Slovenia and Cyprus, GDP increases mostly outpaced those in the pre-2004 Member States. Moreover, in almost all of the aforementioned Member States joining the EU in 2004 or later, life satisfaction and wellbeing grew even faster than GDP. Conversely, pre-2004 Member States (with the exception of Portugal) registered lower or almost the same levels of life satisfaction in 2023 compared to 2011.

Box 1.3: How well is the EU doing in people's wellbeing compared to the US?

International comparisons based on standard GDP per capita underestimate living standards in the EU. For instance, GDP per capita comparisons overstate the disparity in living standards between the United States and the EU. From 2010 to 2023, GDP per capita grew 17% in the EU and 25% in the US.

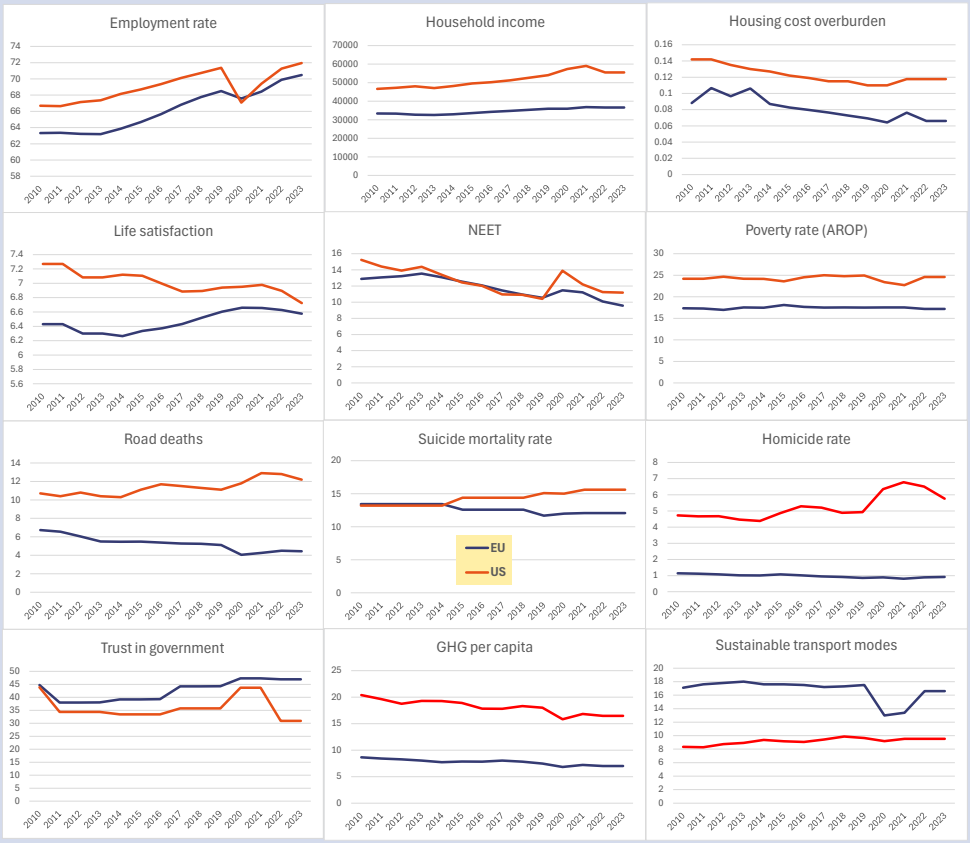
Conversely, looking at key aspects of wellbeing points to the EU as a global reference point, grounded in high quality of life, resilience, and strong institutions. For instance, from 2010 to 2023, wellbeing (as defined in the Annex) in the EU improved by 9.5 percentage points versus 1.2 percentage points in the US ([1]). Chart 1 elaborates on this EU achievement, comparing the EU (blue line) and the US (red line) from 2010 to 2023 across wellbeing indicators. The following trajectories can be distinguished:

- **The EU has performed consistently better on key aspects of well-being throughout this period in housing cost overburden, monetary poverty, road deaths, homicide rate,** as well as in the green-transition-relevant indicators of **greenhouse gas emissions per capita and use of sustainable transport modes. The EU and US started in 2010 at very comparable levels of NEET, suicide mortality, and trust in government but then diverged placing the EU better off.** The EU did substantially better over this period in suicide mortality and in trust in government. In the latter, the gap widened in the EU's favour following a sharp decline in the US in 2022. NEET values declined more (albeit not uninterruptedly) in the US, with the EU performing better from 2010 to 2014, while the gap widened again in the EU's favour from 2020 to 2023.

- **The US has performed better for the employment rate, household income, and self-reported life satisfaction.** The EU has substantially narrowed the gap in employment, where it also proved more resilient at the onset of the pandemic, while the gap in life satisfaction had almost closed by

2023 following faster EU improvement in 2020-2024 and a sharp decline in US values from 2021 on. Conversely, the gap in household income increased by 2023 in favour of the US.

Chart 1: **Evolution of key variables of wellbeing in the EU and US, 2011-2023**

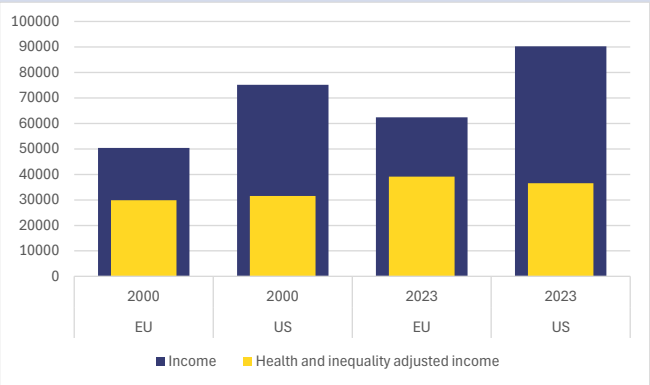


(1) The first 10 charts present variables of the 'current wellbeing' component of the SIWB dashboard while GHG per capita and sustainable transport modes are from the 'nature' component of the same dashboard. All are presented in their 'raw' (non-normalised) indicator values. This global dashboard was created based on the EU SIWB dashboard's 50 indicators (as documented in this 2024 and then 2025 reports). Many other plausible indicators are in the 'social and economic resources for future wellbeing', and 'resilience: societal challenges and sustainability transitions' components, as explained in Annex 1.2. The underlying structure (dimensions) of the current wellbeing component is very similar to that of the Eurostat Quality of Life framework.

Source: Data from Eurostat, ILO, OECD, UN, World Happiness Report/Gallup

Adjusting income per capita for health outcomes and inequality also reveals that the EU economy translates its resources into more balanced societal outputs than the US one. This measure calculates income that is sensitive to within country disparities in lifespan and income. Between 2000 and 2023, income adjusted for life expectancy (proxy for health outcomes) and for the dispersion of income per capita and life expectancy (proxies for inequality) has only slightly increased in the US, while the EU has seen a much more pronounced expansion, starting

Chart 2: **Income per capita and health- and inequality-adjusted income per capita in the EU and US, 2000, 20223 (values in USD at 2023 PPP)**



Source: JRC elaboration on the experimental methodology of Da Costa (2025), Da Costa (2026) and Benczur et al. (2023); data from the World Inequality Database and UN Population Statistics.

from similar levels. In 2023, the EU surpassed the US by USD 2616 (Δ between the respective yellow columns).

([1]) Based on globally comparable indicators of the SIWB component 'current wellbeing' in (Benczur et al., 2026)

1.6. SPENDING ON LABOUR MARKET POLICIES AND SOCIAL PROTECTION

1.6.1. Spending on labour market policies

The case for active labour market policies in the EU is likely to become more pressing as AI adoption, efforts to strengthen strategic autonomy and reduce critical dependencies on China accelerate sectoral restructuring. Labour market policy expenditure is one of the most consequential pillars of social investment. Its importance lies not merely in cushioning income shocks, but in shaping employment trajectories: the economic literature broadly finds that well-designed active labour market programmes tend to have modest short-run effects but stronger medium-run impacts, especially when they build human capital or improve job matching ([158]).

Total EU spending on labour market policies has gradually declined over the last decade, in part thanks to improvements in the labour market. According to the European Commission's Labour Market Policy (LMP) statistics, around 60% of these expenses are unemployment benefits and other out-of-work income maintenance and support benefits. The active LMP interventions amount to 26%. These include training, supported employment and rehabilitation, employment incentives, direct job creation, and start-up incentives. Total LMP expenditure (on services, measures, and supports) declined from 2.2% of GDP in 2014 to 1.5% of GDP in 2023, i.e. by almost one-third. In the recent years, this expenditure helped cushion the impact of the COVID-19 pandemic. In 2020, this was the case particularly for the employment incentives, and in 2021 for training expenditure. In the following two years, LMP expenditure change was shaped mainly by reductions of spending on employment incentives.

Active labour market policies are an important instrument for anticipating and managing restructuring. This role goes beyond the activation of unemployed and inactive people. ALMP packages – combining early skills assessment, career guidance, targeted up- and reskilling, certification, job matching, mobility support and carefully targeted hiring incentives – can support job-to-job transitions before unemployment occurs, shorten unemployment spells where displacement cannot be avoided, and help workers move towards occupations and sectors where labour demand is growing ([159]). The LMP methodology explicitly includes persons 'currently in work but at risk of involuntary job loss due to the economic circumstances of the employer, restructuring, or similar' ([160]).

There are large differences in ALMP coverage, spending and participation across Member States. In 2023, participation in ALMP measures ranged from above 60% of unemployed persons wanting to work in Belgium, Denmark and Spain to below 10% in Slovenia, Latvia, Cyprus. Spending was highest in Denmark and Finland, and very low in Cyprus, Malta, Bulgaria. Spending levels should, however, be read alongside labour-market conditions and institutional capacity: Austria, Denmark and Finland combined relatively high ALMP spending with low long-term unemployment, whereas Spain, Italy and Belgium combine sizeable ALMP budgets with still high labour market challenges. The most concerning configuration is low spending combined with above-average long-term unemployment, notably in Bulgaria, Lithuania and Slovakia. Access also differs across groups: on average, women and under-25s participate less than the overall EU average, with very low female participation reported in Bulgaria,

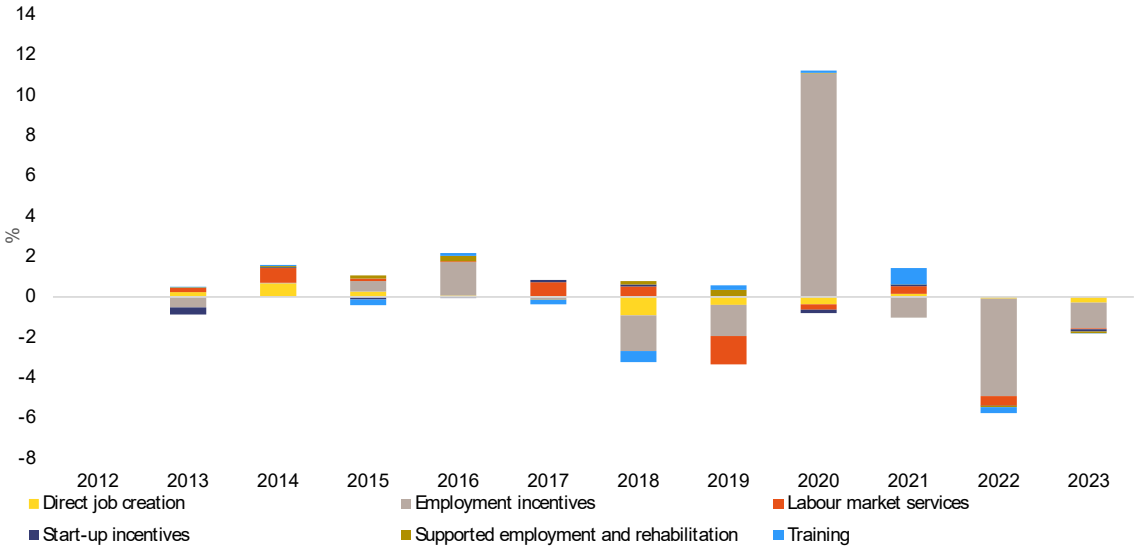
([158]) (Card, Kluve and Weber, 2017)

([159]) (European Commission: Directorate General for Employment, Social Affairs and Inclusion., 2025) (Lauringson, Pantelaiou and Westlake, 2025)

([160]) (European Commission. Directorate General for Employment, Social Affairs and Inclusion., 2018)

Slovenia, Lithuania, and very low under-25 participation in Sweden, Luxembourg, Lithuania, and several other countries. Integration challenges are especially visible in Spain, Greece, Italy, where both youth unemployment and NEET rates remained high in 2024. These patterns point to the importance of design, timing and targeting rather than spending alone.

Chart 1.29: **Contribution to real labour market policies expenditure growth by selected components, EU, 2012-2023**

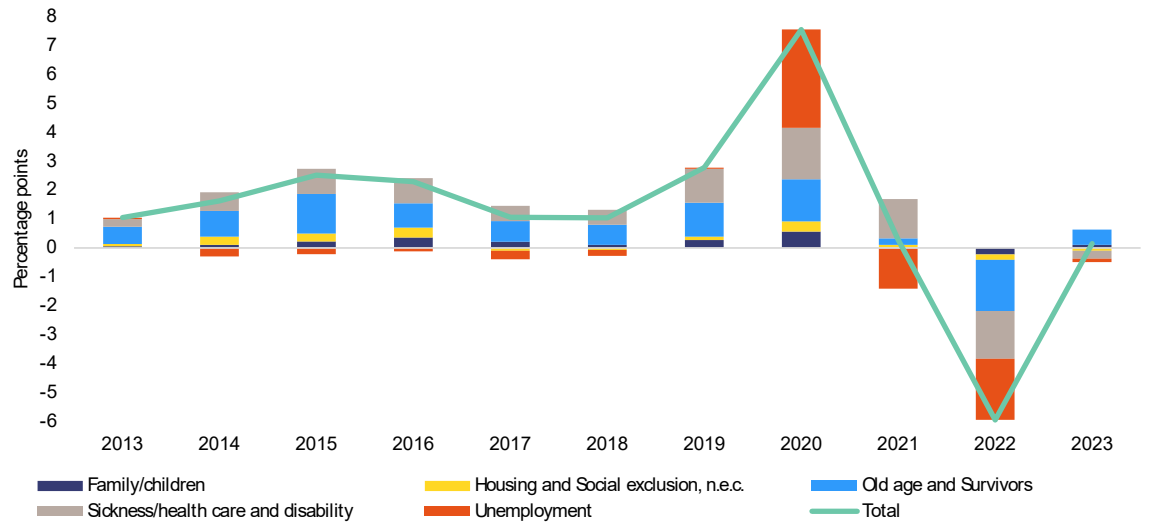


Source: Labour Market Policy statistics database, [lmp_expsumm] dataset.

1.6.2. Spending on social protection

After falling significantly in real terms in 2022, social spending in nominal terms grew more than inflation in 2023. While the drop in 2022 was linked to a reduction in unemployment and sickness benefits as countries moved away from the pandemic spending, the increase in 2023 was driven mainly by a real growth of old-age-related and survivors' benefits, followed by expenditure related to family and child transfers. Against the backdrop of slowing employment growth, weakening real wages, rising inflation and ongoing structural transformations discussed throughout this chapter, the composition and adequacy of social protection spending is likely to play an increasingly important role in supporting household incomes in the period ahead.

Chart 1.30: **Social protection expenditure real growth and its decomposition**



Source: Own calculation based on Eurostat datasets [spr_exp_func] and [prc_hicp_aind].

1.7. CONCLUSION

In 2025, the EU labour market and social situation remained resilient, but the pace of improvement slowed and underlying vulnerabilities became more visible. Despite rising geopolitical tensions, real GDP continued to grow steadily. In this context, the labour market remained robust, with positive but decelerating employment growth and the unemployment rate was stable around a historic low. Yet the employment gains were more modest than in 2024 and were achieved amid signs of GDP growth being less job rich than before

The labour market slowdown reflects cyclical developments but also deeper structural factors. Geopolitical tensions and uncertainty undermine investment activity and job creation. Moreover, the energy shock caused by the conflict in the Middle East is forecast to lead to a deceleration in GDP growth and a rise in inflation. This is estimated to lower employment growth by 0.2 pp in 2026, which would correspond to 440 000 fewer jobs created. Higher energy prices and slowing nominal wage growth will also exert pressure on the purchasing power of households. Moreover, wages and employment are held back by subdued labour productivity growth due to high energy prices, subdued innovation and investment, and persistent skills and labour shortages. The twin transition, the drive to enhance the EU's strategic autonomy and the rapid diffusion of generative AI may reshape labour demand, with potential gains for productivity but also risks of job displacement and widening inequalities. Demographic change is helping to keep unemployment low by limiting labour supply, but it also contributes to labour and skills shortages.

Social outcomes were broadly stable, but challenges remain and may increase as the effect of structural transformations and the energy shock become more visible. After experiencing losses in 2022 and 2023, real wages recovered their 2019 levels in 2025 but grew slower than in 2024. Household income growth also moderated. Financial distress continued to ease, and energy poverty declined for the second consecutive year. However, measures of poverty and social exclusion showed little improvement. The situation of the youngest is particularly concerning, as the number of children being at risk of poverty-or-social exclusion poverty is close to 2019 levels.

Overcoming structural challenges is key to promote a competitive economy, job quality and upward social convergence. The structural challenges that the EU is facing, including slowing productivity growth, population ageing, labour and skills shortages, the green and digital transitions and potential disruption from the use of cutting-edge technologies, are transforming how firms compete and how people work. Households are exposed to external shocks and firms face mounting adjustment pressures. In this context, job quality is not only important for workers' wellbeing but also for economic performance and competitiveness. Quality jobs help translate employment growth into rising living standards, lower poverty risks and stronger productivity, while supporting workers through structural and green and digital transitions. Thereby, improving job quality is not only a social objective, but can also contribute to a more competitive, inclusive and resilient European economy.

Annex 1: Main labour market and social developments

1.1. MEASURING WELLBEING

Measuring wellbeing has been part of the overall effort to develop 'beyond-GDP metrics'. In the 21st century, criticism of the limitations of GDP, notably through works such as the report of the Stiglitz-Sen-Fitoussi Commission (2009), convened by the government of France, has intensified. At the global level, this effort culminated in 2024 with the adoption by the United Nations of the Pact for the Future, which provided the mandate for the High-Level Expert Group on Beyond GDP. The final report of the Group, issued in May 2026, makes concrete recommendations on how to move beyond GDP. The report argues that societal progress means equitable, inclusive, and sustainable wellbeing. It proposes a conceptual framework, an indicator dashboard, and recommendations on how to implement this agenda on the statistical and policy side.

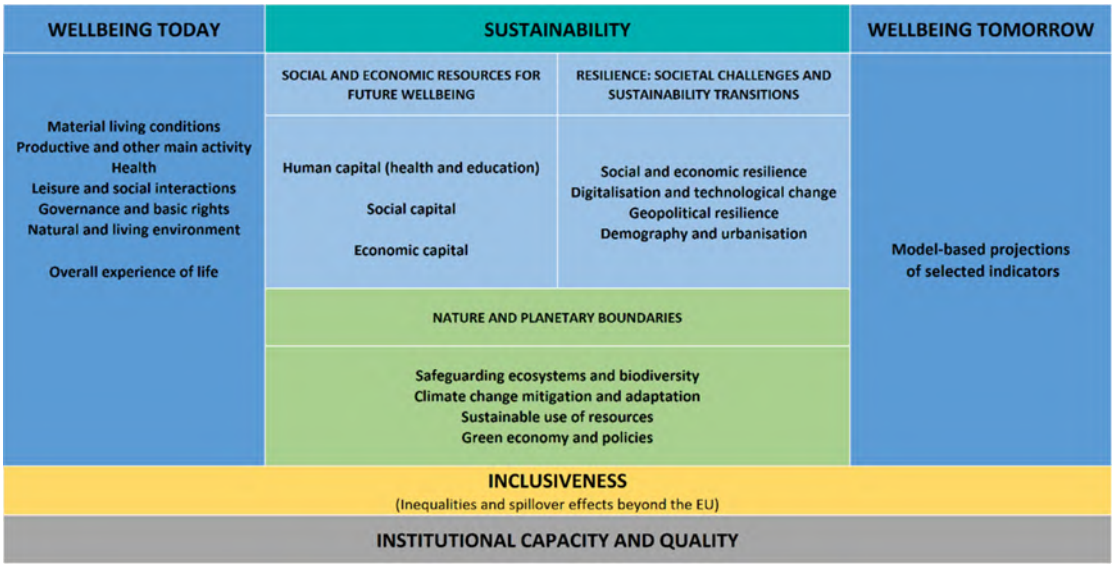
Beyond-GDP measures are of three broad types: unidimensional, multidimensional, and hybrid.

- **Unidimensional measures** prioritize a single dimension (other than the economic one), on the assumption that this dimension is paramount over others or subsumes other dimensions as inputs. Health and environmental metrics are typical of this approach: for instance, Health-Adjusted Life Expectancy (HALE) of the World Health Organization measures years of healthy life, in a single non-monetary value that ignores the economic dimension entirely. Similarly, the Ecological Footprint per capita privileges the environmental dimension over all others. This unidimensional approach can appear too reductionist, but it is very simple to communicate.
- **Multidimensional metrics measure societal progress/wellbeing through overt use of multiple interconnected dimensions.** Each dimension is represented by one or more indicators, such as health, education, environmental sustainability, social equity, and quality of life, quality of institutions, etc. Such measures may be expressed in a single value (score) or visual representation, such as a single 'spider web graph', but also allow drill-down views into individual dimensions. Prominent examples are the OECD Better Life Index, the UN's Human Development Index, as well as self-reported wellbeing scores (such as Eurostat's 8+1 Framework), the Social Progress Index, and the **SIWB dashboard**.
- **Hybrid measures tend to internalize multiple dimensions into a single one.** Typical of this approach are **'augmented-GDP' metrics**. They utilize the public's familiarity with the monetary value of GDP (or income), which they adjust (by inflating or deflating it) for performance in other dimensions. Such is the **'Health and inequality adjusted income'** presented in Box 1.2.

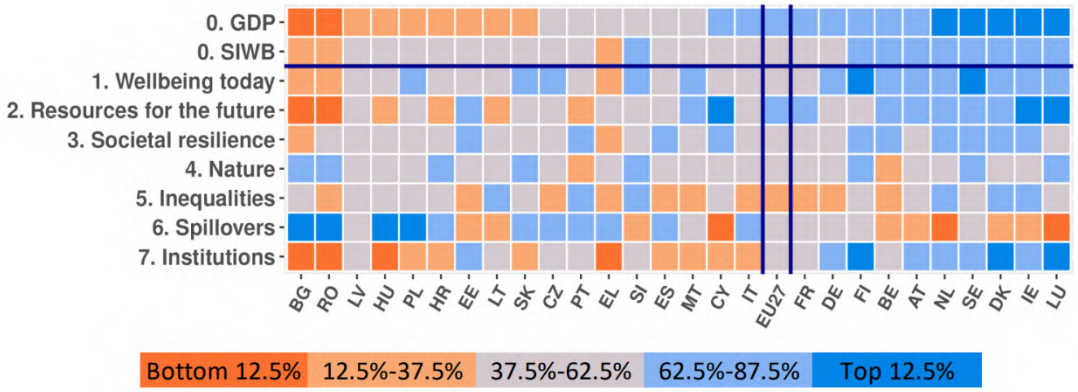
The Sustainable and Inclusive Wellbeing (SIWB) dashboard was completed in 2025. Announced in the European Commission's 2023 Strategic Foresight Report, the objective of the SIWB initiative was to progressively complement the use of GDP in EU policymaking with wellbeing indicators. The SIWB dashboard was also a response to the call by the 8th Environmental Action Programme (the EU's legally agreed common agenda for environmental policy from 2021 to 2030) for the development of a summary dashboard to measure economic, social, and environmental progress 'beyond GDP'. While recognizing the usefulness of GDP in proxying living standards, SIWB fulfils the need for complimentary indicators to fully capture all aspects of the quality of life, inclusiveness, and sustainability over time.

The structure of the SIWB dashboard comprises six components (see figure below): wellbeing today, social and economic resources for future wellbeing, resilience: societal challenges and sustainability transitions, nature and planetary boundaries, inclusiveness (further subdivided between 'inequalities' and 'spillovers' beyond the EU) and institutional capacity and quality. These components are populated with 140 indicators, selected for data quality and policy relevance from an initial pool of over a thousand measures in pre-existing frameworks. A summary dashboard of a **subset of 50 key indicators** was also

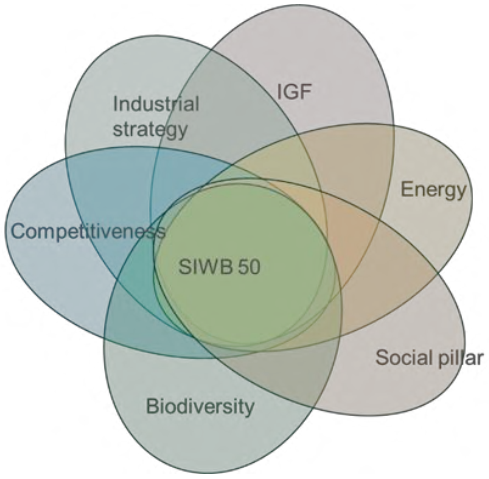
created and used to produce **summary synthetic indices**, which can provide a detailed view into each of the above components (and subcomponents in the case of the inclusiveness component).



These total and component-level synthetic indices can be visualized as in the figure below, with Member States ordered by GDP per capita (2023 values):



Source: (Pagano et al., 2025)



By construction, the SIWB dashboard is connected to the analytical frameworks of several sectoral policies (see figure to the left). It can thus provide a strategic overview of the combined wellbeing outcomes of these policies at EU and Member-State level.

In addition to tracking EU and Member States wellbeing performance over time, an objective of the SIWB initiative was to compare the EU to other major economies. For this purpose, the original multidimensional summary dashboard of 50 indicators was extended beyond EU countries, mimicking the original indicators closely. From the original 50 indicators, 30 are (almost) identical, 8 are missing, 5 are related (similar measure of a similar concept), and 7 are loosely related (a different measure of a similar concept). The country set contains 22 EU countries, the EU, Australia, Canada, Iceland, Japan, Norway, South Korea, Switzerland, Türkiye, the UK, and the US. The latest available year is 2023. Among other, the global

extension for the SIWB dashboard shows that GDP-based comparisons substantially overstate the American economy's and society's advantage vis-à-vis Europe.

The aforementioned global extension of the SIWB dashboard is the source of the indicators presented in Chart 1 of Box 1.2 and expressed in the following units of measurement:

- Employment rate: age group 15-64 (ILO).
- Household income: Household net adjusted disposable income, measured in USD at 2021 PPPs per capita (OECD Wellbeing Database).
- Housing cost overburden: Percentage of households spending more than 40% of their disposable income on housing costs. Housing costs cover only those relating to mortgage costs (principal repayment and interest payments) and rental costs (for both private market and subsidised rental housing). For some countries, there can be small deviations from the general definition (OECD Affordable Housing Database).
- Life satisfaction: Average score reported by people when asked to evaluate their current life from 0 (worst possible) to 10 (best possible) (World Happiness Report, based on Gallup).
- NEET: Percentage of youth (aged 15-24) not in employment, education or training (NEET) (ILO, SDGs).
- Poverty rate (AROP): Proportion of population below 60% of the national median of disposable income (OECD Income Distribution Database).
- Road deaths: Road deaths, rate per 100 000 population. Road deaths refer to persons killed immediately or dying within 30 days because of a road accident, excluding suicides (OECD Wellbeing Database).
- Suicide mortality rate: deaths by suicide per 100,000 population (UN SDGs).
- Homicide rate: deaths by intentional homicide per 100,00 population (UN SDGs).
- Trust in government: Proportion of the population responding "yes" to a question about confidence in the national government (OECD Wellbeing Database, based on Gallup).
- GHG per capita: Greenhouse gases (total emissions including land use, land-use change, and forestry) expressed in thousands of kilogrammes of CO2-equivalent per person (OECD Greenhouse gas emissions inventories).
- Sustainable transport modes: share of collective transport modes (buses, coaches and trolley buses, and trains) in total inland passenger transport (passenger cars, buses, coaches and trolley buses, and trains), expressed in passenger-kilometres (pkm) (OECD data, with Eurostat data for Luxembourg, Cyprus, Ireland, Austria, Türkiye, Latvia, Estonia, Romania, Bulgaria, and EU27).