EUROPEAN
COMMISSION

Brussels, 24.11.2026
SWD(2026) 977 final

PART 2/15

COMMISSION STAFF WORKING DOCUMENT

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

On the Tenth Report on economic, social and territorial cohesion

Chapter 1.2 Social cohesion

{COM(2026) 966 final}

Chapter 1.2
Social cohesion

Social cohesion and competitiveness are mutually reinforcing (Council of the European Union, 2025). Inclusive labour markets, social protection and investment in education, skills and quality jobs sustain productivity growth, and a competitive and innovative economy, in turn, generates the resources to invest in people and social policies. This virtuous circle is neither automatic nor territorially even. It depends on institutions that increase access to opportunities, and without deliberate policy effort, market forces tend to remain concentrated in already successful places. Social disparities across EU regions are not a sign of absent resources but of under-used ones. Lagging regions often have significant human capital that remains unexploited, and their weak social outcomes represent lost potential for EU performance.

The regions that perform best on income and social inclusion are largely those that also perform well on skills, employment and productivity, mirroring the divides in economic performance described in Chapter 1.1. However, growth alone has not resolved deeply rooted, localised poverty. The EU's eastern regions have closed much of the household income gap since 2000, while many southern regions still combine weak productivity with high at risk of poverty, in-work poverty and youth inactivity. Moreover, a growing share of disparities lies within countries, between metropolitan economies and peripheral, rural and industrial transition areas.

Skills and labour market participation are the main channels through which social inclusion and productivity reinforce each other. Skills are best used where productivity is highest, while mobilising human capital helps mitigate growing labour shortages. Closing educational attainment gaps and reducing skills mismatches can boost both inclusion and economic performance, broadening the productive base. (European Commission, 2024b) Lower poverty, stronger skills and wider participation among under-represented groups support broader labour force participation and increased productivity (European Commission, 2026i), especially where population ageing constrains growth. Social, employment and education and training policies that strengthen skills and participation can therefore unlock untapped potential in the EU's regions.

This chapter examines social cohesion across EU regions between 2000 and 2025. Section 1.2.1 reviews household income and social inclusion against the EU target of at least 15 million fewer people, including 5 million children, at risk of poverty or social exclusion by 2030. Section 1.2.2 examines education, skills and employment, which underpin the EU's 2030 targets of an employment rate of at least 78% and at least 60% of adults participating in training every year.([19]) Section 1.2.3 analyses the two-way relationship between social outcomes and productivity, namely how economic performance translates into household income and inclusion, and how social outcomes shape productivity through skills and employment.

1.2.1. Geography of social inclusion – disparities and convergence

Strong economic performance has the potential to improve social outcomes and living standards. This section examines household income, which links the economic and social spheres most directly, and poverty and social exclusion, captured by the at risk of poverty or social exclusion (AROPE) rate. Poverty gaps are measured against estimated national target rates.([20]) Social outcomes remain highly disparate between regions despite broad improvement since 2000.([21]) Household income broadly mirrors economic convergence, with eastern regions driving the improvement and southern regions underperforming before 2013. (Figure 1.2.1)

([19]) The European Pillar of Social Rights Action Plan, adopted in 2021 and updated in 2026, translates the Pillar's 20 principles into concrete measures and headline targets.

([20]) At EU level, lifting at least 15 million people, including 5 million children, out of at risk of poverty or social exclusion by 2030, from over 90 million in 2019, implies an AROPE rate of around 17-18%. (DG REGIO estimate based on 2030 population projections).

([21]) National AROPE rates converged after 2015, as countries with highest levels recorded largest reductions. Yet social gains of growth remain uneven within and between Member States (European Commission, 2024a)

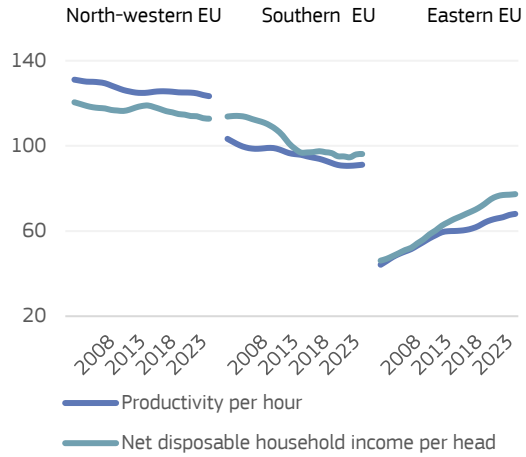
Table 1.2.1: Key indicators of social inclusion by macro-region, 2025

	Net household income per head	At risk of poverty or social exclusion	At risk of poverty	Severe material and social deprivation	Very low work intensity households	Financial vulnerability (inability to pay unexpected financial expenses)	Energy poverty (inability to keep home adequately warm)	Regional Energy Vulnerability Index
	(PPS, index EU=100) 2023	(%) 2025	(%) 2025	(%) 2025	(% of pop <65) 2025	(%) 2025	(%) 2025	(1-10) 2023
	0 ----------> 150	40 <---------- 0	40 <---------- 0	15 <---------- 0	15 <---------- 0	40 <---------- 0	15 <---------- 0	10 <---------- 0
EU	100	21	16	6.3	7.9	29	8.8	5.2
More developed	117	18	14	4.9	7.5	24	6.0	
Transition	99	19	15	5.6	7.6	28	8.8	
Less developed	74	27	21	8.9	8.8	36	11.4	
North-Western EU	112	20	15	5.5	9.1	28	7.2	4.4
Southern EU	97	24	19	7.0	8.2	32	12.7	6.9
Eastern EU	78	19	15	6.8	4.8	29	6.8	4.8
EU-14	107	21	17	6.0	8.8	29	9.3	5.3
EU-13	78	19	15	6.7	4.7	29	6.9	4.8
Cities		21	16	6.5	8.7			
Towns & Suburbs		20	16	5.9	8.0			
Rural areas		21	17	6.4	6.5			

(1) The AROPE components: AROP and very low work intensity refer to income year 2024.
Bars run left (favourable) and right (unfavourable). Each column uses its own scale, so lengths compare within columns only

Source: DG REGIO calculations based on ARDECO (RUVNH) and Eurostat (ilc_peps11n, ilc_li41, ilc_mdsd18, ilc_lvhl21n, ilc_mdes04_r, ilc_mdes01_r)

Figure 1.2.1: Net disposable household income per head and productivity per hour by macro-region, 2000–2023 (PPS, index EU-27=100)



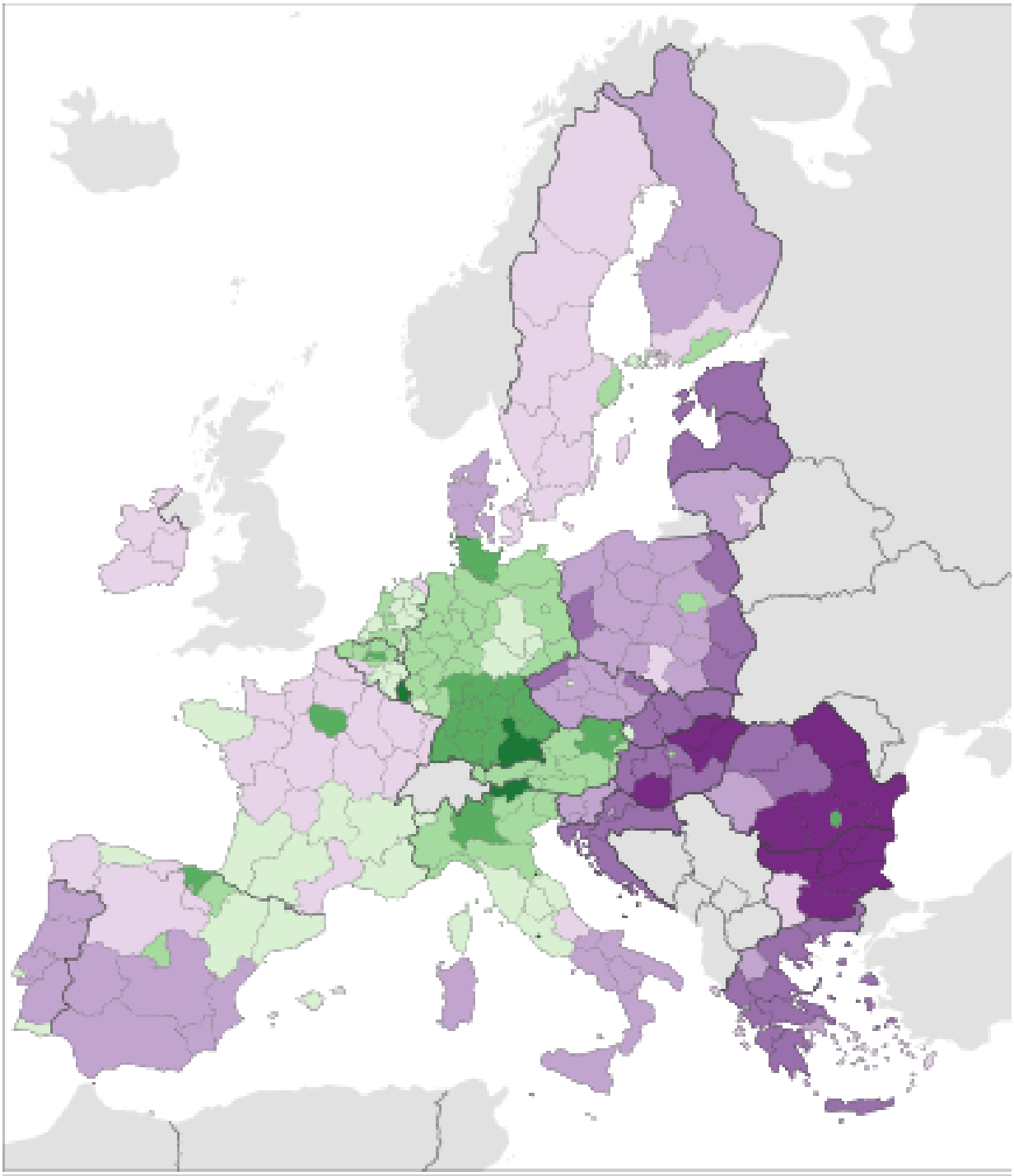
Source: DG REGIO calculations based on ARDECO (RUVNH)

Territorial disparities shape household income and poverty risks (Table 1.2.1), as well as the educational and labour market outcomes discussed in the next section. The 2026 European Semester Spring Package notes that "*persistent challenges, such as the still unequal access to infrastructures and services, further deepen economic and social disparities across regions and between urban and rural areas*". (European Commission, 2026a)

Household income disparities have been narrowing faster than productivity disparities (Figure 1.2.3, panel a), partly due to diverging real wage trends.([22]) Eastern regions, once well below the EU average, have closed much of the gap, a major achievement of enlargement (Figure 1.2.3, panel b). Southern regions have not converged with the EU average, reflecting the scarring effects of the 2008–2013 economic crisis. Overall, household income remains highly uneven across regions and follows a west-east divide (Map 1.2.1).

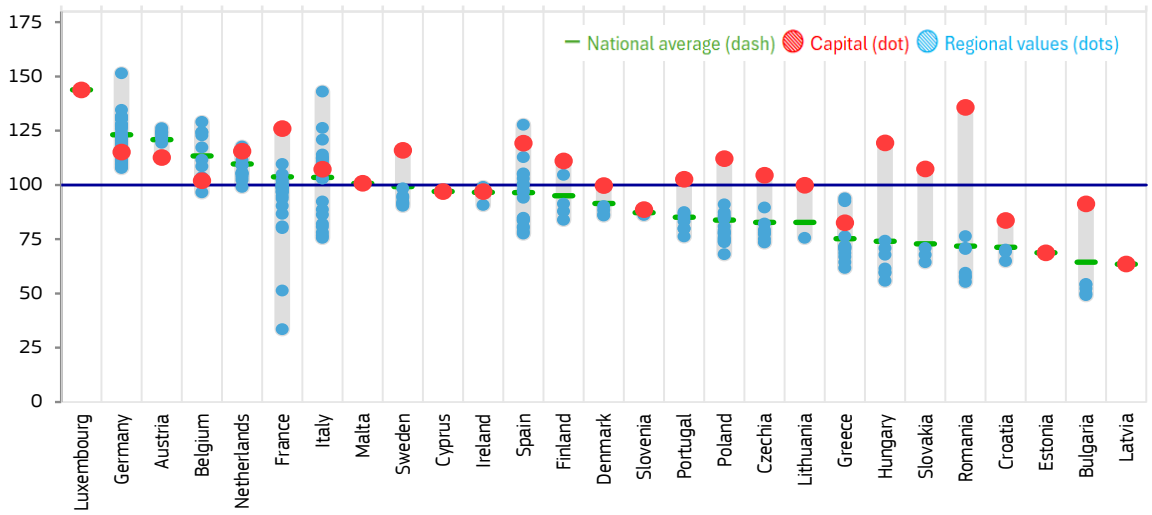
Although differences in income between Member States remain, divergence is now the strong pattern within countries, between capital and metropolitan regions on the one hand and peripheral, rural or industrial transition regions on the other. Income in capital regions stands well above national averages and often far above that of surrounding regions, while many regions in otherwise prosperous Member States remain below the EU average. The first pattern is most pronounced in eastern Member States, where high productivity, investment and educated workers are concentrated in capital regions, and the second pattern is most evident in France and Italy. (Figure 1.2.2)

([22]) Real wages fell sharply in 2022 following the energy price shock. They have since recovered, but unevenly, with markedly stronger growth in central and eastern Member States. (European Commission, 2026h)



Map 1.2.1: Net disposable household income per head (PPS), NUTS 2, 2023

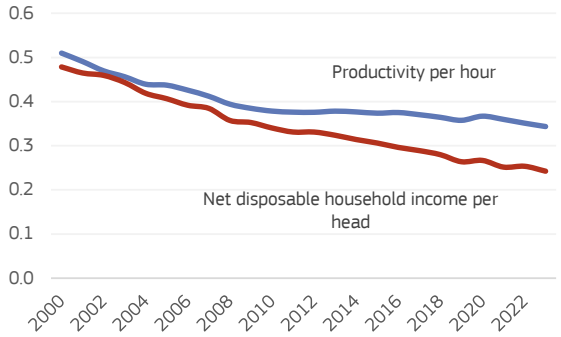
Figure 1.2.2: Income disparities within countries can exceed those between them
Net disposable household income per head (PPS), NUTS 2 regions grouped by country, 2023 (index EU-27=100)



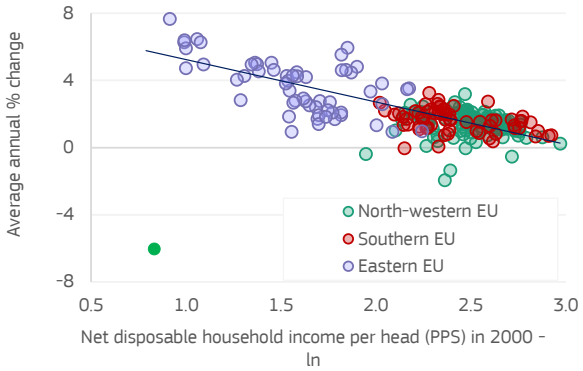
Source: DG REGIO calculations based on ARDECO (RUVNH)

Figure 1.2.3: Income disparities are reducing faster than productivity disparities, driven by eastern regions

Panel (a) Sigma-convergence of household income and productivity per hour (coefficient of variation)



Panel (b) beta-convergence of income, growth 2020-2023 against initial level, by macro-region



(1) Sigma-convergence measures whether the spread (dispersion) across EU NUTS 2 regions is narrowing over time (2) Beta-convergence measures whether initially poorer regions are growing faster than richer ones i.e. catching up. It is identified by a negative slope in the scatter plot of growth rates against initial income levels..

Source: DG REGIO calculations based on ARDECO (RUVNH)

High-skilled employment, wage growth and productivity gains are concentrated in capital and major urban regions, while rural, peripheral and former industrial areas have seen a relative, and sometimes an absolute, decline in living standards.([23]) However, income indicators may overstate the urban-rural gap, since they do not account for regional price differences and rising housing costs in metropolitan areas absorb part of the measured urban advantage.([24])

Poverty and social exclusion have an uneven geography, similar to the one already shown for income (Table 1.2.1). Convergence in rates of relative poverty is, by its nature, difficult to interpret. Because the at risk of poverty (AROP) rate, the largest component of AROPE in most regions, is measured against national thresholds, disparities within countries are structurally larger than those between countries. A region's AROP may fall because the national threshold shifts rather than because low-income households are making gains. Conversely, the AROP may rise even when living standards improve, if the median income grows faster than incomes at the bottom of the distribution.

([23]) Where falling regional employment gaps coincide with falling regional income dispersion. (OECD, 2026)

([24]) Capital regions combine higher median incomes with greater inequality, non-metropolitan regions the reverse. (OECD, 2026)

Box 1.2.1: Definitions of the social inclusion indicators

Net disposable household income (regional accounts, ESA 2010) is the income available to households for consumption and saving after all income flows and redistribution. It comprises primary income (wages, mixed income and net property income) plus cash social benefits and other current transfers received, minus taxes on income, social contributions and other current transfers paid. It excludes social transfers in kind, such as free health or education services.

Indicators based on EU statistics on income and living conditions (EU-SILC)

The at risk of poverty or social exclusion (AROPE) rate covers people who meet at least one of three criteria. 1) At risk of poverty (AROP), with equivalised disposable household income below 60% of the national median after social transfers. 2) Severe material and social deprivation (SMSD), defined as the inability to afford at least 7 of 13 items, comprising household-level items (unexpected expenses, an annual holiday, payment arrears, a meal with meat, fish or a vegetarian equivalent every second day, keeping the home warm, access to a car or van, replacing worn-out furniture) and individual-level items (internet connection, new clothes, two pairs of proper shoes, small weekly personal spending, regular leisure activities, a monthly meal or drink with friends or family). 3) Low participation in the labour market, defined as living in a household with very low work intensity (VLWI), where adults worked less than 20% of their combined work potential.

The AROPE rate is a relative measure, because its AROP component sets the poverty line at 60% of each country's median income. The line therefore moves with national living standards rather than reflecting a fixed subsistence level. The same absolute income can thus count as poor in a high-income country but not in a lower-income one, and the rate changes only when the income distribution changes, not when all incomes rise or fall together.

In this chapter, financial vulnerability refers to the inability to face unexpected expenses and energy vulnerability to the inability to keep the home adequately warm, both of which are deprivation items.

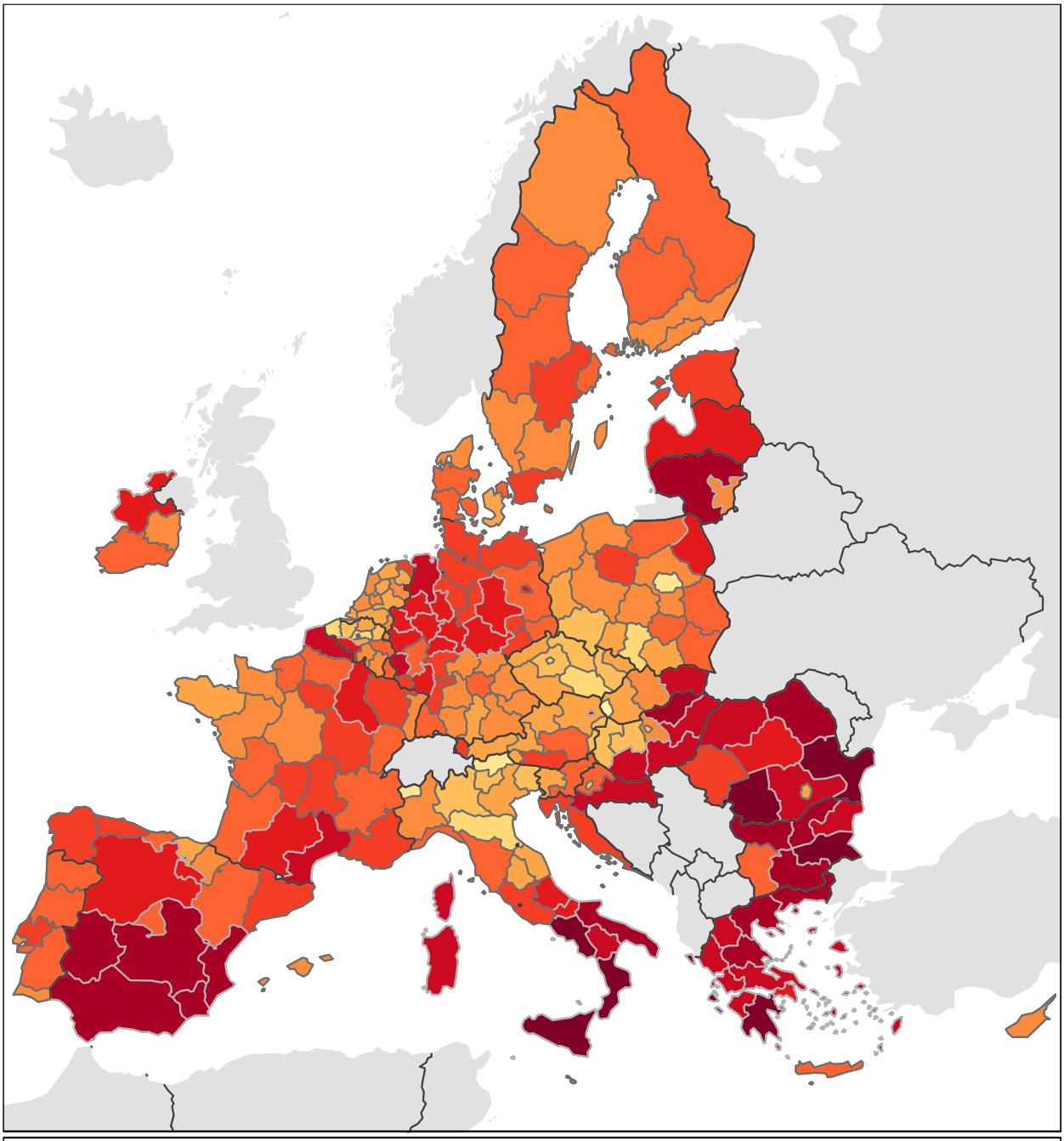
The Regional Energy Poverty Index (REPI)(JRC (2026)) combines the inability to keep the home adequately warm, arrears on utility bills and leaks, damp or rot in the dwelling, controlling for high utility costs or low income and for regional energy demand relative to the EU average.

Changes in the AROPE rate vary as much within countries as between them, with internal ranges above 15 percentage points in Germany, Greece, Spain, Italy, Portugal and Romania. (Figure 1.2.4)

Moreover, the level of poverty and inequality within regions exceed those between them. (Figure 1.2.5 and Map 1.2.2) Pockets of exclusion persist even in more developed regions, reflecting structural disadvantage rather than an absence of growth, particularly in rural and peripheral areas where access to services is limited, and in regions close to metropolitan areas where education capacity is constrained. (OECD, 2020) Income inequality within small areas exacerbates barriers to social mobility, preventing residents of low-income areas from advancing economically. (OECD, 2026) Upward mobility among people at the bottom of the income distribution has stalled. (OECD, 2018a)

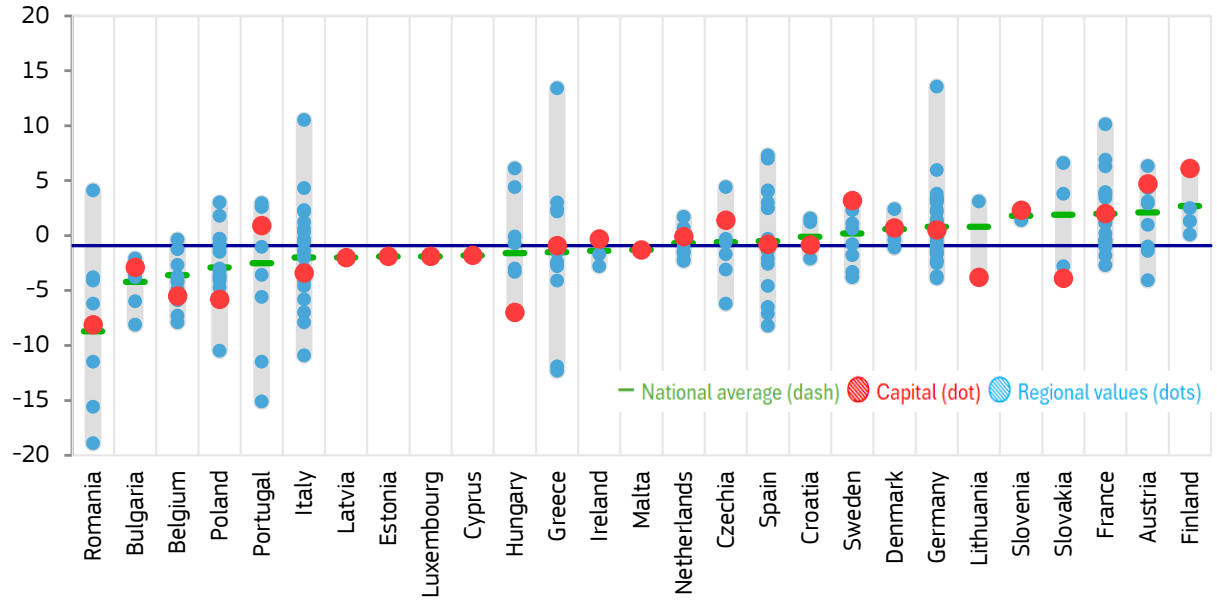
In the EU's southern regions, weak productivity coexists with relatively low levels of employment. Their poverty and deprivation rates often exceed those of regions elsewhere with similar income and productivity, and youth unemployment and inactivity are also high. In-work poverty, which is high in parts of the southern countries, also contributes to deprivation, as employment does not always translate into adequate household income, reflecting wage levels, working hours, contract quality and the reach of social protection. (European Commission, 2024a)

Severe material and social deprivation follows a sharp east-south gradient, confirming that poverty in lagging regions is multidimensional. (Table 1.2.1)



Map 1.2.2: Persons at risk of poverty or social exclusion (AROPE), NUTS2, 2025

Figure 1.2.4: Regional progress towards the EU poverty reduction target is uneven and insufficient
Change in AROPE rate, NUTS 2 regions grouped by country, 2019-2025 (percentage points)

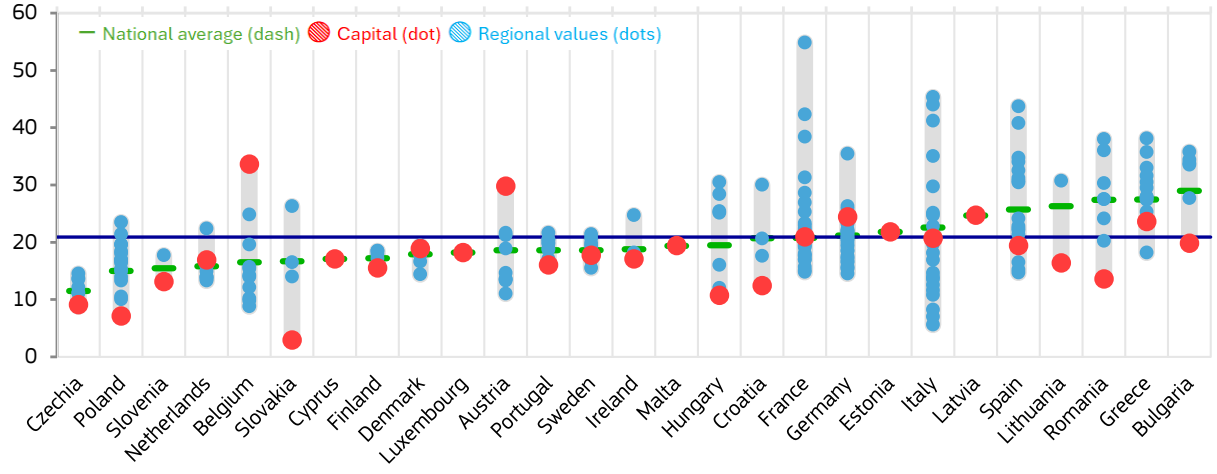


(1) AROPE estimated to 2030 definition for regions were it was not available between 2019 and 2021
Source: DG REGIO calculations based on Eurostat (ilc_peps11n)

While north-western regions generally record rates of severe material and social deprivation below 5%, rates exceed 15% in Bulgaria, Romania and Greece, reflecting an inability to meet several basic needs at once rather than a person's position relative to an income threshold.

Financial vulnerability (Table 1.2.1) is most acute in the eastern periphery and the south. Energy vulnerability, which covers energy poverty and other aspects of deprivation (Table 1.2.1), is most pronounced in the south. While the progress that is being made towards the EU decarbonisation targets for 2040 provides an opportunity to reduce energy vulnerability, the decarbonisation process can be costly for vulnerable households. The Social Climate Fund has been created to help vulnerable households and transport users cope with the costs of the green transition.

Figure 1.2.5: Poverty dispersion within countries can exceed that between them
AROPE rate, NUTS 2 regions grouped by country, 2025 (%)



Source: DG REGIO calculations based on Eurostat (ilc_peps11n)

Table 1.2.2: Key skills indicators by macro-region, 2025

	Productivity per hour	Employed with tertiary attainment	Persons employed in science and technology with tertiary education	Tertiary education attainment	Medium vocational education attainement	Ratio of studentsin tertiary education	Individuals with basic or above basic overall digital skills	Participation in education and training	Skill mismatch	Skill mismatch - over-skilled worhers	Skill mismatch - under-skilled workers
	(PPS, index EU=100)	(% of employed 25-64)	(% of population)	(% of population 25-64)	(% of population 25-64)	(ED5-8 to population)	(% of population 16-74)	(% of population 25-64)	(% of employed 15+)	(% of employed 15+)	(% of employed 15+)
	2023	2025	2025	2025	2025	2024	2025	2024	2023	2023	2023
	0 ----------> 150	0 ----------> 70	0 ----------> 40	0 ----------> 70	0 ----------> 70	0 ----------> 10	0 ----------> 100	0 ----------> 70	40 <---------- 0	40 <---------- 0	40 <---------- 0
EU	100	42	17	37	35	4.0	60	28	33	18	14
More developed	123	45	20	42	32	4.8	69	32			
Transition	94	42	17	38	37	4.1	61	30			
Less developed	66	34	12	28	37	3.2	47	22			
North-Western EU	123	46	20	42	37	4.3	66	33	34	22	12
Southern EU	91	37	14	32	21	4.7	59	25	39	15	24
Eastern EU	69	38	16	33	48	3.4	50	24	23	14	9
EU-14	111	43	17	38	31	4.5	64	30	36	20	16
EU-13	69	38	16	33	48	3.4	50	24	23	14	9
Cities				47				33			
Towns & Suburbs				32				26			
Rural areas				28				25			

(1) Bars run left (favourable) and right (unfavourable). Each column uses its own scale, so lengths compare within columns only.

Source: DG REGIO calculations based on ARDECO (SUVGD, RNLHT), Eurostat (lfst_r_lfe2eedu, hrst_st_rcat, edat_lfse_04, educ_uoe_enrt05, isoc_r_dskl_i, isoc_sk_dskl_i21, trng_lfs_22) and OECD (based on LFS micro-data)

1.2.2. Geography of skills and employment – untapped potential for competitiveness

Social cohesion is linked to productivity mainly through two channels, skills and employment, where disparities between regions reveal untapped potential. This potential can be measured as the distance from the EU 2030 targets([25]), from the best performing 20% of EU regions (the EU frontier), or as a region's underperformance relative to its own economic level([26]), as estimated in Section 1.2.3.

Human capital is the first channel. Education from early childhood to adult learning shapes the size and composition of the skilled labour force and, through it, productivity, while lower levels of poverty and stable incomes enable households to invest in education.

The cost of inaction is high, as childhood disadvantage, with disparities in early education, in leaving from education and training, carries through into lower levels of attainment, employment and earnings. (OECD, 2022b) Regions that break the cycle of intergenerational disadvantage([27]) and combine this with good public services tend to retain and attract skilled workers. The 2026 country specific recommendations address regional skills shortages and their link to competitiveness and growth, including from a territorial perspective, calling on France to focus on "*aligning training to labour market needs, including at territorial level, and boosting enrolment in science, technology, engineering and maths (STEM) subjects*" and on Romania to focus on *"reducing early school leaving, boosting basic skills and labour market relevant skills, [...] in particular in rural areas*". (Council of the European Union, 2026)

1.2.2.1. Skills tend to cluster where productivity is already high

Human capital varies across regions and is among the most robust structural correlates of productivity.([28]) (Table 1.2.2) Tertiary attainment, the number of scientists and technologists, vocational education and training (VET), adult learning, digital skills and skill matching are important for regional growth alongside innovation, agglomeration and institutional quality.([29]) The map of levels of human capital closely replicates, and in places amplifies, the income and productivity geography described in Section 1.2.1.

Gaps in tertiary attainment within countries are often as big as those between the highest- and lowest- attaining countries, with capital regions far above national averages and the gap widening as high-skilled employment concentrates in metropolitan areas. (Figure 1.2.6)

([25]) Targets of an employment rate of at least 78% and at least 60% of adults participating in training every year by 2030.

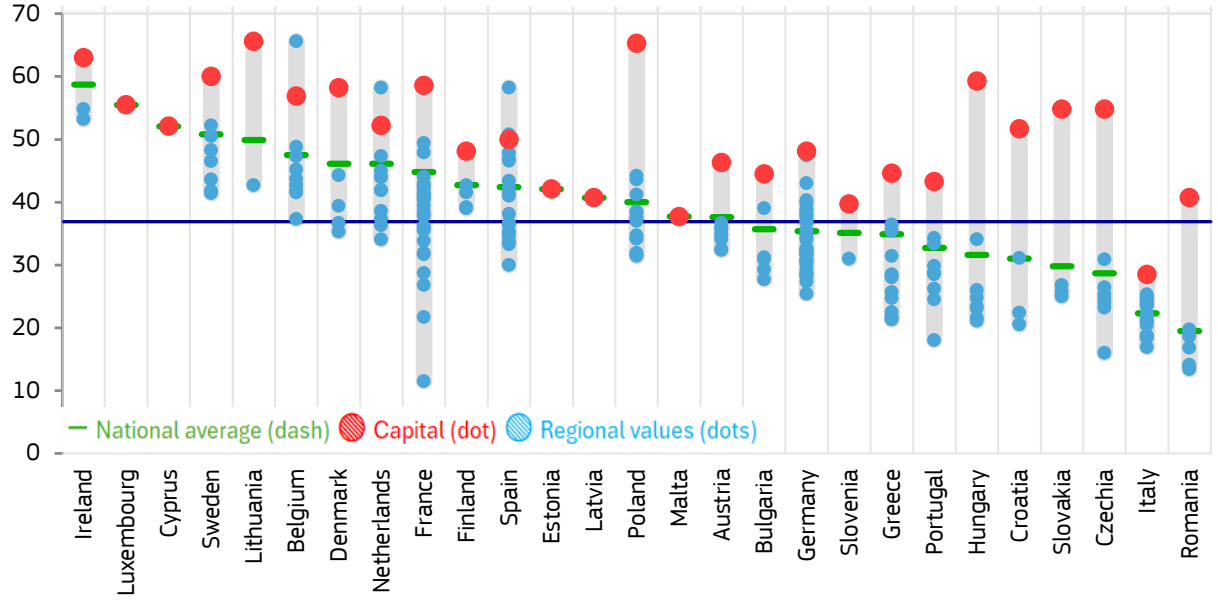
([26]) Regression-based, see Section 1.2.3

([27]) Supported by the European Child Guarantee, included in the EU Anti-Poverty Strategy (European Commission, 2026)

([28]) See (European Commission, 2024); (OECD, 2023); (Gennaioli et al., 2013)

([29]) (Crescenzi and Rodríguez-Pose, 2011); (Rodríguez-Pose and Crescenzi, 2008)

Figure 1.2.6: Tertiary attainment varies widely within countries, with capital regions consistently above the national average
Population aged 25–64 with tertiary attainment, NUTS 2 regions grouped by country, 2025 (%)



Source: DG REGIO calculations based on Eurostat (edat_lfse_04)

In many southern and eastern regions only around a quarter of the population holds a tertiary degree, although some regions compensate for this through secondary vocational education. The potential of untapped skills is clearest in southern regions, where the rate of a high level of skills, measured by tertiary or vocational attainment, is under 60%, against 83.2% in the best-performing regions (Map 1.2.3, panel a). Agglomeration draws investment and talent to areas that already have a high level of skills, while lagging regions struggle to retain graduates.

Untapped skills potential reflects not only limited supply but also the mismatches between available and required skills. (OECD, 2024) Under-qualification, where workers have a lower level of education than is typical for their job, is concentrated in southern regions, largely as a legacy of low attainment among older cohorts, and indicates the potential for upskilling. (Map 1.2.3, panel c) In several eastern Member States, it is the capital region that stands out, as occupational requirements rose faster than education provision. Over-qualification dominates in Germany, France, Finland and the Baltic States, where educated workers are employed below their level of attainment. (Map 1.2.3, panel d) Skills potential can therefore be untapped on both sides, either because of a lack of skills necessary for the jobs that exist or because the economy does not generate the jobs needed to put skills to use.

Human capital is shaped not only by individual circumstances but also by neighbourhood characteristics and parental background. Evidence across the EU shows that these factors reinforce inequality even in stronger welfare systems. OECD analyses attribute over 60% of inequality of opportunity to parental socio-economic status, while evidence from Denmark, Belgium and the Netherlands shows that exposure to deprived neighbourhoods and segregated schools reduces educational attainment and adult earnings.([30])([31]) Together, factors related to family and environment shape opportunities long before young people enter the labour market, even in early stages of education, with disadvantages concentrated among particular areas and groups.

Adults whose parents were low educated are more likely to remain low educated themselves,([32]) most of all in regions of southern

([30]) See (OECD, 2025a); (Razavi, Eshaghnia and Leon, 2026), (Imeraj, de Valk and Gadeyne, 2024) (Troost, van Ham and Manley,)

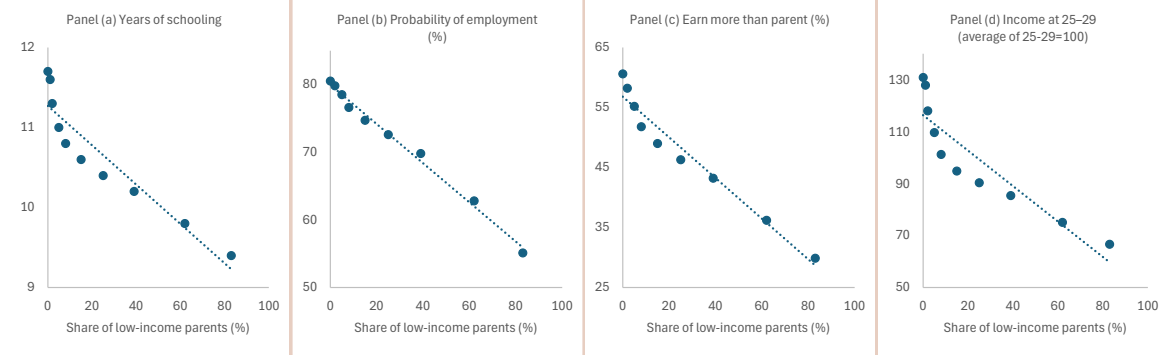
([31]) Box 1.2.2 illustrates how these mechanisms manifest in sharper socio-economic contexts, such as Brasil.

([32]) Disparities observed at a later stage of educational attainment, including in tertiary education, are rooted in disadvantages experienced much earlier in life, including

Box 1.2.2: Neighbourhood effects on human capital

Where children grow up shapes their human capital independently of family characteristics. World Bank evidence(World Bank (xxx)) shows that the neighbourhood, understood as the local mix of service quality, environment, social interactions and job opportunities, affects education, health, skills and adult earnings over and above individual and household characteristics. Up to half of the variation in earnings, education and employment is linked to the neighbourhood in which people grew up. In the United States, half of the variation in mean earnings across commuting zones reflects place effects rather than the characteristics of residents.

Neighbourhood poverty in childhood shapes adult outcomes
Schooling, formal employment and earnings of adults from poor households, by childhood neighbourhood income (Brazil)



Source: World Bank based on Britto et al. (2025),

Four channels ar at work, namely access to and quality of schools and health facilities, environmental conditions, social dynamics and peer effects, and local job opportunities. Service quality and the local environment, more than access alone, drive the divergence.

Evidence for Brazil compares adults from equally poor households who grew up in neighbourhoods with few or many low-income families. Those from better-off neighbourhoods completed about 2.3 more years of schooling, were some 25 percentage points more likely to hold a formal job and earned roughly twice as much at ages 25–29. These differences are attributed largely to neighbourhood effects rather than to sorting.

For competitiveness, neighbourhood effects turn the spatial concentration of disadvantage into a loss of productive potential. Talent in lagging areas is the least likely to be fully developed and used. This is untapped potential in its most fundamental form, generated by place and not only by household income.

countries, where educational disadvantages are already widespread. People raised by parents with a low level of education face an AROP rate more than double that of those raised by tertiary-educated parents, with the widest gap in the eastern regions. (Figure 1.2.7)

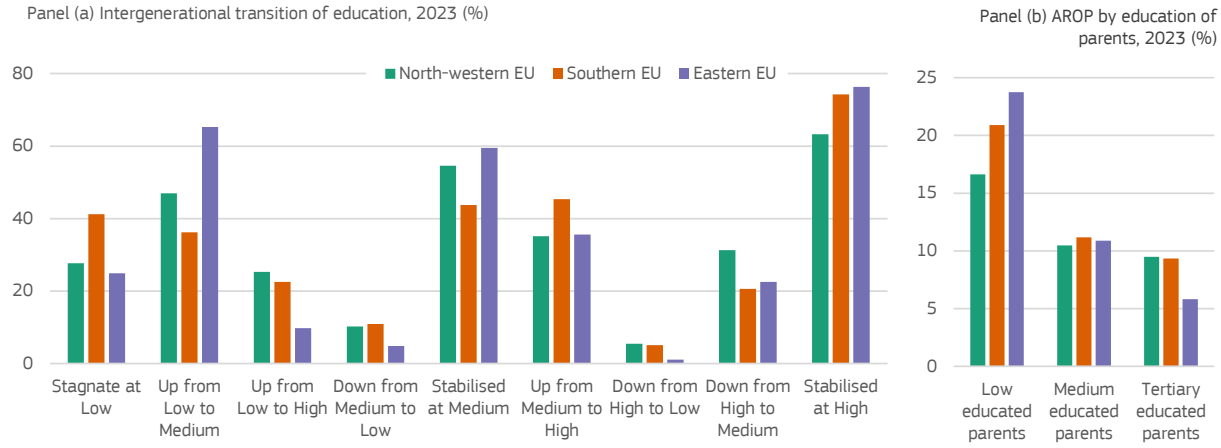
Educational attainment and adult learning have improved across the EU, but have not converged. Tertiary attainment rose in every macro-region between 2000 and 2025, with eastern and southern regions improving the fastest, although regional disparities widened, particularly after 2015.

Regional disparities in educational attainment increased faster than national ones, indicating that growing differences within countries account for much of the rise in EU-wide variation.([33]) (Figure 1.2.8, panel a)

as regard access to education and care. (European Commission, 2026)

([33]) Tertiary attainment and adult learning participation have increased substantially since 2007, while regional disparities, including in basic digital skills, have also increased. (European Commission, 2025d)

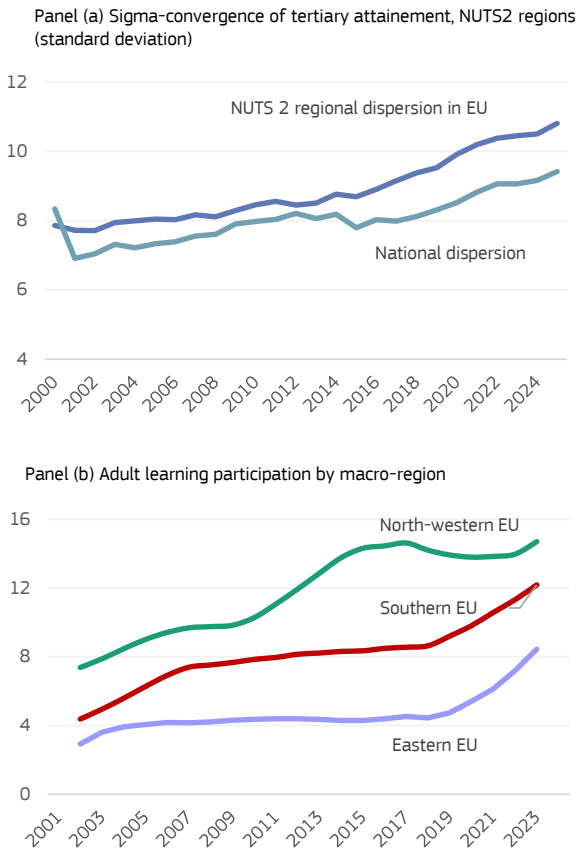
Figure 1.2.7: Educational disadvantage persists across generations and is associated with a higher risk of poverty
Intergenerational transition of educational attainment (panel a) and AROP rate (adults aged 25-59) by parents' educational attainment (panel b), by macro-region, 2023 (%)



Source: DG REGIO calculations based on Eurostat (ilc_igtp01, ilc_igtp03)

Persistent differences in quality, field of study and use of skills add to this.([34]) Regional disparities in adult learning have narrowed little and, because the better educated are the most likely to keep learning, skill gaps may widen. (Figure 1.2.8, panel b) Vocational education and training (VET), including apprenticeships, remains of central importance in many industrial and increasingly non-industrial regions. This means that a region's productive skills base should combine tertiary and vocational qualifications rather than relying on tertiary attainment alone.([35]) (Table 1.2.2)

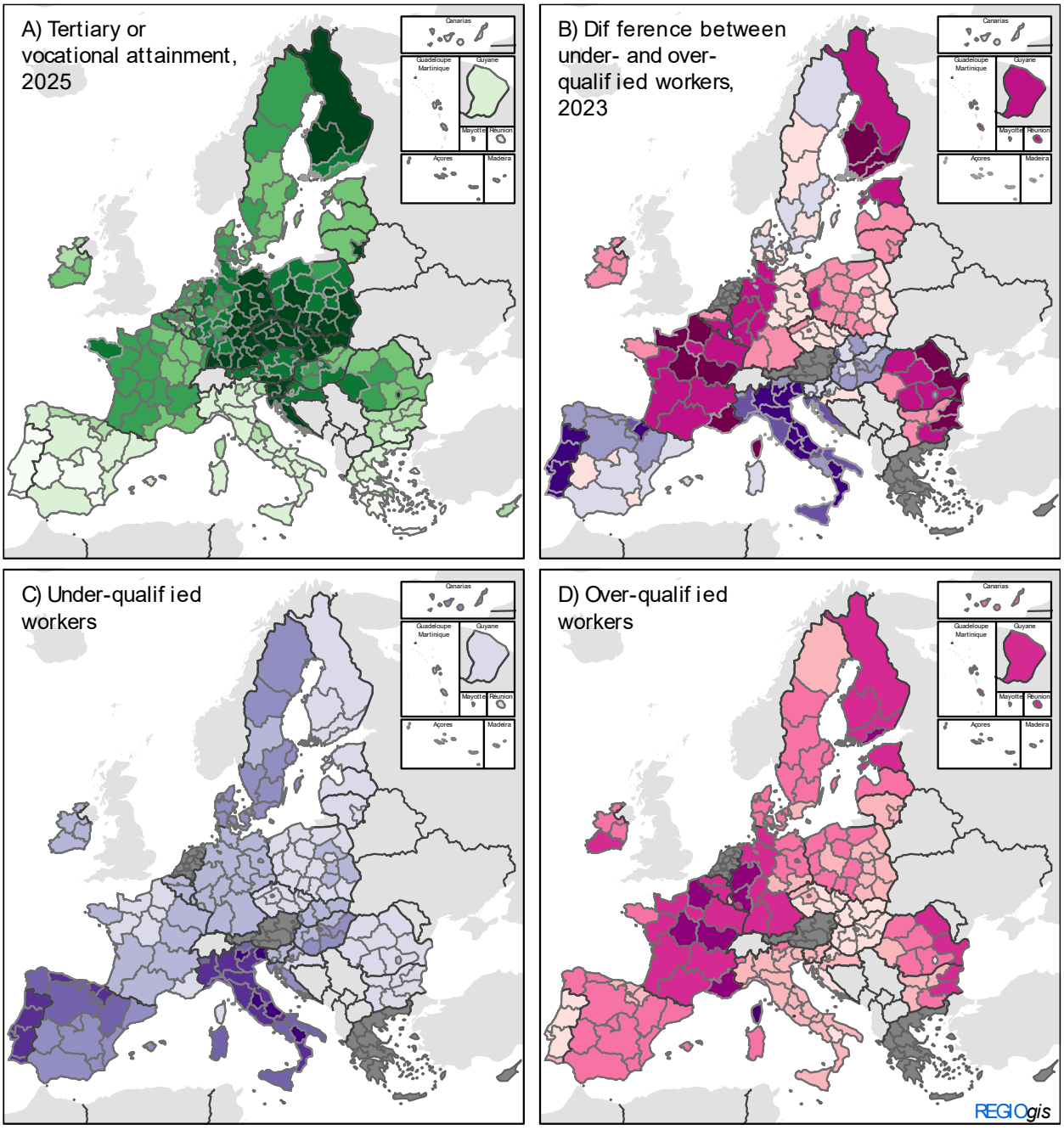
Figure 1.2.8: Tertiary attainment and adult learning improve but do not converge, 2000-2025



Source: DG REGIO calculations based on Eurostat (edat_lfse_04, trng_lfse_04)

([34]) Regional disparities persist along three dimensions, namely quality, as measured by PISA results (Hippe, Jakubowski and Araújo, 2018), field of study (OECD, 2025) and skill use (Cedefop, 2026).

([35]) VET remains central to labour market matching and shortage occupations; many shortage occupations require medium-level vocational qualifications (European Commission, 2026h)



Map 1.2.3: Skills attainment and skills mismatch between workers and jobs

A) %
- > 83.2
- 80 - 83.2
- 75 - 80
- 70 - 75
- 60 - 70
- 45 - 60
- ≤ 45
- No Data

B) % dif ference
- > 15
- 10 - 15
- 5 - 10
- 0 - 5
- -5 - 0
- -10 - -5
- -15 - -10
- ≤ -15
- No Data

C) % of workers
- ≤ 10
- 10 - 15
- 15 - 20
- 20 - 25
- 25 - 30
- > 30
- No Data

D) % of workers
- ≤ 10
- 10 - 15
- 15 - 20
- 20 - 25
- 25 - 30
- > 30
- No Data

0 500 km

Note : Panel (A) Skills attainment : Share of the population aged 20–64 with tertiary or vocational attainment. Regions shown in green are in the top 20% of regions for educational attainment. Panels (B–D) Skills mismatch between workers and jobs: Following the OECD Skills for Jobs methodology, a worker is considered mismatched when their educational attainment dif fers from the most common educational level among workers in their occupation and country. Under-qualif ied workers have an educational level below this occupational norm, while over-qualif ied workers have a level above it .

Source : Eurostat and OECD

Administrative boundaries: © EuroGeographics, © OpenStreetMap contributors – Eurostat/GISCO

Table 1.2.3: Key labour market indicators by macro-region, 2025

	Productivity per hour	Employment rate	Persons employed in science and technology or with tertiary education	Skill mismatch - difference between under and overqualified workers	Unemployment rate	Long-term unemployed	Not in employment, eductaion or training NEET	Employment gap Men-Women	Employment gap (20-64) -(55-64)	Employment gap (25-54) High-Low	Employment gap (20-64) Native-born - Non-EU migrants
	(PPS, index EU=100)	(% of population 20-64)	(% of labour force)	(pp difference)	(% labour force)	(% labour force)	(% of population 15-29)	(pp difference)	(pp difference)	(pp difference)	(pp difference)
	2023	2025	2025	2024	2025	2025	2025	2025	2025	2025	2025
	0 ----------> 130	0 ----------> 100	0 ----------> 100	15 <---------- 0	15 <---------- 0	5 <---------- 0	20 <---------- 0	20 <---------- 0	20 <---------- 0	50 <---------- 0	20 <---------- 0
EU	100	76	50	-3.8	6.0	1.9	11	10	9.7	27	8.6
More developed	123	79	63		5.1	1.2	9	8	7.7	22	10.7
Transition	94	77	59		6.0	1.5	11	7	11.6	25	12.7
Less developed	66	70	46		7.7	3.1	15	14	10.9	33	7.4
North-Western EU	123	79	64	-10.1	5.6	1.3	10	6	8.8	28	13.5
Southern EU	91	71	51	9.4	8.1	3.2	12	14	8.6	20	2.3
Eastern EU	69	77	51	-4.5	4.2	1.5	12	11	13.1	40	-1.1
EU-14	111	76	60	-3.6	6.5	2.0	11	9	8.8	24	9.2
EU-13	69	77	51	-4.5	4.2	1.4	12	11	13.1	39	-1.1
Cities		76					10	8	8.5	27	8.6
Towns & Suburbs		76					11	11	9.5	25	9.0
Rural areas		76					12	10	11.7	29	8.8

(1) Bars run left (favourable) and right (unfavourable). Each column uses its own scale, so lengths compare within columns only

Source: DG REGIO calculations based on ARDECO (SUVGD, RNLHT), Eurostat (hrst_st_rcat, lfst_r_lfu3pers, lfst_r_lfu2ltu, edat_lfse_2, lfst_r_lfe2eedu) and OECD (based on LFS micro-data)

1.2.2.2. Employment has risen, but participation gaps leave potential untapped

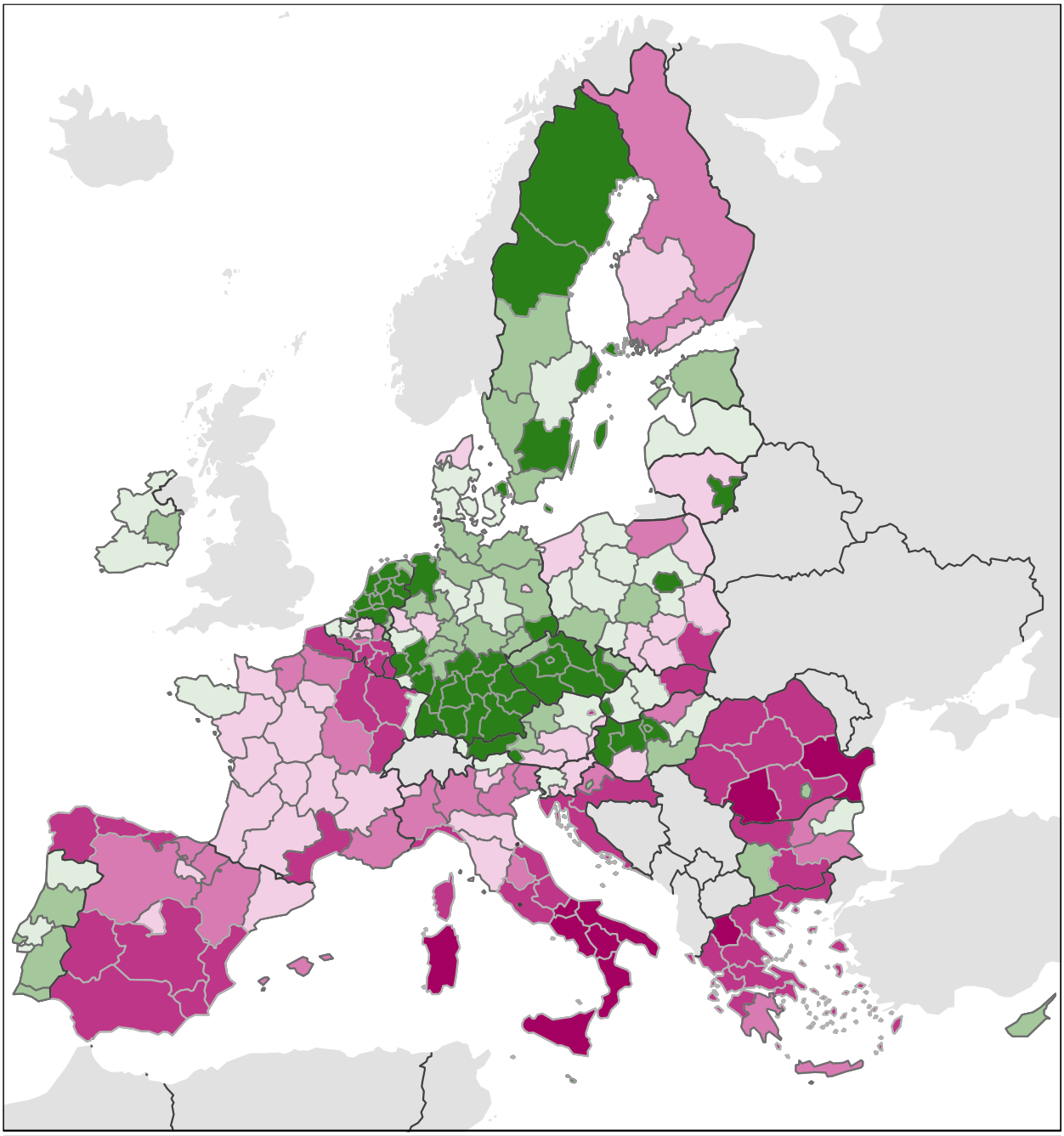
Better labour market conditions are the second channel. Employment (Map 1.2.4), unemployment and its duration, youth inactivity and participation gaps determine the size and composition of the effective labour force. (Figure 1.2.12) Adequate wages and quality of jobs, improvements in education and skills, effective social protection and care services and a more equal distribution of unpaid care, together support more people into work. This is particularly the case for women, young people, older people, migrants and persons with disabilities. These factors help increase output even before any gain in output per hour, and improve the match between a person's abilities and their job. Several 2026 country-specific recommendations address labour market participation both from a territorial and a broader structural perspective. For instance, Estonia was asked to "*improve employment of young people through more effective active labour market policies, while paying particular attention to regional disparities*". Italy was asked to widen access *"by improving active labour market policies and access to affordable and quality care services, taking into account territorial disparities*", Slovakia to "*strengthen the labour market participation of underrepresented groups, particularly in regions with high unemployment, and introduce more flexible work arrangements*", the Netherlands to "*address labour and skills shortages, including by tapping into underused labour potential and by increased targeting of up- and reskilling measures*", and Germany to "*increase labour supply and tackle the shortage of skilled workers, notably by increasing hours worked, strengthening skills, facilitating transitions to and between jobs through active labour market policies*". (Council of the European Union, 2026)

Despite low unemployment in much of the EU and growing labour shortages, the labour market potential([36]) remains untapped.([37]) (Box 1.2.3) Employment, participation gaps, unemployment and work intensity all follow the familiar divides, with regions in the south combining the lowest employment with the highest youth NEET's rate. (Table 1.2.3)

Overall, employment in the EU rose between 2000 and 2025, led by the eastern regions, while southern regions also improved markedly. The 2008–2013 crisis interrupted this trend to different degrees in different places. Southern regions lost far more jobs than other regions, youth unemployment reached almost one in two, and long-term unemployment remained high well into the recovery Since the crisis, structural deficits in the EU's southern regions have only reduced slowly since then.

([36]) Gaps remain concentrated among women, older workers, non-EU-born people, persons with disabilities and the low-educated. (European Commission, 2026h)

([37]) Around 20% of working-age people (some 50 million) are outside the labour market, mostly women (32 million), people aged 55-64 (20 million) and migrants (over 7 million). (European Commission, 2025d)



Map 1.2.4: Employment rate (20–64), NUTS 2, 2025

Percentage

- ≤ 64
- 64 - 74
- 74 - 76
- 76 - 78
- 78 - 80
- 80 - 82
- > 82

Source : Eurostat

0 500 km

Administrative boundaries: © EuroGeographics, © OpenStreetMap contributors – Eurostat/GISCO

Box 1.2.3: Untapped labour potential and labour shortages as two sides of the same constraint

Employers across the EU increasingly report difficulties filling jobs. In the absence of regional vacancy statistics,([1]) shortage pressure can be inferred indirectly. Where employment is high, unemployment low and the working age population shrinking, additional labour can come only from under-represented groups or from workers attracted from elsewhere.([2])

Several structural developments intensify this constraint beyond the economic cycle. Population ageing is reducing the working-age population in many regions, particularly in eastern and southern Europe, with implications for labour supply and skills needs([3]), and the fiscal sustainability of social protection. Mismatches between available qualifications and job requirements persist in non-metropolitan labour markets and constrain the absorption of productivity enhancing investment. Shortages in specific sectors and occupations coexist with unemployment elsewhere, indicating structural imbalances rather than insufficient aggregate demand. At the same time, the outward migration of younger and more skilled workers from lagging regions compounds human capital constraints and reinforces the territorial concentration discussed in Section 1.2.2.

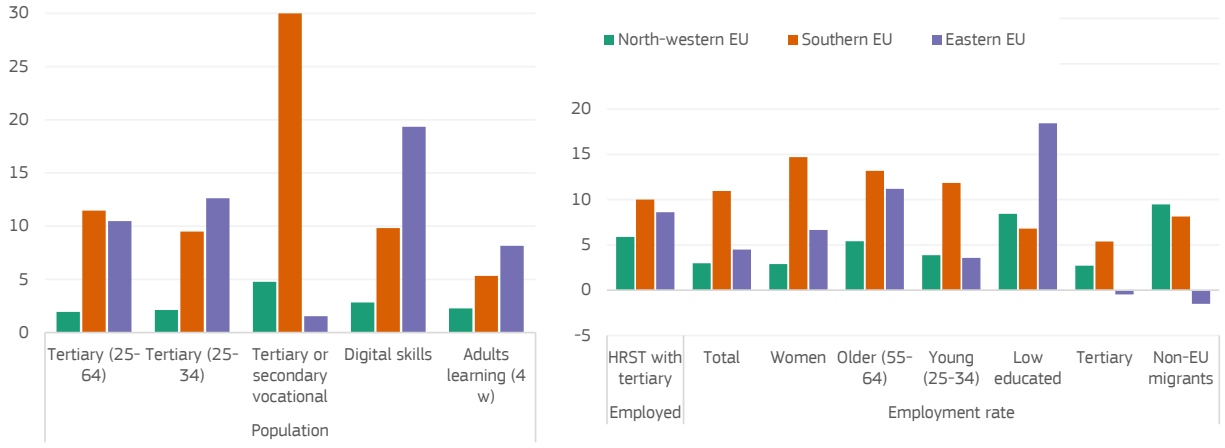
Participation gaps among women, young people, older workers, migrants and the low qualified are therefore not only a social deficit but also the main reserve on which tightening regional labour markets can draw. How efficiently this reserve is mobilised depends, among other factors on institutional capacity, including the quality of public services. Regions with stronger active labour market policies and public employment services, combined with quality jobs, tend to convert growth into employment and poverty reduction more fully than those where such capacity is limited.

([1]) Shortages are treated in detail at EU level (ESDE 2023)
([2]) First brief to the European skills high level board (EC 2026)
([3]) With implications for competitiveness, as ageing both contains unemployment through lower labour supply and worsens skills shortages. (EESO 2026)

While gender employment gaps narrowed everywhere, they are still significant. Female employment gains exceeded male gains in every macro-region, with the biggest increase in the EU southern regions. The gap remains widest, however, in southern and some central regions and in less developed regions, where untapped female labour weighs on output both in terms of participation and hours worked.

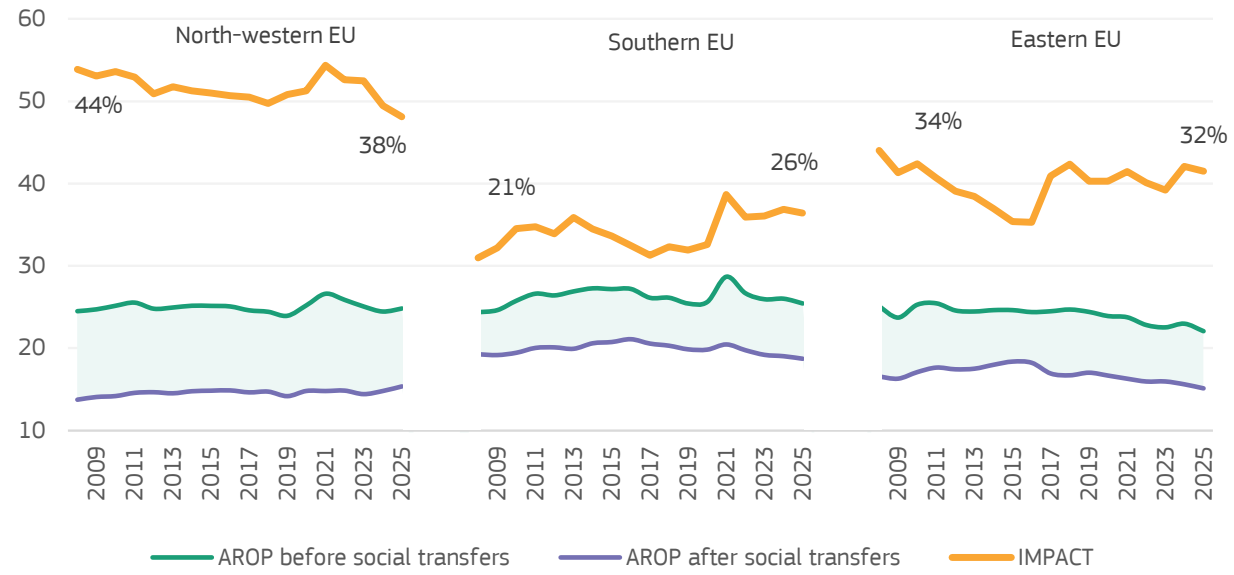
Youth inactivity is the south's most persistent labour market weakness, a legacy of the 2008–2013 crisis, while older workers are underused almost everywhere. The EU's southern regions record the highest rates of young people not in employment, education or training (NEET), reflecting weak labour demand, limited vocational pathways and mismatches between skills and jobs (Map 1.2.3, panel b). Conversely, the eastern

Figure 1.2.9: The distance to the frontier indicates untapped potential for competitiveness
The distance to the top 20% of EU regions, by macro-region, 2025 (percentage points)



Source: DG REGIO calculations based on Eurostat (edat_lfse_04, isoc_r_dskl_i, trng_lfse_04, hrst_st_rcat, lfst_r_lfe2emprc)

Figure 1.2.10: Social transfers reduce poverty risk most in north-western regions
AROP rate before and after social transfers and impact of social transfers on poverty reduction by macro-region, 2006–2025 (%)



(1) Impact of social transfers (excluding pensions) on poverty reduction is computed as a percentage reduction in the AROP rate.
Source: DG REGIO calculations based on Eurostat (ilc_li02, ilc_li10)

regions have improved substantially. Employment among those aged 55–64 ranges from under 40% in parts of the south and east to above 70% in north-western regions, making the employment of older workers an important source of additional labour supply as populations age.

Each region's distance from the best-performing 20% of EU regions (the EU frontier) in tertiary attainment, high-skilled employment and the employment of women and older workers indicates how much capacity remains unused. (Figure 1.2.9)

1.2.3. The two-way relationship between competitiveness and social cohesion

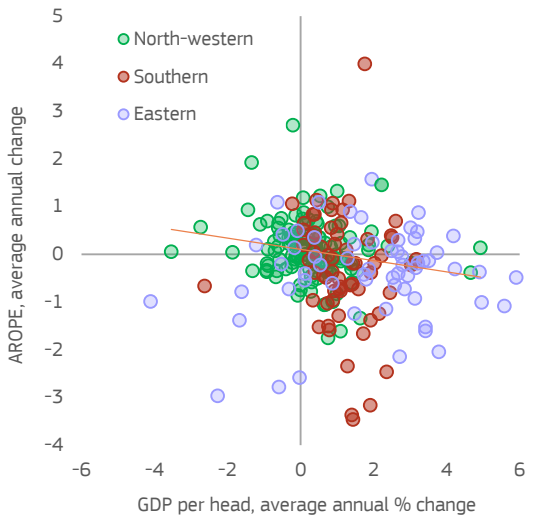
This section examines the two-way relationship between economic and social performance.([38]) Both directions are mediated by institutions and policies, which is why similar economic conditions can produce different outcomes across regions.

1.2.3.1. Productivity gains translate into social outcomes only partially and unevenly

Economic performance improves social outcomes mainly through income, employment and job quality, but this translation is neither automatic nor uniform. Higher productivity can raise wages, increase employment and expand the fiscal capacity that funds education and training, healthcare and social protection. (European Commission, 2025d) Growth concentrated in particular sectors, firms or regions can nonetheless leave parts of the population behind even as aggregate indicators improve. Whether gains reach households therefore depends on factors such as redistribution and transfers, wage setting, and access to and quality of services.

([38]) Competitiveness and social cohesion are mutually reinforcing objectives. (Council of the European Union, 2025)

Figure 1.2.11: Growth is associated with lower poverty, but not in all regions
Average annual change in AROPE rate (percentage points) against GDP growth (%), NUTS 2 regions, 2019–2024



(1) AROPE estimated to 2030 definition for regions were it was not available between 2019 and 2021.

Source: DG REGIO calculations based on ARDECO and Eurostat (ilc_peps11n)

The productivity-income relationship varies across the EU. In the EU's north-western regions the two move broadly together. In the eastern regions income has consistently outpaced productivity, supported by transfers, remittances and wage dynamics rather than domestic output alone. In southern regions income fell faster than an already weak productivity trend, a double squeeze rooted in the 2008–2013 crisis and prolonged austerity. (Figure 1.2.1) Disparities in social outcomes are generally smaller than those in productivity. First, productivity figures can overstate real economic gaps: output may be recorded where a corporate headquarters is located (as in Ireland) or where workers commute to (e.g. capital cities), rather than where people live. Second, tax and benefit systems and wage-setting institutions restricts the distribution of household incomes. (European Commission, 2024b)

Job quality and social transfers play a decisive role in converting economic resources into higher living standards, lower levels of poverty and stronger productivity. (European Commission, 2026i) Poverty before accounting for social transfers is broadly similar across Member States, so differences after transfers are mainly due to the design of national tax and benefit systems. North-western regions are achieving significant reductions in poverty, while many lagging regions combine a higher level of pre-transfer poverty with a weaker impact of social transfers. (Figure 1.2.10) This is also reflected in the 2026 CSRs, which called on Bulgaria for example, to *"address social inclusion by improving access to better integrated employment and social services, community-based long-term care, and a more effective minimum income support"* and on Hungary to "*improve the adequacy of social assistance and unemployment benefits*". (Council of the European Union, 2026)

Growth and poverty reduction are linked, but with certain conditions. (Figure 1.2.11) Regions with strong GDP growth almost all record falling AROPE rates. Some regions, however, combine moderate growth with flat or rising levels of poverty, suggesting a weak transmission from overall growth to households. Others regions have reduced poverty significantly despite modest growth, as result of redistribution, targeted cohesion investment or catching up from very high initial levels of poverty levels. Well-being indicators have also improved faster than GDP, so material output alone does not fully capture standard of living. (European Commission, 2026i)

1.2.3.2. Social outcomes feed back into productivity through skills and employment

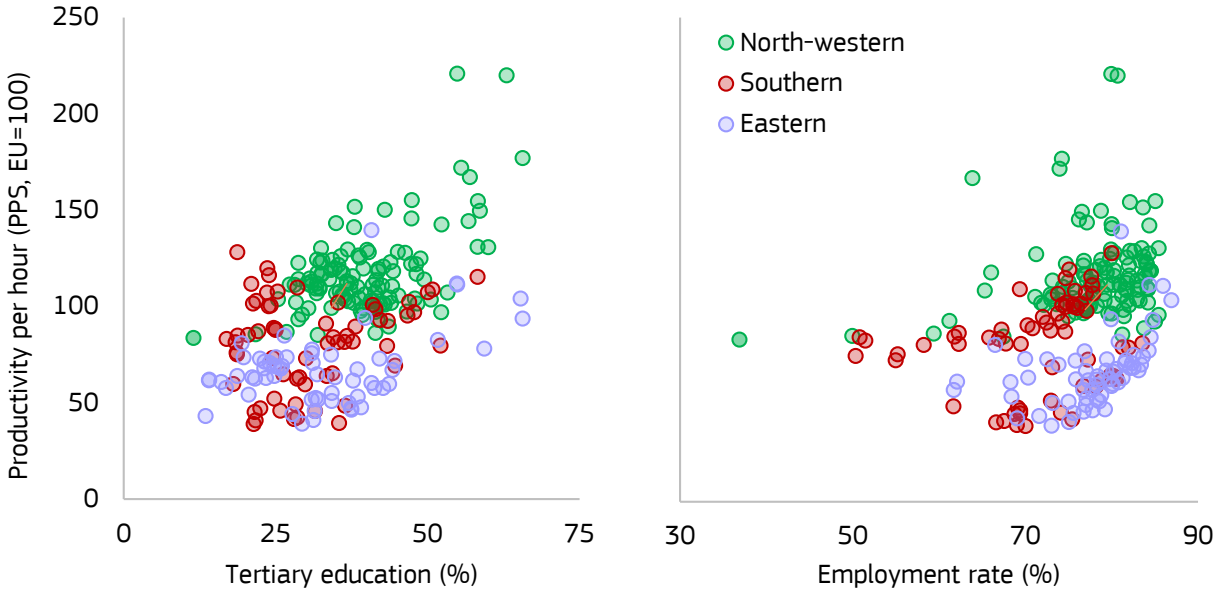
Social outcomes feed back into productivity through the two channels identified in Section 1.2.2: human capital and labour market inclusion. Inclusion expands the effective labour force with higher employment raising output per head even before hourly productivity changes. Human capital raises efficiency, with participation and mobility, but importantly with skills associated with higher output per hour, increased innovation capacity and the faster adoption of new technologies. Lower rates of poverty and social exclusion also generate wider positive externalities through better health([39]), higher trust([40]) and stronger institutions([41]). The strength of these channels depends on investment in

([39]) Lower income and higher deprivation are associated with poorer health and access to care, weighing on labour supply. (OECD, 2019) or (OECD, 2021)

([40]) Regional quality of government and interpersonal trust vary widely and correlate with institutional performance. (Charron, Lapuente and Bauhr, 2024)

([41]) Greater equality and lower corruption strengthen social trust, underpinning impartial and effective institutions. Rothstein, B. and Uslaner, E.M. (2005)

Figure 1.2.12: Productivity is closely associated with skills and employment
Productivity per hour against tertiary attainment (25-64) and employment rate (20–64), NUTS 2 regions, 2023



Source: DG REGIO calculations based on ARDECO (SUVGDH) and Eurostat (edat_lfse_04, lfst_r_lfe2emprc)

education and training, activation and social protection, which helps explain why similar conditions raise productivity in some regions but not in others. Such investment can therefore be regarded as a determinant of long-term productivity rather than as a cost.([42])

The association between human capital and regional productivity is positive and robust but varies between macro-regions. North-western regions cluster at the upper end of both skills and productivity per hour. In southern regions the association is weaker, consistent with economies weighted towards tourism, agriculture and traditional manufacturing, where the productivity return on tertiary education is structurally lower. In eastern regions a flatter gradient may point to constraints in the quality of institutions and the capacity to innovate. Narrower gender, socio-economic and migrant gaps in education and employment widen the effective talent pool. Eastern regions combine comparatively high employment with productivity well below the EU average, pointing to employment gains without matching efficiency gains. (Figure 1.2.12)

Some convergence is visible. The eastern regions combine the fastest growth in tertiary attainment and employment and the sharpest fall in AROPE with the strongest productivity growth of the three macro-regions. The southern regions show smaller, more clustered movements, suggesting slower but positive convergence. In north-western regions, already close to the productivity frontier, changes are scattered and only loosely tied to further skills or employment gains, consistent with diminishing returns. The factors identified at different levels, namely human capital, employment and poverty reduction, are also associated with convergence over time. (Figure 1.2.14)

1.2.3.3. Skills and employment are the strongest correlates of regional productivity

Within countries, the more productive regions are consistently those with higher levels of skills and employment. In estimates across NUTS 2 regions with country fixed effects (Box 1.2.4), skills (in the model proxied by tertiary attainment) emerge as the most robust correlate of productivity, followed by employment. Every dimension of disadvantage (low attainment, joblessness and its duration, youth inactivity and exclusion) is negatively associated with productivity, whether measured per hour worked or per person employed.

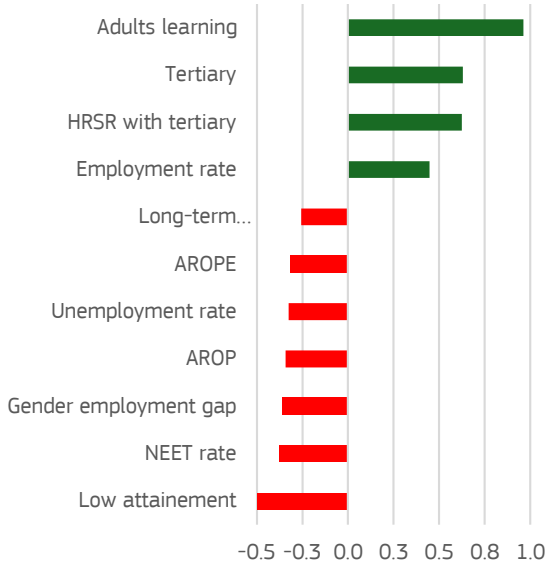
([42]) (Draghi, 2024), (Hemerijck, 2017)

Regions with higher tertiary attainment or higher productivity rates record substantially stronger productivity. Specifically, a 10 percentage point increase in tertiary attainment is associated with a 14 point gain in productivity, while a 10 percentage point increase in the employment rate corresponds to a 13 index point gain. However, these two drivers operate through distinct channels Skills (proxied by tertiary attainment) boost both hourly productivity (output per hour worked) and output per worker, reflecting higher value-added production. Employment rates, and particularly narrowing the gender employment gap, correlate more closely with output per worker than with hourly output, reflecting higher overall labour participation and total hours worked across the population .

Poverty is associated with lower productivity on its own, but in the cross-section the association largely disappears once skills and employment are accounted for. Social inclusion therefore appears to be linked to higher competitiveness mainly through these two channels rather than as an independent factor, indicating that social cohesion and competitiveness are not separate objectives.

These patterns hold across individual years (2008, 2013, 2019 and 2023) as well as across the full 2000–2023 NUTS 2 panel. They also remain consistent whether regional potential is measured against the EU average, or the top-performing EU regions. This points to a lasting structural relationship rather than a one-off result tied to a specific year or benchmark.

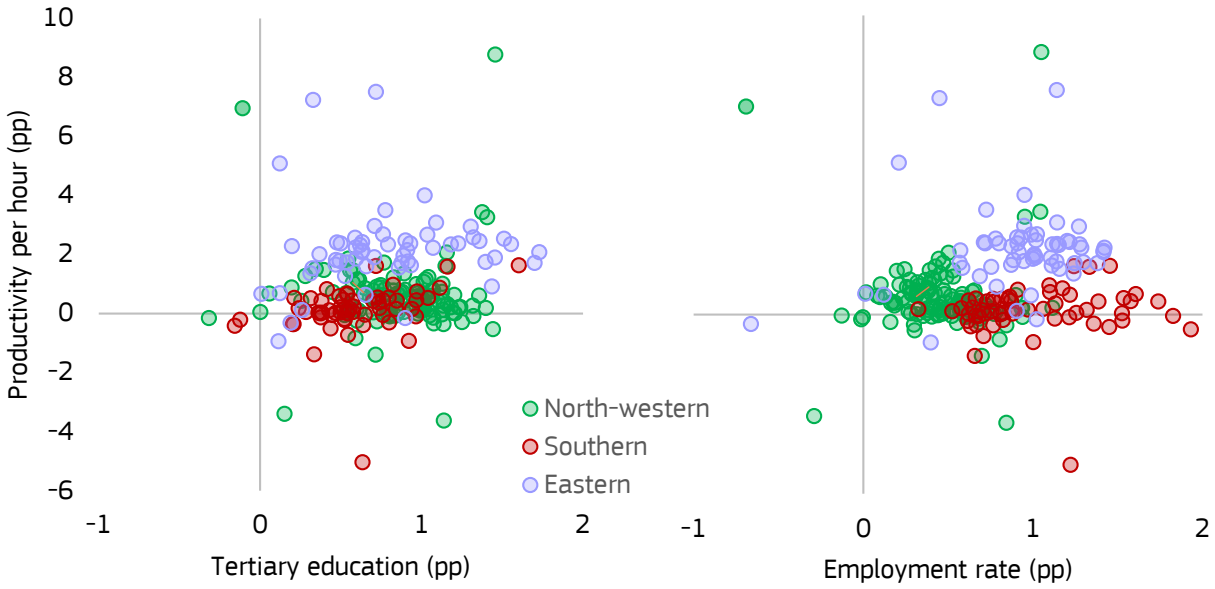
Figure 1.2.13: Skills and employment are positively, and disadvantage negatively, associated with productivity
Association of skills, employment and inclusion indicators with productivity per person employed, NUTS 2 regions, 2023 (standardised coefficients, within countries)



Source: DG REGIO calculations based on ARDECO (SOVGDH) and Eurostat (trng_lfs_22, edat_lfse_04, hrst_st_rcat, lfst_r_lfe2emprc, lfst_r_lfu2ltu, ilc_peps11n, lfst_r_lfu3pers, ilc_li41, edat_lfse_22)

These results describe associations, not causal effects. Productivity, employment and social outcomes are jointly determined, and reverse causation and omitted regional characteristics, such as sectoral structure, the quality of

Figure 1.2.14: Productivity growth association with gains in skills and employment
Growth in productivity per hour against changes in tertiary attainment (25-64) and employment rate (20–64), NUTS 2 regions, 2013-2023



Source: DG REGIO calculations based on ARDECO (SOVGDH) and Eurostat (edat_lfse_04, lfst_r_lfe2emprc)

Box 1.2.4: Regression model specification, magnitudes and robustness checks

Specification. The model is estimated across NUTS 2 regions with country fixed effects, so the estimates capture within-country differences net of national institutions and price levels. Productivity is measured both per hour worked and per person employed, separating an hourly efficiency channel from a participation and hours channel.

Magnitudes. A region with a tertiary attainment rate 10 percentage points higher records productivity per hour worked around 14 index points higher, and a region with an employment rate 10 percentage points higher records productivity around 13 index points higher. Both results hold for productivity per person employed and for GDP per head. Skills are associated similarly with both productivity measures, while the employment rate, and especially the gender employment gap, shows larger associations with productivity per person employed, consistent with a participation and hours channel.

Mediation (poverty channel). AROPE is strongly and negatively associated with productivity on its own (−0.86 index points per percentage point), but this association falls to approximately zero and loses statistical significance once tertiary attainment and employment are included in the same regression (Annex Table 2). The mediation result holds in the cross-section, while in the full 2000-2023 panel poverty retains a smaller independent association (Annex Tables 2 and 7).

Stability over time. In separate estimates for 2008, 2013, 2019 and 2023, tertiary attainment is positively and significantly associated with productivity in every year, and the poverty association is absorbed by the skills and employment channels throughout (Annex Table 3).

Distance-to-frontier specification. Each percentage point of shortfall from the EU frontier (the best-performing 20% of EU regions) in tertiary attainment or older-worker employment is associated with productivity per hour around 1.5 index points lower, among the largest associations examined. The conclusion is unchanged whether potential is benchmarked against national targets, EU targets, the EU frontier or the EU average (Annex Tables 5-6).

Panel robustness. The same ordering (skills first, employment second and disadvantage negative throughout) holds in a panel of all NUTS 2 regions over 2000-2023 with period dummies for the pre-crisis, crisis and recovery years (Annex Table 7).

Two composition effects. Adult learning is strongly correlated with productivity on its own but has no independent association once attainment is accounted for, reflecting the tendency of training to reach the already skilled. The negative raw correlation for vocational attainment is likewise a composition effect rather than evidence against vocational skills, whose value is better assessed at individual and firm level.

institutions, agglomeration and access to services, cannot be ruled out.

1.2.4. Conclusions

The same places perform well on inclusion, skills, employment and productivity. Many regions have converged albeit sometimes only partially. Eastern regions have caught up on income and employment and are closing the education attainment gap, which represents the clearest convergence success of the period. Southern regions, scarred by the 2008–2013 crisis, combine weak productivity, and high rates of poverty and youth inactivity. Within each macro-region, the divide between metropolitan and non-metropolitan regions has widened, and untapped potential is greatest in peripheral, rural and industrial-transition areas.

The relationship between social cohesion and competitiveness is two-way. Productivity gains improve social outcomes only where quality jobs, redistribution, effective social policies and institutions transmit them to households, while better social outcomes are associated with higher productivity through human capital and labour market participation. Persistent gaps in social inclusion may therefore signal untapped productive potential, with implications for overall European competitiveness.

Social outcomes are thus part of the competitiveness strategy. Because skilled workers, training and high productivity activity

concentrate where they are already strong, market forces that are left alone tend to widen regional gaps rather than close them (Council of the European Union, 2025). Support for education, skills and adult learning, to boost the labour market participation of women, persons with disabilities, young people and older workers, and for the redistribution of wealth and services that convert growth into inclusion, all bear on the productive potential of lagging regions. This is most evident where regions fall behind on both social and economic measures.