Main developments and key challenges in the European social market economy

1. Introduction [2]

Before the COVID-19 outbreak put Europe and the world under unprecedented public health, economic and social stress, 2020 had started with continuing positive trends in the EU. The EU labour market had continued to improve until the end of 2019, even though economic growth was relatively moderate. Employment had been growing for the sixth consecutive year since the low reached in 2013. Unemployment had fallen to historically low levels. Long-term unemployment had also declined, and the share of young people neither in employment nor in education and training (NEET) had fallen in almost all Member States. However, the EU and its Member States had not succeeded in reducing persistent gender gaps in pay and employment, and differences in the employment and social area among and within Member States remained high.

Labour market situation slowed down already in the second half of 2019. In early 2020, the outbreak of COVID-19 led to increases in temporary lay-offs and unemployment. The Commission's Summer economic forecast published on 7 July 2020 projected a major contraction in economic growth in the EU of more than 8% in 2020, in line with weakening global growth linked to the spread of COVID-19. This makes short-term prospects extremely uncertain, including with regard to labour market prospects.

However, employment is expected to contract much less than the overall economy in 2020. This is mainly the consequence of measures such as short-time work schemes, income protection for the self-employed and liquidity provision for firms. A full analysis of the important changes that the economy is experiencing at the time this review is published is not yet possible, as most information will only be available at a later stage only. The analysis therefore focusses on taking stock of the progress made by the end of 2019 against established policy objectives, notably the 'Europe 2020' targets.

Improving income conditions and labour market outcomes before the COVID-19 outbreak brought about a decline in the at-risk-of-poverty-and-social-exclusion rate in 2018. This pronounced decline was mainly due to the decrease in the severe material deprivation rate and in the proportion of people living in very low work intensity households. The risk of monetary poverty (at risk of poverty rate, AROP) had not declined in several Member States, as the income conditions of low-income households struggled to keep up with improvements in median income.

The living standards of low-income households and traditionally vulnerable groups – such as long-standing segregated and marginalised communities (e.g., the Roma) - are likely to be negatively affected by the COVID-19-triggered recession. Income inequalities, whose level and development crucially influence the perception of social fairness [3], have been relatively stable both within and between countries. The impact of tax-benefit systems on income inequality has been largely redistributive, albeit heterogeneously across Member States.

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[2] This chapter was written by Petrica Badea, Fabio De Franceschi, Stefano Filauro, Katarina Jaksic, Lorise Moreau and Luca Pappalardo.

[3] See Chapter 2, Section 2.1 and 2.2

Apart from the crisis-related issues, the EU's population is facing significant and persistent long-term challenges that may worsen in the near future. Past trends and Eurostat's projections raise important questions about the implications for our societies of developments such as digitalisation and climate change, as well as ageing, low fertility rates and a shrinking working-age population – both in absolute and relative terms – and changes in the level of education of the population. Regions and countries are being and will be affected to varying degrees by these common trends.

This chapter reviews the latest socio-economic developments in the EU and its Member States. The analysis covers overall macro-economic and demographic developments and their implications for the labour market. It also assesses recent social and income trends, devoting particular attention to the indicators included in the scoreboard underpinning the European Pillar of Social Rights. Finally, this chapter addresses the multifaceted nature of poverty and social exclusion, households' financial situation, and the role of social transfers in mitigating income inequality in the EU and trends in social protection expenditure at EU level and by country. Sub-sections of this chapter focus on a selection of UN Sustainable Development Goal (SDG) (⁴) indicators. *Box 1.2* at the end of the chapter sets out these SDG indicators.

2. MACROECONOMIC ENVIRONMENT

2.1. Moderate growth in 2019 supports a fragile economy

The global economy had continued to grow moderately until the end of 2019, although at lower rates since 2018. GDP growth in China (+6.1%) was robust though limited by domestic and external strains on the economy. The US economy slowed down compared to 2018, but GDP growth stayed above 2%. Japan recorded the weakest growth rates in the G7, in line with the sluggish trends of previous years.

However, at the beginning of 2020, the global economy was hit by the COVID-19 pandemic. This crisis – with the restrictive health policy measures that it brought about – has profoundly disrupted global demand, supply chains, labour supply and industrial output. This combination of factors pushed the global economy into a deep recession in the first half of 2020. Unprecedented policy efforts to limit the economic impact of the pandemic are expected to contain the downturn and contribute to the subsequent recovery, projected to begin in the second half of 2020 as restrictive measures are likely to be progressively phased out. Nonetheless, the restart of economic activity is expected to be gradual and uneven across

countries and uncertainty may continue to influence consumption patterns adversely.

Against this scenario, the Commission Summer Economic Forecast expects EU GDP to contract by about 8.3% in 2020, far more than during the global financial crisis of 2009 (when it dropped by 4.3%), and to rebound by less than 6% in 2021. Already in 2020 Q2, after a drop of 3.3 in Q1, EU GDP fell by 11.4%. This is the sharpest decline by far since time series started in 1995. The fall was particularly severe in Spain (-18.5%), Croatia (-14.9%), Hungary (-14.5% and Greece (-14.0%).

Chart 1.1
Real GDP growth in selected large economies
Percentage change on previous year
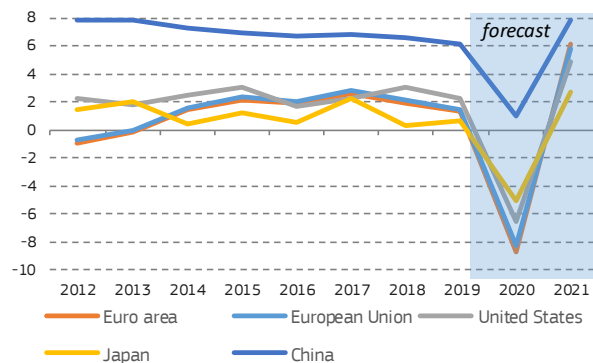
Source: Eurostat, table [naida_10_gdp], OECD European Commission's Summer Forecast (EU and euro area for 2020 and 2021), Commission's Spring Forecast (United States, China and Japan for 2020 and 2021)
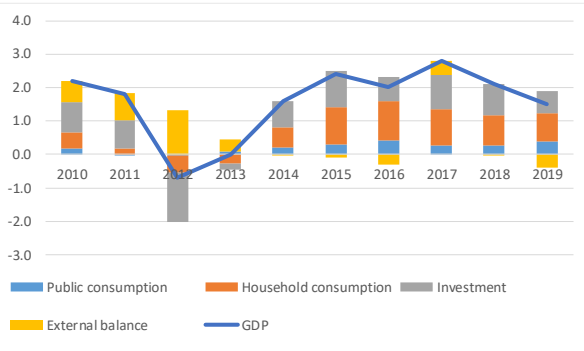
Click here to download chart.

In 2019, GDP grew by 1.5% in the European Union, which is 0.6 pps less than the previous year and the lowest growth since the recovery that followed the downturn of 2012-13. The euro area recorded a similar pattern, showing a 2019 growth rate of 1.3%. In general, economic activity in the EU was sustained by internal demand and investment but remained constrained by uncertainties linked to trade, including the unresolved issue of the long-term relationship between the EU and the UK and the possibility of significant disruption of value chains and trading relations at the end of the year.

The main contributions to EU growth in 2019 came from private consumption and investment, and to a lesser extent from the external sector and government expenditure. Private consumption accounted for more than 50% of growth, and investment for another 40%. The contribution of public consumption was less significant and that of the external balance was negative, as exports had continued to perform below expectations. The weak export performance of the EU overall was due mainly to a drop in exports of goods, while exports of services had remained robust.

(⁴)   A brief description of the SDG project and its link with the EU policies can be found in a dedicated box at the end of the chapter.

Chart 1.2
**Contribution to GDP real growth – EU**
Percentage change on previous year

Source: Eurostat, table [nama_10_gdp]
Click here to download chart.

GDP grew at different speeds across Member States. In more than three quarters of them, growth exceeded the EU average, especially in Ireland, Estonia, Hungary and Malta. By contrast, in large economies such as France, Germany and Italy, GDP did not grew more than the average; the same was true in Belgium, Finland and Sweden.

Chart 1.3
Real GDP growth in the EU (2019)
Percentage change on previous year
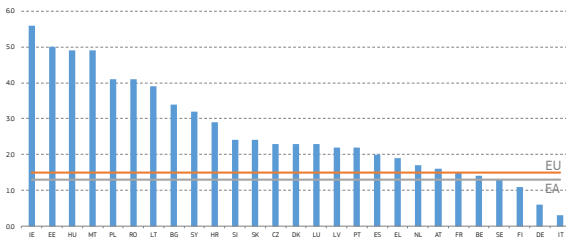
Source: Eurostat, table [nama_10_gdp]
Click here to download chart.

2.2. Labour market resilient despite uncertainty over the outlook

Employment in the EU had been growing for six consecutive years, reaching almost 209 million in 2019, 1.0% above the level recorded in the previous year. This was the highest level ever recorded. Employment in the euro area followed a similar pattern, growing by 1.2% to more than 160 million people. The EU labour market proved resilient to relatively moderate economic growth and continued to create jobs throughout 2019. However, the pace of growth of employment started showing signs of weakening in early 2020. In 2020 Q1, after 25 consecutive quarters of expansion, it turned negative and it shrank by 2.7% in 2020 Q2. This drop was particularly harsh in Spain (-7.5%), Ireland (-6.1%), Hungary (-5.3%) and Estonia (-5.1%). A more severe deterioration can be expected throughout 2020, when the impact of the lockdown measures required by the COVID-19 crisis will be fully apparent in data.

Chart 1.4
Employment growth in selected large economies
Percentage change on previous year

Source: Eurostat, table [nama_10_gdp], OECD
Click here to download chart.

In 2018 and 2019, employment growth was in line with growth in the US slightly higher in the euro area yet somewhat weaker in the EU. US jobs growth reached 1.1% in 2019, 0.5 pps more than the previous year. In Japan, employment growth decelerated to 0.9% in 2019, after a spike of 2.0% employment growth in 2018.

Chart 1.5
Employment and total hours worked per person employed – EU and euro area
Index 2010 = 100
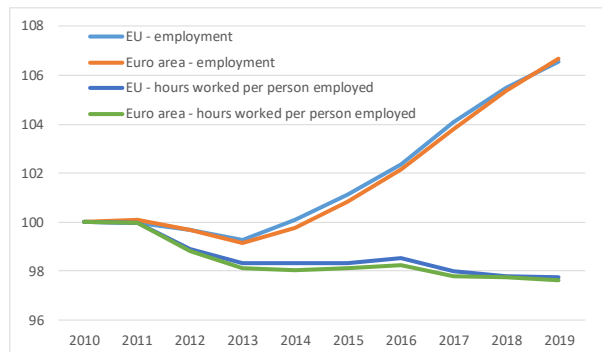
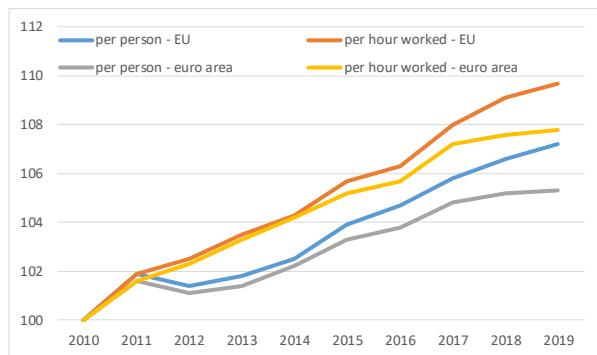*Source:* Eurostat, table [nama_10_a10_e]
Click here to download chart.

In both the EU and the euro area, the number of people employed grew faster than the total hours worked. This led to a decline of hours worked per employed person, which, in 2019, continued the slow but steady decline observed since 2010.

2.3. Productivity

Productivity – both per hour worked and per person – has been increasing steadily in both the EU and the euro area. Over the last decade, productivity per person has risen more slowly than productivity per hour worked. From 2010 to 2019, productivity per hour worked grew by more than 9% in the EU and by almost 8% in the euro area. Over the same period productivity per person increased by about 7% in the EU and by more than 5% in the euro area.

Chart 1.6
Productivity per person and per hour worked
EU and euro area
Index 2010 = 100

Source: Eurostat, table [nama_10_lp_ulc]
Click here to download chart.

This gain in productivity was unevenly spread across the Member States. Whereas in 8 countries productivity per hour rose by 20% or more compared to 2010, more than a third of Member States recorded increases of less than 10%. All the Member States for which data are available saw a greater gain in productivity per hours worked than productivity per person, with the exception of Ireland, the Netherlands and Greece.

Chart 1.7
Productivity per person and per hour worked
in the Member States – 2019
Index 2010 = 100
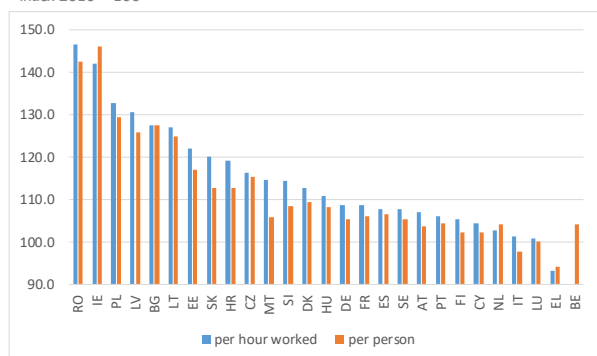
Note: No data on productivity per hour worked available for Belgium.
Source: Eurostat, table [nama_10_lp_ulc]
Click here to download chart.

3. Labour Market developments

Delivering on a more social and fair Europe is a key priority for the European Commission. The European Pillar of Social Rights has been put forward to serve as a compass leading to renewed socio-economic convergence. The Pillar is supported by a scoreboard of key indicators to screen employment and social performances of the Member States. The scoreboard serves as a reference framework to monitor 'societal progress' and it detects timely the most significant employment and social challenges as well as progress achieved over time. In this section the main indicators of the social scoreboard illustrating labour market development are reviewed, with particular attention to those linked to *equal opportunities and access to*

labour market, as well as to *dynamic labour market and fair working conditions*.

3.1. Employment rates

In 2019 the EU employment rate (headline indicator in the social scoreboard ([5]), and SDG 8) reached another record level, standing at 73.1% of the population aged 20-64, 0.7 pps higher than in 2018. In full-time equivalents (FTE) the employment rate was 67.1%. In the euro area the employment rate also grew by 0.7 pps to reach 72.7%.

Chart 1.8
The pace of growth of the employment rate was slowing down in 2019, before being hit by the crisis
Employment rate, % of population aged from 20 to 64 years
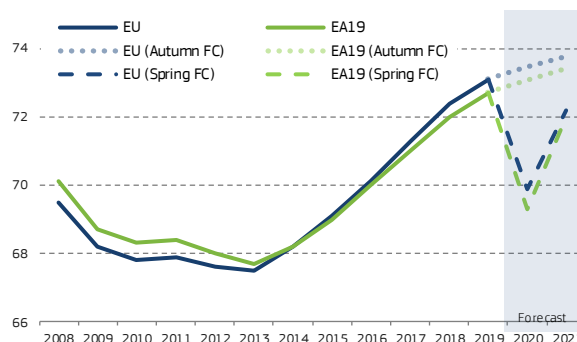
Note: The forecast is calculated with the estimation of employment growth and assuming a similar size of the workforce
Source: Eurostat, LFS [lfsi_emp_a], Commission Spring 2020 and Commission Autumn 2019 Economic Forecast, and EMPL calculations
Click here to download chart.

However, the rise in the employment rate slowed down in 2019, after three years in which the employment rate had increased by at least 1 pp. The Autumn 2019 Commission forecasts for 2020 and 2021 had expected this trend to continue, with employment growth of 0.5% and 0.4% respectively, but those forecasts were revised downward significantly in the Spring 2020 forecasts as a consequence of the coronavirus pandemic and its severe socio-economic impacts. Employment in the EU (euro area) is now expected to contract by 4.4% (respectively 4.7%) in 2020 before growing again by 3.3% (3.9%) in 2021.

Until the end of 2019, employment rates continued to improve in almost all Member States, though large differences persisted. By the end of 2019 seventeen countries had achieved their specific 'EU 2020' target but three of the largest EU economies still had some way to go. Although employment grew only slowly in some of the Member States with the lowest rates (e.g. Italy, France), the distance between the lowest and highest rates

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[5] The social scoreboard provides a number of indicators (headline and secondary) to screen the employment and social performance of Member States on selected indicators in the context of the European Pillar of Social Rights (Joint Employment Report, 2020). Its 20 principles and rights are organised in chapter. The first two ones focus on "equal opportunities and access to the labour market" and on "fair working conditions".

(Greece's 61.2% and Sweden's 82.1%) was almost 5 pps less than in 2015.

Taking into account the labour market effects of the coronavirus crisis predicted by the 2020 Spring Commission forecasts, the employment rate should decline in the EU (euro area) to 69.9% (69.3%) in 2020, before increasing again to 72.2% (72.0%) in 2021, still almost a percentage point below the 2019 rate. If these predictions are confirmed, the EU will be unable to reach the EU2020 target of 75% for the employment rate in 2020.

Chart 1.9

Most Member States had already reached their 'EU2020' target by 2019

Employment rate, % of population aged 20-64
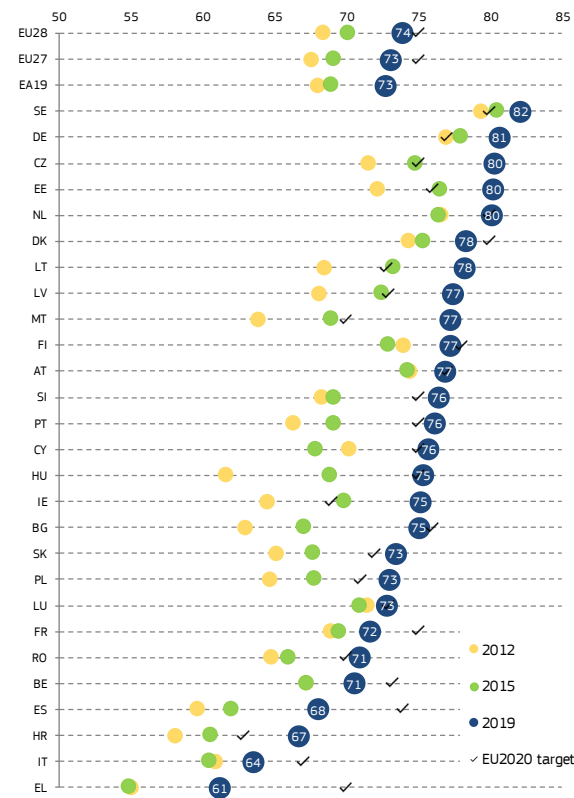
Note: The Europe 2020 target for France excludes the overseas departments. The employment rate in 2019 for France without the overseas departments was 72.6%
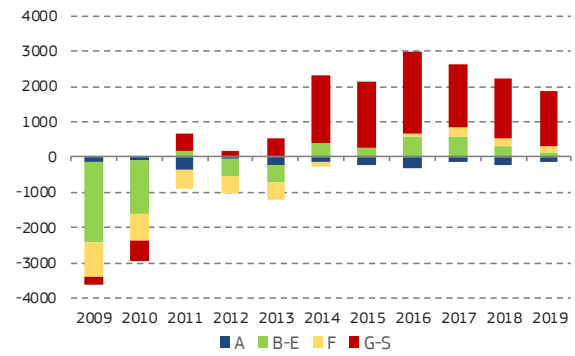
Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

The services sector contributed the most to employment growth in 2019. In 2019 the number of people employed grew by 1.6 million people in services (1.2%), by 193 000 people in construction (1.5%) and by 115 000 people in industry (0.3%), while employment shrank in agriculture by 155 000 (2%). The services sector grew especially in "human health and social work activities", "professional, scientific and technical activities" and "wholesale and retail trade". Construction saw the highest employment growth in relative terms.

Chart 1.10

Employment in 2019 grew most strongly in the service sector

Employment by NACE2 in the EU, thousands

Note: A: Agriculture; B-E: Industry (without construction); F: Construction; G-S: Services
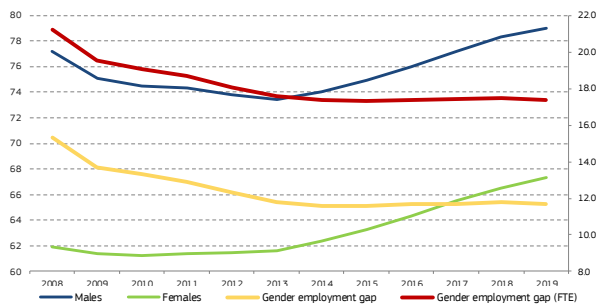*Source:* Eurostat, LFS [lfsa_egan2]
Click here to download chart.

The gender employment gap (headline indicator in the social scoreboard, and SDG 5) stood at 11.7 pps in 2019, broadly unchanged since 2013. The gender employment gap measured in full-time equivalents (FTE) is significantly higher (17.4 pps), and has also remained stable since 2013. According to a recent study by the European Commission's Joint Research Centre (JRC)[6], the impact of COVID lockdowns could have a stronger impact on women than on men in some Member States, as some of the most vulnerable sectors have a higher number of female workers. However, this uneven impact can varies significantly, depending on the structure of the labour market and the strictness of confinement measures in individual Member States.

Chart 1.11

No progress in closing the gender employment gap

Employment rates by sex (% of population aged 20-64 years, lhs) and gender employment gap (pps, rhs)

Note: The gender employment gap is calculated as the difference in the employment rate of men and women aged 20 to 64
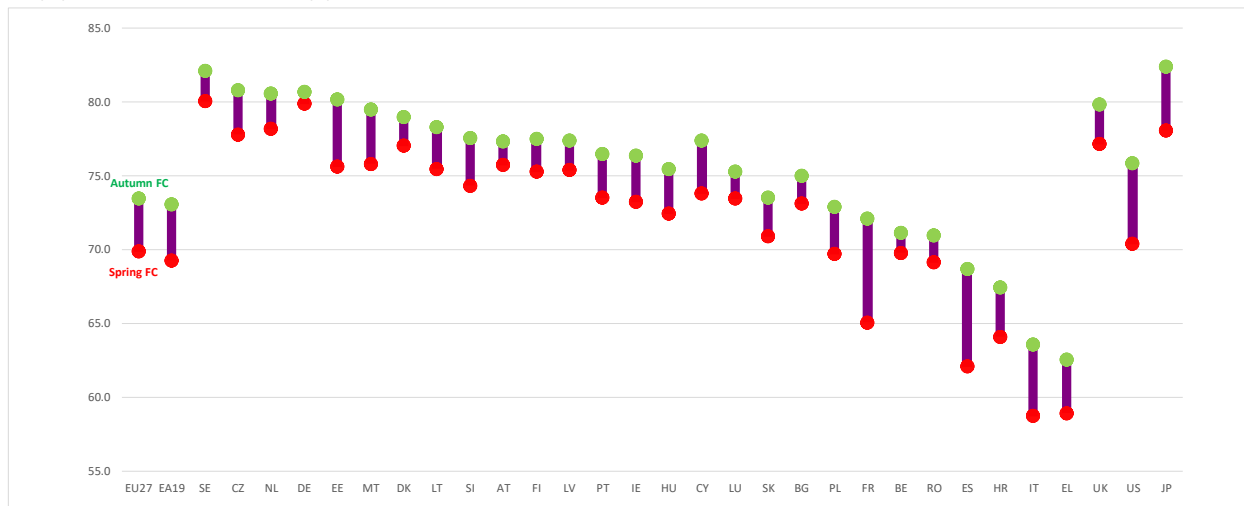*Source:* Eurostat, LFS [lfsi_emp_a] [sdg_05_30] and EMPL calculations on Eurostat data
Click here to download chart.

[6] Blaskó Z. et al.. (2020), 2020, p.16

Chart 1.12

Employment rates in 2020 according to the Spring forecast are generally much lower than those predicted by the Autumn forecast

Employment rate (forecasts) in 2020, % of population 20-64

Source: Eurostat, LFS [lfsi_emp_a], OECD, Commission Spring 2020 and Autumn 2019 Economic Forecast, and EMPL calculations
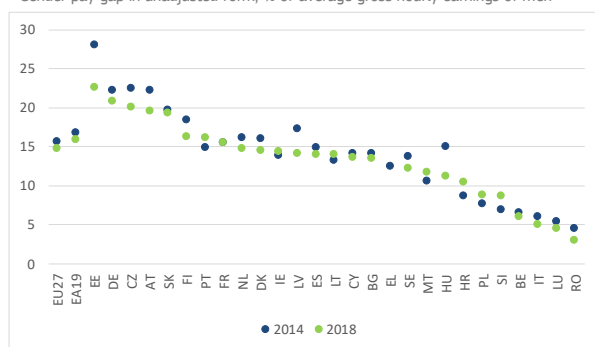
Click here to download chart.

The gender pay gap (supplementary indicator in the social scoreboard, and SDG 5) is showing some signs of narrowing, although not to the same extent in all countries. In 2018, the gap was 14.8% of average gross hourly earnings of men, 0.1 pps less than in 2017. In 18 Member States the gap was lower than in 2014, the last year for which figures are available for all Member States. The highest gaps were observed in Estonia (22.7%) and Germany (20.9%), while Romania (3.0%) and Luxembourg (4.6%) had the lowest gaps.

Chart 1.13

The gender pay gap is shrinking in most Member States

Gender pay gap in unadjusted form, % of average gross hourly earnings of men

Note: Note: 2017 for IE and IT. No 2018 data for EL
Source: Source: Eurostat, LFS [sdg_05_20]
Click here to download chart.

The proportion of employees aged 15-64 on temporary contracts decreased by 0.6 pps to reach 14.9% in 2019, the lowest rate since 2013. The proportion for women is 1.1 pps higher than for men (15.5% versus 14.4%)**.** Differences among Member States remain very large, with several countries displaying percentages at or above 20% (Spain, Poland, Portugal and the Netherlands) although there has been a declining trend in almost all countries. Involuntary temporary work (employees with a temporary contract because they could not find a

permanent job) in the EU in 2019 decreased to represent 52.1% of all temporary employees, the lowest rate since 2005.

Part-time employment remained stable in 2019 at 18.3% of total employment, and was much higher for women than for men (29.9% compared to 8.4%). However since 2012, part-time employment has risen by 0.2 pps as a proportion of total employment, having increased by 0.5 pps among male employed people and reduced by 0.3 pps among female employees. Involuntary part-time work continue to decrease (it was 25.8% of total part-time employment in 2019 compared to 27.2% in 2018 and a peak of 32.0% in 2014) and remained more prominent among men than women (33.0% versus 23.5% of part-time employment).

Employment of both young and older people grew in 2019. The employment rate for people aged 55-64 increased by 1.2 pps to 59.1%, while for people aged 15-24 it reached 33.5%, 0.6 pps more than in 2018 but 1.5 pps lower than in 2008. For all age groups, the employment rate for men was higher than for women, with the highest gaps in the 30-34 (14.7 pps) and 60-64 (14.1 pps) age brackets.

For recent graduates with at least upper secondary education (SDG 5), employment rates did not increase in 2019 as they had in the previous five years. The EU rate was 80.9% in 2019. Though he situation improved in almost all Member States, Greece and Italy had very low rates (below 60%), and 15 Member States had rates below those of 2008. This raises the question whether, in some Member States, recent graduates have sufficient employment opportunities in relation to to their skills to allow them to participate successfully in the labour market, in line with the first principle of the European Pillar of Social Rights In 2019, the gap between men

and women in the employment rate of recent graduates increased since the last year from 4.1 pps to 4.6 pps.

Chart 1.14
Employment rates are higher for men in all age groups
Employment rate in the EU by age groups, % of population, 2019
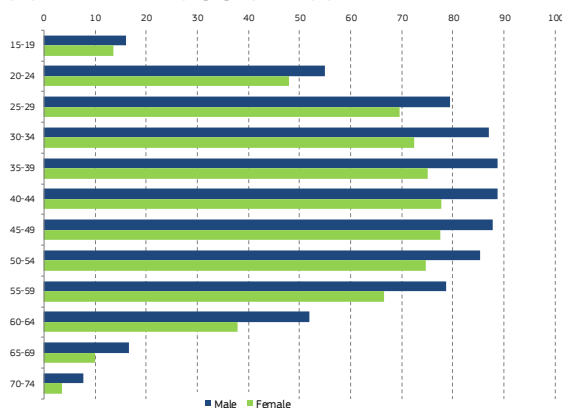
Source: Eurostat, LFS [lfsa_ergaed]
Click here to download chart.

Chart 1.15
Employment rates of recent graduates are improving but are still below 2008 levels for the EU and many MS
Employment rates of recent graduates, % of population aged 20 to 34 with at least upper secondary education
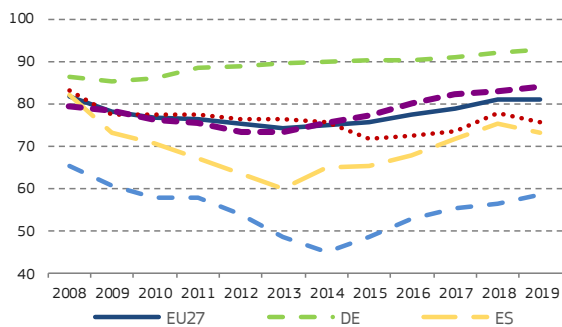

Note: See source table description for complete definition
Source: Eurostat [sdg_04_50]
Click here to download chart.

In 2019 the employment rate of non-EU born people increased for the sixth consecutive year and reached 62.2%, 1.0 pp more than in 2018. It was 6.6 pps lower than the employment rate of the native population on average in the EU in 2019, a difference that had shrunk by almost 3 pps since 2016. Employment progress was more pronounced among migrant men than women and therefore the difference from the native population remained much wider for women than for men (10.7 pps versus 2.0 pps). The gap also varied across Member States. In the majority of them the employment rate of natives is higher than that of non-EU born people, and especially in Nordic countries, the Netherlands and Belgium. On the other hand, the employment rate of non-EU born is higher in 9 Member States, and especially in Malta, Portugal and Central-Eastern European countries such as Poland, Romania, Czechia and Hungary where there are proportionally fewer non-EU born people in the (working age) population is however relatively much smaller (*Chart 1.16*).

Temporary employment is also higher for non-EU born people than for natives (22.4% and 14.2% respectively), a factor which increases their economic vulnerability in the current COVID-19 pandemic. , as showed in a recent study ([7]). For some countries (example of Germany) existing administrative data already points to much larger impact of the pandemic on foreigners' levels of employment and unemployment in the period March to June 2020.

Chart 1.16
The difference between employment rates of natives and non-EU born varies widely between Member States
Difference between employment rates of reporting country and non-EU born people aged 15-64, 2019
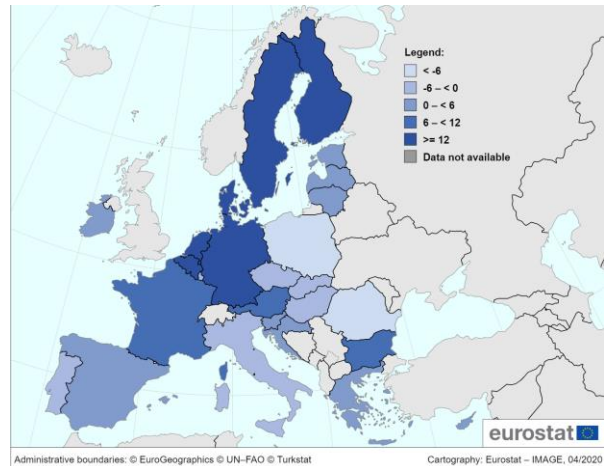
Source: Eurostat [lfsa_ergacob]
Click here to download chart.

3.2. Unemployment rates

The EU unemployment rate (headline indicator in the social scoreboard) fell in 2019 to 6.7% of the labour force, 0.5 pps less than in 2018. This was the lowest level ever recorded in the EU. Compared to 2018, unemployment rates fell in almost all Member States, with the biggest declines in Greece (2.0 pps), Croatia (1.9 pps), and Cyprus (1.3 pps), while increasing in Sweden (0.4 pps) and Lithuania (0.1 pps). This was in line with the general trend of declining unemployment rates in all Member States in recent years. This trend came to an abrupt halt with the outbreak of the coronavirus pandemic, and unemployment rates are forecast to increase in 2020 to 9.0% in the EU and 9.6% in the euro area, i.e. 5.2 million more unemployed people in the EU and 3.6 million more in the euro area. In March 2020, the unemployment rate was 6.5% in the EU and 7.2% in the euro area.

The difference in unemployment rates between men and women in the EU in 2019 increased by 0.1 pps to 0.6 pps (7.0% versus 6.4%). During the steady reduction in general unemployment in the EU in 2014-2019, this difference increased slightly, albeit with large differences between the Member States. As already pointed out in section 3.1, the confinement measures to limit the spread of COVID-19 could have

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([7]) Fasani F., Mazza J. (2020)

a higher impact on women than men, according to a study (Blaskó Z. et al.. (2020), p.16). However, this depends on the strictness of confinement measures and the structure of the labour market in each Member State.

Chart 1.17
Unemployment in the EU reached a historic low in 2019, but has increased strongly following the outbreak of the coronavirus pandemic
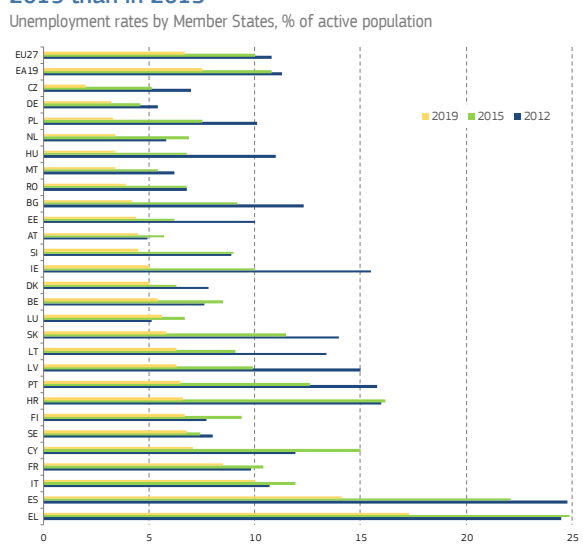Unemployment rate, % of labour force from aged 15 to -74 years
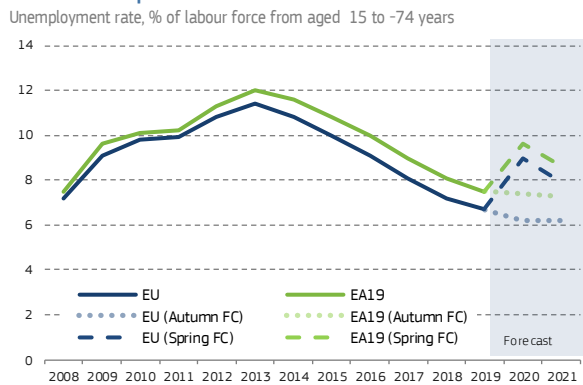
Source: Eurostat, Unemployment series [une_rt_a] and European Commission Spring 2020 and Autumn 2019 Forecast
Click here to download chart.

Chart 1.18
All EU Member States had lower unemployment rates in 2019 than in 2015
Unemployment rates by Member States, % of active population

Source: Eurostat, Unemployment series [une_rt_a]
Click here to download chart.

Youth unemployment in the EU fell to 15.0% in 2019, 1.0 pp less than in 2018. This is a somewhat lower reduction than in the previous year, suggesting that the decline in youth unemployment observed since 2014 has been slowing down. Compared to 2018, youth unemployment fell most steeply in Croatia (7.1 pps), Greece (4.7 pps) and Bulgaria (3.8 pps) but increased in nine Member States, most notably in Luxembourg (2.8 pps) and Sweden (2.7 pps). The difference in the youth unemployment rate between women (14.7%) and men (15.3%) was slightly lower than in previous years: 0.6 pps in 2019, compared to 0.9 pps in 2018.

Young workers are more likely than other age groups to work in sectors that have been or could be closed following the confinement measures to fight COVID-19, according to a recent study by European Commission's Joint Research Centre ([8]). Other evidence is showing that young people across the world are being particularly hit by the COVID-19 crisis (ILO, 2020). Young people aged 15-24 had already been severely affected by the 2008 crisis, when their unemployment rates and the use of non-standard contracts increased dramatically (ESDE 2017, Chapter 3).

The share of young people aged 15-29([9]) who are neither in employment nor in education and training (NEET) (SDG 8) decreased in 2019. As a percentage of the total population, it fell by 0.5 pps since 2018 to 12.6%. The strongest declines were observed in Estonia (1.9 pps) and Greece (1.8 pps) while the NEET rate increased in four Member States, most notably in Lithuania (1.6 pps). Since 2012 average NEET rates in the EU have decreased by 3.4 pps and only two Member States had higher NEET rates in 2019 than in 2012 (Denmark, by 0.6 pps and Austria, by 0.1 pps). However, in some Member States with high NEET rates, such as Italy and Romania, improvements were below EU average (*Chart 1.20*).

Long-term unemployment rates

Long-term unemployment (headline indicator in the social scoreboard, and SDG 8) continued to fall in 2019. It decreased by 0.4 pps since 2018 and reached 2.8% of active population aged 15-74. The rate was 2.9% for women and 2.6% for men. Very long-term unemployment ([10]) fell by 0.3 pps to 1.7%.

Chart 1.19
Unemployment and long-term unemployment continued to fall in 2019, though more slowly
Long-term and very long-term unemployment rate, % of active population 15-74
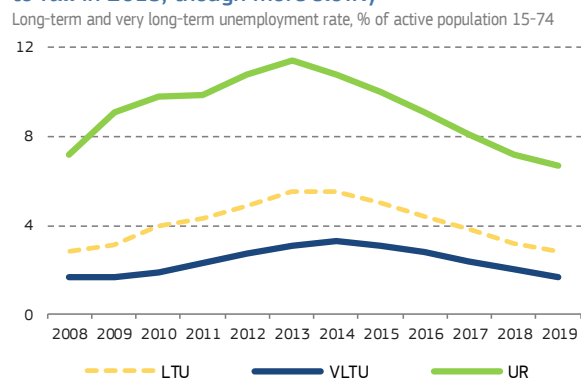
Source: Eurostat, LFS [une_rt_a, une_ltu_a]
Click here to download chart.

([8]) Fana, M. et al. (2020), pp.17-18
([9]) The age bracket 15-29 is the one used for the NEET indicator for SDGs. The headline indicator for the social scoreboard uses the age bracket 15-24.
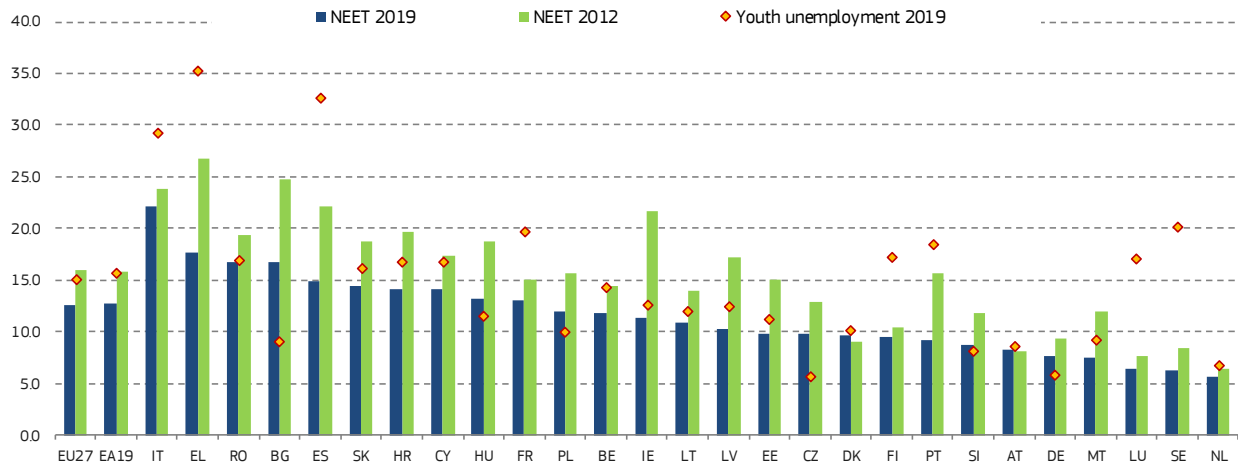([10]) Very long-term unemployment refers to people who have not had a job for 24 months or more.

Chart 1.20

The NEET rate declined in almost all Member States but remains persistently high in some

Unemployment rate (% of labour force, 15-24) and young people aged 15-29 neither in employment nor in education and training (NEET) (% of total population)

Source: Eurostat, LFS [une_rt_a; edat_lfse_20]
Click here to download chart.

All Member States saw reductions in long-term unemployment in 2019. The biggest falls were recorded in Greece (1.4 pps), Spain (1.1 pps) and Croatia (1.0 pp), reducing the difference between the highest rate (Greece, 12.2%) and the lowest (Czechia, 0.6%).

Long-term unemployment as a proportion of total unemployment also fell in 2019, to 41.4% (3.0 pps below 2018). Differences between Member States, however, remain very large. Very long-term unemployment as a proportion of total unemployment also decreased, by 2.3 pps to 25.5%.

3.3. Activity rates

The EU activity rate ([11]) for people aged 15-64 continued to rise in 2019, reaching a record high rate of 73.4%. This is 0.3 pps more than in 2018. It rose slightly more for women (+0.4 pps to 67.9%) than for men (+0.3 pps to 79.0%), but the gap is still larger than 11 pps. The constant rise in activity rates observed in recent years was driven by increasing participation of women and older workers, as well as higher education rates.

The proportion of people aged 20-64 who are inactive in the labour market because of to caring responsibilities (SDG 5) continued to rise, especially among women. More than one fifth of those aged 20-64 are inactive due to caring responsibilities: almost one third of women in this age group, but only 4.5% of men. According to a survey conducted by Eurofound in April 2020, parents with young children are among the groups that have been particularly affected by the COVID-19 pandemic. The impact on their working conditions is higher than for other groups (e.g. households with no or older

children). There is yet no evidence about differences by gender.

Chart 1.21

The gender activity rate gap is narrowing but remains large

Activity rate by sex, % of population 15-64
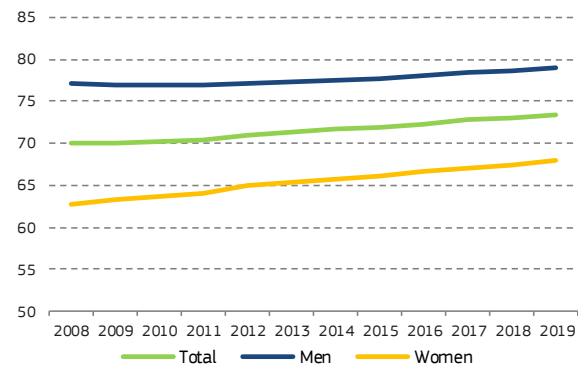
Source: Eurostat, LFS [lfsi_emp_a]
Click here to download chart.

Increases in EU activity rates in 2019 were again driven by the 1.1 pps rise in participation by older workers (aged 55-64). The proportion of the active population (aged 15-64) with tertiary education also continues to increase, and it is now more than one third. At the same time, the proportion of the active population with lower educational attainment levels keeps declining. Another group with low participation rates is migrant women (61.7% in 2019) who record lower participation rates than native women in many Member States. The gap is especially pronounced among those with a tertiary level of education, suggesting that there is a significant underutilisation of human capital in this group.

([11]) The activity rate is the measure of the participation of population, whether employed or unemployed, in the labour market.

Chart 1.22
Inactivity due to caring responsibilities affects women disproportionately and continues to grow
Inactive population due to caring responsibilities by sex, % of inactive population
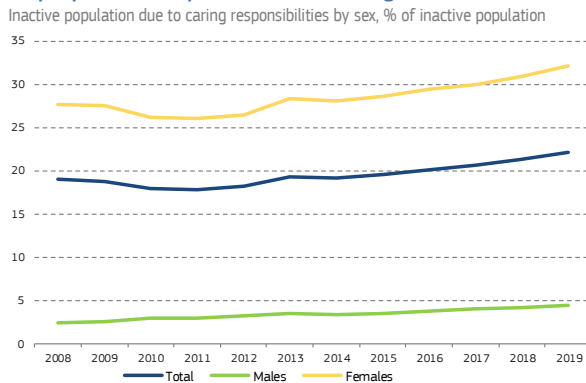
Note: The indicator measures the reasons why individuals are not actively seeking work, so they are neither employed nor unemployed and considered to be outside the labour force. "Inactivity due to caring responsibilities" refers to looking after children or incapacitated adults and other family or personal responsibilities
*Source:* Eurostat, LFS [lfsa_igar, sdg_05_40]
Click here to download chart.

3.4. Labour market transitions

Labour transition figures confirm the positive labour market dynamics in the EU up to and including 2019. Transitions from employment to unemployment gradually decreased from 6.2 million in 2012 to 3.7 million in 2019. The number of people moving from inactivity into employment increased from 8.4 million in 2012 to 9.2 million in 2019. Less positive, however, was the fall in the number of people leaving unemployment for employment; whereas 6.7 million made this transition in 2014, 1.5 million fewer did so in 2019.

Chart 1.23
Transitions to unemployment have declined between 2012 and 2019
Labour market transitions for EU, thousands
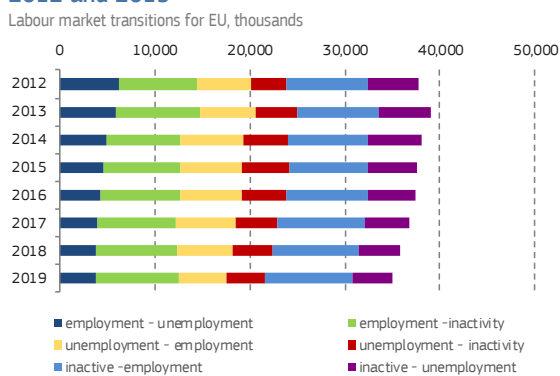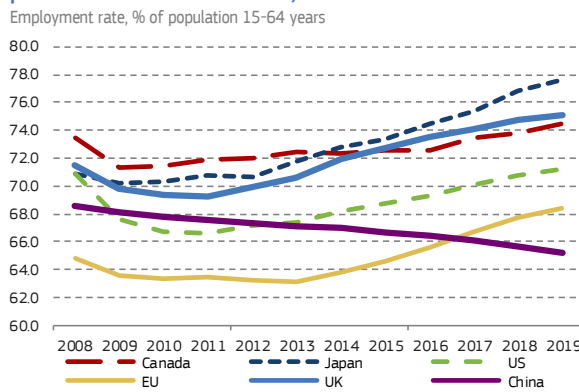

Source: Eurostat, LFS [lfsi_long_a]
Click here to download chart.

3.5. International comparison

In 2019, the EU still had a lower employment rate than other major world economies, although the gap decreased. Until 2019, the EU showed a faster growth in the employment rate than most other major economies. Only Japan had seen a consistently faster growth in its employment rate than the EU. The COVID-19 pandemic and necessary containment measures are expected to have deep effects in the next few years. According to the latest European

Commission Spring forecast, employment is predicted to fall faster in the United States and Japan (-5.0% and -6.3% respectively) than in the EU (-4.4%) and the UK (-2.7%). In 2021, employment is also expected to grow faster in the EU (3.3%) than in both the United States and the United Kingdom (2.0% and 1.5% respectively), while in Japan it is predicted to fall again by 1.0%.

Chart 1.24
The employment rate in the EU is growing at a similar pace to the US and Canada, and faster than in the UK
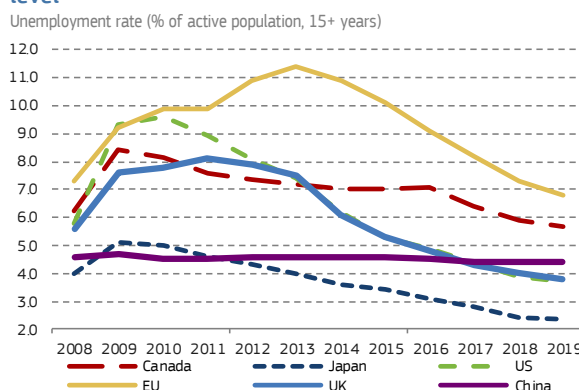Employment rate, % of population 15-64 years

Note: 15 years and over, and ILO modelled data, for China
Source: Eurostat [lfsi_emp_a], OECD and World Bank
Click here to download chart.

Chart 1.25
Until 2019, the unemployment rate in the EU was falling faster than in other major economies, albeit at higher level
Unemployment rate (% of active population, 15+ years)

Note: ILO modelled data for China
Source: Eurostat [une_rt_a], OECD and World Bank
Click here to download chart.

Unemployment in the EU in 2019 remained higher than in other major economies, but was falling faster. However, in all countries unemployment is expected to increase significantly in 2020, before declining again in 2021, albeit remaining at higher levels than before the outbreak of the coronavirus pandemic.

The gap between the EU's unemployment rate and those of other major economies is likely to decrease substantially, though this depends on different countries' various policy responses taken to mitigate the adverse effects of the coronavirus pandemic. In particular, variations may occur because of different measure taken to support employees and the self-employed, to stabilise incomes and to

promote short-term work schemes in order to mitigate increase in unemployment. Unemployment rates are expected to increase in all major economies, with expected peaks in 2020 in the UK and the US at 9.2% and 6.7%, respectively, and in 2021 in Japan at 4.5%. Unemployment is expected to increase sharply in particular in the US and almost triple to reach a double-digit figure in the course of 2020. Because of the expected lower increase of the unemployment rate in the EU, the gap between the EU and, respectively, the UK and the US, is therefore expected to decrease or even reverse.

Chart 1.26
The EU's activity rate is close to the US's but still some way behind Japan, Canada and the UK
Labour force participation rate (15-64 years)
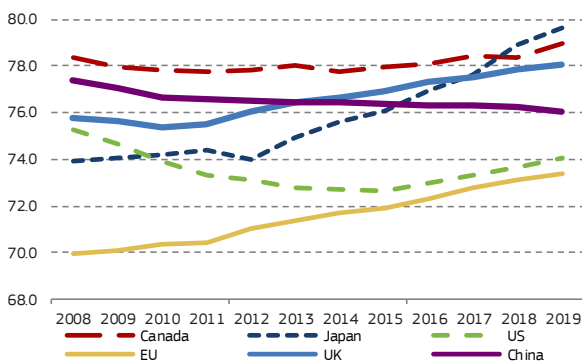
Note: ILO modelled data for China
Source: Eurostat [lfsi_emp_a], OECD and World Bank
Click here to download chart.

The activity rate in the EU also increased faster than in other major economies, but a large gap remains. This steady increase in participation in the labour market may explain why the EU unemployment rate remained relatively high until 2019 despite a good performance in employment creation.

4. SOCIAL SITUATION, POVERTY AND INCOME DEVELOPMENTS

Before the COVID-19 outbreak, the living standards and social conditions of EU households were, on average, improving steadily. In 2018, [12] 13.9 million fewer people in the EU [13] were living at risk of poverty or social exclusion (AROPE) than at the 2012 peak. The social situation continued to improve according to data available for 2019, driven by a reduction in the severe material deprivation rate. Median incomes have been increasing in real terms in most Member States and the number of people in severe material deprivation has been falling. However, the pandemic is having major social effects. Although income and living conditions' data to monitor its current impact will not be available before 2021, some effects may be expected on the basis of early simulations. In spite of unprecedented policy responses, at both national and EU levels, inspired by the European Pillar of Social Rights [14], there is a significant likelihood that the current crisis will exacerbate poverty risks for vulnerable populations in the very short term [15]. The implementation of the principles of the European Pillar of Social Rights is a priority for the Commission [16] and the COVID-19 crisis sheds further light on its importance. Labour-related income losses, coupled with the difficulty for welfare transfers to reach all households promptly, may pose serious risks for the living conditions of low-

[12] Note on the reference year: EU-SILC data, used in poverty and inequality indicators, reflect incomes of the previous year (except for Ireland where incomes refer to the interview period). However, in this document, the reference year is the survey year and not the income year. This choice is for consistency with indicators commonly used: Eurostat indicators and most of EMPL monitoring tools and reports use the survey year. Moreover, the at-risk-of-poverty-and-social-exclusion (AROPE) indicator combines the at-risk-of-poverty (AROP: previous year) rate, very low work intensity (VLWI: previous year) and severe material deprivation (SMD: survey year). The 2018 reference year is based on EU-SILC 2018, which reflects the 2017 income year and activity status in 2017.

[13] Estimated AROPE rate in 2019: 94.8 million.

[14] The European Pillar of Social Rights, approved in 2017, is composed of 20 principles organised in three chapters. The third on 'Social protection and inclusion' addresses 10 rights and principles such as childcare, social protection and benefits, minimum incomes, pensions, inclusion, health and long-term care, housing and access to services in general.
Delivering on these principles and rights is a joint responsibility of the European Union institutions, Member States, social partners and other stakeholders.
The social scoreboard was set up to assist monitoring of the implementation of the Pillar across EU countries.
https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en
https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en

[15] For a discussion of the impact on fundamental rights of the virus and the measures to contain it especially for already vulnerable groups in society see European Union Agency for Fundamental Rights (FRA) (2020).

[16] In January 2020, the Commission released a communication on the preparations for an Action Plan to implement the Pillar, https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_20https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_20

income households. Preliminary estimates indicate that the impact of the COVID-19 crisis is likely to be regressive and lead to more severe income drops for low-middle income households. Moreover, it is likely that service disruption (especially to schooling) ([17]) and generally lower levels of wealth with which to weather a temporary income loss will exert a higher toll on more vulnerable households. However, the discretionary policy measures implemented by Member States in early 2020 to guarantee income support and extend social protection will be effective in cushioning to some extent the crisis-related income loss ([18]). Against this background, this section examines trends in income and living conditions before the pandemic and sketches the risks posed for some vulnerable population subgroups.

4.1. Household financial situation has improved

Disposable income per capita has been rising, even though it is still below the pre-2009-crisis level in five Member States. The disposable income of households ([19]) (GDHI) per capita (SDG 10) maintained its rising trend in 2018. However, some Member States have not yet returned to their 2008 level (*Chart 1.27*). In particular, GDHI per capita is about 28% less than in 2008 in Greece, 10% less in Cyprus, 8% less in Italy, 3% less in Spain and 2% less in Austria.

([17]) Despite prompt adoption of distance learning, it is likely that the physical closure of schools will nonetheless determine a learning loss for students. Especially children in primary and lower secondary schools will suffer unevenly the disruption in learning. Some studies estimate that disparities in quality of digital resources, home learning environment and access to private online tuition will exacerbate educational inequalities. See Di Pietro et al. (2020).

([18]) See Almeida et al. (2020)..

([19]) Gross disposable household income (GDHI) is the amount of money that all of the individuals in the household sector have available for spending or saving after income distribution measures (for example, taxes, social contributions and benefits) have taken effect. The household sector is combined with non-profit institutions serving households (NPISH) under a single heading. The NPISH sector is relatively small. Yearly gross disposable income of households and adjusted gross disposable income of households in real terms per capita can be found on the Eurostat non-financial transactions database: nasa_10_nf_tr. Quarterly unadjusted and seasonally adjusted, gross disposable income of households and adjusted gross disposable income of households in real terms per capita are available on the Eurostat non-financial transactions database: nasq_10_nf_tr. EU and EA19 quarterly seasonally adjusted, adjusted gross disposable income of households in real terms per capita (% change on previous period) are available under nasq_10_ki.

The GDHI per capita in 2018 in eight Member States was not yet at 2008 levels
Gross disposable income of households in real terms per capita (2008=100)
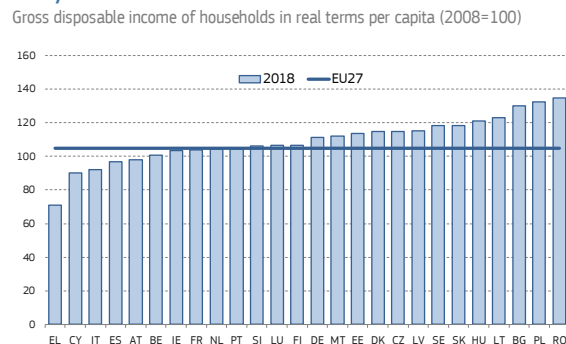
Note: Year 2018: data not available for Croatia
         BG and EE, year=2017
Source: Eurostat, National accounts [tepsr_wc310]
Click here to download chart.

From 2012 until the severe shock to GDP in early 2020, real GDP per capita (SDG 8) increased in all Member States without exception. Growth was particularly high in Ireland (+EUR 21,270 between 2012 and 2018) ([20]). Purchasing-power-adjusted GDP per capita (SDG 10) takes into account standards of living and indicates persisting inequalities among countries. In 2018, Bulgaria, Croatia, Hungary, Romania and Lithuania were below EUR 15,000 per capita, while Luxembourg reached EUR 27,000 (*Chart 1.28*).

Chart 1.28
Real GDP per capita increased in all Member States, however inequalities between them persist
Real GDP per capita (left) and purchasing power adjusted GDP per capita (right - 2018)
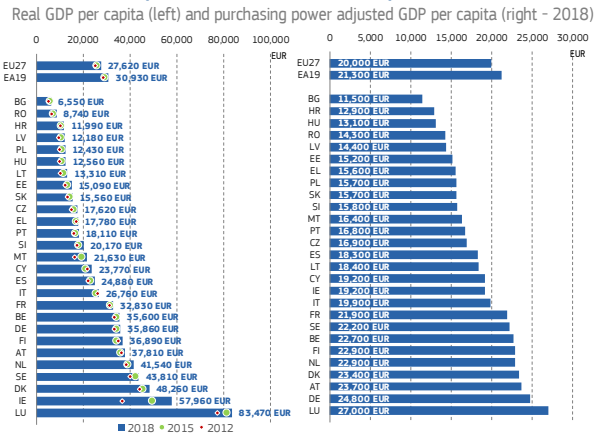
Source: Eurostat, dataset: nama_10_pc and SDG_10_10.
Click here to download chart.

The aggregate disposable income of households in the EU increased further in 2019. Gross disposable household income has been increasing in real terms since a low point in 2013. In particular, aggregate disposable household income has benefitted from higher income from work as a result of expansion in economic activity and improved labour market conditions (*Chart 1.27*)([21]). In 2018, GDHI annual growth in real terms was 1.8% in the EU and

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([20]) However, GDP per capita does not reflect exactly the net domestic income distributed to the household sector (net national income). For a discussion of the difference in the two concepts see Chapter 3, Section 2 and Annex 3.1a.

([21]) See European Commission (2019a).

Chart 1.29

Disposable household income supported primarily by higher income from work

GDP and GDHI growth (% change on previous year), and contribution of GDHI components (pps), EU

Legend:
- Compensation of employees
- Gross operating surplus and mixed income
- Net property income
- Net other current transfers
- Net social benefits – net contributions
- Taxes on income, wealth (negative)
- Real GDHI
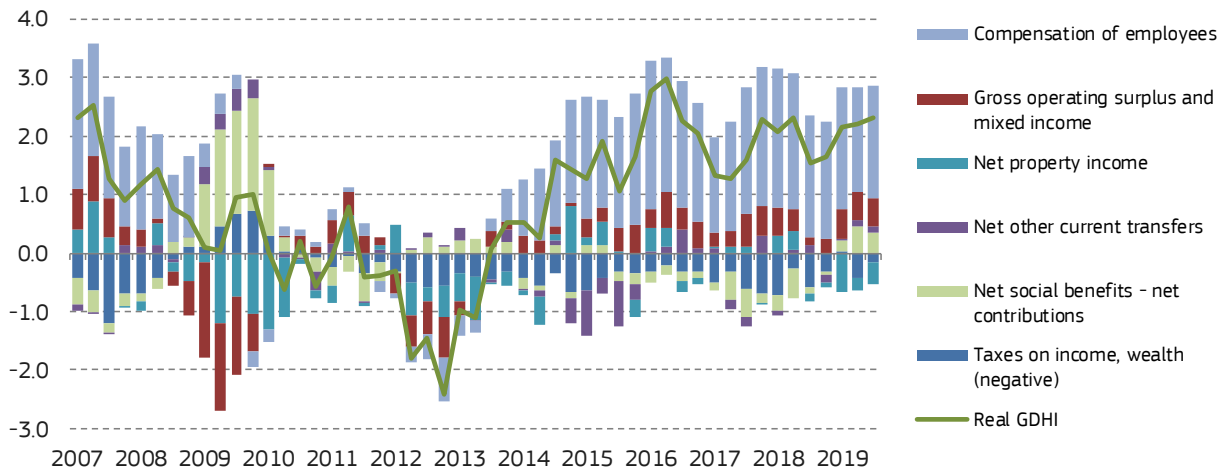
Note: The nominal GDHI is converted into real GDHI by deflating with the deflator (price index) of household final consumption expenditure.
The real GDHI growth for the EU is DG EMPL estimation, and it includes Member States for which quarterly data based on the ESA2010 are available (which account for 85% of EU GDHI).
It is a weighted average of real GDHI growth in Member States.

Source: DG EMPL calculations.

Click here to download chart.

1.5% in the euro area. Conversely, preliminary EUROMOD simulations estimate a reduction in household income by -3.6% in 2020 on average across the EU. ([22]) Rapid assessment surveys available for Romania and Poland indicate that over one third of respondents declared a reduction in income (34 and 39% respectively) already in May 2020. ([23])

In 2019, households continued to benefit from higher income from work, while social benefits have stabilised over recent years. The labour income of both employees and the self-employed began to grow again in 2014, mainly due to recovery in the labour market, and has continued to grow since. At aggregate level, households began to make higher social contributions as market incomes improved. After staying negative for several years, the EU aggregate balance of social benefits versus social contributions (2016-2018) returned to positive values in 2019.

More social protection expenditure went towards old-age pensions and health needs

By 2017 (the year of the latest available data), social protection expenditure in the EU shifted to structural expenses (old-age pensions and healthcare). The increases in social expenditure in the years 2012 to 2017 (*Chart 1.30*) were mainly due to further increases in spending on old age (driven partly by demographic factors) and on healthcare. By contrast, expenditure on unemployment stabilised

after 2010 and has declined since 2014, as the economic environment improved. Expenditure on families, housing and combating social exclusion has increased slightly since 2013 ([24]).

According to the latest available data, social protection expenditure continued to increase in nearly all Member States in 2017. Expenditure on old-age and survivors' benefits increased in all Member States (partly reflecting demographic change) except for Greece where expenditure on pensions declined between 2016 and 2017 (*Chart 1.31*, right column). Sickness and disability expenses contributed significantly to the overall expenditure growth in most Member States, except in Greece and Poland where expenditure on sickness and disability declined (*Chart 1.31*, right column).

([24]) This is in line with many country-specific recommendations of the European Commission to shift social spending towards working-age adults (European Commission 2019b).

([22]) However large, this reduction in household income is estimated to be more contained than under a no policy-change scenario. Almeida et al. (2020) estimate via EUROMOD a drop in household income by -5,9% across the EU in the absence of the discretionary and unprecented policy intervention to reduce employment losses and cushion income drops.

([23]) Moreover, this Report (World Bank 2020) finds that at least one in five households is likely to suffer income losses due to reduction or loss of employment in the early phase of the lockdown.

Chart 1.30
Old-age pensions and health-related expenditure drive up social protection spending
Growth in social protection expenditure (% change on previous year, in real terms) and contribution by functions (pps), EU
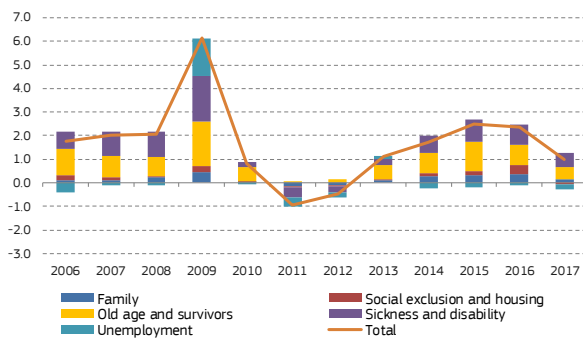
Note: The nominal expenditure is converted into real expenditure by deflating with the Harmonised Index of Consumer Prices (HICP). Inflation reflects the differential in HICP growth from one year to the other. When inflation is constant it has no impact, when inflation is declining it contributes positively, when inflation increases it contributes negatively.

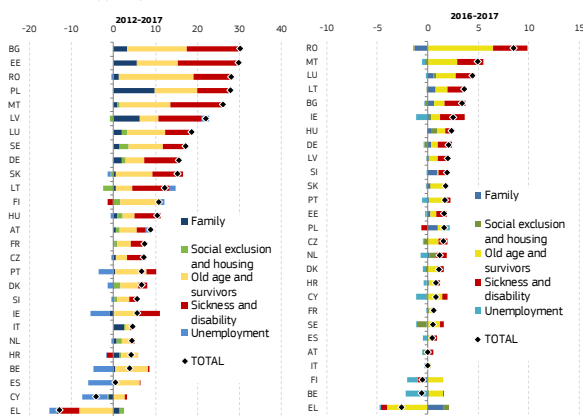*Source:* Eurostat, ESSPROS [spr_exp_sum] and Price Statistics [prc_hicp_aind]; DG EMPL calculations

Click here to download chart.

Between 2012 and 2017, expenditure on pensions in countries with large crisis-related fiscal consolidation needs, such as Greece, decreased. Greece and Croatia spent less on sickness and disability; and Lithuania spent less on social exclusion (*Chart 1.31*, left column). Expenditure on unemployment benefits declined notably in some Member States, including Belgium, Cyprus, Greece, Ireland, Portugal and Spain, as labour markets improved (*Chart 1.31*, left column).

Chart 1.31
Old-age pensions and health-related expenditure drive up social protection spending
Growth in social protection expenditure 2012-2017 (% change, in real terms) and contribution (pps) by functions, EU Member States

Note: The nominal expenditure is converted into real expenditure by deflating with the Harmonised Index of Consumer Prices (HICP).

Source: Eurostat, ESSPROS [spr_exp_sum] and Price Statistics [prc_hicp_aind]; DG EMPL calculations

Click here to download chart.

## Box 1.1: The EU middle classes on the eve of the COVID-19 pandemic

The EU middle classes are the bedrock of our societies in terms of their size and their contribution to economic growth. However, even before the pandemic materialised, there were signs of their economic and financial vulnerability.

The extent to which economic growth in the latest recovery period (2012-2017) trickled down to the middle classes varied significantly across EU countries. However in the countries whose economic growth was the most sustained, the benefits of income growth accrued primarily to high-income groups (see Chapter 3, Section 2).

Chart 1

Middle-income class spending on housing and health has increased

Percentage point changes in shares by item of household budgets , OECD average, 1995 2015 and 2005 2015
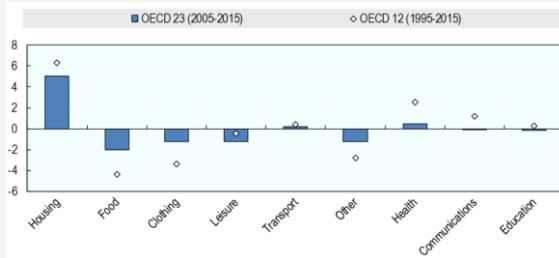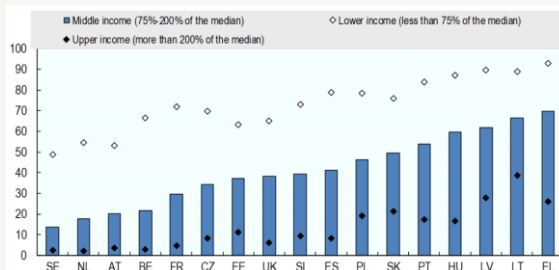

Note: OECD 23 unweighted average refers to the following countries: Austria, Belgium, Chile, Czech Republic, Germany, Finland, Greece, Hungary, Ireland, Lithuania, Luxembourg, Latvia, Mexico, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Turkey, the United Kingdom and the United States. OECD 12 unweighted average refers to the following countries: Austria, Belgium, Chile, Finland, Germany, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Spain and the United States.

Source: OECD (2019) 'Under Pressure: the Squeezed Middle Class'.

Chart 2

Financial vulnerability affects four in ten middle-income households

Proportions of households that are financially vulnerable, 2017

Note: Households are financially vulnerable if they are in arrears on mortgages, rent, or utility bills, or cannot afford to heat their homes adequately, to spend one week of annual holiday away from home or to bear unexpected financial expenses.

Source: OECD (2019) 'Under Pressure: The Squeezed Middle Class'.

Over the last two decades, the EU middle classes, defined purely in income terms [1], have faced an increasingly expensive cost of living across almost all EU Member States. This higher cost of living and less secure prospects might have eroded middle-income households' ability to save, making them vulnerable in an emergency such as the recent lockdown measures.

As a recent OECD Report documents, the cost of the 'typical' middle-class lifestyle has increased faster than median income over the last 20 years (at least until 2017) [2]. The rising costs have been driven in particular by prices for housing, health and education increasing faster than inflation, albeit with different patterns across EU countries. These areas are of paramount importance in our societies and are effectively recognised as rights granted to everyone in the European Pillar of Social Rights [3]. It is not by chance that health concerns, housing quality and education continuity have come to the fore as key concerns of EU households during the lockdown measures recently experienced. Thus, it is likely that crucial expenses for middle-income households such as health, housing and education, which had already been rising for decades already before the crisis (see *Chart 1*), have been difficult to maintain in the current situation [4]. As living costs rise and expenses increase faster than median incomes, financial vulnerability is a concern for middle-income households [5]. Sustaining the expected lifestyle of the middle class in the face of higher costs for essential middle-class expenses is likely to trigger a reduced capacity to save and increasing debt levels.

Four in ten middle-class households are financially vulnerable and half struggle to make ends meet, i.e. they are in arrears or unable to cope with unexpected expenses or sudden falls in income. Their proportion varies widely from country to country, ranging from 12% in Sweden to 70% in Greece (see *Chart 2*). On average, the risk of middle-income households being financially vulnerable is closer to the risk run by the upper-income than the lower-income class. However, in Greece and Hungary, the proportion of middle-income households in financial vulnerability is much closer to the proportion among lower-income households.

[1] In this box, individuals are considered to be in the middle class if their equivalised income is included in the range from 75% to 200% of the national median income.

[2] OECD (2019).

[3] Principles 1, 16, 19. https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en

[4] The proportion of households, not necessarily middle-class households, in arrears on housing expenses and health bills has increased in the lockdown period (Eurofound 2020)

[5] As it was evidenced also in a previous edition of 'Employment and Social Developments in Europe' (European Commission 2019c, Section 4.5).

(Continued on the next page)

Box (continued)

After one year, middle-income households seldom fall into relative poverty. However, the probability for middle-income households of sliding into low-income territory over longer time spans has risen somewhat in the past two decades, albeit heterogeneously between EU countries. On average between 2007 and 2015, one in ten middle-income households and one in seven lower middle-income households slipped into the low-income class (below 75%

Chart 3
One out of ten middle-income households slides into low income after a period of four years
Probability of middle-income and lower middle-income individuals to fall into low income after a period of four years, average for the period 2007 2015, percent.
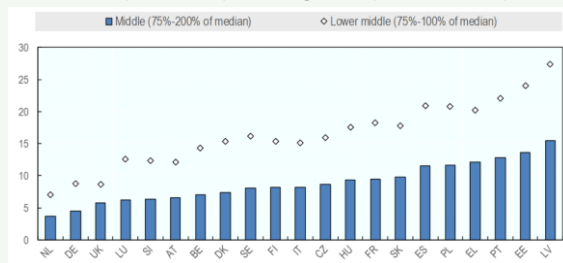
Note: "Middle income" defined as incomes between 75% and 200% of the national median. "Lower middle income" defined as 75% to 100% of the median. "Low income" defined as below 75% of the median.

Source: OECD (2019) 'Under Pressure: The Squeezed Middle Class'.

of the national median income) over a four-year period (see *Chart 3*). This risk was the highest in Latvia, Estonia, Portugal, Spain and Greece where it affected more than 20% of middle-income households and was lowest in Germany, the United Kingdom and the Netherlands (all below 10%).

This recent evidence points to middle-income households struggling to cope with the rising costs of housing, education and health care. At the same time, these expenses are necessary for people's wellbeing, especially in unexpected circumstances such as the recent lockdowns. These trends call for targeted measures to secure middle-class living standards and promote inclusiveness in the recovery phase, as a healthy middle class is key to ensuring economic growth, political stability and social cohesion.

4.2. Social transfers have mitigated persistent income inequality in the EU

**Disposable income inequality has been fairly stable on average in the EU, at least until 2018.** Inequality at EU level, as measured by the GINI coefficient, [25] increased between 2012 and 2014 and then decreased for three consecutive years (*Chart 1.32*). In 2018 the Gini coefficient for the EU appeared to be close to the levels observed in 2017 (30.4 in 2018 vs 30.3 in 2017) and 2012. The quintile share ratio S80/S20 (inequality indicator in the Social Scoreboard accompanying the European Pillar of Social Rights and SDG 10) [26] indicated that the top quintile had an equivalised disposable income around five times higher than that of the lowest quintile in the EU. In Bulgaria, Romania and Lithuania however, the S80/S20 ratio exceeded 7.0 in 2018.

According to Eurostat's flash estimates, inequality remained stable in (income year) 2018. Flash estimates for the income year 2018, released as experimental data by Eurostat in autumn 2019, indicated that in most Member States no statistically significant change in inequality, as measured by S80/S20, could be observed between

(income years) 2017 and 2018 [27],Inequality was estimated to have decreased significantly only in Italy and Slovenia. However, on average across the EU Member States there might have been a slight reduction.

Chart 1.32
Income inequality in the EU before and after social transfers was fairly stable from 2010-2018
Gini coefficient before social transfers and of disposable income, EU27
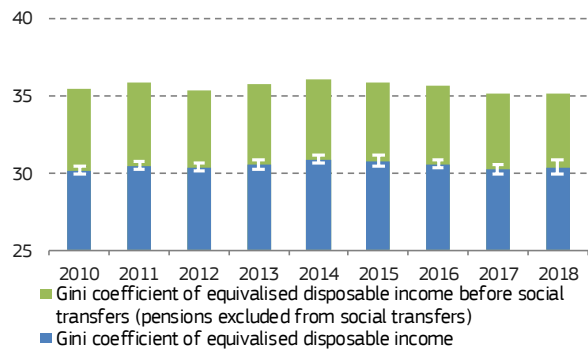
Note: The year refers to the EU-SILC survey year. Incomes of the previous year. Confidence intervals have been computed as in Zardo-Trinidade and Goedemé (2016). The confidence intervals suggest that the yearly changes in the Gini coefficient may not always be statistically significant.

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12b]

Click here to download chart.

Income inequality has generally been lower in the EU than in other world regions. Compared to disposable income inequality among US households, for example, inequality among EU households was significantly lower in the recent past as illustrated in Chart 1.33. Moreover, it has been fairly stable since the crisis, with signs of a reduction in recent years. This is due to increasing income levels in relatively

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[25] The Gini coefficient for the EU is the population-weighted average of national Gini coefficients of equivalised household incomes. The Gini coefficient is an indicator with a value between 0 and 1 (between 0 and 100 in this chart). Lower values indicate higher equality. In other words a value equal to 0 indicates everybody has the same income, a value equal to 1 indicates that one person has all the income.

[26] The S80/S20 income quintile share ratio refers to the ratio of total equivalised disposable household income received by the 20% of the country's population with the highest equivalised disposable income (top quintile) to that received by the 20% of the country's population with the lowest equivalised disposable household income (lowest quintile).

[27] See report on Flash Estimates by Eurostat at http://ec.europa.eu/eurostat/web/experimental-statistics/income-inequality-and-poverty-indicators.

poorer Member States, which reduced the overall income dispersion between EU households ([28]). The EU's national welfare states have collectively been very effective in reducing inequality in market incomes (capital and labour income), which would otherwise be higher than in the US.

Chart 1.33
Income inequality between all EU households is lower than inequality between US households
GINI coefficient in the EU-28, the euro area and the US. Market and disposable income
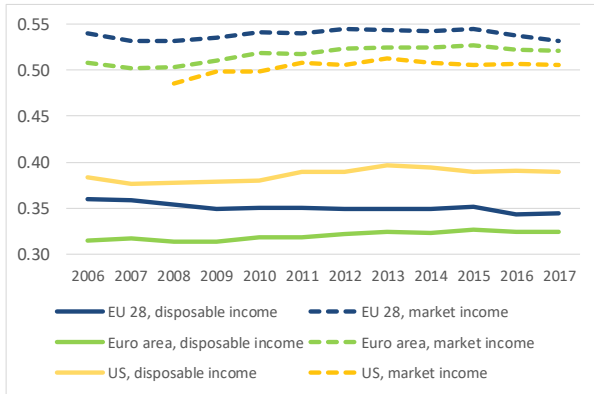
Note: Income distribution in the EU-28 (or euro area) is considered among the EU-wide (or euro-area-wide) population, after applying purchasing power parities. Market income is considered without taxes and transfers, including public pensions. Euro-area figure corresponds to current euro-area composition. Equivalence scale: modified-OECD scale for the EU and the euro area figure and square root of the household size for the US. Income years. Ireland, Slovakia and the United Kingdom data are not available for the 2017 figures.

Source: Own calculations. EU-SILC data. US data from the OECD Social and Welfare Statistics: https://doi.org/10.1787/socwel-data-en

Click here to download chart.

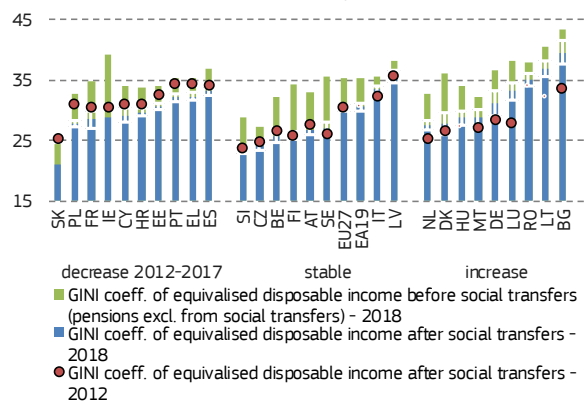## Progress in reducing inequality varies across Member States

Income inequality levels are very different across Member States and their trends have varied over recent years. In some Member States (particularly Bulgaria, Lithuania and Luxembourg) disposable income inequality increased significantly between 2012 and 2018, while others (notably Slovakia and Poland) experienced a statistically significant inequality reduction (*Chart 1.34*).

The income share of the least well-off 40% of the population has been stable at around 21% in the EU since 2012. The trend has been similar in most Member States, but with some exceptions. The highest decreases took place in Lithuania, Bulgaria and Luxembourg where the bottom 40% received a smaller income share in 2018 than in 2012. On this basis, it is unlikely that a majority of EU countries will meet the SDG 10 indicator that implies income growth for the least well-off 40% at a rate higher than the national average. The income quintile share ratio (S80/S20), another indicator of income inequality, shows a variety of situations across the EU, ranging from 3.0 to 7.7. In Lithuania, Romania and Bulgaria the income share of the top quintile is seven times higher than that of the bottom quintile. (*Chart 1.35*

([28]) See European Commission (2019c), 'Employment and Social Developments in Europe', Chapter 1, Section 4.5.

Chart 1.34
Income inequality trends have been very heterogeneous across EU countries
Gini coefficient before social transfers and of disposable income, Member States

■ GINI coeff. of equivalised disposable income before social transfers (pensions excl. from social transfers) – 2018
■ GINI coeff. of equivalised disposable income after social transfers – 2018
● GINI coeff. of equivalised disposable income after social transfers – 2012

Note: Countries sorted by Gini changes in the period 2012-2018. GINI 2012 is marked with smaller dots to indicate that comparison of 2012 to 2016 values should be avoided due to breaks in series. The year refers to the EU-SILC survey year. Incomes of the previous year. The green bars reflect redistributive effects of transfers, measured by differences between disposable income before social transfers (the top of green bars) and disposable income inequality (the top of dark-blue bars). The white bars represent the confidence interval for the GINI coefficient of disposable income. Confidence intervals have been computed as in Zardo-Trinidade and Goedemé (2016.

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12c]
Click here to download chart.

Chart 1.35
Stable income quintile shares in the EU
Income share of the bottom 40 % of the population (left) and income quintile share ratio (S80/S20) (right)
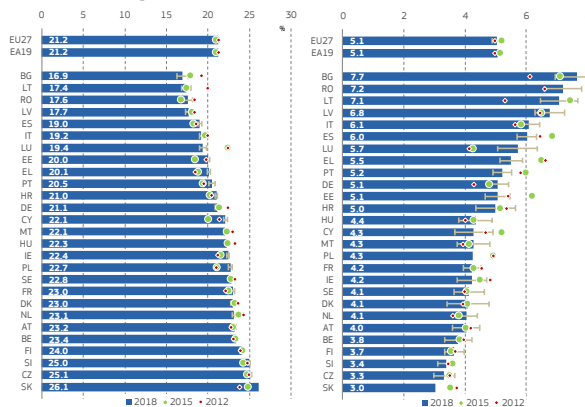
Note: Standard errors to compute confidence intervals have been computed as in Zardo-Trinidade and Goedemé (2016).

Source: Eurostat, EU-SILC [ilc_di01 and ilc_di11].
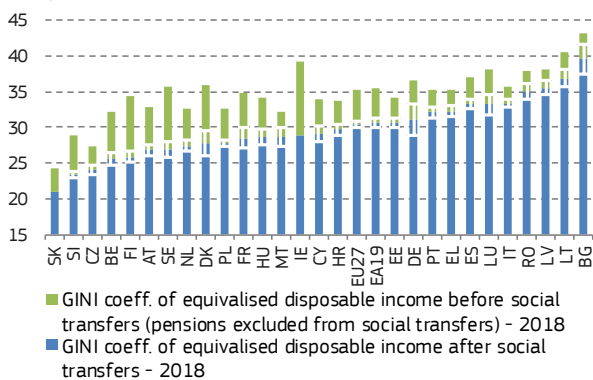Click here to download chart.

Income inequality would be much higher without the redistributive effects of transfers (*Chart 1.36*). These effects are measured by the difference between disposable income inequality and disposable income inequality before social transfers, as measured by the Gini coefficient ([29]). Since the 2009 crisis, increasing inequality in market incomes (labour income and capital) in many European countries might have required a larger inequality-reducing effort of tax-benefit systems to keep disposable income inequality in check. In fact, automatic stabilisers and discretionary policy changes curbed the inequality

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([29]) Disposable incomes before social transfers (including all kinds of pensions) are earned by individuals or households before any redistribution via transfers. Disposable incomes are final incomes taking into consideration the effects of redistributive policies (all social transfers without provision of in-kind benefits and services).

increases in the labour and capital markets. In particular, the role of social transfers helped to offset market inequality, while fiscal policy changes had different effects on inequality across countries ([30]). The extent to which the redistribution had an effect on inequality, measured by the impact of social transfers other than pensions on income inequality (the green bars in *Chart 1.36*), differed across Member States. Social transfers reduced the income inequality by less than 10% in Italy, Latvia, Romania, Greece, Bulgaria, Portugal and Lithuania, but by more than 20% in Belgium, Denmark, Sweden, Finland and Ireland.

Chart 1.36
The impact of social transfers on inequality varies across Member States
GINI coefficient before social transfers and GINI coefficient of disposable income – 2018, EU Member States

- GINI coeff. of equivalised disposable income before social transfers (pensions excluded from social transfers) – 2018
- GINI coeff. of equivalised disposable income after social transfers – 2018

Note: Green bars reflect redistributive effects of transfers, measured by differences between disposable income before social transfers (the top of green bars) and disposable income inequality (the top of dark-blue bars). The white bars represent the confidence interval for the GINI coefficient of disposable income. Confidence intervals have been computed as in Zardo-Trinidade and Goedemé (2016)..

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12c]
Click here to download chart.

Disposable income inequality is likely to increase as a result of the pandemic. Disposable income inequality is the result of market income inequality, produced in the labour and capital markets, and of the subsequent mitigation effect of taxes and benefits. Market income inequality is expected to rise as employment-related income losses will be concentrated among self-employed workers, those on temporary contracts and informal sector workers who are more likely to be found in low-income households. However, the mitigation effect of automatic stabilisers (tax-benefit systems), coupled with prompt public action to avoid mass layoffs and extend income support to groups previously excluded, are expected to curb the increasing market income inequalities.

Current wealth levels on which disadvantaged households can draw in case of income shocks are low or negative. Households in the bottom 20% of the wealth distribution, who are also likely to be in the lower end of the income distribution ([31]), hold very

little wealth. Moreover, real-estate wealth is by far the most important type of asset for these households (*Chart 1.37*). However, due to its illiquid nature, this form of wealth may not be in the immediate disposal of households as a cushion in case of income losses following unemployment or sickness.

Chart 1.37
Low-wealth households who do have assets hold virtually all of their wealth in the form of housing
Composition of household net wealth of the bottom wealth quintile

Note: Data refer to 2017, except for Austria, Italy, Latvia and Poland, for which they refer to 2016, and for Greece and Luxembourg, for which they refer to 2018. Wealth values are expressed in 2011 USD by, first expressing values in prices of the same year (2011) through consumer price indices and, second, by converting national values into a common currency through the use of purchasing power parities for household consumption.

Source: OECD estimates based on the Household Finance and Consumption Survey.
Click here to download chart.

4.3. Risk of poverty or social exclusion continues to decline as rates of quasi-joblessness and severe material deprivation reduce

The number of people at risk of poverty or social exclusion ([32]) (AROPE; SDG 1) in the EU continued to decrease until the COVID-19 crisis ([33]). In 2018 (referring to income in 2017), 13.9 million fewer people in the EU were at risk of poverty or social exclusion than at the peak in 2012. Those at risk decreased year-over-year by 5.1 million people in 2017 and by a further 3.9 million in 2018. This decline brought the AROPE rate down to 21.6%, 3.3 pps below the highest 2012 value (24.9%) (*Chart 1.38*). However, almost 94.7 million Europeans, including 72.1 million in the euro area, were still at risk of poverty or social exclusion (AROPE) in 2018. The AROPE decrease followed increases in incomes stemming from the recovery in economic activity and improvements in labour markets, including the reduction in long-term unemployment and in youth exclusion as well as the increased participation of older workers and women in the labour market. The Social Scoreboard monitors the AROPE and its three components (At-risk-of-poverty rate (AROP), Severe material deprivation rate (SMD), Persons living in a household with very low work intensity (VLWI)) among other indicators. The Europe 2020 target of lifting 20 million people out of poverty by 2020 was set in 2008 before the financial and

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([30]) See European Commission (2019d); Callan et al. (2018); Paulus and Tasseva (2018).

([31]) A DG-EMPL co-funded OECD Report finds that households with very low incomes are likely to also hold low wealth: those in the bottom 10% of the income distribution are about twice as likely to find themselves in the bottom 20% (i.e. deciles 1 or 2) than if there were no systematic relationship between wealth and income (OECD, 2020 forthcoming).

([32]) The at-risk-of-poverty or social exclusion (AROPE) indicator corresponds to the number of people who are in at least one of the following situations: at risk-of-poverty (AROP) or severely materially deprived (SMD) or living in households with very low work intensity (VLWI).

([33]) The year in this chapter refers to the EU-SILC survey year (2018), which measures income in the previous year (2017).

economic crisis ([34]). The onset of the crisis made this target far more challenging.

Chart 1.38

Risk of poverty and social exclusion continued to decline until 2018, mainly due to a decrease in severe material deprivation and very low work intensity

At risk of poverty or social exclusion rate (AROPE), at risk of poverty rate (AROP), severe material deprivation rate (SMD) (% of population), very low work intensity households (% of population aged 0-59), EU, 2010-2019
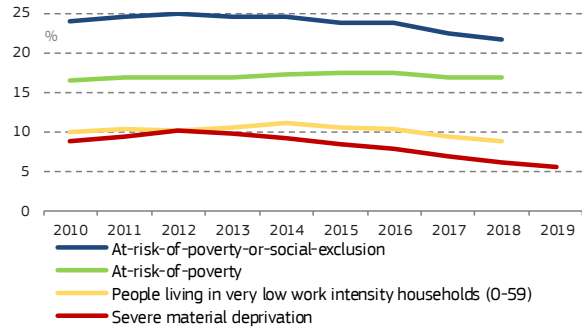

Note: The year refers to the EU-SILC survey year; income measured is from the previous year. AROPE, AROP: income from the previous year, SMD: current year. VLWI: status in the past year.

Source: Eurostat, EU SILC [ilc_peps01, ilc_li02, ilc_mddd11 and, ilc_lvhl11].

Click here to download chart.

Figure 1.1

The poorest and most vulnerable risk suffering income loss and service disruption during the COVID-19 crisis

Main channels for short-term impacts of COVID-19 on welfare
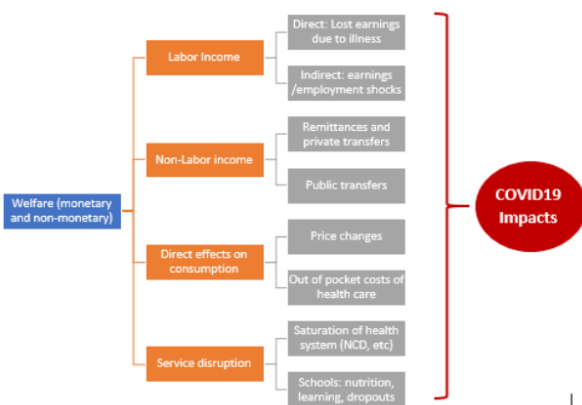
Source: World Bank, April 2019, Poverty and Distributional Impacts of COVID-19: Potential Channels of Impact and Mitigating Policies. http://pubdocs.worldbank.org/en/980491587133615932/Poverty-and-distributional-impacts-of-COVID-19-and-policy-options.pdf
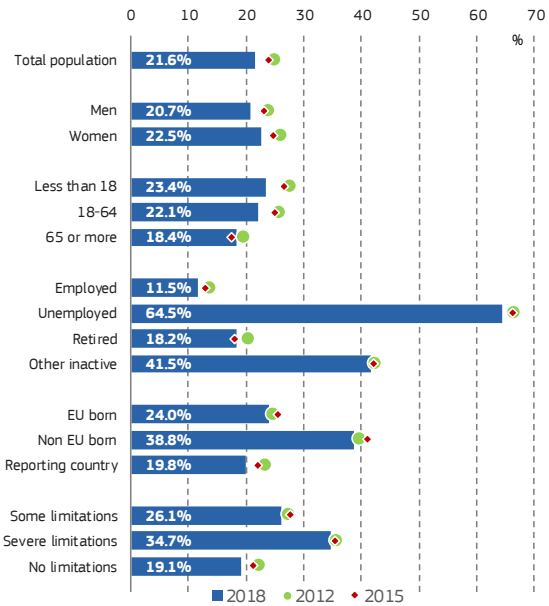
Click here to download figure.

The COVID-19 crisis seems likely to result in a deterioration of the social and economic situation of the poorest and the most vulnerable, despite public interventions. The virus may affect individuals and households through different channels: income loss (labour-related or not), consumption (prices rising, new expenses related to health, etc.) and service disruption (*Figure 1.1*). The living conditions of the poorest are also less comfortable: this may increase their difficulties during the lockdown and their risk of being infected, due to the higher probability of their living in inadequate housing (dark, small, overcrowded, etc.) and a polluted environment. These short-term impacts may have long-term consequences for the education of children, health, saving capacity, etc. and may increase

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([34]) And included the UK population in the target.

inequalities in the long run. Children and the elderly, migrants, minorities (such as marginalised Roma ([35]) and other segregated communities), the self-employed, precarious, platform and informal workers and other vulnerable groups face larger risks of negative impacts. These disparities are however likely to differ according to place of residence, employment sector and ultimately the policy response.

Chart 1.39

The unemployed, the inactive, the non-EU- born and those people with severe activity limitations are at high risk of poverty or social exclusion

AROPE by gender, age, labour status, country of birth and activity limitations, 2012-2018

Note: By gender and age: total population.
By labour status and country of birth: population aged 18+.
By activity limitation: population aged 16+.

Source: Eurostat, datasets: ilc_peps01, ilc_peps02, ilc_peps06 and hlth_dpe010.

Click here to download chart.

The risk of poverty or exclusion does not affect the whole population equally and, although all groups have experienced an improvement since 2012, some remain more at risk than others. In 2018 the unemployed had an AROPE rate of 64.5% and inactive people other than pensioners had a rate of 41.5% (*Chart 1.39*). Work provided protection against poverty but not full protection: employed people had a rate of risk of poverty or social exclusion of 11.5% and 9.3% of workers being below the monetary at-risk-of-poverty line (*Chart 1.39* and *Chart 1.42*). Others at very high risk of poverty or social exclusion included people born outside the EU (38.8%), as well as people reporting limitations ([36]) in their daily

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([35]) See European Commission (2020c). At the Commission's request, an updated thematic report by the European Union Agency for Fundamental Rights (FRA) is coming out in September 2020.

([36]) Activity limitation is a dimension of health/disability capturing long-standing limitations in performing usual activities (due to health problems). In EU-SILC, one question instrument – the Global Activity Limitation Instrument (GALI) - assesses the presence of long-standing activity limitations, asking 'For at least the past 6 months, to what extent have you been limited because of a health problem in activities people usually do?

life, especially severe limitations (34.7%) (*Chart 1.39*). For non-EU-born people, the gain recorded in employment was only partially translated into a reduction of their AROPE rate. Strong decreases have been seen in Member States where the rate was previously very high (Greece, Belgium, Italy, Lithuania) but the rate has further increased in France, Estonia and the Netherlands ([37]).

At the EU level, the severe material deprivation rate (SDG 1) and very low work intensity rate (SDG 1), two components of AROPE (SDG 1) out of three, followed a decreasing trend. The intersections between the three elements of AROPE ([32]) show a diversity of circumstances (*Chart 1.40*). At EU level, only 1.3% of the population combine all three situations (risk of income poverty, severe material deprivation and very low work intensity). The most common condition is to be at risk of income poverty (AROP), but not in severe material deprivation (SMD) or in a very low work intensity (VLWI) household. However, at the national level, the situations are highly diversified. Material deprivation, whether or not combined with another condition, accounts for a proportionately larger share in countries such as Bulgaria, Romania or Greece, while in Luxembourg or Estonia the risk of income poverty alone is the main category.

Severe material deprivation ([38]) declined continuously from 2012 to 2018, indicating improvements in living standards (*Chart 1.41*). In 2018, 3.7 million fewer people were in severe material deprivation (SMD) than in 2017. The cumulative reduction from 2012 to 2018 was 17.9 million. This continuous and significant drop at EU level was driven mainly by strong decreases in a few Member States, i.e. Bulgaria, Greece, Hungary, Italy, Poland, Romania and, to a lesser extent, Germany. In 2018 the SMD rate stood at 6.1% (2.3 pps less than in 2015 and 4.1 pps less than in 2012). People with low income are more likely to be in SMD, especially in the first quintile of income (17.2%; 8.6 pps less than in 2012). The incidence of SMD for non-EU-born aged 18+ remains significantly higher than that of the EU-born or nationals (10.9% compared with 5.2% and 5.4%). The unemployed are another category at risk of being in SMD, with a rate of 21.5% compared with 3.7% for those in employment. Finally, people with severe activity limitations are at greater risk of being in SMD with a rate of 11.7% compared with 4.7% for those

without limitations (population aged 16+). AROP rates may fail to take account of households which include a person with activity limitations and have an income level above the poverty line, but fall into SMD due to the higher expenses they face on account of the disabilities ([39]).

Chart 1.40
Intersections of the three components of AROPE show a variety of situations at national level
AROPE by components and their intersections (SMD, AROP, VLWI), 2018
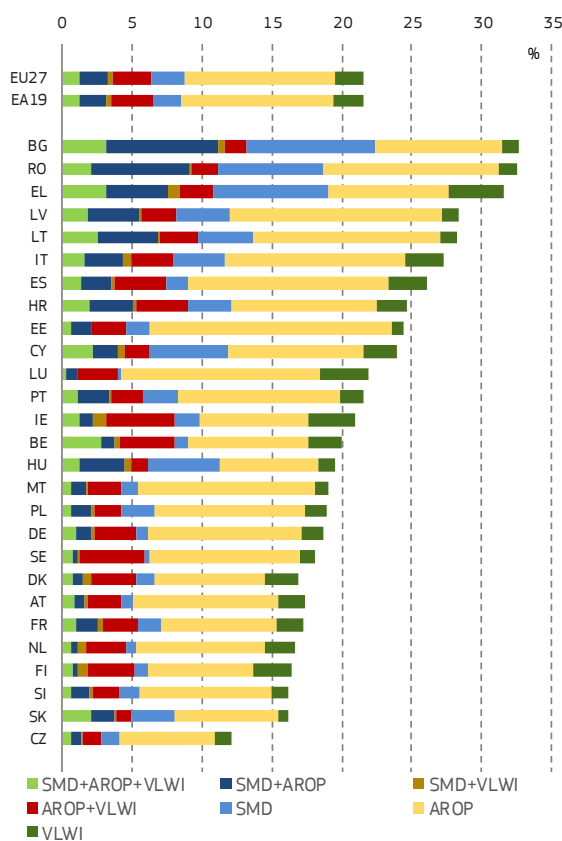
Source: Eurostat, dataset: ilc_pees01.
Click here to download chart.

A recovery in the labour market led to a reduction in the number of people living in very low work intensity ([40]) households (*Chart 1.41* and *Chart 1.43*). This VLWI rate decreased from 9.4% in 2017 to 8.8% in 2018, meaning that around 2.3 million fewer people aged 0-59 were in quasi-jobless households. Households composed of a single person with dependent children seem to be in a particularly vulnerable situation, with a 2018 rate of 22.0% (2.5 pps less than in 2012), while the non-EU-born rate was at 13.6% (aged 18+) and the rate for with severe activity limitations (aged 16+) was 38.5% (it was 17.4% for people with some limitations).

Would you say you have been … severely limited / limited but not severely or / not limited at all?'

([37]) Only Member States where the non-EU-born represent a sizeable part of the population are mentioned (Eurostat, EU-SILC, [ilc_peps06]).

([38]) Severely materially deprived (SMD) people have living conditions severely constrained by a lack of resources, i.e. they experience at least 4 out of the following 9 deprivations: they cannot afford i) to pay rent or utility bills, ii) to keep their home warm enough, iii) to face unexpected expenses, iv) to eat meat, fish or a protein equivalent every second day, v) a week's holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV or ix) a telephone.

([39]) ISTAT (2019).

([40]) People living in households with very low work intensity (VLWI) are those aged 0-59 living in households where the adults (aged 18-59, excluding students aged 18-24) worked not more than 20% of their total work potential during the past year.

The at-risk-of-poverty rate ([41]**) (AROP; SDG 1) remained stable in 2018, having decreased slightly the year before** (*Chart 1.41* and *Chart 1.43*). At EU level, the 2018 AROP rate was an unchanged 16.8%. Many Member States saw only minor changes, albeit Belgium, Estonia, Latvia, Lithuania, Luxembourg, Malta, the Netherlands and Sweden had increases of at least 1 pp. This component of AROPE has followed a different pattern, due to its dependency on median income. After a surge in 2014, the proportion of people at risk of poverty remained broadly unchanged until 2016 when it was 17.5%, before falling in 2017 to 16.9%. The number of people at risk of poverty stood at 73.8 million in 2018 (referring to incomes in 2017). Preliminary EUROMOD simulations estimate a likely increase in the at-risk-of-poverty rate in the EU in 2020, although the magnitude of the increase will depend very much on the drop in median incomes to which the at-risk-of-poverty lines are fixed ([42]).

Chart 1.41

Living standards have improved since 2012 despite persistent poverty and inequality

At-risk-of-poverty rate, severe material deprivation rate, people living in households with very low work intensity households(rate), Gini coefficient of equivalised disposable income and income quintile share ratio (S80/S20) (Index 2010=100), EU, 2010-2018
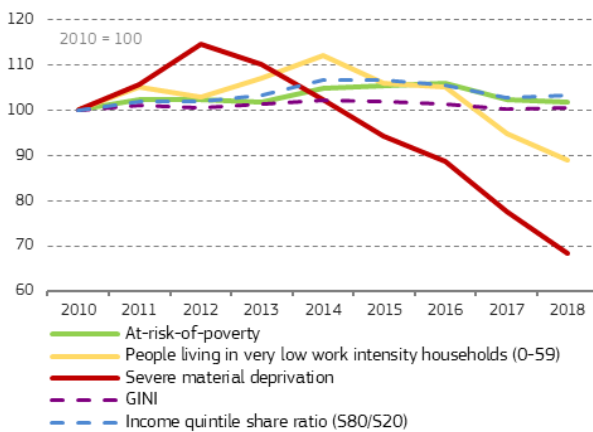
Note: The year refers to the EU-SILC survey year; reference year for income is the previous year.

Source: Eurostat, EU SILC [ilc_li02, ilc_mddd11, ilc_di12, ilc_di04]; DG EMPL calculations.

Click here to download chart.

**Despite the protective effect of work, many workers are still below the AROP threshold** (*Chart 1.42*). The Social Scoreboard shows that this applied to 9.3% EU workers in 2018, a drop of 0.4 pps since 2015. However, several countries – Luxembourg, Bulgaria, Italy, Malta and the Netherlands – saw an increase in the proportion of workers at risk of monetary poverty (SDG 1) over the period 2015-2018. Conversely, Romania and Greece saw their proportions of workers at risk of monetary poverty reduce by 3.6 pps and 2.5 pps respectively, but still remained well above the European average. The in-work poverty

(41) People at risk of poverty (AROP) have 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).

(42) EUROMOD simulations estimate an increase in the at-risk-of-poverty rate by 1,7 pps when assessed against an anchored pre-crisis poverty line. The increase is estimated to be smaller taking into account also the fall in the poverty line as a result of the crisis (Almeyda et al. 2020).

rate is significantly higher for non-EU born than for natives, in particular in Spain, Luxembourg, Italy and Greece.

Chart 1.42

Despite the protective effect of work protects against poverty, but many workers remain at risk

In work at-risk-of-poverty rate, 2012-2018
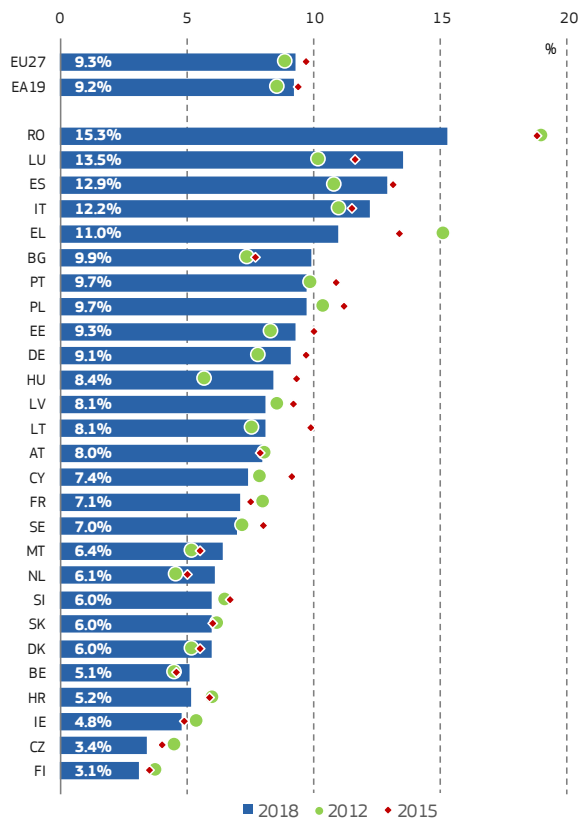
Note: Workers are at risk of poverty if their equivalised disposable income is below the risk-of-poverty threshold, set at 60% of the national median equivalised disposable income (after social transfers).

Source: Eurostat, dataset: ilc_iw01 and table sdg_01_41.

Click here to download chart.

At EU level in 2018, the median income of people living below the AROP threshold was 24.5% lower than the threshold itself (*Chart 1.44*). The relative median at-risk-of-poverty gap (SDG 10) is a measure of the intensity of poverty, but does not provide information about the distribution of income below the AROP threshold. In Romania, the median income of people at risk of poverty was 35.2% below the AROP threshold. By contrast, the median income of people at risk of poverty was only 14.2% lower than the AROP threshold in Finland.

Progress in reducing poverty and social exclusion varies across Member States

The at risk of poverty or social exclusion rate (AROPE) decreased or stabilised between 2012 and 2018 in most Member States. Over the period 2012-2018, as shown in *Chart 1.43*, Bulgaria, Croatia, Hungary, Ireland, Latvia, Poland and Romania recorded declines close to 8 pps or more. Significant increases appear only in Luxembourg (3.5 pps) and the Netherlands (1.7 pps). Over the same six-year period the at-risk-of-poverty rate (AROP) increased

Chart 1.43

Risk of poverty or social exclusion declining in more than two-thirds of the Member States

At-risk-of-poverty-or-social-exclusion rate, at-risk-of-poverty rate, severe material deprivation rate (% of population), very low work intensity households (% of population aged 0-59), EU Member States, 2012-2018
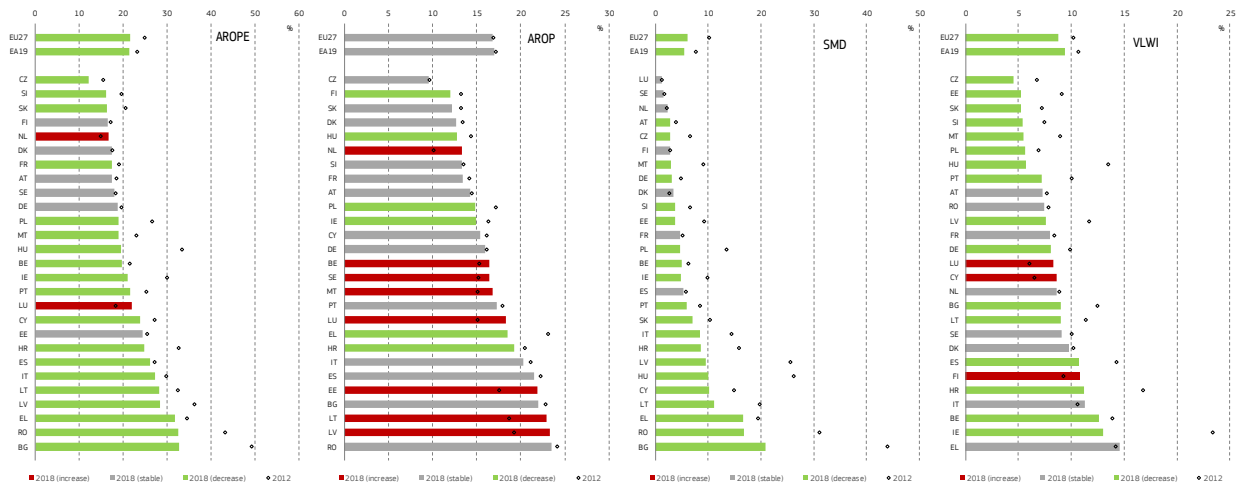
Note: Green bars indicate a decrease between 2012 and 2018. Red bars indicate an increase between 2012 and 2018. Grey bars indicate little or no change.
AROPE combines AROP, SMD and VLWI. The length of bars of components should not add to the length of AROPE bar, because components overlap in AROPE. The year refers to the EU-SILC survey year, referring to the previous income year. AROPE, AROP: income from the previous year, SMD: current survey year, VLWI: status in the past year, population 0-59. Breaks in series: AROPE: BG EE 2014, SE 2015, LU NL 2016, AROP BG LU NL 2016, SMD SE 2015, BG LU NL 2016, VLWI EE 2014, SE 2015, BG LU NL 2016. These Member States are classified based on EMPL estimation. For these Member States the values for 2012 should not be compared to values in 2016.

Source: Eurostat, EU SILC ilc_peps01, ilc_li02, ilc_mddd11, ilc_lvhl11.
Click here to download chart.

significantly in eight Member States, but decreased significantly in six others ([43]).

The reduction in the severe material deprivation rate was the main factor contributing to the reduction in AROPE in the Member States. The second one was the decrease in very low work intensity in many EU countries between 2012 and 2018. *Chart 1.43* shows that the incidence of severe material deprivation declined in most Member States since 2012, while very low work intensity decreased in 16 Member States, remained stable in another eight and increased in three.

More positively, the number of people living in material and social deprivation ([44]) declined between 2014 ([45]) and 2018. According to Eurostat's new measure of deprivation that includes a social dimension, 13.2% of Europeans experienced a lack of resources to cover material needs and ensure social participation in 2018, down from 14.2% in 2017.

([43]) In Greece, this reduction must be seen in the context of the 16.8% reduction in median income (leading to a decrease in the poverty threshold) over the same period. With an 'anchored' poverty line, AROP did not improve. See Commission (2019), *Employment and Social Developments in Europe*, Chapter 2.

([44]) This is an alternative indicator for SDG 1.
It means that people could not afford at least 5 items out of the 13 following items:
i) face unexpected expenses, ii) one week annual holiday away from home, iii) avoid arrears (in mortgage, rent, utility bills and/or hire purchase instalments), iv) afford a meal with meat, chicken or fish or vegetarian equivalent every second day, v) keep their home adequately warm, vi) 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, xiii) have an internet connection.
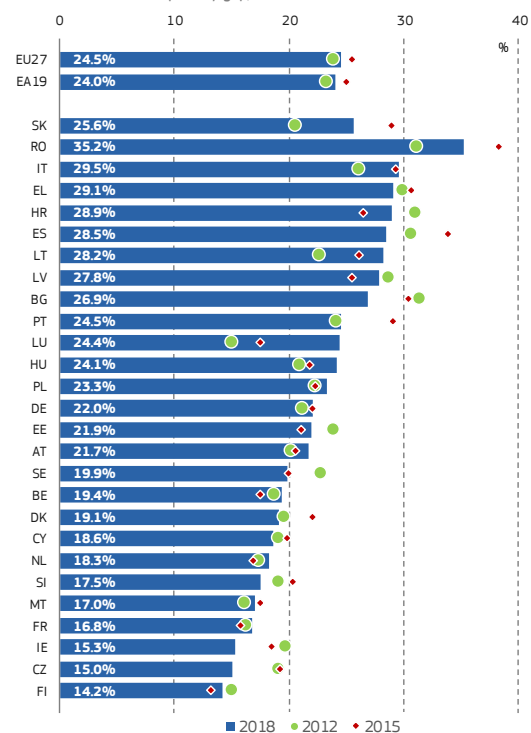
([45]) 2014 is the first year of measurement.

However, Denmark and Finland material and social deprivation rate increased by 0.5 pps or more (*Chart 1.45*).

Chart 1.44

Relative median at-risk-of-poverty gap show large differences in intensity of poverty across EU

Relative median at-risk-of-poverty gap, 2012-2018

Note: The relative median at-risk-of-poverty gap is calculated as the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold itself, expressed as a percentage of the at-risk-of-poverty threshold (cut-off point: 60% of national median equivalised disposable income).

Source: Eurostat, dataset: ilc_li11 and table sdg_10_30.
Click here to download chart.

Chart 1.45

Material and social deprivation declined in most Member States between 2014 and 2018

Social and material deprivation rate (% of population), EU Member States, 2014-2018
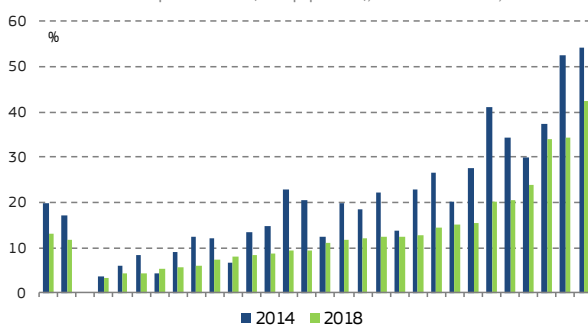
Note: The year refers to the EU-SILC current survey year. Breaks in series: BG 2016, LU 2016, NL 2016, and SE 2015.

Source: Eurostat, EU SILC ilc_mdsd07.

Click here to download chart.

Increase in median income may be linked to a deceleration of the at-risk-of-poverty rate

The increase in the median income reflected an improvement in living standards during the period 2012-2018. However, it may also have contributed to slowing down the reduction in the at-risk-of-poverty rate in some countries by increasing the AROP line, set at 60% of national median income (*Chart 1.46*). The 2014-2015 surge in the number of people at risk of poverty reflected two different phenomena: first, the weak economic and labour market situation until mid-2013 and, secondly, the upward shift in the median income and therefore the poverty threshold ([46]) as household incomes started to recover in mid-2013. However, after the surge in 2014, both AROP and inequality in the EU stabilised. The AROP rate could rise when the median income increases ([47]). This is what actually happened with the substantial rise of AROP rates in the Baltic States was accompanied by a significant increase in median incomes (*Chart 1.46*). For these countries, between 2012 and 2018, the median income rose by more than 50% while the AROP rate rose more than 15%.


([46]) The 'at risk-of-poverty' threshold is set at 60% of the national median equivalised disposable income (after tax and other deductions and after social transfers). The total equivalised disposable household income, used in poverty and inequality indicators, takes into account the impact of differences in household size and composition. Equivalised disposable income is the total income of a household that is available for spending or saving, divided by the number of household members converted into equivalised adults; household members are equivalised or made equivalent by the following so-called modified OECD equivalence scale: a/ the first household member aged 14 years or more counts as 1 person; b/ each other household member aged 14 years or more counts as 0.5 person; c/ each household member aged 13 years or less counts as 0.3 person.

([47]) A median income increase raises up the AROP threshold that is set at 60% of the median income. If the income of the bottom end of the distribution increases at a slower pace, this will result in a higher AROP rate.

Chart 1.46

Increase in risk of poverty may be linked with increase in the median income

Change in median income (in real terms) and change in at-risk-of-poverty rate (%), 2012-2018
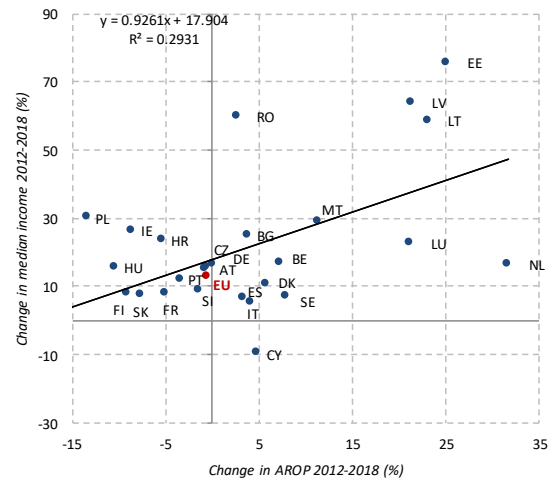
Note: The year refers to the EU-SILC survey year, income measured is from the previous year.
Breaks in series: BG, LU, NL 2016. Changes in AROP for these Member States are indicative, based on EMPL estimation.

Source: Eurostat, EU SILC [ilc_li02, ilc_di04]; DG EMPL calculations.

Click here to download chart.

4.4. Energy poverty and housing conditions

An important aspect of household poverty is the inability to keep one's home warm because of the expense involved (SDG 7). The latest SILC data show that countries differ in the evolution of indicators of energy poverty between 2012 and 2018 (*Chart 1.47*). The percentage of the population not able to satisfy heating needs ([48]) has been falling sharply (by 5 pps or more) in Malta, Bulgaria, Latvia, Hungary, Cyprus, Poland, Portugal, Italy, Lithuania and Romania, but increasing by 1.5 pps in Luxembourg (*Chart 1.47*). In the EU, 19.0% of people at risk of poverty were affected (compared to 5.3% for people living in households with 60% or more of the median equivalised income). Single people aged 65 or above (10.7%), or lone parents (11.2%) were more at risk than the average population.

Arrears in the payment of utility bills decreased by 1 pp or more in 17 countries, especially in Romania, Hungary, Croatia and Latvia since 2012, but slightly increased in five (Greece, Slovakia, Bulgaria, Denmark and Luxembourg) (*Chart 1.47*). This affected 16.3% of the people below the poverty line in the EU, compared to 4.9% for those above. Single-parent or large families (two adults with three or more

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([48]) On the other hand, households may face difficulties to keep their dwellings cool during heatwaves too if the building insulation is not efficient enough or their housing conditions not adequate to the local climate. The increasing number of heatwaves and the heat island effect in urban areas will have a higher impact in the future due to climate change. People confined in apartments during the COVID-19 crisis may have suffer of heat, especially the most vulnerable ones who have a higher probability to live in poor conditions.

dependent children) were also particularly hard hit by this phenomenon (12.9% and 11.3% respectively).

Chart 1.47
Indicators of energy poverty: positive evolution trends in a majority of most countries
Population unable to keep home adequately warm (right) and with arrears on utility bills (left), 2012-2018
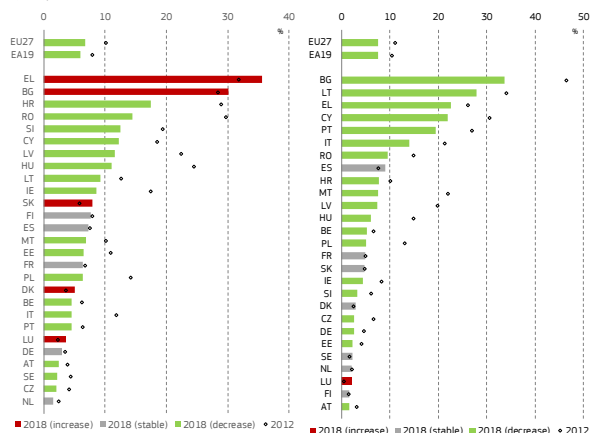
Note: Green bars: decrease between 2012 and 2018. Red bars: increase between 2012 and 2018. Grey bars: little or no change.

Source: Eurostat, dataset: ilc_mdes01, ilc_mdes07 and table sdg_07_60.

Click here to download chart.

1 person out of 7 in the EU was living in a dwelling with a leaking roof, damp walls, floors or foundation or rot in window frames or floor (SDG 1) in 2018. This situation affected 30.2% of the population in Cyprus, and had not improved since 2012. In the EU as a whole, the rate has fallen slightly since 2015, from 15.3% to 13.6% (*Chart 1.48*). Coupled with other measures of housing deprivation (no bath/shower and no indoor toilet, or a dwelling considered too dark), as well as overcrowding, it is estimated that 4.3% of Europeans were in a situation of severe housing deprivation ([49]). The rate was much higher than this in some countries, particularly in Central Europe (Romania, 16.1%; Bulgaria, 10.1%) and Latvia (14.9%), despite their national rates decreasing (*Chart 1.48*).

Despite a decrease of 3.0 pps since 2012, severe housing deprivation is still highest for people in the lowest income quintile, at 9.4% in 2018. Large families (2 adults with three or more dependent children) as well as single-parent families were also at higher risk; their rates were respectively 9.1% and 6.6%. Of children aged less than 18, 6.4% were in severe housing deprivation (down 1.8 pps since 2012). According to the Social Scoreboard, in the EU in 2018, the severe housing deprivation rate was higher on average for tenants renting at market price (5.4%) than for owner-occupiers.

Lockdowns during the COVID-19 crisis have worsened not only inequalities in quality of life, but also people's ability to cover housing-related expenses. The most vulnerable people are less likely to live in an adequate environment and may have suffered more from the obligation to stay at home. For

those who have lost some income, having to pay bills and rents on time may have become a greater challenge, despite the implementation of public measures, such as temporary bans on eviction. However, there may be a larger wave of evictions when this respite period expires. Long-standing marginalised and segregated communities, such as ethnic Roma, were hit hard by the pandemic and their situation is expected to worsen ([50]).

Chart 1.48
Lower severe housing deprivation rates despite high levels of population living in a dwelling that is too damp
Severe housing deprivation rate (left) and population living in a dwelling with a leaking roof, damp walls, floors or foundation or rot in window frames or floor (right), 2012-2018
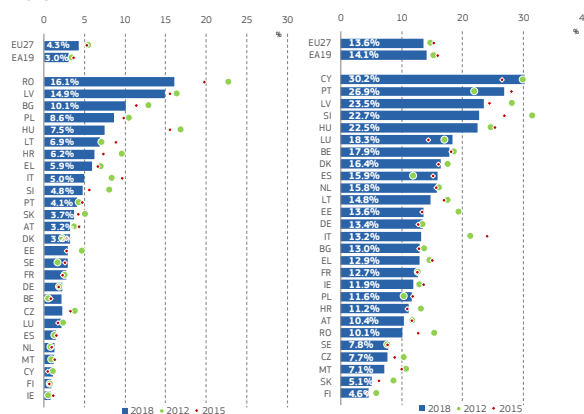
Note: Severe housing deprivation rate is defined as the percentage of the population living in a dwelling considered to be overcrowded, while also exhibiting at least one of the housing deprivation measures.
Housing deprivation is a measure of poor amenities and is calculated by referring to those households with a leaking roof, no bath/shower and no indoor toilet, or a dwelling considered too dark.

Source: Eurostat, dataset: ilc_mdho06a, ilc_mdho01 and table sdg_01_60.

Click here to download chart.

4.5. Population trends with social and economic impact

Intergenerational fairness, which has long characterised European societies, will be impacted by the major changes in action in the structure of population. The social contract, at least implicitly, envisages an idea of burden-sharing across generations as individuals at their prime age carry a responsibility both for the previous generation (the old who are in their retirement age) and for the next generation (who in turn will provide for their parents once they become older). This is facilitated by the welfare state via intergenerational transfers to the old (mainly pensions) and to the young (e.g. for education) and has been traditionally financed mainly by taxing the working age population. However, population trends might affect this implicit social contract and the underlying intergenerational fairness in case of changing economic circumstances across cohorts.

Eurostat projections foresee relatively stable EU population numbers of 446.8 to 441.2 million in 2019-2050, but profound changes in population structure. Several long-term phenomena will impact social and economic policies. The most pronounced trends include population ageing, shrinking numbers of

([49]) Alternative indicator for SDG 1.

([50]) See Commission (2020c).

working-age adults, movements within and between Member States and rises in education levels.

The European population will continue to be affected by changes in its structure

Between now and 2050, the structure of the EU population will be impacted by a decline in absolute numbers of the working age population and by ageing. The latter will be the consequence on the one hand of a relatively high increase in the number of people over 80 years of age due to longer life expectancy, and on the other hand of the arrival of baby boomers in the 70+ age group [51]. Another important underlying phenomenon is Europe's sustained low fertility [52]. Several research studies have shown that, although it has a positive and smoothing effect on the number of people of working age, immigration alone will not be able to offset the decline in the European labour force [53]. Profound changes at work (*Chart 1.49*) affecting EU society will have an impact on expenditure, and will lead to implementation of new social and economic policies in the Member States intended to counterbalance their potentially negative effects.

Chart 1.49
Major changes in the structure of the European population are foreseen
Population pyramid, 2019-2050
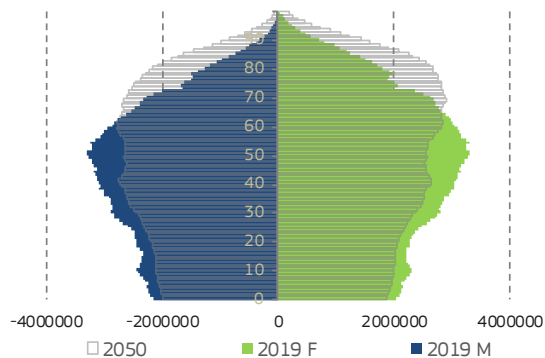
Note: 2019, observed population. 2050, projections, baseline scenario.
Source: Eurostat, dataset: proj_19np.
Click here to download chart.

Eurostat projects that between 2019 and 2050, the 15-64 age group will decrease from 64.6% to 56.8%, a decrease of 38 million people (*Chart 1.50*)**.** This group is expected to be affected by negative growth rates in the coming decades, as is the under-15 age group. Conversely, the population over 65 years, and more particularly over 80, is expected to experience largely positive growth rates. The over-80s are predicted to increase from 26.0 million in 2019 to

49.9 million in 2050, representing more than 11% of the population by that time. Other indicators show the structural changes and future challenges: the median age is forecasted to increase by 4.5 years, from 43.7 in 2019 to 48.2 in 2050, and the old age dependency ratio [54] is forecasted to rise from 31.4 to 52.0, meaning that for every 100 individuals aged 15-64 there may be around 50 people aged 65 or more in 2050.

These trends are not new: over the last decade, many regions have already experienced increases or decreases in more than 10% of their 2009 total population (*Chart 1.51*). The vast majority of the regions in decline are located in Central and Eastern European countries, as well as in Southern Europe and the Baltic States. In other countries, some rural or deindustrialised areas are also being hit by population reduction. In this situation, planning public services and promoting an attractive and dynamic labour market can prove to be extremely complex challenges.

Chart 1.50
The working age population will represent a lower share proportion of the population, while people aged 65+ and especially 80+ will increase
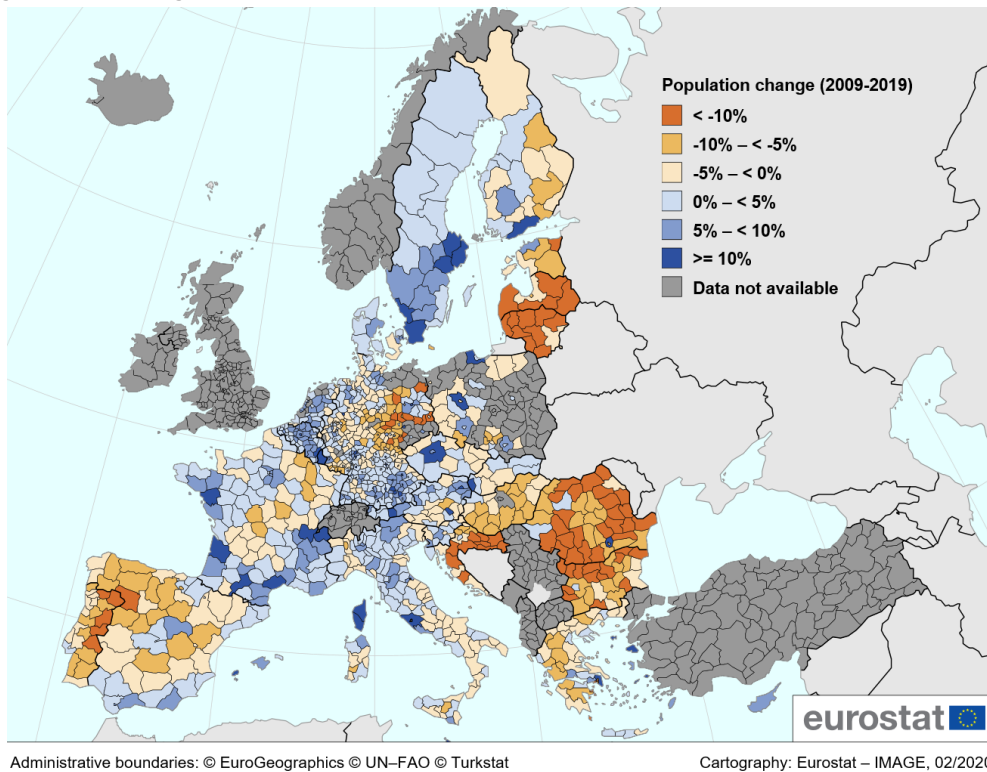Share of broad age groups (topup) and 10-years growth rates (bottom), 2000-2050
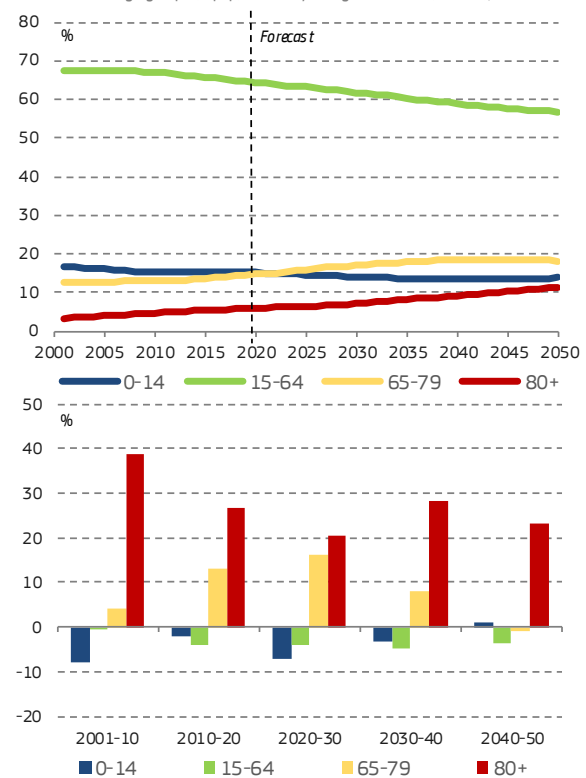
Note: 2001-2019, observed population. 2020-2050, forecasts, baseline scenario.
Source: Eurostat, dataset: proj_19np. EMPL calculations.
Click here to download chart.

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[51] Baby boomer refers to a large demographic cohort – in comparison to the ones before and after – born after the Second World War. Their arrival in a specific age group is always a challenge as they automatically increase the number of people in it.

[52] Fertility has been below the replacement level (2.1 children per woman) since the 60s or 70s in many European countries. At the same time, age at motherhood has been increasing.

[53] Lutz, W., G. Amran, A. Belanger and al. (2019).

[54] The old age dependency ratio is defined as the number of people aged 65 or more over the number of working-age people (aged 15-64 years).

Chart 1.51

Over the period 2009-2019 period NUTS3 regions faced significant changes in the size of their population
Population change, 2009-2019, NUTS3 regions.

Population change (2009-2019)
- < -10%
- -10% – < -5%
- -5% – < 0%
- 0% – < 5%
- 5% – < 10%
- >= 10%
- Data not available

Administrative boundaries: © EuroGeographics © UN–FAO © Turkstat

Cartography: Eurostat – IMAGE, 02/2020

Source: Eurostat, dataset: demo_r_pjangrp3. EMPL calculations.
Click here to download chart.

Over the period 2019-2030, the 15-64 age group will be heavily affected by these demographic changes, both in relative and absolute terms. Eurostat projections foresee that all EU countries will experience a decline in the proportion of the 15-64 group in their total population, thus automatically increasing the dependency ratio between this age group and the others (under 15 and over 64). Unfortunately, some countries will also face a second trend that reinforces the first: an overall decrease in their population. In particular, over the next 11 years, Croatia, Bulgaria, Romania, Latvia and Lithuania are expected to lose more than 10% of their working-age population (*Chart 1.52*), in addition to the decline already experienced over the last 15 years. As mentioned earlier, the main causes of these demographic developments are permanently low fertility, increased life expectancy and high mobility outflows between EU Member States. These three phenomena are at work in ageing, but in variable proportions in the different Member States. In general, ageing is due to an increase in absolute numbers of people aged 65+, but also to a rise in the ratio between elderly and younger people. In some countries, the effects of low fertility rates are reinforced by the departure of the working-age population (and their children) to another country, mainly in Europe.

From the middle of the previous decade to 2018, the total fertility rate in the EU increased. Over the period 2001-2018, the total fertility rate went from 1.43 live births per woman to 1.55 and the

average age of women at childbirth continued to rise, from 29.0 to 30.8 years. According to Eurostat, this slight increase in the total fertility rate (TFR) is partly explained by a catching-up process due to a recovery after a rise in the average childbearing age [55].

The countries of Southern Europe are the most affected by this low fertility, with rates below 1.4 children per woman (*Chart 1.53*)**.** An OECD study shows that there is another phenomenon to be taken into account: childlessness. Figures for 2010-11 indicate that a significant number of European women aged 40-44 had no children, whether or not as a result of voluntary choice. For example, 21.5% of these women were in this situation in Austria (2010), 19.9% in Finland (2010), 19.0% in Ireland (2011) and 21.6% in Spain (2010) [56].

The increase in life expectancy at birth is the other major trend affecting the structure of the EU population. Life expectancy increased by 1.7 years over the last 10 years and reached 81.0 years in 2018 (*Chart 1.54*)**.** Over the longer period

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[55] Eurostat (2019). When women were postponing their pregnancies, the total fertility rate was decreasing, but when this phenomenon slowed down live births that didn't occur earlier mechanically increased the number of births and the total fertility rate. This means that the increase in the total fertility rate may be linked to changes in the fertility calendar of women, who until recently had been postponing childbearing later and later. (The fertility calendar refers to the age at maternity.)

[56] OECD (2018). It is the more recent estimate at the EU level.

2002-2018 ([57]), this indicator grew by 3.4 years in the EU (3.9 years for men versus 2.8 years for women). Although the gender gap is narrowing, there are still wide disparities between men (78.2 years) and women (83.7 years). This difference decreased from 6.3 years in 2008 to 5.5 years in 2018, as a result of a slowdown in the rise of female life expectancy. Considering life expectancy at age 65, this indicator was at a level of 18.1 years for men and 21.6 years for women in 2018, a difference of 3.5 years.
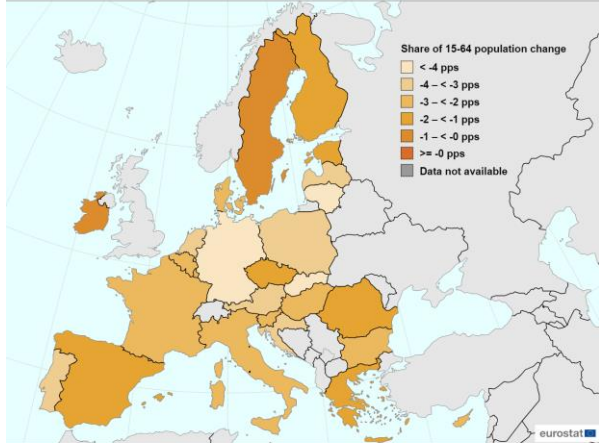
Chart 1.52

Over the next decade all countries may face a decrease in the share proportion of their working-age population of working age, but some may also experience a decline in its size

15-64 population change, 2019-2030 (up) and share of 15-64 population change, 2019-2030 (bottom)
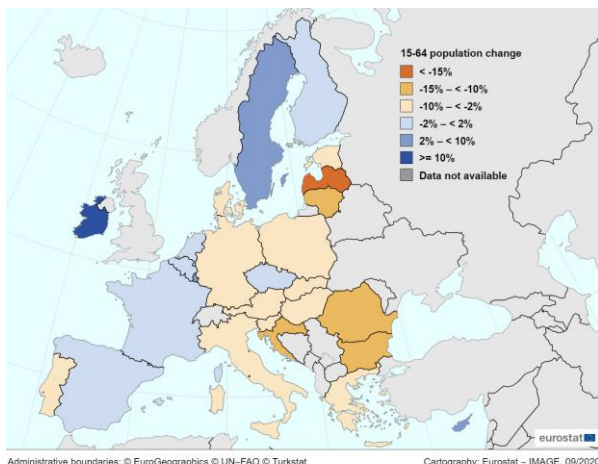
Note: 2019, observed population. 2030, forecasts, baseline scenario. EMPL calculations.
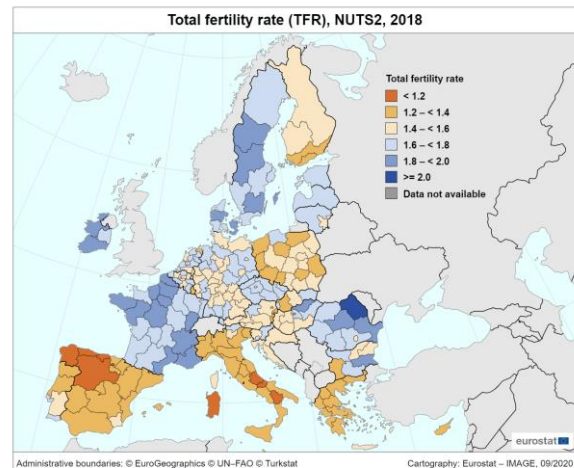*Source:* Eurostat, dataset: proj_19np.
Click here to download chart.

Male life expectancy at birth still does not reach 72 years in some countries, well below the EU average of 78.2 years (*Chart 1.54*). In 2018 it stood at 70.1 years in Latvia, 70.9 in Lithuania, 71.5 in Bulgaria and 71.7 in Romania. The vast majority of countries below the EU average are located in Central and Eastern Europe or in the Baltic region.

([57]) First year available in Eurostat database.

Chart 1.53

Countries of in southern Europe are particularly affected by low fertility rates and no Member State is above the replacement level

Total fertility rate (TFR), NUTS2 regions, 2018

Note: Expressed in children per woman.
Source: Eurostat, dataset: demo_r_frate2.
Click here to download chart.

The length of life expectancy at birth is not automatically linked to the number of healthy life years ([58]) (SDG 3; See *Chart 1.54*)**.** People living in Member States such as Austria, Finland, Denmark, Portugal, Luxembourg, etc. have a life expectancy roughly equivalent to the highest European levels, but have lower numbers of healthy life years than people in countries like Spain, Malta or Sweden. Healthy life years for men are below 60 in 11 Member States and at a particularly low level in Latvia (51.0 years) and Estonia (52.7 years), in contrast to other countries showing very high levels, such as Malta (71.9 years) and Sweden (73.7 years). The gender gap is smaller when looking at healthy life years than at life expectancy at birth, women and men having a comparable healthy lifespan in many Member States. Some countries even have a gender gap higher than one year, to the detriment of women, for example Finland (3.1 years), Portugal (2.3 years), Luxembourg (1.6 years) and the Netherlands (3.9 years).

Despite a decline in the proportion of Europeans reporting an unmet need for medical care (SDG 3), some countries were still showing high levels of medical precariousness in 2018. In the EU as a whole, the percentage of the population saying they were not able to meet their health care needs declined from 3.8% to 1.8% between 2012 and 2018. In Estonia, however, the percentage was 16.4%, a rate that has been increasing since 2012 when it was 8.3%. Conversely, several countries have seen a drop of 5 or more pps since 2012: Latvia (down 6.2 pps), Romania (down 6.6 pps), Poland (down 4.8 pps) and Bulgaria (down 6.4 pps) (*Chart 1.55*).

([58]) To be in a healthy state is a subjective evaluation made by the individuals themselves. See note below *Chart 1.17* for a description of the question on long-standing limitations in usual activities due to health problems.

Some groups are more affected by an unmet need for care. EU-SILC data confirm, when adjusting for age composition, that unmet medical needs were more likely among foreign-born (as opposed to native-born) people, especially in Estonia and Greece and to a smaller extent in Sweden, Italy and Denmark ([59]). In many Member States, there are (sometimes huge) disparities by income level.

Chart 1.54

Healthy life years are not automatically correlated to life expectancy at birth

Life expectancy and healthy life years at birth, by gender, 2018, (left) and share the proportion of people with good or very good perceived health,2012-2018 (right)
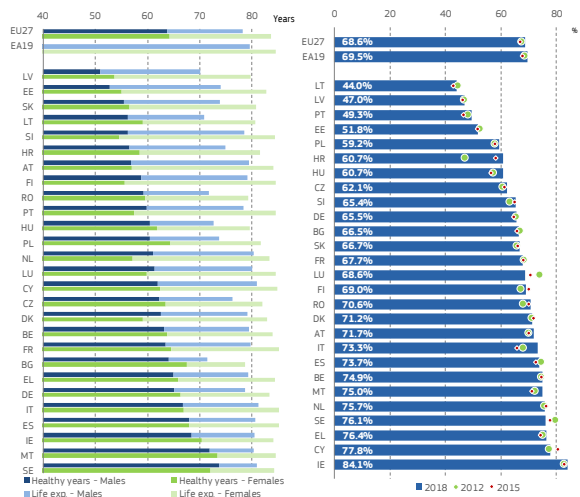
Note: Eurostat calculates information relating to healthy life years at birth using mortality statistics and data on self-perceived long-standing activity limitations. Mortality data come from Eurostat's demographic database, while self-perceived long-standing activity limitations data come from EU-SILC.
Information on self-perceived long-standing limitations in usual activities due to health problems is collected through the question 'For at least the past six months, to what extent have you been limited because of a health problem in activities people usually do? Would you say you have been: severely limited / limited but not severely / not limited at all?'
Life expectancy at birth not available for the Euro area.

Source: Eurostat, datasets: hlth_hlye and hlth_silc_10. Tables tps00150 and sdg_03_20.
Click here to download chart.

In countries with the highest levels of unmet need, costs are the main reason, while waiting lists are a key factor in the others. The Social Scoreboard sheds light not only on unmet needs but on the proportion of out-of-pocket (OOP) expenditure as a potential explanatory factor. This indicator fluctuates widely across Europe and is mainly driven by the pharmaceutical expenditure component in the majority of EU countries. Economic factors are one of the main barriers to accessibility. Living in a rural area or being an irregular resident are examples of other barriers. Finally, in some countries, many services are excluded from the regular statutory coverage and the balance of the health system may rely on private insurance ([60]).

Care capacities and availability of medical equipment are key elements in the resilience of health systems that have been put under pressure during the COVID-19 crisis. The situation sheds light on the availability of beds – and in particular curative beds – in hospitals, ranging from

([59]) EU-OECD (2019).
([60]) European Commission (2019f).

204 curative beds per 100 000 inhabitants in Sweden to 617 in Bulgaria, with an EU average of 396 in 2017. The number of practising physicians per 100 000 inhabitants rose in all Member States ([61]) between 2012 and 2017, but did not overcome the regional disparities, with figures ranging between 238 in Poland to 518 in Austria. Inequalities in availability and accessibility of care and medical equipment were of primary importance in the management of the pandemic.

Chart 1.55

Despite a decrease in unmet need for medical care, some countries still show high levels of medical precariousness

Self-reported unmet need for medical care, 2012-2018
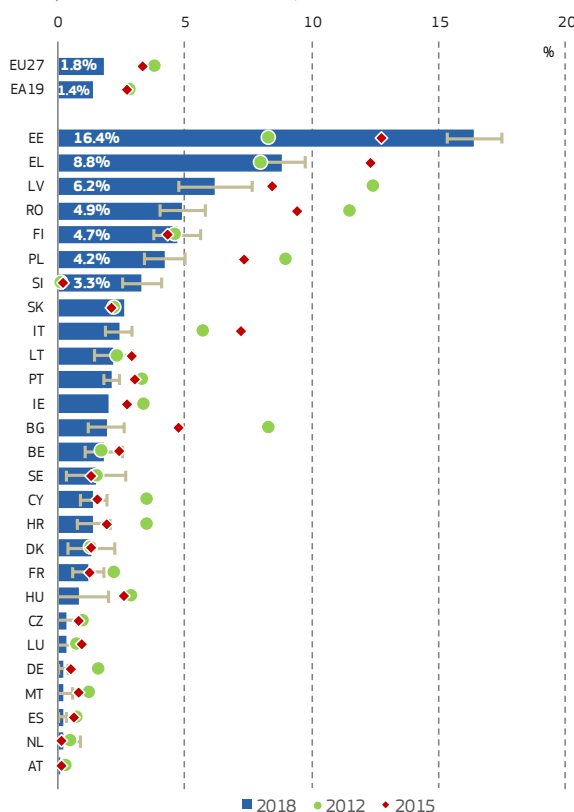
Note: Percentage of population aged 16 and over. The indicator measures the share of the population aged 16 and over reporting unmet needs for medical care due to one of the following reasons: 'Financial reasons', 'Waiting list' and 'Too far to travel' (all three categories are cumulated). Self-reported unmet needs concern a person's own assessment of whether he or she needed medical examination or treatment (dental care excluded), but did not have it or did not seek it.

Source: Eurostat, dataset: hlth_silc_08 and table sdg_03_60.
Click here to download chart.

A smaller but better-educated workforce

At the same time as a decline in the number of people of working age, there is also likely to be a further improvement in educational attainment. This is a key concern of European households who also believe that chances in education are fairer than in the labour market ([62]). The proportion of low-educated people in the EU aged 25-34 decreased by 8.5 pps over the period 2002-2019, from 24.0% to 15.5%. This phenomenon has been particularly striking in

([61]) Data is available for 22 Member States.
([62]) See Chapter 2, Section 3 for an extensive discussion of the perceived fairness in educational systems and labour markets.

Malta, where the proportion decreased by 42.8 pps to 28.4% in 2019, and in Portugal where it decreased by 40.1 pps to 24.8% in 2019. It also fell between 10 and 20 pps in Ireland, Greece, Croatia, Italy, Luxembourg, Spain and the Netherlands. However, there is still room for improvement in some countries where levels of low-educated people remain above 20%: Spain (30.2%), Italy (23.8%), Malta (28.4%), Portugal (24.8%) and Romania (22.0%) (*Chart 1.56*). Unequal access to education may have been reinforced by the lockdown during the COVID-19 crisis but long-term consequences for inequalities are likely.

Over the period 2002-2019, the EU has seen a sharp increase (16.3 pps) in the percentage of highly educated people aged 25-34. Member State increases were most remarkable in Czechia (20.5 pps), Latvia (26 pps), Lithuania (27.2 pps), Luxembourg (33.5 pps), Malta (28.3 pps), Poland (26.7 pps), Portugal (22.1 pps), Slovenia (24.4 pps), Slovakia (27.3 pps) and the Netherlands (20.8 pps). This evolution suggests that European labour markets have access to a higher level of skills now and that this trend is not showing signs of slowing down.

Chart 1.56
Younger generations are becoming less numerous but more educated

Highest educational attainment by age and gender in 2002 (left) and 2019 (right) and for the 25-34 age-group by country in 2019 (bottom)
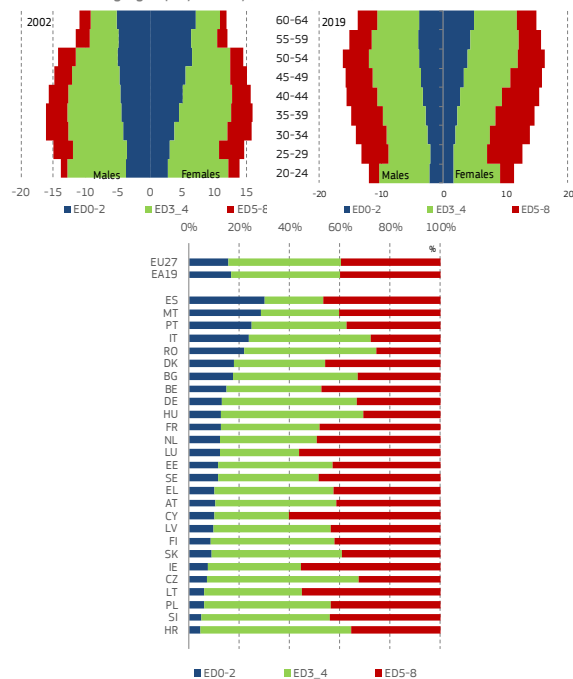
Note: ISCED 0-2: from less than primary to lower secondary education; ISCED 3-4: from upper secondary education to post-secondary non-tertiary education; ISCED 5-8: tertiary education.
Source: Eurostat, dataset: edat_lfse_03 and lfsa_pgaed.
Click here to download chart.

5. CONCLUSIONS

The outbreak of 'COVID-19' has created massive new uncertainties about employment developments and socio-economic prospects in Europe and the rest of the world. By the end of 2019, economic activity was already slowing down in most advanced economies. Gross domestic product had grown by just 1.5% in the EU and 1.2% in the euro area. These results had been affected by several uncertainties, which have become more acute with the spread of the COVID-19 crisis. Accordingly, the latest Commission forecasts are for strong declines in economic activity in 2020, and a moderate, yet less job-intensive and more uncertain recovery in 2021.

Before to the pandemic, the EU employment rate had reached another record level in 2019, 73.1%. This was 0.7 pps higher than in 2018. However this growth had not been enough to reduce the gender employment gap or push the employment rate of young people back to 2008 levels. Furthermore, growth in the employment rate had slowed in the second half of the year and a sharp reduction in employment is expected in 2020. If the Commission's forecast of employment is confirmed, the EU2020 target of 75% will become almost impossible for the EU to reach.

In 2019, the EU unemployment rate had fallen to 6.7% of the labour force, 0.5 pps less than in 2018, the lowest level ever recorded in the EU. Youth unemployment and NEET rates had also been falling. However, the COVID-19 pandemic is now causing unemployment to surge- possibly up to 9.0% in 2020.

Gender gaps in employment and pay remain high, despite the improvements observed in EU averages. The COVID-19 crisis is envisaged to have an especially strong impact on women and young people in the labour market, as well as on other vulnerable groups, such as migrants, whose labour market situation had continuously improved before the crisis, though large gap remained.

Households' financial situation had improved before the COVID-19 outbreak, but disposable income per capita was still below 2008 levels in five Member States. In 2018 the disposable income of households per capita maintained the ascending trend. Aggregate disposable household income had benefitted from higher income from work.

By 2017, social protection expenditure in the EU had shifted to structural expenses (old-age pensions and healthcare). Social protection expenditure continued to increase in nearly all Member States in 2017. Between 2012 and 2017, expenditure on pensions in countries with large crisis-related fiscal consolidation needs, such as Greece, had fallen.

As standards of living improved in the EU, the risk of poverty and social exclusion continued to decline before the COVID-19 outbreak. This was mainly due to the reduction in severe material deprivation, although the drop in the proportion of people living in very low work intensity households also contributed. However, the risk of poverty or social exclusion remained more pronounced for vulnerable groups and the progress in reducing inequality and relative poverty has been modest. Without the redistributive effects of tax-benefit systems, inequality and poverty in the EU would have been much higher. Income from work remains the most secure source of income to protect against income poverty, although not all households with working members manage to get out of poverty through employment.

Despite improvements, energy poverty and inadequate housing conditions continue to represent a challenge for people living below the AROP threshold. People at risk of poverty, and vulnerable households such as single-parent or large families, face particular difficulties in keeping their homes adequately warm and paying their utility bills on time; and they are more likely than most to suffer severe housing deprivation and damp dwellings.

The changing population structure of Europe is also challenging our societies. Eurostat's projections predict a completely different population in 2050, with an increasing old-age dependency ratio and median age, a continuously low fertility rate and a proportionately smaller working-age population. However, though the 15-64 age group will be less numerous, it should be better educated. These are some of the many changes already evident which will drastically affect the labour market and social protection systems in the near future. In turn, the policy response to mitigate the impact of the changing population structure will determine the perceived fairness of Europeans in societies and economies that work for the people.

Box 1.2: Sustainable development goals

The European Pillar of Social Rights is a compass for a renewed process of upward convergence towards better working and living conditions in the European Union. It sets out twenty essential principles and rights in the areas of equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion. The Social Scoreboard allows for proper monitoring of the Pillar, including the regional dimension.

The UN Sustainable Development Goals (SDGs) complement the principles of the European Pillar of Social Rights, helping to ensure that economic and social policies go hand in hand with Europe's 2050 climate-neutrality objective. The SDGs are a set of 17 goals in the social, economic, environmental and institutional areas. The most pertinent SDGs for the social area are SDG 1 (poverty eradication, social protection), SDG 3 (good health and wellbeing), SDG 4 (skills and lifelong learning), SDG 5 (gender equality), SDG 8 (inclusive growth, decent work, full and productive employment, labour rights) and SDG 10 (reducing inequality).

Overview of EU-27 progress towards the SDGs over the past 5 years, 2020 (Data mainly refer to 2013-2018 or 2014-2019)
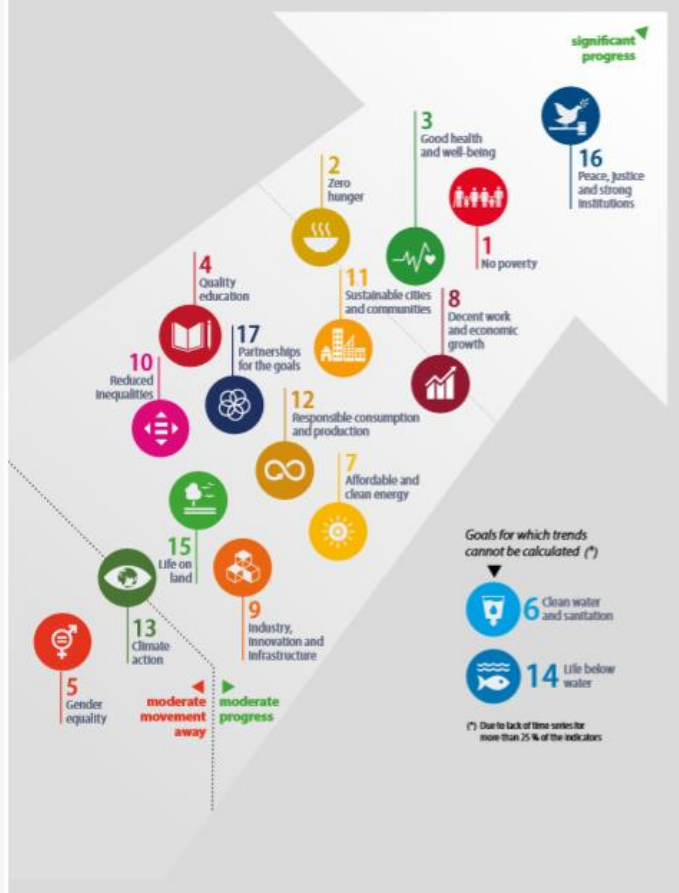
The two frameworks, the SDGs and the Pillar mutually reinforce each other. This is also demonstrated by a large overlap in the indicators used for measuring progress in the social SDGs and the Social Scoreboard.

In December 2019, the Commission adopted the **European Green Deal** (^{1}), a new EU growth strategy to transform the EU into the world's first climate-neutral continent by 2050, while ensuring that the transition is just and socially fair. The Green Deal is an integral part of the Commission' strategy to implement the SDGs, refocusing the European Semester to integrate the SDGs, i.e. putting sustainability and the wellbeing of citizens at the centre of economic policy. In this context the Annual Growth Survey was transformed into the Annual Sustainable Growth Strategy covering environmental sustainability, fairness, productivity and macro-financial stability. The SDGs were also integrated in the Country Report analyses which underpin the Country Specific Recommendations.

The **fifth EU SDG monitoring report was published in June 2020**. It covers the period up to the end of 2019, and therefore does not take the impacts of the COVID-19 pandemic into account. The report finds that in the most recent five-year period, the EU has made most progress towards SDG 16, 'Peace, justice and strong institutions'.

(^{1}) https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf

(Continued on the next page)

Box (continued)

Considerable progress has also been made towards SDG 1, 'No poverty' and SDG 3, 'Good health and wellbeing', followed by SDG 2, 'Zero hunger' and SDG 8, 'Decent work and economic growth'. For eight goals, the EU has made moderate progress: SDG 11 'Sustainable cities and communities', SDG 4 'Quality education', SDG 17 'Partnership for the goals', SDG 12 'Responsible consumption and production', SDG 7 'Affordable and clean energy', SDG 10 'Reduced inequalities', SDG 15 'Life on land', and SDG 9 'Industry, innovation and infrastructure'. Although progress has been made on SDG 13, 'Climate change', in some areas there are still a number of challenges. On SDG 5, 'Gender equality' the EU has unfortunately moved away from the goal. Women are still less likely to be a part of the labour force than men, mainly due to caring responsibilities.

Source: https://ec.europa.eu/eurostat/web/sdi

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