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PROPOSAL

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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
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PROPOSAL FOR A JOINT EMPLOYMENT REPORT FROM THE COMMISSION AND THE COUNCIL

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KEY MESSAGES

The Joint Employment Report (JER) by the European Commission and the Council monitors the employment situation in the Union and the implementation of the Employment Guidelines, in line with Article 148 of the TFEU. The report provides an annual overview of key employment and social developments in the Union and of Member States' recent policy measures, in line with the Guidelines for the Employment Policies of the Member States[1], and identifies related key priority areas for policy action. It maintains a strong focus on the implementation of the European Pillar of Social Rights, notably via thematic boxes related to different Pillar principles in light of the socio-economic outlook and most recent policy initiatives. Chapter 1 of the report presents an overview of key employment and social trends and of progress made on the 2030 EU headline and national targets. It also reports horizontal findings based on the analysis of risks to upward social convergence. Chapter 2 analyses challenges and policy responses in the Member States for each of the four employment guidelines. Chapter 3 provides analysis for each Member State based on the principles of the Social Convergence Framework (SCF)[2]. The analysis is in line with Article 148 TFEU. It also responds to Article 3(3), point (b) of Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, based on which the surveillance by the Commission of the implementation of the employment guidelines in the European Semester includes a framework to identify risks to social convergence[3]. Addressing the challenges identified in the JER will contribute to achieving upward social convergence, strengthen the Union's drive towards fair green and digital transitions and contribute to facing demographic change, as well as the achievement of the Sustainable Development Goals and the implementation of the Union of Equality Strategies[4]. Based on the Commission's proposal, and following exchanges in the relevant Council advisory committees, the final text of the report will be adopted by the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council.

The report monitors progress towards the 2030 EU headline targets on employment, skills, and poverty reduction, which were welcomed by the EU leaders at the Porto Social Summit and by the June 2021 European Council. The EU is on track to meet its headline employment rate target by 2030, despite the economic slowdown, while signficant further efforts are needed to reach the EU headline skills and poverty reduction targets:

- The EU employment rate reached 75.3% in 2023, which is only 2.7 pps from the 78% target by 2030. Most Member States made further progress towards their national employment targets in 2023, while five already achieved or surpassed theirs.

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[1] The last update of the Employment Guidelines was adopted by the Council of the European Union in November 2024 (OJ L 2024/3134, 13.12.2024).

[2] Following discussions in the EPSCO Council in June 2023 on a Social Convergence Framework (SCF) and key messages by EMCO and SPC based on the work conducted by the devoted joint EMCO-SPC Working Group from October 2022 until May 2023.

[3] In addition, Recital 8 of the same Regulation states that '*As part of its integrated analysis of employment and social developments in the context of the European Semester, the Commission assesses risks to upward social convergence in Member States and monitors progress on the implementation of the principles of the European Pillar of Social Rights on the basis of the Social Scoreboard and of the principles of the Social Convergence Framework*'.

[4] The Gender Equality Strategy 2020-25, the EU Anti-racism Action Plan 2020-25, the EU Roma strategic framework for equality, inclusion and participation for 2020-30, the LGBTIQ Equality Strategy, the Strategy for the Rights of Persons with Disabilities 2021-30.

- Regarding skills, the adult participation in learning rate saw only some limited progress in the EU, from 37.4% in 2016 to 39.5% in 2022, which remains far from the 60% EU headline target. Also, the majority of Member States lost ground in the pursuit of their national targets. This points to the need for substantial further efforts, in line with the ambition for Europe to remain competitive, innovative and inclusive in the context of the green and digital transformations and population ageing.
- The number of people at-risk-of poverty or social exclusion was around 1.6 million lower in the EU in 2023 than in 2019, despite the COVID-19 crisis, high energy costs and inflation. This remains far from the EU headline target of at least 15 million by 2030. In nearly half of the Member States, the number of people at risk increased, pointing to the opposite direction compared to the ambitions embedded in the national targets. In this light, efforts will need to be accelerated significantly in the remainder of the decade.

Together with cohesion policy funds, the implementation of the reforms and investments in Member States' recovery and resilience plans (RRPs) supports fair, inclusive and sustainable growth. Alongside the support provided to policy interventions in the respective policy areas by the European Social Fund Plus (ESF+), the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the Technical Support Instrument (TSI), the Recovery and Resilience Facility (RRF) promotes the Union's economic, social, and territorial cohesion by improving the competitiveness, resilience, crisis preparedness, adjustment capacity, and growth potential of the Member States, and fostering high quality job creation through relevant reforms and investment. In this way, the Facility also contributes to the implementation of the European Pillar of Social Rights[5]. A total of around EUR 162.5 billion allocated to Member States contributes to social spending, which represents about 25% of the total estimated expenditure[6]. To date, the Commission has disbursed around EUR 269 billion under the RRF in both grants and loans as well as pre-financing. Out of the 7 129 milestones and targets included in the 27 RRPs, 2 201 are expected to contribute to social policies (around 31%). Out of the 1742 milestones and targets fulfilled as of 14 November, 505 foster social policies (around 30%). As part of the policy response analysis, the JER also includes a selection of measures supported by EU funding, notably the RRF, ESF+, ERDF, JTF and the TSI. All these support growth and employment prospects as well as social and economic cohesion and resilience in the Union.

The 2025 JER delivers country-specific analysis based on the principles of the Social Convergence Framework (SCF), in line with Article 3(3), point (b) of Regulation (EU) 2024/1263. Relying on existing tools (the Social Scoreboard and the agreed JER traffic-light methodology), Member States' labour market, skills and social challenges are analysed in order to identify potential risks to upward social convergence that require deeper analysis in a second stage. All in all, the first-stage analysis of the SCF points at the following:

i. continued upward convergence in the labour market in 2023, while employment outcomes of under-represented groups still need to improve;
ii. slight improvements at EU level regarding skills, though risks to upward convergence persist in this domain;
iii. broad stability of the at-risk-of poverty or social exclusion rate at EU level, while some risks to upward convergence remain regarding social outcomes.

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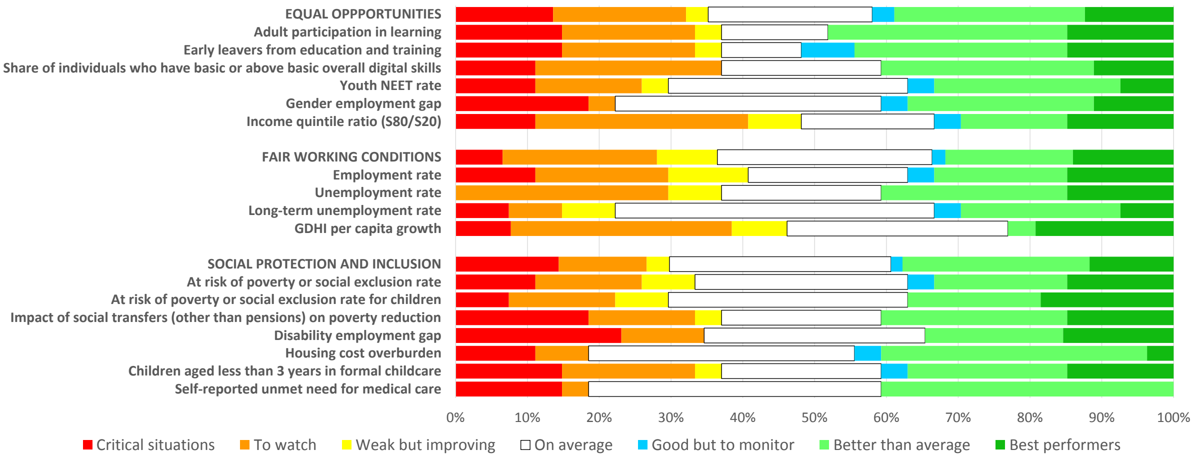
[5] Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17.

[6] Social spending categories are defined and applied based on the methodology adopted by the Commission in consultation with the European Parliament and the Member States in the Delegated Regulation 2021/2105.

A more detailed second-stage analysis (using a wider set of quantitative and qualitative evidence) will be conducted by the Commission services in relation to the countries for which potential risks to upward social convergence are identified in the first stage. These are Bulgaria, Estonia, Spain, Italy, Lithuania, Hungary, Romania, which were in the second-stage last year too, as well as Greece, Croatia and Luxembourg that enter it for the first time this year. For Greece, this is due to some deteriorations or broad stability at levels that are still far from the EU average in the social domain (housing cost overburden; self-reported unmet needs for medical care; AROPE – overall and for children; impact of social transfers on poverty reduction; income inequalities); persisting labour market challenges for women and the youth; and a low and deteriorating participation of adults in learning. For Croatia, the identification for the second-stage analysis relates to the area of skills (low and deteriorating adult learning participation; significant deterioration in the share of adults with at least basic digital skills); an overall employment rate that remains lower than the EU average, despite improvements, and a still difficult employment situation of persons with disabilities; as well as some challenges in the social domain (impact of social transfers on poverty reduction; income inequalities). For Luxembourg, the identification for the second-stage analysis relates to the recent significant worsening in some social indicators (AROPE - overall and for children; impact of social transfers on poverty reduction) as well as a persistently high housing cost overburden rate; the recently deteriorating labour market trends (unemployment and long-term unemployment rates; disability employment gap), as well as the decrease in the share of adults with at least basic digital skills, even if the statistics remains well above the EU average. A more detailed analysis is presented in Chapter 3 of the report for each of the 27 Member States.

Employment, skills and social challenges across EU Member States by headline indicators of the Social Scoreboard



Note: Data are missing for some indicators for some countries – see Table 1.4.1 in section 1.4. Explanation for legends is provided in Annex 6.

Despite the weak economic environment in 2023, labour market outcomes remained strong on average in the EU, with still robust employment growth. The EU employment rate reached a new record high of 75.3% in 2023 (up by 0.7 pps from 2022), growing further to 75.8% in Q2-2024. The annual growth rate of 1.1% marked a return to the pre-COVID-19 averages (2013-19), following the rapid post-pandemic recovery in 2022 (+2.3%). At the same time, the EU unemployment rate decreased to the record low of 6.1% in 2023 and reached 5.9% in September 2024. While decreasing unemployment was the main driver of employment growth before the COVID pandemic, low unemployment levels have shifted the focus to labour force growth as the main source of employment gains. In 2023, around 90%

of employment growth was explained by an expansion of the labour force. This was largely driven by prime-age (25-54) workers with tertiary education, with many of them being third-country nationals, as well as by older workers with secondary or tertiary education. Also, employment growth was stronger in sectors experiencing significant labour shortages, such as ICT and construction. This can be attributed to both growing labour supply and a shift in job allocation towards these high-demand sectors. Overall, a convergence of employment rates across Member States was observed, although significant regional disparities persist in many Member States. Recent Council Conclusions are addressing the issues of access to enabling and employment services to promote the social inclusion of people at risk of poverty including Roma, by reducing territorial inequalities[7].

A robust labour market despite slower economic growth

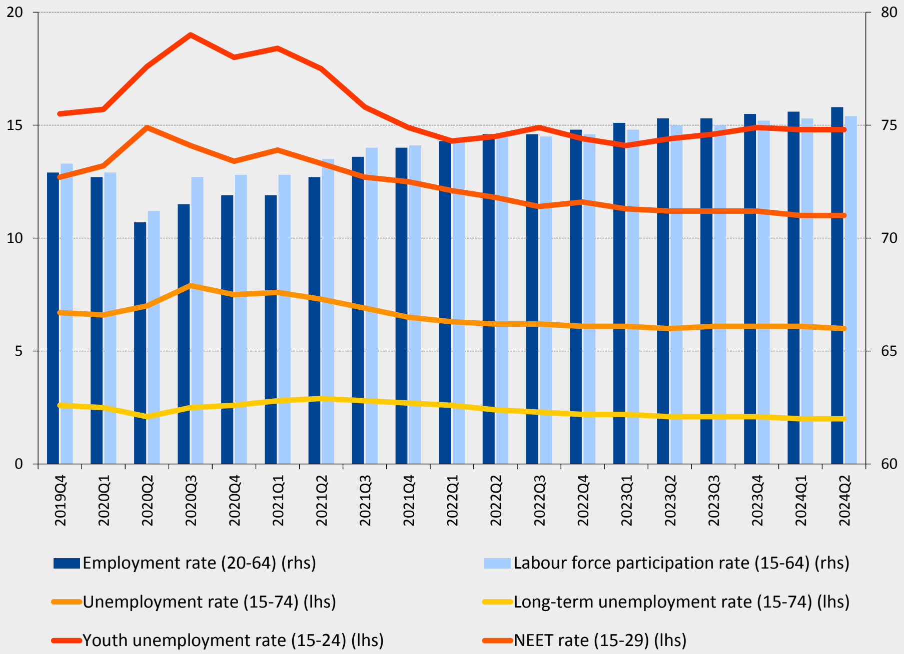
75.8% employment rate (20-64) in Q2-2024 (+0.5 pps year on year)

75.4% labour force participation rate (15-64) in Q2-2024 (+0.4 pps year on year)

6.0% unemployment rate (15-74) in Q2-2024 (unchanged year on year)

14.8% youth unemployment rate (15-24) in Q2-2024 (+0.4 pps year on year)

Key labour market indicators in the EU-27 (%, quarterly)



Source: Eurostat [lfsi_emp_q], [une_rt_q], [une_ltu_q] and [lfsi_neet_q]. Seasonally adjusted, not calendar adjusted data.

Labour productivity growth in the EU is slow. While the labour productivity's growth rate was around 1.4% annually on average before 2007, it slowed down to 0.8% between 2010 and 2019 and further declined to 0.7% in 2023. It therefore remains structurally low, and risks undermining the EU's global competitiveness and its performance in terms of future growth potential, job creation, and living standards. The main factor behind this low labour productivity growth is the weak growth of total factor productivity. Among the root causes to this, Mario Draghi's report on The Future of European Competitiveness highlights significant gaps in the EU's high-tech specialisation, innovation, and investment, particularly when compared to the United States. The fragmentation of the Single Market and regulatory complexity are also referred to as important factors. Importantly, labour and skills shortages delay technology adoption and increase costs, further reducing labour demand. As

[7] Approved by the EPSCO Council on 2 December 2024.

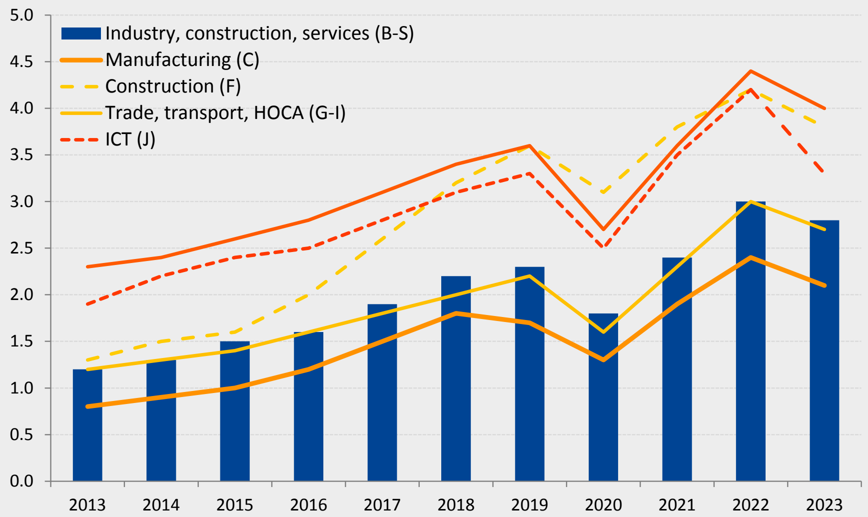
emphasized in Draghi's report, adapting education and training systems to evolving skills needs, particularly for the twin transition, prioritizing adult learning and vocational education and training are essential for boosting competitiveness. Reducing administrative barriers, regulatory and reporting burdens, fostering innovation, and supporting effective collective bargaining can help ensure productivity gains, and sustain wage growth and competitiveness.

Labour shortages remain significant in the Union

Vacancy rates at or above 3% in professional, scientific, and technical activities, information and communication and construction in 2023

20% higher labour shortages in 2023 compared to 2019

Job vacancy rates in the EU by economic activity (%, annual data)



Note: NACE 2 activities, B-S (Industry, construction, and services (except activities of households as employers and extra-territorial organisations and bodies), C (manufacturing), F (construction), G-I (wholesale and retail trade, transport, accommodation, and food services), J (information and communication), M-N (professional, scientific, and technical activities).
Source: Eurostat [jvs_a_rate_r2]

Labour and skills shortages are on a decreasing trend but remain significant in the EU; addressing them is crucial to boost the EU's competitiveness, innovation capacity and inclusive and sustainable growth. Over the past decade, labour and skills shortages have increased across all Member States. Although the seasonally adjusted vacancy rate decreased from 2.9% in Q1-2023 to 2.4% in Q2-2024, reflecting weaker economic growth and more subdued hiring expectations, it remains well above the pre-pandemic (2013-19) average of 1.7%. These shortages are driven by demographic change, the demand for new skills linked to technological developments and the twin transition (including engineering, technical, scientific, operational, and monitoring skills)[8], as well as poor working conditions in certain sectors. They are reported by companies of all sizes and sectors and are particularly persistent in the care sector, education, STEM fields (notably ICT), construction, transport, and certain service-based occupations (e.g. cooks and waiters). While labour shortages can indicate a potentially strong economy, empowering workers to negotiate better wages and working conditions, at the same time, especially when protracted, they hinder productivity and innovative capacity, weakening the EU's competitiveness, pose bottlenecks to growth and hamper progress on the green and digital transitions. Concerted and reinforced action at the EU, Member States' and regional level, also involving social partners and other relevant stakeholders, is key to tackle these shortages. In March 2024, the Commission presented an Action Plan[9] to tackle labour and skills shortages, prepared in close cooperation with the

[8] See UNIDO, What are green skills?, 2023.
[9] See European Commission, Commission sets out actions to tackle labour and skills shortages, 2024.

social partners. It builds on the numerous initiatives already taken and sets out new actions that the EU, the Member States, and social partners will or should take to address labour and skills shortages. These include measures relating to the labour market activation of under-represented groups; support to skills and education; improving working conditions; enhancing fair intra-EU mobility and complementing the latter by attracting talent from outside the EU.

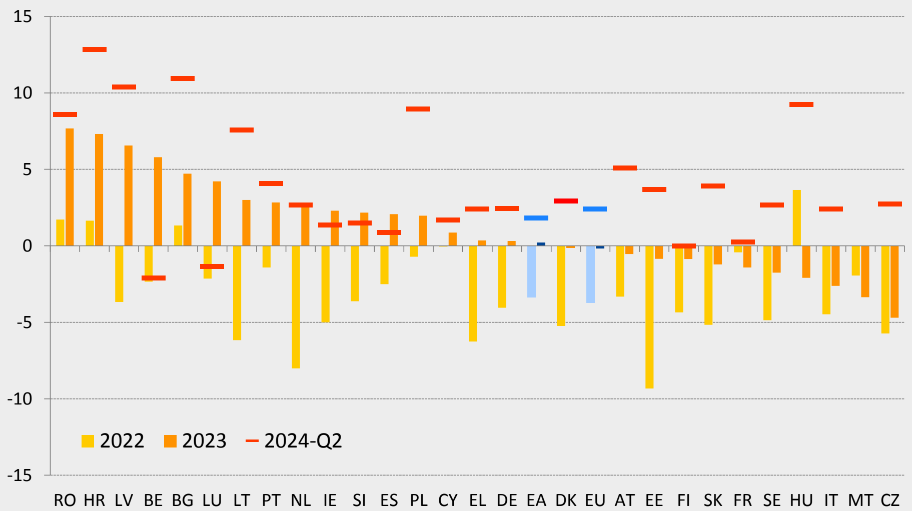
Wage growth in the EU remained robust in 2023 while varying significantly across Member States. Annual growth in nominal compensation per employee reached a record high of 6.1% (year-on-year) in the EU, after 4.9% in 2022, in a context of still high inflation and tight labour markets. It then decreased to 5.0% in Q2-2024 as inflation eased. After a substantial decline (-3.7%) in 2022, real wages started to grow in the second half of 2023, reaching 2.4% (year-on-year) in Q2-2024. This rebound was driven by decreasing inflation and continued robust nominal wage growth. Despite these recent improvements, in 2024, real wages remain below pre-pandemic levels on average in the EU and in eight Member States (Czechia, Denmark, Finland, Italy, France, Germany, Greece and Sweden). Statutory minimum wages' increases largely offset the loss of purchasing power for minimum wage earners in most Member States. These were primarily the result of the routine annual updates in January 2023 and 2024, alongside substantial adjustments throughout both years. The transposition of the Directive on adequate minimum wages[10] will be essential for safeguarding the purchasing power of those with low wages as well as preventing and fighting poverty risks among the employed, while reinforcing incentives to work. The Directive also includes measures aimed at encouraging collective bargaining as well as improving the mechanisms for enforcement and oversight across Member States.

Real wages are rebounding but did not recover from losses in prevous years

Nominal compensation per employee increased by 6.1% in 2023, and **by 5%** in Q2-2024

Yet, **real wages declined by 0.2%** in 2023, and **increased by 2.4%** in Q2-2024

Real gross wages and salaries per employee
(annual % change; 2022, 2023 and Q2-2024)



Source: European Commission, AMECO database, Nominal gross wages and salaries per employee [hwwdw]; deflator: Harmonised index of consumer prices [prc_hicp_midx]. For Q2-2024: EMPL calculations based on Eurostat data, Wages and salaries [namq_10_gdp], Total employment (domestic concept) [namq_10_a10_e] and Harmonised index of consumer prices [prc_hicp_midx].

[10] Directive 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union (OJ L 275, 25.10.2022, p. 33).

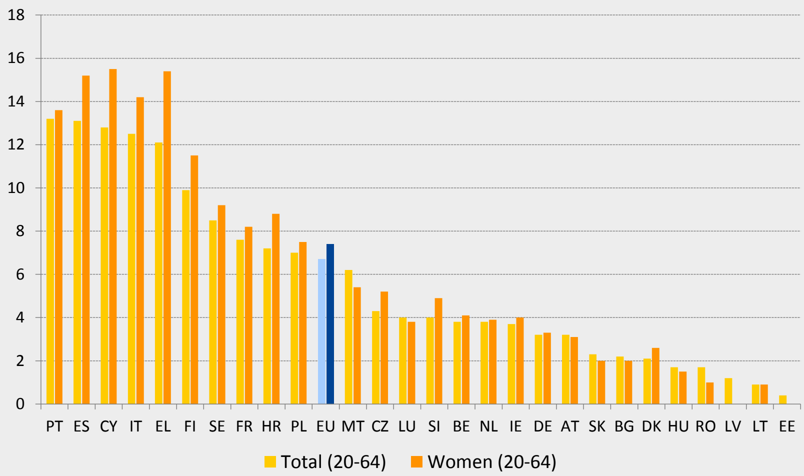
In-work poverty declined slightly in the EU in 2023, but still affected one in twelve workers, and was significantly higher for non-standard forms of work. Overall, the share decreased to 8.3% in 2023 from 8.5% in 2022, and was lower compared to a decade earlier and to just before the COVID-19 pandemic. In-work poverty was declining in almost half of the Member States in 2023, despite many of them facing high inflation and significant drops in real wages in 2022. This suggests that, in these countries, median incomes fell more sharply than the incomes of the working poor, which were supported by updates to minimum wages and social transfers. Early Eurostat estimates suggest that in-work poverty will remain stable in 2024 (referring to 2023 incomes). As in previous years, in-work poverty across the EU was significantly higher among non-EU citizens and those born outside the EU (22.5% and 18.5% respectively), low-educated workers (18.4%), part-time employees and temporary workers (12.6% for both) and households with dependent children (10.0%). In-work-poverty was higher for people in non-standard forms of employment (temporary employees, part-timers, self-employed), even if social protection benefits played a relatively more important role in reducing their poverty risks. The coverage by social benefits varied widely across Member States and for different categories of workers. Self-employed at risk of poverty before social transfers were the least likely to receive social benefits, with a coverage at 12.7% in 2023 in the EU. With regard to formal coverage[11], in spring 2023 there remained gaps in fifteen Member States for at least one group of non-standard workers in at least one branch of social protection, which was most often unemployment, sickness and/or maternity benefits.

There are large differences in the involuntary component of temporary work across Member States, with greater incidence among women

12.3%
of workers (20-64) on **temporary contracts** in 2023 in the EU

7.4%
of **women** (20-64) **on involuntary temporary contracts** (vs 6.2% for men)

Involuntary temporary employees as a percentage of the total number of employees (20-64) (in %, 2023)



Source: Eurostat [lfsa_etgar] and [lfsa_etgar], EU LFS.

While flexibility is highly valued by some workers, labour market segmentation that persists over time can negatively impact social fairness. For some groups, especially the young and high-skilled, non-permanent jobs and part-time employment can facilitate labour

[11] Formal coverage of a group means that in a specific social protection branch (e.g. old age, sickness, unemployment, maternity) the existing legislation or collective agreement states that the individuals in the group are entitled to participate in a social protection scheme covering a specific branch.

market entry and skills development, as well as provide greater flexibility and work-life balance. However, persistent gaps in job security and working conditions between workers (often with consequences in terms of access to social protection) create divides that tend to increase inequalities. In particular, temporary employment is associated with higher job insecurity when it does not act as a stepping-stone towards more permanent contracts. The precariousness that ensues from this also contributes to less favourable working conditions in certain sectors and occupations with high and persistent labour shortages. On the background of high employment in the EU, the share of workers on temporary contracts among all employees decreased slightly (from 12.9% in 2022 to 12.3% in 2023), with substantial variation across Member States (from above 15% in some to below 3% in others). In particular, some Member States continue to experience high shares of temporary contracts alongside low transition rates to permanent jobs. Temporary contracts also continue to be more widespread among young people and women. Moreover, in 2023 more than half of temporary workers were involuntarily on such contracts in the EU, with a slight decrease compared to 2022 (and again significant differences between Member States), as well as a greater incidence for women. At the same time, the share of part-time employment slightly increased in the EU in 2023. Despite improvement, the latter still displays a significant involuntary component too in several Member States. Labour market segmentation can be addressed, among others, by tailored active labour market policies that encourage upward job transitions, and also incentives for employers to hire and retain workers.

Digital labour platforms represent an increasingly important part of the EU economy, providing job opportunities but also posing specific challenges, notably related to the workers' employment status. Between 2016 and 2020, revenues from the EU platform economy grew almost fivefold, and more than 28 million people were estimated to work through digital labour platforms in 2020, with the number deemed to be steadily growing[12]. The majority of these people are genuinely self-employed, while 5.5 million were estimated to be incorrectly classified as self-employed. More than half of the people working through platforms earn less than the minimum wage[13]. Against this background, the Directive on improving conditions in platform work[14] aims, among others, to address the issue of bogus self-employment on digital labour platforms by facilitating the correct determination of the employment status through a legal presumption of employment. Furthermore, it provides both employed and self-employed platform workers with new rights ensuring more transparency, fairness and accountability on algorithmic management. The Directive also strengthens social dialogue and collective bargaining.

Rapid advancements in artificial intelligence (AI) and other digital technologies, including data analytics, virtual worlds, cybersecurity, quantum, cloud and edge computing, are driving profound transformations in the labour market that require close monitoring and appropriate policy responses. This can be expected to impact on the quantity and quality of jobs, and on workers' quality of life. While recent studies[15] confirm

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[12] European Commission, Staff Working Document – Executive summary of the impact assessment report accompanying the proposal for a directive of the European Parliament and of the Council on improving working conditions in platform work, Publications Office of the European Union, 2021.

[13] European Commission, Study to gather evidence on the working conditions of platform workers, Publications Office of the European Union, 2024.

[14] Directive (EU) 2024/2831 of the European Parliament and of the Council of 23 October 2024 on improving working conditions in platform work, OJ L, 2024/2831, 11.11.2024.

[15] See Albanesi, S., Da Silva, A., Jimeno, J., Lamo, A., & Wabitsch, A., *New technologies and jobs in Europe*, ECB Working Paper No. 2023/2831, 2023, and Hayton, J., Rohenkohl, B., Christopher, P., Liu, HY, *What*

that in the short term the main net employment impact of AI adoption might be positive, increasing the demand for the skills needed for its development and adoption, the employment gains should be cautiously balanced against the potential of AI to replace routine jobs[16]. Moreover, unlike previous waves of automation, generative AI could significantly impact high-skilled workers. In addition, automation through AI-powered advanced robotic technologies can heavily impact production processes and service delivery, while changing job profiles and increasing the need for digital, analytical and soft skills[17]. In this context, the EU's AI Act[18] (entered into force in August 2024) aims to ensure that AI is trustworthy, safe and in line with EU fundamental rights.

Telework offers opportunities like more autonomy and flexibility. At the same time, the new work model based on hybrid work arrangements may also foster an 'always-on' culture, which may result in frequent additional and unpredictable working hours that can be detrimental to workers' work-life balance, health and well-being. Evidence suggests that, while stressors such as work intensity, work-life interference and working in one's free time affect all workers, their effect is stronger for employees who telework than for those who work at their employer's premises. Anxiety, emotional fatigue, exhaustion due to prolonged exposure to virtual meetings, and isolation represent some of the most reported mental health issues among teleworkers[19]. To mitigate the risks of an 'always-on' culture, the 'right to disconnect' could help draw clearer boundaries between one's professional and private life, hence contributing to workers' health, safety and work-life balance. Against this background, following a resolution from the European Parliament to present a legislative proposal on the right to disconnect and an EU legislative framework for telework[20],the Commission launched a study to gather evidence and analyse the added value and impacts of potential policy options of an initative on telework and the right to disconnect, and initiated a formal two-stage consultation.

While youth unemployment rates are again on the rise in the majority of Member States amid weaker economic growth, the share of young people neither in employment nor in education and training (NEET) continues to decline, yet with gender disparities and challenges for young people with a migrant background. After steadily recovering since the peak of the COVID-19 pandemic, the youth unemployment rate (15-24) stayed at 14.5% in 2023, showing no change compared to the previous year amid weaker economic growth. While rates continued to decline in countries with very high levels, confirming a trend of convergence across the EU over the last five years, they started to rise again in many others. At the same time, the youth unemployment rate remains more than twice as high as the

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drives UK firms to adopt AI and robotics, and what are the consequences for jobs?, University of Sussex, 2023.

[16] European Commission, Artificial Intelligence: Economic Impact, Opportunities, Challenges, Implications for Policy (Discussion Paper 210), Publications Office of the European Union, 2024.

[17] Eurofound, Human–robot interaction: What changes in the workplace?, Publications Office of the European Union, 2024.

[18] Regulation 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence and amending Regulations (EC) No 300/2008, (EU) No 167/2013, (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1139 and (EU) 2019/2144 and Directives 2014/90/EU, (EU) 2016/797 and (EU) 2020/1828 (Artificial Intelligence Act), OJ L, 2024/1689, 12.7.2024.

[19] European Commission, Study exploring the social, economic and legal context and trend of telework and the right to disconnect, in the context of digitalisation and the future of work, during and beyond the COVID-19 pandemic, Publications Office of the European Union, 2024.

[20] P9_TA (2021)0021 European Parliament resolution of 21 January 2021 with recommendations to the Commission on the right to disconnect (2019/2181(INL)).

overall unemployment rate, and is particularly prevalent among youth with low qualifications and those born outside the EU. On the positive side, the share of NEETs continues to decline, having reached 11.2% in 2023. This trend aligns with increasing youth participation in the labour market, displaying some signs of convergence across the EU. Still, youth NEET rates continues to be higher (by 2.4 pps) for women than for men and for the non-EU born compared to the native born (by 9.3 pps). All this underlines the need for continued action to tackle the structural challenges that hinder young people's progress in the labour market, particularly in light of the green and digital transition, widespread labour and skills shortages, and the longer-term risks posed to their career prospects by delayed labour market integration. Against this background, the reinforced Youth Guarantee supports NEETs offering quality employment, further education, apprenticeships or traineeships within four months of becoming unemployed or leaving formal education[21].

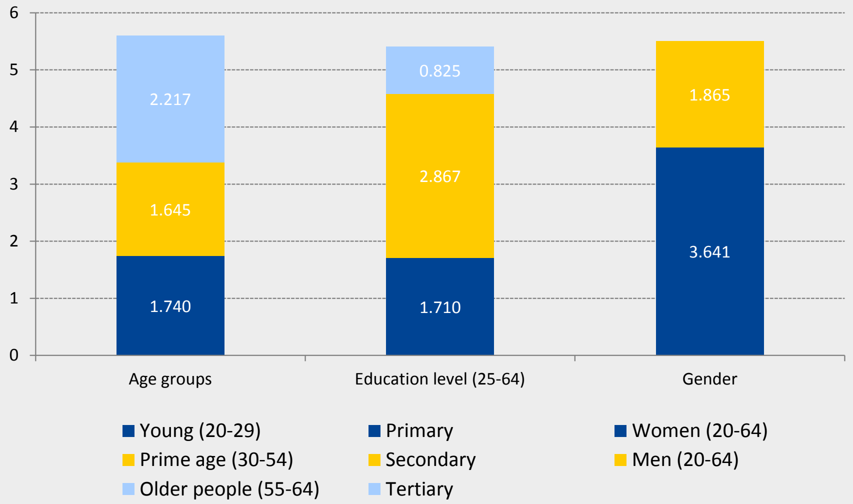
Tailored support could strengthen the labour market participation of underrepresented groups in the EU

If Member States with **lower-than-EU average shares of people in the labour force for specific subgroups** were to **increase participation to the respective EU-subgroup averages** by 2030:

- **an additional 3.6 million women,**
- **2.9 million secondary-educated people,**
- **and 2.2 million older workers,**

respectively, would be in the labour market.

Potential contribution of different population groups to the aggregate share of people in the EU labour force by 2030 (in million)



Note: Simulation of 2030 EU share of people in the labour force if Member States with below-average shares of people in the labour force per subgroup caught up to the EU subgroup average, while similar shares for the other subgroups are assumed to remain constant. This calculation neglects overlaps and possible double-counting between groups and should not be confused with a forecast.
Source: DG-EMPL calculations, based on Eurostat data and EUROPOP2023 projections.

While employment rates of older people have increased considerably since 2009, stark variation across Member States persists. Despite recent improvements, population ageing is expected to increase economic dependency in the EU and negatively impact long-term competitiveness and economic growth potential in absence of policy action. By 2045, for every 10 retirees, there will be only 16 workers, down from 22 in 2022, and this could further drop to 14 by 2070[22]. Against the background of ageing societies, the labour market

[21] Council Recommendation of 30 October 2020 on A Bridge to Jobs – Reinforcing the Youth Guarantee and replacing the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee 2020/C 372/01, OJ C 372, 4.11.2020, p. 1.
[22] European Commission, 2024 Ageing Report, Publications Office of the European Union, 2024.

participation of older people and active ageing acquires particular importance, the more so in the light of the sizeable labour shortages. In 2023, the employment rate of older people (55-64) reached 63.9%, nearly 20 pps higher than in 2009, with women's employment rate showing stronger gains. Even though the increase in older people's employment was more than four times higher than for the prime-age population (25-54), their employment rate remained 18 pps lower, highlighting significant room for further progress. The growth recorded was primarily attributed to increased job retention rather than new hiring, which remained persistently low during this period. In particular, older people with higher education levels tend to stay longer in the labour market, while those with lower education are more likely to exit early. Poor working conditions – both physical and psychological – are key factors driving early retirement and also hindering re-entry into the labour market[23]. Moreover, illness or disability are important reasons to remain outside the labour force alongside care responsibilities, workplace-related factors and institutional barriers, such as social security and pension regulations, which need to be tackled to allow greater labour market participation, in line with the demography toolbox.

The gender employment and pay gaps contribute to persistent gender inequalities in the labour market with only modest signs of convergence. In 2023, the gender employment gap in the EU was 10.2 pps. This gap narrowed slightly in recent years, reflecting a stronger increase in employment for women, but remains substantial, and shows large disparities across Member States and regions. Given the higher prevalence of part-time work among women (almost four times than for men), the gender employment gap widens when accounting for this (to 15.7 pps 'in full-time equivalent'). Gender employment gaps are even wider for people with children, with parenthood impacting women's careers more than men's. In most countries, this is evident in both lower female employment rates and higher part-time work among women. Finally, while the gender pay gap narrowed over the past decade, it remains substantial in most Member States. It was at 12.7% on average for the EU in 2022. Pay gaps are driven, among other factors, by gender differences in economic activities and occupations, under-representation of women in senior positions, over-representation in part-time and non-permanent forms of employment, difficulties in reconciling work with care responsibilities, as well as discrimination and non-transparent wage structures. Over time, the aggregation of these earning gaps (compounded by career breaks for care) leads to substantial gender gaps in pensions. There is therefore scope for sustained policy action to address barriers to women's labour market participation, including by improving the provision and accessibility of quality and affordable early childhood education and care and long-term care, as well as the functioning of the tax system to create better incentives, and in line with the objectives set out in the EU Gender Equality Strategy 2020-25, the Council Recommendations on early childhood education and care (including the new Barcelona targets) and on access to affordable high-quality long-term care[24].

The deterioration of basic skills among European pupils, together with persistent teacher shortages risks to affect labour productivity, competitiveness and social cohesion. Basic skills serve as building blocks for enabling people to navigate the complexities of life, continue learning later in life and contribute meaningfully to society and the economy. They support labour productivity and the innovation pace required by the

[23] See: Eurofound, Keeping older workers engaged: Policies, practices and mechanisms, Eurofound Working Paper, Publications Office of the European Union, 2024.

[24] Council Recommendation of 8 December 2022 on early childhood education and care: the Barcelona targets for 2030 2022/C 484/01 and Council Recommendation of 8 December 2022 on access to affordable high-quality long-term care 2022/C 476/01.

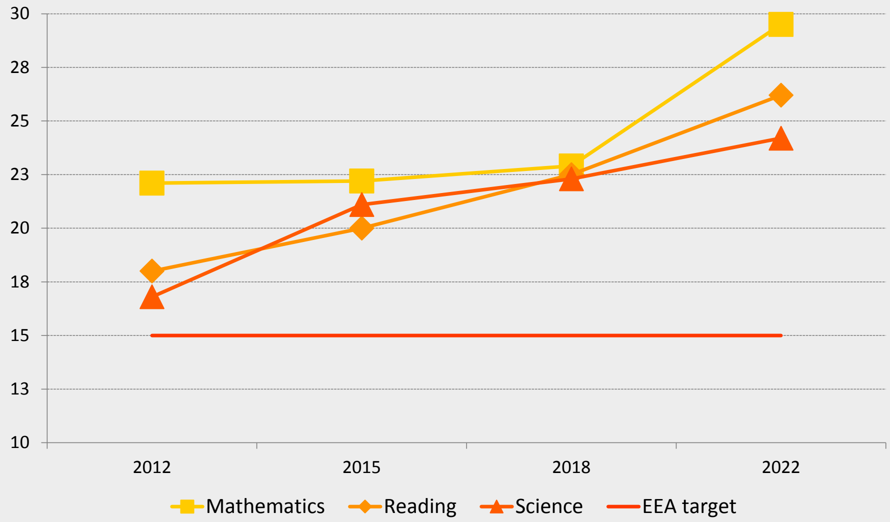
digital transition. The results from the OECD Programme for International Student Assessment (PISA) 2022 revealed that almost one in three 15-year-olds lack basic skills and fail to reach the minimum competence level in mathematics, and one in four in reading and science. Today, the EU is further away from its European Education Area target of at most 15% of 15-year-olds underachieving by 2030. The decline has been the sharpest in maths (-6.6 pps since 2018). Top performance has also declined across the board and the worsening trend concerns the entire socio-economic distribution, which points to overall major challenges in basic skills development. At the same time, as underachievement is much more frequent among disadvantaged students, educational inequalities have widened further. Almost half (48%) of disadvantaged students underperform in maths, after a significant increase from 38.2% in 2018. In this context, the persisting lack of qualified teachers across the EU, aggravated in the last few years by, among others, the COVID-19 pandemic, threatens to compound the challenge of improving young people's basic skills. At the same time, results from the International Computer and Information Literacy Study (ICILS) 2023 show that 43% of 13-14-year-olds possess none or only limited digital skills. These recent trends highlight the need for renewed and enhanced efforts building on existing initiatives and further boosting the implementation of the Pathways to School Success Recommendation[25].

Basic skills of European students continue to deteriorate

Underachievement rates have largely increased **in mathematics** (**+6.6 pps**) and **reading** (**+3.7 pps**), and more moderately in **science** (**+1.9 pps**)

The **top performance rate** declined: **-3.1 pps in mathematics** and **-1.6 pps** in **reading**, while having increased slightly in **science** (**+0.6 pps**)

Share of students who are not able to reach the minimum competence benchmark PISA Level 2 (%)



Note: Caution is required when interpreting the 2022 EU value: one or more PISA sampling standards were not met by Denmark, Ireland, Latvia and the Netherlands (see OECD, PISA 2022 Results (Volume 1), A2 and A4). 2012 data is missing for Malta.
Source: OECD, PISA 2012, 2015, 2018, 2022, DG EAC calculations.

While early school leaving, higher education attainment and labour market outcomes of VET graduates improved, challenges remain related to education and training systems, such as regional differences, gender gaps, social inequalities and an insufficient supply of graduates from STEM fields. Early school leaving decreased slightly in the EU since

[25] Council Recommendation of 28 November 2022 on Pathways to School Success and replacing Council Recommendation of 28 June 2011 on policies to reduce early school leaving 2022/C 469/01.

2022, affecting 9.5% of 18-24-year-olds in 2023 (2.3 pps lower than 10 years ago). Yet, there is no sign of upward convergence among Member States. Young men are much more likely to be early leavers. While the positive trend of the past decade continues for girls, it seems to have stalled for boys. Moreover, young people born outside the EU, young Roma and young persons with disabilities are more likely to leave education and training early. The EU is on track to reach its tertiary educational attainment target, following increases in all but three Member States over the last five years. In 2023, 43.1% of 25-34-year-olds held a tertiary degree in the EU, making it the most common level of attainment among young adults (with however young women much more likely to hold a tertiary degree than men). Gender differences in subject choices persist (e.g. with education and health being dominated by women, and ICT and engineering by men). As access to higher education for young people from disadvantaged backgrounds remains a challenge, already existing socio-economic disparities risk to be reinforced. With tertiary educational attainment growing, increasing the flexibility and labour-market relevance of higher education is important to address skills shortages, in particular in STEM fields. Employment outcomes for recent graduates from vocational education and training (VET) continued to improve across the EU. Four out of five recent VET graduates were employed and almost two-thirds gained experience at a workplace in 2023, yielding them higher employment rates than their peers without such experience (84.8% vs 71.5%). However, large differences across countries remain, both in terms of work-based learning and the employment prospects of VET graduates.

Improving adults' skills is essential for productivity, competitiveness and for preserving social cohesion and enhancing labour market inclusion while supporting the twin transition; yet participation in adult learning varies markedly across Member States and population groups. A May 2023 Eurobarometer survey of small and medium enterprises (SMEs)[26] found that more than half of SMEs reported difficulties finding workers with the right skills and about a quarter of them (26%) indicated that this was 'moderately difficult'. Almost two-thirds are held back by this in their general business activities. At the same time, recent results by the OECD Programme for the International Assessment of Adult Competencies (PIAAC)[27] show that literacy proficiency among adults (15-64) improved in five of the twenty participating Member States over the last decade, while it stagnated or markedly declined in a majority of them (twelve). Regarding numeracy proficiency, the results paint a somewhat more favourable picture as ten Member States saw increases in performance, while in only six of them did proficiency in the adult population stagnate or markedly decline. Moreover, in 2023, ten of the participating Member States significantly exceeded or were around the average with regards to their proficiency in adaptive problem solving. In this context, and faced with labour and skills shortages, and population ageing, fostering broad participation in adult learning is key to ensure that the skills of the EU workforce are kept up to date. Nevertheless, recent figures from the Adult Education Survey (AES) indicate only a mild rise in participation rates in adult learning (excluding guided on-the-job training) over the previous 12 months, from 37.4% in 2016 to 39.5% in 2022 for the EU, with wide disparities across Member States. Also progress on digital skills has been slow overall, and with significant disparities between countries. Despite more than 90% of people

[26] See European Commission, Flash Eurobarometer 529 – *Skills shortages, recruitment and retention strategies in small and medium-sized enterprises*, Publications Office of the European Union, 2023.
[27] OECD, Do Adults Have the Skills They Need to Thrive in a Changing World?: Survey of Adult Skills 2023, OECD Skills Studies, OECD Publishing, Paris, 2024. Retrieved after the 10 December 2024 publication.

in the EU used the internet at least once per week in 2023[28], only 55.6% had at least basic digital skills, reflecting only a modest increase from 2021 (53.9%). At the current pace, only 59.8% of adults would have at least basic digital skills by the end of the decade, well below the EU target of 80%[29]. Participation in lifelong skills development is especially critical for people who have low qualifications (i.e. at most lower-secondary education), the unemployed, those outside the labour force and the older population, who at the same time would need it the most. Against this background, the 2020 European Skills Agenda called for a radical increase in up- and re-skilling. Furthermore, the June 2022 Council Recommendation on individual learning accounts outlines how Member States can combine financial and non-financial support in an effective way to empower adults to develop their skills throughout their working life[30]. Based on the June 2022 Council Recommendation on a European approach to micro-credentials, the latter have also an important role to play in this respect, as they may stimulate the participation of workers and jobseekers in targeted up- and re-skilling[31].

Participation in adult learning is characterised by strong variation across population groups

58.9% of high-skilled **adults participated in learning every year**, against only **18.4%** of low-skilled adults

Only **26.8% of the unemployed** participated in learning every year against **44.7% of the employed**

Almost every second young adult (25-34) participated in learning every year, vs **less than a third** among the 55-64-year-olds

Adult participation rate in learning during the past 12 months by subgroup (age 25-64, excluding guided on the job training, %)

Note: In October 2024, the Employment Committee Indicators Group agreed on the monitoring framework for the skills target, using AES excluding guided on-the-job training for the time being.
Source: Eurostat special extraction of the adults' participation rate in learning during the past 12 months without guided on the job training (GOJT), from the Adult Education Survey.

Real gross disposable household income (GDHI) resumed its growth in the EU in 2023 and 2024, which helped households recover purchasing power and prevent increases in poverty. Overall, real household incomes grew faster than GDP starting from Q2-2023, reversing the slowing trend of the previous two years. While the compensation of the self-

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[28] See European Commission, Digitalisation in Europe – 2024 edition, Publications Office of the European Union, 2024.
[29] See Annex to the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions State of the Digital Decade 2024 (COM(2024) 260 final).
[30] See: COUNCIL RECOMMENDATION of 16 June 2022 on individual learning accounts 2022/C 243/03.
[31] See: COUNCIL RECOMMENDATION of 16 June 2022 on a European approach to micro-credentials for lifelong learning and employability 2022/C 243/02.

employed has been increasing at a moderate pace, the compensation of employees picked up more rapidly in Q4-2023 and Q1-2024. This more than compensated the effect of taxes, which started being a drag on income growth at the end of 2023, after having contributed positively over the previous year, notably as a result of temporary inflation-related measures. Net social benefits provided some positive contribution in the first half of 2024.

The share of people at risk of poverty or social exclusion slightly declined in the EU in 2023, also thanks to decisive policy action taken to cushion the negative social effects of the high cost of living, but challenges remain with notable differences across regions. Still, approximately one in five people remained at risk of poverty or social exclusion (AROPE) in 2023 in the EU, while the overall number decreased by around 1.6 million compared to 2019 (against a 2030 target of at least 15 million). The heterogeneity between and within Member States as well as disparities between population groups were large, with higher poverty risks for children, older people, persons with disabilities, non-EU born and Roma. Eurostat's Flash estimates referring to 2023 incomes indicate that AROP rates remained stable in the EU on average and in most Member States. Joblessness remained a key driver of poverty, while social benefits did not reach all households in need. The impact of social transfers (excluding pensions) on poverty reduction decreased slightly in 2023, with some divergence among Member States, underlining the importance of further strengthening efforts to ensure adequate income support and coverage. Despite improvements in recent years, in practically all Member States, minimum income support is generally not sufficient to lift people out of poverty. Implementing the Council Recommendation on minimum income ensuring active inclusion in all Member States is key to address this challenge[32]. Energy poverty (as measured by the share of people unable to keep their home adequately warm) increased for the second consecutive year in 2023 in the EU. The fact that the increase was lower than in 2022, while the price shock was significantly higher in winter 2022 compared to winter 2021, suggests that the exceptional support measures adopted by the EU and its Member States effectively cushioned the impact. Distributional impact assessments of reforms and investments are particularly important to factor in impacts on poverty risks and income inequality and inform policy-making *ex-ante*.

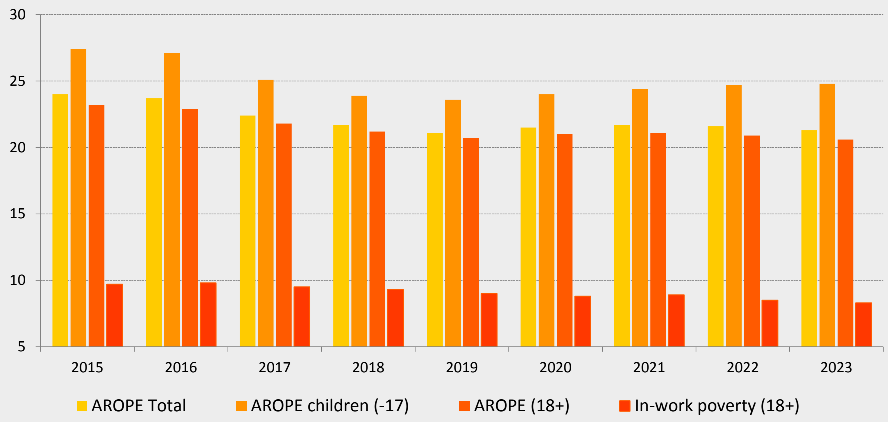
[32] Council Recommendation on adequate minimum income ensuring active inclusion (2023/C 41/01).

Poverty or social exclusion rates varies significantly across age groups, with children often most at risk, and also affects people in-work

One in five people and **one in four children at risk of poverty or social exclusion** in the EU in 2023

One in 12 workers at risk of poverty in the EU in 2023

At-risk-of-poverty or social exclusion rates – total and by age group below and above 18; in-work povertyrate (18+) (%)



Note: Break in series for 2020. Estimated values for 2015– 2019 for AROP Employed persons (18 or over)
Source: Eurostat [ilc_peps01n], [ilc_li02], [ilc_li04], EU-SILC.

The share of children at risk of poverty or social exclusion in the EU remained broadly stable, while their number declined marginally in 2023, while the situation of persons with disabilities worsened further. In this year, for the first time since the COVID-19 pandemic, the number of children experiencing poverty or social exclusion risks declined slightly in the EU (19.9 million vs around 20 million in 2022). Almost one in four children in the EU remained at risk of poverty or social exclusion, with the total number up by 0.6 million compared to 2019, having moved away from the 2030 EU goal of a reduction by at least 5 million. Lifting children out of poverty and social exclusion is instrumental to help them realise their full potential in society and in the labour market and break the cycle of intergenerational poverty. Implementing the European Child Guarantee[33] in all Member States is key in this respect. Poverty or social exclusion risks remain elevated also for persons with disabilities. The AROPE rate for the latter (at 28.8% in 2023) was 10.8 pps higher than for the rest of the population in 2023. A still wide gap in employment rates between persons with disability and those without and the greater likelihood for the former to be leaving education early is closely related to their reported higher poverty risks.

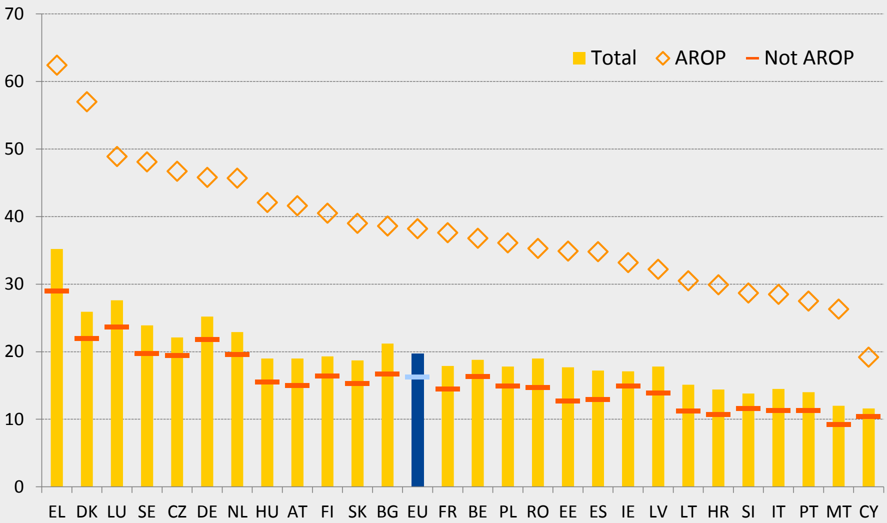
[33] Council Recommendation (EU) 2021/1004 of 14 June 2021 establishing a European Child Guarantee (OJ L 223, 22.62021, p. 14-23).

Households experiencing poverty commit a significant share of their disposable incomes to housing expenses, with large variation across Member States

In 2023, in **more than a third of Member States**, households spend **around or above a fifth of their disposable income on housing costs**

Households experiencing poverty risks were **twice as much overburdened by housing costs** in almost all Member States

Share of housing costs in disposable household income, 2023 (%)



Source: Eurostat [ilc_mded01].

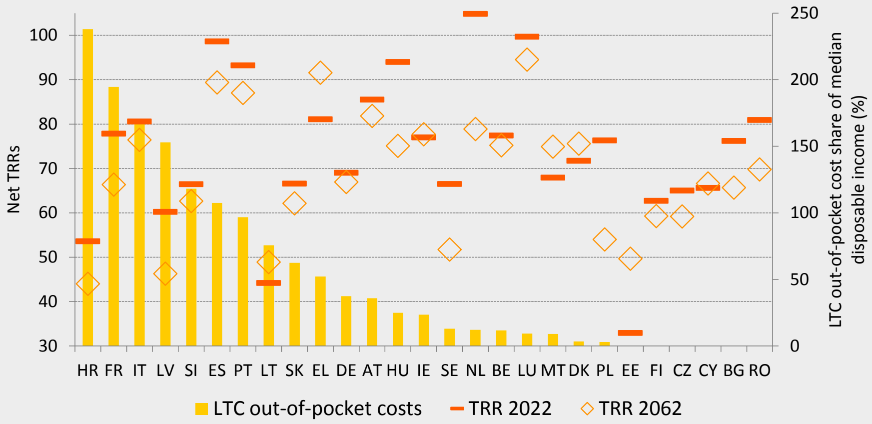
Access to social housing or housing assistance of good quality for those in need is a key EU priority. Access to housing is fundamental in protecting against poverty or social exclusion risks, and to determine access to education and employment, while also impacting on work-related mobility within the Member States and in the EU Single Market. Housing costs weigh on EU households' budgets, hitting particularly hard those that already experience poverty risks. They were deemed to be a 'financial burden' by almost half of the EU households in 2023. At the same time, as many as 8.9% of the EU population lived in a household where total housing costs represented more than 40% of their total disposable household income, that is overburdened by housing costs. This rate reached 33.5% for people already experiencing poverty risks. Increases of rents and property prices outpacing income growth deteriorated housing affordability, especially in major EU cities. Also, the provision of social housing in many countries is not sufficient to cover the needs, with a declining stock and long waiting lists. Most important barriers to investment in social housing relate to overall obstacles in the construction sector, such as permitting procedures and land use; budget constraints, access to finance and the availability of skilled workforce. Finally, as the most extreme challenge in relation to access to housing, homelessness was also further aggravated by the increased cost of living. Renting difficulties during the last 12 months were reported by more than a quarter of people aged 30-54 experiencing poverty or social exclusion risks. Member States have already put in place various regulatory and non-regulatory reforms and investment programmes to support housing affordability and increase their social housing stock. EU funds can support the implementation of these reforms and investments.

Long-term care costs are projected to increase further, while pension replacement rates are expected to decrease

Out-of pocket costs for LTC exceeded the median disposable income of persons in need of it in a fifth of EU Member States

Expected decreaes in pension replacement rates are likely to aggravate the burden of high LTC costs

Pension Net Theoretical Replacement Rates (TRR), 2022, 2062 (men, pps); Long-term homecare out-of-pocket costs as share of median disposable income (%)



Note: TRRs are for a 40-year career ending at pensionable age, average-earner, 2022 and 2062. LTC out of pocket costs are for a person with severe needs, after public support. See notes for the graph in Pillar Box 7 for details on the methodology.
Source: Commission's own calculations, based on data from OECD and Member States. 2024 Pension Adequacy Report and OECD analysis based on the OECD long-term care social protection questionnaire, SHARE (wave 8, 2019, except PT, which refers to wave 6, 2015) and TILDA (wave 3, 2015).

The modernisation of social protection systems can contribute to inclusive economic growth, with adequate and sustainable social protection and social services. Despite some improvements over the last few years, access to social protection remains diverse across Member States. The implementation of the 2019 Council Recommendation on access to social protection for workers and the self-employed should be strengthened in order to address persisting structural challenges[34]. In this context, ensuring transparency and simplification in the access to social protection is important. Digital solutions can contribute to improving transparency, efficiency as well as effectiveness in access to social protection, yet there is a need to avert the increased risks of a digital divide. In an ageing society, ensuring the adequacy and fiscal sustainability of pensions and long term-care (LTC) requires a broad policy mix, which includes investing in active and healthy ageing, prolonging working lives, and supporting adapted and flexible work arrangements, alongside effective and efficient pension and LTC systems. Socio-economic inequalities, as well as the increase in non-standard forms of work, also pose growing challenges with the rise in longevity. While pension replacement rates[35] are projected to decrease over the next four decades, LTC needs are expected to increase. Adequate pensions will increasingly depend on longer careers. At the same time, lower pensions would also make it more difficult to cover out-of-pocket expenditure for LTC. The latter can be very high for people with severe care needs, and great variation exists among EU countries. In the longer term, demographic developments are projected to result in a 6.6 million increase of people potentially in need of

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[34] Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed2019/C 387/01.

[35] Theoretical replacement rates measure how a hypothetical retiree's pension income in the first year after retirement would compare with their earnings immediately before retirement.

LTC by 2050[36], which will exacerbate the current structural challenges of availability, affordability, and quality of LTC. Against this background, the Council Recommendation on access to affordable high-quality long-term care[37] asks Member States to ensure adequate long-term care services, as well as quality employment and fair working conditions in the care sector, addressing workers' skills needs, while also supporting informal carers. The Council Conclusions of June 2024 on pension adequacy[38] reaffirm the need to pursue further reforms including by improving labour market participation, access and contributions to social protection schemes for all, and strengthening access to high-quality and affordable health and long-term care. Furthermore, Council Conclusions on the fiscal sustainability challenges arising from ageing reaffirm the need to further address the economic and budgetary consequences of ageing, including by adopting sound public finances, raising productivity as well as participation and employment rates, and adapting pension, health care and long-term care systems[39].

Well-functioning social dialogue and collective bargaining are key to improving working conditions and mitigating labour shortages. At the Val Duchesse Social Partners Summit of 31 January 2024, the Commission, the Belgian Presidency, and the cross-industry social partners signed a 'Tripartite Declaration for a Thriving Social Dialogue'. This represents a renewed commitment to strengthen social dialogue at EU level and to join forces in addressing the key challenges that our economies and labour markets are facing[40]. Regular dialogue and consultation with civil society organisations is also instrumental for delivering impactful and inclusive policies. As acknowledged by the 2024 La Hulpe Declaration on the Future of the European Pillar of Social Rights, civil society plays a key role in the fight against social exclusion and inequalities, and with regard to policies that concern under-represented and vulnerable groups. At the EU level, social partners and civil society organisations are actively involved in the European Semester, with regular exchanges of views and thematic discussions on areas of particular relevance.

Member States should take action to address the employment, skills and social policy challenges identified in this Joint Employment Report. In particualr – in line with the Employment Guidelines:

- Enhance the up- and re-skilling of adults to ensure competitiveness, address labour and skills shortages, adapt to the changing labour market situation and outlook, and foster the green and digital transitions – including by integrating the use of skills intelligence tools; strengthening the provision of individual training entitlements, such as individual learning accounts; and fostering the development, implementation and recognition of micro-credentials – in line with the Council recommendations on individual learning accounts and on a European approach to micro-credentials.
- Strengthen active labour market policies and the capacity and effectiveness of public employment services – including by investing in digital infrastructure and services,

[36] According to the projections from the baseline scenario. See: European Commission DG ECFIN (2024), 2024 ageing report – Economic & budgetary projections for the EU Member States (2022-2070), Publications Office of the European Union.
[37] See 2022/C 476/01.
[38] See Council Conclusions on pension adequacy of 20 June 2024, 11398/24.
[39] See Council Conclusions of 14 May 2024, 9159/24.
[40] See: Tripartite Declaration for a Thriving European Social Dialogue.

enhanced career guidance, counselling services, skills intelligence and staff training – with a view to supporting quality job creation and transitions.

- In line with national laws and/or practices and in full respect of the role and autonomy of the social partners, promote wage developments that mitigate the loss in purchasing power, in particular for low-wage earners, while promoting upward social convergence, taking into account productivity developments, quality job creation, and safeguarding competitiveness.
- Ensure the availability of support schemes designed in a way to preserve and further develop human capital via associated upskilling and reskilling, in order to support fair restructuring processes where needed, ease job transitions and help the modernisation of the economy.
- Provide support to workers and households most affected by the economic and social impacts from the adaptation to climate change and new green and digital technologies, in particular to vulnerable workers and households – including through effective employment services and training measures; well-designed, targeted and time-bound employment programmes, hiring and transition incentives; adequate income security with an active inclusion approach; and the promotion of entrepreneurship, in line with the Council Recommendation on ensuring a fair transition towards climate neutrality.
- Promote mobility within the EU and consider attracting skilled third country national workers. In addition, ensure respect and enforcement of labour and social rights and channel third country nationals entering the EU through legal migration pathways towards occupations experiencing shortages, supported by an effective integration policy, in full complementarity to harnessing talents from within the Union.
- Adapt labour market regulations and tax and benefit systems to reduce labour market segmentation and gender gaps in the labour market and foster quality job creation, including a possible reduction of the tax wedge notably for low-earners without hindering the transition toward higher-paying jobs and a shift away from labour taxation to environmental taxes.
- Ensure healthy, safe and well-adapted working environments.
- Promote collective bargaining and social dialogue, in line with the Council Recommendation on strengthening social dialogue, together with timely and meaningful social partners' involvement in relevant policy-making at EU and national level, including in relation to the implementation of Member States' recovery and resilience plans and in the context of the European Semester.
- Enhance the labour market prospects of young people – including through inclusive and quality vocational education and training and tertiary education; targeted employment services' support (comprising mentoring, guidance and counselling); and quality apprenticeships and traineeships, in line with the reinforced Youth Guarantee.
- Support equity, quality and labour-market relevance of higher education, as well as the automatic recognition of qualifications, to address skills shortages and mismatches, including by increasing the number of graduates in some STEM disciplines, reducing gender gaps and empowering universities to become actors of change in the green and digital transitions.
- Ensure non-discrimination, promote gender equality, improve equality mainstreaming and strengthen the labour market participation of women and disadvantaged groups, by fostering equal opportunities and career progression, ensuring equal pay for equal work, or work of equal value, transparency in pay structures, and promoting the reconciliation

of work, family and private life – including through access to affordable and high-quality care (early childhood education and care, and long-term care), and family-related leave and flexible working arrangements for parents and other informal carers, in line with the European Care Strategy.

- Foster equal opportunities for children to tackle the high levels of child poverty and make the best use of EU and national resources. Speed up the implementation of the European Child Guarantee including by providing affordable and good quality early childhood education and care and by addressing early school leaving and teacher shortages. Support access to quality education of children and young people from disadvantaged groups and remote areas, improve their learning outcomes and promote training at all qualification levels.
- Adopt comprehensive measures to improve basic skills, and more broadly the development of key competences (including transversal skills) of pupils and tackle structural challenges linked to performance and equity of education and training systems, including through effective teaching, learning and assessment approaches, supporting the professional practice of educators and school leaders, promoting supportive learning environments, offering targeted support to disadvantaged schools and learners, and by addressing teacher shortages and increasing the attractiveness of the teaching profession (also by creating attractive career frameworks, supporting educators throughout their careers, and adequately supporting teachers in disadvantaged, rural and remote areas).
- Boost the digital skills and competences of pupils and adults of all ages, enhance critical thinking and media literacy, and increase the digital talent pool in the labour market by developing digital education and training ecosystems supported by key enablers, such as high-speed connectivity for schools, equipment, and teacher training; and support institutions with know-how on digitalisation with a special focus on inclusion and on reducing the digital divide.
- Ensure adequate and sustainable social protection for all, in line with the Council Recommendation on Access to Social Protection; improve the protection of those who are not sufficiently covered, such as workers in non-standard forms of employment, including platform work, and the self-employed; improve the adequacy of benefits, the transferability of rights and the access to quality services while safeguarding the sustainability of public finances; and effectively support the labour market integration of those who can work.
- Develop and strengthen minimum income schemes that provide adequate support and pursue an active inclusion approach, in line with the Council Recommendation on adequate minimum income ensuring active inclusion; and foster access to essential services, including energy, especially for low-income and vulnerable households.
- Assess the distributional impacts of reforms and investments on the income of various groups across the population, in line with the Communication on better assessing the distributional impact of Member States' policies.
- Provide all children at risk of poverty or social exclusion with free and effective access to healthcare, early childhood education and care, and education, training and school-based activities; as well as effective access to healthy nutrition and adequate housing; in line with the European Child Guarantee and the related national action plans.

- Support access to quality and affordable housing, social housing or housing assistance, where appropriate; address homelessness as the most extreme form of poverty; promote the renovation of residential and social housing and integrated social services.
- Invest in the capacity of the healthcare system including as regards prevention and primary care services, as well as public health capacity, coordination of care, healthcare staff and use of eHealth and AI; reduce out-of-pocket payments where relevant; improve healthcare coverage; and promote better working conditions as well as upskilling and reskilling of health workers.
- Strengthen the provision of quality, affordable and sustainable long-term care services, in line with the Council Recommendation on access to high-quality affordable long-term care.
- Ensure inclusive and sustainable pension systems that allow for adequate incomes in old age and inter-generational fairness.

EU funding, including through the ESF+, the ERDF, the JTF, the TSI and the RRF for eligible investments and reforms, supports Member States to step up policy action in these domains.

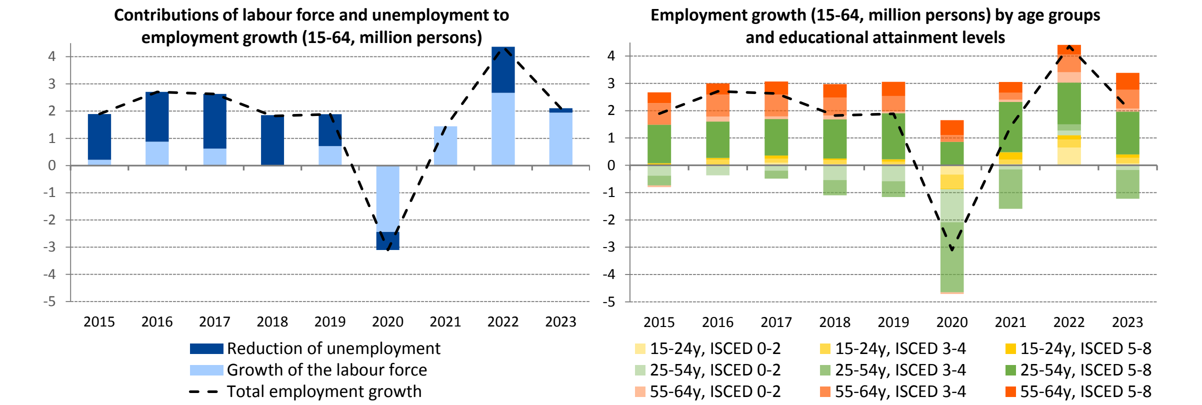
CHAPTER 1. OVERVIEW OF LABOUR MARKET AND SOCIAL TRENDS, PROGRESS ON 2030 TARGETS, AND KEY HORIZONTAL FINDINGS ON SOCIAL CONVERGENCE

1.1 Key labour market trends

Despite the challenging economic environment in 2023, employment in the EU continued to grow robustly in most sectors though slower than the remarkable growth experienced in the previous year. Employment expanded by 2.4 million people overall to a total of 217.5 million. Against this background, the employment rate (20-64 age group[41]) reached a new record high of 75.3%, growing further to 75.8% in Q2-2024. The annual growth rate of 1.1% marks a return to the pre-COVID-19 averages (2013-19), following the rapid post-pandemic recovery in 2022 (+2.3%). Employment growth was relatively balanced across sectors, ranging from 0.9% to 1.7% for most, with a few exceptions. The ICT sector expanded by 4.3%, reflecting its strong long-term trend and the ongoing digital transition. In contrast, employment in industry broadly stagnated (+0.1%). The agricultural sector experienced the sharpest contraction, with a decline of 1.9%, in line with its long-term trend. After losing nearly 18% of its workers during the COVID-19 crisis, the accommodation and food services sector grew by 5.6% in 2023 and thereby exceeded its pre-pandemic employment peak for the first time, while the construction sector has yet to fully recover to pre-financial crisis levels, despite the increased focus on housing and green renovations. Looking ahead, employment growth is forecast at 0.8% in 2024, 0.6% in 2025 and 0.5% in 2026[42].

Figure 1.1.1: Employment growth in 2023 was driven by a labour force expansion led by highly-educated and older workers

Employment growth (aged 15-64) broken down by labour force growth and unemployment reduction as well as by a cross-section of age groups and educational attainment levels



Source: Own calculations based on Eurostat [lfsa_agan], [lfsa_ugan], [lfsa_egaed].

In a context of historically low unemployment and a shrinking working-age population, employment growth was primarily driven by a growing labour force, with strong contributions from third-country nationals and older workers. Following a record low in 2022, the EU unemployment rate[43] fell by 0.1 pps to 6.1% in 2023 in annual terms, and reached 5.9% in September 2024. While decreasing unemployment was the main driver of

[41] Chapter 1 always uses the 20-64 age group for the 'employment rate' indicator, unless stated otherwise.
[42] Based on the European Commission Autumn Forecast 2024 (15 November 2024).
[43] Chapter 1 always uses the 15-74 age group for the 'unemployment rate' indicator, unless stated otherwise.

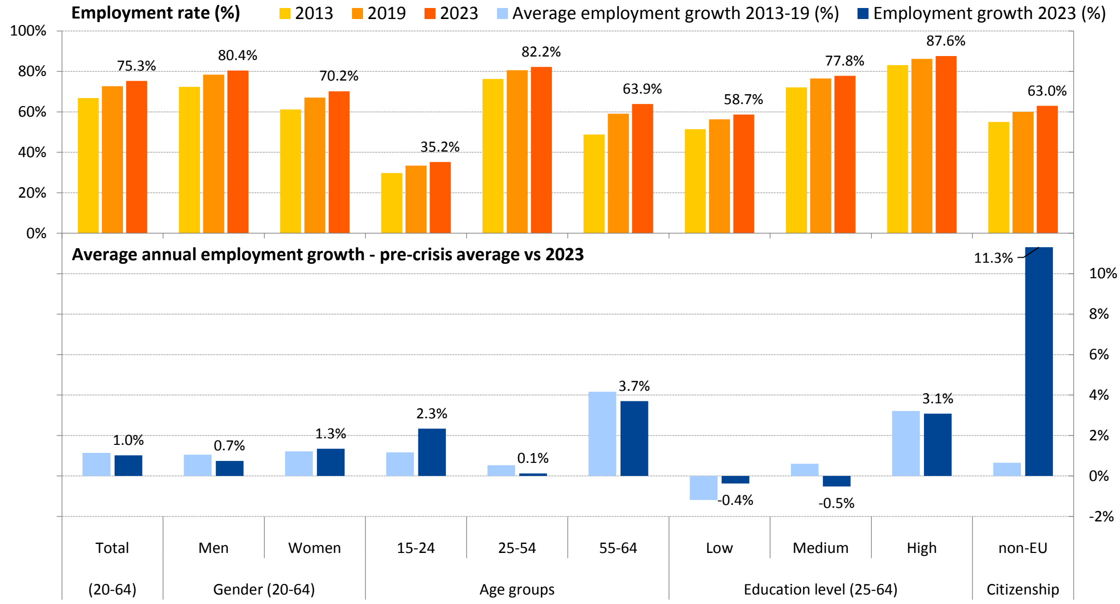
employment growth before the COVID pandemic (2015-19), low unemployment levels have shifted the focus to labour force growth as the main source of current and future employment gains. In 2023, around 92% of employment growth in the 15-64 age group was explained by an expansion of the labour force (vs less than 8% by lower unemployment). This expansion was largely driven by workers aged 25-54 with tertiary education, with many of them being third-country nationals, as well as by older workers (55-64 years old) with secondary or tertiary education – see Figure 1.1.1. This is in line with an increasing professionalisation and gradual reallocation of employment to high-skilled occupations. At the same time, significant regional disparities persist within Member States, with consistently lower employment rates in outermost regions and many rural areas.

Labour market outcomes of under-represented groups have steadily improved, but there remains considerable room for improvement. Older workers, young people and the low-skilled as well as women, third-country nationals and persons with disabilities continue to have employment and labour force participation rates (aged 15-64) well below the respective EU averages (75.3% and 75.0% in 2023). Moreover, the unemployment rates of young people, the low-skilled and third-country nationals are around twice the EU average. However, improvements are visible across nearly all groups. The population aged 55-64, which expanded faster than any other age group during the past two decades, saw a rapid rise in labour market participation, reaching 67.0% in 2023, partly driven by increased life expectancy, improved healthcare and higher retirement ages. Their employment rate also increased to 63.9% in 2023, with their share in total employment nearly doubling (from 10% in 2003 to close to 20% in 2023). Young people's (aged 15-24) labour force participation (41.2%) and employment rates (35.2%) returned to pre-2008 financial crisis levels in 2023, and the rate of young people neither in employment nor in education and training (NEETs, 15-29) reached a new record low of 11.2%. Furthermore, gender participation and employment gaps continued their long-term downward trend in 2023, now at 10.4 and 10.2 pps overall, but still are more than twice as large for third-country nationals and the low-skilled. People with tertiary education have by far the highest employment rate (86.3% in 2023) and continue to contribute significantly to employment growth[44], supported by their growing population share. Nevertheless, employment rates increased across all educational levels in 2023, with the gap between the employment rates of persons (aged 25-64) with high and low educational outcomes decreasing to a still sizeable 28.0 pps. The last two years have witnessed an unusually large increase in the number of third-country nationals in the EU labour force, with almost three quarters of them being Ukrainian[45] and 40% highly educated. This accounted for more than half of the increase in the labour force in 2022 and 2023, even though third-country nationals represent still only 6.7% of the working-age population (up from 5.7% in 2021). Their labour force participation rate rose to 68.5%, and their employment rate reached 63.0%. Meanwhile, the disability employment gap was slightly up by 0.1 pp in 2023 (4.1 pps larger for men than for women), following a record low of 21.4 pps in 2022.

[44] A +3.1% employment growth for the high skilled vs -0.5% for the medium-skilled and -0.4% for the low-skilled in 2023. 'Low-skilled' refers to persons with less than primary and lower secondary education (ISCED 0-2). 'Medium-skilled' refers to upper secondary and post-secondary non-tertiary education (ISCED 3-4).

[45] According to estimates, see Box 1 in European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.

Figure 1.1.2: Labour market outcomes improved across most under-represented groups
Employment outcomes in the EU-27 by gender, age group, educational attainment level and citizenship



Source: Eurostat [lfsa_ergaedn], [lfsa_egaed], [lfsa_egan].

The shares of temporary and part-time workers remain well below pre-pandemic levels, but so do the hours worked per person. In 2023, total hours worked increased by 0.9%, slightly below the 1.1% rise in total employment, continuing the long-term decline of hours worked per employed person (with the agriculture, forestry and fishing sector being the main exception). This trend is primarily driven by a decreasing number of hours worked in full-time jobs. While the share of part-time employment (aged 20-64) edged up to 17.1% in 2023, it remains at historically low levels. In 2023, 15.2% of part-time workers expressed a desire to work more hours, down from 16.0% in 2022 and 22.5% a decade before. Part-time contracts also remained 3.6 times more prevalent for women than for men, though they are less likely to be involuntary for women (13.3% vs 20.8% for men in 2023). At the same time, the share of temporary employment fell to its lowest level on record in 2023 (10.6%), predominantly affecting low-skilled manual workers, individuals with lower or non-vocational (upper) secondary educational attainments and third-country nationals. A majority (54.9%) of all temporary employees held such contracts because they were unable to secure a permanent position.

Labour and skills shortages remain elevated, hampering productivity growth and competitiveness, although the economic slowdown, improved skills matching and increased immigration of working-age third-country nationals have contributed to reducing them to some extent. At the peak in 2022, more than one third of companies across the EU reported labour shortages as a factor limiting their production[46]. While this share declined in 2023, it remained at 18% in October 2024 and therefore continues to represent a challenge to European competitiveness. The job vacancy rate peaked at 3.0% in 2022, then fell to 2.8% in 2023 and further to 2.4% in Q2-2024, reflecting weaker economic growth and more subdued hiring expectations. The rate remains almost twice as high as a decade ago, but some factors driving labour shortages appear to be subsiding. Falling vacancies at stable unemployment might suggest higher matching efficiency, supported by

[46] European Business and Consumer Survey October 2024.

reductions in both education-related mismatches (as measured by macroeconomic skills mismatches[47] and overqualification rates) and sectoral mismatches (as measured by the variance of the sectoral vacancy rates), but it could also be a cyclical development as vacancies usually react to economic developments faster than unemployment. In 2023, sectors with above-average vacancy rates (accommodation and food services, ICT, construction, administrative support as well as professional, scientific and technical activities) registered the largest decreases in these rates, while the mining and energy provision sectors continued to have the lowest vacancy rates. The inflow of working-age third-country nationals also contributed to the easing of labour and skills shortages in 2023. However, many of these labour and skills shortages are of structural nature, driven by shifting labour demand in view of the twin transition and population ageing, and need to be tackled through targeted skills, activation, labour mobility and migration policies[48].

Wage growth remained robust in 2023, also fuelled by labour shortages, but was still outpaced by inflation. In a tight labour market, nominal compensation per employee grew by 4.9% in 2022 and 6.1% in 2023. Yet, it failed to keep up with inflation, resulting in real wage losses of 3.7% in 2022 and 0.2% in 2023[49]. Looking ahead, real wages are expected to increase by 2.1% in 2024[50] on the back of continued disinflation and (gradually falling but still solid) nominal wage growth. Nevertheless, they would remain 1.1% below their 2019 levels on average in 2024 (vs 3.3% in 2023). Over the past two years, minimum wage increases outpaced inflation in nearly all Member States, which reduced in-work poverty (18-64) slightly to 8.3% in 2023 (referring to 2022 incomes). Yet, this does not seem to have translated into lower deprivation, since material and social deprivation rates of employed people (18-64) increased from 7.2% in 2021 to 9.1% in 2023.

1.2 Key social trends

Real gross disposable household income (GDHI) resumed its growth in the EU in 2023, and accelerated further in 2024. Overall, household incomes grew faster than GDP starting from Q2-2023, reversing the slowing trend of 2021 and 2022. While compensation of the self-employed continued to increase at a moderate pace, compensation of employees picked up more rapidly in Q4-2023 and Q1-2024, remaining robust in Q2-2024. After contributing positively to income growth in the first three quarters of 2023, in Q4-2023 and Q1-2024 taxes exerted a negative effect, while net social benefits provided a slight positive contribution.

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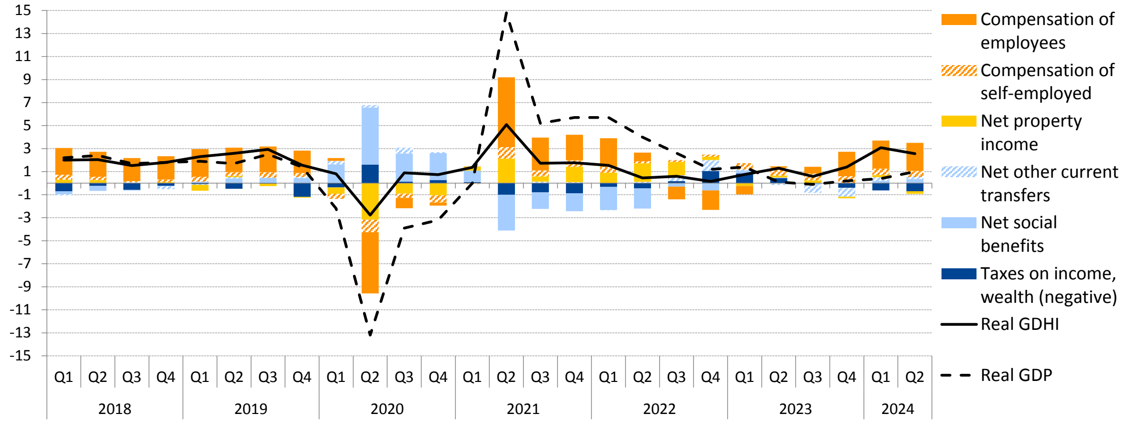
[47] See European Commission, Analytical web note – Measuring skills mismatch – 7/2015, Publications Office of the European Union, 2015.
[48] See the Action Plan on Labour and Skills Shortages put forward by the European Commission in March 2024.
[49] Using HICP as deflator.
[50] According to the European Commission Autumn Forecast 2024.

Figure 1.2.1: Real gross disposable household income (GDHI) growth resumed in 2023, and accelerated in early 2024

Growth in real gross disposable household income (GDHI) and its main components and real GDP growth (EU-27, year-on-year quarterly growth rates)



Note: DG EMPL calculations. Nominal GDHI is deflated using the price index of household final consumption expenditure. The real GDHI growth rate for the EU is estimated as a weighted average of Member States' values for those with available quarterly data based on the ESA2010 (overall 95% of EU GDHI).
Source: Eurostat, National Accounts [nasq_10_nf_tr] and [namq_10_gdp]. Not seasonally adjusted.

Poverty decreased slightly in the EU in 2023. The at-risk-of poverty or social exclusion (AROPE) rate stood at 21.3%, down from 21.6% and 21.7% in 2022 and 2021 respectively, continuing its broadly declining trend since 2015. This further improvement reflects the effectiveness of decisive policy actions at EU and national level aimed at mitigating the social impact of high energy prices and living costs. In 2023, two of the three AROPE sub-components displayed declines for the EU. The at-risk-of poverty (AROP) rate decreased by 0.3 pps, to 16.2% (based on 2022 incomes), while Eurostat flash estimates referring to 2023 incomes indicated overall stability[51]. Also, the share of people living in (quasi-)jobless households dropped by 0.3 pps in 2023, to 8.0% (based on 2022 activity). On the contrary, the share of people experiencing severe material and social deprivation remained broadly stable, at 6.8%, compared to 6.7% in 2022. Finally, the impact of social transfers (other than pensions) on poverty reduction slightly decreased in the EU in 2023, yet at 34.7% it was still higher than pre-pandemic levels, though presenting large variation across Member States. There is also continued wide divergence in poverty within Member States, with certain regions having consistently higher AROPE rates than national or EU averages.

Child poverty remained broadly stable, but still higher than the rate for the overall population. In 2023, the AROPE rate for children was 24.8%, only slightly up from 24.7% in 2022. This broad stability effectively interrupted the rise in child poverty registered since 2020 in the EU, corresponding to a decline in the absolute number. All three AROPE sub-components stayed broadly stable. The AROP rate for children stood at 19.4% (referring to 2022 incomes), following a marginal increase from 2022 (+0.1 pps), with Eurostat flash estimates referring to 2023 incomes also suggesting continued stability. Similarly, the share of children experiencing severe material and social deprivation remained at 8.4%, while the share of children living in (quasi-)jobless households was stable at 7.5% (referring to activity in 2022).

[51] Flash estimates of income inequalities and poverty indicators for 2023 (FE 2023).

In-work poverty declined slightly for the second consecutive year, but still affected one in twelve employed people, with certain groups disproportionately affected. The share of workers at risk of poverty decreased by 0.2 pps to 8.3% in 2023 (referring to 2022 incomes). This was lower than ten years earlier and than pre-COVID-19 levels (9.1% in 2013 and 9.0% in 2019, referring to 2012 and 2018 incomes, respectively). However, in-work poverty affects some groups of workers more than others. In 2023, it was significantly higher among the low-educated (18.4%), part-time employees (12.6%), those on temporary contracts (12.6%), people born outside the EU (18.6%) and non-EU citizens (22.5%). Households with dependent children were also more likely to face in-work poverty risks (10.0%) compared to those without (6.8%).

Certain groups continued to face significantly higher risks of poverty or social exclusion than the overall population. The AROPE rate remained very high for people born outside the EU (39.2%) and persons with disabilities (28.8%), well above the EU average (21.3%). Roma also tend to experience much higher poverty risks[52]. On the other hand, the share of older people (65+) at risk of poverty or social exclusion slightly decreased at EU level in 2023, to 19.7%. This improvement was driven by a reduction in the rate among older women, which is nonetheless significantly higher than the one for men (22.1% vs 16.6%).

Income inequality remained largely stable, but energy poverty increased for the second consecutive year. The income quintile share ratio (S80/S20) was broadly stable at 4.72 in 2023 (based on 2022 incomes), and is expected to remain unchanged in 2024 (on the basis of 2023 incomes)[53]. While inflation disproportionately affected low and lower middle-income households, who spend relatively more on essentials such as energy and food, targeted income support measures and adjustments in social benefits and taxes in the Member States have mitigated potential increases in income inequality and poverty risks. On the other hand, the share of people unable to keep their homes adequately warm rose by 1.3 pps in 2023, to 10.6% (+3.7 pps compared to 2021), remaining significantly higher for those at risk of poverty, at 22.2% (+2.1 pps since 2022).

Housing affordability remains a challenge in the EU. In 2023, 8.8% of the EU population lived in households where total housing costs exceeded 40% of total disposable income, an increase of 0.1 pps from the previous year and a 2.8 pps decrease from a decade ago. The share of people overburdened by housing costs is more than twice as high for working-age single households (24.4%) and more than three times higher for people at risk of poverty (33.5% in 2023). Significantly affected are also foreign EU nationals (twice as high) and third-country nationals (2.5 times as high). While overall the housing overcrowding rate remained stable in the EU, at 16.8% in 2023, it increased to 29.6% in the same year for people at risk of poverty.

1.3 Progress on the 2030 EU headline and national targets

Employment, skills, and poverty reduction targets are driving policy actions across the relevant policy domains at EU level and in the Member States. These three EU headline targets were put forward by the Commission in March 2021 as part of the European Pillar of Social Rights Action Plan:

i) an employment rate of at least 78% of the working-age population;

[52] European Union Agency for Fundamental Rights, Roma in 10 European countries – Main results – Roma survey 2021, Publications Office of the European Union, 2023.

[53] Flash estimates experimental results referring to 2023 income year.

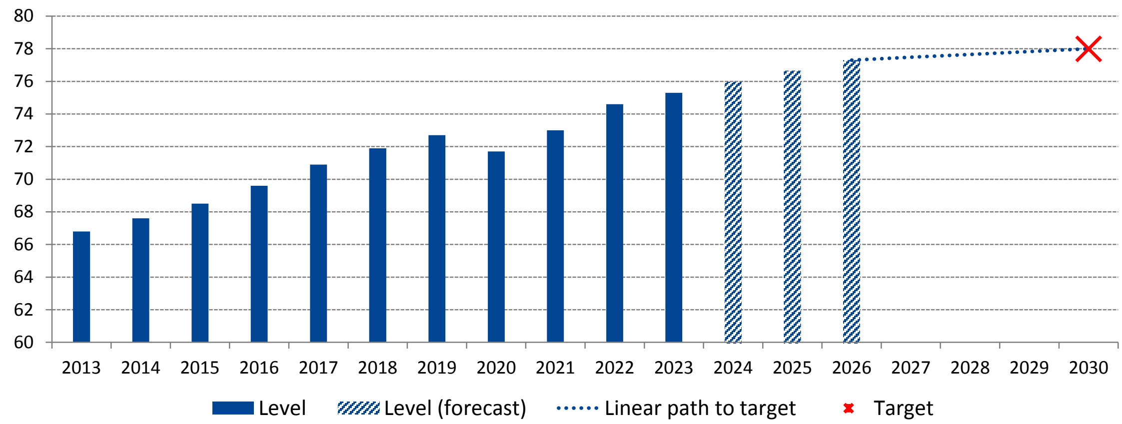
ii) an adult learning participation rate of at least 60% every year; and
iii) a reduction of at least 15 million in the number of people at risk of poverty or social exclusion compared to 2019, out of which at least 5 million children[54].

Member States welcomed these targets at the Porto Social Summit in May 2021, as did the European Council in its conclusions of June 2021. All Member States put forward their national targets in the three domains that contribute to the respective EU headline targets. The Pillar Action Plan also provided complementary EU-level targets on reducing the gender employment gap, increasing the provision of formal early childhood education and care, decreasing the rate of young NEETs, raising the share of adults with at least basic digital skills, cutting early leaving from education and training and reducing child poverty. Most Member States set further complementary national targets in (some of) these areas and/or in additional ones, as deemed. This section monitors progress towards the three EU headline and national targets by 2030.

Despite an economic slowdown, employment growth was robust in 2023 and the EU remains on track to meet its headline employment rate target by 2030. After having increased to 75.3% in 2023, the EU employment rate is only 2.7 pps from the 78% target by 2030, and grew further to 75.8% in Q2-2024. Given the level reached in 2023, and factoring in the latest demographic projections by Eurostat, the EU would only require an average annual employment growth rate of 0.4% to reach its current 2030 target, against the significantly higher pre-pandemic (2013-19) average of 1.1% per year (see Figures 1.3.1 and 1.3.3). According to the Commission Autumn 2024 Forecast, employment is also projected to expand more than the required 0.4% in the EU over the next three years, i.e. by 0.8%, 0.6% and 0.5% in 2024, 2025 and 2026, respectively. The EU is therefore currrently progressing well towards its 2030 employment rate target.

Figure 1.3.1: The EU is on track to reach its headline employment rate target by 2030

Employment rate in the EU-27 and the related 2030 EU headline target (20-64 year olds, % of population)



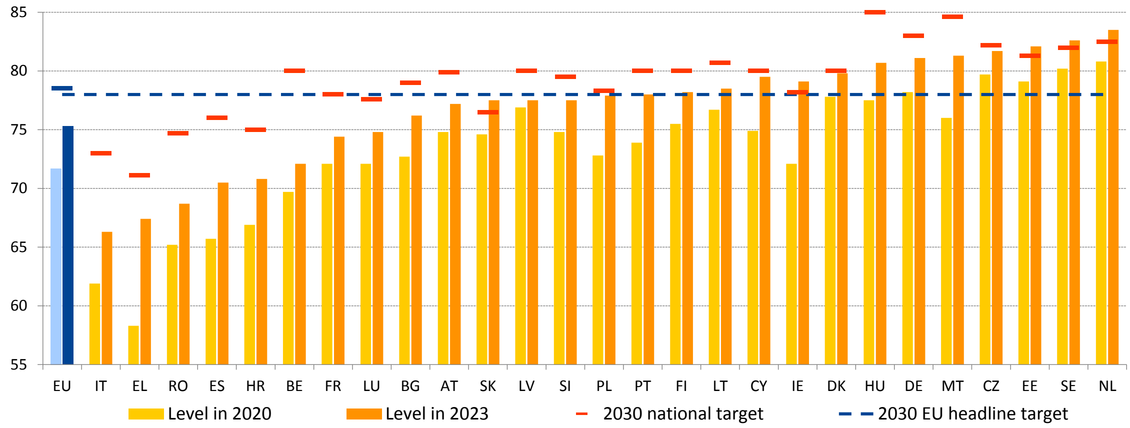
Note: Values for 2024, 2025 and 2026 based on Commission Autumn 2024 employment growth forecasts as well as projected population and working-age population growth from Eurostat's 2023 population projections.
Source: Eurostat [lfsi_emp_a]; employment growth forecast, European Commission Autumn Forecast 2024; Eurostat population projections, Europop 2023.

[54] See: European Commission, The European pillar of social rights action plan, Publications Office of the European Union, 2021.

Most Member States made further progress towards their national employment rate targets in 2023[55]. For five countries, the employment rate reached in 2023 was already higher than the respective 2030 national target (see Figure 1.3.2). These are Slovakia (+1 pp compared to its national target), the Netherlands (+1 pp), Ireland (+0.9 pps), Estonia (+0.8 pps) and Sweden (+0.6 pps), while Denmark fell back to slightly below its 2030 target. Among the 22 countries still facing gaps to their 2030 national targets, 18 managed to reduce these gaps in 2023. The largest efforts still needed are for Belgium (with a gap of 7.9 pps to its ambitious 2030 target), Italy (6.7 pps), Romania (6.0 pps) and Spain (5.5 pps). More than half of the Member States experienced employment growth below the pre-pandemic (2013-19) average rate (see Figure 1.3.3.)[56], against a background of higher employment rates and a shrinking working-age population. Nevertheless, for a large number of countries (20), annual employment growth remains at or above the average annual rate needed to reach the national employment target[57]. Only Czechia, Romania, Bulgaria, Belgium, Hungary and Finland saw 2023 employment growth lag behind both the pre-pandemic average and the average annual rate needed to reach their ambitious targets, though Finland is very close to both and Czechia already almost reached its target.

Figure 1.3.2: Most Member States made further progress towards their national employment rate targets in 2023

Employment rate (2020 and 2023, 20-64 year olds, % of population); national and EU 2030 targets



Source: Eurostat [lfsi_emp_a] and table on 2030 national targets in Annex 1.

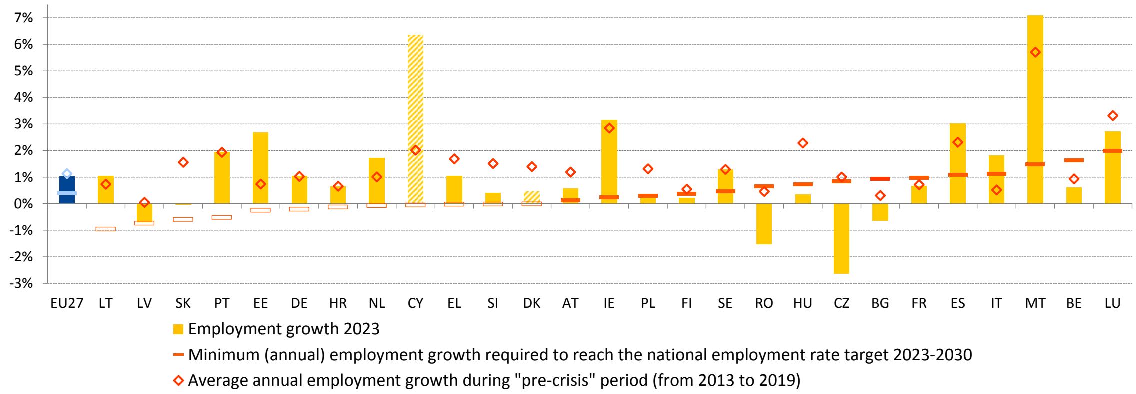
[55] In October 2022, the Indicators Group of the Employment Committee agreed on a methodological approach for the monitoring of progress towards the national targets on employment in the context of the European Semester. This section has been prepared on the basis of the agreed methodology. See the Employment Committee's Annual Employment Performance Report 2023 and the Employment Performance Monitor 2023.

[56] Due to population decline, the majority of Member States are found to need lower minimum annual employment growth than in the pre-crisis period to reach their national targets. See the Employment Committee's Annual Employment Performance Report 2024.

[57] For some Member States, such minimum required employment growth is negative, reflecting a projected decline in working-age population and/or the fact that their national targets have already been reached.

Figure 1.3.3: In two thirds of the Member States, the employment growth in 2023 was on track to reach the 2030 national target

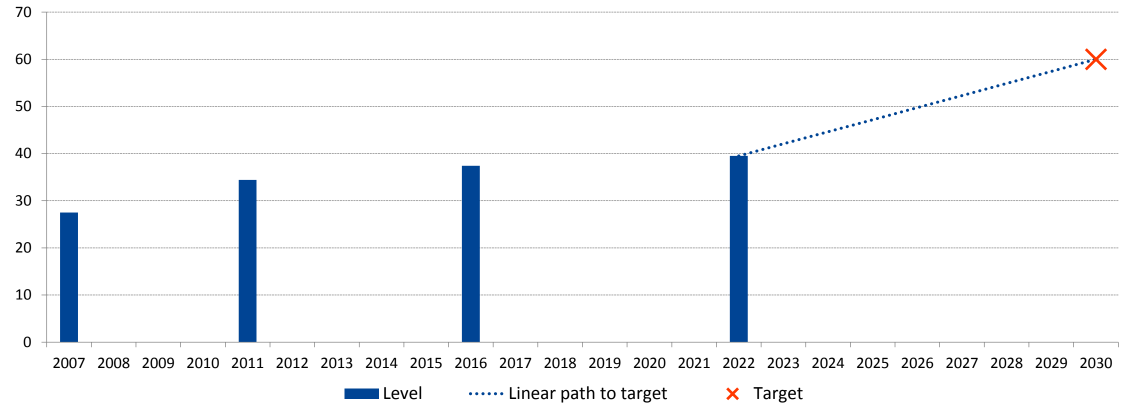
Employment growth in 2023 versus average annual employment growth over 2013-19 and minimum annual employment growth needed to reach the 2030 national employment rate target



Note: Breaks in series for DK and CY in 2023 (indicated by shaded columns).
Source: Eurostat [lfsi_emp_a], Europop 2023, based on Employment Performance Monitor 2024 methodology.

Figure 1.3.4: While more adults participate in learning, reaching the 2030 EU headline target requires renewed efforts

Adult participation rate in learning during the past 12 months in the EU-27 and the 2030 EU headline target (25-64 year olds, %)



Note: The 2007 AES survey was a large sample pilot exercise carried out on a voluntary basis in all Member States, except Ireland and Luxembourg, between 2005 and 2008. On this basis, adjustments were implemented in the next wave. As from 2011, the AES is underpinned by a European legal act and thus carried out in all Member States on a mandatory basis[58]. Breaks in series in 2011 for EU, FR, HU, in 2016 for IE, LU, SE and in 2022 for FR, IT, RO.
Source: Eurostat special extraction of the adults' participation rate in learning during the past 12 months without guided on the job training (GOJT), from the Adult Education Survey.

There was some limited progress towards the headline target on adult learning and therefore substantial and accelerated efforts are required to reach it by 2030. New data from the Adult Education Survey (AES) shows an increase in the participation rate of adults in learning over the past 12 months (excluding guided on-the-job training) in the EU from

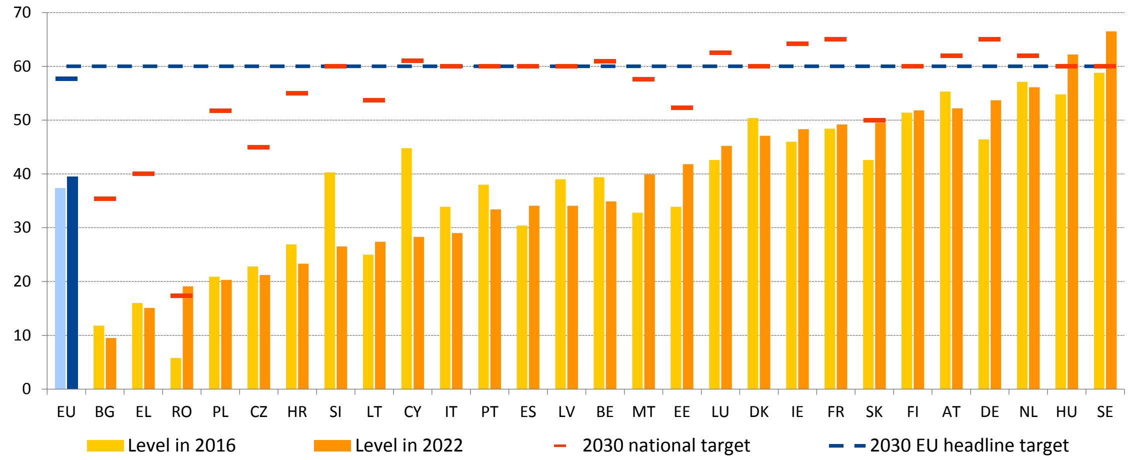
[58] Commission Regulation (EU) 823/2010 sets out the implementing measures of the basic legal act (Regulation (EC) No 452/2008 of the European Parliament and of the Council) for the 2011 AES.

37.4% in 2016 to 39.5% in 2022 (see Figure 1.3.4)[59]. This very mild upward trend will need to be substantially accelerated in order to reach the EU skills target of 60% by 2030. This is crucial in light of the need for Europe to have a workforce that adapts to the changing skills needs, to reduce skills and labour shortages and remain competitive, innovative and inclusive in the context of the green and digital transitions and demographic change.

The majority of Member States lost ground in the pursuit of their 2030 national adult learning targets. In 2022, Sweden, Hungary and Romania had already surpassed their respective national targets, with Slovakia coming close but still remaining below (see Figure 1.3.5). Starting from the EU's lowest level of adult learning participation, Romania had set a relatively low yet ambitious target for 2030 and exceeded it in 2022, marking the largest increase in the EU from 2016 (+229%, though this might also be due to the break in series). Conversely, for 24 countries, the share of adults participating in learning remained below their 2030 targets, with Slovenia, Cyprus, Croatia, Poland and Italy facing the largest gaps (greater than 31 pps). Among these 24 countries, only 10 made progress towards their targets (compared to 2016), most notably Estonia (+23%), Malta (+22%), Slovakia (+16%), Germany (+16%) and Spain (+12%). Moreover, participation rates in education and training are often also significantly lower in outermost, remote and rural regions.

Figure 1.3.5: Substantial efforts are needed at Member State level to reach the national adult learning targets by 2030

Adult participation rate in learning during the past 12 months in the EU-27 and national 2030 targets for Member States (25-64 year olds, %)



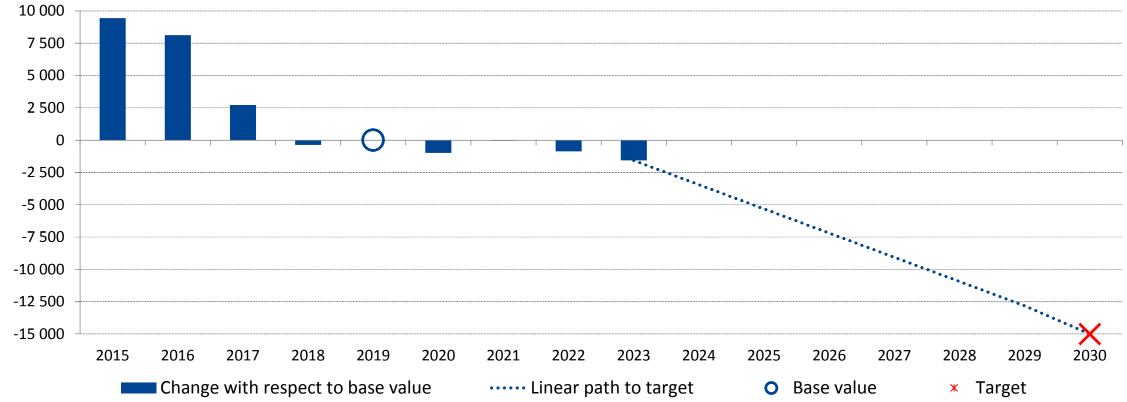
Note: Breaks in series in 2016 for IE, LU, SE and in 2022 for FR, IT, RO.
Source: Eurostat special extraction of the Adults participation in learning during the past 12 months without guided on the job training (GOJT) from the Adult Education Survey and table on 2030 national targets in Annex 1.

Poverty declined despite a challenging socio-economic context, marked by the COVID-19 crisis, high energy costs and inflation. In 2023, the number of those experiencing poverty or social exclusion risks had decreased by 703 000 compared to 2022, and by 1 571 000 relative to the base year 2019 (see **Error! Reference source not found.**.3.6). This last reading of the data represents the second consecutive year of decline, following a period of stability over 2018-21. Nevertheless, achieving the 2030 EU headline poverty reduction target of at least 15 million will require a significant acceleration during the remainder of the decade.

[59] In September 2024, the Indicators Group of the Employment Committee reached a provisional agreement on the monitoring framework for the skills target, using AES data excluding guided on-the-job training. See also the Annual Employment Performance Report 2024.

Figure 1.3.6: The number of people at risk of poverty or social exclusion in the EU has declined since 2019, but significant efforts are still needed to achieve the 2030 EU target

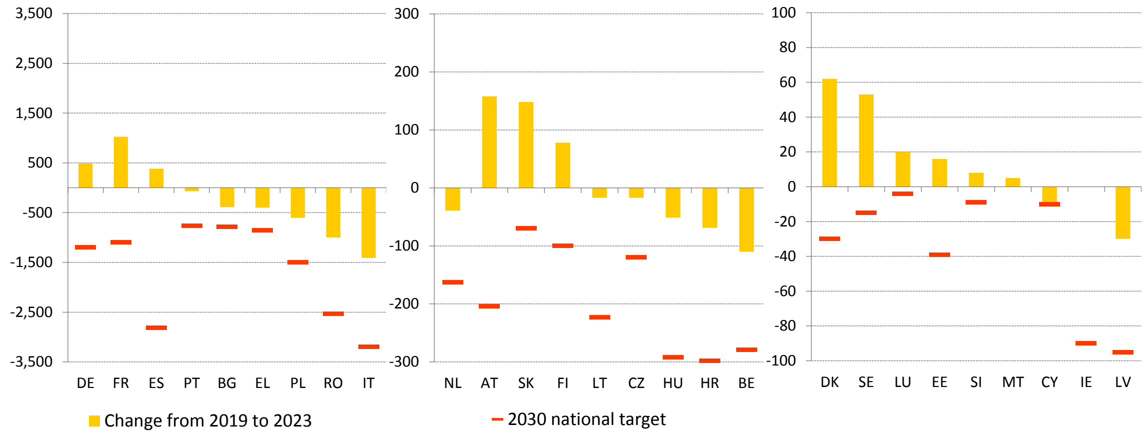
Change in EU-27 AROPE level with regard to the 2019 base year and related 2030 EU headline target (total population, thousand persons)



Note: Calculations based on break-free series, with estimated value for 2019 and re-calculations based on the values for Metropolitan France rather than the values for France in 2022 and 2023, to be in line with the 2019 baseline.
Source: SPC annual report 2024.

Figure 1.3.7: Only about half of the Member States showed some progress towards their national targets, with more efforts needed

Changes in AROPE levels over 2019-23 and national 2030 targets (total population, thousand persons)



Note: Break in series in 2020 for FR, IE, DK, LU, in 2021 for LU, in 2022 for FR and LU. DK and DE express their national poverty reduction targets as a reduction in number of people living in (quasi-)jobless households (i.e. households with very low work intensity), [that is expected to translate into declines in the numbers of people AROPE over the decade]. DE expresses its national target compared to 2020 as the reference year. FR set its national target in reference to metropolitan France and the monitoring is aligned to this geographical scope. HU expresses its national poverty reduction target as a reduction of the material and social deprivation rate for families with children [that can be translated into AROPE reduction if current circumstances prevail]. MT expresses its national poverty reduction target as a reduction of the AROPE rate, in terms of percentage points (i.e. -3.1 pps).
Source: Eurostat [ilc_pecs01] and table on 2030 national targets in Annex 1.

Progress towards the national targets varies significantly among Member States. Since 2019, only about half of the Member States have registered progress towards their 2030 national targets. One third of them (Belgium, Bulgaria, Cyprus, Czechia, Greece, Italy, Latvia, Poland and Romania) are broadly on track to reach their national targets, having achieved a progress rate of one third or more. On the other hand, nearly half of them (Austria, Denmark, Estonia, Finland, France, Germany, Luxembourg, Malta, the Netherlands, Slovakia, Slovenia, Spain and Sweden) experienced a deterioration and moved in the opposite direction (see Figure 1.3.7)[60]. In addition, the number of children experiencing poverty or social exclusion risks increased by 583 000 in the EU between 2019 and 2023. Positive developments were nonetheless observed in 13 countries (Belgium, Bulgaria, Estonia, Ireland, Greece, Croatia, Cyprus, Malta, Portugal, Romania, Slovenia, Finland and Sweden), among the 21 that set complementary targets on child poverty reduction[61]. An opposite trend was registered for Austria, Czechia, France, Germany, Luxemburg, Poland, Slovakia and Spain.

1.4 Key horizontal findings from the first-stage country analysis on social convergence

The first-stage country analysis examines labour market, skills and social developments in each Member State to detect potential risks to upward social convergence that warrant further analysis in a second stage. The 2025 edition of the Commission proposal for a Joint Employment Report (JER) incorporates such a country-specific first-stage analysis based on the principles of the Social Convergence Framework (SCF), following the pilot run in the JER 2024[62]. The analysis is in line with Article 148 TFEU. It also responds to Article 3(3), point (b) of Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, which indicates that the yearly surveillance by the Commission of the implementation of the employment guidelines, as part of the European Semester, includes the progress in implementing the principles of the European Pillar of Social Rights and its headline targets, via the social scoreboard and a framework to identify risks to social convergence[63]. The first-stage analysis of the framework is based on the Social Scoreboard headline indicators and identifies *potential risks* to upward social convergence (see methodological box at the end of this section for further details). To determine the existence of *actual challenges* to upward social convergence and the key factors driving such challenges, a second-stage analysis will follow that relies on a wider set of quantitative and qualitative evidence and accounts for the measures taken or planned by the Member States to address the challenges. This section presents the key horizontal findings from the first-stage country analysis of the SCF (see Chapter 3), indicating which countries require further analysis in the second stage.

The first-stage country analysis highlights overall robust labour market performance with upward convergence, while the skills and social policy areas registered more limited improvements as well as risks to upward convergence. The application of the JER

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[60] For the monitoring of the EU and national poverty reduction targets, as well as an explanation of the breaks in series and related adjustments to the data, see also the 2024 Annual Report of the Social Protection Committee.

[61] A target on child poverty reduction was set by Belgium, Bulgaria, Czechia, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Cyprus, Luxembourg, Malta, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden. See the 2024 Annual Report of the Social Protection Committee for the monitoring of these targets.

[62] Following discussions in the EPSCO Council in June 2023 on a Social Convergence Framework (SCF) and key messages by EMCO and SPC based on the work conducted by the dedicated joint EMCO-SPC Working Group from October 2022 until May 2023. The EPSCO Council of February 2024 called upon EMCO and SPC to examine the impact of the aforementioned pilot analysis on their activities and on the 2024 European Semester cycle.

[63] In addition, in Recital 8 of the Regulation, it is clarified that 'As part of its integrated analysis of employment and social developments in the context of the European Semester, the Commission assesses risks to upward social convergence in Member States and monitors progress on the implementation of the principles of the European Pillar of Social Rights on the basis of the Social Scoreboard and of the principles of the Social Convergence Framework'.

traffic-light methodology to the Social Scoreboard headline indicators helps pinpoint challenges of particular relevance for the implementation of the European Pillar of Social Rights (see Annexes 6 and 2, respectively). Aggregating the signals from the Social Scoreboard indicators on a country-by-country basis (see the box at the end of this section for further methodological explanations) allows for an overall evaluation of potential risks to upward social convergence faced by the EU and its Member States. A summary of key horizontal findings is outlined below (see also Table 1.4.1 and Figure 1.5.1).

- **Upward convergence in the labour market persisted in 2023 overallwith improvements still needed in terms of employment outcomes of under-represented groups.** Overall, the employment rate increased for the EU, but growth was slower and uneven across Member States, with declines observed in five average to well-performing countries. Some of the countries with below-average performance also fell further behind, leading to some divergence in employment outcomes. This is evidenced by eight 'critical' (red) or 'to watch' (orange) situations identified across Member States (based on the agreed JER methodology). Unemployment and its long-term component showed slight improvements on average, as well as a convergence trend driven by gains in the worst-performing countries. Nevertheless, unemployment increased in twelve Member States in 2023, and a total of eight are 'to watch'. Despite improvements, labour market outcomes for persons with disabilities, women and young people continued to lag behind. Six Member States face 'critical situations' for the disability employment gap and five for the gender employment gap, respectively, while another three and one countries, respectively, are in 'to watch' situations, with little to no apparent convergence regarding both indicators. The share of young people (aged 15-29) neither in employment nor in education and training improved, while remaining high, with limited convergence in 2023 as best performers worsened marginally while worst performers made modest progress.
- **Despite slight improvements at EU level, risks to upward convergence persist regarding skills, which may exacerbate challenges related to employability, labour productivity, competitiveness and labour and skills shortages unless policy efforts are considerably intensified.** The four headline indicators of the Social Scoreboard related to skills (participation of children aged less than three in formal childcare; early leavers from education and training; adult participation in learning; individuals with at least basic digital skills) recorded modest overall improvements at EU level. However, substantial disparities remained between Member States. The gap between the best and worst performing countries on adult learning and on digital skills exceeded 55 pps, for instance, while participation in early childhood education and care saw a gap greater than 70 pps. Furthermore, there have been no signs of convergence, with well-performing countries improving faster and worse-performing ones falling further behind. These developments are reflected in the large number of countries facing 'critical' and 'to watch' situations (9-10) for each of the aforementioned four indicators. This underscores the scale of the challenge faced by the Member States, from early education to life-long learning and adapting the workforce to the evolving skills needs of the labour market in the context of the twin transition as well as for ensuring productivity, competitiveness and inclusive growth.
- **While poverty decreased slightly at EU level in 2023, it remained above pre-COVID levels, with some poverty-related indicators showing growing divergence among Member States.** Gross disposable household income per capita grew on average in 2023, though Member States mostly continued to diverge and ten of them

were 'to watch' or 'critical'. The impact of social transfers (other than pensions) on poverty reduction declined slightly in 2023, though remaining higher than in 2019, with nine countries facing 'critical' or 'to watch' situations in this respect. The share of children at risk of poverty or social exclusion remained broadly stable but, for the overall population, the rate did not yet return to pre-pandemic levels. Moreover, while overall AROPE rates continued to converge, rates for children continued to display different developments across Member States. Seven and six countries face 'critical' or 'to watch' situations for the AROPE rate and the AROPE rate for children, respectively. As for income inequality (measured by the income quintile share ratio) some convergence took place, driven by improvements in worst-performing countries. Nevertheless, it remains elevated in some Member States, and several average performers saw a worsening in 2023, leading to eleven countries in 'critical' or 'to watch' situations under this dimension. Lastly, the housing cost overburden and self-reported unmet needs for medical care increased slightly, with significant divergence, and five Member States in 'critical' or 'to watch' situations for both.

The first-stage country analysis identifies ten Member States as requiring a deeper second-stage analysis in light of the challenges indicated by the Social Scoreboard headline indicators, signalling potential risks to upward social convergence. These risks, highlighted in Chapter 3 of this report, are assessed using the SCF methodology as outlined in the related EMCO-SPC Key Messages and the underlying Working Group report (see the Box at the end of this section). The Member States concerned are Bulgaria, Estonia, Spain, Italy, Lithuania, Hungary, Romania, Greece, Croatia and Luxemburg. Of these, the former seven Member States were in the second-stage also in the previous year, while the latter three are in it for the first time this year[64] (see Chapter 3 for the underlying analysis). For all of these countries, potential risks to upward social convergence were identified in relation to challenging situations in a large number of policy areas, while for Bulgaria, Estonia, Spain, Lithuania and Luxemburg also deteriorations over time played a key role for a smaller number of policy areas. The indicators signalling potential risks to upward social convergence for most of the aforementioned countries include the share of young NEETs, the income quintile share ratio, the overall AROPE rate, the AROPE rate for children and the disability employment gap, followed by adult participation in training, the share of the population with at least basic digital skills and the impact of social transfers (other than pensions) on poverty reduction. For these ten Member States, a deeper second-stage analysis will be conducted by the Commission services.

[64] For Greece, this is due to some deteriorations or broad stability at levels that are still far from the EU average in the social domain (housing cost overburden; self-reported unmet needs for medical care; AROPE – overall and for children; impact of social transfers on poverty reduction; income inequalities); persisting labour market challenges for women and the youth; and a low and deteriorating participation of adults in learning. For Croatia, the identification for the second-stage analysis relates to the area of skills (low and deteriorating adult learning participation; significant deterioration in the share of adults with at least basic digital skills); an overall employment rate that remains lower than the EU average, despite improvements, and a still difficult employment situation of persons with disabilities; as well as some challenges in the social domain (impact of social transfers on poverty reduction; income inequalities). For Luxembourg, the identification for the second-stage analysis relates to the recent significant worsening in some social indicators (AROPE - overall and for children; impact of social transfers on poverty reduction) as well as a persistently high housing cost overburden rate; the recently deteriorating labour market trends (unemployment and long-term unemployment rates; disability employment gap), as well as the decrease in the share of adults with at least basic digital skills, even if the statistics remains well above the EU average. A more detailed analysis is presented in Chapter 3 of the report for each of the 27 Member States.

Table 1.4.1: Social Scoreboard: overview of challenges across Member States by headline indicator

			Best performers	Better than average	Good but to monitor	On average	Weak but improving	To watch	Critical situations
Equal opportunities	**Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64)**	2022	DE, HU, NL, SE	DK, EE, IE, FR, LU, MT, AT, SK, FI		BE, ES, LV, PT	RO	HR, IT, CY, LT, SI	BG, CZ, EL, PL
	Early leavers from education and training (% of population aged 18-24)	2023	EL, HR, IE, PL	BE, BG, CZ, EE, LU, NL, SE, SK	LT, SI	AT, FR, LV	IT	CY, DK, FI, MT, PT	DE, ES, HU, RO
	Share of individuals who have basic or above basic overall digital skills (% of population aged 16-74)	2023	FI, IE, NL	AT, BE, CZ, DK, EE, ES, HU, SE		DE, EL, FR, LT, MT, PT		CY, HR, IT, LU, LV, SI, SK	BG, PL, RO
	Youth NEET rate (% of total population aged 15-29)	2023	NL, SE	DE, DK, IE, MT, PL, PT, SI	LU	AT, BE, CZ, EE, FI, HR, HU, LV, SK	IT	BG, ES, FR, LT	CY, EL, RO
	Gender employment gap (percentage points)	2023	EE, FI, LV	CY, DK, FR, HR, IE, PT, SE	LT	AT, BE, BG, DE, ES, HU, LU, NL, SI, SK		PL	CZ, EL, IT, MT, RO
	Income quintile ratio (S80/S20)	2023	BE, CZ, FI, SI	DK, IE, NL, PL	SK	AT, CY, DE, FR, LU	BG, IT	EE, EL, ES, HR, HU, MT, PT, SE	LT, LV, RO
Fair working conditions	**Employment rate (% of population aged 20-64)**	2023	CZ, EE, NL, SE	CY, DE, HU, MT, PL	DK	BG, IE, LU, LV, PT, SK	EL, ES, IT	AT, FI, FR, LT, SI	BE, HR, RO
	Unemployment rate (% of labour force aged 15-74)	2023	CZ, DE, MT, PL	BG, CY, HR, HU, IE, NL, SI		AT, BE, LV, PT, RO, SK	EL, ES	DK, EE, FI, FR, IT, LT, LU, SE	
	Long-term unemployment rate (% labour force aged 15-74)	2023	DK, NL	AT, DE, EE, IE, MT, PL	CZ	BE, BG, CY, FI, FR, HR, LT, LV, PT, RO, SE, SI	EL, ES	HU, LU	IT, SK
	GDHI per capita growth (2008=100)	2023	HU, LT, MT, PL, RO	HR		CY, DE, DK, IE, LU, LV, PT, SI	EL, ES	BE, CZ, EE, FI, FR, NL, SE, SK	AT, IT
Social protection and inclusion	**At risk of poverty or social exclusion rate (% of total population)**	2023	CZ, FI, NL, SI	AT, CY, DK, IT, PL	SK	BE, DE, FR, HR, IE, MT, PT, SE	BG, RO	EE, HU, LT, LU	EL, ES, LV
	At risk of poverty or social exclusion rate for children (% of population aged 0-17)	2023	CZ, DK, FI, NL, SI	BE, CY, EE, HR, PL		AT, DE, IE, LT, LV, MT, PT, SE, SK	IT, RO	EL, FR, HU, LU	BG, ES
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP)	2023	BE, DK, FI, IE	AT, CZ, DE, FR, IT, NL, SK		CY, HU, LT, PL, SE, SI	BG	EE, LU, LV, MT	EL, ES, HR, PT, RO
	Disability employment gap (percentage points)	2023	ES, IT, PT, SI	EE, FI, FR, LV, MT		AT, CY, CZ, DE, EL, NL, SE, SK		HU, LU, RO	BE, BG, HR, IE, LT, PL
	Housing cost overburden (% of total population)	2023	CY	AT, BG, FI, HR, IE, IT, LT, PL, PT, SI	SK	BE, CZ, EE, ES, FR, HU, LV, NL, RO, SE		DE, MT	DK, EL, LU
	Children aged less than 3 years in formal childcare (% of population under 3-years-old)	2023	FR, LU, NL, SE	BE, CY, ES, MT, PT, SI	DK	EE, EL, FI, HR, IT, LV	HU	AT, BG, DE, IE, LT	CZ, PL, RO, SK
	Self-reported unmet need for medical care (% of population 16+)	2023		AT, BE, BG, CY, CZ, DE, HR, HU, LU, MT, NL		DK, ES, FR, IE, IT, LT, PL, PT, SE, SI, SK		RO	EE, EL, FI, LV

Note: Update of November 2024. The penultimate value for the indicator on adult participation in learning refers to 2016 and the categorisation relies on the change from that to 2022. As data for the indicator on the share of individuals who have at least basic overall digital skills are collected every other year, the categorisation relies on the change from 2021 to 2023. GDHI per capita growth data are not available for Bulgaria. Breaks in series and other flags are reported in Annexes 3 and 4.

Figure 1.4.1: Overview of employment, skills and social trends and challenges by Social Scoreboard headline indicators

The EU average, trends and distribution of Member States with a specific JER categorisation among all for each headline indicator, also aggregated for the three Pillar chapters

Headline indicator	Year	EU average value	EU average trend
EQUAL OPPPORTUNITIES			
Adult participation in learning	2022	39.5	
Early leavers from education and training	2023	9.5	
Share of individuals who have basic or above basic overall digital skills	2023	55.6	
Youth NEET rate	2023	11.2	
Gender employment gap	2023	10.2	
Income quintile ratio (S80/S20)	2023	4.72	
FAIR WORKING CONDITIONS			
Employment rate	2023	75.3	
Unemployment rate	2023	6.1	
Long-term unemployment rate	2023	2.1	
GDHI per capita growth	2023	111.1	
SOCIAL PROTECTION AND INCLUSION			
At risk of poverty or social exclusion rate	2023	21.3	
At risk of poverty or social exclusion rate for children	2023	24.8	
Impact of social transfers (other than pensions) on poverty reduction	2023	34.7	
Disability employment gap	2023	21.5	
Housing cost overburden	2023	8.8	
Children aged less than 3 years in formal childcare	2023	37.5	
Self-reported unmet need for medical care	2023	2.4	

Notes: Data is missing for some countries in some indicators - see Note for Table 1.4.1.

Critical situations
To watch
Weak but improving
On average
Good but to monitor
Better than average
Best performers

Methodological approach for identifying potential risks to upward social convergence in the first-stage country analysis on social convergence

The analysis relies on existing tools that have been developed with the Member States over the recent years, based in particular on the Social Scoreboard and the so-called JER (traffic-light) methodology[65]. The first-stage country analysis is based on the full set of Social Scoreboard headline indicators. Each of the indicators is scrutinised based on the JER methodology, which determines the relative standing of Member States, expressed in terms of standard deviations from the mean of both the absolute level of the indicator values and its change compared to the year before (see Annex 4 for technical details). Results are summarised into one of seven possible categories for each indicator for the country in question ('best performer', 'better than average', 'good but to monitor', 'on average', 'weak but improving', 'to watch', 'critical situation'). This corresponds with the scale of colours, from green to red.

Each of the Social Scoreboard headline indicators is assessed to identify whether they lead to potential risks to upward social convergence, and hence if further analysis is needed in a second stage.[79] The qualification 'critical situation' refers to Member States which score much worse than the EU average on a specific indicator and in which the situation is deteriorating or not improving sufficiently compared to the year before. A situation is marked as 'to watch' in two cases: a) when the Member State scores worse than the EU average on a specific indicator and the situation in the country is deteriorating or not improving sufficiently fast, and b) when the score in terms of levels is in line with the EU average but the situation is deteriorating much faster than the EU average. Further analysis in a second stage is considered warranted for Member States for which six or more Social Scoreboard headline indicators are flagging red ('critical situation') or orange ('to watch') in the latest JER edition. An additional reason for considering that the situation requires further analysis occurs when an indicator flagging red or orange (as explained before) also presents two *consecutive* deteriorations in its JER categorisation. An example of this is a change from 'on average' to 'weak but improving' in the 2024 JER edition, followed by a further deterioration to 'critical situation' in the 2025 JER edition. This would be counted as an additional 'flag' towards the minimum threshold of six flags overall. For example, if in the 2025 JER edition a country has 5 headline indicators of the Social Scoreboard flagged as red or orange, and one of them presents two consecutive deteriorations in the 2024 and 2025 JER editions, the country is considered as having overall 6 flags in the 2025 JER edition (5 red/orange signals from the indicators in the 2025 edition + 1 of them with two consecutive deteriorations). As a result, it would require further analysis in a second stage as well. Any break in series and issues in relation to data quality and interpretation are considered in the evaluation of the total number of flags towards the threshold.

The Social Scoreboard headline indicators and their evaluation rely on the most recent data that are available at the data cutoff date[66]. When relevant data for assessing the JER categorisation is missing for a given country, the corresponding JER categorisation from the previous JER edition (if available) is used to fill the missing information. If the indicator has missing values for the latest JER edition *and* the preceding one, the JER categorisations are not counted towards the indicative threshold of 6 flags for the second-stage analysis.

[65] See EMCO-SPC Key Messages, based on the Report of the EMCO-SPC Working Group on the introduction of a Social Convergence Framework in the European Semester.
[66] The data cutoff date is 4 November 2024 for the 2025 JER.

CHAPTER 2. EMPLOYMENT AND SOCIAL REFORMS – MEMBER STATES' PERFORMANCE AND ACTION

2.1 Guideline 5: Boosting the demand for labour

This section looks at the implementation of the employment guideline no. 5, which recommends Member States to provide the conditions that promote labour demand and job creation, in line with Pillar principles 4 (active support to employment) and 6 (wages). Section 2.1.1 focuses on key labour market developments, also reflecting the impact of high inflation and cost of living. Section 2.1.2 reports on the measures implemented by the Member States in these areas, with a special emphasis on policies aimed at increasing employment and supporting job creation in a context of labour and skills shortages.

2.1.1 Key indicators

The EU labour market remained strong in 2023, with moderating but still robust employment growth despite the recent economic slowdown. Over two and a half million additional workers were employed compared to 2022, bringing the total to 217.5 million. The employment rate (20-64 age group) reached 75.3% in 2023 (up by 0.7 pps compared to 2022), and a record high of 76.0% in Q2-2024, with the EU headline target of at least 78.0% in employment by 2030 within reach[67]. Overall, employment growth decelerated (from 2.0% in 2022 to 1.2% in 2023) but remained robust, withstanding weak economic activity. The employment rate increased in most Member States, and particularly strongly in Cyprus, Malta, Italy, Spain, Poland and Greece (Figure 2.1.1). Decreases were, on the contrary, recorded in Austria, Finland, Denmark, Slovenia and Lithuania. Romania, Belgium, and Croatia are in 'critical situations', with employment rates remaining at relatively low levels (below 72.5%) and increases compared to last year that are particularly low for the first two. France, Austria, Finland, Slovenia and Lithuania are 'to watch', following either below-average improvements from relatively low levels (for France) or declines from above-average levels (for the other four countries). On the other hand, the Netherlands, Sweden, Estonia, and Czechia are 'best performers', with employment rates exceeding 80%. Overall, a convergence of employment rates across Member States can be observed. Nevertheless, significant regional disparities persist in many Member States (see Figure 5 in Annex 5), including outermost regions.

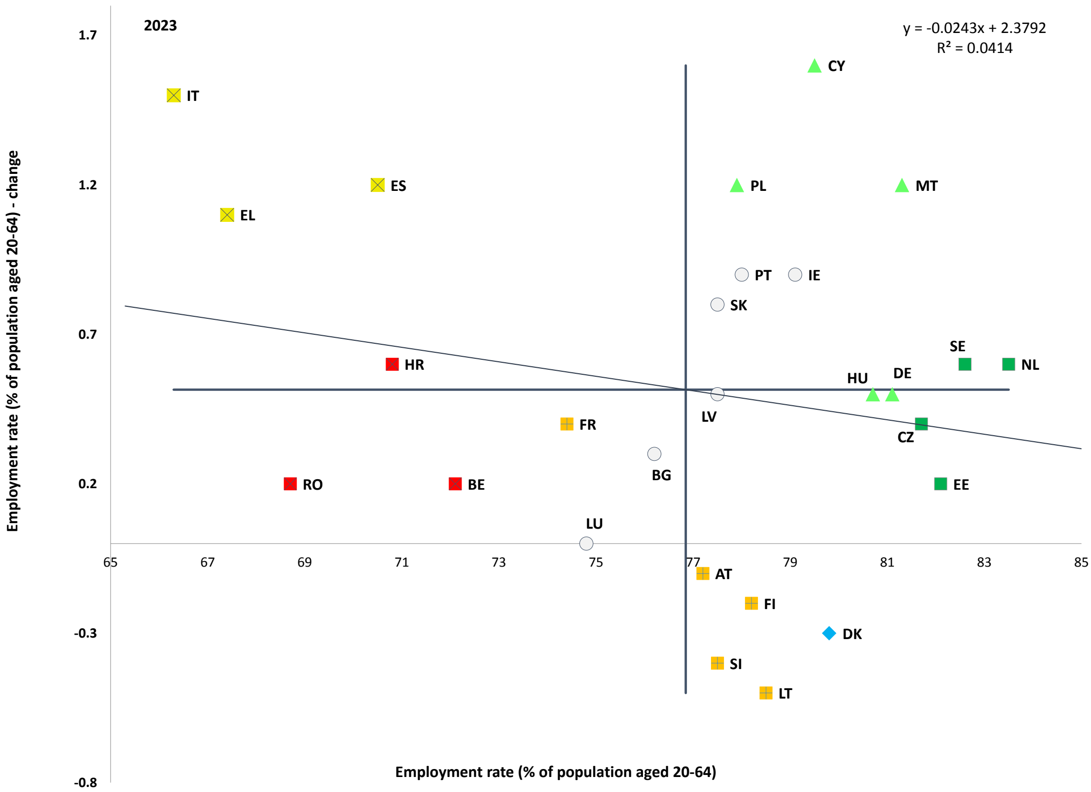
Employment growth was supported by an expanding labour force and was stronger in sectors experiencing relatively high labour shortages. After the COVID-19 pandemic, since 2020, employment has increased by 9 million people thanks to a simultaneous labour force expansion of 6.9 million and a reduction in unemployment of 2.1 million. In 2023, job creation was concentrated in sectors such as trade, transport, accommodation and food services[68]. Employment growth was overall higher in sectors facing significant labour shortages. This can be attributed to both growing labour supply and a shift in job allocation towards these high-demand sectors. Additionally, the persistence of labour shortages in sectors with strong employment growth suggests continued potential for job creation. Labour demand remained resilient to the economic slowdown, contributing to sustained labour market tightness. The vacancy rate decreased from 2.9% in Q1-2023 to 2.4% in Q2-2024

[67] See European Commission, Porto Declaration and targets, 2021.
[68] See European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.

(seasonally adjusted data), which is still well above the pre-pandemic average of 1.7% recorded between 2013 and 2019[69].

Figure 2.1.1: The employment rate increased in most Member States in 2023 though at a slower pace

Employment rate (age 20-64), 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Definition differs for ES and FR. Break in the series for CY and DK.
Source: Eurostat [lfsi_emp_a], EU LFS.

In the majority of Member States, both employment and total hours worked grew, showcasing a robust EU labour market. Employment now exceeds pre-COVID-19 levels in all Member States except for Latvia, Romania and Slovakia. Total hours worked rose by 0.9% in 2023 and in Q2-2024 were higher than pre-pandemic levels in most Member States expect for Bulgaria, Czechia, Germany, Latvia, Austria, and Slovakia. In 2023, the increase in employment outpaced the growth of total hours worked, resulting in a decline of 0.2% in the average number of hours worked per employee. The average hours worked per employee in the EU remain below pre-COVID-19 levels. The slower growth in total hours worked relative to employment reflects a long-term downward trend of decreasing average hours per worker. This may be partly due to stronger employment growth in services and other sectors where workers typically work fewer hours[70] but also to changing preferences of workers.

[69] Eurostat [jvs_q_nace2]. The job vacancy rate is the total number of job vacancies (i.e., paid posts that are newly created, unoccupied, or about to become vacant) as a percentage of the occupied and vacant posts.
[70] See European Commission, Labour market and wage developments in Europe 2023, Publications Office of the European Union, 2023.

Short-time work schemes have proven to be an effective policy tool for mitigating temporary economic shocks. During the COVID-19 crisis, well-designed short-time work and similar job retention schemes successfully protected jobs and incomes in the EU. Their widespread use was facilitated by the availability of funding through the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). According to empirical analysis by Eurofound, job retention schemes preserved 24.8 million jobs in 2020 and 2.1 million in 2021, which is the equivalent of 13.3% and 1.1% of total employment, respectively[71]. The number of jobs saved was particularly large in France, Italy and Germany, where the use of job retention schemes during the first year of the pandemic is estimated to have preserved 6.6 million jobs (25.0% of total employment), 4.7 million (21.8%) and 4.7 million (12.2%), respectively. In relative terms, job retention schemes contributed to saving a substantial number of jobs also in many countries with smaller labour markets (for example, more than 14.5% of jobs in 2020 in Croatia, Cyprus, Luxembourg, Malta and the Netherlands).

Self-employment has been on a declining trend in the EU, with some variation across countries and sectors. The share of self-employed workers in total employment fell from 14.8% in 2010 to 13.3% in 2023. During this period, the largest reductions were seen in agriculture and commerce, while significant increases occurred in the public and near-public sectors (including public administration, education and health) and ICT. The skills profile of the self-employed also shifted, with 39% of them having tertiary education in 2023, compared to only 28.0% in 2010. At-risk-of-poverty rates among the self-employed (18 to 64 years) are higher than those of employees (22.1% vs 9.6%). In 2023, the share of self-employed workers varied significantly across Member States, approching or exceeding 20% in Italy and Greece and remaining below 8% in Germany and Denmark (see also section 2.3.1). Own-account workers made up the largest portion of self-employed in the EU (approximately 70%) and in most Member States. Between 2013 and 2023, the share of own-account workers in total employment declined from 10.3% to 9.0%, as fewer younger people entered self-employment, not compensating for older workers that left it.

Medium-term challenges related to low productivity growth in the EU persist. While productivity growth averaged around 1.4% annually before 2007, it dropped to 0.8% between 2010 and 2019 and further declined to 0.7% in 2023[72]. Despite forecasts predicting slight improvements, productivity growth remains structurally low, undermining the EU's global competitiveness. Employment growth now drives GDP growth more than productivity in most Member States, except Denmark, Poland, Portugal, Romania, and Slovakia. Persistently low labour productivity, worsened by an ageing population, threatens competitiveness, economic growth, job creation, and living standards. Mario Draghi's report on The Future of European Competitiveness highlights significant gaps in the EU's high-tech specialisation, innovation, and investment, particularly when compared to the United States[73]. Weak Total Factor Productivity growth has been the main factor behind the disappointing labour productivity growth and is linked to notably a decline in technological innovation and adoption, insufficient reallocation of capital and labour across firms, the ageing workforce that reduces risk-taking, and weaker human capital accumulation also play a role. Labour and skills shortages delay technology adoption, increase costs, and reduce further labour demand.

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[71] Eurofound, Weathering the crisis: How job retention schemes preserved employment and incomes during the pandemic, Publications Office of the European Union, 2024.

[72] European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.

[73] Draghi, M. (2024a), Draghi, M. (2024b).

In the short term, shortages can force firms to retain workers, hindering labour reallocation, and compel employees to work longer hours, potentially lowering productivity and worsening job mismatches, leading to higher structural unemployment. As emphasized in Draghi's report, adapting education and training systems to evolving skills needs, particularly for the twin transition, and prioritizing adult learning and vocational education and training are essential for boosting competitiveness. Reducing administrative barriers, fostering innovation, and supporting effective collective bargaining can help ensure productivity gains, and sustain wage growth and competitiveness.

Labour and skills shortages remain significant and widespread in the EU, but are declining from their peaks. Over the past decade, labour and skills shortages have increased across all Member States. With the recent economic downturn, the share of managers indicating a shortage of labour force as a limiting factor to production slightly decreased (18.0% in October 2024 vs 22.4% in October 2023 and 25.9% in October 2022), but remains relatively high[74]. Shortages were prevalent in STEM sectors (notably ICT), construction, healthcare and long-term care, transport, tourism and other sectors that are relevant for the green and digital transitions. According to the 2023 EURES report[75], the most acute shortages were seen in occupations such as heavy truck drivers, nursing professionals (including specialists), doctors, electricians, roofers, waiters and construction workers. Pillar box 1 provides a more detailed analysis of the important challenges faced in this respect.

Pillar Box 1: Tackling labour and skills shortages in the EU

Addressing labour and skills shortages is crucial to boost the EU's competitiveness, innovation capacity and inclusive and sustainable growth. For almost a decade, labour and skills shortages have increased in all Member States and are expected to continue rising in the context of the digital and green transformation. Labour shortages did not significantly recede even in the face of the recent economic slowdown. These shortages are driven by demographic change, the demand for new skills linked to technological developments and the twin transition, as well as poor working conditions in certain sectors. They are reported by companies of all sizes and sectors, and are particularly persistent in healthcare, STEM fields (notably ICT), construction, transport, and certain service-based occupations (e.g. cooks and waiters)[76]. While labour shortages can indicate a strong economy, empowering workers to negotiate better wages and working conditions, they can at the same time hinder productivity and innovative capacity, weaken the EU's competitiveness, pose bottlenecks to growth, and hamper progress on the green and digital transitions. Implementing the European Pillar of Social Rights, notably on education, training, and lifelong learning (principle 1), active support to employment (principle 4), and secure and adaptable employment (principle 5) will also contribute to tackling labour and skills shortages.

Labour shortages vary substantially across Member States, and they are not equally distributed across sectors and occupations. In Q2-2024, the job vacancy rate (seasonally adjusted) was the highest in Belgium (4.4%), the Netherlands (4.3%), Austria (at 4.0%), Czechia (3.4%), Germany (3.2%), and Malta (3.0%). Conversely, Bulgaria, Romania, Spain, and Poland had the lowest rates (all below 1%) – see Figure below. Labour shortages in the

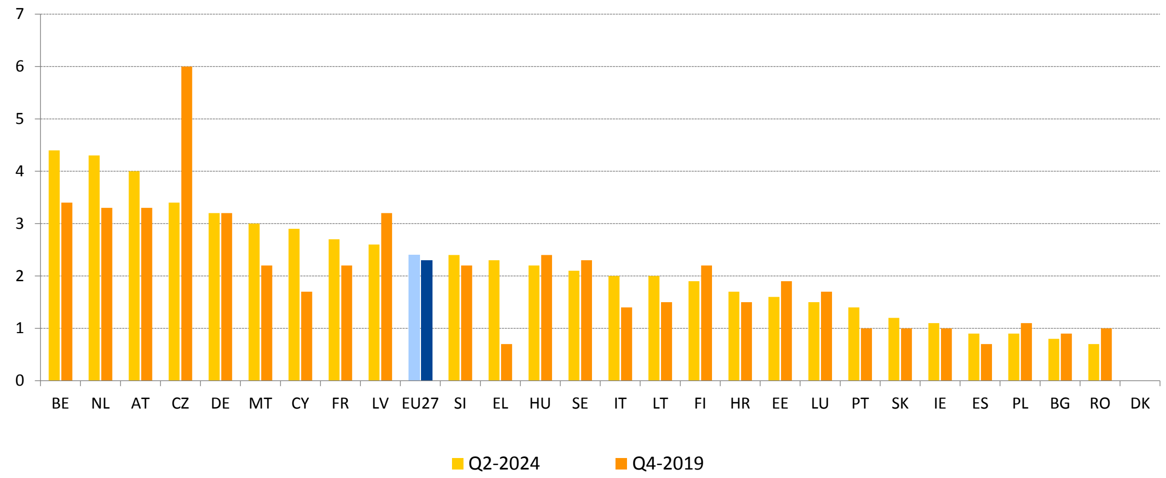
[74] European Commission, Business and consumer survey.

[75] European Labour Authority, Labour shortages and surpluses in Europe 2023, Publications Office of the European Union, 2023.

[76] Eurofound, European Company Survey 2019, and European Commission, Employment and Social Developments in Europe 2023: Addressing labour shortages and skills gaps in the EU, Publications Office of the European Union, 2023.

manufacturing sector are particularly high and continued to grow over 2022 and 2023 in Croatia, Slovenia, and Bulgaria. In the construction sector, Slovenia, Greece, and Croatia have the greatest problems recruiting workers, while in services, labour shortages are most acute in Malta, the Netherlands and Germany. Recently, the Commission identified 42 occupations considered as EU-wide shortage occupations[77]. Sector-specific shortages include administrative and support service activities, accommodation and food services, ICT, and construction. Moreover, in surveys firms increasingly report that they cannot find the specific skills needed to fill their vacancies[78] [79].

Labour shortages are still higher in most Member States than in 2019
Job vacancy rate, Q4-2019 vs Q2-2024



Note: NACE 2 activities, B-S (Industry, construction, and services).
Source: Eurostat [ei_lmjv_q_r2], seasonally adjusted, not calendar adjusted data.

Concerted and reinforced action at the EU, Member States' and regional level, also involving social partners and other relevant stakeholders, is key to tackle labour and skills shortages. In March 2024, the Commission presented an Action Plan to tackle labour and skills shortages, prepared in close cooperation with the social partners[80]. It builds on the numerous initiatives already taken and sets out 87 new actions that the EU, the Member States, and social partners will or should take to address labour and skills shortages. These measures fall within five policy domains: (i) activation of under-represented people in the labour market, (ii) support for skills, training, and education, (iii) improving working conditions, (iv) enhancing fair intra-EU mobility and (v) attracting talent from outside the EU. The Commission is making good progress in the implementation of its commitments. On the basis of the updates received, out of the 30 new commitments that were taken by the Commission in the Action Plan, 6 have been fully implemented (20%), and 22 are ongoing (73%). Similarly, social partners have committed to a total of 34 actions and based on the information collected by the Commission, the implementation of one third of these commitments (11 actions, 32% of their total commitments) is underway. The Commission will continue monitoring progress in implementing this action plan in the framework of the

[77] Communication: Action Plan on labour and skills shortages in the EU (2024) - Employment, Social Affairs & Inclusion - European Commission.
[78] European Commission, Flash Eurobarometer FL529: European Year of Skills - Skills shortages, recruitment and retention strategies in small and medium-sized enterprises, 2023.
[79] EIB, EIB Investment Survey (EIBIS) 2023.
[80] Communication: Action Plan on labour and skills shortages in the EU (2024) - Employment, Social Affairs & Inclusion - European Commission.

European Semester. In addition, the Commission will invite Member States in the Employment Committee (EMCO) and the Social Protection Committee (SPC) to have tripartite exchanges on this issue, with the participation of the European and national social partners. Implementing this action plan is also key for achieving the EU headline and national targets on employment and skills by 2030[81].

Several Member States have adopted measures to tackle labour and skills shortages, including by attracting third-country nationals. In March 2024, the Skilled Workers Immigration Act entered into force in **Germany**, revising and expanding regulations for tertiary-educated skilled workers, and relying on the expanded list of occupations facing labour shortages (see Section 2.2.2). In December 2023, **France** reformed its Public Employment Service (now called *'France Travail'*) to enhance support for jobseekers and better address shortages (see Section 2.3.2). In 2023, **Austria** implemented an 'Action Plan against the shortage of skilled workers', allocating EUR 75 million to active labour market policies for 2024 and 2025. The Plan also includes actions supporting the labour market integration of asylum seekers and beneficiaries of subsidiary protection. In February 2024, **Slovenia** adopted provisions to determine supplement payment/ bonuses for extra workload in certain shortage occupations in the health sector (i.e., family medicine). **Malta** extended the 'Skills Development Scheme' in December 2023 to promote skills acquisition by the workforce. In October 2023, **Italy** updated its legislations and scaled-up investments in up- and re-skilling programmes to facilitate access for highly skilled professionals to its labour market and better respond to labour and skill shortages, also as part of the RRP. In August 2023, **Luxembourg** amended legislation to simplify the recruitment process for third-country nationals and improve talent attraction and retention.

The EU unemployment rate reached record lows in 2023 and early 2024 despite the economic slowdown. The average unemployment rate in the EU (15-74 age group) decreased to 6.1% (from 6.2% in 2022), marking the lowest level on record (Figure 2.1.2). Greece, Cyprus and Spain saw the largest decreases, by 1.4 pps, 1.0 pps and 0.8 pps, respectively. Conversely, Lithuania, Estonia, Denmark, Luxembourg and Hungary recorded increases at or above 0.5 pps. The situation in Italy, France, Sweden, Finland, Lithuania, Denmark, Estonia and Luxembourg is 'to watch', either because of relatively high unemployment or below-average improvements. While Spain and Greece have by far the highest unemployment rates, at 12.2% and 11.1%, respectively, they are in a 'weak but improving' situation, as both countries experienced declines well above the EU average. Czechia, Poland, Germany and Malta are 'best performers', with unemployment rates between 2.6% and 3.1%. By September 2024, the EU average unemployment rate decreased further to 5.9%. High, albeit decreasing[82], labour shortages have led firms to retain employees despite weaker demand for their products and services, helping maintain the unemployment rate low[83]. Additionally, labour and skills shortages may have contributed to the low transition rate from employment to unemployment. Unemployment rate differences between EU countries have decreased steadily after peaking in 2013 and are nearly as low as before the 2008-09 financial crisis. However, significant regional disparities persist in many countries (see Figure 6 in Annex 5), including outermost regions.

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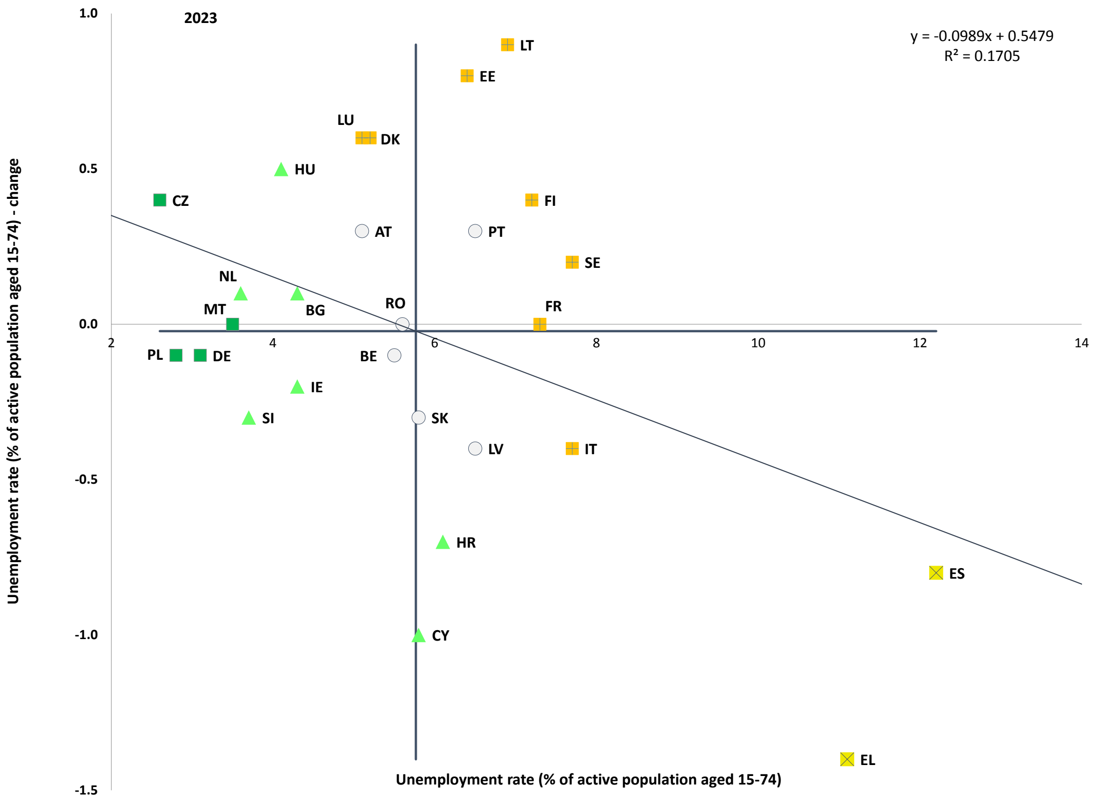
[81] See European Commission, Porto Declaration and targets, 2021.

[82] See European Commission: Autumn 2024 Economic Forecas - A gradual rebound in an adverse environment.

[83] See European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.

Figure 2.1.2: The unemployment rate decreased in almost half of the Member States in 2023

Unemployment rate (age 15-74), 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Definition differs for ES and FR. Break in the series for CY and DK.
Source: Eurostat [une_rt_a], EU LFS.

The green transition is reshaping the economy, leading to demand for new tasks and skills in existing sectors, labour reallocation across sectors, and new jobs in the 'green economy' that can result in net job creation with appropriate policy support. The transition towards a circular and low-carbon economy is generating shifts of workers across sectors, especially in energy, mining, construction, manufacturing, transport and waste management. Recent analysis shows that, on average, 1.8 to 3.9% of workers in the EU switch sector every year. This figure has remained stable over time, with a slight increase in some countries, around the level of 2016[84]. At the same time, the share of workers in the green economy grew from 2.2% in 2015 to 2.5% in 2021 in the EU, with marked differences across Member States (from 0.9% in Hungary and 1.4% in Malta to 4.9% in Estonia and 5.4% in Luxembourg in 2021)[85]. Alternative measurements suggest that the green economy could be larger, potentially representing up to 11.3% of the EU workforce (vs 10.8% in 2015) [86]. Meanwhile, emission-intensive sectors[87] continue to employ a significant share of workers

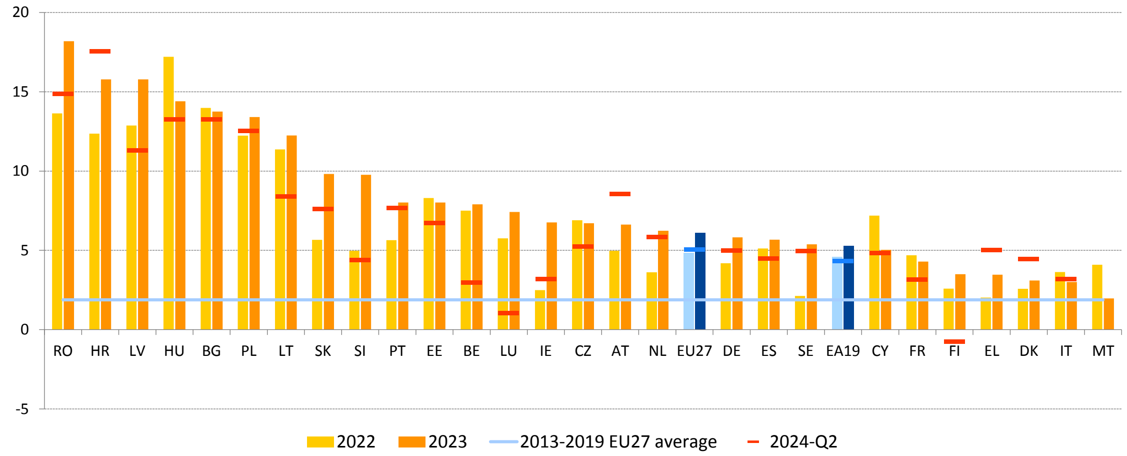
[84] Fulvimari A. et al., *Estimating labour market transition costs and social investment needs of the green transition – a new approach*, Publications Office of the European Union, 2024 (forthcoming).
[85] Based on Eurostat [env_ac_egss1] and [nama_10_a10_e].
[86] Based on calculations of the Joint Research Centre done under the GreenJobs project, following the operationalisation of the ONET task-based approach proposed by Gili, Verdolini and Vona (2020) to measure green jobs employment in the EU.

(3.5% in the EU in 2023), with differences ranging from 0.8% in Cyprus and 0.9% in Ireland to 7.4% in Czechia. Evidence suggests that, in addition to addressing labour shortages in professions essential to a net-zero economy and ensuring a fair transition, well-designed policies supporting workers in the changing nature of their job or their transitions to new sectors or jobs – especially those most affected by the shift to climate neutrality – can lead to net job creation in the Union[88].

The digital transformation is supporting job creation in certain sectors. The number of ICT specialists in the EU has been steadily rising since 2013 (by 59.3%), reaching over 9.5 million in 2023. By 2030, at the current pace, the number of ICT specialists will reach just 12 million, well below the 20 million target and amid growing competition for digitally skilled talent[89]. Women remain nonetheless significantly under-represented, with only 19% of ICT specialists being women in 2023. In addition, technological advances in areas like Artificial Intelligence (AI), data analytics, virtual worlds, cybersecurity, quantum, cloud and edge computing are further transforming economies and labour markets. This will make digital skills increasingly essential, while currently 4 in 10 adults and one-third of workers in Europe lack even basic digital skills (see section 2.2.1). The biggest shortages are reported in areas like digital content creation and computer programming, particularly in Latvia, Denmark, Poland and Spain[90].

Figure 2.1.3: Wages continued rising in 2023 amid still high inflation and labour market tightness

Nominal compensation per employee, annual percentage change



Note: Note: EA-20, the 20 countries that have adopted the euro. Nominal compensation per employee is calculated as the total compensation of employees divided by the total number of employees. Nominal compensation includes, in addition to gross wages, employer contributions.
Source: AMECO database and Eurostat, National accounts [namq_10_gdp], [namq_10_a10_e].

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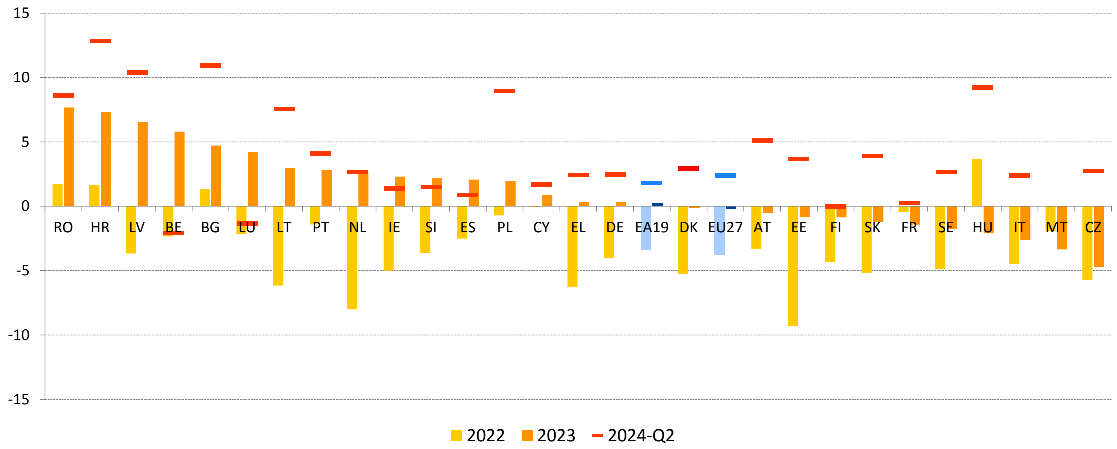
[87] Emission-intensive industries include mining and quarrying, manufacture of chemicals and chemical products, manufacture of other non-metallic mineral products, manufacture of basic metals, and manufacture of motor vehicles, trailers and semi-trailers.
[88] European Commission, SWD(2020) 176 final. Projections based on EQUEST using a 'lower taxation low-skilled labour' scenario, 2020.
[89] European Commission, Europe's Digital Decade: digital targets for 2030, 2023.
[90] OECD, Skills for Job 2022, 2022.

Wage growth in the EU remained robust in 2023 but varied significantly across Member States. Annual growth in nominal compensation per employee reached a record high of 6.1% (year-on-year), after 4.9% in 2022, in a context of still high inflation[91] and tight labour markets. It then decreased to 5.0% in Q2-2024 as inflation eased. Wage growth varied significantly across Member States (Figure 2.1.3). In Q2-2024, nominal wage growth (year-on-year) exceeded 11% in Bulgaria, Croatia, Hungary, Latvia, Poland and Romania, and ranged between 6% and 10% in Estonia, Lithuania, Slovakia, Austria and Portugal. It was below 3.2% in Belgium, Finland, France, Ireland, Italy, Luxembourg and Malta.

Negotiated wages also displayed strong growth, driven by increasing demands to offset losses in purchasing power. Negotiated wages in the euro area rose by 3.6% (year-on-year) in Q2-2024, reflecting a deceleration from the 4.4% to 4.7% growth rates observed since Q1-2023[92]. Nevertheless, the latest increase remains significantly higher than those registered over 2022, ranging between 2.6% and 3.1%. Several labour disputes occurred in 2023, fuelled by concerns that wages were not keeping pace with the increasing cost of living[93].

Figure 2.1.4: Real wages are rebounding, but did not yet recover from losses in previous years

Real gross wages and salaries per employee, annual percentage change



Note: EA refers to EA-20, the 20 countries that have adopted the euro. Real wages were computed using the harmonised index of consumer prices as a deflator.
Source: Ameco [5000 HWWDW, 5000 ZCPIH] and Eurostat [namq_10_gdp, namq_10_a10_e, prc_hicp_midx].

After a substantial decline in 2022, real wages started to grow from Q3-2023, largely driven by easing inflation. Real wages in the EU dropped by 3.7% in 2022, and continued their decline in early 2023, translating into an annual fall by 0.2%[94]. However, real wage growth resumed from the second half of 2023 and reached 2.4% (year-on-year) in Q2-2024 – see Figure 2.1.4. This rebound was driven by decreasing inflation and continued robust

[91] Inflation still stood at 4.9% year-on-year in September 2023, before dropping more markedly in the fourth quarter and reaching 3.1% in December.
[92] Negotiated wages' growth represents the direct outcome of the wage bargaining between social partners. It includes both newly negotiated and previously agreed wages. As a general rule, it excludes bonuses, overtime and other individual compensations that are not linked to collective bargaining. Compared with wages paid, negotiated wages are also not sensitive to the number of hours worked (as they are set on a full-time basis) and represent a wage floor in some sectors.
[93] Eurofound, Labour disputes across Europe in 2023: Ongoing struggle for higher wages as cost of living rises, Publications Office of the European Union, 2024.
[94] Real wages are calculated using the harmonised index of consumer prices as a deflator.

nominal wage growth. In Q2-2024, real wage growth exceeded 4.0% in Austria, Bulgaria, Croatia, Latvia, Lithuania, Poland, Portugal, Hungary and Romania. By contrast, it was below 1.0% in Finland, France and Spain, and declined by 1.4% in Luxembourg and 2.1% in Belgium, following strong gains in 2023 in the latter two. Despite these recent improvements, real wages in the EU and in most Member States remain below pre-pandemic levels. Real wages are expected to reach 2019 levels in 2025 in the EU and in 2026 in the euro area[95].

Statutory minimum wage increases largely offset the loss of purchasing power for minimum wage earners in most Member States. Between January 2022 and January 2024, statutory minimum wages grew by more than 7% in nominal terms in all Member States where such wages are in place[96]. They rose by more than 40% in Poland, Bulgaria and Latvia, and by more than 20% in Croatia, Belgium, Germany, Estonia, Ireland, Lithuania, Hungary, the Netherlands and Romania[97]. These increases were primarily the result of the routine annual updates in January 2023 and January 2024, alongside substantial adjustments throughout 2022 and 2023. In real terms, statutory minimum wages increased by more than 10% in Belgium, Bulgaria, Croatia, Germany, Latvia and Poland, and between 5% and 10% in Greece, Ireland, Lithuania, Malta, the Netherlands and Romania (Figure 2.1.6). In Estonia, France, Hungary, Luxembourg, Portugal and Spain, real statutory minimum wages increased by less than 5% between January 2022 and January 2024. By contrast, real wages fell by more than 3% in Czechia, Slovakia and Slovenia.

Figure 2.1.5: Increases in statutory minimum wages supported offsetting the purchasing power losses of minimum wage earners

Minimum wages developments in Member States with statutory minimum wages, (% change)

Note: Cyprus was excluded as the statutory minimum wage was introduced in 2023.
Source: Eurofound and Eurostat [earn_mw_cur, prc_hicp_midx].

[95] European Commission, Autumn 2024 Economic Forecast: A gradual rebound in an adverse environment, November 2024.

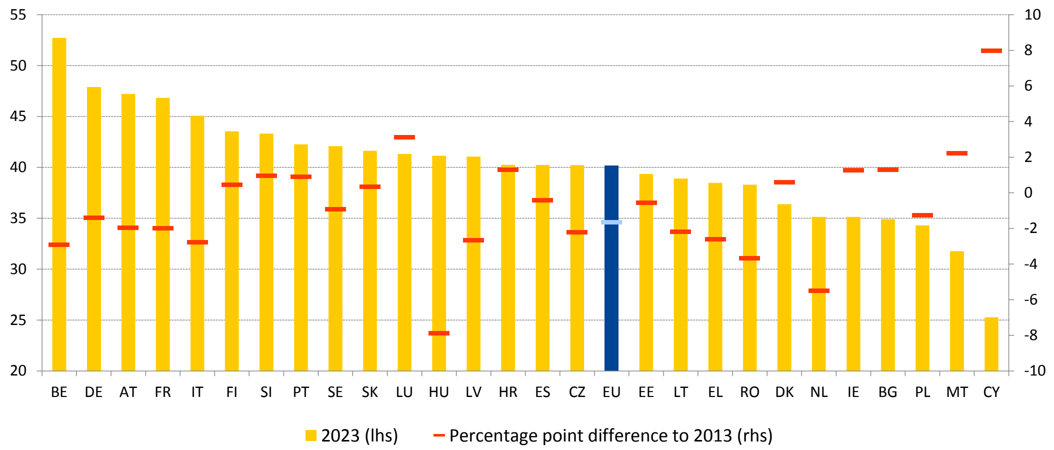
[96] 22 Member States have statutory minimum wages: Belgium, Bulgaria, Croatia, Cyprus, Czechia, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and Spain. The 5 Member States that do not have statutory minimum wages are: Austria, Denmark, Finland, Italy and Sweden.

[97] Minimum wages are often updated annually, at the beginning of the year. Between January 2022 and January 2024, the largest increases were registered in Poland (49%), Bulgaria (44%), Latvia (40%), and Croatia (34%). They increased between 20% and 30% in Belgium, Germany, Estonia, Ireland, Lithuania, Hungary, the Netherlands and Romania.

In-work poverty declined slightly in the EU in 2023, but still affected one in twelve workers. The share of employed people aged 18 or over at risk of poverty decreased to 8.3% in 2023, down from 8.5% in 2022 (referring to 2022 and 2021 incomes, respectively)[98]. This share was also lower compared to a decade earlier and to just before the COVID-19 pandemic (9.1% in 2013 and 9% in 2019, referring to 2012 and 2018 incomes, respectively). In 2023, twelve Member States saw a decline in in-work poverty, despite many of them facing high inflation and significant drops in real wages in 2022. This suggests that, in these countries, median incomes fell more sharply than the incomes of the working poor, which were supported by updates to minimum wages and social transfers[99]. Italy and Greece experienced the strongest reductions (-1.6 pps and -0.7 pps, respectively, to 9.9%), though both still exceeded the EU average (8.3%). In contrast, in-work poverty increased by 1 pp or more in Luxembourg, Bulgaria, Croatia and Slovakia. Romania, Luxembourg and Bulgaria recorded the highest levels (15.3%, 14.8% and 11.4%, respectively), while Spain, Estonia and Portugal had also rates at or above 10%. Early Eurostat estimates suggest that in-work poverty will remain stable in 2024 (referring to 2023 incomes)[100]. As in previous years, in-work poverty across the EU was higher among non-EU citizens (22.5%), those born outside the EU (18.5%), low-educated workers (18.4%), part-time employees (12.6%), temporary workers (12.6%) and households with dependent children (10.0%).

Figure 2.1.6: In 2023, the tax wedge for a single person earning the average wage was lower than a decade earlier in most Member States

Tax wedge for a single person earning the average wage, 2023



Note: 2013 data for Cyprus replaced with 2014 because 2013 is not available.
Source: European Commission, DG ECFIN, Tax and benefits database, based on OECD tax/benefit model (updated April 2024).

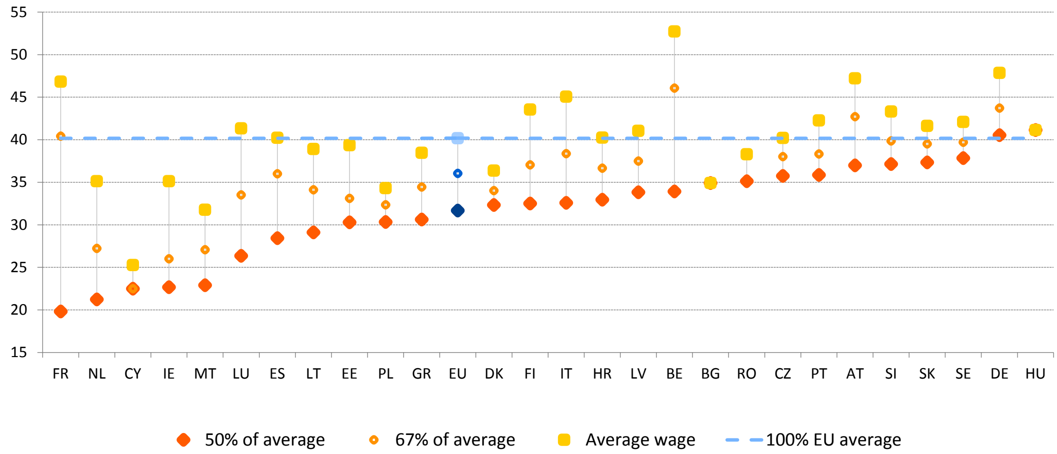
Labour taxation has a significant impact on work and hiring incentives. The tax wedge measures the difference between employers' labour costs and employees' net pay, expressed as a percentage of the total labour costs. A high tax wedge on labour can dampen incentives for work and hiring, in particular for specific groups, such as second earners, whose labour supply is more responsive to such incentives. Since 2013, the tax wedge for a single person earning the average wage has decreased by 2.2 pps in the EU, reaching 40.2% in 2023 (Figure 2.1.6). This is nonetheless still above the OECD average of 34.8%. Over the same

[98] Eurostat [ilc_iw01], EU-SILC, break in series for Croatia.
[99] See European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.
[100] Latest developments in income dynamics and poverty - Statistics Explained, June 2024.

period, thirteen Member States recorded notable declines (by more than 1 pp) in their tax wedges for average earners, with the strongest reductions in Hungary (-7.9 pps), the Netherlands (-5.5 pps), Romania (-3.7 pps) and Belgium (-2.9 pps). Conversely, significant increases (by more than 1 pp) occurred in six countries, with the largest in Cyprus (8.0 pps), Luxembourg (3.1 pps) and Malta (2.2 pps). For lower-income earners (50% of average income), the tax wedge for a single person stood at 31.7% in 2023, marking a decline of 3.1 pps since 2013 and of 0.1 pps from 2022.

Figure 2.1.7: The tax wedge on labour is lower for workers on low wages

Tax wedge for a single low-wage earner (50% & 67% of average wage) compared to average wage in 2023



Notes: Member States are ranked in descending order by the level of progressivity (tax wedge average wage-tax wedge 50% of the average wage).
Source: European Commission, DG ECFIN, Tax and benefits database, based on OECD tax/benefit model (updated April 2024).

Personal income tax systems tend to be progressive, with lower tax wedges for those earning less. Progressivity is especially pronounced in countries like France, Belgium and Luxembourg, whereas flat-rate taxation systems are applied in Bulgaria and Hungary (Figure 2.1.7). Lower tax burdens on low-income earners reduce distortions in both labour demand and supply, and facilitate the hiring of low-skilled workers. While lower tax burdens on low-income earners are beneficial in reducing hiring obstacles, they should be designed to avoid creating disincentives to transitions into higher-paying jobs.

Inflation can cause distortions in tax systems, affecting both progressivity and fairness. Tax system distortions often arise from nominally defined thresholds like tax brackets, credits, deductions or exemptions. In progressive tax systems, inflation typically leads to 'bracket creep', where fixed nominal thresholds push more taxpayers into higher tax brackets, increasing their tax burden. This, along with the erosion of tax credits and benefits, can increase poverty risks if inflation adjustments or other policy measures are not implemented. When tax brackets (and other fixed parameters of the tax system) are adapted to reflect inflation, whether automatically through indexation or via discretionary measures, bracket creep and other inflation-induced distortions can be mitigated. In 2023 and early 2024, many Member States made such adjustments to their personal income tax systems to address such distortions (see section 2.1.2).

Shifting the tax burden from labour to other tax bases in line with environmental objectives can enhance labour market incentives, promote fairness and support climate

neutrality at the same time. The proposed changes to the Energy Taxation Directive[101], currently under negotiation by co-legislators, align with these goals by setting prices that lower fossil fuel consumption and encouraging investment in sustainable and clean energy. Additionally, the Council recommendation for a fair transition towards climate neutrality[102] advocates decreasing the tax burden on labour, particularly for low- and middle-income groups, and shifting towards revenue sources that promote environmental sustainability. While carbon taxes can have regressive effects, these can be mitigated through carefully designed compensatory measures. Support measures ensuring affordable energy for vulnerable groups, or taxation measures that incentivise energy savings and reduce fossil fuel consumption, particularly in the context of still high energy prices, align with these climate and fairness objectives.

2.1.2 Measures taken by Member States

Several Member States have introduced hiring incentives and subsidies for job creation, with a focus on promoting employment in key sectors and supporting disadvantaged groups. With support from the RRF, **Greece** makes use of hiring subsidies allowing for the recruitment full-time of 67 000 unemployed people with a focus on the most vulnerable (long-term unemployed, persons with disabilities, refugees, Roma). In **Malta**, the A2E Scheme, co-financed by ESF+ and Malta's Government, will run until 2029. It offers financial support to employers for hiring disadvantaged individuals and thereby promoting a diverse and inclusive workforce. **Finland** introduced in 2023 a wage subsidy reform for employers hiring unemployed jobseekers. Employers can receive financial support covering 50% of wage costs, or 70% for hiring workers with reduced work abilities. In 2024, **Czechia** continued a pilot project that combines wage subsidies for hiring disadvantaged groups with integration activities, such as training, social work, job assistance, and comprehensive guidance and counselling, to support personal development during subsidised employment. **Italy** introduced through the Decree Law n. 60 of 7 May 2024 incentives for self-employment in strategic sectors for the development of new technologies and the twin transition. The incentives include an exemption of up to EUR 800 per month from social security contributions for unemployed individuals under 35 who start a business in these sectors and hire permanent workers between 1 July 2024 and 31 December 2025. Additionally, beneficiaries can request a tax-free monthly contribution of EUR 500 per worker from INPS (National Institute for Social Security) for up to 3 years. Supported by the RRF, **Portugal** established the Sustainable Employment Commitment program, offering financial subsidies and social security reductions to employers to support the creation of 30 000 permanent jobs, reduce labour market segmentation, and promote gender equality while facilitating youth integration into the labour market.

Also drawing on the experience from the COVID-19 crisis, a number of countries have introduced or adjusted short-time work schemes. In May 2024, **Estonia** adopted the 'work ability prevention' legislation to provide flexible working conditions for employees returning to work after long-term sick leave and to support the labour market integration of persons with chronic illnesses. Under this system, employers cover at least 50% of the full salary, while the national Health Insurance Fund covers the remainder. In July 2023, **Spain**, passed provisions that further developed the legal regime of the RED Mechanism to enhance employment flexibility and stabilisation, detailing limits on overtime, rules for job hiring and

[101] COM(2021)563 – Revision of the Energy Taxation Directive.
[102] Council Recommendation on ensuring a fair transition towards climate neutrality 2022/C 243/04.

retention, and conditions for job outsourcing. In December 2023, **Italy** extended its short-time work scheme ('Cassa Integrazione Guadagni') to include cases of reduced working hours due to extreme climate conditions. The extension, applicable between July and December 2023, specifically targets sectors such as agriculture, construction and mining.

Several Member States have amended or plan to amend their minimum wage frameworks. Cyprus introduced a universal statutory minimum wage in January 2023, aimed at safeguarding the purchasing power of low-wage earners. Starting from January 2024, the minimum wage will be readjusted every two years based on specific criteria, including the purchasing power of minimum wage earners in relation to the cost of living. A first revision already took place as of January 2024, with the minimum wage increasing from EUR 940 to EUR 1000 a month. In 2024, in **Latvia** and **Greece**, the government and social partners discussed reforms to amend the minimum wage setting mechanism, referencing values outlined in the Directive on adequate minimum wages[103]. In **Latvia**, the minimum wage will be EUR 740 as of 2025, which will mark the beginning of establishing the level against the median wage. **Bulgaria** and **Lithuania** have redefined their process of setting minimum wages to include an indicative reference value notably relative to actual wages, while **the Netherlands** has amended its minimum wage definition from a monthly to an hourly rate. In **Romania**, as part of its RRP, a new Law was adopted in November 2024 to establish a new mechanism and formula for systematically setting and updating the minimum wage level in consultation with social partners, aligning with the Directive on adequate minimum wages. These changes are part of the broader transposition of the Directive in Member States, due by 15 Nov 2024. In **Croatia**, under the RRP, the Minimum Wage Act has been amended to mandate minimum increases for overtime, night work, Sundays and public holidays, as well as prohibiting the possibility of renouncing to the minimum wage. It further plans to increase minimum wage to 50% of the average wage from the previous year.

Various measures related to public sector wages have been adopted or are being considered. In **Croatia**, as part of the RPP, the Act on Salaries, entered into force in 2024, aims to standardise wage setting criteria and harmonise salaries across the state administration and public services, in consultation with social partners. In **Italy**, the Budget Law allocated EUR 3 billion for 2024 and EUR 5 billion annually from 2025 onwards to renew the national collective labour agreement (CCNL) for state employees. **Greece** plans to increase public sector wages in 2025, following the adoption of a new Single Payroll. In **Slovenia**, the Act on the common foundations of the salary system in the public sector was adopted in October 2024, as part of the RRP, and will enter into force in January 2025. The reform abolished the brackets below minimum wage and increased remunerations for all officials and civil servants of the Slovenian public sector.

Other revisions to wage setting systems, particularly in relation to collective bargaining, have also been undertaken. In **Poland**, a proposed bill aims to update rules for establishing and registering collective agreements, expanding negotiation topics, simplifying the registration process in the National Register of Collective Labour Agreements, easing the extension of agreements, and allowing businesses to withdraw from multi-company agreements for commercial reasons. In **France**, a new decree has been issued to expedite the extension of collective agreements to all workers and companies in a branch, ensuring that

[103] Directive 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union (OJ L 275, 25.10.2022, p. 33).

sectoral minimum wages do not fall below the legal minimum wage (SMIC)[104]. Additionally, a new High Council on Remuneration, Employment and Productivity was established in March 2024 to better align productivity, value creation and wages, while monitoring wage determinants. In **Portugal**, a recent update of the Labour Code addresses collective agreement termination procedures, making it more difficult to terminate agreements and introducing a new arbitration modality[105]. In **Belgium**, social partners did not find an agreement on wages, upon which the federal government decided not to increase the wage norm for 2023 and 2024, limiting wage increases to the usual indexation for inflation. However, social partners can negotiate a one-off bonus per employee of up to EUR 500, or EUR 750 when companies achieve exceptionally high profits.

Member States are taking steps to strengthen the social economy, leveraging the momentum created by the Social Economy Action Plan[106] and the Council recommendation on developing social economy framework conditions[107]. In February 2024, nineteen Member States signed the Liège Roadmap for the Social Economy in the European Union[108], which proposes priorities and guiding reflections for the social economy in the next European social agenda. Member States are currently developing or updating their social economy strategies, which is essential for establishing favourable framework conditions. In July 2024, **Ireland** launched its National Social Enterprise Policy 2024-2027. In August 2023, **Slovakia** adopted an action plan to support the social economy and social enterprises until 2030. **Slovenia** has prepared a social economy development strategy, currently awaiting government approval. In **Belgium**, the German-speaking Community passed its own first decree on the recognition and promotion of social economy enterprises in January 2024, and Flanders followed in April 2024 with a decree promoting the social economy and corporate social responsibility. In **Cyprus**, amendments to the Social Enterprises Law of 2020 and a regulation creating a registry for social enterprises were approved in December 2023, with the registry now open for applications. In **Czechia**, a draft law on the social economy is due to be submitted to parliament in 2024. This legislation aims to support social economy entities by providing a framework that enhances their role in the economy, including through facilitating access to funding, improving regulatory conditions and promoting sustainable social business models. **Portugal** has launched the 'Portugal Social Innovation 2030' initiative, to foster entrepreneurship, social innovation and impact investment in the country. The main beneficiaries are public and private entities, including social economy entities, that develop, train, promote or support social innovation projects. In **Germany**, a new support programme, co-funded by ESF+, will invest EUR 110 billion by 2028 to strengthen public interest enterprises, supporting co-working spaces, universities or business incubators, which in turn provide advice and skills training to social enterprises.

Several Member States have implemented measures to enhance tax fairness and boost labour market participation. In **Italy**, the reduction in the tax wedge for employees,

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[104] Eurofound, France: Developments in working life 2023, Working paper, WPEF24045, Publications Office of the European Union, 2024.

[105] Eurofound (2024), Portugal: Developments in working life 2023, Working paper, WPEF24057, Publications Office of the European Union, 2024.

[106] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 'Building an economy that works for people: an action plan for the social economy' (COM (2021) 778 final).

[107] Council recommendation of 27 November 2023 on developing social economy framework conditions (C/2023/1344).

[108] See the declaration online.

originally introduced in 2022 and extended in 2023, has been confirmed for 2024[109]. In addition, businesses and professionals hiring additional personnel under open-ended contracts are eligible for a 120% deduction on labour costs for the 2024 tax period. **Latvia** will implement a workforce tax reform as of 2025, through reducing tax burden on lower and medium income workers. **Portugal** included in the 2025 State Budget proposal a modification to the young individual tax regime applicable as of 2025. This will expand eligibility to include individuals up to 35 years of age regardless of their education level and extend the duration of exemptions to up to 10 years (previously 5 years). As another example, in **Finland**, the government has reduced taxation of work income by doubling the credit for work income for those aged over 65, while removing it from those aged 60-64. This retargeting aims to improve work incentives for people over 65.

Personal income tax systems have also been adjusted to alleviate the impact of inflation on workers[110]. When thresholds of the tax schedule are kept unchanged, inflation can push households into higher tax brackets, resulting in the so-called 'bracket creep'. While most countries adjust tax brackets on a discretionary basis, **Belgium, Denmark, Lithuania, the Netherlands, Slovakia, Slovenia, Sweden** and more recently **Austria** have automatic adjustment mechanisms in place[111]. **Germany, Lithuania, Luxembourg, Ireland** and **Portugal** discretionally adjusted their tax brackets in 2023 and/or 2024, with **Portugal** also reducing the marginal tax rate for the second bracket. **Italy** merged the two lowest (of four) tax brackets in 2024, applying a tax rate of 23% to reduce the burden on middle incomes. Finally, **Spain** indexed the social security contribution bases and rates in both 2023 and 2024. Alongside these personal income tax adjustments, additional fiscal measures aimed at countering inflation have been introduced by Member States.

2.2. Guideline 6 – Enhancing labour supply and improving access to employment, lifelong acquisition of skills and competences

This section looks at the implementation of the employment guideline no. 6, which recommends Member States to create the conditions to enhance labour supply, promote the acquisition of skills and competences throughout people's lives, foster equal opportunities for all, remove barriers to and provide incentives for participation in the labour market, in line with principles 1 (education, training and life-long learning), 2 (gender equality), 3 (equal opportunities), 4 (active support to employment), 9 (work-life balance), 11 (childcare and support to children) and 17 (inclusion of persons with disabilities) of the European Pillar of Social Rights. Section 2.2.1 reports on key developments in the area of education, training and skills, as well as on the labour market situation of vulnerable and under-represented groups. Section 2.2.2 reports on policy measures undertaken by Member States in these policy areas.

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[109] The exemption rate remains at 6% for monthly taxable wages up to EUR 2 692 and 7% for those up to EUR 1 923. The already introduced reduction in the tax wedge equal to 15% of the gross remuneration paid for night work and overtime performed on public holidays was also confirmed for the first six months of 2024.

[110] See: European Commission, Annual Report on Taxation 2024, Publications Office of the European Union, 2024.

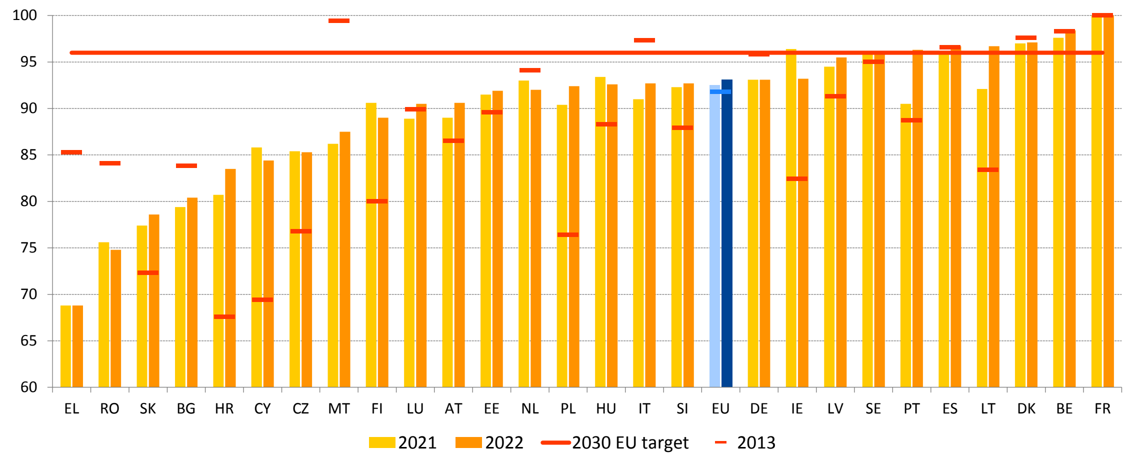
[111] For a detailed description of different approaches to indexation across the EU, see Table 3 in Annual Report on Taxation 2023 (on measures enacted in 2022).

2.2.1 Key indicators

Participation in early childhood education and care at EU level has shown slow progress in the past decade, with considerable variation among Member States. In 2022, 93.1% of children between the age of 3 and the start of compulsory primary education were enrolled in early childhood education and care (ECEC), reflecting an increase of 0.6 pps since 2021 and 1.9 pps since 2014. However, this EU-wide average masks substantial disparities among countries. Seven Member States (Belgium, Denmark, France, Spain, Lithuania, Portugal, Sweden) have already reached the EU level target of a participation rate of 96% by 2030, while rates remain below 85% in five countries (Bulgaria, Croatia, Cyprus, Romania and Slovakia, with the latter two below 80%). Some Member States made remarkable progress in the past years, with Portugal (5.8 pps), Lithuania (4.6 pps), Croatia (2.8 pps) and Poland (2 pps) recording the largest increases between 2021 and 2022. Conversely, six Member States saw a decline, particularly Cyprus (-1.4 pps), Finland (-1.6 pps), and Ireland (-3.2 pps). Affordability and capacity shortages, including of staff, remain important barriers to access, notably for younger children and those from disadvantaged socio-economic background. The participation of Roma children in ECEC remains a significant challenge, being at about half of the EU average (42-44% in 2021), and well below the 2030 target of at least 70% under the new EU strategic framework on Roma equality, inclusion and participation[112].

Figure 2.2.1: Participation in ECEC shows slow progress at EU level but with large variation across countries

Participation in ECEC of children between 3 and the age of starting compulsory primary education (%)



Note: 2013: definition differs for EL and PT. 2021: definition differs for the EU and PT. Data provisional for FR. 2022: definition differs for the EU and PT. Data provisional for FR, MT, PL and PT. The latest available data for EL is from 2019.
Source: Eurostat, [educ_uoe_enra21].

Early leaving from education and training is declining across the EU but remains a challenge, particularly among young men. In 2023, 9.5% of 18-24-year-olds left education or training prematurely, down by 0.2 pps from 2022. This is 2.3 pps lower than a decade earlier, with five countries (Greece, Spain, Italy, Malta and Portugal) achieving reductions of more than 5 pps over this period. Yet, around 3.1 million young people left education or training early with at most a lower secondary qualification in the EU in 2023. Sixteen Member States have already reached the European Education Area (EEA) target of reducing

[112] Based on the latest Fundamental Rights Agency (FRA) Roma Survey 2021, published 2022. For more information see EU Roma strategic framework for equality, inclusion and participation for 2020-2030.

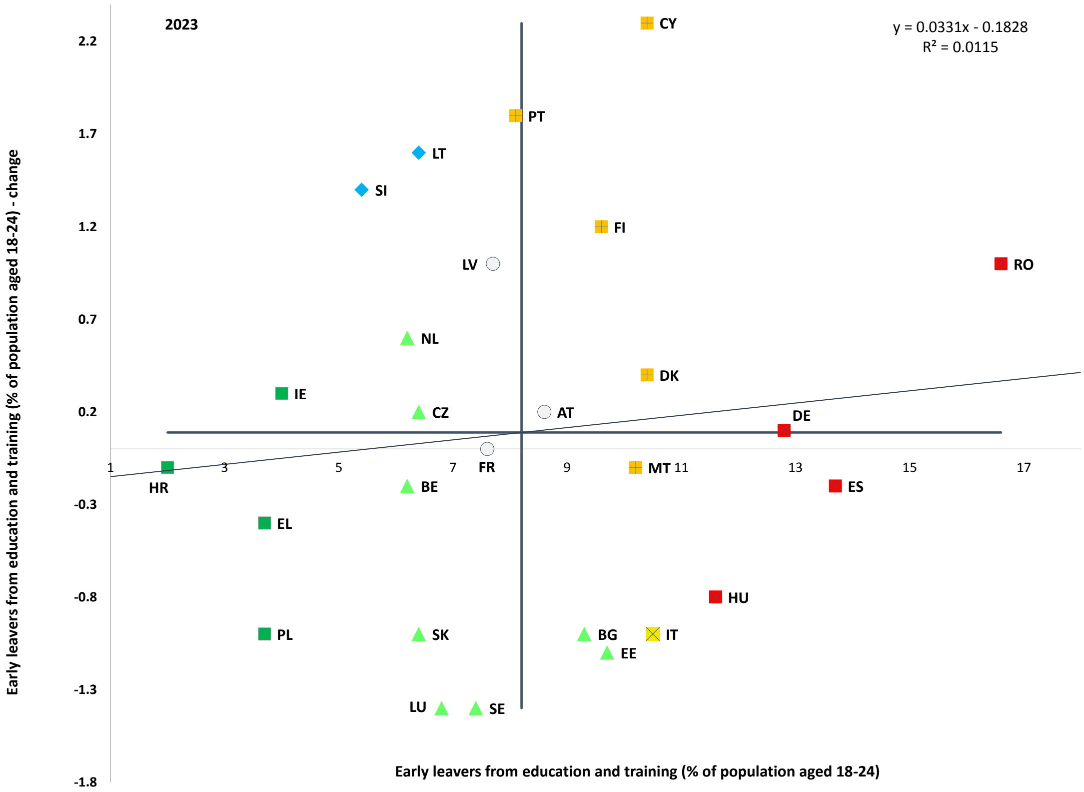
early leaving to below 9% by 2030. However, in Romania, Spain, Germany and Hungary, rates continue to be above or around 12%, reflecting a 'critical situation' with only minor improvements or even increases over the previous year – see Figure 2.2.2. Cyprus recorded the largest rise in 2023 (by 2.3 pps), followed by Finland, Slovenia, Portugal and Lithuania, where the share of early leavers from education and training grew by more than 1 pp. At the same time, Croatia (2.0%), Greece (3.7%), Poland (3.7%) and Ireland (4.0%) were 'best performers'. Despite a slightly positive trend overall, there is no sign of upward convergence among Member States. Moreover, the gender gap remains significant, with young women being much less likely to leave education or training early (7.7%) than young men (11.3%). Young people born outside the EU remain nearly three times more likely (21.6%) to leave early compared to those born in a EU Member State (8.2%). The situation is particularly concerning for young Roma (18-24), with more than two-thirds (71%) leaving education before reaching the upper secondary level between 2020 and 2021[113]. Additionally, the situation for young persons with disabilities of the same age group is also concerning, with a rate of early leaving of 22.2% in 2022[114]. Regional disparities are also significant in Member States such as Bulgaria, France, Hungary, Portugal, and Spain (see Figure 1 in Annex 5), including outermost regions.

[113] See European Union Agency for Fundamental Rights, Roma in 10 European Countries – Main Results, Publications Office of the European Union, 2023

[114] See EDE, European comparative data on persons with disabilities, 2022. The higher rate of early school leaving among persons with disabilities may be due, among others, to accessibility issues (e.g. physical and architectural barriers) and the absence of adapted programmes.

Figure 2.2.2: The share of early leavers from education and training continues to decrease slowly, with considerable differences across Member States

Early leavers from education and training (age 18-24), 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in series for SK and CY. Low reliability data for HR and LU.
Source: Eurostat [edat_lfse_14], EU LFS.

Pillar Box 2: Improving basic skills

Basic skills are the foundation for young people's personal and professional development, and for the EU's future competitiveness and social cohesion. Basic skills serve as building blocks for enabling people to navigate the complexities of life, engage with their communities, continue learning later in life and contribute meaningfully to society and the economy. They support labour productivity and the innovation pace required by the digital transition and an increasingly knowledge-based economy[115]. Better-skilled young people have better employment prospects, are less at risk of leaving education with low qualifications and more likely to participate in adult learning[116]. In the context of the European Education Area (EEA), the EU set targets on basic skills (as measured by the OECD Programme for International Student Assessment, PISA), whereby the

[115] See: OECD (2014), A New Macroeconomic Measure of Human Capital Exploiting PISA and PIAAC: Linking Education Policies to Productivity, OECD Economics Department Working Papers, No. 1709, 2022; European Commission, *Investing in People's Competences – A Cornerstone for Growth and Wellbeing in the EU*, *European Economy Discussion Papers*, 139, 2021; Woessmann L., *The Economic Case for Education*, *EENEE Analytical Report No 20,* 2014.

[116] European Commission, Investing in education in a post-Covid EU, Publications Office of the European Union, 2022.

underachievement rates in reading, mathematics and science should be below 15% by 2030. Recent trends highlight the need for renewed and enhanced efforts at the European level. These efforts should build on existing initiatives and further boost the implementation of the Pathways to School Success Recommendation from November 2022, which outlines a policy framework for a systemic and multifaceted approach to improving educational outcomes[117]. Furthermore, under the new mandate, the Commission will put forward a dedicated Action Plan on basic skills. Complementary to it, a STEM Education strategic Plan will address the specific and persistent challenges in STEM education.

Recent data confirms a longer-term decline in basic skills performance, posing a major risk to the EU's future labour productivity and competitiveness, and challenging the equity and excellence dimensions of EU education systems. Since 2012, underachievement rates across all three PISA dimensions have consistently been increasing at EU level, with the PISA 2022 results documenting the most dramatic decline in basic skills performance over this period. The most recent findings indicate that underachievement rates have largely increased in mathematics (6.6 pps) and reading (3.7 pps), and more moderately in science (1.9 pps) – a trend also reflected in the individual performances of most Member States[118]. At EU level, the underachievement rate now reaches 29.5% in mathematics, 26.2% in reading and 24.2% in science (vs 22.9%, 22.5% and 22.3%, respectively, in 2018), with 18 Member States reporting underachievement rates above 25% in mathematics, and 14 showing similarly high rates in reading. As a result, the EU has moved further away from its EEA target of reducing underachievement to 15%, with the current gap being wider than it was 10 years before. At the same time, the recent PISA data also shows a decline in the top performance rate, i.e. the share of students reaching a high level of competence, across all socio-economic groups[119]. The rate has decreased markedly across the board in mathematics and reading, while in science it has remained broadly stable in most countries. In 2022, only 7.9% of EU students reached a high level of competence in mathematics, 6.5% in reading and 6.9% in science (vs 11%, 8.1% and 6.3%, respectively, in 2018). While the COVID-19 crisis can be assumed to have played a role in the performance drop, several countries were already experiencing declining performance trends already before the pandemic.

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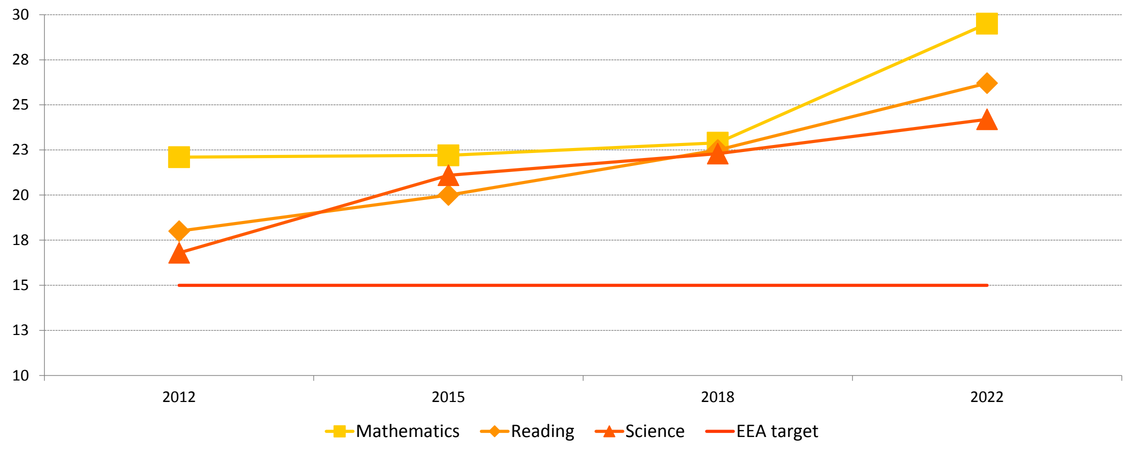
[117] Council Recommendation of 28 November 2022 on Pathways to School Success and replacing the Council Recommendation of 28 June 2011 on policies to reduce early school leaving (Text with EEA relevance) 2022/C 469/01.

[118] European Commission, The twin challenge of equity and excellence in basic skills in the EU, Publications Office of the European Union, 2024.

[119] In PISA, this is captured by the index of economic, social, and cultural status (ESCS). The advantaged socio-economic background category comprises 25% of all students with the highest ESCS scores in the given country, whereas the disadvantaged socio-economic background category comprises 25% of all students with the lowest ESCS scores.

Underachievement rates have largely increased in mathematics and reading, and more moderately in science

Share of students who are not able to reach the minimum competence benchmark PISA Level 2 (%)



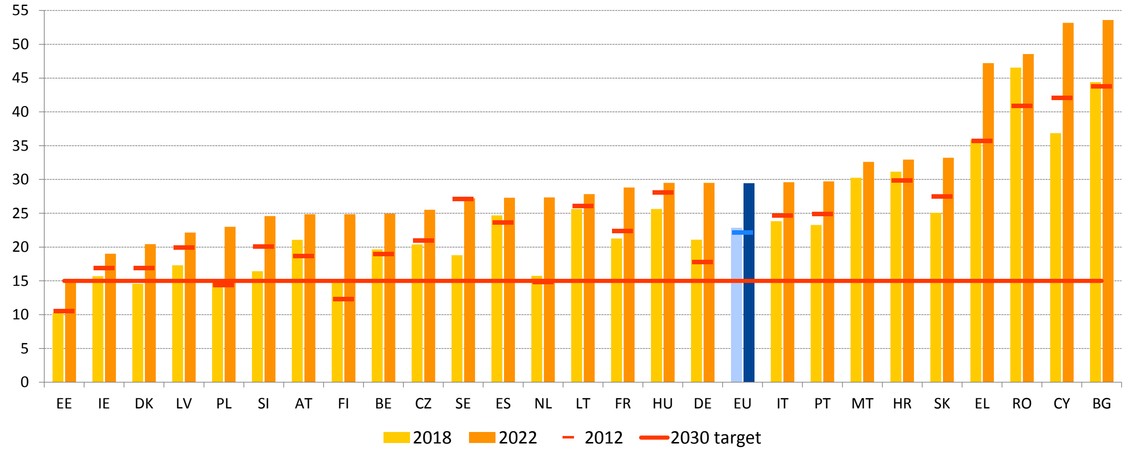
Note: Caution is required when interpreting the 2022 EU value: one or more PISA sampling standards were not met by Denmark, Ireland, Latvia and the Netherlands (see OECD, PISA 2022 Results (Volume 1), A2 and A4). 2012 data is missing for Malta.
Source: OECD, PISA 2012, 2015, 2018, 2022, DG EAC calculations.

Several countries have launched or consider new measures in reaction to the worrying PISA results. In **Poland,** some immediate corrective measures have been implemented and a competence-based curricular reform, benefitting from peer-counselling under the EEA strategic framework, at pre-primary and primary levels is planned from 2026. **Finland** will increase the minimum number of compulsory lessons for reading, writing and numeracy at primary level. The reform will be introduced from August 2025, and basic education funding will increase by EUR 200 million. A multi-country project financed by the EU Technical Support Instrument (TSI) aims to support **Bulgaria** and **Romania** to strengthen their capacity to design and deliver their curriculum reforms by reviewing priority needs and formulating recommendations for improving design, implementation, monitoring, and evaluation of the curriculum. **Malta** adopted in May 2024 a new National Education Strategy (2024-30), which proposes a gradual shift away from knowledge delivery to a competence-based system. It also envisages a Mathematical Literacy Strategy and a commitment to strengthening literacy skills. In **the Netherlands**, the Master Plan on basic skills promotes evidence-informed education, under which participating schools receive EUR 500 per student to improve basic skills, conditional to using methods that proved to be effective, such as smaller class sizes, with an around 50% increase in budget in its extension. Reflecting a move away from digital to more analogue methods of teaching and learning, **Sweden** is focussing on free access to textbooks, the promotion of libraries and analogue learning resources to improve basic skills. With ESF+ support, **Romania** is setting up a national programme to prevent and reduce functional illiteracy.

Underachievement in basic skills has significantly worsened across most Member States, posing a major risk to the future EU's labour productivity and competitiveness. The results from the OECD Programme for International Student Assessment (PISA) 2022 indicate that nearly one in three 15-year-olds lack basic skills in mathematics, and one in four in reading and science. The EU has moved further away from its EEA target of reducing underachievement to 15%, with the current gap being wider than it was 10 years before. The worsening since the last data available in 2018 has been the sharpest in mathematics (+6.6 pps) – see Figure 2.2.3. Only Estonia meets the target across all three domains, and Ireland in reading. Of particular concern is that 18 countries now report underachievement rates above 25% in mathematics, and 14 countries show similarly high rates in reading. In mathematics, the situation is especially concerning in Bulgaria, Cyprus, Romania, and Greece, where underachievement exceeds 45%. Furthermore, the share of students achieving high levels of competence has declined across all socio-economic groups, underscoring the breadth of the challenge. These developments point to major obstacles in developing basic skills across the EU, threatening labour productivity and competitiveness in the medium term.

Figure 2.2.3: Underachievement rates in mathematics have increased strongly

Share of students who are not able to reach the minimum competence benchmark PISA Level 2 (%)



Note: Caution is required when interpreting 2022 data for Denmark, Ireland, Latvia and the Netherlands because one or more PISA sampling standards were not met. 2012 data is missing for Malta.
Source: OECD, PISA 2012, 2018, 2022, DG EAC calculations.

Educational inequalities have deepened, further exacerbating the vulnerabilities of students from disadvantaged and migrant backgrounds. Almost half (48%) of disadvantaged students underperformed in mathematics in 2022, following a substantial rise from 2018 (38.2%). Underachievement among advantaged students also increased, even if much more moderately (from 8.6% to 10.9%), further widening the existing socio-economic gap. In all Member States, except Malta, this gap increased (although this is not always statistically significant). Disadvantaged students also experienced a disproportionate rise in severe underachievement (i.e. the share of students who underachieve in all three domains), which grew from 23.3% to 28.8%. The sharpest increases were recorded in Cyprus (16.2 pps), the Netherlands (13.8 pps), Slovakia (11.5 pps), and Bulgaria (10 pps). By contrast, advantaged students saw their performance decrease by only 0.5 pps between 2018 and 2022. The difference in severe underachievement between students from advantaged and disadvantaged socio-economic backgrounds is most pronounced in Romania, Slovakia, Bulgaria, and Hungary. Foreign born students also underperform significantly relative to their local born peers with parents without a migrant background in most countries, while native students with parents born abroad are partially catching up. Only in a few Member States (Croatia, Malta, Ireland, and Cyprus) are the differences among all student groups found to be small. These findings are in line with recent research on the impact of COVID-19 on learning outcomes, which show that socio-economically disadvantaged students suffered, on average, larger learning losses than their advantaged peers during the pandemic.

Delivering high-quality digital education and training, including by ensuring that education systems keep pace with technological advancements such as Artificial Intelligence (AI), is key to support a fair digital transition. In this respect, in November 2023, the Council adopted two Recommendations to guide and support Member States in providing high-quality, inclusive and accessible digital education and training and develop digital skills for all. These Recommendations, adopted as part of the implementation of the EU's Digital Education Action Plan (2021-27), are a step towards achieving the EEA and Europe's Digital Decade targets. First, the Recommendation on the key enabling factors for successful digital education and training calls on Member States to ensure universal access to inclusive and high-quality digital education and training[120]. Second, the Recommendation on improving the provision of digital skills and competences in education and training calls on Member States to provide digital skills in a coherent way across all sectors of education and training[121]. Together, the two recommendations address the need to make education fit for the digital transformation and able to keep the pace with ongoing technological developments, including AI. In the recommendations, the Council identifies AI as a topic of key strategic importance, requiring a coordinated approach at EU level. This complements Commission initiatives under the Digital Education Action Plan aiming to support Member States' education and training systems in addressing the AI disruption, such as the Ethical guidelines on the use of Artificial Intelligence (AI) and data in teaching and learning for Educators, the updated Digital Competence framework for citizens ('DigComp 2.2') and the contribution of Erasmus+ for developing innovative pedagogical practices and skills related to the use of AI. Moreover, it accompanies the support provided under the Digital Europe Programme to promote the use of advanced technologies in the education sector as well as the development of higher education programmes and short-term training courses covering a broad spectrum of key digital areas. Across Member States, the RRF supports investments in infrastructure, training, and curriculum reforms to enhance digital competences, ensuring inclusivity, innovation, and alignment with the Digital Education Action Plan and Europe's Digital Decade targets. Most recently, the Commission has launched a study on the implications of seven digital acquis, including the AI Act, on education and training practices, aiming to further enhance preparedness across public and private education and training actors. Furthermore, under the new mandate, the Commission will put forward a review of the Digital Education Action Plan together with the adoption of a Roadmap on the future of digital education and training.

Employment outcomes for recent graduates from vocational education and training (VET) continue to improve across the EU. VET aims to equip young people and adults with the knowledge, skills and competences required for specific occupations and, more broadly, the labour market. In 2022, more than half (52.8%) of students and pupils with upper secondary or post-secondary non-tertiary education (medium-level education) were enrolled in vocational programmes[122]. In 2023, 81.0% of recent VET graduates (20-34) were employed in the EU, reflecting an increase of 1.2 pps from the previous year[123]. This positive trend suggests that the EU may reach its target of having at least 82% of recent VET graduates in employment by 2025[124], after having already surpassed the target of 60% of

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[120] See Council Recommendation of 23 November 2023 on the key enabling factors for successful digital education and training (C/2024/1115).

[121] See Council Recommendation of 23 November 2023 on improving the provision of digital skills and competences in education and training (C/2024/1030).

[122] Eurostat, based on the UNESCO-OECD-Eurostat data collection [educ_uoe_enra16]. Medium-level education refers to upper secondary (ISCED level 3) or post-secondary non-tertiary education (ISCED levels 4).

[123] Eurostat, [edat_lfse_24].

[124] See Council Recommendation of 24 November 2020 on vocational education and training (VET) for sustainable competitiveness, social fairness and resilience.

VET graduates being exposed to work-based learning[125], with 64.5% having gained experience at the workplace in 2023[126] as part of their VET curriculum[127]. Those who participated in work-based learning have higher employment rates (84.8% in 2023) than those who did not (71.5%). At the same time, significant disparities persist across Member States: employment rates of VET graduates range from less than 70% in Italy, Spain, Romania and Greece to more than 90% in the Netherlands, Germany and Malta[128]. Exposure to work-based learning varies significantly as well, from below 20% in Romania and Czechia to over 90% in Austria, Germany, the Netherlands and Spain. Under the new mandate, the Commission will develop a European Strategy for Vocational Education and Training, including boosting the number of people with a secondary VET degree including apprenticeships.

The EU is on track to reach its tertiary educational attainment target, but the gender gap remains significant and there are little signs of convergence. In 2023, 43.1% of young people (25-34) held a tertiary degree in the EU. All but three Member States (Finland, Hungary, Romania) saw increases over the past five years, yet significant differences across Member States remain. With 22.5%, Romania registered the lowest tertiary educational attainment rate in the EU, while Ireland reported the highest, at 62.7%. 13 Member States have already surpassed the 2030 EEA target of 45%, with eight exceeding 50%[129], while eight countries remain below 40%. At the same time, young women are much more likely to hold a tertiary degree (48.8%) than men (37.6%) – see Figure 2.2.4. Gender disparities are significant in all countries, with a gap above 20 pps in five Member States (Croatia, Lithuania, Slovenia, Latvia and Estonia). Moreover, gender differences persist by subject areas, as women dominate the education and health fields and men are over-represented in ICT and engineering. Furthermore, as adequate access to higher education remains a challenge for young people from disadvantaged backgrounds, already existing socio-economic disparities in education risk to be reinforced. Tertiary educational attainment rates are also found to be lower (38%) for people born in a foreign country. Overall, national disparities in tertiary educational attainment rates remain wide and show little signs of upward convergence[130]. Moreover, strong regional differences persist, having steadily increased since 2015, with some regions at risk of falling behind more dynamic areas as talent and economic divides widen[131], as also outlined in the Commission's Communication on Harnessing Talent in Europe's Regions[132].

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[125] See Council Recommendation of 24 November 2020 on vocational education and training (VET) for sustainable competitiveness, social fairness and resilience 2020/C 417/01 and Council Resolution on a strategic framework for European cooperation in education and training towards the European Education Area and beyond (2021-2030) 2021/C 66/01.

[126] Beyond or in addition to school-based learning or practical exercises at a training centre.

[127] Eurostat, Labour Force Survey [tps00215].

[128] European Commission own calculation, see European Commission, Education and Training Monitor 2024, Publications Office of the European Union, 2024.

[129] For details, see European Commission Communication on Harnessing talent in Europe's regions (COM(2023) 32 final).

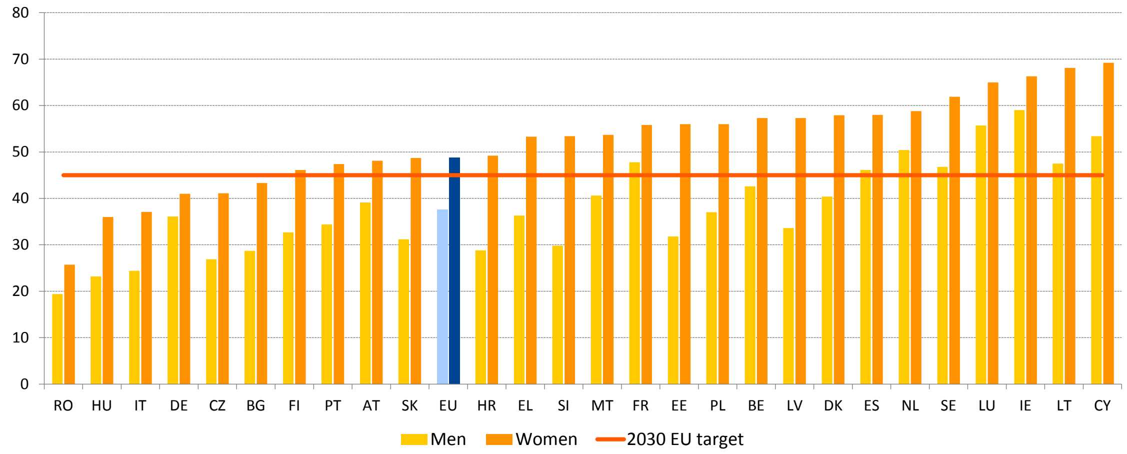
[130] Eurofound, The role of human capital for cohesion and convergence, Publications Office of the European Union, 2024.

[131] See European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.

[132] European Commission, Harnessing Talent in Europe: a new boost for EU Regions, Publications Office of the European Union, 2023.

Figure 2.2.4. Tertiary educational attainment is higher among women

Proportion of people (age 25-34) with tertiary educational attainment (ISCED 5-8, %, 2023)



Source: Eurostat, [edat_lfse_03].

Boosting learning mobility in higher education remains a key priority to enhance students' skills and expand their horizons abroad. In 2022, only 4.3% of tertiary graduates in the EU completed their degrees in a country different from where they received their upper secondary school diplomas (degree mobility), while 6.7% had a temporary experience abroad (credit mobility). Overall, the share of tertiary graduates in the EU with some form of learning mobility abroad, at 11.0%, was 12 pps below the 2030 target of 23%[133]. The majority of short-term study stays abroad were financed by EU programmes such as Erasmus+ (54.6%). At the same time, the proportion of foreign tertiary graduates varied substantially between countries, including in terms of continent of origin, depending among others on historical ties, geographical proximity and language commonalities. In 2022, nearly a third (30%) of inward mobility in EU countries originated from other Member States, with intra-EU degree mobility accounting for more than half of all inward degree mobility in one-third of the countries.

Effective measures to foster the skills of the workforce are essential to support competitiveness, promote quality employment and preserve the EU social model, also in light of the green and digital transitions and demographic change. A May 2023 Eurobarometer survey of small and medium enterprises (SMEs)[134] found that 95% of respondents consider having skilled workers to be 'moderately' or 'very important'. Against this background, and in the face of the widespread labour and skills shortages, more than half of SMEs (52%) reported difficulties finding workers with the right skills, and almost two-thirds (63%) are held back in their general business activities due to skills shortages. In this context, well-functioning and effective education and training systems are thus crucial for equipping young people and adults with labour market-relevant skills for quality jobs, also in view of the big transformations that the EU is facing. EU cohesion policy funds[135] support

[133] This share refers to degree and credit mobility. The EU average and country performance are likely to be underestimated due to several limitations affecting learning mobility data. For more information, please see: European Commission, Education and Training Monitor 2024 – Comparative report, Publications Office of the European Union, 2024.

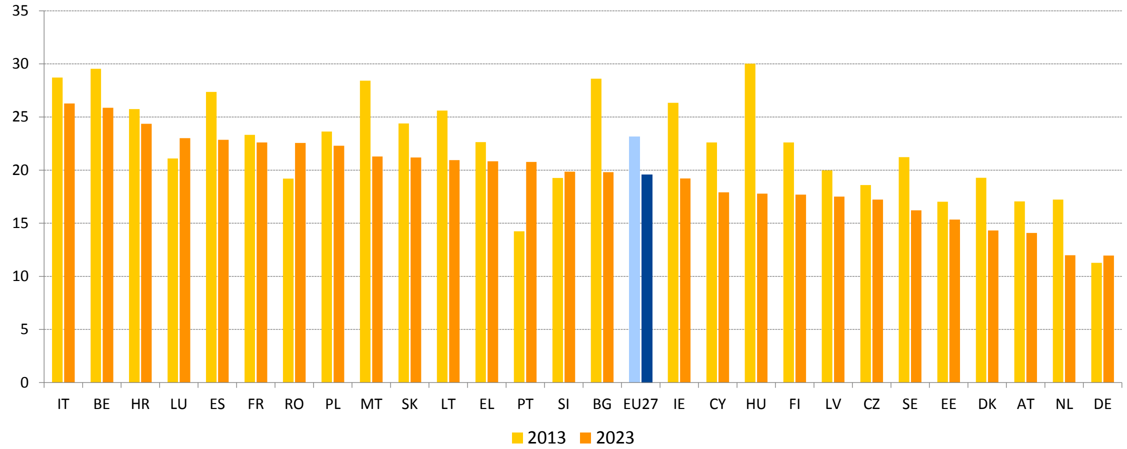
[134] See European Commission, Flash Eurobarometer 529 – Skills shortages, recruitment and retention strategies in small and medium-sized enterprises, Publications Office of the European Union, 2023.

[135] European Social Fund Plus (ESF+), European Regional Development Fund (ERDF), Just Transition Fund (JTF).

Member States in this effort, with EUR 44 billion allocated for skills development during the 2021-27 programming period[136]. In several Member States, RRF funds support the development of accessible, labour market-relevant training programs, inter alia aimed at enhancing digital skills and green competences, that help address critical labour shortages. In total, EUR 17.8 billion are allocated to measures related to adult learning, including continuous vocational education and training as well as for the recognition and validation of skills. The call in the 2020 European Skills Agenda for a radical increase in up- and re-skilling will be further pursued through the Union of Skills already announced in the new Political Guidelines. Furthermore, the June 2022 Council Recommendation on individual learning accounts outlines how Member States can combine financial and non-financial support in an effective way to empower adults to develop their skills throughout their working life[137]. Based on the June 2022 Council Recommendation on a European approach to micro-credentials, the latter also have an important role to play in this respect, in order to offer flexible, quality and targeted up- and re-skilling opportunities to workers and jobseekers[138].

Figure 2.2.5: Skills mismatches at the macroeconomic level have been decreasing in the EU over the past decade

Relative dispersion of employment rates of workers with different educational attainment levels, weighted by the share of each group in the total working-age population (age 20-64)



Note: This indicator highlights the relatively higher difficulty of the low- and medium-qualified in entering the labour market, as compared to the high-qualified.
Source: DG EMPL calculations based on Eurostat data [lfsg_egaed; lfsq_pgaed; lfsq_agaed], EU LFS.

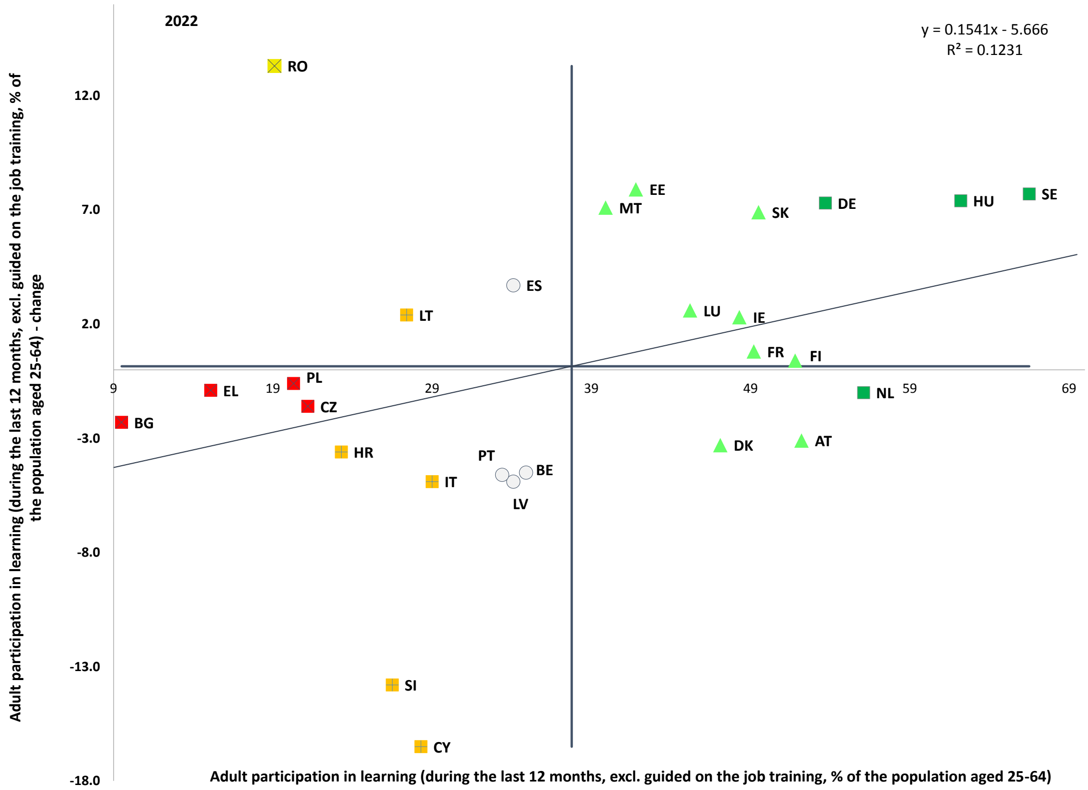
Skills mismatches at the macroeconomic level have been on a declining path in the EU over the last decade. The macroeconomic skills mismatch indicator (which measures the relative dispersion of employment rates among workers aged 20-64 with different educational attainment levels - low, medium and high) reflects the degree of misalignment between the demand and supply of skills across the workforce – see Figure 2.2.5. The indicator highlights the relatively greater difficulty of the low- and medium-qualified in entering the labour market compared to the high-qualified. Since 2013, macroeconomic skills mismatches have

[136] For more information on the EU investment allocated to support for skills, see European Commission, An in-depth overview of the EU cohesion funds' investments in skills in the context of the European Year of Skills, Publications Office of the European Union, 2024.
[137] For details, see: COUNCIL RECOMMENDATION of 16 June 2022 on individual learning accounts 2022/C 243/03.
[138] For details, see: COUNCIL RECOMMENDATION of 16 June 2022 on a European approach to micro-credentials for lifelong learning and employability 2022/C 243/02.

been falling across most EU countries, except for Portugal, Romania, Luxembourg and Slovenia where mismatches have increased, and Germany where they have remained stable. This overall decline is mainly due to improvements in educational attainment and a growing number of jobs requiring at least secondary education. To a lesser extent, the improvement also reflects narrowing employment gaps between population groups with different education levels. However, countries like Italy, Belgium and Croatia continue to exhibit high levels of skills mismatch. In these countries, enhancing educational outcomes and upskilling through adult learning could help better align the skills of the workforce with the labour market needs.

Figure 2.2.6: Adult participation in learning has increased only slightly since 2016, with large variation across Member States

Adult participation rate in learning during the past 12 months in the EU-27 (age 25-64), 2022 levels and changes from 2016 (%, Social Scoreboard headline indicator)



Note: In September 2024, the Indicators Group of the Employment Committee reached a provisional agreement on the monitoring framework for the skills target, using AES data excluding guided on-the-job training. See also the Annual Employment Performance Report 2024. The change to 2022 is computed with respect to the 2016 value, the last one available before 2022. Break in time series in 2022 for FR, IT and RO.
Source: Eurostat special extraction of the adults' participation rate in learning during the past 12 months without guided on-the-job training (GOJT), from the Adult Education Survey.

Despite minor increases, participation in adult learning remains well below the 2030 EU headline target of 60% and large variation persists across Member States, underscoring the importance of decisive policy action. Recent figures from the Adult Education Survey (AES) indicate a mild rise in the share of adults participating in learning in the EU (excluding guided on-the-job training), from 37.4% in 2016 to 39.5% in 2022, with wide disparities across Member States[139]. The highest participation rates were reported in Sweden (66.5%), Hungary (62.2%), the Netherlands (56.1%) and Germany (53.7%), making them 'best performers' – see Figure 2.2.6. All these countries recorded increases exceeding 7 pps since 2016, except the Netherlands where participation fell by 1 pp. In turn, particularly low and worsening levels of participation, reflecting a somewhat diverging trend across the EU, were observed in Bulgaria (9.5%), Greece (15.1%), Poland (20.3%) and Czechia (21.2%), all experiencing 'critical situations'. In these countries, participation in adult learning has declined since 2016, with Bulgaria (-2.3 pps) and Czechia (-1.6 pps) facing the steepest drops. Romania, while having still low overall participation, saw the largest increase in the EU (13.3 pps, though this may also be due to the break in series), and is 'weak but improving'. While the 2030 headline target calls for at least 60% of adults participating in learning every year, in 2022 as many as 24 countries remained below their national targets, with only 13 reporting increases in participation (see Section 1.3). Coordinated policy efforts and renewed ambition are required in order to adapt the workforce to changing skills needs, address shortages and remain competitive, innovative and inclusive in the context of the twin transition and demographic change [140].

People with low qualifications, those outside the labour force and older people participate in training less frequently, calling for targeted policy measures. While lifelong skills development is necessary for all in today's rapidly evolving labour market and society, it is especially critical for certain groups, notably people with low qualifications (i.e. at most lower secondary education) and those outside the labour market, as well as older people. These groups are particularly at risk of falling behind in a workplace with changing skills demands. The latest AES data (2022) reveal significant differences in participation rates across educational attainment levels, labour status and age – see Figure 2.2.7. The high-qualified, at 58.9% (compared to 58.1% in 2016), continue to be more than three times as likely to participate in learning than the low-qualified, at 18.4% (compared to 17.9% in 2016), further widening the skills gap following initial education. While participation among the employed and those outside the labour force increased to 44.7% and 23.7%, respectively (up by 1.4 pps and 2.4 pps compared to 2016), participation among the unemployed remained largely unchanged at 26.8% (26.0% in 2016). Age-related disparities also persist: nearly every second young adult aged 25-34 (49.5%) participated in learning activities in 2022, while less than a third did so among the 55-64-year-olds (29.9%). Participation has increased markedly since 2016 for both groups, yet, at a more rapid pace for young adults than for older people (by 3.7 pps and 2.5 pps, respectively). As highlighted in the evaluation of the Upskilling Pathways initiative,[141] further efforts are needed to boost the participation in learning of these groups. Initiatives such as the individual learning accounts can make learning opportunities more accessible to all, including underperforming groups that can be further supported through top-ups, suitable career guidance and targeted outreach and awareness raising activities. Across Member States, the RRF and ESF+ support the implementation of targeted measures aimed at ensuring inclusive access to reskilling

[139] In September 2024, the Indicators Group of the Employment Committee reached a provisional agreement on the monitoring framework for the skills target, using AES data excluding guided on-the-job training. See also the Annual Employment Performance Report 2024.

[140] See European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.

[141] European Commission, SWD(2023) 460 final – Evaluation of the Council Recommendation of 19 December 2016 on Upskilling Pathways: New Opportunities for adults, Publications Office of the European Union.

opportunities, prepare vulnerable groups to adapt to the green and digital transitions, and improve their employability.

Figure 2.2.7: Participation in adult learning is characterised by large variation across population groups

Adult participation rate in learning during the past 12 months by subgroup (age 25-64, %), 2022

Note: In September 2024, the Indicators Group of the Employment Committee reached a provisional agreement on the monitoring framework for the skills target, using AES data excluding guided on-the-job training. See also the Annual Employment Performance Report 2024.
Source: Eurostat special extraction of the adults' participation rate in learning during the past 12 months without guided on the job training (GOJT), from the Adult Education Survey.

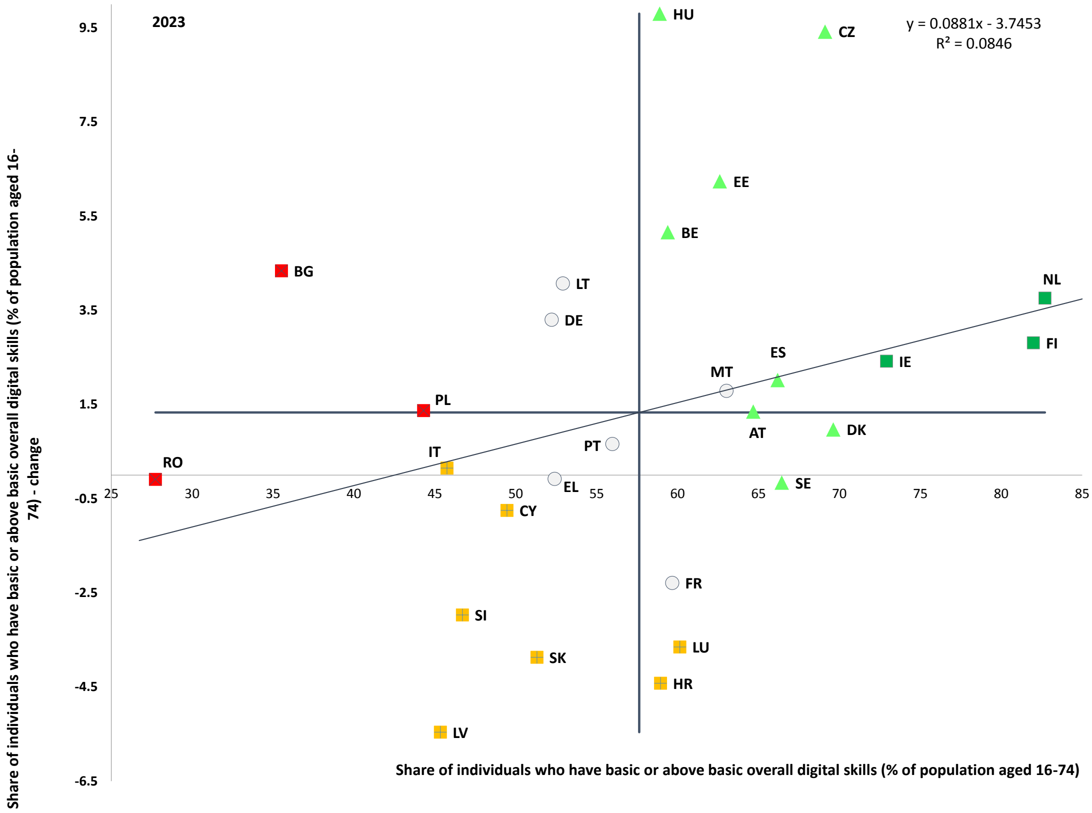
Progress on digital skills has been slow overall, with significant disparities between Member States. In a digitally transformed Europe, basic digital skills are a precondition for employment and social inclusion, which is reflected in the target set at the EU level of at least 80% of adults (16-74) with at least basic digital skills by 2030[142]. In 2023, despite more than 90% of people in the EU using the internet at least once per week[143], only 55.6% had at least basic digital skills, a modest increase from 2021 (53.9%). At this pace, only 59.8% of adults would have at least basic digital skills by the end of the decade[144]. Gaps in performance between Member States are large and have widened further. Romania, the country with the lowest share of adults with at least basic digital skills (27.7% in 2023), showed no progress between 2021 and 2023. Bulgaria (35.5%) and Poland (44.3%), where the prevalence of digital skills among adults is also low, saw some improvement (by 4.3 pps and 1.4 pps, respectively). Nonetheless, for all three countries a 'critical situation' is highlighted by the Social Scoreboard methodology. By contrast, the Netherlands (82.7%) and Finland (82.0%) have both exceeded the 2030 EU target, and are, together with Ireland (at 72.9%), which also recorded an increase, considered as 'best performers'. Trends among countries around the EU average vary, with improvements in some countries and deteriorations in others – see Figure 2.2.8. Overall, a majority of Member States (17) made progress in improving digital skills. The latest data, however, show a slight decline in basic digital skills among young people aged 16-24 (from 71.2% in 2021 to 70.0% in 2023), belying the idea that all young people are 'digital natives'. More generally, digital skills are particularly low among people with no or

[142] Target defined in the European Pillar of Social Rights Action Plan and the Digital Compass for the Digital Decade.
[143] See European Commission, Digitalisation in Europe – 2024 edition, Publications Office of the European Union, 2024.
[144] For the trajectory towards the 2030 target, see European Commission, State of the Digital Decade 2024 report, Publications Office of the European Union, 2024.

low formal qualifications (33.6% in 2023), the older population (37.1% at age 55-74), those living in rural areas (47.5%) and the unemployed (47.7%). At the same time, the number of ICT specialists is far below the projected need. In 2023, nearly 9.8 million people worked as ICT specialists, representing 4.8% of all those employed, with a substantial and persisting gender gap (only 19.4% of ICT specialists were women). At the current pace, amid growing competition for digitally skilled talent, the number of ICT specialists will reach just 12 million by 2030, well below the EU digital decade target of 20 million, with potentially negative implications for the future EU's competitiveness and innovation.

Figure 2.2.8: Large cross-country differences are observed in digital skills of adults

Share of population with basic overall digital skills or above (age 16-74, 2023 levels vs changes from 2021, %, Social Scoreboard headline indicator)



Note: Overall digital skills refer to five areas: information and data literacy skills, communication and collaboration skills, digital content creation skills, safety skills and problem-solving skills. To have at least basic overall digital skills, people must know how to perform at least one activity related to each area. For more information, see Eurostat.

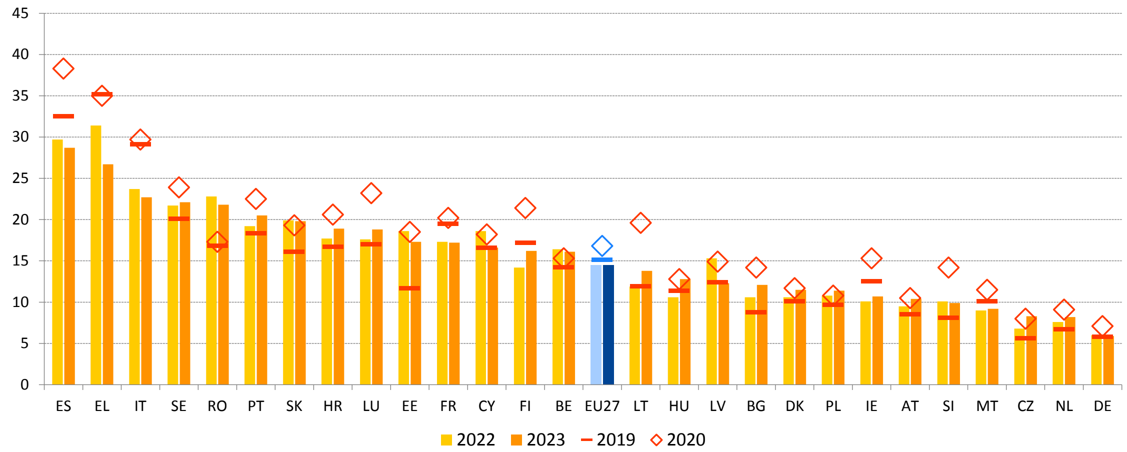
Source: Eurostat, [tepsr_sp410].

While at EU level youth unemployment continues to decrease, rates are again on the rise in the majority of Member States. Following the peak of the COVID-19 crisis (16.8% in the EU in 2020), the youth unemployment rate (15-24) had steadily decreased, reaching 14.5% in 2023, down from 15.1% in 2019. In 2023, the rate stabilised, showing no further improvement amid weaker economic growth, while the trend reversed in 15 Member States. While the increase was below 1 pp in seven Member States, it was between 1 and 2 pps in six countries and even 2 pps in Finland and 2.2 pps in Hungary. Meanwhile, youth unemployment rates continued to decline in countries with very high levels, such as Greece (-4.7 pps), Spain, Italy and Romania (-1.0 pp each), confirming a converging trend across the EU over the last five years – see Figure 2.2.9. The youth unemployment rate remains nonetheless more than twice as high as the unemployment rate for people aged 15-74 (6.1%).

Unemployment is particularly prevalent among youth with low qualifications (19.3%) and those born outside the EU (20.5%). These developments underline the need for continued action to tackle structural challenges that hinder young people's labour market integration, particularly in light of widespread labour and skills shortages and the longer-term risks for the youth career prospects.

Figure 2.2.9: Youth unemployment rates increased in a majority of Member States

Youth unemployment rate (age 15-24, % of active population) for 2019 (pre-crisis), 2020 (height of the crisis), 2022 and 2023



Note: Break in time series for BG, HR, NL and PL in 2019. Break in time series for all Member States in 2021. Definition differs for FR in 2021. Definition differs for ES and FR in 2022. Break in time series for DK, SI and CY in 2023. Definition differs for ES and FR in 2023.
Source: Eurostat [lfsa_urgaed], EU LFS.

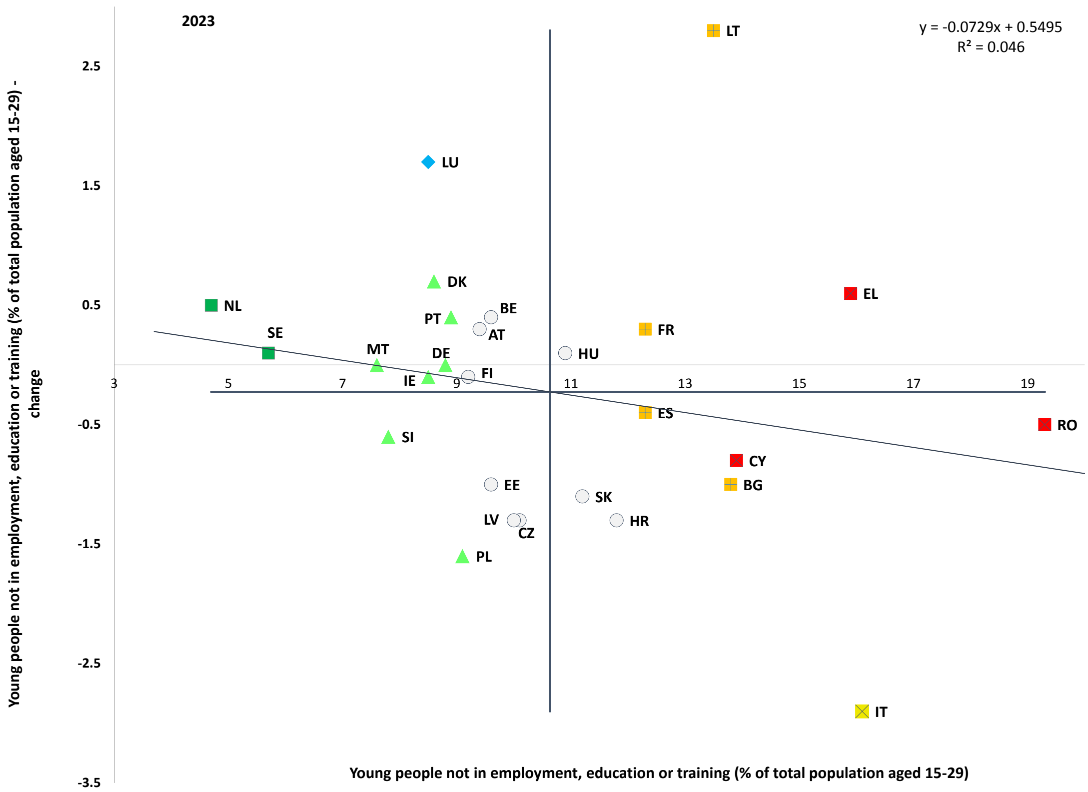
On the positive side, the share of young people neither in employment nor in education and training (NEET) continues to decline, with some signs of convergence across the EU. After peaking at 13.9% in 2020, the NEET rate (15-29) consistently decreased in the EU, to 11.2% in 2023. This trend aligns with increasing youth participation in the labour market, significantly contributing to labour force growth[145]. Yet, marked heterogeneity is observed across Member States, with Romania (19.3%), Italy (16.1%), Greece (15.9%) and Cyprus (13.9%) recording the highest NEET rates in 2023 – see Figure 2.2.10. The rate declined only slightly in Romania and in Cyprus (both by -0.5 pps), and even increased in Greece (0.6 pps), with 'critical situations' in those cases. Lithuania and France, where NEET rates have risen, and Cyprus, Bulgaria and Spain, which saw some declines, are 'to watch'. Italy recorded the strongest improvement (-2.9 pps), reflecting a 'weak but improving' situation. The Netherlands (4.7%) and Sweden (5.7%) were 'best performers'. Those actively seeking and available to work, i.e. the unemployed NEET rate, remained stable at 4.3% in 2023[146]. The rate was the highest in Greece (8.6%) and Spain (6.8%), though both showed improvements from 2022 levels (9.2% and 7.1% respectively). The share of NEETs outside the labour force improved slightly (7.0% in 2023 vs 7.4% in 2022) but remained high in Romania (14.3%) and Bulgaria (10.8%). When looking at the share of discouraged NEETs, a decreasing trend is observed at EU level (from 4.9% in the peak of the pandemic in 2020 to 4.2% in 2023). Regional disparities in NEET rates persist (see Figure 2 in Annex 5), including outermost regions, but, overall, national and regional differences have been narrowing, indicating

[145] See European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.
[146] Eurostat [edat_lfse_20], LFS.

increasing convergence across the EU[147]. Against this background, the reinforced Youth Guarantee supports NEETs offering quality employment, further education, apprenticeships or traineeships within four months of becoming unemployed or leaving formal education[148], and the Aim, Learn, Master, Achieve (ALMA) initiative helps disadvantaged NEETs gain professional experience abroad[149].

Figure 2.2.10: Differences in NEET rates are declining but remain significant

NEET rate (age 15-29), 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Definition differs for ES and FR. Break in series for DK and CY.
Source: Eurostat [lfsi_neet_a], EU LFS.

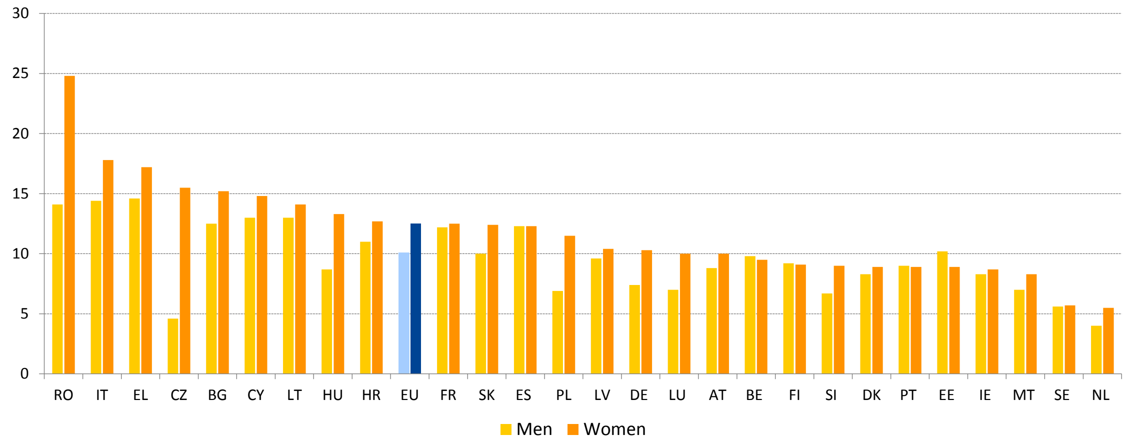
The NEET rate continues to be higher among women and for people with a migrant background. In 2023, the share of female NEETs (12.5%) remained on a declining path (from 13.0% in 2022 and 15.4% in 2020). However, it was still 2.4 pps higher than for men (10.1%) – see Figure 2.2.11. While the difference was less than 1 pp in some Member States (Belgium, Denmark, Estonia, Finland, France, Latvia, Ireland, Portugal, Spain and Sweden), it exceeded 10 pps in others (Czechia and Romania), pointing to significant hurdles for young women in these countries. Despite this, considerable convergence in NEET rates between

[147] See European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.
[148] See Council Recommendation of 30 October 2020 on A Bridge to Jobs – Reinforcing the Youth Guarantee and replacing the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee 2020/C 372/01, OJ C 372, 4.11.2020, p. 1.
[149] Further information available at: ALMA (Aim, Learn, Master, Achieve) - Employment, Social Affairs & Inclusion - European Commission (europa.eu).

men and women has been observed since 2007. Among female NEETs, being outside the labour force is more than twice as frequent than being unemployed (8.7% vs 3.8% in 2023, compared to 5.4% vs 4.7% for men). The NEET rate for non-EU born young people is also markedly above that for the native-born (19.6% vs 10.3%), also exhibiting substantial variation along the gender dimension: the rate for women born outside the EU (25.2%) is more than 14 pps higher than for native-born women (11.1%), and almost 11 pps higher than for non-EU born young men. Additionally, there are disparities between continental and outermost regions and there is a clear urban-rural divide, with young people from rural areas being more likely to be NEET[150].

Figure 2.2.11: In nearly all Member States, the NEET rate is higher among women

NEET rates for men and women (age 15-29, %, 2023)



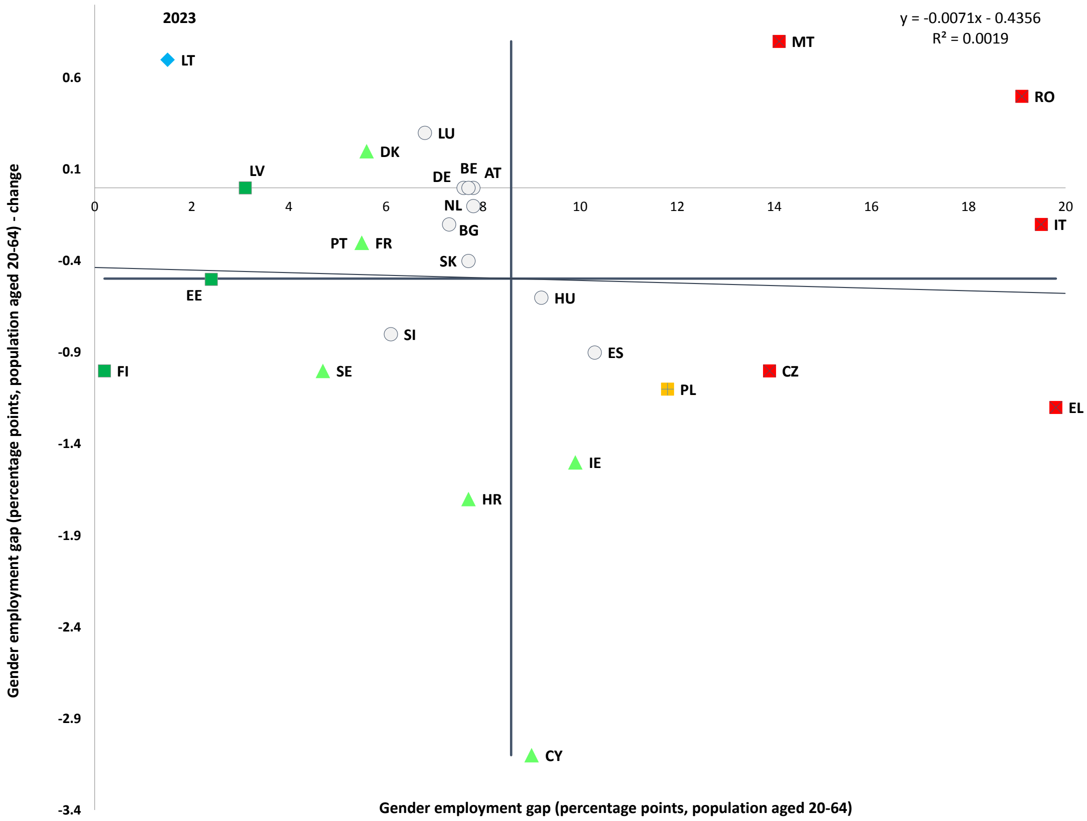
Note: Definition differs for ES and FR.
Source: Eurostat [lfsi_neet_a], EU LFS.

While employment rates of older people have increased considerably since 2009, stark variation across Member States persists[151], indicating further room for improvement. In 2023, the employment rate for older people (55-64) reached 63.9%, nearly 20 pps higher than in 2009, with women's employment rate showing stronger gains (4.9 pps more than for men). Despite this overall improvement, substantial differences persist across the EU: whereas in Sweden, Finland, Estonia, the Netherlands, Germany, Czechia and Latvia, employment rates of older people were above 70%, Luxembourg, Romania, Croatia, Greece and Slovenia had rates below 55%. Even though the increase in older people's employment was more than four times higher than for the prime-age population (25-54), their employment rate remained 18 pps lower (63.9% vs 82.2%). This is primarily attributed to increased job retention rather than new hiring, which remained persistently low during this period. In particular, older people with higher education levels tend to stay longer in the labour market, while those with lower education are more likely to exit early. Poor working conditions – both physical and psychological – were key factors driving early retirement, and also hindering re-entry into the labour market for many older workers[152].

[150] See: Eurofound, Becoming adults: Young people in a post-pandemic world, Publications Office of the European Union, 2024.
[151] For a detailed analysis of the labour market situation of older workers see: European Commission, *Labour market and wage developments in Europe 2024*, Publications Office of the European Union, 2024.
[152] See: Eurofound, Keeping older workers engaged: Policies, practices and mechanisms, Eurofound Working Paper, Publications Office of the European Union, 2024.

Figure 2.2.12: The gender employment gap has narrowed in most countries but remains significant and shows no signs of upward convergence across Member States

Gender employment gap (age 20-64), 2023 level and change from previous year (pps, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Definition differs for ES and FR. Break in series for DK and CY.
Source: Eurostat [tesem060], EU LFS.

Gender inequalities in the labour market persist, with employment gaps between men and women showing only modest signs of convergence[153]**.** In 2023, the employment rate for men was 80.4%, compared to 70.2% for women, resulting in a gender employment gap of 10.2 pps. This gap has narrowed slightly in recent years (from 10.9 pps in 2021 and 10.7 pps in 2022), reflecting a stronger increase in employment for women (1 pp) than for men (0.5 pps) also in 2023. Yet, significant disparities persist, particularly in Greece and Italy (19.8 pps and 19.5 pps, respectively), where just over half of the women were employed (57.6% and 56.5%) – see Figure 2.2.12. In Romania, where the gap was also large (19.1 pps), it even widened further. Malta and Czechia also exhibited notable gender gaps (14.1 pps and 13.9 pps). In all five countries, the gender disparities in employment reflect a ‘critical situation’. On the other side of the spectrum, the gender employment gap was relatively narrow in the Baltic countries (1.5 pps in Lithuania, 2.4 pps in Estonia and 3.1 pps in Latvia) and nearly non-existent in Finland (0.2 pps). These countries, except for Lithuania where the gap has recently widened, were among the ‘best performers’ in light of their small and stable or narrowing gaps. Moreover, significant regional variation in gender employment gaps was

[153] For a longer-term perspective, see European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.

observed in some Member States, including Austria, Belgium, Denmark, Germany and Spain (see Figure 3 in Annex 5), including outermost regions. Sustained policy action can help address barriers to women's participation in the labour market, in line with the objectives set out in the EU Gender Equality Strategy 2020-25[154]. Such measures can also contribute to achieving the target of halving the gender employment gap by 2030 set out in the European Pillar of Social Rights Action Plan.

Women work part-time more frequently than men, resulting in a wider gender employment gap when considering full-time equivalent (FTE) employment. In 2023, 27.9% of women (20-64) in the EU worked part-time, more than three times the share of men (7.7%), leading to a gender gap in part-time employment of 20.2 pps, unchanged from 2022. The largest gaps in part-time work were recorded in the Netherlands (41.8 pps), Austria (38.6 pps), Germany (36.9 pps) and Belgium (27.4 pps), while the narrowest gaps were seen in Bulgaria (0.2 pps) and Croatia (1.5 pps). Notably, Romania was the only country where men were slightly more frequently employed part-time than women (-0.7 pps). Given the higher prevalence of part-time work among women, the gender employment gap in terms of FTE employment[155] was 15.7 pps in 2023, more than 50% (5.5 pps) wider than when excluding differences in part-time work. The largest FTE-adjusted gender employment gaps were in Italy (24.1 pps), Greece (21.5 pps) and Austria (19 pps), reflecting much larger disparities than when part-time work was not factored in, while the smallest gaps were in Lithuania and Finland (2.5 pps).

Gender employment gaps are even wider for people with children, with parenthood impacting women's careers more than men's. In 2023, the employment rate for women aged 25-54 with children was 74.9%, compared to 91.9% for men, resulting in a gender employment gap of 17 pps among parents, against 4 pps among those without children. Among employed women with children, 31.8% worked part-time, compared to just 5.0 % of men. In most countries, including Germany, Austria and Italy, the impact of parenthood is evident in both lower female employment rates and higher part-time work among women. Informal long-term care (LTC) responsibilities also contribute to the gender employment gap, with 19.1% of women in the EU providing informal care compared to 14.8% of men. Women are more likely to devote significant time to caregiving[156], possibly because male caregivers (73%) receive more support from formal LTC services than female caregivers (61%)[157]. To support informal carers, the Council Recommendation on access to affordable high-quality long-term care emphasises the need for adequate training, counselling, psychological support, respite care, work-life balance measures, access to social protection and/or adequate financial support. At the same time, Member States should also strive to align the offer of LTC services with care needs[158].

The gender pay gap narrowed over the past decade but remains substantial in most Member States. In 2021 and 2022, the gender pay gap stood at 12.7% in the EU, exceeding

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[154] For further information, see European Commission, 2023 report on gender equality in the EU, Publications Office of the European Union, 2023.

[155] The FTE employment rate compares differences between groups in average hours worked. The FTE employment rate is calculated by dividing total hours worked in the economy (first job, second job, etc.) by the average number of hours in a full-time schedule (around 40) and by the number of people aged 20-64. Source: Joint Assessment Framework (JAF), computation based on Eurostat data.

[156] See European Health Interview Survey (EHIS wave 3), 2019.

[157] EIGE: 2022 Survey of gender gaps in unpaid care, individual and social activities (CARE).

[158] For details, see Council Recommendation of 8 December 2022 on access to affordable high-quality long-term care (2022/C 476/01).

15% in Estonia, Austria, Czechia, Slovakia, Germany, Hungary, Latvia and Finland[159]. Pay gaps are, among other factors, driven by gender differences in economic activities and occupations, under-representation of women in senior positions, over-representation in part-time and non-permanent forms of employment, difficulties in reconciling work with care responsibilities, as well as discrimination and non-transparent wage structures[160]. Gender pay gaps significantly influence family decision-making, particularly affecting mothers, who experience cumulative disadvantages that further hinder their employment opportunities. Over time, the aggregation of these earning gaps – compounded by career breaks for childcare – leads to substantial gender gaps in pensions. Although slightly narrowing, in 2023 women aged 65-79 received gross pensions that were, on average, 25.4% lower than those of men in the same age group. This pension gap varies considerably across countries, ranging from as high as 43.9% in Malta, 39.9% in the Netherlands and 36.4% in Luxembourg to as low as 4% in Slovenia, 4.6% in Denmark and 5.8% in Estonia.

Improving the provision and accessibility of quality and affordable early childhood education and care can support work-life balance, gender equality and children development, yet participation rates remain low. In 2023, the share of children below the age of 3 in formal childcare stood at 37.5% in the EU, reflecting an increase of 1.7 pps compared to 2022, but still below the 2021 level of 37.9% and well short of the revised Barcelona target of 45%[161]. Only ten Member States have exceeded 50% and stark differences persist across Member States – see Figure 2.2.13. At 1% and 4.4% respectively, Slovakia and Czechia reported the lowest participation rates and significant declines from the previous year (-1.3 pps and -2.4 pps, respectively). The low and deteriorating levels in both countries, as well as in Romania (12.3%) and Poland (12.6%), constitute a ‘critical situation’ and warrant particular attention. While reporting somewhat higher levels, participation in ECEC was also low in Bulgaria (17.4%), Ireland (22.1%) and Austria (24.1%). In all these countries, rates remained stable or increased – contrary to Lithuania (19.9%) and Germany (23.3%), where participation declined in 2023. In all five countries, the situation is considered ‘to watch’. By contrast, Sweden (56.9%), France (57.4%), Luxembourg (60%) and the Netherlands (71.5%) are ‘best performers’, with high and growing participation rates. Several obstacles may impede participation in ECEC, including financial, cultural and language barriers, as well as differences in regional and national policies in relation to parental leave and allowances or legal rights to childcare. The RRF is financing targeted reforms and investments supporting the expansion of ECEC services, infrastructure development, and workforce training. The low pace of improvement calls for reinforced efforts in line with the European Child Guarantee, the European Care Strategy and the Council Recommendation on early childhood education and care.

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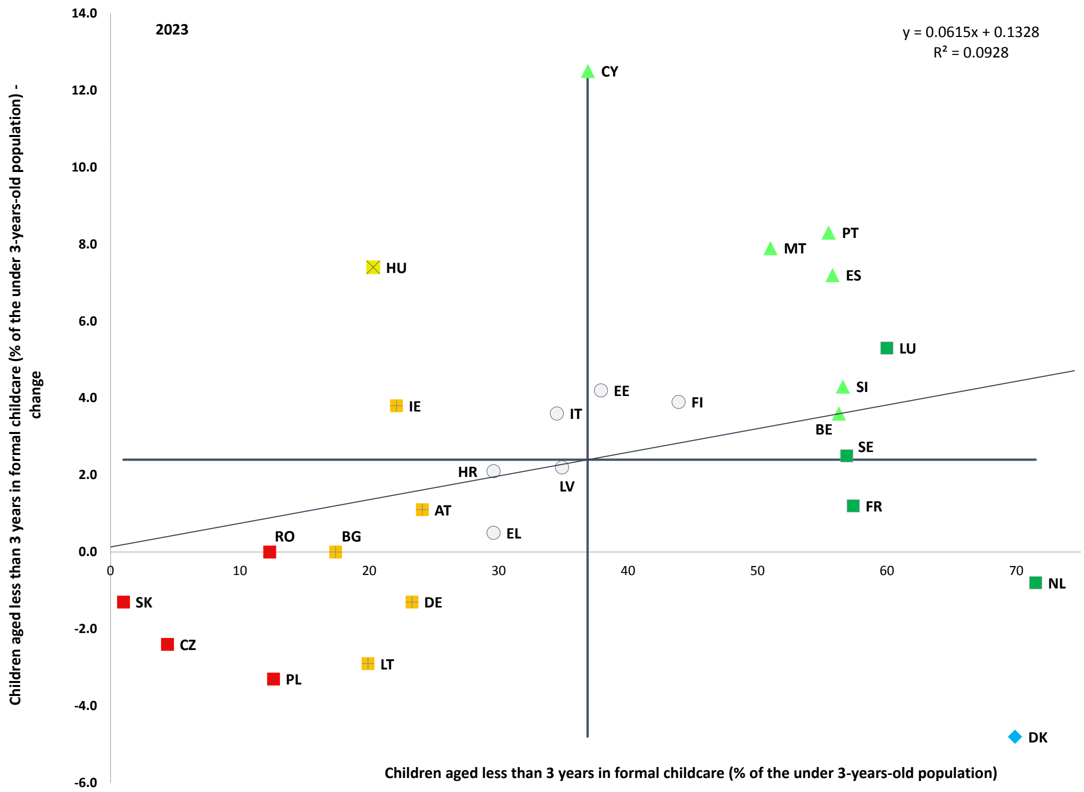
[159] The unadjusted gender pay gap is used here. The unadjusted gender pay gap is defined as the difference between the average gross hourly earnings of men and women expressed as a percentage of the average gross hourly earnings of men.

[160] See European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.

[161] See Council Recommendation of 8 December 2022 on early childhood education and care: the Barcelona targets for 2030 (2022/C 484/01). The recommendation sets out new targets on early childhood education and care, mirroring the targets set in the European Education Area initiative. By 2030, at least 45% of children below the age of 3 and 96% of children between the age of 3 and the starting age for compulsory primary education should be in ECEC. Those Member States whose average participation in the period 2017-21 was below 20% will have to increase by 90%, while Member States whose average participation was 20-33% will have to increase by 45%, with a limit of 45%.

Figure 2.2.13: Participation in early childhood education and care remains low in most Member States

Children less than 3 years in formal childcare and yearly change, 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in the series for DK.
Source: Eurostat [tepsr_sp210], EU-SILC.

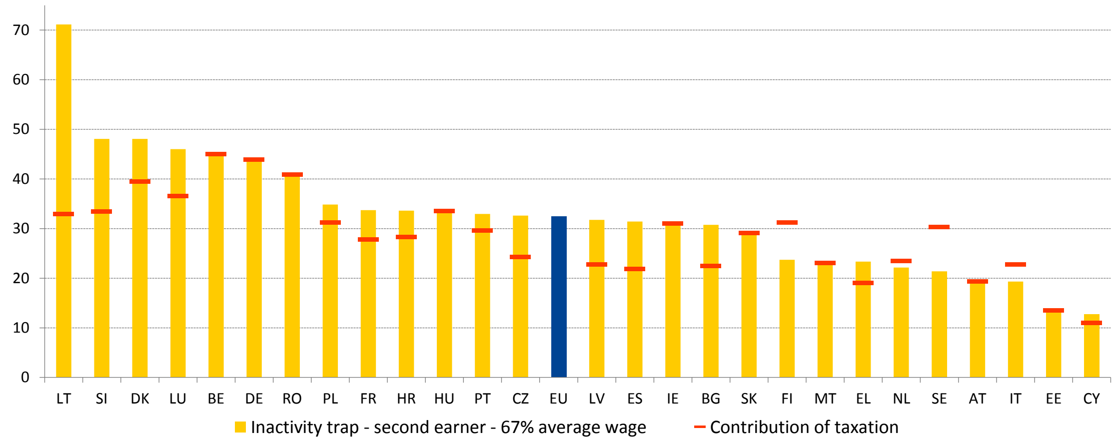
Taxation structures in most Member States create disincentives for second earners, particularly women, to participate fully in the labour market, thus contributing to gender inequality in employment. Joint taxation systems, which allow families to file combined income for potentially lower taxes, increase the marginal tax rate for second earners, typically women (in 2022 78% of second earners were women[162]), who are thus more likely to face reduced incentives to work or extend working hours[163]. Additionally, tax reliefs contingent on joint filing, or those aimed at only one spouse, further discourage women's labour market participation[164]. In 2023, the highest 'inactivity traps' (where tax and benefit withdrawal significantly discourages second earners from entering the labour market) were seen in Lithuania, Slovenia, Denmark, Luxemburg, Belgium and Germany – see Graph 2.2.14. In these countries, second earners entering the labour market may lose about or over 50% of earnings due to taxes and withdrawn benefits. In contrast, countries with lower inactivity traps, where that loss may be less than 20%, include Austria, Italy, Estonia and

[162] See European Commission, 2023 report on gender equality in the EU, Publications Office of the European Union, 2023.
[163] See Coelho, M. et al., *Gendered Taxes: The Interaction of Tax Policy with Gender Equality.* International Monetary Fund, 2022.
[164] For an extensive discussion on labour taxation, see also Section 3.2 and Section 4.2.3 European Commission, *Annual Report on Taxation 2024,* Publications Office of the European Union, 2024.

Cyprus. Addressing these structural disincentives could reduce the gender employment gap and increase GDP, with World Bank estimates suggesting a potential 10% economic gain for Europe if gender gaps in employment were closed[165].

Figure 2.2.14: Taxation contributes significantly to the inactivity trap for second earners

Inactivity trap for second earners (%, 2023)



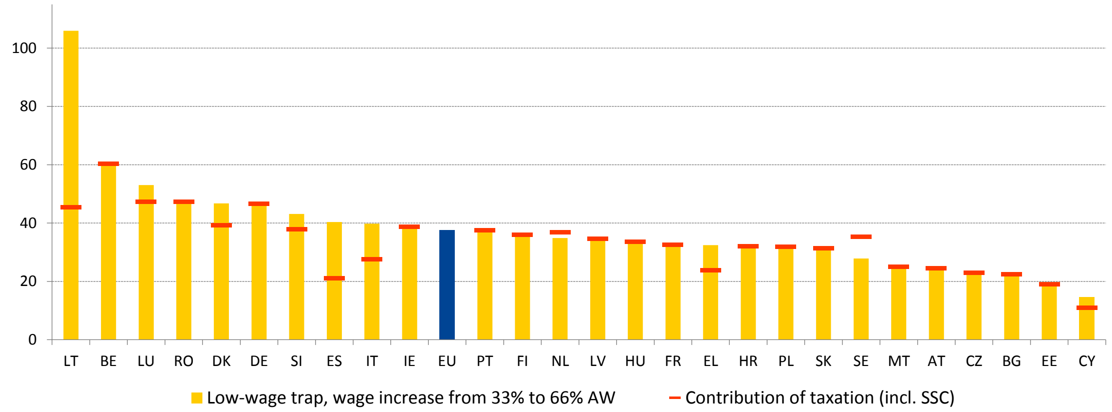
Note: The data are for a second earner on 67% of the average wage in a two-earner family with two children; the principal earner is on the average wage. 'Contribution of taxation' refers to the percentage of additional gross income that is taxed away due to taxation and SSCs (other elements contributing to the inactivity wage trap are withdrawn unemployment benefits, social assistance and housing benefits).
Source: European Commission, DG ECFIN, Tax and benefits database, based on OECD tax/benefit model (updated April 2024).

Women are disproportionately impacted by the 'low-wage trap', where steep increases in taxes and reductions in benefits diminish their incremental incomes as their earnings increase. In most Member States, as with the inactivity trap, taxation plays a key role in determining the level of the low-wage trap for second earners, of which a large majority are women[166]. However, this situation differs from the inactivity trap, where individuals are out of the labour force. As illustrated in Figure 2.2.15, the proportion of additional income that is effectively 'taxed away' when second earners increase earnings from one-third to two-thirds of the average wage by increasing working hours can be substantial – around a third (36.6%) of their incremental earnings on average in the EU, with this loss exceeding 105% in Lithuania due to housing benefit withdrawal. The impact may also be significant in Belgium (60.3%) and Luxemburg (53%), while it appears the lowest in Cyprus (14.6%). Availability of and access to affordable, high-quality care services, along with well-designed work-life balance policies, is essential in encouraging individuals to increase their working hours.

[165] Pennings, S. M., *A Gender Employment Gap Index (GEGI): A Simple Measure of the Economic Gains from Closing Gender Employment Gaps, with an Application to the Pacific Islands.* World Bank Group, Development Economics Research Group. Washington: World Bank, 2022.

[166] See European Commission, 2023 report on gender equality in the EU, Publications Office of the European Union, 2023.

Figure 2.2.15: In many Member States, taxation provides disincentives for low-wage earners to work more hours
Low-wage trap for second earners (%, 2023)



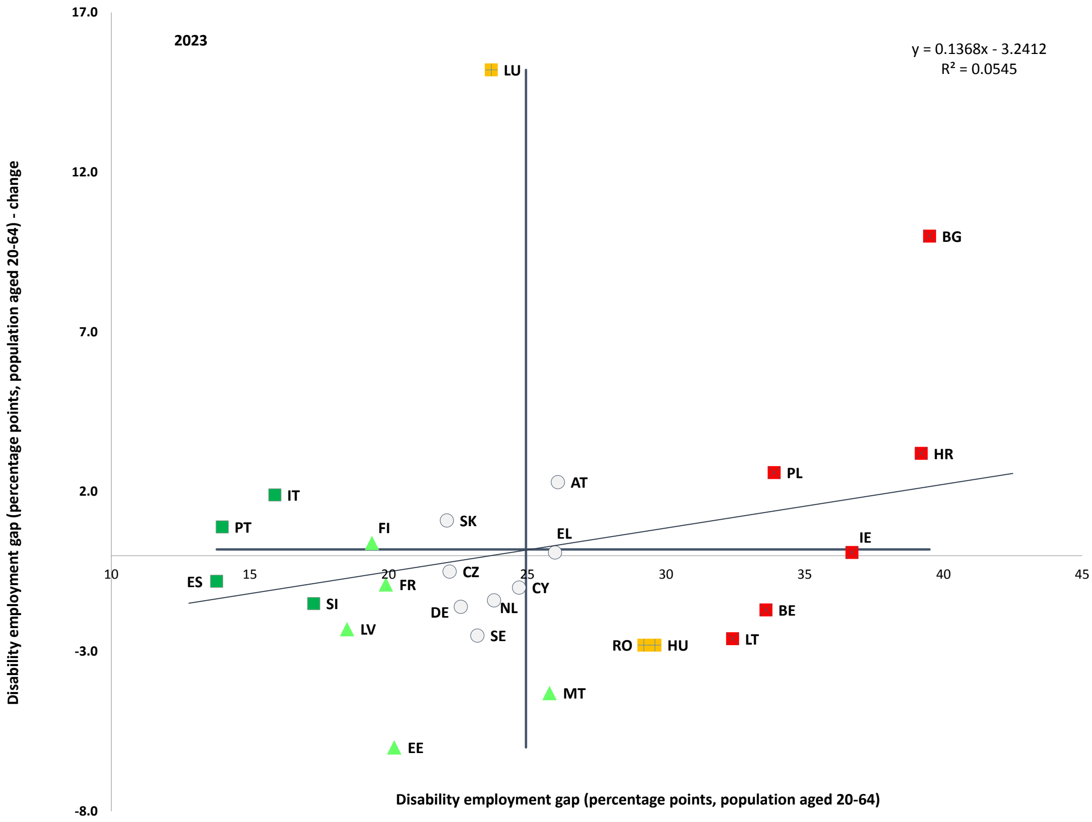
Note: Low-wage trap when the second earner's wage increases from 33% to 66% and the principal earner is on 100% of the average wage, with two children.
Source: European Commission, DG ECFIN, Tax and benefits database, based on OECD tax-benefit model (updated April 2024).

The labour market inclusion of persons with disabilities stagnated, with a divergent trend across Member States. The disability employment gap (i.e. the difference in employment rates between persons with and without disabilities) remained nearly unchanged in 2023, at 21.5 pps (21.4 pps in 2022), halting a prior two-year positive trend. While the gap decreased in 15 Member States, including notable improvements in Estonia (-6.0 pps) and Malta (-4.3 pps), it widened significantly in others, such as Luxembourg (15.2 pps) and Bulgaria (10.0 pps). The smallest gaps were reported in Spain (13.8 pps), Portugal (14.0 pps) and Italy (15.9 pps), partly explained by relatively lower overall employment rates, as well as in Slovenia (17.3 pps), all of which were 'best performers'. On the contrary, a 'critical situation' was observed in Lithuania, Belgium, Poland and Ireland, where the gap exceeded 30 pps, as well as in Croatia and Bulgaria, where the gap neared 40 pps. Persons with disabilities also experience high shares of inactivity: in 2022, in 20 Member States, over 40% of the working-age population with disabilities (15-64) was outside the labour force, with the rate exceeding 60% in Bulgaria, Greece, Romania, Hungary, Croatia and Poland[167]. Lack of adequate labour market inclusion and retention measures for persons with disabilities, the lack of adequate skills, as well as overall lack of awareness about legal obligations and policy support measures amongst employers remain likely factors behind these high rates of non-participation.

[167] Eurostat, [lfsa_argaeddl].

Figure 2.2.16: The disability employment gap remains wide, with a pronounced divergent trend among Member States

Employment gap between persons with disabilities and those without (age 20-64), 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in the series for HR. Estimated value for DE. Low reliability for PL. Missing categorisation for DK.
Source: Eurostat [tepsr_sp200], EU-SILC.

The labour market integration of third-country nationals continued to improve, but a significant mismatch has remained between their qualification levels and employment status. The employment rate of third-country nationals reached 63% in 2023, well below the rate for EU-born people, and with no signs of closing the gap. Following the COVID-19 pandemic, third-country nationals accounted for more than two-thirds (70%) of the increase in the EU labour force in 2022[168], though they continued to face high levels of unemployment (12.2% in 2023 vs 5.4% for nationals) and over-qualification rates (39.4% vs 20.8%)[169]. Women born outside the EU were in a particularly vulnerable situation, with a gender employment gap of 24 pps and 44% of them being overqualified[170]. A general trend towards more stable employment could be observed for all groups, yet third-country nationals were more frequently employed on fixed-term contracts than people born in the EU (including nationals and EU movers). In 2024, the EU continued to implement its 2021-27 Action Plan

[168] See European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.
[169] European Commission, EMN study 2023: Annual Report on Migration and Asylum, 2023.
[170] OECD/European Commission, Indicators of Immigrant Integration 2023: Settling In, OECD Publishing, Paris, 2023.

on Integration and Inclusion, which provides a common policy framework to support Member States in developing national migrant integration policies[171].

Employment rates for the beneficiaries of temporary protection from Ukraine have increased across most Member States, indicating a faster integration into the labour market compared to other refugee groups[172]. By May 2024, around 4.3 million people held temporary protection status in the EU, with 2.5 million aged between 18 and 64. Ukrainians are considered to have high integration prospects, given their comparatively high levels of education, established social networks and immediate access to employment. As of Q3-2023, over 40% of those of working-age (18-64) under temporary protection were employed, but with stark differences across countries, ranging from around two-thirds (66%) in Lithuania to less than 20% in Belgium and Croatia. Ukrainians under temporary protection that remain outside the labour force often cite care duties, while those in unemployment identify language as a primary barrier. Nonetheless, displaced persons from Ukraine contribute markedly to the EU labour force growth, as indicated by different estimates[173]. Although many are young and highly educated, job opportunities that match their qualifications remain limited[174].

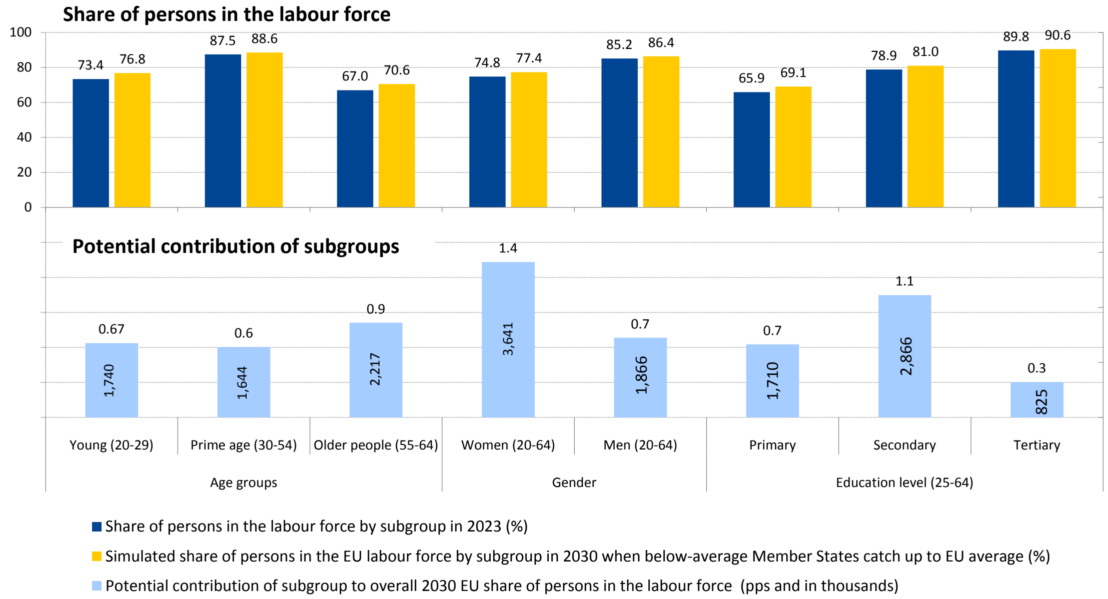
Pillar Box 3: Tackling barriers to labour market participation in the EU

In a context of persisting labour shortages and ageing population, activating persons outside the labour force is a major challenge that calls for policy action. High shares of people outside the labour force can restrict economic growth as they exacerbate existing labour and skills shortages and thus hinder productivity and competitiveness. They also put at risk the fiscal sustainability and adequacy of the social protection systems in the face of population ageing. Despite improvements in the EU employment rate, people outside the labour force (neither employed nor unemployed) still constitute 20% of today's EU population in the age group 20-64, with considerable variation among Member States. At the same time, the working-age population is projected to shrink over the coming decades in the EU. By 2045, it is expected to have 16 employed for every ten people above 65 outside the labour force, and only 14 by 2070, down from 22 in 2022[175]. This projected increasing imbalance calls for policy solutions. Estimates suggest that increasing the labour market participation in the EU will be key for reaching the employment rate target of 78% by 2030. Stronger activation and labour market integration are essential for making progress on principle 4 (on active support to employment) of the European Pillar of Social Rights. In line with this, the Commission has put in place a range of initiatives to tackle the high share of people outside the labour force, such as the Reinforced Youth Guarantee, the Work-Life-Balance Directive, and most recently the Action Plan on labour and skills shortages (see also Pillar Box in section 2.1.), which sets out new actions for the EU, Member States and the social partners to, inter alia, support the activation of under-represented groups [176].

[171] See European Commission, Action plan on Integration and Inclusion 2021-2027.
[172] European Migration Network (EMN), 'Labour market integration of beneficiaries of temporary protection from Ukraine: Joint EMN-OECD inform' 2024.
[173] For more detailed analysis on the labour market outcomes of people fleeing the war in Ukraine to the EU, see European Commission, Labour market and wage developments in Europe 2024, Publications Office of the European Union, 2024.
[174] PES Network Annual Report 2023 European Network of Public Employment Services (PES).
[175] European Commission, 2024 Ageing Report, Publications Office of the European Union, 2024.
[176] European Commission, Labour and skills shortages in the EU: an action plan. COM(2024) 131 final.

Significant number of people could enter the EU labour market through targeted and tailored support for the largest under-represented groups

Potential contribution of different population groups to the aggregate share of people in the EU labour force by 2030



Note: Simulation of 2030 EU share of people in the labour force if Member States with below-average shares of people in the labour force per subgroup caught up to the EU subgroup average, while shares of people in the labour force for the other subgroups is assumed to remain constant. This calculation neglects overlaps and possible double-counting between groups and should not be confused with a forecast.
Source: DG-EMPL calculations, based on Eurostat data and EUROPOP2023 projections.

Despite improvements, several population groups are still significantly under-represented in the EU labour market. These include women, older people, the low- and medium-qualified, persons with disabilities (PwDs) and people with a migrant or minority background, depending on the country-specific context. Of these, women, secondary educated and older people constitute overall the largest groups outside the EU workforce that could potentially be brought into employment through adequate activation measures[177]. Commission estimates show that if Member States with lower-than-average shares of people in the labour force for each of the above subgroups were to increase participation to the respective EU-subgroup averages by 2030, an additional 3.6 million women, 2.9 million secondary-educated people and 2.2 million older workers, respectively, would be in the labour market (neglecting overlaps and possible double-counting between the groups) – see the Figure[178]. To this aim, creating a more equitable distribution of unpaid domestic work and caring responsibilities as well as improving access, affordability and quality of early childhood education and care (ECEC) contribute to reducing barriers to women's labour market participation. For older people, illness or disability are the main reasons to remain outside the labour force alongside care responsibilities, workplace-related factors and institutional barriers, such as social security and pension regulations, which need to be tackled to allow greater labour market participation. People with secondary or lower education often face difficulties in accessing the labour market, which calls for adequate

[177] 32 million women (25.2%), 20 million older people (33%) and 25 million people with secondary education (21.1%) were not part of the EU labour market in 2023.
[178] As the subgroups are overlapping, figures on the additional number of people in the labour force are not additive across subgroups.

skilling policies as well as targeted and individualised support. People with migrant or minority backgrounds can significantly benefit from targeted measures in order to address skills mismatches, improve language proficiency, combat discrimination, and receive tailored and integrated support services. Improving access to high-quality employment opportunities while ensuring disability related entitlements can reduce the factors potentially disincentivising PwDs from entering the workforce.

In recent years, several Member States have taken dedicated actions to remove barriers to labour market participation for under-represented groups. In September 2023, as part of its RRP, **Croatia** adopted a model for co-financing the operating costs of ECEC facilities for municipalities with lower financial capacity, in order to ensure the sustainability of investments in the renovation of existing ECEC facilities or the construction of new ones. Thereby, local and regional governments are enabled to increase the availability and improve the sustainability and affordability of ECEC. In **Ireland**, as of March 2024, carers have the right to request flexible working, including reduced and compressed hours. Under the Employment Programme 2024-29, people at retirement age in **Estonia** get, among others, access to training and support to acquire qualifications. In **Malta**, the National Strategy for Lifelong Learning 2023-30 targets in particular low-skilled and low-qualified adults with the aim to address basic skills gaps and deficits. In **Austria**, the ‘Intensivprogramm Arbeitsmarktintegration’ is intended to promote the rapid integration of people with a migrant background through German language courses, recognition of qualifications and career orientation throughout 2024 and 2025. In 2023, **Germany** increased the ceiling for income from work for persons with disabilities receiving a reduced earning capacity pension.

2.2.2 Measures taken by Member States

Member States are taking steps to increase participation in early childhood education and care, focusing on affordability and capacity expansion. In **Lithuania**, from September 2024, all 3-year-olds, and by September 2025, all 2-year-old children will have the right to access ECEC. The expansion of ECEC facilities continues across the EU with the support of EU funds. In **Croatia**, 343 projects with a total budget of EUR 214 million are included in the RRP, which will provide at least 22 500 additional places, with a view to increasing participation to 90% by 2026. Under the 2022-2029 ‘Active Toddler’ programme and with the support of EU funds (ESF+ and RRF), **Poland** will create over 100 000 new childcare places, primarily in underserved areas, and aims to establish a sustainable funding model. With support of the RRF, the country is also adopting new quality standards for providers, and with the ESF+ it aims to train 9 000 childcare and 2 500 managerial staff as well as 1 400 representatives of municipalities, while simultaneously transforming childcare employees into public officials. In **Romania**, with support of the RRF, a large-scale continuous training programme for ECEC staff is under development to support the implementation of a new curriculum and monitoring of quality and ECEC facilities are constructed and renovated to address capacity shortages, particularly in underserved areas. **Slovakia** is currently developing a system of inclusive education support through continuing education programmes for teaching and specialist staff, including in ECEC. **Italy** increased the *bonus asilo nido*. The bonus granted for the payment of nursery school fees has been increased to up to EUR 3 600 for children born on or after 1 January 2024, whose families have an Equivalent Economic Situation Indicator (ISEE) of up to EUR 40 000 and who already have a child under the age of 10. **Bulgaria** published its 2024 Action Plan for Promotion of Early Childhood Development to develop a holistic policy approach, including with a strong focus on early childhood education and care. **Cyprus**, in line with a reform included in its RRP, is gradually reducing the compulsory ECEC age from 4 years and 8 months to 4 years; by the school year 2024-2025, it will be reduced by 2 months and by 2025-2026 by another month.

Major reforms and investments to boost basic skills, including comprehensive curricular revisions, have been undertaken, yet further efforts are needed across the EU to reverse declining trends. Cyprus has implemented a decade-long education and training reform, including the revision of curricula (included in its RRP), a shift to formative assessment for students, a governance framework addressing student disengagement and early school learning, and all-day schooling in lower secondary education. In September 2024, **Spain** launched the Mathematics and Reading Comprehension Reinforcement Plan, benefiting over five million students in publicly funded schools with increased teacher support, additional school resources and extracurricular lessons. Moreover, under the RRP, Spain's Programme for Orientation, Progress, and Educational Enrichment (PROA+) aims to improve educational outcomes for students facing the greatest difficulties in at least 2 700 schools, with funding provided until 2024. Between 2025 and 2028, the ESF+ will help mobilise an additional financing of EUR 105 million each year. In **Lithuania**, the implementation of a new, competence-based curriculum was rolled out in two phases over 2023 and 2024, but its impact is yet to be seen. Starting in 2025, the Ministry of Education in **Romania** is developing an intervention mechanism for functional literacy in pre-university education, in views of addressing the worrying levels of basic skills among Romanian primary and secondary education students.

Several Member States are also strengthening the teaching profession in response to the decline in basic skills. In **Poland,** new legislation adopted in February 2024 raised teacher salaries by 30%, and by 33% for new teachers from January 2024. In **Romania**, new legislative measures were introduced to align teachers' wages with the national average gross salary, constituting salary increases of on average 25% in 2023 with further increases at the beginning of 2024. In **Slovakia**, teacher pay was increased twice in 2023: by 10% in January and by an additional 12% in September. **Estonia** raised teacher salaries by 23.9% in 2023 to address high inflation, and the government has outlined plans to bring teacher salaries to 120% of the average wage by 2027. In December 2023, **Hungary** introduced a major salary increase for teachers, co-financed by the ESF+ also included in the RRP, as part of a programme to enhance the attractiveness of the teaching profession. As a first step, a 32% average increase was implemented in January 2024. The government committed to increase teacher salaries to 80% of those of other tertiary graduated professionals by 2025, and to sustain this level at least until 2030. **Czechia** has reached important milestones in the reform of initial teacher education with the publication of a new graduate competence framework in 2023, its incorporation into the accreditation of teacher training programmes in 2024; and it has reinforced the practice orientation of teacher training. In the academic year 2023/2024, the implementation of new programmes for initial teacher training started in the French Community of **Belgium**, after nearly two decades of preparation. The reform extends the training period from 3 to 4 years ('Masterisation') and introduces a diagnostic test to reinforce the French language competences of future teachers.

Initiatives to address early school leaving and educational inequalities are underway, with substantial support from EU funds. In **Bulgaria**, the ESF+-cofinanced 'Success for You' project (2023-2027) targets more than 96 000 students from vulnerable groups facing educational difficulties and learning gaps who will benefit from additional training in Bulgarian language, mathematics and other subjects. It will also provide training for over 4 500 educators. In **Romania**, the implementation of the national programme to reduce school dropout is well underway with support of the RRF and the ESF+. Under the programme, at least 2 500 schools with higher risks of early school leaving are first identified through an early warning mechanism, and eligible schools then receive grants to implement plans with measures tailored to their specific needs. In **Germany**, the new 10-year federal ‘Startchancen’ programme targeting up to 4 000 schools (about 10% of all German schools) is starting in the school year 2024-2025, providing educational support to all children and young people regardless of their parents’ social situation. The Federal Government will invest EUR 1 billion annually (fully matched by the Laender). With RRF support, the French Community of **Belgium** adopted a comprehensive action plan to combat early school leaving and absenteeism in 2024, including through individualised guidance for pupils with a high number of unjustified absences, involving their families and a pedagogical intervention team, as well as an IT system to monitor absences.

Member States are taking first steps to integrate artificial intelligence (AI) into education and training, responding to its growing role in national policy discussions. While no country has yet adopted a related national strategy, several Member States have launched initiatives focused on integrating AI into various aspects of education. In **Sweden**, as of 2024-2025, AI will become a new subject in upper-secondary education and in adult municipal education for students in science and technology and a possible add-on for students in other tracks. In the Flemish Community of **Belgium**, the Digisprong Knowledge Centre has, since 2023, provided guidelines and additional training to support digitisation in compulsory education. **Croatia**’s Digital Croatia Strategy 2023 targets the development of AI and digital competences and encompasses the digital transition as support for the development of the educational and research system. In **Germany**, the Deutches Schulportal offers a platform to assist users in familiarising themselves with AI. In **Luxembourg,** the Computational Law and Machine Ethics (CLAiM) research group at the University of Luxembourg a university working group has been tasked with studying the ethical and scientific dimensions of AI since 2021, with plans to establish a centre for digital ethics in the future. In **Poland**, several universities have set internal guidelines and standards to regulate the use of AI by students. **Greece** is planning a seminar for 800 teachers to be accompanied by guidelines for teachers. **Austria** will equip 100 pilot schools with AI software and prepare digital learning materials. In the **Netherlands,** projects will be developed together with schools, companies, and scientists, to gain knowledge about AI in education, with funds partially provided by the RRF. In **Romania**, the RRF is allocating funds to support the participation of university students in training programmes for advanced digital skills, investing in smart labs which enable students’ digital and technological literacy needed in the labour market or training civil servants in advanced digital skills.

Modernising and improving the attractiveness of vocational education and training (VET) systems are high on the policy agenda of numerous Member States. Estonia has launched a reform to increase the attractiveness of the VET system, including the development of new curricula prioritising competencies and stronger integration of VET with other educational pathways (bridging formal education and non-formal learning, as well as connecting general, vocational and applied higher education). New services such as career counselling and flexible study arrangements to retain students and reduce dropout rates with stakeholders’ engagements were launched in 2023. In January 2024, **Greece** implemented new legislation to expand cooperation within its VET system and create synergies across the different levels of the National Qualifications Framework (NQF). With support from the RRF, the authorities are further putting in place a quality control system for vocational education and training (VET) to assess its output and improve its labour market relevance. **Spain**, through a series of regulatory changes from mid-2023 to 2024, has enhanced flexibility in VET management, incorporated digital skills, regulated organisational aspects of the curriculum for basic, intermediate and high-level training cycles as well as the components of the Vocational Training System, such as the development of National Catalogue of Professional Qualifications and registers, updated and harmonised the Rules of Operation of the General Council for Vocational Training, and established higher vocational training qualifications and related minimum teaching requirements. Since June 2024, **Cyprus**, with RRF support, has been updating VET curricula to reduce skills mismatches with the labour market. **Germany** amended its Education and Training Act in July 2023, introducing subsidised career orientation internships, mobility grants, more inclusive vocational training entry qualifications for persons with disabilities, while expanding state-funded vocational training opportunities, especially in areas with limited options.

Some countries are also investing significantly in their VET systems. As part of its RRP, **Cyprus** is upgrading its VET infrastructure through initiatives such as the construction of a new technical school in Limassol, to be completed by June 2026, and an upgrade of 20 laboratories since to address skills mismatches with the labour market. **Sweden**'s 2024 budget added SEK 1.36 billion (EUR 15.2 billion) for regional adult VET, with approximately 16 500 additional full-year places in adult vocational education and approximately 3 000 in higher vocational education. In addition, Sweden's RRP is supporting an additional 16 900 full-year study places in regional adult vocational education and 14 900 in higher vocational education. As part of its RRP, **Poland** has been working on the establishment of sectoral skills centres, in the spirit of centres of vocational excellence, serving the needs of several groups, e.g. adults, students, young people, vocational education teachers and employees. The main partners in this endeavour will, inter alia, be vocational schools, higher education institutions, enterprises and employers' organisations, local authorities as well as research and development centres. **Spain,** leveraging support from the ESF+ and as part of its RRP, is investing in the digital and green transformation of vocational training, focusing on teacher training, modernised classrooms simulating technological workplaces, as well as a network of 50 centres of excellence to drive research and innovation. Under the RRP, **Portugal** aims to implement a reform aimed at strengthening the overall policy coordination of education and training, update the National Qualifications Catalogue to incorporate emerging skills and professions, promote targeted adult literacy programs for low-skilled individuals, and address socio-economic inequalities through the redistribution of the VET network. This reform is being complemented with sizable investments in the establishment and refurbishment of 365 Specialised Technology Centres in schools and vocational institutions, alongside the **i**nvestments in 111 public vocational training centres by building new or renovating existing centres, and by purchasing advanced technological equipment in areas such as digitalisation, renewable energy, and Industry 4.0.

Work-based learning and apprenticeships are being promoted in a number of Member States. In March 2024, as a part of its RRP, **Bulgaria** amended its VET regulatory framework to expand cooperation with employers, notably through work-based learning and dual VET. In July 2023, **France** passed a new law to promote the international mobility of apprentices through an 'Erasmus for apprentices'. In May 2023, **Germany**'s Alliance for Initial and Further Education and Training presented its priorities for 2023-2026, including strengthening dual training by the federal government, the federal states, industry and trade unions. In December 2023, in order to align VET with societal needs, **Estonia** prolonged its VET and higher education development programme PRÕM+ until 2027. Under the programme, new training places will be created in sectors of national priority and economic growth, based on employer needs and readiness, with at least 30% of places allocated to young people under 26 without professional qualifications. Co-financed by the ESF+ and as part of its RRP, **Greece** plans to re-establish the apprenticeship vocational schools of the public employment service (DYPA EPAS) by the end of 2024, as an integral part of the government's strategy for VET and youth employment.

Member States continue to support higher education modernisation through governance reforms and measures to boost internationalisation. Under its RRP, **Romania** has allocated digitalisation grants to around 70% of its universities (61 institutions) to enhance the digital ecosystem, and at least 100 000 teachers will receive training to improve digital pedagogy skills. With ESF+ support, the country also launched the programme 'First Student in the Family' in September 2024 to increase access to higher education for disadvantaged and underrepresented groups and reduce university dropout. Governance reforms aimed at boosting excellence, research and internationalisation are being rolled out in several Member States. In **Bulgaria**, the new Act on scientific research and innovation, adopted in April 2024 as part of a reform of its RRP, aims to create a dynamic, result-oriented and effective research and innovation environment. **The Benelux** and **Baltic States** have implemented a diploma recognition treaty as from May 2024, enabling mutual recognition of higher education qualifications. Some Member States are also undertaking measures to enhance access for disadvantaged groups. In **Lithuania**, approximately 1300 study places, or around 10% of the total state-funded places, are set aside for students from vulnerable socioeconomic backgrounds. As of September 2024, qualifying students can apply through a separate admission queue, under the same academic requirements for entry. **Portugal** is also introducing quotas for economically disadvantaged students, while broadening access for the Portuguese diaspora and increasing quotas for mature students over 23. Largely supported by ongoing investments under the RRP, student accommodation capacity is expected to increase by 78% between 2021 and 2026. **Spain** is expanding scholarships to vulnerable students, with funding reaching EUR 1 billion in 2023-2024, benefitting 300 000 students, or around 25% of bachelor's and master's students in public universities. The increase in scholarships is also supported by the Spanish RRP as part of a broader reform of the university system planning to, among other things, promote access to higher education. In parallel, the average scholarship amount has increased by 29% in the past five years. To improve access of students with disabilities, **France** has awarded six universities with EUR 10 million of funding to develop and share best practices for inclusive education and accessible teaching in 2024.

New forecasting systems are being implemented to anticipate skills needs in the labour market. In December 2023, **Finland** launched the 'Good Work Programme' to address personnel needs in healthcare, social welfare and rescue services by enhancing knowledge base and the capacity to anticipate future staffing and training requirements. Under their RRPs, **Spain** and **Sweden** are identifying skills needs, aiming to align training and reskilling efforts with labour market demands, including skills critical to the digital and green transitions. Spain will do this by conducting research programmes, based on surveys across various sectors.

Member States have launched measures to further develop the digital skills of the population to meet the demands of the digital transition. In March 2024, **Bulgaria** amended its VET regulatory framework as a part of its RRP to consider evolving professional needs, including in the green and digital sectors. In June 2024, the country created an ICT module for testing and self-certifying digital skills without formal training, available as part of its RRP. **Portugal** initiated the second phase of the 'Employment + Digital 2025' vocational programme in January 2024. In 2024, **Hungary** started projects designing and implementing digital skills training as part of the Digital Renewal Operational Programme Plus 2021-2027, co-financed by the ESF+. In July 2023, **Spain** regulated the procedure for recognising digital competences in teaching and, in the context of its RRP, aims to train at least 825 000 people in digital, ecological and productive transformation skills by the end of 2025. As part of the RRP, in July

2023, **Latvia** established a common framework based on the European Digital Competence Framework for Citizens (DigComp) to assess and plan learning outcomes for digital skills, including in non-formal education. **Luxembourg** presented a White Paper on the new curriculum for basic education in October 2023, which includes digital skills related to cybersecurity and media literacy as one of its four main thematic pillars. Member States have also introduced strategies to support digital skills. In **Romania**, the National Strategy for Adult Training 2023-2027, adopted in December 2023, and the National Strategy for the Lifelong Learning of Adults 2024-2030, adopted in May 2024, emphasise the development of green and digital skills. In August 2023, in the context of the RRP, **Latvia** launched the Digital Health Strategy which covers different aspects such as cross-border data exchange and digital skills. **Ireland**'s Digital Inclusion Roadmap was released in August 2023 to ensure that everyone can benefit from digital opportunities, including through digital skills and literacy. **Czechia** has created a public database of upskilling and reskilling courses as part of the RRP, and at least 65 000 people shall receive upskilling or reskilling in digital skills by the end of 2025.

Regulatory and investment initiatives are underway to promote the skills and competences needed for the green transition. In September 2023, **Malta** introduced financial incentives to support local employers and employees in upskilling, including for green competences. **Cyprus** has focused on green infrastructure investments for VET schools and is reviewing construction plans for a green VET school in Larnaca funded by the Just Transition Fund since July 2023. In **Portugal,** the Public Employment Service and the Renewable Energies Association established a protocol in June 2023 to create a Training Centre for Energy Transition (CTE), which will provide energy transition and climate action training, including in renewable and green hydrogen energy, for both workers and the unemployed. Around 25 000 persons will be trained in green skills under the RRF-supported programmes. Several Member States, including **Spain** and **Czechia**, are also investing in skills for the green transition in the context of their RRPs. In September 2024, the Public Employment Service in **Greece** launched a new programme for the acquisition and upgrading of green skills for 50 000 employees with support of the RRF.

Increasing participation of adults in learning remains a key policy objective across Member States, with a particular focus on the low-skilled, and many countries are developing individual learning accounts and micro-credentials. Under its RRP and supported by the ESF+, **Spain** has established a reference framework to assess and certify basic competences acquired by adults through work experience, non-formal training and informal learning, to help adults with a low level of basic skills engage in training. In November 2023, **Malta** launched a National Strategy for Lifelong Learning 2023-2030, which is targeting the most vulnerable through a diverse range of high-quality lifelong learning opportunities. Several Member States are also developing schemes for individual learning accounts, to enable adults to engage in personalised learning pathways. **Belgium**'s RRP includes a reform to establish an individual right to four days of training for every employee working full time as of 2023, increasing to five days from 2024, and administered through the Federal Learning Account (FLA) platform launched in April 2024. **Slovakia** plans to introduce a new funding scheme for adult learning through individual learning accounts and address inter-ministerial coordination of lifelong learning, supported by the development of the Electronic Platform for Individual Learning Accounts (EPIVU) using EU funds. **Latvia, Lithuania, Cyprus** and **Croatia** are also developing individual learning accounts with RRF+ and/or ESF+ support, expanding adult learning access through personalised, accessible platforms. In addition, Member States are advancing micro-credentials systems to boost lifelong learning. In 2023, **Estonia** amended its Adult Education Act to extend the micro-qualifications system to vocational education and adult training, introducing definitions of micro-qualifications, programme volume requirements, provision principles and a quality assurance mechanism. Under its RRP, **Spain** aims to release an action plan for developing a micro-credentials framework, which is to be elaborated by the Ministry of Universities, following consultations with stakeholders. This includes, inter alia, the promotion of micro-credentials to increase demand among adults and employers, promote their quality and relevance and support equity of access.

The reinforced Youth Guarantee, along other initiatives, continues to drive structural reforms and measures that support youth employability. Under the reinforced Youth Guarantee, Member States have committed to ensuring that all people under 30 receive a quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education. **Hungary** provides wage subsidies and training to NEETs aged 15-29 between 2024-2029 through its national Youth Guarantee Plus Programme, co-funded by the ESF+ in the Economic Development and Innovation Operational Programme Plus. In **Portugal**, the profile of young NEETs in the Youth Guarantee National Plan is being revised through an ILO-supported study, with a focus on mapping unregistered unemployed and inactive youth. In the context of the RRP, **Spain** has introduced its National 'Youth Guarantee Plan Plus', aimed at improving the qualifications of young NEETs to gain the skills required to enter the labour market registration process for young NEETs. In **Italy**, as of September 2024, the 'Bonus Youth Cohesion Decree' has introduced exemptions from social security contributions for hiring workers under 35 on permanent contracts, provided they have never previously held a permanent contract. In **Belgium**, the 'Coup de Boost' project, which supports young people aged 18-29 who are distant from the labour market in gaining qualifications, starting studies or finding a job, was scaled up in April 2024 with support of the ESF+ and the RRF.

Some Member States are implementing measures to manage demographic change by supporting extended employment for older workers. In **Finland**, persons aged 55 who face job displacement have been eligible for 'transition security allowance' since 2023, which provides access to training opportunities and an extended paid re-employment leave during the notice period. **Estonia**'s Employment Programme 2024-2029 offers labour market services to retirees seeking employment, including training and support for qualifications and entrepreneurship. These initiatives to promote later retirement should be viewed in conjunction with pension measures (see Section 2.4.2). Under its RRP, **Luxembourg** launched the *FutureSkills* training programme with a specific focus on jobseekers aged 45 year and more to provide soft, digital and managerial skills to facilitate their short-term re-integration in the labour market.

Measures are being taken to support women's employment and tackle the gender pay gap, including efforts to reduce gender segregation in employment and to improve pay transparency. As of January 2025, **Malta** will legally enshrine the principle of equal pay for work of equal value, mandating equal pay for all employees including temporary agency and outsourced workers. Malta has also launched an Equal Pay Tool pilot project to facilitate the application of equal pay and identify and address potential non-justified pay inequalities within organisations employing at least 50 employees and certified with the Equality mark. In **Ireland**, the Gender Pay Gap Reporting requirements will be expanded to include employers with more than 150 employees in 2024 and those with 50 or more employees in 2025. As part of its RRP Ireland has an investment in a reskilling and upskilling programme, with targets for the share of female participants. In April 2024, as part of its RRP, **Estonia** has launched a new digital instrument, the so called Pay Mirror, to support employers to analyse and reduce the gender pay gap. In **Italy**, under the Budget Law 2024, private sector employers hiring unemployed women victims of violence and beneficiaries of the 'reddito di libertà' are exempt from paying part of social security contributions up to 100% and EUR 8 000.

Moreover, the country increased funding for the 'Fondo per il reddito di libertà' to help women victims of violence living in poverty achieving economic independence and emancipation. Financial allocations are increased by EUR 10 million annually between 2024 and 2026, and by EUR 6 million annually starting from 2027. By the end of 2025 **Spain**, as part of its RRP, is setting up a new social and employment guidance service to support women victims of violence, including victims of trafficking and sexual exploitation, through job placement assistance, legal advice and psychological and emotional support. **Austria**'s Intensive Programme for Labour Market Integration 2024-2025, under the Strategic Action Plan against the Shortage of Skilled Workers, provides tailored support for refugee women, offering German language courses, recognition of qualifications and career orientation. **France** adopted legislation in July 2023 which provides, among others, sickness benefits to women experiencing miscarriage, as well as a 10-week protection against dismissal, psychological care and improved medical assistance starting from 2024.

Member States have adopted measures to improve work-life balance, particularly through the transposition of the Work-Life Balance Directive,[179] including enhancement to family leave. As of July 2023, **Luxembourg** grants paternity leave to the person recognised as the second parent under national law. From March 2024, **Denmark**'s amended Maternity Leave Act ensures that parental leave (48 weeks) is divided equally between both parents (24 weeks each), while single-parent families may transfer several weeks of leave to a close family member. Under the Budget Law 2024, parental leave in **Italy** is now remunerated as follows: 80% of the worker's wage for the first month, 60% (80% only for 2024) for the second month and 30% for subsequent months. In terms of flexible working arrangements, **Ireland** has integrated the Right to Request Remote Work Bill into the Work-Life Balance and Miscellaneous Provisions Act 2023, which, effective March 2024, establishes the right to request remote work and flexible working for carers, including compressed or reduced hours. This Act also allows for five days of annual leave for serious medical care and extends the current entitlement to breastfeeding/lactation breaks from six months to two years. A new law in **France**, adopted in April 2024, will allow employees to take at least four weeks of paid leave annually, regardless of any periods spent on sick leaves.

Efforts to strengthen the labour market inclusion of persons with disabilities are underway. In **Ireland**, a wage subsidy launched in September 2023 provides financial support to employers who employ persons with disabilities; from April 2024, the minimum weekly hours threshold for eligibility under this scheme was reduced from 21 to 15 hours. Moreover, with support of the ESF+, Ireland introduced the 'WorkAbility' programme in August 2024 that will, inter alia, support organisations that can provide progressive pathways into education, training and employment (including self-employment) for participants. **Austria** allocated an additional EUR 30 million in 2023 and 2024 to improve the labour market participation of persons with disabilities, includng to cushion the impact of high inflation. In **Sweden**, the public employment service (PES) regulation letter for 2024 mandates faster identification of disabilities affecting job seekers' work capacity, enabling more relevant interventions and increasing the number of participants receiving wage subsidies to promote greater employment among persons with disabilities.

Several initiatives have been introduced to enhance integration of third-country nationals. In January 2024, a new law on interculturality entered in force in **Luxembourg**, paving the way for smoother integration of persons with a migrant background. **Greece** will

[179] See Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU.

support third-country nationals to facilitate their integration into the labour market under the ESF+. Moreover, with support from the RRF, 8 000 refugees in the country participate in traineeship programs in private sector firms allowing them to integrate into the labour market. **Austria** provides beneficiaries of temporary protection with a 'EU Blue Card' easing access to various benefits, care and services. In addition, Blue Card holders are supported in their integration into the labour market with needs-based offers such as multilingual information materials, qualifications as well as advice on the recognition of qualifications, German courses, competence assessments and active job placement. As of November 2023, people with recognised qualifications in **Germany** can access qualified employment in non-regulated professions, and 'EU Blue Card' requirements have been eased by lowering salary thresholds and streamlining entry for IT specialists. Starting in March 2024, foreign workers with at least two years of experience and a job offer can work in non-regulated occupations without formal qualification recognition.

2.3 Guideline 7: Enhancing the functioning of labour markets and the effectiveness of social dialogue

This section looks at the implementation of the employment guideline no. 7, which recommends that Member States enhance the functioning of labour markets and the effectiveness of social dialogue. It covers, among others, balancing flexibility and security in labour market policies, preventing labour market segmentation, adapting to new working methods, as well as ensuring the effectiveness of active labour market policies and fighting undeclared work. These goals are in line with principles 4 (on active support to employment), 5 (secure and adaptable employment), 7 (information about employment conditions and protection in case of dismissals), 8 (social dialogue and involvement of workers), 10 (healthy, safe, and well-adapted work environment) and 13 (unemployment benefits) of the European Pillar of Social Rights. Building on existing national practices, the promotion of social dialogue and the engagement with civil society organisations are also discussed. Section 2.3.2 reports on policy measures of Member States in these areas.

2.3.1 Key indicators

While flexibility is highly valued by some workers, labour market segmentation that persists over time can negatively impact social fairness. For some groups, especially the young and high-skilled, non-permanent jobs and part-time employment can facilitate labour market entry and skills development, as well as provide greater flexibility and work-life balance. However, persistent gaps in job security and working conditions between workers (often with consequences in terms of access to social protection) create divides that are not perceived as socially fair and tend to increase inequalities[180]. In particular, temporary employment is associated with higher job insecurity when it does not act as a stepping-stone towards more permanent contracts. The precariousness that ensues from this also contributes to less favourable working conditions in certain sectors and occupations characterised by high and persistent labour shortages[181]. Labour market segmentation can be addressed, among others, by tailored active labour market policies that encourage upward job transitions, and also incentives for employers to hire and retain workers.

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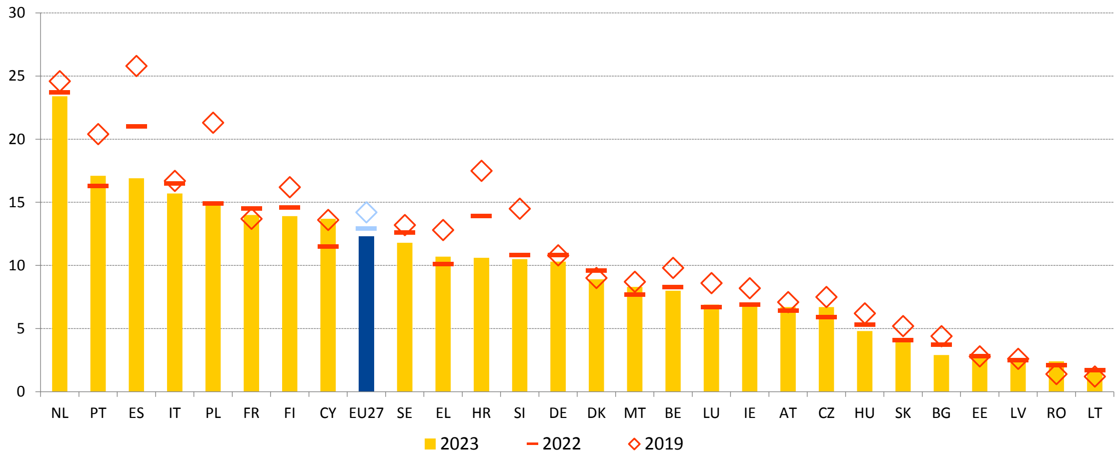
[180] Eurofound, Labour market segmentation, European Industrial Relations Dictionary, 2019.
[181] See European Commission, Employment and Social developments in Europe 2024, Publications Office of the European Union, 2024.

Against the background of high employment rates in the EU, the share of temporary workers continued to display a moderately downward trend[182]. Among all employees aged 20-64, the share decreased from 12.9% in 2022 to 12.3% in 2023, which is 2 pps below the pre-pandemic level. The variation across Member States remains substantial though, with a 21.7 pps gap between the highest and the lowest shares. While the Netherlands, Portugal, Spain and Italy recorded shares of temporary employment above 15% in 2023, the figures were below 3% in Bulgaria, Estonia, Latvia, Romania and Lithuania - see Figure 2.3.1.

Figure 2.3.1: The share of temporary employment is on a decreasing trend, while still showing substantial variation across Member States

Share of temporary employees among all employees (20-64, %, annual data)



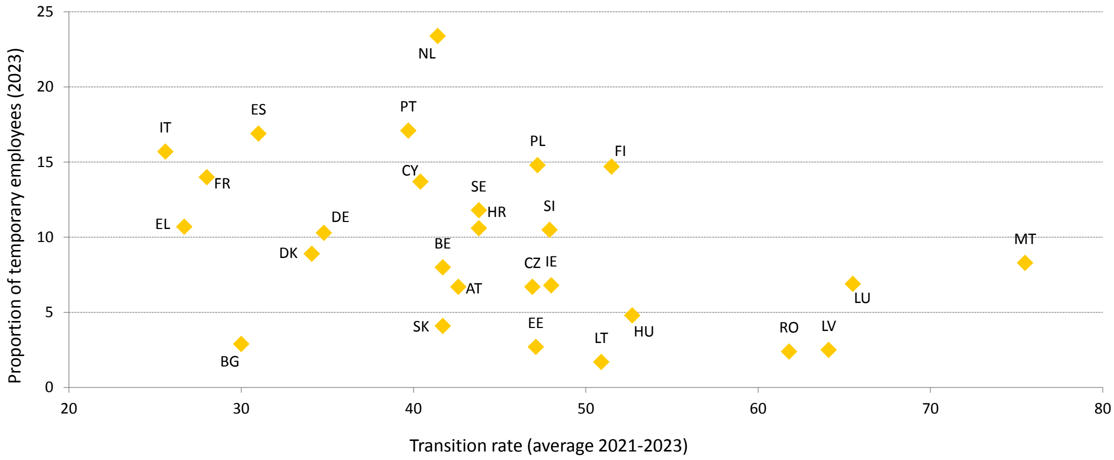
Note: Definition differs for ES and FR in 2022 and 2023 (see metadata). Break in the series for CY and DK.
Source: Eurostat, [lfsi_pt_a], EU LFS.

Some Member States continue to experience high shares of temporary contracts alongside low transition rates to permanent jobs. In 2023, Italy and Spain registered high rates of temporary contracts (above 15%) combined with low transition rates (below and around 30%, respectively, see Figure 2.3.2). Finland, Poland, the Netherlands, Portugal and Cyprus had temporary employment rates above the EU average, but their transition rates to permanent contracts were relatively high (between 40% and 51%), pointing to flexible yet relatively dynamic labour markets. On the other hand, Latvia, Romania and Lithuania displayed a combination of low shares of temporary contracts (under 3%) and high transition rates (between 50% and 64%), suggesting a great degree of job stability.

[182] Employees on temporary contracts are defined as employees with a limited duration contract, whose main job will terminate either after a period fixed in advance, or after a period not known in advance, but nevertheless defined by objective criteria, such as the completion of an assignment or the period of absence of an employee temporarily replaced (Eurostat indicator [lfsi_pt_a]).

Figure 2.3.2: There is heterogeneity among Member States as regards the share of temporary contracts and their transition rates to permanent jobs

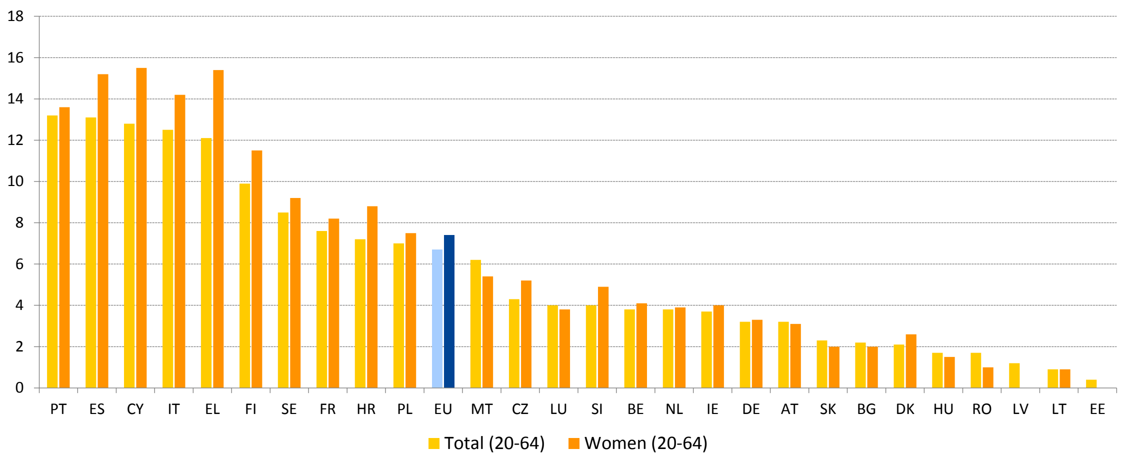
Share of temporary employees among all employees (20-64) in 2023 and transition rate to permanent jobs (15-64) (average value for 2021, 2022 and 2023).



Note: The broader 15-64 age cohort is considered for transition rates between temporary to permanent contracts. Labour transition rate for DE, FR, LV, refers to 2023 and the value for LU refers to 2022. The 20-64 age cohort is used for temporary employment, in line with the Social Scoreboard Headline indicator on employment and related analysis in the section. Definition differs for ES and FR. Break in the series for CY, DK and FR.
Source: Eurostat, [lfsi_pt_a], EU LFS and [ilc_lvhl32], EU-SILC.

Figure 2.3.3: Involuntary temporary employment tends to be more widespread among women

Share of involuntary temporary employees among all employees (20-64) in 2023



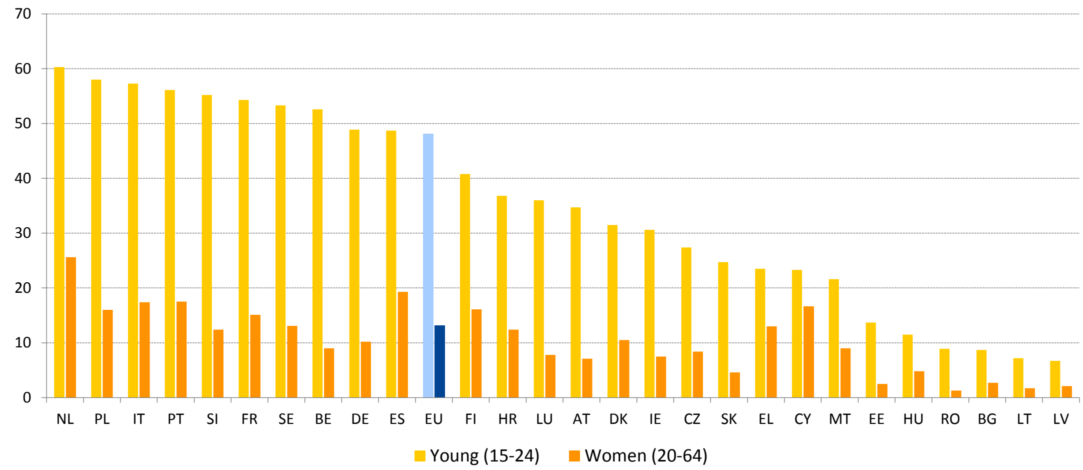
Note: Definition differs for ES and FR. Data with low reliability for BG, EE, HR, LV, LT, LU, MT, AT, SI, SK. Data for Total only 'Job only available with a temporary contract' for EE, LV. Data for Women and Men only for 'Job only available with a temporary contract' for LU, AT. Data for Women and Men only for 'No permanent job found' for SK. Data for Women only for 'No permanent job found' for RO. Data for Women and Men only for 'Job only available with a temporary contract' MT.
Source: [lfsa_etgar] and [lfsa_etgar]

Involuntary temporary employment also shows significant variation across EU Member States and tends to affect relatively more women. Among all temporary workers, the proportion of those that are involuntarily in such a situation is an important indication of employees' difficulties in finding a permanent job[183]. The percentage of those employees (aged 20-64) was 6.7% in 2023 in the EU, which is 0.7 pps lower than the year before. However, significant differences remain across Member States, with figures spanning from above 10% in Portugal, Spain, Cyprus, Italy and Greece to below 2% in Hungary, Romania, Latvia, Lithuania and Estonia. The share of involuntary temporary employment is generally higher among employed women (with some exceptions such as Romania, Malta, Bulgaria, and Hungary) – see Figure 2.3.3, though the gap continues to be relatively narrow overall (1.2 pps), except for Greece, Cyprus, Spain, Finland and Croatia (where it is larger than 3 pps).

Temporary contracts continue to be more widespread among young people and women. The temporary employment share among young people (aged 15-24) in the EU decreased by 1.5 pps as of 2022 to reach 48.1% in 2023. However, this figure is 37.1 pps higher than for employees aged 25-54. In 2023, the highest shares of young people on temporary contracts were reported in the Netherlands, Poland, Italy, Portugal and Slovenia (ranging from 55% to 60%), while the lowest were recorded in Romania, Bulgaria, Lithuania and Latvia (below 10%) – see Figure 2.3.4. The share of employed women (aged 20-64) on temporary contracts slightly decreased in the EU from 13.9% in 2022 to 13.2% in 2023. The largest shares were registered in the Netherlands, Spain, Portugal and Italy (above 17%), while the lowest were observed in Romania, Lithuania, Latvia, Estonia and Bulgaria (below 3%). Overall, the gender gap in temporary employment remained stable at around 2 pps in the EU. In 2023 (based on 2022 incomes), workers in temporary employment were at a significantly higher risk of in-work poverty (12.6%) compared to those on permanent contracts (5.2%)[184].

Figure 2.3.4: The temporary employment shares for young people and women differ significantly across Member States

Share of temporary employees among all young (15-24 year-olds) employees (%, 2023) and share of temporary employees among all employed women (%, 2023).



Note: Definition differs for ES and FR (see metadata).
Source: Eurostat [lfsi_pt_a] – young people and [lfsi_pt_a] - women, EU LFS.

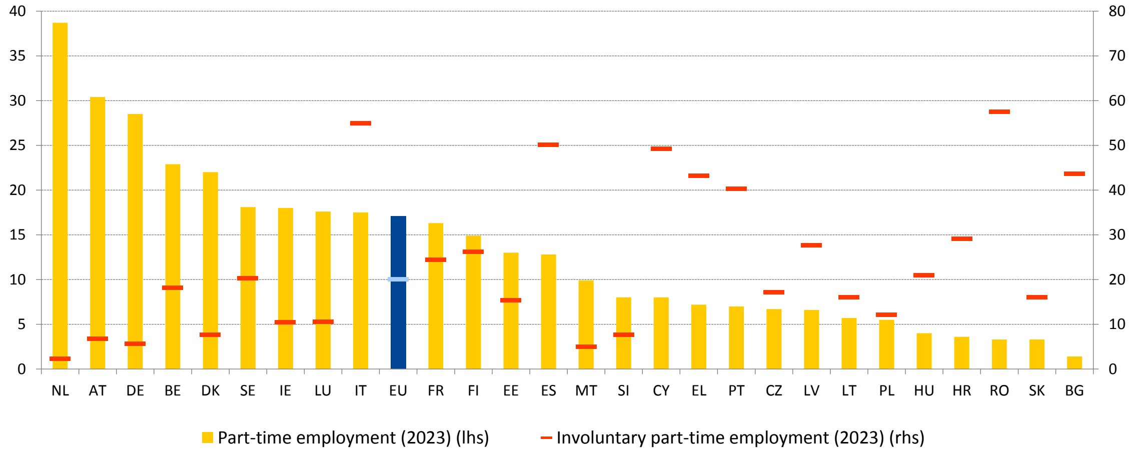
The share of part-time employment has slightly increased, after a slow but steady decline in the past eight years and continues to display a significant involuntary

[183] Involuntary temporary employment is defined as employment occurring in the two following situations: no permanent job was found [lfsa_etgar] and job was only available with a temporary contract [lfsa_etgar].
[184] Eurostat [ilc_iw05], EU-SILC.

component in several Member States. Against a background of a record high employment rate, the share of employed persons (aged 20-64) working part-time in the EU increased from 16.9% in 2022 to 17.1% in 2023. Five Member States (the Netherlands, Austria, Germany, Belgium and Denmark) continued to report figures above 20%, while five others (Bulgaria, Slovakia, Romania, Croatia and Hungary) remained below 5% (Figure 2.3.5). The share of involuntary part-time employment out of the total further decreased by 1.6 pps to 20% in 2023 in the EU, still remaining at a relatively high level. Romania, Italy and Spain recorded the highest shares, above 50%, while the shares in the Netherlands, Malta and Germany were around or below 5%.

Figure 2.3.5: The share of part-time employment has slightly increased, while differences in its involuntary component remain strong across Member States

Share of part-time employment in total employment (20-64) and involuntary part-time employment as percentage of the total part-time employment (20-64) (%, annual data).



Note: Definition differs for ES and FR (see metadata). Low reliability in involuntarty time series for MT and SI.
Source: Eurostat, [lfsi_pt_a] and [lfsa_eppgai], EU LFS.

The share of self-employed workers without employees remained relatively stable in the EU, with significant differences across Member States. In 2023, there were approximately 17.8 million self-employed workers without employees in the Union, accounting for 9.1% of total employment for the 20-64 age group[185]. While solo self-employment could point towards entrepreneurial initiative, it could also be used as a proxy for 'bogus' self-employment, which conceals dependent employment relationships[186]. In 2023, the highest shares of self-employed workers without employees (above 13%) were recorded in Greece, Poland, Czechia and Italy and the lowest (below 6%) in Germany, Luxembourg, Denmark and Sweden.

Digital labour platforms represent an increasingly important part of the EU economy, providing job opportunities but also posing specific challenges, notably related to the workers' employment status. Between 2016 and 2020, revenues from the EU platform economy grew almost fivefold, from roughly EUR 3 billion to around 14 billion. More than 500 digital labour platforms operating within the EU were identified in 2021. According to a

[185] Eurostat, [lfsa_egaps] and [lfsi_emp_a], EU LFS. Definition differs for ES and FR (see metadata).
[186] See European Commission, Employment and Social developments in Europe 2023, Publications Office of the European Union, 2023.

Commission study[187], more than 28 million people in the EU were estimated to work through digital labour platforms in 2020, with this number deemed to be steadily growing. While the majority of these people are genuinely self-employed, 5.5 million were estimated to be incorrectly classified as self-employed. More than half of the people working through platforms earn less than the minimum wage[188]. Against this background, the EU Directive on improving conditions in platform work[189] aims, among others, to address the issue of bogus self-employment on digital labour platforms by facilitating the correct determination of the employment status through a legal presumption of employment. Furthermore, it provides both employed and self-employed platform workers with new rights ensuring more transparency, fairness and accountability on algorithmic management. It also creates the framework for national authorities and worker representatives to have better access to information from digital labour platforms and it strengthens social dialogue and collective bargaining.

Overall, rapid advancements in artificial intelligence (AI) and other digital technologies can be expected to drive profound transformations in the labour market. This can be expected to impact on the quantity and quality of jobs, and on workers' quality of life. The IMF estimates that the rollout of AI applications may affect up to 60% of employees in advanced economies, half of whom may be adversely impacted by it[190]. More than 75% of companies worldwide are envisaging to adopt AI-powered applications between 2023 and 2027, and around 70% of them consider technological literacy as rising in importance in this timeframe[191]. Yet, employers are facing obstacles in hiring people with the necessary skills. Based on the Digital Economy and Society Index, 3 out of 4 EU companies (particularly SMEs) report difficulties in finding workers with the required skills[192]. While recent studies[193] confirm that in the short term the main net employment impact of AI adoption might be positive, increasing the demand for the skills needed for its development and adoption, the employment gains should be cautiously balanced against the potential of AI to replace routine jobs[194]. Moreover, unlike previous waves of automation, generative AI could significantly impact high-skilled workers. According to the ILO, over 5% of employment in high-income countries is potentially exposed to the automating effects of generative AI[195]. In addition, automation through AI-powered advanced robotic technologies can heavily impact production processes and service delivery, while changing job profiles and increasing the

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[187] European Commission, Staff Working Document – Executive summary of the impact assessment report accompanying the proposal for a directive of the European Parliament and of the Council on improving working conditions in platform work, Publications Office of the European Union, 2021.

[188] European Commission, Study to gather evidence on the working conditions of platform workers, Publications Office of the European Union, 2020.

[189] Directive (EU) 2024/2831 of the European Parliament and of the Council of 23 October 2024 on improving working conditions in platform work, OJ L, 2024/2831, 11.11.2024.

[190] International Monetary Fund (2024), *World Economic Outlook.*

[191] World Economic Forum, Future of Jobs Report 2023, 2023.

[192] The European Commission's Digital Economy and Society Index (DESI) is available here.

[193] See Albanesi, S., Da Silva, A., Jimeno, J., Lamo, A., & Wabitsch, A. (2023), *New technologies and jobs in Europe*, ECB Working Paper No. 2023/2831 and Hayton, J., Rohenkohl, B., Christopher, P., Liu, HY (2024). *What drives UK firms to adopt AI and robotics, and what are the consequences for jobs?,* University of Sussex. Report.

[194] European Commission, Artificial Intelligence: Economic Impact, Opportunities, Challenges, Implications for Policy, (Discussion Paper 210), Publications Office of the European Union, 2024.

[195] International Labour Organisation, Generative AI and jobs: A global analysis of potential effects on job quantity and quality, 2023.

need for digital, analytical and soft skills[196]. In this context, the EU's AI Act (entered into force since August 2024) aims to ensure that AI is trustworthy, safe and in line with EU fundamental rights. While the Act provides a general regulatory framework, it also contains some references to AI's use in the workplace (like the prohibition of placing on the market or putting into service the use of AI systems to infer a person's emotions in the workplace)[197].

Pillar Box 4: New working methods and the right to disconnect

Telework brings many opportunities to the world of work. The COVID-19 pandemic has had an important impact on working patterns. Supported by increased digitalisation, the prevalence of working from home in the EU rose from 11.1% in 2019 to 19.8% in 2023[198]. Results from a Eurofound survey show that telework in Europe is by now a permanent feature of our working practices, with over 60% of workers indicating that they would prefer to work from home at least several times per month. Telework offers opportunities in terms of autonomy, flexibility, inclusivity, as well as potential cost savings for both workers and employers. Those who can, still make use of their offices too. As a result, hybrid work arrangements combining working from the employer's premises and telework in different ways emerge as a prominent work organisation model[199]. However, the possibility to work anytime could also lead to an extended availability of workers, thereby fostering an 'always-on' culture.

The 'always-on' culture, resulting often in additional and unpredictable working hours, could be detrimental to workers' work-life balance, health and well-being. Based on a 2022 company-level survey carried out by Eurofound in four countries (Belgium, France, Italy and Spain), over 80% of respondents reported being contacted for work-related purposes outside their contractual working hours, with nine out of ten responding to such contacts. The main reasons reported for this were: feeling responsible for one's assignments (82%), wishing to stay 'on top of things' (75%), because it was expected (75%), fear of a negative impact if no response was provided (61%) and the expectation of better career progression (50%)[200]. Over-connection, facilitated by the digitalisation of the world of work, is frequently perceived by workers as having a negative impact on work-life balance, health and well-being (see Figure below). Evidence suggests that, while stressors such as work intensity, work-life interference and working in one's free time (as an aspect of unsocial working hours) affect all workers, their effect is stronger for employees who telework than for those who work at their employer's premises. Anxiety, emotional fatigue, exhaustion due to prolonged exposure to virtual meetings, and isolation represent some of the most reported mental health issues among teleworkers[201]. To mitigate the risks and stressors of an 'always-

[196] Eurofound, Human–robot interaction: What changes in the workplace?, Publications Office of the European Union, 2024.

[197] Regulation 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence and amending Regulations (EC) No 300/2008, (EU) No 167/2013, (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1139 and (EU) 2019/2144 and Directives 2014/90/EU, (EU) 2016/797 and (EU) 2020/1828 (Artificial Intelligence Act), OJ L, 2024/1689, 12.7.2024.

[198] Eurostat [lfsa_ehomp], share of employees aged 15-74 reporting working from home sometimes and usually.

[199] Eurofound, Fifth round of the Living, working and COVID-19 e-survey: Living in a new era of uncertainty, Publications Office of the European Union, 2022.

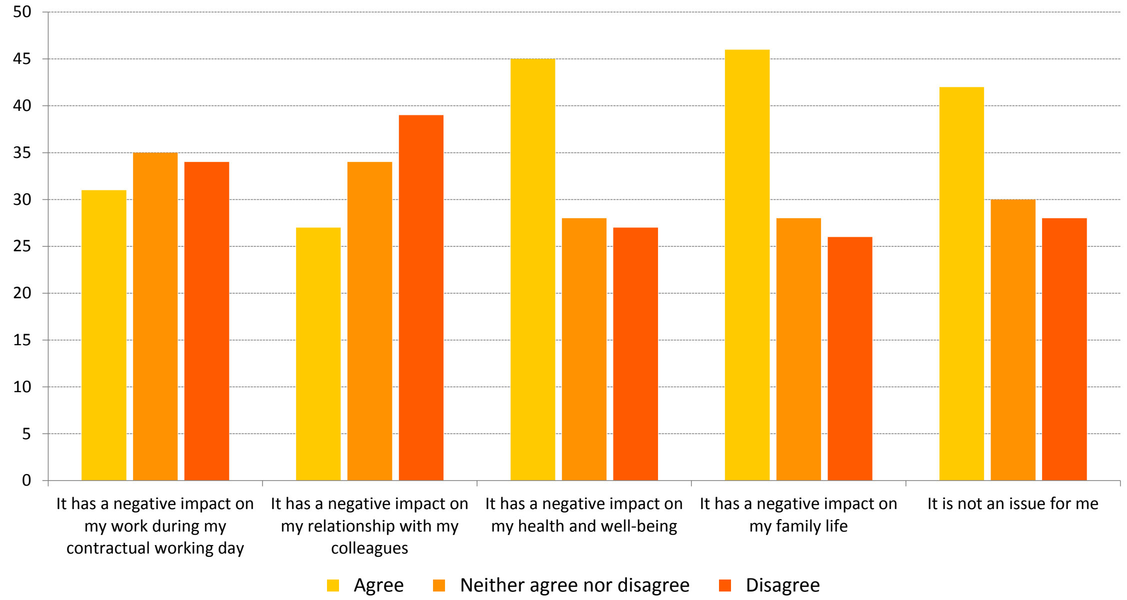
[200] Eurofound, Right to disconnect: Implementation and impact at company level, Publications Office of the European Union, 2023.

[201] European Commission, Study exploring the social, economic and legal context and trend of telework and the right to disconnect, in the context of digitalisation and the future of work, during and beyond the COVID-19 pandemic, Publications Office of the European Union, 2024.

on' culture, the 'right to disconnect' could help draw clearer boundaries between one's professional and private life, hence contributing to workers' health, safety and work-life balance. Data indicate that, at company level, there is a positive association between the implementation of the right to disconnect and employees' work-life balance, health, well-being, as well as overall job satisfaction[202].

Over-connection is frequently perceived as having a negative impact on work-life balance, health and well-being

Perceived impact of over-connection on health and well-being (%)



Source: Eurofound calculations, based on the Right to disconnect survey 2022.

Against this background, in 2021 the European Parliament adopted a resolution calling for the Commission to present a legislative proposal on the right to disconnect and an EU legislative framework for telework[203]. As part of the follow-up to the resolution, the Commission published a study exploring the social, economic and legal context and trends of telework and the right to disconnect[204]. While no agreement was reached by the social partners on the review of the Framework Agreement on telework, the Commission initiated a formal two-stage consultation on a potential EU initiative on telework and the right to disconnect. The first stage of this consultation[205] ran between 30 April and 25 July 2024. In addition, in July 2024 the Commission launched a study to gather evidence and analyse the added value and impacts of potential policy options of an initative on telework and the right to disconnect. Furthermore, the introduction of a right to disconnect is mentioned in the

[202] Eurofound, Right to disconnect: Implementation and impact at company level, Publications Office of the European Union, 2023.

[203] P9_TA (2021)0021 European Parliament resolution of 21 January 2021 with recommendations to the Commission on the right to disconnect (2019/2181(INL)).

[204] European Commission, Study exploring the social, economic and legal context and trend of telework and the right to disconnect, in the context of digitalisation and the future of work, during and beyond the COVID-19 pandemic, Publications Office of the European Union, 2024.

[205] European Commission, Consultation document: First-phase consultation of social partners under Article 154 TFEU on possible EU action in the area of telework and workers' right to disconnect, Publications Office of the European Union, 2024.

mission letter of Executive Vice-President for Social Rights and Skills, Quality Jobs and Preparedness Roxana Mînzatu[206].

Several Member States have already implemented measures targeting telework and the right to disconnect. Since the outbreak of the COVID-19 pandemic, some Member States adopted or amended legislation concerning the statutory definition of telework. Currently, relevant legislation on the right to disconnect exists in 13 Member States but with variations in terms of scope, definition, implementation and enforcement. **France**, **Spain**, **Belgium** and **Italy** were the first four countries with national legislation on the right to disconnect, with the other nine, namely **Bulgaria**, **Cyprus**, **Greece**, **Croatia**, **Ireland**, **Luxembourg**, **Portugal**, **Slovenia**, **Slovakia**, introducing new legislation, an amendment to existing national laws, or national guidance to establish this right.

Labour inspectorates play a key role in detecting and preventing poor working conditions and fighting undeclared work. The increased use of information and communication technologies (ICT) and the development of the platform economy have brought about new challenges for labour inspectorates in performing their tasks. AI tools can significantly improve fraud detection and risk assessment, while it remains important to ensure transparency, and that the tools are developed with all the necessary guarantees for businesses and citizens. Compliance with EU data protection and transparency rules is crucial in this respect. At the same time, labour inspectorates need to be endowed with appropriate resources to perform their tasks[207]. The ILO's indicators on labour inspectorates show that capacity and resources are very different in this respect across EU countries. The ILO indicator on the number of inspectors per 10 000 employed persons ranged from 0.18 in Malta to 1.8 in Romania in 2021. Between 2009 and 2021, the number of inspectors increased significantly in Czechia (+58.1%) and Portugal (+36.8%), while it decreased in Lithuania (-38%), Romania (-28.8%), Ireland (-25.4%) and Croatia (-22.6%). Overall, there is a declining trend in the number of labour inspections[208]. The European Platform tackling undeclared work, coordinated by the European Labour Authority (ELA), continues to support Member States' efforts to develop comprehensive approaches in addressing the challenge.

Long-term unemployment continued to decline in the EU, in particular in Member States with the highest levels. The long-term unemployment rate stood at 2.1% in the EU in 2023, which is 0.3 pps below the 2022 level. The difference between the highest and lowest rates across the Member States further decreased from 7.2 pps in 2022 to 5.7 pps in 2023 (Figure 2.3.6). A significant decrease was recorded in Greece (-1.5 pps to 6.2%) and Spain (-0.8 pps to 4.3%). With the third largest rate in the EU (4.2%), Italy is in a 'critical situation', together with Slovakia. Having experienced increasing rates, Hungary and Luxembourg are now 'to watch', while Czechia is 'good but to monitor'. On the other hand, Denmark and the Netherlands are 'best performers', with overall very low rates in 2023. The gender gap in long-term unemployment rates was low (below 0.5 pps) in 2023 in most Member States, with the exception of Greece, Spain and Italy (4.5 pps, 1.5 pps, and 1 pp, respectively). Large regional differences can be observed in several Member States, including

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[206] Mission letter of European Commission Executive Vice-President for Social Rights and Skills, Quality Jobs and Preparedness Roxana Mînzatu.

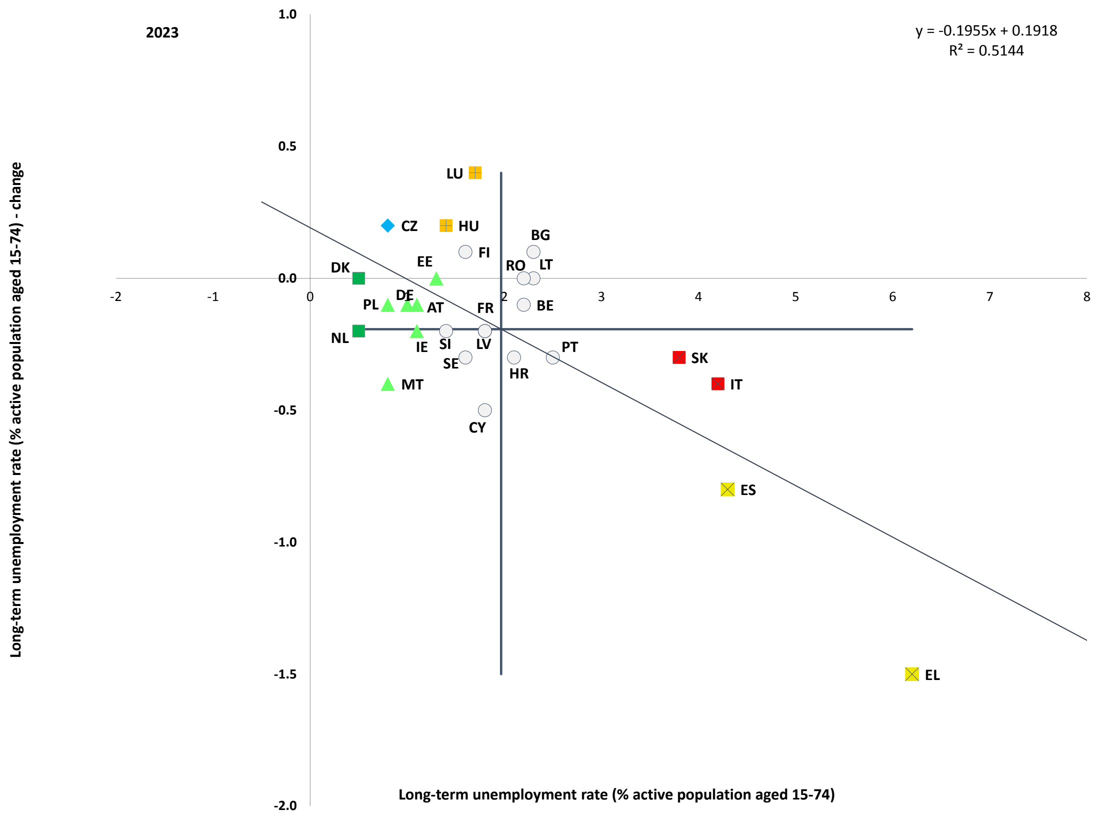
[207] For details, see the European Labour Authority (ELA) website: www.ela.europa.eu; European Labour Authority, The rise of teleworking: improvements in legislation and challenges for tackling undeclared work, Publications Office of the European Union, 2023; European Labour Authority, Methods and instruments to gather evidence of undeclared work, Publications Office of the European Union, 2023.

[208] Eurofound, Minimum wages: Non-compliance and enforcement across EU Member States – Comparative report, Publications Office of the European Union, 2023.

Romania, Bulgaria, Hungary, Slovakia and France (see Figure 7 in Annex 5), including outermost regions.

Figure 2.3.6: Long-term unemployment rates continued to decline in the large majority of Member States

Long-term unemployment rate, 2023 levels and changes from 2022 (%, Social Scoreboard headline indicator)

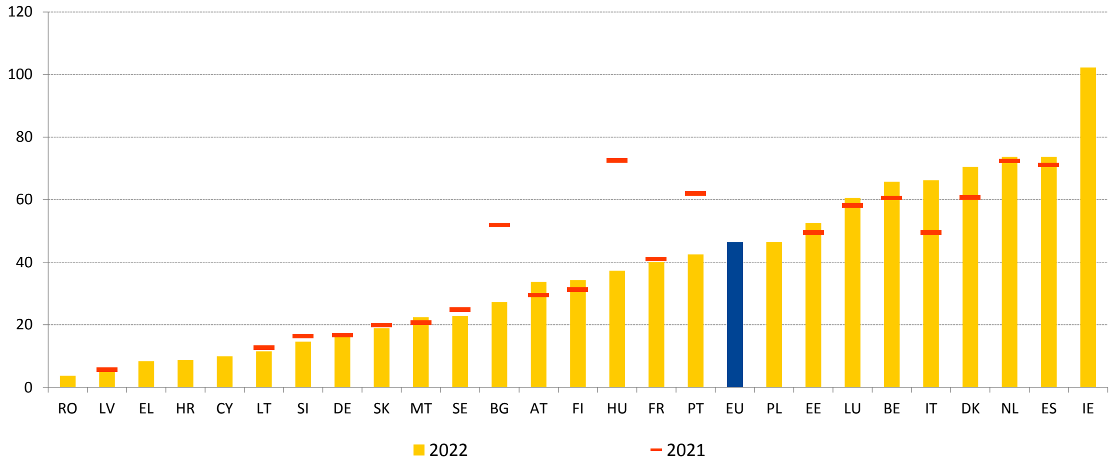


Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Definition differs for ES and FR. Break in the series for CY and DK.
Source: Eurostat [tesem130], EU LFS.

Against the background of a tight labour market, participation rates in active labour market policies continue to vary significantly across Member States. In 2022, the share of unemployed persons willing to work, who participated in active labour market policy measures remained relatively stable in most Member States compared to 2021, while sharp decreases were registered in some cases (Figure 2.3.7). The lowest participation rates (below 10%) were observed in 2022 in Romania, Latvia, Greece, Croatia and Cyprus. On the other hand, Denmark, the Netherlands, Spain and Ireland recorded figures above 70%. Compared to 2021, the participation rate nearly halved in Hungary (from 72.5% to 37.3%) and Bulgaria (from 51.9% to 27.3%), while Portugal's rate also fell significantly, from 62.0% to 42.5%. A notable increase by 16.7 pps was recorded in Italy. From a longer-term perspective, the share of the unemployed participating in active labour market polices has been increasing steadily in the EU by more than 50% since 2013.

Figure 2.3.7: Participation rates in active labour market policies were stagnant or declined in most Member States

Participants in regular labour market policy (LMP) interventions (categories 2-7) per 100 unemployed persons wanting to work, total age class



Note: Time series not available for CZ. Latest available data for EU and RO (2020) and CY, EL, HR, IE (2021). Time series are estimated for DK, NL and SE. Data have low reliability for EL and LT. Data not available for PL (2021). Figures above 100% would indicate that people register more than once in the Active Labour Market Policy dataset as part of their participation in different categories of measures or due to participants who are not registered as jobseekers.
Source: Eurostat [lmp_ind_actsup].

There is still heterogeneity across Member States in the implementation of actions in favour of the long-term unemployed. The 2022 data collection in the context of the monitoring of the Council Recommendation on long-term unemployment[209] shows that just over half of the Member States (15) achieved at least 90% coverage in delivering Job Integration Agreements (JIA) to all long-term unemployed registered for at least 18 months. In six Member States, at least one in three of them did not have a JIA. On the contrary, in 13 other Member States, more than 95% of all long-term unemployed received a JIA or equivalent, with the overall share having increased compared to 2021. The prospects of JIA users of finding employment deteriorated slightly in 2022. Available data for 23 Member States show that a total of just under 3.7 million JIA users ended their unemployment spell, of which 1.7 million (or 47.6%) were known to have taken up employment (vs 49.1% in 2021). More importantly, the figures consistently show that the group of Member States providing Individual Action Plans with in-depth assessment record significantly better results when it comes to the labour market integration of the long-term unemployed[210].

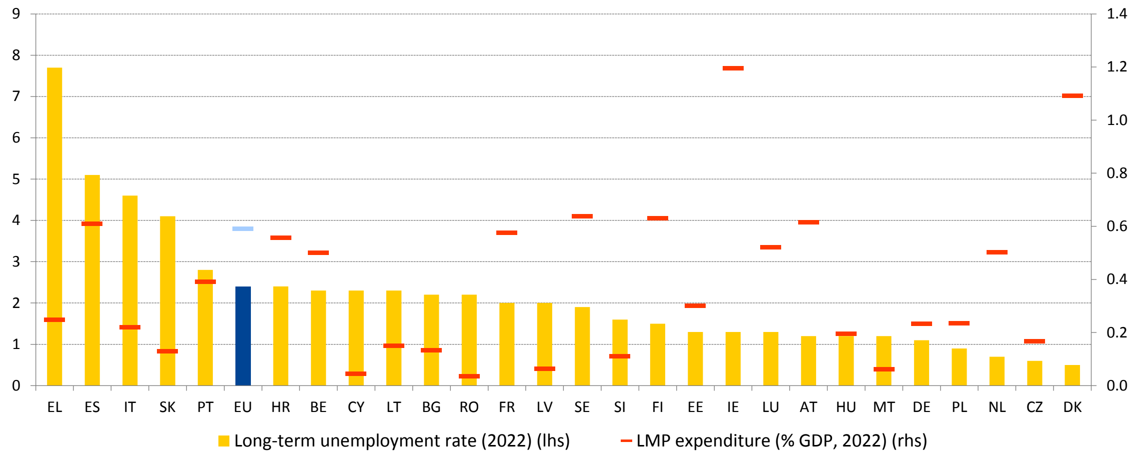
Effective and efficient active labour market policies are important to support good labour market outcomes. Member States' spending on active labour market policies shows marked differences. In 2022, Greece, Italy, Slovakia and Portugal registered long-term unemployment rates above the EU average of 2.4%, while spending on active labour market interventions less than the EU average of 0.6% of GDP (Figure 2.3.8). On the other hand, Ireland, Denmark, Finland, Sweden and Austria, which have long-term unemployment rates below 2%, allocated the highest GDP shares to active labour market policies (ranging from approximately 0.5% to 1.2%). Spain continued to spend more, relative to GDP, in active

[209] Council recommendation of 15 February 2016 on the integration of the long-term unemployed into the labour market
[210] European Commission, Data collection for monitoring of the LTU Recommendation: 2022 results, Publications Office of the European Union, 2024.

labour market measures, while experiencing high long-term unemployment (following a decrease from 6.2% to 5.1% though). Finally, Croatia, Belgium and France showed values relatively close to the EU average as regards both ALMP spending and long-term unemployment.

Figure 2.3.8: Spending on active labour market policy measures differs significantly between Member States

Spending on active labour market policy interventions (categories 2-7, in percentage of GDP, 2022) and long-term unemployment rate (aged 15-74) (%, 2022)



Note: Latest available data for labour market policy (LMP) expenditure for EU, IT, CY and RO (2020) and HR and IE (2021). Data on LMP expenditure estimated for DE, NL and SE. Provisional LMP data for FR. Definition of long-term unemployment differs for ES and FR.
Source: Eurostat [lmp_expsumm], Labour market policy (LMP) database and [tesem130], EU LFS.

In 2023, public employment services (PES) operated in an environment of labour shortages accompanied by low levels of unemployment and thus a decline in the number of registered unemployed people in the majority of the Member States. To respond to the labour shortages, the PES Network[211] has adapted the PES institutional excellence reference framework, putting more emphasis on activation and multi-actor partnerships[212]. PES in 26 Member States have set strategies and targets to ease labour market access for the most vulnerable groups. Also, in 2023 PES worked on fostering fair green and digital transitions, with a strong focus on skills and on supporting workers facing job transitions. More specifically, PES from 18 Member States cooperated with employers to identify skills needs for green jobs, support industrial restructuring, and help implement employment subsidies for green jobs. PES from 17 Member States provided up- and re-skilling for workers. In order to support SMEs find workers with the right skills, PES have taken steps in shifting from occupation-based approaches towards skills-based approaches in their profiling and matching activities. Cooperation between public and private employment services has also been evolving over the past years, with several PES broadening and reinforcing their cooperations with private job portals and private employment agencies or planning to do so[213].

The share of short-term unemployed covered by unemployment benefits increased slightly in the EU in 2023, albeit with variation across Member States. It rose from 35.8%

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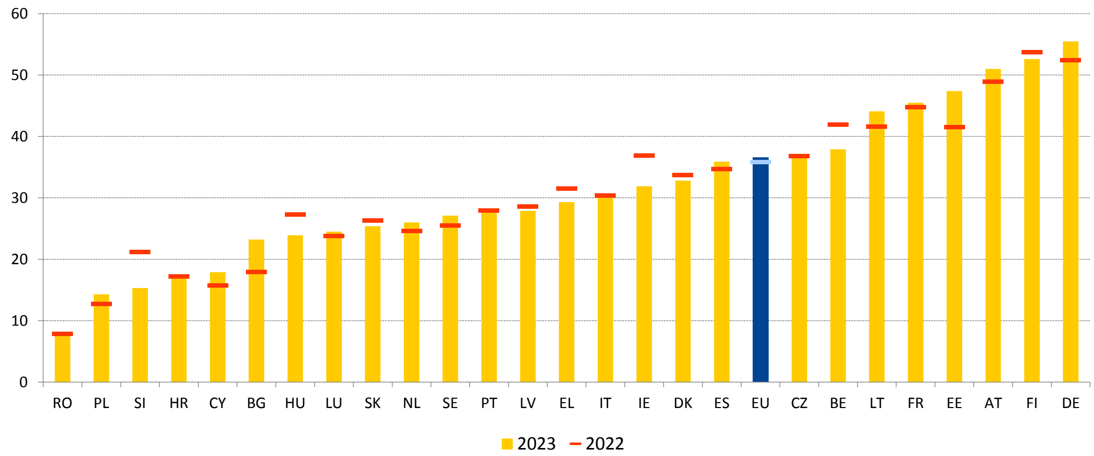
[211] See: European Network of Public Employment Services.
[212] European Commission, PES Network Benchlearning manual, Publications Office of the European Union, 2024.
[213] European Commission, Trends in PES: Assessment report on PES capacity, Publications Office of the European Union, 2023, data adjusted to represent the EU only.

in 2022 to 36.6% in 2023 (Figure 2.3.9)[214]. While Slovenia (-5.9 pps), Ireland (-5 pps) and Belgium (-4 pps) experienced the biggest declines, high increases in coverage were observed in Estonia (5.9 pps) and Bulgaria (5.3 pps). In 2023, the highest coverage rates were recorded in Germany, Finland and Austria (over 50%), followed by Estonia, France and Lithuania (above 40%). Conversely, the lowest coverage was observed in Romania and Poland (below 15%). Compared to 2022, the share of the unemployed registered for less than one year that received benefits or assistance remained relatively stable in the EU in 2023, at around 35%. The share of short-term unemployed covered by unemployment benefits is positively correlated with higher transitions from short-term unemployment to employment and lower instances of long-term unemployment. Overall, the rules concerning the qualifying period remained stable in almost all Member States, with great variation among them, ranging from 13 weeks of insurance contributions in Italy, 51 weeks in Hungary, Portugal or Spain, to 104 weeks in Slovakia[215]. The maximum duration of unemployment benefits for those with a one-year work record remained also unchanged in most Member States. Overall, in 16 EU countries the unemployed with a one-year work history are eligible for benefits for at most 6 months. Income replacement is also closely associated to the duration of the unemployment spell. Net replacement rates for low-wage earners with short work record vary significantly across Member States. In the second month, the net replacement rates range from 6.9% of the previous (net) earnings in Hungary to 90% in Belgium (Figure 2.3.10). In Luxembourg, Denmark, France and Finland the replacement rate (all exceeding 60%, and in some cases significantly higher) is the same at the 2nd as at the 12th month of unemployment.

Figure 2.3.9: There were limited changes in the coverage of unemployment benefits for short-term jobseekers, with persistent differences across Member States

Unemployment benefit coverage rates for the short-term unemployed (less than 12 months, 15-64 year olds, %)

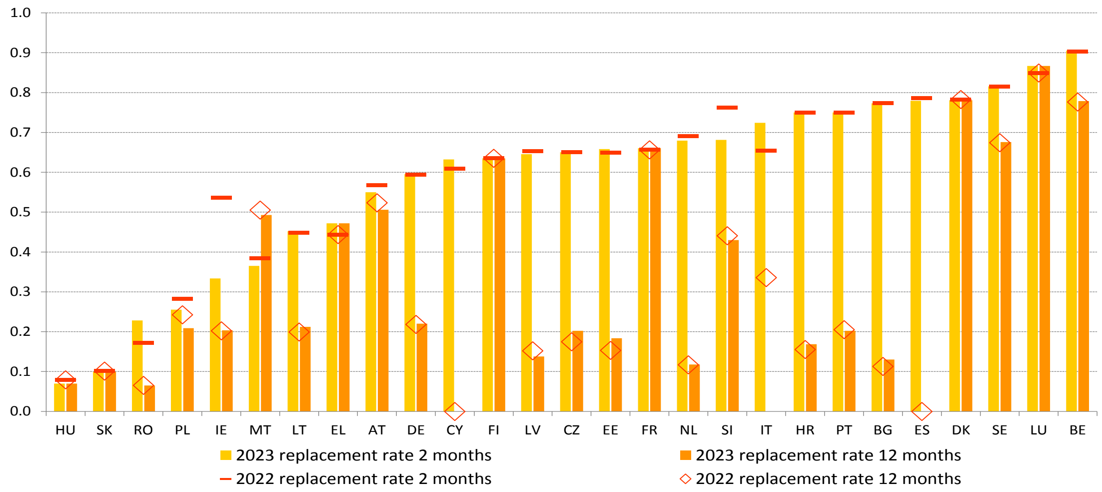


Note: Data are not available for MT. Definition differs for ES and FR (see metadata). Break in the series for DK and CY. Low reliability for LU and SI.
Source: Eurostat [lfsa_ugadra], EU LFS.

[214] Short-term unemployed are those unemployed for less than 12 months.
[215] The analysis refers to unemployment benefits generally given to those registering after becoming unemployed through no fault of their own, without including schemes of a temporary nature.

Figure 2.3.10: Significant differences exist in replacement rates across Member States for both short- and long-term unemployment

Net replacement rate of unemployment benefits at 67% of the average wage, at the 2nd and 12th month of unemployment (2023 and 2022)



Note: The indicator is calculated for the case of a single person without children with a short work history (1 year) and aged 20. Different income components, unemployment benefits and other benefits (such as social assistance and housing benefits) are included. All data are for 2023, except for BE, CY, DK, FI, and PT, for which data are for 2022.
Source: European Commission calculations, based on OECD Tax-Benefit Model.

The labour market outcomes for EU movers[216] continue to improve. The total number and employment rate of working-age EU movers have remained on an upward trend, reaching 10.1 million and an employment rate of 78% (vs 76% for nationals) in 2023. In the same year, the total number of cross-border workers in the EU was 1.8 million (up by 3% compared to 2022) and 1.5 million EU citizens changed the country in which they worked. Most mobile workers return to their country of origin, with an increase in their number by 6% for the EU in 2023, and significant variation between Member States[217]. In 2024, the Commission published a review of cooperation practices and challenges concerning posted workers in the EU, focussing on their rights, particularly as regards accommodation and access to information on the conditions of employment[218].

Well-functioning social dialogue and collective bargaining are key to improving working conditions and mitigating labour shortages, yet social partner involvement varies across policy areas. Between April 2020 and July 2024, the greatest degree of involvement of social partners was reported with regard to COVID-19 related policies, with nearly 37% of these being agreed or consulted with the social partners. This was followed by measures to cushion the impact of the higher cost of living (31%), those related to the green transition (27%), restructuring support instruments (26%) and measures related to the war in Ukraine (25%). The lowest degree of involvement was recorded for policy measures in the context of the digital transformation (22%) or related to extreme weather events (13%). This reflects the fact that social partners tend to be involved to the largest extent in policy areas concerning the workplace (affecting businesses and workers) (Figure 2.3.11). The Employment Committee's (EMCO) annual multilateral surveillance review on social

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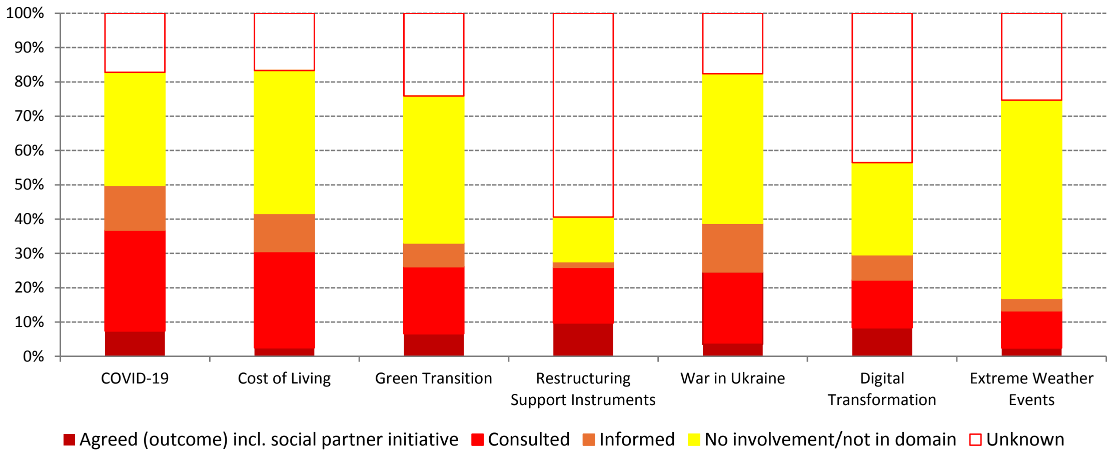
[216] EU and EFTA movers are EU or EFTA citizens who reside in an EU or EFTA country other than their country of citizenship (See Annual reports on intra-EU labour mobility).
[217] European Commission (forthcoming), *Annual report on intra EU-labour mobility 2024.*
[218] See Commission Staff Working Document available here.

dialogue of November 2023 highlighted that limited progress had been made in achieving more effective social dialogue and social partners' involvement in policy-making. Also, the national social partners' assessment of the quality of their involvement in the implementation of the Recovery and Resilience Facility in 2023 was uneven. For the implementation of their Recovery and Resilience Plan (RRP), each Member State has chosen a governance structure adapted to their respective national social dialogue frameworks. The institutional frameworks for involving the social partners are therefore diverse, since some Member States have established specific settings and procedures, and others have used existing social dialogue channels. In a few countries, the social partners have been involved through new bodies or specific working groups created in the context of the European Semester or to monitor the implementation of the RRPs[219].

Figure 2.3.11: The degree of involvement of social partners varies by policy context

Social partners' involvement in the design of national policies by policy context



Note: The figure includes 2 290 policies tagged with the respective context (some double counting due to the possibility that one policy may relate to more than one contexts), collected between April 2020 and July 2024. Policies only include legislation or other statutory regulations and tripartite agreements. Social partners involvement presented as average of employers and trade unions involvement in each category by context. Differences in the degree of employers' versus unions' involvement are minor.
Source: Eurofound's EU PolicyWatch Database.

At the Val Duchesse Social Partners Summit of 31 January 2024, the Commission, the Belgian Presidency, and the cross-industry social partners signed a 'Tripartite Declaration for a Thriving Social Dialogue'. This represents a renewed commitment to strengthen social dialogue at EU level and to join forces in addressing the key challenges that our economies and labour markets are facing[220]. The Declaration announced the appointment by the Commission of a new European Social Dialogue Envoy and the launch of a process towards a Pact for Social Dialogue to be concluded at the beginning of 2025. The Envoy will support and coordinate the implementation of the 2023 Communication on strengthening social dialogue in the EU, as well as the Commission's response to the joint reports from the European social partners on social dialogue at EU level. As regards the Pact for European Social Dialogue, a series of tripartite and bipartite meetings with the European social partners will be undertaken to identify new proposals to reinforce European social dialogue. These meetings will address, among others, the EU institutional and financial support for European

[219] Eurofound, *Social governance of the Recovery and Resilience Facility: Involvement of the national social partners,* Publications Office of the European Union, 2024.
[220] Tripartite Declaration for a Thriving European Social Dialogue.

social dialogue at all levels, capacity building of social partners (including through ESF+), an agreed bipartite approach on the negotiation, promotion and implementation of social partners agreements.

Regular dialogue and consultation with civil society organisations is instrumental for delivering impactful and inclusive policies. As acknowledged by the 2024 La Hulpe Declaration on the Future of the European Pillar of Social Rights, civil society plays a key role in the fight against social exclusion and inequalities, and with regard to policies that concern under-represented and vulnerable groups. At the EU level, civil society organisations are actively involved in the European Semester, with regular exchanges of views and thematic discussions on areas of particular relevance. Recent Eurofound research examines the involvement of civil society organisations in the early implementation of the Territorial Just Transition Plans (TJTPs) in some Member States. First empirical research suggests that a meaningful dialogue with civil society on policy measures and support to vulnerable workers, communities and industries still requires reducing hurdles to participation, creating opportunities for joint assessment of needs, supporting capacity building and facilitating knowledge sharing[221].

2.3.2 Measures taken by Member States

Efforts to address the causes of labour market segmentation continue in some Member States. Following a public consultation launched in July 2023, **the Netherlands** is preparing a bill focussed on increasing the security of workers under flexible employment contracts by abolishing zero-hours contracts, replacing on-call contracts with a new type of contract providing more income security for workers, and improving the job security of temporary agency workers. In addition, **the Netherlands** launched a public consultation in October 2023 on a bill clarifying the concept of employment relationship and introducing a legal presumption of employment for the self-employed without employees (working for a tariff below EUR 36). In **Czechia**, an amendment to the Employment Act came into force in January 2024, which aims to clarify and streamline the conditions for the provision of services by employment agencies. The legislation has been tightened in the areas of illegal and disguised employment and it now includes fines. **Finland** announced in its 2023 government programme a reform of fixed-term employment contracts. While employment contracts could be concluded for a fixed term of one year without a special reason, the legislation will ensure that they will not lead to an unjustified use of consecutive fixed-term contracts. **Spain** is preparing an amendment of the regulatory development of training contracts, developing the procedure for linking students with companies. This amendment focuses on the training aspects of the alternating training contract, where the goal is to make paid work compatible with training processes within the scope of the Catalogue of Training Specialities of the National Employment System. As part of its RRP, **Slovenia** is preparing an act establishing a permanent short-time work scheme including also for severe economic downturns, building on the experience acquired during the COVID-19 crisis. The act shall include education and training obligations during part-time work to strengthen the competences and increase the employability of affected workers in light of the increasing digitalisation and automation of business processes.

Several Member States have adopted measures aiming to reinforce their employment protection frameworks. In April 2024, **Slovenia** introduced regulatory measures

[221] Eurofound, Creating a new social contract for the just transition: Is partnership working?, Publications Office of the European Union, 2024.

strengthening workers' information and consultation rights, as well as co-determination in the management or supervisory bodies of the company in case of a cross-border merger, division or conversion of the company. In May 2024, work ability prevention legislation entered into force in **Estonia**, allowing a person on long-term sick leave to work in conditions adapted to his or her health status, after two months during the sick leave. This reform should support the healing process of employees with a chronic illness during their long-term sick leave, while reducing dependency and risks of job loss and/or permanent incapacity. In July 2024, changes related to the collective dismissals legislation entered into force in **Spain**. Undertakings intending to close one or more workplaces resulting in the definitive cessation of activity and the dismissal of fifty or more workers have an obligation of six months prior notification. In September 2024, **Greece** launched the pilot implementation of the digital work card in the catering and tourism sectors, aiming to combat undeclared overtime and excess working time. The pilot is already applied to employees in banks, large supermarkets, insurance companies, security companies and public enterprises.

Some Member States have taken further steps to improve their occupational health and safety frameworks. In June 2023, the law on urgent measures to protect workers in case of climate emergency entered into force in **Italy**. One of its provisions refers to the role of the Ministry of Labour in promoting social dialogue to reach sectoral agreements that ensure occupational safety and health in case of climate emergencies, including heat waves. In addition, in October 2023, **Italy** ratified ILO fundamental conventions C155 (Occupational Safety and Health Convention) and C187 (Promotional Framework for Occupational Safety and Health Convention). In December 2023, the **Swedish** government tasked the Work Environment Agency with the submission of proposals for initiatives that could lead to more workers expressing interest in the role of safety representative. The Agency submitted a report to the Ministry of Labour in April 2024. In December 2023, **Denmark** amended the Workers' Compensation Act to strengthen the work compensation system (e.g., through a new training allowance, reviewing case processing times, increasing the level of compensation introducing a workplace injury insurance scheme in cases of violence for caregivers). Furthermore, the law introduced d a dependency loss compensation for children and young people. In September 2024, **Spain** passed a regulation concerning safety and health protection in the context of domestic work. The regulation specifies the list of rights of domestic workers and the duties of employers, providing the necessary legal certainty for their effectiveness. In April 2024, **Bulgaria** ratified fundamental ILO conventions C155 and C187 and, in October 2024, **the Netherlands** ratified C187 pertaining to occupational health and safety.

New working arrangements, such as flexible working, telework and remote work, are on the agenda of several Member States. Amendments to the **Czech** Labour Code entered into force in September 2023, with one of the key changes being the regulation of remote work. Also, parents of young children and caregivers have enhanced support to combine family life with work. Another novelty is the possibility to provide remote workers with compensation for the most common costs related to their home office in the form of a flat rate. In **Ireland**, the Right to Request Remote Work Bill was integrated into the Work Life Balance and Miscellaneous Provisions Act, and the changes entered into force in March 2024. The Act includes workers' right to request remote work and carers' right to request flexible working, including the right to compressed or reduced hours for breastfeeding mothers. As part of its RRP, **Cyprus** introduced in March 2024 a scheme to provide incentives for the employment of people that are unemployed by providing flexible forms of work through teleworking. In March 2024, **Bulgaria** implemented a reform included in its RRP through which the rules on distance work established by the Labour Code were amended to facilitate access to remote work by providing legal certainty for workers and employers alike, clarifying the rules on health and safety and on monitoring and reporting of working time.

Some Member States have taken legislative action to improve working conditions in platform work and tackle challenges resulting from the use of algorithmic management in the workspace. Changes to the **Croatian** Labour Act, which took effect on 1 January 2024 and are part of the RRP, specify that digital labour platforms and aggregators (intermediaries connecting such platforms with workers) are jointly liable for salary payment to platform workers. They must inform platform workers of the work organization and decision-making processes and ensure the transparency of data. As part of its RRP, **Cyprus** is reforming its social insurance to cover the self-employed, and those in non-standard forms of employment, such as platform workers. In **Germany**, the government is currently working on a specific employee data protection law which will, among others, deal with typical situations that arise in the context of algorithmic management in the workplace, such as video surveillance and the use of AI systems. **Portugal** recently introduced regulation on algorithmic management at work under the 2023 decent work agenda. The law stipulates, among others, that collective bargaining agreements can regulate the use of algorithms and artificial intelligence.

Some Member States have been taking measures to reduce the incidence of undeclared work. As part of its RRP, **Greece** is preparing the implementation of an IT system for labour market monitoring (ARIADNE), which will ensure the digital recording of working time and act as a single gateway for employment and social insurance administrative data. As of December 2023, the **Italian** Revenue Agency and the National Social Security Institute are set to achieve full interoperability of their respective databases so as to tackle tax evasion in the domestic work sector. As of April 2024, as part of its RRP, **Italy** strengthened labour inspection activities and introduced deterrent and incentivising measure to reduce the incidence of undeclared work. In 2024, in **Lithuania**, changes to the rules on mandatory debt collection entered into force, with the aim of incentivising more unemployed to return to the labour market and thus reduce the shadow economy Upon registering with the Public Employment Service, indebted unemployed can benefit of a period of 6 months (available no more than twice during 5 years) during which no mandatory debt collection action is taken against them.

Member States continue to address long-term unemployment through various targeted measures. In **Austria**, the Springboard programme (launched in 2021 with the aim of combatting long-term unemployment through subsidised employment either in social enterprises or through particularly favourable conditions for integration assistance) became part of the public employment service's regular budget as of 2023. In the same year, **Portugal** created an exceptional measure that allows the partial accumulation of unemployment benefits with income from work, aiming to encourage the long-term unemployed to return to the labour market. In April 2024, **Slovakia** launched the national project Financial Incentives for Employment in order to support the unemployed in a disadvantaged position due to age, complicated family situation, low education, loss of work habits, disability and other reasons. Between April and September 2024, **Hungary** launched a call for the Job Trial Pilot Programme aimed to address the labour needs of enterprises by increasing the domestic labour supply and promoting the employment of the long-term unemployed. The participating SMEs receive support not only for wages (for up to 9 months) but also to provide personalised development and mentoring to the long-term unemployed based on the assessment of their competences. The long-term unemployed receive an additional allowance (on top of their wages) as incentive to remain in employment, for up to

9 months. In 2023, **Croatia** launched a targeted active labour market policy programme ('Job plus') for the long-term unemployed and vulnerable groups. Depending on the distance from the labour market, it offers long-term unemployed people a set of 2-3 measures (activation programme, work integration or/and upskilling/training) to support their integration into the labour market.

Several Member States have taken steps to reinforce their active labour market policies and assistance provided to different groups. Finland is preparing a reform of the employment and economic development services. The responsibility for organising these services will be transferred to municipalities or municipal co-management areas, to be established on 1 January 2025. A funding model will be created for municipalities to develop their employment promotion activities. The **Slovenian** Ministry of Labour, Family, Social Affairs and Equal Opportunities is reviewing and updating the enforcing documents of the Guidelines for the implementation of active labour market policy 2021-2025, with a special focus on the Active Employment Policy Plan and the Catalogue of Active Employment Policy Measures. In **Belgium**, the federal government adopted a package of measures to support the progressive return of workers following long-term sick leave. In November 2023, a communication campaign was launched to inform these workers about all the available re-entry pathways. A Royal Decree of March 2024 introduced three compulsory guidance meetings for improved activation. As of April 2025, vouchers of EUR 1800 will be available for tailored career guidance for workers who have been on sick leave for at least a year. In order to reintegrate in the labour market unemployed people over 50, **Austria** is making use of a range of services and funding instruments, including the combined wage subsidy (in 2023, around EUR 286.3 million in subsidy expenditure was allocated). In **Malta**, the Access to Employment scheme, running between 2023 and 2029 and co-financed by ESF+, provides financial assistance to employers and work opportunities for individuals distanced from gainful employment. In **Portugal**, the programme 'Qualifica On', established in 2024, aims to support the (re-)qualification of workers from companies that are at a standstill in production due to restructuring. In its annual national employment action plan for 2024, **Bulgaria** aims to up/re-skill 9 000 persons and provide support for employment to almost 10 000. In addition, between 2023 and 2026, **Bulgaria** is investing EUR 153 million, with support from ESF+, in a holistic approach to integrate inactive people in the labour market through stronger activation, training and awareness raising. In **Slovakia**, the new national project 'Skills for the Labour Market', co-financed by ESF+ until 2026, aims to support jobseekers in their efforts to find a job through retraining. The target group are disadvantaged jobseekers under the Employment Service Act (e.g., young people below 26; citizens over 50; long-term unemployed; low-skilled).

Several Member States are taking measures with the objective of reinforcing the capacity and performance of their public employment services (PES), in light of existing labour shortages and skills needs. Between 2021 and 2023, the RRF supported a set of continuing training actions for the PES employees in **Spain**. As part of its RRP, **Spain** completed in 2023 an investment aimed at revamping the PES by improving internal management systems, modernising jobs and the digitalisation of the Citizens' Support Service. In 2023, **Croatia** proceeded to the digitalisation of the Croatian Employment Services. This investment set up a digital identity management system and a human resources management system. As of 2024, **Cyprus** has introduced mobile units of the PES, which will make tours in all districts in rural and urban areas until the end of 2029. Mobile units are co-financed by the RRF until the first half of 2026 and by ESF+ form the second half of 2026 until the end of 2029. In January 2024, as part of the Full Employment Act of December 2023, the **French** PES system 'Pôle Emploi' has been progressively replaced by 'France

Travail'. This new system is expected to enhance the coordination of PES actors, the reorganisation of the support and monitoring of the unemployed and strengthen measures for the integration of workers with disabilities.

Some Member States strengthened the cooperation between public employment and social services to increase the impact of their active labour market policies. In April 2024, as part of its RRP, **Romania** inaugurated a digital platform for managing vouchers for domestic workers. Among others, the platform is expected to be interoperable with other relevant databases, such as those of the PES, the Ministry of Labour and Social Protection, and the Ministry of Finance. In May 2024, in **Italy** new rules entered into force with the aim of enhancing the digital platform that collects information from social services and public employment services. The overall objective is to better match the demand and supply of labour.

Measures to attract foreign talent and ease the tight labour market were pursued in several Member States. In November 2024, **Spain** introduced a comprehensive reform aiming at modernizing migration policies to address demographic and labour market challenges. The reform focuses on simplifying administrative procedures and strengthening integration by promoting access to employment, training, and family reunification as key pillars, while also preventing situations of irregular status. **France** adopted a law in January 2024 to better control immigration, including a measure to facilitate access to permits for third country nationals working in shortage occupations or in geographical areas struggling to recruit workers. In March 2024, **Sweden** enhanced the cooperation between the Public Employment Services and 10 other governmental bodies (e.g., Social Insurance Agency, Tax Agency, Migration Agency) to better coordinate measures attracting and retaining highly qualified international workforce. In addition, as of December 2023, third country nationals participating in the job and development guarantee in **Sweden** have easier access to language learning and further adult learning. In July 2024, **Czechia** introduced a work permit waiver for highly qualified workers from ten non-EU countries. In November 2023, **Malta** updated the Employment Agencies Regulation and thus took important steps to regulate the operations of recruitment, temporary work, and outsourcing agencies with the aim of protecting third country nationals from exploitation.

Several Member States have implemented reforms to align their unemployment benefit systems with prevailing socio-economic conditions. In July 2023, **Germany** implemented temporary provisions under the Citizen's Allowance Act, raising financial support for single individuals (from EUR 502 to EUR 563) and fostering training provision. These changes will remain valid until 31 December 2024. **Sweden** reformed its unemployment insurance in June 2024 to enhance coverage for those without employment, while better aligning social benefits with the compensation period (i.e., a reduction by 5 pps in the compensation every 100 days). The minimum level of activity support is also set to rise. The amended legislation is expected to take effect on 1 October 2025. In **Finland**, a reform of the housing allowance, adopted in April 2024, removed the deduction for general earned income worth EUR 300. However, this change is partly offset by other increases in the allowance. In January 2024, **Malta** reformed its unemployment benefits system to better align benefit rates with the recipient's last salary, taking into account the national minimum wage. For the first six weeks, benefits will constitute 60% of the previous salary, reducing to 55% for the following 10 weeks and to 50% for the last 10 weeks. In addition, in the framework of the RRP, **Malta** is carrying out a monitoring process on policy measures related to unemployment benefits. The first report is tentatively due by the end of 2024 and will be followed up by a new one in five years. As part of its RRP, **Spain** reformed the system of non-contributory unemployment benefits. The law extends these benefits to individuals under 45 years of age without family responsibilities and agricultural workers, it adjusts the progressivity scale and makes the benefits compatible with employment. In November 2023, **Portugal** expanded unemployment benefits to include victims of domestic violence, aligning with the Decent Work Agenda and recent amendments to the Labour Code.

Some Member States took measures to improve the representativeness of employees' organisations and support capacity building of social partners. In July 2023, **Luxembourg** adapted the rules regarding the membership and electoral lists of professional chambers in order to include apprentices, jobseekers in special employment relationship, as well as employees and apprentices on parental leave. In May 2024, **Spain** adopted a reform, as part of its RRP, through which it reduced the seniority required to vote and run in elections for employee representation bodies in companies for workers in the cultural and creative sectors. In April 2024, **Hungary** launched an ESF+ co-funded measure supporting the capacity building of social partners**,** by offering financing opportunities for wages of new employees, training, event organisation, study visits or participation in international events.

2.4 Guideline 8: Promoting equal opportunities for all, fostering social inclusion and fighting poverty

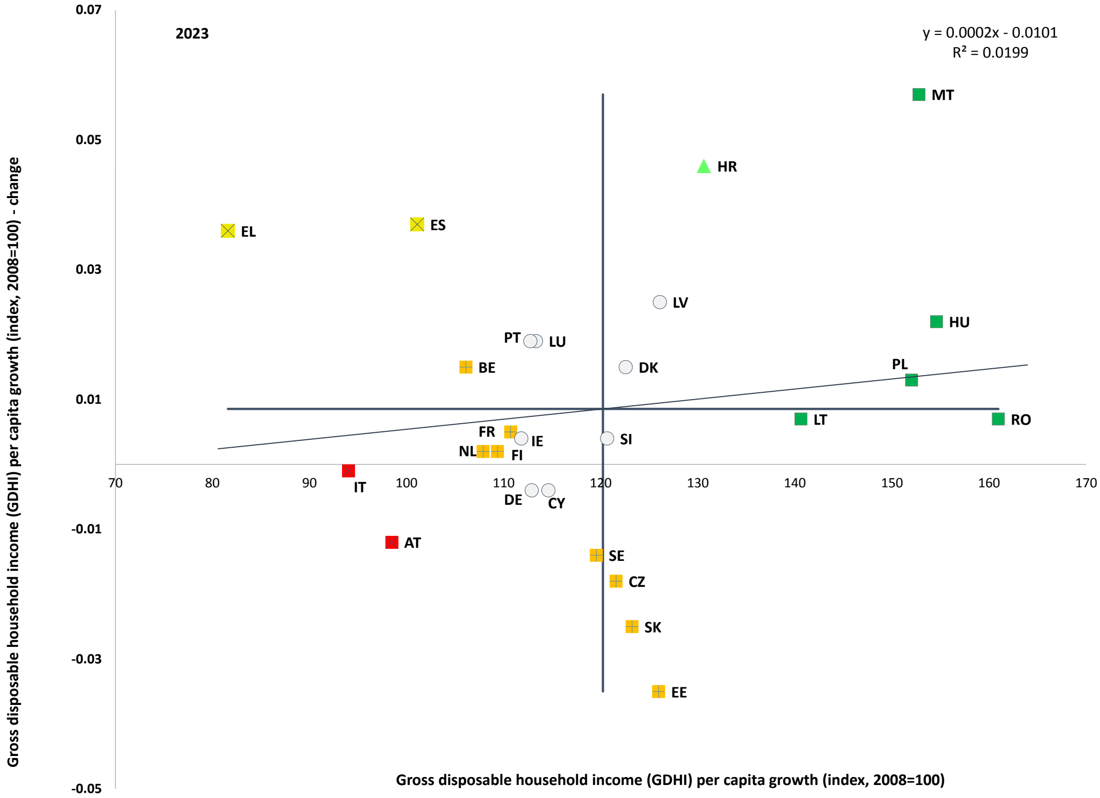
This section looks at the implementation of the employment guideline no. 8, which recommends that Member States promote equal opportunities for all, foster social inclusion and fight poverty, in line with Pillar principles 2 (on gender equality), 3 (on equal opportunities), 11 (on childcare and support to children), 12 (on social protection), 14 (on minimum income), 15 (on old-age income and pensions), 16 (on healthcare), 17 (on inclusion of persons with disabilities), 18 (on long-term care), 19 (on housing and assistance for the homeless) and 20 (on access to essential services). Section 2.4.1 provides an analysis of key indicators, while section 2.4.2 reports on policy measures undertaken by Member States.

2.4.1 Key indicators

The growth ineal gross disposable household income (GDHI) per capita increased slightly at EU level in 2023. It stood at at 111.1 (level in 2008=100) in 2023, 0.6 points higher than in 2022. The greatest increase was observed in Malta, while smaller but still substantial ones were reported in Croatia, Spain and Greece (see Figure 2.4.1). Romania, Hungary, Malta, Poland, and Lithuania were 'best performers' in 2023, due to high levels (more than 140% relative to 2008). Estonia, on the contrary, witnessed the largest decrease, followed by Slovakia and Czechia, still remaining at relatively high levels. In light of their performance in 2023, Italy and Austria were found to be in 'critical situations' due to low levels, also following a deterioration. The situation was 'to watch' in 2023 in Estonia, Slovakia, Czechia and Sweden (where levels were close to the EU average but after deteriorations from the previous year), as well as in Finland, the Netherlands, France and Belgium (where levels were below the EU average despite broad stability or small improvements from the year before).

Figure 2.4.1: Growth in gross disposable household income (GDHI) per capita increased slightly for the EU and varied across Member States in 2023

Real gross disposable household income (GDHI) per capita growth, 2023 levels and changes from previous year (2008=100, Social Scoreboard headline indicator)

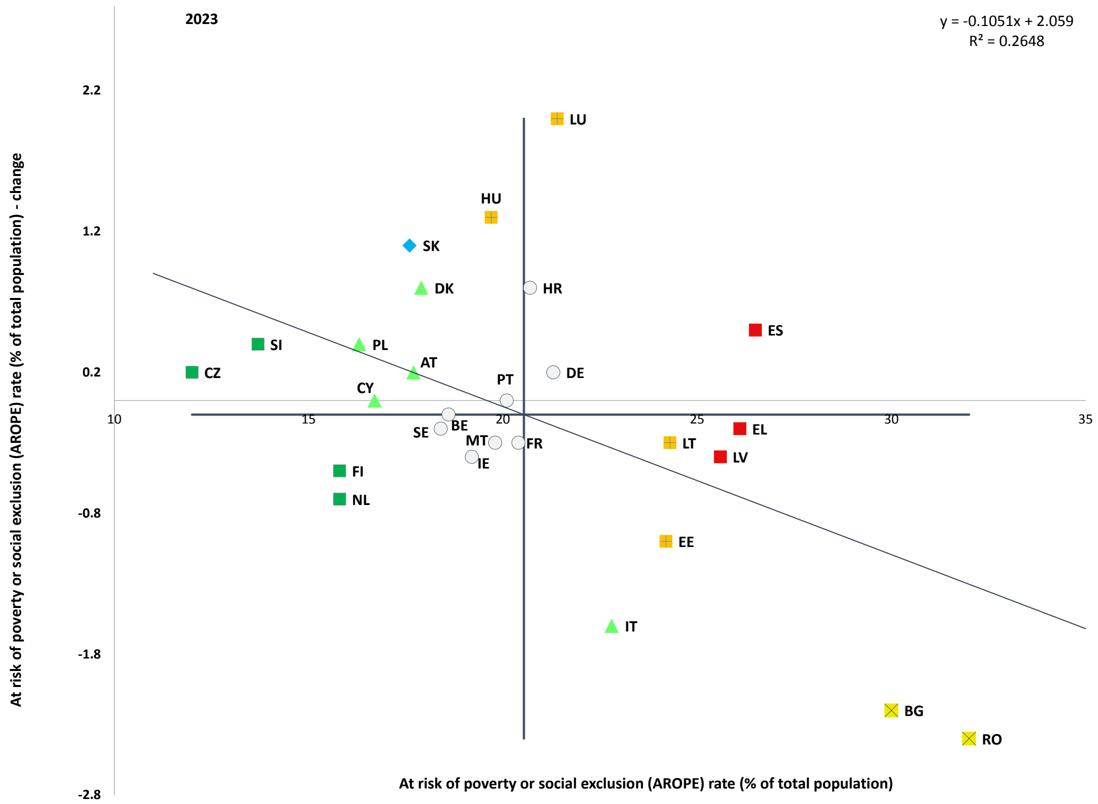


Note: Axes are centred on the unweighted EU average. The legend presented in the Annex. Data not available for BG.
Source: Eurostat [tepsr_wc310], European sector accounts.

The share of people at risk of poverty or social exclusion (AROPE) slightly declined in the EU in 2023, also thanks to decisive policy action to cushion the negative social effects of the high cost of living. The situation in 2023 was nonetheless 'critical' in Spain, Greece and Latvia, for which the relatively high levels (at 26.5%, 26.1% and 25.6%, respectively) did not improve significantly, or even slightly increased (by 0.5 pps in Spain) – see Figure 2.4.2. Hungary, Luxembourg, Estonia and Lithuania were 'to watch', either because of the relatively high level (24.3% and 24.2% for Lithuania and Estonia, respectively) or the significant increase (+2 and +1.3 pps for Luxembourg and Hungary, respectively). At the same time, Romania and Bulgaria experienced 'weak but improving' situations, recording the highest levels in the EU (32.0% and 30.0%, respectively) but also the largest declines (-2.4 pps and -2.2 pps, respectively). On the opposite side of the spectrum, Czechia, Slovenia, the Netherlands and Finland were 'best performers' (with AROPE rates at 12.0%, 13.7%, and 15.8% for the last two, respectively). Some signs of convergence were apparent across EU Member States. The variation was nonetheless also large across EU regions, including within Member States, especially in Italy, France, Poland, Germany, Portugal, Spain and Belgium (see Figure 8 in Annex 5), including in outermost regions. In this respect, the assessment of the distributional impact of reforms and investments remains particularly important to ensure their contribution to the EU headline target of lifting at least 15 million people out of poverty by 2030[222].

Figure 2.4.2: The at-risk-of poverty or social exclusion rate slightly decreased in 2023 in the EU, with some convergence across Member States

Share of the population at risk of poverty or social exclusion, 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in the series for HR.
Source: Eurostat [ilc_peps01n], EU-SILC.

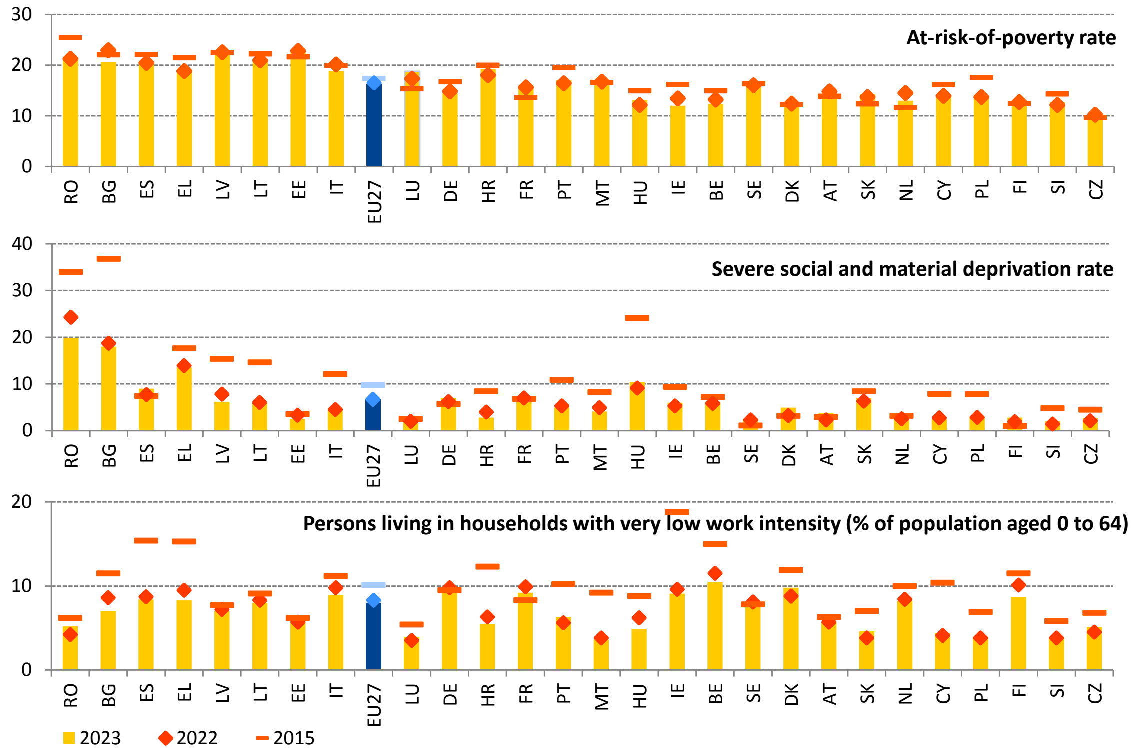
Monetary poverty and the share of people living in (quasi)-jobless households slightly decreased, while severe material and social deprivation remained stable. Despite the higher cost of living, this broad stability reflects the mitigation effects of the policy responses taken at the EU and Member States' level. In 2023 (referring to 2022 incomes), Czechia, followed by Denmark, Ireland, Finland and Belgium, had the lowest at-risk-of-poverty (AROP) rates (at 9.8%, 11.8%, 12.0%, 12.2% and 12.3%, respectively), after experiencing decreases – see the top panel of Figure 2.4.3. On the contrary, Latvia, Estonia, Romania, Lithuania, Bulgaria and Spain had the highest shares (at 22.5%, 22.5%, 21.1%, 20.6%, 20.6% and 20.2%, respectively), despite the fact that decreases were recorded (except for Latvia that remained stable). Eurostat's Flash estimates referring to 2023 incomes indicate that AROP rates were stable in the EU on average and in most Member States, while increasing in Luxembourg, Greece, Austria and France, and decreasing in Portugal, Spain, Germany,

[222] See Commission's Communication on Better assessing the distributional impact of Member States' policies (COM(2022) 494 final).

Finland, Estonia and the Netherlands[223]. The share of people in severe material and social deprivation remained broadly stable in the EU, but varied considerably across Member States, ranging from 2% in Slovenia to 19.8% in Romania – see the middle panel of Figure 2.4.3. It increased, however, in several Member States (Austria, Denmark, Hungary and Spain, with increases above 1 pp), while it decreased in Romania, Latvia, Croatia and France. Reflecting the continuation of positive labour market developments on the back of sustained economic growth in 2022, the share of people living in (quasi-)jobless households decreased in 2023 (based on 2022 activity). This was the case in most Member States, with lowest levels in Malta, Slovenia, Luxembourg and Poland, and highest ones in Belgium, Germany, Denmark, France and Ireland – see the middle panel of Figure 2.4.3. Large price increases in recent years, especially of food and energy, as well as their disproportionate effect on lower incomes, contributed to an increase in AROP rates anchored at 2019[224]. Between 2022 and 2023, this figure increased by 1.3 pps in the EU, to 15.1%. Despite this first increase after a few years of decline, the rate remains below the 2019 value (of 16.5%). Anchored AROP rates also increased in the large majority of Member States, with the exception of Bulgaria, Austria, Spain and Poland. The largest ones were registered in Estonia (+6.2 pps, to 20.5%), followed by the Netherlands and Malta (+3.3 and +3.1 pps, respectively, to 13% for both).

Figure 2.4.3: The at-risk-of poverty rate and the share of people living in (quasi-)jobless households declined, while severe material and social deprivation remained stable

Components of the at-risk-of-poverty or social exclusion rate headline indicator (%, 2015, 2022, 2023)



Note: Indicators are ranked by AROPE rates in 2023. Break in series for Croatia for the at-risk-of poverty rate and for France for the severe material and social deprivation rate.
Source: Eurostat [tessi010], [tepsr_lm420], [tepsr_lm430], EU-SILC.

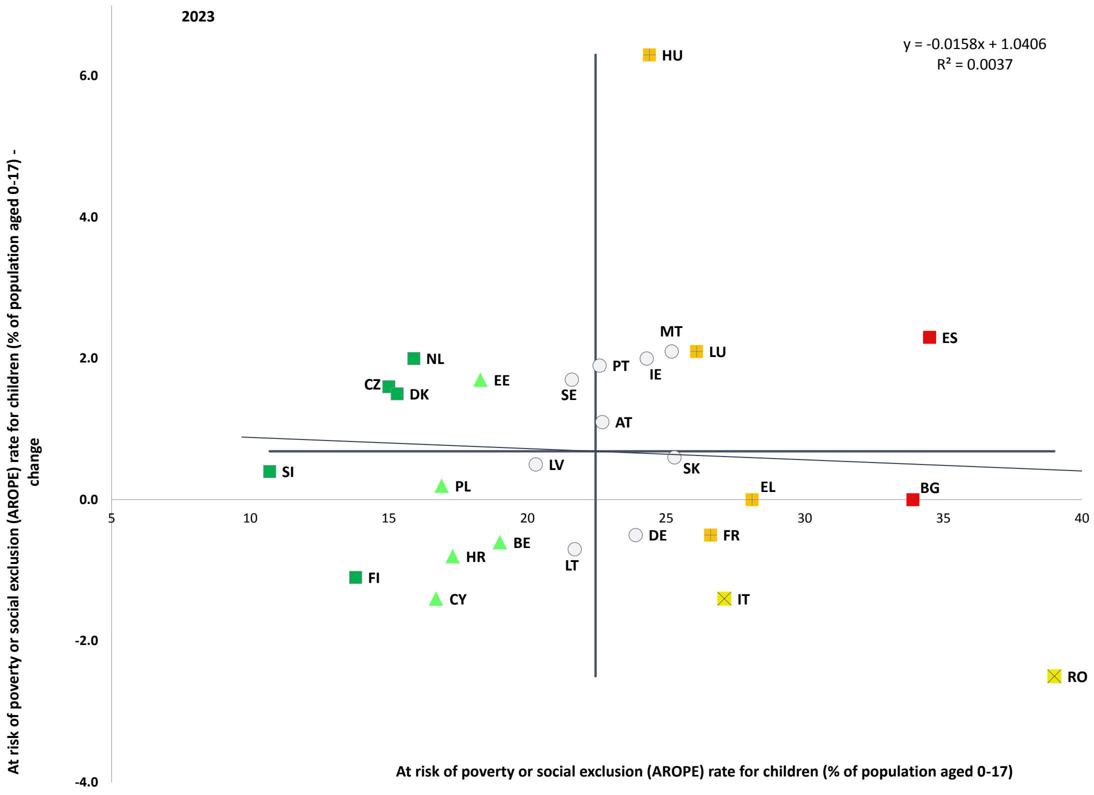
223 See Income inequalities and poverty indicators 2023 flash estimates - Experimental results at the related Eurostat webpage.

224 People at-risk-of poverty anchored at 2019 are those with an equivalised disposable income below the at-risk-of-poverty threshold *calculated in 2019*, adjusted with the harmonised price index (HICP) between 2019 and 2023. Data available at [ilc_li22].

Child poverty in the EU remained broadly stable, even if the number of children affected declined marginally in 2023. In this year, for the first time since the COVID-19 pandemic, the number of children AROPE declined slightly in the EU (19.9 million vs around 20 million in 2022). This reduction in headcount did not translate into a lower rate though, due to the decrease in the total number of children. The rate was therefore stable at 24.8% against 24.7% in 2022, remaining 3.5 pps higher than for the overall population. Slovenia, Finland, Czechia, Denmark and the Netherlands were among the 'best performers', with AROPE rates for children below 16%. Spain and Bulgaria were, on the other hand, in 'critical situations', with an increase (by more than 2 pps, to 34.5%) for the former and rates above 33% with no significant improvement for the latter compared to the previous year. Hungary, where the largest increase took place (+6.3 pps) was 'to watch' in 2023, alongside Luxembourg, Greece and France, all with relatively large rates. The largest decreases were recorded in Romania and Italy (by more than 1 pp), both in 'weak but improving' situations, the former registering one of the highest values (39%). Overall, both the number and the share of children at risk of poverty or social exclusion rose in 15 Member States.

Figure 2.4.4: The at-risk-of poverty or social exclusion rate for children remained broadly stable, at a higher level than for the overall population in most Member States

Share of children at risk of poverty or social exclusion, 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in the series for Croatia.

Source: Eurostat [tepsr_lm412], EU-SILC.

The components of the risk of poverty or social exclusion rate for children remained stable at EU level, but with significant changes recorded in some Member States. The at-risk-of-poverty (AROP) rate remained broadly stable for children at 19.4% in 2023 (from 19.3% in 2022, referring to 2022 and 2021 incomes, respectively). The largest increase was recorded in Hungary (+7.1 pps), while the largest decline was in Germany (-1 pp). As in

2022, the AROP rates were the highest for Romania, Spain and Bulgaria, and the lowest for Finland, Denmark and Slovenia. Eurostat's flash estimates for 2023 incomes indicate an overall stability in child poverty in the EU as a whole and in most Member States, with decreases in Germany, Estonia, Spain, Finland, Portugal, Slovenia and Slovakia and increases in Czechia, Greece, Latvia, Poland and Sweden[225]. The incidence of severe material and social deprivation among children also remained broadly unchanged, at 8.4% in the EU in 2023, but with a sizeable drop in Romania (-8.2 pps). Lastly, the share of children living in (quasi)-jobless households remained stable at 7.5% in 2023 in the EU and in most Member States. Lifting children out of poverty and social exclusion is instrumental to help them realise their full potential and break the cycle of intergenerational poverty. Implementing the European Child Guarantee in all Member States is key in this respect[226].

Pillar Box 5: Childcare in EU countries

Quality early childhood education and care (ECEC) has been shown to have a positive impact on the prospects of children and through them on economic and societal developments. Participation at an early age in quality ECEC enhances social and cognitive development, especially for children from disadvantaged backgrounds. This contributes to better educational and employment outcomes later in life and mitigates the intergenerational transmission of poverty. Moreover, by enabling parents to balance family lives with work aspirations, quality ECEC also contributes to greater gender equality, stronger labour market participation and economic growth, as well as poverty reduction[227]. The *Council Recommendation on early childhood education and care: the Barcelona targets for 2030* raises the ECEC participation target for 2030 to at least 45% for children under the age of 3 (with exceptions for Member States lagging behind)[228]. It also calls upon the Member States to close the ECEC participation gap between children at risk of poverty or social exclusion (AROPE) and the overall population. In line with the *Council Recommendation on the European Child Guarantee (ECG)*[229], access to high-quality ECEC should be effective and free for children experiencing poverty risks.

On average, in the EU, the ECEC participation of children at risk of poverty or social exclusion grew much less over the past decade compared to that of other children. After four years of a gradual increase in participation for children not experiencing poverty risks over 2015-18 and a sudden rise for those that did experience poverty in 2019, the gap between the participation rates for the two groups was broadly at the 2015 level around 12 pps in 2019. The gap reached its largest level in 2021 due to sharply increasing participation of children not experiencing poverty and broadly stagnating participation of those that did. In 2023, the gap between the two groups, at 15.8 pps, was significantly wider than in 2015 (only 25.2% of children at risk of poverty participated against 41.0% of those not at risk).

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225 See Income inequalities and poverty indicators 2023 flash estimates - Experimental results and the table with all indicators at the related Eurostat webpage.

226 Council Recommendation (EU) 2021/1004 of 14 June 2021 establishing a European Child Guarantee (OJ L 223, 22.6.2021, p. 14–23).

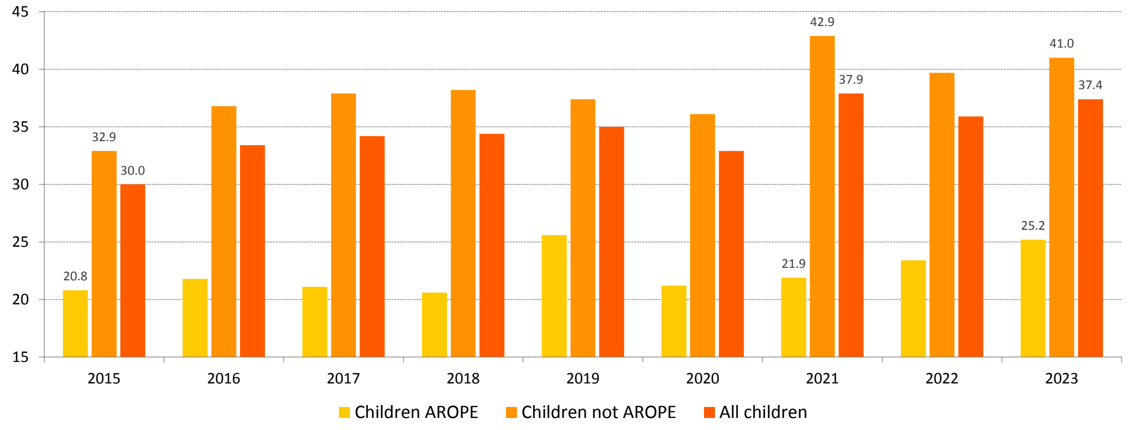
227 See among others Darvas, Z. M., Welslau, L., & Zettelmeyer, J., *Incorporating the impact of social investments and reforms in the European Union's new fiscal framework*, Bruegel Working Paper, 2024, and Rossin-Slater, M., & Wüst, M., *What is the added value of preschool for poor children? Long-term and intergenerational impacts and interactions with an infant health intervention*, American Economic Journal: Applied Economics, 12(3), 2020.

228 See 2022/C 484/01. Exceptions from the target of 'at least 45%' are set out in paragraph 3(a).

229 Council Recommendation (EU) 2021/1004 of 14 June 2021 establishing a European Child Guarantee.

Progress on ECEC participation has been much slower among disadvantaged children

Children in early childhood education and care by poverty risk (for 1 hour or more per week, % of children -3)



Note: 2020 figures are estimated.
Source: Eurostat [ilc_caindform25b].

Low affordability and availability of ECEC constitute barriers to access, notably for children experiencing poverty risks, which Member States address in their ECG action plans, with support from EU funding. For instance, while ECEC is already free of cost for children from the least affluent families in some Member States (e.g. **Denmark** and **Slovenia**), **Portugal** is implementing a reform to make access to ECEC free for all children, and **Poland,** as part of its RRP, has introduced benefits for parents of children below 3 years of age receiving formal care to cover or reduce costs associated to childcare services' fees. In many countries, the ECEC sector also suffers from a lack of facilities and staff shortages. While **Bulgaria** pledges to expand the network of services for ECEC, **Germany** committed, as part of its RRP, to create 90 thousand additional childcare places by building new facilities in their action plan Investments on ECEC are supported by the ESF+. In 2022, increased childcare capacities was part of 22 ESF+ Operational Programmes across six Member States, amounting to EUR 60.7 million. Moreover, the majority of EU Member States included in their RRPs measures expanding capacities, inclusiveness, and/or quality of ECEC. Respective investments amount to more than EUR 8 billion.

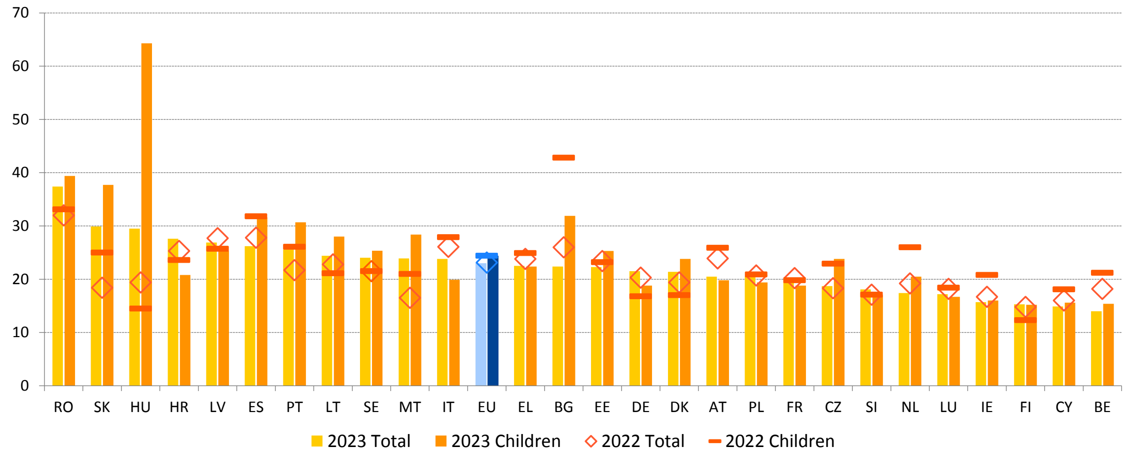
The depth of poverty for the overall population as well as for children remained stable in the EU but increased considerably in some Member States. The depth of poverty is measured as the gap between the income level of those at risk of poverty and the poverty threshold[230]. It declined slightly to 23.0% in 2023 in the EU (referring to 2022 incomes) – see Figure 2.4.5. It was the widest in Romania (37.4%), followed by Slovakia and Hungary (29.9% and 29.5% respectively), after substantial increases (by 5.4, 11.5 and 10.1 pps respectively). The sharpest decline was recorded in Belgium (-4.2 pps), reaching the lowest level in the EU (14.0%). Poverty is deeper among people living in (quasi)-jobless households, at around 63.0% in the EU in 2023 (referring to 2022 incomes)[231]. For children the depth of poverty remained unchanged on average in the EU and is at a higher level than for the overall population (24.4%). In this regard, rates were the highest in Hungary (64.3%), after a very

[230] This indicator, also known as relative median at-risk-of-poverty gap, is calculated as the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold. This threshold is set at 60% of the national median equivalised disposable income of all people in a country and not for the EU as a whole.
[231] Eurostat [ilc_li06].

substantial increase (by 49.8 pps, more than tripling from one of the lowest rates in 2022), followed by Romania (39.4%) and Slovakia (37.7%), experiencing increases of 6.3 and 12.7 pps respectively. The sharpest declines were registered in Bulgaria (-10.9 pps), remaining nevertheless at a high level (31.9%), and in Italy (-8 pps), reaching a level below the EU average (19.9%). Finland and Belgium recorded the lowest rates (15.4% and 15.2%, respectively).

Figure 2.4.5: The depth of poverty was broadly stable in the EU but was often greater for children

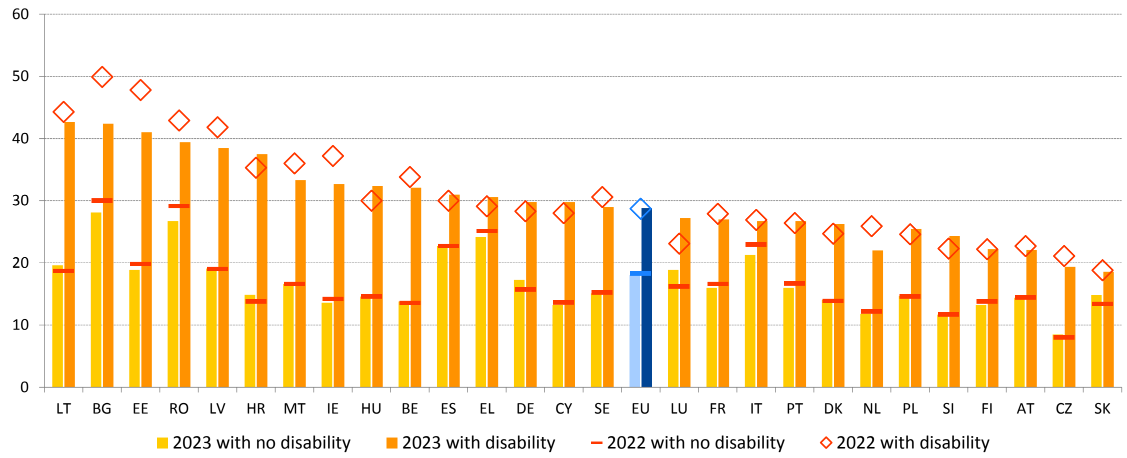
The relative at risk of poverty gap by poverty threshold, total population and children (0-17, %)



Note: Break in series for France and Luxembourg in 2022 and Croatia in 2023.
Source: Eurostat [ilc_li11], EU-SILC.

Figure 2.4.6: The risk of poverty or social exclusion remains higher for persons with disabilities in all Member States

Shares of persons with and without disabilities at risk of poverty or social exclusion (16 years and older, %)



Note: Break in time series for Croatia and estimated data for Germany in 2023.
Source: Eurostat [hlth_dpe010], EU-SILC.

Poverty or social exclusion risks remain elevated for persons with disabilities. Their AROPE rate stood at 28.8% in the EU in 2023, 10 pps higher than for the rest of the population. It also varied significantly across Member States – see Figure 2.4.6. Despite slightly decreased compared to last year, the highest rates were observed in Lithuania, Bulgaria and Estonia (42.7%, 42.4% and 41% respectively), while the lowest one was in Slovakia (18.6%). Romania and Bulgaria had the highest levels of material and social deprivation among persons with disabilities (28.4% and 28.1%, respectively). Overall, persons with disabilities of working age were at the highest risk of poverty or social exclusion, followed by young persons with disabilities (33.6% and 33.5% respectively). Also, women with disabilities were at higher risk than men with disabilities (29.8% compared to 27.6%).

The risk of poverty or social exclusion for persons born outside the EU slightly decreased but remained much higher than for EU natives. The AROPE rate for people born outside of the EU was more than double that of EU-born people, at 39.2% and 18.4%, respectively. The gap between the two groups was the widest in Austria (42.7% vs 11.4%), Belgium (42.1% vs 14.6%) and Spain (46.7% vs 21.1%). In Greece, this gap decreased quite considerably in 2023 (by 5.1 pps to 23 pps), although the AROPE rate for those born outside of the EU was one of the highest among all Member States in 2023 (47.1%). The gap decreased considerably in Spain (-4.7 pps) and Bulgaria (-11.9 pps), while it increased the most in Malta (+8.7 pps)[232].

A significant number of Roma in the EU continue to face poverty or social exclusion risks. According to the latest survey data, on average, 80% of Roma in the survey countries were at risk of poverty (AROP)[233], with no progress recorded between 2016 and 2021. On average, as many as 83% of Roma children (below 18) lived in households at risk of poverty. Also, a higher share of Roma (48%) faced severe material deprivation compared to the general population, especially the younger and older cohorts. The 2020-30 EU Roma strategic framework for equality, inclusion and participation calls on Member States to reduce the poverty gap between Roma and the general population, including children, by at least half and to ensure that by 2030 the majority of Roma escape poverty[234]. With the Council Recommendation for Roma equality, inclusion and participation, Member States committed to combatting the extremely high at-risk-of-poverty rate and material and social deprivation among the Roma, in order to provide effective support for Roma equality, inclusion and participation[235]. The assessment of renewed national Roma strategic frameworks calls on Member States to address the areas for improvement identified as well as to renew and amend their frameworks, including to make them more ambitious[236]. The Council Conclusions on ensuring equal access for Roma to adequate and desegregated housing, and to address segregated settlements,[237] invite Member States to identify and use all funding available for this purpose.

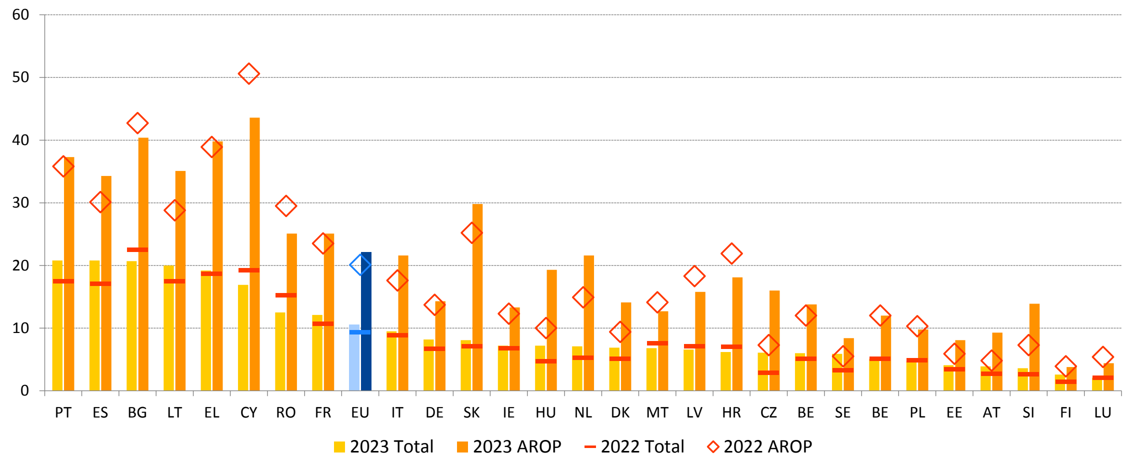
Energy poverty increased in 2023 in the EU for the second consecutive year, reflecting the impact of the high energy costs, with significant differences across Member States. Energy poverty, as measured by the share of people unable to keep their home adequately warm, increased by 1.3 pps in the EU, reaching 10.6% in 2023[238]. This is the second consecutive year of increase, after a constant decline over 2015-21 (from 9.6% to 6.9%) – see Figure 2.4.7. This reflects the impact of the spike in energy prices that started in the second half of 2021 and escalated in 2022. The fact that the increase in energy poverty in 2023 is

[232] As shown by the Eurostat indicator [ilc_peps06n], comparing those born in non-EU countries to those born in the reporting country; persons aged 18 years or more. Data for the former are not available for Romania.
[233] EU FRA Roma Survey 2021. The survey countries were: BG, CZ, EL, ES, HR, HU, PT, RO, SK.
[234] See: The new EU Roma strategic framework for equality, inclusion and participation (full package).
[235] See: OJ C 93, 19.3.2021, p. 1–14.
[236] For the assessment see: COM/2023/7 final in the full package.
[237] Council Conclusions on Measures to ensure equal access for Roma to adequate and desegregated housing, and to address segregated settlements.
[238] The share of people unable to keep their home adequately warm is one of the main indicators used to monitor energy poverty in the EU. See the SPC-ISG Fiche for more information on energy poverty indicators at EU level.

lower than in 2022, while the price shock was significantly higher in winter 2022 compared to winter 2021, suggests that the exceptional support measures adopted by the EU and its Member States effectively cushioned the impact[239]. Energy poverty varied greatly across Member States in 2023, ranging from 2.1% in Luxembourg to 20.8% in Spain and Portugal. Denmark, Netherlands, Spain, Lithuania, Hungary, Portugal and Sweden experienced the largest increases, while Bulgaria, Croatia, Cyprus, Malta, Latvia and Romania recorded decreases. The increase was more significant for people at risk of poverty than for the general population in 2023 (+2.1 pps). For the latter, energy poverty was more than twice the average (22.2% in 2023), ranging from 3.8% in Finland to 43.6% in Cyprus. Denmark, Spain, Italy, Lithuania, Hungary, Austria, Poland, Slovenia and Slovakia had the largest increases among people at risk of poverty, while Bulgaria, Croatia, Cyprus and Latvia saw energy poverty decreases.

Figure 2.4.7: Energy poverty has been rising in the EU with significant variation across Member States

Persons unable to keep home adequately warm, total and at-risk-of poverty population, 2022 and 2023 (%)



Note: Break in time series for LT in 2023.
Source: Eurostat [ilc_mdes01], EU-SILC.

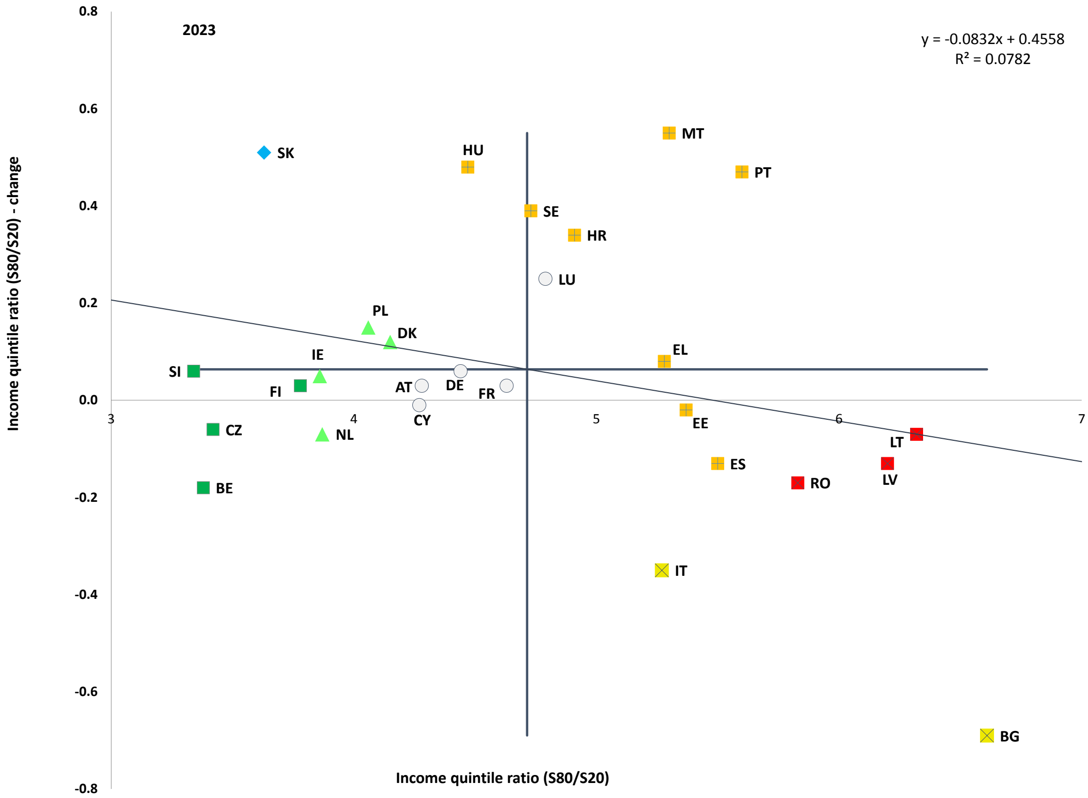
Income inequality remained broadly stable on average in the EU in 2023, with some convergence across Member States. The income quintile share ratio (S80/S20) remained largely stable in 2023 at 4.72 (vs 4.73 in 2022, referring to incomes in 2022 and 2021, respectively)[240]. 'Critical situations' were recorded in Lithuania, Latvia and Romania, with levels of income inequality that were among the highest in the Union, despite relatively small declines in 2023 – see Figure 2.4.8. High levels of inequality were also recorded in Spain, Estonia and Greece, as well as in Portugal and Malta (the latter two after relatively large increases). Similarly large increases led to levels around the EU average in Hungary, Sweden and Croatia. The situation in all of these eight Member States was 'to watch' in 2023. On the other hand, the decrease in income inequality was the largest in Bulgaria (-0.69), which nonetheless still had one of the highest levels in 2023 (6.61) in a 'weak but improving' situation, like for Italy, which showed a smaller decline (-0.35) but from a lower level, both contributing to upward convergence. Belgium, Czechia, Slovenia and Finland were 'best

[239] The most recent available data on energy poverty are from EU-SILC 2023. Surveys for these issues are generally conducted in the first half of the year, in the period from January to June of the relevant year, so data from 2023 reflect the impact of the spike in energy prices of winter 2022.
[240] The indicator is defined as the ratio of total (equivalised disposable) income received by the 20% of the population with the highest income to that received by the 20% with the lowest income.

performers' in 2023. In some Member States, for example in Germany, Hungary, Italy, Portugal and Sweden, the level of income inequality also varied significantly by regions (see Figure 4 in Annex 5), including outermost regions. According to Eurostat's flash estimates for the income year 2023, the trend in income inequalities, as measured by the income quintile share ratio, was rather stable in all countries except for Latvia where a significant increase was estimated[241]. Distributional impact assessments of reforms and investments are particularly important to factor in impacts on income inequality and inform policy making *ex-ante*.

Figure 2.4.8: Income inequality remained broadly stable on average in the EU in 2023, with some convergence across Member States

Income quintile share ratio (S80/S20), 2023 levels and changes from previous year (Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in the series for Croatia.
Source: Eurostat [tessi180], EU-SILC.

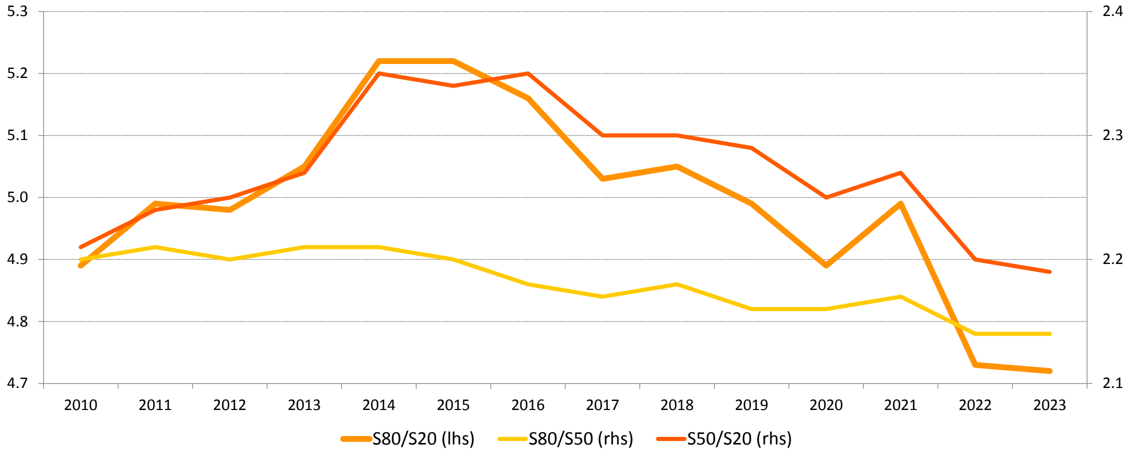
In a longer-term perspective, income inequality experienced a decline after its 2014-15 peak, with fluctuations and some differences across Member States. Income inequalities (as measured by the S80/S20) sharply increased during the double-dip recession in the EU-27, and then declined back to levels known before the financial crisis, with a further slight decline in most recent years – see Figure 2.4.9. Income inequality at the bottom of the income distribution (i.e. measured by the S50/S20) was broadly back to its level in 2010 by 2023, while it slightly declined below that at the top of the distribution (i.e. S80/S50). This highlights the impact of swift and effective policy responses in the EU in recent years, especially in relation to the COVID-19 crisis and the high cost-of-living. At the same time, it

[241] See Flash estimates 2023 experimental results, p. 13.

points to the lack of significant long-term improvements on average at the lower end of the income distribution. While in many Member States, the income shares improved for lower quintiles between 2007 and 2022, there was evidence of polarisation in other Member States (namely Italy, Lithuania, Luxembourg, Hungary, Malta, Denmark and Sweden)[242]. Overall, the second, third and fourth income quintiles (as a possible proxy of the middle class) slightly increased their income share over the period in several Member States with few important exceptions (namely Bulgaria, Cyprus and Finland).

Figure 2.4.9: Income inequalities in the EU-27 fluctuated over the last fifteen years, while declining most recently

Quantile share ratios S80/S20, S80/S50 and S50/S20, 2010-2022



Note: For breaks in series see the data tables.
Source: Eurostat [tessi180], [ilc_di11d], [ilc_di11e], EU-SILC.

Social protection benefit expenditure increased in nominal terms but decreased in real terms in 2023, with large variation across Member States and across branches[243]. The share relative to GDP was 26.8% in the EU in 2023 (vs 26.9% in 2022), which is 3.2 pps lower than the peak during the COVID-19 crisis in 2020 (at 30%, due to the exceptional policy response to it). Despite some convergence in this respect since 2018 (in particular in 2020-21), variation across Member States remained large, with six Member States having shares above 28% and other six below 17%[244]. While in nominal terms social protection benefits expenditure in the EU increased by 6.1% in 2023, in real terms it slightly decreased (-0.2%)[245], reflecting the still high inflation context. Changes in real terms vary from increases of more than 5% in seven Member States to decreases by more than 2% in four other Member States[246]. At EU level, the slight decline in real terms in 2023 was driven by a drop of almost 8% of social exclusion benefits and almost 5% for unemployment benefits, and a reduction by around 1% in expenditures in sickness and healthcare benefits. On the other hand, expenditure related to old-age and survivor benefits increased in real terms by 0.7%.

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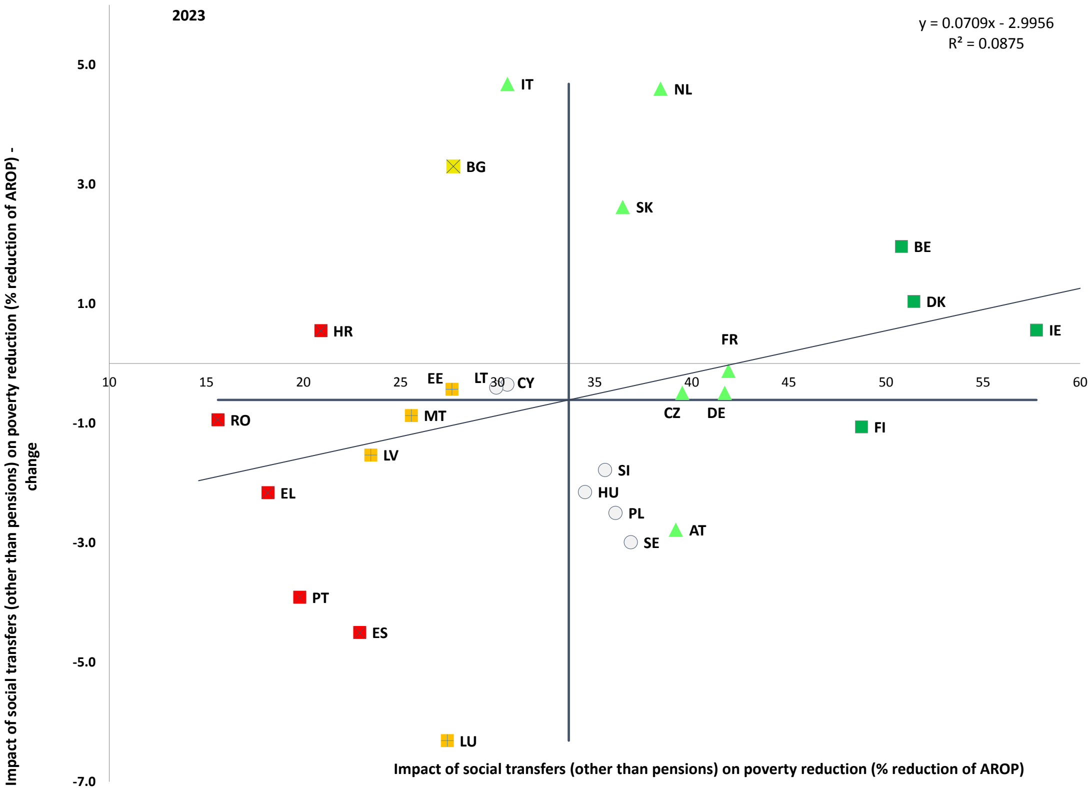
[242] Based on break-neutralised data. The full analysis is available in Economic inequalities in the EU – key trends and policies.
[243] Eurostat, Social protection (spr_exp_func, extracted on 07/11/2024). 2023 data are estimates covering all Member States except Greece.
[244] They are FR, FI, AT, DE, BE and IT and IE, MT, EE, RO, LT and HU, respectively.
[245] The changes in real terms are estimated by deflating expenditures in nominal terms in EUR [spr_exp_func] by the harmonised index of consumer prices (HICP) – see more details here.
[246] They are SK, PL, CY, BE, BG, LU and NL and EE, LV, IT and LT, respectively.

Spending on old-age and survivor benefits still make up for almost half of all social protection benefit expenditure in the EU. This share was 46.7% in 2023 (vs 46.2% in 2022). Healthcare and sickness benefits still represented the second largest share (29.9% vs 30.2% in 2022), while family benefits were at 8.6% (as in 2022), and disability benefits made up to 7.1% (vs 7% in 2022). The share of unemployment benefits continued to decline, along with unemployment, to 3.9% in 2023 (a record low since 2008, the first year of the time series), compared to 4.1% in 2022, after dropping from the record high reached in 2020 (7.4%). In parallel, the share of expenditures in social exclusion benefits declined from 2.6% in 2022 to 2.4% in 2023. On the contrary, the share of expenditure on housing benefits (at 1.4%) slightly increased compared to 2022 (1.3%). The share of old-age and survivor benefits increased year-on-year in the majority of Member States (16 out of 26), while that of categories such as healthcare and sickness, unemployment, or social exclusion benefits decreased in the majority of them.

Figure 2.4.10: The impact of social transfers (excluding pensions) on poverty reduction slightly decreased in 2023, with some signs of divergence

Impact of social transfers (other than pensions) on poverty reduction, 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in the series for Croatia.

Source: Eurostat [tespm050], EU-SILC.

The impact of social transfers (excluding pensions) on poverty reduction slightly decreased in 2023, with some signs of divergence across Member States. This decrease applies to both the EU on average (-0.3 pps, still remaining higher than before the COVID-19 pandemic) and to the large majority of Member States – see Figure 2.4.10. The differences remained nonetheless large across countries. In 2023 (referring to 2022 incomes), 'critical situations' were recorded in Romania, Greece, Portugal, Croatia and Spain, which all had very low impacts of social transfers (between 15.6% and 22.9%), and all but Croatia registered a decrease. Four Member States were 'to watch'. Among them, Luxembourg registered the largest decrease in impact, while Estonia, Malta and Latvia had smaller ones, all being below EU-average levels. On the opposite side, Ireland, Denmark, Belgium and Finland were 'best performers' (with figures between 48.7% and 57.7%). The impact of social transfers on the risk of monetary poverty slightly declined in 2023 on average in the EU also for children (-0.3 pps[247]), reflecting drops in 20 Member States (up to -18.6 pps in Hungary, -8.8 pps in Luxembourg and -7.3 pps in Sweden), not outweighed by increases in a minority of Member States (up to +8.2 pps in Italy, +3.2 pps in Slovakia, and +2.5 pps in Croatia). Differences in the impact of social transfers on poverty reduction for the overall population were large also across EU regions, especially in Belgium, Germany, Italy, Hungary, Poland, Portugal and Spain (see Figure 9 in Annex 5), including outermost regions.

While there have been improvements in recent years, in practically all Member States, minimum income support is generally not sufficient to lift people out of poverty. Minimum income schemes act as a social safety net of last resort[248]. Adequacy of support can be assessed by comparing the disposable income of households that rely on minimum income solely (and have no income from work) with the at-risk-of-poverty (AROP) threshold - see Figure 2.4.11[249]. For a single adult household, the level of support is the most generous in the Netherlands, where it almost reaches the at-risk-of-poverty threshold (of 60% of median equivalised disposable income), while it is at or above 50% of median income in Ireland, Belgium and Luxembourg, and between 30% and 50% of median income in the majority of the other countries. Support is the lowest for a single adult household in Romania, Hungary and Bulgaria, where it is around or below 10% of median income. Compared to 2022, adequacy of support has improved in Estonia (+4 pps), the Netherlands and Luxembourg (+3 pps), Ireland, Belgium, Spain, Lithuania and Czechia (+2 pps), while it has decreased in Italy, Austria, Cyprus, Poland (-3 pps), Greece and Hungary (-2 pps). When the situation of a household composed of two adults and two children is considered, in a majority of Member States the adequacy of support is similar or higher, mainly due to the increased role of family benefits. Still only in Lithuania the level of support for this type of household is sufficient to lift them out of poverty. Compared to 2022, for this household type, strong improvements in adequacy (of more than +5 pps) were observed in Estonia, Spain, Czechia and Slovakia, while a strong decrease (-6 pps) was registered in Poland. Finally, in all Member States the net income earned by a person working full-time at the minimum wage (or at a corresponding low wage in those countries that do not have statutory minimum wages) is systematically higher than the income support received through social assistance when out of work.

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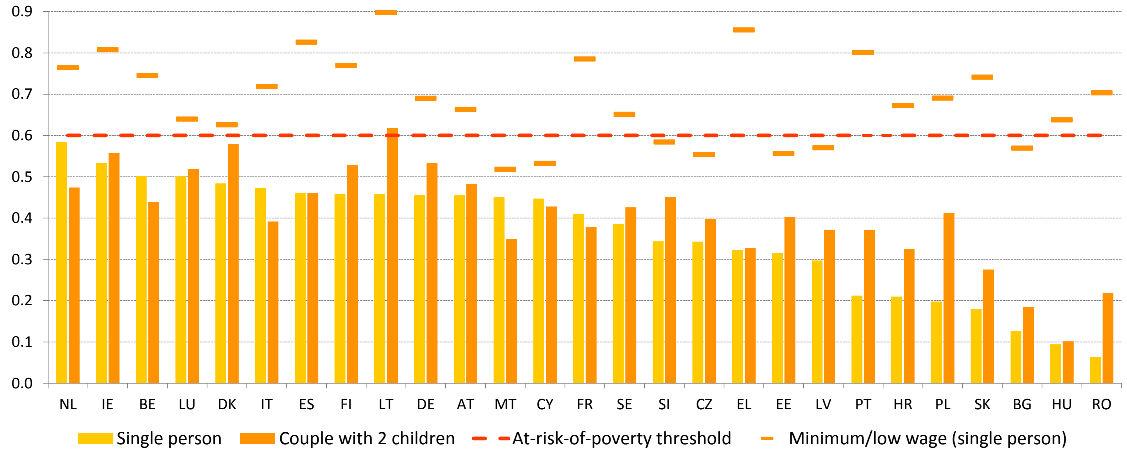
[247] This is based on the Benchmarking framework on childcare and support to children established by the Indicators' Subgroup of the Social Protection Committee. The indicator can be calculated from the AROP rate for children after and before transfers (excluding pensions). Social transfers in kind, including, among others, free early childhood education and care, education and healthcare, are not considered in this analysis.

[248] Council Recommendation on adequate minimum income ensuring active inclusion (2023/C 41/01).

[249] In addition to minimum income benefits, households may be entitled to receive housing and family benefits.

Figure 2.4.11: Adequacy of social assistance to jobless households remains relatively low

Net equivalised disposable income of households (single person, and two adults with two children under 14 years of age) receiving social assistance, as a percentage of median equivalised disposable income, 2023 (%)



Note: Adult members of the household not employed and not receiving unemployment benefits. Net incomes including social assistance, family and housing benefits, after taxes and social security contributions. Net income of a single person working full-time at the statutory minimum wage (or at 45% of the average wage for the countries that do not have a statutory minimum wage: Denmark, Italy, Austria, Finland and Sweden).
Source: Own calculations based on output from the OECD tax-benefit model, model version 2.6.3, and Eurostat [ilc_di03], EU-SILC.

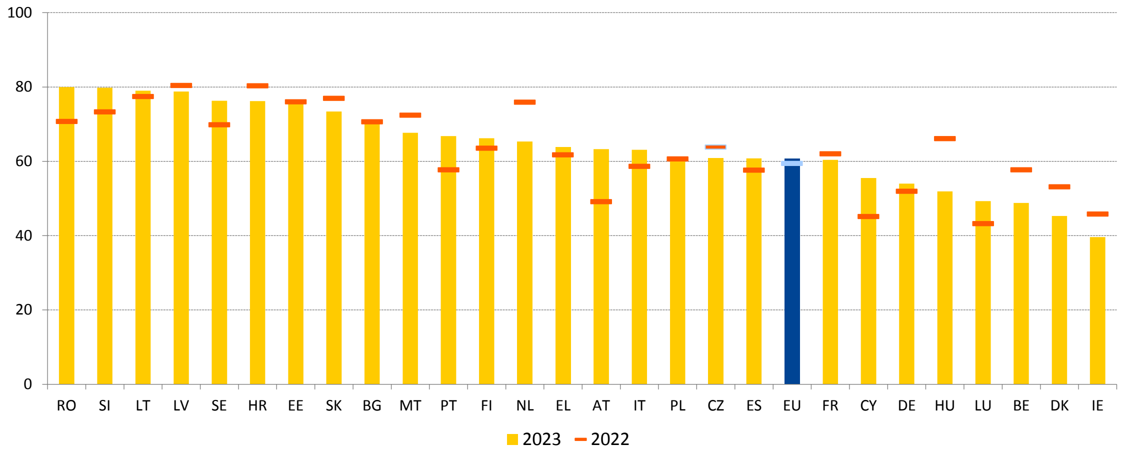
Joblessness remains a key driver of poverty risks, while social benefits on average do not reach all households in need. In the EU, 60.7% of the households in which working-age individuals were either out of work or worked very little (i.e. worked for 20% or less of their total potential working time) were at risk of poverty in 2023[250] – see Figure 2.4.12. This share is stable compared to the previous year, but important differences can be observed among Member States. The at-risk-of-poverty rate of (quasi-)jobless households (i.e. with very low work intensity) ranged from 80% in Romania (-9 pps vs 2022) to less than 40% in Ireland (-6 pps). Very strong increases were observed in Austria (+14 pps), Cyprus (+10 pps) and Portugal (+9 pps) – albeit from much lower starting levels – as well as Slovenia and Sweden (+7 pps). Sizable decreases were registered in Hungary (-14 pps), Belgium (-9 pps) and Denmark (-8 pps). At the same time, the share of people at risk of poverty and living in (quasi-)jobless households who receive social benefits was 83.5% in the EU in 2023, up from 81.1% the year before – see Figure 2.4.13[251]. There are important differences between Member States, with this rate ranging from (almost) 100% in Denmark, Austria and France to less than 60% in Croatia. Coverage either increased or remained broadly stable (with changes of less than 2 pps) in most Member States between 2022 and 2023 (income years 2021 and 2022, respectively). Significant increases were observed in Austria (+15.8 pp), Hungary (+12.8 pps), Italy (+12.2 pps) and Latvia (+8.3 pps), while a sizable decline was registered in Malta (-23.7 pps). In about two thirds of Member States, minimum income benefits can be combined (at least partly) with income from work, creating positive incentives for labour market participation.

[250] Also, on average in the EU, the at-risk-of-poverty rate for the unemployed was 47.5% in 2023, with rates exceeding 50% in eight countries, and being around or above 60% in Lithuania, the Netherlands and Romania. Poverty risks among the unemployed were higher today than in the pre-COVID period (referring to 2019 incomes) in 12 Member States.

[251] This includes any type of social benefits, and not only minimum income schemes.

Figure 2.4.12: Poverty rates remain high among (quasi-)jobless households

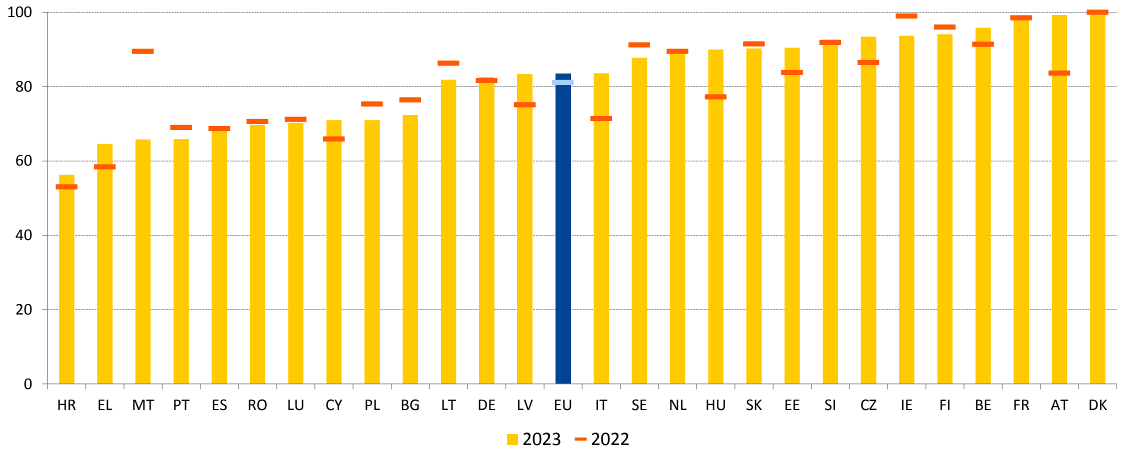
At-risk-of-poverty rate of persons living in (quasi-)jobless households (%)



Note: Break in series in 2023 for Croatia. (Quasi-)jobless households [with very low work intensity] are households where the members of working age worked a working time equal or less than 20% of their total work-time potential during the previous year.
Source: Eurostat [ilc_li06], EU SILC.

Figure 2.4.13: The share of people at risk of poverty who are covered by social benefits shows important variation across Member States

Benefit recipient rate for persons at-risk-of poverty aged 18-64 and living in (quasi-)jobless households (%)



Note: Break in series in 2023 for France.
Source: Eurostat [ilc_li70], EU SILC.

Monetary poverty remains higher for people in non-standard forms of employment than for other workers, although social protection benefits play a relatively more important role in reducing their poverty risks. While the impact of social transfers on poverty reduction in 2023 (referring to 2022 incomes) in the EU was significantly higher for workers in non-standard forms of employment, such as employees on temporary contracts (22.2%), and part-timers (24.2%), as well as for the self-employed (26.2%), compared to the average employee (12.0%)[252], monetary poverty was greater among these groups in most Member States. At EU level, the at-risk-of-poverty rate was 12.8% among temporary contract

[252] Special extraction by Eurostat from EU-SILC based on the major breakdowns of the key indicator on adequacy in the monitoring framework on access to social protection. See: Access to social protection for workers and the self-employed. (Partial) Update of the monitoring framework – 2023.

workers (compared to 5.3% among permanent contract workers), 14.3% among part-timers (compared to 7.1% among full-timers) and 20.7% among the self-employed, against 6.4% among all employees on average[253]. Monetary poverty for workers on temporary contracts was higher than 15% in eight Member States[254], and even above 20% in three of them (Bulgaria, Cyprus and Sweden). Moreover, it increased in ten Member States compared to the pre-COVID period (based on the reference year 2019). Among the self-employed, the poverty rate was higher than the EU average in eight Member States[255], close to 30% in Poland and Estonia, and as high as 68% in Romania. Moreover, it was higher than in 2019 in 16 Member States.

The coverage by social benefits varies widely across Member States, different categories of workers, as well as by employment status. On average in the EU in 2023 (referring to 2022 incomes), the share of working-age people (16-64) at risk of poverty (before social transfers) receiving social benefits[256] was higher among those with temporary contracts (39.2%) than those with permanent contracts (27.3%) and higher among part-timers (33.3%) than for full-time workers (25.7%). However, there were six Member States (Sweden, Slovenia, Estonia, Bulgaria, Denmark and Cyprus) where temporary contract employees were less likely to receive benefits than those under permanent contracts, and again in six Member States (Estonia, Italy, Portugal, Latvia, Bulgaria and Slovenia) part-time workers were less likely to receive benefits than full-time ones. Similarly to 2022, in 5 countries (Croatia, Greece, Luxembourg, Poland, and Romania), less than 10% of those in employment and at risk of poverty (before social transfers) were receiving social benefits in 2023. Self-employed at risk of poverty (before social transfers) were the least likely to receive social benefits, with a coverage at 12.7% in 2023 in the EU-27, closer to the pre-COVID period level (10.8% in 2019), down from 29.0% in 2021, reflecting the phasing out of exceptional support measures in response to the COVID-19 crisis. In 2023, this share remained below 5% in seven Member States (Portugal, Slovakia, Luxembourg, Poland, Croatia, Greece and Romania). Only slightly more than half (52.4%) of the unemployed at risk of poverty was receiving social benefits on average in the EU in 2023. This share was much lower, around 15% or lower, in six Member States (Greece, Romania, Poland, Croatia, Slovakia and the Netherlands).

Overall, access to adequate social protection remains diverse across Member States, despite some improvements over the last few years[257]. With regard to formal coverage[258], in spring 2023 there remained gaps in fifteen Member States for at least one group of non-standard workers in at least one branch of social protection, which was most often unemployment, sickness and/or maternity benefits. Moreover, in thirteen Member States

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[253] However, assessing income for the self-employed is difficult and the indicator of material and social deprivation rate points rather to a slightly lower level for the self-employed compared to employees (respectively 8.0% and 8.9% in the EU in 2023).

[254] These are BG, CY, SE, LU, HU, PT, IT and AT.

[255] These are FR, SI, LV, PT, ES, PL, EE and RO.

[256] Special extraction by Eurostat of the recipient rate indicator for 'effective access' in the monitoring framework on access to social protection: Access to social protection for workers and the self-employed. (Partial) Update of the monitoring framework – 2023. The target population is that at risk of poverty before social transfers. Social benefits covered in the indicator are those received at individual level, excluding old-age and survivors' pensions.

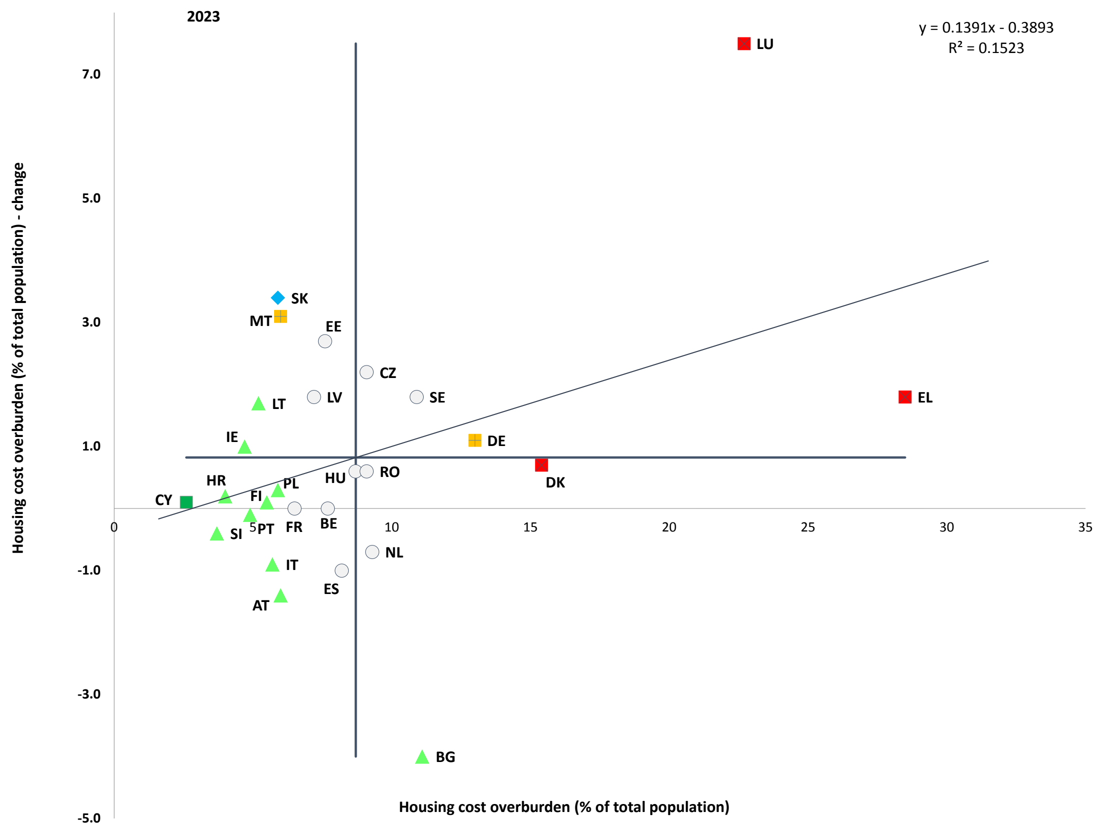
[257] See Commission report on the implementation of the Council Recommendation on access to social protection for workers and the self-employed, COM/2023/43 final and Monitoring framework endorsed in 2020 and update (2023) published in May 2024.

[258] Formal coverage of a group means that in a specific social protection branch (e.g. old age, sickness, unemployment, maternity) the existing legislation or collective agreement states that the individuals in the group are entitled to participate in a social protection scheme covering a specific branch.

access to at least one social protection branch was voluntary for at least one group of non-standard workers, most often in relation to old-age and unemployment benefits, followed by invalidity, sickness and maternity benefits. As for the self-employed, they faced formal coverage gaps in one branch of social protection or more in eighteen Member States, most often in relation to unemployment benefits and benefits for accidents at work and occupational diseases. Moreover, in eighteen Member States their coverage was voluntary, most often as regard to sickness, old-age and maternity benefits. Available estimates at national level point to low take-up rates by the self-employed of most voluntary schemes.

Figure 2.4.14: The housing cost overburden rate remained broadly stable at EU level with some signs of divergence across Member States

Share of persons living in households with housing cost overburden, 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in series for Germany and Malta.
Source: Eurostat [tespm140], EU-SILC.

Housing affordability is an increasing challenge in the EU. In 2023, the share of the EU population facing housing cost overburden remained broadly stable (at 8.8%, from 8.7% in 2021-22), showing signs of divergence – see Figure 2.4.14. In 2023, Greece and Luxembourg were in ‘critical situations’, together with Denmark. Greece registered the highest rate among Member States (28.5%) with an increase by 1.8 pps, while Luxembourg had the second highest, at 22.7%, with an increase by 7.5 pps. Denmark followed at 15.4%, with an increase of 0.7 pps compared to 2022. Both Germany and Malta were ‘to watch’, due to a relatively high indicator value for the first (13.0%) and a high increase for the second (by 3.1 pps to 6.0%). Cyprus (at 2.6%) was the only ‘best performer’ in 2023. Among people at risk of poverty, the rate of housing cost overburden was significantly higher than for the rest of the population in the EU, at 33.5% against 4.1%. The highest cost overburden rates for the at-risk-of-poverty population in 2023 were in Greece (86.3%, up by 1.8 pps), Denmark (72.3%, up by 1.6 pps) and Luxembourg (62.2%, up by 26.5 pps), while the lowest (below 20%) was in Cyprus (8.9%). Variability across countries may be due to different housing price levels, national policies for social housing and/or public subsidies and benefits provided by governments for housing – see Section 2.4.2. Overall, across Member States, tenants in the private rental market tended to be much more affected by housing cost overburden (20.3%) than tenants on reduced price or free rents (11.3%), and owners with outstanding mortgages or loans (5.3%).

Pillar Box 6: Access to housing and social housing in the EU – challenges and developments

Access to social housing or housing assistance of good quality for those in need is a key priority for the EU, in line with principle 19 of the European Pillar of Social Rights. Access to housing is fundamental in protecting individuals against poverty or social exclusion risks and contributes to a decent quality of life. It determines access to education and employment opportunities and impacts work-related mobility within the Member States and in the EU Single Market. Against this background, social housing can serve as the last resort for those in need when housing affordability on the market poses challenges. In this respect, the ministerial Liège Declaration called for a European New Deal on affordable and social housing[259]. The development of a first ever European Affordable Housing Plan has been announced as part of the Political Guidelines for the new Commission[260].

Housing costs weigh on EU households' budgets, particularly for those that already experience poverty risks. According to the latest available Eurostat data for 2023, 46.2% and 31.8% of the European households, respectively, consider total housing costs as a financial burden and as a heavy financial burden[261]. In the EU, in 2023, 8.8% of the population lived in a household where total housing costs (net of housing allowances) represented more than 40% of the total disposable household income. This so called 'overburden rate' was as high as 33.5% for people already experiencing poverty risks. Overall, the share of total housing costs in disposable household income averaged 19.7% but was 38.2% for people at risk of poverty (AROP) – see the Figure. Housing costs as a share of disposable income also varied widely across Member states, amounting to more than half of the household budget in Greece and Denmark to somewhat less than a third in Italy, Portugal, Malta and Cyprus. Moreover, in spring 2022, 28% of the EU population and 33% among social tenants anticipated likely difficulties in paying utility bills, which can ultimately lead to evictions. Increases of rents and property prices outpacing income growth deteriorated housing affordability, especially in major EU cities. At the same time, social housing waiting lists can be long (more than 7 years in 25% of municipalities in the Netherlands, and decades in Denmark)[262], and the number of people waiting can be large (for instance, 136 156 households in Poland, 61 880 in Ireland and 257 271 in Belgium). People on waiting lists are younger, and often non-EU migrants (37%). Applications are more frequent from single-person households (50-65% in Finland and Malta, for instance).

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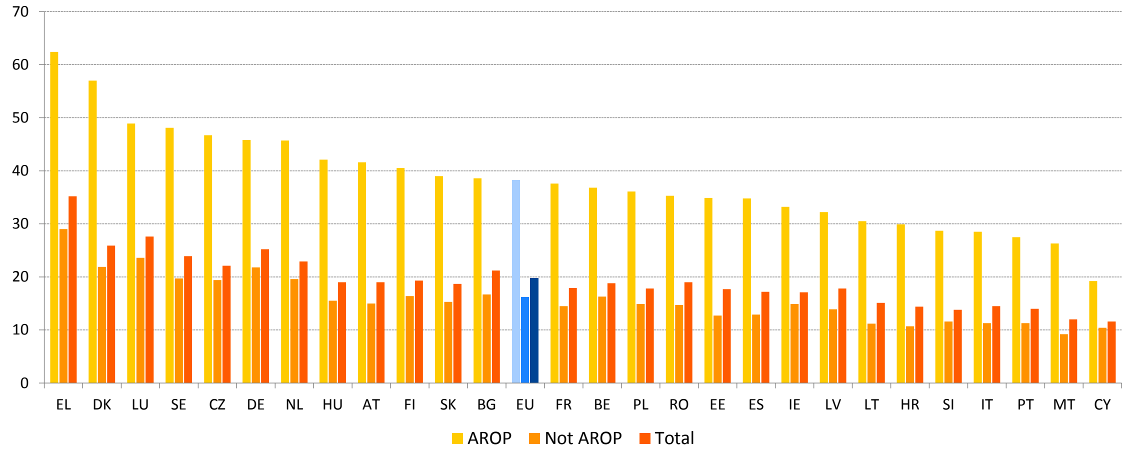
[259] See the Liège Declaration: Towards affordable, decent, and sustainable housing for all.
[260] See: Europe's Choice: Political Guidelines for the next European Commission.
[261] See Eurostat [ilc_mded04].
[262] See Eurofund, Unaffordable and inadequate housing in Europe, Publications Office of the European Union, 2023. Waiting lists figures are hard to compare cross-nationally and over time, thus need to be interpreted with care.

The share of the EU's social housing in the total housing stock has been declining since the 1990s. Only 12% of the total housing stock in the EU is currently dedicated to social purposes and the volume of the social rental housing stock varies considerably across Member States[263]. The proportion of social housing is largest in Austria, Denmark and the Netherlands, reaching low- and medium-income households[264]. In 2018, the report of the High-Level Task Force on Investing in Social Infrastructure in Europe estimated a total investment gap of at least EUR 1.5 trillion in social infrastructure for the period between 2018 and 2030 and EUR 57 billion related to affordable and social housing[265]. To deliver on the Green Deal goals for 2030, EUR 275 billion are deemed needed for energy-efficiency renovations, most of it for residential buildings, including social and affordable housing[266]. Integrating energy efficiency and sustainability measures into social housing policies can help ensure that vulnerable groups benefit from the opportunities of the green transition. Most important barriers to investments in social housing relate to: i) overall obstacles in the construction sector, such as the availability of skilled workforce; ii) permitting procedures and land use; iii) budget constraints and access to finance.

Around 40% of the disposable income of households at risk of poverty is devoted to housing expenses, with large variation across Member States

Share of housing costs in disposable household income (%, 2023)



Source: Eurostat [ilc_mded01], EU-SILC

Member States have already put in place a variety of regulatory and non-regulatory reforms and investment programmes to increase their social housing stock and support housing affordability. In **Czechia**, as part of its RRP, the government proposed a new legislation on affordable housing as well as subsidised lending programs. **Ireland** introduced a Mortgage Interest Tax Relief and the Vacant Homes Tax. The RRP of **Greece** includes a social housing renovation programme to support most vulnerable groups threatened by or facing homelessness. In **Spain**, a loan facility was set up to support the supply of 20 000 new social and affordable dwellings by public and private companies. In **France**, a new legal framework is under examination by the Parliament to strengthen the role of mayors in the allocation of social housing and to streamline the regulation tools of short-term rental

[263] Housing Europe, The State of Housing in the EU, 2020.Housing Europe

[264] OECD, Social housing: A key part of past and future housing policy, Employment,2020.

[265] Fransen, L., del Bufalo, G. and Reviglio, E., *Boosting Investment in Social Infrastructure in Europe – Report of the High-Level Task Force on Investing in Social Infrastructure in Europe*, 2018.

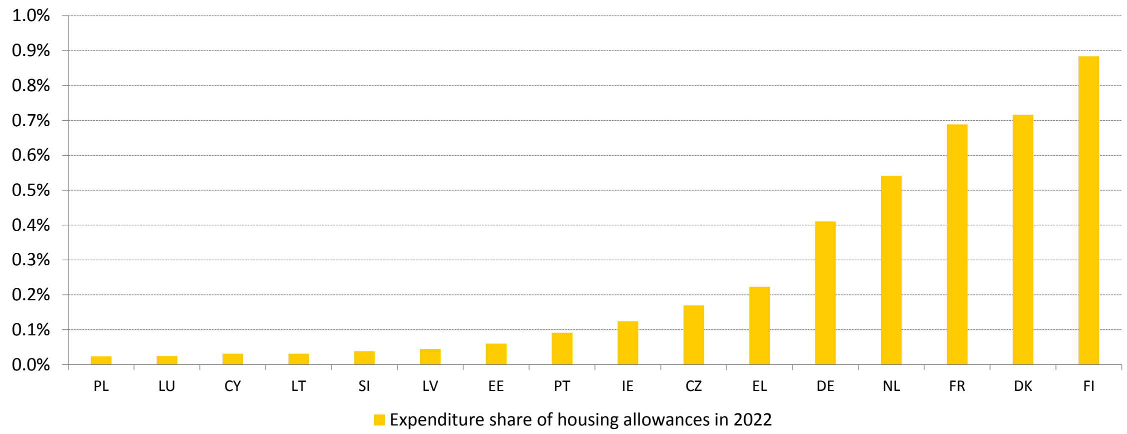
[266] See A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives, COM/2020/662 final.

accommodations. A new law was adopted to simplify housing renovation and supply. **Latvia** developed a strategy to promote access to housing for households at different income levels. **Luxembourg** adopted a law on affordable housing, including for low-income households. A set of fiscal and non-fiscal measures are available to support access to affordable ownership and rent. Additionally, Luxembourg's RRP introduced the 'Housing Pact 2.0' reform that puts in place a new reference framework for governmental support to municipalities for the creation of new housing projects, through the construction of new buildings or the renovation of the existing building stock. **Portugal** developed a set of measures to promote affordable and social housing supply with reduced VAT and simplified procedures to boost construction and implemented housing tax incentives for young people. EU funds can offer an important support for the implementation of these reforms and investments. The Operational toolkit on the use of EU funds for investments in social housing and associated services provides information on the funding opportunities and examples of operations that can be realised with grants and with repayable finance[267].

Poor housing amenities and overcrowding affect a considerable share of households in the EU. In 2023, 14.5% of the EU population experienced some form of housing deprivation[268], reporting at least one deprivation item, namely a leaking roof, lack of bath/shower, lack of indoor toilet, or a dwelling considered too dark. Even more, 16.8% lived in an overcrowded household, not having the minimum number of rooms according to the household composition. Housing deprivation tends to be linked to the type of household, income and tenure status. In 2023, in the EU, 20.6% of single person households with one dependent children and 19% of households at risk of poverty faced housing deprivation, while 29.6% of the latter were living in overcrowded dwellings.

Figure 2.4.15: Wide variations is observed in the use of housing allowance schemes to support households meet housing costs across Member States

Public spending on housing allowances in selected EU Member States in 2022 or latest year available (% of GDP)



Note: Data refer to the responses to the 2023 OECD Questionnaire on Affordable and Social Housing except for Cyprus, Denmark, Estonia, France, Latvia, Lithuania, Poland, Slovenia
Source: OECD Affordable Housing Database [PH3.1]

Housing allowances are often used as an instrument of housing support, varying widely across Member States in design and size. Housing allowances are means- and/or income-tested transfers generally provided to low-income households who meet the relevant

[267] See Social Housing and Beyond.
[268] This paragraph relies on the Eurostat indicators [ilc_mddd04a], [ilc_lvho05a] and [ilc_mddd04a].

eligibility criteria in order to help them meet rental as well as other housing costs, temporarily or on a long-term basis. According to data published under the OECD's Affordable Housing Database, total government spending on housing allowances (expressed as a percentage of GDP), targeting both tenants and homeowners, is the lowest in Poland and Luxembourg (at 0.2%), while the highest in Finland (0.9%), Denmark (0.7%) and France (0.7%) among EU Member States – see Figure 2.4.15.

Housing difficulties and homelessness have been aggravated by the higher housing and living costs. In 2023, data were collected for the EU for the first time under the EU-SILC ad-hoc module on housing difficulties[269]. Out of the surveyed population, 4.9% reported to have experienced housing difficulties in their life, having to stay with relatives or friends (76.2%), in emergency accommodation (13%), in a place not intended as permanent accommodation (6.6%) or in public spaces (4.2%). Available evidence suggests primary causes of housing difficulties to be of family and personal nature (30%) and linked to financial resources (25.9%). EU countries reporting the highest rates of housing difficulties experienced in the past among people who are currently at risk of poverty or social exclusion were Denmark (18.4%), Finland (17.5%) and France (17.1%). In contrast, the lowest rates were observed in Poland (1.9%), Italy (2.0%) and Hungary (2.1%). This pattern also changes with age[270]. Among people experiencing poverty or social exclusion, renting difficulties during the last 12 months were reported by 27.7% of those aged 30-54, 24.0% for the age group 55 to 64 and 22.1% for those between 16 and 29. In the age group 65+, only 12.9% of people at risk of poverty or social exclusion reported renting difficulties. Quantifying homelessness at EU level is difficult, due to significant differences in statistical definitions and measurement approaches that hamper the production of robust and comparable data across Member States. Recent estimations in the 9th Annual Overview on Homelessness and Housing Exclusion in the EU by FEANTSA and FAP point to approximately 1.3 million people sleeping rough in the EU, i.e. in night shelters or temporary accommodation, of which 400 000 are children[271]. According to recently published OECD data[272], the total number of people experiencing homelessness in the EU is estimated to be around one million. Since 2022, following the COVID-19 pandemic, homelessness has increased in several EU Member States with available data, notably Ireland and the Netherlands[273].

The share of older people (65+) at risk of poverty or social exclusion slightly declined at EU level in 2023. This decrease, to 19.8%, was driven by an improvement in the AROPE rate for women, although the latter remained substantially higher than for men in the same age group (22.2% and 16.7%, respectively). The situation was also very diverse across Member States, with AROPE rates for older people ranging from 11% in Luxembourg to 47% in Estonia. In absolute terms, however, the number of older people at risk of poverty or social exclusion continued to increase, linked to population ageing, approaching 18.6 million. At the same time, in 2023 income inequality (as measured by the income quintile share ratio, S80/S20) increased slightly in the 65+ age group, reaching 4.12, against the decreasing trend for the working-age population. Still, it remained lower than for the total population (4.72), also reflecting the redistributive impact of pension and tax systems.

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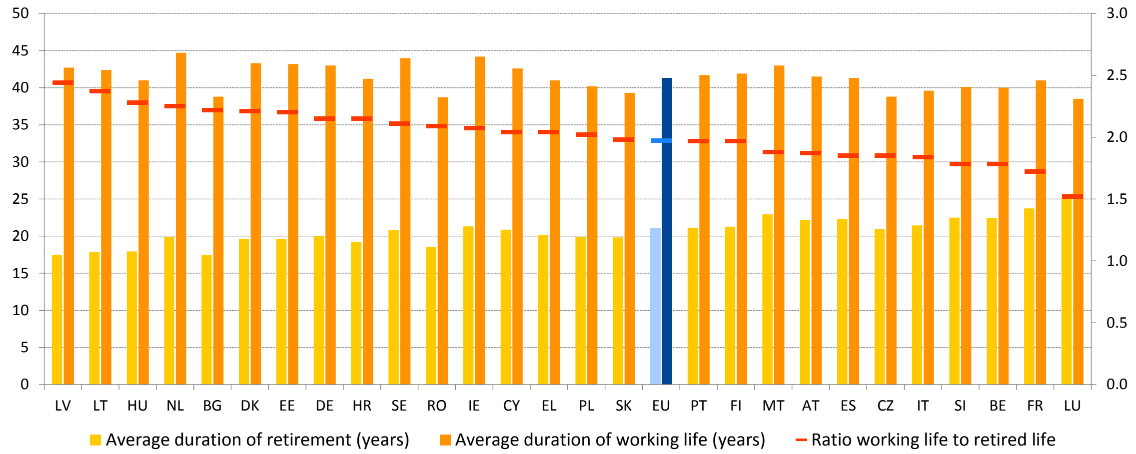
269 This paragraph, among others, relies on the Eurostat indicators [ilc_lvhd02] and [ilc_lvhd01].
270 Eurostat [ilc_lvhd08].
271 9th Overview of Housing Exclusion in Europe, FAP/FEANTSA, 2024.
272 As part of the OECD Affordable Housing Database.
273 Indicator HC3.1. Population experiencing homelessness in the OECD Affordable Housing Database.

Monetary poverty of older people decreased in the EU, while their severe material or social deprivation rate was stable. The at-risk-of-poverty rate for the 65+ receded to 16.8% in 2023 in the EU (referring to 2022 incomes), reaffirming the trend that the relative income of older people tends to hold up well in an adverse economic context. Nevertheless, the AROP rate for older people remained slightly higher than for the younger population on average in the EU (16.8% for 65+ vs 16.1% for 0-65). Across Member States, the situation was diverse. While in several countries people aged 65 and above were less exposed to monetary poverty than the younger cohorts, in others the poverty risk in old age was even three times higher. The severe material and social deprivation rate for older people was 5.5% in the EU in 2023, having remained stagnant since 2020, following a decade of improvements. The rate ranged from below 1% to above 20% across Member States.

The aggregate replacement ratio for pensions remained stable at EU level. This measure, comparing pension benefits of people aged 65-74 to the work income of those aged 50-59, was 0.58 in 2023. It ranged from 0.35 in Croatia to 0.78 in Greece[274]. The ratio was slightly lower for women than for men, at 0.57 and 0.60, respectively. This implies that women, whose work incomes are on average lower to start with, suffer a further deterioration in their income situation compared to men when they retire (see also section 2.2.1). On average, people in the EU can expect to spend 21 years of their lives in retirement. While the duration of working life is 41.3 years, and that of retirement is 21 years in the EU on average, the relation between the two shows differences across Member States – see Figure 2.4.16[275]. The average duration of pension payments, which may differ from that of retirement, is also around 21 years, ranging from 15 to 25 years across countries[276].

Figure 2.4.16: The length of retirement compared to working life varies substantially across Member States

Average duration of retirement and of working life, 2022 (years)



Notes: Working life is counted from first employment and ends when last employment ends.
Source: Data from the 2024 Pension Adequacy Report

[274] Luxembourg had the highest aggregate replacement ratio in 2022 (0.97); the value for 2023 is not yet available.

[275] Average duration of retirement from end of last employment, 2022. 2024 Pension Adequacy Report calculations based on Eurostat (demo_mlexpec) and Ageing Report assumptions.

[276] Life expectancy at the average age at which people receive their first old-age pension, 2022. 2024 Pension Adequacy Report calculations based on Eurostat (demo_mlexpec) and national data on first pension receipt. The duration of pension payment and retirement may differ as some people start receiving pension payments before they completely leave the labour market; or vice versa.

Pillar Box 7: Integrated policy response to longevity – ensuring adequacy and fiscal sustainability of pensions and long-term care

As longevity increases in the EU, supporting living standards in old age is crucial for the well-being of Europe's population. By 2070, the EU population is expected to both decline (by 4%) and witness a large increase in the share of older cohorts, by at least 30% for those above 80 years of age[277]. In an ageing society, ensuring the adequacy and fiscal sustainability of pensions and long term-care (LTC) requires a broad policy mix, which includes investing in active and healthy ageing, prolonging working lives, and supporting adapted and flexible work arrangements, alongside effective and efficient pension and LTC systems. Socio-economic inequalities, as well as the increase in non-standard forms of work, also pose growing challenges with the rise in longevity and may have different effects on certain demographic groups. Against this background, the Council Recommendation on access to affordable high-quality long-term care[278] asks Member States to ensure adequate long-term care services, as well as quality employment and fair working conditions in the care sector, addressing workers' skills needs, while also supporting informal carers. Council Conclusions of June 2024 on pension adequacy[279] reaffirm the need to pursue further reforms including by improving labour market participation, access and contributions to social protection schemes for all, and strengthening access to high-quality and affordable health and long-term care. The European Care Strategy[280] includes a wide range of EU-level actions to support Member States' efforts.

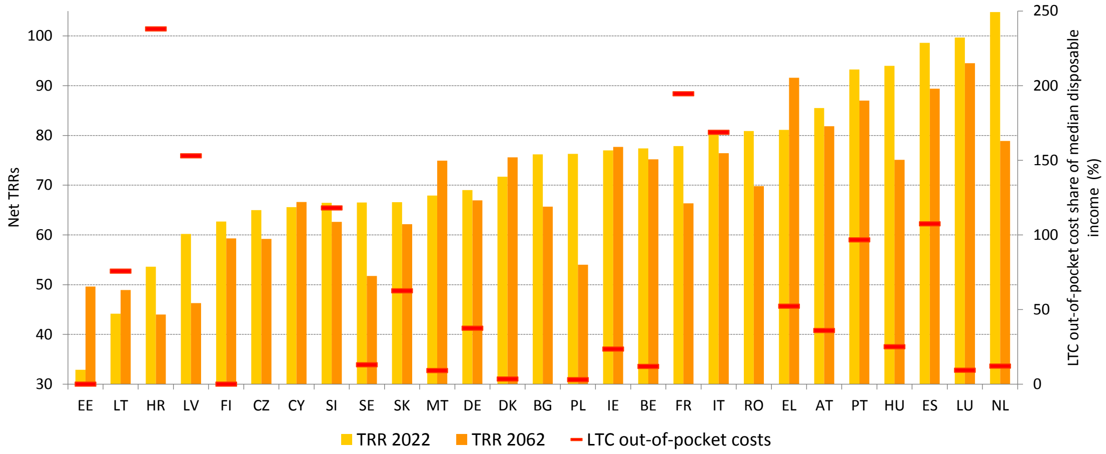
In the ageing society of the EU, pension replacement rates are projected to decrease over the next four decades, while LTC needs are already high and increasing. While risks of poverty or social exclusion for older people have been broadly stable in recent years[281], pension replacement rates[282] for a 40-year standard career are set to decline, for both women and men, in most EU countries (by more than 20 pps in some cases). Compared to 2022, the 2062 values are expected to be higher only in seven countries – see the Figure. Large falls are projected in the Netherlands and Hungary (albeit from high levels), Poland, Sweden, Latvia and, to a lesser extent, Romania and Bulgaria. Moderate increases are projected in Denmark, Lithuania, Malta and Greece, and a stronger one in Estonia (but from a low level). This implies that adequate pensions will increasingly depend on longer careers[283]. At the same time, lower pensions would also make it more difficult to cover out-of-pocket expenditure for LTC. As shown in the Figure, out-of-pocket costs for LTC (homecare) can be very high for people on severe care needs, and great variation exists among EU countries. In 11 Members States (Croatia, Czechia, France, Greece, Italy, Latvia, Lithuania, Portugal, Slovakia, Slovenia and Spain) such out-of-pocket costs are estimated to represent more than half of the median disposable income after public support. Data also show that people with a low-income and moderate care needs would have to spend more than half of their incomes on

[277] See European Commission, 2024 ageing report – Economic & budgetary projections for the EU Member States (2022-2070), Publications Office of the European Union, 2024.
[278] See Council Recommendation of 8 December 2022 on access to affordable high-quality long-term care 2022/C 476/01.
[279] See Council Conclusions on pension adequacy of 20 June 2024, 10550/24.
[280] See the European Care Strategy, *Communication on the European Care strategy*, SWD(2022) 440 final.
[281] See Chapter 1 in PAR 2024, European Commission, The 2024 pension adequacy report – Current and future income adequacy in old age in the EU. Volume I, Publications Office of the European Union, 2024.
[282] Theoretical replacement rates (simulated) measure how a hypothetical retiree's pension income in the first year after retirement would compare with their earnings immediately before retirement.
[283] See Pension Adequacy Report 2024, section 3.1, 'Theoretical replacement rates and pensions in the future'.

home care in ten EU countries. For those with severe needs, the average out-of-pocket costs would be around 80% of their disposable income[284].

Pension replacement rates are projected to decrease while LTC costs represent a significant share of the income of older people and are expected to increase

Pension Net Theoretical Replacement Rates, 40-year career ending at pensionable age, average-earner, 2022 and 2062 (men, pps, EU-27) and Long-term care (homecare) out-of-pocket costs for severe needs as share of median disposable income after public support (both genders, EU-27 Member States and OECD)



Note: The share is averaged across respondents. Estimates are computed using typical cases matched to survey data. Severe needs correspond to around 41.25 hours of care per week. Values of out-of-pocket costs in CZ are very high (477%) compared with other estimates, and thus they are not shown to facilitate comparison of other estimates. The following data relate to sub-national areas: BE (Flanders), EE (Tallinn), IT (South Tyrol) and AT (Vienna). Data are not available for BG, CY and RO (not members of OECD).
Source: Commission's own calculations, based on data from OECD and Member States. 2024 Pension Adequacy Report and OECD analysis based on the OECD long-term care social protection questionnaire, SHARE (wave 8, 2019, except PT, which refers to wave 6, 2015) and TILDA (wave 3, 2015).

Member States continue to take steps to ensure the adequacy and fiscal sustainability of pensions, while also reforming and investing in long-term care. **Czechia** and **Slovakia** limited early retirement options and adjusted pension rates in such a way to increase the incentives for older people to work longer. **Ireland** introduced incentives to defer retirement. **Croatia** increased the incentives to enrol in occupation pensions. To support low-income pensioners, **Spain** increased the non-contributory pension by 6.9%, and **Portugal** increased the solidarity supplement for older people by 23.0%[285]. The **Estonian** LTC reform aims to reduce out-of-pocket payments, improve care staff conditions, and enhance home-based care services, with additional financial support for municipalities based on their old-age population. The **Slovenian** LTC reform introduced a comprehensive range of services, including e-care and independence-maintaining services, to ensure a balanced mix of care options for older people. **Greece** is developing a LTC strategy, including reforms to ensure that services are affordable, sustainable, and accessible. The **French** 'Ageing well' Strategy includes measures to delay dependence, adapt social housing for ageing tenants, support home care workers, and hire additional professionals in LTC facilities for older people. **Romania** has implemented pension reforms to enhance fiscal sustainability and adequacy. A

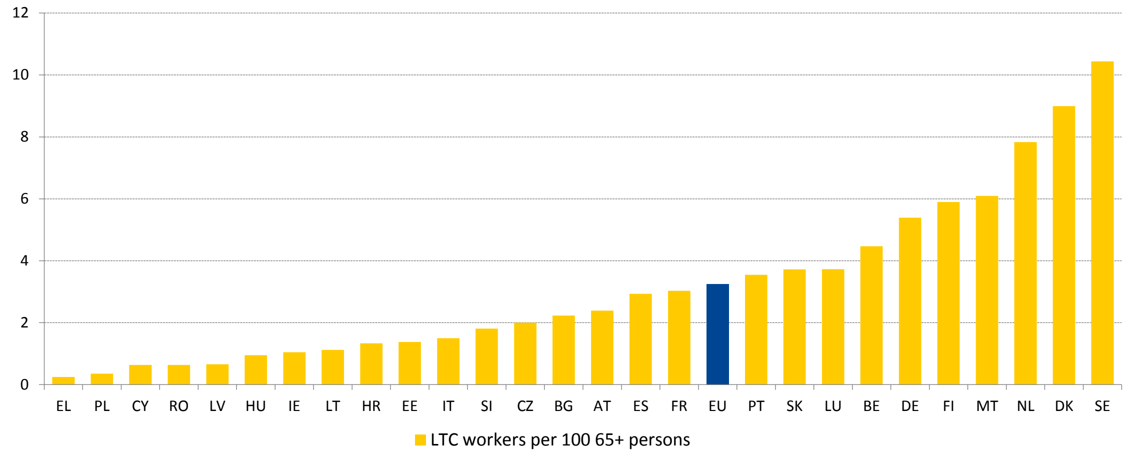
[284] See Pension Adequacy Report 2024, section 1.5 'Quality of life in the 'fourth age': the role of pensions and care services'.
[285] The EU supports national efforts to ensure adequate pensions and old-age income through mutual learning and analytical guidance in the triennial Pension Adequacy Reports of the Commission and the Social Protection Committee.

new pension law introduced a new calculation formula, removing distortions such as correction indices and unequal contribution periods, while also promoting longer working lives by incentivizing voluntary increases in the retirement age and limiting early retirement.

Current structural challenges of availability, affordability, and quality of long-term care (LTC) are expected to increase with population ageing. The number of people potentially in need of LTC in the EU is projected to rise from 31.2 million in 2022 to 33.2 million in 2030 and 37.8 million in 2050[286]. According to 2019 data, 26.6% of people aged 65 or above living in private households were in need of LTC in the EU, with marked differences by gender (32.1% of women vs 19.2% of men)[287]. Persons in need of LTC often have limited access to formal services, which leads to unmet care needs or excessive burden on informal carers. In 2019, 46.6% of people aged 65 or more with severe difficulties in personal care or household activities in the EU reported an unmet need for help in such activities. This was significantly more pronounced for people in the lowest income quintile (51.2%) compared to those in the highest (39.9%).

Figure 2.4.17: There is wide variation in availability of LTC workers acrosss Member States

LTC workers per 100 individuals aged 65+, 2023



Note: LTC workers are selected by crossing sector (NACE) codes 87.1, 87.3, 88.1 and occupations (ISCO) codes 2221, 2264, 2266, 2634, 2635, 3221, 3255, 5321, 5322.
Source: Eurostat, special extraction from EU LFS.

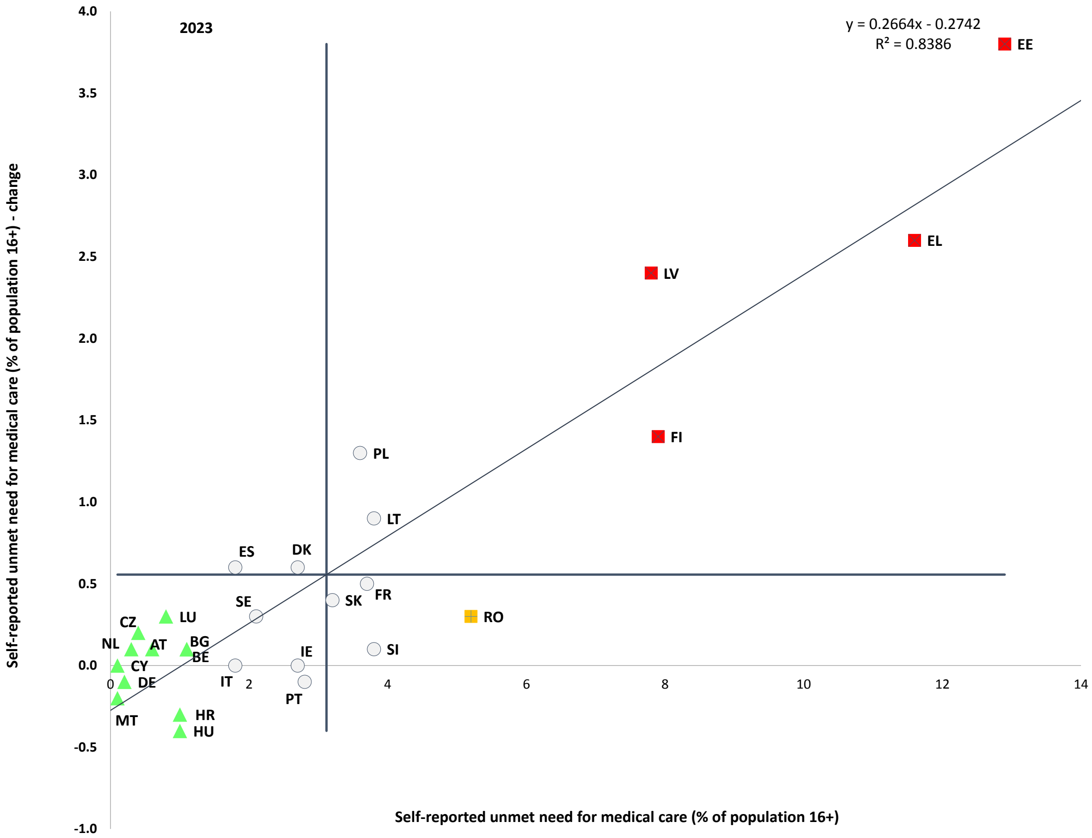
Challenges in access to LTC are exacerbated by labour and skills shortages. In 2023, 3.1 million workers were employed in the LTC sector in the EU, around 1.5% of the whole workforce. The size of the LTC sector may in practice be bigger, as the numbers above do not fully reflect domestic workers active in LTC and the sector also has a significant incidence of undeclared work. While the population 65+ will grow by 23% until 2035, the projected employment growth in the care sector is only 7%. Significant shortages may therefore be expected for health professionals, health associate professionals, and personal care workers[288]. Based on the latest LFS data, on average in the EU there were 3.2 LTC

[286] According to the projections from the baseline scenario. See European Commission, 2024 ageing report – Economic & budgetary projections for the EU Member States (2022-2070), Publications Office of the European Union, 2024.
[287] Eurostat [hlth_ehis_tadle], EHIS. This survey-based measure only captures people in private households but not those in residential care.
[288] Cedefop, Handling change with care: skills for the EU care sector, Publications Office of the European Union, 2023.

workers for every 100 individuals aged 65+ in 2023. There was, however, high variability among Member States, ranging from 0.2 in Greece to 10.4 in Sweden – see Figure 2.4.17. The sector suffers from low attractiveness, which is driven by difficult working conditions and relatively low wages, as well as a higher share of temporary contracts (16.6% vs 13.5% for all workers)[289]. The high prevalence of involuntary part-time work is also contributing to the relatively low attractiveness in several Member States, such as in Croatia (with 55.8% for LTC workers vs 22.6% for all) and in Bulgaria (with 52.4% for LTC workers vs 38.0% for all). Domestic and live-in carers, who are often mobile EU or third-country workers, may face particularly difficult working conditions and more difficult access to social protection. This is in particular the case for those performing undeclared care work.

Figure 2.4.18: The prevalence of unmet needs for medical care increased, moderately for most and to a large extent for a few Member States

Self-reported unmet needs for medical care, 2023 levels and changes from previous year (%, Social Scoreboard headline indicator)



Note: Axes are centred on the unweighted EU average. The legend is presented in the Annex. Break in series for HR. Estimated value for DE.
Source: Eurostat [tespm110], EU-SILC.

The share of people reporting unmet needs for medical care slightly increased on average, largely driven by sizeable increases in a few Member States. In 2023, the share of those reporting unmet needs for medical care was 2.4% in the EU, which is 0.2 pps more than in 2022. While an increase was registered in most Member States, the extent of the overall change was driven by a few, which registered the largest shares and experienced

[289] Eurostat, EU LFS 2023.

strong rises (namely Estonia, Greece, Latvia and Finland) – see Figure 2.4.18. With increases between 1.4 pps and 3.8 pps and levels between 7.8% and 12.9%, these four countries were all in ‘critical situations’, due to high costs in Greece and long waiting lists in the other three countries. While experiencing an increase below the EU average, Romania also recorded a relatively high share of 5.2% (mostly due to financial reasons), in a situation that was ‘to watch’ in 2023. The lowest figures were recorded in Cyprus, Malta, Germany, the Netherlands and Czechia, all below 0.5%. Unmet needs for medical care tended to be twice as large within the poorest fifth of the population than for the general population in some countries (e.g., 23.0% vs 11.6% in Greece, 13.9% vs 7.8% in Latvia and 9.3% vs 5.2% in Romania). Also, regional differences were recorded within Member States, with the strongest ones in Italy, Romania, and Germany (see Figure 10 in Annex 5).

2.4.2 Measures taken by Member States

Several Member States took measures to improve the adequacy of minimum income support. While in most countries minimum income benefits are updated every year to reflect developments in the cost of living, this is not the case for some Member States, where increases remain discretionary. For example, in 2024, **Greece** increased the level of its guaranteed minimum income benefit (by 8%) for the first time since the scheme was introduced in November 2018. Following a major reform in 2023, **Latvia** will further increase the level of its guaranteed minimum income benefit to comply with a Constitutional Court ruling that had judged the previous amounts not sufficient to ensure a life in dignity.

Some Member States adopted broader reforms of their minimum income schemes. Under its Recovery and Resilience Plan (RRP), in 2024 **Romania** replaced its minimum income benefit with a scheme (*Venitul Minim de Incluziune*) with improved adequacy, regular indexation of benefits and enhanced support for beneficiaries to (re-)enter the labour market. **Italy** also replaced as of 2024 its pre-existing minimum income scheme (*Reddito di Cittadinanza*, introduced in 2019) with a more restrictive scheme (*Assegno di Inclusione*) which excludes individuals of working age considered employable. These have now access to a new separate scheme (*Supporto per la Formazione e il Lavoro*) that provides temporary income support (12 months, non-renewable) combined with support for training and employment. **France** has strengthened the incentives for labour market reintegration too, stipulating under its Law for full employment that beneficiaries of minimum income (*Revenu de solidarité active*) will have to be automatically enrolled with the public employment service (*France Travail*) by 1 January 2025.

Member States continued efforts to improve access to, and quality of, social services. In August 2024, as part of the RRP, **Bulgaria** adopted the National Map of Social Services to identify gaps in the provision and determine investment needs. In **Latvia,** amendments to the law on social services and social protection to establish a minimum basket of social services to be provided at local level are pending adoption. **Romania** adopted in April 2024 a new law reforming the social services system to strengthen quality standards for care and reinforce the role of inspectors. **Slovakia** introduced a temporary measure, in place until 1 December 2025, to increase the financial contribution for the provision of social services to improve their availability and pay conditions in the sector.

Member States adopted measures to support access to energy, and in many cases extended existing temporary measures. For example, **Luxembourg** introduced in July 2023 a package of measures designed, among other things, to stabilise electricity bills of private households with a government subsidy for the period January-December 2023, later extended to 2024. Other laws were adopted to help reduce households’ dependence on fossil fuels and promote their conversion to renewable energies. **Spain** prolonged in 2024 the measures regulating energy markets and gas tariffs and the energy and water supply guarantee for vulnerable or socially excluded consumers. **Malta** extended its package of energy support measures and subsidies (adopted in 2022) to 2026. **Romania** prolonged to Spring 2024 the validity of its energy voucher granted to vulnerable people in order to reimburse the energy prices. Some Member States also introduced structural measures to address energy poverty. For example, in November 2023, **Bulgaria** adopted a legal definition of energy poverty and energy vulnerability and introduced the prohibition to cut-off electricity supply for energy vulnerable individuals. In January 2024, **Portugal** adopted its National Long-Term Strategy for Combating Energy Poverty 2023-2050, as well as measures to address the digital divide and territorial inequalities in accessing digital communications, such as advancing plans for a full coverage of fiber optic networks. **Italy** is designing a financial instrument to improve the energy efficiency of public houses, as part of the REPowerEU chapter of its RRP.

In 2023-24, measures taken by some Member States aimed to strengthen access to social protection, notably unemployment benefits, for specific groups like the self-employed. **Italy** made permanent, from 2024, the scheme to protect freelance professionals against large drops in labour income ISCRO (*Indennità straordinaria di continuità reddituale e operative*), which had been introduced on a temporary basis in 2021-2023. **Poland** extended by 12 months (from August 2023) the social security exemption for self-employed starting their activity. While this reduces their financial burden, it also limits their future entitlements to social insurance benefits in old age and in case of invalidity. In **Greece**, the extra maternity protection allowance was expanded to include self-employed women, freelancers, and farmers who gave birth since September 2023. Moreover, the means-tested unemployment benefit provided to self-employed people and freelancers was increased. **Lithuania** tabled in 2023 a proposal to amend the law on unemployment insurance in order to reduce the length of the minimum required contributions (from 12 to 9 months in the last 30 months), as well as to extend the insurance to all groups of self-employed. In **Cyprus**, the RRP includes a revised social insurance law submitted to the Parliament aims at extending social security to the self-employed, in particular as regards accidents at work and occupational diseases and parental leave. In **Estonia**, a law was proposed in order to replace the current two-tier system of unemployment allowance and unemployment insurance with a single unemployment insurance scheme from 2026 and make this latter accessible to workers with limited employment history. Estonia also intends to propose by May 2025 options to expand unemployment insurance coverage to the self-employed.

People in non-standard employment were targeted as well by policy measures to reinforce their access to social protection. In **Romania**, the law formalising employment of domestic workers and giving access to pensions and health insurance took effect in January 2024, with domestic workers receiving payment in the form of vouchers, paying social security contributions and being provided health insurance coverage (i.e. free access to a basic package of health services). In May 2024, **Spain** simplified and improved unemployment assistance to make it accessible to those who have exhausted their contributory benefits or have not contributed long enough to qualify and was also extended to agricultural workers. The country also strengthened incentives for labour contracting and improving social protection for artists, and as of January 2024 regulated the social security coverage for trainees, both for paid and unpaid trainees. Finally, Spain took measures in March 2023 to guarantee the level of social security contributions for domestic employees. In **Slovenia**, the 2023 amendments to the Healthcare and Health Insurance Act (1992), as part of an RRP reform, revoked voluntary health insurance for all categories of insured people and increased the statutory health insurance contribution (including for the self-employed) starting in 2024. **Czechia** modified the legislation applicable to 'agreements to perform work' by requiring their registration from July 2024 and extending social insurance coverage to this type of contracts from 2025 on, under the same conditions as for standard employees. In **Cyprus**, a law was adopted in 2023 to improve the rights of employees, including those in non-standard forms of employment and on-call workers.

Child and family allowances were increased in several Member States, especially for single-parent families. In **Bulgaria**, the benefit for single mothers who raise children younger than 3 years old grew by 83% per month. In parallel, income thresholds for general child benefits were increased and households who received them between December 2023 and February 2024 received a one-off payment to help cover transport costs. In **Portugal**, the child benefit increased for most beneficiaries, but in a stronger way for single-parent families. As of 2024, the Portuguese family allowance is EUR 100 per month, with an additional 'childhood guarantee' benefit targeted at children in extreme poverty and amounting to EUR 122 per month. In **Romania,** the amount of child allowance increased by the inflation rate of the previous year as of 1 January 2024. Meanwhile, the child-rearing allowance for parents of twins, triplets and multiples increased by 50%. Two of the national one-off childbirth grants were also increased. In **Bulgaria**, family allowances rose by as much as 50%. Also, **Greece** increased the grant depending on the number of children with retroactive effect from 2023.

Support for early childhood education and care (ECEC) saw increased spending in some Member States, while various other measures were taken to address the challenge of poverty risks for children. In **Ireland**, the subsidy to defer childcare costs was increased by 51%, while in **Italy**, it rose to EUR 3 600 per year for children born on or after 1 January 2024 under certain conditions. In the context of the RRP, Italy is also increasing available places in ECEC structures and is expected to create more than 150 000 places for 0 to 6 year-old children by mid-2026. Also in **Bulgaria**, ECEC will benefit from additional investments (ESF+ and national budget), targeted at increasing its inclusiveness. **Croatia** adopted, under its RRP, a new model for the financing of early childhood education and care facilities, aiming to increase their availability and affordability. **Spain** is planning to set up at least 1000 support units for vulnerable students in school districts under its RRP, and a programme to offer food and other basic products to families with minors. **Malta** expanded the scheme providing free IT devices for pupils. **Romania** delivers a daily meal to around 650 000 disadvantaged children from 2200 schools.

Some countries focused on improving overall disability policies, while others strengthened their disability benefits. For example, **Greece** updated the National Strategy for the Rights of Persons with Disabilities focusing on the years 2024-2030. The country also completed the pilot programme on personal assistance and disability assessment process to be rolled out in 2025. **Bulgaria** improved the adequacy of the monthly benefit for children with disabilities. **Malta** increased the grant for parents caring for children with severe disabilities. In **Italy**, in the framework of the RRP, a reform to support autonomy of persons with disabilities was fully implemented in 2024, improving the assessment and access to personalised support services. Consistently with the reform, an investment in the RRP supports individualised projects, providing persons with disability with housing and ICT solutions.

Member States put in place regulatory and non-regulatory measures offering or extending rental support in order to strengthen access to affordable housing, for low-income households and vulnerable groups such as young people. In August 2023, **Luxembourg** introduced legal amendments on the housing assistance framework to prioritise support for less well-off households, having already introduced an increase in the rent subsidy for households with children and a rent bonus for young employees in May 2023. In 2024, **Malta** reformed its private rent housing benefit scheme to reach a maximum amount of EUR 6 000 per year, while also implementing an integrated care plan for tenants facing significant rent arrears. In May 2024, **Portugal** approved the *Construir Portugal* housing package, which includes housing incentives for young people such as extended access to rent subsidies.

Against the background of the high cost of living, Member States continued to take action to support the living standards of retirees, especially those on minimum or low pensions. In **Bulgaria**, a decision was taken to increase all pensions, including the social pension, by 11% in July 2024 to account for high inflation. Similarly, an exceptional revalorization of pension benefits was decided in **Slovakia**. In **Portugal**, the reference value of the solidarity supplement for older people was increased by 23%, and in **Malta** the Senior Citizen grant for those who reach the age of 80 was increased from EUR 50 to EUR 450 per year. In **Romania**, the Pensions Law of December 2023 introduced a mechanism of indexation of social benefits for those on small old-age pensions. Finally, contributory pensions were increased by 3.8% in **Spain**, with a cap of EUR 3 175, while non-contributory pensions and minimum incomes were increased by 6.9%.

To strengthen adequacy and fiscal sustainability of their pension systems, Member States continued to take measures to increase the labour market participation of older people, and also introduced some parametric reforms. Ireland put in place measures empowering individuals with the choice to continue working up to and beyond the state pension age. Conditions for early retirement were tightened in **Slovakia** through changes in the calculation of the required length of work and of the percentage reduction in the pension amount. **Czechia** also limited early retirement. In **Finland**, a tax reform was enacted in January 2024, providing higher incentives to work for retirees over 65 who are on pension. Starting from 2024, **Italy** raised to 63 years and 5 months from 63 the age requirement for accessing the Social Pension Advance (*APE Sociale*) early retirement scheme, and also to 61 from 60 years of age that of the 'Option Women' scheme. In **Germany**, the 'Pension Package II' introduced a new component in the financing of statutory pension insurance - the so-called 'generational capital' - consisting in a capital stock built up by means of loans from the federal budget and the transfer of own funds from the federal government. The related returns are used to stabilize pension insurance contribution rates that are thus expected to remain stable at 18.6% until 2027 and then increase to 22.3% by 2035. Some countries took steps to facilitate flexible retirement pathways. For instance, **Spain** temporarily extended the possibility of partial retirement with a relief contract (*contrato de relevo*) in the manufacturing industry, allowing people to access a portion of their pension at the age of 61, and to reduce working hours by up to 80%. Comprehensive reforms in its RRPs are also planned in **Czechia** to preserve pension adequacy and fiscal sustainability.

Some countries took steps to enhance the take-up of supplementary pensions. Croatia introduced new rules giving companies that manage mandatory and voluntary pension funds and pension insurance companies the necessary flexibility to preserve the real value of the insured person's assets. A one-time payment of up to 20% of the total capitalized funds in the occupational pension funds is now possible. In **Ireland**, an Automatic Enrolment Retirement Savings System Bill has been presented, with the possibility of opting out after 6 months.

Member States introduced different actions to improve access to healthcare services and quality of care. Ireland expanded the eligibility for the means-tested GP visit card scheme, granting free GP care to an additional half a million people in 2023 (while it remains the only Member State without universal primary healthcare coverage). In the context of its RRP, **Italy** is investing in new healthcare facilities (such as the Community Hospitals and Community Health Houses) and in telemedicine, with the aim to bring healthcare services closer to patients. As of 2023, the RRP is also supporting pharmacies in small municipalities to strengthen healthcare access in rural and remote areas. Moreover, Italy adopted Law 107 of July 2024, introducing a monitoring and control system to reduce waiting lists in the National Health Service. Each Region will appoint a Regional Health Assistance Manager (RUAS) to address identified issues. In April 2024, **Bulgaria**'s National Assembly adopted the National Health Strategy 2030, as a reform in their RRP, which is expected to improve access to health services across the country.

Steps have also been taken to strengthen patient centred primary care, integrated care and digital healthcare. Lithuania, for instance, launched a new pilot shuttle service for patients who cannot use individual or public transport for health, social or economic reasons, to strengthen the patient centredness and to increase access to healthcare services. In order to drive forward the digitalisation of the health system, **Germany** has passed the 'Digital Act', which came into force in March 2024. Through measures in the national RRP, **Portugal** also adopted legal acts in 2023 revising the organisation and functioning of primary care services to strengthen their role in the National Health System. In August 2023, **Latvia** approved a Digital Health Strategy, which aims to enhance data availability, interoperability, and digital services. In **Austria**, the healthcare reform 2024-2028 includes measures to strengthen primary care and expand digital health services.

Member States also took measures to address healthcare workforce shortages and improve staff retention. In July 2023, a legislation regulating the professional title of nursing assistants, included in the RRP, entered into force in **Sweden**. From September 2023, in **France,** general practice students must complete an additional year of postgraduate training in ambulatory care, preferably in underserved areas. In December 2023, as part of their RRPs, **Estonia** amended legislation to incentivize nurses to work in remote areas, while **Lithuania** introduced amendments to legal acts aimed at improving the career development of healthcare professionals. In January 2024, **Denmark** enacted a new law on shifting several specific tasks from doctors to nurses. In March 2024, **Belgium** approved two laws defining the role of advanced practice nurses and specifying their clinical activities and conditions. New legislation in **Greece** in May 2024 allows private doctors to collaborate with public hospitals, perform medical procedures, and participate in outpatient clinics and surgeries outside regular hours. In **Italy**, over 2021-26 the RRP is supporting the award of 2700 additional scholarships in general medicine to contribute to the availability of medical staff.

Measures were taken to improve public health by emphasizing disease prevention, health promotion, in particular for mental health. In **Luxembourg,** the new National Mental Health Plan 2024-28 was published in July 2023. In **Portugal,** a new mental health law, as part of the RRP, was adopted regulating the rights of persons with a mental illness and regulating also compulsory hospitalisation or treatment. **Estonia** is developing a suicide prevention plan, expected by the end of 2024. In August 2023, **Romania** established the National Cancer Registry under the administration of the National Institute of Public Health. **Romania** also adopted the National Vaccination Strategy 2023–2030 in October 2023. In **Spain**, the Interterritorial Council approved the 2024–2027 Plan for Smoking Prevention and Control in April 2024.

A number of Member States aimed to strengthen the affordability, availability and quality of long-term care services and address the challenges that formal and informal carers face. In December 2023, **Slovenia** adopted a new Long-term care act defining the sources and methods of stable public financing of long-term care, including a new mandatory social insurance contribution for long-term care as of 1 January 2025. The Act also sets conditions for the provision of quality and safe long-term care services In **Estonia**, the Care reform entered into force on 1 July 2023, defining the way long-term care services are funded, reducing out-of-pocket payments, and ensuring that care recipients with low income are helped to cover their care costs. The country also adopted more detailed minimum quality requirements for general care and home care and, as part of its RRP, in February 2024, amended its Action plan on an integrated care model, laying down the roles and responsibilities of the actors involved and defining the future financing of the system. Since 2023, **Finland** has been using the Resident Assessment Instrument (RAI) for assessing older persons' service needs and functional capacity. Additionally, Finnish law requires social welfare workers to assess urgent help needs immediately, starting within seven working days of contact from the client or their representatives. **Italy**, in the framework of its RRP, fully implemented a reform to improve the living conditions of non-self-sufficient elderly people by simplifying access to health and social services, providing a multidimensional assessment, and defining individualized projects that promote de-institutionalization. In March 2024, **Bulgaria** adopted a Strategy for human resource development in the social sphere (until 2030) to improve working conditions in the social sector, skills and competencies, attract more workers, better align education pathways and provide more motivation and support. **Sweden** introduced a Protected Professional Title for Nursing Assistants in July 2023 to ensure care quality and safety, issuing 73 196 certificates so far. Effective as of April 2024, **France** introduced several measures for home care professionals, including a professional card, annual mobility support aid, and a lump-sum allowance for travel time. In 2023, **Portugal** amended its labour code to better protect domestic workers and in 2023 and 2024 its legislation on informal caregivers, including financial aid and connection with formal carers, as well as establishing conditions for caregiver rest. Since 2024, **Malta** has been expanding its Carer at Home Scheme, which provides financial support to older citizens with low dependency who employ a carer with a recognised qualification to assist them in their daily needs. **France** has been implementing the 'Ageing well' strategy since 2023, which includes 50 measures to delay dependence, adapt social housing for ageing tenants, hire 50 000 professionals for care facilities for older people, and prevent senior social isolation while promoting intergenerational solidarity. **Greece** is developing a long-term care strategy to ensure sustainability of care structures, a more cohesive regulatory framework, and standardized operational processes.

CHAPTER 3. FIRST-STAGE COUNTRY ANALYSIS

This chapter presents country fiches as part of the first-stage country analysis, based on the principles of the Social Convergence Framework (SCF) as described in the related EMCO-SPC Key Messages and the underlying Report of the EMCO-SPC Working Group[290], also supporting key horizontal findings presented in section 1.4 of Chapter 1. While all fiches rely on the Social Scoreboard readings and the JER categorisations as described in the Box in section 1.4 and in Annex 6, their structure depends on the country-specific situation: the order of the three policy areas covered in the fiches (employment; education and skills; social protection and inclusion) is guided by the dIevelopments in the country concerned, as emerging from the Social Scoreboard tables in Annex 9. Similarly, the graph for each country illustrates the most pertinent issue or a key development for the country in question.

The first-stage country analysis is based on the full set of Social Scoreboard headline indicators. Each of the indicators[291] is scrutinised based on the JER methodology, which determines the relative standing of Member States. This relative standing is expressed in terms of standard deviations from the mean of both the absolute level of the indicator value and its change compared to the year before (see Annex 6 for more technical details). Results are summarised into one of seven possible categories for each indicator for the country in question ('best performer', 'better than average', 'good but to monitor', 'on average', 'weak but improving', 'to watch', 'critical situation'). This corresponds with the scale of colours, from green to red. A short overview of the indicators and their rating for each Member State can be found in the tables in Annex 9.

Each headline indicator of the Social Scoreboard is assessed with the methodology explained above, in order to identify whether further analysis is needed in a second stage. The qualification 'critical situation' refers to Member States that score much worse than the EU average on a specific indicator and in which the situation is deteriorating or not improving sufficiently compared to the year before. A situation is marked as 'to watch' in two cases: a) when the Member State scores worse than the EU average on a specific indicator and the situation in the country is deteriorating or not improvingly sufficiently fast and b) when the score in terms of levels is in line with the EU average but the situation is deteriorating much faster than the EU average or not improving (nearly as fast) while the EU average does.

Further analysis in a second stage is considered warranted for Member States for which six or more Social Scoreboard headline indicators are flagging red ('critical situation') or orange ('to watch'). An additional reason for considering that the situation requires further analysis in a second stage occurs when an indicator flagging red or orange presents two consecutive deteriorations in its JER categorisation. An example is a change from 'on average' to 'weak but improving' in the 2024 JER edition, followed by a further deterioration to 'critical situation' in the 2025 edition). This would be counted as an additional 'flag' towards the minimum threshold of six flags overall. For example, if in a given year n a country has 5 headline indicators of the Social Scoreboard flagged as red or orange, and one of them presents two consecutive years of deteriorations in years n and n-1, the country is considered as having overall

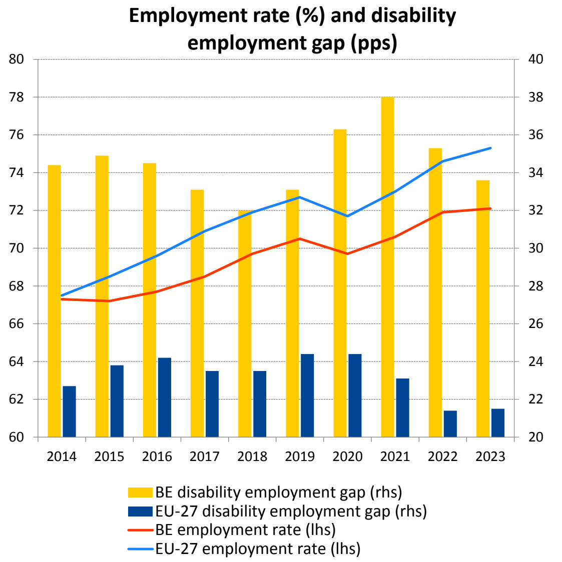
[290] A dedicated joint EMCO-SPC Working Group was set up to discuss the initiative and conducted work from October 2022 until May 2023. This fed into EMCO and SPC that prepared the ministerial discussion in the June 2023 EPSCO meeting. The work and its outcomes are documented in the EMCO-SPC Key Messages on the introduction of a Social Convergence Framework in the European Semester and the related Report of the EMCO-SPC joint Working Group.

[291] For technical details on the Scoreboard headline indicators, including the disability employment gap based on the GALI concept, see Annex 2.

6 flags in that year n (5 red/orange signals from the indicators in the given year + 1 of them with two consecutive deteriorations). As a result, it would require further analysis as well. Any break in series and issues in relation to data quality and interpretation are taken into account in the evaluation of the total number of flags towards the threshold.

Belgium

In 2023, supported by economic growth, the labour market continued its upward trend in a context of sizeable labour shortages. Despite improvements in the last decade, the employment rate, at 72.1% in 2023, still lags behind the EU average in level and change, displaying a 'critical situation', with strong regional differences and some groups such as the low-skilled, those born outside the EU and older people trailing further behind. This is largely due to Belgium's activity rate being lower than the EU average. The unemployment and long-term unemployment rates are 'on average', at respectively 5.5% and 2.2%, which is also the case for the gender employment gap (7.6 pps). The disability employment gap rose steadily between 2018 and 2021 (from 32 to 38 pps) and, despite declining to 33.6 pps in 2023, continues to be among the highest in the EU (against an EU average of 21.5 pps) and in a 'critical situation' for three years in a row. Finally, despite the real wage increase in 2023, the gross disposable household income per capita has still not caught up with the EU average and remains 'to watch'.



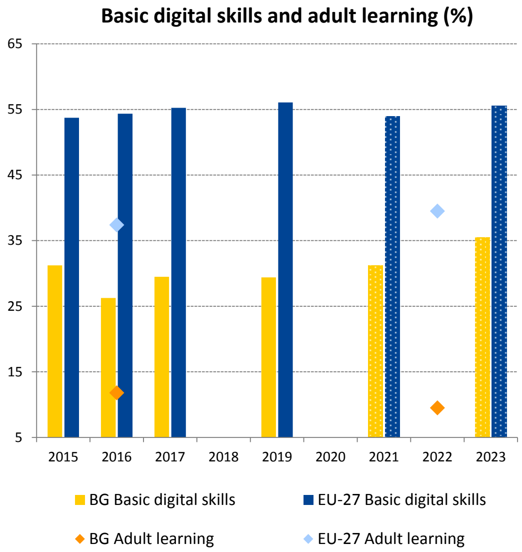
Note: Break in the BE time series in 2017.
Source: Eurostat [lfsi_emp_a], EU LFS and [tepsr_sp200], EU-SILC

Belgium fares better than average in the area of education and skills. The proportion of adults participating in learning is 'on average', at 34.9% (vs 39.5%in the EU), as is the share of young people neither in employment nor in education and training (NEET), at 9.6%. With 56.3% of all children aged less than 3 years in formal childcare, and a share of 6.2% of early school leavers, Belgium is performing 'better than average' (although with important regional variation). This is also the case for the proportion of the adult population with at least basic digital skills (at 59.4%), which can help support the green and digital transitions. At the same time, the proficiency in reading, mathemathics and science has decreased over the past years and significant inequalities exist by socio-economic and migrant background.

Social policies are generally effective in preventing and mitigating poverty and social exclusion risks as well as income inequalities. When it comes to the impact of social transfers (other than pensions) on poverty reduction, which is well above the EU average (50.8% vs 34.7% in 2023), and income inequality, as measured by the income quintile share ratio (3.4 vs 4.7 at EU level), Belgium is a 'best performer'. Although in 2023 the overall AROPE rate (18.6% vs 21.3% in the EU) is still recorded as 'on average', the shares of the total population and of children at risk of poverty or social exclusion have been declining since 2017, improving to 'better than average' for children (19.0% vs 24.8% in the EU). Self-reported unmet needs for medical care, at only 1.1% in 2023, are 'better than average', while housing cost overburden, which affects 7.7% of the population, is recorded 'on average' (8.8% at EU level).

In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'critical' or 'to watch', **Belgium does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Bulgaria



Note: The definition of the digital skills indicator changed from 2021 but covers a concept that is broadly similar to previous years.
Source: Eurostat [special extraction from the AES], [tepsr_sp410], [isoc_sk_dskl_i], ESS ICT Survey.

Bulgaria faces challenges related to skills formation, which weigh on the employability of some groups and hinders productivity growth and competitiveness. The participation of adults in learning decreased between 2016 and 2022, and at 9.5% in 2022 (vs 39.5% in the EU) is among the lowest in the EU, representing a 'critical situation'. Addressing this issue will require significant further efforts. Despite a recent improvement, the share of the adult population with at least basic digital skills also remains among the lowest in the EU, at 35.5% vs 55.6% at EU level in 2023, which is another 'critical situation'. Strengthening adults' skills acquisition, including in the digital domain, is key to support the green and digital transitions. The share of children aged less than 3 years in formal childcare is still low (17.4% vs 37.5% in the EU in 2023). This is 'to watch' as it may impact on the long-term prospects of children in learning. The level of basic and digital skills among young people is low and there are large inequalities in educational outcomes.

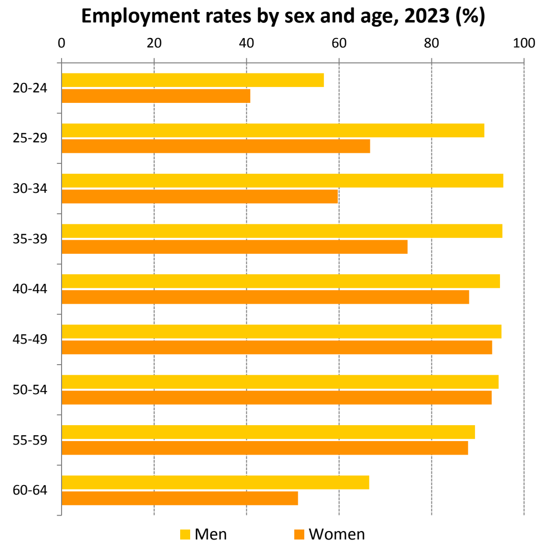
Bulgaria experienced improvements regarding social inclusion and protection but important challenges remain. Although the AROPE rate declined by 2.2 pps in 2023 alongside positive labour market developments, as well as wage and pension growth, it is still among the highest in the EU (30.0% vs 21.3%, 'weak but improving'). In addition, a sizeable decrease in the total number of children at risk of poverty or social exclusion, of 34 000 (or 8.3%), compared to 2022 was registered. However, at 33.9% in 2023 the rate remains among the highest in the EU (24.8%) and 'critical'. Despite improvements, vulnerable groups such as Roma (81%), persons with disabilities (42.4%) and those living in rural areas (39.3%) were more exposed to poverty or social exclusion risks than others. Overall, both the impact of social transfers (other than pensions) on poverty reduction and income inequality improved in 2023 (from 24.4% to 27.7% and from 7.3 to 6.6 respectively, both 'weak but improving').

Bulgaria's labour market continued to perform strongly against a shrinking population, though with significant regional differences. While the country has reached a historically high employment rate (76.2% in 2023), which is 'on average' compared to the EU (75.3%), differences across regions range from 85.5% for the best performing region to 67.2% for the worst performing one. There are also substantial differences between population groups. The disability employment gap was still considerably above the EU average in 2023 (39.5 vs 21.5 pps), having registered a 10.0 pps increase compared to 2022, and deteriorated over two consecutive years, reaching a 'critical situation'. Although decreasing over the last few years, the share of young people neither in employment nor in education and training (NEETs), at 13.8% in 2023 was still above the EU average (11.2%), and is now 'to watch'.

In light of the findings from the above first-stage analysis, and notably 6 indicators flagging as 'critical' or 'to watch', including one that deteriorated over time, **Bulgaria is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Czechia

Overall positive labour market outcomes are coupled with labour shortages and relatively more difficult conditions for certain population groups. In 2023, Czechia was among the 'best performers' in the EU with respect to high employment and low unemployment rates (81.7% and 2.6% respectively) despite slightly negative economic growth. The low long-term unemployment rate (0.8% in 2023) was also 'good but to monitor', following an increase by 0.2 pps compared to 2022. However, the gender employment gap stood at 13.9 pps in 2023, which is among the widest in the EU, and shows a 'critical situation'. Moreover, the participation rate of children aged less than 3 years in formal childcare (4.5% in 2023) decreased by 2.3 pps compared to 2022, and remains far below the EU average (37.5%), also a 'critical situation'. This, combined with challenges in terms of quality of childcare provision, may impact on children's long-term learning prospects and women's labour market participation. The share of young people neither in employment nor in education and training (NEET) fell by 1.3 pps to 10.1% in 2023, and like the disability employment gap (at 22.2 pps in 2023), is 'on average'. Strengthening the labour market participation of women, young people and disadvantaged groups, such as Ukrainian citizens under temporary protection and Roma, could help mitigate labour shortages.



Source: Eurostat [lfsa_ergan], EU LFS.

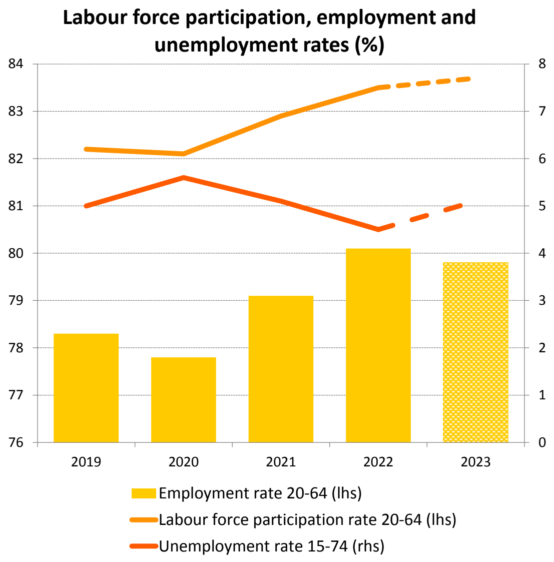
Czechia's performance in relation to skills is improving, but adult participation in learning faces challenges. The latter was among the lowest across Member States (21.2% in 2022 vs 39.5% in the EU), indicating a 'critical situation'. At the same time, between 2021 and 2023, the share of adults with at least basic digital skills increased from 59.7% to 69.1%, which is now 'better than average'. Further promoting adult learning and skills development can help foster innovation capacity and facilitate the green and digital transitions.

Czechia has a well-functioning social protection system but faces challenges in the area of social housing. The share of people at risk of poverty or social exclusion (AROPE) was 12.0% overall and 15.0% among children in 2023, making Czechia a 'best performer' (vs EU averages of 21.3% and 24.8%, respectively). Both indicators slightly increased from 2022 in a context of above EU average inflation. The real gross disposable household income per capita (GDHI) decreased from 123.9 in 2022 to 121.6 in 2023 and is 'to watch'. Housing affordability in Czech cities requires close monitoring with a signficantly higher (13.2%) housing cost overburden rate recorded in 2023 compared to rural areas (6.0%) (9.1% overall, 'on average'). Finally, Czechia is still 'better than average' concerning self-reported unmet needs for medical care.

In light of the findings from the above first-stage analysis, and notably 4 indicators flagging as 'critical' or 'to watch', **Czechia does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Denmark

The labour market tightness of recent years is slightly easing, while unemployment has increased. After years of record employment growth, 2023 saw a marginal decrease in the employment rate, to 79.8% (-0.3 pps compared to 2022), generating a shift from 'better than average' to 'good but to monitor'[292]. As economic growth was less job-rich than in the post-pandemic period, the unemployment rate increased by 0.6 pps to 5.1% already in 2023, resulting in a situation that is 'to watch'. While pressure on the labour market eases[293], the country continues to face labour shortages in certain sectors, particularly those related to the green and digital transitions. Regional differences also exist regarding difficulties with recruiting new workers[294]. The situation of young people neither in employment nor in education and training (NEET) is still 'better than average', despite an increase by 0.7 pps to 8.6% in 2023. Similarly, Denmark also performs 'better than average' regarding the gender employment gap, which now stands at 5.6 pps compared to the EU average of 10.2 pps.



Source: Eurostat [lfsi_emp_a], [une_rt_a], EU LFS.

The share of early leavers from education and training has increased since 2020. The indicator rose from 10.0% in 2022 to 10.4% in 2023 (0.9 pps above the EU average) and is 'to watch'. This warrants attention also in light of the overall shortages of skilled workers experienced by the country. The participation rate of adults in learning at 47.1% in 2022 is 'better than average' (EU 39.5%), even after a small decrease from 2016, and the share of adults who have at least basic digital skills is also 'better than average' (at 69.6% in 2023). Denmark is among the countries with the highest share of children under 3 years in formal childcare (69.9% in 2023, 'good but to monitor' following a 4.8 pps drop from 2022).

The social protection system functions very well, but housing costs continue to weigh on vulnerable groups. The situation in relation to the risk of poverty or social exclusion overall is 'better than average' and Denmark is a 'best performer' in relation to child poverty and the impact of social transfers (other than pensions) on poverty reduction. However, at 15.4%, the share of households overburdened by housing costs remains large. For the third year in a row, the situation is considered 'critical', reflecting the limited supply of affordable housing in larger cities.

In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'critical' or 'to watch', **Denmark does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

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[292] There is a break in time series for the 2023 value of the employment, unemployment, long-term unemployment, labour force participation and NEET rates as well as the gender employment gap, reflected in the figure.

[293] European Commission, European Economic Forecast Autumn 2024.

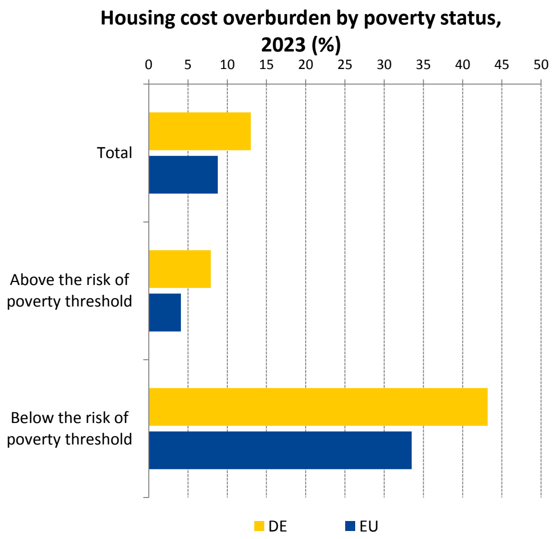
[294] The Danish Agency for Labour Market and Recruitment (March 2024), Recruitment Survey Report.

Germany

In the area of education and skills, the situation regarding early school leavers is challenging, while Germany performs well on adult learning. The share of early leavers from education and training is high, and increased to 12.8% in 2023 (vs 9.5% in the EU), indicating a 'critical situation'. At the same time, the share of 15-year-olds lacking basic skills in mathematics and science (29.5% and 22.9% respectively in 2022) has nearly doubled since 2012 (PISA, 2022), with a further increased socio-economic impact on education outcomes. This requires attention also in light of the skills needed by the labour market and the green and digital transitions. On the other hand, the share of the adult population with at least basic digital skills increased by 3.3 pps to 52.2% in 2023 (vs 55.6% in the EU) and is now 'on average', while the overall adult participation in learning, at 53.7% in 2022, makes Germany one of the 'best performers' in the EU.

The German labour market performs well overall, but there are persistent labour and skills shortages and women are not sufficiently integrated in the labour market. Despite the economic slowdown, the employment rate is high and increased to 81.1% in 2023 ('better than average'), while the unemployment rate and its long-term component stayed at very low levels (respectively 3.1% ('best performer') and 1.0% ('better than average') in a context of labour shortages. On the other hand, while the gender employment gap is 'on average', at 7.7 pps in 2023, the gender gap in part-time employment remained one of the highest in the EU (at 36.9 pps vs 20.2 pps in the EU). The current marital tax-splitting system is estimated to keep up to 185 000 full-time equivalents out of the labour market. The share of children under 3 years in formal childcare (23.3% in 2023 vs 37.5% in the EU) is 'to watch'.

On the social side, housing affordability continues to pose significant challenges due to limited supply. The housing cost overburden rate has increased at a significantly faster pace in Germany compared to the EU (1.1 pps vs 0.1 pps), reaching a higher-than-average 13.0% in 2023, and remains thus 'to watch'[295]. Although ongoing and planned policy initiatives are aiming at supporting more affordable housing, this situation is particularly difficult for people at risk of poverty, for which this rate rose to 43.2% (vs 33.6% in the EU). In a context of high inflation in 2022 and 2023, purchasing power of households was reduced and the shares of the population and of children at risk of poverty or social exclusion, respectively at 21.3% and 23.9% in 2023, increased since 2020 (respectively +0.9 pps and +1.6 pps) and is 'on average'.



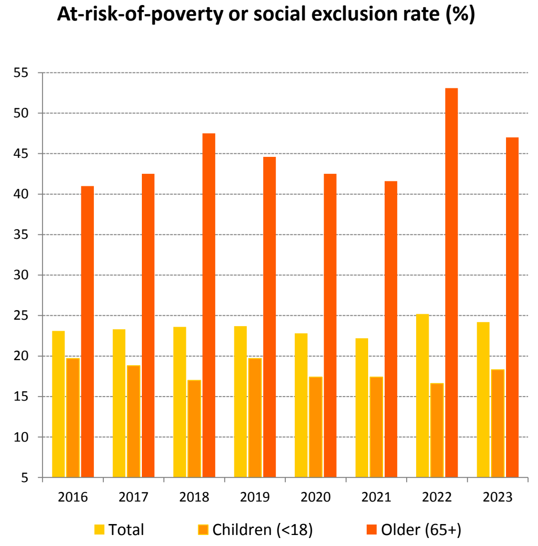
Source: Eurostat [tessi163], EU-SILC.

In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'critical' or 'to watch', **Germany does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

[295] There is a break in time series for the indicator in 2023.

Estonia

Estonia faces challenges in the area of social protection and inclusion. The share of people at risk of poverty or social exclusion (AROPE) decreased by 1.0 pp to 24.2%. However, it is still above the EU average of 21.3%, and is 'to watch' in 2023. The risk of poverty or social exclusion among children is 'better than average', although with an increase by 1.7 pps. For older people and persons with disabilities these risks remain among the highest in the EU (at 47% and 41% vs 19.8% and 28.8% in the EU, respectively). In this context, it is noteworthy that the impact of social transfers (other than pensions) on poverty reduction decreased from 28.1% in 2022 to 27.7% in 2023, remaining below the EU average of 34.7% and is therefore 'to watch'. Inequality, measured by the income quintile share ratio, rose from 5.0 in 2021 to 5.4 in 2023 (also 'to watch') against an EU average of 4.7 in 2023. Estonia has one of the highest levels of self-reported unmet needs for medical care in the EU (12.9% vs 2.4% in 2023), which is a 'critical situation'. Access to healthcare remains a challenge in a context of rising shortages of healthcare staff, high out-of-pocket payments, and fast population ageing.



Source: Eurostat [ilc_peps01n], EU-SILC.

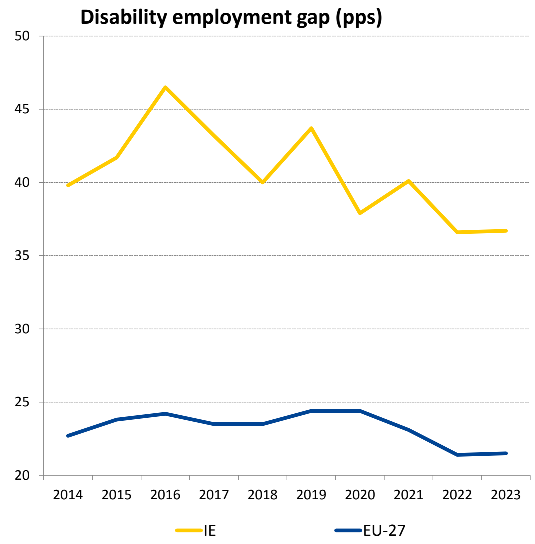
Employment continued to expand in 2023, with improvement notably on the disability employment gap. The employment rate reached 82.1%, being one of the 'best performers' in the EU while the long-term unemployment rate, at 1.3%, remained 'better than average'. However, in the context of a contraction in real GDP in 2023, the unemployment rate increased from 5.6% in 2022 to 6.4% in 2023 and is therefore 'to watch'. Regional differences in unemployment are considerable, with much higher figures in the North-Eastern part of Estonia (10.1% in 2023)[296], characterised by the predominance of the industrial sector. Estonia has one of the lowest gender employment gaps in the EU, being among the 'best performers' over the last three years. At the same time, the disability employment gap decreased significantly (by 6.0 pps) compared to 2022 (20.2% vs 21.5% in the EU), and is thus now 'better than average'. Gross disposable household income decreased for the second year in a row (from 130.5 in 2022 to 125.9 in 2023) and is now 'to watch'.

In the education and skills domain, Estonia registered positive developments. It made substantial progress in relation to participation in adult learning, which increased from 33.9% in 2016 to 41.8% in 2022 ('better than average', compared to the EU average of 39.5% in 2022). In addition, the share of the population with at least basic digital skills improved in 2023 and is now also 'better than average', as is the share of early leavers from education and training, following one of the largest improvements from 'to watch' previously.

In light of the findings from the above first-stage analysis, and notably 6 indicators flagging as 'critical' or 'to watch', including one that deteriorated over time, **Estonia is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

[296] Statistics Estonia: Unemployment rate | Statistikaamet.

Ireland



Note: Break in the IE time series in 2019.
Source: Eurostat [tepsr_sp200], EU-SILC

Employment expanded further in 2023 though disadvantaged groups still face significant barriers in accessing employment. In 2023, in spite of strongly decelerating economic growth, the employment rate, at 79.1%, reached another record high ('on average') due to both migration and higher participation in the labour force. The unemployment rate at a historical low of 4.3% ('better than average') reflects a still tight labour market. The gender employment gap decreased significantly, from 11.4 pps in 2022 to 9.9 pps in 2023, and is now 'better than average', with greater flexible work opportunities and increasing childcare subsidies having contributed to it. At the same time, despite a slight improvement over recent years, the disability employment gap remains much wider than the EU average, at 36.7 pps against 21.5 pps, still displaying a 'critical situation'. Thus, strengthening the employability of underrepresented and disadvantaged groups, such as persons with disabilities, single parents, the low-skilled, Roma and Traveller minorities, can help respond to existing and future labour and skills shortages. New outreach and activation measures, also supported by the ESF+, aim at reducing this gap. Finally, Ireland had a gross disposable household income per capita growth in 2023 that was 'on average'.

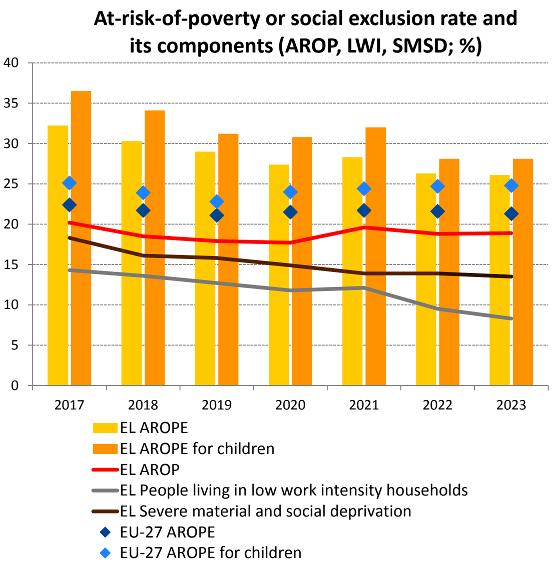
Ireland performs well on education and skills. The country is still among the 'best performers' regarding the early school leaving rate, at 4.0% in 2023, despite an increase (from 3.7% in 2022). Irish adults are also more likely to participate in learning than the EU average, with 48.3% vs 39.5% in the EU in 2022 ('better than average'). Moreover, the share of adults with at least basic digital skills is one of the highest in the EU, at 72.9% in 2023 vs 55.6% in the EU, putting the country again among the 'best performers'.

The Irish social protection system effectively alleviates poverty though some groups still face greater risks and challenges are still reported on early childhood education and care. Risks of poverty or social exclusion overall and for children are 'on average'. Single parents, Travellers and persons with disabilities are considerably more at risk. As regards the impact of social transfers (other than pensions) on poverty reduction, Ireland remains among the 'best performers' (at 57.8% vs 34.7% in the EU). Though the participation of children under 3 years in formal childcare increased from 18.3% in 2022 to 22.1% in 2023, it remains 'to watch' as it is still well below the EU average of 37.5%. Despite improvements some financial and non-financial barriers (availability, complexity of the system) persist. The availability of housing deteriorated, with long waiting lists for social housing and record high homelessness, partly due to weak tenants' rights. Homelessness increased sharpest among children and single parent families.

In light of the findings from the above first-stage analysis, and notably 2 indicators flagging as 'critical' or 'to watch', **Ireland does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Greece

In a context of high inflation and reduced social spending relative to GDP, Greece faces significant challenges in the area of social protection and social inclusion, with most indicators pointing to a 'critical situation'. More specifically, the reduction of poverty through social transfers (other than pensions) decreased by 2.1 pps to only 18.2%, which is 16.5 pps below the EU average. Although the share of people at risk of poverty or social exclusion (AROPE) remained relatively stable at 26.1%, after slow improvement over the past six years, it is still well above the EU average of 21.3%. Furthermore, the share of households overburdened by housing costs rose to 28.5% in 2023, which is one of the highest in the EU (8.8% on average). At the same time, the self-reported unmet needs for medical care further increased, reaching one of the highest levels (11.6% in 2023, from 9.0% in 2022, vs 2.4% in the EU). At 28.1%, the AROPE rate for children remained stable but continues to be above the EU average of 24.8%, indicating a situation that is 'to watch'. Inequality, as measured by the income quintile share ratio, has marginally increased to 5.3 (vs 4.7 in the EU) and is also 'to watch' due to its high level.



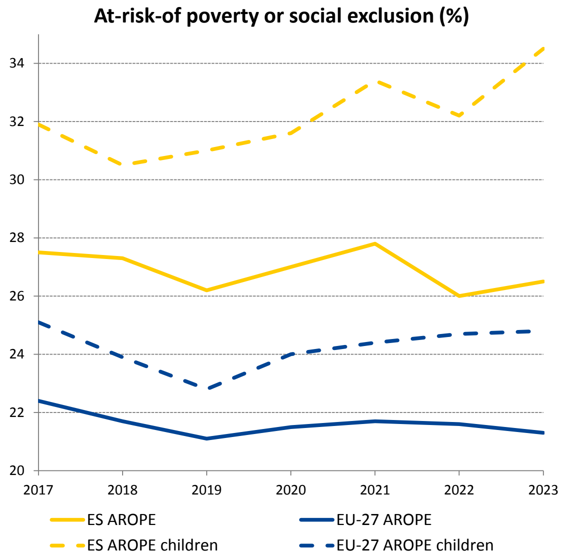
Source: Eurostat [ilc_peps01n], [tepsr_lm430], [ilc_li02], [tespm030], EU-SILC.

The Greek labour market presents significant challenges, notably for women and young people. In 2023, the employment rate rose by 1.1 pps on the back of still robust economic growth. However, only 67.4% of the working-age population was employed, remaining significantly below the EU average of 75.3%. Employment rates present a 'critical situation' particularly among women and young people. Despite its limited increase by 1.7 pps to 57.6% in 2023, the employment rate of women is one of the lowest in the EU and leads to one of the widest employment gaps (19.8 pps). The share of young people neither in employment, nor in education and training increased by 0.6 pps to 15.9% in 2023, which is significantly higher than the EU average of 11.2%. Furthermore, gross disposable household income per capita, at 81.6% in 2023, remains among the lowest, despite an increase from 2022 (vs an EU average of 111.1%), moving from a 'critical situation' to 'weak but improving'. On the other hand, the disability employment gap for Greece is 'on average'.

Skills development is a priority for Greece in view of the digital and green transitions and on the background of increased labour shortages in key sectors. The share of adults participating in learning during the last 12 months decreased from 16.0% in 2016 to 15.1% in 2022, which is among the lowest levels in the EU and represents a 'critical situation'. At the same time, in 2023, 52.4% of adults (vs 55.6% in the EU) had at least basic digital skills, which is 'on average'. Basic skills are among the lowest in the EU, also following one of the sharpest declines. On the other hand, the share of early leavers from education and training decreased by 0.4 pps from 2022 to 2023 and remained well below the EU average (3.7% vs 9.5% in the EU), putting Greece among the 'best performers'.

In light of the findings from the above first-stage analysis, and notably 9 indicators flagging as 'critical' or 'to watch', **Greece is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Spain



Source: Eurostat [ilc_peps01n], EU-SILC.

Spain experiences challenges in relation to social protection and inclusion. In 2023, the shares of the population at risk of poverty or social exclusion overall and among children increased to 26.5% and 34.5%, respectively, significantly above their EU averages (of 21.3% and 24.8%) and representing 'critical situations'. This can be partly attributed to adequacy and coverage challenges within the social protection system, regional disparities in access to public services and persistently high in-work poverty. Despite some improvement, income inequality, as measured by the income quintile share ratio, remains high in 2023 (5.5 vs 4.7 in the EU) and is 'to watch'. The impact of social transfers (other than pensions) on poverty reduction decreased to 22.9% in 2023 (vs 34.7% in the EU), deteriorating over two consecutive years and moving to a 'critical situation'. The effectiveness of social transfers is particularly low in reducing child poverty risks (17.0% vs 41.4% in the EU). On the other hand, the share of children below 3 years in formal childcare is 'better than average' in Spain.

The Spanish labour market has significantly improved but still faces challenges. The employment rate increased substantially to 70.5% in 2023 (vs 75.3% in the EU), moving from a 'critical situation' to 'weak but improving'[297]. This was driven by robust economic growth, strong employment expansion of people born outside the EU, and an increase of employment in trade, technical and scientific occupations and public sector job creation. The unemployment rate (12.2%) and its long-term component (4.3%) are also 'weak but improving' in light of still very high levels despite large declines, especially for older workers and in the Canary Islands. While the share of young people neither in employment nor in education and training (NEET) continued to decrease (to 12.3% in 2023), it remains large and 'to watch'. The disability employment gap, among the lowest in the EU and decreasing, places Spain among the 'best performers'. Finally, the real gross disposable household income per capita was 'weak but improving' in 2023 due to a strong increase.

Spain faces challenges in relation to early leaving from education and training, while performing well on digital skills. The share of early leavers from education and training slightly decreased in 2023, to 13.7% (vs 9.5% in the EU), but remains high and in a 'critical situation'. Related regional disparities are still significant despite shrinking in 2023, with particularly high levels in the south and east and worsening trends in the south and Canary Islands. Overall, adult participation in learning was 'on average' in 2022, at 34.1% (vs 39.5% in the EU), following a 3.7 pps increase compared to 2016. On the other hand, Spain's 'better than average' performance on digital skills supports well the green and digital transitions.

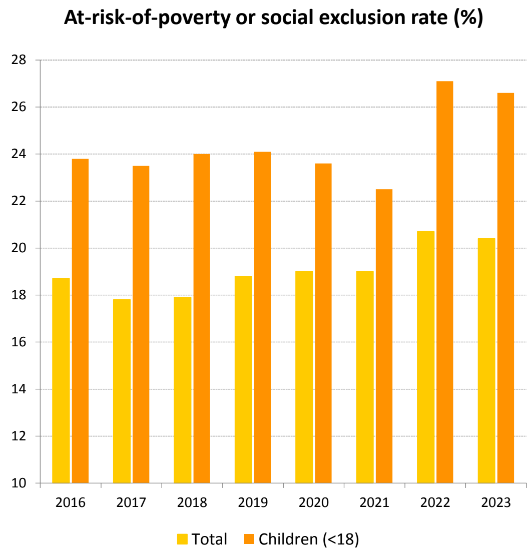
In light of the findings from the above first-stage analysis, and notably 6 indicators flagging as 'critical' or 'to watch', including one that deteriorated over time, **Spain is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

[297] The definition of Spain's labour market indicators differ from the usual ones in 2022 and 2023 (see Eurostat Metadata).

France

The labour market remained dynamic in 2023 despite a slowdown of the economy in the second half of the year and increasing supply bottlenecks. In 2023, the employment rate rose to 74.4%, while the unemployment rate remained at 7.3%, the lowest level since 2008, with the outermost regions scoring considerably worse. Both indicators are 'to watch', as the relative performance has somewhat deteriorated[298]. The youth unemployment rate slightly receded (-0.1 pps to 17.2%), but the share of young people neither in employment nor in education and training (NEETs) increased to 12.3% and is now also 'to watch'. The labour market integration of some vulnerable groups continues to be challenging, in particular those born outside the EU and people with low educational attainment. The gender employment gap is 'better than average' (5.5 pps in 2023 vs 10.2 pps in the EU) and further narrowing. The disability employment gap has been decreasing since 2020, reaching 19.9 pps in 2023 (vs 21.5 pps in the EU), and is now also 'better than average'.

Despite comparatively high investments in social protection, poverty risks are higher over the past few years, in a context of growing inequalities. Overall, France ranks 'better than average' in relation to the impact of social transfers (other than pensions) on poverty reduction (41.9% in 2023 vs 34.7% in the EU). After a considerable increase in 2022, the share of the population at risk of poverty or social exclusion (AROPE) decreased in 2023 by 0.3 pps, to 20.4%, below the EU average of 21.3% ('on average')[299]. The AROPE rate of children also fell (by 0.5 pps) to 26.6% in 2023, but remains above the EU average of 24.8%, and continues to be 'to watch'. The growth of gross domestic household income per capita remained below the EU average in 2023 and is 'to watch'. Inequality, as measured by the income quintile share ratio, is 'on average', though increasing since 2018. The outermost regions fare considerably worse than metropolitan France across all domains of the Social Scoreboard.



Source: Eurostat [ilc_peps01n], EU-SILC.

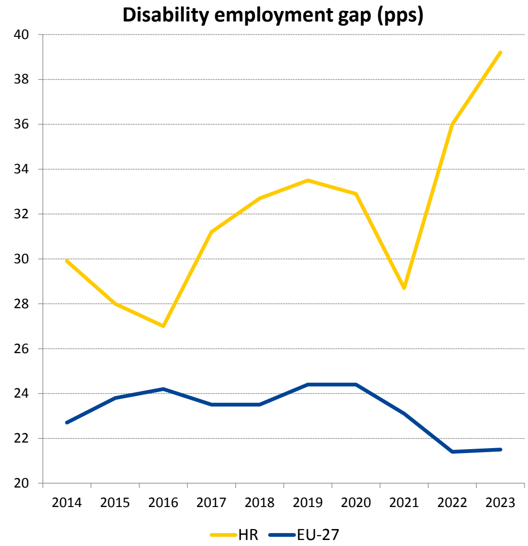
France performs overall well regarding indicators on equal opportunities. The share of adults with at least basic digital skills as well as early leavers from education and training are 'on average' (at 59.7% and 7.6% in 2023, respectively). France is a 'best performer' regarding the share of children aged less than 3 years in formal childcare. Nevertheless, the education system is marked by a significant share of low achievers and high inequalities, also reflected in the 2022 PISA results. The shortage of skilled workers is one of the main obstacles to recruitment and could hamper the green and digital transitions.

In light of the findings from the above first-stage analysis, and notably 5 indicators flagging as 'to watch', **France does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

[298] The definition of France's labour market indicators differ from the usual ones in 2022 and 2023 (see Eurostat Metadata).

[299] There is a break in time series in 2020 and 2022: the FR-SILC survey includes in 2022 for the first time 4 overseas departments (French Guiana, Réunion, Martinique and Guadeloupe).

Croatia



Note: Break in the HR time series in 2023.
Source: Eurostat [tesp_sp200], EU-SILC.

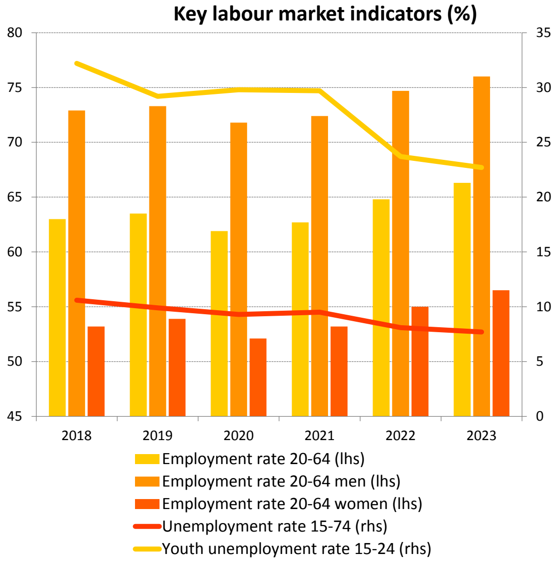
The labour market is continuing its upward trend, but vulnerable groups face substantial challenges. Despite continuous improvement since 2021, the employment rate remains significantly lower than the EU average (70.8% vs 75.3% in 2023) and in 'critical situation' for the third consecutive year. In 2023, supported by still relatively strong economic growth, the unemployment and long-term unemployment rates decreased and reached 6.1% and 2.1% ('better than average' and 'on average' respectively). After a substantial improvement, real gross disposable household income (GDHI) per capita was 'better than average' at 130.6 (111.1 in the EU). However, some vulnerable groups, such as older and low-skilled workers, continue to have difficulties to find good quality jobs. The disability employment gap indicates a 'critical situation' in 2023 (at 39.2 pps vs EU 21.5 pps), after widening for the second time. The gender employment gap, on the other hand, was 'better than average' at 7.7 pps (10.2 pps in the EU). The share of young people neither in employment nor in education and training (NEET) improved and 'on average' in 2023 (11.8% vs EU 11.2%), even if more than half are inactive.

Croatia faces some challenges regarding life-long learning and skills acquisition. The country remains a 'best performer' regarding the share of early leavers from education and training, which stood at 2.0% in 2023 compared to an EU average of 9.5%. At the same time, the share of children aged less than 3 years in formal childcare increased to 29.6% in 2023 (from 27.5% in 2022) and now performs 'on average', even though it remains 7.9 pps below the EU average. Despite persistent skills mismatches in the labour market, only 23.3% of Croatian adults participated in learning in the previous 12 months in 2022, against 39.5% in the EU and after a decrease from 26.9% in 2016. This is putting at risk the potential to increase future competitiveness including the green and digital transitions and is 'to watch'. While the share of adults with at least basic digital skills was 59.0% in 2023 (55.6% in the EU), it is now also 'to watch' due to the significant deterioration (by 4.4 pps) since 2021.

Croatia faces some challenges in the social protection and social inclusion domain. The at-risk-of-poverty or social exclusion rate (AROPE) remains 'on average' for the total population (20.7% vs EU 21.3%) and 'better than average' for children (17.3% vs EU 24.8%), yet higher than the EU average for persons with disabilities (37.5% vs 28.8%). The impact of social transfers (other than pensions) in reducing poverty has been 'critical' since 2020 and was significantly lower than the EU average in 2023 (20.9% vs 34.7%). This requires close monitoring also in relation to the high cost of living. Moreover, inequality (as measured by the income quintile share ratio) reached its highest level since 2018 at 4.91 in 2023 (vs 4.7 in the EU) and is now 'to watch'. The situation regarding the housing cost overburden rate and the self-reported unmet needs for medical care is 'better than average'.

In light of the findings from the above first-stage analysis, and notably 6 indicators flagging as 'critical' or 'to watch', **Croatia is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Italy



Note: Break in time series in 2018.
Source: Eurostat [lfsi_emp_a], [une_rt_a], EU LFS.

Despite a sustained recovery in employment, Italy faces important labour market challenges. While the employment rate reached a record 66.3% in 2023, despite a slowdown in economic growth, it is still 9.0 pps below the EU average and 'weak but improving'. It particularly lags behind in the south (52.5%) and on the islands (51.5%). Although the unemployment rate (7.7%) and its long-term component (4.2%) declined in 2023, they remain among the highest in the EU, in a 'to watch' and 'critical situation', respectively. Also, the gender employment gap presents a 'critical situation', at 19.5 pps in 2023, more than twice the EU average, and without significant improvements over the past decade. The low labour market participation, in particular of women and youth, remains a challenge in light of the pressing demographic challenge. On the other hand, Italy remains among the 'best performers' regarding the disability employment gap. Finally, the gross disposable household income per capita further decreased to 94.0% in Italy in 2023 compared to 2008 (vs an EU average of 111.1%), pointing to a 'critical situation'.

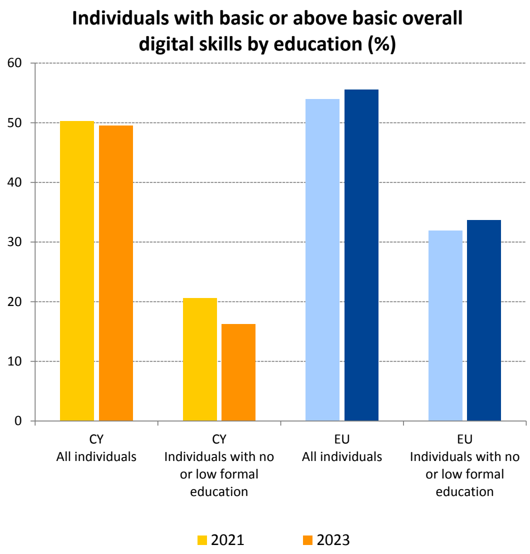
The situation for young people shows signs of improvement, but Italy faces challenges on adult learning. The share of adults participating in learning at 29.0% in 2022 (vs EU 39.5% and 33.9% in 2016) was 'to watch'[300]. Moreover, in 2023 only 45.8% of Italian adults had at least basic digital skills, thus also remaining 'to watch', particularly in light of the green and digital transitions. Conversely, the situation of early leavers from education and training as well as of young people neither in employment nor in education and training (NEET) improved, decreasing by 1.0 pps and 2.9 pps respectively, and are now 'weak but improving'. Early school leaving, however, is considerably higher among non-EU citizens (29.5%) than among nationals (9.0%). At 16.1%, Italy still has one of the highest NEET rates in the EU (11.2%) ('weak but improving') and pupils' weak basic skills remain a challenge.

In the social area, advances have been registered but there is scope for further improvements. In 2023, the share of both the general population and of children at risk of poverty or social exclusion (AROPE) decreased, respectively by 1.6 pps and 1.4 pps ('better than average' and 'weak but improving', respectively), driven by a reduction of people at risk of monetary poverty and of those living in households with very low work intensity. At 22.8% and 27.1%, both rates remain above the EU averages. Social transfers other than pensions, such as the universal child allowance, reduced monetary poverty by 30.5% ('better than average'). Yet, regional differences are large and the share of those affected by severe material and social deprivation increased, in line with the high and stagnant share of people living in absolute poverty, at 9.8% in 2023 (pre-pandemic level: 7.6%).

In light of the findings from the above first-stage analysis, and notably 6 indicators flagging as 'critical' or 'to watch', **Italy is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

[300] There is a break in time series for the indicator in 2023.

Cyprus



Source: Eurostat [isoc_dskl_i21], ESS ICT Survey.

Skills development shows deteriorations and new challenges arise. The share of early leavers from education and training increased steeply, from 8.1% in 2022 to 10.4% in 2023, which is now 'to watch'. At the same time, skills mismatches are strong: in 2022, 31.8% of employed people were over-qualified for their job, i.e. 9.6 pps more than the EU average. Digital literacy has declined and is particularly low, with only 49.5% of adults having at least basic digital skills in 2023 (vs EU 55.6%), and the situation remains 'to watch'. Moreover, more than half of all students lack basic skills in mathematics (53.2%) and reading (60.6%), among the highest shares in the EU. Only 11.2% of all graduates in 2021 were STEM students, which is one of the lowest in the EU (average is 25.4%), while demand for STEM jobs is forecast to be 50% higher by 2032 than the 2021 supply. The share of adults participating in learning in the previous 12 months is low at 28.3% in 2022 (vs 39.5% in the EU), after a large drop from 44.8% in 2016, which is a situation 'to watch'. On the other hand, the share of children aged less than 3 years in formal childcare was 36.9% in Cyprus in 2023, (vs EU 37.5%), after a substantial increase from the previous year, a 'better than average' overall performance.

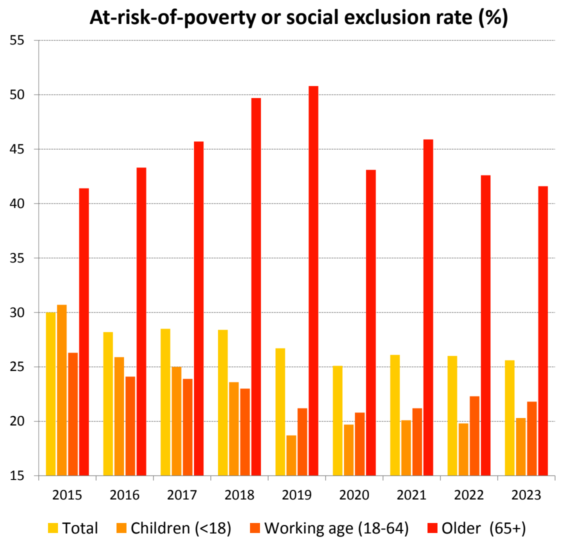
The Cypriot labour market is overall performing well but some population groups still face challenges. On the back of still relatively robust economic growth in 2023, the employment rate increased further to 79.5% in 2023 (vs EU 75.3%), and the unemployment rate and its long-term component fell to 5.8% and 1.8%, respectively, ('better than average', 'better than average' and 'on average', respectively). The gender and disability employment gaps are 'better than average' and 'on average', respectively. At the same time, the share of young people neither in employment, nor in education and training (NEETs) remains high, at 13.9% vs 11.2% in the EU, even after a decrease of 0.8 pps, in a 'critical situation'. Finally, real gross disposable household income per capita remains low, even if above its 2008 level, after a slight deterioration from 2021, 'on average'.

The social protection system appears effective in supporting good social outcomes in Cyprus. The risk of poverty or social exclusion, overall and for children, stood at 16.7% in 2023 (vs 21.3% overall and 24.8% for children in the EU), the country performing 'better than average' under both dimensions. This is closely related to a stable level and distribution of real income in 2022, also reflecting that price increases were initially muted in 2022. It is also reflecting, among others, the impact of social transfers (other than pensions) on reducing poverty, which is 'on average' (30.5% vs 34.7% in the EU), and the low housing cost overburden, for which Cyprus is a 'best performer'. The self-reported unmet needs for medical care are, at 0.1%, among the lowest in the EU and 'better than average'.

In light of the findings from the above first-stage analysis, and notably 4 indicators flagging as 'critical' or 'to watch', **Cyprus does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Latvia

Challenges in the social domain are significant, especially for older people. In the context of an economy which contracted**,** the share of people at risk of poverty or social exclusion (AROPE) remained in a ‘critical situation’ in 2023, at 25.6% (vs an EU average of 21.3%), despite a decrease by 0.4 pps from 2022. For children, the share increased to 20.3%, from 19.8% in 2022, and was ‘on average’. On the other hand, it was particularly high for older people, at 41.6%, which is more than double the EU average (19.8%). At the same time, the impact of social transfers (other than pensions) on poverty reduction decreased from 25.0% in 2022 to 23.5% in 2023 (vs 34.7% in the EU), and is ‘to watch’. Income inequality, as measured by the income quintile share ratio, has been persistently ‘critical’ over the past three years, with one of the highest values, at 6.2 in 2023 vs 4.7 in the EU. The recent minimum income reform and the minimum wage increase to EUR 700 in 2024 aim to address challenges of high poverty risks and inequality, but the results are yet to be seen. Finally, the self-reported unmet needs for medical care continue to indicate a ‘critical situation’, affecting 7.8% of the population in 2023 (vs 2.4% in the EU), and having nearly doubled since 2021.



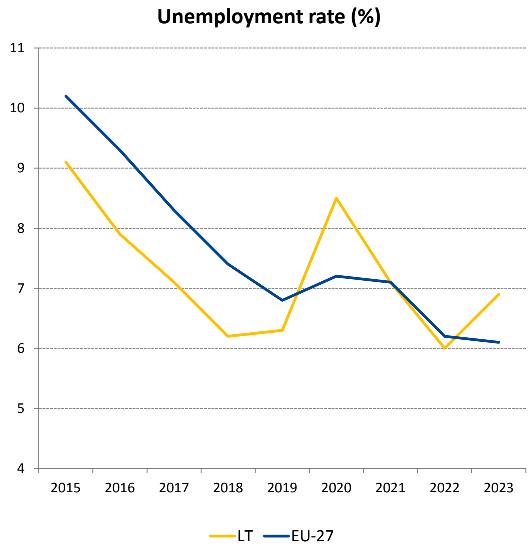
Source: Eurostat [ilc_peps01n], EU-SILC.

The performance on education and skills remains ‘on average’, but with deteriorations. The participation of adults in learning (over the past 12 months) decreased in 2022 (34.1% vs 39.5% in the EU), just as the share of adults with at least basic digital skills from 50.8% in 2021 to 45.3% in 2023 (vs 55.6% in the EU). The latter is now ‘to watch’, which might negatively impact the digital transition in Latvia. The share of early leavers from education and training slightly increased in 2023, to 7.7% (vs 9.5% in the EU), despite improvements in previous years. The impact of the recent measures addressing the vocational education and training reform on this area is being monitored.

The labour market stabilised following the post-pandemic recovery. In 2023, the employment rate rose further to 77.5% (from 77.0% in 2022), performing ‘on average’ for the second year in a row. Latvia remains amongst the ‘best performers’ on the gender employment gap and ‘on average’ in relation to young NEETs. It performs ‘better than average’ on the disability employment gap, following an improvement to 18.5 pps in 2023 (vs 21.5 pps in the EU), from 20.8 pps in 2022.

In light of the findings from the above first-stage analysis, and notably 5 indicators flagging as ‘critical’ or ‘to watch’, **Latvia does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Lithuania



Source: Eurostat [une_rt_a], EU LFS.

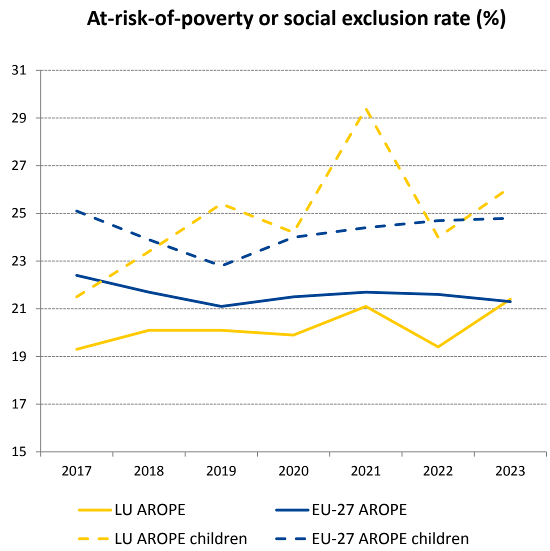
The labour market situation in Lithuania has slightly worsened in 2023, in the wake of the economic slowdown. The unemployment rate increased by 0.9 pps to 6.9% in 2023, and is now above the EU average of 6.1%; this represents a worsening performance in relative terms for two consecutive years (from 'better than average' in 2021 to 'on average' in 2022, and 'to watch' in 2023). At the same time, inflows of people fleeing the war in Ukraine, for whom employment dynamics differ, are also reflected in this increase. This could affect labour market figures temporarily. Nevertheless, the long-term unemployment rate stayed 'on average'. The situation is 'to watch' with regard to the employment rate; while it rose in most EU Member States, it declined to 78.5% in Lithuania in 2023 (from 79.0% in 2022), even though it is still well above the EU average (75.3% in 2023). Furthermore, the rate of young people neither in employment nor in education and training (NEET) increased by 2.8 pps to 13.5% in 2023 (vs 11.2% in the EU) and is also 'to watch'. The employment situation of persons with disabilities has been improving, as evidenced by the decrease in the gap from 35.0 pps in 2022 to 32.4 pps in 2023 (vs 21.5 pps in the EU) but it remains 'critical' in relative terms based on the Social Scoreboard headline indicator on the disability employment gap.

While the record-high 2022 inflation abated in 2023, Lithuania continues to face challenges related to social inclusion and social protection. Although the impact of social transfers (other than pensions) on poverty reduction is 'on average', the adequacy and coverage of social benefits and pensions remain low. The share of people at risk of poverty or social exclusion (AROPE) decreased by only 0.3 pps to 24.3% in 2023 (above the EU average of 21.3%), and remains 'to watch'. The rate is among the highest in the EU for persons with disabilities, at 42.7%. Inequality, as measured by the income quintile share ratio, is among the highest in the EU (6.3 vs 4.7), indicating a continuing 'critical situation' for the third year in a row. On the other hand, the housing cost overburden rate is 'better than average' and the share of children at risk of poverty or social exclusion is 'on average'.

In a context of fast green and digital transitions, challenges persist in relation to skills development. Adult participation in learning over the past 12 months was significantly below the EU average in 2022, at 27.4% vs 39.5%, and is thus 'to watch'. On the other hand, the share of adults with at least basic digital skills increased to 52.9% in 2023 (from 48.8% in 2022) vs 55.6% in the EU (now 'on average'). The share of children below 3 years in formal childcare decreased to 19.9% in 2023 (from 22.8% in 2022), thus breaking the positive trend observed in 2021-22, and remaining 'to watch'. At the same time, despite a 1.6 pps increase, the share of early leavers from education and training, at 6.4% in 2023, was still below the EU average of 9.5%, and thus 'good but to monitor'.

In light of the findings from the above first-stage analysis, and notably 8 indicators flagging as 'critical' or 'to watch', including one that deteriorated over time, **Lithuania is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Luxembourg



Note: Break in time series in 2020, 2021, 2022.
Source: Eurostat [ilc_peps01n], EU-SILC.

The social situation deteriorated in Luxembourg in 2023 and challenges related to housing costs remain. The share of people at risk of poverty or social exclusion (AROPE) overall (at 21.4%, vs 21.3 in the EU) and especially for children (26.1% vs 24.8% in the EU) recorded a large deterioration in 2023, in absolute and relative terms. This can be attributed to increased inflation negatively impacting on severe material or social deprivation as well as persistently high in-work poverty. Also, the impact of social transfers (other than pensions) on poverty reduction decreased by more than 6 pps to 27.4% (vs 34.7% in the EU). All three indicators are 'to watch'. Housing costs continue weighing on households' budgets: the high and increasing share of those overburdened by these costs, indicates a 'critical situation' for the second year after one of the largest hikes, at 22.7% against 8.8% for the EU. This is mainly driven by population growth, in the face of limited housing supply, and high-income disparities in Luxembourg city impacting on access. On the other hand, Luxembourg has one of the highest shares of children aged less than 3 years in formal childcare, with an increase from 54.7% in 2022 to 60.0% in 2023 (vs 37.5% in the EU). Moreover, self-reported unmet needs for medical care are 'better than average'.

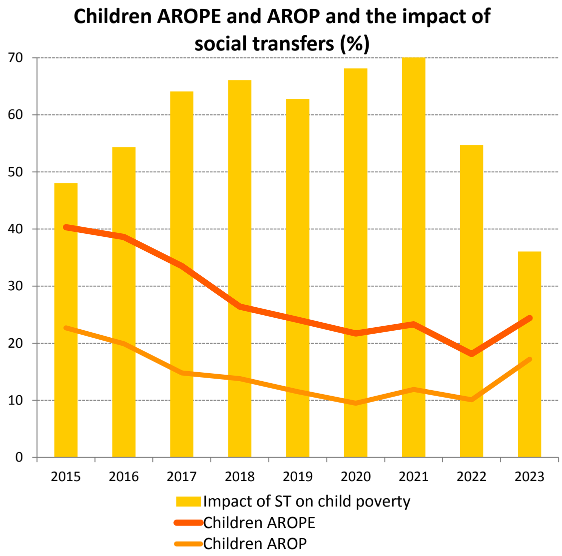
Recent trends point to a slowdown in labour market performance. In 2023, in a context of economic slowdown accompanied by persisting labour shortages, the employment rate stagnated at 74.8%, slightly below the EU average. The unemployment rate increased to 5.2% and is now 'to watch', having worsened in relative terms over two consecutive years (from 'better than average' and 'on average' in the previous two years). Moreover, long-term unemployment rose significantly by 0.4 pps to 1.7% in 2023, after having previously recovered to its low pre-pandemic level; it is now also 'to watch', as is the disability employment gap (at 23.7 pps vs 21.5 pps in the EU) after a rise by 15.2 pps in 2023. As for the share of young people neither in employment nor in education or training (NEET), it rose to 8.5% in 2023, becoming 'good but to monitor'.

Luxembourg performs well on education and skills overall but faces challenges regarding digital skills, which are instrumental for the twin transition. The country is mostly 'better than average' in this policy domain. In particular, the share of early leavers from education and training decreased again in 2023 (reaching 6.8% vs an EU average of 9.5%), and the share of adults participating in learning during the last 12 months reached 45.2% in 2022 (vs 39.5% in the EU). However, in 2023, the share of adults with at least basic digital skills (60.1%) experienced a large deterioration while most EU Member States recorded increases. Therefore, even if this figure is still well above the EU average of 55.6%, the indicator is now 'to watch'.

In light of the findings from the above first-stage analysis, and notably 8 indicators flagging as 'critical' or 'to watch', including one that deteriorated over time, **Luxembourg is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Hungary

Poverty and social exclusion increased, especially among children. In 2023, while still being close to the EU average, both rates worsened (by 1.3 pps to 19.7% and by 6.3 pps to 24.4% respectively), moving from 'on average' overall and from 'better than average' for children to 'to watch'. Monetary poverty (AROP) of children increased substantially and severe material and social deprivation rates were among the highest in the EU (10.4% overall, 15.1% for children and 17.9% for persons with disabilities, vs 6.8%, 8.4% and 11.0% in the EU). Following a 12% increase in 2023, income inequality is also 'to watch', even if still slightly below the EU average (4.5 vs 4.7). The impact of social transfers (other than pensions) on reducing poverty improved from 'to watch' to 'on average' in 2023 (34.5%), reflecting a much lower rate of decrease overall but with a large drop for children. The falling effectiveness of social transfers reflects the fact that while prices and nominal wages grew rapidly in recent years, social benefits such as minimum income and family benefits remained nominally unchanged.



Note: The impact of social transfer on child poverty reduction is calculated using pre-transfer and post-transfer AROP rates. Break in time series in 2022.
Source: Eurostat [ilc_peps01n], [ilc_li10], [ilc_li02], EU-SILC.

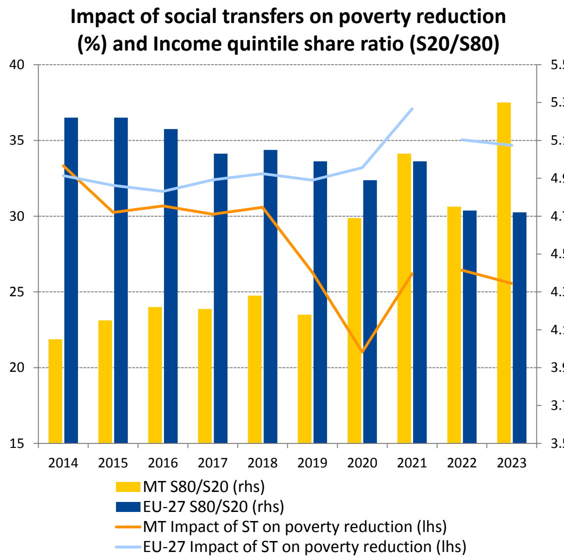
Hungary faces challenges in most sectors of education while performing above average on adult learning. The rate of early leavers from education and training remained high and in a 'critical situation' despite a decrease from 12.4% in 2022 to 11.6% in 2023. For Roma, this rate was six times higher as a result of systemic issues, pointing to significant challenges in providing them with access to appropriate education and skills for the labour market. Basic skills of pupils remain low with a significant impact of the socio-economic background. On the other hand, following past years' efforts to increase childcare capacities, the participation of children under 3 in formal childcare increased from 12.9% in 2022 to 20.3% in 2023 and is now 'weak but improving'. Hungary performed 'better than average' on digital skills and was a 'best performer' on adult learning in 2023 (58.9% and 62.2%, respectively, vs 55.6% and 39.5% in the EU). However, rates for people with low-skills, the unemployed and 55+ are lower than for the total population.

The Hungarian labour market keeps performing well overall; however, long-term unemployment has increased and outcomes for some vulnerable groups still lag behind. The employment and unemployment rates continued to be 'better than average' in 2023 and Hungary remains among the 'best performers' for real gross disposable household income per capita. While long-term unemployment remains lower than the EU average, it increased slightly in 2023, against a decreasing trend in the EU, which is 'to watch'. Vulnerable groups continue to face significant barriers on the labour market. The disability employment gap decreased by 2.8 pps in 2023 and is now 'to watch' due to its persistingly high level (29.6 pps vs 21.5 pps in the EU). The employment rates (15-64) for the low-skilled (38.7%) and the Roma (47.3%) were well below the Hungarian average (74.4%) in 2022.

In light of the findings from the above first-stage analysis, and notably 6 indicators flagging as 'critical' or 'to watch', **Hungary is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Malta

The social situation in Malta is showing increasing challenges. Against the background of solid economic growth, poverty or social exclusion risks, both overall and for children, are 'on average' (at 19.8% and 25.2%, respectively, vs 21.3% and 24.8% in the EU). Nonetheless, three social indicators are flagged as 'to watch'. Income inequality, as measured by the income quintile share ratio, increased from 4.8 in 2022 to 5.3 in 2023 (vs EU 4.7). The impact of social transfers (other than pensions) on poverty reduction is persistently low, at 25.6% in 2023, well below the EU average of 34.7%, and decreasing over the years. Finally, the housing cost overburden rate increased substantially, to 6.0% in 2023 from 2.9% in 2022, while remaining below the EU average. On the other hand, unmeet needs for medical care were reported by only 0.1% of the population (vs 2.4% in the EU), indicating a 'better than average' performance.



Note: Break in time series for the impact of social transfers in 2022 (disconnected lines).
Source: Eurostat [tespm050], [tessi180], EU SILC.

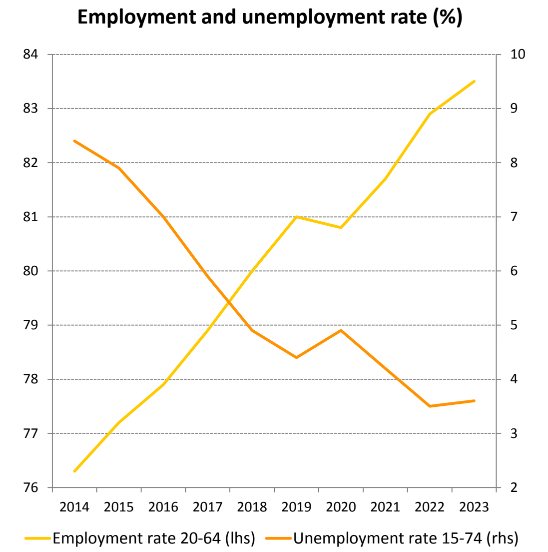
Early leaving from education and training remains a challenge, whereas participation of adults in lifelong learning has increased. Despite a further small reduction, the share of early leavers from education and training, at 10.2% in 2023 vs 9.5% in the EU, remains 'to watch'. Also, about one third of Maltese students lack basic skills in mathematics (32.6%) and reading (36.3%), well above the EU averages. Yet, the share of young people neither in employment nor in education and training (NEETs) at 7.6% was low in 2023 (11.2% in the EU). The share of children aged less than 3 years in formal childcare was quite high at 51.0% in 2023 (37.5% in the EU). Also, adult participation in learning in the past 12 months increased from 32.8% in 2016 to 39.9% in 2022. In all these three aspects, Malta performs 'better than average'. Among adults, 63.0% had at least basic digital skills (vs 55.6% in the EU, 'on average'), although large differences between skills levels remain.

The labour market performs strongly overall, yet challenges persist in relation to the gender employment gap. The employment rate in Malta was among the highest in the EU in 2023, at 81.3%, and the unemployment rate was at a historically low level of 3.5% ('better than average' and 'best performer' respectively). Also, the disability employment gap narrowed from 30.1 pps in 2022 to 25.8 pps in 2023 (vs 21.5 pps in the EU) and is now 'better than average'. While employment rates increased for both men and women, the gender employment gap widened to 14.1 pps in 2023, indicating a 'critical situation'. This significantly exceeds the EU average (10.2 pps) and represents one of the largest deteriorations since 2022.

In light of the findings from the above first-stage analysis, and notably 5 indicators flagging as 'critical' or 'to watch', **Malta does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

The Netherlands

The Dutch economy continues to perform relatively well on all Social Scoreboard indicators related to the labour market. Despite a marked economic slowdown in 2023, the labour market remained tight. The employment rate in the Netherlands rose to 83.5% in 2023 ('best performer'), well above the EU average (75.3%), and unemployment remains low despite a slight increase in 2023 (to 3.6%, 'better than average'). The share of young people neither in employment nor in education and training remains among the lowest in the EU, despite having increased further in 2023 (by 0.5 pps to 4.7%), making the country a 'best performer'. However, the risk of a highly segmented labour market remains one of the biggest structural challenges in the Netherlands. While the gender employment gap is 'on average' (7.8 pps vs 10.2 pps in the EU in 2023), part-time employment is widespread, in particular for women. This results in one of the widest gender gaps in part-time employment in the EU (41.8 pps against an EU average of 20.2 pps in 2023) and a substantial gender pension gap (39.9% vs 25.3% in the EU in 2023). Finally, the growth of gross disposable household income per capita has not kept up with the EU average (109.4 and 111.1, respectively) and remains 'to watch'.



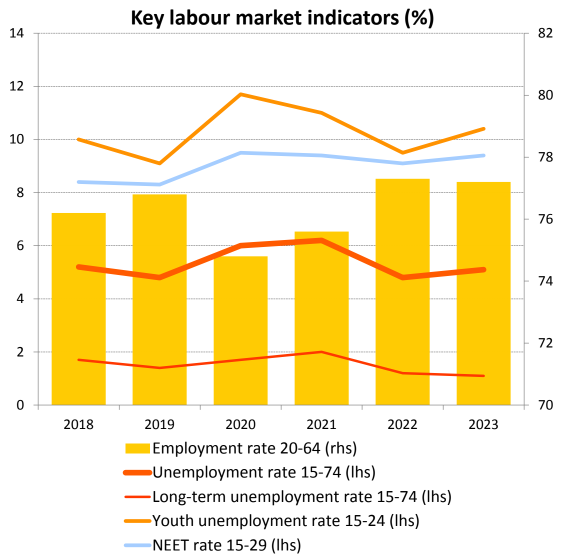
Source: Eurostat [lfsi_emp_a], [une_rt_a], EU LFS.

The Netherlands continues to show overall a strong performance in relation to skills formation Despite a slight increase compared to the previous year (0.6 pps), the rate of early leavers from education and training is still 'better than average' (6.2% in 2023). In 2023, 82.7% of the adult population had at least basic digital skills, which is among the highest shares in the EU ('best performer'). However, according to the 2022 PISA results general basic skills of students have deteriorated, posing a risk for skills development and competitiveness. While in 2012 the share of underachieving students was well below the EU average in all domains, by 2022 it had almost doubled in mathematics and science, and it was 2.5 times higher in reading. Since 2018, underachievement has increased especially among disadvantaged students. Effective outreach for up- and re-skilling of those in an unfavourable labour market situation (such as the low-skilled, people with flexible or temporary contracts, and people with a migrant background and persons with disabilities) remains important. In particular, as a consequence of its decentralised implementation, vulnerable groups may not always be equally or adequately supported.

The share of people at risk of poverty or social exclusion in the Netherlands remains relatively stable and well below the EU average. Challenges persist for specific groups, such as persons with disabilities or people with a migrant background, especially children. The housing cost overburden rate rose from 8.3% in 2020 to 9.3% in 2023 (vs 8.8% in the EU, 'on average'). People at risk of poverty are particularly affected, with a housing cost overburden rate of 34.5% (vs 33.5 % in the EU).

In light of the findings from the above first-stage analysis, and notably 1 indicator flagging as 'to watch', **the Netherlands does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Austria



Note: Break in time series for NEET rate in 2021.
Source: Eurostat [fsi_emp_a], [une_rt_a], [une_ltu_a], [edat_lfse_20], EU LFS.

In 2023, the recovery of the labour market showed some signs of slowing down. Following a significant increase in the previous year, the employment rate slightly declined to 77.2% in 2023, in the context of a contracting economy accompanied by widespread labour shortages as well as mismatches, and is now 'to watch'. The unemployment rate moderately increased to 5.1% in 2023 and is performing 'on average' (from 'better than average' the previous year). Conversely, the long-term unemployment rate further decreased and remains 'better than average'. And even though the gender employment gap remained 'on average' (7.8 pps in 2023), Austria recorded one of the highest female part-time employment rates (61.4%) and widest gender gap (38.6 pps) in this respect. When considering full-time equivalent employment, this leads to a considerably wider gender employment gap of 19 pps. The share of children less than 3 years in formal childcare only improved slightly by 1.1 pps in a year, to a still low level of 24.1% in 2023 (vs 37.5% in the EU) and therefore remains 'to watch'. This low rate and the limited supply of affordable high-quality childcare significantly contribute to the high rate of female part-time work. Finally, real gross disposable household income (GDHI) per capita stood below its 2008 level (at 98.5% in 2023), despite steadily recovering since the COVID crisis, andrepresents a 'critical situation'.

In the area of skills, Austria continues to show a good performance, but some challenges persist. The share of adults with at least basic digital skills is high (64.7% in 2023) and 'better than average'. The share of those participating in learning, though declining by 3.1 pps since 2016, was well above the EU average in 2022 (52.2% vs 39.5%, 'better than average'). Strengthening adults' skills acquisition, including in the digital and green domains, appears important to support the green and digital transitions and address related shortages. The share of early leavers from education and training was 'on average' at 8.6% in 2023. Simulatenously, only 30.5% of the unemployed (15-64) had at most lower secondary education, making them particularly vulnerable. Improving the basic skills for all can unlock their potential and improve employment outcomes.

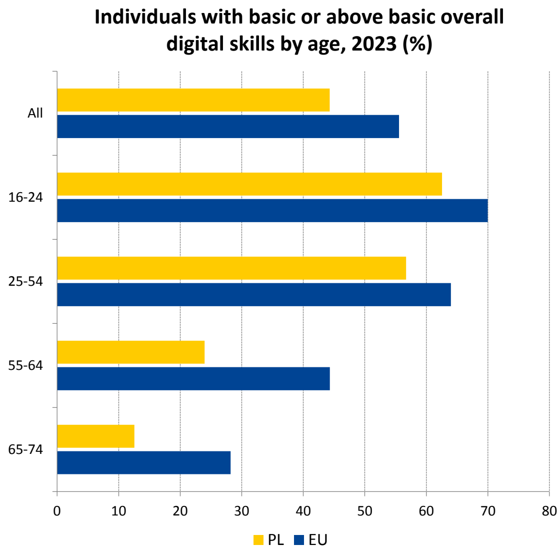
Austria performs relatively well in the area of social protection and inclusion. While the share of people at risk of poverty or social exclusion (AROPE) is 'better than average', at 17.7% in 2023, the AROPE rate for children increased to 22.7% ('on average'). In particular, severe material and social deprivation increased (by 1.2 pps) in 2023, although remaining well below the EU average. The housing cost overburden rate, in turn, decreased and is now 'better than average'. Also, the strong impact of social transfers (other than pensions) on poverty reduction (39.2% in 2023 vs 34.7% in the EU) and the low level of self-reported unmet needs for medical care continue to depict a situation that is 'better than average'.

In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'critical' or 'to watch', Austria **does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Poland

The labour market is robust, but women and persons with disabilities continue to face significant challenges. In 2023, the employment rate was the highest in three decades (77.9% vs 75.3% in the EU, 'better than average'). Moreover, Poland has one of the lowest unemployment rates, at 2.8%, being among the 'best performers' in the EU. However, labour shortages remain prominent, also due to the decline in the working-age population and lower labour force participation among certain population groups. In 2023, the gender employment gap recorded a higher-than-average drop but is still 'to watch', at 11.8 pps vs 10.2 pps in the EU. The labour force participation rate is relatively low as women tend to have more care responsibilities for children and people in need of long-term care. The share of children aged less than 3 years participating in formal childcare deteriorated significantly in 2023, to 12.6% (from 15.9% in 2022), and remains far below the EU average (37.5%), which represents a 'critical situation'. This low rate combined with quality challenges may impact on children's long-term learning prospects and the participation of women in the labour market. With an increase of 2.6 pps to 33.9 pps in 2023, the disability employment gap was among the widest in the EU (EU 21.5 pps) and indicates a 'critical situation'[301].

Poland shows some good developments regarding young people, but basic skills, digital skills levels and adult participation in learning remain very low. The share of adults participating in learning (over the past 12 months) was, at 20.3% in 2022, far below the EU average of 39.5%, representing a 'critical situation'. This results mainly from a low participation in non-formal education. In addition, despite an increase by 1.4 pps, the share of those with at least basic digital skills (44.3%) remained significantly below the EU average in 2023 (55.6%) and is also a 'critical situation'. Strengthening digital skills acquisition can support the green and digital transitions. In the 2022 OECD PISA survey, the share of 15-year-old students not meeting minimum levels in basic skills increased to 23% in mathematics, 22.2% in reading and 18.6% in science, among the highest increases in the EU compared to 2018. On the other hand, Poland is a 'best performer' regarding early leavers from education and training (3.7% vs 9.5% in the EU in 2023).



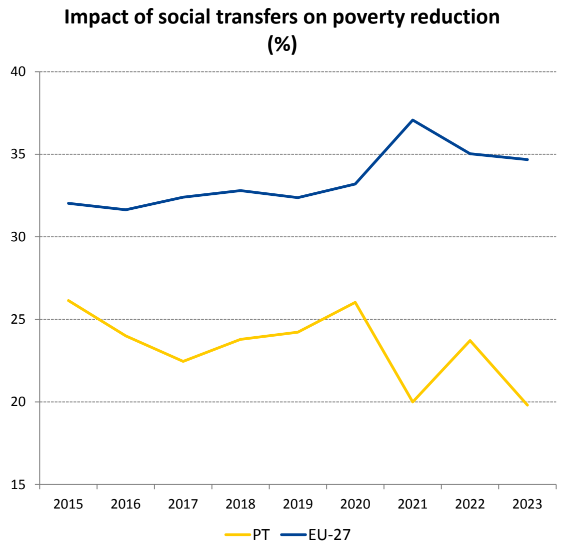
Source: Eurostat [eq_dskl07], ESS ICT Survey.

The social situation is relatively stable in Poland. In 2023, the at-risk-of-poverty or social exclusion rate (16.3% overall, and 16.9% for children) and income inequality (income quintile share ratio at 4.1) remained 'better than average' (compared to 21.3%, 24.8% and 4.7, respectively, in the EU). In particular, the share of children living in (quasi-) jobless households is noticeably lower than the EU average (3.1% vs 7.5%).

In light of the findings from the above first-stage analysis, and notably 5 indicators flagging as 'critical' or 'to watch', **Poland does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

[301] Low reliability is flagged for the disability employment gap indicator in 2023.

Portugal



Note: Break in time series in 2022.
Source: Eurostat [tespm050], EU-SILC.

The effectiveness of the Portuguese social protection system in alleviating poverty risks and reducing income inequalities has deteriorated. In 2023, the impact of social transfers (other than pensions) on reducing poverty declined by 3.9 pps and at 19.8% (vs 34.7% in the EU), indicates a 'critical situation'. The falling effectiveness of social benefits reflects that while prices and nominal wages grew rapidly in recent years, social benefits did not increase at the same pace. Moreover, inequality, as measured by the income quintile share ratio, also deteriorated in 2023, to 5.6 (vs 4.7 in the EU, 'to watch'). At the same time, the share of people at risk of poverty or social exclusion (AROPE) remained stable in 2023, at 20.1%, and is 'on average'. However, the AROPE rate increased by 1.9 pps (to 22.6%) for children from 2022 ('on average'), which is one of the most severe deteriorations in the EU . The share of people at risk of poverty or social exclusion is also particularly high in the outermost regions of Azores and Madeira (31.4% and 28.1% respectively). The indicator values worsened in the Lisbon Metropolitan Area and in the Azores (by 3.8 pps and 1.1 pps respectively), pointing to persistent challenges in regional cohesion.

While Portugal is performing on average in the area of skills, the rise in early leaving from education and training poses challenges. The share of early leavers increased from 6.3% in 2022 to 8.1% in 2023, and is now 'to watch', after deteriorating from 'better than average' in the previous two years, and thus reverting past improvements. Morevoer, there are significant regional disparites, with much higher rates for instance for the Algarve region (16%) and in particular the Autonomous region of Azores (21.7%). Basic skills of pupils have deteriorated significantly since 2018. The country performs 'on average' for the share of adults with at least basic digital skills and that of adults participating in learning (in the previous 12 months). However, the latter decreased from 38.0% in 2016 to 33.4% in 2022, despite a need for up- and re-skilling also in light of the digital and green transitions.

The Portuguese labour market remains resilient. In a context of above EU-average economic growth, the employment rate improved from 77.1% in 2022 to 78.0% in 2023 supported by net migration and remains 'on average'. On the contrary, the unemployment rate increased by 0.3 pps in 2023, to 6.5% ('on average'). The long-term unemployment rate has been improving since 2021, though it is still above the EU average in 2023 (2.5% vs 2.1%). Portugal also continues to perform 'better than average' on the share of youth not in employment neither in education and training (NEET), except in the Azores, and the gender employment gap, and is among the 'best performers' on the disability employment gap. On the other hand, labour market segmentation, as reflected by high shares of young people on temporary contracts (42.9% vs 34.3% in the EU in 2023), persists.

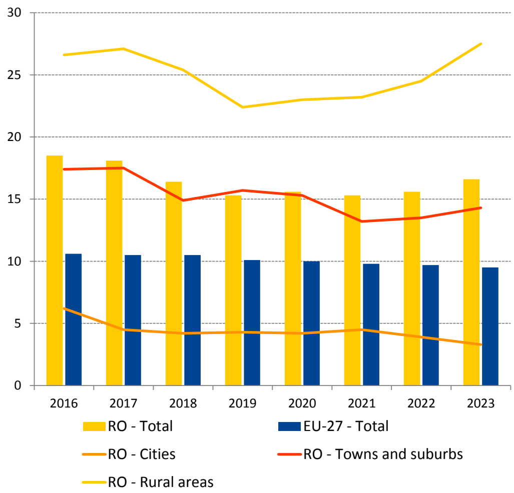
In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'critical' or 'to watch', **Portugal does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Romania

Despite some progress, poverty risks in Romania remain high, especially for vulnerable groups and in rural areas. The share of people at risk of poverty or social exclusion (AROPE) steadily declined since 2016, from 46.0% to 34.4% in 2022 and 32.0% in 2023 (vs 21.3% in the EU), which is a sign of 'catching up', despite inflation remaining high in recent years. The AROPE rate for children, at 39.0%, also declined in 2023 (from 41.5% in 2022), while remaining one of the highest (24.8% in the EU). This points to a 'weak but improving' situation for both indicators this year compared to a 'critical situation' last year. The social protection system continues to show low effectiveness in reducing poverty, as social transfers (other than pensions) reduce it by only 15.6% (vs 34.7% in the EU), which is 'critical'. While income inequality (as measured by the income quintile share ratio) slightly declined in 2023 (from 6.0 to 5.8), it remains among the highest in the EU and also constitutes a 'critical situation'. Self-reported unmet needs for medical care increased (5.2% in 2023 vs 4.9% in 2022) in line with the trend observed in the EU and remains 'to watch'. Vulnerable groups, people living in rural areas, and marginalised communities like Roma face greater difficulties accessing essential and social services.

The labour market is improving, but still faces substantial challenges. In 2023, the employment rate was still well below the EU average (68.7% vs 75.3%) and has improved only marginally since 2022 (68.5%) despite above EU average economic growth. This is a 'critical situation', partly reflecting the under-representation of some population groups including women and the Roma. The long-term unemployment rate was stable ('on average' at 2.2%), against an improving EU trend. At the same time, the gender employment gap increased by 0.5 pps to 19.1 pps in 2023, being one of the widest in the EU, also in a 'critical situation'. This was also the case for the share of young people not in employment neither in education and training (NEET), which declined by 0.5 pps to 19.3% in 2023, but is still one of the highest in the EU. While the disability employment gap decreased by 2.8 pps in 2023, it is still wide and 'to watch'.

Early leavers from education and training by degree of urbanisation (%)



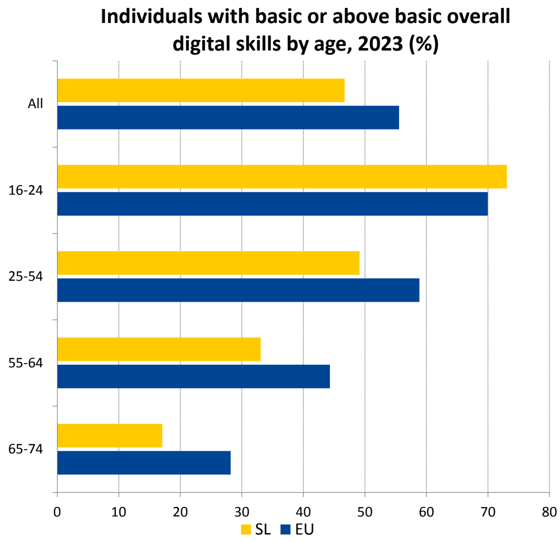
Note: Break in RO time series in 2021.
Source: Eurostat [edat_lfse_30], EU LFS.

Persisting challenges in education and skills development put at risk sustainable socio-economic convergence. Adult participation in learning is 'weak but improving' (at 19.1% vs 39.5% in the EU in 2022). Yet, other areas of skills development display persistently 'critical situations'. This holds for the share of adults with at least basic digital skills (at 27.7% in 2023 vs 55.6% in the EU). Moreover, the share of early leavers from education and training is also one of the highest (16.6% vs 9.5% in the EU in 2023), having worsened further against a decreasing EU trend, and is thus in a 'critical situation', as is the share of children under 3 years in formal childcare that remains very low (12.3% vs 37.5% in the EU). These trends, alongside the poor basic skills levels from the 2022 PISA results, emphasise that there is room to strengthen education and training in terms of quality, accessibility and labour market relevance.

In light of the findings from the above first-stage analysis, and notably 10 indicators flagging as 'critical' or 'to watch', **Romania is identified as facing potential risks to upward social convergence that require further analysis in a second stage** (see box in section 1.4).

Slovenia

Slovenia experiences challenges related to its education and training system. In 2022, only 26.5% of all adults participated in education and training. This is significantly below the EU average of 39.5% and represents a decrease of 13.8 pps compared to 2016, being therefore 'to watch'. Furthermore, only 46.7% of adults had at least basic digital skills in 2023, well below the EU average (55.6%), and reflecting a decline of 3.0 pps compared to 2021. This situation is 'to watch', especially in light of the green and digital transitions. The share of early leavers from education and training further increased by 1.4 pps to 5.4% in 2023, and remains 'good but to monitor', although Slovenia still has one of the lowest shares in the EU[302]. In turn, the share of young people neither in employment nor in education and training (NEET) declined by 0.6 pps to 7.8% in 2023, which is 'better than average'.



Source: Eurostat [isoc_sk_dskl_i21], ESS ICT Survey.

Slovenia's labour market is performing well overall in a context of continued economic growth, although the employment rate decreased in 2023. The unemployment and long-term unemployment rates continued their downward trends in 2023 and stood at 3.7% ('better than average') and 1.4% ('on average') respectively. The employment rate, at 77.5%, is above the EU average of 75.3% but recorded a slight decline (0.4 pps) despite an increase in total employment of 1.6% at the same time. Against a background of increases in employment rates in most Member States this indicates a situation that is 'to watch'. However, structural factors such as rapid population ageing and skills mismatches risk exacerbating already existing labour shortages.

Slovenia has overall a well-functioning social protection system. As in previous years, the shares of the population and in particular of children at risk of poverty or social exclusion were one of the lowest in 2023, at 13.7% and 10.7% respectively (both 'best performers'), also in light of well targeted support measures helping vulnerable households alleviate the impacts of energy-price inflation. However, some vulnerable groups, including the low-educated, unemployed and elderly women, still experience much higher poverty risks, thus warranting further policy efforts targeted at these groups. The impact of social transfers (other than pensions) on poverty reduction is now 'on average' at 35.5%, but still less effective for the elderly (65+). Income inequality, at 3.3, as measured by the income quintile share ratio, remained one of the lowest in the EU in 2023 ('best performer').

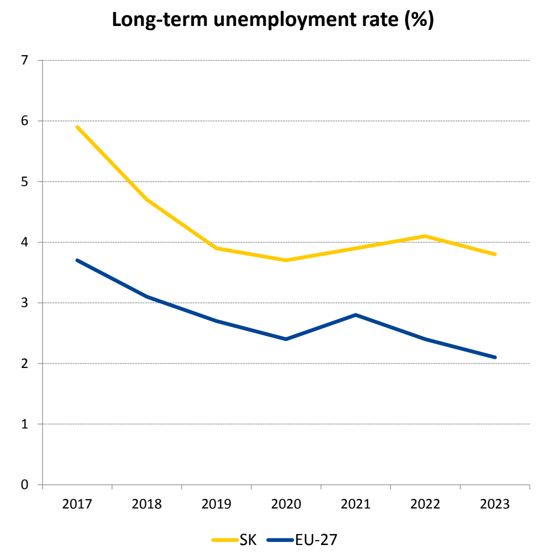
In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'to watch', **Slovenia does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

[302] There is a break in time series in 2023 for the early leavers from education and training indicator.

Slovakia

Participation in early childhood education and care is very low and deterioration can be observed on digital skills, while the country performs overall well on adult learning. In 2023, Slovakia had one of the lowest participation rates of children below 3 years in formal childcare (with 1.0%, and a gap relative to the EU participation rate of 37.5%), and therefore remains a 'critical situation'. Participation in early childhood education and care of children above 3 also continues to be one of the lowest (78.6% vs 93.1% in the EU in 2022), with a share of only 33% of Roma children in 2021 (although improved from 27% in 2016). Also, one third of 15 year-olds lack basic skills in mathematics and reading. The share of adults with at least basic digital skills dropped from 55.2% in 2021 to 51.3% in 2023, and is 'to watch'. However, early leaving from education and training and adult learning participation (over the previous 12 months) in Slovakia is 'better than average'.

The labour market in Slovakia performs well in general, but long-term unemp-loyment is a persistent challenge. In 2023, the employment rate reached a record high of 77.5%, and the unemployment rate was at a record low of 5.8% (EU averages are 75.3% and 6.1% respectively). The share of young people neither in employment nor in education and training (NEET) also further improved, falling from 12.3% in 2022 to 11.2% in 2023 ('on average'). Yet, the long-term unemployment rate is still in a 'critical situation', as only little improvement took place in 2023, to 3.8% from 4.1% in 2022, and it continues to be among the highest in the EU. Regional disparities also remain large. Gross disposable household income decreased from 126.4 in 2022 to 123.2 in 2023 and is now 'to watch'.



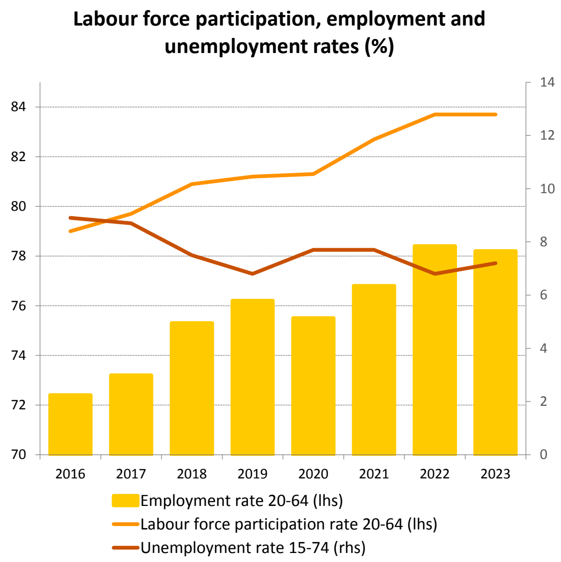
Source: Eurostat [une_ltu_a], EU LFS.

Slovakia has low overall risks of poverty, but there are still challenges for some regions and population groups. The at risk of poverty or social exclusion (AROPE) rate is 'good but to monitor' at 17.6% (vs 21.3% in the EU), after it increased by 1.1 pps in 2023, against a decrease in many other Member States. Income inequality, as measured by the income quintile share ratio, is also 'good but to monitor'. The AROPE rate for children increased to 25.3% in 2023 (from 24.7% in 2022), being 'on average'. At the same time, the impact of social transfers (other than pensions) on poverty reduction improved significantly, from 33.8% in 2022 to 36.4% in 2023, and is now 'better than average'. Nonetheless, Slovakia faces large regional disparities, with the eastern part of the country experiencing deeper levels of poverty and social exclusion. The country also has one of the largest Roma populations in the EU, with thousands of people living in isolated areas with no access to essential services. After a significant increase from 2.5% to 5.9% in 2023, the share of households overburdened by housing costs is now 'good but to monitor'.

In the light of the findings from the above first-stage analysis, and notably 4 indicators flagging as 'critical' or 'to watch', **Slovakia does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Finland

The Finnish labour market is overall functioning well, although with some deterioration recorded in 2023. The employment rate declined slightly in 2023, while remaining well above the EU average (78.2% vs 75.3%). Still, the situation is 'to watch' compared to the improving trends recorded for other Member States, and in the context of economic recession and persistent labour shortages. Also, the unemployment rate is 'to watch' after having worsened from 6.8% to 7.2%, above the EU average of 6.1%. Growth in gross disposable household income per capita is also 'to watch', at 107.9 in 2023, below the EU average of 111.1. On the other hand, the long-term unemployment rate and the situation of young people neither in employment nor in education and training (NEET) are 'on average.' Regarding the gender employment gap, Finland is still a 'best performer' in 2023, after a further improvement from 1.2 pps to only 0.2 pps in 2023 (vs an EU average of 10.2 pps). This is due to, for examplethe fact that female-dominant sectors have been less affected by economic cycles. However, women are more likely to have temporary or part-time jobs which is not reflected in their overall employment rate.



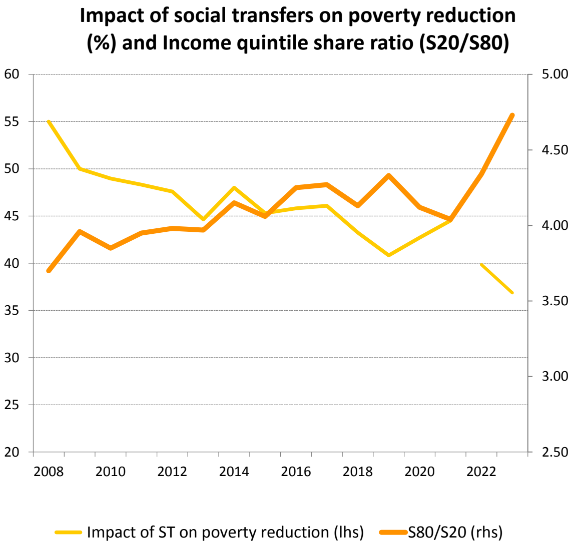
Source: Eurostat [lfsi_emp_a], [une_rt_a], EU LFS.

Finland continues to perform well in relation to skills, though the share of early leavers from education and training increased. In 2023, 82.0% of the adult population had at least basic digital skills, placing Finland among the 'best performers'. Also, the share of adult participation in learning in the past 12 months was 'better than average', at 51.8% in 2022. However, the share of early leavers from education and training increased considerably in 2023 (by 1.2 pps), to 9.6% (vs 9.5% in the EU) and is therefore now 'to watch', while the share of pupils underachieving in basic skills steadily increased in the past decade. Preventing early school leaving and promoting skills acquisition especially for young people can help addressing challenges of population ageing and shortages of skilled labour.

Overall, Finland has an effective and inclusive social protection system that provides adequate coverage, but also faces some challenges. In particular, self-reported unmet needs for medical care continue to be 'critical', with the share of people reporting those having further increased (by 1.4 pps) to 7.9% in 2023. This is now more than three times the EU average (of 2.4%) and, in light of announced additional saving measures, may increase further. Long waiting times for primary and specialised care are reported due to the shortages of care and medical personnel. On the other hand, the share of people at risk of poverty or social exclusion (AROPE) decreased in 2023 to 15.8%, and 13.8% among children, and is well below the respective EU averages (21.4% and 24.8%), making the country a 'best performer' for both. This is the case also for the impact of social transfers (other than pensions) on reducing poverty, which remains high (at 48.7% vs 34.7% in the EU).

In light of the findings from the above first-stage analysis, and notably 5 indicators flagging as 'critical' or 'to watch', **Finland does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).

Sweden



Note: Break in time series for the impact of social transfers indicator in 2022.
Source: Eurostat [tespm050] [tessi180], EU-SILC.

The labour force is expected to gain traction in the context of a recovery in 2025 and 2026, despite persisting shortages and some groups still facing barriers to labour market integration. Sweden is among the 'best performers' on the employment rate, which hit a new record of 82.6% in 2023, and the share of young people neither in employment nor in education and training (NEETs), which remained stable at 5.7%. Women are well integrated in the labour market: the gender employment gap was 'better than average' in 2023 (4.7 pps), also thanks to the high share of children below 3 years in formal childcare (56.9% vs 37.5%in the EU, 'best performer'). However, at 7.7% in 2023 (vs 6.1% in the EU), the unemployment rate remains 'to watch' and hides large differences between population groups depending on the country of birth. While the unemployment rate of people born in Sweden stood at 5.1%, those born outside of the EU had a rate of 17.8%, along with a gender employment gap of 13.8 pps (vs overall 4.7 pps). Finally, gross disposable household income per capita declined from 121.2 in 2022 to 119.5 in 2023 and is now 'to watch'.

Most social indicators perform 'on average' although there was some deterioration. In 2023, income inequality registered one of the largest annual increases among Member States (by 0.4 to 4.7), and is now 'to watch'. In 2023, the incidence of severe material and social deprivation increased by 0.2 pps, mirroring a marked decrease in real wages. The 20% of the population with the highest incomes earned 4.7 times as much as the 20% of the population with the lowest incomes (up from 4.0 in 2021 and the highest level since 2008). Moreover, social transfers (other than pensions) reduced poverty risks by 36.9%, down from 39.9% in 2022, now 'on average' from 'better than average' last year. Other social indicators, are also showing some negative developments, while being 'on average'. In particular, the at-risk-of-poverty or social exclusion (AROPE) rate for children increased to 21.6% (still below the EU average of 24.8%) while that for people born outside of the EU increased to 38.3% (vs 12.8% for people born in Sweden). Housing cost overburden increased to 10.9% (vs 8.8% in the EU), and self-reported unmet needs for medical care to 2.1% (vs 2.4% in the EU).

Sweden performs well regarding skills, but inequalities in the education system persist. The country is a 'best performer' on adult participation in learning, which increased substantially between 2016 and 2022 from 58.8% to 66.5%. The share of adults with at least basic digital skills has consistently been 'better than average', supporting the green and digital transitions. Also, the share of early leavers from education and training markedly decreased in 2023, to 7.4% (also 'better than average'). Still, this share is almost twice as high (12.2%) among people born outside the EU compared to those born in Sweden (6.4%), and the country had one of the largest declines in basic skills of 15 year-olds.

In light of the findings from the above first-stage analysis, and notably 3 indicators flagging as 'to watch', **Sweden does not appear to face potential risks to upward social convergence and thus will not require further analysis in a second stage** (see box in section 1.4).