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EMPLOYMENT AND SOCIAL DEVELOPMENTS IN EUROPE 2022
Chapter 1

Main employment and social developments in the recovery

1. INTRODUCTION ⁽¹⁾

The Russian aggression in Ukraine in February 2022 has caused death, destruction and a humanitarian crisis in the country. It has also had an immediate impact on the European Union (EU), as millions of Ukrainians fled to the EU and other neighbouring countries, where they were welcomed and provided with humanitarian aid. Shortly after the start of the invasion, the EU activated the Temporary Protection Directive, which grants asylum to refugees and enables immediate access to the labour market and to the education system.

The European economy entered 2022 in a weaker position than expected, having just recovered from the COVID-19 crisis in 2021. That poorer performance was the result of supply disruptions and sharply rising energy, oil and food prices, which are expected to further deteriorate due to the war in Ukraine. EU GDP is forecasted to grow by 2.7% in 2022, which is significantly less than earlier predictions and inflation is expected to reach the highest levels ever recorded since the introduction of the euro in 1999.

In 2021, the European economy rebounded strongly from the most severe contraction ever recorded as a consequence of the COVID-19 crisis. However, the recovery was uneven among the Member States. Those who experienced the biggest drops in 2020 recorded strong growth in 2021, namely Croatia (+10.2%), Greece (+8.3%), France (+6.8%) and Italy (+6.6%), while those with robust pre-crisis growth resumed their upward trends, e.g. Estonia (+8.3%), and Hungary (7.1%). Others showed more moderate growth, in particular Germany, at 2.9% (after a fall of 4.6% in 2020).

The economic growth had a positive impact on labour markets: employment recovered gradually having contracted less severely than general economic activity in 2020. The implementation of job retention measures contributed significantly to the resilience of the labour market and allowed for a swift rebound in working hours when economic activity resumed. However, young people were noticeably more affected than other population groups, as they tended to work in sectors that were hit particularly hard by the pandemic and were often employed through less stable contracts, making their dismissal easier in times of crisis. While the recovery in 2021 benefitted young workers, it did

⁽¹⁾ This chapter was written by Fabio De Franceschi, Stefano Filauro, Gabor Katay, Luca Pappalardo, and Chiara Petrone.

not reverse their disadvantaged situation in the labour market. The labour market is expected to perform well again in 2022 with a moderately optimistic outlook, despite the prediction of worsening economic conditions.

The social impacts of the shock triggered by the pandemic were partially mitigated by exceptional government intervention. Although conclusions on poverty indicators can only be drawn when more data become available, an initial analysis does not suggest a large negative impact: the risk of poverty and social exclusion in the EU increased slightly in 2020 while initial simulations for 2021 suggest a broadly stable trend. ⁽²⁾ At EU level, the rate of people living in severe material and social deprivation (SMSD) grew very slightly, reaching 28.85 million people in 2020 compared to 28.03 million in 2019. Preliminary results on inequality point to a stable trend throughout 2020 and 2021. These early (and as yet inconclusive) data seem to indicate that unprecedented government intervention helped to alleviate the worst potential effects of the pandemic. While in 2021 gross disposable household income (GDHI) recovered compared to the previous year (1.7% in Q3, 0.8% in Q4), with a recovery driven mainly by labour market income. The picture was quite different in 2020: in Q2 2020 GDHI plunged by -3.2% compared to the previous year, and the contribution of market income to GDHI plummeted, as it was largely supported by social benefits.

Social outcomes since the crisis differ markedly across age groups, with young people hardest hit. The young and working-age populations faced deteriorating living conditions in a number of EU countries, with a higher risk of poverty and material and social deprivation. On the other hand, the older population experienced generally improved living conditions in many countries, with fewer older people at risk of material and social deprivation in 2020 than previously. In fact, the

SMSD rate in the EU fell by -0.9 percentage points (pp) for over-65s, while increasing by respectively 0.2 and 0.7 pp for both the working-age group (18-64) and minors. Similar findings across age groups emerged from Eurostat flash estimates on the risk of poverty.

Savings are likely to be more unequally distributed in the post-COVID-19 phase. During the pandemic, consumption declined most prominently for leisure activities, while the consumption of necessities – which form the bulk of low-income households' budgets – remained constant or even increased. In turn, disposable income trends and the distributional implications now and in the near future are uncertain, as prices are on the rise, especially those related to housing and transport, which weigh heaviest in the consumption baskets of low-income households.

To boost social recovery, the EU put forward its largest-ever stimulus package, worth EUR 2.018 trillion, coupling its long-term budget with NextGeneration EU (EUR 806.9 billion). This is intended to power significant investments to rebuild from the COVID-19 crisis and to underpin a just transition towards a greener and more digitalised Europe. To ensure that Europe will be equally social, green and digital, the European Pillar of Social Rights action plan was adopted in March 2021, setting out more than 60 policy actions on employment and social policy. It also proposed three EU 2030 headline targets: an employment rate of 78% for people aged 20-64; at least 60% of adults participating in training every year; and 15 million fewer people living in poverty, including five million children. These targets were welcomed at the Porto Social Summit in May 2021.

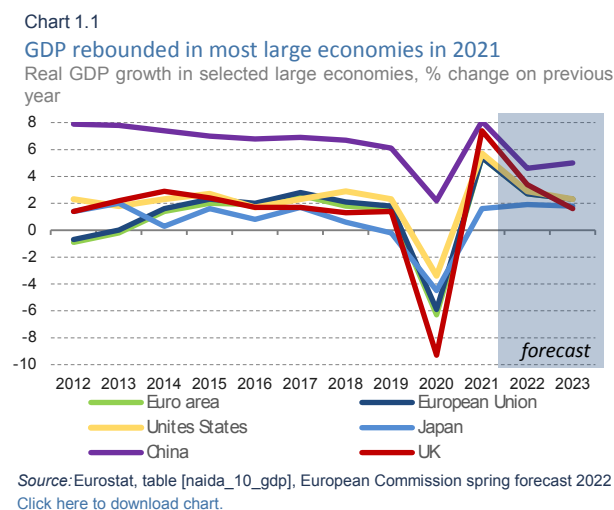
This chapter reviews the latest socioeconomic developments in the EU and its Member States, with a focus on young people. It starts by reviewing the macro-economic outlook in the EU as well as main labour market indicators. It then turns to households' financial situations, poverty and inequality outcomes, and the role of social transfers in mitigating income inequality in the EU.

⁽²⁾ The 2020 at-risk-of-poverty-and-social-exclusion (AROPE) indicator has important drawbacks, as it combines indicators of risk of relative poverty and work intensity using 2019 incomes (pre-pandemic) with material deprivation scores from 2020, an exceptional year. The box 1.1 gives more information on the limitations of the various results.

2. MACROECONOMIC ENVIRONMENT

Global Gross Domestic Product (GDP) rebounded in 2021, growing by +6.1%, according to International Monetary Fund (IMF) estimates. That followed a drop of 3.1% in 2020, triggered by the outbreak of the COVID-19 pandemic. However, the global economy entered 2022 in a more fragile position than expected due to further COVID-19 restrictions related to the fast-moving Omicron variant. In addition, rising energy prices and supply chain disruption prompted a surge in inflation, which is now forecast to increase to 5.7% in 2022 in advanced economies and to 8.7% in emerging markets and developing economies.

GDP grew in all advanced economies, including the EU and the euro area (+5.4% in both). The strongest growth was recorded in China (+8.1%), which returned to the high level of growth recorded in the past decade (after a modest increase of 2.2% in 2020), and in the United Kingdom (UK) (+7.4%), which had previously recorded the greatest contraction among advanced economies (-9.4%). The United States (US) grew faster than the EU in 2021 (+5.7%), after a smaller drop in 2020 (-3.4%).

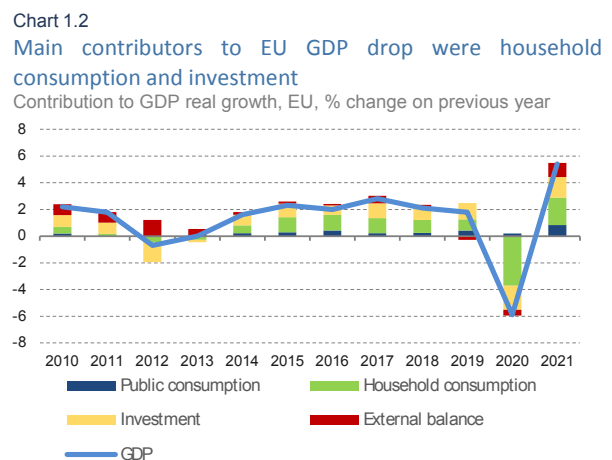


In the EU, GDP rebounded by 5.4% in 2021, after a decline in 2020. This was the strongest growth recorded since the time series began in 1995, and followed the sharpest decline (-5.9%) experienced in 2020. The euro area recorded a similar pattern, with a rise of 5.4% in 2021 and a drop of 6.3% in 2020. Economic activity developed unevenly

throughout the year, with weaker growth in Q1 2021 (0.1% in the EU and -0.1% in the euro area) and Q4 2021 (+0.5% and +0.2%, respectively). A more robust increase (exceeding 2%) was evident in Q2 and Q3 2021, reflecting the containment measures adopted to control successive waves of the COVID-19 pandemic.

In its Spring 2022 Economic Forecast the European Commission revised the EU outlook downwards as the military aggression on Ukraine is exacerbating factors hindering economic growth that were otherwise expected to fade. Real GDP growth in both the EU and the euro area is now forecast at 2.7% in 2022 and 2.3% in 2023. There is considerable heterogeneity across the Member States, although all are expected to experience positive growth in 2022 and 2023. With this downward revision, the seven Member States that had not reached pre-pandemic level of quarterly output by the end of 2021, including Germany, Italy and Spain, will now reach this mark later than expected.

The rise in EU GDP can primarily be attributed to household consumption, followed by investment and the external sector. In 2021, household consumption accounted for slightly more than one-third of the increase, with investment at about 30%, and the external sector at about 20%. Public consumption made the smallest contribution, at about 15% (Chart 1.2).



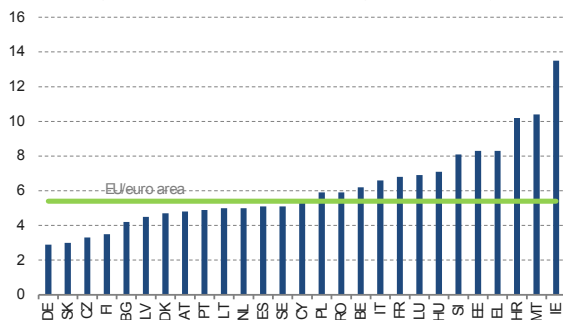
In 2021, GDP grew in all Member States, albeit with considerable differences. In one-third of countries, the increase reached record levels and

exceeded 7.0%, most notably in Malta (+10.4%), Croatia (+10.2%), Greece and Estonia (both +8.3%). On the other hand, growth was significantly lower than the EU average in Germany (+2.9%), Slovakia (+3.0%), Czechia (+3.3%) and Finland (+3.5%). In Ireland, GDP rose by 13.5%, while Modified Domestic Demand increased by 6.5%. ⁽³⁾

Chart 1.3

Real GDP grew in all Member States

Real GDP growth in the EU, 2021, % change on previous year



Source: Eurostat, table [nama_10_gdp]

[Click here to download chart.](#)

Irrespective of the positive developments towards full recovery of the European economy in 2021, a number of factors weigh heavily on the EU's economic prospects. Firstly, the Russian invasion of Ukraine not only constitutes a severe humanitarian crisis but also endangers the positive expectations of a full recovery. Secondly, the rapid spread of the COVID-19 Omicron variant in late-2021 and early-2022 shows that despite relatively high vaccination rates, further confinement measures – and their associated economic consequences – may be needed to deal with new variants. This could exacerbate frictions and bottlenecks in global value chains, where shortages of raw materials, equipment and labour already hinder industrial production.

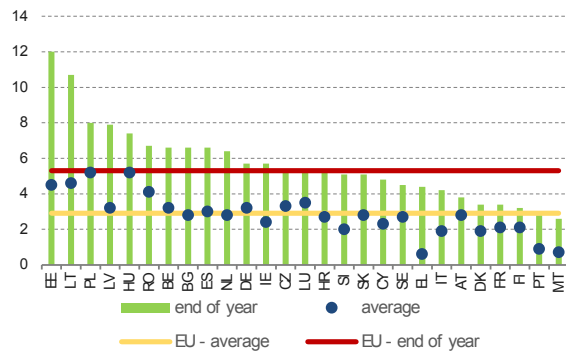
Futures markets suggested that the high levels of gas and oil prices seen in 2021 were likely to persist, even before the unfolding Ukrainian crisis further increased uncertainty. At the same time, prices of agricultural commodities are nearing their 2011 peak, due to higher input costs

(fertilisers, energy, crops). These surges are resulting in high consumer inflation, despite some Member States' efforts to cap price adjustments in regulated markets. All of these developments are putting upward pressure on consumer prices.

Chart 1.4

Rising inflation in all Member States

Average inflation in 2021 (% change on 2020), and year-end inflation in December 2021 (% change on December 2020)



Source: Eurostat, tables [prc_hicp_aind] and [prc_hicp_manr]

[Click here to download chart.](#)

The 2021 year-end inflation reached a record level of 5.3% in the EU and 5.0% in the euro area, a sharp increase compared to 2020, when it was 0.2% and -0.3%, respectively. Average annual inflation saw its highest values since 2011, reaching 2.9% in the EU and 2.6% in the euro area. Estonia and Lithuania had the strongest increases, with year-end inflation above 10%, while Poland and Latvia saw increases of close to 8%.

This inflationary pressure was significantly higher than expected throughout 2021 and is anticipated to have a negative impact on the outlook for growth and labour market development. It also raises concerns about the social situation, as nominal wage increases are expected to stay significantly below inflation, thus reducing households' purchasing power, and transfers to low-income households to offset high energy prices are likely to compensate only partially the impact of inflation.

3. LABOUR DEVELOPMENTS

MARKET

3.1. Employment trends

The employment headcount in the EU increased by 1.2% in 2021, following a decrease of 1.4% in 2020. Employment also rose in the euro area (by 1.2%) and in the US (+3.2%), while remaining

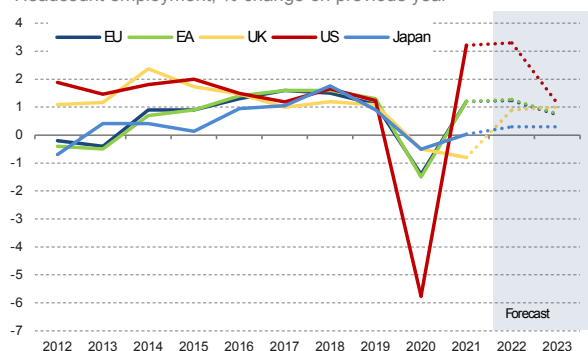
⁽³⁾ A broad measure of underlying domestic activity that covers personal, government and investment spending and is generally considered more meaningful than GDP in the Irish context (see the Irish Central Statistics Office press statement).

stable in Japan and declining in the UK (-0.8%). The latest European Commission forecast expects that labour market conditions will further improve in the next two years: it projects an increase of 1.2% in employment for the EU and 1.3% in the euro area in 2022, followed by slower growth in 2023 (at +0.7% and +0.8%, respectively).⁽⁴⁾ Employment is expected to grow strongly in the US in 2022 (+3.3%), and more slowly in the UK (+0.9%) and Japan (+0.3%) (Chart 1.5).

Chart 1.5

Employment rebounded in the EU, euro area, and the US in 2021

Headcount employment, % change on previous year



Note: Shaded area is European Commission, Spring 2022 forecast

Source: Eurostat [nama_10_pe], European Commission Spring 2022 forecast

[Click here to download chart.](#)

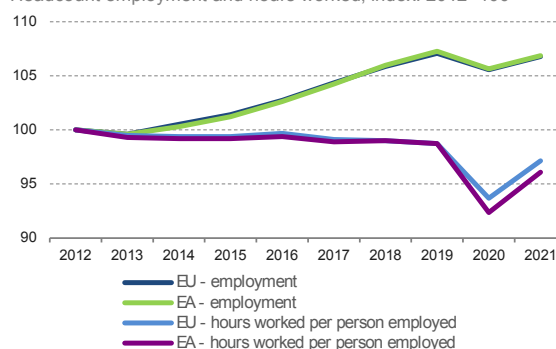
The number of hours worked rebounded in 2021 after the sharp drop in 2020, due to the use of short-term work schemes to protect jobs during the crisis. In 2021, hours increased by 4.9% in the EU and 5.2% in the euro area, with a sharp upswing in the EU in Q2 (+2.6%) and Q3 (+1.7%) when restrictions were eased in most Member States. These developments followed a fall of 6.5% in the EU and 7.9% in the euro area in 2020. The level of hours worked in 2021 was 1.9% and 3.0%, respectively, lower than in 2019, indicating that the rebound in 2021 was not sufficient to compensate for the entirety of the drop during the crisis. As the number of people in employment decreased by less than the hours worked in 2020 and recovered almost completely in 2021, the number of hours worked per person remained at 1.6% and 2.7%, below the levels of 2019. It is important to note, however, that hours worked per person were already in a declining trend

before 2020, at least partly due to the impact of automation⁽⁵⁾ (Chart 1.6).

Chart 1.6

Employment and hours worked rose in 2021

Headcount employment and hours worked, index: 2012=100



Source: Eurostat [nama_10_a10_e], DG EMPL calculations.

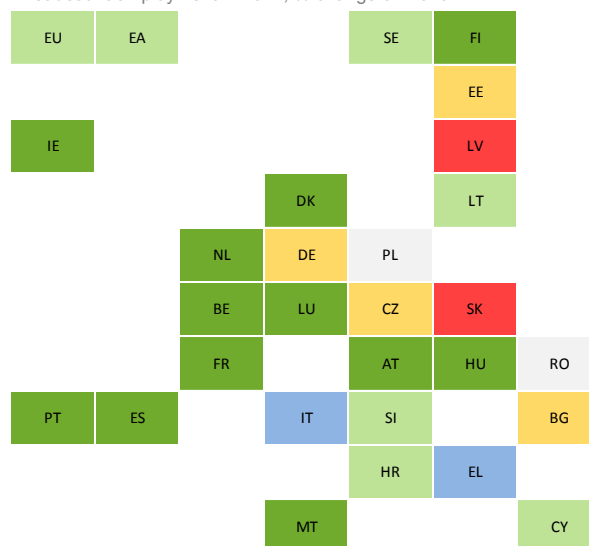
[Click here to download chart.](#)

In 2021, the number of people employed increased in almost all Member States and was, in most cases, higher than in 2019. The strongest increases were recorded in Ireland (+6.0%), Luxembourg (+3.1%) and Malta (+2.8%), with falls recorded in Latvia (-2.6%) and Slovakia (-0.6%).

Chart 1.7

Uneven employment growth among EU Member States in 2021

Headcount employment in 2021, % change on 2020



Note: Dark green: >=+1.5%; light green >=+1%; blue >=+0.5%; orange >=0; red <0. Break in series for Poland and Romania.

Source: Eurostat [nama_10_pe].

[Click here to download chart.](#)

3.2. Employment rates

The employment rate⁽⁶⁾ for people aged 20-64 rose by 1.4 pp in 2021 in the EU (73.1%) and by 1.3 pp in the euro area (72.5%). Following the

⁽⁴⁾ European Commission Spring 2022 forecast available [here](#).

⁽⁵⁾ European Commission (2021a).

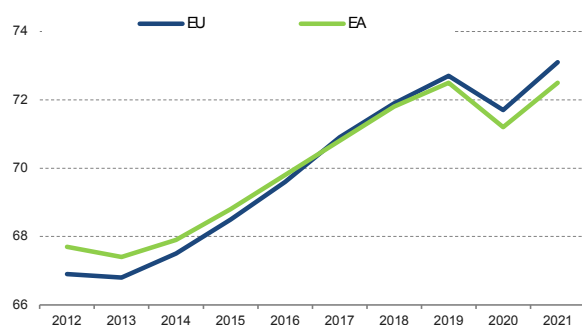
⁽⁶⁾ The employment rate measures the number of employed people as a proportion of the population of the same age.

sharp decline in 2020, the employment rate was 0.4 pp higher in the EU and stable in the euro area, compared with 2019. The positive momentum of labour markets in the second half of 2021 should push the employment rate up further in 2022 and 2023, according to the European Commission Spring 2022 forecast.⁽⁴⁾ The EU 2030 headline targets set out to achieve an employment rate of at least 78% in the EU by 2030, and to halve the gender employment gap.⁽⁷⁾

Chart 1.8

The employment rate in 2021 in the EU recovered from the decline in 2020

Employment rate, % of population 20-64



Source: Eurostat [lfsi_emp_a].

[Click here to download chart.](#)

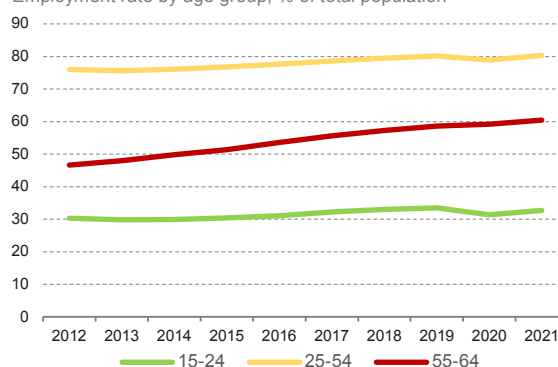
Almost all Member States saw their employment rate grow in 2021. The highest rises were recorded in Greece (+4.3 pp), Ireland (+2.8 pp), and Poland (+2.7 pp), while the employment rate remained stable in Slovakia and contracted in Latvia (-1.6 pp).

The employment rate increased almost equally among different age groups: It grew by 1.3 pp for workers aged 15-24 (to 32.7%), by 1.5 pp for those aged 25-54 ('core' workers) (to 80.4%), and by 1.3 pp for those aged 55-64 (to 60.5%). Between 2012 and 2021, the employment rate for workers aged 15-24 rose by only 2.4 pp, a far lower increase than that for core workers (+4.4 pp) and older workers (+13.9 pp). This was due to a slower growth trend until 2019, and the much stronger impact of the crisis on younger workers (-2.1 pp) compared to core workers (-1.3 pp) and workers aged 55-64 (+0.6 pp).

Chart 1.9

Employment rate for young people increased modestly in the last 10 years

Employment rate by age group, % of total population



Source: Eurostat, EU-LFS [lfsi_emp_a].

[Click here to download chart.](#)

The gender employment gap (i.e. the difference between the employment rate of women and men aged 20-64) shrank in 2021, reaching 10.8 pp (-0.3 pp from 2020). The employment rate of women rose to 67.7%, while that of men grew to 78.5%. The gender employment gap was largest in Romania (20.1 pp), Greece (19.8 pp), and Italy (19.2 pp), and narrowest in Lithuania (1.4 pp), Finland (2.0 pp), and Estonia (3.7 pp).

In 2021, the rate of temporary employment among workers aged 15-64 in the EU increased by 0.4 pp, but, at 12.1%, remained lower than pre-2020 rates. The proportion of young people employed on temporary contracts was far higher than among other age groups. The percentage of temporary workers aged 15-24 reached over 45% between 2012 and 2019, before falling to 43.3% in 2020. In 2021,⁽⁸⁾ it was 45.9%, compared to 10.2% for workers aged 25-54 and only 5.1% for those aged 55-64. Almost half of young female workers (48.5%) and more than two out of five young male workers (43.7%) had a temporary employment contract in 2021. Also, many more young people than average were on temporary contracts involuntarily (9.9% of employees for people aged 15-24 versus 4.9% for people aged 15-64).

In 2021, part-time employment for workers aged 15-64 decreased by 0.1 pp in the EU (to 17.7%)

4.3 for the third Porto target, on poverty and social exclusion.

⁽⁷⁾ Data to measure progress towards the second Porto target (at least 60% of Europeans participating annually in training by 2030) will be available from 2023. See section

⁽⁸⁾ 2021 temporary employment data for age brackets 15-24, 25-54 and 55-64, cannot be compared with previous years

and remained stable in the euro area (at 20.9%).

The proportion of workers in part-time employment remained far higher for women (28.8%, -0.3 pp compared to 2020) than for men (8.1%, +0.1 pp compared to 2020). The incidence of part-time work was larger than average for young people (31.9%), in particular for young women (40.4%). The number of young self-employed people was in a declining trend (from 625 000 in 2012 to 552 000 in 2019), but picked up slightly in 2020 (to 571 000). In 2021, 578 000 young people were self-employed, out of 25.2 million in the 15-64 age group. ⁽⁹⁾

3.3. Unemployment rates

In 2021, unemployment receded as containment measures were relaxed and the economic recovery took hold. The unemployment rate (people aged 15-74) declined by 0.2 pp (to 7.0%) in the EU and by 0.3 pp in the euro area (to 7.7%). It shrank slightly more for men, by 0.3 pp (to 6.7%) than for women, by 0.2 pp (to 7.4%). The reduction in the unemployment rate began in Q2 2021, coinciding with rapid economic growth, and continued in the second half of the year (6.5% in Q4 2021).

The European Commission Spring 2022 forecast projects a decrease in unemployment also for 2022 (6.7%) and 2023 (6.5%). Favourable employment conditions are expected to be accompanied by both a reduction in the number of unemployed people and an expansion of the labour force.

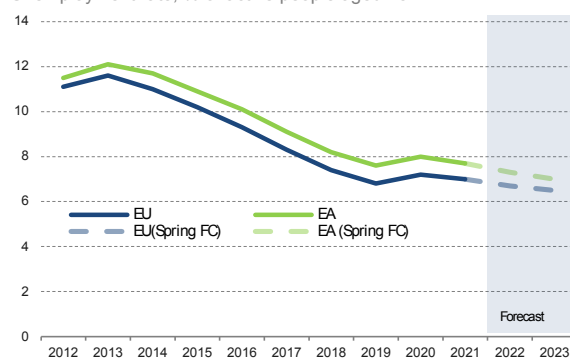
because of a break in the EU Labour Force Survey (EU-LFS) series.

⁽⁹⁾ 2021 self-employment data for young people cannot be compared with previous years because of a break in the EU-LFS series.

Chart 1.10

Unemployment rate trended down after an increase in 2021

Unemployment rate, % of active people aged 15-74



Note: Shaded area is European Commission Spring 2022 forecast.

Source: Eurostat, EU-LFS [une_rt_a], European Commission Spring 2022 forecast.

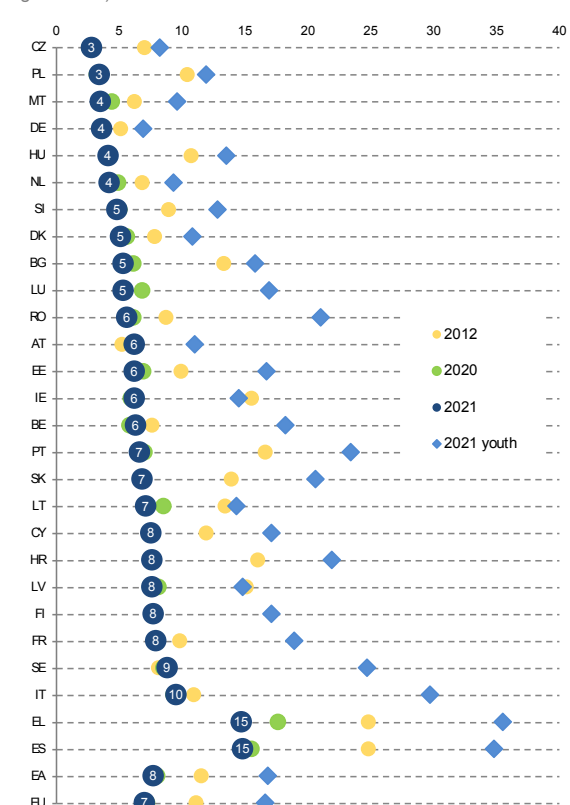
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Compared with 2020, the unemployment rate declined in most Member States, most notably in Greece (-2.9 pp, to 14.7%), Luxembourg (-1.5 pp, to 5.3%), and Lithuania (-1.4 pp, to 7.1%). It increased most prominently in Belgium (+0.5 pp, to 6.3%), Ireland (+0.3 pp, to 6.2%), and Sweden (+0.3 pp, to 8.8%).

Chart 1.11

Total unemployment declined almost everywhere, but youth unemployment remained very high in several Member States

Unemployment rates, % of active people aged 15-74 (young people aged 15-24)



Source: Eurostat, EU-LFS [une_rt_a].

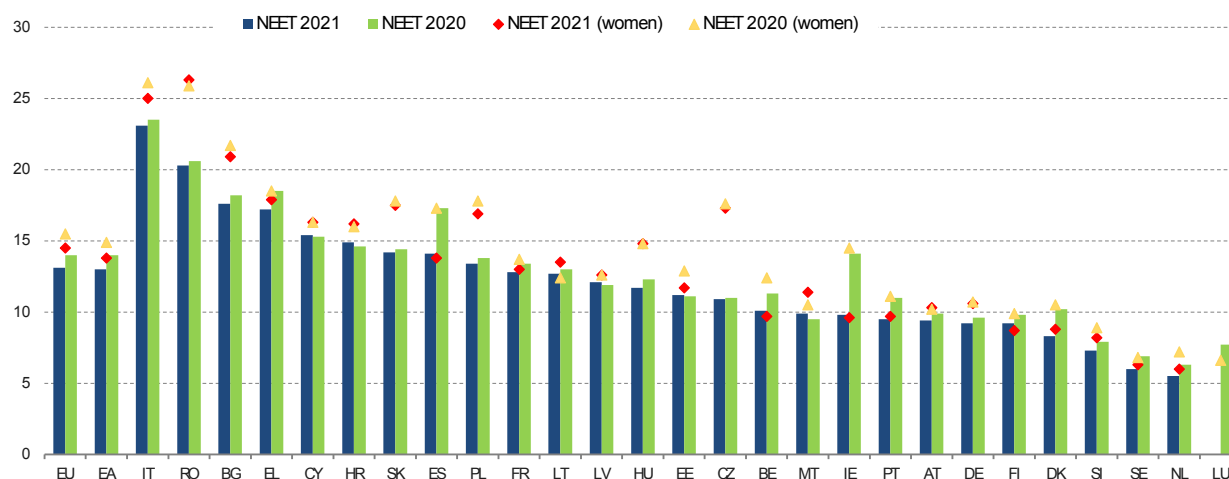
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In 2021, the youth unemployment rate declined by 1.0 pp in the EU (to 16.6%) and by 1.3 pp in

Chart 1.12

NEET rate decreased in 2021, but not in all Member States

NEET rate, % of people aged 15-29



Source: Eurostat, EU-LFS [lfsi_neet_a].

[Click here to download chart.](#)

the euro area (to 16.8%). Similar to total unemployment, the decline in the youth unemployment rate among young people began in Q2 2021 and accelerated in the second half of the year, reaching 14.8% in Q4. The sharpest annual declines were recorded in Luxembourg (-6.3 pp, to 16.9%) and Lithuania (-5.3 pp, to 14.3%), with the most substantial rises recorded in Belgium (+2.3 pp, to 18.2%) and Sweden (+1.2 pp, to 24.7%). In 2021, youth unemployment was on average slightly higher in cities (18.2%) than towns and suburbs (16.3%) or rural areas (14.6%). These differences were smaller for young women, with rates of 17.4% in cities, 16.3% in towns and suburbs, and 16.1% in rural areas.

The rate of people aged 15-29 who are neither in employment nor in education and training (NEET) rose to 14.0% in 2020 during the height of the COVID-19 crisis, but decreased in 2021, by 0.9 pp in the EU (to 13.1%) and by 1.0 pp in the euro area (to 13.0%). This rate was slightly higher (+0.2 pp) than that recorded in 2019 in both the EU and euro area. In the EU, the NEET rate for women exceeded that for men by 2.7 pp (14.5% and 11.8%, respectively).

In 2021, the NEET rate declined in almost all Member States, particularly in Ireland (-4.3 pp) and Spain (-3.2 pp), while rising most significantly in Malta (+0.4 pp) and Croatia (+0.3 pp).

The long-term unemployment rate increased in the second half of 2020 as a result of the COVID-19 crisis, but remained stable overall in 2021. ⁽¹⁰⁾

Compared to the 2020 average, it increased in 2021 by 0.3 pp in the EU (to 2.8%) and by 0.4 pp in the euro area (to 3.2%). That increase was slightly higher for women, at +0.3 pp (to 2.9%), compared to +0.2 pp (to 2.6%) for men. The incidence of long-term unemployment rose in 2021 by 5.1 pp (to 39.2%) after a decline of 5.7 pp in 2020. Very long-term unemployment stood at 1.4% in 2021, representing 20.6% of total unemployment. ⁽¹¹⁾

3.4. Activity rates and extended labour force

The economic recovery in 2021 was accompanied by a strong rise in labour market participation, following the sharp drop in the early months of the COVID-19 crisis in 2020. In the EU, the activity rate (people aged 15-64) increased by 1.3 pp (to 73.6%), after declining by 0.9 pp in 2020. The increase was slightly stronger for women (+1.4 pp) than for men (+1.1 pp). However, women's activity rate remained more than 10 pp lower than that of men (at 68.5% and 78.7%, respectively). The activity rate for young people (aged 15-24) increased slightly less than average, reaching 39.3% (+1.2 pp), lower than the rate recorded in 2019 (-0.4 pp).

⁽¹⁰⁾ Long-term unemployment rate measures the share of active workers in unemployment for more than 12 months.

⁽¹¹⁾ Very long-term unemployment rate measures the share of active workers in unemployment for more than 24 months.

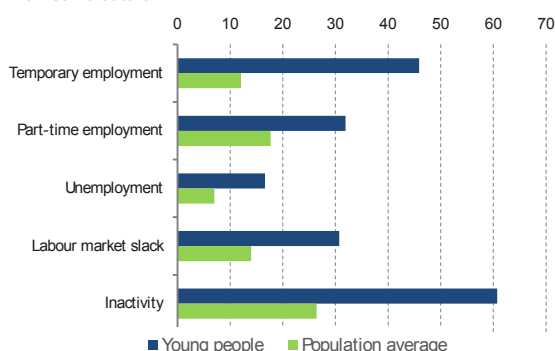
Labour market slack declined by 0.9 pp in 2021 and reached 14.0% of the extended labour force (aged 15-74). ⁽¹²⁾ This rate was 0.4 pp higher than in 2019. The decline was similar for women and men, although the unmet need for employment remained far higher for women, at 16.2%, compared to 12.1% for men. The main driver for the reduction of labour market slack was the decrease in the proportion of people available to work but not looking for a job, which shrank by 0.6 pp, to 3.7%.

Labour market slack was much higher for young people than for the rest of population. It declined from 36.4% in 2012 to 27.3% in 2019 before spiking to 31.0% in 2020 as the COVID-19 crisis hit young workers strongly. It stood at 30.7% of the extended labour force in 2021, with its main components being unemployment (14.8%) and people available to work but not looking for a job (8.1%). ⁽¹³⁾

Chart 1.13

Situation of young people in the labour market is less favourable than average

Young people compared to the population average - selection of labour market indicators



Note: Young people are aged 15-24. Population average refers to people aged 15-64 except for unemployment and labour market slack (15-74). Temporary employment and part-time employment: % of employment; unemployment: % of active population; labour market slack: % of extended labour force; inactivity: % of total population.

Source: Eurostat, EU-LFS.

[Click here to download chart.](#)

4. SOCIAL SITUATION, INCOME AND POVERTY

This section presents recent income trends and social developments in the EU, with particular focus on the indicators included in the revised social scoreboard of the European Pillar of Social

Rights' action plan. It describes the living conditions of EU households, particularly during the first phase of the COVID-19 crisis and the ensuing recovery. It documents income trends for the overall population and for different income groups, the role of social transfers in mitigating income inequality, and the multifaceted nature of poverty and social exclusion, with a focus on age-specific trends, in particular for young Europeans. As the official distributional indicators on inequality and risk of poverty are computed with survey data on income (with the latest available being 2020 data based on 2019 incomes), the figures presented here for 2021 and 2020 are based on simulations and modelling exercises. ⁽¹⁴⁾ General trends in poverty and inequality should therefore be treated with caution and considered as indications of trends rather than point estimates. The exception is the indicator of severe material and social deprivation (SMSD) which is not based on income data and thus for which the 2020 observed figure is available. Finally, demographic trends are reported over a longer timeframe, with a focus on the last decade.

4.1. Income and consumption trends

Gross disposable income per capita improved in 2021, peaking in Q2. This aggregate measure is an approximation of households' overall living conditions and focuses on the income that households are able to spend. ⁽¹⁵⁾ GDHI per capita recorded increases of 4.7% (Q2), 1.7% (Q3) and 0.8% (Q4), compared to the same periods in 2020 as EU economies started to recover from the effects of the pandemic. GDHI growth was mostly driven by increases in labour income, with changes in the compensation of employees and the self-employed (*Chart 1.14*) showing as positive from Q2 2021, compared to the same time in 2020. On the other hand, government intervention contributed to household disposable income to a lesser extent in 2021: the year-on-year change in the weight of taxes and social benefits on GDHI was negative from Q2 2021

⁽¹²⁾ 'Labour market slack' indicators measure the unmet need or demand for employment. More details available [here](#).

⁽¹³⁾ 2021 labour market slack data for young people cannot be compared with previous years because of a break in the LFS series.

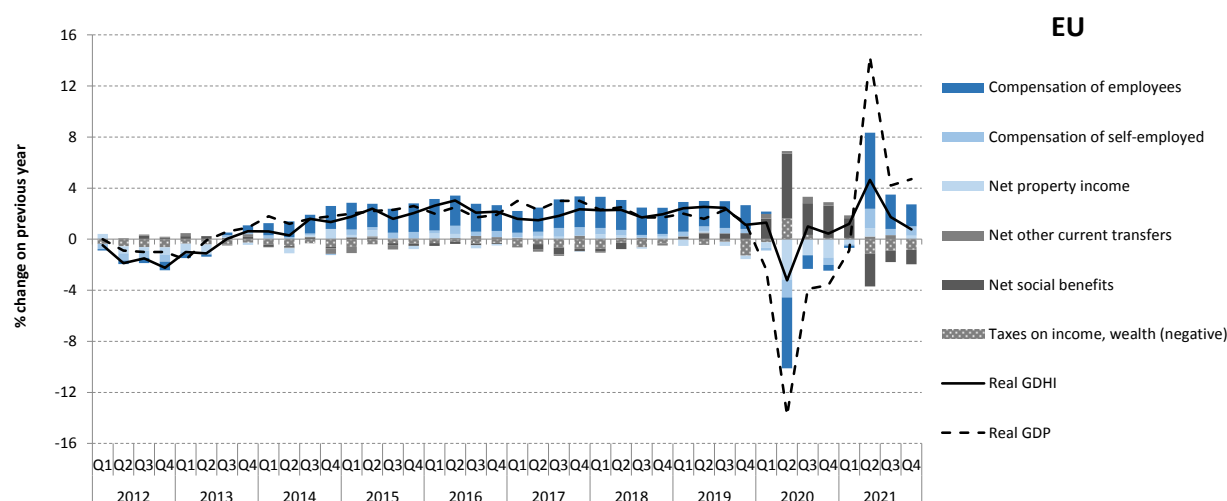
⁽¹⁴⁾ They present newer evidence than other previous DG EMPL publications. For more information on the various data sources and caveats of each, see box 1.1.

⁽¹⁵⁾ Unlike GDP, GDHI per capita is net of capital depreciation and disregards the income of foreign residents.

Chart 1.14

Brisk recovery in EU households' gross disposable income in 2021

Real GDHI and real GDP (% change on previous year), and contribution of GDHI components (pp), EU



Note: Nominal GDHI is converted into real GDHI by deflating it with the price index of household final consumption expenditure [prc_hicp_aind].

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

[Click here to download chart.](#)

onwards, indicating a reduced contribution to households' disposable income. This inverted the trend seen in 2020, where high net social benefits were crucial in compensating for the loss in labour market income and mitigating the shock of the largest drop in GDP ever recorded in the EU. Overall, these government contributions were crucial in keeping GDHI stable in the second half of 2020, despite the sharp decline in Q2 2020 after the outbreak of COVID-19. These EU-wide trends in GDHI varied significantly across Member States, however.

Consumption patterns changed significantly during the most dramatic period of the pandemic (2020), which may have an impact on savings in later years.

In the wake of lockdown measures and restricted consumption opportunities, total EU household consumption expenditure declined by 8.1% in 2020 (*Chart 1.15*). That drop was particularly severe for 'leisure items' such as restaurants and hotels (-37.8%), clothing (-17.3%), and recreation and culture (-16.7%). Expenditure on fundamental items such as education and health declined to a slightly lesser extent, while consumption on 'necessities' such as housing, related bills and food either remained constant or increased. This shift in consumption away from spending on leisure and somewhat 'optional' goods and services towards essential needs raises concerns about inequality of savings.

The drop in consumption expenditure was larger than the fall in GDHI, allowing for higher savings overall, but likely only among more advantaged groups.

EU savings rates increased during the pandemic, hitting a record high since the beginning of the Eurostat time series (1999), standing at 25% in Q2 2020, then gradually decreasing to 15% in Q3 2021. That compared to a pre-pandemic level of 13% over the last decade.⁽¹⁶⁾ Although more detailed corroborating information is needed, historical savings patterns suggest that the increase in the savings rate is likely to have varied across income groups.⁽¹⁷⁾ In particular, it seems that the savings rate for high-income households increased more than that for low-income households, as the consumption expenditure for necessities declined less than spending on leisure activities.⁽¹⁸⁾ That difference was exacerbated by the fact that low-income households remained at risk of financial insecurity due to the pandemic shock.⁽¹⁹⁾ This raises concerns that savings inequalities have increased in the wake of the pandemic, disproportionately

⁽¹⁶⁾ Eurostat [nasa_10_ki].

⁽¹⁷⁾ Saving rates vary significantly across income groups. Experimental statistics from Eurostat show that in 2015, the 20% poorest income group had a negative savings rate in all Member States except Czechia, Estonia, Ireland, France, and Poland. Conversely, the 20% richest income group in at least 22 Member States saved more than 30% of their disposable income. Eurostat [icw_sr_03].

⁽¹⁸⁾ European Central Bank (ECB) (2021).

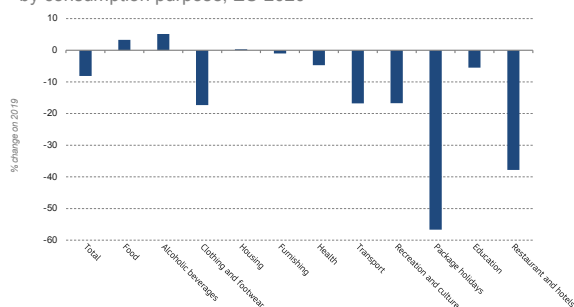
⁽¹⁹⁾ Organisation for Economic Cooperation and Development (OECD) (2021).

affecting low-income families' ability to invest and plan for the future.

Chart 1.15

Lockdowns and restricted opportunities drove down consumption expenditure

Final consumption expenditure of households (year-on-year change), by consumption purpose, EU 2020



Note: Consumption items selected from the Classification of Individual Consumption by Purpose (COICOP). Housing includes water, electricity, gas and other fuel. Furnishing includes household equipment and routine household maintenance.

Source: Eurostat data [nama_10_co3_p3], values adjusted by price index of household final consumption expenditure.

[Click here to download chart.](#)

Inflation grew in 2021, particularly for energy-intensive items, putting further pressure on low-income households' finances. After decades of low inflation, the pandemic, coupled with supply-chain bottlenecks, caused prices to rise. That trend was reinforced by the Russian invasion of Ukraine and the resulting impact on energy and food markets, which presented new economic, political and social challenges across the EU. ⁽²⁰⁾ Consumer price indices increased significantly in 2021 compared to the previous year for energy-intensive consumption items, such as housing and associated bills (water, electricity, gas, other fuels), as well as transport, all items that form a larger consumption share for low-income households (*Chart 1.16*). ⁽²¹⁾ Prices in the EU grew by 5.3% in 2021, peaking at 9.8% growth for housing and 11% for transport. Inflation risks particularly affect low-income household budgets, as the price of the necessities predominant in their consumption basket is on the rise.

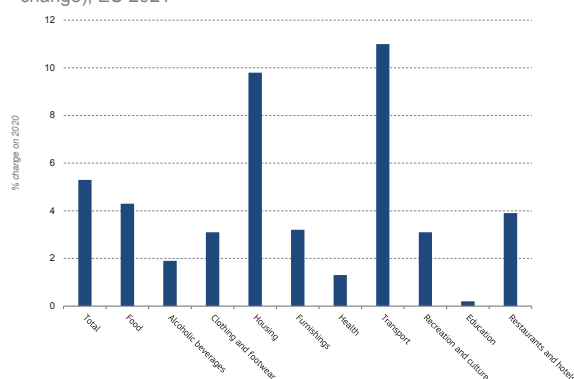
⁽²⁰⁾ ECB (2022).

⁽²¹⁾ Joint Research Centre (JRC) (2021a).

Chart 1.16

Inflation grew in 2021, particularly for energy-intensive consumption items

Price index of household final consumption expenditure (year-on-year change), EU 2021



Note: Consumption items selected from the COICOP.

Source: Eurostat data [prc_hicp_aind].

[Click here to download chart.](#)

4.2. Income inequality

Preliminary simulations suggest that income inequality remained broadly constant in the EU throughout the pandemic (clear conclusions can only be drawn once official data become available). ⁽²²⁾ Preliminary estimates from the Euromod baseline report suggest that inequality in disposable income (as measured by the EU-27 Gini coefficient ⁽²³⁾) remained broadly constant during the pandemic, varying from 0.288 in 2019, to 0.285 in 2020 and 0.287 in 2021. Some ad hoc studies even found that the Gini coefficients fell slightly in some Member States. ⁽²⁴⁾ Eurostat flash estimates for 2020 suggested that another measure of inequality, the S80/S20 indicator (income share of the top 20% compared to the bottom 20%) remained stable in the EU, with no significant increases in most EU countries. ⁽²⁵⁾

Generally, the aim of taxes and benefits is to redistribute income and wealth, thus mitigating market income inequality. ⁽²⁶⁾ *Chart 1.17* illustrates how Gini coefficients vary depending on

⁽²²⁾ See box 1.1 for more information on the limitations of the Euromod simulations.

⁽²³⁾ The Gini coefficient is a single number that summarises the degree of inequality in a distribution. A Gini coefficient of 1 (or 100%) expresses maximum inequality among values (i.e. only one person has all the income or consumption and all others have none).

⁽²⁴⁾ Clark et al. (2021) present inequality trends for big European countries, such as Germany, Spain, France, Italy, and Sweden.

⁽²⁵⁾ Eurostat FE (2021), see box 1.1 for more information on the limitations of flash estimates.

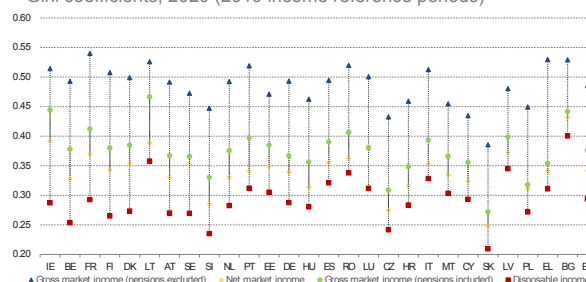
⁽²⁶⁾ Market income sources are labour and capital income.

the income used in calculations: in most Member States, inequality is higher when only gross market income is considered (especially if pensions are excluded), lower if net market income (including taxation) is considered, and even smaller once benefits are taken into account (i.e. if we consider disposable income).⁽²⁷⁾ Existing tax-benefit systems and exceptional income support policies introduced during the pandemic might explain the seemingly stable inequality trend in 2020-21.⁽²⁸⁾ Taxes and benefits had a significant effect on households' disposable incomes – and thus economic recovery – in 2020 and 2021 (*Chart 1.14*), but that effect varied considerably across the EU, and the intensity of the reduction reflected the design of tax benefit systems. The 2021 ESDE report elaborates on this point, showing how lower-income households faced largest losses in market income during the pandemic but tax-benefit systems and monetary compensation schemes in particular helped stabilise the income of these households. Current and future trends in income inequality depend on the structure of labour markets and the intensity of redistribution in the recovery phase, as well as on price development, considering that inflation may impact more the purchasing power of households with lower incomes.

Chart 1.17

Taxes and benefits significantly reduce market income inequality

Gini coefficients, 2020 (2019 income reference periods)



Note: EU Member States are sorted by overall tax benefit reduction in gross market inequality (dotted line). The tax effect is approximated by the distance between gross market (yellow) and net market incomes (blue). Income data is adjusted for household size (equalisation). The scale of Gini coefficients is from 0 to 1 where 0 corresponds to perfect equality and vice versa. Germany and Italy were available only for 2019 at the time of analysis. Germany, Denmark, Ireland France and Luxembourg had a break in time series in this data.

Source: DG EMPL calculations based on EU SILC micro data.

[Click here to download chart.](#)

⁽²⁷⁾ Note this analysis uses Gini coefficients based on 2019 incomes because it looks at long-term trends in the impact of tax-benefit systems on inequality.

⁽²⁸⁾ Joint Employment Report (2021); JRC (2021)b; Cantó et al. (2021) used Euromod to simulate the effects of changes in equivalent household income by pre-pandemic income quintile groups in Belgium, Spain, Italy, and the UK, and found that a one-month lockdown alone produced larger losses in gross income for those at the bottom of the income quintile distribution. However, government income support measures more than compensated for that inequality.

Box 1.1: Data on indicators of income inequality and poverty: some caveats

The indicators on income inequality and poverty in Sections 4.2 and 4.3 present new evidence on general trends in recent years, or trends by age group compared to previous European Commission publications. However, several indicators on inequality and risk of poverty in 2020 and 2021 are the result of model simulations rather than official statistics and should therefore be interpreted with caution.

Official statistics on these indicators are necessarily published with a delay. In fact, for any given reference year t , data are released at $t+1$ (e.g., for EU SILC 2020 in the second half of 2021), while these indicators refer to the latest available completed year ($t-1$, i.e. 2019 for EU SILC 2020). As 2021 survey data (reporting 2020 income) will not be published until around November 2022, the most recent statistics on inequality or poverty are based on pre-pandemic incomes (2019). In the absence of recent official statistics, sources of a more experimental nature were used in the analysis.

This includes the following simulations:

- Eurostat flash estimates
 - income quintile share ratio [S80/S20](#) referring to 2020 income year for disposable income (income share of the top 20% compared to the bottom 20%)
 - at-risk-of-poverty rate ([AROP](#)) referring to 2020 income year
- Simulations from the Euromod baseline report
 - AROP referring to 2021 income year
 - [Gni](#) coefficient of equivalised disposable income referring to 2020 and 2021 income years

Since official data on distributional indicators is published by necessity after a certain time lag, Eurostat produces Flash estimates to have early indicative results to be used for the EU's policy agenda. These simulations imply the use of models that allow the estimation of the entire distribution and capture the complex interaction between labour market developments, the effects of economic and monetary policies and the implementation of social reforms. The associated methodological note is available [online](#).

Euromod simulations result from applying tax benefit policies of the relevant year under analysis (2020 or 2021) to the EU-SILC survey income data available for before the pandemic in 2019 (input data). While mismatches between the timing of the data and tax benefit policies can easily be addressed in ordinary years, this was a challenge for 2020 and 2021, as all Member States suffered major economic shocks and labour market disruptions due to the COVID-19 pandemic, making the input data less representative of the overall population. This is partially addressed by using information from Eurostat on the loss of jobs and short-term work schemes to simulate a closer-to-reality labour market situation during the pandemic (version I4.0+, published in January 2022), but this cannot be fully accounted for so these statistics remain experimental and should be interpreted with caution.

Official data for [severe social and material deprivation](#) and [AROPE](#) are available for 2020 data collection. For material deprivation, this is because survey questions used to develop this indicator are not directly about income (which would be assessed as per the previous year), but instead refer to household current living conditions (eating meat, owning a mobile phone, etc.). The AROPE rate combines indicators of risk of relative poverty and work intensity (based on survey questions about outcomes in the previous year) with material deprivation scores which ask about current outcomes. Here, again, the combination of a pre-pandemic year (2019) with a pandemic year (2020) could be problematic and these figures should be interpreted with caution.

4.3. Risk of poverty and social exclusion

The EU 2020 Strategy foresaw that 20 million people should be lifted out of poverty and social exclusion in the EU (compared to 2008).⁽²⁹⁾ That target was not achieved, with only 11.95 million people lifted out of poverty by 2019 (the baseline year for the current set of 2030 targets).⁽³⁰⁾ Crucially, the overall improvement in the underlying indicator of material deprivation was not generally followed by improvements in the at-risk-of-poverty (AROP) rate.⁽³¹⁾ The EU target for poverty and social exclusion for 2030 was presented at the Porto Social Summit in May 2021. It aims to reduce the number of people at risk of poverty or social exclusion by at least 15 million, of which at least five million should be children, in comparison to the 2019 baseline.

The situation in 2020 already suggested that work remained to be done to reach the Porto headline target on reduction of poverty and social exclusion. In the short term, the uncertainty brought about by the pandemic posed challenges for the labour market and living conditions of EU households.⁽³²⁾ In 2020, 21.5% of the EU population was estimated to be experiencing poverty and social exclusion, representing some 94.7 million people, 19.32 million of whom were children under 18 years old. This implies a slightly increasing trend compared to 2019 when 92.2 million people were considered at risk of poverty and social exclusion (AROPE). However, in an exceptional year such as 2020 the AROPE rate

should be interpreted with caution as it combines indicators of risk of relative poverty (AROP) and work intensity from 2019 with material deprivation from 2020. For this reason, it is useful to report the components of the AROPE separately.⁽³³⁾ The indicators forming the AROPE are themselves relevant since they are also headline indicators in the revised Social Scoreboard of the European Pillar of Social Rights action plan.

Initial simulations indicate a broadly stable risk of poverty (AROP) in 2021.⁽³⁴⁾ The AROP trend in 2020 also seems somewhat stable, but conclusions on the post-pandemic trends in poverty risk can only be drawn once official data becomes available.

The AROP rate showed considerable variability across age groups, with young people the hardest hit.⁽³⁵⁾ The 2020 Eurostat flash estimates (used in the 2021 ESDE report) are broken down by age for a more in-depth view of the risk of poverty impact on young people (*Chart 1.18*). Given the uncertainty due to the experimental methods used, it shows ranges of possible changes in AROP compared to the previous year for each age group rather than point estimates. The results of interest are those for countries in the left-hand section of the graph (for which the year-on-year variations are statistically significant), and the indicators of interest are the dark orange bars, showing a range for each statistically significant result. For most countries, the AROP rate for minors (<18) increased in 2020 compared to 2019, with a fair degree of certainty, as all numbers in the range (dark orange bar) in the left section of the graph are positive. A similar pattern can be seen for the

⁽²⁹⁾ AROPE corresponds to the sum of persons who are either at risk of poverty, or severely materially and socially deprived or living in a household with a very low work intensity. People are included only once even if they are in more than one of the situations mentioned above.

⁽³⁰⁾ Eurostat [ilc_peps01]. This figure refers to the old AROPE indicator, as defined in the EU 2020 Strategy since we refer to 2020 and 2019 figures. The figure for the AROPE indicator in 2019 is estimated. The EU aggregate does not include the UK.

⁽³¹⁾ The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers. Note that this indicator does not measure wealth or poverty per se, but low income in comparison to other residents in that country.

⁽³²⁾ Figures refer to the revised AROPE indicator, as defined in the Revised Social Scoreboard. The 2030 target for poverty and social exclusion considers a revised version of the underlying indicator of "severe material and social deprivation", and "low work intensity". The AROPE rates in 2019 and 2020 are estimated (Eurostat: ilc_peps01n).

⁽³³⁾ The AROPE indicator considers severe material deprivation of the current year and risk of poverty and work intensity of the preceding year. This time mismatch between the three sub-indicators may be problematic in a very exceptional year such as 2020, where the effects of labour market shocks on living conditions can materialise with a time lag. See box 1.1 for more details.

⁽³⁴⁾ Euromod (2022), see box 1.1 for more details.

⁽³⁵⁾ Flash estimates differ from Euromod figures of the baseline report in 2020 and 2021 as they model individual labour transitions more comprehensively. In exceptional years, it may be useful to look at poverty lines anchored in past years, as the poverty line may have gone down following a decline in median income. However, the AROP rate is computed on the basis of a floating poverty line (i.e. for 2020 it is 60% of the median equivalised household income in 2020).

working age group (18-64), where all but one country in the left-hand section of the graph saw increases in the AROP rate. The opposite trend can be seen for the older age group (65+), where many of the countries with statistically significant year-on-year variations saw reductions in the AROP rate. For some countries, the range of this decrease was wholly above 2 pp (green bars), indicating a particularly large change. This effect might be due to the relative stability – or even growing trend – of pensions, which were largely immune to the labour shocks caused by the COVID-19 crisis.

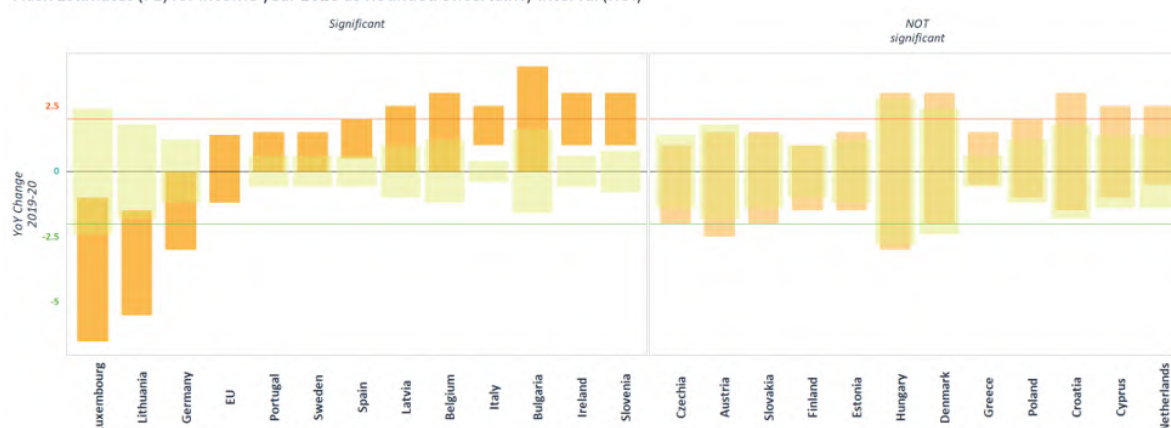
Chart 1.18

AROP rate increased among younger cohorts

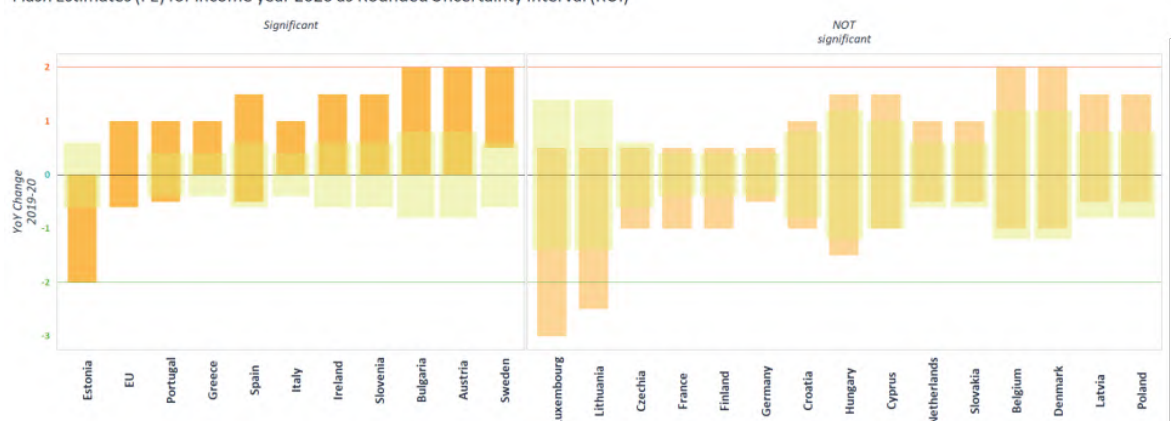
Change in AROP rate (pp year on year change), 2020

At-risk-of-poverty rate (AROP)
- age <18

Flash Estimates (FE) for income year 2020 as Rounded Uncertainty Interval (RUI)

At-risk-of-poverty rate (AROP)
- age 18-64

Flash Estimates (FE) for income year 2020 as Rounded Uncertainty Interval (RUI)

At-risk-of-poverty rate (AROP)
- age 65+

Flash Estimates (FE) for income year 2020 as Rounded Uncertainty Interval (RUI)



Note: Flash estimates not published for some countries. Given the uncertainty around these figures, Eurostat has chosen to show them not as point estimates but as rounded uncertainty intervals (RUI), to indicate a range of possible values. Flash estimates are calculated for income year 2020. In the left section of the graph, dark orange bars indicate the RUI for the FE 2019 in cases where the flash estimates for the year-on-year change point estimate are statistically significant. Extreme values, where the uncertainty interval is entirely beyond a certain threshold, are censored, and an open-ended interval bounded by the threshold is shown instead of the RUI (dark green bars), conveying the message that the changes are relatively large. The lower limit for what is considered an extreme value is 2 pp for AROP. In the right section, light orange bars indicate the RUI for the FE 2019 in cases where the flash estimates for the year-on-year change are not statistically significant. In both right and left sections of the graph, light green bars are the ranges of values which should be considered not significantly different from 0.

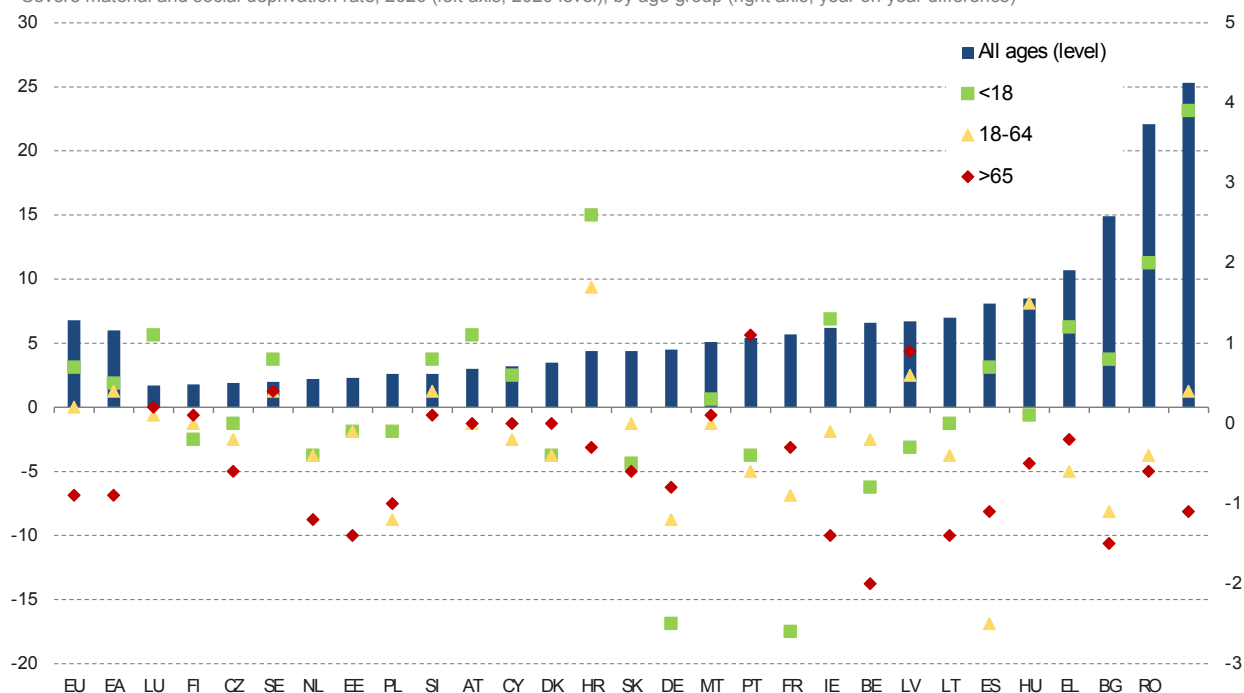
Source: Eurostat AROP flash estimates for income year 2020.

[Click here to download chart.](#)

Chart 1.19

Material and social deprivation improved for older age groups in 2020 and worsened for younger age groups

Severe material and social deprivation rate, 2020 (left axis, 2020 level), by age group (right axis, year on year difference)



Note: Germany has a break in time series.

Source: Eurostat, EU SILC [ilc_mdspd11].

[Click here to download chart.](#)

The proportion of the population living in severe material and social deprivation (SMSD) increased only slightly in 2020, but became more frequent among young people. At EU level, the number of people living in SMSD stayed fairly stable, at 28.85 million people in 2020 compared to 28.025 million people in 2019. ⁽³⁶⁾ The analysis below relies on 2020 data, as material and social deprivation official data is already available for that year. Data are, however, broken down by age group (*Chart 1.19*). At EU level, the proportion of over-65s exposed to SMSD decreased at EU level (-0.9 pp), while the deprivation rate increased for the working-age (+0.2 pp) and young (+0.7 pp)

populations. This varied greatly by country. For people under 18, this indicator increased in most countries compared to 2019, although it fell in 11 Member States (green marker). For the working-age group (18-64), the share of people in SMSD also fell in the majority of Member States, with slight increases in 10 countries. Among the over-65s, the trend is clearer, with 25 countries seeing their rates improve (i.e. fall). ⁽³⁷⁾

Young people were already exposed to social risks in the run-up to the COVID-19 crisis.

Experimental statistics from Eurostat highlighted that young cohorts were more vulnerable to the two-fold risk of poverty, implying income and consumption levels under the respective income and consumption poverty lines. In 2015, the proportion of under-35s was at higher risk of being both income and consumption poor than older cohorts in the majority of EU countries, except for the Baltic countries, Croatia and Slovenia. The gap was largest in Bulgaria, Romania and Slovakia, with a >3 pp gap in twofold poverty

⁽³⁶⁾ The SMSD rate measures enforced lack of necessary and desirable items to lead an adequate life. It is defined as the proportion of the population experiencing an **enforced lack of at least 7 of 13 deprivation items**. Items at *household level*: i) Capacity to face unexpected expenses; ii) Capacity to afford paying for one week annual holiday away from home; iii) Capacity to be confronted with payment arrears (on mortgage or rental payments, utility bills, hire purchase instalments or other loan payments); iv) Capacity to afford a meal with meat, chicken, fish or vegetarian equivalent every second day; v) Ability to keep home adequately; vi) Having access to a car/van for personal use; vii) Replacing worn-out furniture. Items at *individual level*: viii) Having internet connection; ix) Replacing worn-out clothes with new ones; x) Having two pairs of properly fitting shoes (including a pair of all-weather shoes); xi) Spending a small amount of money each week on themselves; xii) Having regular leisure activities; xiii) Getting together with friends/family for a drink/meal at least once a month.

⁽³⁷⁾ Break in time series between 2019 and 2020 for Germany, Ireland, France and Luxembourg.

between the under-35s and older cohorts.⁽³⁸⁾ However, young people's worsening living conditions also depend on widely recognised lifecycle aspects, such as transition out of the parent/guardian household, lower labour income in early career, household formation and housing purchases. These areas are discussed in detail in Chapters 2 and 4 of this report.

4.4. Demographics

2020 and 2021 were marked by a large number of COVID-19 deaths, particularly during the spring and winter peaks of successive pandemic waves. *Chart 1.20* shows that excess mortality at EU level was much lower in January and February 2020 compared to the same months in 2021, and ranged from 1.8% in June 2020 to 40% in November 2020. After a decrease at the beginning of 2021, excess mortality peaked in April and again in November 2021. After decades of life expectancy increases due to improvements in healthcare and quality of life, this unprecedented shock caused a reduction in life expectancy in most countries, with life expectancy at the EU level reduced by almost one year in 2020 to 80.4 years.⁽³⁹⁾ The mortality impact of the pandemic has been uneven across countries and over time, with Central and Eastern European EU Member States registering the largest rates of excess mortality.⁽⁴⁰⁾ Demographic trends such as population ageing are long-term processes that are evident in most regions of the world since the 1950s,⁽⁴¹⁾ suggesting that the pandemic's impact on ageing may be unlikely to result in a major reversal of the long-term ageing of European societies.⁽⁴²⁾

⁽³⁸⁾ The gap in twofold risk of poverty (income and consumption) by age group is from Eurostat experimental statistics [icw_pov_10].

⁽³⁹⁾ Aburto et al. (2021).

⁽⁴⁰⁾ European Commission (2021b).

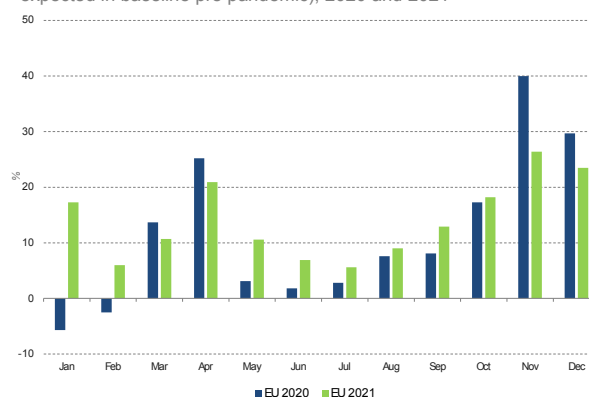
⁽⁴¹⁾ WHO (2021).

⁽⁴²⁾ Temple et al (2021).

Chart 1.20

Additional deaths due to pandemic peaks in 2020 and 2021

Excess mortality (number of deaths from all causes compared with expected in baseline pre pandemic), 2020 and 2021



Source: Eurostat [demo_mexrt]

[Click here to download chart.](#)

Demographic projections foresee relatively stable EU population numbers until 2050 (a reduction of about 6 million) but predict profound changes in population structure.⁽⁴³⁾ The most pronounced trends include population ageing, shrinking numbers of working-age adults, mobility within and between Member States – particularly in view of the large inflow of Ukrainian refugees – and a growing trend in higher education.

There is clear evidence of the steady ageing of the EU population. In 2020, the population aged 65+ overtook the population aged <20, compared to 2011 when there were 100 people under 20 for every 74 people aged 65+ (see *Chart 1.21*). This is the result of improved life expectancy and the arrival of baby boomers in the 70+ age group, as well as sustained low fertility.⁽⁴⁴⁾

The change in the EU population structure varies substantially between Member States. In countries such as Italy, Germany and Portugal, in 2021, there were more 120 or more individuals aged 65+ for every 100 individuals <20 (see *Chart 1.22*). This ratio between the 65+ and <20 populations was much lower in Ireland, Luxembourg and Cyprus, where it amounted to 55.7%, 68.9% and 76.7%, respectively. Irrespective of the level of this ratio, the trend increased for all

⁽⁴³⁾ Eurostat table: [proj_19np]. Latest projections estimate the EU population at 441.2 million in on 1 January 2050, compared to 447.56 million in on 1 January 2020.

⁽⁴⁴⁾ Fertility has been below the replacement level (2.1 children per woman) since the 1960s or 1970s in many European countries. At the same time, age at first motherhood has been increasing.

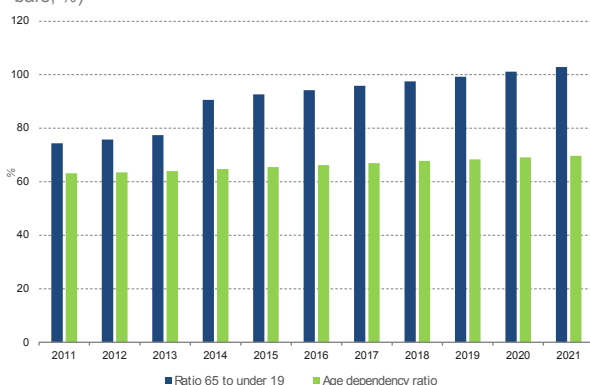
countries in 2021 compared to 2011 and 2015, with the exception of Sweden and Latvia. Between 2015 and 2020, the increase in over-65s compared to the <20s was largest in Croatia, Poland, Finland and Italy.

Long-term trends indicate the compression of the traditionally working-age population (20-64) in relation to the traditionally inactive age group (under-19 and over-65) over the last decade. The ratio of the <19 and 65+ populations compared to the 20-64 population has grown steadily, from 63.2% in 2011 to 69.7% in 2021 according to *Chart 1.21*.⁽⁴⁵⁾ This indicator suggests that the size of the working-age generation is shrinking and under strain.

Chart 1.21

More over 65s than <20s in the EU in 2021

Age dependency ratios (green bar, population 0-19 & 65+ to working population 20-64, %); ratio of population 65+ to population <20 (blue bars, %)



Note: Population on 1st of January 2020. Note for the ratio of 65+, data from age 85 is missing.

Source: Eurostat [demo_pjanind] for the age dependency ratio, DG EMPL calculations based on [demo_pjan] for the ratio of 65+ to population <20

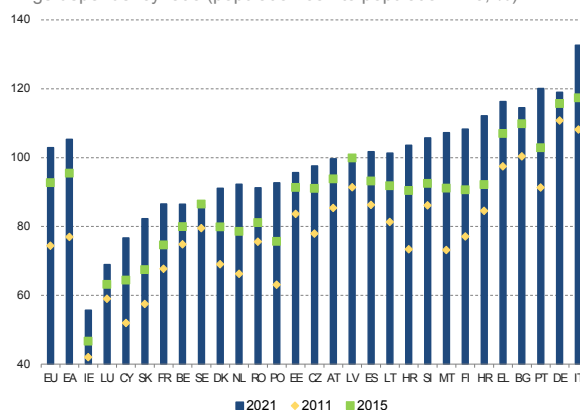
[Click here to download chart.](#)

⁽⁴⁵⁾ This age-dependency ratio represents an idea of burden-sharing across generations, as working-age individuals carry a responsibility for both the previous generation (older people of retirement age) and 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 primarily by taxing the working-age population.

Chart 1.22

Over 65 population growing compared to the under 20s in all Member States

Age dependency ratio (population 65+ to population <20, %)



Note: Population on 1st of January 2021. Reading example: in Italy in 2021 there were 130 individuals aged 65+ for every 100 individuals aged <20

Source: DG EMPL calculations based on Eurostat [demo_pjan]

[Click here to download chart.](#)

In addition to ageing, mobility within and between EU countries contributes to a changing population structure. Over the last decade, some regions have experienced increases or decreases of their total population by a magnitude greater than 10%. In 2020, one in three people in the EU live already in a region that lost population over the past decade, and this share is projected to reach 50% by 2040.⁽⁴⁶⁾ While NUTS-2 capital regions increased their populations, rural regions are characterised by depopulation. The vast majority of these regions are located in Central and Eastern European countries, as well as in Southern Europe and the Baltic States.⁽⁴⁷⁾ Regions in the Baltic countries and Romania experienced population declines larger than 10% of their 2010 population.⁽⁴⁸⁾ These regions, together with the Polish regions bordering Ukraine, are now receiving the largest influx of Ukrainian refugees, which may reverse this trend, albeit temporarily.

⁽⁴⁶⁾ European Commission (2022)b.

⁽⁴⁷⁾ Eurostat table: demo_r_pjangrp3.

⁽⁴⁸⁾ European Commission (2020).

Box 1.2: Assessment of the long term labour market impact of the Russian invasion of Ukraine

The European Commission's Labour Market Model (LMM) is used to assess the long-term impact of the inflow of refugees from Ukraine on several Member States: Poland, Slovakia, Hungary, Czechia, Spain, Italy, Austria, Germany, France, Belgium, Netherlands, Denmark, Finland, and Sweden. By 08/05/2022, ⁽¹⁾ about 5.9 million people had already fled Ukraine, with many more expected to do the same. This includes 3.2 million refugees coming to Poland, 568 000 to Hungary, 402 000 to Slovakia, and 880 000 to Romania. Assuming that those refugees who stay long term will integrate into society, and given that beneficiaries of temporary protection have equal access to the local labour market as EU mobile citizens, this can be seen as an increase in labour supply (population).

Hosting humanitarian migrants in the short term, and educating/integrating those who wish to stay in the longer term are costly and present serious challenges for the host society. Over time, however, the inflow of refugees is expected to have a positive impact on the level of GDP and the number of employed people in the EU. The inflow of people is expected to put downward pressure on real wages in the medium term, which will, in turn, increase the return on capital. This increases both investment and labour demand, and thus GDP. Assuming that wages and capital supply are perfectly flexible in the long term, the average real wage returns (close) to its pre-shock level, and both the number of employees and the capital stock increase. Depending on the scenario, the distribution of wages (i.e. wage inequality) can be impacted. ⁽²⁾

Taking, as an illustration, an assumed group of one million Ukrainians settling in the long term in the EU, their impact can be assessed for six different scenarios in terms of the degree of their socio-economic integration and place of settlement:

- Settlement of people in *i)* countries bordering Ukraine, such as Poland, Slovakia, and Hungary; *ii)* proportional distribution of refugees across all Member States based on population shares; and *iii)* higher concentrations in Member States with a pre-existing Ukrainian community.
- *a)* In a scenario of full integration of refugees, their level of education is the same as that of the host country; *b)* in the partial integration scenario, the level of education of new Ukrainian refugees is equivalent to that of pre-war Ukrainian migrants (which is, on average, lower than that of the host country population).

The analysis focuses on these long-term effects, while short-term costs (particularly the impact of public spending) and the adjustment process are not considered. The magnitude of the impact on the Member States varies depending on the scenario (Table 1). Poland is at the forefront of hosting people fleeing Ukraine, both in terms of number of people and as a proportion of the local population. It also hosted by far the largest number of Ukrainian immigrants in the EU before 2022 (more than 70%). ⁽³⁾ Consequently, both in the scenario that assumes that the Ukrainian refugees settle only in bordering Member States and the scenario that assumes that existing Ukrainian communities attract most of these refugees, Poland experiences the strongest impact (GDP increases of 1.5-1.7%). Under the scenario that assumes that refugees are distributed across all Member States proportionally to their overall population, the shock on Member States bordering Ukraine is mitigated (GDP increases by about 0.2%).

In the scenario in which refugees do not fully integrate into the host country's labour market (i.e. do not reach the same education level or are subject to hiring discrimination and therefore have lower employment prospects than their comparable native peers), the overall positive effect on employment

⁽¹⁾ Data from the UN Refugee Agency (UNHCR), 08/05/2022. Information is gathered on Ukrainian refugees crossing to neighbouring countries. This means that many of those counted when they initially crossed into these countries may since have travelled to other countries. For instance, Czechia's Ministry of the interior reported that as of 10 May 2022, it had granted more than 330 000 emergency visas to Ukrainian refugees. The simulation results presented in this note are based on these numbers. Regularly updated statistics are available at <https://data.unhcr.org/en/situations/ukraine>.

⁽²⁾ The simulation results assume that there is no major bottleneck that would impede the adjustment of the labour market and the economy in the long term. For example, if real wages cannot adjust downward in the short- or medium-term due to unions' excessive wage claims or excessive minimum wage increases, the increase in labour supply will at least partly translate into an increase in unemployment or a decrease in participation rather than an increase in employment and GDP. Similarly, barriers to entry to the labour force for Ukrainian refugees (e.g. because of discrimination) can also result in more limited positive impact. Moreover, if governments must increase (distortive) taxes or take on more debt to compensate for the higher costs associated with the inflow of refugees, the impact on GDP could be negative. Finally, in an extreme case where the number of refugees is so high in one or several countries that it becomes unmanageable, the country's social security system could collapse.

⁽³⁾ Source: OECD data on "Immigrants by citizenship and age", mainly based on data from the 2000 round of censuses.

(Continued on the next page)

Box (continued)

and GDP is expected to be lower than in the full integration scenario. Employment would increase more than proportionally to GDP, thus average labour productivity (GDP per person employed) would be expected to decrease. Looking at distribution of wages (i.e. wage inequality), the increased labour supply of lower educated people would be expected to exert a downward pressure on the wages of low-skilled people, while those of highly educated people should increase.⁽⁴⁾ Targeted education and training is therefore crucial to move closer to the full integration scenario.

Table 1

Long-term impact of the inflow of humanitarian migrants on GDP and employment (%) in selected countries

		Settling in bordering Member States			Proportional distribution across the EU			Settling in Member States with existing Ukrainian communities (proportionally)		
		Number of people	Full integration	Partial integration	Number of people	Full integration	Partial integration	Number of people	Full integration	Partial integration
Poland	GDP	634 774	1.46	1.09	84 614	0.20	0.15	732 231	1.69	1.26
	Employment		1.48	1.22		0.20	0.16		1.71	1.41
Slovakia	GDP	79 383	1.25	0.86	12 209	0.19	0.13	16 853	0.26	0.18
	Employment		1.26	0.96		0.19	0.15		0.27	0.20
Hungary	GDP	112 194	0.96	0.92	21 759	0.19	0.18	52 910	0.45	0.43
	Employment		0.95	0.92		0.18	0.18		0.45	0.43
Czechia	GDP	0	0.00	0.00	23 930	0.20	0.15	73 853	0.61	0.45
	Employment		0.00	0.00		0.20	0.16		0.61	0.50
Spain	GDP	0	0.00	0.00	105 988	0.20	0.19	48 880	0.09	0.09
	Employment		0.00	0.00		0.21	0.20		0.10	0.09
Italy	GDP	0	0.00	0.00	132 458	0.20	0.19	20 143	0.03	0.03
	Employment		0.00	0.00		0.21	0.20		0.03	0.03
Austria	GDP	0	0.00	0.00	19 974	0.21	0.17	7 151	0.07	0.06
	Employment		0.00	0.00		0.20	0.19		0.07	0.07
Germany	GDP	0	0.00	0.00	185 943	0.20	0.16	0	0.00	0.00
	Employment		0.00	0.00		0.20	0.18		0.00	0.00
France	GDP	0	0.00	0.00	151 287	0.22	0.18	13 642	0.02	0.02
	Employment		0.00	0.00		0.21	0.19		0.02	0.02
Belgium	GDP	0	0.00	0.00	25 838	0.21	0.18	5	0.00	0.00
	Employment		0.00	0.00		0.20	0.19		0.00	0.00
Netherlands	GDP	0	0.00	0.00	39 077	0.20	0.19	0	0.00	0.00
	Employment		0.00	0.00		0.20	0.19		0.00	0.00
Denmark	GDP	0	0.00	0.00	13 059	0.20	0.19	1 636	0.02	0.02
	Employment		0.00	0.00		0.20	0.20		0.03	0.02
Finland	GDP	0	0.00	0.00	12 374	0.20	0.17	298	0.00	0.00
	Employment		0.00	0.00		0.20	0.19		0.00	0.00
Sweden	GDP	0	0.00	0.00	4 716	0.20	0.18	3 466	0.03	0.03
	Employment		0.00	0.00		0.20	0.19		0.03	0.03

Source: Own calculation based on the European Commission's Labour Market Model.

⁽⁴⁾ The difference in the impacts of the inflow of refugees on low-skilled and high-skilled wages in the partial integration scenario is explained by the (assumed) complementarity of capital and high-skilled labour. If the share of lower educated people among the refugees is higher than their respective share in the local population, the lack of sufficient number of additional high-skilled workforce constrains the optimal adjustment of capital. In other words, the increase in the supply of capital induced by the (principally low-skilled) labour supply shock creates an excess demand for highly educated people. In turn, wages of highly educated workers increase, while the relatively fewer vacancies available for lower educated people puts a downward pressure on their wages. In the optimum, the nationwide average wage will be somewhat lower than before the inflow of refugees.

Overall, demographic trends over the last decade show constantly rising fractions of the over-65 age group, both in comparison to the working-age population and to children. This is largely due to increasing life expectancy and lower fertility. These population trends might affect the implicit social contract across generations, as well as underlying intergenerational fairness.

5. CONCLUSIONS

The strong rebound of the European economy observed in 2021 followed the most severe contraction ever recorded as a consequence of the COVID-19 crisis in 2020. However, that recovery was paced differently across the Member States and largely mirrored the losses experienced during the crisis. Factors hindering growth were already evident at the beginning of 2022 and were further exacerbated by the

Russian invasion of Ukraine. More specifically, pressure on the price of energy and other commodities caused a peak in inflation, which reached the highest rate in the history of the monetary union, with expected to have important distributional consequences. As result, EU GDP is expected to grow by 2.7%, considerably less than previously forecast.

Labour markets recovered in 2021, although not as strongly as the economy. The implementation of job retention measures in 2020 cushioned the impact of the recession on employment by reducing the number of hours worked, and, accordingly, recovery was driven more by an increase in hours worked rather than by growing the numbers of people employed.

The main labour market indicators improved for young people, who were more affected by the crisis in 2020 than other population groups. However, the situation of young people in the labour market remained difficult, with a very high incidence of temporary work and significant unemployment and NEET rates.

Strong government and EU intervention to support households in 2020 and 2021 helped to prevent a significant deterioration in social outcomes due to the COVID-19 pandemic. While the social impact of the crisis is not yet clear due to data lags, preliminary findings suggest that it was limited: the AROPE rate among EU households rose slightly in 2020 and remained stable in 2021. At EU level, the number of people living in severe material and social deprivation grew slightly in 2020 (28.85 million people, compared to 28.03 million in 2019) and initial simulations on inequality suggest a somewhat constant trend. The unprecedented government and EU intervention through income support policies and automatic stabilisers appears to have been effective in mitigating the shock caused by the pandemic. In 2020, households' average disposable income was broadly supported by social benefits as market income plunged, while in 2021 the contribution of salaries and self-employment income partially recovered and public intervention declined. Nevertheless, with

prices on the rise, households' purchasing power is at of risks declining, particularly among low-income households, for which rising food and energy costs represent a large share of their consumption basket.

The social impacts of the COVID-19 crisis were not homogenous across age groups, with young people hardest hit. Preliminary findings on AROP rates in 2020 show increases in most countries for the working-age group (18-64) and for minors (<18), in contrast with findings for older groups. SMSD rates rose in 2020 for the working-age and youngest groups, while over-65s saw their situation improve.

Demographic trends over the last decade show that the share of the 65+ age group is rising rapidly. The proportion of the population aged 65+ is growing, both in comparison to the working-age population and to the child population, due to increasing life expectancy and lower fertility. This trend poses major challenges for intergenerational fairness.

The EU economy is being impacted by a number of global economic and geopolitical challenges. The Russian invasion of Ukraine in February 2022 has caused many deaths and much human suffering, and the subsequent displacement of millions of people will impact EU demography. Member States have welcomed refugees fleeing from Ukraine, with the EU granting them temporary protection and support, notably through the EU Civil Protection Mechanism and the CARE package. The European Commission has also stepped up its financial support to Ukraine, with an emergency macro-financial assistance (MFA) package of up to EUR 1.2 billion, which has already been disbursed, and has presented on 18 May 2022 a Communication on Ukraine relief and reconstruction. The EU economy has been significantly impacted, experiencing trade and financial disruptions, a spike in energy and agricultural prices, and the arrival and subsequent integration of displaced people from Ukraine.

The EU headline targets for 2030 in the areas of employment, adult participation and learning, and social inclusion will play a key role in

ensuring a strong social recovery and upward convergence in the coming years. The developments discussed here show that inclusion and full participation of young people in the labour market, and improvement of their social situation, are necessary factors to achieve these targets.