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COMMISSION STAFF WORKING DOCUMENT

**Country analysis on social convergence in line with the features of 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 features of the Social Convergence Framework (SCF) discussed by the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council in June 2023. The EPSCO Council discussion took place on the basis of Key Messages prepared by the Employment Committee (EMCO) and the Social Protection Committee (SPC) on the introduction of a SCF in the European Semester. These were based on the work conducted from October 2022 until May 2023 by a dedicated joint EMCO-SPC Working Group.¹

The features of the SCF entail 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 November 2023, the first-stage country analysis of the SCF was presented in the proposal for the Joint Employment Report (JER) 2024, which was adopted by the Commission as part of the Semester Autumn Package and endorsed by the EPSCO Council in March 2024. 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 them². In terms of horizontal key findings, the first stage indicated that Member States starting from relatively less favourable overall employment and unemployment outcomes had improved more substantially than the others in 2022. At the same time, despite recent positive developments, potential risks to upward social convergence were identified with regard to skills, 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 that social outcomes remained broadly stable in 2022 despite the multiple crises, while pointing at the need for a close monitoring in light of the high cost of living, generated by increased energy prices triggered by Russia’s war of aggression against Ukraine. Potential risks to upward social convergence were identified for seven Member States (Bulgaria, Estonia, Hungary, Italy, Lithuania, Romania and Spain) in the first-stage analysis of the JER. 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.³ This more detailed second-stage analysis focuses exclusively on the policy areas (among labour market, 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

¹ See the [EMCO-SPC Key Messages](#) and the related [Report of the EMCO-SPC Working Group](#).

² 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 2023 JER edition, followed by a further deterioration to ‘critical situation’ in the 2024 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. 32, and Annexes 4 and 9 of the [JER 2024](#).

³ 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 12 April 2024, to which all data used in this |SWD have been last updated.

policy areas are examined for each 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)⁴. 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).

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 SPC⁵ in order to build a shared understanding of risks and challenges to upward social convergence. For the seven 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, refocussing those reviews on key challenges to upward social convergence without creating new processes or reporting requirements for the Member States, thereby avoiding an increase in administrative burden. 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 Package⁶. 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.⁷

⁴ 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.

⁵ Conducted on a yearly basis as mandated by Art. 148 TFEU.

⁶ As traditional, the package will present the Commission proposals for country-specific recommendations and the country reports for all 27 Member States.

⁷ 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.

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

- The area of **social inclusion** requires particular attention as possibly leading to challenges for upward social convergence, notably with regard to the share of the population that experiences poverty or social exclusion in the seven countries concerned. As shown in the overview tables in Annexes 4 and 5, the overall at-risk-of-poverty or social exclusion (AROPE) rate as well as the impact of social transfers (other than pensions) on poverty reduction are indicating challenges for almost all the countries concerned, followed by income inequality (the income quintile share ratio), the AROPE rate for children, and the share of children below three years of age in formal childcare, identified as challenges in four of the seven countries. All these dimensions require very close 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 early leavers from - education and training (for four of the seven countries). Moreover, the 2022 PISA results show a decline in the basic skills of 15-year-olds, in particular among disadvantaged students, which represents a major risk for educational achievement and can hamper further skills acquisition later in life. Digital skills levels, on the other hand, display a more positive picture overall, with significant progress showed by the quantitative indicator for two countries and challenges persisting for three of them. The analysis clearly points to the fact that skills acquisition, including from an early age, in line with the labour market needs 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 swiftly accompany the digital and green transformations.
- While in the area of **labour markets** the indicators remain strong overall, challenges are identified for three of the seven countries in terms of their overall employment rates while unemployment (and also 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, women, young people, older workers, the low-skilled (also via up- and re-skilling them for quality jobs), 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 fully address 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 an equally small number of areas where substantial policy action to *fully* address the challenges identified has been already taken or planned (see overview tables in Annexes 4 and 5).

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 *fully* address 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.

2. Second-stage country analysis by Member State

2.1 BULGARIA

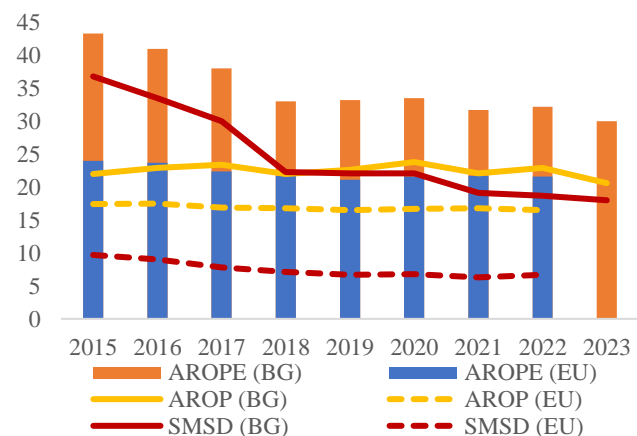
In the context of the first-stage analysis presented in the JER 2024, Bulgaria was identified as facing potential risks to upward social convergence based on 8 headline indicators of the Social Scoreboard flagging. These notably concern social protection and inclusion, regarding the **at-risk-of-poverty or social exclusion rate** (including for **children**), the impact of **social transfers (excluding pensions) on poverty reduction**, the **housing cost overburden rate**, as well as **income inequality**. In the area of education and skills, the low **participation of children under the age of 3 in formal childcare** and the low **share of people with at least basic digital skills** were also identified as criticalities. Finally, while the labour market improved, there is a need for deeper analysis for certain population groups, in particular **persons with disabilities**. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at the available quantitative and qualitative evidence and the relevant policy responses undertaken or planned by Bulgaria.

I. Social protection and social inclusion

a) State of play and developments on social convergence risks

The share of the population at risk of poverty or social exclusion (AROPE) remains high and income inequalities are significant. Despite a gradual decline (by 13.3 pps) since 2015 to 30% in 2023, Bulgaria has one of the highest AROPE rates in the EU (at 32.2% vs 21.6% in 2022)⁸. The decrease can be mainly attributed to a significant drop in the severe material and social deprivation rate (SMSD), while the at-risk-of-poverty (AROP) rate is still high, at 20.6% in 2023 (down from 22.9% vs 16.5% in the EU in 2022). Beyond the relatively large share of people at risk of poverty, the depth of poverty (as measured by the relative poverty gap) was 22.4% in 2023 (down from 26% in 2022 vs 23.1% in the EU), notwithstanding a downward trend since 2015. Poverty reduction was supported by positive labour market developments, rising real wages in unskilled-labour intensive sectors, as well as deflationary or low inflationary trends until 2021, which contributed to higher purchasing power among the poorest households⁹. However, high inflation in 2022 (13%) and 2023 (8.6%), linked to the energy crisis provoked by Russia's war of aggression against Ukraine, put additional burden on low-income households. Against

Figure 1. At risk of poverty rate (by components)



Source: Eurostat. At risk of poverty rate (AROPE), at risk of poverty (AROP) and severe material and social deprivation (SMSD)

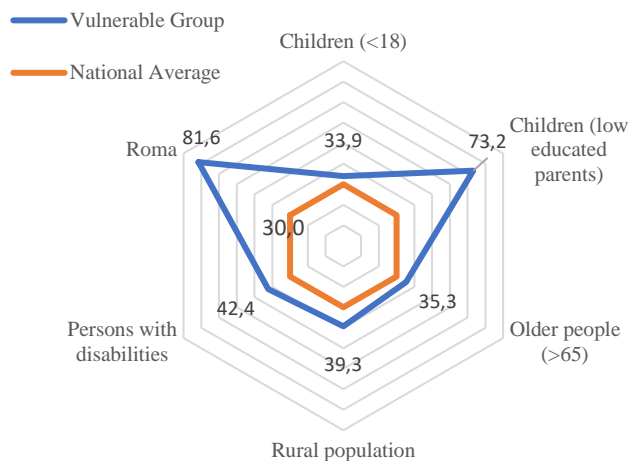
⁸ At the time of writing, the 2023 EU averages were not available yet.

⁹ [World Bank, Poverty & Equity Brief, Bulgaria.](#)

this background, Bulgaria has set an ambitious national target to reduce the number of people at risk of poverty or social exclusion by 787 000 by 2030 (from 2.3 million in 2019), including 196 750 children. In 2023, the country made progress towards this target, with 367 000 fewer people, including 57 000 children, at risk of poverty or social exclusion. Despite modest improvements since 2018, the income of the richest 20% of the population was 6.6 times that of the poorest 20% in 2023 (down from 7.3 times in 2022 vs the EU average of 4.7). The sum of the income shares of the first and second income quintiles (S40) was particularly low in 2022 (4.7 pps below the EU average), pointing to a critical situation for the most vulnerable.

Energy poverty has slightly declined, but significant challenges remain. The share of the population unable to keep their homes adequately warm decreased between 2015 and 2023 (by 18.5 pps, to 20.7%). Nevertheless, in 2022, it was among the highest in the EU (22.5% vs an EU average of 9.3%) and particularly high for people at risk of poverty (almost double the national average, at 42.7%). Arrears on utility bills are also more pronounced than in most other Member States.

Figure 2. At risk of poverty rate for vulnerable groups



Source: Eurostat (2023), NSI (for Roma figure, 2022)

significantly higher for persons with disabilities (42.4% in 2023) and Roma people (81.6% in 2022). In-work poverty affected 11.4% of the workforce in 2023 (up from 9.7% vs 8.5% in the EU in 2022), with large differences across economic sectors and territorial disparities.

The effectiveness of social transfers in curbing the incidence of poverty and reducing inequalities remains low. The social protection system faces challenges related to coverage and efficiency. In 2023, social transfers (excluding pensions) reduced poverty by 27.7% (24.4% in 2022, more than 10 pps below the EU average). Bulgaria has been lagging behind the EU in this respect. In 2021, a higher impact of social transfers on poverty reduction of 29.8% was recorded, reflecting the unprecedented government support for COVID-19 relief. Improving the efficiency of spending on social assistance benefits, including targeting those most in need, is important to effectively reduce poverty rates. Some groups in the labour market lack sufficient access to income protection in case of job loss, accidents at work and occupational diseases. In particular, the self-employed, temporary contract workers and the unemployed are much less likely to

The likelihood of falling into poverty or social exclusion is influenced, among others, by age, residence (urban vs rural), disability status and ethnicity. More than 1 in 3 children and over 1 in older people (65+) are at risk of poverty or social exclusion. For children, the level of education of their parents (positively impacting their labour market participation and earnings) is found to be associated with a higher likelihood of falling into poverty: close to 3 in 4 kids from households with a lower educational attainment are affected, compared to around 1 in 20 from households with a high level of education. The place of residence also plays a role, with people living in rural areas being twice as likely to face poverty or social exclusion risks (at 43.1%) than those residing in cities. The AROPE rate is also

receive any social benefits and are also more likely to be socially and materially deprived¹⁰. The aggregate replacement ratio of pensions improved to 46% in 2023 from 2022 when it was among the lowest in the EU (38% vs 58%).

Housing affordability and availability are still a challenge in Bulgaria, especially for low-income groups, older people and tenants. In 2022, 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) was 15.1% vs 8.7% in the EU, and was significantly higher for people at risk of poverty (53.2% vs 29.7% in the EU). Some progress was made in 2023, as the rate decreased to 11.1% overall, and to 40% for people at risk of poverty. 14.2% of the older cohorts (65+) were overburdened by housing costs in 2023. Though constituting a small share of the population (2.4% in 2022), tenants renting at market prices also have a significantly higher housing cost overburden rate (33.3% in 2023). The scarcity of affordable housing is reflected in an elevated overcrowding rate¹¹ (36.2% of the Bulgarian population vs 16.8% in the EU in 2022). Overall, there appears to be scope for more strategic planning for a longer-term vision in the housing sector¹².

Meeting the medical and long-term care needs of the vulnerable remains a challenge. While the share of people reporting unmet needs for medical care is overall below the EU average, it is around 30 times higher for the lowest income quintile (3.1%) than for the highest (0.1%). This relates to high out-of-pocket payments, insurance coverage gaps and uneven distribution of infrastructure and human resources. Moreover, latest available data from 2022¹³ shows that spending in long-term care (LTC) in Bulgaria is among the lowest in the EU (at 0.5% of GDP vs 1.7% on average in the EU), reflected in the very low share of people aged 65 and over who receive public home care or residential care (0.7% and 1.1% respectively vs 5.5% and 3.3% on average in the EU): Besides challenges with respect to access and adequacy, shortages of health and social care workers, due to among others ageing and migration from Bulgaria in search of more favourable financial and working conditions abroad, also hamper LTC provision.

b) Relevant planned and ongoing policy responses

Overall, Bulgaria has taken steps to alleviate poverty, with 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 adopted in 2020 and further updated in 2022. It covers 8 priority areas for intervention¹⁴ and has been implemented through dedicated 2-year action plans. Bulgaria was one of the seven Member States that participated in the ECG preparatory phase implemented by UNICEF, which helped shape the National Action Plan on the ECG and the first 2-year operational plan (2023-24). The European Social Fund Plus (ESF+) has dedicated considerable investments to the ECG (EUR 136 million, 5.4% of the total financial envelope), with several actions already under implementation. Additional financial support has also been ramped up by the government: 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 and pregnancy were increased (2024); iv) the adequacy of the monthly benefit for raising a child with a permanent disability was improved (2024); and iv) the tax relief per child in the household was increased (2022). Also, as part of the Recovery

¹⁰ Data can be found in the 2023 update of the Monitoring framework available at <https://ec.europa.eu/social/BlobServlet?docId=27549&langId=en>.

¹¹ Eurostat glossary (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Overcrowding_rate): The overcrowding rate is defined as the percentage of the population living in an overcrowded household, i.e. if the household does not have at its disposal a minimum number of rooms.

¹² European Centre of Expertise (ECE) Report, *State of social housing and housing support and respective impact on the Bulgarian labour market, in particular labour mobility*

¹³ 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070) - European Commission ([europa.eu](https://ec.europa.eu/eurostat))

¹⁴ The 8 areas are the following: labour market, education, healthcare, social services and integrated care, financial and material support, accessible environment, housing and homelessness, and integrated policies for social inclusion.

and Resilience Plan (RRP), new kindergartens and schools will be constructed, and existing ones renovated¹⁵. Although the National Action Plan on the ECG includes many relevant measures, effective implementation and closer monitoring of the envisaged projects will be necessary to curb child poverty rates, increase access to social, education, health and nutrition services and ensure children's well-being, in line with the 2030 national target.

Minimum wage increases have become central to successive governments' agendas. A mechanism was adopted in 2023 for setting the statutory minimum wage at 50% of the average gross wage for the past 12 months at the national level, which led to an increase by 19.6% in January 2024 (BGN 933 or EUR 477) compared to January 2023 (BGN 780 or EUR 400). The increase in the minimum wage also exceeded the high (although decreasing) level of inflation (8.6%) in 2023, resulting in sizeable growth in real terms. The impact of the increase on poverty levels and regional labour market outcomes is still to be assessed, also having in mind that the minimum wage may reach a level much above 50% of the average salary in some of the poorest regions, while it may remain below 30% of the average salary in the capital region, where wages were already higher. The transposition of the Directive on adequate minimum wages is expected to have a positive impact on reducing high in-work poverty, ensuring that the criteria for setting and updating statutory minimum wages include at least the following elements: the purchasing power of statutory minimum wages, taking into account the cost of living; the general level of wages and their distribution; the growth rate of wages; and long-term national productivity levels and developments.

Pensions have received more attention in line with Bulgaria's commitment to tackle poverty of older people. In response to the COVID-19 pandemic, social protection was expanded, including pension supplements. In 2022, the government institutionalised the changes, while also initiating a wider revalorisation of pensions' amounts. Several rounds of indexation took place, with the latest one expected in July 2024 (as per the 2024 budget). Minimum and maximum pensions were raised as well. While striving to improve the adequacy of pensions, the measures were mostly ad-hoc rather than systemic in nature. In 2023, the government decided to prepare an analysis of the pension system by June 2024 with the aim to evaluate policies and guarantee long-term fiscal sustainability. Preliminary Eurostat data seems to indicate a significant decline in the AROP rate for older people in 2023, suggesting a correlation with the improved pension adequacy. However, the full impact of the recent policy measures is not yet visible, including on poverty risks for older people as they have only been recently implemented.

The social protection system has been recently strengthened through the inclusion of automatic indexation mechanisms and simplified eligibility criteria, which are expected to result in better adequacy and coverage. The minimum income reform (a deliverable under the RRP), effective as of June 2023, linked the support scheme to 30% of the most recent AROP threshold in the country. This change will be instrumental for providing a safety net for those most in need. Moreover, the reform improved the overarching social assistance system by establishing a robust methodological base of calculation and indexation, easing eligibility criteria, and allowing for better adequacy and larger coverage of a variety of support schemes (e.g., support to persons with disabilities, social pensions, etc.). The targeted heating allowance to vulnerable population groups has been made more flexible and more responsive to unforeseen changes, but its duration is limited to 5 months. Bulgaria has adopted a definition of energy poverty (as part of its RRP) that will act as the cornerstone of the overall policy. Although this is an important step in the right direction, the support schemes are still under development and more targeted efforts could help to address the long-standing issue of energy poverty.

With the overhaul of the social services initiated with the Social Services Act in 2020, Bulgaria has progressively developed its system to build up access, affordability and quality, but the impact is still

¹⁵ Under Component 1, investment 2 of the Bulgarian RRP, around EUR 180 million will be directed towards the renovation of schools and kindergartens and a further EUR 34 million will be devoted to the construction of new schools and kindergartens.

to be seen. The Ordinance on the Quality of Social Services (adopted in 2022 and a milestone under the RRP) sets out the quality standards for all types of social services, accessible environment, user rights, staff qualifications and trainings, monitoring and evaluation framework. In line with legislative reforms, the 2024 national budget has committed significantly more financing to social services, surpassing the pre-reform 2019 national budget allocations by roughly three times. The National Map of Social Services (a milestone under the RRP, expected in 2024) will provide a detailed outlook for the availability and needs of all municipalities. It will act as the reference point for future investments to improve the quality, accessibility and attractiveness of social services, thereby addressing outstanding structural issues. Furthermore, in February 2024, the Strategy for Human Resource Development in the Social Sphere was published for public consultation, with the intention to tackle long-standing problems of staff qualification, training, remuneration and shortages. Nevertheless, in light of the challenges in the sector, further sustained efforts could improve access and provide quality social services to those in need equally across the country.

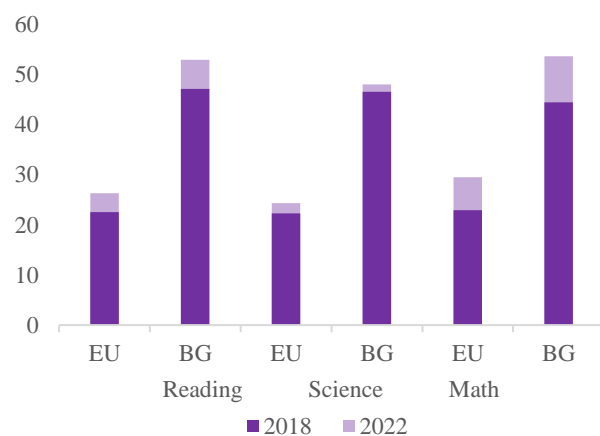
Deinstitutionalisation of long-term care for older people and persons with disabilities has been an ongoing process, slowly shifting the model to an individualised approach based in family and community-based services. The Long-term Care Strategy 2034 is in place and the Action Plan for Long-term Care (2022-27) was adopted in 2022. Funding from the ESF+, the European Regional and Development Fund (ERDF) and the Recovery and Resilience Facility (RRF), together with national co-financing, will direct EUR 790 million towards addressing issues of quality, access and human resources. Moreover, Bulgaria has already implemented measures to facilitate home care of persons with disabilities through the Personal Assistance Act (2019) with a current capacity to cover over 40 000 users¹⁶, while also directing more financing to expand family and community-based care services from the state budget. Over the past years, particular emphasis has been put on the care system for children with disabilities and progress has been achieved with the deinstitutionalisation of children. However, there are still 4 remaining socio-medical specialised institutions for children aged 0-3, with repeated postponements of their closure, planned to take place by the end of 2024

II. Skills

a) State of play and developments on social convergence risks

Significant challenges remain in ensuring quality and inclusive education, which hamper skills development and future labour market integration. The participation of children under the age of 3 in formal childcare, at 17.4% in 2023, remains low (17.4% vs 35.7% in the EU in 2022), mainly because of limited capacity and quality of childcare facilities. According to the OECD’s 2022 Programme for International Student Assessment (PISA), Bulgaria ranks among the lowest in the EU in terms of performance in mathematics, as well as in reading and science¹⁷. The share of underachieving 15-year-old students has been persistently one of the highest in the EU since 2012, with a further deterioration since 2018. In general,

Figure 3. Underachievers by subject (%)



Source: OECD

¹⁶ Figure according to the [National Map for Social Services](#).

¹⁷ 53.6% of Bulgarian 15-year-olds underperform in mathematics vs 29.5% in the EU; 52.9% are underachievers in reading vs 26.3% in the EU; and 48% lack basic skills in sciences vs 24.3% in the EU.

basic skills levels among young people are lower also for students from more advantaged backgrounds, indicating that the deficiencies of the education system affect all students. Bulgaria also has one of the largest gaps in underachievement between students from the top and the bottom quartiles of the PISA index of economic, social and cultural status (50 pps vs 37.1 pps in the EU). Moreover, underachievement among students from disadvantaged backgrounds is very high, with 77% lacking a minimum proficiency level in mathematics. The inclusion in education also remains a challenge. The segregation in education of Roma children aged 6-15 is significant (64% of Roma children attend schools where all or most pupils are Roma children, according to respondents)¹⁸. Early school leaving is decreasing (9.3% vs 9.5% in the EU) but it remains particularly high in rural areas and for the Roma, with socio-economic factors strongly affecting educational outcomes.

There is scope to improve the attractiveness and labour market relevance of vocational education and training (VET), while tertiary educational attainment remains low in comparison with the EU average. The Ministry of Education and Science has initiated a reform of VET and dual VET, but the share of upper secondary students in VET, although above the EU average in 2021, has been decreasing in recent years. In addition, the employment rate of recent VET graduates stood at 64.8% in 2022, below the EU average (79.7%). In some parts of the country, more than 60% of vocational school graduates do not possess the qualifications demanded in their local labour market¹⁹. In 2022, 33.8% of Bulgarians aged 25-34 had a tertiary education degree, 8.2 pps below the EU average and significantly below the EU-level target of 45%. From the 2018-19 to the 2022-23 academic year, the number of bachelor students increased substantially in education, ICT, arts and health-related fields but decreased sharply in several programmes that could support the green transition (such as biology, environmental programmes, physical, chemical and earth sciences).

Challenges in skills development hamper the digital and green transitions and undermine competitiveness. Low levels of adult participation in learning (9.5% vs 39.5% in the EU in 2022, with a decrease compared to 2016, and almost 26 pps below the national target of 35.4% by 2030)²⁰ have an impact on people's employability, productivity and the economy's growth potential. Only 35.5% of the Bulgarian population reported having at least basic digital skills in 2023, increasing from 31% in 2021, but still well below the EU average of 55.5%. The European Skills Index, which measures the performance of EU skills systems, shows that Bulgaria ranked among the poor performers in skills development and skills activation in 2022²¹. Skills shortages hindered general business activities for 79% of SMEs in 2023, among the highest rates in the EU in that year²², and are further exacerbated by migration outflows²³ and regional labour market characteristics. Skills shortages contribute to the growing labour shortages as demonstrated by employers' surveys²⁴. At the same time, active labour market policies (ALMPs) dedicate substantial resources to subsidised employment to the detriment of training in Bulgaria, even if analysis suggests that training measures

¹⁸ See figure 15 (p. 44) FRA Report: Roma in 10 European countries. Main results - ROMA SURVEY 2021 (europa.eu).

¹⁹ [Institute for Market Economics \(2023\), Index of the Correspondence between Vocational Education and Economic Profiles.](#)

²⁰ Eurostat data, Adult Education Survey, special calculation excluding guided on-the-job training as available in the public excel file: [ETS - Library \(europa.eu\)](#)

²¹ [European skills index | CEDEFOP \(europa.eu\).](#)

²² [Report Flash Eurobarometer 529 European Year of Skills: Skills shortages, recruitment and retention strategies in small and medium-sized enterprises \(europa.eu\).](#)

²³ Net migration in Bulgaria has been negative for decades; it is driven by workers' demand for higher wages and it is affecting more the working-age population, including in particular those with higher education. See Garrotte-Sanchez, D, Kreuder, J. and Testaverde, M. (2021), *Migration in Bulgaria: Current Challenges and Opportunities*, Social Protection & Jobs, Discussion Paper No 2109, World Bank Group, Washington.

²⁴ Employers indicated that in 37.8% of the cases, lack of skills (education) was the reason not to hire a job applicant. See the 2023 employers survey of the Bulgarian Employment Agency.

are among the most effective and should have an increasing role in the ALMP mix²⁵. Further efforts in upskilling and reskilling the labour force and refocusing resources to relevant training will be necessary.

b) Relevant planned and ongoing policy responses

Measures to support the inclusiveness of education and to improve students' basic skills are underway. The measures are guided by the Strategic Framework for the Development of Education, Training and Learning (2021-30), which set ambitious goals for improving education outcomes. In the past decade, Bulgaria revised its school curricula and took measures to tackle early school leaving. The attractiveness of the teaching profession is being increased by raising teachers' salaries, eliminating tuition fees for teacher education programmes and introducing alternative pathways into the teaching profession. Several measures aiming to enhance the inclusiveness and quality of education have been initiated with the support of EU funds, in particular the ESF+, RRF and the Technical Support Instrument (TSI). Regarding early childhood education and care (ECEC), the compulsory school age has been lowered to 4 years, with kindergarten fees for care-related activities being removed, while a quality framework with measures for improving access, monitoring and governance is under development for the entire system of early childhood education and care (ages 0-6). To diminish the large impact of the socio-economic status on students' performance and reduce school drop-out, in 2023 Bulgaria undertook remedial education classes, including additional hours in Bulgarian language, in more than 1 500 schools with large concentrations of students with disadvantaged backgrounds. Furthermore, science, technology, engineering and mathematics (STEM) laboratories are established across all schools, with a view to supporting the acquisition of digital skills and learning in STEM subjects, while the training of around 39 000 teachers from all education levels is envisaged by 2029. The implementation of these measures will contribute to addressing the structural challenges, with close monitoring needed to determine whether the planned results are delivered.

The government is taking steps to improve the attractiveness and labour market relevance of VET. As part of the reforms under the RRP, amendments to the regulatory framework for VET will enter into force in 2024. They will introduce changes to the list of professions for VET and their programmes, in line with the professional competences. In 2023, the Ministry of Education and Science launched an ESF+ operation of strategic importance to modernise VET: 384 vocational schools will introduce modernised curricula and apprenticeship programmes, more than 2900 pedagogical specialists in VET are expected to upgrade their skills related to the twin transition and almost 36 000 students are to complete additional activities and school-based practices in real working environments. In addition, both the RRF and ESF+ will provide support for the renovation of at least 24 vocational upper secondary schools and equip them to provide training in priority economic sectors with a focus on digital and green technologies, including support for their activities. Maximising the impact of these measures requires timely implementation.

Efforts continue on improving the attainment and the quality and labour market relevance of higher education. An updated register of all active, interrupted and graduated students and doctoral students by degrees and professional fields was adopted in 2023. As part of the RRP, the Council of Ministers adopted a National Map of Higher Education (updated annually), which tracks the number of students, type of studies, universities and their (human) resources, allowing for an informed decision-making in the field, with a strong focus on specific needs and the territorial dimension. Bulgaria also implemented a large-scale ESF operation to modernise the higher education system, with a budget of EUR 25.5 million from 2021 to

²⁵ See the National Employment Action Plans (<https://www.mlsp.government.bg/natsionalni-planove-za-deystvie-po-zaetostta>) and Metric Analytics (2023), which show that in 2023 less than 6.5% of the national funding was dedicated to measures involving only training, while the rest was used for subsidised employment or mixed measures. 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.*

We do not have a complete overview of the split for all spending on subsidised employment vs training (including ESF+). We have the national employment action plan.

2023. Its aim was to introduce the competency model-based training, support the development of joint university programmes, facilitate the development of transversal skills and improve the competences of teaching staff. In 2024, targeted support from ESF+ will be provided to introduce dual training in higher education, support career guidance, student practices, develop academic staff and improve the conditions in doctoral programmes relevant for the labour market. While these programmes go in the right direction, the extent to which they will effectively align higher education to the ongoing transformation of the world of work will need to be closely monitored in the coming years.

Upskilling and reskilling of the population are high on the government’s agenda, but measures need to be sustained in the long term. With TSI support, a national skills strategy and an action plan will be developed, addressing skills needs of young people and adults, as well as the need to better use the skills available. A platform called ‘Digital backpack’ was developed to facilitate access to lessons in a digital format for school children and allow teachers to share lessons. Bulgaria has started important investments under the RRF and ESF+ related to the creation of a platform for adult learning and the provision of training for digital skills. Digital clubs will be created in remote areas so that disadvantaged people without the necessary equipment can have access to the adult learning platform. With ESF+ support, 212 000 unemployed and employed persons at risk of job loss due to the restructuring of the economy will be able to increase their qualifications, including by acquiring green skills. Ensuring that skills development measures follow a concrete and coordinated strategy will be key to addressing the challenge of the low level of adult learning and responding to the changing labour market needs.

III. Labour market

a) State of play and developments on social convergence risks

The labour market continues to show positive outcomes, but differences persist across regions and population groups. The employment rate is on a positive trend and went up from 75.9% in 2022 to 76.2% in 2023, against a 2030 target of 79%. The unemployment rate fell to a historic low of 4.2% in 2022 and remained largely unchanged in 2023, at 4.3% (vs 6.0% in the EU). However, regional differences persist, with employment being the highest in the Yugozapaden region, at 81.7%, and the lowest in the Severozapaden, at 66.7% in 2022. The youth experiences more obstacles to enter the labour market. While declining in line with the overall trend in the EU, the share of young people (15-29) neither in employment nor in education and training (NEET) remained high at 13.8% in 2023 (2.6 pps above the EU average) and also varied significantly across regions. Youth unemployment (15-24) has declined considerably over the past years, standing at 12.1% in 2023, vs 14.5% in the EU, but almost three times the national overall unemployment rate. The employment gap between persons with and without disabilities has also been consistently much larger than in other Member States (except for 2021), standing at 39.5 pps in 2023, a 10 pps increase from 2022 (when it was 29.5 pps vs 21.4 pps in the EU). Finally, only 47% of the Roma population was engaged in any form of paid work in 2021, pointing to important challenges in relation to their social inclusion²⁶.

Labour shortages represent a growing challenge due to the negative demographic trend. Bulgaria lost 19.1% of its working-age population between 2011 and 2021, mainly due to migration outflows²⁷ and ageing, a negative trend which is projected to continue. The inactive population stood at 21% in 2022, slightly above the EU average, but varying significantly across regions (and with peaks among NEETs, persons with disabilities, those with lower educational attainment and the Roma). Against this background,

²⁶ Roma in 10 European countries. Main results - ROMA SURVEY 2021 (europa.eu).

²⁷ A total of 344 000 people emigrated during that 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).

the relatively low mobility of the labour force within regions, due in part to an ineffective housing market and underdeveloped transport infrastructure and services, has become a major contributing factor to labour shortages²⁸. While the job vacancy rate is currently low in Bulgaria (0.8% vs 2.5% in the EU in Q4-2023), a comprehensive employers' survey showed an increase in the estimated annual demand for labour in 2023 by 20.8%, which was even higher for qualified workers with secondary education (34.7%) and with higher education (22.7%)²⁹. For the healthcare sector, recent data suggests major shortages of general practitioners, psychiatrists and nurses. With 4.2 nurses per 1 000 inhabitants, the share is only around half the EU average of 7.9 per 1 000,³⁰. Migration outflows, ageing and unfavourable working conditions are identified as key challenges to nurse staffing.

Effective active labour market policies can foster labour market integration and address labour and skills shortages. Despite temporary increases in the national funding for ALMPs in 2020 and 2021, the related budget remains highly dependent on external funding like ESF+. Measures focused exclusively on training, including upskilling and reskilling, systematically receive a small percentage of the budget³¹. Public Employment Services (PES) still have difficulties to reach parts of the population, especially in remote areas, even with the introduction of mobile labour offices. These difficulties are arguably one of the factors behind the persistently low employment rate of low-skilled people (ISCED³² 0-2), at 50.2% in 2023, significantly below the employment rate of the high-skilled (ISCED 5-8), at 90.2%³³, together with high skills mismatches at regional level, low educational attainment and lack of basic literacy among certain population groups.

b) Relevant planned and ongoing policy responses

The Employment Agency is implementing a range of activities to identify, reach out to and motivate inactive people, with a focus on youth and the Roma. Important amendments to the Employment Promotion Act (EPA) in 2022 aimed to develop a mechanism for data exchange between institutions, which would create a register of inactive persons. EPA amendments also regulated the validation of professional knowledge, skills and competences and eased the registration and referral to appropriate procedures in the labour offices, strengthened traineeship opportunities and provided more individualised support through mediators within the PES for young people. The ESF+ Programme Human Resources Development will complement the measures with a dedicated budget of EUR 315 million to integrate unemployed young people into the labour market and facilitate their skills development and transition from education to employment. In particular, for Roma people, in line with the National and EU Roma Strategic Framework 2030, the ESF+ will support local partnerships to expand the network of Roma mediators and the labour market integration of Roma people, with a dedicated allocation of almost EUR 122 million. An important ESF+ supported procedure ('Starting a job') provides a comprehensive package of measures related to the labour market integration of the inactive, with a focus on disadvantaged ones. Moreover, the modernisation and digitalisation of the PES is envisaged with targeted support from the RRF, ESF+ and TSI. The impact of some of these measures remains to be seen, and assessing their effectiveness and efficiency would be necessary to ensure that they achieve the desired results or to plan corrective actions if needed.

²⁸ Hermansen, M., 'Reducing regional disparities for inclusive growth in Bulgaria', *Economics Department Working Papers*, No 1663, OECD, 2021.

²⁹ For example, healthcare professionals, economists, teachers, IT experts, etc. See more in National Employment Agency, *Employer Labour Needs Survey (2023)*.

³⁰ Source: Eurostat

³¹ For example, only 6.5% of the budget for the active labour market policy measures included in the 2023 national employment action plan goes to measures dedicated to training only. The rest covers measures that either fund both direct job creation and training or only the former.

³² The International Standard Classification of Education (ISCED).

³³ Eurostat: <https://ec.europa.eu/eurostat/databrowser/bookmark/1829be9f-06e9-4922-b398-2a3cef0d035d?lang=en>

Various measures are in place to reduce the employment gap between persons with and without disabilities, but they have not yet produced a lasting positive effect. In a broader context, the Persons with Disabilities Act (2019) establishes employment as a main area of intervention and support, with measures such as mandatory quotas for persons with disabilities in larger enterprises, free employment mediation services and several incentives for employers to hire persons with disabilities (e.g., reduced social contributions). National programmes promote employment, including self-employment and entrepreneurship, with the individual subsidy being increased by 50% in 2024 (up to EUR 15 000) for the latter. Technical support for strengthening the disability assessment system (2020-2022) and improving the governance of disability policy was provided under the Technical Support Instrument (TSI). The ESF+ complements the measures with targeted support for the labour market integration of persons with disabilities, including workplace adaptation (allowing for purchasing of necessary equipment) and training. These measures go in the right direction but do not appear sufficient to comprehensively tackle the structural challenge at this stage.

Bulgaria has stepped up efforts on the provision and availability of health services, with a strong focus on the workforce in the sector, but further efforts could ensure that the challenges are addressed in light of the declining workforce. The National Health Strategy 2021-30, initially approved by the Council of Ministers in September 2022, was adopted by the National Assembly on 18 April 2024. This key document addresses the existing structural challenges of the health sector, including the shortages of healthcare professionals, and outlines goals and priorities for a 10-year period. The reform addressing shortages of healthcare professionals, including their unbalanced geographical distribution, is being implemented through the RRP, whereas the ESF+ contributes to the training of the specialists and their engagement in the underserved areas. Concrete measures to improve the attractiveness of the nursing profession and tackle poor working conditions in the sector are still under preparation. Considering the challenges in the sector, the area deserves closer monitoring and require stepping up the implementation of the envisaged reforms and investments.

IV. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to high income inequality, poverty and social exclusion that remain entrenched, especially for disadvantaged groups, and in particular for children. Persons with disabilities are especially vulnerable, since they face greater difficulties in accessing the labour market, as evidenced by the large disability employment gap. The housing cost overburden rate, as well as energy poverty, are high, while the impact of social transfers (other than pensions) on poverty reduction remains well below the EU average. Significant challenges remain in ensuring quality and inclusive education, including in early childhood education and care, characterised by a low participation for children below the age of three in formal childcare. In addition, the lack of basic skills among young people acts as a barrier to future skills development and hence education and labour market outcomes, productivity and economic growth prospects of the country. Finally, low levels of digital skills and the very low adult learning participation, decreasing over the last six years, pose obstacles to the fair green and digital transitions.

The measures implemented so far, such as the reform of the social assistance and social services and actions to reduce poverty and social exclusion, especially for children, as well as the interventions already initiated and envisaged to improve the quality and inclusiveness of education and labour market outcomes, including via increased training opportunities, are expected to help Bulgaria move in the right direction. Despite progress made and further measures planned, notably with regard to improving social protection and reducing poverty rates, efforts are not sufficient to fully address the challenges that the country is facing in relation to social protection and inclusion, education and skills.

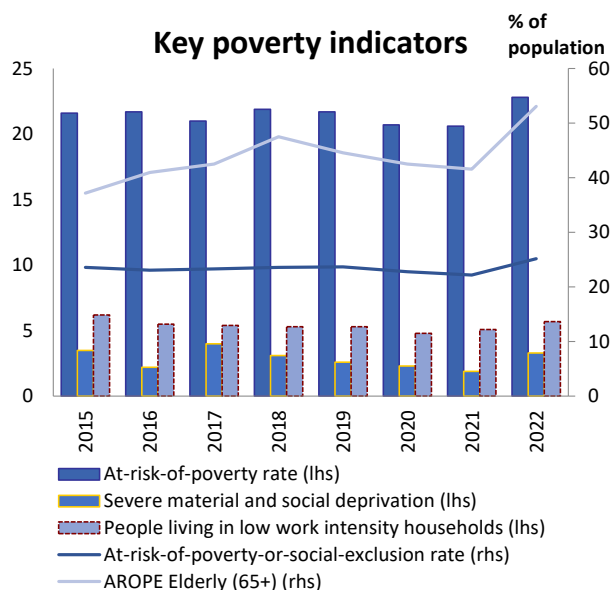
2.2 ESTONIA

In the context of the first-stage analysis presented in the JER 2024, Estonia was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging. These notably concern social protection and inclusion, regarding the **at-risk-of-poverty or social exclusion rate**, the **impact of social transfers (excluding pensions) on poverty reduction, income inequality**, as well as **self-reported unmet needs for medical care**. In the education and skills domain, the number of **early leavers from education and training** was also identified as a criticality. Finally, although the labour market improved, a need was identified for further examining the situation of **persons with disabilities**. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at the available quantitative and qualitative evidence and the relevant policy responses undertaken or planned by Estonia.

I. Social protection and social inclusion

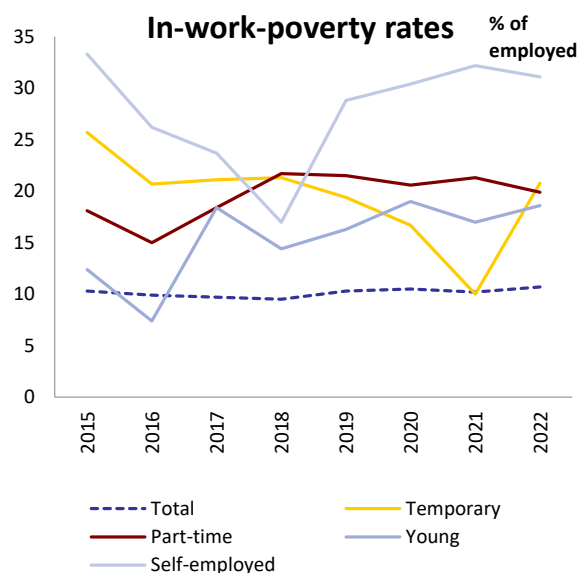
a) State of play and developments on social convergence risks

The share of people at risk of poverty or social exclusion (AROE) increased significantly in Estonia in 2022, in particular among older people and persons with disabilities. In 2022³⁴, the AROPE rate rose by 3 pps to 25.2%, above the EU average of 21.6%. While the share of people (18+) experiencing material and social deprivation, at 4.4%, was significantly below the EU average of 8.3%, the share of people at risk of poverty (AROP) was one of the highest, at 22.8% (6.3 pps above the EU average), also before social transfers (at 31.7%, 6.3 pps above the EU average). Higher living costs (inflation in Estonia was 19.4% in 2022 vs 9.2% in the EU) put additional pressure on households' ability to make ends meet, despite measures taken to shield the population from energy price hikes. In particular, older people (65+) experienced extremely high risks of poverty or social exclusion, with an AROPE rate rising from 41.6% in 2021 to 53.1% in 2022 (more than twice the EU average of 20.2%). This was driven by an increase of 11.7 pps over one year in the AROP rate, to 52.3%, more than three times the EU average (17.3%), pointing to structural old-age monetary poverty. The rate is even higher for older women (at 57.1%, i.e., 13.5 pps above that for men), which is also linked to low pension adequacy. In addition, the AROPE share among people with some or severe activity limitations was 47.8% in 2022, among the highest in the EU and more than double that for others. Significant efforts could bring Estonia to reach its 2030 national target of reducing the number of people at risk of poverty or social exclusion by 39 000, compared to 2019 as the reference year. After decreasing by 18 000 between 2019 and 2021, the number of people at risk of poverty or social exclusion increased in 2022 by 39 000 reaching a total of 332 000, which mostly reflects the delayed impact of the Covid-19 pandemic (60 000 above the 2030 national target).



³⁴ The AROPE figures given for the survey year 2022 reflect the situation in the income year 2021 for what concerns the AROP and households with very low work intensity (VLWI) components.

Despite measures taken to protect households, income inequalities increased during the COVID-19 crisis. After falling in 2020, income inequality, as measured by the income quintile share ratio, rose in 2022, when, the income of the richest 20% of the population was around 5.4 times that of the poorest 20%. This was up from around 5 in 2021, against a downward trend in the EU from 4.9 in 2021 to 4.7 in 2022. Also, the income share of the bottom 40% of the population was below the EU average (19.5% vs 21.7%) in 2022.



The share of people in non-standard forms of work in Estonia is relatively low, but those concerned tend to experience high in-work poverty risks. While in 2022 12% of Estonian employees worked part-time (vs an EU average of 16.8%), almost one in five part-time workers was at risk of poverty (AROP). At the same time, 20.8% of employees with a temporary contract experienced in-work poverty (i.e., 6.4 pps above the EU average). Also, the AROP rate was very high for the self-employed (31.1% in 2022 vs 22.2% in the EU). Overall, in-work poverty is relatively high (at 10.5% in 2022 vs 8.5% in the EU). Nominal wages increased significantly in 2023, but the rebound in real terms was limited. While nominal wage growth remained strong in 2023 (10.0%, after 8.1% in 2022), real wages increased only marginally on the back of still high inflation (9.4% in 2023, after 19.4% in

2022), linked to the energy crisis provoked by Russia’s war of aggression against Ukraine. The minimum wage (EUR 725 per month in 2023) remains close to the at-risk-of-poverty threshold (EUR 756 per month).

The main causes of the aforementioned poverty risks are income inequalities before social transfers and the relatively small scale of income redistribution by the tax-benefit system. The low coverage of unemployment benefits, especially for those in non-standard forms of work or with short work spells, contributes to higher poverty risks. In 2023, only 28.1% of the newly registered unemployed received unemployment insurance benefits, 4.9% received unemployment insurance benefits and the work ability allowance at the same time, and 28.3% received the state non-contributory unemployment allowance.³⁵ Qualifying for unemployment insurance depends on the individual’s employment history and income before unemployment. In this context, the self-employed are not covered by unemployment insurance and only have access to the state non-contributory unemployment allowance (under the same conditions as employees). The amount of the less generous unemployment allowance (given to those who do not qualify for unemployment insurance) is not based on the individual’s prior income but on the minimum wage, which reinforces their poverty risk.

The adequacy of pensions and of the social safety net remains low. The low amount of the subsistence benefit (Estonia’s minimum income scheme) does not protect people from falling below the absolute poverty threshold. There is no regular indexation and so far changes have been made in a discretionary manner. In 2019, the subsistence benefit was raised from EUR 140 to EUR 150, and it was increased again in June 2022 to EUR 200. The scheme faced additional pressure in 2022 and 2023, due to the inflow of people fleeing the war in Ukraine as a result of Russia’s war of aggression. In the context of rising costs of

³⁵ See Töötukassa: Coverage of allowances and benefits, 2024.

living, the impact of social transfers (excluding pensions) on poverty reduction, at 28% in 2022, was well below the EU average of 35%, as was their income inequality reducing effect (at 22.1% compared to 36.7% in the EU). Old-age pensions are low relative to work incomes, with an aggregate replacement ratio of 44% (vs 58% in the EU).³⁶ Moreover, the adequacy of pensions in the future risks decreasing and poverty risks in old age increasing as a result of the 2021 reform making the statutory funded scheme voluntary (see policy response section below).

Despite significant improvements in recent years, public spending on healthcare and long-term care remains low in Estonia while challenges persist in terms of access to healthcare and quality social services. Since 2019, the share of Estonians experiencing unmet needs for medical care has decreased significantly, by 6.4 pps. Nonetheless, in 2022, Estonia had still one of the highest levels of unmet needs in the EU (9.1% vs 2%). General government expenditure on healthcare as a share of GDP increased slowly over recent years, particularly at the beginning of the COVID-19 pandemic but continues to be below the EU average (7.6% vs 10.9% in 2021) and is decreasing as of 2021. Also, public spending on long-term care (LTC) remains low (0.4% of GDP vs 1.7% in the EU in 2022). As the share of the population aged 65 and over is expected to increase from 20.4% in 2022 to 27.1% in 2050, with an old-age dependency ratio rising from 32.3% in 2022 to 46.2% in 2050, the demand for LTC is bound to become more acute. The challenges reported by the sector include governance and quality issues, shortages of labour and a high rate of informal carers as well as adequacy and disparities between municipalities. Only 10.3% of people aged 65+ in need of LTC report to use home-care services (vs 28.6% in the EU in 2019). Out-of-pocket payments for LTC have slightly decreased but remain high, accounting for 43.8% of all LTC health-related expenditure in 2020 (vs 18.1% in the EU).

b) Relevant planned and ongoing policy responses

Estonia has made efforts to provide greater social protection to the unemployed, yet further efforts could strengthen coverage for some categories of workers. As part of its recovery and resilience plan, Estonia has already reformed the duration of the unemployment benefits. The amendments to the Unemployment Insurance Act entered into force on 30 June 2023 with a view to extend the duration of unemployment insurance benefits so that it is more responsive to difficult labour market situations. Beyond the RRP however, Estonia has carried out analysis and made some policy changes to the unemployment benefits system, the current rules for the coverage have not been changed for the self-employed, nor for people in non-standard forms of work. According to the Estonian Government coalition agreement, the Minister of Economic Affairs and Information Technology is expected to present proposals for the expansion of unemployment insurance for those who work in non-standard forms of work to the government in the spring of 2025.

Estonia raised the minimum wage in recent years in an effort to reduce in-work poverty. The minimum wage increased by 10% in nominal terms between January 2022 and July 2023, but due to high inflation it decreased by 9.9% in real terms over the same time span. In general, social partners negotiate the minimum wage on a yearly basis. Recently, they concluded an agreement on a new minimum wage for 2024 (as of 1 January the minimum wage is EUR 820, compared to EUR 725 in 2023). Social partners and the government also reached a tripartite agreement about gradually increasing the minimum wage in the following years. Their aim is to bring the minimum wage at 50% of the average wage by 2027.³⁷ Estonia will also need to transpose the Directive on adequate minimum wages, which is expected to have a positive impact on reducing in-work poverty.

³⁶ Piirits, M., Võrk, A. (2019). The effects on intragenerational inequality of introduction a funded pension scheme. A microsimulation analysis of Estonia. *International Social Security Review*, Vol 72, No. 1, pp 32-57.

³⁷ In 2023, the minimum wage was 39.5% of the average wage.

Initial steps have been taken to combat old-age poverty. Besides the annual indexation of pensions, an increase (by EUR 20) in the average pension and an income tax exemption (up to EUR 704) were introduced as of January 2023. Additionally, the allowance for a pensioner living alone increased from EUR 115 to 200 in 2022. A “pension awareness strategy 2023-27” was also introduced in June 2023, which aims to develop measures to increase awareness of pension systems and entitlements as well as the pension savings rate. However, it is not clear to what extent these measures offset the impact of the pension reform of 2021 making the statutory funded scheme voluntary. The aim of this reform was to increase the freedom of choice for citizens when it comes to their pension funds management. Since the reform approximately 30% of participants of funded pension insurance withdrew their statutory funded pension, 0.2% stopped paying further contributions to the statutory funded pension scheme, and 0.6% transferred their pension assets to an investment account. In this context, old-age poverty risks remain a key challenge.

Several measures have been implemented and are planned for 2024 regarding the minimum income scheme. According to the Government Action Plan³⁸, Estonia intends to modernise its subsistence benefit system. In June 2022, the subsistence benefit was increased from EUR 150 to 200 for a person living alone or for the first family member. The allowance was raised to EUR 240 per month for each child under 18 and to EUR 160 per month for the second family member and for each following one. In addition, from July 2022, mortgage payments are considered as housing costs when calculating eligibility and the benefit amount. Since the start of Russia’s war of aggression against Ukraine and the related inflow of people fleeing the war, the number of applications for subsistence benefits has increased significantly, from 9 806 in 2021 to 25 016 in 2022.

An important contribution to addressing the long-standing challenge of unmet medical needs is expected to be provided by the full implementation of the RRP. This includes measures to increase the size of the healthcare workforce, improve health infrastructure, and strengthen primary care as well as access to healthcare and the e-health system. The implementation of the measures has started, including through the entry into force of reforms strengthening primary care³⁹ and incentivising doctors and pharmacists to work in remote areas, as well as the adoption of the revised e-health governance framework and its implementation roadmap.

Estonia made several changes to the legislative acts on long-term care (LTC) in 2022 and 2023. The amendments that entered into force in May 2022 include defining the concept of LTC and specifying the role of central and local governments for better service provision. On 1 July 2023, the ‘Care Reform’ entered into force, which provides local governments with additional financial resources for organising LTC, especially to reduce out-of-pocket payments in general care provision. This is the first major step in strengthening LTC provision in Estonia, but its impact remains to be seen. A coordination model for the provision and development of integrated person-centred services across the country is being developed, but the full country implementation depends on legal and budgetary decisions. In addition, the government intends to support informal carers, though the necessary budgetary decisions and legal amendments are still to be adopted. As part of the RRP, the amendments to the Social Welfare Act entered into force, laying down the concept of long-term care, as well as the obligation on local authorities to take into account the principle that a person must be able to live as long as possible in his or her home, with sufficient quality services available, and an Action Plan on integrated care provision was adopted. Furthermore, the RRP envisages the adoption of a reform on the design and characteristics of care services to people with lower care needs in 2024, and a reform regarding services for children with high care needs, aiming at an early identification and timely intervention in 2025. Furthermore, with support of the European Social Fund Plus

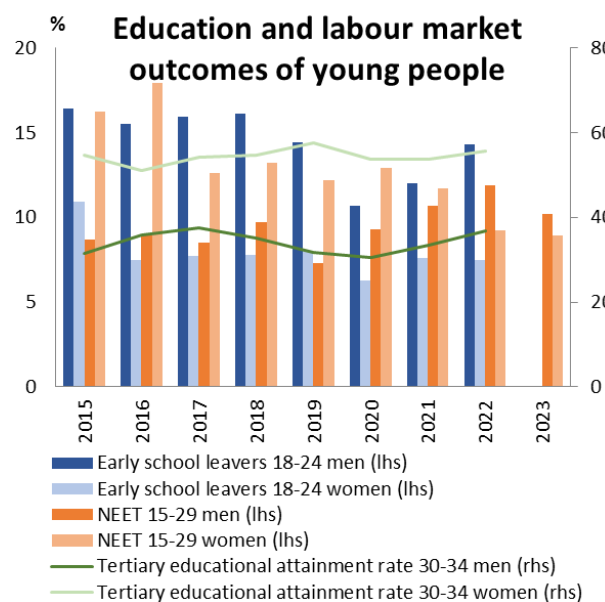
³⁸ Estonian Government Action Plan 2023-2027.

³⁹ Regarding the list of the Estonian Health Insurance Fund for costs and services of general practitioners, and the list of healthcare services of the Estonian Health Insurance Fund for specialised medical care

(ESF+), Estonia will finance measures fostering social inclusion, including LTC measures, integration measures and action to tackle material deprivation.

II. Skills

a) State of play and developments on social convergence risks



While Estonia performs very strongly in basic skills, there are challenges in education including a relatively high early school leaving rate. Despite a decline in student performance, Estonia is the only country in the Union that has achieved its 2030 European Education Area headline target of less than 15% of students underachieving in each discipline, as measured by PISA 2022.⁴⁰ It also has one of the lowest socio-economic gaps in underachievement in mathematics between advantaged and disadvantaged students, which has nevertheless widened since 2018. Estonia's strong performance is overshadowed by structural challenges. As the teacher workforce is ageing, Estonia is faced with an increasing shortage of teachers and support specialists. Moreover, about half of all teachers leave the profession within the first five years. Challenges with early school leaving also

remain. More than one in ten young people leave the education and training system with very low or no qualifications, with almost twice as many boys than girls.⁴¹ Since 2020, this figure is again on the rise. It increased by 1 pp in 2022, reaching 10.8%, above the EU average of 9.6%. While the rate remained broadly stable for girls (7.6% and 7.5% in 2021 and 2022 respectively) it increased for boys (from 12% in 2021 to 14.3% in 2022). Reasons for early school leaving include an incorrect choice of speciality and learning gaps in following the curricula.⁴² In 2022, 43.9% of the population between 25 and 34 held a university degree (vs 42% in the EU), but the gender gap remains high (a 20.8 pps difference in favour of women in 2022, vs 11.1 pps on average in the EU). The drop-out rate from higher education is also relatively high and affected by the ability to cover costs of living during the studies (with 70% of students working in parallel). Relatively low wage premia for people with tertiary education also contribute to discouraging the finalisation of studies⁴³ adding to skills shortages. The share of young people neither in employment, nor in education and training (NEET) decreased by 1 pps between 2022 and 2023 to 9.6% (and remains below the EU average of 11.2%). A drop was registered for both women (-0.3 pps to 8.9%) and men (-1.7 pps to 10.2%), after a significant decrease for women in the previous year (3.7 -pps), which for the first time over recent years led in 2022 to a lower rate for women than men. Youth unemployment stood at 17.3% in 2023, which is above the EU average (14.5%) and significantly higher than the pre-pandemic level (11.6% in 2019).

Digital skills are widespread, and participation in adult learning is relatively high but with strong differences between men and women. At 62.6% in 2023, the share of individuals with at least basic digital

⁴⁰ European Commission, [The twin challenge of equity and excellence in basic skills in the EU](#), 2024.

⁴¹ European Commission, [Education and Training Monitor – Estonia](#), 2023.

⁴² [European Commission: "National policies: Preventing early leaving from education and training \(ELET\)"](#).

⁴³ OECD, 2022; Arenguseire Keskus, 2022

skills was well above the EU average of 55.5%. However, digital skills are much less widespread among older people (55-74) (34.5% vs 37.0% in the EU), compared to the overall population. At the same time, the share of adults (25-64) participating in learning over the previous 12 months increased significantly (by 7.9 pps) in Estonia between 2016 and 2022, reaching 41.8%⁴⁴, above the EU average of 39.5%. However, figures vary significantly between women and men: the adult learning participation rate increased by 5.9 pps for men, to 33.9%, and by 10.4 pps for women, to 49.9%. At the same time, skills mismatches and shortages remain high. There is room for policy action to further increase adult learning in Estonia in order to reach the national target of 52.3% of all adults participating in training every year by 2030.

b) Relevant planned and ongoing policy responses

Several initiatives have been initiated that could contribute to reducing the high rate of early school leavers. To increase educational attainment and address early school leaving, Estonia has initiated a major reform to extend the compulsory education age to 18 years. Legislative changes, expected to take effect from the 2024-2025 academic year, include more effective support for young people in making post-primary learning choices, the introduction of a joint admission system, an increase in post-primary learning choices in vocational upper-secondary education, and the extension of upper-secondary VET curricula to 4 years to increase flexibility and permeability. The Education Ministry sees the integration of formal and non-formal education as key to creating an environment that makes it possible for all learners to succeed⁴⁵. Its approach to reducing early school leaving includes supporting pupils with special educational needs and improving the school climate. As part of the recovery and resilience plan, Estonia adopted the Reinforced Youth Guarantee Action plan, as well the My First Jobs Scheme that incentivises youth employment through a combination of wage and training support. Under the action plan the Education Ministry gives grants to local governments for projects providing support services to disadvantaged children and young people, in order to prevent early school leaving and promote inclusion in education. Moreover, the ESF+ will support career and study counselling services, youth work and prevention measures for young people at risk. A high share of the ESF+ (47%) is dedicated to education and training measures that aim to improve the link between education and the labour market, offer flexible ways for re- and up-skilling, in particular for persons with low or outdated skills, as well as support teachers' training. Estonia is also implementing an action plan that was adopted in 2022 to address teacher shortages.

As a way to address early school leaving, Estonia is also providing additional flexibility and targeted support as part of VET programmes. Since 2021-22, a new type of vocational training, 'the choice of profession curriculum', has been introduced in 23 VET schools. This supports learning based on needs and abilities allowing adjusted learning in smaller modules ('learning bites'), recognised as part of the formal curriculum. Measures supporting learners with special educational needs and those with migrant background were also adopted in 2022, including by enabling the transition to Estonian language instruction in VET for students with a migrant background and those whose first language is not Estonian.

III. Labour market

a) State of play and developments on social convergence risks

Overall, the Estonian labour market continues to perform strongly. The employment rate reached 82,1% in 2023, which is well above the EU average of 75.4%. For women, the rate was also among the highest in the EU, at 80.9% in 2023 (vs 70.2%). Due to a recession that started in the second half of 2022,

⁴⁴ [AES 2022 survey](#), adults (25-64), formal and non-formal education and training excluding guided on the job training.

⁴⁵ European Commission, [Education and Training Monitor – Estonia](#), 2023.

the labour market started to gradually worsen in 2023 with the unemployment rate increasing from 5.6% in 2022 to 6.4% in 2023 (vs 6% in the EU).

According to the Social Scoreboard indicator, the disability employment gap increased significantly in 2022, but decreased in 2023. The work ability reform⁴⁶, implemented in 2016, supported employment opportunities for persons with disabilities and thereby contributed to the decrease of the disability employment gap to 18.3 pps in 2018 (vs 23.5 pps in the EU). The latter remained below the EU average until the recent sharp increase, from 18.7 pps in 2021 to 26.2 pps in 2022, significantly exceeding the EU average in the same year (21.4 pps). The latest data points to a significantly lower disability employment gap in Estonia for 2023 (at 20.2 pps). The steep increase in the disability employment gap in 2022 was affected by the increase in the overall employment rate, with 4.6% more people in employment in 2022 compared to the year before⁴⁷, whilst the uptake of employment for persons with disability has been slower (this may also relate to individuals with reduced work ability having returned to work more slowly following the COVID-19 pandemic). According to the national statistics, the disability employment gap widened only by 3.1 pps from 2020 to 2022 (no 2023 data are available yet).

b) Relevant planned and ongoing policy responses

Estonia has taken steps to support the employment of individuals with reduced work ability. It overachieved by 1 pp the objective of the Welfare Development Plan 2016-23 to increase the employment rate of persons with disabilities to 51.6% by 2022, according to national data. The following elements of the reform contributed to the aforementioned progress: a) the new form for assessing the ability to work; (b) the payment of workability allowance according to the individual's degree of working capability; (c) mandatory activation measures and specific employment measures and schemes for activation. Overall, the evaluation of the reform indicates that the activity rate of individuals with reduced work ability has improved, as both the number of concerned employed people and the number of jobseekers have increased over the past years.⁴⁸ The work ability reform shifted the focus from incapacity to work to the assessment and application of existing work capacity and to help people with a reduced capacity to work enter the labour market, while ensuring the financial sustainability of the support system. The task of assessing work ability was transferred from the Social Insurance Board to the Unemployment Insurance Fund. In addition, the Welfare Development Plan 2023-30 focuses, among other target groups, also on individuals with reduced work ability to enhance their employment opportunities and reduce employment gaps. These measures also benefit from ESF+ support.

IV. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to social protection and inclusion, and education. These relate to high poverty or social exclusion rates of some groups, high income inequality, a low impact of social transfers (other than pensions) on poverty reduction, as well as one of the highest self-reported unmet needs for medical care in the EU. Estonia also has further scope for reducing early school leaving and the gender gap in higher education. For the disability employment gap, for which potential risks were identified in the first stage, the latest data point to a significant improvement in 2023.

⁴⁶ European Commission factsheet, "Work ability reform", 2019

⁴⁷ Labour Market Review 2023, Estonian Central Bank: [Labour Market Review 1/2023 | Publications | Eesti Pank](#)

⁴⁸ At the end of 2020, 61% of individuals with partial work ability were employed and 17% registered as unemployed, against 42% and 5% respectively in 2016. See Praxis (2021) Evaluation of the work ability reform in Estonia.

The government has taken measures to address all these challenges, including raising the minimum wage, increasing the flexibility of its unemployment insurance benefit system, an income tax exemption and the pension awareness strategy to combat old-age poverty. Estonia has also taken steps to support the employment of individuals with reduced work ability. It is additionally planning measures to reduce the share of early school leavers, e.g. through the integration of formal and non-formal education and the support of pupils with special educational needs. There are also plans to address the long-standing challenge of unmet medical needs and improve the accessibility and resilience of the healthcare system, e.g. through an increase in the number of healthcare workers and the first significant reform in long-term care. The measures being implemented or planned so far are expected to help Estonia move in the right direction, but this crucially depends on their effectiveness and sustainability over time.

2.3 SPAIN

In the context of the first-stage analysis presented in the JER 2024, Spain was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging. These notably concern social protection and inclusion, regarding the **at-risk-of-poverty or social exclusion rate for children**, the **impact of social transfers (excluding pensions) on poverty reduction** and **real gross disposable household income per capita**. It also concerns the labour market, where despite its increase, the **employment rate** is still at a low level and potential risks were identified in relation to the high **youth NEET rate**. Finally, in the area of education, the **rate of early leavers from education and training** also pointed to criticalities. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at available quantitative and qualitative evidence and the relevant policy responses undertaken or planned by Spain.

I. Labour market

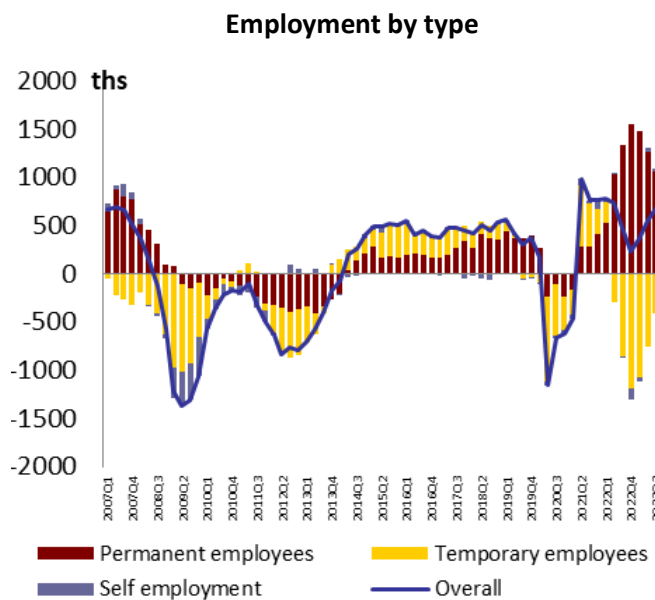
a) State of play and developments on social convergence risks

Despite recent progress, the employment rate remains relatively low in Spain, especially for young people, older women and the medium skilled. On the back of robust GDP growth, the employment rate (20-64) reached a peak of 70.7% in 2023, which is nevertheless significantly below the EU average (75.4%). Spain's youth (15-29) face significant challenges, with an employment rate of 39.6% in 2023 (10.1 pps below the EU average) and a high rate of young people that are neither in employment nor in education and training (NEETs). The latter has fallen by around 10 pps over the last decade but it remains above the EU average (12.2% vs 11.2% in 2023). Within the NEETs group, the proportion of unemployed (7.1% in 2022) is greater than that of the inactive (5.6%). While Spain's gender employment gap is around the EU average, it is higher for older women (55-64), with only slightly more than half of them employed (13.2 pps below the rate for their male counterparts) in 2023. Since 2013, employment opportunities have improved for the low-skilled in Spain, with a 13.5 pps increase in their employment rate to 60.7% in 2023, above the EU average of 58.3%. This also coincides with a 54.1% increase since 2018 in the minimum wage (at EUR 1 134 gross as of January 2024 based on 14 monthly payments per year, equivalent to EUR 1323 per month). At the same time, the employment rate of the medium-skilled (upper secondary and post-secondary) was significantly below its EU average (66.2% vs 74.6% in 2023), including for vocational education and training (VET) graduates. This contrasts with companies' need of workers with VET qualifications as evidenced by the Bank of Spain,⁴⁹ which suggests skills mismatches for this group. Reaching the Spanish employment rate target of 76% by 2030 would require an average yearly employment growth of 1.4% between 2022 and 2030, which is below the average annual growth of 2.3% recorded between 2013 and 2019.

⁴⁹ [Bank of Spain, Encuesta a las empresas españolas sobre la evolución de su actividad: tercer trimestre de 2023.](#)

Despite improvements, the unemployment rate remains high in Spain. Both the unemployment rate and its long-term component were twice the EU average in 2023, at 12.1% and 4.2% respectively. Large regional differences persist, with a 10.4 pps difference in unemployment rates between Andalucía (19%) and País Vasco (8.6%) in 2022.⁵⁰ Despite progress, unemployment continues to affect more severely the youth, older workers, and foreign-born people. In particular, the youth unemployment rate (15-29) was, at 21.3% in 2023, 10.1 pps higher than the EU average, while for older people (55-74) the unemployment rate was almost triple the EU average (11.1% vs 4.3% in 2023), pointing at significant challenges at both ends of the age spectrum. Among foreign-born workers the share of the unemployed was 16.1% in Q4-2023 (vs 9.5% in the EU), a significant part of which is explained by their higher exposure to sectors with a higher structural incidence of unemployment.⁵¹

Effective active labour market policies (ALMPs) are particularly important to improve labour market outcomes. While Spain increased its budget devoted to ALMPs by almost 40% between 2020 and 2023, the ALMP expenditure per unemployed person remains low compared to EU average and shows important regional differences. At the same time, training provided by public employment services (PES) covers only a low share of the unemployed (6.6% in 2022), while six in ten registered unemployed in 2021 only received diagnosis services, which hints at the need for a more balanced mix of PES services. Regional PES only help fill a low share of vacancies in the labour market (2.2% in 2022), again with wide regional differences (from 11.7% in Extremadura to 0.4% in Cataluña). Moreover, between 2013 and 2022 the effectiveness of PES in filling vacancies decreased. Strengthening the cooperation of PES with employers (as called for by 42% of them vs 31% in the EU) can be expected to help reverting this trend. Increasing the participation of the low-skilled in learning and adapting the training offer to the needs of the digital and green transitions are other key challenges for PES.



Since the nineties, the high prevalence of temporary employment has been contributing to high employment volatility and income inequalities, though the recent labour market reform has brought significant improvements. The high share of temporary contracts translated, among others, into much higher in-work poverty rates for temporary workers compared to permanent ones (14.3% vs 7.2% in 2023) and also a lower accumulation of firm-specific human capital and productivity growth. The share of employees on a temporary contract fell from 20.9% in 2021 to 14.3% in 2023. This is linked to the new labour legislation passed in December 2021, which reformed the menu of available contract types, leading to a sharp reduction (down to 13.2%) in the share of fixed-term contracts in the private sector. However, fixed-

term contracts are still more than twice as prevalent in the public sector as they are in the private sector, which is the main reason why Spain remains 3.8 pps above the EU average overall. Fixed contracts remain especially widespread in the education and health sectors, with increasing regional disparities. While the share of part-

⁵⁰ The NUTS 2 unemployment rate for 2023 was not yet available from Eurostat at the time of writing.

⁵¹ Ministry of Inclusion, Social Security and Migrations, Report on the integration of the foreign population in the Spanish labour market 2022.

time contracts among permanent contracts has remained broadly unchanged since 2021, there is an overall high prevalence of involuntary part-time work (50.8% vs 20.8% in the EU in 2022), starting from early stage (49.1% in the age group 15-29 vs 21.3% in the EU in 2022).

Spain is facing limited but rising labour shortages, in a context of demographic change, which may pose bottlenecks to growth and to the green and digital transitions, if not adequately tackled. The vacancy rate in industry, construction, and services was at 0.9% in 2023, well below the EU average (2.7%), but above pre-pandemic levels (0.7% in 2019). Coupled with a high unemployment rate, this suggests the existence of labour matching challenges. In Q4-2023, 42.5% of Spanish employers reported labour shortages and more than 50% did so in tourism, agriculture, and construction.⁵² Moreover, between 2022 and 2030, the population aged 50 to 64 is projected to increase by 1.2 million (to 11.5 million persons), while the number of people in the labour force aged 20 to 49 is expected to fall by 0.6 million (to 17.9 million).⁵³ In view of demographic change and with an activity rate that reached 74.5% in 2023 (close to the EU average), further strengthening labour market participation, especially of the younger population, will be important, also in relation to addressing growing labour and skills shortages. Against this background, the labour market participation of older workers has continuously increased in Spain over the last two decades, as previous pension reforms pushed up the effective average age at which a retirement pension is received, from 63.1 years in 2006 to 65 in 2023.

Skills mismatches and a high rate of early leavers from education and training point to challenges in the transition of the Spanish youth from education to employment. Skills mismatches remain high and have increased for the younger population⁵⁴. Spain has a very high share of early leavers from education and training (13.9% vs 9.6% in the EU), with important (though decreasing) regional differences. In addition, the percentage of Roma pupils who did not complete secondary education increased by 4% between 2016 and 2021 to reach 28%.⁵⁵ All this represents an important challenge to be addressed to ensure that the workforce at large has the skills demanded by the labour market of the future. At the same time, Spain has one of the highest overqualification rates in the EU (35.9% vs 22.2% in 2022), in a context where one in three tertiary-educated workers are employed in low-skilled jobs (36% in 2020 vs 24.2% in the EU). Increasing the job market relevance of VET courses is one of the key challenges, with one in five graduating in high-demand specialisations such as STEM, in line with the EU average. Overall enrolment rates in VET courses of the education system have significantly increased by 33,1% in five years (until 2022-2023). However, enrolment rates remained low in VET upper secondary levels (38.7% vs 48.7% in the EU in 2021) and in dual VET courses (4.4% in 2021-22), which point to a need to increase the participation of SMEs in the education offer. While adult participation in learning⁵⁶ has increased by 3.7 pps since 2016, reaching 34.1% in 2022 (vs 39..5% as the EU average), significant further efforts could bring Spain to reach the national target of 60% by 2030.

b) Relevant planned and ongoing policy responses

In 2021, Spain passed a comprehensive labour market reform with the agreement of all social partners that reduced the high level of fixed-term contracts. Under the Recovery and Resilience Plan (RRP), Royal Decree-Law 32/2021 redefined the menu of employment contracts by underlining the central role of permanent contracts and introducing specific restrictions to the use of fixed-term contracts. The law envisages that production circumstances (e.g., occasional and unforeseeable increases in the activity of the company) and substitution of other employees are the only legal grounds to enter into fixed-term contracts,

⁵² [Bank of Spain, Encuesta a las empresas españolas sobre la evolución de su actividad: cuarto trimestre de 2023.](#)

⁵³ [Europop population projections, 2023.](#)

⁵⁴ 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).

⁵⁵ [EU Fundamental Rights Agency \(FRA\) 2021 survey on Roma in 10 European countries.](#)

⁵⁶ Excluding guided on-the-job training as per the 2030 skills target definition (see [public excel file](#)).

whereas sanctions were increased for the use of fraudulent fixed-term employment. The reform also promoted the use of fixed-discontinuous (permanent) contracts, which may be used for the provision of services in the context of subcontracting activities and for temporary agency workers. However, this reform only applies to employees of the private sector and non-civil-servant employees of the public sector.

Another legislation passed in 2021 under the RRP to tackle the high share of fixed-term employment in the public sector is yet to show results. Being applicable to State, regional and local administrations, Law 20/2021 included measures aimed at preventing and penalising the abuse of fixed-term employment, which applies to new hirings as of 2021. It also regulated the calls for the new stabilisation processes, which aim at converting into permanent at least 300 000 positions filled with fixed-term public employees and need to be completed by the end of 2024. With more than one million fixed-term public employees in January 2024, the completion of the stabilisation processes will have a relevant but limited impact on reducing the high level of segmentation, which may undermine the quality of certain services, especially education and health. Ensuring a strong coordination at different levels of government and creating a long-lasting consensus are key factors to progress in this area.

Spain has passed a wide set of reforms and investments to modernise ALMPs. In a context where ALMPs are decentralised to the regions, the triannual plan to address long-term unemployment (“Plan Reincorpora-T 2019-2021”) evidenced the need to tackle differences across regions and the benefits of knowledge-sharing among PES. Under the RRP, together with investments to digitalise the PES, the new 2023 Employment law aims at strengthening the Spanish employment system with enhanced official statistics (e.g., coverage and employability rates), more participation of private and local entities, improved and transparent evaluations and better coordination tools among central and regional PES. The latter is one of the main goals of the new Centres of orientation, entrepreneurship, and innovation for employment. In line with the recommendations of the Independent Authority for Fiscal Responsibility (AIReF), the new law on hiring incentives consolidated, reorganised, and simplified the system of hiring incentives managed by the central State, especially the Social Security rebates. However, as evidenced by the Spanish Court of Auditors in September 2022, it will be necessary to closely monitor the coordination between national and regional hiring incentives.

Several policy interventions have targeted the labour market challenges faced by young people. Under the RRP, Spain passed the reform of the Organic Law of Education, which promotes competence-based learning and reinforces the support for students most in need, the Organic Law of the University System, which introduces lifelong training degrees, and the Organic Law of VET, which establishes an accreditable, flexible and capitalizable system organised into degrees, from micro-credentials to specialisation courses. In this light, Spain is expected to create more than 8 000 VET groups by the end of 2025. There has also been a significant increase in the scholarship and aid programs for post-compulsory education provided by the Government, which rose by over 70% from 2018 to 2023. Also, Royal Decree-Law 32/2021 amended the regime of labour training contracts to foster the integration of young people in the labour market. However, both its regulatory development and the adoption of the Statute of Trainees, which is expected to reorganise and systematise the regulation of “non-labour” traineeships, are still pending. In this context, the number of traineeship contracts (*obtención de la práctica profesional*) almost halved in 2021-23. The triannual plan to reduce youth unemployment (“*Plan de Choque por el Empleo Joven 2019-2021*”) showed the need to link youth ALMPs with social and education policies. Building upon these findings, and with European Social Fund+ (ESF+) support, the Government passed the Youth Guarantee + Plan 2021-27 to tackle youth unemployment. With RRP support, the Programme for orientation, progress, and educational enrichment, PROA+ (also funded by ESF+), and the creation of personal guidance and family units in educational services, are tackling early school leaving and contributing to improving educational outcomes.

Investments in upskilling and reskilling have been stepped up to address skills shortages and mismatches. Under the RRP, the labour market reform established new short-time work schemes (‘RED

Mechanism’) in 2021 to provide internal flexibility for companies facing cyclical and sectoral shocks and further job security. The RED Mechanism incentivises companies to provide their employees with upskilling and reskilling through Social Security exemptions. Moreover, the VET law envisages a vocational-career guidance system for learners of all ages (employed and unemployed), to be coordinated by education and vocational training authorities. It also sets a new streamlined model of accreditation of professional skills, aimed at increasing the population with formal professional accreditation by providing 2 million workers with a proof of qualifications by 2025. Further efforts are being made, as just one in ten of these accreditations had been completed by the end of 2022. Spain has passed initiatives to provide the population with green and digital skills, including under the RRP, with the “Digitalízate” training platform and the issuing of at least 60 000 university micro-credentials by mid-2026 for upskilling and reskilling workers. In August 2023, Spain updated the catalogue of hard to fill occupations to facilitate the hiring of foreign workers in the fields of construction and building renovation, although less than 300 workers have been hired so far through this regime.

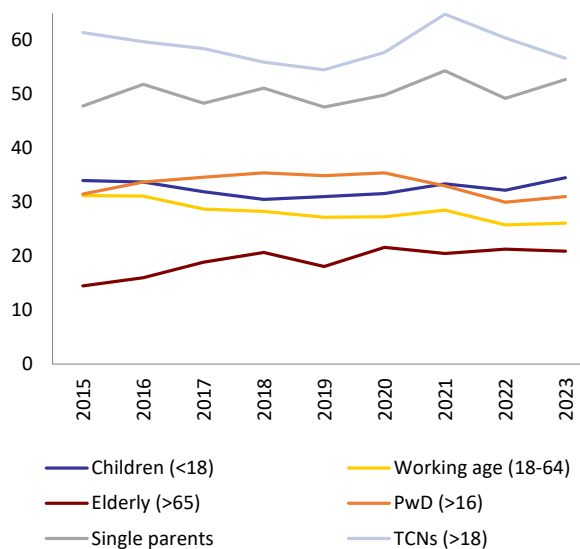
Recent reforms aim to strengthen workers’ rights in specific sectors. Royal Decree-Law 16/2022 improved the working conditions of domestic workers (the vast majority of whom are women) by protecting them against unfair dismissal and giving them access to unemployment benefits. Similarly, Royal Decree-Law 1/2023 guaranteed access to unemployment benefits to artists in public shows, under conditions adapted to the intermittent nature of their activity. Law 4/2023 included specific provisions to prevent discrimination against LGTBI persons in employment.

II. Social protection and social inclusion

a) State of play and developments on social convergence risks

Spain continues to face challenges in relation to poverty and social exclusion risks.

The at-risk-of-poverty or social exclusion rate (AROPE) fell by 1.8 pps in 2022 but remained high, at 26% (well above the EU average of 21.6%) and increased to 26.5% in 2023, showing little to no convergence with the EU average since 2015⁵⁷. This increase is mostly due to a 1.3 pps increase in the severe material and social deprivation (SMSD) rate in 2023 (to 9%). However, the in-work poverty rate and the low work intensity indicator continued to fall in 2023 (1.5% and 3.2% each since 2021). Some groups were disproportionately affected by poverty risks in 2022, often related to labour market integration challenges. This concerns, for instance, single parents (having an AROPE rate of 49.2% vs 43.5% in the EU), persons with disabilities (30% vs 28.8% in the EU), young people (15-29; 28% vs 24.5% in the EU), third-country nationals (60.4% vs 46.2% in the EU, with a very large gap of 38.7 pps compared to country nationals) and Roma (98% were at risk of poverty in 2021). The rate increased further for the first two groups in 2023. The risk of poverty or social exclusion for older people (65+) rose to slightly above



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.

⁵⁷ At the time of writing, the 2023 EU averages were not available yet.

the EU average over the last decade (from 14.5% in 2015 to 20.9% in 2023), where it seems to have stabilised recently, pointing among other to some challenges with pension adequacy.

Child poverty remains particularly high and may negatively influence educational outcomes and future career prospects. Following an increase between 2018 and 2021, the rate of children at risk of poverty or social exclusion (AROPE) decreased by 0.8 pps in 2022 but remained one of the highest in the Union (at 32.2%, corresponding to more than 2.6 million children) and increased again by 2.3 pps in 2023. The high level of child poverty in Spain is linked to both the labour market situation of their parents and the limited effectiveness of the tax and benefit system in mitigating such risks, with income support for children being among the lowest in the EU. The high AROPE rate for children also has adverse effects on their educational outcomes and skills development, negatively impacting their future employment prospects, and reinforcing the intergenerational transmission of poverty. The 2022 PISA results for Spain show that the proportion of underachieving students is much higher among socio-economically disadvantaged students (44.0%) compared to their socio-economically advantaged peers (10.6%). The economic cost of socio-economic disadvantage for children (through the negative long-term impact on employment, earning and health) was estimated at 4.1% of GDP for Spain.⁵⁸ Between 2019 and 2030, Spain committed to reduce the number of people at risk of poverty or social exclusion by 2.8 million, 0.7 million of which should be children. In 2023, it counted 12.6 million people at risk of poverty or social exclusion, among which 2.8 million children. This puts Spain above 2019 levels – by 383 thousand overall and by 197 thousand children. Significant efforts are therefore still required to achieve the national poverty reduction target by 2030.

Real household incomes in Spain have not yet returned to the pre-COVID crisis level, yet there have been some recent improvements in real wages and income inequalities. In 2022, while nominal wages increased by 4.1%, real wages declined by 3.6% due to high inflation and real gross disposable household income per capita decreased to below its 2018 level, further diverging from the EU average. Recent real wage developments in 2023 have been more positive, with an expected 0.5% increase. To limit the loss of purchasing power, especially for low-income earners, Spain increased the minimum wage regularly in the last years (to EUR 1 134 in 2024) and extended the duration of benefits in the face of inflation as well as the minimum income coverage. This contributed to reducing income inequality, which nonetheless was still among the highest in the EU in 2023, with the richest 20% of the population having an income that is 5.5 times higher than that of the poorest 20%.

The impact of social transfers (other than pensions) on poverty reduction and the adequacy of social assistance remain low. Spain's social transfers reduced poverty by 27.4% in 2022 (vs 35% in the EU) and registered a significant decline of 4.5 pps in 2023. This partly relates to the fact that various social transfers – namely social assistance, family benefits, minimum income and the child complement of the minimum income scheme – are more effective at narrowing income disparities of poor people (poverty gap) rather than at lifting people out of poverty (poverty rate). In particular, the adequacy of the minimum income was below the EU average in 2022, at 56.8% of the poverty threshold (vs 58.9% in the EU), and at 43.7% of the income of a low-wage earner (vs 46.8% in the EU). In contrast, unemployment benefits are more effective at reducing poverty rates, but less so at reducing the poverty gap.⁵⁹

Housing affordability challenges hamper the social integration of disadvantaged groups. Despite limited progress, the share of households for which housing costs represent more than 40% of their income (the housing cost overburden rate) remained above the EU average in 2022 (9.2% vs 8.7% in the EU) but

⁵⁸ [The Economic Costs of Childhood Socio-Economic Disadvantage in European OECD Countries, OECD Papers of Well-being and Inequalities, November 2022.](#)

⁵⁹ These results are based on two studies by the European Commission Joint Research Centre, using the EUROMOD model: i) an analysis of the impact of social transfers on poverty reduction; ii) a simulation of the impact of the Child Support Supplement (CSS, Complemento de Ayuda a la Infancia), part of the minimum income since January 2022, on reducing poverty.

decreased in 2023 to 8.2%. Significant differences are nonetheless reported between urban and rural areas and between regions. The rise in house prices prevents vulnerable groups (for instance young people and those at risk of poverty) from accessing adequate housing, which creates significant barriers to social inclusion in certain cases and impacts the ability to access employment and basic services, such as health and education. Spain's low social housing stock (2.5% vs 9.3% in the EU) also has a negative impact on homelessness with, on average, 71.3 homeless people for every 100 000 inhabitants. In parallel, in a context of higher energy costs, the share of the population unable to keep their home adequately warm rose to almost double the EU average in 2022 (17.1% vs 9.3%) and further increased to 20.8% in 2023. More than twice as many people AROP are in such a condition compared to the rest of the population (30.1% vs 13.8%, respectively in 2022, with a further increase to 34.3% in 2023).

b) Relevant planned and ongoing policy responses

Spain is re-organising its child support measures around the minimum income scheme. Until 2020, the Spanish social protection system was characterised by a greater weight of contributory pensions and income tax, and relatively weaker income protection, particularly for households with children. In 2020, as part of the RRP, the country introduced the minimum income scheme (IMV). In January 2022 it also created the new child complement (CAPI), which replaced to a large extent the *Prestación Familiar por Hijo a Cargo* (PFHC). The CAPI is allocated to households with children whose income is smaller than 300% and whose assets are below 150% of the thresholds established to access the minimum income scheme. The previous scheme continues to support households with underage children with a disability over 33% (as well as those with a dependent relative over 18 years old with a disability of at least 65%). In 2023, Spain extended the tax deduction for children below 3 from working mothers to all mothers. The National Plan for the implementation of the European Child Guarantee was also published in 2022, and its actions are supported by the ESF+. Moreover, as part of the RRP, the draft Families law is expected to improve social protection for families and facilitate the reconciliation of work and family life. A major effort is also being made to promote the creation of new public Early Childhood Education places, primarily for 1- and 2-year-olds. This measure should have an impact both on the fight against the risk of child poverty and on encouraging parents to return to work.

The implementation of the minimum income scheme (IMV) and the new child complement (CAPI) is progressing, though challenges remain in relation to adequacy, coverage and accessibility. At the end of 2023, the minimum income reached 86% of the target group originally planned. Nonetheless, the coverage currently accounts for only 20% of AROPE people in Spain (based on 2022 data). Estimates show that the full implementation of the minimum income and the Child Support Supplement (*Complemento de Ayuda a la Infancia* - CAPI) could reduce severe poverty by 21%⁶⁰. The scheme nonetheless faces bureaucratic hurdles that make it difficult to access, especially for certain vulnerable groups, such as homeless people. AIReF reports high non-take up, with 58% of households that could be potential beneficiaries of minimum income benefits but have not requested them; and 76% in the case of the child component (CAPI). 69% of applicants were denied the IMV in 2022, partly due to the fact that the eligibility checks are based on the income and wealth of the previous year, rather than the current one. Regions have generally not made major changes to top up and complement the scheme with their own, while some of them have even reduced their own income guarantee systems, thus limiting the overall protection provided.

Spain implemented a wide range of measures to support vulnerable households and lower income inequalities. The government increased the minimum wage in January 2023 by 8% (to EUR 1 080), and in January 2024 by 5% (to EUR 1 134), with the aim of reaching 60% of the average wage. The last increase is expected to benefit 2.5 million workers, especially women and young people. Between 2022 and 2023, Spain adopted other measures intended to protect and support vulnerable households, including: i)

⁶⁰ Based on a 2022 EUROMOD analysis from the Joint Research Centre of the European commission.

suspending evictions affecting vulnerable households with no alternative dwelling, and capping the annual increase in rents to 2%; ii) guaranteeing basic supplies (water, gas, electricity and telecommunications) to vulnerable households and limiting the impact of the increase in energy prices for them; and iii) introducing extraordinary one-off benefits to protect the purchasing power of lower income households in the face of high inflation. The National Strategy for Roma Equality, Inclusion and Participation 2021-2030, approved in 2021, is being implemented at the national, regional and local level.

In the framework of RRP, the country is simplifying its social protection system. The plan to reorganise and simplify the system of non-contributory financial benefits aims at integrating such benefits in four areas (ageing, disability, family, unemployment) around the minimum income scheme. When fully implemented, the plan should increase the effectiveness and efficiency of public spending by simplifying the system, widen the coverage of the support to vulnerable people and increase the adequacy of income support. Unemployment assistance is currently scattered across multiple schemes, both at national and regional level. In the framework of the RRP, Spain plans to amend the system of semi and non-contributory financial benefits, to fill coverage gaps and link the benefits to a personalised activation approach.

Action is being taken to address rising housing challenges. Under the RRP, the 2023 Housing Law encourages the expansion of affordable housing supply by increasing tax incentives and raising the minimum share of protected housing in new developments. It also promotes the rehabilitation of the existing housing stock, stimulates the renovation of the residential environments in which those houses are located and strengthens the balance between tenants and landlords, including with additional protection against evictions. The law also envisages “stressed areas”, set by the regions, in which special residential market rules, such as temporary rent price ranges, should be implemented. As part of the RRP, the construction of 20 000 dwellings for social rental housing or at affordable prices is planned, compliant with energy efficient criteria. These are planned to be built in areas in which social housing is currently insufficient and on publicly owned land. In 2023, Spain also approved a new National Strategy to Combat Homelessness in Spain 2023-2030. These actions are complemented by support from cohesion policy to social housing.

III. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to the employment rate which, despite improvements, is still relatively low, accompanied by high unemployment and long-term unemployment rates. Some population groups (for instance, young people, older women, the middle skilled) face greater obstacles to labour market integration. In particular, the rate of young people that are neither in employment nor in education and training (NEETs) remains above the EU average, though it has fallen over the last decade. Labour market segmentation continues to be an issue in the public sector. At the same time, real gross disposable household income (GDHI) per capita has not yet returned to the pre-COVID crisis level, although there have been some recent improvements in real wages and income inequalities. Additionally, a high rate of early leavers from education and training as well as skills mismatches point to challenges in relation to the transition from education to employment. Despite improvements, poverty and social exclusion remain high, notably for children, and there are challenges in relation to the impact of social transfers (other than pensions) on poverty reduction and the adequacy of social assistance.

The significant measures planned and implemented so far, such as the comprehensive labour market reform, the regular increases of the minimum wage, the employment law and measures to modernise ALMPs, the new educational law, the new VET system, and the revision of the social protection system (including the minimum income scheme) are expected to help Spain address the risks identified. This will also crucially depend on their full implementation as well as enhanced coordination between national and regional administrations.

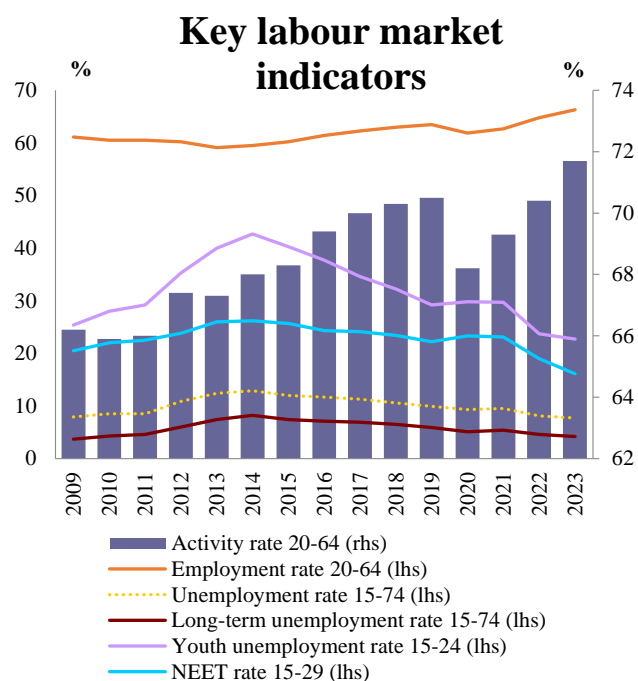
2.4 ITALY

In the context of the first-stage analysis presented in the JER 2024, Italy was identified as facing potential risks to upward social convergence based on 8 headline indicators of the Social Scoreboard flagging. These concern the labour market, notably regarding the **employment rate**, the **gender employment gap** and the **real gross disposable household income per capita**, also registering important regional disparities. In addition, in the area of social protection and inclusion, the **effectiveness of social transfers (excluding pensions) on poverty reduction**, the **at-risk-of-poverty or social exclusion rate (including for children)** and the **income quintile share ratio** were also identified as criticalities. This was also the case in the area of skills for the low **level of digital skills**. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at the available quantitative and qualitative evidence and the relevant policy responses undertaken or planned by Italy.

I. Labour market

a) State of play and developments on social convergence risks

Employment reached a record high after the COVID-19 crisis but remains low compared to the rest of the EU, with persistent significant differences across regions and population groups. In 2023, the employment rate (20-64 age group) reached 66.3%, a 2.8 pps increase from pre-pandemic levels, being also significantly higher than before the 2008-09 financial crisis. Employment growth has been widespread and driven by a rise in permanent employment contracts⁶¹. The increase occurred against the backdrop of rising labour market participation. Still, in 2023, the employment rate was one of the lowest in the EU (66.3% vs 75.4%), showing some signs of convergence in 2023, with the employment rate growing faster than the EU average. Employment rates vary significantly across regions, ranging from 74.1% in the North-East to 49.3% in the Islands. In addition, there are large differences between population groups. In particular, the employment rate of women (56.5% in 2023) is among the lowest in the EU (70.2%), with one of the widest gender gaps (19.5 pps vs 10.3 pps in the EU), and no convergence over past decades. The gender employment gap is, among others, driven by a limited supply of early childhood education and care, contributing to below-average participation of children under 3⁶². The gender disparity is particularly pronounced in the South and the Islands, where women's employment rates are just above 37%. Stark differences can further be observed across age groups. Against the background of low wage levels and non-standard, often precarious, forms of work, the share of young people neither in employment nor in education and training (NEET, 15-29) remains one of the highest in the EU (11.2% in 2023), despite decreasing markedly from 22.2% in 2019 to 16.1% in 2023, and is higher among young women (17.8% vs 12.4% in



⁶¹ ISTAT, [Rapporto annuale](#), 2023.

⁶² CEPR, [Tackling gender gaps in the Italian labour market: Evidence and policy implications](#), 2023.

the EU in 2023) and third-country citizens (28.8% vs 19.7% in the EU in 2022). The employment rate of 25-34-year-olds (66.1%) is also among the lowest in the EU. Employment levels further vary by educational attainment: the employment rate (20-64) for people with at most lower secondary education is at 53.6%, below the EU average (58.3%), and 28.0 pps lower than the rate for the tertiary-educated (the gap widens to 42.3 pps for women). Also, even though recent graduates' labour market outcomes are more positive compared to those without tertiary education, their employment rate remains, at 65.2%, among the lowest in the EU (82.4%), pointing to difficulties in the transition from studies to work. There is, therefore, significant scope for increasing the employment rates for all the aforementioned groups to support reaching the national employment rate target of 73% by 2030 (which implies an average annual growth of 1 pp over the next seven years).

Despite continuous improvement, unemployment remains high and is characterised by a significant long-term component. Before the COVID-19 pandemic, Italy's unemployment rate had substantially decreased, from 12.9% in 2014 to 9.9% in 2019. During the COVID crisis, it broadly stabilised, thanks to the widespread use of short-time work schemes and financial support to companies, and somewhat converged to the EU level. In 2023, it stood at 7.7% (vs 6.0% in the EU). At the same time, the long-term unemployment rate was twice the EU average, at 4.2% in 2023. Furthermore, 55.1% of the unemployed experience very long-term unemployment (i.e., remaining without a job for 24 months or more), compared to an EU average of 35.3%. Despite overall progress, unemployment continues to significantly affect young people (15-29), with a rate of 18% in 2022 (vs 11.3% in the EU). It is also higher for the low-skilled (11.4% vs 3.8% for the high-skilled, respectively 11.8% vs 3.8% in the EU) and for women (8.8% vs 6.8% for men, respectively 6.3% vs 5.8% in the EU). Regional differences are large, with the unemployment rate ranging from 2.3% in Bolzano to 17.1% in Campania. In 2022, female unemployment rates ranged from 16.8% in the South to 17.2% in the Islands. Marked differences in regional labour markets result from structural weaknesses in the economies of the South, such as the business environment, including relatively lower efficiency of the public administration, and the presence of smaller, less competitive and innovative firms providing fewer job opportunities in the South⁶³.

At the same time, adverse demographic trends, relatively low activity rates and demand for skilled labour contribute to labour shortages. The working-age population (15-69) is projected to decline by 14.1% by 2050⁶⁴. In 2023, the activity rate (20-64) was still among the lowest in the EU (71.7% vs 80.0%), and stable compared to pre-pandemic levels, showing no signs of convergence. The activity rate of women was much lower (60.5% vs 74% in the EU), and well below that of men (80.2%), with no signs of convergence. Against this background, in the post-pandemic recovery the share of businesses reporting labour shortages has increased slowly but steadily. In particular, the vacancy rate in industry, construction and services rose to 1.9% in Q4-2023, remaining below the EU average (2.5%) but well above pre-pandemic levels (1.1% in Q4-2019). Shortages are also linked to a lack of labour market relevant skills and skills mismatches⁶⁵. In particular, employed people with tertiary education, working in occupations for which a tertiary education level is not required, account for as much as 22% of the total population (25-64).

Since the 1990s, the Italian labour market has seen a strong increase in atypical contracts, with a decrease in the number of weeks worked per year⁶⁶. Despite limited improvements in 2023, the share of fixed-term contracts remains among the highest in the EU (16.5% compared to 12.9% for the EU in 2022), with a diverging trend since 2016 as the incidence of this type of contracts fell in the EU while it increased in Italy. In 2022, the incidence of fixed-term work was higher for women than for men (18.0% vs 15.3%)

⁶³ Banca d'Italia, [Lo sviluppo del Mezzogiorno: una priorità nazionale](#), 2019.

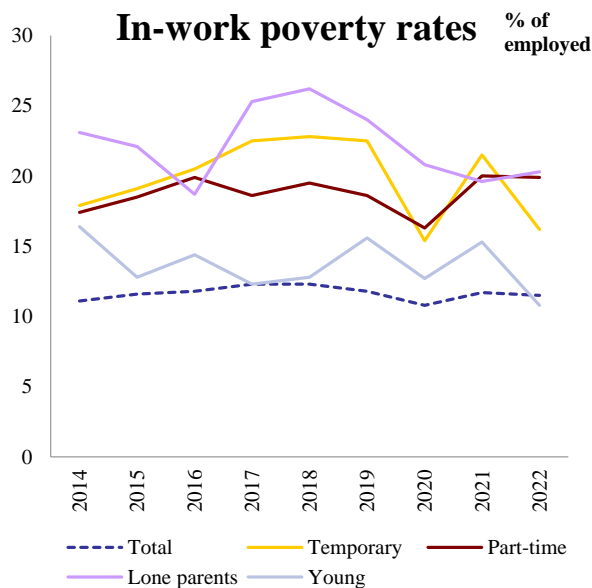
⁶⁴ European Commission, [Economic and Social Developments in Europe 2023](#), 2023.

⁶⁵ Union Camere Sistema Informativo Excelsior, Previsioni dei fabbisogni occupazionali e professionali in Italia a medio termine (2023-27), 2022.

⁶⁶ ISTAT, [L'economia non osservata nei conti nazionali](#), 2023; ISTAT, [Conti economici territoriali](#) 2020-22, 2023.

as well as for young people (15-29) (45.7%). Fixed-term contracts are also more common among people from other EU countries (21.2%) and non-EU citizens (23.2%) than among Italian citizens (15.8%). In addition, the labour market is characterised by a high prevalence of involuntary part-time workers (57.8% vs 21.5% in the EU) which, in absolute terms, affects women especially. Finally, in Q4-2023, 19.0% of people in employment were self-employed (one of the highest shares across the EU), of which 69.6% were solo self-employed. The high incidence of non-standard forms of employment (including seasonal work) has led to a drop in the number of weeks worked per year and contributes to high inequality and volatility of annual earnings. It also has negative consequences on the accumulation of firm-specific human capital as well as on the coverage of employed people by social protection and its financing. Despite some improvement in recent years, informal work also remains widespread, estimated at 12.7% of total employment in 2021, and particularly common in domestic work, agriculture, construction, as well as retail, transport and hospitality, especially in southern regions⁶⁷.

Nominal wage growth has not been sufficient to recoup the purchasing power losses caused by the recent surge in inflation linked to the energy crisis provoked by Russia’s war of aggression against Ukraine. Italian wages are structurally low: between 2013 and 2022, the growth in nominal wages per employed person was 12%, half the EU-level growth (23%), while the purchasing power of wages fell by 2% compared to an EU-wide increase of 2.5%⁶⁸. At the same time, productivity growth also lagged behind the EU (+0,4% vs +1,6% from 1995 to 2022)⁶⁹. In this context, nominal compensation of employees rose by 4.7% in 2022 and 3.8% in 2023, spurred by increases in contractual wages. However, real wages declined by an estimated 2.3% in 2023, after dropping by 4% in 2022, due to high inflation. In 2024, wages are expected to rise by 1.6% in real terms, reflecting both the gradual decrease in inflation and the acceleration of nominal wage growth.



Wage stagnation, low work intensity and employment rates, along with a high share of single-earner families, induce significant in-work poverty risks. In 2022, Italy’s at-risk-of-poverty rate for people that are in work is among the highest in the EU (11.5% vs 8.5%). It is particularly high for non-EU citizens (28.0% vs 24.3% in the EU) and the low-skilled (18.7% vs 18.4% in the EU). Structurally low wage growth is an important driver as mentioned above, which may partly reflect lagging productivity growth. Low work intensity due to non-standard forms of work further aggravates the risk of in-work poverty. Among part-time workers, 19.9% are at risk of poverty compared to 13.5% in the EU, while for fixed-term employees these shares are 16.2% and 12.2% respectively. 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 jobs⁷⁰. The prevalence of low paid and low intensity work helps explain why, despite improvements in employment rates since the pandemic, poverty has not significantly declined (see

⁶⁷ ISTAT, [L’economia non osservata nei conti nazionali](#), 2023; ISTAT, [Conti economici territoriali](#) 2020-22, 2023.

⁶⁸ ISTAT, [Rapporto Annuale](#), 2023. Annual gross nominal wages per employed person have been compared to individual consumption at purchasing power parity.

⁶⁹ ISTAT, [Misure di produttività](#), 2023.

⁷⁰ Banca d’Italia, [Labour income inequality and in-work poverty: a comparison between euro area countries](#), 2023.

Section 2). An experimental study by ISTAT has found that having a minimum wage of EUR 9 per hour would, not accounting for dynamic effects, increase annual wages by 14.6% for 3 million people⁷¹. People working in services supporting firms (such as cleaning), rental and travel agencies, apprenticeships, as well as young people and those living in the South, would benefit most from such a measure.

b) Relevant planned and ongoing policy responses

Reforms and investments in active labour market policies (ALMPs) in Italy aim to improve employment services, and thus labour market participation. Italy has a structurally weak active labour market policy system due to low investment and high fragmentation, with employment services managed by regions, leading to very different service quality across the country. In 2021, as part of its national recovery and resilience plan (RRP), Italy launched the ‘Guaranteed Employability of Workers’ (GOL) programme, aimed at providing personalised assistance to jobseekers countrywide. This programme establishes a tailor-made support system, established in specific regional plans, for the unemployed and people in transition to employment. The objective is for 3 million people to benefit from the GOL programme by 2025, of which at least 800 000 would participate in vocational training. Moreover, at least 75% of GOL beneficiaries should be women, long-term unemployed, persons with disabilities or people under 30 or over 55. These measures go in the right direction and are expected when fully implemented to ensure that beneficiaries are offered not only an initial assessment but also follow-up measures through up- and re-skilling activities, including in regions where public employment services (PES) are less developed. This also implies enhancing coordination at national level, including by fully integrating IT systems to allow both precise monitoring of the measure as well as matching of labour supply and demand beyond the regional level. In addition, the RRP includes a reform to tackle undeclared work, which aims to rationalise the sanctions system, simplify procedures and provide incentives to employ regular workers, refine the techniques for producing, collecting and sharing data, as well as train PES operators to reach out to and support undeclared workers.

Reforms recently undertaken are not yet sufficient to address the high share of fixed-term contracts. In 2023, Law Decree 48/23 (*Decreto Lavoro*) reaffirmed the possibility for employers to make use of fixed-term contracts with durations under 12 months without the need for justifications and extended the maximum duration of fixed-term contracts to 24 months. Extension to 24 months is possible either through collective bargaining, with legitimate reasons outlined in collective agreements, or with justifications linked to technical, organisational or productive factors, as well as in the case of replacing other workers. Finally, fixed-term contracts can be extended by an additional 12 months (up to 36 months), provided that the signing takes place at the competent territorial office of the government agency *Ispettorato del Lavoro*. The legislation passed in 2023 also does not tackle the high share of fixed-term employment in the public sector, as contracts with public administrations, private universities and public research institutes continue to be governed by pre-existing legislation. The legislation passed in 2023 also does not tackle the high share of fixed-term employment in the public sector, as contracts with public administrations, private universities and public research institutes continue to be governed by pre-existing legislation.

The labour market challenges faced by young people, women and residents in the South have been the focus of specific policy interventions. In 2020, Italy introduced a tax relief for private employers in the Southern regions (*Incentivo Decontribuzione Sud*), granting a 30% exemption from employers’ social security contributions for both existing and new hires. Through *Incentivo Giovani Under 36*, incentives for employers hiring individuals under the age of 36 are introduced, applicable to both new permanent hires and the conversion of fixed-term contracts into permanent ones. In addition, *Incentivo Donna* supports the employment of disadvantaged female workers, such as women of any age either without regular paid

⁷¹ ISTAT, [Esame delle proposte di legge C. 141 Fratoianni, C. 210 Serracchiani, C. 216 Laus, C. 306 Conte, C. 432 Orlando, C. 1053 Richetti e C. 1275 Conte, recanti disposizioni in materia di giusta retribuzione e salario minimo](#), 2023.

employment for at least 24 months or in economic sectors characterised by significant gender occupational disparities. These measures have helped boost employment, but the gender employment gap remains high⁷². Incentivising the use of reconciliation policies by fathers, for instance by increasing the length of paternity leave or the amount of parental leave allowances if taken by the father, would reduce obstacles to women's participation in the labour market. Moreover, as well as increasing incentives for employers to hire, it would be important to increase incentives for specific groups to take up work, although some steps have been taken in this direction. For example, the new monthly benefit for low-income individuals in working age, the *Supporto Formazione e Lavoro (Sfl)*, is conditional to the participation in training activities or community jobs. The beneficiaries of the minimum income scheme can now cumulate this benefit with income from work up to EUR 3 000 annually, strengthening incentives to participate in the labour market.

Despite recent reforms to the tax system, the tax wedge on labour remains high. The 2024 Budget Law confirmed the tax wedge cuts for low- and medium-income earners. It also reduced the number of personal income tax (IRPEF) brackets from four to three by merging the first two, while raising the tax-free threshold for employment income from EUR 8 174 to EUR 8 500. However, Italy's tax wedge on labour remains high at all income levels compared to other Member States. The tax-benefit system should maintain the redistribution objectives but incentivise labour supply, especially for second earners, who tend to be women. Their labour supply may be discouraged by transfers that are sharply decreasing with family income, such as the tax credit for dependent spouses and the design of the means-tested measures of income to access benefits (ISEE)⁷³. The *Bonus Mamma* measure goes in the direction of increasing incentives for women to work as it exonerates mothers of at least three children with a permanent employment contract from social security contributions for up to EUR 3 000 yearly. The child benefit *Assegno Unico Universale (AUU)* is also designed to reduce disincentives to work as it pays a supplement in the event of a second earner in the family.

II. 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) has decreased slightly since 2019 but remains relatively high. After falling from 28.4% in 2015 to 24.6% in 2019, the AROPE rate increased during the COVID-19 crisis. At 24.4% in 2022, it remains above the EU average of 21.6%. Moreover, income inequality is among the highest in the EU: the total income of the richest 20% of the population is 5.6 times higher than that of the poorest 20% (4.7 in the EU). National absolute poverty statistics, which take into account household composition and geographical factors, reflect a worsening situation for the country. Household poverty hovered around 4% from 2005 to 2011 but has since then risen significantly, to 8.3% in 2022⁷⁴, owing to the impact of the COVID-19 crisis and the recent surge in inflation⁷⁵. Other indicators provide insights on the duration and intensity of poverty. The persistent at-risk-of-poverty rate (13%) is among the highest in the EU⁷⁶, as is the average depth of poverty, measured by the relative median

⁷² Audizione della Presidente dell'Ufficio parlamentare di bilancio nell'ambito delle audizioni preliminari all'esame del disegno di legge recante "Bilancio di previsione dello Stato per l'anno finanziario 2024 e bilancio pluriennale per il triennio 2024-2026". Taxing the Gender gap: Labour market effects of a payroll tax cut for women in Italy, Enrico Rubolino, CESifo Working Paper No. 9671.

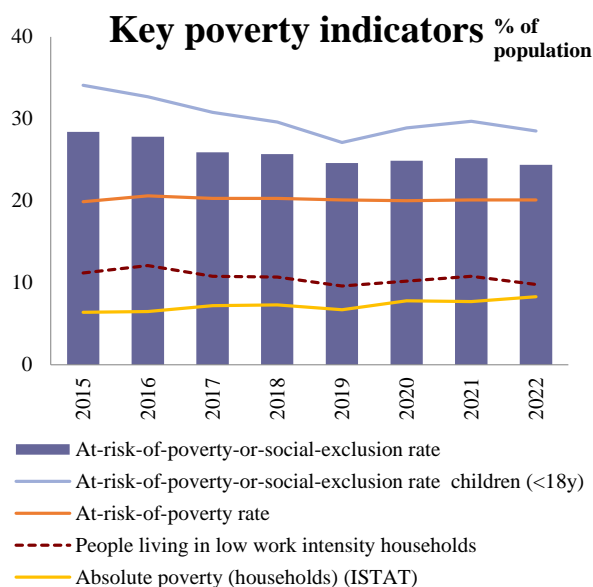
⁷³ Carta, F., M. De Philippis, L. Rizzica and E. Viviano (2023). Women, labour markets and economic growth. Temi di Discussione (Working Papers) 26, Bank of Italy.

⁷⁴ ISTAT, [Nel 2021 stabile la povertà assoluta](#), 2022.

⁷⁵ ISTAT, [Le statistiche dell'istat povertà. Anno 2022](#), 2023.

⁷⁶ The indicator shows the percentage of the population whose equivalised disposable income was below the at-risk-of-poverty threshold for the current year and at least 2 out of the preceding 3 years.

at-risk-of-poverty gap⁷⁷. Despite some recent progress (a decrease of 498 000 people at risk of poverty between 2019 and 2022), further improvements are essential for Italy to reach its 2030 target of reducing the number of people at risk of poverty or social exclusion by 3.2 million compared to 2019.



Children, persons living in the South and those born in other EU countries are more at risk of poverty or social exclusion, while poverty is less widespread among pensioners. The AROPE rate for children is among the highest in the EU (28.5% vs 24.7% in 2022). The rate is also above the EU average for people that are younger than 65 (25.7% vs 22%), while for people aged 65 and over it is in line with the EU average. Having children significantly increases the risk of poverty: even though the AROPE rate for households without dependent children is only slightly higher than in the rest of the EU (22.6% vs 20.8%), the difference is wider for households with dependent children (26.3% vs 22.4%). Furthermore, while the AROPE rate of people born outside of the EU (38.7%) is below the EU average (39.9%), the rate of those born in other Member States is among the highest in the

EU (37.7%). The situation is similar when considering monetary poverty (AROP). Overall, the AROP rate (20.1%) is well above the EU average and is particularly high among children (25.4%). Monetary poverty is further characterised by a strong regional component: three regions in the South of Italy (Campania, Sicilia, Calabria) are among the 10 EU regions with the highest AROP rates, while two (Valle d’Aosta and Emilia Romagna) are in the group of the 10 EU regions with the lowest rates. Moreover, the AROP rates of people born outside of the EU (18+) or in another EU country are almost twice as high as the rate of those born in Italy (around 33% compared to 17.4%). National absolute poverty data confirms the higher prevalence among minors, the working-age population and individuals with a foreign citizenship⁷⁸. The incidence of poverty increases with the number of children in the family, is greater in single parent households and is the highest in households where various family units live together.

The impact of social transfers (excluding pensions) in reducing the risk of poverty is among the lowest in the EU (25.8% vs an average of 35% in 2022). Men appear to benefit more from social transfers than women (28% vs 23.9%) and there are regional differences. The impact is lowest in the islands (22.1%), 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 28.8%. These differences are linked to the fact that social transfers in Italy are often contribution-based, providing comparatively weak redistribution. The self-employed and people with non-standard contracts, as well as part-time workers, experience de facto gaps in 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 than employees, which often do not offer similar protection, for example regarding unemployment and sickness benefits⁷⁹. Overall, in 2022, only 18.5% of the self-employed at risk of poverty received any

⁷⁷ The indicator is calculated as the distance between the median equivalised total net income of persons below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold itself, expressed as a percentage of the at-risk-of-poverty threshold.

⁷⁸ ISTAT, [Le statistiche dell’Istat povertà. Anno 2022](#), 2023.

⁷⁹ IZA, [De-facto gaps in social protection for standard and non-standard workers: an approach for monitoring the accessibility and levels of income support](#), 2022.

social benefits and only 30.1% of the unemployed (for less than 12 months) received unemployment benefits/assistance. This situation has partially improved in recent years, as Italy has extended the maximum period of the unemployment benefit for para-subordinate workers (*Indennità di disoccupazione per i lavoratori con rapporto di collaborazione coordinate*, DIS-COLL) to 12 months, and eligibility requirements for the standard unemployment benefit (*Nuova Assicurazione Sociale per l'Impiego*, NASpI) have been relaxed to include workers with more discontinuous employment histories⁸⁰. Furlough schemes have also been made more generous and more accessible to include apprentices and home workers.⁸¹ The Budget Law 2024 has made structural the *Indennità Straordinaria di Continuità Reddittuale e Operativa* (ISCRO), a 6-month allowance providing income support to solo self-employed registered to *Gestione Separata* in case of income loss.

The focus of the welfare system on cash transfers rather than on the provision of services limits the employment opportunities of those with caring responsibilities. The share of young children (less than 3) in formal childcare was below the EU average in 2022 (30.9% vs 35.8%), with significant regional differences in the number of existing places. Childcare is less available in the South and in small cities. In the school year 2021-22, coverage varied from 12% in Calabria and Campania to 40% in Umbria and Emilia-Romagna⁸². Furthermore, attendance remains lower among children whose parents are less highly educated, have lower incomes and are not both employed, reinforcing existing inequalities. As concerns persons with disabilities, smaller gaps in employment and poverty risks are recorded compared to the rest of the population than in other Member States, but family members often have to provide care themselves, reducing their possibility to work. Only 58.6% of people aged 36-64 living with a person with a disability are employed, 10 pps less than for the rest of the population⁸³. In 2017, only 2.5% of total spending on disability programmes was used for active measures (with the remaining dedicated to benefits), a share well below the OECD average of 10%⁸⁴. Furthermore, although public expenditure on long-term care (LTC) is comparable to the EU average, cash transfers make up for a comparatively larger share of spending to the detriment of services, for which coverage is low (only around 3% of those aged 65+ can access residential facilities and 5% homecare)⁸⁵.

b) Relevant planned and ongoing policy responses

Fully implementing recent reforms to the family benefit system and completing the construction of new nurseries financed under the RRP would improve the availability of childcare services. The new integrated family benefit system (*Assegno Unico Universale*, AUU), which increased benefits, extended the scope of beneficiaries and simplified the system, helped reduce the wide gap with the EU on spending in this area. With its introduction in 2022, the AUU is estimated to contribute to reducing the risk of poverty, particularly among children⁸⁶. The RRF-financed investment to build new nurseries (150 480 additional places by 2026), as well the provision of funds for their daily operations, could help bridge territorial gaps in childcare supply and increase female employment, with a significant impact on families' disposable incomes. The European Social Fund Plus (ESF+) supports the implementation of the European Child Guarantee in Italy with a total budget of more than EUR 1.1 billion (EU share), aimed at particularly vulnerable children.

The RRP includes various measures linked to disability and non-self-sufficiency which, can help improve care services for adults. As part of the RRP, Italy adopted in 2021 the Framework Law on

⁸⁰ European Commission, [Joint Employment Report 2023](#), 2023.

⁸¹ INAPP, [Lavoro e formazione: l'Italia di fronte alle sfide del futuro](#), 2022.

⁸² ISTAT, [I servizi educativi per l'infanzia in un'epoca di profondi cambiamenti](#), 2023.

⁸³ ISTAT, [Rapport annual 2022: Capitolo 4 – Le diverse forme della disuguaglianza](#), 2022.

⁸⁴ OECD, [Disability, Work and Inclusion in Italy: Better Assessment for Better Support](#), 2022.

⁸⁵ European Commission, [ESPN Flash Report 2022/41: On the verge of a long-term care reform in Italy?](#), 2022.

⁸⁶ ISTAT, [La redistribuzione del reddito in Italia](#), 2022.

Disability, which aims at developing a multidisciplinary disability assessment and promoting autonomy and non-institutionalised care. The implementing decrees of the reform are expected to be adopted by June 2024. Moreover, under the RRP, Italy is also strengthening the LTC system by investing EUR 4,75 billion in homecare services with the goal of covering 10% of older people and promoting a general reform of the entire system. Furthermore, the RRP includes a reform on non-self-sufficiency. It aims to integrate social and health services in this field, for example by setting up a one-stop shop within territorial health facilities where the elderly can receive a multidimensional assessment, but also to improve homecare. Additionally, it introduces a benefit for low-income non-self-sufficient individuals to pay for care services. Fully implementing this reform, including through appropriate financing, could help improve the situation of non-self-sufficient elderly people and their caregiving family members.

Despite some positive flanking measures, tighter eligibility criteria are expected to reduce the poverty-alleviating impact of the new minimum income scheme. From 2024, the minimum income scheme (previously *Reddito di Cittadinanza*, now *Assegno di Inclusione*) does not set eligibility solely based on means-testing, but limits access only to households in specific demographic categories (including minors, persons older than 60 or with disabilities and those followed by social services). Working-age individuals under the same income threshold but not falling into one of these demographic categories can receive a fixed EUR 350 monthly benefit (*Supporto per la formazione e il lavoro*) for the duration of their participation in active labour market policies, for a maximum of 12 months (non-renewable). The ability to cumulate both benefits with up to 3 000 EUR annual income from work, as well as the reduction of the residence requisite to 5 years, are positive developments. However, this reform significantly reduces minimum income coverage. Simulations from a static model by the Bank of Italy (not accounting for the dynamic effects related to the incentives to activation of recipients) suggest that, among households with Italian citizenship, the new minimum income scheme would reduce the number of recipient families by 40%, while among households with a different citizenship coverage would be reduced by 66%⁸⁷. The new scheme can now be fully cumulated with the family benefit (*Assegno Unico Universale*), but for most families the poverty-reducing effect of this is counterbalanced by the tightening of the eligibility criteria. Only for a small portion of low-income families the support received increases with the reform (particularly among households with more than three children, with children younger than 3 years, or single parent families). On average, however, without accounting for potential behavioural effects of the reform, such as increased incentives to work, the *Assegno di Inclusione* is expected to induce higher incidence of absolute and child poverty (by 0.8 pps and 0.5 pps respectively) relative to the previous scheme.

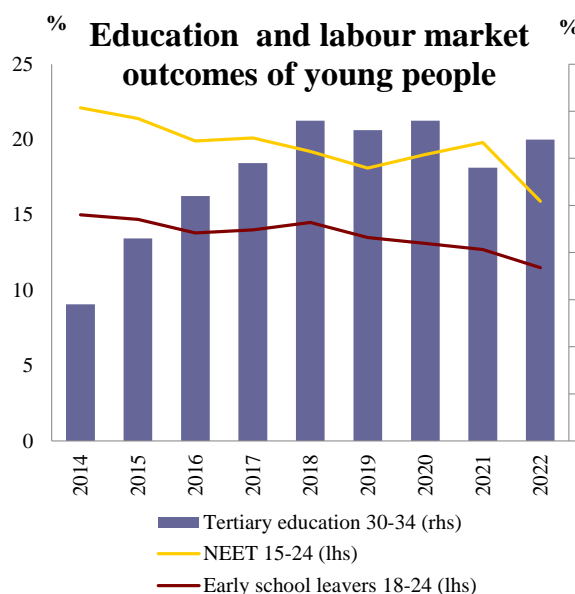
III. Education and Skills

a) State of play and developments on social convergence risks

Despite recent improvements, early school leaving remains a significant issue, and many young people are neither in education nor in employment and training, with negative effects on their career paths and future earning capabilities. Early school leaving has consistently decreased in the past decade, from 16.8% in 2013 to 11.5% in 2022, but remains among the highest in the EU (9.6%). It is particularly high among men (13.6%), especially those with a foreign citizenship (36.2%), and those residing in the Islands (20.6%). The difference in early school leaving rates between foreign and Italian citizens is relatively high: 30.1% of those with a foreign citizenship leave school early (compared to 9.8% for Italian citizens). In line with the rest of the EU, almost a third of 15-year-olds lack basic skills in mathematics and

⁸⁷ Banca d'Italia, [La revisione delle misure di contrasto alla povertà in Italia](#), 2023, p.11. Note this model is static, i.e., it does not account for labour supply responses to the reform, and does not account for the introduction of the fixed support for training (*Supporto per la Formazione e il Lavoro*).

more than one in five in reading and science, as measured by the Programme for international student assessment (PISA) 2022⁸⁸. National and international surveys show that learning outcomes differ significantly across regions, with worse results in the South and the Islands compared to the Centre and the North⁸⁹. Underachievement rates are also higher for foreign-born students and those with a disadvantaged socio-economic background. Despite being at its lowest since before the 2008-09 financial crisis and decreasing markedly over the last two years, the NEET rate (15-24) in 2023, at 12.7%, is among the highest in the EU. Out of the ten EU regions with the highest NEET rates, four are located in Southern Italy (Sicilia, Campania, Calabria, Puglia). Early school leaving as well as unemployment in early age can have scarring effects on young people and increase their risk of unemployment, poverty and social exclusion later in life.



Tertiary education attainment is among the lowest in the EU, standing at 29.2% (vs. the EU average of 42%). Tertiary education attainment is particularly low in the South (with the lowest rate recorded in Sicily, at 19.9%), whereas in Emilia-Romagna, the region with the highest rate in Italy (at 32.1%), it is still below the EU average. It is lower among other EU nationals (14.5%) and those born outside the EU (12.6%), as well as among men (23.1% compared to 35.5% for women). The socio-economic background plays a significant role as well: among people whose parents did not complete upper secondary school, only 8.4% obtained tertiary education (compared to 46.2% for those with tertiary-educated parents), pointing to low social mobility. Even though participation in vocational education is in line with the EU average, exposure to work-based learning is much lower in Italy, with only 25.9% of

recent VET graduates benefiting from it (vs 60.1% in the EU)⁹⁰. Work-based learning is important to ease the transition to work and align the employment outcomes of VET graduates with those of tertiary education graduates⁹¹.

Participation in adult learning⁹² has declined, remaining significantly lower than in other Member States. Literacy and numeracy skills of Italian adults are among the lowest in OECD countries⁹³. In 2023, at 45.7%, less than half of the Italian population had at least basic digital skills, which is almost 10 pps below the EU average (55.3%). Overall, while in 2016 33.9% of adults had participated in adult learning activities, this share further decreased to 29% in 2022, more than 10 pps below the EU average. At present, participation in adult learning is about half of Italy's national target of 60% by 2030⁹⁴. Lifelong learning is particularly low among men, individuals without tertiary education and the unemployed⁹⁵. While the gender

⁸⁸ European Commission, [The twin challenge of equity and excellence in basic skills in the EU. An EU comparative analysis of the PISA 2022 results](#), 2024.

⁸⁹ INVALSI, [Quanti studenti raggiungono i livelli adeguati nella Scuola secondaria?](#), 2022; European Commission, [Education and Training Monitor - Italy](#), 2023.

⁹⁰ European Commission, [Education and Training Monitor 2023 – Italy](#), 2023.

⁹¹ World Bank, [The Future of Work: Implications for Equity and Growth in Europe \(worldbank.org\)](#), 2023.

⁹² Adult Education Survey, adults in learning over the past 12 months, [special extraction excluding guided on-the-job training](#).

⁹³ OECD survey of adult skills PIAAC, dataset [here](#). Note this is 2018 data.

⁹⁴ [AES 2022 survey](#), adults (25-64), formal and non-formal education and training excluding guided on the job training.

⁹⁵ ISTAT, [Cresce il divario con l'Ue nei livelli di istruzione](#), 2021.

and educational attainment distribution of adult training is similar to the rest of the EU, participation in lifelong learning in other Member States is higher among the unemployed.

b) Relevant planned and ongoing policy responses

The strengthened system of orientation and guidance in secondary schools in the RRP is intended to enable students and their families to make informed choices concerning further education, training and work. The reform, entered into force in 2022, aims at providing orientation through modules of at least 30 hours each year, delivered by tutors and mentor teachers. While this measure can help tackle the challenges related to skills, its success will hinge on tutor and mentor teachers being properly equipped to perform their tasks.

The reform and investment on *Istituti Tecnici Superiori* (ITS) in the context of the RRP would help increase tertiary educational attainment. The underdevelopment of tertiary vocational education and training in Italy is one of the causes for the low tertiary education rate⁹⁶. In 2021, only 6 500 students graduated from these institutions. The RRP includes both a reform of the ITS system as well as a EUR 1.5 billion investment aimed at increasing the number of current students by 2025 by creating new ITS, strengthening the technological infrastructure of existing ones and training teachers. Ensuring that ITS are well-integrated with the school and university system, as well as with firms, and sustaining the expansion financed under the RRF in the long term is key to the successful implementation of these measures.

Enhanced implementation of the Youth Guarantee, together with significant investments targeted at areas with the highest prevalence of early school leaving, would help improve educational and labour market outcomes of young people. The Youth Guarantee, financed by the ESF since 2014, aims to ensure that young participants receive an offer of employment, education or training within a limited time of becoming unemployed or leaving formal education. The Youth Guarantee has helped modernise labour market policies and allow job centres to reach out to 1.7 million young people from 2014 to 2023⁹⁷. However, implementation challenges linked to weak active labour market policies remain. Under its RRP, Italy has committed to investments of up to EUR 1.5 billion in order to reduce the share of those leaving early from education and training to 10.2% by 2026, particularly targeting areas where early leaving is most widespread. Measures planned under these investments include personalised pathways in schools with a high prevalence of early leaving, including extended school hours, training for school staff and counselling for students. The successful implementation of this plan requires careful follow-up in schools with limited administrative capacity, as well as wide stakeholder involvement to promote the continuation of such activities beyond 2026.

Measures in support of adult learning are crucial to improving overall skills levels, also in light of the challenging starting position. As mentioned in section 1.b, under the GOL programme, a personalised support system for the unemployed and people in transition to employment has been established. Furthermore, the New Skills Fund, financed by the ESF, provides incentives for firms to train their employees, by reimbursing the hours of work during which staff attend trainings to acquire green and digital skills. The REPower EU chapter of the RRF includes an investment to develop green skills on a supra-regional scale through short training interventions focused on the skills most required by the green transition, which are identified by Pacts for Skills undertaken with private firms in various sectors.

⁹⁶ ISTAT, [Laureati italiani, permane il divario con l'UE](#), 2023; Fondazione Agnelli, [Presentazione del Rapporto ITS Academy](#), 2023.

⁹⁷ ANPAL, [Garanzia Giovani in Italia](#), 2023.

IV. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to the low overall employment rate, accompanied by high unemployment and low activity rates, as well as relatively low gross disposable household income (GDHI) per capita, partly reflecting structurally low wages related to weak productivity growth in the country. Labour market challenges are also identified, especially for certain groups, such as women, but also young people and the low-skilled, with strong regional differences reported. Poverty and social exclusion remain entrenched, particularly for certain groups such as children and in the South, and income inequalities are high. In-work poverty is also elevated, notably related to high rates of non-standard employment. At the same time, the impact of social transfers (other than pensions) on poverty reduction remains well below the EU average. Moreover, high rates of early school leaving, accompanied by a high incidence of young people neither in education nor in employment and training, together with low levels of basic skills among pupils, may have detrimental effects on their labour market and social outcomes. At the same time, low digital skills of the population and a decreasing share of adults participating in training, alongside low tertiary educational attainment, point to challenges in terms of skills development, especially in light of the green and digital transitions.

The measures undertaken so far, such as reforms and investments in active labour market policies, labour taxation and family policies, as well as actions taken with regard to the education and adult learning system, are expected to help Italy move in the right direction in relation to the potential challenges around labour market performance and skills, but this crucially depends on their sustainability over time, as well as on improved coordination between the national and regional administrations. Finally, the recent minimum income scheme reform and its potential impact on poverty reduction will need close monitoring. Despite progress made, notably with regard to employment, more efforts could bring Italy to fully address the challenges that the country is facing in relation to the labour market, social protection and inclusion as well as education and skills.

2.5 LITHUANIA

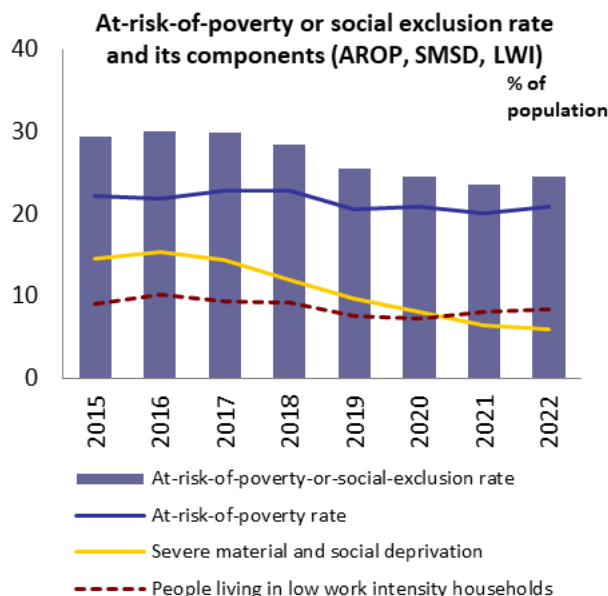
In the context of the first-stage analysis presented in the JER 2024, Lithuania was identified as facing potential risks to upward social convergence based on 5 headline indicators of the Social Scoreboard flagging, including one that deteriorated over time. These notably concern social protection and inclusion, regarding the **at-risk-of-poverty or social exclusion rate**, and the **income quintile share ratio**. In addition, in the area of education and skills, the low **participation of children under the age of 3 in formal childcare** and the low **share of people with at least basic digital skills** were also identified as criticalities. Finally, while the labour market improved, a need for deeper analysis was identified in relation to **persons with disabilities**. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at the available quantitative and qualitative evidence and the relevant policy responses undertaken or planned in Lithuania.

I. Social protection and social inclusion

a) State of play and developments on social convergence risks

After a downward trend over 2017-21, the share of people at risk of poverty or social exclusion (AROPE) increased in 2022. On the back of the economic expansion and improving labour market conditions, the AROPE rate decreased over several years, including in 2021 (based on 2020 as the income

year) as the first year of the COVID pandemic⁹⁸. However, after reaching a low point at 23.5% in 2021, the AROPE rate rose by around 1 pp the year after (to 24.6% in 2022 vs 21.6% in the EU). This represented an increase by 29 000 people, which may have been driven by the withdrawal of COVID-related income support measures.⁹⁹ Poverty and social exclusion risks are more prevalent in the mid-west region (26.8%) than in the capital region (19.2%). While the severe material and social deprivation rate is lower than the EU average (6% vs 6.7% in the EU in 2022) and the share of people living in low work intensity households is at the EU average, the at risk of poverty rate (AROP) exceeds it by 4.4 pps (at 20.9% in 2022). Against this background, the number of people at risk of poverty or social exclusion would need to decrease by over 25 000 per year over the next seven years in order to reach the national target of a lifting 223 000 people out of poverty by 2030 (compared to 712 000 in 2019).



Income inequality remains high and further increased in 2022. The income of the richest 20% of the population was 6.4 times higher than that of the poorest 20% in 2022 (vs 4.7% in the EU). The impact of social transfers (excluding pensions) in reducing income inequality is below the EU average (31% vs 37% in the EU¹⁰⁰). The high inflation in 2022 (18.9%) eroded purchasing power, notably for minimum wage earners, pensioners and people on social benefits¹⁰¹.

Despite improvements, the social situation remains particularly difficult for the unemployed.¹⁰² While their AROPE rate was below the EU average in 2022 (by 4.2 pps, at 61%), the AROP rate was above it (by 4.6 pps, at 51%), though both have been on a decreasing trend in recent years. Moreover, the depth of poverty for the unemployed

is one of the largest in the EU, with a relative median at-risk-of-poverty gap at 45.1% in 2022 (i.e. 10 pps above the EU average). Low levels of adequacy of social benefits and relatively low take-up rates are among the main reasons for this¹⁰³, despite Lithuania's annual indexing of the basic social amount and other amounts relevant for the calculation of social benefits. These are also the factors behind the high deprivation rates recorded for temporary contract workers and part-timers after the end of their employment and determine one of the highest AROP rates in the EU for people living in (quasi) jobless households (78.2% vs 59.9% in 2022). Gaps in access to social protection are affecting in particular the self-employed that have no access to benefits in case of unemployment or accidents at work, and a very low take-up of voluntary schemes for sickness and maternity benefits.

⁹⁸ Improvements in AROPE and AROP in 2020 were mostly driven by decreasing top and middle incomes (which negatively affected the median income), as well as increased social spending and COVID-related support to households, which positively affected low incomes.

⁹⁹ For instance, the universal temporary job search subsidy (EUR 200/month) was ended in 2021. More than 310 000 people had received it by December 2020.

¹⁰⁰ Commission services' own calculations based on EU SILC 2022. This indicator compares the quintile share ratio (S80/S20) based on market income before and after social transfers.

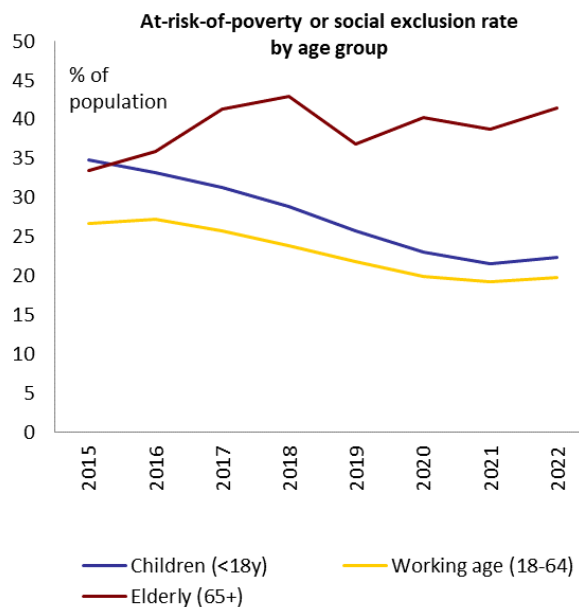
¹⁰¹ Estimations performed by the European Commission, Joint Research Centre, based on the EUROMOD model I6.0+, on the impact of inflation on increases in non-taxable income, minimum wage, pensions and social benefits in 2022 and 2023.

¹⁰² The unemployment rate was at 6.9% vs 6% in the EU in 2023.

¹⁰³ See: [Justification of the Programme to Reduce Income Inequality \(in Lithuanian\)](#). Insufficient outreach activities to potential beneficiaries and stigmatisation related to the receipt of social benefits are among the determinants for low take-up.

Older people represent one third of all individuals at risk of poverty or social exclusion in Lithuania.

The AROPE for this population group is twice the EU average (41.4% vs 20.2%). Single persons over 65 are particularly affected, with an AROPE rate of 65.8%, which are mainly driven by high monetary poverty (AROP). Overall, the AROP rate is much higher than that for the working-age population, and with an almost double incidence for women compared to men. The low adequacy of pensions is a significant determinant: although the old-age social insurance pension increased on average by 10% in 2021, it remained below the AROP threshold. The aggregate replacement ratio for old-age pensions is significantly below the EU average¹⁰⁴. Rapid wage growth in recent years also contributed to the increasing share of older people in AROPE, by pushing up the median household income, thus the poverty threshold, which outpaced pension increases.



Persons with disabilities experience high poverty risks due to their relatively weaker labour market situation, low levels of social transfers and other forms of income replacement. The AROPE rate for persons with disabilities increased to 44.3% in 2022 from 38.9% in 2021 (against an EU average of 28.8%), further widening the gap compared to persons with no disabilities (to 25.6 pps). All three components of AROPE (at-risk-of-poverty rate, share of people living in (quasi-)jobless households and severe material and social deprivation rate) are relatively high for persons with disabilities. Beyond their labour market situation (see Section 3a), during the COVID pandemic, persons with disabilities experienced a deterioration in the provision of health, social and other services, which may have made it more difficult to combine work with care responsibilities for their family members, thus increasing the number of persons with disabilities living in (quasi-)jobless households. Social transfers including pensions have a significant impact on the risk of poverty or social exclusion experienced by persons with disabilities. While not being meant to prevent the risk of poverty by itself, the average disability pension¹⁰⁵ (which accounts for around 65% of the average old-age pension and around 55% of the AROP threshold forecasted for 2023) is alone insufficient to ensure adequate income levels and alleviate the risk of poverty for this group. Furthermore, social assistance pensions are between 29% and 65% of such forecasted poverty threshold, with an indexation that in general lags behind that of statutory pensions. The adequacy of other social benefits for persons with disabilities is also low, despite their annual indexation¹⁰⁶.

¹⁰⁴ 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).

¹⁰⁵ This pension is paid not as a 'social measure' to protect against poverty, but as a way to compensate for the loss in productivity due to disability. It is calculated in a way that the average wage plus the disability pension for a person with disability equals the wage of an average person with no disability, based on the assumption that the person with disability will also work and receive labour income. This is nonetheless often not the case due to very high unemployment among persons with disability.

¹⁰⁶ Persons with disabilities are eligible to other benefits and compensations, the calculation of which depends on the amount of the base for targeted compensations, indexed annually, which was increased by 15% in 2022, 6.5% in 2023 and 12.2% in 2024.

Expenditure on social protection is relatively low and the redistributive capacity of the tax-benefit system remains limited. Social protection benefits expenditure amounted to 18% of GDP in Lithuania in 2021, i.e. more than 10 pps below the EU average. Early estimates show a further significant decline to 15.8% in 2022.¹⁰⁷ Although the impact of social transfers (excluding pensions) on poverty reduction improved since 2015, it remains below the EU average, at 30.3% in 2022 (vs 35% in the EU). In 2022, the impact of social transfers (other than pensions) on reducing income inequalities remained below the EU average (31% vs 37%). According to the World Bank¹⁰⁸ and the OECD¹⁰⁹, this relates also to the relatively low tax-to-GDP ratio (31.9% vs 41.2% in the EU in 2022), and relatively low progressivity of the tax system, the VAT gap¹¹⁰ (14.5% of VAT revenues in 2021 vs the EU median of 4.9%), and the shadow economy.

b) Relevant planned and ongoing policy responses

The measures covered in the programme of income inequality reduction adopted in 2021 are expected to mitigate high income inequality and poverty risks, especially in old age. The programme indicated necessary improvements to be made in the tax-benefit system and set out the 2030 poverty and income inequality reduction targets for various types of households and population groups. Among the reforms already implemented to alleviate poverty, income inequality and social exclusion are those on pensions and the introduction of the allowance for single people in retirement and single persons with disabilities, whereas the minimum income scheme and unemployment protection are planned but not yet in force.

Recently introduced pension reforms, including those covered in the Lithuanian Recovery and Resilience Plan (RRP), should contribute to alleviating poverty risks for older people. As part of its RRP, Lithuania introduced a reform that changed the rules for pension indexation, namely with the introduction of an additional indexation of the individual pension component of the statutory pension, on top of the regular indexation, applicable as long as the AROP rate of the 65+ is higher than 25% and/or the average pension replacement rate is lower than 50%. Lithuania also reduced the required contributory period for the full general (basic) pension, and introduced an extra pension increase as a response to high inflation in mid-2022. As from 1 January 2022, all beneficiaries of the statutory pension scheme who have completed at least the minimum contributory period are to receive the full “general” pension (i.e., the full basic pension), even if they do not have the compulsory contributory period of 32 years in 2022 (or 35 years in 2026). All these changes together with other measures in the aforementioned programme of income inequality reduction, are expected to improve the situation in terms of old-age poverty in the short to medium term¹¹¹, with scope for further policy action in the longer term.

The RRP includes also various measures aimed at improving social safety nets. The introduction of the allowance for single people in retirement, and for single persons with disabilities, are expected to help improve the situation of these population groups. Furthermore, work is currently ongoing as regards an RRF-financed reform to improve the adequacy of the minimum income scheme. The design of the latter is,

¹⁰⁷ Based on European System of Integrated Social Protection Statistics (ESSPROS) data; see also further details on methodology used [Information on data - Eurostat \(europa.eu\)](#) and relevant manual and user guidelines [European system of integrated social protection statistics — ESSPROS \(europa.eu\)](#)

¹⁰⁸ World Bank, TSI Project 20LT09.

¹⁰⁹ OECD, OECD Tax Policy Reviews: Lithuania 2022, OECD Tax Policy Reviews, OECD Publishing, Paris, 2022.

¹¹⁰ 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.](#)

¹¹¹ In 2024, the social insurance pensions’ general part was indexed by 9.57%. The individual (=contributory) part was additionally indexed by 2%. The Ministry of Finance expects that the resulting pension growth (10-12%) will outpace wage growth in 2024. State Data Agency experimental statistics on AROP forecasts that in 2023 (based on 2022 income), the AROP rate in Lithuania is expected to decline to 19.9% (-1 pp) compared to 2022, whereas the old-age AROP rate is expected to decline by around 3 pps and reach 36.5%.

however, not yet clear, similarly to the design of another relevant RRF-supported reform aiming inter alia to decrease income inequality by increasing the progressivity of taxation and ensuring a fairer taxation of the self-employed and other forms of economic activities (on the Parliamentary agenda since 2023). Last but not least, another reform in the Lithuanian RRP (scheduled for a Parliamentary session debate in Spring 2024) aims to provide the self-employed with unemployment insurance and ease the conditions for accessing unemployment benefits and increase their adequacy. If adopted, these as well as other measures contained in the programme of income inequality reduction could contribute to alleviating the poverty of the unemployed and reducing income inequality.

II. Skills

a) State of play and developments on social convergence risks

The share of children aged less than 3 years in formal early childhood education and care (ECEC) in Lithuania is significantly lower than the EU average, with large urban-rural disparities in service provision. While the participation in ECEC for children below 3 is not compulsory and there is no legal guarantee to obtaining a vacant place in a pre-school facility, children from families at social risk or in other vulnerable situations may be placed in an institution with an ECEC programme by the decision of the municipal administration (on an advice of the child welfare commission of the municipal administration) as of 2022. At 22.8% in 2022 (i.e. 13.1 pps below the EU average), the share of children below 3 in ECEC increased for the second consecutive year but, after a substantial drop of almost 10pp in 2020, it has not yet recovered to the pre-pandemic level. ECEC services for this age group are mainly available in private settings, which are difficult to afford for low-income and disadvantaged families¹¹². In light of the high labour market participation of women (78.6% vs 69.3% in the EU in 2022), the availability of formal and affordable childcare does not match the needs.¹¹³ Furthermore, there are large disparities in access to ECEC among children from different backgrounds, as well as between rural and urban areas. Overall, children from single-parent families and low-income families, with a migrant background, special educational needs or disabilities have lower ECEC participation rates. Access to ECEC is more limited in rural areas mainly due to lack of infrastructure, transportation and staff. At the same time, the insufficient provision of public ECEC services compared to needs in urban areas remains a challenge, especially in the Vilnius municipality and district, where the number of pre-school children has been increasing since 2018 also due to internal migration¹¹⁴. The supply of private ECEC services is growing in big cities, but the high cost of such services limits their accessibility to families with above-average incomes. The arrival of displaced children from Ukraine in 2022 has further increased the demand for the limited number of ECEC places available in urban areas. At the same time, family policies in Lithuania encourage stay-at-home parenting via relatively generous childcare benefits, in the form of a monthly payment granted to support early childcare at home paid until the child reaches either 18 or 24 months.

The participation of adults in learning remains relatively low. In 2022, only 27.4% of Lithuanian adults took part in training over the previous 12 months, well below the EU average of 39.5%.¹¹⁵ A limited improvement (+2.4 pps) was recorded compared to the previous data for 2016. Adult learning participation therefore remains far (26.3 pps) from the 2030 national skills target of 53.7% of adults in training every

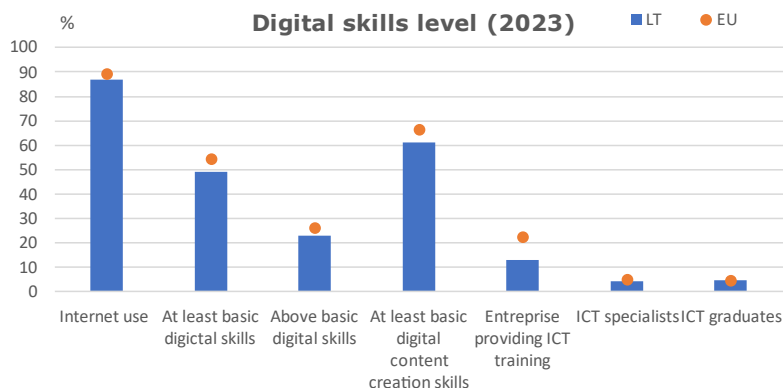
¹¹² [UNICEF - A Deep Dive into the European Child Guarantee in Lithuania - Main report \(2022\)](#).

¹¹³ *Ibidem*.

¹¹⁴ [Education and Training Monitor 2023](#). See for more details also in UNICEF (2021) In-depth analysis of policies, programmes, services, budgets and mechanisms to combat child poverty and social exclusion in Lithuania.

¹¹⁵ Adult Education Survey, special calculation excluding guided on-the-job training as available in the [public excel file](#).

year, with significant efforts needed over the next seven years to reach it. Participation was particularly low among men (20.9%), 55-64 year-olds (18.5%) and people with at most upper secondary and post-secondary education (12.8%). Low participation of adults in training may be a limiting factor for the competitiveness of the economy, in particular in the areas of innovation and business sophistication.



Despite improvement, digital skills levels are below the EU average. The share of individuals with at least basic digital skills is still lower than the average in the EU (52.9% vs 55.5% in 2023), although it has increased by more than 4 pps compared to 2021, outpacing the increase in the EU average. Basic digital skills levels only show a similar pattern (at 23% against the EU average of 26% in 2021). ICT

graduates currently account for 4.7% of all graduates in Lithuania (in line with the EU average). The share of ICT specialists in total employment was 4.4% in 2021, slightly below the EU average but converging quickly to it, *with an increase by 0.6 pps compared to 2020*. Enterprises are modestly investing in ICT training, with only 13% of them providing specialised ICT training to their employees, against an EU average of 22% in 2022.

b) Relevant planned and ongoing policy responses

The fact that non-compulsory early childhood education and care will become universal for children aged two and over as of September 2025 is expected to significantly improve ECEC participation.

The pre-school education will be provided throughout the country for families that wish to access it. The Education Development Programme for 2021-30 foresees that 95% of children aged 2-5 should be attending ECEC institutions before 2030. It is also expected that as a result of the programme 75% of children from families experiencing social risks will attend ECEC institutions, and that the inclusion of children with special needs will be improved. To meet these objectives, the Lithuanian municipalities have planned to build 19 new kindergartens and renovate 144 existing educational institutions¹¹⁶. EUR 27 million from the ERDF are allocated to the creation of new pre-school education places, taking into account the needs of specific regions, the number of children and the lack of places, encouraging regions to pay more attention to improving the opportunities for children from rural areas to participate in ECEC. The authorities also plan to improve the competences of teachers, by increasing the availability of various professional development opportunities and promoting the cooperation between the network of ECEC institutions and educators¹¹⁷. Almost EUR 69 million are allocated to these and other ECEC-related purposes from the ESF+. It remains important for Lithuania to ensure that the plans to increase the availability of ECEC, both in terms of infrastructure and quality teaching staff, are implemented to satisfy the increasing demand and to reach the targets set out in the Education Development Programme.

The 2020-30 Industry Digitisation Roadmap, the 2013-22 State Education Strategy, together with the National Skills Strategy,¹¹⁸ help develop the digital skills of the population. These initiatives cover the curricula of primary and secondary schools with the aim of strengthening the development of digital

¹¹⁶ [Education and Training Monitor 2023](#).

¹¹⁷ Lithuania's National Action Plan on the Implementation of the Child Guarantee.

¹¹⁸ Developed in cooperation with the OECD.

competences. One of the priorities under the 2021-30 National Digitalisation Development Programme is to improve the digital skills of people in vulnerable groups, such as older people, those with lower incomes and persons with disabilities. Furthermore, the RRP allocates EUR 184 million to reforms and investments in digital skills and education. As a result, more than 18 000 adults should acquire digital skills and other high-value added qualifications and competences via the life-long learning platform based on individual learning accounts or via the Public Employment Service pilot project for reskilling. Furthermore, 500 pedagogical staff should achieve a master's degree in IT, 2 200 teachers and 800 higher education staff should develop their digital competences, as should also 4 000 public servants by 2026. This will be further supported by the ESF+, which allocates EUR 64.5 million for adult learning, including in the area of digital skills. All of these measures are expected to go a long way in increasing the basic and above basic digital skills of the population and to foster the twin transition in Lithuania. It is thus necessary to closely monitor the situation following their implementation, also in relation to their contribution to progress on the 2030 national skills target.

III. Labour market

a) State of play and developments on social convergence risks

The overall labour market situation in Lithuania remains favourable, despite the economic slowdown. The employment rate outperformed the EU average in 2023 (78.5% vs 75.4%), whilst slightly decreasing from its 2022 level. The activity rate (20-64) exceeded the pre-pandemic level in 2023 (84.4% vs 80.0% in the EU), slightly increasing from 2022 (84.1%). The labour market slack (10.2%) remained below the EU average (11.0%) in 2023, despite its slight increase compared to 2022. Labour and skill shortages have increased in recent years, potentially creating bottlenecks to the transition to a net-zero economy. According to the European Labour Authority (ELA)¹¹⁹, in 2023 labour shortages were reported in 59 occupations and a number of shortage occupations required specific skills or knowledge for the green transition¹²⁰, including civil engineers, electrical engineers, and building and related technicians.

The employment situation of persons with disabilities worsened for the second year in a row according to the disability employment gap of the Social Scoreboard, while a more positive picture on trends is provided by national data. The headline Social Scoreboard indicator on the disability employment gap¹²¹ increased significantly over two consecutive years, from 22.7 pps in 2020 and 23.9 pps in 2021 to 35 pps in 2022 (vs 21.4 pps in the EU). Only 47.5% of persons with disabilities are active in the labour market in Lithuania, below the EU average of 55.1%. While the overall unemployment rate is around the EU average, for persons with disabilities it lies significantly above it (14.6% vs 9.4% in the EU). National data¹²² show a more positive picture on trends related to the labour market situation of persons with disabilities. According to the Lithuanian Labour Force Survey (LFS), the employment rate of persons whose activities have been restricted due to health problems for at least the past six months was 41.5% in 2022 and 41.8% in 2021, showing a relatively stable situation. National data collected by the Board of Social Insurance Fund (SODRA), reflecting the employment situation of persons whose disability has officially been recognised and are working based on national registers, report an increase in the share of

¹¹⁹ Based on the European Labour Authority 2024 EURES Report on labour shortages and surpluses 2023, i.e. data submitted by the EURES National Coordination Offices.

¹²⁰ Skills and knowledge requirements are based on the European Skills Competences and Occupations (ESCO) taxonomy on skills for the green transition.

¹²¹ The disability employment gap indicator is based on data from EU-SILC. The definition of disability is based on the generalised activity limitation index (GALI).

¹²² This national data does not allow comparability with other EU Member States.

employed persons with disabilities, from 29.1% in 2021 to 30.5% in 2022 and 30.7% in 2023. Policy interventions undertaken are not yet reflected in the data.

b) Relevant planned and ongoing policy responses

The undertaken reform on the participation of persons with disabilities in the open labour market is expected to help improve their labour market situation. The reform, in force since 2023, aims at discontinuing the subsidies for enterprises employing a certain number of persons with disabilities (so called ‘social enterprises’) and instead incentivising the employment of persons with disabilities on the open labour market. This should ensure that support follows the person, regardless of the employer's status. The reform also 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 the total number of employees. National targets are set in the Programme for the Development of the Inclusive Labour Market, which foresees to increase the share of employed working-age persons with disabilities out of the total number of working-age persons with disabilities from 28.4% in 2020 to 39% in 2025 and 47% in 2030. As the reform came into force in 2023, its impact is not visible in the statistics yet.

The implementation of the new disability assessment model could also have a positive impact on the overall situation of persons with disabilities and their labour market integration. The model reduces the impact of medical criteria on the assessment of disability and rather introduces a multidisciplinary approach, with a bigger role for other criteria better reflecting individual specific needs. Multiple areas, including mobility, self-care, communication, daily activities, living environment, for instance, will be assessed to determine a person's assistance needs. Additionally, persons with disabilities will be involved in the disability assessment process, and assistance coordination will be provided as needed. A personalized plan for the necessary assistance and services is created for the individual, identifying complex support needs and offering a comprehensive support package to help persons with disabilities integrate into society and the labour market, ensuring equal rights and opportunities. The reform also aims at providing social and other services to persons with disabilities in a more integrated way, based on the one-stop-shop principle, and ensuring information provision in an accessible manner (including making information available in accessible formats e.g. easy to read language, sign language, etc.). At the same time there is scope for further policy action in this area, such as raising awareness (including among the employers) about the needs of persons with disabilities and further improving the framework to facilitate combining work with care responsibilities for the family members of persons with disabilities.

IV. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to the high at-risk-of-poverty or social exclusion rates and income inequality. Poverty risks are higher for certain population groups, such as the unemployed, older people, and persons with disabilities, driven mainly by low adequacy of pensions as well as gaps in coverage and low adequacy of unemployment and social benefits. Lithuania also faces challenges related to the low participation of children below three years of age in formal childcare and adult participation in learning. Digital skills levels remain below the EU average, though their increase has outpaced the average increase for the EU over the past two years. On the other hand, the risks identified in the first stage analysis in relation to the employment situation of persons with disabilities, namely on the disability employment gap, are not confirmed by the national data, which provides a more positive picture compared to the Social Scoreboard indicator. In addition, the significant recent policy interventions undertaken in the area are expected to improve the situation, although it may take a couple of years for the effects of these reforms to become visible in the data.

Policy measures implemented so far, such as the 2022 pension adequacy reform, the introduction of the single person benefit, as well as the planned reforms of unemployment benefits and the minimum income scheme, are all expected to substantially address the risks identified in the area of social protection and inclusion. The low levels of digital skills are also targeted by several measures, including the RRP, while the Education Development Programme 2021-2030 and the national plan on the implementation of the European Child Guarantee will help increase the participation of children below three years of age in early childhood education and care. All these measures are expected to help Lithuania move in the right direction, but this will also depend on the final design of the planned measures and on their full and timely implementation.

2.6 HUNGARY

In the context of the first-stage analysis presented in the JER 2024, Hungary was identified as facing potential risks to upward social convergence based on 6 headline indicators of the Social Scoreboard flagging. These notably concern education and skills, regarding a low **participation of children under the age of 3 in formal childcare**, a high number of **early leavers from education and training** and a low level of **digital skills**. In addition, in the area of social protection and inclusion, the **impact of social transfers (excluding pensions) on poverty reduction** and the **housing cost overburden rate** were also identified as criticalities. Finally, while overall the labour market continues to perform well, it was considered necessary to further examine the situation for certain population groups, including **persons with disabilities**. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at the available quantitative and qualitative evidence and the relevant policy responses undertaken or planned in Hungary.

I. Education and skills

a) State of play and developments on social convergence risks

Participation in high-quality early childhood education and care (ECEC) is beneficial for children’s development and their later learning outcomes, in particular for those from disadvantaged background; nevertheless, in Hungary it remains low for children under the age of 3.¹²³ The share of children under 3 in formal childcare doubled between 2011 and 2019 (to 16.9% in 2019) but fell back to 12.9% in 2022¹²⁴, also as a result of the COVID-19 pandemic. This is one of the lowest participation rates in the Union (EU average is 35.9%). While low average participation in childcare can partly be explained by a generous maternity leave package¹²⁵ and by cultural factors, accessibility and affordability are also important determinants. Applicants receiving the regular child protection benefit have priority admission, which partly explains a higher participation rate among children at risk of poverty or social exclusion (18.5% in 2022). The relevant national legislation, however, does not ensure free of charge access to ECEC for all children under three living below the national poverty threshold, as the household income limit for free childcare is lower than the national poverty threshold. The net out-of-pocket costs of childcare for a low-income household with two children represented, on average, between 6% (for single parents) and 11%

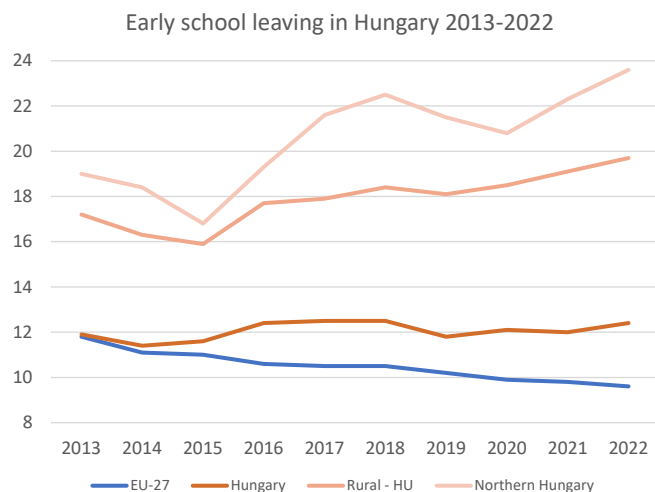
¹²³ “Creches“ and “kindergarten” are used in the text as synonyms for early childhood education and care (ECEC) for children under 3 or aged 3 or above respectively.

¹²⁴ According to national statistics published by the [Hungarian Central Statistical Office \(HCSO\)](#), the proportion of children aged under three in formal childcare was 18.1% in 2022, and 20% in 2023.

¹²⁵ Except for low-income families, as benefits are related to salaries.

(for couples) of the household income in 2022.¹²⁶ In addition, the number of available places sometimes does not meet the actual needs, and there is an uneven geographical distribution with gaps in accessibility in the least developed regions. While according to national data, the share and number of children under 3 who have no access to any type of ECEC in their municipality has been considerably decreasing over the past 5 years (from 26% in 2017 to 16.7% in 2023), in 2023, in 2 122 municipalities, 47 000 children (16.7%) were left without an ECEC place¹²⁷. At the same time, in some municipalities, crèches were overcrowded. Besides these limitations, challenges related to quality in a context characterised by a shortage of qualified ECEC staff may also discourage participation. From the age of 3, on the contrary, ECEC participation is compulsory, and the average participation rate is high (93.4%), though still with unbalanced regional coverage (with 31% of municipalities having no kindergarten in 2021). Besides its potential benefits for the children, ECEC participation may also increase women’s labour market participation¹²⁸.

The level of basic skills is around the EU average but students’ socio-economic background remains a strong predictor of their performance. In PISA 2022, 1 in 3 students did not meet the basic proficiency levels in mathematics, and 1 in 4 students in reading and science. The impact of students’ socio-economic background on their basic skills is among the strongest in the EU, with more than half of the socio-economically disadvantaged pupils being low-achievers in mathematics compared to 7.6% among their advantaged peers (PISA 2022). In the 2021 Progress in International Reading Literacy Study (PIRLS), which measures the reading competence of fourth-graders, the performance gap between children of high versus low socio-economic status was one of the highest in the EU (at 120 points vs 80 in the EU). The school system is also highly selective, with disadvantaged and low-achieving students often going to different schools than their advantaged and high-achieving peers. Due to early academic tracking, low-achievers in basic skills tend to continue their upper secondary level studies in a 3-year vocational education and training (VET) programme, which allocates significantly less time to basic skills development through



general education subjects than other educational tracks. With lower basic skills and with no direct access to post-secondary and tertiary educational paths, 3-year VET students face challenges with regard to up- and re-skilling. Low basic skills and educational attainments also tend to result in weaker labour market outcomes, and in particular lower employability and wages in adulthood¹²⁹.

The early school leaving rate has stagnated for two decades, in contrast to the improving trend observed in the EU. Since 2002, the rate of early leavers from education and training has remained broadly around 12%, rising to 12.4% in 2022 against an improving EU average (at

¹²⁶ Low-income households are defined here as those with 67% of the average wage. For couples, one parent earns 67% of the average wage whereas the other earns either the minimum wage, 67% or 100% of the average wage.

¹²⁷ [OECD Tax and Benefits Database, Net childcare costs \(indicator\). doi: 10.1787/e328a9ee-en \(Accessed on 26 April 2024\).](#)

¹²⁸ National Statistical Office Helyzetkép | 2023 (ksh.hu)

¹²⁹ Among other things, the nursery care development program has already led to an improvement in the employment rate of women aged 25-49 with a child under 3 years old. According to the Hungarian Central Statistical Office, the rate increased from 67.2% to 78.4% between 2014 and 2023. Estimates from a 2022 study for 8 Member States countries show that in Hungary increasing the participation in ECEC to 45% could increase the labour market participation rate of mothers by 10% (Source: [Employment and Social Developments in Europe 2023](#)).

¹²⁹ [OECD PIAAC 2018 Country Note for Hungary, 2022.](#)

9.6%)¹³⁰ and the EU-level target of maximum 9% by 2030. The rate is highest in Northern Hungary (23%) and in rural areas (19%), which include the least developed districts. Young persons with disabilities also more often leave school early (46.4% vs 11.8% among their peers), as do the Roma (62.7% vs 9.9% among non-Roma).¹³¹ Related to school composition and early tracking, early school leaving is also more common among pupils who were enrolled in 8-year általános iskola (single structure primary and lower secondary education) and in 3-year VET programmes. More than half of 18-24-year-olds who left school early end up being neither in employment nor in education and training (NEET). National data shows some improvement in 2023, with a 11.6% early school leaving rate¹³².

Though digital skills levels have improved significantly over the last two years, further efforts could target vulnerable groups and ensure a fairer digital transition. The share of adults who have at least basic digital skills increased from 49% in 2021 to 58.9% in 2023, thereby surpassing the EU average of 55.5%. This is a significant achievement, which might be related to the larger than EU average increase in access to broadband internet, recent investments in e-government services, some dedicated IT training projects funded by the European Social Fund (ESF), online education and teleworking during the COVID-19 crisis, and the ongoing implementation of the government's digital welfare strategy. At the same time, vulnerable groups who face the most difficulties in accessing the labour market have benefitted the least from this progress.¹³³ In this regard, only 33.4% of all adults with no or low formal education, 44.1% of the unemployed and 36.1% of those aged 55 and over have at least basic overall digital skills. In addition, only about a quarter of those who are in two of the aforementioned vulnerable situations have at least basic digital skills.

The positive momentum regarding adult participation in learning should be maintained, and there is scope for giving further impetus to the up- and re-skilling of vulnerable groups. Adult participation in learning over the previous 12 months increased to 62.2% in 2022, thereby significantly exceeding the EU average (39.5%), as well as Hungary's national skills target of 60% by 2030. However, the low-educated, the unemployed and those outside the labour force lag significantly behind, with only 42.1%, 20.7% and 18.6% of them participating in learning respectively every year.¹³⁴ A low level of skills, demonstrated in PIAAC 2017, and low participation in up- and re-skilling opportunities for such groups may have negative consequences for their labour market and social situations in the longer term.

b) Relevant planned and ongoing policy responses

Hungary has taken action to increase the number of formal childcare places, but there is scope for further policy interventions in light of families' needs, including in disadvantaged municipalities. Between 2020 and 2023, Hungary increased the number of ECEC places for children under 3 years by about 10 000 (to a total of 60 262 in 2023), thereby exceeding the national target of 60 000 by 2026 that Hungary set itself in the Strengthening the Role of Women in the Family and Society (2021-2030) Action Plan¹³⁵ at the end of 2023. However, in 2020 a survey concluded that there was a demand for 70 000 places¹³⁶. The same Action Plan also committed to reduce the number of municipalities without ECEC places where families demand it, with particular attention to disadvantaged municipalities. In relation to this, a specific

¹³⁰ There are breaks in series for this indicator in 2003, 2006, 2014, 2015 and 2021.

¹³¹ Government of Hungary: Magyar Nemzeti Társadalmi Felzárkózási Stratégia (MNTFS), 2022.

¹³² National Statistical Office. 23.1.1.29.; [23.1.1.29. Korai iskolaelhagyók \(ksh.hu\)](#).

¹³³ [The Digital Economy and Society Index \(DESI\)](#), 2023.

¹³⁴ Data used here exclude guided on-the-job training (see [public excel file](#)), except for the unemployed and those outside the labour force. The indicator including guided on the job training is 62.4%.

¹³⁵ "A nők szerepének erősítése a családban és a társadalomban (2021-2030) akcióterv (<https://kormany.hu/dokumentumtar/a-nok-szerepenek-erositese-a-csaladban-es-a-tarsadalomban-20212030-akcioterv>)

¹³⁶ In November 2020, the government carried out a large-scale survey among providers of ECEC for children under 3 - municipalities and church providers (the results are not available online). The Action Plan refers to some of the outcomes of this survey.

target is set to decrease to 15% by the end of 2029 the ratio of children under 3 whose place of residence does not offer crèche care. A further commitment in the Action Plan is to carry out an analysis on needs in 2026, which will be the basis for further investments in the field. The national action plan for the implementation of the European Child Guarantee does not include measures to ensure free access for all children below 3 of age under the poverty threshold whose parents might request a crèche place¹³⁷. The Recovery and Resilience Plan and cohesion policy programmes for 2021-27 support the construction of 4 503 new ECEC places for children under 3 in municipalities with more than 3000 inhabitants and at least 1014 in smaller municipalities, by 2026 and 2029, respectively. However, the number of available fully qualified crèche staff is currently not sufficient and not all crèches are equipped with infrastructure and staff to cater for children with special educational needs. The ESF+ supports 1500 scholarships by 2029 for those studying to become crèche staff with the relevant qualification and find employment in the profession, but more qualified staff is needed to meet families' demands. In 2020, the government amended the employment conditions in kindergartens, reducing the required number of qualified teaching staff, which may negatively impact¹³⁸ the quality of provision above 3 years of age. In addition, since January 2024, VET graduates of kindergarten education are allowed to work as kindergarten teachers, which was earlier only possible with a tertiary diploma. Lowering the qualifications requirements of kindergarten teachers could risk lowering the quality of kindergarten education.

Structural changes in the education and training system could address persistently high early school leaving rates, low achievement and educational inequalities. In 2014, Hungary adopted a national strategy for preventing early school leaving and developed an early-warning system which helps identifying pupils at risk of dropping out in order to allow timely intervention. However, structural features of the education and training system contributing to pupils' low achievement and early school leaving remain, like early academic tracking,¹³⁹ low attention to key competences, imbalanced distribution of pupils from different socio-economic background across schools, lowering of the compulsory school age¹⁴⁰ and shortages of teachers. Building on previous ESF investments, Hungary has allocated about EUR 150 million of its ESF+ funding to preventive and compensatory measures for early school leaving in school education and VET. The RRP provides support to extended school programmes and scholarships to pupils in the 300 most disadvantaged settlements. In addition, at the end of 2023 and at the beginning of 2024, the Hungarian government adopted decrees to start a long-term increase of the salary of teachers in school education with the aim to reach at least 80% of the average tertiary graduate salary by 2025. This salary level is meant to be maintained at least until the end of 2030. Around EUR 1.8 billion of ESF+ funds are allocated to this measure, which should contribute to increasing the attractiveness of the teaching profession, thereby improving the quality of education.

An adult education and training reform was introduced in 2019 that is ambitious but lacks a clear strategic vision on skills and adult learning, as well as actions targeting vulnerable groups. In 2019, major reforms were launched to transform the adult education and training system in Hungary. Whereas vocational qualifications giving access to professions can only be provided by vocational education and training institutions, trainings leading to partial qualifications ("részszakma") and some accredited trainings ("programkövetelményes képzés") can also be given by private providers. New rules apply to providers, and a robust monitoring system was built. Besides project-based funding, especially through the EU funds

¹³⁷ In Hungary, early childhood education and care is available on demand (participation in early childhood education and care is obligatory and free of charge from the age of 3)).

¹³⁸ Early childhood education and care initiatives | European Education Area (europa.eu).

¹³⁹ Early academic tracking means selection of different school types based on performance at a young age. In HU, this is age 10, which is the one of earliest in the EU. Early selection is found to negatively impact on disadvantaged pupils that tend to receive less guidance on this matter.

¹⁴⁰ Data show that lowering the compulsory school age from 18 to 16 in 2012-13 had a significant negative impact on school attendance (KRTK-KTI, 2021).

and subsidised study loans, public financing of adult learning is limited. Information and guidance for adult learners, foreseen in the VET 4.0 strategy of November 2023, is key to improving access and effectiveness. Under the RRP, HU has committed to develop a national strategy and action plan on green skills, but an overall skills strategy including robust skills forecasting is not foreseen. Commitments to develop individual learning accounts and provide trainings leading to micro-credentials, in line with the relevant EU Recommendations, could also help support adults' skills development. The low participation in adult learning of certain groups, including the unemployed, inactive and workers in micro and small enterprises, could be addressed through targeted up- and re-skilling.

Investments in digital education and skills development have been stepped up to improve the level of digital skills. Hungary adopted a National Digitalisation Strategy for 2022-30, which details investment plans, including in digital skills. The Digital Renewal Operational Programme Plus dedicates about EUR 400 million of ESF+ funding to the digitalisation of education and adults' digital skills development. Its goal is that by 2029 at least 550 000 adults, including 180 000 who have no digital skills, participate in digital skills development trainings. Further financial resources from other cohesion policy programmes and the RRF are also allocated to support digital education and skills development. Under the RRP, Hungary has committed to distribute at least 579 000 digital notebooks to pupils and teachers for teaching and learning purposes by 2026. A fair digital transition will also require keeping up the positive momentum in adult learning for instance by providing an accessible, widely-known and stable digital skills development network. In addition, outreach to vulnerable groups, such as the low-skilled, the unemployed, people over 55, persons with disabilities and the Roma, requires attention. Involving local actors and civil society in dedicated actions with sufficient financial and human resources could increase the impact of these actions.

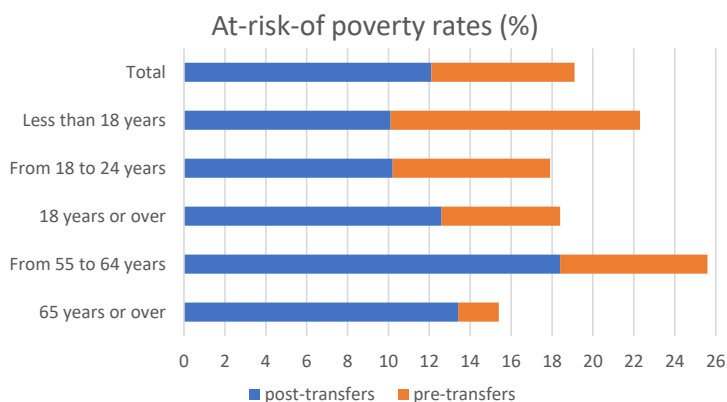
II. Social protection and social inclusion

a) State of play and developments on social convergence risks

The increase in employment over the past decade helped reduce the risk of poverty or social exclusion though deprivation rates remain high and the impact of social transfers varies strongly across age groups. The share of people at risk of poverty or social exclusion (AROPE) decreased by 1 pp to 18.4% in 2022, below the EU average of 21.6%, though with marked regional differences (from 11.3% in Central Transdanubia to 25% in Northern Hungary).

The share of people living in households with very low work intensity and the monetary poverty (AROP) rate also remained relatively low in 2022 (at 6.2% and 12.1% respectively). Income inequality (as measured by the income quintile share ratio) was below the EU average in 2022 (3.9 vs 4.7). In line with this, a low AROP rate before social transfers suggests that the income distribution already plays a key role in containing monetary poverty risks.

Besides the already low pre-transfer value, the relatively low overall AROP rate can be attributed to the impact of social transfers (excluding pensions), which reduced it by 36.6% on average in 2022 (vs 35% in the EU).¹⁴¹ The average poverty-reducing impact of social transfers hides significant heterogeneity, with



¹⁴¹ A break in series is present for this indicator in 2022 for almost all Member States including Hungary due to a methodological change.

much higher effects for children (below 18 years) compared to adults. Nevertheless, a relatively high, but decreasing severe material and social deprivation (SMSD) rate (9.1% vs 6.7% in the EU) in 2022 indicated that the overall favourable conditions regarding monetary poverty do not necessarily translate into a similar picture regarding deprivation. Recent inflationary developments (with inflation rates among the highest in the EU, at 15.3% and 17% in 2022 and 2023 respectively) might have further eroded purchasing power, especially for people outside the labour market, thus deserving close monitoring, while real wages fell by 2.7% in 2023 but are expected to grow by 4.8% in 2024. Against this background, new national data for 2023, not yet available on Eurostat at the time of writing, show increases in the AROPE rate (by 1.2 pps, to 19.6%), the AROP rate (by 0.9 pps, to 13%) and the SMSD rate (by 1.3 pps, to 10.4%) for the first time in many years.

Vulnerable groups and people outside the labour market face much higher poverty risks and gaps in access to social protection. The AROP rate (after social transfers) is significantly higher than average for some vulnerable groups. In particular, according to national data, one-third (33.2%) of Roma were at risk of poverty in 2022 and nearly half (46.7% in 2022) experienced severe material and social deprivation. The total expenditure on social protection is also one of the lowest in the EU (17.4% vs 28.7% of GDP in 2021).¹⁴² There are gaps in access to social protection for certain non-standard forms of employment, in particular those in ‘simplified contracts’ (either casual or seasonal work), who are not covered by sickness and invalidity benefits. Moreover, 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. People that are not in employment are not adequately protected from poverty risks, as the adequacy of the minimum income monetary benefit (at 18.9% of the poverty threshold and decreasing, vs 59% in the EU) and the unemployment benefits (at 60% of the previous wage for a maximum of 3 months) are among the lowest in the EU. As a partial result, two-thirds of persons living in quasi-jobless households were at risk of poverty in 2022 (vs 59.9% in the EU). Also, the provision of social services is insufficient¹⁴³, which increases the role of families in providing and financing 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).

Soaring housing and energy prices, combined with insufficient social housing, have put pressure on households, in particular the vulnerable ones. Despite relatively low poverty risks overall, 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) increased sharply from 2.4% in 2021 to 8.1% in 2022 (close to the EU average of 8.7%), after a decade where house prices soared by 200%. The housing cost overburden rate jumped from 12.8% in 2021 to 34.2% in 2022 for people already experiencing poverty risks. While there is generous financial support for families for buying, renovating or building their homes, rental flats are not supported. Although EU funds have been used for creating and renovating some social housing units, the total number of social housing dwellings in Hungary fell from 59 000 in 2016 to 41 000 in 2022 (or from 1.3% to 0.9% of the total housing stock). Energy poverty (as measured by the share of people unable to keep their home adequately warm) almost doubled in 2023, with gas prices and firewood prices increasing by 62% and 90%, respectively, between 2021 and 2023. Hungary had been applying a cap on gas and electricity prices since 2013, but partially lifted it when energy prices rose sharply in mid-2022. A two-band pricing was introduced for residential consumers, and the price caps remained up to the level of average consumption (and up to a higher level for natural gas for large families).

¹⁴² Data on social protection (ESSPROS), also confirmed by data on government expenditure by functions of government (COFOG).

¹⁴³ A recent [evaluation of the measures of the Human Resources Development Operational Programme](#) identified the shortage of professionals as the main challenge - particularly in remote areas - and the systemic shortage of funding as its root cause. See [Territorial_targeted_programmes_executive_summary](#), pp. 4-5.

b) Relevant planned and ongoing policy responses

Increasing the minimum wage can help reduce in-work poverty, but there remains scope for social policy to better support those who are not in stable employment. Between 2010 and 2023, as part of the government's declared objective to build a 'work-based society', the gap between the minimum wage and the minimum income has been gradually widened. The minimum wage has been increased by 216% (including by 16% and 15% in 2023 and 2024 respectively) and the minimum income decreased by 20%, while consumer prices increased by 78%. The widening gap strengthened the financial incentive for finding a job. Minimum wage increases may also have reduced in-work poverty, but inadequate social benefits fail to alleviate poverty of those not working (see Section 2(a) above). In this context, providing support through social policies to vulnerable groups who face challenges in finding stable employment due to their lower educational levels, residence in remote areas or because of facing discrimination is important.

Price caps have not achieved their objectives of alleviating the impact of inflation, also linked to high energy prices, on low-income households. In Spring 2022, the government introduced temporary price caps on specific products while limiting the quantity that could be purchased. This included food products (for example oil, flour, sugar, some parts of chicken and pork). Not being targeted to specific population groups, this measure has not managed to contain the broader effects of inflation, which was among the highest in the EU in 2022 and 2023 at 15.3% and 17%, respectively. Food prices increased by 26.0% and 25.9% in 2022 and 2023 respectively, while the price of household energy increased by 21.7% and 22.1%, significantly impacting on households' budgets.¹⁴⁴

The 'Catching-up municipalities' initiative aims to address poverty in the most deprived settlements, with a focus on children and Roma. The initiative, piloted in 2019 in 30 municipalities and currently implemented in 178 settlements¹⁴⁵, is set to be expanded¹⁴⁶ to target the 300 most disadvantaged municipalities (with 3% of the national population and 5% of the children born each year), with a concentration of poverty among children and Roma. Through the co-ordination of the Hungarian Charity Service of the Order of Malta, churches charity and civic organisations are contracted to implement comprehensive social, healthcare, education, employment and housing services, based on the local needs. This is becoming the largest social inclusion initiative in Hungary, with EUR 450 million of support from EU funds (ESF+, ERDF and RRF). For a sustainable improvement of the situation of the marginalised communities in the target municipalities, local level activities of the implementing organisations would need to be complemented by measures ensuring equal access to quality mainstream social, education, employment and housing services.

III. Labour market

a) State of play and developments on social convergence risks

Solid labour market performance is accompanied by challenges for some vulnerable groups. The Hungarian labour market maintains a strong momentum, as the employment rate (80.7%), unemployment rate (4.1%), NEET rate (10.9%) and gender employment gap (9.2%) are all improving and outperforming the EU averages (of 75.4%, 6%, 11.7% and 10.3% respectively) in 2023. While vacancy rates are still high, at 2.4% in 2023 (below the EU average of 2.7%), the labour market participation of vulnerable groups, including persons with low qualifications, those with disabilities and the Roma, remains low (with large

¹⁴⁴ The own price elasticity of demand for food was recently estimated between -0.3 and -0.48, while for energy it was found to be between 0 and -0.24, showing inelastic demand and consequently a large transmission of price increases to welfare losses, see [Cseres-Gergely et al \(2016\)](#) and [C. O'Donoghue et. al. \(2018\)](#).

¹⁴⁵ <https://fete.hu/a-programrol/>

¹⁴⁶ The expansion will be supported through funding from the HU RRP until 2026 and from cohesion policy funds until 2030.

employment gaps of 33.3 pps, 32.4 pps, and 28 pps respectively in 2022, the latter according to national data). There is also room to improve the labour market outcomes for certain groups of young people, as living in rural areas, being low-skilled or Roma makes it 3 to 5 times more likely to become a young NEET.

The disability employment gap remains high. After a slightly decreasing trend between 2014 and 2018 in the gap between the employment rate of persons with disabilities and those without, the gap picked up again to 32.4 pps in 2022. It is one of the largest among Member States (21.4 pps on average in the EU). More granular and coherent data on the labour market situation of persons with disabilities is not publicly available, which might hamper tailoring appropriate policy responses. Overall, the large gap points to the need for effective targeted active labour market policy measures, including up- and re-skilling, and inclusive employment models, but also accessible transport and housing and other services that could contribute to greater inclusion and labour market participation of persons with disabilities.

The functioning of social dialogue is limited, despite small signs of improvement. The framework remained largely the same since the well-functioning tripartite forum of the private sector, encompassing the main actors on all sides, was replaced in 2011 by various other fora with functions and membership that partially overlap but never involve all interested parties. This divided interest representation and weakened the government's commitment by removing the legal basis from the institutional framework¹⁴⁷. The scope of consultations with the current tripartite body of the private sector¹⁴⁸ somewhat improved 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. In the meantime, the public sector has seen a gradual erosion of workers' rights in recent years, including seriously restricting teachers' right to strike¹⁴⁹ or abolishing the army trade union¹⁵⁰. The establishment of a separate employment status for certain groups of public employees weakened their ability to defend their collective interests, as in some cases it led to collective agreements become void and to be renegotiated.¹⁵¹ The two relevant fora¹⁵² in the public sector barely function, having had only one meeting in 2023. Hungary is supporting social partners in building capacity, mainly through the ESF+.

b) Relevant planned and ongoing policy responses

The 2021 reform of the Public Employment Service (PES) has negatively affected its capacities and the access to active labour market services. The reform decreased support to training and made it impossible for PES to procure labour market services from external providers, without ensuring additional personnel for own services provision. The decreased support deterred potential training participants and led to a decrease in spending by 85% in 2021, while the additional burden of service provision put further strain on the capacities of PES, hindering the delivery of tailor-made services. The amount and maximum duration of unemployment benefits (3 months) has not changed since 2011 and is among the lowest and shortest in the EU. The legal framework for the employment of third-country nationals (TCNs) was revised in 2024 with the aim to decrease labour shortages. The new system facilitates TCNs' employment, including by speeding up their job placement process, while providing the government with significant control over TCN

¹⁴⁷ The previous tripartite forum was functioning based on a legislative act with detailed rules. The new one is functioning based on a brief agreement on rules of procedure, signed by the parties.

¹⁴⁸ The Permanent Consultation Forum of the Private Sector and the Government, which encompasses private employers' and employees' representatives and the Government.

¹⁴⁹ Adopted with Act V of 2022.

¹⁵⁰ Art 45(8) of the Constitution, in force from July 2024.

¹⁵¹ See Berki-Gyulaváry-Kártyás: A kollektív szerződéses lefedettség csökkenése Magyarországon (2012-2023); Friedrich-Ebert-Stiftung, 2023

¹⁵² The National Public Service Interest Conciliation Council (OKÉT) and the National Labour Council of Public Employees (KOMT).

inflow. The framework also limits the annual number of TCN workers to the number of vacancies in the previous year.

IV. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to a low participation rate among children under three years of age in early childhood education and care, and a high rate of early leavers from education and training, accompanied by low basic skills, and a concentration of disadvantaged and low-performing pupils in certain schools that reinforces socio-economic disadvantages. This limits social mobility and tends to exacerbate existing employment and poverty challenges for vulnerable groups, including persons with disabilities (who experience a large gap in employment compared to those without) and marginalised Roma, especially in the least developed regions. Digital skills levels have improved significantly over recent years, as did adult participation in learning, but further efforts could target vulnerable groups. Furthermore, social protection remains weak, especially for those not in employment and in non-standard employment. Hungary is also characterised by a limited impact of social transfers (other than pensions) aimed at poverty reduction and faces some gaps in social assistance. Despite relatively low poverty risks overall, the housing cost overburden rate has increased sharply and is particularly high for people already experiencing poverty risks. Limited social dialogue can also have a negative impact on the functioning of the labour market.

Hungary has taken steps to address some of these challenges but further efforts could take place on some others. Measures to increase the number and availability of crèche places are planned in the Women's Action Plan, and implementation has started. Also, measures aimed at preventing early-school-leaving have been taken, though the challenge is substantial, also due to early tracking and insufficient development of key competences. Finally, social protection and inclusion is approached through the concept of a 'work-based society' along which a series of increases of the minimum wage support those able to work. However, social protection benefits remain inadequate to alleviate poverty for the most disadvantaged. Price caps aimed at the general population attempted to contain the effects of one of Europe's highest inflation rates, especially on food prices, with limited effects on the poorest households. The most vulnerable are supported by the 'Catching up municipalities' initiative, for which the impact needs to be evaluated and complemented by measures ensuring equal access to quality social, education, employment and housing services.

2.7 ROMANIA

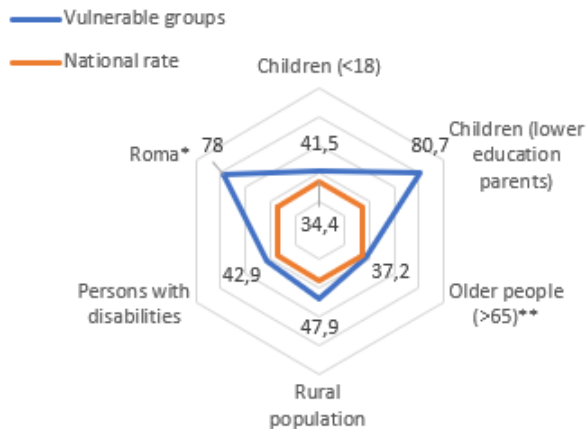
In the context of the first-stage analysis presented in the JER 2024, Romania was identified as facing potential risks to upward social convergence based on 11 headline indicators of the Social Scoreboard flagging. These notably concern social protection and inclusion, regarding the **at-risk-of-poverty or social exclusion rate** (including for **children**), the **effectiveness of social transfers (excluding pensions) on poverty reduction** and **self-reported unmet need for medical care**. In addition, in the area of education and skills, the participation of **children below 3 in formal childcare**, the rate of **early leavers from education and training** and the share of **people with at least basic digital skills** were also identified as criticalities. Finally, while the labour market is improving, it was considered necessary to further examine the **employment and long-term unemployment rates**, as well as the situation of certain vulnerable groups, in particular **young people neither in employment nor in education and training (NEET)** and **persons with disabilities**. To develop a better understanding of the potential risks identified in the first stage, this second-stage analysis looks at the available quantitative and qualitative evidence and the relevant policy responses undertaken or planned by Romania.

I. Social protection and social inclusion

a) State of play and developments on social convergence risks

Despite significant improvements, Romania still faces considerable poverty risks and inequality, with significant disparities across population groups and regions. Even though the overall share of people at risk of poverty or social exclusion (AROPE) has declined since 2015, by 12.5pps to 32% in 2023, it remains among the highest in the EU (34.4% vs 21.6% in the EU in 2022¹⁵³), with important differences across regions (ranging from 12.3% in Bucharest-Ilfov to 45.3% in the South-East in 2023). Rural areas are still confronted with higher AROPE rates (45.1% vs 18.5% in cities in 2023), despite improvements in recent years. Factors contributing to high poverty risks include the still low availability of economic opportunities and reduced access to health, educational, employment, and social services, as well as to adequate social protection, especially in rural areas. The AROPE rate of older people (65+) was 32.3% in 2023 (down from 37.2% vs 20.2% in the EU in 2022). The severe material and social deprivation rate was also high at 19.8% (down

Figure 1: At risk of poverty or social exclusion rates for vulnerable groups



Source: Eurostat and FRA Survey 2021

*Roma at risk of poverty (AROP) according to the 2021 Fundamental Rights Agency (FRA) Roma survey. Included as it remains illustrative of the significant gap, considering that AROPE is a composite indicator that includes AROP and therefore is at least as high.

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

from 24.3% vs 6.7% in the EU in 2022). Women and vulnerable groups, including persons with disabilities and the Roma, are also subject to significantly more important poverty risks. The AROPE rate for women was 2.2 pps above that for men in 2023, and stood at 39.4% in 2023 for persons with disabilities (down from 42.9% vs 28.8% in the EU in 2022). Income inequalities have decreased and are the lowest since 2007, but are still higher than the EU average. In 2023, the income of the richest 20% of the population was 5.8 times higher than that of the poorest 20% (down from 6.0 vs 4.7 in the EU in 2022). Policy measures were put in place in recent years to address the disadvantages of the Roma, the share of Roma at risk of poverty (AROP) has even increased by 8 pps between 2016 and 2021 (78% vs 22.5% for the general population in 2021)¹⁵⁴. In addition, energy poverty affected 12.5% of people in Romania in 2023 (down from 15.2% vs 9.3% in the EU in 2022). Overall, 6 million persons were at risk of poverty or social exclusion in 2023, against 7 million in 2019, showing some progress towards the national target of 2.5 million fewer people at risk of poverty or social exclusion by 2030 but also the need for further efforts to deliver on the target.

¹⁵³ At the time of writing, the 2023 EU averages were not available yet.

¹⁵⁴ FRA, Roma survey 2021. The survey conducted in Croatia, Czechia, Greece, Hungary, Italy, Portugal, Romania and Spain, as well as in North Macedonia and Serbia, includes interviews with more than 8,400 Roma. By focusing on Roma, the survey provides unique data and information that are not available from European general population surveys, which do not disaggregate on grounds of ethnic origin.

The share of children at risk of poverty or social exclusion is particularly high. The AROPE rate for children lay was at 39.0% in 2023 (down from 41.5% vs 24.7% in the EU in 2022, among the highest). Severe material and social deprivation among children reached 22.6% in 2023 (down from 30.8% vs 8.4% in the EU in 2022). Roma children experience particularly important poverty risks (79% in 2021), with a significant gap between girls (83%) and boys (75%)¹⁵⁵. More generally, children in Romania face among the most important barriers in the EU to attending quality educational and extra-curricular activities. Their significant poverty risks are closely tied to the socio-economic situation of their parents, including their low educational attainment. Labour migration also plays a role, with one in four children having had a parent working abroad in 2022¹⁵⁶. In its national action plan for the implementation of the European Child Guarantee, Romania has set a national target to decrease child poverty by 500 000 by 2030, from 1.5 million children at risk of poverty or social exclusion in 2021.

The social protection system shows limited effectiveness in alleviating poverty risks and inequalities, pointing to insufficient access and low adequacy. The impact of social transfers (excluding pensions) on poverty and inequality reduction was 15.6% in 2023 (down from 16.5% vs 35.0% in the EU in 2022, among the lowest) and did not improve over the past years. The share of social protection spending out of general government expenditure was only 13.4% in 2021 (vs 20.4% in the EU). Workers in non-standard forms of employment (including casual and seasonal workers) and to some extent the self-employed are not covered by the social protection system. Moreover, only a low share of those in need receive social benefits (including the self-employed and the unemployed). Poverty is very high among quasi-jobless households, at 82.8% in 2023 (up from 75% vs 61.9% in the EU in 2022) and part-timers (56.6% vs 14.6% in 2022). Poverty remained also significant for the self-employed in 2023 (67.8% vs 20.8% for the general population) with no improvement in recent years, including in rural areas where job opportunities are scarce and subsistence farming is predominant. Moreover, while the share of the working-age population at risk of poverty and in quasi-jobless households receiving social benefits increased by 17.9 pps between 2021 and 2022 (to 70.6% vs 81.1% in the EU), the level of benefits remains very low. In 2022, the net income of a household receiving minimum income benefits amounted to just 11.7% of the AROP threshold, or 9.1% of the net income of a low-wage earner, against an EU average of, respectively, 59% and 46.8%.

Meeting the medical and long-term care needs of the population remains a challenge. Although significant progress has been achieved since 2008, unmet medical needs were reported by still 5.2% of the population in 2023 (up from 4.9% vs 2.2% in the EU in 2022). Nearly 75% of respondents cited costs as the main factor behind the unmet needs. The rate of unmet needs for medical examination or treatment is 9.3% for Romanians in the lowest income quintile, compared to 2.3% in the highest quintile. Labour shortages also reduce the availability of medical care, with 7.1 physicians per 1 000 inhabitants in the Bucharest/Ilfov region compared to 1.7 per 1 000 in South Muntenia in 2021. In the South-East region, the population with unmet needs for medical examination or treatment is about 9 times larger than in the West region (10.5% vs 1.2% in 2023). Nearly 6 in 10 Roma people (58%) do not have medical insurance coverage (vs 12% for the general population), and a similar share of Roma have not used any healthcare services in the past 5 years¹⁵⁷, as this group suffers from poor access to health services, lack of awareness and discrimination¹⁵⁸. Moreover, public expenditure on long-term care (LTC) amounted to 0.3% of GDP in 2021, considerably below the EU average of 1.7%, contributing to the gap in access and unmet needs. In 2019, only 4.7% of persons aged 65 and over in need of LTC used home care services (vs 28.6% in the EU), and 61.6% reported a lack of assistance in personal care or household activities (vs 46.6% in the EU).

¹⁵⁵ Ibid.

¹⁵⁶ Save the Children study, 2023.

¹⁵⁷ Fundamental Rights Agency, Roma Survey 2021.

¹⁵⁸ ERGO Network, Roma access to adequate healthcare and long-term care, 2022.

b) Relevant planned and ongoing policy responses

In 2022, Romania adopted two ambitious strategic frameworks that aim to reduce poverty and material deprivation. The National Strategy for Social Inclusion and Poverty Reduction 2022-27 aims to reduce the number of AROPE people by 7%, with measures to strengthen the delivery of social assistance and access to public services, boost social and economic participation of vulnerable groups and enhance the resilience of the social services system. The National Strategy on the Social Inclusion of the Homeless 2022-27 envisages measures for providing homeless people with better social protection. This measure is complemented by the first ever Romanian National Housing Strategy (2022-2050) aiming to promote accessible, inclusive, adequate, sustainable and resilient housing. While the strategies include important measures and ambitious targets, effective implementation and close monitoring is key to improving the situation of people at risk of poverty or social exclusion in Romania.

The authorities have also undertaken measures which are expected to reduce the depth of poverty. In 2022 and 2023, as part of its ‘Support for Romania’ initiative, the government issued 2.5 million social cards, which helped deliver food support to the most deprived families, a considerable part of which also relying on EU funds. Furthermore, also with support from EU funding, an energy vouchers scheme delivered targeted help to reduce energy poverty and the negative impact of energy price increases on vulnerable households in 2022 and 2023. For the first time since its introduction in 2008, the level of the social reference indicator (which determines the level of most of social benefits) was adjusted in March 2022 to account for inflation, and since then it has been updated annually every March, with the average annual inflation rate of the previous year. As part of the recovery and resilience plan (RRP), Romania is implementing the Minimum Inclusion Income (VMI) reform to improve the adequacy and effectiveness of social assistance and reduce poverty for the most vulnerable, while limiting administrative burden. Likewise, the public pension system is being reformed, aiming, inter alia, to increase the adequacy of minimum and lower pensions, in particular for those below the poverty threshold. These measures are expected to mitigate poverty risks, but the extent of the impact remains to be seen.

The national action plan to implement the European Child Guarantee (ECG) plays an important role in preventing and combating child poverty. The action plan was adopted in October 2023, with many of the planned measures supported by EU cohesion policy funds and the RRF, such as the development of a network of day-care centres and creches throughout the country, providing educational and material assistance to the most deprived children and their families, as well as community-based services to prevent separation of children from their families. With full implementation, the national ECG action plan should increase access to social, education, health and nutrition services, and housing for children, while taking into account the territorial dimension of poverty and social exclusion. The government has also increased the child rearing indemnity for parents of twins, triplets and multiples, as well as state allowance for children up to 18 years old, young people over 18 attending high school and vocational education, and children with disabilities up to 26 years old. These actions are expected to contribute to the reduction of the AROPE rate for children and advance towards reaching the national poverty reduction target.

Initiatives have been taken to improve the quality of social services. In 2024, Romania adopted a new Law reforming the social assistance system, seeking to improve the financing and quality of social assistance and care services and the protection of their beneficiaries. The European Social Fund Plus (ESF+) funded programmes for 2021-27 contain significant investments to improve access to social services in rural areas, for example by scaling up at national level the delivery of integrated services based on the case management approach for 2 000 disadvantaged rural communities. This initiative is also set to improve the ability of the authorities to deliver services by training the needed staff. The ESF+ together with the RRP will support strategic reforms, including the deinstitutionalisation of persons with disabilities, as well as social innovation measures to improve access to services for this group. However, ESF+ programmes are

still in the incipient stages of implementation and therefore further efforts could advance the planned investments.

Measures are underway to improve healthcare outcomes. The National Health Strategy 2023-30, adopted in 2023, aims to deliver structural reforms and synchronise health sector policies. The strategy coordinates the implementation of national and EU-funded measures under EU cohesion policy programmes and the RRP, aiming at enhancing the availability, quality and resilience of health services. Romania is also revitalising its approach towards the retention of medical staff. A significant initiative consists in the establishment of the National Institute for Health Services Management, tasked with providing health management training across all levels and implementing the Multiannual Strategy for Human Resources Development 2022-30, to enhance professional retention and the attractiveness of the sector. An effective implementation of these reforms should close the performance gap between the Romanian healthcare system and the EU average and improve access to healthcare services for vulnerable people. Recently adopted measures aim to improve access to medical services for uninsured patients, who, as of 2023, benefit from the same primary healthcare services as insured patients. Moreover, in December 2022 the government approved the National Strategy on Long-Term Care and Active Ageing 2023-30 foreseen in the RRP. The strategy is set to enable more older people to live independently for as long as possible, while improving access to adequate LTC services for dependent older people.

II. Education and skills

a) State of play and developments on social convergence risks

Participation of young children in early childhood education and care (ECEC) is low, which may affect their future educational and labour market outcomes. Despite nearly doubling since 2020, the rate of children below 3 attending formal childcare lies at only 12.3% in 2022 (vs 35.7% in the EU), still below pre-pandemic levels. The low uptake in formal childcare can be attributed to a lack of ECEC services for children below 3 in both isolated and oversubscribed localities, while long parental leave schemes also play a role¹⁵⁹. The enrolment rate of children aged between 3 and the starting age of compulsory primary education is also well below the EU average (75.6% in 2022 vs 92.5% in the EU) and has been declining since 2015. Evidence shows that participation in high-quality ECEC correlates with better social and emotional well-being, reduces risks of school dropout and contributes to higher learning and employment outcomes later in life¹⁶⁰. ECEC is particularly beneficial for children with disadvantaged socio-economic backgrounds, strengthening equal opportunities and the potential for social mobility. Roma children participation in ECEC is very low (27% vs 79% in the general population).¹⁶¹ Hence, improving coverage, infrastructure and quality of services are priorities for Romania, as identified in the national action plan for the implementation of the European Child Guarantee. The plan also sets targets to raise ECEC participation of children below 3 to 22% and of those aged 4-6 to 95% by 2030.

Early school leaving remains an important challenge, especially in rural areas and among marginalised communities. The rate of early leavers from education and training is one of the highest in the EU (15.6% vs 9.6% in the EU in 2022). While the situation in cities (at 3.9%) is better than the EU average and improving in towns and suburbs albeit still high (at 13.5%), nearly 1 in 4 young people in rural areas leave school before completing upper secondary education, with a deteriorating trend since 2019. Besides accessibility factors, such as the need to commute long distances to attend high school, many schools fail to provide positive learn-

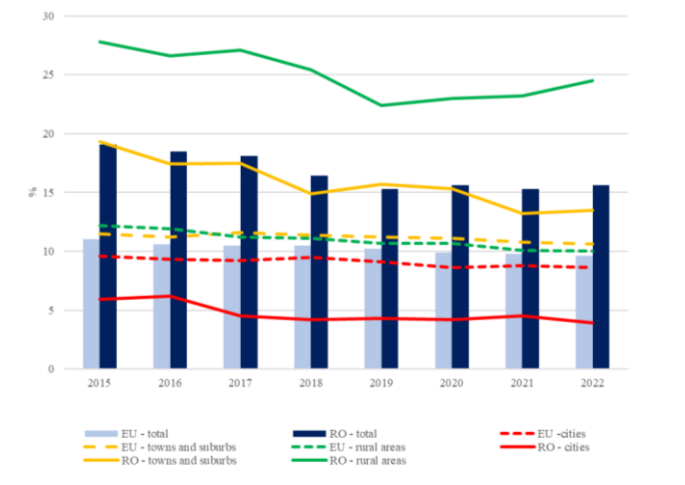
¹⁵⁹ OECD (2020), Improving access to Quality Early Education in Romania, OECD Education Perspectives, No. 3.

¹⁶⁰ European Platform for Investing in Children (EPIC) (2022). Building a better understanding of the impact of Early Childhood Education and Care on medium- and longterm educational and labour market outcomes in Europe.

¹⁶¹ Roma in 10 European countries. Main results - ROMA SURVEY 2021 (europa.eu)

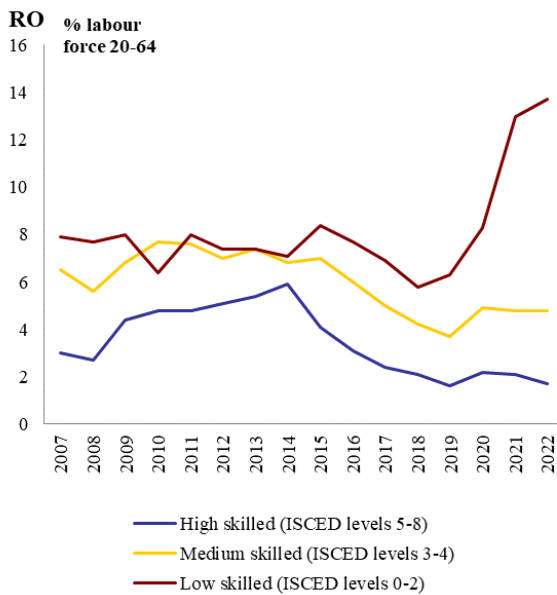
ing environments, with around half of the students assessed in the OECD's 2022 Programme for International Student Assessment (PISA) stating that they do not feel they belong at school. Roma people are particularly affected with more than 7 out of 10 young Roma (18-24) not having completed upper secondary education. In addition, the segregation of Roma children in education has significantly increased (51% in 2021 compared to 28% in 2016).¹⁶² A 2022 study¹⁶³ points to 1 in 10 children in compulsory schooling age from rural areas not attending any educational institution, and 1 in 3 teenagers being absent from school temporarily or permanently because of household work, highlighting the adverse circumstances faced by many children and young people in rural areas.

Figure 2 – *Early leavers from education and training (by degree of urbanisation), 2015-2022*



Source – Eurostat (age 18-24)

Figure 3 – *Unemployment rate by educational attainment (ages 20-64 as % of the labour force)*



Source - Eurostat, LFS

The quality, labour market relevance and inclusiveness of education and training can be improved. The 2022 PISA results revealed that over 4 in 10 15-year-olds do not possess basic skills in reading (41.7% vs 26.2% in the EU), science (44.0% vs 24.2% in the EU) and mathematics (48.6% vs 29.5% in the EU). Furthermore, the underachievement gap between students from advantaged and disadvantaged backgrounds is among the highest in the EU and increasing. The quality of education is affected by a shortage of staff with proper qualifications, notably in rural areas. Moreover, vocational education and training (VET) is misaligned with the labour market needs, as revealed by the low and decreasing employment rate of recent VET graduates (57.7% vs 79.7% in the EU in 2022)¹⁶⁴. Ensuring that more VET graduates benefit from work-based learning during their training (only 8.4% did so in 2022 vs 60.1% in the EU) is essential to improving their employment prospects after graduation¹⁶⁵.

¹⁶² Roma in 10 European countries. Main results - ROMA SURVEY 2021 (europa.eu).

¹⁶³ World Vision Romania (2022), Bunăstarea copilului din mediul rural din România 2022: <https://worldvision.ro/wp-content/uploads/2022/05/Bunastarea-Copiiilor-din-Mediul-Rural.pdf>.

¹⁶⁴ Education and Training Monitor, 2023.

¹⁶⁵ The employment rate of recent VET graduates was only 53.1% compared to 77.4% in the EU.

Challenges in skills development need to be addressed to support a fair transition towards a green and digital economy. Less than a third of those aged 16-74 had at least basic digital skills in 2023 (27.7% vs 55.5% in the EU). This gap has widened since 2021. Adult participation (25-64) in learning over the past 12 months stood at 19.1% in 2022, 13.3 pps higher than in 2016, but still well below the EU average of 39.5%. Moreover, participation in adult learning is highly unequal, as those who did not complete upper secondary education and training were 10 times less likely to participate in learning in comparison to those with tertiary education in 2022 (3.9% vs 41.2%, respectively). At the same time, those with lower qualifications (ISCED 0-2) witness worsening employment outcomes, with skills challenges putting at risk competitiveness, but also fairness and social convergence.

b) Relevant planned and ongoing policy responses

Recent legislative changes are expected to improve the accessibility and quality of ECEC services. The final year of ECEC became compulsory in 2020, and the starting age of compulsory education was lowered to the age of 4 in September 2023. In September 2030, it will be further lowered to the age of 3, which should help increase participation rates. Expenditure on pre-primary education per child (3 to 6 years) increased by over 7% between 2015 and 2020¹⁶⁶. In 2022, the government adopted a new legislation on the organisation, operation, funding and monitoring of crèches and other ECEC facilities. This legislation should accelerate the integration of crèches into the national education system, with the overall aim of building an integrated, inclusive and high-quality ECEC system. Some of the measures proposed are financed through the RRP, such as the construction of 110 energy-efficient crèches providing support for up to 4 500 children, as well as 90 complementary early education services for disadvantaged groups. The plan also aims to train and professionalise staff, complementing similar initiatives funded through the ESF+.

The National Programme for Reducing School Dropout (PNRAS)¹⁶⁷ aims to address the root causes of early school leaving. The PNRAS is implemented with support from the RRF, the ESF+ and the Technical Support Instrument (TSI). Schools with the higher risks of early school leaving are first identified through an early warning mechanism, eligible schools draw up a plan with measures tailored to their specific needs, and then receive a 2- to 3-year grant of up to EUR 200 000. As part of the RRP, support will reach a minimum of 2 500 schools for lower secondary education, while the ESF+ will finance grants for primary education. However, some vulnerable children might not be reached by preventive measures if they are not enrolled in a school in the first place, so efforts to ensure universal participation in education will need to be reinforced, with particular attention to bridging the rural-urban divide. To address the high drop-out from university programmes, the new education law envisages the creation of a National Programme to Reduce University Dropout.

The authorities have initiated major reforms in an effort to improve the education and training system. The ‘Educated Romania’ project, launched in 2016, aims to address key challenges for education, establish a vision and set key objectives for 2030. The project benefitted from wide public consultations and culminated in a report setting a strategy for reforming the country’s education system, which was approved by a government memorandum in July 2021. In September 2023, the government took a major first step in the implementation of key reforms by adopting new legislation for pre-university and university education. The timely implementation of subsequent measures, supported by the Technical Support Instrument (TSI, 2022-2024) and for EUR 3.5 billion from the RRF and EUR 1.6 billion from the ESF+, will ultimately determine the success of the reform process. However, complementary efforts by national authorities could help address the structural challenges linked to the equity and quality of the education system.

¹⁶⁶ OECD (2023), *Education at a Glance 2023: OECD Indicators*, OECD Publishing, Paris, <https://doi.org/10.1787/e13bef63-en>.

¹⁶⁷ Approved by Government Decision no. 1309/2021 in December 2021.

Measures have been put forward to support the teaching profession and increase the quality of teaching. In 2023, the government raised the salaries of teachers following a three-week strike, with an additional increase in January 2024. The new pre-university education law also introduced important changes to the teaching profession, namely by making compulsory the attainment of a master's programme in teaching for future teachers. With RRF support, more than half of Romanian teachers in primary and secondary education should be trained in digital education. Moreover, the RRF is expected to fund widescale investments in school laboratories, school equipment and digital infrastructure in particular in rural areas and disadvantaged schools, which could also help improve working conditions, therefore attracting more teachers to these schools. While strengthening initial teacher education is important, fostering engagement in high-quality training by teachers and trainers could improve the quality of teaching. The ageing of the teaching workforce in Romania is less pronounced than in other Member States, meaning that updating and modernising teachers' knowledge and skills will be achieved primarily by working with the existing teacher population¹⁶⁸.

The new VET and higher education legal framework aim at improving labour market relevance and quality. As part of the RRP, the government approved the legislative framework setting up a complete educational pathway for students registered under dual upper secondary education, so that they may go up to third-level education programmes. To improve the alignment with the labour market, the RRP supports the development of 10 regional consortia consisting of professional or technical schools and universities acting in partnership with economic operators and local authorities, to be set up by 2026. Moreover, the possibility to pursue dual education (in partnership with companies) in universities, and introduced short-cycle university programmes, double specialisation programmes as well as micro-credentials was introduced. A multiannual action plan focusing on tertiary education has been drawn up as part of the 'Educated Romania' strategy, and it should support the practical implementation of the newly legislated study modalities.

Efforts to support lifelong learning and skills development are becoming more coordinated and concrete. After several years without a strategic policy framework in the sector, two national strategies in the field of adult learning have recently been elaborated in a coordinated and complementary manner – the National Strategy on Adult Training 2024-27 (Ministry of Labour and Social Solidarity) and the National Strategy on Adult Learning 2024-27 (Ministry of Education). Expanding the provision of training for digital and green skills is given particular focus in the action plan, in line with the needs of an evolving labour market. Through the conclusion of the ReCONNECT project in December 2023, a skills forecasting mechanism is in place, which also operates as a graduate tracking tool. It will be important to build on this by making sure that skills intelligence properly informs the design of labour market and education policies, which will require a close and structured cooperation between Public Employment Services (PES) and education and labour authorities. The roll-out of coordinated and targeted skills policies will be important to ensure that economic growth and the twin transition do not exacerbate inequalities between regions and population groups.

III. Labour market

a) State of play and developments on social convergence risks

Although the labour market situation has been improving, important challenges remain. Throughout the last decade, the employment rate has been on an upward path. Nonetheless, it remains among the lowest in the EU (68.7% in 2023 vs 75.4% in the EU), with high regional disparities. The employment gap between the regions with the highest (Bucharest-Ilfov, 79.9%) and the lowest employment rates (Sud-West-Oltenia, 61.8%) was 18.1 pps in 2022. Employment in the Bucharest-Ilfov and Centre regions has been improving in

¹⁶⁸ OECD (2020), "Improving the teaching profession in Romania", *OECD Education Policy Perspectives*, No. 1, OECD Publishing, Paris.

recent years, also thanks to foreign investment. On the other hand, employment has either stagnated or decreased in the other regions, most notably in the Nord-East region (69.4% in 2022). In 2023, the unemployment rate (5.6% vs 6.0% in the EU) was below the EU average. The long-term unemployment rate (2.2% vs 2.1% in the EU) was slightly above the EU average and has deteriorated since 2020 after years of improvements, while the share of long-term unemployment has been improving, reaching 38.6% in 2023 (in line with the EU average). Factors explaining long-term unemployment in Romania include skills shortages (see below) and a significant share of undeclared work, which is estimated at 1.4 million people¹⁶⁹.

Women, youth, the low-skilled, persons with disabilities and the Roma are under-represented in the labour market. In 2023, the employment rate of women was 59.1% (vs an overall employment rate of 68.7% in the country and a 70.2% employment rate for women in the EU). Youth unemployment is also high (21.8% in 2023 vs 14.5% in the EU). So is, despite improvements in the last decade, the rate of young people neither in employment, nor in education and training (NEET) (19.3% in 2023 vs 11.2% in the EU), composed in 2022 of 5.6% of unemployed and 14.2% of inactive (vs 4.3% and 7.4% respectively in the EU). Young women are more likely to be NEETs (gender difference of 10.7 pps in 2023), as is more than half of the Roma youth. Moreover, the employment rate of the low-skilled lied at 44.9% in 2022 (vs 57.2% in the EU), significantly below that of people with tertiary education (89.5%). The gender employment gap (19.1 pps in 2023 vs 10.3 pps in the EU) and the disability employment gap (32 pps vs 21.4 pps) remain high. Furthermore, at 41% in 2021, the participation of Roma people in the labour market is low (vs 71% for the general population) and deteriorating (vs 45% in 2016)¹⁷⁰. Improving labour market outcomes for under-represented groups would importantly contribute to reaching the national employment target of 74.7% by 2030.

Wages, including the minimum wage, increased beyond inflation in 2023, protecting the purchasing power of workers in light of the high cost of living, though in-work-poverty risks persist. Nominal wage growth reached 15.1% in 2023 (vs 5.8% in the EU), after 6.4% in 2022 (vs 4.7% in the EU), on the back of high (albeit decreasing) inflation linked to the energy crisis provoked by Russia's war of aggression against Ukraine. Real wages also increased significantly in 2023 (4.8% vs -0.8% in the EU), broadly offsetting the fall recorded in 2022 (-5.0% vs -3.7% in the EU). The minimum wage (set at 3300 RON) also saw important increases in nominal terms, namely by 29% between January 2022 and January 2024, to compensate for the high inflation rate, but was very much above the former and labor productivity growth. In its latest reading for 2023, the minimum-to-median wage ratio was at around 58%, which would be broadly in line with one of the main examples of indicative reference values in the Directive on adequate minimum wages in the EU to guide the assessment of adequacy of minimum wages (i.e., 60% of the median wage). Yet, the statutory minimum wage remains among the lowest in the EU, reflecting also the labour productivity differential. Furthermore, the in-work-at-risk-of-poverty rate is substantially higher in Romania than in other Member States (14.5% vs 8.5% in the EU in 2022), notably for part-time workers (56.0% vs 12.2% for full-time workers)¹⁷¹. Going forward, nominal wages are expected to continue growing significantly in 2024, driven by high increases in public sector wages, highlighting the need to continue monitoring wages in light of mitigating purchasing power losses, especially for low-income earners, taking due account of productivity considerations.

While labour shortages remain low in comparison with other Member States, skills shortages are rising. The job vacancy rate (0.7% in Q4-2023) is well below the EU average (2.5% in Q4-2023). Yet, 79% of employers report difficulties with filling vacancies, according to the most recent Employment Outlook Survey by ManpowerGroup¹⁷², as well as 86% of Romanian SMEs, according to a Eurobarometer

¹⁶⁹ PwC (2023), [Labour market analysis in Romania](#).

¹⁷⁰ All data related to Roma persons comes from the Fundamental Rights Agency (FRA) 2021 Roma Survey, except where explicitly mentioned otherwise.

¹⁷¹ When looking at this indicator however, it has to be considered that Romania has a very high number of unremunerated family workers in the agriculture sector, that cannot be impacted by the minimum wage policy.

¹⁷² Manpower Group (MPG) (2023), Global talent shortage 2024.

survey 529, conducted in May 2023¹⁷³. Despite available vacancies seem to be filled, there is a challenge in finding workers with the appropriate skillset, pointing to skills shortages and mismatches. The educational attainment of the population (15-64) is lower than in other Member States, affecting employment. In 2022, only 17.1% of the population held a tertiary education qualification (vs 30.2% in the EU). Moreover, in 2021, 36.6% of people aged 15-34 with at least upper secondary education worked outside their field of study. Manufacturing, transportation and ICT were the sectors with the highest labour shortages in absolute terms in 2022¹⁷⁴. The 2023 Cedefop Skills forecast for Romania points to an increase in labour shortages by 2035¹⁷⁵. Labour shortages risk being amplified by a shrinking working population (a 23.7% projected reduction by 2050) due to low labour market participation, emigration, the projected demographic decline, as well as inefficiencies in the education and training system.

There is scope for improving the effectiveness of active labour market policies and the capacity of PES. Expenditure for labour market policy interventions is among the lowest in the EU (0.1% of GDP in 2020) and is predominately focused on employment subsidies. Out of total expenditure, 32.9% is spent on active labour market policies, of which only 7.4% on trainings. This limited expenditure hinders the effectiveness of active labour market policies and leads to insufficient capacity to reach those in need, offer individualised support pathways and effectively work with employers.

b) Relevant planned and ongoing policy responses

In 2021, Romania adopted the National Employment Strategy (NES) 2021-27 aimed at increasing employment by improving labour market integration. The strategy plans on capitalising the economic potential of young people (including NEETs), modernising and strengthening labour market institutions, and strengthening the adult vocational training system to better connect it to the labour market. Thereby, the strategy aims to put Romania on a path to reach an employment rate of 75% (for those aged 20-64) by the end of 2027. Complementing the NES, the National Strategy for Green Jobs (2018-25) sets the policy framework for the transformative effects of the green transition on the labour market, including with regard to the demand for new skills.

There are also some dedicated measures to improve the labour market access of persons with disabilities. The National Strategy for the Rights of Persons with Disabilities 2022-27 aims to enhance employment opportunities and training quality for this group. The ESF+ funded ‘Social Inclusion and Dignity’ programme will finance an innovative inclusion cluster focused on the labour market integration of persons with disabilities. The effective implementation of the planned measures, involving all relevant stakeholders, will be essential to reducing the disability employment gap.

Some public employment services improved but important challenges remain. The INTESPO project successfully introduced mobile teams targeting young NEETs that face significant barriers to employment. Running from 2018 to 2022, the project registered 190 135 young NEETs, providing them with tailored services such as job matching, counselling, training and employment incentives. The project helped reduce the number of NEETs by bringing them into formal employment and will be continued with support from the ESF+. In 2023, the PES introduced new profiling procedures for jobseekers as part of the ‘Case management’ project, supported by the ESF. The procedures take into account a wide range of issues (including family, medical, personal issues, readiness to participate in training, motivation and availability for mobility) and provide more targeted services to jobseekers. All of this is aimed at providing a unique approach to activation and job placement, particularly for vulnerable groups. The revamped procedures are applied and used by all

¹⁷³ Flash Eurobarometer 529 European Year of Skills: Skills shortages, recruitment and retention strategies in small and medium-sized enterprises – May 2023.

¹⁷⁴ PwC (2023): Labour market analysis in Romania.

¹⁷⁵ [skills_forecast_2023_romania.pdf \(europa.eu\)](#)

territorial structures of the PES. These measures are an important step in improving the quality of PES services, but continuing the modernisation wave will be key to making the PES fit for purpose.

Romania committed to a comprehensive reform of its public employment services with support from the ESF+ and the RRF. The 2021-27 ESF+ ‘Education and Employment’ programme will invest EUR 216 million until 2029 to boost the capacity of PES by investing in human resources and improving service quality. Additionally, the RRP is dedicating resources for investments to digitalise services for jobseekers. Full implementation of the two measures is expected to improve the quality of the PES services and contribute to improved labour market outcomes across the board. However, the implementation of the ESF+ measure is lagging behind, and efforts could speed up its implementation.

The introduction of a voucher system is formalising the work of domestic workers. The reform, outlined in the RRP and scheduled for completion by March 2026, is expected to help reduce undeclared work and provide workers with the status of insured person in the social security and health insurance system.

A new minimum wage setting mechanism is being established. The reform envisaged in the RRP should introduce a new mechanism and formula to objectively set the minimum wage level, in consultation with the social partners, and in a way that is consistent with job creation and competitiveness. The reform should fully comply with the requirements of the Directive on adequate minimum wages in the EU, including notably in relation to making minimum wage updates more predictable and foster a decent standard of living, and ensuring that the criteria for setting and updating statutory minimum wages include at least the following elements: the purchasing power of statutory minimum wages, taking into account the cost of living; the general level of wages and their distribution; the growth rate of wages; and long-term national productivity levels and developments. The full implementation of the reform will create an objective and predictable minimum wage setting mechanism.

IV. Concluding remarks

The available quantitative and qualitative evidence in this second stage analysis points to challenges related to high risks of poverty or social exclusion, especially for children, people living in rural areas, women and vulnerable groups, including persons with disabilities and the Roma. Even though these risks have decreased over the past decade, the impact of social transfers (other than pensions) on poverty reduction remains well below the EU average and ensuring effective nationwide access to services, social protection and its adequacy remain important challenges. Participation of young children in early childhood education and care is low, self-reported unmet needs for medical care are high and meeting long-term care needs remains a challenge. Moreover, high early school leaving rates, especially in rural areas and among marginalised communities, accompanied by a high incidence of young people neither in education nor in employment and training, widespread underachievement in basic skills as well as a very low level of basic digital skills, point to significant scope to improve the quality, accessibility and labour market relevance of education and training. In the labour market, despite some important improvements, the employment rate remains low, especially for women, persons with disabilities, the youth, low-skilled people and the Roma, and in-work poverty risks are significant. At the same time, the long-term unemployment rate is slightly above the EU average, but the share of long-term unemployment has been improving. Skills shortages are reported, and the capacity of Public Employment Services and the effectiveness of active labour market policies are limited.

The measures undertaken so far, such as reforms and investments in social protection and inclusion, the adoption of new education laws and the implementation of the national programme for reducing school dropouts, as well as actions taken with regards to active labour market policies, are expected to help Romania move in the right direction in relation to the risks identified. Despite progress made, there is scope for further efforts in relation to health, long-term care, education, social and labour market services, also to ensure that all are given a fair chance to achieve their full potential.

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 population aged 15-29)	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 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.	[lfsi neet a]
Gender employment gap (percentage points)	The gender employment gap is defined as the difference between the employment rates of men and	[tesem060]

Indicator	Definition	Eurostat code
	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.	
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 EU Labour Force Survey.	[lfsi emp a]
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	[une ltu a]

Indicator	Definition	Eurostat code
	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.	
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 (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.	[tepsr_wc310]
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_pecs01n]
At risk of poverty or social exclusion (AROPE) rate for children (% of population aged 0-17)		

Indicator	Definition	Eurostat code
Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP)	Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-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).	[tespm050]
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 based on the EU-SILC (statistics on income, social inclusion and living conditions).	[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 population 16+)	Self-reported unmet needs for medical care concern a person's own assessment of whether he 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).	[tespm110]

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.

The JAF covers 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.

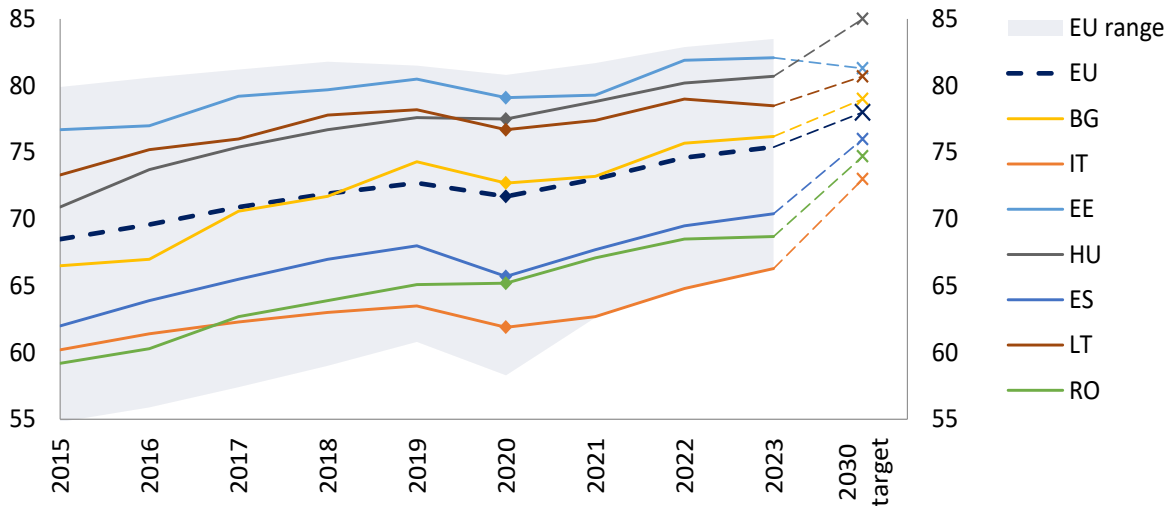
The **policy areas** (PA) and the sub-policy areas (sub PA) monitored under the JAF are as reported in the following table (the first 10 policy areas being under EMCO remit, while PA 11 is under SPC remit, with a few indicators of joint concern in both domains). As agreed indicators, these are all fully accepted on both COM 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
	<i>Sub PAs</i>		
	<i>1a</i>	<i>Increase overall employment</i>	
	<i>1b</i>	<i>Improve labour market situation of youth</i>	
	<i>1c</i>	<i>Increase employment of older workers</i>	
	<i>1d</i>	<i>Increase employment of migrants</i>	
PA 2	Enhancing labour market functioning; combating segmentation		
	<i>Sub PAs</i>		
	<i>2a</i>	<i>Combating segmentation</i>	
	<i>2b</i>	<i>Labour market fluidity</i>	
PA 3	Active labour market policies		
PA 4	Adequate and employment oriented social security systems		

	<i>Sub PAs</i>		
	4a	<i>Adequate social security systems</i>	
	4b	<i>Make work pay</i>	
PA 5	Work-life balance		
PA 6	Exploiting job creation possibilities		
	<i>Sub PAs</i>		
	6a	<i>Exploiting job creation possibilities</i>	
	6b	<i>Demand creation</i>	
PA 7	Gender equality		
	<i>Sub PAs</i>		
	7a	<i>Gender employment gap</i>	
	7b	<i>Gender pay gap</i>	
PA 8	Improving skills supply and productivity, effective life-long learning		
	<i>Sub PAs</i>		
	8a	<i>Improving skills supply and productivity</i>	
	8b	<i>Lifelong learning</i>	
PA 9	Improving education and training systems		
	<i>Sub PAs</i>		
	9a	<i>Improving education and training systems</i>	
	9b	<i>Improving higher education</i>	
PA 10	Wage setting mechanisms and labour cost developments		
PA 11	Promoting equal opportunities for all, fostering social inclusion and fighting poverty		SPC
	<i>Sub-PAs</i>		
	11a	<i>Tackling child poverty and exclusion</i>	
	11b	<i>Tackling poverty and exclusion in working age - active inclusion</i>	
	11c	<i>Tackling old age poverty and exclusion</i>	
	11d	<i>Inequality and inequality of opportunity</i>	
	11e	<i>Access to quality social services and benefits (Still to be developed)</i>	
	11f1	<i>Focus on poverty and exclusion of disadvantaged groups - people with disabilities</i>	
	11f2	<i>Focus on poverty and exclusion of disadvantaged groups - migrants</i>	
	11f3	<i>Focus on poverty and exclusion of disadvantaged groups - low skilled</i>	
	11f4	<i>Focus on poverty and exclusion of disadvantaged groups - (quasi-)jobless households</i>	
	11f5	<i>Focus on poverty and exclusion of disadvantaged groups - youth</i>	

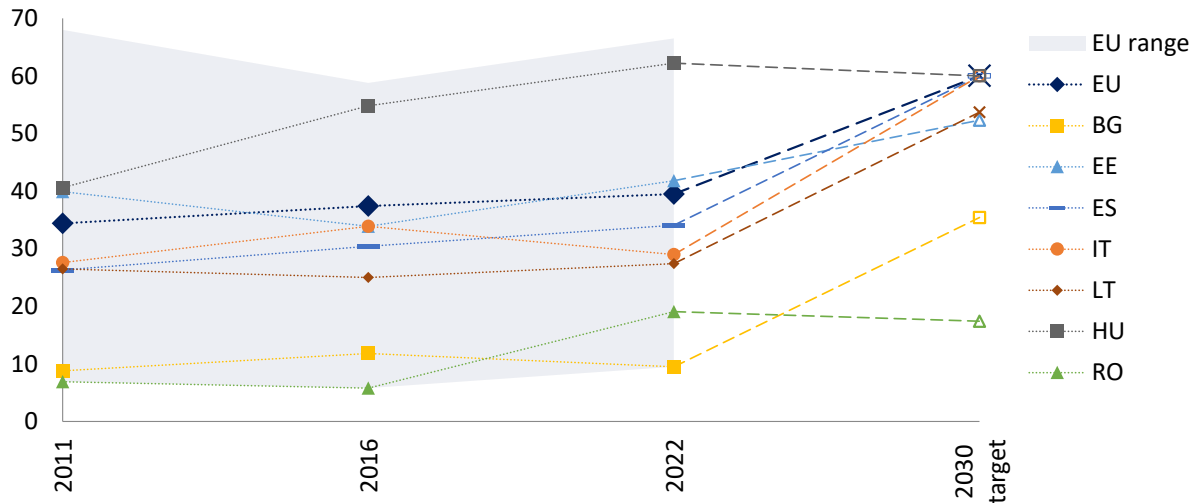
Annex 3- Progress towards the 2030 national targets for the seven MSs in the second-stage analysis

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



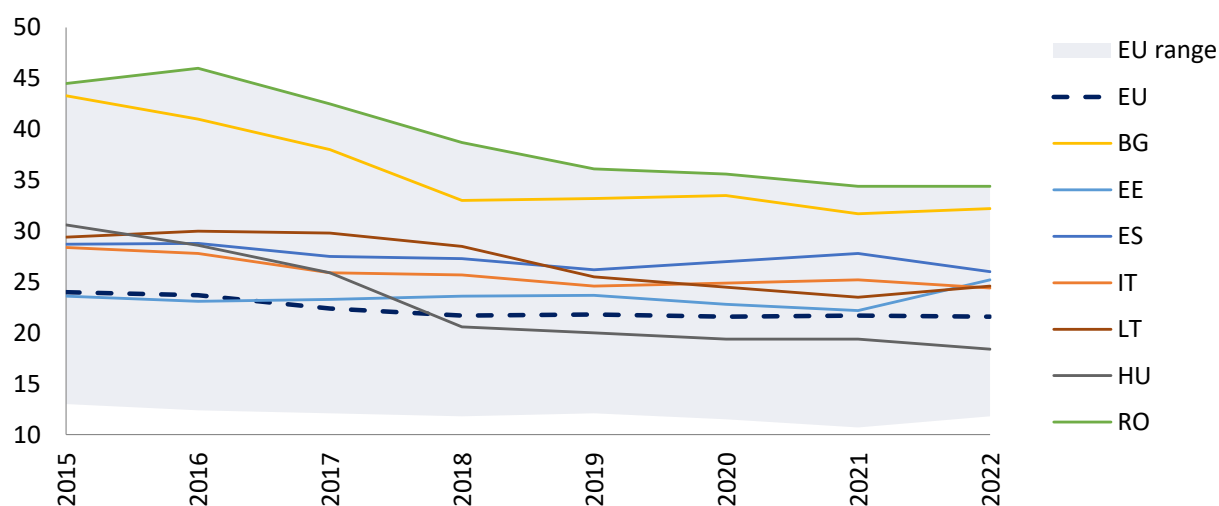
Source: Eurostat [[lfsi_emp_a](#)], EU LFS and table on 2030 national targets as in Annex 1 of the Joint Employment Report 2024. Dashed lines are linear interpolations to the national targets.

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](#). 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; headcounts and its changes, total population)

	2019	2022	2030 value after target reached	2030 target (reduction compared to 2019 value)	reduction needed to reach target
EU	95431	95324	80431	15000	14893
BG	2324	2206	1537	787	669
EE	311	332	272	39	60
ES	12169	12189	9354	2815	2835
IT	14803	14305	11603	3200	2702
LT	712	690	489	223	201
HU	1923	1750	1631	292	119
RO	7032	6525	4500	2532	2025

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.

Source: Eurostat [ilc_pecs01] and table on 2030 national targets in Annex 1 of the Joint Employment Report 2024.

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
Early leavers from education and training			Risk	Substantial measures	Risk	Substantial measures		
Individuals' level of digital skills	Risk	Some measures					Risk	Some measures
Youth NEET rate					No risk	Substantial measures		
Gender employment gap							Risk	Some measures
Income quintile ratio	Risk	Some measures	Risk	Some measures			Risk	
Employment rate					Risk	Substantial measures	Risk	Some measures
Unemployment rate								
Long-term unemployment rate								
GDHI per capita					No risk	Some measures	Risk	Insufficient 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
At risk of poverty or social exclusion rate	Risk	Some measures	Risk	Some measures	Risk	Some measures	Risk	Insufficient measures
At risk of poverty or social exclusion rate for children	Risk	Some measures			Risk	Some measures	Risk	Insufficient measures
Impact of social transfers on poverty reduction	Risk	Some measures	Risk	Some measures	Risk	Some measures	Risk	Insufficient measures
Disability employment gap	Risk	Some measures	No risk	Substantial measures				
Housing cost overburden	Risk	Insufficient measures						
Children aged less than 3 years in formal childcare	Risk	Some measures						
Self-reported unmet need for medical care			Risk	Substantial 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
Early leavers from education and training			Risk	Some measures	Risk	Some measures
Individuals' level of digital skills	No risk	Substantial measures	No risk	Some measures	Risk	Insufficient measures
Youth NEET rate					Risk	Some measures
Gender employment gap						
Income quintile ratio	Risk	Some measures				
Employment rate					Risk	Some measures
Unemployment rate						
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

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
Impact of social transfers on poverty reduction			Risk	Insufficient measures	Risk	Some measures
Disability employment gap	No risk	Substantial measures	Risk	Insufficient measures	Risk	Some measures
Housing cost overburden			Risk	Insufficient measures		
Children aged less than 3 years in formal childcare	Risk	Substantial measures	Risk	Some measures	Risk	Some measures
Self-reported unmet need for medical care					Risk	Some measures