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COMMISSION STAFF WORKING DOCUMENT

Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF)

1 Introduction and Institutional Context

This Staff Working Document (SWD) presents the second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF). This follows the first implementation of the framework last year,[1] after the discussion in the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council of June 2023, on the basis of Key Messages by the Employment Committee (EMCO) and the Social Protection Committee (SPC).[2] The analysis in this document 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.

The SCF entails a two-stage analysis in order to assess risks and challenges to upward social convergence in Member States. In the first-stage analysis, labour market, skills and social policies are analysed for all 27 Member States in order to identify potential risks to upward social convergence that would require deeper analysis in a second stage. In this sense, the country-specific analysis reinforces the monitoring of the employment, skills and social policy domains in the European Semester of economic and employment policy coordination, in line with Art. 148 of the TFEU. A more detailed second-stage analysis has now been conducted by the Commission services in relation to the countries for which potential risks to upward social convergence were identified in the first stage.

In December 2024, the first-stage country analysis of the SCF was presented in the proposal for the Joint Employment Report (JER) 2025, which was adopted by the Commission in the second part of the Semester Autumn Package and endorsed by the EPSCO Council in March 2025. This first-stage analysis is notably based on the headline indicators of the Social Scoreboard (see Annex 1) and the JER "traffic-light" methodology applied to them[3]. In terms of horizontal key findings, the first stage indicated continued upward convergence in the labour market in 2023, while employment outcomes of under-represented groups still needed to improve. At the same time, despite some slight improvements at EU level regarding skills, potential risks to upward social convergence were found to persist in this domain, including in view of the green and digital transitions, as well as labour and skills shortages against the background of an ageing population. The analysis also indicated broad stability of the at-risk-of poverty or social exclusion rate at EU level, while some risks to upward convergence remained regarding social outcomes. Potential risks to upward social convergence were identified in the first-stage analysis of the JER for ten Member States (Bulgaria, Estonia, Spain, Italy, Lithuania, Hungary, Romania, as well as Greece, Croatia and Luxembourg for the first time this year. These are therefore the countries on which this more detailed second-stage analysis presented in this SWD focuses.

The second-stage analysis presented here relies on a wider set of quantitative and qualitative evidence to evaluate challenges to upward social convergence and the key factors driving them.[4] This more detailed second-stage analysis focuses exclusively on the policy areas (among labour market, education and skills, and social protection and social inclusion) that have been identified as presenting potential risks to upward social convergence in the first stage via the headline indicators of the Social Scoreboard (see Annex 1). The policy areas are examined for each

[1] It also follows the review of the implementation of the pilot conducted in EMCO and SPC in autumn 2024, in view of the December 2024 EPSCO.

[2] See the EMCO-SPC Key Messages and the related Report of the EMCO-SPC Working Group, based on the work conducted from October 2022 until May 2023 by a dedicated joint EMCO-SPC Working Group.

[3] Such second-stage analysis is considered warranted if six or more Social Scoreboard headline indicators are flagging red ('critical situation') or orange ('to watch'). An additional reason for this occurs when an indicator flagging red or orange presents two consecutive deteriorations in its JER categorisation. This is the case for example if there 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 more technical details see box in Chapter 1, p. 41, as well as Annexes 6 and 9 of the JER 2025.

[4] Qualitative evidence is particularly important on dimensions where quantitative evidence is not available, and also to complement and qualify the findings from the indicators. This second-stage analysis is based on a cut-off date of 28 March 2025, to which all data used in this SWD have been last updated.

country (in Section 2) starting from that where the largest number of criticalities were identified in the first stage (in terms of number of "red" or "orange" flags from the headline Scoreboard indicators, plus any two consecutive deteriorations in such JER categorisation), followed by the other policy areas in descending order in a country-tailored approach.

Within each of these policy areas, the second-stage analysis examines first of all relevant developments and determinants. It does so, for instance, by looking at how different population groups and/or regions fare, also by enlarging the scope of the analysis to the *full* set of relevant indicators available in the labour market, skills and social domains. The latter includes in particular all the indicators that have been agreed so far with Member States as part of the Joint Assessment Framework (JAF) developed by EMCO and SPC (see Annex 2 for more details)[5]. Progress on the 2030 national targets on employment, skills and poverty reduction is also factored in the second stage analysis (see Annex 3 for a synthetic graphical overview). National data are also used in the second-stage analysis where relevant in order to qualify risks identified in the first stage (which is based exclusively on EU harmonised statistics); longer term developments are analysed too in the second stage, on top of the last year changes used in the first-stage analysis (all of these additional considerations may also lead to concluding that a 'risk' identified in the first stage for a certain country and indicator is in fact downgraded to a 'no risk' in the second stage – see Annexes 4 to 6).

Secondly, for each policy area examined, the second-stage analysis describes the relevant policy responses undertaken or planned by the Member State to address the identified risks. For each country an indication is given as to whether, overall, risks that may affect upward social convergence are confirmed by the analysis or not, depending on i) the extent of individual challenges revealed by the further quantitative and qualitative evidence examined for each of the policy dimensions identified by the Social Scoreboard headline indicators as presenting potential risks in the first stage, and ii) the assessment of the undertaken and planned policy responses by the Member State, and whether it is considered that they are sufficient or not to fully address the individual challenges identified. This second step is particularly important in acknowledging efforts made or envisaged by the Member State in addressing the relevant challenges in order to tailor the final evaluations on whether further measures may be needed or not.

This second-stage analysis by the Commission services will feed into the traditional multilateral reviews in EMCO and SPC[6] in order to build a shared understanding of risks and challenges to upward social convergence. For the ten Member States for which the second-stage analysis has been carried out, these multilateral reviews will focus on the Commission services' findings from this second-stage analysis. The conclusions from the multilateral discussions will as usual feed into the reporting to the June EPSCO Council in the context of the traditional Semester debate.

The Commission services' analysis and the multilateral discussions on social convergence are also meant to inform the European Semester's Spring Package[7]. In particular, key findings from the second-stage analysis for the countries concerned will be reflected, where relevant, in the country reports and inform the Commission's reflection on proposals for country-specific recommendations (CSRs) in the employment, skills and social domains, as appropriate, but without any automaticity in triggering CSRs.[8]

In what follows, this SWD presents the analysis country by country, in which the criticalities identified in the first-stage analysis are further substantiated by the wider set of quantitative and qualitative evidence examined, in view of assessing whether potential challenges to upward social convergence exist and how these are addressed. Overall, for the ten Member

[5] While as usual the analysis is predominantly based on harmonized EU statistics that allow comparisons between countries, national data are brought into the picture, where relevant, on elements for which harmonised statistics are not available at EU level, or when they provide further important insights to qualify and/or complement the evidence from EU statistics.

[6] Conducted on a yearly basis as mandated by Art. 148 TFEU.

[7] As traditional, the package will present the Commission proposals for country-specific recommendations and the country reports for all 27 Member States.

[8] At the same time, Member States that are not concerned by the second-stage analysis based on the SCF are not automatically exempted from possible CSR proposals in the labour market, skills and social domains. Though Member States may not face potential risks and challenges to social convergence such to justify a more detailed examination in a second-stage analysis, they may still face challenges in specific policy areas. The Commission may therefore still deem it appropriate to propose CSRs in the labour market, skills or social domains for any such Member State, based on an overall assessment of economic, employment and social challenges.

States under assessment, this further analysis points to the following:

- The area of **social inclusion** requires particular policy attention as possibly leading to challenges for upward social convergence, notably with regard to income inequality and the share of the population that experiences poverty or social exclusion in the ten countries concerned.[9] As shown in the overview tables in Annexes 4 to 6, income inequality (the income quintile share ratio) indicates challenges for (six out of ten countries concerned, followed by the overall at-risk-of-poverty or social exclusion (AROPE), the impact of social transfers (other than pensions) on poverty reduction and the AROPE rate for children, identified as challenges in half of the countries. All these dimensions require very close policy attention, also against the background of ensuring fair green and digital transitions and facing the demographic challenge while keeping to adequate and sustainable social protection and inclusion systems.
- In the area of **skills and education**, criticalities possibly leading to challenges for upward social convergence are still identified in relation to adults' participation in learning (during the past 12 months) and the share of people with at least basic digital skills for half of the countries, and with regard to early leaving from education and training for three of them. The analysis, including 2022 PISA (Programme for International Student Assessment) and 2023 PIAAC (Survey of Adult Skills) results, clearly points to the fact that skills acquisition in line with the labour market needs, for both young people and adults, requires careful and continuous consideration in policy design going forward. This is also important in order to address already existing skills and labour shortages and to accompany the digital and green transformations.
- While in the area of **labour markets** the indicators remain strong overall, challenges are identified for six of the ten countries in terms of the disability employment gap and for four regarding their unemployment rates. On the other hand, employment and long-term unemployment are not identified as major concerns at the current juncture in the countries under examination. The analysis of labour market outcomes shows the need to more effectively integrate those groups that are still under-represented in the labour market. These may include, depending on the country-specific circumstances, persons with disabilities, young people, older workers, the low-skilled (also via up- and re-skilling them for quality jobs), women, Roma, as well as people in other vulnerable situations. This emerges as a key response for ensuring a strong and resilient social market economy.

The analysis of the policy responses undertaken or planned by the national authorities shows, in general, policy dynamism in addressing the challenges at stake, though the policy actions devised are not found to be always sufficient to address in full the criticalities identified on a country- and policy area- specific basis. There is an overall small number of policy dimensions where no adequate policy action has been taken or planned, and a still small but larger number of areas where substantial policy action to address in full the challenges identified has been already taken or planned (see overview tables in Annexes 4 to 6).

Most policy actions planned or undertaken by Member States are found to go in the right direction across the different policy areas. At the same time, these policy actions are deemed as either not yet sufficient to address in full the challenge, or are at an early stage of implementation that makes it, at present, difficult to precisely assess their full impact.

A detailed assessment by policy measures that reflects the specificities of the country context and of the policy area examined is provided in the country analysis of Section 2.

[9] For all the social indicators that depend on income in EU-SILC, the income reference period is defined as a 12-month period. Therefore, income variables involved for instance in the computation of the at-risk-of-poverty indicator refer to the calendar year prior to the survey year except for Ireland (12 months preceding the survey response).

2.1. Bulgaria

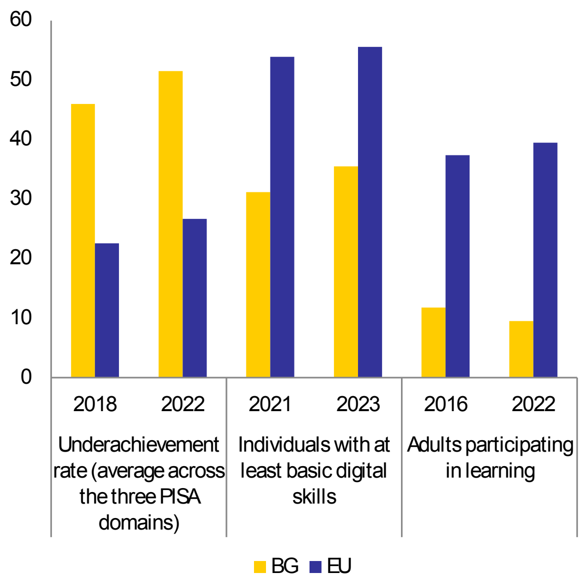
In the first-stage analysis in the JER 2025, Bulgaria was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging, including one that deteriorated over time. In the second stage analysis in 2024, it was found that more efforts were needed by the country to fully address the challenges in relation to social protection and inclusion, and education and skills. The risks identified this year in the first stage concern the area of education and skills, notably the low and decreasing share of adults participating in learning, the low share of people with at least basic digital skills and participation of children under the age of 3 in formal childcare. In the area of social protection and inclusion, improvements were visible, but some risks remained, notably in relation to the still high at-risk-of-poverty or social exclusion rate for children. Finally, while the labour market continued to improve, the high and deteriorating disability employment gap and the high share of young people neither in employment nor in education and training (NEET) were also identified as criticalities.

2.1.1 Education and Skills

a) State of play and developments on social convergence risks

Significant challenges remain in ensuring quality and equity in education, including early childhood education and care (ECEC), hampering skills development and overall competitiveness. Participation in ECEC of children aged 0-3 remains low, at 21.2% in 2024, though up 3.8 pps from 2023[10]. Enrolment from age 3 to school age also lags behind the EU average (80.4% vs 92.8% in 2022) and is even lower for children from disadvantaged backgrounds and Roma (59% in 2021). One of the main reasons lies in the limited capacity and quality of childcare facilities. According to the OECD's 2022 Programme for International Student Assessment (PISA), 53.6% of 15-year-olds underperformed in mathematics, 52.9% in reading and 48% were low achievers in science (vs 29.5%, 26.2%, and 24.2%, respectively, in the EU). Moreover, 38.3% of young Bulgarians underperform simultaneously in mathematics, reading and science (vs 16.1% in the EU), suggesting challenges linked to school curriculum, teaching quality and impact of the socio-economic background. Underachievement among students from disadvantaged backgrounds is very high in EU comparison, with 77% lacking a minimum proficiency level in mathematics. Moreover, segregation in education affects Roma children, with 64% of those aged 6-15 attending schools where all or most pupils have a Roma background[11].

Figure 1: Skills development (%)



Source: OECD, Eurostat [tepsr_sp410, special extraction of the adults' participation rate in learning during the past 12 months without guided on the job training, from the Adult Education Survey].

Vocational education and training (VET) and higher education are not sufficiently responsive to labour market needs, while tertiary educational attainment remains low. While the share of learners enrolled in medium level vocational programmes (54.9% in 2022) exceeds the EU average (52.4%), this is mainly due to the higher number of places in VET compared to general education. For nearly half of VET graduates (and up to 2/3 in some regions) there is no corresponding demand from employers for their professional qualifications. Fields like agriculture and hospitality register high rates of graduates despite limited job opportunities, while ICT and green qualifications, although increasing, are still insufficient to meet labour market needs.[12] Dual VET remains

[10] The EU average in 2023 was 37.5%. See European Commission's (2024) country analysis on social convergence - SWD(2024)132.

[11] See FRA Report: Roma in 10 European countries. Main results - ROMA SURVEY 2021 (europa.eu).

[12] Institute for Market Economics (2024), Index of the Correspondence between Vocational Education and Economic Profiles.

underutilised, at only 9% of those starting VET, due to low popularity and insufficient involvement of companies. Despite an overall high employment rate of tertiary graduates, only 53% of them work in jobs that require higher education[13]. Furthermore, the rate of tertiary educational attainment remains low despite the growing demand for higher skills (35.8% vs an EU average of 43.1%) and is significantly below the EU-level target of 45%. Between 2019 and 2023, the number of bachelor students dropped by 12%, following demographic trends and a high proportion of Bulgarians studying abroad (9.5% of upper secondary students in 2022). Despite policy efforts, the share of graduates in STEM remains rather limited.

Challenges in skills development among adults may hinder the twin transition and weaken competitiveness. The share of adults participating in learning is particularly low in Bulgaria (9.5% vs 39.5% in the EU in 2022)[14], with a decrease compared to 2016 (by 2.3 pps). The share is almost 26 pps below the 2030 national target of 35.4%. Difficulties in accessing trainings, limited flexibility of course schedules, low availability of online trainings and lack of awareness of the benefits contribute to this outcome. This has an impact on employability, productivity and growth potential. Only 35.5% of the Bulgarian adult population reported having at least basic digital skills in 2023, with an improvement from 31.2% in 2021, but remaining far below the EU average of 55.6%. This is of particular concern in the context of an increasingly digitalised economy and society. In 2023, skills shortages were reported as an obstacle for business operations by 79% of SMEs, one of the highest rates in the EU[15]. Labour productivity growth is mainly driven by increases in average hours worked, rather than improvements in output per hour[16], posing a threat to long-term competitiveness and suggesting, among other factors, the need to strengthen skills. At the same time, active labour market policies in Bulgaria still dedicate substantial resources to subsidised employment at the expense of training, despite data showing the greater effectiveness of training measures[17].

b) Relevant planned and ongoing policy responses

Relevant measures are in progress and planned to enhance the inclusiveness and quality of education and improve students' basic skills. The Action plan for 2025-27 adopted recently under Bulgaria's Strategic Framework for Education and Training (2021-30) as part of the commitments under the RRP, continues the implementation of targeted activities to enhance access, quality and equity in education and training. Several measures have been launched with the support of EU funds, particularly through the ESF+, RRF and the Technical Support Instrument (TSI). With TSI support, Bulgaria is revising its curricular framework for grades 5-7 focusing on students' competencies and skills[18], while the ESF+ Programme Education will support the effective implementation of the competency model. Regarding ECEC, efforts to integrate nurseries into the education system and enhance staff pedagogical qualifications have been initiated, but progress is slow. As part of the reforms under the RRF, the compulsory school age has been reduced to 4 years starting from the 2023-24 academic year, and kindergarten fees for care-related activities have been removed. Meanwhile, a quality framework to improve access, monitoring and governance has been developed for the entire ECEC system (ages 0-6) with TSI support.

Support is being provided to reduce the significant impact of socio-economic status on students' performance and enhance learning in STEM subjects. Inter-institutional teams working with students and families at risk have been strengthened to reintegrate out-of-school children and encourage participation in education. Under the RRF, Bulgaria is constructing youth centres where 19 500 young people (under 29), including from vulnerable groups and Roma, are

[13] Ministry of Education and Science (2021), "Рейтингова система на висшите училища в България (Ranking system of higher education institutions in Bulgaria)", https://rsvu.mon.bg/rsvu4/#/media-article/131.

[14] Eurostat data, Adult Education Survey, special calculation excluding guided on-the-job training as available in the public excel file: ETS - Library (europa.eu)

[15] Report Flash Eurobarometer 529 European Year of Skills: Skills shortages, recruitment and retention strategies in small and medium-sized enterprises (europa.eu).

[16] Reference years: 2010-2019, OECD (2023), OECD Skills Strategy Bulgaria: Assessment and Recommendations, OECD Skills Studies, OECD Publishing, Paris, https://doi.org/10.1787/c2eb2f34-en.

[17] See also Metric Analytics (2023), Imbalances of the Labour Market: Methodology for Short-term Prognosis and Analysis of the Development of the Labour Market in Bulgaria, Sofia on the impact of training and subsidised employment.

[18] Bulgaria (like Romania) launched a TSI project to advance curriculum reforms with support from the European Commission and the OECD (November 2024).

expected to be upskilled until 2026. The ESF+ is providing support for the personal development of children and students with special education needs, at risk or with chronic illnesses, and for the desegregation and prevention of discrimination in schools. This includes additional Bulgarian language courses and remedial classes to address knowledge gaps in schools with large concentrations of students with disadvantaged backgrounds. For these measures to achieve their expected results in reducing the impact of socio-economic status on educational outcomes, it will be key to ensure the effective involvement of all local stakeholders, including local authorities and education institutions. Furthermore, science, technology, engineering and mathematics (STEM) laboratories are being set up in schools nationwide, under the RRF, to support the development of digital skills and learning in STEM subjects.

VET and its labour market relevance are a key priority under the Strategic framework for education and training 2021-30. As part of the reforms under the RRF, amendments to the VET Act entered into force in 2024, introducing changes to the list of VET professions and their programmes, in line with the professional competences needed. In 2024, with support from ESF+, the Ministry of Education and Science established 20 Sector Skills Councils, developed and approved the new list of professions in VET and selected 417 vocational and secondary schools with vocational training classes to implement modernised curricula and apprenticeship programmes. In addition, both the RRF and ESF+ are providing support for the establishment of 24 VET excellence centres across the country. On dual VET, targeted measures are being implemented with ESF+ support, and the Bulgarian government fully covers social and health insurance of students from April 2024. Nevertheless, there is still a need to continue raising the awareness on dual VET, promote targeted students' career orientation, and strengthen the involvement of employers and local actors (i.e., municipalities, trade unions, NGOs) in VET and dual VET.

Measures are in place to enhance the attainment, quality and labour market relevance of higher education. Bulgaria is implementing several projects to modernise higher education curricula, introducing a competency-model as well as measures to facilitate transversal skills. A reform of the Higher Education Act as a part of the Recovery and Resilience Plan (RRP) has introduced several elements in this respect, including a National Map of Higher Education, which analyses the offer of higher education and resources available across the territory. The RRF is investing in the construction of university campuses, while several ESF+ operations planned to start in 2025 aim to introduce dual training in higher education, support career guidance and graduate tracking, enhance student professional practices, facilitate the upskilling of academic staff and promote innovative doctoral programmes responding to labour market needs. While these measures are a step in the right direction, aligning higher education with the evolving labour market needs is expected to require continuous efforts in the years ahead.

EU and State funded measures for up- and re-skilling of the labour force are in place or under development, but results will crucially depend on raising participation rates. With TSI support, a proposal for an action plan for skills was developed to implement a National Skills Strategy, thus addressing the fragmented system and the need to better use the skills available[19]. ESF+ and RRF are currently supporting key investments related to the development of a platform for adult learning and the provision of training for digital skills. With the support of ESF+, by 2029 more than 210 000 persons identified as at risk of losing their jobs due to the changes related to the twin transition will have the opportunity to improve their qualifications, including on green skills. A pilot project for individual learning accounts (ILA) is under development with plans to run from 2025 until 2027. By the end of 2024, an expert working group comprising stakeholders and social partners developed a model system for implementing individual learning accounts, aiming to expand the instruments for financing training. It is planned that in 2025, under the HRD Programme, a pilot project for testing the model on a small scale in several sectors will be developed and tested. Activities are planned to develop the necessary tools for the functioning of the ILA system, including: developing proposals for changes to the regulatory framework; pilot testing of the system by financing training for employees in specific sectors; and assessing the impact of ILA implementation. The ESF+ co-funded operation 'New skills' for training of people in employment started in December 2024, with a budget of almost EUR 38 million and targeting over 53 000 workers. Under the RRF, more than 116 000 individuals received vouchers

[19] OECD (2024), Technical Support for the Development of a National Skills Strategy for the Republic of Bulgaria.

for digital skills training. Close to 65 000 participants have already been certified upon completion of their training. The social partners also contribute to the upskilling and reskilling efforts, including with the development of the curricula and the implementation of new models and practices to forecast skills needs with support from the ESF+ funded operation 'Social Partnership'. Nevertheless, the persistently low levels of adult participation in learning indicate the need for further efforts to facilitate access to training by reducing unnecessary administrative burden, increasing flexibility and online trainings, intensifying the dialogue with the social partners on the implementation of effective measures and increasing broad awareness about the benefits of life-long learning.

2.1.2 Social protection and social inclusion

a) State of play and developments on social convergence risks

While the decline in 2023 was relatively large, pointing to upward social convergence, the overall share of the population at risk of poverty or social exclusion (AROPE) remained high in 2024 and children were still among the most vulnerable, with more than 1 in 3 experiencing poverty or social exclusion risks. Despite a gradual decline of 13 pps since 2015, Bulgaria still had one of the highest AROPE rates in 2024 (30.3%, up from 30% in 2023 compared to 21.3% in the EU). The increase of the minimum wage and pensions, combined with improvements in minimum income and the overall economic situation, have counteracted the social impact of the COVID-19 crisis and of high inflation, allowing for the overall reduction in AROPE. However, the AROPE rate for children increased to 35.1% in 2024, up from 33.9% in 2023, when it was already much above the EU average of 24.8%. More than 4 in 5 children from households with a lower educational attainment were affected by AROPE, compared to around 1 in 8 from households with a high level of education. In 2023, the share of materially deprived children was 20.6% among the Bulgarians, and as high as 77.0%[20] among Roma.

The likelihood of experiencing poverty or social exclusion has been influenced by various factors including age, residence, disability status and ethnicity. In 2024, people in rural areas were still almost twice as likely to face poverty or social exclusion risks (40.8%) than those residing in cities (22.1%). Older people were also considerably more at risk of poverty or social exclusion (36.6%), as was also the case for persons with disabilities (43.8%) and Roma (81.0% in 2023). In-work poverty affected 11.8% of the workforce in 2024 (11.4% in 2023, vs 8.3% in the EU), with variation across economic sectors and regions. In response, Bulgaria set an ambitious national target to reduce the number of people at risk of poverty or social exclusion by 787 000 by 2030 (compared to 2.3 million in 2019), including 196 750 children. In 2024, Bulgaria made progress towards its target, with a decrease of 371 000 people (since 2019), including 40 000 children.

Despite recent improvements, the income of the richest 20% of the population was still almost seven times higher than that of the poorest 20% in 2024, while the effectiveness of social transfers in reducing poverty and inequalities remains limited. In the period 2020-23 the income of the first and second deciles (the poorest) increased by 62% and 53% respectively, while for the eighth and ninth deciles (the richest) incomes increased by 37% and 34%. Nevertheless, the sum of the income shares of the first and second income quintiles (S40) was particularly low in 2024 at 17.5%. This is lower than in 2023, when it was 18%, 3.7 pps below the EU average), after having registered a gradual increase, but still being far away from the pre-2008 value. Income inequality was 6.96 in 2024, up from 6.6 in 2023, compared to 4.7 in the EU, partially due to the low redistributive impact of the tax and benefit system. It is significantly influenced by the inequality of opportunities in early childhood and aspects such as parents' education.[21] Social transfers (excluding pensions) reduced poverty by 27.7% in 2024, recording an increase from 24.4% in 2022 (mainly due to improvements in some social assistance schemes), but was still 7 pps below the EU average in 2023. Importantly, discrepancies are visible between age cohorts, as the poverty reduction impact for children (0-18) was at 27.9% in 2024, and 27.3%. the year before, far away from the EU average for the same group, at 41.4%. This can be in part attributed to the lower spending on family and child benefits (1.8% of GDP in BG vs 2.3% in the EU). Simulations show that the largest poverty reduction impact for

[20] Bulgaria National Statistical Institute.

[21] Inequality of opportunity in Bulgaria: Policy Note (2024). World Bank. Available at https://openknowledge.worldbank.org/entities/publication/46e9792b-7879-4354-b1d8-faa7d44986b8

children may come from expanding the tax relief for families with children (tax deductions) and better targeting means-tested benefits (with an estimated decrease between 4 pps and 8 pps, depending on the level of generosity).[22]

Housing affordability and availability as well as energy poverty are still prominent challenges among low-income groups. Energy poverty has slightly declined, but significant challenges remain with the share of the population unable to keep their homes adequately warm remaining among the highest in the EU and particularly high for people at risk of poverty (37.2% in 2024, close to double the national average). The share of people living in households where the total housing costs represented more than 40% of their disposable income (the housing cost overburden rate) significantly decreased to 8% in 2024 (11.1% in 2023, compared to 8.8% in the EU on average). Strong wage and pension growth coupled with improved social protection adequacy resulted in higher average household incomes, which more than compensated otherwise rising housing-related expenditure. For people at risk of poverty, the housing cost overburden rate was 29.4% in 2024 (39.3% in 2023 compared to 33.5% in the EU). The National Statistics Institute has reported that the prices of housing have increased over twofold in Q4-2024 compared to 2015. In 2024, 33.8% of people lived in an overcrowded household (34.9% vs 16.8% in the EU in 2023). For people at risk of poverty this share was 42.9% in 2024 (down from 45.5% in 2023, vs 29.7 % in the EU). There seems to be insufficient overall strategic planning in the housing sector in terms of accessibility and affordability, as well as limited piecemeal social housing projects carried out by municipalities.

Bulgaria has a rapidly ageing population, which puts pressure on the healthcare and long-term care (LTC) systems, with disparities in access for vulnerable groups. Spending on LTC in Bulgaria was among the lowest in the EU in 2022 (0.5% of GDP vs 1.7% on average in the EU)[23]. This translated into a very low share of people aged 65+ receiving public home care or residential care (0.7% and 1.1% respectively vs 5.5% and 3.3% on average in the EU in 2022). The self-reported unmet need for medical care in Bulgaria was 1.1% in 2024 (unchanged from 2023, when it was below the EU average of 2.4%), and was more prevalent among people in the lowest income group (2.7% compared to 0.2% of the highest in 2024). There was also a very high proportion of out-of-pocket payments for healthcare (35.1% in 2022, about 2.5 times the EU average). This indicates significant socioeconomic disparities in access to healthcare. People living in rural areas often have limited access to healthcare and LTC services, including specialised care and emergency services, also because of shortages of health and LTC professionals. Mental health services are underdeveloped, and there is a need for more resources and support for people with mental health conditions.

b) Relevant planned and ongoing policy responses

Bulgaria is taking measures to alleviate poverty, paying particular attention to children and the implementation of the European Child Guarantee (ECG). The National Strategy for Poverty Reduction and Promotion of Social Inclusion 2030 was updated in 2022 and is implemented through dedicated 2-year action plans. Furthermore, in April 2024 the government adopted an Action Plan for the Promotion of Early Childhood Development (2024) emphasising a holistic approach to support children and their families from the earliest age by emphasising prevention, care and education. The ESF+ has allocated significant investments to the ECG (EUR 136 million, 5.4% of the total ESF+ envelope), and several actions are already under implementation. Additional financial support by the government has also been ramped up: i) the adequacy and coverage of child benefits for low-income households were improved (2024); ii) universal child benefits for enrolment in school were extended to more school grades (2023); iii) one-off benefits for childbirth, adoption and pregnancy were increased (2024); iv) the adequacy of the monthly benefit for raising a child with a permanent disability was improved (2024); and v) the tax relief per child in the household was increased (2022). Also, the RRP contributes to the construction and renovation of kindergartens and schools.

The minimum wage increased substantially in the last years both in nominal and real terms. In 2023, the

[22] See World Bank (2024), Reassessing Welfare Impacts of Bulgarian Fiscal Policy through a Child Poverty Perspective. The World Bank study uses EU SILC and HBS data for 2021, so it does not take into account policy developments after 2022 (e.g. tax relief). The simulated decrease in child poverty is based upon the increase of the amount of the means-tested child benefit by 59% (for the 4 pps reduction) and by 184% (for the 8 pps reduction).

[23] European Commission, EPC, 2024 Ageing Report.

government adopted a mechanism setting the statutory minimum wage at 50% of the average gross wage for the past 12 months at national level, which led to an increase of 19.6% in 2024 and 15.4% in 2025 (BGN 1 077/EUR 551), outpacing inflation (8.6% in 2023 and 2.5% expected in 2024). Overall, statutory minimum wages increased by more than 43% between January 2022 and July 2024, corresponding to an increase of close to 18% in real terms. Within the established deadline for the transposition of Directive 2022/2041/EU (15 November 2024), Bulgaria has submitted to the European Commission a table of compliance with the current national legislation, in accordance with its commitments. Improving the mechanism for setting the minimum wage is under discussion, but no agreement has been reached between the social partners so far.

The inclusion of automatic indexation mechanisms and simplified eligibility criteria has strengthened the Bulgarian social protection system, which are expected to result in better adequacy and coverage in the long term. The minimum income reform (a deliverable under the RRP, in force since June 2023), has reformed the social assistance system by fostering better adequacy and expanding coverage to a larger variety of support schemes. Still the adequacy of the benefits remained well below the EU average (latest data 2022). To tackle energy poverty, Bulgaria has adopted a definition of energy poverty (again as part of its RRP), but support mechanisms are still not fully in place and more targeted and sustained efforts are needed to address this long-standing challenge. For the older age cohorts, since 2022, the government has rallied its efforts towards improving the adequacy of the pension system with the latest indexation of 11% taking place as of July 2024.

With the reform of social services initiated with the Social Services Act in 2020 and the adoption of secondary legislation, Bulgaria has further developed its system to build up access, affordability and quality. The Ordinance on the Quality of Social Services (2022) and the National Map of Social Services (2024), both key deliverables under the RRP, are the cornerstones for future investments in accessibility, quality standards, and attractiveness of social services, thereby addressing outstanding structural issues. In March 2024, the Strategy for Human Resource Development in the Social Sphere 2024-30 was adopted, aiming to boost staff qualification, training, remuneration and address shortages. In recent years, significant focus has been placed on the care system for children with disabilities and progress has been made with the deinstitutionalisation of children. Yet, the last 3 socio-medical specialised institutions for the age group 0-3 were not closed down in 2024, in spite of prior commitments. Through EU and national funds, successive administrations have been strengthening prevention of family separation and foster care to thwart institutionalisation, allowing children to grow up in an inclusive family environment. Nevertheless, further sustained efforts will be needed to improve access and provide quality social services to those in need equally across the country.

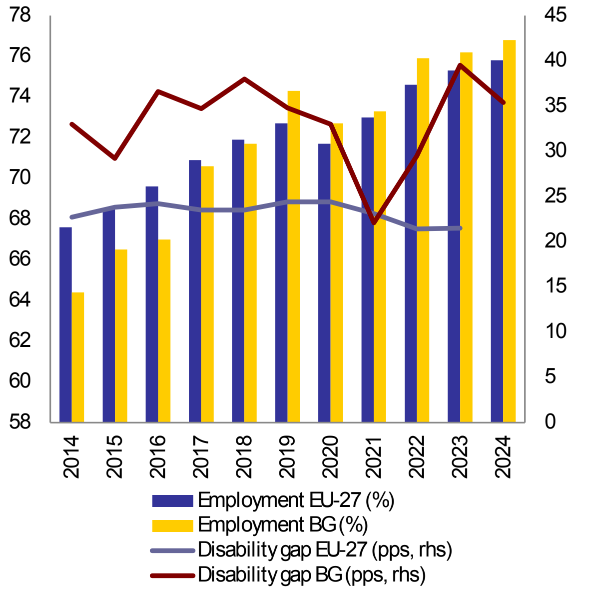
The EU Structural Funds and the RRF invest significantly in Bulgaria's LTC and healthcare, however progress is slow. LTC investments under the RRF have been contracted with municipalities and the ESF+ has provided home care services to more than 37 000 vulnerable participants in 2024 alone. The ESF+ and the RRF also support measures addressing shortages of specialists and nurses, fostering preventive and outpatient care, and the uneven distribution of the healthcare workforce across regions. Measures in preventive health and health awareness campaigns targeting vulnerable groups have been only recently approved and are set to start in 2025.

2.1.3 Labour market

a) State of play and developments on social convergence risks

The labour market continues to perform strongly, but differences persist across population groups, with difficulties for young people and persons with disabilities. The employment rate surpassed pre-pandemic levels in 2022, and reached 76.8% in 2024, slightly above the EU average and 2.2 pps below the 2030 national target of 79%. The positive trend took place in the context of accelerated economic and wage growth and reduced inflation. The unemployment rate remains lower than the EU average (4.2% vs 5.9% in 2024). Although decreasing, the share of young people (15-29) neither in employment nor in education and training (NEET) is still high (12.7%% in 2024, i.e. 1.7 pps above the EU average). Additionally, the gap in employment between persons with and without disabilities is much larger than in other Member States, (35.4 pps in 2024, down from 39.5 pps in 2023 when it was 21.5 pps in the EU), following significant increases in 2022 and 2023. The time gap between the implementation of the 2 programming periods affecting the availability of EU funding for support for employment of persons with disability (in 2022 and 2023) contributed to the negative results, but the fluctuations in the employment gap over the last decade suggest that some policy measures do not have a sustained positive impact. Finally, only 47% of Roma are in some form of employment, with the employment rate for women being at half of that of men (31% vs 63%).[24]

Figure 2: Employment rate and disability employment gap (%, pps)



Source: Eurostat [lfsi_emp_a, tepsr_sp200].

Bulgaria is facing adverse demographic trends that are expected to put increasing pressure on the labour market. Bulgaria lost 19.1% of its working-age population between 2011 and 2021, mainly due to migration outflows[25] and ageing. Despite a more recent slowdown of this trend[26], the population is expected to decline by an additional 3.4% until 2027[27], putting the labour market under increasing pressure. Against the background of a low job vacancy rate (0.8% vs 2.3% in the EU in Q3-2024), employers who are not offering new jobs nonetheless cite shortages, along with political instability, as the main reasons for not hiring[28]. In 2024, a comprehensive annual employers' survey[29] showed that the demand for workers had remained high, with an estimated total need of over 260 000 additional workers (9.3% of the workforce). The highest share was in the industrial sector, trade, transport, hotels and restaurants, the construction sector, education and healthcare. Furthermore, Bulgaria is among the few EU countries reporting significant regional differences in labour shortages and labour demand[30]. Two of the six regions were responsible for almost 50% of the labour needs, while the region with the lowest labour needs required only 10% of the additional workers[31]. At the same time, about one third of the unemployed remain registered at the Public Employment Services (PES) for over one year. They often have low education levels, lack relevant skills and/or live in regions with very low labour demand.

Also in view of the shrinking labour force, increasing activation and enhancing the labour market integration for certain population groups, alongside tackling regional disparities, are key for inclusive and sustainable economic growth. The inactive population (aged 20-64) stood at 20.2% in Q4-2024, slightly above the EU average of 19.6%, but varying significantly across regions (from 16.7% in the Yugozapaden region to 27.1% in the Severozapaden region), and with peaks among NEETs (10.8% vs 7% in the EU in 2023) and persons with disabilities (86.7% in 2022). The PES in Bulgaria continue to face challenges reaching parts of the population, especially in remote areas, despite having introduced mobile labour offices and employing labour mediators. These difficulties are also likely contributing to the persistently low employment rate of low-skilled people (ISCED[32] 0-2), which stood at 50.2% in 2023, significantly below the employment rate of the high-skilled (ISCED 5-8), at 90.2% (58.3% and 86.3%, respectively, in the EU). This is further exacerbated by high skills mismatches across regions, low educational attainments and lack of basic skills among specific groups.

[24] FRA Roma Survey 2021.

[25] A total of 344 000 people emigrated during this period, which was the cause of 40.7% of the total population decline (see the Statistical reference book for the 2021 census, National Statistical Institute, Sofia 2023).

[26] 2023 and 2024 were the years with the smallest declines over the last decade: - 0.54% and - 0.03%, respectively (source: Eurostat).

[27] Analytical Report on Labour Market Imbalances, the Employment Agency by Metric Analytics (2023).

[28] https://bec-bg.co/bec_pazar-na-truda_4q24_1q25/

[29] https://www.az.government.bg/pages/prouchvane-potrebnosti-2024/

[30] EURES (2023), Report on labour shortages and surpluses. The 2024 employers' survey analysis also highlighted a growing divide in the demand of workers by regions.

[31] See the 2024 employers' survey analysis.

[32] The International Standard Classification of Education (ISCED).

b) Relevant planned and ongoing policy responses

The Public Employment Services are carrying out various activities to identify and engage inactive people, focussing on young people and the Roma community. To expand the shrinking labour force, Bulgaria is focusing on measures to activate vulnerable groups with key strategic operations co-financed by ESF+ (e.g., 'Starting a job', Youth employment+, etc.). Overall, the ESF+ has set aside a dedicated budget of EUR 315 million to integrate unemployed or inactive young people into the labour market and improve their skills. Nevertheless, an important policy measure, the data exchange mechanism for the register of the inactive, is not yet in place. The main support for Roma people through the ESF+ will consist in strengthening the network of Roma mediators, improving access to the labour market and social inclusion, but further support in acquiring labour market relevant skills (including basic skills) and qualifications seems necessary. With the support from the RRF, ESF+ and TSI[33], the PES is being modernised, including with development of IT tools, aiming to improve quality and service delivery. The impact of these measures remains to be seen, as their effectiveness and efficiency are dependent i.a. on local partnerships with key stakeholders (local authorities, employers, educational institutions). In view of the decline in the working-age population, efforts to close the gap in employment for vulnerable groups is particularly important.

Various measures are in implementation to narrow the employment gap between persons with and without disabilities, but they do not appear to have a lasting and sustainable effect. The Persons with Disabilities Act (2019) has designated employment as a key area for intervention and support, introducing measures such as mandatory quotas for persons with disabilities in larger enterprises, free employment mediation services and various incentives for employers to hire persons with disabilities (e.g., reduced social contributions). National programmes also promote employment, including self-employment and entrepreneurship. Six regional centres supporting the social economy were set up with RRF funding, which contributed to the establishment of 84 new social enterprises. As of 21 March 2025, there 149 social enterprises are registered, which employ broad groups of vulnerable people, including persons with disabilities. Networks have been created to support the development of social entrepreneurship and the social economy, driven and supported by the regional centres. These networks involve social enterprises, state and local institutions, academic institutions, and private companies. Several ESF+ operations, with a total budget of EUR 77.7 million, targeting persons with disabilities were launched supporting job creation, subsidised employment, retraining and boosting qualification, mentoring and commuting support. In 2023, over 6 300 persons with disabilities started working with the assistance of the PES. While going in the right direction, these measures do not appear sufficient to comprehensively tackle the structural challenge.

With the National Health Strategy 2030 already in place since April 2024 as a commitment under the RRP, Bulgaria has intensified efforts on the provision and availability of health services, with a particular emphasis on the healthcare workforce, but delays have already accumulated. In light of the declining workforce, the RRP is addressing shortages of healthcare professionals, including their uneven distribution across regions. Also, the ESF+ supports the training of specialists and their relocation to underserved areas. Further measures to improve the attractiveness of the nursing profession, including addressing the poor working conditions in the sector have been delayed due to political instability and late adoption of the strategic national health framework until 2030. To achieve tangible results, the planned investments and reforms need closer monitoring and accelerated implementation.

2.1.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to education, including participation in early childhood education and care, basic skills levels, and labour market relevance of vocational education and training and higher education. Challenges related to skills include the low and deteriorating adult participation in learning and low share of adults with at least basic digital skills. All these challenges negatively impact on competitiveness, employability and the twin transition. In the area of social protection and inclusion, relatively large improvements were recorded on the share of the population at risk of poverty or social inclusion, the impact of social transfers (excluding pensions) on poverty reduction,

[33] Technical Support Instrument: Optimisation of processes and services at the Bulgarian National Employment Agency (November 2023).

income inequalities and the housing cost overburden, though values are not yet at or still significantly below the respective EU averages. At the same time, significant challenges persist in relation to poverty or social exclusion risks for children. In the labour market domain, a relatively strong overall performance is accompanied by challenges related to the still high disability employment gap and share of young people neither in employment nor in education and training (NEET).

The measures implemented or planned so far, such as to improve the quality and inclusiveness of education, labour market relevance of VET and higher education, skills of the workforce, labour market outcomes of certain groups, as well as the reform of social assistance and social services, and actions to reduce poverty or social exclusion, especially for children, are expected to help Bulgaria address the challenges identified. This will also crucially depend on their full and timely implementation, as well as effective involvement of all relevant stakeholders, including at local level.

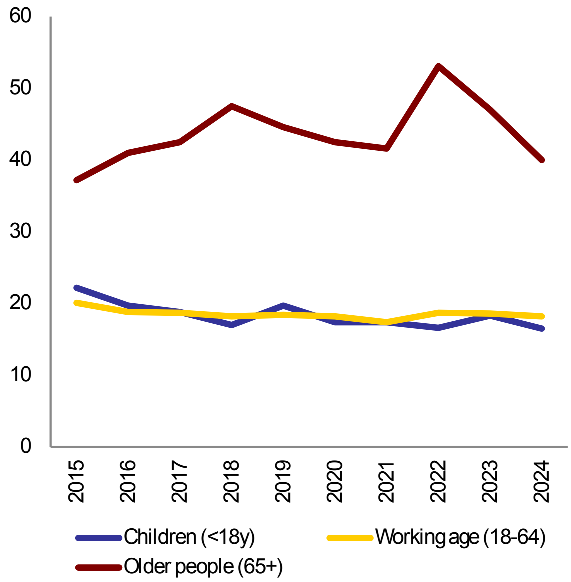
2.2. ESTONIA

In the first-stage analysis in the JER 2025, Estonia was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging, including one that deteriorated over time. In the second stage analysis in 2024, it was found that the measures implemented or planned were sufficient to help the country move in the right direction, crucially depending on their effectiveness and sustainability over time. The risks identified this year in the first stage concern the area of social protection and inclusion, notably the still high **at-risk-of-poverty or social exclusion rate,** the low **impact of social transfers (excluding pensions) on poverty reduction,** persisting **income inequality,** as well as still high **self-reported unmet needs for medical care.** In the labour market domain, the increased **unemployment rate** and declining **real gross disposable household income per capita** were also identified as criticalities.

2.2.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

Figure 11: AROPE rates (%)



Note: The composition of the AROPE indicator slightly differs for the 65+ age group, as it does not include the very low work intensity component. The 65+ age group is thus not fully comparable to the other age groups.

Source: Eurostat [ilc_peps01n].

Estonia continues to face significant challenges in poverty and social exclusion, particularly for vulnerable groups, despite recent improvements. After a sharp increase in 2022, the share of people at risk of poverty or social exclusion (AROPE) decreased significantly in the last two years, falling by 1 pp to 24.2% in 2023 (still above the EU average of 21.6%) and to 22.2% in 2024[34]. While by 2024 AROPE fell back to 2021 levels, it remains elevated, driven by a particularly high at-risk-of-poverty rate (AROP) (20.2% in 2024, down 2.3 pps compared to 2023). Between 2019 and 2024, the number of people at risk of poverty or social exclusion fell by 9,000 to 302,000, still far from Estonia's 2030 target of a reduction by 39,000 compared to 2019. Despite easing in 2024, inflation has exacerbated financial pressures on vulnerable groups with prices rising by around 40% over the last three years, driving severe material and social deprivation up from 1.9% in 2021 to 3.1% in 2024. Older people (40%) and persons with disabilities (39.1%) face some of the highest poverty or social exclusion risks in the EU, also due to relatively low pensions and social protection expenditure (see below). However, their AROPE rates improved significantly over the past two years, falling by 13.1 pps and 8.7 pps since 2022, respectively. According to Statistics Estonia, 71% of older people living alone and 30.5% of lone-parent households experienced poverty in 2023. The AROPE rate for children is considerably lower than the EU average (18.3% vs 24.8% in the EU in 2023), and fell by a further 1.8 pps in 2024. The risk of poverty or social exclusion is significantly higher in single-parent households (35.3%) and varies by parental education, ranging from 10.1% (higher education) to 45.6% (low education), with a particularly sharp AROPE improvement for the latter in 2024 (-9.8 pps).

Regional disparities remain pronounced, with rural and border areas facing greater poverty risks. In 2023, poverty rates were more than twice as high in Ida-Viru (35%) and Lääne-Viru (29.2%) counties than in Harju (15.5%) and Rapla (14.1%). North-East and South-East border regions lag behind national averages, due to the concentration of entrepreneurial activity in Harju and Tartu counties, as well as lower levels of human capital and access to services in rural areas. Rural areas also report the highest rates of young people neither in employment nor in education and training (NEET), along with higher school leaving rates.

In-work poverty remains relatively high, particularly for those in non-standard forms of work. In-work poverty was relatively high in 2023 (10.3% vs 8.3% in

[34] Social statistics for 2024 are based on income earned in 2023.

the EU) and remained stable in 2024, particularly affecting young people (14.1%), part-timers (27%)[35] and the self-employed (26.2%). After declining sharply in 2022 (-9.3%) and slightly in 2023 (-0.8%), real wages are set to grow by 2.3% in 2024, supported by robust nominal wage growth (5.9% in 2024)[36] and easing inflation (from 19.4% in 2022 and 9.1% in 2023 to 3.7% in 2024),[37] but remain well below 2021 levels. The minimum wage increased by over 25% between January 2022 and July 2024 but stagnated in real terms over the same period due to high inflation. In 2024, it remains among the lowest in EU, at EUR 820 per month, only marginally above the at-risk-of-poverty threshold (EUR 807 per month). Collective bargaining coverage is also low (19.1% in 2021[38]), while the share of low-wage earners is among the highest in the EU (21.2% in 2022).

Income and wealth inequalities persist, driven by limited redistribution. After increasing sharply in 2022, the income quintile share ratio remained high in 2023, with the top 20% of the population earning around 5.4 times more than the bottom 20% (EU average S80/S20 ratio: 4.7). In 2024, it fell to 5, now back to 2021 levels. The income share of the bottom 40% is relatively low (19.5% vs 21.7% in the EU in 2023), but it increased to 20.4% in 2024. Wealth inequality is among the highest in the euro area, with the top 10% holding 59% of net wealth in 2021 (euro-area average: 53.4%)[39]. Estonia's taxation system has limited redistributive effects, contributing to economic disparities: the impact of taxes and transfers in reducing income inequality (measured by the S80/S20 ratio) is low (37%, EU 49%)[40]. Upcoming tax reforms in 2025 are not expected to lower income inequality (with the Gini coefficient on disposable income estimated to remain broadly stable)[41].

The social protection system struggles to effectively reduce poverty, with low expenditure and gaps in coverage, particularly for the self-employed and certain categories of non-standard forms of work. The impact of social transfers (other than pensions) on poverty reduction increased from 27.7% in 2023 to 31.5% in 2024, but it remains relatively low (EU: 34.7% in 2023). Social benefits expenditure is among the lowest in the EU (15.3% vs 26.8% of GDP in 2023) and started declining since 2021 after a steady increase until 2020. The adequacy of the minimum income scheme in Estonia is also low[42], amounting to 41.4% of the poverty threshold (EU: 55.6%) and 41.4% of a low wage earner's income (EU 46.1%) in 2022. At-risk-of-poverty rates remain elevated among part-timers and the self-employed, and especially among quasi-jobless households (75.9%[43] vs 13.1% for other households in 2023). Over the past decade, the share of self-employed workers in total employment has increased from 9% to 12%, while part-time employment has grown from 11.7% to 15.7%[44]. The self-employed remain excluded from unemployment insurance, relying on the state non-contributory unemployment allowance (under the same conditions as employees), and have access to sickness benefits only through voluntary coverage. In 2024, 28.1% of the newly registered unemployed did not qualify for any benefit or allowance, 33.5% received unemployment insurance benefits and 26.4% received the fixed unemployment allowance.[45]

Pensions and the social safety net more broadly have been strengthened in recent years, but their adequacy remains limited. The low subsistence benefit (Estonia's minimum income scheme) lacks regular indexation and relies on discretionary adjustments, failing to prevent absolute poverty[46]. In 2022, the minimum subsistence benefit for the first adult member of a family was raised from EUR 150 to EUR 200, but the scheme has faced additional pressure due to the inflow of people fleeing the war in Ukraine. Pensions increased sharply in recent years due to inflation indexation adjustments and rising social contributions, growing by 13.9% in 2023 and 10.6% in 2024. As a result, the average pension rose from EUR 591 in 2022 to EUR 774 in 2024, with the minimum pension increasing from EUR 275 to EUR 372.

[35] DG EMPL internal calculations, based on Eurostat, EU-SILC 2023.

[36] European Commission, European Economic Forecast. Autumn 2024. For nominal wages, compensation per employee includes: i) Wages and salaries payable in cash or in kind; and ii) Social contributions payable by employers. For real gross wages, the deflator used is HICP.

[37] https://data.ecb.europa.eu/publications/macroeconomic-and-sectoral-statistics/3030627

[38] OECD/AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS)

[39] Household Finance and Consumption Survey - wave 2021

[40] European Commission, Economic inequalities in the EU, July 2024

[41] Euromod analysis (2024).

[42] SPC benchmarking framework on minimum income, incomes 2022

[43] DG EMPL internal calculations, based on Eurostat, EU-SILC 2023.

[44] Estonian Central Bank, "Labour Market Review 2, 2024".

[45] Estonian Unemployment Insurance Fund: Coverage of allowances and benefits | Töötukassa

[46] According to Statistics Estonia, nearly 36 400 people lived in absolute poverty in 2023.

However, low pensions remain a key driver of old-age poverty, with the aggregate replacement ratio relative to work incomes considerably below the EU average (46% vs 58% the EU in 2023), despite its increase to 50% in 2024. The 2021 pension reform, which allowed opting out of the statutory funded pension scheme, is likely to further undermine pension adequacy and heighten the long-term poverty risk for retirees.[47] By the end of 2022, 214 000 people (31% of those who had previously joined the scheme) had opted out, taking out EUR 1.8 billion, or around 30% of the total funding[48].

Despite recent improvements, public spending on healthcare and long-term care remains low, with persistent challenges in access to healthcare and service quality. While the share of Estonians experiencing unmet needs for medical care has decreased by 7 pps since 2019, the country still recorded a high unmet need in 2024 (8.5%). It improved considerably compared to 2023, when it stood at 12.9%, around 5 times larger than the EU average of 2.4%, with even higher rates among persons with disabilities (21%). Public healthcare expenditure increased following the outbreak of the COVID-19 pandemic, reaching 7.5% of GDP in 2023, but as of 2022 it remained below the EU average (7% vs 10.4% of GDP). Out-of-pocket payments on health account for a greater proportion of spending in Estonia than in the EU (23.2% in 2022 vs 14.3% in the EU). Long-term care (LTC) spending is also low (0.4% of GDP vs 1.7% in the EU in 2022) [49], despite a rapidly ageing population, with the share of people aged 65 and over projected to increase from 20.4% in 2022 to 27.1% in 2050 and an old-age dependency ratio rising from 32.3% to 46.2%. Challenges reported by the sector include governance and quality issues, staff shortages, reliance on informal care and disparities between municipalities, with only 10.3% of people aged 65 and over in need of LTC using home-care services (vs 28.6% in the EU in 2019).

b) Relevant planned and ongoing policy responses

Estonia has gradually raised the minimum wage to tackle in-work poverty. After stagnating in real terms over the last two years, the minimum wage (negotiated annually by social partners) is set to increase by 8% to EUR 886 in 2025, likely outpacing both projected inflation and wage growth and thus improving the purchasing power of low-income earners. Increasing the relatively low collective bargaining coverage and the very low density of trade union and employers' organisations can improve working conditions. An important achievement of the social dialogue has been the tripartite agreement on the minimum wage framework in 2023, which outlined a gradual increase to reach 50% of the average wage by 2027[50]. Overall, while the involvement of social partners in policy-making has improved significantly in recent years, there is still scope for further strengthening social dialogue.

Progress has been made in strengthening social protection for the unemployed, but significant coverage gaps persist. In June 2023, as part of its Recovery and Resilience Plan (RRP), Estonia amended the Unemployment Insurance Act to extend the duration of unemployment insurance benefits, enhancing support during challenging labour market conditions. However, coverage remains limited for the self-employed and those in non-standard employment[51]. A 2024 proposal aims to replace the current two-tier system of unemployment allowances and insurance with a single unemployment insurance scheme from 2026, expanding access to workers with limited employment histories. In addition, by summer 2025 Estonia plans to propose options to further expand unemployment insurance coverage to include those in non-standard forms of work who remain excluded, such as sole proprietors, entrepreneur account holders, or members of management and supervisory bodies[52].

Since January 2023, several family benefits have been significantly increased. The child allowance for the first and second children has been raised from EUR 60 to EUR 80 per month, while the single-parent child allowance saw a substantial increase from EUR 19.18 to EUR 80 per month. Support for large families (with 3-6

[47] Ministry of Finance and Ministry of Social Affairs: Estonian Pension System Sustainability Analysis (2022): Eesti pensionisüsteemi jätkusuutlikkuse analüüs_sotsiaalministeerium.pdf

[48] 2024 Ageing Report Estonia - Country Fiche.

[49] European Commission, EPC, 2024 Ageing Report.

[50] In 2023, the minimum wage was 39.5% of the average wage.

[51] EUROFOUND: Non-standard employment includes temporary employment; part-time and on-call work; temporary agency work and other multiparty employment relationships; disguised employment and dependent self-employment.

[52] Temporary employment, part-time and on-call work, temporary agency work, other multiparty employment relationships and dependent self-employment are already covered by unemployment insurance.

children) also grew from EUR 300 to EUR 450. These allowances remained unchanged in 2024. To further support single-parent families, as of January 2024 maintenance support for single-parent families was doubled from EUR 100 to EUR 200 per month when the parent obliged to pay maintenance support fails to pay the necessary amount. As the majority of single parents are women, these measures can also reduce the high poverty risk among women.

Measures to mitigate old-age poverty have also been introduced, but challenges persist. Pension adjustments in recent years have contributed to the 2023 and 2024 improvements in old-age poverty, with a further 5.7% average pension increase expected in 2025. In addition, Estonia established an income tax exemption and raised pensions and allowances for pensioners living alone. However, as of January 2025, a threshold of EUR 776 will be introduced for the income tax exemption, and the living-alone allowance for pensioners in elderly care institutions will be discontinued. In addition, to address pension adequacy, contributions to the second pillar may increase from 2% to 4% or 6% in 2025. In June 2023, Estonia launched the Pension Awareness Strategy 2023-27 to enhance public understanding of the pension system, entitlements and pension savings rates. However, it does not effectively address the risks stemming from the 2021 pension reform, which made participation in the statutory funded scheme optional.

Estonia is taking steps to strengthen its minimum income scheme and improve support for persons with disabilities. As laid out in the Government Action Plan, the country intends to modernise its subsistence benefit system, including revising the methodology for estimating the minimum subsistence level. In 2022, the subsistence benefits were increased both for single households and families, and mortgage payments were included as housing costs in determining eligibility and benefit amounts. Starting in June 2025, several benefits will be raised for families and persons with disabilities, including working-age individuals and children with severe or profound disabilities (including rare diseases), by up to EUR 50. In addition, from 2025, Estonia will improve access to assistive devices without the need for prior disability diagnosis or work capacity assessment.

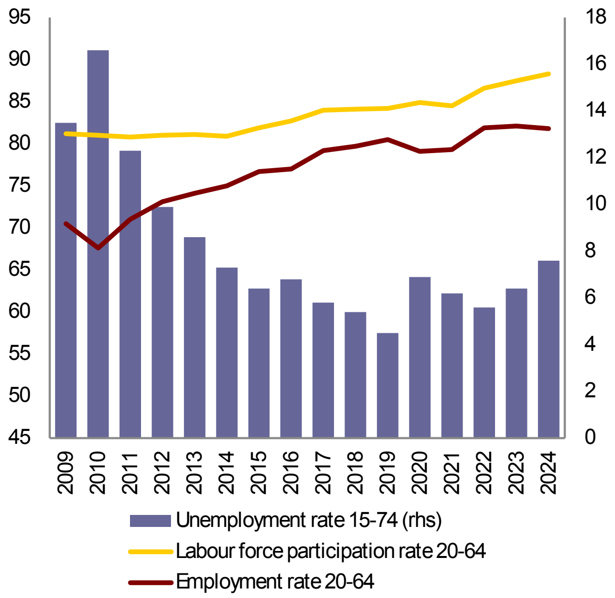
Several measures are being implemented in the areas of healthcare and LTC, some of them supported by EU funds. Estonia's Recovery and Resilience Plan and the European Regional Development Fund programmes contain reforms and investments to improve access to healthcare and LTC. Initiatives include expanding community-based service places (including for the elderly) and establishing integrated centres for social and welfare services. The TSI is further supporting Estonian authorities to implement reforms aimed at enhancing the resilience of primary care and improving coordination with social services. Concerning out-of-pocket payments in healthcare, several measures are also implemented. Estonia is gradually increasing dental care benefits and reducing co-payments for medical goods. Starting in 2025, the Health Insurance Act will reduce co-payments for medicines and medical devices by extending the supplementary benefit system to medical devices, along with additional compensation measures for inpatient nursing care. In addition, the ESF+ is financing the development of accessible and quality social services to support carers and persons with disabilities, improving their access to the labour market and society. The Care Reform, which took effect in July 2023, marks the first major overhaul of LTC provision, with 2024 as its first full year of implementation. The reform provides local governments with additional financial resources to organise LTC, notably to reduce out-of-pocket payments for general care. According to the Ministry of Social Affairs, these payments have already declined to an estimated 49-51%, with the full-year impact to be assessed in 2026. Despite these efforts, significant gaps remain in ensuring adequate financing, quality and availability of care services across municipalities. Greater emphasis on home and community-based care, including wider use of assistive technologies, could further strengthen the system. Enhanced coordination between social security and healthcare systems and municipalities will be crucial for effective implementation.

2.2.2 Labour market

a) State of play and developments on social convergence risks

The unemployment rate has increased since the onset of the recession in 2022, but the labour market remains strong. Although real GDP contracted by 3% in 2023, reflecting weak global demand, declining competitiveness and persistent geopolitical tensions, the employment rate reached 82.1%, one of the highest in the EU and above the national target of 81.3%. Employment remained stable in 2024, slightly falling to 81.8% (EU:75.8%). Ukrainian refugees (2.6% of the population) are well integrated, with 57% of temporary protection beneficiaries employed, and their share among registered unemployed declining from 12.5% in November 2022 to 6.8% in September 2024. However, the unemployment rate increased from 5.6% in 2022 to 6.4% in 2023, and further to 7.6% in 2024. Long-term unemployment, after stabilising at 1.3% in 2023 (EU: 2.1%), rose sharply to 1.8% in 2024, almost reaching the EU average of 1.9%. Given the subdued growth outlook, employment and unemployment prospects are not expected to improve significantly in 2025. Regional disparities remain considerable, with much higher unemployment rates in North-Eastern Estonia (10.1% in 2023) compared to unemployment rates between 6% and 7.5% in other regions. This difference is largely related to the concentration of jobs in major cities and the North-East's reliance on the industrial sector most affected by the recession. [53]

Figure 2: Key labour market indicators (%)



Source: Eurostat [lfsi_emp_a, une_rt_a].

Young workers, women and persons with disabilities continue to face labour market challenges, despite recent improvements. Similar to other Member States, youth unemployment (15-24) at 19.1% in 2024 remains well above the overall unemployment rate (EU: 14.9%). The share of young people neither in employment nor in education and training (NEETs) has steadily decreased in the last decade, from 13.8% in 2014 to 9.6% in 2023, but in 2024 it rose to 11%, equalling the EU average, with rural regions reporting higher rates (12.9%). Young persons with disabilities face even greater challenges, with a NEET rate of 24.6% in 2022. Early leaving from education and training stood at 9.7% in 2023 (EU: 9.5%) and has been roughly stable over the last decade. On the other hand, Estonia has one of the highest employment rates (75.7% in 2024) among older workers (55-64), well above the EU average (65.2%), reflecting the rising retirement age and relatively low pensions. The country performs well as regards the gender employment gap and has made gradual progress in narrowing its relatively high gender pay gap, reaching a historic low at 16.9% in 2023 (EU: 12%). At the same time, the disability employment gap slightly increased to 20.8% in 2024, after falling by 6 pps in 2023 (to 20.2% vs 21.5% in the EU).

Household incomes remain under pressure, as declining purchasing power and weak labour productivity contribute to economic challenges. Gross disposable household income (GDHI) per capita continued to deteriorate in 2023 (to 126 from 130.5 in 2022 and 135.1 in 2021, vs 111.1 in the EU in 2023 from 110.5 in 2022, index 2008=100), reflecting rising living costs and a decline in the purchasing power of wages, which remain below 2021 levels on average. Labour productivity has also weakened, with the country's productivity in purchasing power standards (PPS) per hour worked falling to 67.9% of the EU average in 2023, the lowest level in over five years. The largest declines were reported in financial activities, agriculture and information and communication. While labour productivity in industry grew by 9.4% in 2021, following the post-pandemic recovery, it contracted sharply by 9.4% in 2022 and 9.9% in 2023, marking one of the largest falls among Member States, before rising by 1.6% in 2024. Human capital in the STEM fields (science, technology, engineering and mathematics) is a decisive factor to increase productivity. While Estonia has the highest share of ICT graduates per year in the EU (9.6% vs. 4.5% in the EU in 2022), the share of technology and engineering graduates has been falling. According to OSKA[54], the green and digital transitions require more STEM specialists, including teachers of these subjects, than are currently projected to graduate from higher education.

Demographic change and labour and skills shortages are adding pressure to Estonia's labour market and long-term competitiveness. The ageing population remains a key challenge, with the share of those aged 65 and over projected to rise from 19.8% in 2022 to 28.5% by 2050. The job vacancy rate is relatively low

[53] Statistics Estonia: Unemployment rate | Statistikaamet

[54] OSKA is Estonia's Skills Development Coordination System. Studies are conducted by the Estonian Qualifications Authority

(1.5% in Q4 2024), below its pre-pandemic level (1.9% in Q4 2019) and lower than the EU average (2.3% in Q4 2024). While vacancies have declined since their peak in early 2022, shortages persist in ICT, financial and insurance activities, public administration, defence, education and the healthcare sector. These shortages are exacerbated by the ageing workforce, with approximately 34% of teachers expected to retire within the next decade. Meeting the replacement needs would require around 770 new staff every year, exceeding the supply from the education system. Shortages in healthcare and education are also driven by difficult working conditions, while the transition to Estonian language further contributes to challenges in the education system by creating a language barrier for non-Estonian-speaking minorities.

b) Relevant planned and ongoing policy responses

Estonia is implementing active labour market policy (ALMP) measures to address employment challenges, but expenditure remains relatively low. ALMP financing increased gradually until 2020, when it reached 0.4% of GDP, still below the EU average of 0.6%. However, spending declined to 0.3% of GDP in 2023, likely due to delays in the new ESF+ programming period, as several ALMPs rely on ESF+ funding. The provision of labour market services is regulated by the Labour Market Measures Act and the Employment Programme 2024-2029, established by government regulation. Under this programme, a range of labour market measures is being implemented. The ESF+ is providing EUR 17.6 million to support key activities, including vocational rehabilitation, online training seminars and labour market services for people on long-term sick leave (more than 60 days). From 2025, employers will also be eligible for training grants to develop employees' green skills. Further measures aim to facilitate labour market integration for persons with health problems or reduced work capacity and to further increase participation among older workers by tackling employer stereotypes. Through the TSI, Estonia will receive technical support to develop a comprehensive employment service model for vulnerable groups, including a framework for outcomes-based payment and a guide for selecting and evaluating service providers. Support will also be provided to pilot the new service model, and to develop an adapted monitoring and evaluation framework. Estonia generally shows an established and well-developed set of services for the activation of the unemployed. However, there is room for strengthening cooperation with municipal social services and civil society, along with promoting up-skilling and re-skilling to better integrate the long-term unemployed and people outside the labour force, especially vulnerable groups.

To support young people in NEET situations, the government adopted the reinforced Youth Guarantee Action Plan in 2022 as part of Estonia's Recovery and Resilience Plan. The Action Plan aims to increase youth employment by preventing NEET status and providing targeted support to those already affected. It also includes measures to improve young people's skills and defines the roles of key stakeholders in addressing youth unemployment. The Estonian RRP contributes to these efforts through the "My First Job" initiative, which reduces youth unemployment through incentives to hire and train young people. These measures will be further complemented by broader ESF+ investments in active labour market policies, targeted NEET support and youth work initiatives. A register-based Youth Guarantee support system (NGTS) helps local governments to identify NEETs, while the ESF+ funds local projects to deliver targeted support measures. The Estonian government recently introduced an 'obligation to learn' policy until the age of 18, which might help to reduce early leaving from education and training. Reducing this rate would, in turn, contribute to further lowering the NEET rate.

A range of measures are being implemented to address labour and skills shortages, particularly in the context of the green and digital transitions. The Just Transition Fund supports workers in the oil shale sector in Ida-Viru (North-Eastern Estonia) by facilitating reskilling and employment in other industries. The ESF+ integrates green skills into education and training programmes while strengthening the link between education and the labour market through flexible upskilling initiatives. Recent amendments to the Adult Education Act regulate micro-qualifications (e.g. definition, volume of study programmes leading to micro-credentials, principles of provision, quality assurance mechanism), improving access to lifelong learning. The OSKA system will further enhance skills intelligence and forecasting. To support digital transformation, the RRP and ESF+ fund ICT training, digital skills development and recognition, as well as enhanced teaching resources and curricula, ensuring a workforce equipped for evolving labour market needs.

2.2.3 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to social protection and inclusion. These relate to a still high share of the population at risk of poverty or social exclusion, disproportionately affecting some vulnerable groups, high income inequality, a low impact of social transfers (excluding pensions) on poverty reduction, and high self-reported unmet needs for medical care (in spite of a decrease on the latter since 2019). While the labour market remained resilient, with a high employment rate, Estonia faces the challenge of increasing unemployment rates and decreasing gross disposable household income per capita, as a result of rising living costs and weakening productivity growth.

The measures implemented or planned so far, such as raising the minimum wage, increasing the flexibility of the unemployment insurance system, the pension awareness strategy to combat old-age poverty, plans to improve the accessibility and resilience of the healthcare and long-term care system, and ALMP initiatives to address employment challenges, are expected to help Estonia address the challenges identified. This will also crucially depend on their effectiveness and sustainability over time.

2.3. Greece

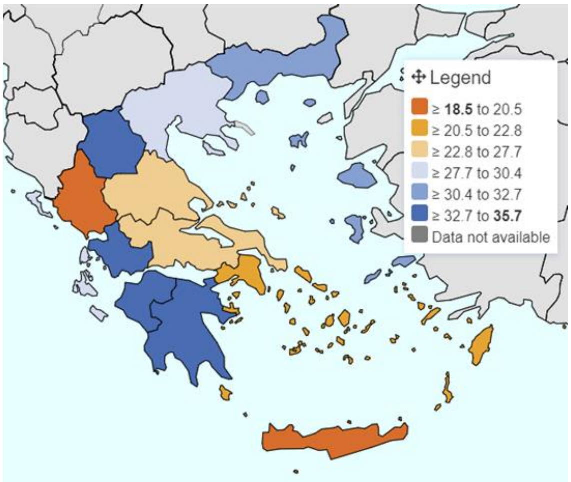
In the first-stage analysis in the JER 2025, Greece was identified as facing potential risks to upward social convergence based on 9 headline indicators of the Social Scoreboard flagging. The risks identified concern the area of social protection and inclusion, notably the still high **at-risk-of-poverty or social exclusion rate** (**including for children**), the low **impact of social transfers (excluding pensions) on poverty reduction**, persisting **income inequality**, the high **housing cost overburden** and **self-reported unmet needs for medical care**. While labour market performance has been improving overall, risks remained, notably in relation to the high **gender employment gap** and the still high **share of young people neither in employment nor in education and training (NEET)**. Finally, the low and declining **share of adults participating in learning** was also identified as a criticality.

2.3.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

Greece has made progress in reducing the share of people at risk of poverty or social exclusion (AROPE), but this decline slowed down in 2023, and the rate remains among the highest in the EU. Although the country has seen a decline in the AROPE rate by 2.9 pps since 2019, to 26.1% in 2023, it remains significantly above the EU average. The gradual improvement can be partially attributed to the decrease by 2.3 pps in the share of households that suffer from severe material and social deprivation (SMSD) while the at-risk-of-poverty rate (AROP) increased by 1 pp during the same period. The poverty gap, as a measure for the depth of poverty, has converged to the EU average and was even below the EU average in 2023. Nevertheless, in a context of high inflation and reduced social spending relative to GDP in 2023, two thirds of the population (67%) declared to have difficulty in making ends meet, the highest level in the EU (EU: 24.1%). The share of persons with disabilities who are at risk of poverty or social exclusion stood at 30.6% in 2023, above the EU average (28.8%). The AROPE rate for the non-EU born stood at 47.1% (EU: 39.2%), which shows that this particular population group faces significant challenges. There are also important regional disparities as regards poverty levels in Greece; the AROPE rates for South Aegean, Crete and Epirus are below the EU average (21.3%), while regions such as the Peloponnese and Western Greece show AROPE rates that are more than 10 pps above the EU average. These disparities can be explained by differences in economic opportunities and access to social, healthcare and other essential services. Against this background, Greece has set an ambitious national target to reduce the number of people at risk of poverty or social exclusion by 860 000 by 2030. By 2023, the country had achieved good progress towards the target, with 401 000 fewer people at risk of poverty or social exclusion (2.9 pps) compared to the 2019 baseline, namely thanks to the promotion of several social reforms and investments in the past years.

Figure 12: AROPE rates by NUTS region, 2023 (%)



Source: Eurostat [ilc_peps11n].

The share of children at risk of poverty or social exclusion has stabilised at a very high level in 2023. In 2023, the AROPE rate for children stood at 28.1%, among the highest in the EU, and remained broadly unchanged compared to the previous year, putting an end to the convergence trend observed up to 2022. Households with dependent children faced slightly higher AROPE rates than households without dependent children (27.9% vs 24.4%). The proportion of children at risk of poverty was 21.8% (vs 19.4% in the EU), while the share of those experiencing severe material and social deprivation stood at 15.6% (almost double the EU average of 8.4%). The high incidence of cases of severe material and social deprivation is one of the factors behind the stagnant levels of AROPE for children, which may hamper children's prospects and perpetuate the inter-generational transmission of poverty. This situation highlights the need for further actions to improve children's access to quality education and healthcare services and promote their social inclusion.

The effectiveness of social transfers in addressing poverty and reducing inequalities remains low. The social protection system faces important challenges related to coverage and efficiency. In 2023, social transfers (excluding pensions) reduced poverty by 18.2%, which is 16.5 pps below the EU average of 34.7%. The impact of social transfers on poverty reduction had increased in the period between 2017 and 2020, but the following years saw a major reversal of this trend. Improving access to social protection for persons in non-standard forms of employment and in solo self-employment is particularly important, especially since the latter group make up almost one-fifth of the total employed population in Greece. As for the adequacy of minimum income benefits, Greece performs worse than the EU average (EL: 53.9% vs EU: 55.6% as a share of the poverty threshold; EL: 25.6% vs EU 46.1% as a share of the income of a low-wage earner). The coverage of benefits is low, as the benefit recipient rate for persons that are both at risk of poverty and living in quasi-jobless households is well below the EU average (EL: 64.6% vs EU: 83.5%). There are also significant regional disparities in the impact of social transfers on poverty reduction, with some Greek regions converging to the EU average and others diverging over time. The best performing regions include the Ionian Islands (31.4%), Crete (21.3%) and Epirus (21%) while the least performing regions are Central Greece (9.6%), North Aegean (9.7%), Peloponnese (10.9%) and West Macedonia (11.3%). This gap provides an opportunity for interregional collaboration to identify best practices.

Income inequality persists in Greece, partly due to the limited redistribution impact of taxes and social transfers. The income quintile ratio[55] has been consistently above the EU average (5.3 vs 4.7 in 2023). Although the indicator had converged between 2015 and 2019, the impact of the COVID-19 pandemic led to a reversal of the trend. This is particularly prominent at regional level, with the income of the top 20% exceeding 5 times that of the bottom 20% in 6 out of the 13 regions. Against a background of high unemployment rates, northern regions, such as Central Macedonia, and Eastern Macedonia and Thrace, present higher levels of income inequality, which have not returned to pre-pandemic levels. Although Crete, Epirus and Thessaly are showing some convergence, with ratios closer to the EU average (i.e., above 4), they continue to exhibit significant income inequality. In Greece, taxes and social transfers have a very low impact in reducing income inequality (EL: 24% vs EU: 49%).

Housing affordability and availability, as well as energy poverty, are significant challenges, particularly for low-income and single-person households. In 2023, a substantial 28.5% of the population lived in households where housing costs exceeded 40% of the household's disposable income. The rate increased compared to the previous year, reversing the relatively large improvement seen between 2021 and 2022, and is currently one of the highest in the EU, surpassing the EU average of 8.8%. Housing cost overburden is higher in cities (31%) and towns and suburbs (28.8%) compared to rural areas (24.7%). Vulnerable groups are disproportionately affected, with 86.3% of the people at risk of poverty facing housing cost overburden, as opposed to 15.1% of those above the poverty threshold. In 2023, 62.4% of the available income of low-income households was spent on housing (vs 38.2% in the EU), while the share for high-income households stood at 29.0% (16.2% in the EU). A third (31.6%) of young people (15-29) are also experiencing housing cost overburden. While the distribution of housing cost overburden has become more evenly spread across age groups since the COVID-19 pandemic, certain household types remain particularly vulnerable. In particular, single households with children (71.3%) and without children (62.3%) are among the most affected. Energy poverty (the inability to keep one's home adequately warm) increased from 18.7% in 2022 to 19.2% in 2023 (vs an EU average of 10.6%) and is much higher for people at risk of poverty (EL: 39.8% vs EU: 22.2%). Regional disparities in housing availability and costs are also a concern. Eastern Macedonia and Thrace, Central Macedonia and the Peloponnese are among the regions facing significant challenges in terms of housing availability and affordability. Addressing these regional disparities is crucial to ensuring that access to affordable and decent housing is available for all.

Meeting healthcare and long-term care needs also remains a challenge. Between 2015 and 2021, the share of people who self-reported unmet needs for healthcare declined from 12.3% to 6.4%. However, the share has increased since 2022, reaching 11.6% in 2023, and is currently one of the highest figures in the EU (2.4%). This increase can among others be

[55] The income quintile share ratio or the S80/S20 ratio is a measure of the inequality of income distribution. It is calculated as the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile).

attributed to delayed provision of treatment due to the backlog created by the COVID-19 pandemic, placing further pressure on the health infrastructure. More generally, unmet medical needs are mainly due to financial reasons, and to a lesser extent to waiting times and distance to healthcare facilities. They can be related to a very high proportion of out-of-pocket payments for healthcare (33.5% in 2022, more than twice the EU average). The newly introduced gate keeper system, with a monthly limitation on reimbursements of medical costs related to specialist visits[56], may constitute another barrier. In 2023, the self-reported unmet need for medical care was 30% higher for women than men, with the gap increasing since 2021, while the share rose to approximately 45% for households at risk of poverty. Unmet medical needs disproportionately affect people living in remote and island areas, with Eastern Macedonia and Thrace (15.6%), the Ionian Islands (14.2%) and the North Aegean Islands (13.3%) experiencing one of the highest rates in the EU. Moreover, as the share of the population aged 65 and over is expected to increase in the future, the demand for long-term care is bound to become more acute. In 2022, public expenditure on long-term care services as a percentage of GDP was, at 0.1%, the lowest in the EU (EU: 1.7%)[57], while the share of people aged over 65 with severe difficulties that used home care services in the last 12 months stood at 20.1%, well below the EU average of 28.6%.

b) Relevant planned and ongoing policy responses

To tackle persisting social challenges and address poverty, Greece has put forward important social reforms and investments. The National Strategy for Social Inclusion and Poverty Reduction promotes an integrated policy framework to prevent and combat social exclusion in the 2021-2027 programming period. The importance of such policies was acknowledged by the establishment in 2023 of a new Ministry of Social Cohesion and Family as a dedicated structure for the implementation of the social inclusion strategic framework in Greece. Since 2023, social benefits have been reformed and income and wealth criteria have been streamlined to better target persons in need. High inflation including rising energy prices prompted an increase in and expansion of criteria of the Guaranteed Minimum Income (GMI) scheme in January 2024. With support from the Recovery and Resilience Facility (RRF), a new method of payment of allowances and welfare benefits is being introduced through a single prepaid card, with the aim to simplify and modernise the payment of all types of benefits and improve beneficiaries' access to effective and inclusive services. Also with support from the RRF, the social support system is being modernised with the creation of a single digital access portal through which applications for national social benefits are submitted and social care services are registered.

The national action plan to implement the European Child Guarantee (ECG) has the potential to prevent and tackle child poverty. The action plan, adopted in March 2022, foresees a series of actions to be rolled out before 2030, in line with the Recommendation for a European Child Guarantee[58]. Among other specific targets, Greece has committed to eliminate institutional residential alternative care for children (zero children in institutions) and reduce the percentage of children at risk of poverty and social exclusion to 18.5% by 2030. The implementation of the action plan is supported by several EU instruments, including cohesion policy funds, the RRF and the Technical Support Instrument (TSI). The European Social Fund Plus (ESF+) will allocate more than EUR 670 million to actions combatting child poverty, including interventions that promote equal access to all levels of education for children from disadvantaged groups, including children with disabilities and learning difficulties, Roma and children with a migrant background, as well as for the implementation of integrated local action plans to tackle child poverty. The RRF supports measures to strengthen child protection, including through the creation of 20 000 new childcare places, an early childhood intervention programme for children with disabilities or developmental disorders and a pilot programme for the deinstitutionalisation (transfer to supported independent living) of minors and young people. The TSI supported the operationalisation of a comprehensive monitoring and governance framework for the ECG action plan. The aforementioned actions are set to be implemented by 2026 and are expected to contribute to combatting

[56] Greece: Country Health Profile 2023 (https://eurohealthobservatory.who.int/publications/m/greece-country-health-profile-2023)

[57] European Commission, EPC, 2024 Ageing Report.

[58] Council Recommendation (EU) 2021/1004 of 14 June 2021 establishing a European Child Guarantee (EUR-Lex - 32021H1004 - EN - EUR-Lex)

child poverty and advancing towards reaching the national poverty reduction target.

Measures are being taken to address increasing housing challenges. A new General Secretariat was created under the Ministry of Social Cohesion and Family in July 2023, which is solely responsible for the implementation of demographic and housing policy. For this reason, the Ministry is investing in the implementation of a wide range of housing programmes to support young couples, to provide housing for vulnerable citizens and to make use of the existing dormant housing stock. With support from the RRF, Greece has started providing means-tested, low-interest loans for the purchase of primary residences by young people and couples, and it is expanding the supply of social housing through the pilot renovation of idle private housing stock in Athens and Thessaloniki and the reform of the current public real estate reciprocal framework. As also envisaged by the RRP, adopting a comprehensive housing strategy with a mapping of the available housing stock and needs and taking into account the regional dimension, would contribute to ensuring affordable housing and tackling challenges in housing affordability in an integrated manner throughout Greece.

Greece has taken steps to tackle energy poverty. A national action plan to address energy poverty was prepared by the Ministry of Environment and Energy in 2021. The plan includes both the definition of households affected by energy poverty through specific quantitative criteria and the development of a specific process for monitoring and evaluating the mitigation of the phenomenon until 2030. The plan outlines measures promoting the energy upgrade of residential buildings of affected households, as well as targeted policy measures to address the rising costs of energy products, based on specific income and asset criteria. In addition, the Social Climate Plan currently prepared by Greece has the potential to further improve the energy poverty situation for vulnerable households and transport users. Efforts to tackle the phenomenon of energy poverty should continue, considering the efficiency and sustainability of measures, in order to provide adequate coverage to all vulnerable groups at risk of poverty or social exclusion through long-term and sustainable solutions.

Greece is taking measures to improve access to healthcare. The programmes under the EU Cohesion Policy 2021-27 earmark EUR 739 million for the health system, with a strong emphasis on primary healthcare under the European Regional Development Fund (ERDF) and a focus on improved accessibility, specifically for vulnerable groups, under the European Social Fund Plus (ESF+). Complementing these efforts, the RRF supports the reform of the primary health care system, also comprising an effective gatekeeping function, the promotion of preventive care, and the infrastructure renovation of health care facilities, including 80 hospitals throughout Greece. The TSI helped Greek authorities to develop a National Quality of Care and Patient Safety Strategy and Action Plan[59].

Greece is taking steps towards the establishment of a strategic framework for long-term care (LTC) services. The Ministry of Social Cohesion and Family is currently developing the long-term care reform programme in Greece with the support of the TSI[60]. The LTC national strategic framework will include a joint National Action Plan, in collaboration with the Ministry of Health. The Plan contains a mapping of needs and aims to promote a more cohesive regulatory framework and standardised operational processes, including financial reforms to ensure that services remain affordable and accessible. At the same time, a personal assistance disability scheme is being implemented under the RRP, including through a medical and functional assessment system for its possible broader extension and national roll-out. These measures will be complemented by long-term care interventions in the social protection and health sectors under the regional programmes with support from the ESF+, which will contribute to strengthening services at local level and boost active and healthy aging.

2.3.2 Labour market

a) State of play and developments on social convergence risks

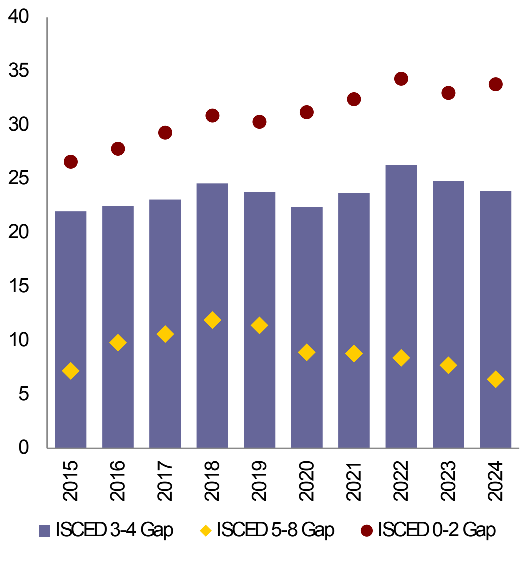
Greece's labour market performance has continued to improve; however, employment rates remain low and significant challenges persist for certain population groups. The employment rate has been on an upward trend, increasing from 60.8% in 2019 to 69.3% in 2024, and reducing the gap with the EU average (75.8%), but still remaining among the lowest in the EU. There is a gap of 1.8 pps with respect to the 2030 national target of 71.1%. The growth in employment

[59] Greece launched its new National Strategy for Quality of Care and Patient Safety 2025–2030 (January 2025).

[60] Supporting Greece in building a new model for person-centred long-term care in the community (2024).

has been accompanied by a steady decline in the unemployment rate, which stood at 10.1% in 2024, 7.8 pps below its 2019 level, and further fell to 8.7% in January 2025. Long-term unemployment has also been declining, reaching 5.4% in 2024, but is almost triple the EU average of 1.9%. These positive labour market developments can be attributed to the favourable economic outlook and increased investments in active labour market policies. Older people in Greece are more likely to remain in unemployment, as they struggle to re-enter the labour market, with 65.1% of unemployed people aged 55-64 being long-term unemployed (Q42024). The disability employment gap stood at 26 pps in 2023, 4.5 pps higher than the EU average. Only 23.4% of people with some or severe limitations were active in the labour market, which was less than a third compared to the activity rates of those without any disability. Challenges persist also for third-country nationals (from non-EU countries), whose employment rate was at 62.9% in 2023, 5.1 pps lower than the national average. Unemployment rates vary significantly across regions, with the highest rates observed in northern regions (Western Macedonia, Central Macedonia, Eastern Macedonia-Thrace). In an ageing society, an effective integration of inactive people across regions is crucial.

Figure 2: Gender gaps in employment per educational attainment level (pps)



Source: Eurostat [lfsi_educ_a].

Women are facing more obstacles to labour market participation compared to men. The employment rate of women has steadily increased in the last decade, reaching 59.9% in 2024. However, it remains significantly lower than the employment rate of men (78.7 %). In 2024, the gender employment gap stood at 18.8 pps, making it one of the largest in the EU (10.0 pps). The situation is even more challenging for older women (55-64), as only 46.7% of them were in employment in 2024 (compared to 69.2% of men in the same age group). Furthermore, women are more likely to be employed part-time than men (10.3% and 3.1% respectively). Women are also more likely than men to remain unemployed, as the long-term unemployment rate of women (7.3%) is almost double the rate of men (4.0%). Furthermore, gender disparities depend on educational attainment. Women having attained less than primary or lower secondary education (ISCED 0-2) are less active in the labour market by 33.8 pps compared to men; this gap has further widened since 2019 by 3.5 pps. A similar trend can be observed for women having attained upper secondary and post-secondary education (ISCED 3-4), with a gender gap standing at 23.9 pps in 2024. Given the widening gender employment gap at lower and middle levels of education, targeted actions are crucial to address these disparities.

Although improving, there is still room to strengthen the employment rate of young people in Greece. The youth (15-29) employment rate shows a positive improvement, reaching 36.1% in 2024, but remains well below the EU average of 49.6%. At 19.1% in 2024, the youth unemployment rate was significantly above the EU average of 11.4%, underlining the employment vulnerabilities experienced by young people in Greece. Furthermore, a notable gender gap persists in the employment rates of young people, with women facing lower rates of employment. The gap has shown no signs of improvement since 2019, consistently ranging between 5 pps and 8.6 pps over the period. Although decreasing, the share of young people neither in employment nor in education or training (NEETs, 15-29), stood at 14.2% in 2024, which is 3.2 pps higher than the EU average of 11.0%. On this dimension, Greece ranks amongst the worst performers in the EU. There are also significant disparities across regions; while Attica (14.0%), Western Greece (12.5%) and Crete (15.3%) are amongst the best performers, regions such as Epirus (23.0%), Ionian Islands (22.2%) and Western Macedonia (20.1%) are struggling with higher NEET rates. These differences can be attributed to differences in economic performance, employment opportunities and access to education and training.

b) Relevant planned and ongoing policy responses

Greece has adopted several reforms and investments to enhance active labour market policies (ALMPs) and boost employment rates. New legal frameworks to modernise the Public Employment Service (DYPA) and reform the ALMP schemes were adopted in 2022, with the aim to improve services with new methods and tools, such as the implementation of targeted and individualised approaches based on case management, as well as building practices on evidence-based policy design and implementation and developing leaner administrative processes and advanced digital solutions[61]. The National Strategy for Active Labour Market Policies, adopted also in 2022, is a comprehensive strategic framework for the development and implementation of active employment policies for the period 2022-2030, with support from the ESF+ and the RRF, aiming to strengthen employment and enhancing skills and the employability of both the workforce and the unemployed. A pilot project foreseen to reform the unemployment benefits scheme implemented under the RRP aims to provide an effective safety net, while strengthening incentives for labour market re-entry. The revision of the labour code and improvements in public administration efficiency, through digitalisation and better labour market monitoring, are also expected to improve labour market outcomes.

Measures targeting the labour market activation of specific population groups have been stepped up. To enable women to (re)enter employment, several childcare initiatives are undertaken under the ESF+ and the RRF, including the extension of all-day school, supporting participation in early childhood education and care (ECEC), and expanding the "Nannies of the neighbourhood" pilot scheme (homecare service for infants and toddlers). The National Youth Employment Strategy, adopted in 2023, aims to tackle youth unemployment in Greece and improve youth's skills and employability, in line with the principles of the Reinforced Youth Guarantee. More than EUR 750 million (EU contribution) are earmarked under the ESF+ for actions facilitating young people's access to the labour market. Through the TSI, Greece is receiving support to prepare a roadmap with measures to facilitate the financial independence of young people[62], including measures to facilitate school-to-work transitions, enhance access to the labour market, and strengthen social support. Integrated actions for the labour market activation of third-country nationals and refugees are also planned across Greece, also in the context of the RRP that further encompasses investments for the labour market integration of GMI recipients and Roma. Through the TSI, Greece is receiving support to design and implement reception and integration reforms, with a focus on unaccompanied minors. These measures are overall promising, but there are still important challenges to tackle. A more effective outreach system for difficult to employ target groups and employers is needed. The development of targeted employment programmes, delivered together with accompanying measures (counselling, training, social support etc.) would be key to further improve labour market conditions for all parts of the population.

A procedure for setting and updating the statutory minimum wage has been established. In view of the transposition of the Directive on adequate minimum wages in the EU, an expert committee was appointed to work on and propose the use of a new procedure to set the minimum wage based on objective criteria, in consultation with the social partners, and in a way that is consistent with inflation and the increase in the productivity of the economy. The new procedure for setting and updating the minimum wage consists, on the one hand, of an automatic indexation formula and, on the other, of a periodic review by consultative bodies according to a set of criteria. It aims to offer predictability and stability in the labour market, and calls for the establishment for an action plan to strengthen collective bargaining. The implementation of the proposed mathematical formula for the automatic indexation is expected to begin in 2027, after the transposition and full implementation of the Directive into the national legislation and the development by the Hellenic Statistical Authority (ELSTAT) of the necessary calculation indicators.

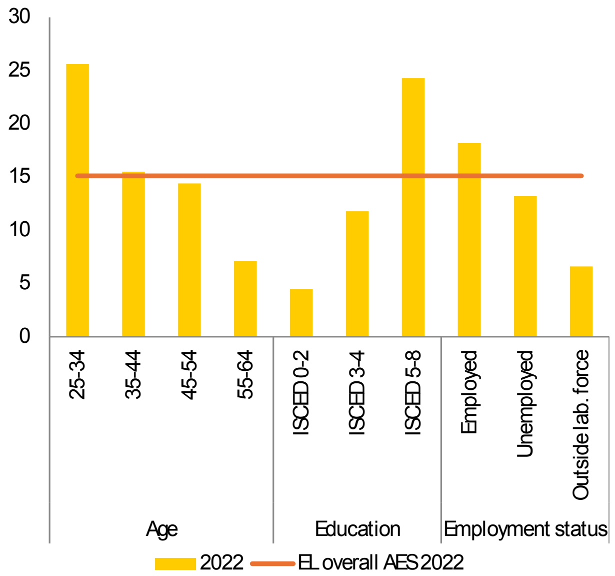
[61] OECD (2024), Impact Evaluation of Training and Wage Subsidies for the Unemployed in Greece [Link]

[62] Facilitating the financial independence of young people in Greece (2024).

2.3.3 Education and Skills

a) State of play and developments on social convergence risks

Figure 3: Adult participation in learning, 2022 (%)



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].

Skills shortages, coupled with a lack of basic skills and a low and decreasing participation in adult learning activities, hinder productivity growth, economic competitiveness and limit the access of workers to quality jobs. Only 15.1% of adults (25-64) reported to have participated in a training activity in the last 12 months in Greece in 2022, which is 24.9 pps below the country's 2030 target of 40%. This rate is among the lowest in the EU (EU: 39.5%) and lower than the base value of 16% in 2016. Participation rates in education and training tend to decline with age as fewer older people take part: only 7.1% of the age group 55-64 participated in training in 2022 (vs 25.6% of the age group 25-34). The educational attainment level is another significant factor influencing participation in learning activities, with only 4.5% of persons with at most primary or lower secondary education participating in 2022, compared to 24.3% of persons with tertiary education. The employment status also affects the level of participation, with 13.2% of unemployed participating in education and training in 2022 and with persons outside the labour force only reaching 6.6% (EU: 23.7%), highlighting the difficulties of the unemployed and inactive persons to improve their status and access the labour market. Although increasing, participation in vocational education and training (VET) remains low, as only 33.3% of the total upper secondary students participated in upper secondary IVET (ISCED 3) in 2022 (EU: 49%). Only one third (35.4%) of recent VET graduates in Greece experienced work-based learning in 2023, far below the EU average of 64.6%. Recent VET graduates in Greece have a lower employment rate (67.4% in 2023) compared to the EU average (81%) and to the overall employment rate for recent graduates in Greece (72.2% vs 79.4% in the EU), hinting at challenges related to the labour market relevance of VET. There are also challenges in the level of acquired digital skills, with a low share of adults with at least basic digital skills (52.4% vs EU: 55.6% in 2023) and disparities between urban and rural areas in the share of people with above basic digital skills (21.6% vs 13.5% respectively in 2024).

The Greek education system faces structural challenges in terms of quality and equity, with a large share of students not reaching a minimum level of proficiency in basic skills. In the 2022 OECD Programme for International Student Assessment (PISA), 47.2% of 15-year-olds underperformed in mathematics, 37.6% in reading and 37.3% in sciences. These rates are among the highest in the EU. Underachievement is prevalent across the entire socio-economic distribution, with around one quarter of advantaged students also lacking basic skills, compared with 1 out of 10 in other EU countries. Furthermore, the Greek education system leaves 6 out of 10 disadvantaged pupils without basic skills, hindering their upskilling opportunities and employment prospects later in life. In addition, only 2% of young Greeks demonstrated advanced skills in mathematics (vs the EU average of 7.9%), 2% in reading (6.5% in the EU) and 1.5% in sciences (6.9% in the EU), all figures that are among the lowest in the EU. These may negatively impact on Greece's future labour and skills supply.

Early school leaving is low, but regional disparities persist. In 2023, Greece was characterised by one of the lowest rates (3.7%) of early leavers from education and training in the EU (9.5%). Across all three urban dimensions (cities, towns/suburbs, rural areas), the rate had been constantly declining before 2021. However, since then there has been an increase amongst all groups, with only cities and towns/suburbs reverting to pre-pandemic levels. The rate of early leavers from education and training is the lowest in cities, followed by towns and suburbs and lastly rural areas. Rural areas exhibit double rates compared to urban areas, and although there had been slow convergence between 2015 and 2020, the trend was reversed in the wake of the COVID-19 pandemic. There are also significant disparities across Greek regions in ensuring access to education and training attributed to the availability and accessibility of education, with the highest shares of early leavers from education and training in Continental Greece and Eastern Macedonia-Thrace (13.6% and 8.8%, respectively).

b) Relevant planned and ongoing policy responses

Fostering skills availability and tackling skills mismatches have emerged as priority policy areas in Greece. Several policy measures have been implemented with the aim of improving participation rates in adult learning. The Strategic Plan for Vocational Education, Training, Lifelong Learning and Youth (2022) incorporates sub-strategies aiming to strengthen the quality of VET and lifelong learning. At the same time, the National Skills Strategy seeks to develop a comprehensive framework for identifying labour market skills needs and supporting the up- and re-skilling of the workforce, ensuring that individuals are effectively trained and successfully integrated into the job market. The legal provisions for the establishment of individual learning accounts were also adopted in 2022, reinforcing personalized training approaches tailored to workforce needs. Additionally, a thorough reform of the national lifelong learning system supported by the RRF introduced a new governance structure (National Workforce Skills Council) and an improved labour market diagnosis mechanism, while also setting minimum quality standards for training providers. The broader use of the individual learning accounts would promote tailored training approaches according to the needs of the workforce. The broader use of the individual learning accounts would promote tailored training approaches according to the needs of the workforce. The most recent Law on VET and lifelong learning (2024) aims to strengthen the national VET system with a comprehensive modernisation and upgrade of VET structures. Beyond these reforms, the Greek RRP includes a series of training investments amounting to more than EUR 1.8 billion which target, among others, green and digital skills, financial literacy, skill building for judges, the tourism sector and cultural professionals. The RRP also incorporates measures for the VET system, such as the redesign of curricula, digitalisation, renovation of VET equipment and infrastructure. To achieve a sustainable change in the adult learning ecosystem in Greece, there should be a strong commitment to strategic steering and coordination of all training and skilling initiatives that are currently provided or planned.

Steps have been taken to improve the quality and inclusiveness of education and to enhance the competencies of pupils. Greece has introduced "skills labs" to foster soft and digital skills and expanded the teaching of English language to pre-primary education. The number of special support staff and special needs teachers was recently increased to support classroom teachers in all levels of education. Career guidance is being strengthened and expanded to students in lower and upper secondary education. With an overall allocation of approximately EUR 2 billion, ESF+ and ERDF are heavily contributing to the efforts made by the national authorities to enhance the overall skills ecosystem in Greece, including the provision of support to children with disabilities and special educational needs, and to implement enriched curricula and new supporting material in schools. With support from the RRF, Greece also seeks to progress on the digital transformation of its education system and has invested in the purchase of digital equipment for students, and a large-scale training programme on the use of digital technologies and tools for both pupils and teachers. These types of measures are also expected to have a positive effect on the labour market by reducing the mismatch between the labour market demand and supply of skills. Nonetheless, further policy efforts are needed to address the increased underachievement rate in basic skills and to promote equity and excellence in the education system.

2.3.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges in the area of social protection and inclusion related to the still high share of the population at risk of poverty or social exclusion (including children), the low impact of social transfers (excluding pensions) on poverty reduction, income inequality, high housing cost overburden and self-reported unmet needs for medical care. In the labour market domain, the employment rate, though having increased considerably over recent years, remains well below the EU average and important challenges are faced as regards the labour market participation of women, young people and vulnerable groups. In the area of education and skills, challenges are identified in relation to underachievement in basic skills and a low and decreasing share of adults participating in learning, which negatively impact on competitiveness, employability and the twin transition.

The measures implemented or planned so far, such as the implementation of the European Child Guarantee national action plan, the adoption of a strategic framework for long-term care services, the promotion of housing programmes, the reform of active labour market policies and the restructuring of the public employment service, as well as the large-scale reskilling and upskilling initiatives along with the roll-out of individual learning accounts, are expected to help Greece move in the right direction. This will nonetheless also crucially depend on their full and timely implementation, sustainability over time and on ensuring coordination between national and regional administrations. Despite the progress made, more efforts could bring Greece to address in full the challenges that the country is facing in relation to social protection and inclusion, the labour market, and education and skills.

2.4. SPAIN

In the first-stage analysis in the JER 2025, Spain was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging, including one that deteriorated over time. In the second stage analysis in 2024, it was found that the measures implemented or planned were sufficient to help the country move in the right direction, crucially depending on their full implementation and enhanced coordination between national and regional levels. The risks identified this year in the first stage concern the area of social protection and inclusion, notably the high **at-risk-of-poverty or social exclusion rate** (**including for children**), high **income inequality**, and the low **impact of social transfers (excluding pensions) on poverty reduction**. In the area of education and skills, risks remained in relation to the high rate of **early leavers from education and training**. Finally, in the labour market domain, the high **share of young people neither in employment nor in education and training** (**NEET**) was also identified as a criticality.

2.4.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

Child poverty rates remain particularly high, with significant disparities across regions and population groups. In 2023, the at-risk-of poverty or social exclusion (AROPE) rate of children rose by 2.3 pps, to 34.5%, and their poverty gap (measuring the depth of poverty)[63] was 31.6% – significantly above the respective EU averages of 24.8% and 24.4%. Both indicators further deteriorated slightly to 34.6% and 32.0% in 2024, respectively. Child poverty is closely tied to the parental employment status and working conditions as well as the limited effectiveness of related tax and benefit measures and relatively low-income support for children (EUR 428 per inhabitant vs EUR 878 in the EU in 2023). Among children with a migrant background (especially born outside the EU), poverty risks are exacerbated by the high unemployment rates of parents and their overrepresentation in low-wage sectors. Roma minors also face a critical situation, with 98% of them living in poverty[64]. Child poverty is more prevalent in single parent households, in particularly single mothers, as well as households which include older people. Regional disparities are stark, with AROP rates ranging from 16.8% in Cantabria to 49.3% in Melilla. Education also influences child poverty, with higher rates in households with medium and especially low-educated parents[65]. In addition to its wider social and economic implications, child poverty also weighs heavily on Spanish public finances, with estimates putting the cost between 4.1% and 5.1% of GDP (based on 2019 data)[66]. As outlined in the following sections, child poverty hampers educational attainment and limits future job prospects, perpetuating social and economic disadvantages.

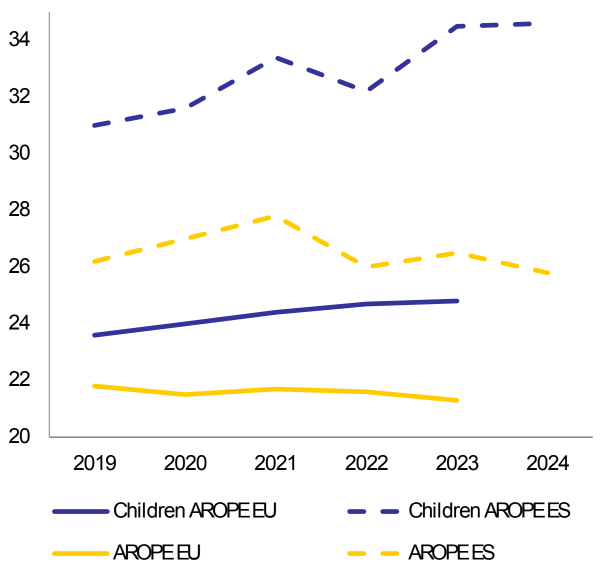
[63] This ESTAT indicator is defined as the difference between the median equivalised total net income of persons below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold.

[64] EU Agency for Fundamental Rights (2021), Roma in 10 European countries.

[65] Some of this evidence is based a study by the European Commission Joint Research Centre, using the EUROMOD model: An analysis of child poverty.

[66] Gobierno de España, Fundación La Caixa, "El coste de la pobreza infantil en España", November 2023 (this study estimates the costs of child poverty in Spain by examining its consequences on those children's health and working lives in adulthood using data from the Living Conditions Survey 2019); and OECD. The Economic Costs of Childhood Socio-Economic Disadvantage in European OECD Countries. Paris: OECD Publishing, 2024 (this study uses 2019 EU-SILC retrospective variables to examine the link between childhood circumstances and adult employment and health outcomes using a life course approach and building on a conceptual model similar in broad terms to that used by Pakpahan, Hoffmann and Kröger, 2016).

Figure13: AROPE rates (%)



Source: Eurostat [ilc_pecs01].

High poverty or social exclusion rates also remain a major challenge for the overall population, with certain groups disproportionately affected. In 2023, 26.5% of the population was AROPE, significantly above the EU average of 21.3%. The rate increased by 0.5 pps compared to the previous year, mostly driven by the rising severe material and social deprivation (SMSD) rate (by 1.3 pps to 9%), and then decreased slightly to 25.8% in 2024. The elevated poverty risks of vulnerable groups in Spain are closely linked to challenges in the labour market, including low wages, short-term contracts, and limited access to stable employment. Vulnerable groups facing higher poverty risks in 2023 include single parents (having an AROPE rate of 52.7% vs 43.1% in the EU) and households with more than two children (52.4% vs 32.7%) that often face high living costs with insufficient support, though their situation improved slightly in 2024 on average. Persons with disabilities (31.0%, vs 28.8% in the EU in 2023, and up to 32.9% in 2024) and third country nationals (56.6% vs 45.5%), who also continued to face some of the highest levels of SMSD despite improvements (19.3% vs 6.3% for nationals in 2024), encounter barriers such as reduced job opportunities and, in some cases, discrimination. In addition, 98% of the Roma population were at risk of poverty in 2021 and had limited participation in education and access to adequate housing[67]. Self-employed individuals are also in a vulnerable situation, with poverty or social exclusion risks affecting 26.3% in 2024, compared to 13.9% for employees. Spain's decentralised governance model, while allowing for more tailored regional responses, is also associated with significant disparities in poverty and social exclusion outcomes across regions, with the AROPE rate surpassing 30% in seven regions (Andalucia, Canarias, Castilla – La Mancha, Extremadura, Murcia, Ceuta and Melilla). Disparities are also visible in service quality, benefit management, and access to opportunities. Rural areas are particularly affected by depopulation and limited services, whereas urban areas face challenges such as high housing costs and inequality. Overall, the number of people at risk of poverty or social exclusion has increased to 12.6 million in 2023 (out of which 2.8 million children), which represents an increase by 383 thousand for the overall population and 197 thousand for children since 2019. This highlights the need for significant efforts to meet the national target of reducing AROPE by 2.8 million by 2030, including 0.7 million children.

Spain's social protection system continues to face substantial challenges in effectiveness and coverage. In 2023, the impact of social transfers (excluding pensions) on poverty reduction deteriorated strongly to 22.9% (vs 34.7% in the EU), before stabilising around pre-COVID levels in 2024, at 23.9%. Social transfers were particularly ineffective in reducing child poverty risks (17.0% vs 41.4%), though this improved in 2024 (20.2%). The minimum income (*Ingreso Mínimo Vital* - IMV) and child support supplement (*Complemento de Ayuda para la Infancia* - CAPI) continue to face low take-up rates, with 56% and 73% of potential eligible households, respectively, not applying due to administrative barriers or limited awareness. In December 2023, only 36% of the households that were potentially eligible for the IMV were receiving it, with 65% of recipients having their benefits revised or partially reclaimed.[68] Additionally, the coexistence of regional and national schemes has led to some overlaps and inconsistencies. The child support supplement was accessed by only 19% of eligible households, reflecting low awareness and structural challenges in the system. By December 2024, it amounted to EUR 69.72 per child and EUR 129.75 per household with children, on average. Social protection also plays a crucial role in long-term care by making services affordable and accessible,

[67] EU Agency for Fundamental Rights (2021), Roma in 10 European countries.

[68] Autoridad Independiente de Responsabilidad Fiscal (AIReF) (2024). Estudio del impacto del Ingreso Mínimo Vital (IMV) en la reducción de la pobreza y la inclusión social. Opinión 3/2024.

however differences in provision exist among regions. In addition, long-term care services remain heavily reliant on informal caregivers, with 23.6% of the population providing unpaid care, primarily women.[69] The formal care sector faces challenges of low wages, precarious contracts, and high turnover leading to low availability of care.

Income inequality and in-work poverty remain high. In 2023, the income share of the top 20% of earners was 5.5 times higher than that of the bottom 20% - among the highest in the EU (EU average: 4.72). The ratio nonetheless keeps improving from its peak of 6.87 in 2015 to 5.4 in 2024, increasing convergence with the EU average. The inequality-reducing effect of taxes and transfers is low, at 39% vs 49% in the EU. In-work poverty affected 11.3% of workers (3 pps above the EU average) in 2023 and remained stable in 2024, driven by low wages and precarious employment, including fixed-term employment and involuntary part-time work, as outlined in the labour market section. Women faced higher rates due to gender disparities in earnings, and for fixed-term workers the risk was nearly twice as high compared to permanent employees (13.2% vs 7.6% in 2024). Third country nationals, who are overrepresented in low-paid sectors/occupations, are especially affected by in-work poverty (29.7% compared to 8.8% for nationals). Nominal wage growth and easing inflation led to a rebound in real wages in 2023 and 2024, recovering to pre-pandemic levels. This rebound has supported household incomes and contributed to the improvement in real gross disposable household income (GDHI). Between January 2022 and July 2024, the statutory minimum wage grew by 17.5% in nominal terms (6.8% in real terms), estimated to be nearing the reference values mentioned as examples in the Minimum Wage Directive (50% of the gross average wage and 60% of the gross median wage). Since 2019, cumulative increases in the minimum wage amount to 54% and simulations indicate that these developments have positively impacted poverty and income inequality, benefiting low-income households, young people, women, and those in lower-paying jobs[70]. They also significantly raised the share of workers earning the minimum wage, from 5.1% in 2018 to 11.5% in 2023, with projections between 12.7% and 14.4% for 2024, reflecting increased wage compression.

Housing affordability and energy poverty are significant and growing challenges in Spain. Nearly one third of individuals living in poverty (29.9%) were overburdened by high housing costs in 2024, compared to just 2.4% of those not in poverty. Spain's social rental housing stock is among the lowest in Europe (-3.3% vs 8% EU average in 2024).[71] Rising housing costs, notably in urban areas like Barcelona and Madrid, hinder labour mobility and exacerbate intergenerational poverty. Young people are particularly impacted, with 30.3% of adults under 34 still living with their parents. Energy poverty also worsened in 2023, with 20.8% of households not able to keep their homes adequately warm – nearly double the EU average of 10.6% - before improving to 17.5% in 2024. This disproportionately impacts those at risk of poverty, with 31.4% of them affected compared to 17.5% of the general population.

b) Relevant planned and ongoing policy responses

While Spain is implementing complementary social policies to enhance protection to vulnerable groups, there is scope for further action. Royal Decree-Law 1/2025 extended protections for vulnerable consumers by subsidising energy costs, capping tariffs for low-income households and protection against evictions. It also increased the IMV by 9.0% compared to 2024, (minimum of EUR 7 906 per year), aiming to preserve its purchasing power and bringing the total nominal increase to 42.8% since its introduction in 2020. In December 2024, the Spanish Ministry of Social Rights approved the National Strategy for the Prevention and Fight Against Poverty and Social Exclusion (2024–2030). The strategy is built around four main action lines: ensuring access to resources such as adequate housing, energy, and IMV; investing in individuals via education, training, and quality employment opportunities; strengthening the welfare state; and fostering alliances and collaboration among public administrations, social entities, and civil society. However, while the strategy does not have a specific focus on child poverty, the issue is addressed as a cross-cutting element. Spain's 2024 report on the European Child Guarantee highlights progress in

[69] ESPAN country profile for Spain 2023-2024.

[70] Based on a study by the European Commission Joint Research Centre, using the EUROMOD model: The impact of target on poverty and income rates.

[71] Observatorio de vivienda y suelo and Ministerio de Vivienda y Agenda Urbana (2025), Boletín especial Vivienda Social 2024.

education but calls for greater efforts in school meals and housing. Under the Recovery and Resilience Plan (RRP), the 2023 Housing Law expanded affordable housing through tax incentives, increasing protected housing in new residential projects, strengthening tenant protections, and allowing regions to set "stressed areas" with temporary rent controls. The planned reform of the Land Law aims to increase supply of social housing, complemented by the ICO Loan Facility for the Promotion of Social Housing, which aims to boost financing for its construction and renovation. Additionally, under the RRP, the Family Diversity Law (developed with support from the TSI[72]) would recognize diverse family structures, adjust benefits – especially for single parents – and address child poverty, while also strengthening social services with common standards nationwide. Nonetheless, both these measures have faced delays.

Some steps were taken to enhance the implementation and management of the IMV scheme, and their effectiveness will be assessed in the coming months. To address low take-up rates and improve coordination among social benefits, the government adopted Royal Decree-Law 8/2023, which allows regions to manage IMV benefits (already allowed for Pais Vasco and Navarra in the IMV law). After Pais Vasco and Navarra, Catalonia was the first region to assume the role for managing recognition, modifications, and compliance, while the central government retains responsibility for financial oversight and ensures nationwide consistency. The regional management of the IMV presents an opportunity to enhance the complementarity between national and regional schemes. If effectively implemented by the regions, it could address key challenges such as non-take-up and benefit returns, thereby improving overall policy outcomes. However, there is also a risk that disparities among regions could worsen, particularly if regions facing the greatest challenges or those with fewer resources opt not to implement the scheme and fail to properly coordinate with regional benefits. To address some of the implementation challenges, Spain is developing a Comprehensive Accessibility Plan for the IMV.

The efforts to improve the scope and impact of unemployment protection have recently been strengthened. Under the RRP, Royal Decree-Law 2/2024 introduced a simplified structure, extended coverage, and enhanced protective adequacy of non-contributory unemployment benefits. Notably, the new compatibility of benefits with work facilitates integration into the labour market, addressing gaps for vulnerable groups. Through the TSI, Spain is receiving support to monitor the implementation of the new compatibility formula, and assess the potential to introduce adjustments, in view of improving its effectiveness, management and take-up. In line with the Plan to reorganise and simplify the system of non-contributory financial benefits of the General State Administration, a new automatic *passarelle* links the end of non-contributory benefits with the IMV, ensuring continuity of support. In addition, other recent improvements include reinstating the 60% rate for contributory unemployment benefits and promoting access to unemployment benefits of specific groups such as domestic workers, artists, and fixed-discontinuous workers. These measures have the potential to provide broader support for the unemployed and enhance activation pathways. However, their implementation and impact require careful monitoring to ensure their effectiveness and success.

Recent key reforms strengthen care services and foster the inclusion and empowerment of persons with disabilities. The 2024-2030 national deinstitutionalisation strategy prioritises person-centred care through community-based services, while improving conditions for care staff. In this context, initiatives funded under the European Social Fund Plus (ESF+) and the RRP aim to modernise support systems. Additionally, the Spanish Constitution was amended to replace "handicapped" with "persons with disabilities" reflecting a more inclusive approach. It also mandates public policies to ensure autonomy, inclusion, and accessible environments, while addressing the needs of women and minors with disabilities and involving disability organisations in policymaking. The Workers' Statute will also be amended to repeal the automatic termination of employment for workers with permanent disabilities.

2.4.2 Education and Skills

a) State of play and developments on social convergence risks

High rates of early leavers from education and training (ELET) and educational inequalities hinder young people's labour market integration. While childcare participation is well above the EU average and the ELET rate has fallen from 31.7% in 2008 to

[72] Assembling a white book for legal framework for families in Spain (2022).

13.7% in 2023, it remains above the EU average of 9.5% and Spain's 9% 2030 target. Men are more likely to leave education than women (16.0% vs 11.3% in 2023), though the gap narrowed recently. Regional disparities in ELET have declined significantly in the last decade, although they remain high Disadvantaged socio-economic groups face greater ELET risks, particularly the foreign-born (28.9%) and the Roma population (86.3% in 2022). Spain also faces growing challenges regarding underachievement in reading, mathematics and science. According to PISA 2022, 27% of students underperform in mathematics (vs 29% in the EU), with a moderate downward trend in performance since 2012, distancing Spain from the 15% underachievement target for 2030. Underperformance is significantly higher among disadvantaged pupils (44% in maths vs 48% in the EU) yet Spain has one of the smallest socio-economic gaps in the EU. However, the share of top-performers is among the lowest in the EU (5.9% vs 7.9% in the EU in maths). Low basic skills at early level pose risks to future productivity and competitiveness, contributing to disengagement from education and a high rate of ELET. This negatively affect employment prospects and upskilling opportunities, including for the twin transition.

Strengthening the alignment between vocational education and training (VET) and labour market needs could contribute to improving employment outcomes. Despite a 33.1% increase between 2017 and 2022, upper secondary VET enrolment remained low (39.1% vs 49.1% in the EU) and dual VET participation was just 4.9% in the academic year 2022-23. All intermediate and advanced VET programmes transitioned to a dual model by September 2024 to enhance alignment with labour market needs. However, the scarcity of VET teachers in certain sectors may pose challenges to the quality and development of these programmes. While VET enrolment is concentrated in healthcare, information and communication technology (ICT) and administration, critical sectors for the green and digital transitions (e.g., energy, electronics) need to be reinforced. This results in a relatively low employment rate for recent VET graduates not in education and training (aged 20-34), which stood at 78.7% in 2023, 4.8 pps below the EU average. Medium-qualified VET graduates have low employment rates, at 65.8% (81% in the EU), compared to 83.1% for high-skilled (87.7%). This highlights the importance of ensuring that VET qualifications remain relevant to the labour market, particularly in high-growth sectors.

Skills mismatches and polarisation pose challenges to the efficient labour market functioning. Skills mismatches decreased in 2023 (by 0.3 pps to 22.9%) but remain high[73]. In 2023, 41.4% of people aged 25-64 held a tertiary qualification (35.1% in the EU), while only 22.7% had intermediate qualifications – the lowest in the EU (44.7%) and 35.8% had low qualifications (20.2% in the EU). This translated into one of the highest overqualification rates in the EU, with over one third of workers holding qualifications that exceed the skills requirements of their jobs in 2023 (vs 21.9% in the EU) and 43% working in fields unrelated to their studies, representing the largest relative mismatch between job supply and demand in the EU and limiting productivity and earning prospects. Overqualified workers earned 17% less than well-matched peers in 2022, and field-mismatched workers earned 9% less. Overqualification is higher in hospitality and food services (83.6%) and agriculture (76.5%) but much lower in education (6.4%) and ICT (8.6%). Migrant workers face higher overqualification rates (51% for non-EU-born workers vs 33.7% for natives), especially older non-EU citizens.

Spain faces shortages of high-skilled workers in the green, digital and health sectors, while relying on foreign-born workers in low-skilled roles, impacting productivity growth. In 2024, the job vacancy rate in industry, construction, and services remained stable at 0.9% (2.4% in the EU), but companies reported shortages in tourism (64%) and construction (56%), particularly for waiters, cooks, and bricklayers. The healthcare and long-term care sectors also face critical gaps in nurses, doctors, and occupational therapists, worsened by demographic changes and growing demand for long-term care. Foreign-born workers are helping to fill low-skilled roles, with over 70% of 2023 arrivals employed in domestic work, construction, commerce, and hospitality (29% for natives). Green jobs grew by 62% (2014–2021)[74], accounting for 20% of workers by 2024, but with 52% more vacancies per worker than average in 2022, hampering the green transition. Despite the overall level of digital skills being above the EU average (66.2% vs 55.6% in the EU), ICT specialist shortages also remain substantial, with vacancies per worker in

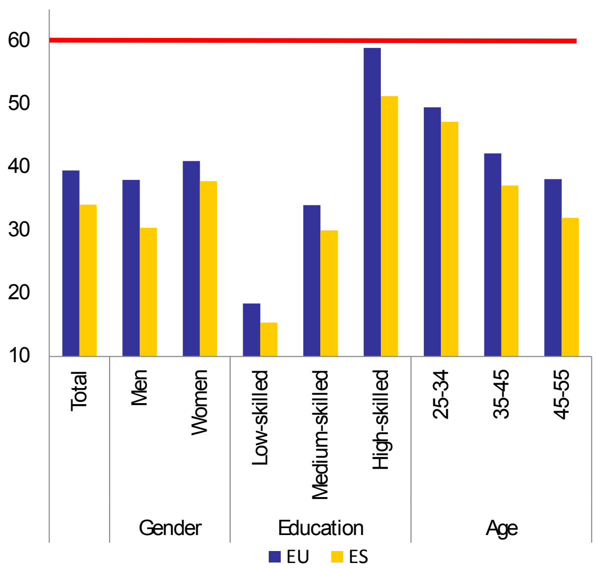
[73] The macroeconomic skills mismatch indicator measures the dispersion of employment rates across skill groups (proxied by qualification levels, with ISCED 0-2 low; 3-4 medium and 5-7 high).

[74] Ministry of Labour and Social Economy, El ajuste entre la oferta y la demanda de empleo, 2023.

2022 being 212% above average, hindering productivity and competitiveness.

Structural barriers hinder progress in adult learning participation. In 2022, 34.1% of adults (25–64) participated in learning (excluding guided on-the-job training), up 3.7 pps since 2016, but still below the EU average of 39.5% and the national 2030 target (60%). Participation is lower among men, older adults, and low-skilled individuals dropping from 47.2% among 25-34-year-olds to 23.4% for those aged 55-64, and just 15.4% for low-skilled adults (vs 18.4% in the EU). Occupational disparities range from 41.8% for manual workers to 67.7% for professionals, deepening skills polarisation. The 2023 Programme for the International Assessment of Adult Competencies (PIAAC) highlights persistently low literacy and numeracy levels since 2011-2012, with one in three adults showing low proficiency, below the OECD average. Addressing skills gaps remains a challenge, affecting productivity and competitiveness. The limited effectiveness of active labour market policies (ALMPs) and the inadequate provision of training in many smaller companies exacerbate the issue. This might explain why half of the credit for on-the-job training went unused, with most of the utilised credit directed towards occupational safety and health and administration rather than digital and green skills.

Figure 24: Adult participation in learning, 2022 (%)



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].

b) Assessment of relevant policy responses

Spain has introduced several policy measures to prevent ELET A proposal for an action plan to reduce early school leaving (developed through TSI) has been put forward, comprising 44 measures aimed at curbing dropout rates, and addressing regional disparities. While some of these measures are already being implemented, others are in the initial stages. The Program for orientation, progress and educational enrichment (PROA+) in centres with students in situations of high educational vulnerability stands out. Additionally, the RRP includes the establishment of over 1 100 Accompaniment and Guidance Service Units (UAO) for students in situations of educational vulnerability by the end of 2024 to offer guidance and prevent dropouts. By 2025, the digital transformation of education aims to certify at least 80% of 700 000 teachers in digital skills, improving teaching quality and student engagement. To boost childcare participation and educational support, the creation of new early childhood education (ECEC) places will strengthen early learning foundations and reduce disparities. Almost EUR 150 million from the ESF+ will further support ECEC access for vulnerable families.

Efforts to address skills gaps focus on improving qualification recognition, expanding digital and green skills training and strengthening adult learning. Royal Decree 272/2022 implemented the Spanish Qualifications Framework for Lifelong Learning (MECU), ensuring comparability, supporting quality assurance for both formal and non-formal learning. In 2024, the formal process of referencing the MECU to the European Qualifications Framework (EQF) was completed, enhancing the transparency and cross-border recognition of Spanish qualifications. The RRP includes measures to promote digital literacy through 146 new training centres, 1 350 entrepreneurship classrooms in public VET centres and by making vocational training more flexible and accessible through the creation of "Aulas Mentor". It also includes the creation of 300 digital talent scholarships and modular digital training for 700 000 employed and unemployed individuals. By 2025, 18 000 professionals are expected to complete advanced IT training and 825 000 people should acquire skills in digital, green, and transformation areas, ensuring equitable access to lifelong learning. A research programme will identify skill needs in at least 23 sectors, anticipating demands for the digital and green transitions. The RRP will also develop university micro-credentials to support lifelong learning, upskilling, and reskilling, with an action plan and at least 60 000 training units aligned with labour market needs. In the area of micro-credentials, Spain is receiving support through the TSI, in view of developing a Skills Intelligence Strategy for Higher Education[75]. The Strategy is expected to guide the development of micro-credentials issued by Higher Education institutions in Spain, based on observable labour market trends.

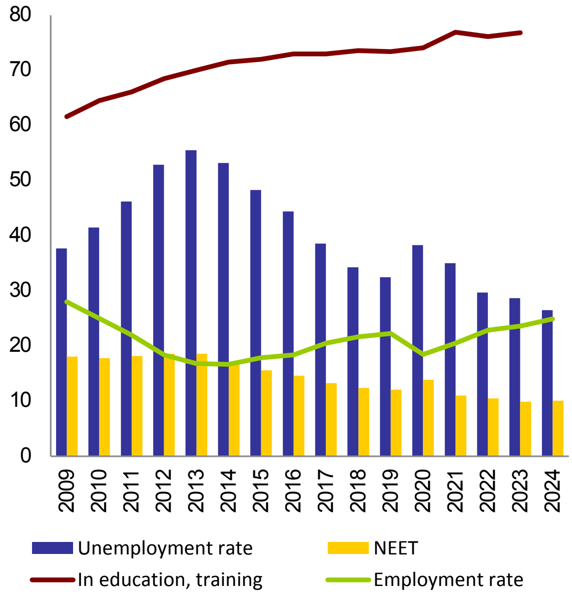
2.4.3 Labour market

a) State of play and developments on social convergence risks

Demographic change is reshaping the labour market, with an ageing workforce and persistent challenges regarding the labour market integration of young people, despite improvements. Since the beginning of the century, the average age of employees has risen from 37.5 to 43.5 years and from 44 to 48 years for self-employed workers. Although immigration is expected to partially mitigate these effects, he old age dependency ratio is projected to rise by 28.2 pps between 2023 and 2050, reaching 59% (50.4% in the EU), with northern regions most affected. Ageing is accompanied by reduced job-to-job transitions, which may hamper productivity growth and competitiveness. The public sector is particularly impacted, with nearly 30% of employees aged 55 or older. Labour market integration of young people has improved, with the share of young NEETs (aged 15-29) falling by around 9 pps to 12.0% over the past decade but remaining slightly above the EU average in 2024. Within this group, the unemployment rate (6.8%) exceeded the inactivity rate (5.5%) in 2023, highlighting persistent barriers to employment.

[75] Proposal for a new Skills Intelligence Strategy for Higher Education, including specific support with micro-credential design (2024).

Figure 35: Young people's (15-24) labour market outcomes (%)



Source: Eurostat [edat_lfse_18, lfsi_emp_a, une_rt_a, lfsi_neet_a].

The employment rate has improved steadily, driven by economic expansion, strong consumption and rising investment. In 2024, overall employment grew by 2.0%, for the population 20-64, with the employment rate reaching 71.4%, narrowing the gap with the EU average of 75.8%. Migration has supported job growth, with third-country nationals accounting for almost half of all new jobs between Q1-2022 and Q3-2024, particularly in low-skilled services and care roles. Despite this convergence trend, employment levels remain relatively low compared to the EU, although real productivity per person and per hour worked saw a slight increase in 2024. Labour productivity has lagged behind the EU average since 2017, hindered by skills mismatches, prominence of low-productivity sectors like hospitality, and higher self-employment rates (14.4% of employment in 2023, 13% in the EU). Most self-employed workers operate without employees, limiting their contribution to overall productivity. Encouragingly, the largest gains in 2019-2023 employment growth were in knowledge-intensive sectors such as professional, scientific, and technical activities. Meanwhile, youth employment (15-24) remains a major concern, with a rate of 24.9% in 2024 (35.0% in the EU), alongside low employment rates for older women (54.5% vs 68.0% for men). Achieving Spain's national 2030 employment rate target of 76% would require average annual employment growth of around 1% from 2023 to 2030, far below the 2.3% annual growth recorded between 2013 and 2019 (1.9% in the EU).

Unemployment is still high but shows a gradual downward trend. At 11.4% in 2024, the unemployment rate is among the highest in the EU, with long-term unemployment at 3.8% – both double their respective EU average. Much of the employment growth appears to have resulted from an increase in the labour force rather than the reintegration of unemployed individuals. Despite this, the unemployment rate decreased by 3.3 pps between 2020 and 2023, with projections suggesting further declines to 11% in 2025, and 10.7% in 2026, reflecting steady convergence with the EU. Youth unemployment (15-24) decreased to 26.5% in 2024 but remains high above the EU average of 14.9%, partly reflecting a lower activity rate in Spain compared to other Member States. More than 20% of the registered unemployed in key activities for competitiveness such as manufacturing industry or research and development are young people[76], pointing to skills mismatches. Older workers (55-74) faced a 10.3% unemployment rate in 2024, more than double the EU average, with over half of them experiencing long-term unemployment. Among foreign-born workers, the unemployment rate decreased to 14.2% in Q4-2024, despite their concentration in low-skilled and high-unemployment sectors.

Although challenges persist, recent reforms reduced precarious employment, particularly benefitting young and foreign-born workers. The 2021 labour market reform reduced job rotation and the share of fixed-term contracts in the private sector from 20% in Q2-2022 to 12.4% in Q4-2024. However, fixed-term contracts remain widespread in the public sector, especially in health (49.83%) and education (33.34%), notably among women. Overall, 13.3% of employees (20-64) were on temporary contracts in 2024, surpassing the EU average of 10%. Young workers (15-24) saw a notable decline in fixed-term contracts (64.9% in 2021 to 41.9% in 2024), as did foreign-born workers (33.6% in 2021 to 20.6% in 2023). Before the reform, 80% of workers entered the labour market with a fixed-term contract, compared to 35% now.[77] However, young workers remain vulnerable as 62.1% had less than one year of job tenure in 2023 (vs 46.2% in the EU). High involuntary part-time work (50.1% vs 20% in 2023) and low transitions to permanent contracts (31.0% vs 36.3% in 2023 with a further deterioration to 23.8% in 2024) limit career growth and increase poverty risks. Non-EU born workers play a critical role in addressing labour shortages but face greater job precariousness, with almost one in five (30% for women) concentrated in domestic work, waiting, and cleaning.

b) Assessment of relevant policy responses

Several reforms and investments strengthen the integration of young people into the labour market. The Spanish RRP includes the Statute of Trainees, whose pre-draft law seeks to regulate trainee compensation, limit the number of trainees per workplace, align training with educational curricula, and enforce compliance through sanctions. Additionally, the Tandem, First Experience, and Investigo programmes will equip 18 300 young jobseekers with professional, green, and digital skills by 2025. These measures are complemented by the ESF+ programme for youth employment, endowed with EUR 1.2 billion for the period 2021-2027. Through the TSI, Spain is receiving support to evaluate RRF-funded programmes, including Tandem, focusing on design, participant assessment, employer engagement, and case management. In parallel, technical support is being provided to conduct a thorough mid-term evaluation of the Youth Guarantee + Programme [78].

The Spanish government has enacted reforms to improve migration policies and working conditions for migrants, but their effectiveness will need evaluation over time. In line with the National medium-term fiscal-structural plan, Royal Decree 1155/2024 simplifies work and residence authorisations, extends job-seeking visas, and introduces measures to regularise the residence status by connecting migrants with training programmes, including VET. Over the next three years, the government aims to regularise 300.000 third-country nationals per year, contributing to improving their inclusion in the Spanish labour market.

Recent legislative changes in Spain will enhance gender equality and encourage longer careers. Organic Law 2/2024 established parity in the governance and administrative bodies of trade unions and employers' organisations, while Royal Decree

[76] Observatorio de las Ocupaciones, 2024 Informe del Mercado de Trabajo de los Jóvenes, datos 2023.

[77] Fedea, Observatorio Trimestral del Mercado de Trabajo, diciembre 2024, PPT p. 30.

[78] Strengthening policies and governance arrangements within the Spanish national employment system (2024).

893/2024 extended occupational risk prevention measures to domestic workers (mostly women), obliging employers to ensure safety in the workplace. Building on RRP pension reforms, Royal Decree-Law 11/2024 regulated the agreement reached in social dialogue on delayed, partial and early retirement, and measures to improve the management of temporary sick leaves.

2.4.4 Concluding remarks

The available quantitative and qualitative evidence in this second-stage analysis points to challenges in the area of social protection and inclusion related to the high share of the population at risk of poverty or social exclusion, particularly children, the low impact of social transfers (excluding pensions) on poverty reduction, housing affordability and energy poverty. In the area of education and skills, despite a significant decrease in recent years, the share of early leavers from education or training is identified as a challenge, alongside low basic skills levels. Skills mismatches and participation in VET continue to hinder transitions from education to employment, particularly in sectors critical to Spain's green and digital transitions. There are substantial improvements in the labour market although challenges persist, such as the still relatively low employment rate, and high unemployment, notably for the youth and vulnerable groups.

The measures implemented or planned so far, such as the reforms of the social protection system, increases in the minimum wage, the continued transformation of VET and education systems are expected to help Spain address the challenges identified. This will also crucially depend on effective implementation and strengthened coordination between national and regional authorities.

2.5. Croatia

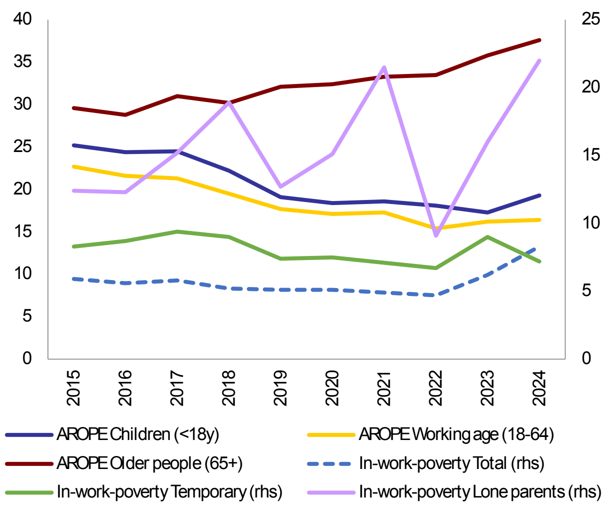
In the first-stage analysis in the JER 2025, Croatia was identified for the first time as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging. The risks identified concern the area of social protection and inclusion, notably the low **impact of social transfers (excluding pensions) on poverty reduction** and high **income inequality**. In the education and skills domain, risks were identified in relation to the low and declining share of **adults participating in learning** and the deteriorating **share of people with at least basic digital skills**. Finally, while the labour market improved, the still low **employment rate** and the high and increasing **disability employment gap** were identified as criticalities.

2.5.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

While the share of people at risk of poverty or social exclusion is close to the EU average, monetary poverty is higher and the situation has been deteriorating, especially for older people and persons with disabilities. In 2024, the at-risk-of-poverty or social exclusion (AROPE)[79] rate in Croatia rose to 21.7% (it was at 20.7%, below the EU average of 21.3%, in 2023). In 2024 monetary poverty (at-risk of poverty – AROP) reached 20.3% (19.3%, above the EU average of 16.2% in 2023), having increased by 2.3 pps from 2022. The AROPE rate for some groups, especially older people and persons with disabilities, continued its rising trend. The AROPE rate for the 65+ reached 37.6% in 2024 (35.8% vs EU 19.7% in 2023), from 30.2% in 2018. This negative dynamic is caused, among others, by the low adequacy of pensions and social benefits. At the same time, the AROPE rate for persons with disabilities increased for the third year in a row, reaching 40.2% (37.5% vs EU 28.8% in 2023). In 2024 the in-work poverty rate also increased in Croatiasince 2022, by 12.9 pps for single parents reaching 22.0% (16.0% vs EU 19.8% in 2023), by 0.5 pps for temporary employees to 7.2% (9.0% vs EU 12.6% in 2023) and by 2.7 pps for young people reaching 6.7% (5.7% vs EU 9.1% in 2023). After decreasing since 2021, the AROPE rate for children increased in 2024 by 2.0 pps compared to 2023 (17.3% vs 24.8% in the EU). Croatia will need to step up its efforts to reach its 2030 national target of reducing the number of people at risk of poverty or social exclusion (compared to 2019) by 298 000, as by 2024 the number had decreased by only 31 000 persons.

Figure 16: AROPE and in-work poverty rates (%)



Note: The composition of the AROPE indicator slightly differs for the 65+ age group, as it does not include the very low work intensity component. The 65+ age group is thus not fully comparable to the other age groups.

Source: Eurostat [ilc_peps01n, ilc_iw01, ilc_iw05, ilc_iw02].

The income quintile share ratio indicates an increase in income inequality, in particular for women and people living in certain regions. In 2024, the total income received by the 20% of the population with the highest incomes (top quintile) was 4.97 times that received by the 20% of the population with the lowest incomes (4.91 vs EU 4.72 in 2023).[80] The difference was larger for women at 5.05 (5.09 vs EU 4.66 in 2023).For older people (65+) the situation slightly improved, to 4.65 (4.89 vs EU 4.11 in 2023). There was regional variation in the indicator, spanning from 5.0 times in Pannonian Croatia to 4.2 times in Adriatic Croatia.

The impact of social transfers (other than pensions) on poverty reduction is among the lowest in the EU, and the minimum income scheme fails to protect people from experiencing poverty. The impact of

[79] For the ESTAT AROPE indicator there have been breaks in series for Croatia in 2023 and 2024, hence the evolution over time should be interpreted cautiously.

[80] For the ESTAT income quintile share ratio (S80/S20) indicator there have been breaks in series for Croatia in 2023 and 2024, hence the evolution over time should be interpreted cautiously.

social transfers has been declining over the longer term in Croatia. In 2015, it was 35.5% (vs 32.0% in the EU). In 2024, after an increase of only 0.7 pps compared to 2023, the indicator was at 21.6% (at 20.9% in 2023, significantly below the EU average of 34.7%).[81] While the share of people at risk of monetary poverty after social transfers in Croatia remains high at 20.3% in 2024 (at 19.9% above the EU average of 14.1% in 2023) , the expenditure on social protection benefits as a share of GDP remains considerably below the EU average (21% vs 28% in 2022). Moreover, Croatia's minimum income scheme[82] has limited coverage and low adequacy (at 33.3% of the poverty threshold vs 55.6% in the EU, and 30% of the income of a low wage earner vs 46.1% in the EU). It also has no automatic indexation [83].

The unemployment benefit coverage is relatively low in Croatia. The unemployment benefit coverage of the short-term unemployed (i.e. with unemployment duration shorter than 12 months) remains significantly below the EU average (17.4% vs 35.2% in 2023), as does the net replacement rate after 6 months of unemployment, especially for single parents and single-earner families. While the self-employed have the same access and coverage as employees, people in non-standard forms of work (in case of casual work[84] under a contract for service or author's contract) are not entitled to unemployment benefits.

Croatia has also one of the lowest aggregate replacement ratios (ARR) for pensions in the EU. The ARR was at 0.35 in 2024 (unchanged from 2023, vs 0.58 in 2023 in the EU), while the average pension as a share of the average salary amounted to 44.9%, reflecting the more favourable tax treatment of pensions. Older people have one of the highest at-risk-of-poverty rates reaching 37.0% in 2024 (34.8% vs EU 16.7% in 2023), much higher than for the total population (20.3%). This situation can be explained by a number of factors, including low pensions and the relatively low retirement age. Croatia also has a comparatively complex pension system with favourable conditions for specific groups of workers (for example war veterans, police and military personnel, government officials, Constitutional Court judges, academics), accounting for around 15% of all pensioners, which also impacts the sustainability of the pension system and indirectly the adequacy for other groups.

Croatia's spending on long-term care (LTC) is among the lowest in the EU, with challenges in relation to coverage.[85] In 2022, public spending on LTC in Croatia was only 0.5% of GDP (compared to almost 1.7% for the EU)[86]. This LTC spending concerned primarily residential care (53.7% of total LTC expenditure in 2022 vs 46.2% for the EU). This also resulted in a high share of people 65+ with unmet needs for help with personal care or household activities. Also, the coverage of the 65+ with public homecare is among the lowest of the EU (1,3% vs. 29,6% for the EU). The insufficient LTC coverage contributed to inadequate support to the living standards of older people and to a relatively high reliance on informal care [87].

b) Relevant planned and ongoing policy responses

Croatia has made certain efforts to strengthen the minimum income scheme, but this is expected to have only a limited impact on poverty reduction. The new Social Welfare Act came into force in 2022. It has changed the minimum income scheme and introduced the service of social mentors as a link between the social protection system and the labour market. The Act increased the minimum income calculation base and improved the equivalence scale. A further amendment to the Social Welfare Act entered into force on 1 January 2025, which increased the base minimum income to EUR 160. The Inclusive Supplement Act entered into force on 1 January 2024 and integrates four different disability benefits into a right to an inclusive supplement based on the type and severity of disability or impairment of functional abilities. Additionally, an amendment to the Labour Market Act came into effect on 1 January 2025, increasing the level of unemployment benefits and improving the access to unemployment benefits for

[81] For the ESTAT indicator on the impact of social transfers (excluding pensions) on poverty reduction there have been breaks in series for Croatia in 2022, 2023 and 2024, hence the evolution over time should be interpreted cautiously.

[82] The Guaranteed Minimum Benefit (GMB).

[83] GODIŠNJE STATISTIČKO IZVJEŠĆE O PRIMIJENJENIM PRAVIMA SOCIJALNE SKRBI, 2022.

[84] On-call or casual workers are classified as employee or self-employed depending on the specific characteristics of their employment relationship and can be part-time or full-time employed.

[85] See the European Commission's 2024 pension adequacy report.

[86] European Commission, EPC, 2024 Ageing Report.

[87] Statistics | Eurostat. The share of informal carers (aged 55-64) providing high intensity informal care (20h+) per week was at 37.9% vs 22.8% in the EU in 2016.

people below 30. The impact of these changes to the guaranteed minimum income and the unemployment benefits on poverty reduction is nonetheless expected to be limited, due to the low payouts of the schemes and the limited coverage of the guaranteed minimum income. There is scope for further improvement in relation to the effectiveness, efficiency, adequacy and coverage of the guaranteed minimum scheme.

Croatia has made some efforts to improve the living standards of pensioners and older people. In 2023 the minimum pension was increased by 3%. The pension factor used to calculate the amount of the survivor's pension was changed, allowing for an increase of at least 10% in total pension income for beneficiaries. In addition, the model allowing the combination of retirement pensions with employment (introduced in 2014) was revised in 2019 to allow part-time employment while receiving the full pension, or full-time employment while receiving 50% of the pension. In 2021, the government introduced a national benefit for older people, which is a minimum income scheme for those who do not have the right to a pension or the Guaranteed Minimum Benefit. There remains nonetheless further scope for improving living standards of pensioners and older people. Persistent challenges include, for instance, short working lives, inefficiencies in pension taxation and indexation, inadequate access to minimum income and housing benefits for low-income pensioners.[88]

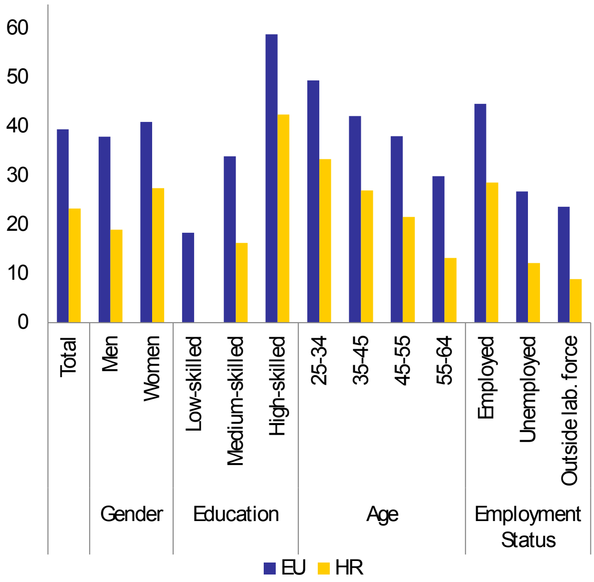
The new Social Welfare Act has also introduced structural changes to long-term care and facilitated the transition to home and community-based services. Additional support to specific groups (like people with physical impairments, and persons with intellectual and mental disabilities) was also introduced through the Personal Assistance Act which entered into force on 1 July 2023. The RRP includes a measure to build centres for older people fully dependent on residential care while providing also non-residential services. With the support of ESF+ Croatia has finalised the development of a LTC strategy, which is an important milestone for the future provision of community-based and affordable formal LTC, particularly to those in need, as well as speeding up the de-institutionalisation process.

[88] Pension adequacy report 2024.

2.5.2 Education and Skills

a) State of play and developments on social convergence risks

Figure 27: Adult participation in learning (%)



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].

Croatia faces challenges with regard to adult participation in learning. Adult participation in learning during the last 12 months deteriorated by 3.6 pps in 2022 compared to 2016, thus widening the already significant gap between Croatia and the EU average (23.3% vs 39.5% in 2022).[89] This is due to long-standing challenges of inefficient public financing for adult learning, only recently reformed by introducing the voucher scheme (in 2022), insufficient learning opportunities, low incentives for the employed to participate in training and a lack of lifelong learning culture. Significant efforts are therefore needed to achieve the national target of 55% of adults participating in training every year, with a gap of almost 32 pps to be bridged by 2030. The adult participation rate was even lower for older people, ranging from 33.4% for those aged 25-34 to 13.2% for the 55-64 age group. Adult learning participation was also particularly low for the unemployed (12.2%) and inactive (8.9%),[90] as well as for those without a tertiary qualification (16.3%)

[89] Eurostat data, Adult Education Survey, special calculation excluding guided on-the-job training as available in the public excel file: ETS - Library (europa.eu).

[90] This data is however marked by ESTAT as having lower reliability.

compared to those with tertiary education (42.5%)[91]. Skills mismatches and shortages also remain a challenge that risks hampering productivity growth and competitiveness. In 2023, the macroeconomic skills mismatch was above the EU average (24% vs 19% in 2023), and 43% of Croatian SMEs reported difficulties to find and hire staff with the right skills (vs 38% in the EU), 41% found it difficult to find candidates with bachelor's or master's degree, while 40% from secondary education. [92] The shortage of high-skilled workers is due to a tertiary education attainment level well below the EU average and mismatches with the labour market needs.

Digital skills levels have deteriorated in Croatia, even if the share of the population with at least basic digital skills remains higher than the EU average. The share of people with at least basic digital skills decreased by 4.4 pps since 2021 to 59.0% in 2023, while remaining above the EU average of 55.6%. This was mostly due to the decline reported for the population in the age groups 45-54 and 55-64 (from 66.03% in 2021 to 59.74% in 2023, and from 43.2% to 35.98% respectively), pointing to insufficient training opportunities to acquire and maintain digital skills throughout working lives. At the same time, the 16-19-year-olds performed very well under this dimension, with 90.3% having at least basic digital skills in 2023 (vs an EU average of 66.5%).[93] Shortages of qualified teachers and low instruction time contribute to students' high underperformance in mathematics from an early age, posing a risk for competitiveness. In 2022 the level of students enrolled in STEM subjects as a share of total tertiary enrolments in Croatia was 28.3% (vs 27.1% in the EU), which is still not sufficient to meet the demand of high-level skills in the labour market.

b) Relevant planned and ongoing policy responses

Croatia has recently made important efforts to improve the quality of its adult education and training system and to increase its relevance for the labour market. The new Adult Education Act and the voucher system and the implementation of the Croatian Qualification Framework, including the development of new labour market relevant curricula, included in the Recovery and Resilience Plan, aim to improve the responses of the education and training system to the labour market changes and needs, as well as to increase the accessibility of adult education and training.

The newly introduced voucher system is specifically targeted at boosting training in green and digital skills, as well as other skills needed on the labour market. The scheme was launched under the RRP and is complemented by ESF+ investments, with the aim to reverse the negative trend in adult learning participation. Through publicly funded vouchers (with possibilities of employers' or personal top up), all unemployed and employed people are given the opportunity to participate in training recognised by the Croatian Qualification Framework. The application system for awarding vouchers has also included skills mapping since 2022, to facilitate the matching of the training offered to the skills demanded by the labour market. In addition, significant progress has recently been made in developing the system of quality assurance in adult education, and in developing the recognition of non-formal and informal learning, with support from the TSI[94]. To meet the demand of high-level skills in the labour market, the Ministry of Education has increased the number of scholarships for students enrolled in STEM, with the support of RRF.

2.5.3 Labour market

a) State of play and developments on social convergence risks

Despite improvements, the overall employment rate remains below the EU average. While the employment rate in Croatia has continued to improve since 2013 (when it was 57.2% vs 66.8% in the EU), it remains below the EU average (at 73.6% vs EU 75.8% in 2024) and the national 2030 target of 75%. On the other hand, strong economic activity and increased labour demand have led to a historically low overall unemployment rate (5.0% vs 5.9% in the EU in 2024) and long-term unemployment rate (1.8% vs 1.9% in the EU in 2024). The rate of young people neither in employment nor in education and training (NEET) continued improving (by 1.2 pps in 2024 and by 1.3 pps in 2023) and reached 10.6% in 2024 (vs 11.0% in the EU).

[91] Eurostat, special extraction, AES 2022 (excluding guided on-the-job training)

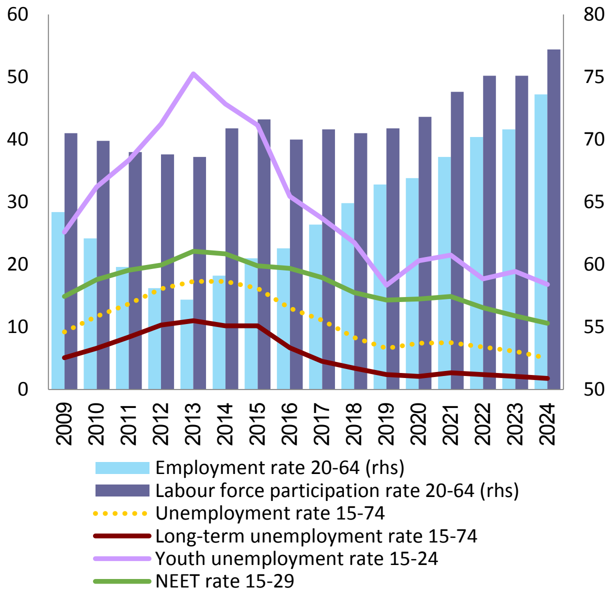
[92] Flash Eurobarometer 537 SMEs and skills shortages.

[93] See European Commission's Education Monitor 2024.

[94] Implementing a system for Recognition of Prior Learning in Croatia (2024).

In the context of improving overall labour market outcomes, firms are reporting labour and skills shortages but certain groups remain inactive or face challenges in finding employment. According to a Eurobarometer survey, in autumn 2023, 43% of the interviewed Croatian SMEs (vs 38% in the EU) indicated that it had been very difficult to find and hire staff with the right skills over the preceding 24 months[95], in particular in construction, industry, health and social services, and long-term care. This highlights the importance to strengthen activation and broaden labour market participation. Older and low-skilled people, for instance, are under-represented in the labour market. Croatia still has one of the lowest employment rates of older workers (55-64) in the EU (53.9% vs an EU average of 65.2% in 2024). The rate is particularly low among people aged 60-64 (37.9% vs 50.9% in the EU in 2023), which can be linked to the lower statutory retirement age for women (63 years and 3 months in 2023 compared to 65 for men). The latter will however increase by 3 months every year, until reaching the age of 65 in 2030. The employment rate of low-skilled workers (20-64) has been steadily decreasing since 2021 and remains well below the EU average (41.3% vs 58.7% in the EU in 2024). It lags considerably behind the employment rate of medium- and high-skilled workers (at 71.9% and 87.2% in Croatia in 2024, respectively), pointing to the need of up- and re-skilling opportunities. Finally, the activity rate among women in Croatia is slightly lower than the EU average (74.1% vs the EU average of 75.3% in 2024). This is also partly linked to the still relatively low participation of children below 3 in formal childcare, at 30.2% in 2024 (29.6% vs EU 37.5% in 2023). The need to provide informal long-term care for family members is another factor affecting the low activity rate of women in the country.

Figure 38: Key labour market indicators (%)



Source: Eurostat [lfsi_emp_a, une_rt_a, lfsi_neet_a, une_ltu_a].

The disability employment gap increased significantly since 2021, and the difference with the EU average continued to widen. It reached a record high of 41 pps in 2024 (39.2 pps in 2023, up from 36.0 pps in 2022, exceeding by 17.7 pps the EU average of 21.5 pps in 2023).[96] A possible explanation of this adverse trend is that employment in the general population is growing much faster than among persons with disabilities. More in detail, in 2024 the disability employment gap was larger for men, at 46.9 pps (44.2 pps vs EU 23.2 pps in 2023) than for women, at 35.2 pps (34.4 pps vs EU 19.1 pps in 2023)[97].In 2022, only 34.4% of persons with some or severe disabilities were active in the labour market in Croatia, which is significantly below the EU average of 54.8%[98]. Moreover, a large number of persons with disabilities is long-term unemployed (65.8%)[99], which also results

[95] Flash Eurobarometer 537 SMEs and skills shortages, SMEs and skills shortages - November 2023 - - Eurobarometer survey.

[96] For the ESTAT disability employment gap indicator there has been a break in series for Croatia in 2023, hence the evolution over time should be interpreted cautiously.

[97] Eurostat.

[98] Eurostat EU-SILC.

[99] Croatian Employment Service /CES (2024), Izvješće o aktivnostima Hrvatskoga zavoda za zapošljavanje u području zapošljavanja osoba s invaliditetom u razdoblju od 1. siječnja do 31. prosinca 2023. godine (Report on the activities of the Croatian Employment Service in the employment of people with disabilities in the period from 1 January to 31 December 2023). Available at https://www.hzz.hr/izvjesce-o-aktivnostima-hrvatskoga-zavoda-za-zaposljavanje-u-podrucju-zaposljavanja-osoba-s-invaliditetom-u-razdoblju-od-1-sijecnja-do-31-prosinca-2023-godine/.

in a loss of acquired skills. Persons with disabilities in Croatia often face personal, institutional and structural obstacles in getting quality jobs. Discrimination and the rights of persons with disabilities in the workplace constitute the largest number of complaints to the Ombudsman[100], with the greatest share relating to the denial of the right to reasonable accommodation of the workplace, the conditions and organisation of work.

b) Relevant planned and ongoing policy responses

Croatia is making important efforts to improve employment policies measures, create a legal framework for a modern labour market and encourage the transition from undeclared to declared work. Important initiatives include the Minimum Wage Act (adopted in 2021), the new Labour Act and the new Law on Undeclared Work (both in force since 2023), which are also included in the Recovery and Resilience Plan (RRP). The new Labour Law, among others, regulates outplace work and platform work, limits the number of successive temporary contracts, changes the provisions on financing of sick leave and severance for workers at retirement age, includes provisions to allow flexibility in working time and place of work and reduces the gender pay gap. The Law on undeclared work supports legal employment by defining undeclared work and all its manifestations, strengthening inspections and laying down misdemeanour provisions, as well as regulating the process of transferring workers from undeclared to declared work. With the support of the RRP and the European Social Fund Plus (ESF+), active labour market policy (ALMP) measures are being revamped to increase their labour market relevance and focus on vulnerable groups by offering them also job counselling and upskilling/reskilling measures. A good example is the introduction in 2023 of a targeted "Job Plus" ALMP programme for the long-term unemployed and vulnerable groups. More effective ALMPs, as well as the Public Employment Services' efforts to improve the cooperation with employers, are expected to contribute to better labour market integration in the future.

Employment of persons with disabilities has been given high priority. Key relevant initiatives, including the Programme of the new Croatian Government for 2024-28, are aiming to address this challenge by committing to spending of EUR 100 million and aiming at an additional employment of 6 000 persons with disabilities. The Croatian Employment Service (CES) and the Institute for Expertise, Professional Rehabilitation, and Employment of Persons with Disabilities have implemented a number of measures aimed at integrating persons with disabilities into the labour market. Employers who hire persons with disabilities, as well as persons with disabilities who are self-employed, can benefit from incentives provided by the Institute, such as wage subsidies and allowances to make workplace more accessible[101]. In addition, legislative initiatives have been approved. These include the Law on Inclusive Allowance adopted in 2023 that unifies and regulates all benefits for unemployed persons with disabilities. A pilot project for the development of personal work assistance services for persons with disabilities was launched in 2022.

Croatia is also undertaking major steps to increase participation in early childhood education and care (ECEC). Efforts to increase the participation in ECEC are supported by large infrastructure investments (financed by RRF and ERDF) and the new model of state co-financing of ECEC (supported by RRF) adopted at the end of 2023. Challenges nonetheless remain in supporting qualified teachers and ensure quality and participation in ECEC. Under the RRF, Croatia is working to increase the number of trained ECEC teachers in the medium-term. It can be expected that a higher ECEC participation rate would also support the labour market participation of family members (mainly women).

2.5.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to social protection and inclusion related to the low impact of social transfers on poverty reduction, income inequality and coverage of long-term care services. While the share of people at risk of poverty or social exclusion remains below the EU average, the situation has been deteriorating for disadvantaged groups, especially older people and persons with disabilities. In the area of education and skills, challenges are identified in relation to the low and decreasing adult learning participation. In spite of

[100] Ombudsman (2024) Report for 2023.

[101] Institute for Expert Evaluation, Professional Rehabilitation and Employment of People with Disabilities/ ZOSI (2O24) Poticaji (Incentives), https://zosi.hr/zavod/poticaji/.

improvements, the employment rate remains significantly below the EU average, and older people, the low-skilled and persons with disabilities are under-represented in the labour market.

The measures implemented or planned so far, such as the reforms of the Social Welfare Act, increases of social benefits and pensions, the measures to improve adult learning participation and labour market outcomes, are expected to help Croatia address the challenges identified. This will also crucially depend on their effectiveness, sustainability over time and better coordination between employment and social policies.

2.6. ITALY

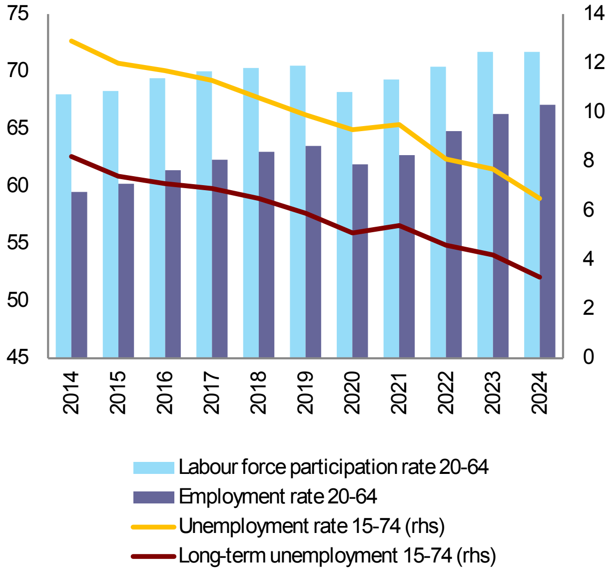
In the first-stage analysis in the JER 2025, Italy was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging. In the second stage analysis in 2024, it was found that more efforts were needed by the country to fully address the challenges in relation to the labour market, social protection and inclusion, and education and skills. The risks identified this year in the first stage concern the labour market domain, notably the still high unemployment and long-term unemployment rates, the high gender employment gap, and the low and declining real gross disposable household income per capita. In addition, in the area of education and skills, the low shares of adults participating in learning and of people with at least basic digital skills were also identified as criticalities.

2.6.1 Labour market

a) State of play and developments on social convergence risks

The employment rate reached a record high in 2024, though remaining among the lowest in the EU, and Italy's 2030 national target seems within reach under the current positive trend. Yet, additional efforts are needed to close the gap with the EU average and address the persistent regional disparities. Following moderate economic growth of 0.9% in 2023, real GDP is estimated to further expand by 0.7% in 2024. In this context, the employment rate (20-64) climbed to 67.1% in 2024, marking a 0.8 pps increase from 2023 and a 3.6 pps increase from pre-pandemic levels. The Italian economy added approximately 400 000 jobs in 2023 and around an additional 300 000 in 2024. This continues to be driven by increases in permanent contracts[102]. Employment growth was particularly concentrated in labour-intensive sectors, such as construction, and notably in the South. Despite these significant gains, Italy's employment rate in 2024 was among the lowest in the EU (67.1% vs 75.8%) and 5.9 pps below the 2030 national employment rate target of 73%. To reach the target, Italy needs to add over 300 000 jobs annually, which appears within reach under the current positive trend. Employment rates vary significantly across regions, from 75.8% in the North-East to 51.5% in the Islands in 2023, but with the gap narrowing slightly over the previous five years.

Figure 19: Key labour market indicators (%)



Source: Eurostat [lfsi_emp_a, une_rt_a, une_ltu_a].

Labour market segmentation remains significant in Italy, and gender disparities are high. The employment rate of women was 57.4% in 2024, among the lowest in the EU (70.8%). As a result, Italy has one of the widest gender employment gaps, at 19.4 pps vs 10 pps in the EU, with no convergence over the past decade. When considering full-time equivalents, taking into account the comparatively higher share of women working part-time, the gap widens to 24.1 pps in 2023 compared to 15.6 pps for the EU. Gender disparities are more pronounced in the South and the Islands where female employment rates are below 40%. The gender employment gap is, among others, linked to a significant impact of parenthood with many women leaving the workforce after having children, and those who continue to work frequently cutting back substantially their working hours. This stems from women's predominant role in caregiving and domestic work and insufficient work-life balance policies, such as flexible working hours, as well as the limited supply of early childhood education and care (ECEC)[103]. Although remote work, as one form of flexible working arrangements that can improve work-life balance, has increased, it still lags significantly behind the EU average. At 34.5% in 2023, the share of children below 3 in formal childcare increased by 3.6 pps compared to 2022, slightly

[102] ISTAT, Il mercato del lavoro – III trimestre 2024.

[103] CEPR, Tackling gender gaps in the Italian labour market: Evidence and policy implications, 2023.

below the EU average (37.5%). In 2024, an even stronger improvement of 4.9 pps to 39.4% was recorded. These improvements reflect the combined effect of a rise in available childcare places and a declining demographic trend, reducing the number of children below 3. Despite the increase in places, significant territorial inequalities persist and below-3 ECEC coverage is lowest (below 16%) in Campania, Sicily, and Calabria in 2023[104]. In turn, participation from the age of 3 to school age, at 92.7% in 2022, was broadly in line with the EU average (93.1%). Expanding access to affordable, high-quality childcare could support women's labour force participation[105], especially for low-income households. According to the Joint Research Centre, providing formal childcare for 50% of children under 3 could raise labour market participation among women with young children by 8%, with an increase of 21% for those in low-income households[106].

Amidst persisting challenges such as low employment rates, reflecting difficult school to work transitions, the situation of young people in the labour market has been improving. The employment rate for young people (15-29) rose from 31.7% in 2019 to 34.4% in 2024, reflecting the labour market improvement. However, it fell by 0.3 pps compared to 2023 and remains among the lowest in the EU (49.6%). This rate is nearly half of that of people aged 20-64 and less than half that of people aged 25-54. In 2023, the employment rate for recent graduates (18-34) was 58.1% for those with upper secondary and post-secondary non-tertiary education, and 75.4% for those with tertiary degrees, far below the respective EU averages of 75.5% and 87.7%. Regional disparities were also pronounced, with employment rates of tertiary graduates ranging from 85.6% in the North-West to 57.6% in the South. Moreover, participation in vocational education, at 51.8% of pupils in medium-level education in 2023, was in line with the EU average of 52.4%, but exposure to work-based learning was much lower in Italy (25.9% of recent VET graduates in 2023 vs 64.5% in the EU). This is partly driven by the classification of technical upper secondary education as vocational education and training, negatively impacting the transitions to work (only 62.2% employed, compared to 81.0% EU-wide in 2023). The difficulties that young people continue to face in securing high-quality employment, despite recent improvements, are also highlighted by the share of young people neither in employment nor in education and training (NEET) and the incidence of temporary employment. The NEET rate (15-29) decreased markedly over recent years, from 22.3% in 2019 to 15.2% in 2024 (-0.9 pps compared to 2023) and is converging to the EU average (the gap with the EU average has more than halved over the same period). The NEET rate remains nonetheless among the highest in the EU and is particularly high for young people born outside the EU (26.4% in 2023, and as high as 38.7% for women). Regional disparities also persist, with NEET rates ranging from 10.6% in the North-East to 26.1% in the Islands. The share of temporary employees among young people (15-29) fell from 44.0% in Q4-2022 to 36.4% in Q4-2024, increasingly narrowing the gap with the EU average from 9.4 to 3.5 pps.. Notwithstanding the positive convergence trends, these statistics point at challenges with regard to limited job prospects, inadequate support for the transition from education to employment, and underutilisation of young people's potential.

The substantial number of low-qualified people in Italy translates into greater challenges in terms of their labour market integration. People with at most lower secondary education often face challenges in integrating the labour market, such as limited and lower quality job opportunities and lower wages, and benefit least from training opportunities. As Italy has one of the highest shares of people aged 25-64 with such levels of qualification, 34.5% in 2023 (20.2% for the EU), despite the notable improvement of -2.5 pps from 2022, this leaves a significant part of the population exposed to important vulnerabilities. The employment rate of low-qualified people aged 20-64 was 54.5% in 2024, i.e. 27.7 pps lower than the rate for the tertiary-educated (82.2%). This gap widens to 42.7 pps for women. At only 36.6%, their employment rate is almost half that of their male counterparts with low levels of qualifications (69.7%), though this gap shrinks at tertiary level (79.3% vs 86.2%). While recent higher education graduates (18-34) perform generally better in the labour market, their employment rate (75.4% in 2023) remains among the lowest in the EU. Employment rates are particularly low for recent graduates from upper secondary education with a general orientation (48.3% in 2023), while recent graduates from vocational programmes perform better (62.2%).

[104] ISTAT, I servizi educativi per l'infanzia in Italia, 2024.

[105] Banca Italia women labour market and growth.pdf 2023.

[106] Estimations performed by the European Commission, Joint Research Centre, based on the EUROMOD model, I6.0+.

The unemployment rate reached a record low and is converging with the EU average, yet is is characterised by a significant long-term component and wide differences across regions and groups. The unemployment rate, at 6.5% in 2024, has fallen to its lowest level since 2009 and is now broadly in line with the EU average (5.9%). The decrease accelerated in particular during the recovery from the COVID-19 pandemic. In 2023, it stood at 7.7% (vs 6.1% in the EU). The long-term unemployment rate, at 3.3% in 2024, improved during the recent economic recovery (from 5.4% in 2021) and decreased at a faster pace than the EU average, but remains among the highest in the EU (1.9%). Furthermore, in 2023, 36.7% of the unemployed remained without a job for 24 months or more, compared to an EU average of 20.8%. In spite of recent improvements, unemployment remains significant for certain groups and in the south. Young people (15-29) continue to be affected, with a rate of 14.7% in 2024 (vs 11.4% in the EU), even if after a significant decline from 22.5% in 2020 (by 2 pps since 2023). It is also higher for those with lower levels of qualification (9.7%) than for the high-skilled (3.4%), and for women (7.3% in 2024) than for men (5.9%). Regional differences are large, with the unemployment rate ranging from 2.0% in Bolzano to 17.4% in Campania in 2023. These differences stem from structural weaknesses in the southern economy, including limited administrative capacity and a less favorable business environment, coupled with limited internal mobility. Additionally, the prevalence of smaller, less competitive, and less innovative firms results in fewer job opportunities in the south[107]. The higher economic growth in the south compared to other regions in recent years, notably driven by the construction sector, might positively infuence these dynamics and could help reduce gaps in regional unemployment levels.

The Italian labour market is affected by an interplay of adverse demographic developments, low activity rates, and skills mismatches. Although the pace of population decline in Italy has slowed recently, the country has experienced a net loss of 1.35 million residents since 2014 (-2.25%). The working-age population is projected to decrease, resulting in a 7.2% reduction in the share of the labour force (20-74) in the total population by 2070 (vs -7% for the EU). Amplifying these developments, many young people, particularly among the highly qualified, are searching for better job prospects abroad: between 2008 and 2022, over half a million young Italians emigrated, with only a third of them returning[108]. The outflow of talent has intensified with the share of graduates among people moving abroad increasing.[109] Against this background, at 71.7% in 2024, Italy's activity rate (20-64) exceeded pre-pandemic levels, but remained among the lowest in the EU (80.4%). Furthermore, the activity rate of women was much lower (61.9% vs 75.3% in the EU), and well below that of men (81.5%), with no signs of convergence. In this context, the share of businesses reporting labour shortages increased in the post-pandemic recovery. Yet, after having reached 2.3% in 2023, the vacancy rate in industry, construction and services decreased slightly to 2.1% in 2024, remaining below the EU average (2.4%) but above pre-pandemic levels (1.4% in 2019). Nonetheless, around a third of employers in services reported labour availability as a factor limiting production in Q4-2024. Simultaneously, Italy continues to have one of the highest levels of macroeconomic skills mismatch in the EU, especially among young people (at 26.2% in 2023, far above the EU average of 19.5%). In particular, over-qualification remains a structural issue with over one in five tertiary-educated workers employed in positions that do not require their level of education. Self-reported shortages by employers in a context of over-qualification and mismatches potentially point to a lack of labour mobility and a mismatch between skills demand and supply.

The prevalence of atypical contracts decreased but remains high and weighs on job security and work-intensity. The use of stable and full-time employment contracts helps to reduce instability in yearly earnings, increases work intensity and incentivises companies to invest in workers' skills. Reflecting employment growth driven by permanent contracts, the share of employees with fixed-term contracts in Italy decreased from 15.7% in 2023 to 14.4% in 2024. As a result, Italy is getting closer to the EU the average (12.5%), while the figure has remained among the highest in the EU. At the same time, while the share of people (16-64) transitioning from temporary to permanent contracts had continously been increasing in the EU since 2015

[107] Banca d'Italia, Lo sviluppo del Mezzogiorno: una priorità nazionale, 2019.

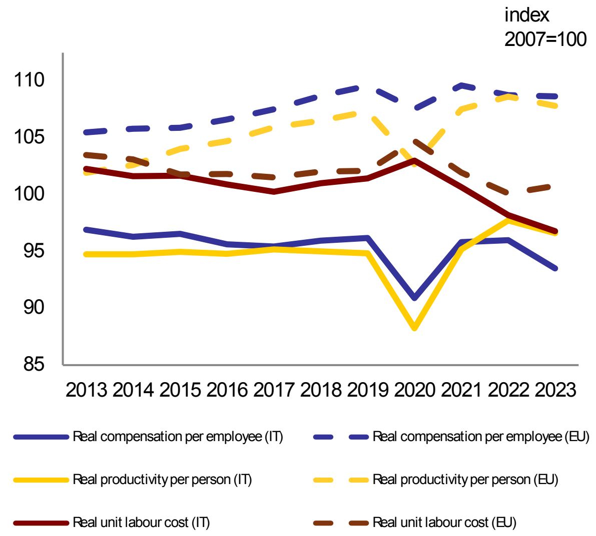
[108] Banca d'Italia, Annual Report – The Governor's Concluding Remarks, 2024. Other estimates point to even higher figures.

[109] From 28.5% in 2012 to 45.7% in 2021 based on Eurofound, Role of human capital inequalities in social cohesion and convergence, 2024. Figures by ISTAT also report an increase, but point to a lower level of 32.5% in 2023.

(36.3% in 2023), it fell for the third consecutive year in Italy to 19.7% in 2024, reflecting a significant drop from 25.6% in 2023. In 2023, fixed-term employment was more prevalent among women than men. It was also notably higher among young people, people from other EU countries and non-EU citizens. The incidence of involuntary part-time work has declined to 2009 levels, yet it still affects 54.9% of part-time workers, with women especially impacted. The incidence of involuntary temporary work (12.5%) is also declining, yet it remains almost twice the EU average. Over the last three decades, the prevalence of non-standard employment, including fixed-term, part-time and seasonal work, has reduced the number of weeks worked annually and contributed to inequality and instability in yearly earnings[110]. This also risks having negative implications for the development of firm-specific human capital and limits the social protection coverage and its funding for workers. Despite improvements, informal work remains prevalent and particularly common in domestic work, agriculture, construction, retail, transport, and hospitality, especially in the southern regions[111].

Against structurally low productivity growth, Italian wage growth has been low, and recent real wage increases only partly offset past losses. Productivity growth in Italy has long been hindered by factors such as small firm size and slow human capital accumulation, resulting in low innovation capacity[112]. Between 2013 and 2023, cumulative real labour productivity growth was only 2% compared to 5.8% in the EU. Italy's structurally low labour productivity growth puts a persistent constraint on wage growth. Cumulative real wage developments have been even weaker than productivity growth over the same period: in 2023 real wages in Italy were 3.5% below 2013 levels (vs around 3% EU-wide), and the real gross disposable household income in Italy in 2023 was 6% lower than in 2008. After marked declines in 2022 and 2023 (by 4.4% and 2.6%, respectively), real wages increased by 2.9% in 2024 and are set to rise by 1.1% in 2025 and 0.8% in 2026, reflecting both moderating inflation and stronger nominal wage growth. These gains only partially compensate for the prior losses. In turn, low wage growth over the past decade has enabled cost competitiveness gains notably within the euro area, as illustrated by raising export market shares. Over recent years, unit labour costs (ULC) have risen more slowly in Italy than in other Member States (between 2015 and 2023, nominal ULC rose by 12% in Italy compared to 21% in the euro area). ULC growth is forecast to accelerate from 4.3% in 2023 to 5.0% in 2024, before moderating in 2025.

Figure 210: Productivity and wage developments



Source: Eurostat [nama_10_gdp, nama_10_pe, nama_10_lp_ulc] (DG EMPL calculations).

In-work-poverty risks have decreased but remain elevated in a context of wage stagnation, low work intensity along with a high share of single-earner families. The in-work at-risk-of-poverty rate improved significantly from 11.6% in 2021 to 9.9% in 2023, slowly converging with other EU Member States. In 2024, however, the rate increased again to 10.2%. In-work poverty risks in 2023 were still considerably higher for the low-qualified (17.7%), compared to people with tertiary education (3.6%), and non-EU citizens (25.0%) and those born outside the EU (23%). This is taking place in a context of low wage growth amid structurally low productivity growth. Additionally, low work intensity, often resulting from non-standard forms of work, is another factor of risk. Among part-time workers, 16.9% are at risk of poverty compared to 12.6% in the EU. This disparity is even starker for fixed-term employees, with 16.1% facing poverty risks (vs 7.2% in the EU). Low-wage earners face a higher risk of poverty also because they more often live in households where other members are not employed or have low work-intensity jobs[113]. The high risks of

[110] Banca d'Italia, The increase in earnings inequality and volatility in Italy, 2023.

[111] ISTAT, L'economia non osservata nei conti nazional, 2023; ISTAT, Conti economici territoriali 2020-22, 2023.

[112] European Commission, In-Depth Review 2024 – Italy, 2024.

[113] Banca d'Italia, Labour income inequality and in-work poverty: a comparison between euro area countries, 2023.

poverty, despite notable enhancements in overall employment, can be attributed to the significant prevalence of low-wage and low-intensity work opportunities in the labour market.

b) Relevant planned and ongoing policy responses

Substantial reforms and investments in active labour market policies (ALMPs) aim to strengthen employment services and promote broader labour market participation. Italy has long standing challenges in ALMPs because of low investment, fragmented design, and regional disparities in service provision. In particular, the regional management of employment services has led to significant quality differences within the country. To address these structural weaknesses, in 2021 Italy introduced the "Guaranteed Employability of Workers" (GOL) programme as a key component of its National Recovery and Resilience Plan (RRP). With a total EUR 5.4 billion RRP resources, the GOL programme delivers personalised support for jobseekers, within specific regional plans tailored to local needs. By 2025, it aims to reach 3 million people, of whom at least 800 000 are expected to participate in vocational training. Moreover, 75% of the beneficiaries are expected to belong to groups underrepresented in the labour market, such as women, long-term unemployed, persons with disabilities, and people under 30 or over 55. According to latest data, as of 2024 the number of beneficiaries is at 1.7 million people, of which 55% are women, 29% long-term unemployed and 45% under 30 or over 55. These measures are expected to deliver comprehensive support as they ensure that beneficiaries are offered not only an initial assessment but also when suitable follow-up measures through up- and reskilling, including in regions where public employment services (PES) are less developed. To achieve this, via an accompanying investment in the RRP, national coordination is expected to be enhanced, including through the integration of IT systems for better monitoring and labour market matching. In view of supporting the implementation of the GOL programme, and to strengthen the provision of ALMPs more broadly, Italy is further benefitting from TSI support[114]. Additionally, Italy's RRP features a dedicated reform to combat undeclared work. Introduced in 2022, this reform seeks to strengthen the sanctions framework and incentivise the regularisation of employment, including in agriculture. Along with other accompanying investments, these measures are expected to drive inclusive employment growth. However, there remains scope for action to effectively tackle the widespread use of fixed-term contracts in Italy. [115] Despite recent reforms, Italy's tax wedge on labour remains among the highest in the EU. Recent Budget Laws introduced measures aimed at reducing this burden, particularly for low- and medium-income earners, but further comprehensive reforms could be necessary to ensure an employment growth friendly tax system[116].

Targeted employment incentives aim to improve labour market outcomes of young people, women, and those living in the south. The "*Bonus Giovani*", introduced in 2023, provides incentives for employers to hire individuals under 35 with permanent contracts. As the governance of youth employment policies in Italy is partly fragmented, with education falling under state control and training and labour policies under regional authorities, a better integration and coordination between state and regional levels is needed in implementing youth employment policies[117]. Support for women's employment has been strengthened through the "*Bonus Donne*", consisting in a contributory exemption for employers who hire women in disadvantaged conditions, particularly those residing in the south, without regular employment in the preceeding 6 months. Also, the full implementation of the RRF-financed investment *Piano Asili Nido* to build new nurseries by 2026 would improve the availability of childcare facilities. While the number of childcare places has been revised from 264 000 in the original RRP to slightly more than 150 000 by 2026, the measure could nonetheless help boost female employment, and indirectly enhance families' disposable incomes. Further extending the availability and access to high quality childcare, increasing the take up of parental leaves by fathers and extending paternity leave beyond the current 10 days, could contribute to

[114] See European Commission, Strengthening public-private partnerships in the delivery of employment services in Italy, 2024.

[116] Ibid.

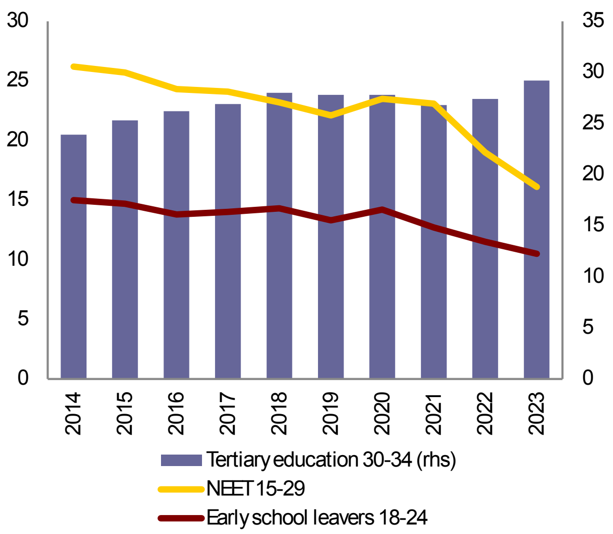
[117] Giannoni, P. (2024). "6: The governance of youth labour market policies in Italy and Austria: opportunities and challenges across national and local levels". In Social Policy Review 36. Bristol, UK: Policy Press.

redistributing care responsibilities and narrowing the gender employment gap. The "*Incentivo Decontribuzione Sud*", established in 2020 and phased out in 2024, granted private employers in the south a 30% reduction in social security contributions for both existing staff and new hires. The measure provided a significant incentive for employers by reducing the cost of hiring and retaining employees and reinforcing the competitiveness of companies in the south, contributing to recent improvements in economic and employment outcomes in the area. Under the 2025 Budget Law, this incentive scheme has been substantially reduced and refocused to target SMEs, while a new incentive scheme, "*Bonus ZES*", was introduced. This incentive targets the "Single Special Economic Zone", granting tax credits to companies that make investement in southern regions.

2.6.2 Education and Skills

a) State of play and developments on social convergence risks

Figure 311: Education and labour market outcomes of young people (%)



Source: Source: Eurostat [edat_lfse_14, edat_lfse_20, edat_lfse_03].

Early school leaving continues to decrease and follow the positive trend of recent years. The rate of early leavers from education and training (ELET) among young people (18-24) further decreased in 2023 and stood at 10.5%, slightly above the EU average of 9.5%, reflecting continued upward convergence. Men are significantly overrepresented among early leavers compared to women, and ELET rates range from 8.3% in the North-East to 17.2% in the Islands. Moreover, young people born outside the EU face significant challenges, with an ELET rate of 27.0% compared to 9.1% for those born in Italy. Also basic skills proficiency varies significantly between areas. The North has the lowest share of low-performing students in mathematics (18%) and the highest of high-performing students overall (about 9% in the North-East and 12% in the North-West). By contrast, in the South, almost half of all students (46%) fail to achieve basic proficiency and less than 3% reach the top levels, undermining human capital development and potentially harming competitiveness and productivity in the future.

The working-age population exhibits persistently lower educational attainment levels compared to the rest of the EU, with disparities at regional level. While the shares of the workforce with upper-secondary or post-secondary non-tertiary qualifications nearly matched the EU average (43.9% vs 44.7% in 2023), the one with at most lower-secondary education was much larger (34.5% vs 20.2%). Among Italians aged 30-34, only 29.2% attained tertiary education, compared to 43.9% in the EU. Among 25-34 years old, only 12.8% of those whose parents have a low level of education obtain a tertiary degree compared to 67.1% with at least one parent with university degree[118]. Educational attainment levels also vary significantly by gender, region, and country of birth. Women (30-34) complete tertiary education more often than men (36.3% vs 22.4%), while the South and Islands lag behind the North and Centre across all attainment levels. Foreign-born residents exhibit the highest rates of low educational attainment (48.1%).

Recent data reveal that Italian adults are trailing their European peers in literacy, numeracy and problem-solving proficiency, as well as digital skills, negatively impacting productivity and competitiveness. According to the OECD Survey of Adults Skills 2023[119], Italian adults (16-65) scored an average of 245 points in literacy, 244 points in numeracy, and 231 points in adaptive problem solving, all well below the OECD averages of 260, 263, and 250, respectively. The data reveals that 35% of Italian adults can understand only simple texts and clearly organised lists and 35% are only capable of basic calculations. Finally, 46% of adults had difficulty with multi-step problems or those needing monitoring of multiple variables. Although average scores in literacy and numeracy have remained relatively stable since 2011-12, the gap

[118] ISTAT, Livelli di istruzione e ritorni occupazionali – Anno 2023.

[119] OECD, Survey of Adults Skills 2023: Italy.

between high and low performers has widened and the overall low levels across the three domains warrants attention. Moreover, in 2023, only 45.8% of people in Italy possessed at least basic digital skills, with stagnation recorded since 2021. This figure is significantly lower than the EU average of 55.6%, highlighting also a substantial and widening digital skills gap. Such skills are particularly lacking among people with low formal education, the unemployed and those outside the labour force.

Against this background, the low and declining level of participation in adult learning represents a challenge. While 33.9% of adults had participated in learning activities in 2016, this share further decreased to 29% in 2022, more than 10 pps below the EU average, which rose from 37.4% to 39.5% over the same period[120]. At present, participation in adult learning is at about half of Italy's 2030 national target of 60% by 2030[121]. Participation in adult learning is considerably higher among people with tertiary education (60.2%) compared to those with primary (10.3%) or secondary education (28.2%). Those in high-skilled jobs, such as managers, professionals, and technicians (55.0%), are more likely to engage in lifelong learning than clerical support workers or service and sales workers (27.8%), skilled manual workers (16.4%), and people in elementary occupations (16.1%). Lifelong learning is more common among employed people (34.6%) compared to the unemployed or inactive (17.1%). Finally, participation in adult learning decreases strongly with age. The highest participation rate is recorded for adults aged 25 to 34 (40.1%) and the lowest for people aged 55 to 64 (22.2%). Enhancing educational outcomes and skills formation are instrumental to sustain inclusive growth, increase innovation capacity and productivity, and effectively improve opportunities for all Italians.

b) Relevant planned and ongoing policy responses

The Enhanced Youth Guarantee and targeted investments aim at addressing the issue of early school leaving and improve educational and labour market outcomes for young people. The Youth Guarantee, which has been financed by the ESF since 2014, provides young people with employment, education, or training opportunities. It has modernised labour market policies, engaging 1.7 million young people from 2014 to 2023[122]. However, implementation challenges linked to weak active labour market policies remain. Under the RRP, Italy commits EUR 1.5 billion to reduce early school leaving to 10.2% by 2026, focusing on high-risk areas. Planned measures include personalised pathways, extended school hours, staff training, and student counselling. Broad stakeholder engagement and oversight in schools with limited capacity is essential to ensure the sustainability and continuation of these initiatives beyond 2026. At the same time, there are substantial geographical and subject mismatches between the supply of qualified teachers eligible for recruitment on a permanent contract and the staffing needs of schools, requiring further efforts to build a highly skilled teaching workforce.

With the *Agenda Sud*, Italy aims to reduce territorial disparities in learning achievement. Since the school year 2023-24, this project seeks to enhance basic skills proficiency and prevent early school leaving by implementing targeted measures in schools located in the South and the islands. The goal is to bridge territorial gaps in learning achievements and ensure equal educational opportunities. In the 2023-24 school year, 1 711 primary schools benefited from the initiative and EUR 80.6 million were requested, with the highest amounts in Campania, Siciliy and Apulia.

Investments in the *Istituti Tecnici Superiori* (ITS) academy system and in university scholarships seek to boost tertiary educational attainment[123]. Effective integration of ITS with schools, universities, and firms is essential for sustained success beyond RRP funding. In 2024, Italy established the "technological-professional training supply chain" (*filiera formativa tecnologico-professionale*) to align technical and professional education with labour market demands, particularly in the STEM sector[124]. A new law aims to promote the internationalisation of ITS Academies under the Mattei Plan, which includes investments in infrastructure and laboratories. The RRP also supports access to tertiary education with university and PhD

[120] Adult Education Survey, adults in learning over the past 12 months, special extraction excluding guided on-the-job training.

[121] AES 2022 survey, adults (25-64), formal and non-formal education and training excluding guided on the job training.

[122] ANPAL, Garanzia Giovani in Italia, 2023.

[123] See European Commission (2024) SWD on Second stage analysis of social convergence, SWD(2024)132.

[124] Gazzetta ufficiale, Legge n. 121, Istituzione della filiera formativa tecnologico-professionale, 2024.

scholarships in different fields awarded over several years until 2025.

Strengthened guidance in secondary schools aims to support informed choices on education and career paths, but more efforts are needed, including to increase the attractiveness of VET. Introduced in 2022 under the RRP, the reform mandates guidance modules of at least 30 hours annually, delivered by tutors and mentor teachers. While the initiative addresses skills-related challenges, its success depends upon adequately equipping educators with the necessary tools and support. Moreover, additional efforts could help overcome challenges in implementing education and vocational training policies and further align programmes with labour market needs, including through improved governance and collaboration among stakeholders at national, regional and local levels.

Efforts to address skills mismatches include updated training recognition mechanisms. The updated "New Skills Plan –Transitions" addresses skills mismatches by recognising on-the-job training, strengthening the national skills intelligence mechanisms, better involving the private sector in the design and delivery of the training offer and preparing for the future introduction of micro-credentials[125]. However, the implementation of micro-credentials is contingent upon regulatory action by the Italian regions, expected by the end of 2025. Italy is facilitating formal recognition of skills to enhance employability. A new decree defines services for the identification, validation, and certification of qualifications managed by the Ministry of Labour and Social Policies, now accessible to all people.

Low-income individuals are incentivised to participate in training through targeted financial support. In 2023, Italy introduced the Support for Training and Employment (*Supporto per la formazione e il lavoro*, SFL). This monthly benefit for low-income people of working age who meet the income threshold for the minimum income scheme (*Assegno di Inclusione*, AdI) but do not fall into the eligible categories is conditional upon participation in measures such as training, job placement activities, vocational training and retraining, or community-based employment. Beneficiaries can receive a fixed monthly benefit that have been increased to EUR 500 from EUR 350 for the duration of their participation in active labour market policies, for a maximum of 12 months, renewable for additional 12 months, incentivising skills development and re-entry into the workforce. Moreover, the GOL programme provides tailored support for the unemployed and job-seekers, while the ESF-supported New Skills Fund incentivises firms to train employees in green and digital skills. The RRP includes investments in green skills, with short training programmes designed to meet the needs of the green transition, guided by the Pacts for Skills and being piloted during the first half of 2025.

The RRP includes investments in upskilling, both for the public and private sector. Along with enhanced up- and re-skilling under the AMLP reform discussed above, other investments focus in particular on digital skills and target civil servants, teachers, healthcare professionals, and citizens, via the "digital civil service", prioritising people at risk of digital exclusion and alleviating the digital divide. Furthermore, upskilling and reskilling initiatives for public administration employees are expected to touch more than 1 million civil servants. Tax incentives support firms in providing training to their employees: under the measure '*Transizione 4.0*', 147 557 tax credits have been granted to firms. In the context of REPowerEU and targeting skills for the green transition, additional tax credits have been made available under the measure "*Transizione 5.0*".

2.6.3 Social protection and social inclusion

a) State of play and developments on social convergence risks

The rate of people at risk of poverty or social exclusion (AROPE) has been converging with the EU average over recent years, including for children, but started to rise again in 2024. In recent years, Italy experienced significant employment growth, particularly in the South and in labour-intensive sectors, as well as among low-wage workers, notably benefitting those at the lower end of the income distribution. On the back of these developments, in 2023, the AROPE rate fell for the second year in a row, by 1.6 pps to 22.8%. While remaining above the EU average of 21.3%, the rate showed clear signs of convergence. In turn, in 2024, the overall AROPE rate increased again to 23.1%, which in part could reflect the lower poverty reducing impact of the new minimum income scheme. Nonetheless, since 2019, Italy has reduced the number of people in this situation by almost 1.3 million and thus made significant progress on its 2030 national poverty target (of a reduction by 3.2 milion in comparison to 2019). Simultaneously, also the AROPE rate of children fell at a much faster pace (by 1.4 pps in 2023) than for the rest of the EU, and stood at 27.1% in 2023, 2.3 pps higher than the EU average. However, in 2024, the AROPE rate for children stagnated. The three components of AROPE provide insights on the drivers of this. While relative monetary poverty and severe material and social deprivation remained stable in 2024, the share of people living in a household with a very low work intensity rose to 9.2%. National absolute poverty statistics, accounting for household composition and geographical factors, also reflect a stagnation: in 2023, 9.7% of people were living in absolute poverty. Moreover, after increasing markedly in 2024, the income of the richest 20% of the population was 5.53 times higher than that of the poorest 20% (vs 4.7 in the EU), also reflecting differences in the cost of living across areas.

Minors, residents in the South and migrants are disproportionately affected by poverty or social exclusion. In 2023, according to national statistics, absolute poverty in Italy impacted nearly 1.3 million minors (13.8%). Having children significantly increases the risk of poverty. While the AROPE rate for households without dependent children is only slightly higher than the rest of the EU, the difference is wider for households with dependent children (24.8% vs 22.4%). The situation is similar when considering the monetary poverty rate (AROP, which also decreased, still remaining above the EU average) that is particularly high among children, with approximately 1 in 4 children affected. The incidence of poverty is greater in single parent households and in households where various family units live together, while also increasing with the number of children in the family. It is also higher in the Islands and the South, while lower in the Centre. AROPE rates are much higher in the South (38.8%) and in the Islands (39.3%) than in the North-East (11.0%) and North West (13.5%). Finally, the AROPE rate for non-EU citizens (41.1%) is almost twice the rate of nationals (20.6%).

The impact of social transfers other than pensions in reducing monetary poverty increased significantly, but large regional disparities persist. In 2023, social transfers reduced the risk of monetary poverty by 30.5%, significantly increasing from 25.8% in the previous year, but remaining below the EU average (34.7%). The impact is lowest in the Islands (22.7%), in line with the lower employment rates. The North-East, on the contrary, records the highest impact, with social transfers reducing the risk of poverty by 39.2%. These differences are largely linked to the fact that social transfers in Italy are mainly contribution-based, providing comparatively weak redistribution. In 2024, the indicator further improved, though at a slower pace, and reached 31.3%. Many self-employed, part-time workers and those under non-standard contracts experience *de facto* gaps in access to social protection. For part-time and fixed-term workers this is due to benefits being closely linked to pay and employment duration, while for the self-employed it is related to their coverage through separate systems from employees, which do not always offer similar protection, for example regarding sickness and unemployment benefits[126] This also contributes to higher poverty rates among non-standard workers. In 2023, only 11.7% of self-employed received any social benefits compared to 45.4% among employees in general, and in 2022, most of the (close to) 5 million self-employed[127] were not covered by unemployment (79%) or sickness benefits (69%), as only economically dependent self-employed, i.e. "para-subordinate workers", are covered for the latter[128]. Around one million project collaborators and occasional collaborators were eligible to the unemployment allowance "DIS-COL".

A well-functioning minimum income scheme is key to support people in vulnerable situations. The implementation of the new Italian scheme narrowed coverage by 40%[129] compared to the previous scheme, while introducing a monthly allowance for those that, upon losing eligibility, participate in activation measures – the Supporto Formazione e Lavoro. In addition, equivalent disposable income thresholds to access the minimum income scheme have been raised and the amount of the allowance increased with the Budget Law for 2025. While the reduced coverage aims to mitigate monetary disincentives to job-seeking, reflecting a trade-off between poverty alleviation and incentivising workforce participation, the potential impact on

[127] In 2023, 19.3% of people in employment were self-employed in Italy, which is one of the highest shares in the EU (13.3%).

[128] See European Commission and Social Protection Committee, Access to social protection for workers and the self-employed, 2024.

[129] See European Commission (2024) SWD on Second stage analysis of social convergence, SWD(2024)132.

boosting labour supply[130] will need to be monitored closely.

b) Relevant planned and ongoing policy responses

The "*Bonus Nido*" aims at supporting families in covering nursery school fees or providing home assistance for children under three years affected by severe chronic illnesses. With the Budget Law for 2025, the design of the bonus has been improved excluding its amount from the ISEE (Equivalent Economic Situation Indicator) . The focus of the welfare system on cash transfers, such as family allowances, rather than on the provision of services does not address the structural barriers to employment faced by those with caring responsibilities. The *Assegno Unico Universale per i figli a carico* (AUU) was estimated to contribute to reducing poverty risks, but it could be complemented by further investment in care services and incentives for fathers to take parental leave[131].

Although some positive supporting measures are in place, the stricter eligibility criteria are likely to diminish the poverty-reducing effect of the new minimum income programme. From 2024, the minimum income programme no longer relies solely on means-testing for eligibility. Instead, access is limited to households in specific demographic categories, such as those with minors, people over 60, persons with disabilities, or those receiving social services. The introduction of the AdI, was accompanied by the SFL scheme (see Section 2) that provides for a 500 EUR monthly allowance conditional to participation in activation measures forthose that lost the eligibility for the minimum income scheme programme because of the changes in demographic requirements. In addition to the newly introduced ISEE requirements and increased allowance, positive changes under the AdI include the ability to combine both benefits with up to EUR 3 000 in annual income from work, as well as a reduced requirement of 5 years residency in Italy (10 years under *Reddito di Cittadinanza*). However, this reform significantly decreases the overall support. A comparision of the data published by the INPS Observatory on AdI in 2024 and RdC in 2023[132] reveals a significant decrease in the number of households and individuals receiving benefits. Yet, to a certain extent, this might also reflect the improved labour market situation. Overall, among the groups supported by AdI, the situation for households with members with disabilities has improved compared to RdC, while conditions for households with minors have deteriorated. The new scheme can now be fully combined with the family benefit AUU, but for most families the poverty-reducing effect is offset by stricter eligibility criteria. Only a small proportion of low-income families will see an increase in support due to the reform, particularly those with more than three children, children under 3 years, and single-parent families. On average, however, excluding potential behavioral effects such as increased work incentives, AdI is expected to lead to a higher incidence of absolute and child poverty (by 0.8 pps and 0.5 pps, respectively) compared to the previous scheme.[133] Both the dimished poverty-reducing effect of the programme and its incentivising effect on labour market participation will require close monitoring.

2.6.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges remaining in the labour market domain, despite improvements, related to long-term unemployment, a significant gender employment gap, and relatively low per capita gross disposable household income. The latter partly reflects structurally low wages, in turn due to weak productivity growth, with relatedin-work poverty risks. While employment and unemployment rates have improved on average, labour market obstacles are identified for certain groups, such as women, young people and the low-skilled. In the area of education and skills, challenges are identified in relation to low basic skills, the low share of adults with at least basic digital skills, low and decreasing adult participation in learning, and low tertiary education attainment levels, which negatively impact on productivity, employability and the twin transition. In the area of social protection and inclusion, poverty or social exclusion risks improved in recent years but the positive trend stagnated in 2024 and risks

[130] Banca d'Italia, N. 820 - La revisione delle misure di contrasto alla povertà in Italia 2023, 2024.

[131] See European Commission (2024) SWD on Second stage analysis of social convergence, SWD(2024)132.

[132] See INPS Observatory, AdI 2024, RdC 2023.

disproportionally affect certain groups such as children and residents in the South.

The measures implemented or planned so far, such as reforms and investments in active labour market policies, labour taxation, family policies, and actions to strengthen the education and adult learning systems, are expected to help Italy move in the right direction. This will nonetheless also crucially depend on their long-term sustainability and improved coordination between national and regional administrations. Despite the progress made, more efforts could bring Italy to address in full the challenges that the country is facing in relation to the labour market, education and skills, and social protection and inclusion.

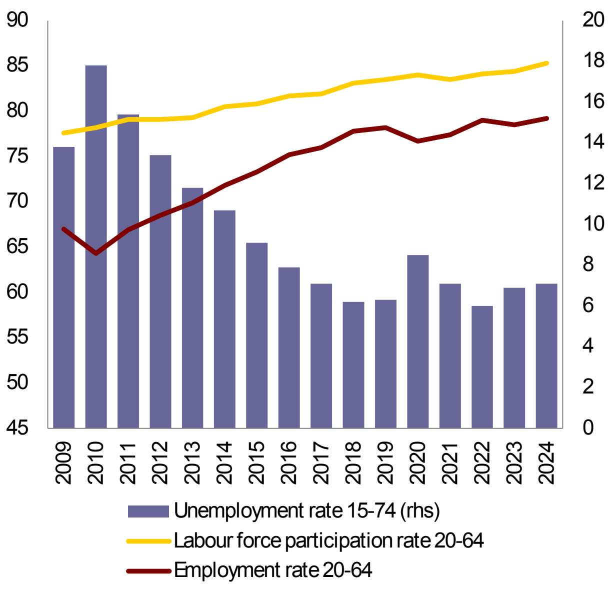
2.7. Lithuania

In the first-stage analysis in the JER 2025, Lithuania was identified as facing potential risks to upward social convergence based on 8 headline indicators of the Social Scoreboard flagging, including one that deteriorated over time. In the second stage analysis in 2024, it was found that the measures implemented or planned were sufficient to help the country move in the right direction, crucially depending on the final design of the planned measures and their full and timely implementation. The risks identified this year in the first stage concern the labour market domain, notably the declining **employment rate** and increasing **unemployment rate**, the rising share of **young people neither in employment nor in education and training (NEET)** and the still high **disability employment gap**. In addition, in the area of social protection and inclusion, risks were identified in relation to the high **at-risk-of-poverty or social exclusion rate** and **income inequality**. Finally, in the area of education and skills, the low and declining **participation of children under the age of 3 in formal childcare** and low **share of adults participating in learning** were also identified as criticalities.

2.7.1 Labour market

a) State of play and developments on social convergence risks

Figure 1: Key labour market indicators (%)



Source: Eurostat [lfsi_emp_a, une_rt_a].

Labour market conditions in Lithuania slightly weakened in 2023, after positive developments in the previous years. Geopolitical tensions stemming from the war in Ukraine and still relatively high energy prices and overall inflation (8.7% in 2023), and increased borrowing and raw material costs, weighed on economic activity, with real GDP growth reaching 0.3% (vs 2.5% in 2022 and 6.4% in 2021). This led to a slowdown in hiring, and the labour market was unable to fully absorb new entrants, whose number increased due to migration and rising wages. The employment rate declined to 78.5% in 2023 (vs 75.3% in the EU), although the total number of employed people has actually increased by 14 000. The unemployment rate edged up to 6.9% (from 6.0% in 2022), with significant disparities across regions and a disproportionate impact on youth and the low-skilled. Lithuania had experienced stronger labour market improvements than many other Member States in 2022, but this pattern was reversed in 2023.

The rising activity rate outpaced employment growth. The activity rate (20-64) increased by 0.3 pps in 2023 and 0.9 pps in 2024 (85.3% vs 80,4% in the EU), adding 51 000 000 people to the labour force, outpacing the increase in employment (32 000 people). Among the drivers of labour force expansion was the rising working-age population, partly due to immigration from third countries, including those fleeing the war in Ukraine. In 2024, the labour force expansion appears to have been driven by previously inactive people joining the labour market, as the inactive population fell by approximately 13 000 in Q3-2024 compared to Q3-2023[134], while the number of third-country nationals started to decline due to tightened residence requirements and controls[135]. Increases in the minimum wage and the non-taxable amount of income in recent years may have incentivised labour market participation. The labour market absorption of new entrants is already improving: in 2024, the employment rate reached 79.2%, 1.5 pps from the country's 2030 employment target of 80.7%.

A slowdown in hiring together with the growing labour force has led to an increase in the unemployment rate. The number of vacancies decreased by one-third since its peak reached in 2022. As the labour market struggled to absorb new

[134] https://doi.org/10.2908/LFSQ_PGANWS

[135] The largest decreases between January and December 2024 were registered among Ukrainians and Belarussians, whose numbers fell from 86 353 to 68 166 and from 62 167 to 59 399, respectively: https://vrm.lrv.lt/lt/naujienos/grieztesnes-migracijos-priemones-sumazino-uzsienieciu-skaiciu-lietuvoje/

entrants, the unemployment rate (15-74) rose from 6% in 2022 to 6.9% in 2023 (vs 6.1% in the EU) and 7.1% in 2024. The low-skilled were particularly affected, with their unemployment rate rising from 16.7% in 2022 to 18.1% in 2023 (vs 11.9% in the EU). However, Lithuania has the lowest share of low-skilled in the 18-64 age group in the EU (7.4% vs 20.9% in the EU)[136]. In spite of a reduced labour tax wedge in recent years, especially at lower earnings levels, the unemployment trap in Lithuania in 2023 was among the highest in the EU, especially for a single person taking up a job at 67% and 100% of the average wage.

Labour and skills shortages persist in certain sectors, while the coverage of active labour market policy (ALMP) measures remains limited. While still lower than the EU average (2.4% in 2024), the job vacancy rate has been hovering around 1.8%-2% over 2021-24, mainly due to labour shortages in public administration, health, transport and finance. In turn, participation in ALMP measures, such as support for learning (including the RRP-supported measure on the acquisition of high value-added skills and qualifications) and subsidised employment, was below 5%[137] of all registered unemployed in 2023. One of the main constraints on ALMP coverage is insufficient funding: Lithuania spent 0.17% of GDP on ALMP measures in 2022, even less than in the pre-pandemic period. According to national data the funding for ALMPs increased in 2024 compared to 2022, however, much of this increase was due to ESF+ absorption. As ALMP financing currently remains heavily reliant on EU funds, it may not be sustainable in the longer term.

In the light of the economic slowdown, the labour market situation of young people has deteriorated, marked by rising NEET rates and unemployment. Youth unemployment rose from 13.8% in 2023 to 16.2% in 2024, surpassing the EU average of 14.9%. The challenge of the labour market integration of the youth is concerning also due to the rising NEET rate that reached 14.7% in 2024 (from 10.7% in 2022 and 13.5% in 2023), also exceeding the EU average of 11%. The share of inactive NEETs increased from 6.9% in 2022 to 9.5% in 2023 and is now among the highest in the EU. NEET rates are closely corelated with educational attainment, with 23.4% of people with low educational attainment being NEETs in 2023, compared to 13.3% of those with upper secondary or tertiary education. The increase in the NEET rate in 2023 was also driven by an increase in early leaving from education and training, which rose from 4.8% in 2022 to 6.4% in 2023, although still below the EU average of 9.5%.

The disability employment gap remains high, reflecting persistent structural barriers to labour market inclusion. Despite a 2.6 pps drop from 2022, the disability employment gap stood at 32.4 pps, well above the EU average of 21.5 pps. According to the Labour Force Survey (LFS), the employment rate of persons whose activities are restricted due to health problems for at least the past six months decreased from 40.6% in 2022 to 36.7% in 2023. National data collected by the Board of Social Insurance Fund (SODRA) indicate that 30.7% of Lithuania's 143 000 working-age persons with registered disabilities were employed in 2023, compared to 30.5% in 2022[138].

b) Relevant planned and ongoing policy responses

Lithuania has implemented reforms and investments to enhance the variety, coverage and efficiency of its labour market policies. As part of its RRP, the country introduced a learning and entrepreneurship support scheme in 2022 to equip workers with high value-added qualifications and skills and promote job creation in twin transition sectors. The ESF+ and national budget funds allocated for ALMP measures in 2024-26 are approximately EUR 178 million, with 52% allocated to re- and upskilling initiatives, compared to 43% in 2023. The non-eligibility of the unemployed to use the individual learning accounts' (ILA) credits is planned to be addressed by mid-2025, by enabling them to benefit from the ILA platform with the support of the public employment service. Given rising unemployment, additional efforts to further boost up- and reskilling, including through increased ALMP financing and targeted support for the most vulnerable population groups, such as the youth, low-skilled workers and persons with disabilities, could enhance labour market resilience.

Youth employment support measures have been expanded, but additional efforts are needed to tackle

[136] https://doi.org/10.2908/EDAT_LFS_9911

[137] Based on the EMCO-SPC Joint Assessment Framework indicator on activation of the registered unemployed (RU), which measures the proportion of people that are registered as unemployed with the Employment Service who are participating in a labour market policy (LMP) activation measure (categories 2-7).

[138] Board of Social Insurance Fund (SODRA).

challenges faced by young people. Counselling and different activation and motivational activities are offered by PES through regional career centres to 8-12 grade pupils, and VET students, as well as people of all ages, registered or not with PES. Unemployed people aged 16-29 are offered to participate in various ALMP measures, with priority given to learning support measures, particularly in high value-added skills and qualifications. Business creation support and wage subsidies further facilitate youth labour market integration. Summer jobs for pupils and practice for students in the public sector are promoted by the PES. The ESF+ supports access to employment through the Youth Guarantee. The new government's programme includes commitments to continue the implementation of the Youth Guarantee, expand career planning counselling, especially in rural areas by creating 8 additional regional career centres in 2025-26 and to further improve access to benefits, services and housing for young families. From 2022, personalised services for the development of practical skills for young people aged 14-29, including NEETs seeking to return to the labour market or the education system, are provided using informal methods, as close as possible to their place of residence.

In 2024 steps were undertaken with one-stop services provided in 34 open youth centres, enabling disadvantaged young people aged 14-29, including inactive NEETs, to start working, studying, volunteering or looking for a job. In addition, it is planned to provide these services in open-type correctional institutions in order to ensure a smooth resocialization process. However, further targeted efforts are needed to address the growing number of inactive NEETs, including through enhanced outreach and engagement strategies.

Lithuania launched a comprehensive reform in 2023 to enhance labour market integration and social inclusion of persons with disabilities, but further efforts are needed to improve outcomes. The reform introduced new support services and provides that in 2024 the number of employees with disabilities in public institutions, state or municipal companies should make up to at least 5% of all of employees. In 2024 Lithuania introduced a new disability assessment model that reduces the reliance on medical criteria and adopts a multidisciplinary approach, better reflecting specific individual needs[139]. Nevertheless, there is scope for further policy action in this area, such as raising awareness (including among employers), expanding service availability and further improving support mechanisms for family members balancing work and caregiving responsibilities.

2.7.2 Social protection and social inclusion

a) State of play and developments on social convergence risks

The share of people at risk of poverty or social exclusion (AROPE) remains high despite a slight decrease, while the number of people in this situation increased in 2023. The AROPE rate reached a low of 23.5% in 2021 but rose to 24.6% in 2022 and remained at 24.3% in 2023, exceeding the EU average of 21.3%. The number of people at risk of poverty or social exclusion increased in 2023[140] (from 690 000 to 695 000), moving Lithuania further away from its 2030 target of reducing AROPE by 223 000 people compared to the 2019 level of 712 000. Several factors may have contributed to the increase, including the withdrawal of COVID-19-related income support measures in 2021, specifics of the indexation mechanisms of certain social benefits[141] and the sharp rise in median income in nominal terms[142], which raised the poverty threshold from EUR 483 in 2021 to EUR 564 in 2023. In 2022, the increase was primarily among those at risk of poverty (AROP), whereas the further modest rise in 2023 was mainly among the persons experiencing severe material and social deprivation, as a consequence of record high inflation in 2022 (18.9%).

Income inequality remains among the highest in the EU. In 2023, the income of the top 20% exceeded that of the bottom 20% by 6.3 times (vs 4.7 in the EU), a slight decline from 6.4 in 2022. While the income gap between the richest and middle-income earners (S80/S50 ratio) narrowed slightly to 2.6 (from 2.7 in

[139] See European Commission (2024) SWD on second stage analysis of social convergence, SWD(2024)132.

[140] Social statistics for 2023 are based on income earned in 2022.

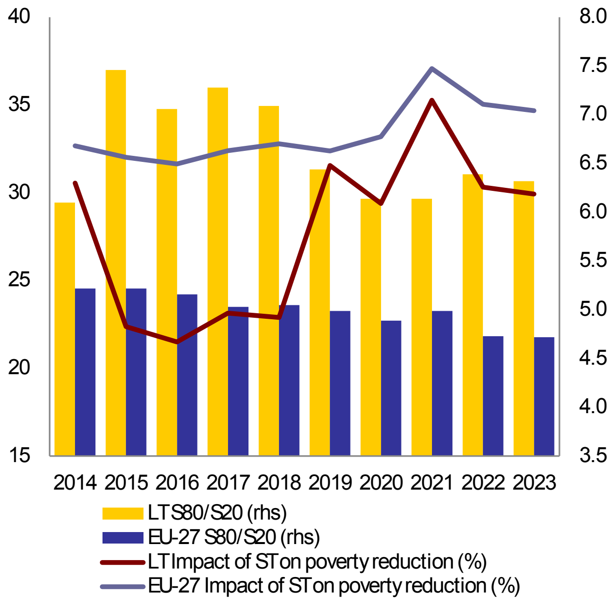
[141] For example, the indexation of the cash social assistance benefits is subject to a lag, as the State Supported Income (SSI) amount used for calculating the benefit is based on the previous year's minimum consumption basket. I.e. the SSI amount set for 2025 (EUR 221) represents only about 50% of the minimum consumption needs of 2024 (EUR 446). This results in at least one year lag in indexation (de facto two years), which in case of high inflation (as in 2022 and 2023) can significantly erode the real value of assistance for recipients.

[142] Estimations performed by the European Commission, Joint Research Centre, based on the EUROMOD model, I6.0+.

2022), the gap between the lowest and middle-income groups (S50/S20 ratio) remained around 2.4, slightly exceeding the EU average of 2.2. Consequently, the share of total income accruing to the bottom 40% (S40/S100 ratio) stood at 18.5% in 2023 (vs 21.7% in the EU).

Expenditure on social protection remains low, limiting the redistributive capacity of the tax-benefit system. In 2023, social protection spending amounted to 16.2% of GDP, significantly below the EU average of 26.8%. The redistributive capacity of the tax-benefit system lags behind: the impact of social transfers excluding pensions on poverty reduction is, for instance, lower than the EU average (29.9% vs 34.7% in 2023), as is the case for the impact of social transfers including pensions (49.6% vs 62.2%). According to the World Bank[143] and the OECD[144], this relates also to the low progressivity of the tax system, a low tax-to-GDP ratio (31.9% vs 41.2% in the EU in 2022), a relatively large VAT gap (around 15% of VAT revenues in 2021 vs the EU median of around 5%)[145].

Figure 2: Impact of social transfers on poverty reduction (%) and Income quintile share ratio (S20/S80)



Source: Eurostat [tespm050, tessi180].

The social situation of the unemployed deteriorated in 2023, marked by a sharp rise in the at-risk-of-poverty rate and inadequate social protection coverage. The AROP rate for the unemployed increased from 51% in 2022 to 59.5% in 2023 (:EU 47.3%), amid rising unemployment. 45.4% of the unemployed (at-risk-of-poverty before social transfers) received social benefits, below the EU average of 52.4%, reflecting coverage gaps, particularly for the self-employed, who represented 9.9% of total employment in 2023. The poverty rate of low-skilled workers amounted to 37.9% in 2023 (EU: 29.4%). The AROP rates are also very high for people living in (quasi-)jobless households (80.1% vs 62.9% in the EU in 2023 In 2022, Lithuania's minimum income support was 37.2% of a low-wage earner's income (EU: 46.1%), down from 39.1% in 2021[146], showing its low adequacy.

Challenges in accessing healthcare remain, with high unmet needs for medical care. In 2023, the level of unmet needs for medical care (3.8%) remained higher than the EU average (2.4%), mainly due to waiting lists. Health spending per inhabitant (adjusted for differences in purchasing power: EUR 2 318) was lower than the EU average (EUR 3 685) in 2022 and around two thirds of it was publicly funded. The share of out-of-pocket health spending is among the highest in the EU (31.8% vs EU average 14.3%), with nearly half of all out-of-pocket payments being for outpatient pharmaceuticals[147].

Older people continue to face significant poverty risks and challenges in accessing adequate long-term care (LTC) services. About one-third of those at risk of poverty of social exclusion are aged above 65, with an AROPE rate nearly double the EU average in 2023 (38.7% vs 19.7%), despite a 2.4 pps improvement from 2022. Single older persons are particularly affected, with an AROPE rate of 59.3% (EU: 31%), although this marked an improvement from 65.8% in 2022. High AROPE rates are primarily driven by monetary poverty, with the AROP rate at 36.1% (EU: 16.7%), nearly double for women (43.2%) compared to men (23%). The low adequacy of pensions is a significant determinant of old-age poverty: although the old-age social insurance pension increased on average by 17% to EUR 474 in 2022 (income reference year for 2023), it remained below the AROP threshold of EUR 564 in

[143] World Bank, TSI Project 20LT09.
[144] OECD, OECD Tax Policy Reviews: Lithuania 2022, OECD Publishing, Paris, 2022.
[145] The VAT GAP is an estimate of the overall difference between the expected theoretical VAT revenues and the amount actually collected. See VAT gap report 2023.
[146] Cf. benchmarking exercise of the Social Protection Committee (SPC).
[147] OECD/European Commission (2024), Health at a Glance: Europe 2024: State of Health in the EU Cycle, pp. 186-187.

2023. Lithuania's aggregate pension replacement ratio remained among the lowest in the EU in 2023 (0.36 vs 0.58 in the EU)[148], and so did the median income of older people which remained at 63% of the income of those aged 0-64 (EU: 89%). Inadequate LTC exacerbates these challenges, with public spending on LTC at just 1% of GDP in 2022 (EU: 1.7%) and high out-of-pocket payments for fragmented services that fail to meet rising demand.

Persons with disabilities also experience persistently high poverty risks, reflecting low employment rates and inadequate social transfers. In 2023, the AROPE rate for persons with disabilities remained among the highest in the EU at 42.7% (EU: 28.8%), despite a 1.6 pps decline compared to 2022. The AROPE gap between persons with disabilities and persons without disabilities stood at 23.1 pps, more than double the EU average gap of 10.8 pps. Monetary poverty among persons with disabilities also decreased slightly in 2023 (to 36.6% from 37.7% in 2022) but remained significantly above the EU average of 20.1%. These elevated poverty risks are closely linked to low employment rates among persons with disabilities (see Section 1a).

b) Relevant planned and ongoing policy responses

Lithuania is taking action to mitigate high poverty and income inequality levels, but critical reforms remain pending to achieve the country's 2030 poverty reduction target. Several strategic documents adopted in 2021 outline initiatives to tackle income inequality, poverty and social exclusion. These include the programmes on income inequality reduction, promotion of inclusive labour market improving the situation of persons with disabilities, strengthening family policy and enhancing social inclusion. Reforms implemented to date include pension adjustments, the introduction of allowances for single retirees and single persons with disabilities, as well as measures to enhance the participation of persons with disabilities in the open labour market and a new disability assessment model (see section 1b). While these efforts mark progress, the main RRP reforms, focused on minimum income scheme adequacy, unemployment protection for the self-employed and a broader tax reform package, are yet to be adopted. High energy poverty is exacerbated by the large stock of inefficient buildings waiting for renovation in Lithuania.

Recent pension reforms are contributing to a reduction in poverty risks for older people. In 2022, Lithuania introduced significant changes to the pension system, including an additional indexation of the individual pension component of the statutory pension and a reduction in the required contributory period for the full general (basic) pension. First results of this reform are already visible, as the AROP rate for older people decreased in 2023. The reform to address the fragmentation of the LTC system, which should further alleviate the risks of social exclusion, is underway. The new government's programme outlines plans to accelerate increases in old-age pensions and reform the second pension pillar, to increase the replacement ratio and adequacy of pensions.

Despite some progress, key measures to address income inequality remain stalled. The minimum wage increased from EUR 607 in January 2020 to EUR 1 038 in 2025, while the non-taxable amount of income more than doubled from EUR 350 in January 2020 to EUR 747 in 2024. These measures have significantly improved the economic situation of the employed and contributed to the slight reduction in income inequality. However, progress on more impactful reforms has stalled, including the RRP-supported tax reform, as well as reforms to strengthen the minimum income protection scheme and unemployment insurance. The new government's programme includes commitments to promote collective bargaining including to reduce the high share of low-wage earners, further increase the amount of non-taxable income to incentivise labour market participation, and continue to improve the adequacy of social assistance benefits and mechanisms for social services.

2.7.3 Education and Skills

a) State of play and developments on social convergence risks

The participation of children under 3 years in early childhood education and care (ECEC) remains significantly below EU levels, although national statistics show a more positive picture. The participation rate fell by 2.9 pps between 2022 and

[148] The tax reform implemented in 2019, under which the contributions paid by the employer were integrated into gross wages as of January 2019, resulted in all gross wages increasing by 28.9%. As pensions in Lithuania are tax exempt, the gross replacement rates fell considerably in 2020 (to 0.36, compared to 0.45 in 2019), however, both the gross and the net replacement rates are significantly below the EU average (0.58 and 0.57, respectively).

2023, reaching 19.9%, well below the national Barcelona target of 30.5% and the EU average of 37.5%. However, national statistics based on administrative data[149] suggest higher participation rates (40.4% in 2023), with consistent annual increases (29.7% in 2019). The participation in ECEC of children aged less than 2 is significantly lower than for those aged 2 (27% vs 86.7% according to national data), and those above 3 to compulsory school age (96.7% vs 93.3% in the EU, based on Eurostat data for 2022). This could be partly explained by the relatively generous childcare allowances for parents of children under 18 or 24 months. However, female labour market participation in 2023 was above the EU average, with their employment rate at 77.7% (EU:70.2%) and low prevalence of part-time work (7.5% vs 27.9%).

Gaps in basic skills among students puts further skills development at risk later in life, particularly among disadvantaged students and in rural areas. Around every fourth student lacks basic skills in mathematics (27.8% vs EU: 29.5%) and reading (24.9% vs EU: 26.2%), while one in five students lacks basic skills in science (21.8% vs EU: 24.2%)[150].. In addition, socioeconomic status and school location remain strong predictors of student achievement, with significant disparities between urban and rural areas. On average, urban students have a 3-year learning advantage over their rural peers in mathematics PISA scores (EU: 2 years). Disadvantaged students are also underperforming, with a 46.5% underachievement rate in mathematics (EU: 48%), compared to 11% for their advantaged peers (EU: 10.9%). This achievement gap has persisted since 2012, partly due to an inefficient school network with many small, rural schools that have weaker outcomes, exacerbating socio-economic inequalities[151].

Adult participation in education and training remains low, with significant gaps across demographic groups and a slow pace of improvement. The 2024 PIAAC shows low scores and significant decreases in both literacy and numeracy for adults[152]. In 2022, only 27.4% of Lithuanian adults took part in training over the previous 12 months, below the EU average of 39.5%[153], reflecting an increase of just 2.4 pps since 2016. Participation was particularly low among men (20.9% vs 33.5% for women), older workers (55-64, 18.5%), people without a tertiary degree (12.8%), and people outside the labour force and in rural areas. A large gap in digital skills persists: the share of adults aged 25-34 with at least basic digital skills is 45.9 pps larger (vs EU 25.9 pps) than the share of those aged 55-64, indicating the need to additionally target the participation in training of older persons. Adult participation in learning remains well below (26.3 pps) the country's 2030 target of 53.7% and substantial efforts are needed over the next years to bridge the shortfall and boost Lithuania's competitiveness.

b) Relevant planned and ongoing policy responses

Lithuania's efforts to expand access to ECEC are advancing, supported by substantial investments and targeted reforms under the Education Development Programme for 2021-30. The programme aims to ensure that 95%of children from the age of 2 to the start of compulsory education will participate in ECEC by 2030. From September 2025, ECEC services will become universal for children aged 2 and over, which should further increase the already high participation rate for 2-year-olds (90.9% of all 2-year-olds permanently residing in Lithuania in 2024). In spite of the above EU average participation rate in pre-school education programmes of those above 3 years to compulsory education age, low participation rates in rural areas point to the need to ensure effective access to quality ECEC, regardless of the children's background. Overall, the share of children participating in preschool education programmes in rural areas increased by 8.3 pps between 2019 and 2024, and stands at 52.6% of children aged 2–5 in the 2024–25 school year. Lithuanian municipalities have planned to build 19 new education facilities offering pre-school programmes and expand accessibility in 130 existing facilities. The government has earmarked over EUR 78 million by 2027 to ensure that the conditions for universal pre-school education are met[154], including increasing participation among children from socially at-risk families to 75% and enhancing inclusion of children with special needs. Investments from the European Regional

[149] As opposed to the Social Scoreboard indicator, which is based on an EU-EILC survey.

[150] 2022 OECD Programme for International Student Assessment (PISA).

[151] OECD (2023). Institutional missions and profiles in higher education in Lithuania | OECD

[152] Do Adults Have the Skills They Need to Thrive in a Changing World? | OECD

[153] Adult Education Survey 2022, special extraction excluding guided-on-the-job training.

[154] Education and Training Monitor 2024.

Development Fund (ERDF) improve access to education for children facing exclusion or social risks by establishing new pre-school education places and adapting the infrastructure for pupils with disabilities. Lithuania aims to train up to 200 new ECEC teachers by 2025. To strengthen quality, the content of ECEC and the system for assessing the achievements of preschool children are being updated.

The implementation of several ongoing measures aiming to address persistent urban-rural student achievement gaps and school network rationalisation could contribute to improving student outcomes. Under the Millenium Schools Programme, funded by the RRF, 58 out of 60 municipalities implement needs-based solutions. In addition, to rationalise the network of general education schools, the number of schools fell from 978 to 928 between 2020 and 2023, however, according to the National Audit Office, too many schools are exempt from the reorganisation requirements. A new competence-based curriculum and updated general programmes have been rolled out in 2023-24. In 2024, a legal provision regarding higher requirements for obtaining secondary education came into force. To respond to quality concerns and improve labour market relevance, a reorganisation of Lithuania's college network is underway. As part of the process incentivised by the RRF, the government approved five college mergers.

Significant measures have been taken to improve adult participation in learning, but continued efforts are needed to meet the 2030 national target. As part of the RRP, a life-long learning platform (kursuok.lt) based on ILAs was launched in 2024, to address the persistently low adult participation in training. Eligible adults (currently only employed or self-employed aged 18-65 people with vocational education and training qualifications or higher) are entitled to a credit of up to EUR 500 over a period of 5 years to cover costs of chosen learning programmes, provided these fall within the priority list of competences established by the government (e.g. programmes on improving digital skills). More than 14 000 people have already completed courses via the platform[155]. Moreover, a career consultation module intended to increase adult engagement has been recently launched. Furthermore, the learning and entrepreneurship support scheme under the RRP aims to train another 19 350 adults by Q2-2026. Overall, Lithuania projects that over 100 000 people will improve their competences by 2030, including through ESF+ funding. ERDF investments target improving infrastructure of regional vocational training schools by adapting them for new challenges and supplying them with equipment and materials necessary for practical vocational training. While these efforts show progress, they are unlikely to substantially raise adult participation rates, given the total adult population (25-64) of nearly 1.6 million in 2023. Further actions are needed to achieve a breakthrough and meet the 2030 target of 53.7%, including expanding ILA eligibility to include vulnerable groups, enhancing incentives for participation, as well as increasing employers' participation and the involvement of social partners in the decision-making process.

2.7.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges in the labour market domain related to the increasing unemployment and NEET rates. In the area of social protection and inclusion, Lithuania faces challenges related to high income inequality and number of people at risk of poverty or social exclusion. Certain population groups are particularly affected, such as the unemployed, older people and persons with disabilities, mainly due to low adequacy of unemployment, pensions and social benefits, as well as gaps in social protection coverage. In the area of education and skills, lack of basic skills and still low adult participation in learning (despite a limited increase since 2016) pose challenges to competitiveness, employability and the twin transition.

The measures implemented or planned so far, such as the labour market reforms, a learning and entrepreneurship support scheme, initiatives to boost the employment of the youth and of persons with disabilities, the lifelong learning platform based on the principle of individual learning accounts, the pension reforms, and reforms on minimum income adequacy, unemployment protection for the self-employed and tax policy, are expected to help Lithuania address the challenges identified. This will also crucially depend on the final design of planned measures and their effective implementation.

[155] kursuok.lt

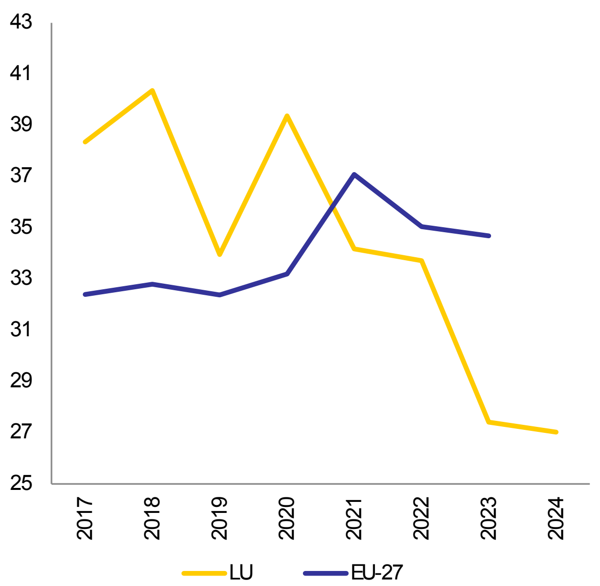
2.8. LUXEMBOURG

In the first-stage analysis in the JER 2025, Luxembourg was identified as facing potential risks to upward social convergence based on 8 headline indicators of the Social Scoreboard flagging, including one that deteriorated over time. The risks identified concern the area of social protection and inclusion, notably the increasing **at-risk-of-poverty or social exclusion rate (including for children)**, the decreasing **impact of social transfers (excluding pensions) on poverty reduction**, and the high **housing cost overburden**. It also concerns the labour market, for which recent trends point to a slowdown in performance, with potential risks identified in relation to the deteriorating **unemployment** and **long-term unemployment rates** and **disability employment gap**. Finally, in the area of education and skills, the decreasing **share of people with at least basic digital skills** was also identified as a criticality.

2.8.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

Figure 112: Impact of social transfers (other than pensions) on poverty reduction (%)



Source: Eurostat [tespm050].

Driven mainly by income disparities, the at-risk-of-poverty or social exclusion (AROPE) rate in Luxembourg has been increasing since 2015. Between 2019 and 2024, the number of people at risk of poverty or social exclusion rose by 13 000 to 132 000 (from 119 000 in 2019)[156]. This makes reaching Luxembourg's 2030 target of reducing the number of people at risk of poverty or social exclusion by 4000 (compared to 2019) challenging. The AROPE rate decreased from 21.4% (EU: 21.3%) in 2023 to 20.0% in 2024, but it continues to be above the 2015 level of 18.4%. While AROPE and at-risk-of-poverty (AROP) rates have decreased in the EU from 2015, Luxembourg's rising AROPE rate is related primarily to steadily increasing monetary poverty, as measured by the AROP rate. The latter concerned 15.3% of the population in 2015, but reached 18.8% in 2023 (2.6 pps above the EU average of 16.2%) and slightly declined to 18.1% in 2024. The poverty gap increased from 17.2% in 2023, when it was 5.8 pps lower than the EU average, to 19.0% in 2024. At the same time, the severe material and social deprivation (SMSD) rate declined from 2.5% in 2023, well below the EU average of 6.8%, to 2.3% in 2024. Furthermore, the share of people living in households with very low work intensity stabilised at 3.9% in 2024 and 2023, well below the EU average of 8%.

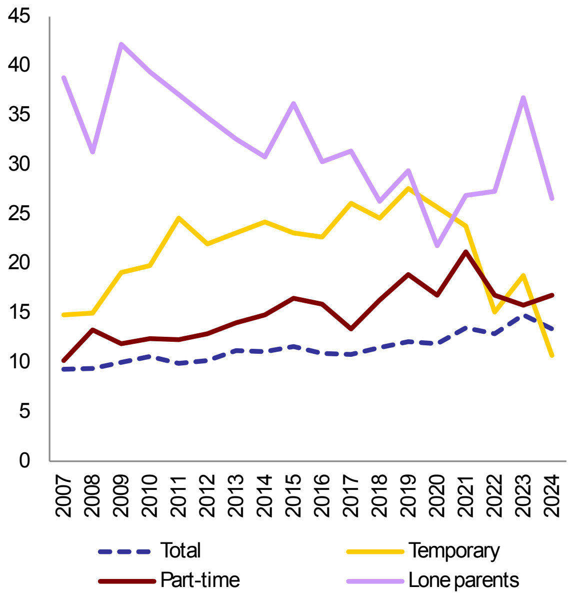
The AROPE rate for children has also been on the rise since 2015, affecting over 1 in 4 children, particularly among single-parent households. Although it decreased slightly from 26.1% (vs 24.8% in the EU) in 2023 to 25.6% in 2024, it continues to be above the 2015 level of 23.3%. As for adults, the evolution of the AROPE rate for children is linked to increasing monetary poverty (AROP rate). Against the downward trend in the EU, the latter has been growing in Luxembourg since 2015 (when it was 21.5%), reaching 23.9% in 2023, well above the EU average of 19.4%, and 24.1% in 2024. At the same time, the SMSD rate for children decreased by 0.4 pps between 2024 and 2023, when it remained below the EU average of 8.4%. Single-parent households are particularly vulnerable, with poverty risks concerning 31.8% of them in 2024.

Several factors are behind the increase in income inequality in Luxembourg, including the sectorial composition of the economy. Income inequality, as measured by the income quintile share ratio (S80/S20), has been on the rise since 2015, and reached 4.8 in 2023 (vs 4.7 in the EU), after which it decreased to 4.7 in 2024. In addition, the share of income of the 40% poorest households (S40) rose from 20.9% in 2023, when it was slightly below the EU

[156] There have been major breaks in series for 2020, 2021 and 2022, hence the evolution over time should be interpreted cautiously.

average of 21.7%, to 21.2% in 2024. Gradual increases in income inequality are further corroborated when studied over a longer time frame[157]. Average annual gross salaries in Luxembourg's financial and insurance sector – which plays a significant role in the economy[158] – are currently almost 50% higher than the average for the entire economy. Salaries earned in this sector are, for instance, on average 2.8 times higher than those in the hospitality sector (HORECA)[159]. These high salaries[160] contribute to increased income polarisation A number of other factors should also be considered in this respect, including developments related to the impact of social transfers and the tax system.

Figure 213: In-work poverty rates (% of employed)



Source: Eurostat [ilc_iw01, ilc_iw05, ilc_iw07, ilc_iw02].

The impact of social transfers (excluding pensions) in reducing monetary poverty in Luxembourg has been following a steep downward trajectory since 2010. It further decreased from 27.4% in 2023, when it was well below the EU average of 34.7%, to 27.0% in 2024. This can be partly explained by low take-up rates of social benefits, which are affected by numerous determinants, including limited awareness of available benefits, complex information channels and application processes, low-income thresholds and the fear of stigmatisation[161]. Nevertheless, not all benefits have the same effect on poverty risk reduction. At their 2022 levels, for instance, even 100% take-up of the cost-of-living allowance (*allocation de vie chère*) and the rent subsidy (*subvention de loyer)*[162], combined with the Childcare Service Voucher (*Chèque-Service Accueil)*[163], would have a very limited effect on reducing the poverty risk among the overall population: the AROP rate would fall by 0.6 pps. By contrast, the impact of the *Chèque-Service Accueil* alone on AROP among single-parent households is significant: 5.2 pps for single-parent households with one child and 8.9 pps for single-parent households with two children or more[164]. In addition to the *Chèque-Service Accueil*, Luxembourg provides other in-kind contributions which are not captured by poverty risk indicators, like free public transport, free schoolbooks, free meals in canteens for students from low-income households, free childcare and main meals during school periods for children subject to compulsory schooling (4 years old by September 1st).

The inequality-reducing effect of taxes and transfers is also relatively low in Luxembourg (34% vs 49% in the EU in 2023). The Commission's 2024 Report on taxation[165] shows that Luxembourg's tax-benefit system does not reduce inequality as effectively as in other Member States. In 2023, Luxembourg had relatively high revenues from personal income taxes as a share of GDP (11.6%). In addition, since 2010, this share has increased from 7.4%, while revenues from corporate income taxes have decreased from 5.4% to 5%.

Wage disparities and the limited inequality-reducing effect of taxes and transfers led to a high share of the

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[157] An overall rise is observed in the Gini Coefficient of Luxembourg between 1996 and 2023, despite some recent breaks in the series. See STATEC, Work and Social Cohesion Report (2024).

[158] In 2021 (according to the latest available Eurostat data), financial and insurance activities represented almost 35% of value added in Luxembourg's business economy, taking the number one position in the EU, ahead of the Netherlands, and around 3 times the EU average. Luxembourg also dominated the EU's financial and insurance activities sector in employment share, with over 12% of its business economy workforce in such sector (around 3 times the EU average).

[159] STATEC, Work and Social Cohesion Report (2024).

[160] Not limited to the financial sector alone.

[161] Franziskus, A., & Guio, A.-C. (2024), Precarity and (non-)Take-Up of Financial Assistance in Luxembourg: A Qualitative Study (LISER study commissioned by the Luxembourg Chamber of Employees, CSL).

[162] The cost of living allowance and the rent subsidy are two monetary transfers included in the household income concept used for the calculation of AROP.

[163] The Childcare Service Voucher is an in-kind transfer and therefore not included in the income concept.

[164] STATEC, Rapport travail et cohésion sociale, 2024, p110

[165] European Commission (2024).

population experiencing in-work poverty. While the in-work poverty rate decreased from 14.8% in 2023 (well above the EU average of 8.3%) to 13.4% in 2024, this share has been consistently higher than the EU average since 2010. In-work poverty particularly affects the non-EU-born, the low-skilled (working in low-wage sectors), as well as single parent households, especially those with dependent children[166]. In 2024, in-work poverty risks affected, for instance, 23.1% of non-EU-born people in Luxembourg against only 4.3% for native people (a gap of 18.8 pps). In-work poverty risks are further exacerbated when the workers in question are on a temporary or part-time contract[167]. Linguistic barriers may also play a role[168]. Finally, the high social minimum wage in Luxembourg is not sufficient to lift people out of poverty, given the high poverty threshold.

Greater poverty risks and inequalities are to be also considered against the background of Luxembourg's high housing costs. According to Eurostat[169], people in Luxembourg spent 19.1% on their homes in 2024. While housing cost overburden has been flagged as a critical issue in Luxembourg for several years, it decreased from 11.5% in 2023 (above the EU average of 8.8%) to 8% in 2024. At the same time, Luxembourg's ranking in the Mercer Cost of Living Survey has steadily climbed from 84th place (out of 226 cities worldwide) to a peak of 47th place in 2024[170]. Housing remains one of the key internal determinants of the cost of living in Luxembourg. The real estate market shows a significant gap between supply and demand. Limited housing availability, coupled with population growth[171], drives up living costs, disproportionately affecting low-income households and especially vulnerable groups. In parallel it should be noted that capital income, including rental income, is considerably higher for the wealthiest 10% of households as compared to lower-income groups, and grew between 2022 and 2023, therefore further contributing to the overall polarisation of household incomes[172].

b) Relevant planned and ongoing policy responses

Several measures have been taken or are being planned by Luxembourg to alleviate poverty. A national action plan to prevent and combat poverty was announced in the 2023-28 coalition agreement, to be defined in consultation with civil society in 2025-26. This plan intends to address the challenges outlined above, including the non-take-up of benefits, with a focus on the most vulnerable. In 2024 and 2025, Luxembourg adopted various measures to fight poverty and to increase households' purchasing power, such as new tax breaks, including the adaptation of the tax scale to indexation, increases in the single-parent tax credit as well as the tax credit equivalent (ECI) for low-income households, and the tax exemption of the minimum social wage. Enhanced minimum wages, pensions and social benefits, such as a permanent 10% increase in the cost-of-living allowance to account for the general price evolution, substantial increases in the energy bonus (in particular to help vulnerable households as the cap on energy prices gradually expires), and the automatic granting of these allowances to recipients of the inclusion allowance (one of the two components of REVIS[173]) in order to reduce administrative barriers also contributed to reducing poverty risks. Other measures involving administration simplification could address the non-take-up of social benefits. These include, for instance, extending application deadlines, producing explanatory material in several languages, easing residency requirements and sending pre-filled forms to beneficiaries of the previous year, as well as the planned setting up of a 'one-stop social desk' (*Guichet social unique*). Moreover, 25% of the total 2021-27 European Social Fund (ESF+) allocation supports the fight against poverty and social exclusion (EUR 3.8 million). A specific priority is dedicated to supporting the free distribution of food and/or basic necessities

[166] Cf. European Commission (2024), Country Report for Luxembourg; cf. also Urbé, R. (2019), European Social Policy Network (ESPN) Thematic Report on In-work poverty in Luxembourg.

[167] Panorama social 2024, Luxembourg Chamber of Employees, CSL.

[168] cf. STATEC, Work and Social Cohesion Report (2024).

[169] Cf. also Eurostat, Housing in Europe, November 2024.

[170] Cf. Mercer 2024 Cost of Living Survey.

[171] Tenant residents were more affected by the inability to make ends meet in 2023 than in 2022 (cf. STATEC, Work and Social Cohesion Report (2024)).

[172] Cf. STATEC, Work and Social Cohesion Report (2024), p88.

[173] Introduced in 2019, the Revenu d'Inclusion Sociale (REVIS) is Luxembourg's social inclusion income, which supports low-income individuals meeting specific eligibility criteria (e.g. aged at least 25 and registered as jobseeker). It includes the Inclusion benefit (basic subsistence aid) and the Activation allowance (for individuals participating in work or training programmes).

as a continuation of the FEAD programme (representing 8% of the total allocation).

In July 2022, the Ministry of Education, Children and Youth published two national action plans in favour of children's rights in Luxembourg. One was the national plan "Together for Children's Rights" (2022-26), responding to a recommendation of the UN Committee on the Rights of the Child and designed to permanently anchor children's rights in the different areas of a child's life. The other was a National Action Plan for the European Child Guarantee, whose goal was to reduce child poverty, improve children's well-being by giving them access to a range of essential services and fight against their social exclusion. In line with the recommendation on a European Child Guarantee and thematic concentration requirements, more than 6% of the total ESF+ allocation is dedicated to tackling child poverty (EUR 0.9 million). The ESF+ supports measures designed to prevent and fight child exclusion and poverty, in particular by ensuring access to quality education for the most vulnerable and promoting long-term integration through education. Through the Technical Support Instrument (TSI), Luxembourgish authorities benefitted from support to strengthen the monitoring and evaluation of policies for children, with a focus on the National Strategy and Action Plan on the Rights of the Child 2022-2026 and the National Action Plan for the implementation of the European Child Guarantee[174].

Numerous measures have been taken to tackle the housing crisis. In 2021, a law was adopted establishing the "Housing Pact 2.0", which was included in Luxembourg's Recovery and Resilience Plan (RRP). It aimed to support municipalities, in cooperation with the State, promoting the development of affordable and sustainable housing, mobilising existing land and residential potential, and improving residential quality. Nevertheless, given that housing costs have continued to rise, the government introduced a new package of measures in 2024. The aim is to facilitate access to housing and support the construction sector through various short- and medium-term measures, such as simplified planning procedures, in a context of growing labour shortages. More households, including vulnerable groups, will be eligible for various aids for renting and acquiring housing. In addition, a series of temporary tax measures target purchasers, owners and investors. The government is considering additional measures to strengthen public-private cooperation in favour of affordable housing and administrative simplification. The impact of these measures will require close monitoring. Moreover, due to a structurally limited housing supply and a high level of income disparity in Luxembourg City, these measures may still be insufficient to sustainably address the housing crisis and reduce its negative impact on the most vulnerable.

2.8.2 Labour market

a) State of play and developments on social convergence risks

Overall, employment levels in Luxembourg have been rising for the past 15 years, with the notable exception of the construction sector. The overall employment rate (20-64) stood at 74.2% in 2024, which is 2.1 pps above the 2020 value. While not reflected in Luxembourg's employment rate, cross-border workers represented 47% of Luxembourg's workforce in Q3-2023[175]. In a context of economic slowdown, the overall unemployment rate increased from 5.2% in 2023 to 6.4%[176] in 2024, above the EU average of 5.9%. While the 2024 employment rate figure was below the EU average (75.8%), it is only 3.4 pps away from Luxembourg's national employment target of 77.6% by 2030, which appears in reach, provided that real GDP growth recovers in 2025 and beyond and is not negatively impacted by labour shortages. According to the European Commission's 2024 Autumn Economic Forecast, real GDP growth in Luxembourg is projected to remain modest in 2024, at 1.2%, before picking up to 2.3% in 2025 and 2.2% in 2026[177]. As regards labour shortages, in October 2024, the share of employers expecting them to limit their production increased above the EU average both in industry (18.5%) and construction (36%). In particular, shortages are reported in the tourism, business services, and ICT sectors.

Some population groups face greater obstacles to labour market integration in Luxembourg, in particular older workers. They have one of the lowest employment rates in the EU (49.4% in 2024, 15.8 pps

[174] Strengthening Monitoring and Evaluation of Children's Rights and Establishing a Sustainable Stakeholder Consultation Mechanism in Luxembourg (2025).

[175] The National Institute of Statistics and Economic Studies of the Grand Duchy of Luxembourg (STATEC)

[176] Please note that there is a low reliability flag for this indicator in Eurostat

[177] European Commission (2024), Autumn Economic Forecast.

below the EU average of 65.9%), albeit increasing from 46.3% in 2023. Moreover, while overall Luxembourg's long-term unemployment rate for the 15–74-year-olds in 2024 (1.6%) was slightly below the EU average (1.9%), almost half of the unemployed aged 55-64 are long-term unemployed, compared with approximately a third for the entire population. The participation of older workers in adult learning (over the previous 12 months) is also lagging behind, with a rate of 27.4% in 2022 (vs 45.2% for Luxembourg overall). Higher participation of older workers in the labour market, by phasing out early retirement schemes, reducing financial incentives to leave the labour market early and via active ageing policies, is important for reaching the 2030 national employment target, strengthening the financial sustainability of Luxembourg's pension system[178] and ensuring inclusive growth.

Persons with disabilities also experience challenges related to their labour market integration. Although the disability employment gap (based on EU harmonised statistics) declined from 23.7 pps in 2023 (above the EU average of 21.5 pps), to 19.1 pps in 2024, it continues to be higher than the 2015 level of 18.4 pps. This may be due, among others, to the lack of adapted workplaces (and adapted training possibilities) and the frequently cited non-compliance of private sector employers with their legal obligation of hiring a certain quota of employees with disabilities (combined with the absence of enforcement mechanisms), particularly during economic downturns[179]. Luxembourg national administrative data (December 2023) points to a disability employment gap of 14 pps, with an employment rate of residents with disability status at 60% (vs 74% for those without disability).[180]

In addition, youth unemployment, particularly for men, is a challenge, which is also related to the fall in job vacancies. The youth unemployment rate (15-24) in January 2025 stood at 21.6%, which was 7 pps higher than the EU average (14.6%), and among the highest in the EU, although on a downward trend since 2021 (16.9%). For men, this was as high as 24.7% (vs 17.8% for women). While Luxembourg has a high enrolment rate in education and training alongside a low share of early leavers, the rate of young people neither in employment nor in education and training (NEETs) aged 15 to 29 still rose from 8.5% in 2023 to 9.8% in 2024, below the EU average of 11.0%. In parallel, the total number of job vacancies fell by 40% in 2023, according to the public employment service[181], following a slowdown of activity, notably in the financial, trade and construction sectors. The largest increases in unemployment were recorded among the most qualified jobseekers (university graduates) and people under 30. Moreover, only 19.7% of 15–29-year-olds combined study and work in 2023 (below the EU average of 25.7%), which may also have affected their transitions into the labour market[182]. Finally, the knowledge of languages in a multilingual context represents a further challenge, notably for the non-EU born and the low-skilled.

b) Relevant planned and ongoing policy responses

Luxembourg has taken or planned some measures to increase the employment rate of older workers. For instance, the self-employed will benefit to the same extent as employees from the combination of an early old-age pension with the income from professional activity, according to a bill that has been sent to the Parliament. The "Future skills" initiative under Luxembourg's Recovery and Resilience Plan (RRP) includes a modest (30%) target for the inclusion of participants aged 45 or over, benefitting a few hundred participants overall. Given the extent of the challenge, there is scope for more systematic action to raise the employment rate of older workers in Luxembourg, for instance via a broader strategy on active ageing, also focusing on health and lifelong learning. Concerning the fiscal sustainability of the pension system, the government is carrying out a large-scale public consultation involving the social partners and civil society. The first phase of the consultation took place between October and December 2024 and a report summarising the key findings[183] was published in January 2025. The

[178] Luxembourg is projected to face the EU's sharpest increase in pensions expenditure by 2070, reaching approximately 17% of GDP by 2070, if no policy change. Cf. 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070), country fiche Luxembourg.

[179] European Semester 2020-2021 country fiche on disability equality: Luxembourg.

[180] https://mt.gouvernement.lu/fr/publications/brochure-livre/minist-travail-emploi/cahier1-salaries-handicapes-luxembourg.html.

[181] https://adem.public.lu/en/actualites/adem/2023/12/c c-2023-11.html.

[182] Cf. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Participation_of_young_people_in_education_and_the_labour_market.

[183] https://gouvernement.lu/fr/gouvernement/martine-deprez/actualites.gouvernement2024%2Bfr%2Bactualites%2Bt

second phase started in February 2025. Furthermore, a public discussion in Parliament took place in March 2025. The expected outcome of the consultation process shall be concrete proposals for a future draft bill.

To reduce the disability employment gap, the National Employment Agency (ADEM) offers monetary support, as well as training options. These include professional internships, adapted workstations, the reimbursement of transport costs, and sometimes "vocational reintegration" employment contracts[184] (also open to workers over 45), which alternate between theoretical and practical training. It can also reimburse some of the costs incurred by employers[185] (e.g., for wages, training, adaptation of workstations, additional yearly leave). In line with the Strategy for the Rights of Persons with Disabilities 2021-30, Luxembourg intends to improve the availability of data and to set up a national target for the employment of persons with disabilities. There is nonetheless still scope for further policy action to reduce the disability employment gap.

Considerable measures have been taken to address youth unemployment, including the implementation of the reinforced Youth Guarantee, supported by ESF+ and REACT-EU. This involves the National Employment Agency (ADEM), the Local Youth Action (ALJ) and the National Youth Service (SNJ). The Initiation to Employment Contract (*Contrat d'Initiation à l'Emploi*, CIE[186]) provides jobseekers under 30, who have registered with ADEM for at least 3 months, with remunerated, on-the-job work experience for around 12 months, thus facilitating their integration into the labour market. In return, employers are reimbursed part of their wages as well as the full employer's share of social security contributions. The Employment Support Contract (*Contrat d'appui-emploi*, CAE[187]) is a similar mechanism but designed for employers who do not have the legal status of a commercial company, like the state, municipalities, public interest establishments, or non-profit institutions.

Several measures have been adopted since 2023 to address labour shortages. These include the introduction of financial support for employers hiring one or more employees in basic vocational training or initial vocational training, as well as measures to facilitate the residency and employment of highly qualified third-country nationals. Specifically for the construction sector, short-time working arrangements were implemented for companies facing difficulties in 2024, where state support enabled a reduction in working hours, allowing companies to retain skilled workers. A new collective agreement, in force since January 2025, increases the attractiveness of the sector via higher wages, possibilities for leaves and professional training. While several measures have been taken, especially in critical sectors, there is scope for further effort.

2.8.3 Education and Skills

a) State of play and developments on social convergence risks

Students' basic skills are significantly below the EU average, with educational outcomes closely tied to the socio-economic and linguistic background. Luxembourg's average competence levels, as measured by the OECD Programme for International Student Assessment (PISA) survey in 2018[188], were significantly lower than the EU average in all three areas tested. The score gap between advantaged and disadvantaged students was the largest observed across Member States. National data show that at the time of starting school, pupils have the essential basic skills to begin acquiring literacy. However, from the start of year 3 of primary school, from the age of 8, when the first-time progress in basic skills is assessed, many pupils' performance in German reading comprehension and mathematics falls noticeably, particularly among pupils from disadvantaged backgrounds[189].

outes_actualites%2Bcommuniques%2B2025%2B01-janvier%2B10-schatz-mat-resume.html

[184] https://adem.public.lu/en/demandeurs-demploi/aides-financieres-mesures/mesures-emploi/contrat-reinsertion-emploi.html.

[185] https://adem.public.lu/en/employeurs/demander-aides-financieres/embaucher-salarie-handicape-ou-reclasse/sh.html.

[186] https://adem.public.lu/fr/employeurs/demander-aides-financieres/embaucher-jeune/cie.html.

[187] https://adem.public.lu/fr/employeurs/demander-aides-financieres/embaucher-jeune/cae.html.

[188] The reference data are from 2018 as Luxembourg did not participate in the latest 2022 PISA survey.

[189] Hornung, C., Wollschläger, R., Keller, U., Esch, P., Muller, C. & Fischbach, A.: Nouveaux résultats longitudinaux issus du monitoring scolaire national ÉpStan en première et troisième année scolaire (cycles 2.1 et 3.1): tendance négative au niveau du développement des compétences et redoublements inefficaces In: University of Luxembourg, Luxembourg Centre for Educational Testing: Bildungsbericht.

Students' digital skills, as measured by the International Computer and Information Literacy Study (ICILS)[190], have improved between 2018 and 2023. In 2018, when digital skills were not yet explicitly integrated into the Luxembourgish education system, Luxembourg's score in the ICILS study was below the average of participating countries. However, among the 35 countries and regions that took part in ICILS 2023, Luxembourg has improved its performance compared to 2018, both in computer and information literacy (CIL) and computational thinking (CT). In particular, in the CIL domain, Luxembourg achieved a score of 494 points, which is above the ICILS average of 476 points, ranking 17th out of 35 countries and regions. In terms of CT, the score was 476 points, slightly below the ICILS average of 483 points, placing Luxembourg 16th out of 23 countries and regions.

Luxembourg has made some limited progress on its ambitious adult learning target, while digital skills levels have deteriorated. Adult participation in learning[191] rose from 42.6% in 2016 to 45.2% in 2022, and was consistently above the EU average in both years (at 37.4% and 39.5% in 2016 and 2022, respectively). It nonetheless remains far (–17.3 pps) from its ambitious 2030 national target of 62.5%, which is 2.5 pps above the overall EU target of 60%. Moreover, in 2022 the participation in learning of older workers was slightly below the EU average (29.0% vs 29.9% in the EU)[192]. At the same time, in 2023, 60.1% of the adult population (16-74) had at least basic digital skills, above the EU average of 55.6% but on a downward trend since 2021 (when it was 63.8%). Moreover, the share of women with digital skills (56.6% in 2023 vs an EU average of 54.5%) is much lower than that of men (63.6% vs an EU average of 56.7%). Overall, skills mismatches stood at 23.0% for Luxembourg in 2023, above the EU average of 19%, and 80% of small to medium-sized enterprises reported difficulties in finding workers with the right skills (vs 78% in the EU). As regards vocational education and training, only one third of recent VET graduates (34.5%) experienced work-based learning in 2023, compared to an EU average of 64.6%.

[190] International Computer and Information Literacy Study

[191] Excluding guided-on-the-job training.

[192] Cf. the European Commission's Education and Training Monitor 2024.

b) Relevant planned and ongoing policy responses

Luxembourg has taken some measures to address educational performance gaps which may have an impact once rolled out in the national school system. In its medium-term fiscal-structural plan, Luxembourg outlines its intention to adopt measures promoting multilingual and inclusive education to reduce the impact of inequality on pupils' performance. A pilot initiative providing literacy education in French was launched in four primary schools in the 2022-23 academic year. In the 2023 coalition agreement[193], the government announced its intention to extend the French literacy option nationwide from 2026-27 if the pilot yields positive results. Another way of addressing the very high linguistic diversity of Luxembourg has been to increase the number of European public schools[194]. Six European public schools have been opened since 2016. Demand has grown significantly, and, in response, three new European public schools will be established by 2028. Overall, there is scope for further action to strengthen the excellence and equity dimensions of the school system.

The Ministry of National Education, Childhood, and Youth has taken important measures to equip young people with the skills needed for their professional and civic future in an increasingly digital society. Since 2020, the development of digital skills has been systematically integrated into school curricula. Coding was gradually introduced into primary education starting in the 2020-21 school year. In secondary education, the Digital Sciences course was progressively implemented from 2021-22, and as of 2024, all lower secondary classes (7th to 5th grade) benefit from this course. The national initiative "einfach digital", which was launched in 2020, is built around four pillars, including the introduction of the Digital Sciences course in the lower secondary levels. This course covers six key themes of digitalisation and digital citizenship, including AI, which is integrated into the curriculum of the Digital Sciences course. The national action plan "secher.digital", launched in 2024, also includes four pillars, which focus on areas such as digital competences and AI in education. The AI strategy in education is an integral part of the

[193] 2023-2028 Coalition agreement

[194] European public schools operate according to the curricula, promotion criteria and schedules of the European school system. They are open to all pupils without tuition fees. They offer five years of European primary education in a French, English or German-speaking section.

country's broader national AI strategy (section "talents & skills"), which is set to be renewed in 2025.

Luxembourg has adopted a number of relevant initiatives in the area of skills, although the "Skills Plang" bill is still pending. The government devised a national skills strategy, included as a reform in its RRP, commissioned a report from the OECD and conducted sectoral studies on trends in future professions and skills requirements. In 2022, Luxembourg launched the Digital Learning Hub, which is a public institution offering flexible, high-quality IT training to help adults reskill or upskill for digital careers and supporting the government's mission to close the digital skills gap. The "Skills Plang" bill was introduced in June 2023 to help companies forecast future job developments and skills needs. It provides for assistance and significant funding (higher for SMEs) to develop up- and re-skilling pathways for businesses and individual training plans tailored to the needs of workers affected by transitions. However, this bill received a negative opinion from the Chamber of Employees and has not yet been passed. In June 2023, the Luxembourg Digital Skills and Jobs Coalition launched the Digital Skills and Jobs platform[195], a one-stop shop for all training and news on digital skills and opportunities in Luxembourg. The ADEM agency has also launched JobInsights.lu[196], which provides real-time data on job openings and labour market trends (particularly in relation to IT skills). There remains scope for further action to address skills shortages and mismatches.

The government announced the launch of a national approach to implement the skills strategy with the social partners and the evaluation and possible adaptation of the employer co-financing scheme and individual training leave. In July 2024, Luxembourg achieved one of the RRP milestones - the "Skillsbridges" vocational training - which will offer around 20 courses, helping adults to adapt to new technologies (upskilling) and facilitating career changes (reskilling). From the 2025-26 school year, up to 800 people should benefit from those sessions. A second edition of the National Action Plan for Digital Inclusion will be developed in 2025 in close consultation with the interministerial working group and civil society.

EU funds have supported several skilling measures. Unemployed people benefitted from the "FutureSkills" investment under the RRP (which also included a target for jobseekers aged 45+). The RRP included vocational training programmes to address skills mismatches in the job market and to promote inclusive growth. The ESF+ cofinances measures promoting lifelong learning in connection with skills needs both for jobseekers and employees, including older workers. Disadvantaged groups are covered via integrated pathways to work, including training and workshops for social and professional reintegration. The "Skills4Job" programme is cofinanced by the ESF+ as an operation of strategic importance and aims to support labour market reintegration. Overall, 36% of the ESF+ allocation targets the development of digital jobs and skills (EUR 5.6 million). Support from the European Regional Development Fund is used to purchase necessary equipment and to promote the national action plan for digital inclusion for the period 2021-25. The Just Transition Fund also supports specific training measures, including reskilling and digital upskilling.

2.8.4 Concluding remarks

The available quantitative and qualitative evidence in this second-stage analysis points to challenges in the area of social protection and inclusion related to the increasing share of people at risk of poverty or social exclusion, including for children, mainly driven by income disparities. A number of factors drive this, including the sectorial composition of the economy, the declining impact of social transfers (excluding pensions) on poverty reduction and the low take-up of social benefits. The limited inequality-reducing impact of the tax and benefit system contributes to the relatively large share of people experiencing in-work poverty risks, notably the non-EU born, low-skilled and single parent households, especially with dependent children. This is to be seen also against the background of the high housing costs in the country. Employment outcomes remain strong but some population groups face greater obstacles to labour market integration, notably older people, persons with disabilities and young people. In the area of education and skills, basic skills are significantly below the EU average, with educational outcomes closely tied with socio-economic and linguistic background. At the same time, adult learning participation is above the EU average, as is the share of the population with at least basic digital skills (though with some deterioration since 2021).

The measures implemented or planned so far, such as the national action plan to prevent and combat

[195] https://digitalskills.lu/.

[196] https://innovative-initiatives.public.lu/initiatives/jobinsightslu.

poverty, administrative simplification to increase the take-up of social benefits, two national action plans in favour of children's rights, the 'Housing Pact 2.0' followed by an additional package aiming to facilitate access to housing, a large-scale public consultation on the pension reform, are expected to help Luxembourg address the challenges identified. This will also crucially depend on their effective implementation.

2.9. Hungary

In the first-stage analysis in the JER 2025, Hungary was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging. In the second stage analysis in 2024, it was found that measures implemented or planned were sufficient to help the country move in the right direction in relation to some challenges, while more efforts were needed to fully address others. The risks identified this year in the first stage concern the area of social protection and inclusion, notably the increasing **at-risk-of-poverty or social exclusion rate (including for children)** and **income inequality**. In addition, in the area of education and skills, the high **share of early leavers from education and training** was also identified as a criticality. Finally, while overall the labour market continued to perform well, potential risks were identified in relation to the increasing **long-term unemployment** and the still high **disability employment gap**.

2.9.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

After improvements over the past decade, poverty or social exclusion risks increased. In the context of sustained economic growth, the share of people at risk of poverty or social exclusion (AROPE) decreased significantly in Hungary from 30.6% in 2015 to 18.4% in 2022. This positive longer-term trend nonetheless reversed in 2023[197] with an increase in the AROPE rate by 1.3 pps to 19.7% (which corresponds to an increase by 122 000 people, after a reduction of 115 000 the year before), still below the EU average of 21.3%. Data for 2024 shows a further increase by 0.5 pps to 20.2%. Overall, by 2023, Hungary reported a decrease of people at risk of poverty or social exclusion by 51 000, compared to the 2019 value of 1 923 000, with a progress of approximately 17% towards the national target of 292 000 fewer people by 2030[198]. The severe material and social deprivation rate among households with dependent children (used by Hungary as its national poverty reduction target) decreased from 22.9% in 2019 to 18.5% in 2023, and 17.4% in 2024. Some groups, notably children, people with low educational attainment, older people, persons with disabilities, people living in rural areas, and Roma were particularly affected. The share of children at risk of poverty or social exclusion significantly increased by 6.3 pps to 24.4% in 2023 (vs 24.8% in the EU)[199], and by 15.1 pps (to 77% vs 61.8% in the EU) in cases of parents with low educational attainment. Both figures improved in 2024, to 21.1% and 69.5%, respectively. In general, low-skilled adults had much higher AROPE rates, as well as in-work poverty rates in 2023 (45.6% and 24.1%, respectively, vs 34.5% and 17.1% in the EU). AROPE rates further increased for them in 2024 (to 46.5%), while the in-work poverty slightly declined (to 23.9%). Among the population aged 65+, the AROPE rate was also above the EU average (21.3% vs 19.7%, reaching 24.7% for women) and increased significantly to 28.5% in 2024 (31.1% among women). AROPE rates among persons with disabilities were above the EU average in 2023 (32.4% vs 28.8%) and further worsened in 2024 (37.1%). In addition, poverty risks increased in 2023 (by 2.3 pps) for people living in rural areas, reaching 26.0% (vs 13.7% for those living in cities and urban areas) and remained broadly stable in 2024 (25.8%). In 2023, Roma were over three times more likely to experience poverty risks (61.7% vs 18.7%).[200] The distribution of vulnerable groups across regions and their different degree of urbanisation resulted in large disparities across the country, with the AROPE rate remaining relatively low (at 11.6%) in Central Transdanubia, and as high as 29.9% in Northern Hungary in 2024.

The share of people in households with very low work intensity has seen a significant reduction, but severe material and social deprivation and monetary poverty have increased. The rise in the AROPE rate was mainly driven by growing severe material and social deprivation rate (SMSD, +1.6 pps to 10.4%) and increasing monetary poverty (+1 pp to 13.1%). In particular, the SMSD rate has been one of the highest in the EU over the last decade for all age groups, and increased significantly in 2023 for people below 29. At the same time, the share of people living in

[197] Social statistics for 2023 are based on income earned in 2022.

[198] HU expresses its national poverty reduction target as a reduction in the material and social deprivation rate for families with children (to 13% by 2030) that can be translated into a reduction by 292 000 of people at risk of poverty or social exclusion by 2030.

[199] This indicator value for 2023 is currently being discussed between ESTAT and the Hungarian national statistical office.

[200] Source: National Statistical Office. National data from KSH.

households with very low work intensity (VLWI) decreased further (-1.2 pps to 4.9%). Data for 2024 show a further increase in monetary poverty (14.7%), while the share of households with very low intensity remained stable (5%) and the SMSD rate decreased (9.3%). In Hungary, the depth of poverty, measured as the gap between the income level of those at risk of poverty and the poverty threshold, was among the widest in the EU in 2023 (29.5% vs 23.1%), after a substantial increase by 10.1 pps from the previous year, possibly related to decreasing effectiveness and low adequacy of social protection in a context of high inflation. It remained broadly stable in 2024 (29.7%). In 2023, 456 000 persons (4.5% vs 3.2% in the EU), including 147 000 children (8.5% vs 4.5% in the EU) and 64 000 elderly people (3.4% vs 2.4% in the EU), experienced monetary poverty and severe material deprivation simultaneously. Of these, 141 000 persons (1.5% vs 1.2% in the EU), of whom 47 000 children, were simultaneously in monetary poverty and severe material and social deprivation, while also living in households with VLWI. Their number further increased in 2024 (to 149 000, of which 50 000 children).

Children and large families face higher deprivation rates. While the share of children in households with VLWI remained stable at 5%, Hungary registered the largest increases in the EU in the at-risk-of-poverty (AROP) and SMSD rates for children (7.1 pps and 3.1 pps, respectively, in 2023). Both figures decreased somewhat in 2024 (to 14.3% and 12.8%) but the SMSD rate remains very high. Monetary poverty risks doubled for families with three or more children (from 12.1% in 2022 to 25%) in 2023), before decreasing to 21.5% in 2024. In addition, the poverty gap for children was at 28.2% in 2024(24.4% in the EU in 2023)).[201]

Income inequality decreased in 2024, after recording some income polarisation between 2007 and 2022. The ratio of income received by the richest 20% of the population to that of the poorest 20% (income quintile share ratio) increased by 0.5 to around the EU average in 2023 (4.5 vs 4.7), but fell to 4.3 in 2024. The highest income inequality was registered in Budapest (4.8). Evidence shows some income polarisation in Hungary between 2007 and 2022, as the income share increased only for the 5th (highest) quintile, while it somewhat decreased for all other quintiles. This is in contrast to the average trend in the EU, where the income shares of the first four quintiles increased and the fifth decreased[202]. In recent years, taxes and social benefits reduced inequality to a much lower extent in Hungary compared to the EU average (32%, vs 49% in the EU in 2023, relatively stable in 2024) and is partly related to the design of the taxation system. Recent inflationary developments (with inflation rates among the highest in the EU, at 15.3% and 17% in 2022 and 2023 respectively) also eroded purchasing power, especially for people outside the labour market. Persistently high food prices over the last few years impacted especially low-income households, for whom food constitutes a larger part of their consumption.

There are gaps in the adequacy and coverage of the social protection system, especially for people that are not in employment. Social protection expenditure continues to be one of the lowest in the EU (16.7% of GDP vs 28.0% in 2022) and the impact of social transfers (excluding pensions) on poverty reduction further decreased (by 2.1 pps) to 34.5% in 2023 (based on 2022 incomes and close to the EU average of 34.7%), before increasing to 35.0% in 2024. In some disadvantaged regions, where unemployment and inactivity rates are higher and poverty is more persistent, social transfers have proven to be less effective in reducing poverty risks (e.g. by 30.2% in Northern Great Plain). In 2024, people (18-64) that are not in employment were four times (27.1%) more likely to face poverty risks than the employed (6.5%). This figure rises to 47.1% for the unemployed. The adequacy of the minimum income[203], at 15.9% of the poverty threshold and decreasing, vs 55.6% in the EU, and 13.1% compared to the income of a low-wage earner, vs 46.1% in the EU in 2022) and of unemployment benefits (at 60% of the previous wage, with a ceiling equal to the minimum wage, for a maximum of three months) are among the lowest in the EU. In the absence of any indexation or other type of adjustment since 2012, the minimum income shrank by 15% in real terms in 2023 as consumer prices grew by 17.6%, and by another 3.5% in 2024. Since 2019, the real value has shrunk by one third. Moreover, unemployment benefits have an average net replacement rate of 6.9% of previous net earnings and cover only 23.8% of those unemployed for less than 12 months (vs 36.6% in the EU). Also, there continue to be gaps in access to social protection for certain non-standard forms of employment, in

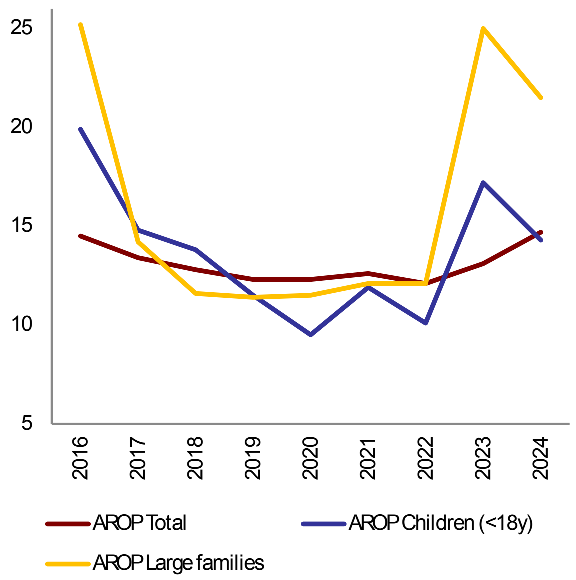
[201] The data for HU for 2023 (64.3%) is currently under clarification.

[202] European Commission: Economic inequalities in the EU. Key trends and policies. July 2024.

[203] FHT – 'foglalkoztatást helyettesítő támogatás'.

particular those in 'simplified contracts' (either casual or seasonal work), who are not covered by sickness and invalidity benefits. When at risk of poverty, the self-employed and temporary contract workers are less likely to receive any social benefits than the rest of the population (7.9% vs 18.0%), as well as compared to their EU peers (7.9% vs 12.7%)[204]. Also, access to social services presents challenges in relation to the provision and financing of long-term care for family members with disabilities and older people (55% of women and 43% of men provide unpaid long-term care in Hungary, compared to 42% and 38% in the EU respectively). Access to social services is particularly challenging in the least developed districts and municipalities.

Figure 114: AROP rates (%)



Source: Eurostat [ilc_li02, ilc_li03].

High housing and energy prices, combined with insufficient availability of social housing, continue to put pressure on households, in particular the vulnerable ones. Following a sharp increase by 5.7 pps between 2021 and 2022, the share of people living in households where total housing costs (including utilities) represent more than 40% of disposable income (the housing cost overburden rate) further increased in 2023 (from 8.1% to 8.7%), but remained close to the EU average of 8.8%, before decreasing slightly to 8.5% in 2024. The housing cost overburden rate for people already experiencing poverty risks climbed from 34.2% to 39.9% in 2023, then fell back to 33.5% in 2024. While over 90% of the households are owners, purchasing or constructing a house has become a challenge. This is partly due to one of the largest increases in house prices (+191%) in the EU between 2010 and 2023. Over the same period, rents increased by 84% (by 25% between 2021 and 2023 alone), which may partially explain the very high housing overburden rate among tenants with rents at market prices (42.5% in 2023 and 40.6% in 2024). Energy poverty (as measured by the share of people unable to keep their home adequately warm) further increased on average, and almost doubled among people at risk of poverty in 2023 (7.2% on average vs 19.3% for people at risk of poverty, with an increase by over 9 pps from 2022). It decreased to 6.1% in 2024 but remains very high in some regions (e.g. 11.7% in Northern Hungary).

b) Relevant planned and ongoing policy responses

There is scope to more effectively alleviate and prevent poverty of people that are not in employment. The government has recently agreed on a three-year plan to further increase the minimum wage. This (at HUF 266 800 – EUR 655 in 2024) shall further increase by 9% in 2025 (to HUF 290 800 - EUR 714 as from January 2025), 13% in 2026 and 14% in 2027, aiming to reach 50% of the average salary by 2027. As from 2023, a 'social reference base' (*szociális vetítési alap*) was established, disentangling social benefits from the minimum old-age pension to which all social benefits used to be pegged. The 'social reference base' was set in 2023 at exactly the same nominal level as the minimum pension though (HUF 28500 – EUR 70). While the widening gap between the amount of the minimum income and the minimum wage provides financial incentives for finding a job, inadequate social benefits generate a precarious situation for vulnerable people that are unable to enter the labour market, with negative consequences for their living conditions, health and access to housing, especially for vulnerable households with children. The Catching-up municipalities initiative, which targets the most disadvantaged municipalities with a high share of children and Roma, has been scaled up. The number of municipalities involved was increased from close to 180 in 2023 to close to 240 in 2024. The scope has

[204] The receipt rate of social benefits (when in poverty before social transfers) is much lower than the EU average among self-employed and temporary contract workers (7.85% and 18% vs EU 12.7% and 39.2%[204]). Source: EU-SILC, extractions to DG EMPL. Monitoring framework for access to social protection, agreed by MS in Social Protection Committee's Indicators subgroup

been broadened: besides social housing, energy poverty, education and employment related actions under the RRP since 2022, social work and healthcare have been reinforced with the support of ESF+ in 2024.

Improving housing affordability is on the government's agenda, though details on concrete measures are yet to be seen. In 2024, the government announced a new economic development programme which also aims to promote affordable housing. It includes a support programme of HUF 20-30 billion (around EUR 5075 million) for the construction of rental and student housing by private investors or housing agencies, starting in 2025. This could be a positive step forward on the condition that a sufficient financial allocation is earmarked comparable to the 2025 budget of HUF 300-400 billion (around EUR 750-1000 million) for CSOK Plusz (which largely incentivises home ownership). In 2025, the Home Renovation Programme and the Rural Family Housing Subsidy focus on renovation and purchase respectively, in rural, small settlements, i.e. settlements with a population of less than 5,000. The Renovation Programme's conditions are more favourable to low-income households, but the grant requires at least 50% own resources or loan and is not targeted. The package also includes further measures supporting low-income families' housing needs. However further details are still to be published.

2.9.2 Education and Skills

a) State of play and developments on social convergence risks

The overall participation rate of children under 3 in formal childcare remains comparatively low, with territorial and social disparities. The share of children under 3 in formal childcare significantly increased from 12.9% in 2022 to 20.3% in 2023. It was nonetheless still 17.2 pps below the EU average of 37.4%.[205] In 2024, the participation rate decreased again to 16.5%, though national data show that the number of children enrolled in nurseries increased in absolute terms (from 55 748 in 2023 to 59 076 in 2024[206]). The increase is partly linked to the 4 800 new ECEC places made available from 2022 to 2023, supported by national and EU funding, resulting altogether in 60 000 places in total by 2023.[207] Hungary provides free-of-charge ECEC services for children eligible for the child protection benefit, but not for all children under 3 living below the poverty threshold, which limits access in light of the high net out-of-pocket costs of childcare[208]. In addition, 47 000 children under 3 (16.7% of the age group) had no ECEC place available in their municipality in 2023 (which was nonetheless by 5 000 lower than in 2022). These factors might contribute to the much lower participation in formal childcare among children under 3 that experience poverty or social exclusion risks (at 10.3% vs 23.6% for those that do not). Overall, low participation can, among others, be explained by issues of availability and access, the generous maternity leave rights, as well as cultural considerations

The persistently high early school leaving rate remains a challenge. The share of 18-24 year-olds who have completed at most lower secondary education and are not involved in further education or training has been around 12% for more than 10 years. It decreased slightly from 12.2% in 2022 to 11.6% in 2023 but remains one of the highest in the EU (EU average: 9.5%). Early school leaving (ELET) was particularly high in Northern Hungary, the Northern Great Plain and South Transdanubia (18.3%, 16.5% and 13.8% respectively), and rural areas were especially concerned (17%). In the northern county Nógrád, the ELET rate even reached 35%[209] in 2023. Roma and persons with disabilities are also more likely to leave school early (58.7% and 46.4% in 2023). The out-of-school rates among compulsory school age 14-16 year-olds (5.7%, 6.4% and 6.8%) are above their respective EU averages (2.5%, 3.2% and 4.7%). Disadvantaged socio-economic background, low educational attainment of parents, low school

[205] Hungary is recommended to achieve a participation rate of 27.2% by 2030, based on the Council Recommendation on Early Childhood Education and Care: 'Barcelona targets for 2030'.

[206] 25.1.2.2. Bölcsődei ellátást nyújtók adatai (bölcsőde, minibölcsőde, munkahelyi bölcsőde, családi bölcsőde) vármegye és régió szerint, május 31. (National Statistical Office)

[207] Approximately 14 000 new ECEC places were made available from 2017 to 2023. This data is based on data from the Hungarian Central Statistical Office:

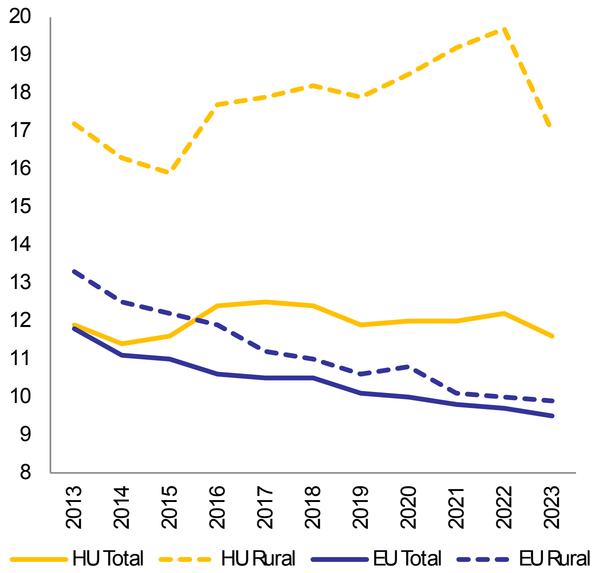
https://www.ksh.hu/stadat_files/szo/hu/szo0009.html

[208] The net out-of-pocket costs of childcare for a low-income household represented between 7% to 12% of the household income in 2023. See Net childcare costs | OECD.

[209] Szemelvenyek_2023.pdf.

performance and school segregation are important factors influencing early school leaving, which can be expected to negatively impact on productivity and competitiveness.

Figure 2: Early leavers from education and training (%)



Source: Eurostat [edat_lfse_30]

The socio-economic background has a significant impact on educational outcomes, and challenges are present in relation to basic skills. In PISA 2022, around one-third of Hungarian students underperformed in mathematics and one-fourth in reading and science, pointing to major quality challenges in education. Moreover, inequalities are among the largest in the EU with more than half of the students (54.9% vs EU: 48.0%) from the bottom quarter of the socio-economic distribution underachieving in mathematics. International surveys (PIRLS, TIMMS, PISA) have repeatedly shown that pupils with similar family backgrounds tend to concentrate more in the same schools in Hungary than in other EU Member States. This is partly due to the territorial distribution of disadvantaged children[210], but also structural features of the education system, such as free school choice in combination with different (including private[211]) school types[212] and related quality differences, as well as early tracking based on academic selection. Hungary has one of the largest gaps in average math performance in PISA between general and vocational programmes, largely due to differences in the socio-economic composition of schools. Pupils' family backgrounds markedly determine their educational performance, including in relation to basic and digital skills. The 2023 International Computer and Information Literacy Study (ICILS)[213] showed that the gap between advantaged and disadvantaged 8th grade pupils' performance in computer and information literacy is among the largest in the EU (53.3 vs 32.8 score points). Low basic skills, including digital skills, negatively influence further learning opportunities and increase labour market vulnerability.

Hungary performed very well on overall adult participation in learning and digital skills, but not on basic skills. Adult participation in learning over the previous 12 months (excluding guided on-the-job training) was one of the highest in the EU in 2022 (62.2% vs 39.5%). Hungary was therefore one of the first to reach its 2030 national target of 60%. Similarly, the share of adults with at least basic digital skills surpassed the EU average in 2023 (58.9% vs 55.6%). In certain groups of vulnerable adults, such as people with low formal education and the unemployed, there are nonetheless larger shares that tend to lack basic digital skills (33.4% and 44.1%, respectively) and participate less in learning (42.1% and 20.7%) compared to the rest of the population. This is a challenge, also because adults performed worse than the EU average[214] in basic skills (PIAAC survey 2022-23)[215]. Young adults aged 16-24 still enrolled in initial education or who completed it only recently scored especially low[216], hinting at potential issues with the quality of the education system. The share of low achievement among adults both in literacy and numeracy is also higher than the EU average[217] (24.1% vs 21.8%). There is therefore scope for further strengthening the quality and inclusiveness of the

[210] Helyzetkép | 2023.

[211] According to the Eurostat definition, private educational institutions include both government dependent and independent private schools.

[212] The share of children in private early childhood education institutions increased from about 8% in 2013 to 13% in 2022, and over two-thirds of general upper secondary schools were private in 2022-23. See Eurostat[educ_uoe_enrp01].

[213] https://data.europa.eu/doi/10.2766/5221263.

[214] The EU average has been calculated by the Commission services, based on the weighted average of participating EU Member States and regions.

[215] Source: Survey of adult skills 2023.

[216] Hungarian 16-24 year olds performed on average between 9-13 score points lower than the EU average. 28% of young people were low-achievers, which is one of the highest rates among participating EU countries.

[217] OECD (2023) Do Adults Have the Skills They Need to Thrive in a Changing World?

education system and upscale upskilling measures for adults.

b) Relevant planned and ongoing policy responses

Steps have been taken to improve the availability of childcare for children under 3, yet there is further scope to strengthen its affordability, accessibility and quality. Complementing investments into new creche places funded by the Recovery and Resilience Facility and cohesion policy funds, the action plan 2025-26 of the gender equality strategy, adopted in December 2024, commits to carry out a survey in 2026 to assess demand for creche places and to draft an investment plan for the creation of additional places and the recruitment of additional qualified staff based on needs. Using ESF+ funding, priority will be given to the creation of development rooms adapted to the early development of children with special needs, and to coordination between services to ensure that crèches are adequately equipped to provide personalised early development support to children. The planned needs analysis and developmental care service could be a first step toward a regular monitoring of the availability of creche places and improving quality care for children with special development needs. Besides the ongoing ESF+ supported scholarship programme for those enrolled in training, to attract highly qualified professionals in ECEC, Hungary is currently not planning new measures to improve staff quality in ECEC for age groups 0-3.

The teachers' salary reform is an important step forward, increasing the attractiveness of the profession and potentially the quality of education. The government launched a significant teacher salary reform in 2024-25, using ESF+ funding, which is estimated to result in average teacher salaries reaching 80% of an average tertiary graduate worker's salary in January 2025, committing to maintain this level at least until December 2030. As a first step, a 32% average increase was implemented in January 2024, followed by another 21% increase in January 2025. In addition, teachers who work in disadvantaged municipalities or in schools with a high share of disadvantaged pupils, and apply inclusive educational methods receive a 20% salary top-up. Novice teachers, who earned around half of other newly employed tertiary graduates in 2021, received an at least 10 pps higher salary increase than the average teacher between 2023 and 2025. In vocational education and training, trainers' salaries were also increased from national funds. ESF+ funding is also allocated to teachers' digital skills development as well as to improving their pedagogical skills using digital tools in teaching, especially for basic skills development in general primary and secondary education. Over 10 000 teachers are expected to acquire such skills by 2029.

More structural changes are needed to improve equity and prevent early school leaving. Legislation (law XCII) was adopted in 2023 to reduce educational segregation of disadvantaged pupils. This sought to penalise schools with a significantly lower share of pupils from disadvantaged backgrounds compared the local average. The effectiveness of this measure will require close monitoring. Despite the persistently high early school leaving rate and the high share of low achievers in basic skills, projects meant to provide individualised learning aid and inclusive educational methods, as well as support for preventing school drop-out, have still not been started. This has left around 700 primary schools and multiple VET schools without support. At the same time, to avoid school drop-out without any qualification at the end of compulsory schooling (age 16 in Hungary), the entry age to workshop schools ('Műhelyiskola' - a second chance programme) was reduced from age 16 to 15 in 2023. Nevertheless, only part of 'Műhelyiskola' pupils continue their studies, others enter the labour market, or become unemployed or inactive. The full impact of 'Műhelyiskola' and the reduced entry age are still to be seen.

Adult learning is a clear policy priority in Hungary; there is further scope to make it more accessible for vulnerable groups. The details of a new adult education fund were laid out in the adult education law and its implementing decree at the end of 2024, but the fund is expected to be available from 2027. This will cover information and awareness raising, adult training programmes, the adult learning information system, the VET and adult training career tracking system, the development of the system of micro-credentials in non-formal adult training, the adult training actions of the Innovative Training Support Centre IKK, as well as trainings increasing employability, and the digitalisation of adult trainings. The amount allocated to the fund is yet to be announced. Based on the results of the proof of concept developed under the TSI[218], the piloting of individual learning accounts (ILA) in 2025, with the

[218] "Development and Implementation of the Individual Learning Accounts in Hungary".

support of ESF+, is being discussed but not yet decided. Consultation of stakeholders on the ILA project plan will be important, as well as ensuring that ILAs are accessible for all, including vulnerable groups. Legislation on the use of micro-credentials in adult learning, adopted at the end of 2024, could effectively support lifelong learning, upon condition that the use is simple, trusted, widely known and accessible to all. There is further scope to encourage vulnerable groups to participate in re- and up-skilling.

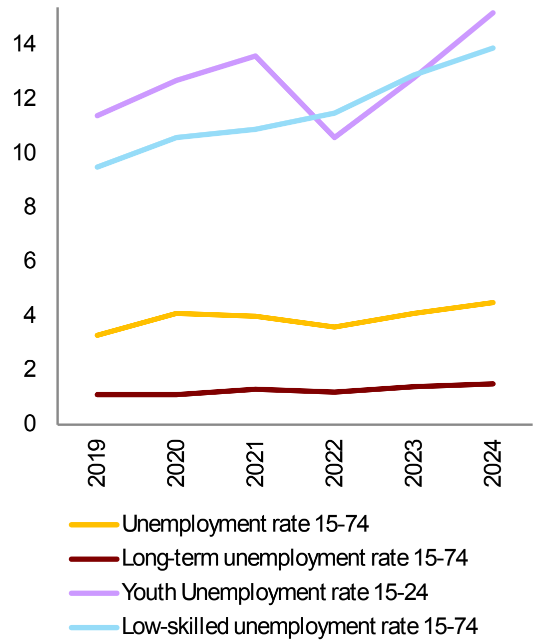
2.9.3 Labour market

a) State of play and developments on social convergence risks

While Hungary's labour market performs well overall, there is still scope for improvement for some vulnerable groups. Despite a challenging economic context resulting in GDP decline in 2023 and only marginal growth in 2024, the overall employment rate increased further to 81.1% in 2024, 3.9 pps below the ambitious national employment rate target of 85% set for 2030. Despite improvements, people with low educational attainment had a significantly lower employment rate of 59.9% in 2024, while the youth employment rate (15-24) (27.2% in 2024) has yet to fully recover from the COVID-19 crisis. In contrast, the 55-64 age group experienced an increase in their employment rate by 13.5 pps since 2019, reaching 70.4% in 2024. The share of working pensioners aged 65 or over has also been increasing in recent years, reaching 10% in 2023. This may be partly explained by legal provisions on lower social security contributions both for working pensioners and their employees and may also be partly related to the pressures related to the cost of living, amid an increase in material and social deprivation among non-working pensioners (18.6%), which in turn is possibly linked to a very low minimum pension and one of the highest inflation rates in the EU in 2022 and 2023.

The unemployment rate is well below the EU average, but the recent increase, in particular of its long-term component and for young people, is to be monitored. The unemployment rate was still well below the EU average in 2024 (4.5% vs 5.9%), having increased from its recent low point of 3.6% in 2022, against a slightly decreasing EU rate during the same period. This rise is primarily related to an increase in the unemployment of the youth (15-24) and of people with medium educational attainment. A similar upward trend was visible for long-term (LTU) and very long-term unemployment, both having increased by around 27% in absolute numbers between 2022 and 2024, affecting men more than women. During this period, contrary to the improving EU trend (from 2.4% to 1.9%), Hungary's LTU rate increased from 1.2% to 1.4% in 2023, followed by a slower increase of 0.1 pps to 1.5% in 2024 (not among the largest in the EU anymore). Overall, the LTU rate remained well below the EU average, and quarterly data shows that it slightly decreased in Q4-2024. The LTU-to-unemployment ratio remained rather stable (compared to the downward EU trend), which could suggest difficulties in reintegrating the long-term unemployed in the labour market.[219] The unemployment rate among people with low educational attainment was above EU average in 2024 (13.9% vs 11.6% in the EU), and it was more prominent among young low-skilled women. Overall, unemployment rates were also characterised by regional differences, with higher rates in three of the four most disadvantaged regions, where a high share of population has low educational attainment.

Figure 3: Unemployment rates (%)



Source: Eurostat [une_rt_a, une_ltu_a, une_educ_a].

The disability employment gap decreased but remained high. While a 2.8 pps decline was recorded in 2023, the disability employment gap was still among the highest in the EU (29.6 pps, vs EU 21.5 pps

[219] At the same time, the spending on active labour market policies as a percentage of GDP has been decreasing over recent years and, at 0.2% in 2022, remains significantly below the EU average of 0.6%. Compared to 2021, the participation rate in active labour market policy measures nearly halved in Hungary in 2022 (from 72.5% to 37.3%).

in 2023, and 27.2 pps in 2024). The COVID-19 crisis seems to have more durably interrupted the previous (2016-19) trend of convergence to the EU average. Persons with disabilities were significantly more likely to be unemployed than the average in 2022 (9.8% vs 3.6%), with more than half of them unemployed for at least 12 months. The NEET rate among young persons with disabilities is also one of the highest in the EU (67.4% vs 31.6%). In addition, 32.2% of inactive people (15-64), who were willing to work were out of employment in 2023 due to own illness or disability and care for adults or children with disabilities, corresponding to approximately 31 000 people or 0.5% of the population.

Social dialogue remains limited. The overall framework of social dialogue is still weak due to a fragmented plethora of fora of employers' and employees' representations with different memberships and functions. The current tripartite body of the private sector (VKF) was improved somewhat in 2023 with the establishment of an ad-hoc group to discuss ALMPs, though the body has limited possibilities to influence or change the government's plans. The public sector has seen a gradual erosion of workers' rights in recent years, including restricting teachers' right to strike, abolishing the army trade union and allowing the possibility of associations of army workers. The removal of the public employment status ('köozalkalmazott') for some public employees and the establishment of a separate employment status for certain other groups of public employees weakened their ability to defend their collective interests, as in some cases it led to collective agreements becoming void and having to be renegotiated. The two relevant fora in the public sector barely function, having had no meetings in 2024.

b) Relevant planned and ongoing policy responses

There is room for improvement in providing integrated services to address the needs of the long-term unemployed. The 2021 legislation on the Public Employment Service (PES) reduced access to active labour market services. The legislation decreased support to training and made it impossible for the PES to procure labour market services from external providers, without ensuring additional personnel for own services provision. The recent 2024 legislative amendment now enables PES to play a more prominent role in the provision of labour market trainings. Insufficient availability of quality training providers might appear as a challenge. Less than one in three people who leave long-term unemployment remained in employment for more than 6 months in 2021, against an EU average of 65.8%.[220] In 2024, Hungary launched 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 for wages (for up to 9 months) and 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 an incentive to remain in employment, for up to 9 months. As of 2024, the ESF+ co-funded large-scale active labour market programmes also targeting, inter alia, long-term unemployment.

A new legal basis for the private sector tripartite forum makes its functioning more transparent, but there is ample scope for a more systematic involvement of social partners in policy making. The government adopted a legal basis[221] for the institutional framework for the tripartite forum of the private sector ("VKF") in autumn 2024. It gives consultative and advisory power to VKF in questions related to the minimum wage and national tripartite negotiations, as a response to the transposition of the minimum wage directive. This is an improvement from the previous arrangement, when VKF was only governed by the rules of procedure signed by the parties, to a more transparent and legally binding framework. Hungary is supporting social partners in building capacity, mainly through ESF+.

2.9.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges in the area of social protection and inclusion related to an increased share of the population at risk of poverty or social exclusion, including for children, and increased income inequality. Poverty risks are also higher for the low-skilled, older people, people living in rural areas, persons with disabilities and Roma. This is partly related to adequacy and coverage gaps in the social

[220] Source: Data collection for monitoring the integration of the long-term unemployed into the labour market 2021. Hungary. Ministry for National Economy. (In 2022, Hungary did not provide relevant data.)

[221] 308/2024. (X. 24.) Korm. rendelet - Nemzeti Jogszabálytár.

protection system, especially for people not in employment. In the area of education and skills, challenges are identified in relation to the high rate of early leavers from education and training, basic skills levels impacted by the socio-economic background, and the concentration of low-performing pupils in certain schools that reinforces socio-economic disadvantage. At the same time, Hungary performed very well on digital skills and adult participation in learning. Overall, there is scope for further efforts in relation to making training more accessible to vulnerable groups. The labour market is strong overall, but there remains scope for improvement for some vulnerable groups, including persons with disabilities that experience a high employment gap. Social dialogue remains limited, which can negatively impact on the labour market functioning.

The measures implemented or planned so far, such as the minimum wage increases, the teacher salary reform, and the job trial pilot programme, are expected to help Hungary move in the right direction. This will also crucially depend on the effective implementation of planned measures and better support to vulnerable groups.

2.10. ROMANIA

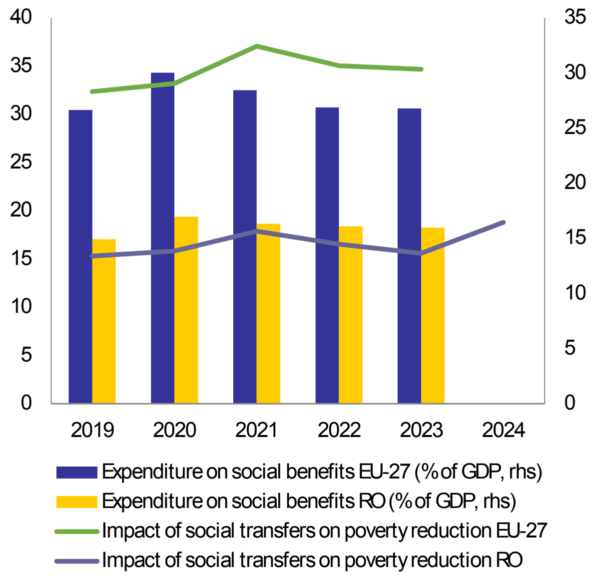
In the first-stage analysis in the JER 2025, Romania was identified as facing potential risks to upward social convergence based on 10 headline indicators of the Social Scoreboard flagging. In the second stage analysis in 2024 it was found that more efforts were needed by the country to fully address the challenges in relation to health, long-term care, education, social and labour market services. The risks identified this year in the first stage concern the area of social protection and inclusion, notably the low **impact of social transfers (excluding pensions) on poverty reduction**, high **self-reported unmet needs for medical care** and **income inequality**. In addition, while the labour market is improving, the low **employment rate**, as well as the high **share of young people neither in employment nor in education and training (NEET),** high **gender** and **disability employment gaps** were also identified as criticalities. Finally, in the area of education and skills, potential risks were identified in relation to the low **participation of children under the age of 3 in formal childcare**, the high **rate of early leavers from education and training** and low and declining **share of people with at least basic digital skills**.

2.10.1 Social protection and social inclusion

a) State of play and developments on social convergence risks

Poverty and social exclusion are declining, but significant challenges remain for children, vulnerable groups and those living in rural areas. Romania's continued above-average economic growth has helped reduce disparities in recent years. The share of people at risk of poverty or social exclusion (AROPE) has decreased by 16.6 pps between 2015 and 2024. In 2024, the AROPE rate declined by 4.1 pps reaching 27.9%. Yet, the rate remains one of the highest in the EU (32.0% vs 21.3% in 2023). AROPE rates are much higher in rural areas (41.7%) compared to cities (14.3%), and this gap has remained stable for the last 10 years. People living outside the capital region face much higher risks (39.7% in the South-East vs 12.0% in Bucharest-Ilfov in 2024), driven by limited economic opportunities and access to essential services. Due to their vulnerable position on the labour market and in some cases limited access to social protection, the risks are higher for the low-educated (54.7%), part-time workers (55.7%), and the self-employed (60.4%). Despite some progress, persons with disabilities still face significantly higher poverty risks in 2023 than in the EU on average (394% vs 28.8%). Unemployment increases risks significantly: quasi-jobless households faced a rate of 83.3%, which is higher than in the previous year (82.8% vs 62.9% in the EU in 2023). In 2021, the number of Roma at risk of poverty (AROP) was 78%, 8 pps higher than in 2016. While the child poverty rate in Romania decreased significantly from 41.5% in 2022 to 33.8% in 2024, it remains among the highest in the EU (39.0% vs EU: 24.8% in 2023). Children, particularly those in households with low-educated parents or with three or more dependent children, are especially vulnerable. The depth of poverty in Romania decreased by 10.1 pps compared to 2023. In 2023, the median income of those at risk of poverty was 37.4% lower than the national poverty threshold, compared to 23% in the EU. Overall, the number of people at risk of poverty or social exclusion declined by around 1.7 million since 2019 (reaching 5.3 million in 2024). This progress brings Romania closer to its national target of reducing the number of people at risk of poverty or social exclusion by 2.5 million, including 500 000 children, by 2030. However, maintaining this progress would require additional efforts as Romania still faces one of the highest levels of depth of poverty in the EU.

Figure 115: Impact of social transfers on poverty reduction and Expenditure on social benefits (%)



Source: Eurostat [tespm050, spr_exp_func].

Despite recent improvements, income inequality remains relatively high. In 2024, the income of the richest 20% of the population was 4.6 times higher than that of the poorest 20%, 1.2 pps lower than in 2023, when, at 5.8 (vs 4.7 in the EU), it was one of the highest in the EU. This reduction was largely driven by the rising incomes for the lower and middle-income groups, which increased their income share. Yet, the benefits of robust economic growth were not always distributed equally among the entire population. Limited access to quality education and early childhood education and care - especially among low-income families - perpetuate inequalities, while low labour market participation and limited collective bargaining contribute to in-market inequality with one in four workers being a low-wage earner[222]. Additionally, redistribution has a limited impact on reducing inequality, with social transfers and taxes reducing inequality by just 40%, compared to 49% in the EU[223].

In Romania, wage growth has been strong, but in-work poverty remains high. Nominal wage growth is expected to reach 9.9% in 2025, after 18.2% in 2023 and 12.8% in 2024[224]. Wage growth was well above the EU average for some years, which has raised questions about cost-competitiveness. Real wages have been growing at a rapid pace and above the EU average, after a mild growth in 2022. Statutory minimum wages also increased by 45% between January 2022 and July 2024, corresponding to a rise of close to 18% in real terms. At the same time, wage levels remain relatively low and in-work poverty is relatively high (10.9% in 2024). In 2023, in-work poverty was among the highest in the EU (15.3% vs EU 8.3%).

The social protection system remains ineffective in alleviating poverty risks and inequalities due to insufficient coverage and low adequacy. In 2024, the impact of social transfers (excluding pensions) on poverty reduction improved by 3.2 pps reaching 18.8%. Yet, it remains one of the lowest in the EU (15.6% vs 35.7% in the EU in 2023). The design of the taxation system also leads to a reduced ability of the system to redistribute income. Expenditure on social protection is also among the lowest in the EU (12.8% of GDP in 2023 vs 19.2% in the EU), with a small share allocated to social assistance and unemployment benefits, which reduces its efficiency. The share of the working-age population at risk of poverty and in quasi-jobless households receiving social benefits increased by 17.1 pps to 86.8% in 2024 compared to the previous year. Workers in non-standard forms of employment (including casual and seasonal workers) and, to some extent, the self-employed, nonetheless receive minimal coverage. Less than 10% of those in employment and at risk of poverty (before social transfers) received benefits in 2023, with the rate falling below 5% for self-employed individuals at risk of poverty. Only 7.9% of unemployed (since less than 12 months) received benefits in 2023 (vs 35.2% in the EU). The adequacy of the social assistance system is similarly low. In 2022, households receiving minimum income benefits had a net income of only 9.9% of the at-risk-of-poverty (AROP) threshold, and only 7.8% of the net income of a low-wage worker (EU averages: 55.6% and 46.1% respectively). When comparing the disposable income of households that rely on minimum income solely (without any income from work) with the at-risk-of-poverty (AROP) threshold, Romania had one of the lowest rates of support in the EU in 2023[225]: around 6% for a single adult household and 21% for couples with two children. As concerns the pension system, the aggregate pension replacement ratio (excluding other social benefits), defined as the gross median individual pension income (for the age group 65–74) relative to gross median individual earnings from work (for the aged 50–59), was 0.46 in 2023 (EU average in 2023: 0.58). In 2023, the severe material and social deprivation rate (SMSD) for the 65+ was one of the highest in the EU (23.7% vs 5.5% EU average). In 2024, this rate decreased by 4.1 pps reaching 19.6% but remains higher than for the working-age population (15.2%). Demographic trends are likely to put financial pressure on the pension system, which is increasingly relying on longer working careers to ensure its adequacy and fiscal sustainability.

Romania made progress regarding access to affordable housing but poor housing conditions remain a challenge for many households in Romania. In 2024, 4.7% of the population faced housing costs that exceeded 40% of their total disposable income (net of housing allowances), which is 4.4 pps lower

[222] Economic inequalities in the EU - Key trends and policies, p.26 Publications catalogue - Employment, Social Affairs & Inclusion - European Commission

[223] Economic inequalities in the EU - Key trends and policies, p.10 Publications catalogue - Employment, Social Affairs & Inclusion - European Commission

[224] For nominal wage growth, compensation per employee is considered. It includes: i) Wages and salaries payable in cash or in kind; and ii) Social contributions payable by employers. For real gross wages, the deflator used is HICP. Real wages using this deflator then can differ from real wages shown in AMECO (that uses private consumption as deflator). Data for 2024 and 2025 are based on the European Commission Autumn 2024 economic forecast.

[225] Source: Proposal for a JER 2025 Report, based on own calculations based on output from the OECD tax-benefit model, model version 2.6.3, and Eurostat [ilc_di03], EU-SILC. https://commission.europa.eu/publications/2025-european-semester-proposal-joint-employment-report_en

than in 2023, where the rate was close to the EU average (8.8% in 2023). The housing cost overburden was higher among those experiencing poverty risks (16.3%) and in rural areas as compared to cities (5.8% vs 4.3%). Moreover, 37.2% of households in Romania consider housing costs as a heavy financial burden, compared to 31.8% in the EU. In 2024, 40.7% of people lived in an overcrowded household. This marks no progress compared to 2023 where the figure was significantly above the EU average (40.0% vs 16.8% in the EU), with 50.9% of those at risk of poverty affected in 2023 (vs. 29.7% in the EU). Despite continuous improvements, Romania still had one of the highest severe housing deprivation rates[226] in the EU, particularly in rural areas (14.5% vs 3.5% EU in 2023), and for households under the poverty threshold (26.2% vs. 9.9% EU in 2023). This is largely due to inadequate infrastructure, limited access to services, and the marginalisation of certain communities, especially in informal settlements. Many Roma households live in unsatisfactory conditions, with two in three Roma households living in overcrowded dwellings or homes without tap water[227]. In 2024, the share of the population unable to keep their homes adequately warm fell by 1.7 pps to 10.5%, down from 12.5% in 2023 (EU: 10.6%). However, the rate remains significantly higher for people at risk of poverty (20.8% in 2024), though the gap has recently narrowed. Similarly, 14.5% of people faced arrears on utility bills in 2024, an increase of 7.2 pps since 2021. This rate is much higher than the EU average, which remained nearly constant between 2021 and 2023.

Challenges persist in meeting the medical and long-term care (LTC) needs of the population, arising from the hospital-centred system, limited availability of LTC services, and labour shortages in the health and long-term care sectors. Significant progress has been made over the past year in reducing the share of the population reporting unmet healthcare needs. In 2024, this share stood at 2.2%, down from 5.2% in 2023, which was more than double the EU average of 2.4%. Nearly 75% of respondents cited costs as the main factor behind unmet healthcare needs. Romania recorded one of lowest shares of the overall economic output allocated to health in the EU (4.7% of GDP in 2023 vs 7.3% in the EU). This spending is primarily concentrated on inpatient services, rather than outpatient care. Conversely, out-of-pocket healthcare expenditure (21.4%) is relatively high (vs 14.7% in the EU) and on an upward trajectory since 2019. Access to healthcare is limited in the poorer regions and for vulnerable groups, largely due to high costs, and insufficient infrastructure and staff. In the South-East region, unmet medical needs are nearly nine times higher than in the West (5.2% vs 0.6% in 2024). Among the Roma community, 58% lack medical insurance, nearly five times the national average of 12%, and many have not used healthcare services in the past five years[228]. Lack of awareness and discrimination contribute to their limited access to care [229]. Workforce shortages further exacerbate the situation. Romania has more medical and nursing graduates per capita than the EU average, but fewer practicing physicians (3.5 per 1 000 people in 2021 vs 4.1 in the EU), often due to labour migration. The distribution of healthcare staff is uneven, with 7.7 doctors per 1000 people in Bucharest/Ilfov vs 1.7 in South Muntenia in 2022. Romania has one of the highest rates of self-reported LTC needs (56.5% vs 26.6% in the EU in 2019)[230], but one of the lowest homecare coverage rates (4.7% of people aged 65+ used home care vs 28.6% in the EU in 2019)[231]. In addition, there are territorial gaps in access, with rural and remote communities often relying on scarce, undersized and low-quality services[232]. Access to formal LTC is hampered by the shortage of qualified staff (0.6 workers per 100 people aged over 65 vs 3.2 in the EU), resulting into a high reliance on informal carers[233]. Non-residential community-based care is scarce and not affordable, delaying the deinstitutionalisation and transition to independent living of persons with disabilities. As of November 2024, out of 124 centres providing services to persons with disabilities, only 4 were in rural areas, and 6 out of the 41 counties lacked a registered centre on their territory[234].

[226] Severe housing deprivation rate - Statistics Explained

[227] Fundamental Rights Agency, Roma Survey 2021

[228] Fundamental Rights Agency, Roma Survey 2021.

[229] ERGO Network, Roma access to adequate healthcare and long-term care, 2022.

[230] Eurostat, European Health Interview Survey (EHIS wave 3), 2019 [hlth_ehis_ic1e]

[231] Eurostat, European Health Interview Survey (EHIS wave 3), 2019

[232] Romania Ministry of Social Affairs, Report on the implementation of the Council Recommendation on access to high quality and affordable long-term care.

[233] Eurostat, EHIS wave 3, 2019. Special extraction based on variable [hlth_ehis_ic1e]

[234] Romanian Government page – ADD description.

b) Relevant planned and ongoing policy responses

Romania has put in place an ambitious strategic framework to address its social challenges. This includes the National Strategy on Social Inclusion and Poverty Reduction 2022-2027[235], and sectoral strategies targeting specific vulnerable groups[236] (children, homeless people, people with disabilities, elderly) or domains (health, employment, housing). Their effective implementation should be ensured, with additional efforts needed to improve the efficiency of social protection and the outreach to the most vulnerable.

The authorities implemented measures to alleviate poverty, with many of these initiatives supported by EU funding. With ESF+ support, between 2022 and 2024, 2.5 million social cards provided food aid to deprived families. This measure is set to continue over 2025-27, with a different value of the social vouchers[237]. An energy voucher scheme supported vulnerable households to reduce energy costs in 2023. Additionally, a scheme consisting of social protection measures for vulnerable energy consumers has been running since 2021 to alleviate heating costs during the cold season (house heating aids) and throughout the whole year (energy supplement) supported by the national budget[238]. Since temporary support intensity is set to decrease from 2025, it is important to consider longer-term actions for the most deprived. In March 2024, the social reference indicator (SRI), which determines most social benefits, was increased in line with the inflation rate of 10.4% recorded in 2023 and will continue to be indexed annually. Under recovery and resilience plan (RRP) commitments, the Minimum Inclusion Income (VMI) program, introduced in January 2024, aims to improve the adequacy and effectiveness of social assistance for vulnerable groups, combined with support services. A new public pensions law, effective since September 2024, increases the adequacy of low and medium pensions and the social indemnity for pensioners, with additional legislation to support persons with disabilities. Yet, additional policy steps would be needed to address long-term demographic trends and maintain fiscal sustainability and adequacy.

To mitigate the impact of poverty on children, Romania is implementing the European Child Guarantee under its November 2023 action plan. The 2024 European Child Guarantee (ECG) progress report highlights advances, such as free healthy school meals, but improving services for children in rural areas remains essential. The implementation of the ECG plan is supported by EU cohesion policy funds and the Recovery and Resilience Facility. This includes the creation of day-care centres, complementary services and creches, educational aid, material support for deprived children and families, and integrated community services. More targeted measures for families in rural and marginalized urban areas could significantly reduce poverty and social exclusion.

Romania has taken steps to improve the quality of social services. In 2024, it adopted a reform to enhance the financing and quality of social assistance and care services as well as the protection of beneficiaries[239]. The reform is underpinned by measures included in the RRP, such as the operationalization of the National Strategy on Preventing the Institutionalisation and Accelerating De-institutionalisation of Adults with Disabilities 2022-30. Its success depends, however, on appropriate institutional structures, sufficient funding and the timely adoption of secondary legislation and procedural frameworks. Around EUR 2.5 billion from the European Social Fund Plus (ESF+) is available to enhance service accessibility and quality, such as day care and mobile support for older adults, assistive technologies for persons with disabilities, and improved long-term care. Under the Social Inclusion and Dignity Programme for the period 2021-2027, integrated social, health, and educational services are being scaled up to reach 2 000 disadvantaged rural communities. The effective implementation of these measures requires strong cooperation across government levels and stakeholders.

[235] Strategia naţională privind incluziunea socială şi reducerea sărăciei pentru perioada 2022—2027 (mmuncii.ro)

[236] National Strategy "Protected Children, Safe Romania" 2023-2027; National Strategy for the Inclusion of the Homeless 2022-2027; National Strategy on Preventing the Institutionalisation of Adults with Disabilities and Accelerating the De-institutionalisation Process; National Strategy on Long-Term Care and Active Aging 2023-2030; National Health Strategy; National Strategy for Employment 2021-2027, including its 2021-2027 Action Plan.

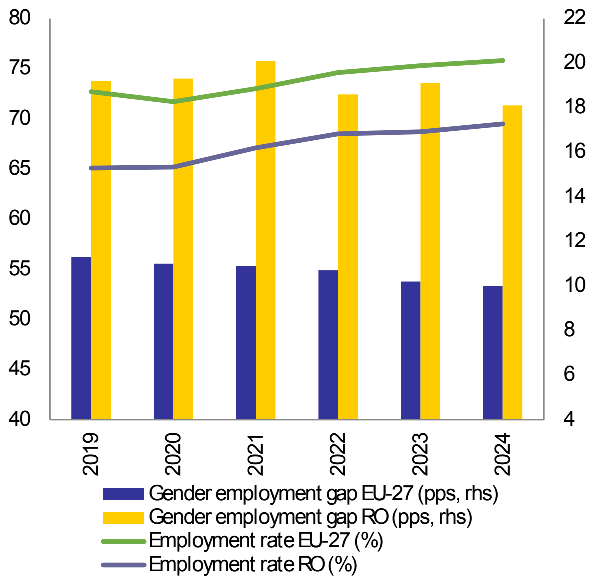
[237] GEO no. 115/2023 and GD no. 70/2024.

[238] Law no. 226/2021 providing social protection measures to vulnerable energy consumers

[239] Law 100/2024

Romania has launched initiatives to improve housing affordability and availability. Cohesion policy funds are directed towards the construction and renovation of energy-efficient and social housing, as well as supporting local authorities in regulating informal settlements. As part of the RRP, the National Housing Strategy, launched in 2022, has set ambitious targets for the reduction of housing deprivation, housing overcrowding, and the proportion of people in urban informal settlements by 2026. RRP investments also support new housing for young people and healthcare and education professionals in marginalised communities, as well as building renovation to address energy poverty. Better housing market regulation and inclusive zoning policies requiring a minimum share of affordable or social housing in new developments could further help address housing challenges. The TSI is also providing support to strengthen the capacity of central and local authorities to coordinate and integrate housing and social services[240].

Figure 2: Employment rate and Gender employment gap (%, pps)



Source: Eurostat [lfsi_emp_a, tesem060].

The National Health Strategy and Romanian Health Programme aim to strengthen the resilience of the healthcare system and improve access to care. The National Health Strategy coordinates the implementation of national and EU-funded measures under the cohesion policy and the RRP, to enhance the availability, quality and resilience of the health system. The Romanian Health Programme relies on significant ERDF resources, (EUR 1.6 billion), for investments in health infrastructure and equipment, as well as ESF+ support (EUR 650 million) for human-resources, screening programmes, vaccination, reproductive health, and improving the first level of care/primary care. The Health Programme is complemented by major reforms and investments in pre-hospital medical infrastructure and public hospital infrastructure under the RRP. Investments in pre-hospital medical infrastructure include the renovation and equipping of at least 2 000 family doctor practices, as well as the construction, renovation, or equipping of 200 integrated community centres, among others. Investments in public hospital infrastructure include the construction of 19 new public health units and hospitals and equipping 25 public hospitals to reduce the risk of hospital-acquired infections. Reforms are designed to improve the functioning of the health system by increasing the management capacity for public health funds, investments in infrastructure and human resources in health. The TSI is providing expertise to develop a digital competence framework for health professionals to support the use of digital tools and services[241]. Additionally, the Long-Term Care strategy aims to help older people live longer independently and improve access to LTC services for those in need. The timely implementation of measures is crucial for improving healthcare and long-term care access, especially for vulnerable people.

2.10.2 Labour market

a) State of play and developments on social convergence risks

While improving, the employment situation remains challenging and uneven. The employment rate (20-64 years) has continuously risen over the last decade in a context of steady economic growth, but it remains one of the lowest in the EU (69.5% in 2024 vs. 75.8% in the EU) and considerably below the 2030 national target of 74.7%. Notable regional disparities exist. In 2023, the employment gap between the regions with the highest employment rate (Bucharest-Ilfov, 80.7%) and the lowest (Sud-Est, 62.2%) was 18.5 pps. Employment has grown in Bucharest-Ilfov region, partly due to the inflow of foreign investment, while in

[240] Improving the regulatory framework in the field of social housing in Romania.

[241] Improving digital competences for health and care providers in Romania (2023).

other regions, it has either stagnated or decreased, like in the Nord-East which suffered from significant declines (69.0% in 2023 vs. 79.5% in 2019). The unemployment rate was below the EU average (5.4% vs. 5.9% in 2024), and long-term unemployment is on a downward trend and slightly below the EU average (1.8% vs. 1.9% in 2024). Key contributors to long-term unemployment include structural skills shortages and mismatches, as well as a large share of undeclared work, affecting an estimated 1.4 million people[242]. Romania's in work at-risk-of-poverty rate decreased significantly to 10.9% in 2024 from 15.3% (vs EU: 8.3%) in 2023[243].

The labour market continues to face a significant underrepresentation of certain groups, including women, youth, persons with disabilities, and Roma. In 2024, the employment rate of women increased slightly to 60.3%, one of the lowest in the EU (10.5 pps below the EU average). The gender employment gap was also notably high, and only slowly decreasing: 18.1 pps vs 10.0 pps in the EU in 2024. Educational attainment impacts women's employment more than men's, with the gap for low-skilled women at 35.4 pps (vs 21.6 points in the EU). Barriers to women's labour market participation include ineffective activation measures as well as insufficient and limited access to early childhood education and care, especially in rural areas. In 2024, only 11.4% of children aged 0-3 were enrolled in formal childcare, 0.9 pps below the rate in the previous year (12.3% in 2023 vs 37.5% in the EU). The structure of parental leave is primarily geared towards mothers rather than fathers, also reflecting socio-cultural norms around motherhood[244]. Youth unemployment remains high and increased to 23.9% in 2024, compared to 14.9% in the EU. The rate of young people neither in employment, education, nor training (NEET) was among the highest in the EU at 19.4% (vs. 11.0% in the EU), despite a downward trend. There is a considerable gender gap, with the NEET rate for young women being 11.2 pps higher than for men. Persons with disability are also poorly integrated in the labour market, with a disability employment gap well above EU average (29.2 pps vs 21.5 pps in the EU in 2023). In 2024, the disability employment gap increased significantly, reaching 44.8 pps, Roma participation in the labour market remains alarmingly low, with their paid work rate 26 pps below the national average (41% vs. 71%) in 2021, a decline from 45% in 2016, and with significant gender disparities (23% for women). Over half of young Roma are neither in employment, education, nor training[245].

b) Relevant planned and ongoing policy responses

The National Employment Strategy (NES) 2021-27 aims to boost employment through better labour market integration of all available labour resources. It is supported by ESF+ through the 'Education and Employment' programme and focuses on leveraging young people's potential (including NEETs), modernising labour market institutions, and aligning adult vocational training with market needs and evolving economic realities. The strategy's overall goal is to achieve a 75% employment rate (ages 20-64) by 2027, thereby ensuring that Romania meets its 2030 national target. While the strategy includes broad measures addressing the deficiencies of the Romanian labour market, there is scope for further strengthening the effectiveness of active labour market policies. Specific measures aim to improve labour market access for persons with disabilities. Additionally, under the ESF+-funded "Education and Employment" programme, the approach to identifying, motivating, and activating young people has been refined by establishing a network of youth workers. Tailored support services will be delivered to young NEETs through enhanced local collaborations between Public Employment Services (PES) and other key stakeholders, aiming to smoothen transitions into the labour market. The National Strategy for the Rights of Persons with Disabilities 2022-27 focuses on enhancing employment opportunities and training quality. The ESF+ funded 'Social Inclusion and Dignity' programme supports an innovative inclusion cluster for labour market integration of persons with disabilities. Effective implementation of the planned measures, involving all stakeholders, is key to reducing the disability employment gap. Despite legal improvements to tackle undeclared work, the main issue remains the lack of a coordinated national strategy. Romania also introduced a voucher system for domestic workers supported by the National Recovery and Resilience Plan (NRRP). The reform has formalised domestic work, ensuring legal

[242] PwC (2023), Labour market analysis in Romania.

[243] See European Commission (2024) SWD on Second stage analysis of social convergence, SWD(2024)132.

[244] OECD (2024), Economic Surveys: Romania 2024

[245] All data related to Roma persons comes from the Fundamental Rights Agency (FRA) 2021 Roma Survey, except where explicitly mentioned otherwise.

compensation for providers of domestic work. In April 2022, a voucher system was introduced, and a digital platform has been launched to encourage inactive and unemployed people, particularly low-skilled workers, engaging in household activities to join the formal economy. A flexible legal framework grants domestic workers an insured status in the public pension system and the health insurance system.

Public employment services (PES) in Romania have been upgraded, though challenges remain. In the period 2014-20, ESF supported three projects aimed at enhancing PES services and tools. The eSPOR project, completed in December 2023, introduced an online platform for employers, reducing administrative burden and improving data efficiency. The Case Management project, launched in June 2023, introduced new profiling procedures for jobseekers, enabling more targeted support, which already benefited over 500 000 individuals. The ReCONECT project, also completed in December 2023, introduced tools for monitoring the labour market integration of graduates and evaluating employment policies. An objective of ReCONECT was to improve the anticipation of labour force demand in line with labour market needs, including at the local and regional levels. These initiatives helped improve PES, but further modernisation is needed. In 2025, Romania is launching a comprehensive reform, with EUR 153 million invested through ESF+ to enhance PES capacity by hiring 600 new staff, and improving service quality and visibility. The timely and effective implementation of this reform is expected to significantly improve PES services and contribute to better labour market outcomes.

In November 2024, Romania adopted a Law on setting minimum wages, introducing a new minimum wage setting framework. This Law transposes the EU Directive on adequate minimum wages into national legislation and is complemented by a reform included in the RRP. The reform establishes a new mechanism and formula for objectively setting the minimum wage level, in consultation with social partners, in a way that is consistent with job creation and competitiveness. Once fully implemented, the reform is expected to contribute to a fair and predictable minimum wage-setting system in Romania, and contribute to tackling the high rate of in-work poverty.

2.10.3 Education and Skills

a) State of play and developments on social convergence risks

Participation of children in early childhood education and care (ECEC) remains low, particularly in rural areas. In Romania, public early childhood education and care is free of charge, with parents only covering the cost of meals or other supplementary activities[246]. However, the shortage of services, particularly in oversubscribed urban and rural areas, forces many families to resort to informal care arrangements[247]. In 2024, the enrolment rate of children under 3 in formal childcare was only 11.4%. This is 0.9 pps below the 2023 level (12.3%) and well below the EU average in 2023 (37.5%). Low participation is also linked to long parental leave (up to 2 years)[248], but also to various access difficulties, such as long distances between home and nursery/kindergarten. The participation rate of children aged between 3 and the starting age of compulsory primary education fell to 74.8% in 2022, a significant 9.8 pps decline since 2015, contrasting with the EU's upward trend. Moreover, rural-urban disparities are striking: in the 2023-24 school year, the enrolment rate for children aged 3-5 was 72.7% in rural areas compared to 95.5% in urban areas, and only 7.4% of all children aged 0-3 enrolled in nurseries were from rural areas[249].

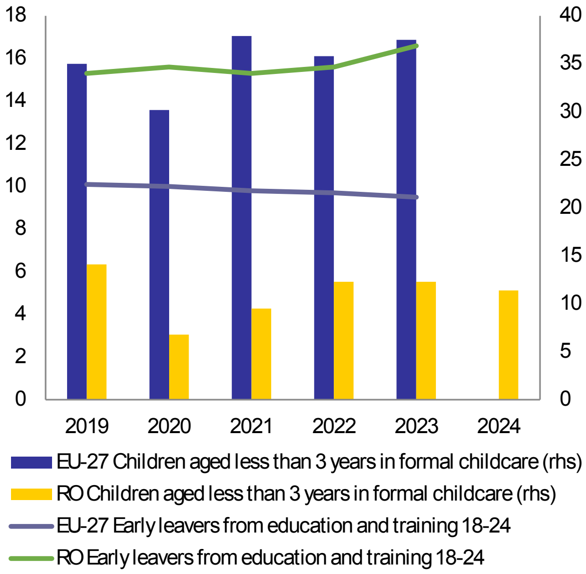
[246] European Commission / EACEA / Eurydice (2025), "Key data on early childhood education and care in Europe – 2025"

[247] OECD (forthcoming), Accession Review of Romania in the Field of Education and Skills

[248] OECD (2024), OECD Economic Surveys: Romania 2024, OECD Publishing, Paris, https://doi.org/10.1787/106b32c4-en.

[249] Ministry of Education (2024), State of Education Report for Pre-University Education 2023/2024 Raport_Stare_invatamant_preuniv-2023-2024.pdf

Figure 3: Children less than 3 years in childcare and Early leavers from education and training (%)



Source: Eurostat [tepsr_sp210, sdg_04_10].

Early school leaving remains of important concern, with the number of children not attending school rising. While the average share of early leavers from education and training has steadily decreased across the EU, Romania has seen worsening trends over the past three years and has one of the highest rates (16.6% vs 9.5% in the EU in 2023). In rural areas, the share of early leavers among young people aged 18-24 increased by 3 pps to 27.5% in 2023. In contrast, the situation in cities is far better than the EU average (3.3% vs 8.6% in the EU), and while towns and suburbs show improvement, their rate remains high (14.3% vs 10.6% in the EU). Roma youth are particularly at risk of early school leaving due to social and educational factors, including lower-quality education linked to school segregation[250]. Moreover, national statistics reveal that only around 84% of children aged 6-14 are enrolled in school, a drop of over 9 pps since 2012[251], with serious implications for their future employment and social prospects.

Romania's poor education outcomes reflect structural challenges in the education and training system. The 2022 PISA results show persistent gaps in basic skills among 15-year-olds, with 48.6% lacking proficiency in mathematics, 41.7% in reading, and 44% in science (compared to 29.5%, 26.2%, and 24.2% on average in the EU)[252]. Educational inequalities appear to be increasing, as 75% of students from disadvantaged backgrounds are low performers in mathematics, marking a 15.1 pps increase since 2012. Parental education also strongly influences children's outcomes: only 4% of 25-64-year-olds with parents without upper secondary education completed tertiary education (vs. 90% of those with at least one parent holding a tertiary degree)[253]. This highlights the weak capacity of the education system to promote equal opportunities. Poor educational outcomes can also affect the country's long-term productivity and competitiveness. Additionally, the proportion of 25-34-year-olds with a tertiary degree dropped to 22.5% in 2023 (from 24.7% the previous year), far below the EU average of 43.1%. Contrary to upward EU trends, this rate has not improved over the past decade, due to both low enrolment rates and high dropout rates from university courses[254]. Transitioning from education to work is also challenging, as employment rates for recent VET graduates (74%) are lower than in the EU (81.6%) and only 8.1% had participated in work-based learning in 2023 (vs. 64.6% in the EU). Chronic underfunding of education, the high fragmentation of the school network, and teacher shortages, especially in rural areas[255] are some factors behind these challenges.

Adult participation in learning has improved, but the low and stagnating skill levels remain a challenge for competitiveness and a fair digital and green transition. Adult participation (25-64) in learning over the past 12 months increased to 19.1% in 2022 (vs 5.8% in 2016), surpassing the 2030 national skills target of 17.4%. However, this is still half the EU average (39.5%), with significant disparities across groups. Participation is 10 times higher among those with tertiary education (41.2%) compared to those with lower education (3.9%), and only 6.4% of those outside the labour market engage in learning. Barriers to lifelong learning include high training costs[256] and a general lack of recognition of its professional and personal

[250] Roma in 10 European countries. Main results - ROMA SURVEY 2021 (europa.eu).

[251] INSSE, scl102a

[252] OECD (2023), PISA 2022 Results (Volume I): The State of Learning and Equity in Education. https://doi.org/10.1787/53f23881-en

[253] OECD (2024), Education at a Glance 2024 - Country Notes: Romania, https://www.oecd.org/en/publications/education-at-a-glance-2024-country-notes_fab77ef0-en/romania_50189b64-en.html

[254] Education and Training Monitor, 2024

[255] Education and Training Monitor, 2024

[256] Adult Education Survey 2022

benefits[257]. Meanwhile, the level of digital skills in the population is alarmingly low: less than a third of people aged 16-74 had basic digital skills in 2023 (27.7% vs. 55.6% in the EU), and this gap has widened since 2021. Despite having some of the best internet coverage and speed in the EU, the low digitalisation of business and public services reduces the need for basic digital skills, not favouring their development. The education sector's poor digitalisation has further hindered digital skill development[258].

b) Relevant planned and ongoing policy responses

A comprehensive reform of the entire education and training system is underway. New laws on pre-university[259] and higher education[260], based on the "Educated Romania" framework, took effect in September 2023. They introduce important changes to increase the quality of teaching, redefine the governance system related to the monitoring, assessment and support of schools and universities, and allocate more resources to disadvantaged schools and students[261]. However, their implementation hinges on the development and adoption of nearly 300 secondary acts by 2027[262], which has been progressing but with some delays. Reforms are supported by over EUR 5 billion in EU funding through the RRF and cohesion policy funds. While the new Law on Pre-University Education and the Criminal Code establish sanctions on parents or guardians for failing to ensure attendance in compulsory education, there is insufficient evidence that these measures are being enforced.

Romania is working to improve access to quality early childhood education. The starting age for compulsory education is progressively lowering, with pre-school attendance becoming mandatory from the age of 3 by 2030. The availability of services is increasing, as over 110 new crèches and 90 complementary services (children aged 0 to 6 years) in remote and disadvantaged localities are being set up with RRF support. While efforts to improve service quality are underway, there is a need to further develop the quality assurance system and expand teacher training and mentoring programs to better prepare ECEC staff. The RRP includes the setting up of a framework programme for the continuous training of professionals in early-childhood education services.

Policies to improve educational outcomes and combat functional illiteracy are being put forward, with support from EU funds. Launched in 2024, the ESF+ funded national programme to reduce functional illiteracy ('MIAF') is Romania's first systemic project in views of addressing the worrying levels of basic skills. Furthermore, the RRP is funding improvements in school infrastructure, the set-up of school laboratories, including for sciences, and smart labs for digital skills learning, to improve learning outcomes. With TSI support, Romania is reviewing the monitoring system of curriculum implementation and will develop tools to improve competence-based teaching and learning[263]. A number of sectoral strategies aimed at addressing specific gaps have also been adopted in 2024 (for example, on financial education, parental education, and combatting school violence).

The National Programme for Reducing School Dropout (PNRAS) is already showing positive results, but more efforts are required to increase school attendance and reduce disparities. Over 2 300 schools with high dropout risk have received RRF grants to organise remedial education, social support, and extracurricular activities. In less than two years of implementing their tailor-made projects, 45% of schools have reduced their school dropout risk[264] under the "early warning mechanism" tool (MATE), developed with TSI support. From 2025, PNRAS will expand to primary schools with over EUR 240 million in funding from ESF+. However, many vulnerable children remain outside the school system, missing out on these programs. To ensure equal opportunities, it is urgent to establish a system that supports and enforces school attendance, involving all authorities responsible for children's rights.

[257] World Bank (2023), Country Private Sector Diagnostic: Creating Markets in Romania

[258] Report on the state of the Digital Decade 2024, Romania

[259] LAW 198 04/07/2023 - Legislative Portal

[260] LEGE 199 04/07/2023 - Portal Legislativ

[261] OECD (2024), Reforming school education in Romania: Strengthening governance, evaluation and support systems. https://doi.org/10.1787/5333f031-en.

[262] ORDER 3069 15/01/2024 - Legislative Portal

[263] Bulgaria (like Romania) launched a TSI project to advance curriculum reforms with support from the European Commission and OECD (November 2024).

[264] Information presented by the Ministry of Education at the national launch event of the OECD's Education at a Glance 2024 report, available at: https://www.edu.ro/lansare_EAG_2024

Romania is continuing efforts to reform vocational education and training (VET) and increase tertiary education attainment, with a strong focus on the labour market relevance. Significant steps have been taken to modernise the VET system, including improving quality, relevance, access, flexibility, and participation[265]. A key development was the completion of the ReCONECT project in December 2023, which established mechanisms for skills forecasting, tracking VET and higher education graduates, and evaluating public training policies. To encourage students from lower-educated families to attend university, the "First student in the family" programme was launched in 2024. Around 50 000 VET and higher education students will participate in ESF+ funded apprenticeships or traineeships to enhance their labour market readiness.

The implementation of the new strategic framework for adult learning is on-going. After years without a strategic policy for the sector, two coordinated national strategies are now in place: the National Strategy on Adult Training 2024-27 (Ministry of Labour and Social Solidarity) and the National Strategy for Adult Continuing Education 2024-30 (Ministry of Education). ESF+ is supporting employee upskilling and basic competence training for low-skilled citizens, including digital skills. Several investments to digitalise schools and provide digital training for teachers are being supported by the RRF, but measures tackling the overall low digital skills levels also among adults are insufficient given the severity of the gaps. The adoption of a national strategy for digital education and skills could be a crucial step for coordinated and effective policy action. A pilot scheme for individual learning accounts in the construction sector is under development. As the strategies are implemented, strengthening interministerial coordination and involving economic operators and social partners will be key. Future policies should focus on enforcing mandatory training regulations, increasing incentives for companies to invest in upskilling, and raising awareness of lifelong learning benefits[266].

2.10.4 Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges in the area of social protection and inclusion related to the still high (though decreasing) share of the population at risk of poverty or social exclusion. Children, people living in rural areas, low-skilled, women, persons with disabilities and the Roma experience greater risks of poverty or social exclusion. Persistent (albeit gradually declining) , the limited impact of social transfers (excluding pensions) in reducing poverty, insufficient social protection coverage and adequacy, alongside reduced access to healthcare, long-term care, and affordable housing, pose further significant challenges in the social domain. The labour market has been improving but challenges remain, with the employment rate having steadily increased but remaining low compared to the EU average, and significant labour market underrepresentation of certain groups, including women, youth, persons with disabilities, and Roma. In the area of education and skills, low participation of children in early childhood education and care, high and increasing early school leaving, signifiicant gaps in basic skills, and a persistently low share of people with at least basic digital skills point to further challenges that impact negatively on competitiveness, employability and the twin transition.

The measures implemented or planned so far, such as reforms and investments in social protection and inclusion and improving access to services, the adoption of new education laws and the implementation of the national programme for reducing school dropouts, as well as actions taken on active labour market policies, are expected to help Romania move in the right direction. This will nonetheless also crucially depend on the effective implementation of planned measures and better support to vulnerable groups. Despite progress made, more efforts could bring Romania to address in full the challenges that the country is facing in relation to social protection and inclusion, the labour market, and education and skills.

[265] Cedefop (2024), Vocational education and training policy briefs 2023 – Romania, http://data.europa.eu/doi/10.2801/638477.

[266] Centre for the Study of Democracy, Concordia Employers' Confederation (2023), The participation in lifelong learning in Romania: research report. https://static1.squarespace.com/static/63eb79caf42363387 8fe82aa/t/65702d9d3af7d0591122c762/1701850536907/Reseach+Report+on+LLL+in+Romania.pdf

ANNEXES

Annex 1 – Social Scoreboard headline indicators

Indicator	Definition	Eurostat code
Equal opportunities		
Adults' participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64)	Participation in formal and non-formal education and training during the last 12 months is considered to provide the most appropriate measure of adult learning. It provides information of the number of people who were involved in education and training during a year. Non-formal education and training excludes guided on-the-job training (GOTJ). The indicator is based on the Adult Education Survey (AES).	[none, from special computation available online]
Early leavers from education and training (% of population aged 18-24)	The indicator measures the share of the population aged 18 to 24 with at most lower secondary education who were not involved in any education or training during the four weeks preceding the survey. Lower secondary education refers to ISCED (International Standard Classification of Education) 2011 level 0-2 for data from 2014 onwards and to ISCED 1997 level 0-3C short for data up to 2013. The indicator is based on the EU Labour Force Survey.	[edat_lfse_14]
Share of individuals who have basic or above basic overall digital skills (% of population aged 16-74)	The Digital Skills Indicator 2.0 (DSI) is a composite indicator which is based on selected activities related to internet or software use that individuals aged 16-74 perform in five specific areas (Information and data literacy, Communication and collaboration, Digital content creation, Safety, and Problem solving). It is assumed that individuals having performed certain activities have the corresponding skills. Therefore, the indicators can be considered as proxy of individuals digital skills. The indicator is based on the EU survey on the use of ICT in households and by individuals.	[tepsr_sp410]
Young people not in employment, education or training (% of total	The indicator measures the share of the population aged 15 to 29 who is not employed and not involved in education or training. The numerator of	[lfsi_neet_a]

Indicator	Definition	Eurostat code
population aged 15-29)	the indicator refers to persons who meet the following two conditions: (a) they are not employed (i.e., unemployed or inactive according to the International Labour Organisation definition) and (b) they have not received any education or training (i.e., neither formal nor non-formal) in the four weeks preceding the Labour Force Survey (LFS). The denominator includes the total population aged 15 to 29 (excluding those who did not answer the questions on 'participation in regular (formal) education and training'). The indicator is based on the EU Labour Force Survey.	
Gender employment gap (percentage points)	The gender employment gap is defined as the difference between the employment rates of men and women aged 20-64. The employment rate is calculated by dividing the number of persons aged 20 to 64 in employment by the total population of the same age group. The indicator is based on the EU Labour Force Survey.	[tesem060]
Income quintile ratio (S80/S20)	The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile). Income must be understood as equivalised disposable income. The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions).	[ilc_di11]
Fair working conditions		
Employment rate (% of population aged 20-64)	The employment rate of the total population is calculated by dividing the number of persons aged 20 to 64 in employment by the total population of the same age group. The employment rate of men is calculated by dividing the number of men aged 20 to 64 in employment by the total male population of the same age group. The employment rate of women is calculated by dividing the number of women aged 20 to 64 in employment by the total female population of the same age group. The indicators are based on the	[lfsi_emp_a]

Indicator	Definition	Eurostat code
	EU Labour Force Survey.	
Unemployment rate (% of active population aged 15-74)	Unemployment rate represents unemployed persons as a percentage of the labour force. The labour force is the total number of people employed and unemployed. Unemployed persons comprise persons aged 15 to 74 who were: a. without work during the reference week, b. currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week, c. actively seeking work, i.e. had taken specific steps in the four weeks period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of, at most, three months. The indicator is based on the EU Labour Force Survey.	[une_rt_a]
Long-term unemployment rate (% active population aged 15-74)	The long-term unemployment rate expresses the number of long-term unemployed aged 15-74 as a percentage of the active population of the same age. Long-term unemployed (12 months and more) comprise persons aged at least 15, who are not living in collective households, who will be without work during the next two weeks, who would be available to start work within the next two weeks and who are seeking work (have actively sought employment at some time during the previous four weeks or are not seeking a job because they have already found a job to start later). The total active population (labour force) is the total number of the employed and unemployed population. The duration of unemployment is defined as the duration of a search for a job or as the period of time since the last job was held (if this period is shorter than the duration of the search for a job). The indicator is based on the EU Labour Force Survey.	[une_ltu_a]
Gross disposable household income (GDHI) per capita growth (2008=100)	The real gross disposable income of households per capita (index = 2008) is calculated as the unadjusted gross disposable income of households and Non-Profit Institutions Serving Households	[tepsr_wc310]

Indicator	Definition	Eurostat code
	(NPISH) divided by the price deflator (price index) of household final consumption expenditure and by the total resident population. Then the indicator is indexed with base year 2008. The indicator is based on European sector accounts.	
Social protection and inclusion		
At risk of poverty or social exclusion (AROPE) rate (% of total population)	This indicator corresponds to the sum of persons who are: at risk of poverty or severely materially or socially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). Severely materially or socially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 7 out of 13 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) have access to a car/van for personal use; vii) replace worn out furniture; viii) replace worn-out clothes with some new ones; ix) have two pairs of properly fitting shoes; x) spend a small amount of money each week on him/herself ("pocket money"); xi) have regular leisure activities; xii) get together with friends/family for a drink/meal at least once a month; and xiii) have an internet connection. People living in households with very low work intensity are those aged 0-64 living in households where the adults (aged 18-64) work 20% or less of their total work potential during the past year. The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions).	[ilc_peps01n]
At risk of poverty or social exclusion (AROPE) rate for children (% of population aged 0-17)		
Impact of social transfers (other than pensions) on	Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-	[tespm050]

Indicator	Definition	Eurostat code
poverty reduction (% reduction of AROP)	risk-of poverty rates before social transfers with those after transfers; pensions are not considered as social transfers in these calculations). The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions).	
Disability employment gap (percentage points)	The disability employment gap is defined as the difference between the employment rates of people with no and those with some or severe limitation in their daily activities, aged 20-64. The employment rate is calculated by dividing the number of persons aged 20 to 64 in employment by the total population of the same age group. The indicator is computed from the EU-SILC (statistics on income, social inclusion and living conditions), and is based on the disability status as given by the Global Activity Limitation Index (GALI). Survey respondents answer the following questions: 1) 'Are you limited because of a health problem in activities people usually do? Would you say you are … severely limited; limited, but not severely; or not limited at all?' Is answer to question 1) is 'severely limited' or 'limited but not severely', respondents answer the question 2) 'Have you been limited for at least for the past 6 months? Yes or No?'. A person is considered as having disability if the answer is 'Yes' to the second question.	[tepsr_sp200]
Housing cost overburden (% of total population)	Percentage of the population living in a household where total housing costs (net of housing allowances) represent more than 40% of the total disposable household income (net of housing allowances). The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions).	[tespm140]
Children aged less than 3 years in formal childcare (% of population under 3-years-old)	This indicator shows the percentage of children (under 3 years old) cared for by formal arrangements other than by the family. The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions).	[tepsr_sp210]
Self-reported unmet need for medical care (% of	Self-reported unmet needs for medical care concern a person's own assessment of whether he	[tespm110]

Indicator	Definition	Eurostat code
population 16+)	or she needed examination or treatment for a specific type of health care but did not have it or did not seek it because of the following three reasons: 'Financial reasons', 'Waiting list' and 'Too far to travel'. Medical care refers to individual healthcare services (medical examination or treatment excluding dental care) provided by or under direct supervision of medical doctors or equivalent professions according to national healthcare systems. Data are collected from the European Statistics of Income and Living Condition survey and refer to such needs during the previous 12 months. Data are expressed as percentages within the population aged 16 years old and over living in private households. The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions).	

Annex 2 – Joint Assessment Framework (JAF) of EMCO-SPC

Established in 2010 jointly by the Commission, the Employment Committee (EMCO) and the Social Protection Committee (SPC), the Joint Assessment Framework (JAF) is an analytical tool to underpin evidence-based policy making. It is the main tool for monitoring the Employment Guidelines (based on Art. 148 TFEU) in the European Semester context, and is used in the dialogue between the Commission and the Member States to support the identification of key employment and social challenges and help Member States establish their priorities. Its added value resides in its EU cross-country comparative dimension, which can, for instance, help Member States evaluate the relative magnitude of their challenges.

Currently the core JAF has 11 employment and social policy areas (selected to match the themes of the Employment Guidelines), combining a large set of commonly agreed indicators (approximately 330 for those under EMCO remit, also counting breakdowns), with a quantitative and qualitative assessment, which includes:

1. A quantitative assessment by country, based on indicators:
    - For every policy area and sub-policy area, an 'overall' indicator, a limited number of corresponding 'sub-indicators' as well as 'context' indicators have been identified. The overall indicator can be interpreted as providing a representative summary of a policy objective. Sub-indicators are expected to shed light on the behaviour of the overall main indicator. Finally, 'context' indicators can provide important context information in the (qualitative) assessment, but are not immediately used in the quantitative assessment mechanism.
2. A qualitative assessment by country that qualifies and complements the findings from step 1:
    - This step complements the quantitative assessment and is based on an analysis of contextual information and additional country-specific evidence, taking also into account expert knowledge and the findings of the relevant literature.

The **policy areas** (PA) and the sub-policy areas (sub PA) monitored under the JAF are as reported in the following table (the first 10 policy areas being under EMCO remit, while PA 11 is under SPC remit, with a few indicators of joint concern in both domains). As agreed indicators, these are all fully accepted on both Commission and Member States' side for use in Semester monitoring, including in the JER, as well as in Country Reports.

PA 1	Increase labour market participation		EMCO
	Sub PAs		
	1a	*Increase overall employment*	
	1b	*Improve labour market situation of youth*	
	1c	*Increase employment of older workers*	
	1d	*Increase employment of migrants*	

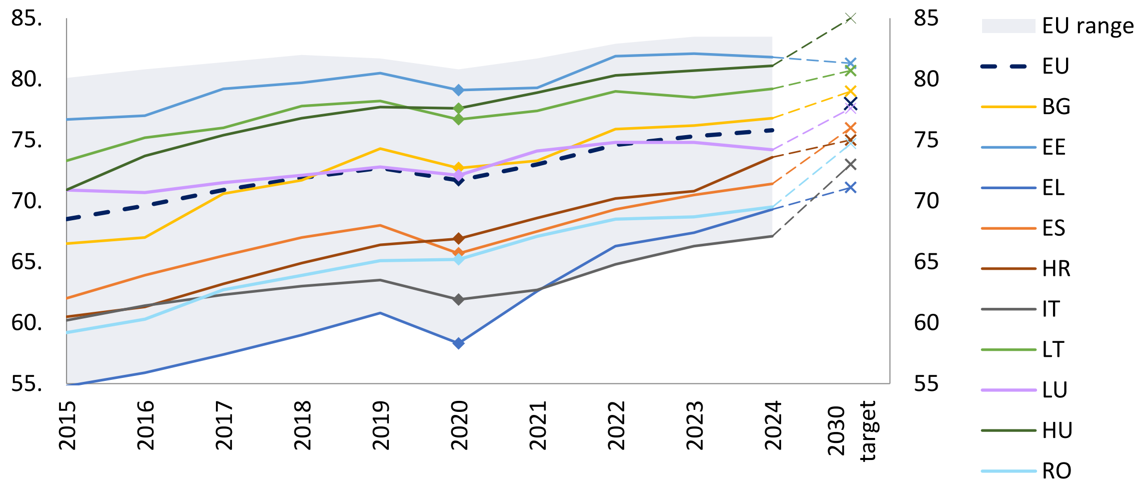
PA 2	Enhancing labour market functioning; combating segmentation		
	Sub PAs		
	2a	*Combating segmentation*	
	2b	*Labour market fluidity*	
PA 3	Active labour market policies		
PA 4	Adequate and employment oriented social security systems		
	Sub PAs		
	4a	*Adequate social security systems*	
	4b	*Make work pay*	
PA 5	Work-life balance		
PA 6	Exploiting job creation possibilities		
	Sub PAs		
	6a	*Exploiting job creation possibilities*	
	6b	*Demand creation*	
PA 7	Gender equality		
	Sub PAs		
	7a	*Gender employment gap*	
	7b	*Gender pay gap*	

PA 8	Improving skills supply and productivity, effective life-long learning		
	Sub PAs		
	8a	*Improving skills supply and productivity*	
	8b	*Lifelong learning*	
PA 9	Improving education and training systems		
	Sub PAs		
	9a	*Improving education and training systems*	
	9b	*Improving higher education*	
PA 10	Wage setting mechanisms and labour cost developments		
PA 11	Promoting equal opportunities for all, fostering social inclusion and fighting poverty		SPC
	Sub-PAs		
	11a	*Tackling child poverty and exclusion*	
	11b	*Tackling poverty and exclusion in working age - active inclusion*	
	11c	*Tackling old age poverty and exclusion*	
	11d	*Inequality and inequality of opportunity*	
	11e	*Access to quality social services and benefits* (Still to be developed)	
	11f1	*Focus on poverty and exclusion of disadvantaged groups - people with disabilities*	
	11f2	*Focus on poverty and exclusion of disadvantaged groups - migrants*	
	11f3	*Focus on poverty and exclusion of disadvantaged groups - low*	

		skilled	
	11f4	*Focus on poverty and exclusion of disadvantaged groups - (quasi-)jobless households*	
	11f5	*Focus on poverty and exclusion of disadvantaged groups - youth*	

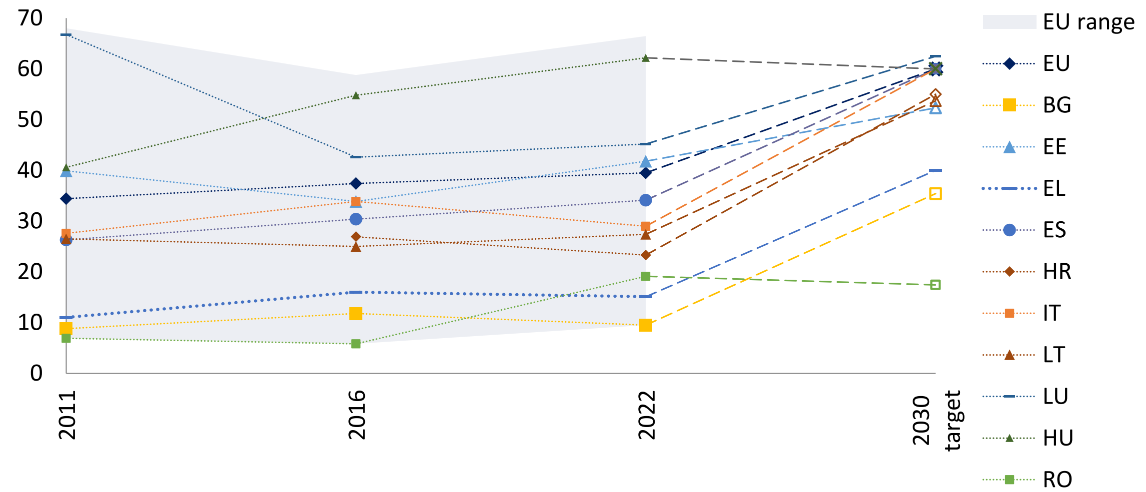
Annex 3- Progress towards the 2030 national targets for the ten MSs in the second-stage analysis

Figure A.1: Progress towards the 2030 national employment rate targets (employment rate; %, 20-64-year-olds)



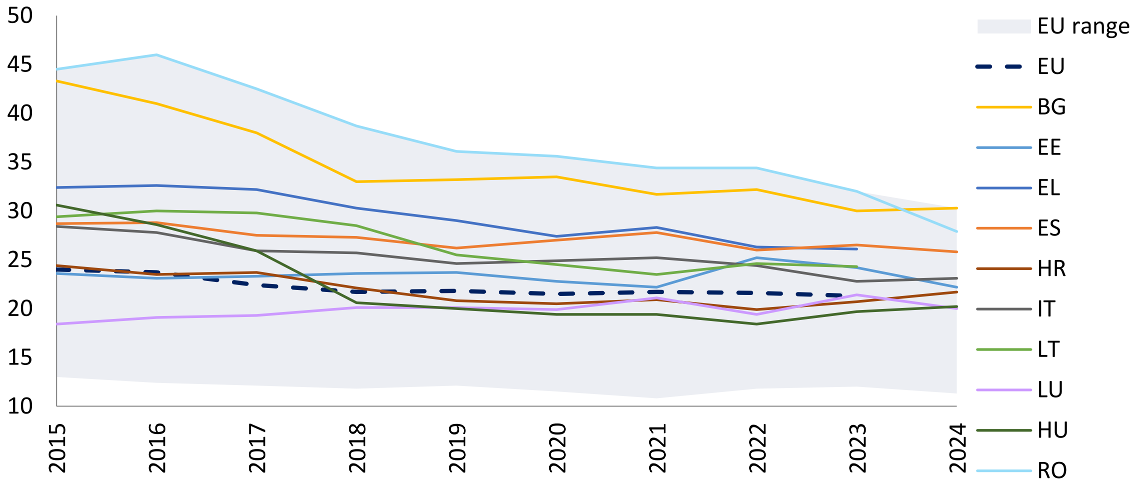
Source: Eurostat [lfsi_emp_a], EU LFS and table on 2030 national targets as in Annex 1 of the Joint Employment Report 2025. Dashed lines are linear interpolations to the national targets.

Figure A.2: Progress towards the 2030 national skills targets (adult learning participation over the past 12 months, excluding guided on-the-job training; %, 25-64-year-olds)



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. Data missing for HR for 2011. Dashed lines are linear interpolations to the national targets.

Figure A.3: At-risk-of-poverty and social exclusion rate (% of the total population)



Source: Eurostat [ilc_pecs01], EU-SILC.

Table A.1: Progress towards the 2030 national poverty reduction targets (people at risk of poverty or social exclusion; thousands of people)

	2019	2024	2019 to 2024 change	2030 poverty reduction target (reduction compared to 2019 value)	Reduction needed to reach target (compared to 2024 value)
BG	2324	1953	-371	787	416
EE	311	302	-9	39	30
EL	3059	2658	-401	860	459
ES	12169	12458	289	2815	3104
HR	841	810	-31	298	267
IT	14803	13525	-1278	3200	1922
LT	712	695	-17	223	206
LU	119	132	13	4	17
HU	1923	1914	-9	292	283
RO	7032	5294	-1738	2532	794

Note: Hungary expresses its national target as a reduction of the material and social deprivation rate of families with children to 13%, and thereby a reduction of the number of people AROPE by 292 000. 2023 values are used for EL and LT, since 2024 data are not available.

Source: Eurostat [ilc_pecs01] and table on 2030 national targets in Annex 1 of the Joint Employment Report 2025.

Annex 4 - Overview table on the findings from the assessment of risks identified and related policy responses in the second-stage analysis, per Member State (BG, EE, ES, IT) and per policy dimension found as presenting potential risks in the first stage

Social Scoreboard headline indicator	BG		EE		ES		IT	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Adult participation in learning (past 12 months)	Risk	Some measures					Risk	Some measures
Early leavers from education and training					Risk	Substantial measures		
Individuals' level of digital skills	Risk	Some measures					Risk	Some measures
Youth NEET rate	Risk	Some measures			No risk	Substantial measures		
Gender employment gap							Risk	Some measures
Income quintile ratio			Risk	Some measures	No risk	Some measures		
Employment rate								
Unemployment rate			Risk	Substantial measures			Risk	Some measures

Social Scoreboard headline indicator	BG		EE		ES		IT	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Long-term unemployment rate							Risk	Some measures
GDHI per capita			Risk	Some measures			Risk	Insufficient measures
At risk of poverty or social exclusion rate			Risk	Some measures	Risk	Some measures		
At risk of poverty or social exclusion rate for children	Risk	Substantial measures			Risk	Some measures		
Impact of social transfers on poverty reduction			Risk	Some measures	Risk	Some measures		
Disability employment gap	Risk	Insufficient measures						
Housing cost overburden								
Children aged less than 3 years in formal childcare	Risk	Some measures						

Social Scoreboard headline indicator	BG		EE		ES		IT	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Self-reported unmet need for medical care			Risk	Some measures				

Annex 5 - Overview table on the findings from the assessment of risks identified and related policy responses in the second-stage analysis, per Member State (LT, HU, RO) and per policy dimension found as presenting potential risks in the first stage

Social Scoreboard headline indicator	LT		HU		RO	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Adult participation in learning (past 12 months)	Risk	Some measures				
Early leavers from education and training			Risk	Insufficient measures	Risk	Some measures
Individuals' level of digital skills					Risk	Insufficient measures
Youth NEET rate	Risk	Some measures			Risk	Some measures
Gender employment gap					Risk	Insufficient measures
Income quintile ratio	Risk	Some measures	No risk	Some measures	Risk	Some measures
Employment rate	No risk	Some measures			Risk	Some measures

Social Scoreboard headline indicator	LT		HU		RO	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Unemployment rate	Risk	Some measures				
Long-term unemployment rate			No risk	Some measures/		
GDHI per capita						
At risk of poverty or social exclusion rate	Risk	Some measures	Risk	Some measures		
At risk of poverty or social exclusion rate for children			Risk	Some measures		
Impact of social transfers on poverty reduction					Risk	Some measures
Disability employment gap	No risk	Substantial measures	Risk	Insufficient measures	Risk	Some measures
Housing cost overburden						
Children aged less than 3 years in formal childcare	No risk	Substantial measures			Risk	Some measures

Social Scoreboard headline indicator	LT		HU		RO	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Self-reported unmet need for medical care					Risk	Some measures

Annex 6 - Overview table on the findings from the assessment of risks identified and related policy responses in the second-stage analysis, per Member State (EL, HR, LU) and per policy dimension found as presenting potential risks in the first stage

Social Scoreboard headline indicator	EL		HR		LU	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
Adult participation in learning (past 12 months)	Risk	Some measures	Risk	Substantial measures		
Early leavers from education and training						
Individuals' level of digital skills			No risk	Substantial measures	No risk	Substantial measures
Youth NEET rate	Risk	Some measures				
Gender employment gap	Risk	Some measures				
Income quintile ratio	Risk	Some measures	Risk	Some measures		
Employment rate			Risk	Substantial measures		
Unemployment rate					Risk	Substantial measures
Long-term unemployment rate					No risk	Some measures

Social Scoreboard headline indicator	EL		HR		LU	
	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses	State of play and developments on risks	Policy responses
GDHI per capita						
At risk of poverty or social exclusion rate	Risk	Some measures			Risk	Substantial measures
At risk of poverty or social exclusion rate for children	Risk	Some measures			Risk	Substantial measures
Impact of social transfers on poverty reduction	Risk	Substantial measures	Risk	Insufficient measures	Risk	Some measures
Disability employment gap			Risk	Substantial measures	Risk	Substantial measures
Housing cost overburden	Risk	Substantial measures			Risk	Some measures
Children aged less than 3 years in formal childcare						
Self-reported unmet need for medical care	Risk	Some measures				