

**2026 CONSULTATION WITH TRADE UNIONS ON POSSIBLE SOLUTIONS TO COUNTRY
 SPECIFIC CHALLENGES IDENTIFIED IN THE SOCIAL CONVERGENCE FRAMEWORK.**

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BULGARIA

Policy Drivers

1. JER: The share of people at risk of poverty or social exclusion (AROPE) represents a 'critical situation, for children in particular.

TRADE UNION RECOMMENDATION

- Updating the methodology for determining the poverty line, which would allow increasing the scope of assisted individuals, especially families with children.
 - Increasing the share of social transfers aimed at policies to support and prevent poverty and social exclusion through better linkage to employment and labor income;
2. JER: More than half of 15 year-old students lack basic skills. Adult participation in learning stood at 9.5% in 2022 (vs 39.5% in the EU), which is among the lowest in the EU.

TRADE UNION RECOMMENDATION

- Creation of tripartite sectoral funds for training and qualification, with priority given to strategic and promising sectors for the economy, as well as the introduction of individual training accounts.
3. JER: The disability employment is still well above the EU average: Longterm unemployment saw only a slight improvement:

TRADE UNION RECOMMENDATION

- The development of the labor market is stable and sustainable, which allows for the active inclusion of various groups of society, including persons with disabilities. In this regard, it is necessary to preserve the existing mechanisms related to the conditions for ensuring adequate employment.
4. Social CSR 2025: Strengthen competence-based teaching and learning. Improve teaching quality. ... Address labour shortages, :: to increase the employment level of persons with disabilities, people with a lower level of education, Roma and inactive persons. Reinforce skills ... in green and digital transition. ... improving access to integrated employment and social services, and by providing more effective minimum income support. Improve access to health services, ...

TRADE UNION RECOMMENDATION

- Drafting and adopting a completely new Employment Promotion Act that would reflect structural changes in the economy, regional imbalances, as well as the impact of digitalization, automation and artificial intelligence.

IN-DEPTH ANALYSIS AND RECOMMENDATIONS

In-person and virtual dialogue with the European Commission for countries under Social Convergence Framework 2nd (Bulgaria)

For yet another year, Bulgaria has been placed under the second phase of monitoring by the European Commission. This serves as a clear indicator of the persistent challenges Bulgaria continues to face, both in terms of economic development and in the social sphere. At the same time, it is important to acknowledge that certain areas have shown progress, as reflected in the improved performance of some indicators within the framework of the European Pillar of Social Rights.

The key findings outlined in the European Commission’s report on Bulgaria, and share the trade unions’ perspective on them. Broadly speaking, these findings can be grouped into three main areas.

First: Ongoing Social Challenges

Bulgaria continues to face significant social challenges – a conclusion that has unfortunately become recurring.

- Since joining the European Union in 2007, Bulgaria has not achieved sustained improvement in reducing the share of people at risk of poverty or social exclusion (AROPE). The fact that this indicator has consistently remained above 20% can only be described as unsatisfactory. According to the most recent year with complete data for all Member States (2024), Bulgaria ranks first in this negative classification.
- Inequality also remains a serious concern. The gap between income deciles is becoming increasingly pronounced. This trend is occurring despite overall improvements in living standards in recent years, measured by GDP growth in purchasing power parity terms. This clearly points to an imbalance in the distribution of the “fruits” of economic growth.
- Furthermore, the continued absence of a regular state budget for 2026 aligned with the calendar year creates additional obstacles to implementing stable and consistent anti-

poverty policies. It is worth noting that in four out of the five years since 2022, the adoption of a regular budget has been delayed, generating negative consequences for the country's social policies.

Second: Skills and Digitalization

Bulgaria also **faces substantial challenges in skills development**, particularly in the area of digitalization.

- Adult participation in education and training remains very low. According to the latest available data, only 9.5% of adults in Bulgaria take part in learning activities, compared to an EU average of 39.5%. Among the main reasons are limited motivation to acquire skills beyond immediate job requirements, as well as the lack of a strong tradition of lifelong learning. As a result, workforce adaptability remains insufficient, which poses serious challenges in the context of a rapidly transforming labour market.
- In addition, the overall level of digital skills in Bulgaria remains among the lowest in the EU – 38.26% in 2025 – despite an 8-percentage-point increase over the past four years. The rapid advancement of digitalization and the growing integration of artificial intelligence across all sectors of society highlight a structural, long-term challenge for the country. Without decisive action, the risk of a widening mismatch between labour market demand and available skills will continue to grow.

Third: A Strong but Constrained Labour Market

At the same time, **Bulgaria's labour market continues to perform relatively well**. The employment rate has remained consistently above the EU-27 average throughout the current decade, while unemployment has maintained its steady downward trend.

However, several important aspects deserve attention:

- The mechanism introduced three years ago for determining the minimum wage has delivered positive results, particularly in supporting labour market participation. The statutory minimum wage has now reached 620.20 euro, representing a nominal increase of 55.5% compared to 2023, the year before the new methodology was introduced. Nevertheless, this mechanism operates largely automatically and does not sufficiently involve the social partners. It is therefore necessary to refine the model in a way that

both guarantees sustainable annual growth of the minimum wage and ensures meaningful participation of nationally representative employers' and trade union organizations in its determination.

- Labour shortages are deepening and require targeted policy responses in two key directions. First, greater efforts must be made to integrate economically inactive working-age individuals into the labour market. Second, priority should be given to attracting labour from Bulgarian communities abroad, including individuals from third countries. Addressing this issue will be one of the major economic challenges in the coming years.
- Moreover, the integration of vulnerable groups into the labour market remains incomplete. A more flexible legislative framework is needed to create adaptive conditions that facilitate their effective participation.

In summary, the three main findings presented by the European Commission accurately reflect Bulgaria's current situation. This calls for clear political commitment and concrete institutional measures at national level.

Key Policy Priorities

From the trade union perspective, meaningful improvement in Bulgaria's economic and social environment – particularly with regard to workers' incomes – requires progress in several key areas:

- Gradual implementation of the “living wage” concept as a central benchmark in wage negotiation and determination. This approach could significantly reduce income disparities and help lift low-income earners out of the category of the working poor.
- Full and effective transposition of the Directive on adequate minimum wages, ensuring that its core objectives are genuinely achieved. Amendments adopted in 2025 concerning collective bargaining appear, at this stage, largely formal and require further substantive development.
- Revision of the methodology for setting the poverty line to better reflect current inflation levels for essential goods and services. This would enhance the adequacy of minimum income thresholds in line with present price dynamics.

- Reintroduction of measures aimed at correcting pay disparities among civil servants holding equivalent expert positions across different administrative structures, thereby addressing accumulated distortions.
- A comprehensive review of the national tax system, including a reassessment of the balance between direct and indirect taxation, with the aim of reducing the tax burden on citizens – particularly on working people.

These measures constitute essential instruments for reducing inequality and strengthening social cohesion in Bulgaria.

Concluding Remarks

Finally, it must once again be underlined that effective communication at national level between the social partners and the Bulgarian government – particularly in the context of the European Semester – remains insufficient. In-depth expert discussions on the broad range of issues raised by the European Commission are largely lacking, and elements of the European Semester are too often treated as secondary within broader consultation processes.

SPAIN

Policy drivers

1. JER: The share of the population at risk of poverty or social exclusion point to 'critical situations': For children in particular, social transfers poverty risks well below the EU average. Regional disparities and high in-work poverty

TRADE UNION RECOMMENDATION: Data on child poverty in Spain show no improvement. Therefore, the universal child benefit proposed by the Government is a positive measure. It aims to provide €200 per month per child under 18, amounting to €2,400 per year. This benefit would be universal for all families and compatible with the Minimum Vital Income (IMV) and other forms of assistance. However, it still requires further definition and approval.

Moreover, the IMV needs to improve its coverage to reach everyone in need. So far, there have been issues limiting its effectiveness, ranging from insufficient administrative resources to lack of information. Additionally, it is necessary to tackle temporary and part-time employment, as well as high unemployment, as the main causes of poverty, through training policies and support in employment offices. This will require more public resources and better training within companies

2. JER: Employment due to the large gap with the EU average, this is now a 'critical situation

TRADE UNION RECOMMENDATION: Following the rejection in Parliament of the reduction in working hours proposed by trade unions, aimed at reaching a 37.5-hour workweek, the need arises to properly monitor employees' working time. This is not a matter of political will or a union initiative: it is a legal obligation, a European requirement, and a moral necessity. In Spain, more than 2.8 million unpaid overtime hours are worked each week.

At the same time, progress is needed on the VI AENC collective bargaining agreement, already agreed upon by trade unions but not yet endorsed by employers. Its goal is to improve wage equality and address expected price increases and their impact on workers' purchasing power. It includes an additional gradual wage increase of between 1% and 3% in sectors where the average annual wage is below the national average.

3. SOCIAL CSR: Address child poverty, while also improving the efficiency, coverage and adequacy of social transfers and social assistance. Reduce skills shortages and mismatches by strengthening dual vocational education and training, and by increasing lifelong learning, in particular for the low-skilled. Improve basic skills and address early school leaving, taking into account regional disparities

TRADE UNION RECOMMENDATION: From UGT, we welcome that on February 27 the draft Royal Decree transposing the European Minimum Wage Directive was submitted for public consultation. This draft, whose text has been published, is the result of an agreement between the Ministry of Labour and trade unions. For trade union organizations, the text not only adequately fulfills the obligations of transposing the Directive, but also responds to a long-standing demand of the labour movement.

In addition, Spain can now state that it complies with the regulation by setting the minimum wage at €1,221, representing a 65% increase since 2018. This is key to progressively aligning Spain's minimum wage with the European benchmark of 60% of the average wage, established by the European Committee of Social Rights. However, the Directive still needs to ensure the exclusion of wage supplements absorption when base salaries are increased.

In-depth analysis and recommendations

ITALY

Policy drivers

1. JER: The employment rate is a 'critical situation'. South and the islands recorded gap in levels with the North-West. gender employment gap presents a 'critical situation'. Gross disposable household income per capita index remains a 'critical situation' driven by structurally low wages .. linked to low productivity and low work intensity.

TRADE UNION RECOMMENDATION:

For UIL, in order to promote a structural policy shift, proposals should include the promotion of permanent contracts and apprenticeships as the standard forms of entry routes into the labor market, the introduction of stricter limits and higher costs for excessive use of temporary contracts, and the reform of flexible entry schemes that are frequently misused, in particular extracurricular internships.

The objective must be to move from a labour market based on flexibility to one based on quality employment and stability.

Policies should focus more on:

- improving the quality of training programmes;
- strengthening links between training and labour demand;
- ensuring transparent monitoring of employment outcomes after training.

The strengthening of Public Employment Services remains a key priority, particularly in regions where employment services remain underdeveloped.

2. JER: NEET remains among the highest in the EU. Share of adults participating in learning and that of adults with at least basic digital skills are low.

For UIL, in order to promote a structural policy shift, proposals should include the promotion of permanent contracts and apprenticeships as the standard forms of entry routes into the labor market, the introduction of stricter limits and higher costs for excessive use of temporary contracts, and the reform of flexible entry schemes that are frequently misused, in particular extracurricular internships.

The objective must be to move from a labour market based on flexibility to one based on quality employment and stability.

3. JER: Poverty risks increased in 2024. Increasing share of quasi-jobless households

TRADE UNION RECOMMENDATION: For UIL, the priority must be a tax reform based on progressivity, redistribution and a reduction of the tax burden on labour income and pensions. Such reform must address the impact of inflation and revise the system of tax incentives through a comprehensive reorganisation aimed at improving legal clarity, simplifying the tax framework and

eliminating deductions that have accumulated over time and often favour corporate or sectoral interests without valid justification.

4. SOCIAL CSR: Promote job quality and reduce labour market segmentation, also to support adequate wages, and increase labour market participation, in particular for underrepresented groups, including by further strengthening active labour market policies and improving affordable access to quality child- and long-term care, taking into account regional disparities. Keep-up the efforts to tackle undeclared work, particularly in the most affected sectors.... strengthening adult learning by expanding work-based learning in high-growth sectors. Improve educational outcomes, with a focus on disadvantaged students, including by strengthening basic skills.

TRADE UNION RECOMMENDATION: The implementation of the Italian Recovery and Resilience Plan (PNRR) remains one of the key pillars for addressing the structural challenges identified within the European Semester framework. The plan represents an unprecedented opportunity for Italy to modernise its economic and social model through investments and reforms targeting productivity, digitalisation, ecological transition and social inclusion.

However, several implementation risks remain. First, the capacity of local administrations to manage complex investment projects continues to be uneven across the country, with particular difficulties emerging in Southern regions. These administrative capacity gaps risk generating delays and territorial disparities in the absorption of European funds.

Second, UIL underlines the limited involvement of social partners in the monitoring and governance of the PNRR. The success of such a transformative programme requires a stronger institutionalised role for trade unions and employers' organisations, both in the evaluation of reforms and in the implementation of investments with direct labour market impacts.

Third, it is necessary to ensure that PNRR investments translate into quality employment and sustainable development, rather than temporary growth effects. In particular, public investments financed through European funds should include stronger social conditionalities, such as the respect of national collective agreements and the promotion of stable employment.

Finally, the PNRR should play a stronger role in reducing Italy's structural territorial disparities. Investments in infrastructure, education and innovation must prioritise regions characterised by lower productivity and employment rates, particularly in Southern Italy.

For UIL, the PNRR must remain a tool not only for economic modernisation but also for social cohesion and inclusive growth.

In-depth analysis and recommendations



IL SINDACATO DELLE PERSONE

UIL's note on the European Semester structured dialogue with the Social Partners

The European Semester remains the main framework through which the European Union coordinates economic, employment and social policies. For UIL, the Semester should be fully aligned with the European Pillar of Social Rights, ensuring that fiscal discipline is balanced with social cohesion, quality employment and inclusive growth.

The effectiveness of the Semester depends on the ability to focus not only on macroeconomic stability, but also on quality of employment, fair wages, industrial policy and social investment: these are drivers of growth and have a direct impact on macroeconomic indicators.

The CSRs for 2025 highlight some of Italy’s persistent structural challenges: stagnant productivity and weak wage growth, territorial inequalities between North and South, demographic ageing, labour market segmentation, limited female participation, growing in-work poverty, weak labor market participation policies and work-based learning, weak performances in long-term care and early childhood welfare policies.

Most of these are well-known, chronic challenges. As winds of war rise in the Middle east, the consequences risk to be an even further aggravation of the living conditions of Italian people. Early signs of this can be seen already in the increase of the energy prices due to the closing of the Hormuz Canal, which will rapidly affect also food prices, and through a rise in costs faced by firms, risks to overflow on the general economy.

The pressure on aggregate demand risks to be unbearable, as welfare policies will have to sustain households and companies should the inflation rate explode and return to the levels of the post-energetic crisis period. Families’ consumption levels have returned to the pre-covid levels only in 2023, remaining stable in 2024 (Istat data), while maintaining great regional differences, 37.9% between the North-east and the South.

Although nominal wages have increased in 2025 more than inflation (2.9% vs 1.7%), real wages are still worse off by 8.8% if compared to 2021, and working poverty has reached a 10.2% rate.

Employment

The CSR-6 addresses the structural challenges in Italy regarding the labor market. In front of an employment rate that has achieved record levels, 62.6%, the aggregate data hides an increase in the non-participation rate, especially among young workers, whose employment rate is also decreasing, while 83% of new hirings for young workers is temporary.

Table 1. Recent data on labor in Italy

| | | |
|-------------------------------|--|--|
| Employment | <ul style="list-style-type: none"> • 126.000 less young workers employed up to 34 years old lost • Only the over 50 years old workers are growing (+358.000) | <i>ISTAT</i> <i>January</i> <i>2025/2026</i> <i>variation</i> |
| Female employment rate | 53,9% (-17,4 % less than men) | <i>ISTAT January 2026</i> |

| | | |
|-------------------------------------|--|--------------------------------------|
| Female inactivity rate | 43% (the male rate is at 24,9%) | <i>ISTAT January 2026</i> |
| Part-time employed workers | 3 millions, of which 80% are women | <i>ISTAT III quarter 2025</i> |
| Neet 15-34y absolute value | 1.8 million (growing) | <i>ISTAT</i> |
| Neet rate | 2nd highest in Europe, 17.5% (2024) | <i>Eurostat</i> |
| Temporary jobs – new hirings | 83% of new hirings for young workers is temporary | <i>INPS (January-September 2025)</i> |
| Temporary jobs | Around 2.6 million temporary workers, of which 50% are in the age range 15-34. | <i>ISTAT – III quarter 2025</i> |
| Young emigrants 18-34 y | Between 2011 and 2024 630.000 emigrants (net value) | <i>CNEL</i> |
| Irregular workers | 3.1 millions | <i>ISTAT</i> |
| Wage gender gap | <ul style="list-style-type: none"> Private sector: 29%. Per capita average income of women € 19.833, for men € 27.967. Public sector: 23%. Per capita average income of women € 31.679, for men € 41.117). | <i>INPS-2024</i> |
| Pension gender gap | -34% | <i>INPS – anno 2024</i> |
| Social safety nets | In 2025, 560 million safety net hours authorized (Cassa integrazione, solidarity funds, +10.4% compared to 2024). | <i>INPS- anno 2025</i> |

These data acknowledge and confirm the CSR from the EU Commission regarding the labor market. Labour market segmentation remains one of the most significant structural problems in Italy.

Temporary contracts, involuntary part-time work and various forms of atypical employment continue to affect a large share of workers, particularly young people and women.

Recent legislative changes have not effectively reduced this segmentation. On the contrary, according to UIL, the 2025 Labour Reform (“Collegato Lavoro”) has expanded the use of temporary employment and reduced worker protections, increasing flexibility for firms without improving job stability, through measures that:

- liberalised temporary work agencies;
- extended derogations allowing fixed-term contracts without justification;
- introduced resignation mechanisms based on “concluding behaviour”.

For UIL, in order to promote a structural policy shift, proposals should include the promotion of permanent contracts and apprenticeships as the standard forms of entry routes into the labor market, the introduction of stricter limits and higher costs for excessive use of temporary contracts, and the reform of flexible entry schemes that are frequently misused, in particular extracurricular internships.

The objective must be to move from a labour market based on flexibility to one based on quality employment and stability.

Active labor market policies and skills

Active labour market policies remain uneven in effectiveness and territorial coverage.

The implementation of programmes such as the “GOL programme” has increased participation in training and employment services, but several critical issues remain:

- insufficient alignment between training programmes and labour market needs;
- uneven performance of public employment services across regions;
- limited impact on long-term employment outcomes.

While participation targets have been met in several cases, UIL stresses that the quality and effectiveness of training remain key concerns.

Policies should focus more on:

- improving the quality of training programmes;
- strengthening links between training and labour demand;
- ensuring transparent monitoring of employment outcomes after training.

The strengthening of Public Employment Services remains a key priority, particularly in regions where employment services remain underdeveloped.

Female labor market participation

Italy continues to have one of the lowest female employment rates in the European Union. While recent investments supported by the Recovery and Resilience Facility (RRF) have contributed to expanding **childcare coverage**, significant gaps remain, particularly in Southern regions.

Increasing female participation requires a comprehensive policy approach combining:

- expansion of childcare and early childhood education services;
- improved work-life balance policies;
- stronger labour protections for women returning to work after maternity.

Collective bargaining can also play a key role through measures such as:

- flexible working arrangements;
- improved parental leave provisions;
- family-friendly working time arrangements.

Undeclared work

Undeclared work remains a structural problem in Italy. According to recent estimates, approximately 3.1 million workers are involved in undeclared or irregular employment, with particularly high incidence in sectors such as agriculture, construction and domestic work.

New instruments such as the construction sector “points-based licence” system represent a first step toward improving compliance, but their impact remains limited due to several weaknesses:

- application limited to the construction sector;
- insufficient enforcement mechanisms;
- limited inspection capacity.

In addition, recent legislative changes risk weakening labour inspections by introducing advance notice requirements for inspections and exemption periods for firms deemed compliant.

To effectively combat undeclared work, UIL proposes:

- strengthening labour inspection systems and increasing inspector staffing;
- expanding monitoring mechanisms across all sectors;
- improving coordination between inspection authorities;
- limiting excessive subcontracting chains, which often facilitate irregular employment.

Without stronger enforcement, undeclared work will remain a significant source of labour market distortion and worker exploitation.

Defense spending and fiscal policy

CSR-1 recommends to reinforce and augment spending in defense, according to EU Council conclusions of March 2025. Italy has requested a loan of around 14.9 billion euros from the SAFE credit line, and has committed to increase its defense spending to GDP up to 5%. At the same time the EU Commission pushes for maintaining a sustainable fiscal trajectory in order to avoid further increases in the debt-to-GDP ratio.

The first consideration to be done, for UIL, is that austerity has been a pillar of the EU Commission recommendations, until defense spending entered the debate. This seems an implicit admission that there is a public spending that can bypass the financial sustainability argument, defense, and a public spending that is considered of secondary importance, which is welfare spending.

For UIL, recent historical and geopolitical events have proved and confirmed once again a solid and adequately financed welfare system is fundamental for democratic systems. Economic recessions, inequalities, unfair working conditions are just some of the drivers that can destabilize the democratic order. In this sense, social spending and social investments must be considered pivotal and cannot be sacrificed in the name of fiscal sustainability.

This said, UIL recognises that European security challenges require coordinated responses at EU level and adequate defence capabilities. However, increases in defence spending should not come at the expense of social investment, welfare systems or essential public services.

For UIL, three principles should guide defence-related fiscal decisions:

- **European coordination**
Defence investments should increasingly be coordinated at EU level to avoid duplication and inefficiencies. European countries, in aggregate, are already spending one of the highest amounts worldwide, second only to the US. A common European defense project would be a far more efficient way to achieve the goal, instead of a blind national increase.
- **Protection of social spending**
Any increase in defence spending should not undermine funding for healthcare, education, social protection or labour market policies.
- **Industrial policy opportunities**
Defence investments should be linked to European industrial policy, technological development and employment creation.

As it comes to fiscal policy, UIL recognises the importance of responsible fiscal policy and macroeconomic stability. However, fiscal consolidation must be pursued in a way that preserves social cohesion, protects public services and ensures a fair distribution of the tax burden.

Italy's fiscal framework continues to present structural weaknesses, particularly regarding the distribution of the tax burden between labour, capital and wealth, as well as the long-standing problem of tax evasion.

Table 2. Tax wedge on labour

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|------------------------------|-------|-------|-------|-------|-------|
| Tax wedge as % of GDP | 42.5% | 42.8% | 42.7% | 42.7% | 42.6% |

This increase is due to a rise in tax and social security revenues of 5.8% in 2024, compared with a 2.7% increase in GDP at current prices. The increase in revenues derives largely from the rise in employment, but even more from higher inflation and the resulting fiscal drag, whereby tax withholdings increase more than proportionally relative to wages.

As a result, the tax burden in Italy has increased, particularly on income from employment. According to ISTAT data, total tax revenues have exceeded €654 billion, with personal income tax (IRPEF) representing the main source of government financing, contributing €273.2 billion,

equal to 41.9% of total revenues. This makes IRPEF an increasingly significant component of the Italian tax system, considering that it accounted for 39% of total revenues in 2022 and 40.4% in 2023.

In other words, employees and pensioners are paying an increasing share of taxes, in a context where other sources of income benefit from exemptions, preferential regimes and flat tax systems.

Looking more closely at the composition and dynamics of tax revenues, it emerges that over the last two years revenues have increased by 14%, equivalent to €80 billion, which, compared with a nominal GDP increase of 9.7% between 2022 and 2024, further explains the rise in the overall tax burden.

This €80 billion increase has been largely borne by employees and pensioners, primarily through IRPEF (€50 billion), as well as through higher taxation on consumption such as energy, gas and related products (€16.6 billion), and through VAT (€7 billion).

For UIL, the priority must be a tax reform based on progressivity, redistribution and a reduction of the tax burden on labour income and pensions. Such reform must address the impact of inflation and revise the system of tax incentives through a comprehensive reorganisation aimed at improving legal clarity, simplifying the tax framework and eliminating deductions that have accumulated over time and often favour corporate or sectoral interests without valid justification.

In the public debate, the possibility has emerged of reducing the second IRPEF rate from 35% to 33%. However, this measure is not sufficient to restore progressivity, and its benefits would be concentrated in higher income brackets, particularly if the threshold were extended up to €60,000. The risk is that it would result merely in a modest redistribution within labour income itself, financed largely by the additional revenues generated by fiscal drag.

For UIL, the issue of fiscal resources is clear: workers and pensioners cannot be the only ones financing the tax system. It is necessary to overcome the unfair flat tax regime for the self-employed, which generates unjustifiable inequalities, and to start a broader reflection on those sources of income that escape progressive taxation and are taxed much less than labour, such as financial income and inheritances. At the same time, incentives for businesses should become more selective and conditional upon the respect of social conditionalities.

As for tax evasion, for UIL the political approach of a so-called “friendly tax administration” is not the correct path to effectively combat tax evasion. Measures presented as positive — such as tax settlements, preventive agreements and various tax amnesties — risk discouraging compliance with tax obligations, as highlighted by important institutions such as the Parliamentary Budget Office (UPB) and the Bank of Italy.

It is therefore necessary to strengthen the tax administration, expand the use of digital technologies, improve data sharing between databases, strengthen electronic invoicing and send a clear message: everyone must pay taxes so that everyone can pay less.

Finally, there is the issue of cadastral reform, which is required under the Recovery and Resilience Plan (PNRR) and included in the medium-term fiscal plan. Once again, however, as with other regulatory adjustments required, the strategy appears to be to delay action so that

nothing effectively changes. The result is the creation of unjustified inequalities among taxpayers, since property valuations for tax purposes continue to rely on outdated data referring to economic cycles that have long since passed.

PNRR – Recovery and resilience plan

Regarding CSR-2. The implementation of the Italian Recovery and Resilience Plan (PNRR) remains one of the key pillars for addressing the structural challenges identified within the European Semester framework. The plan represents an unprecedented opportunity for Italy to modernise its economic and social model through investments and reforms targeting productivity, digitalisation, ecological transition and social inclusion.

However, several implementation risks remain. First, the capacity of local administrations to manage complex investment projects continues to be uneven across the country, with particular difficulties emerging in Southern regions. These administrative capacity gaps risk generating delays and territorial disparities in the absorption of European funds.

Second, UIL underlines the limited involvement of social partners in the monitoring and governance of the PNRR. The success of such a transformative programme requires a stronger institutionalised role for trade unions and employers' organisations, both in the evaluation of reforms and in the implementation of investments with direct labour market impacts.

Third, it is necessary to ensure that PNRR investments translate into quality employment and sustainable development, rather than temporary growth effects. In particular, public investments financed through European funds should include stronger social conditionalities, such as the respect of national collective agreements and the promotion of stable employment.

Finally, the PNRR should play a stronger role in reducing Italy's structural territorial disparities. Investments in infrastructure, education and innovation must prioritise regions characterised by lower productivity and employment rates, particularly in Southern Italy.

For UIL, the PNRR must remain a tool not only for economic modernisation but also for social cohesion and inclusive growth.

Industrial strategy

Regarding CSR-3. One of the most significant structural weaknesses of the Italian economic system remains the absence of a coherent long-term industrial strategy capable of guiding the transformations affecting the productive system.

Industrial policy in recent years has been characterised by fragmented measures and short-term incentives rather than by a coordinated national strategy capable of supporting innovation, technological transition and industrial restructuring.

Italy is currently facing multiple structural transformations at the same time:

- the ecological transition and decarbonisation of industrial production
- the digital transformation of production systems
- geopolitical tensions affecting global value chains

- demographic change and skills shortages.

In this context, UIL considers it essential to develop a national industrial strategy aligned with European industrial policy objectives, particularly in strategic sectors such as energy, advanced manufacturing, digital technologies and sustainable mobility.

Industrial policy must also address the social dimension of economic transformation. The ecological and digital transitions will generate both opportunities and risks for employment, particularly in sectors undergoing structural restructuring.

For this reason, industrial policy must be accompanied by:

- strong active labour market policies;
- targeted training programmes;
- social protection measures for workers affected by industrial restructuring.

In addition, UIL highlights the need to accelerate environmental remediation in industrial areas affected by pollution and environmental degradation, particularly in Sites of National Interest (SIN). The absence of a comprehensive strategy for environmental remediation represents both an environmental and an industrial policy failure, preventing the economic regeneration of large territories.

Competitiveness, local authorities and local public transport

Regarding CSR-4, Italy's competitiveness challenges are closely linked to structural weaknesses in infrastructure, public administration capacity and the functioning of local public services.

Local authorities play a fundamental role in implementing many public investment programmes and delivering essential services to citizens. However, municipalities and regional administrations often operate under severe financial constraints and limited administrative capacity.

For UIL, strengthening the financial and administrative capacity of local authorities is essential to improve territorial competitiveness and ensure effective implementation of investment programmes, including those financed through European funds.

A key example is the sector of local public transport, which represents a strategic component of economic competitiveness, social inclusion and environmental sustainability.

Despite its importance, local public transport in Italy continues to face structural underinvestment, ageing infrastructure and insufficient service coverage in several regions. These weaknesses affect not only the quality of life of citizens but also labour mobility and access to employment opportunities.

Improving local public transport requires:

- long-term investment strategies in sustainable mobility
- modernisation of transport fleets and infrastructure

- improved integration between different transport systems.

A well-functioning local transport system is also essential for the ecological transition, as it reduces dependence on private transport and contributes to lowering greenhouse gas emissions.

Renewable energy and the energy transition

Regarding CSR-5. The energy transition represents one of the central challenges for the Italian economy in the coming decades. Increasing the share of renewable energy sources is essential both to meet climate objectives and to reduce the country's dependence on imported fossil fuels.

Italy has significant potential for the development of renewable energy, particularly in solar and wind power. However, the expansion of renewable energy capacity continues to face several structural obstacles.

Among the most relevant barriers are:

- complex and lengthy administrative authorisation procedures
- insufficient grid infrastructure in some regions
- limited coordination between national and regional authorities.

These obstacles risk slowing down the deployment of renewable energy projects and delaying the achievement of climate and energy targets.

For UIL, the energy transition must also be accompanied by strong industrial and social policies.

First, the expansion of renewable energy production should be linked to the development of domestic industrial supply chains in order to maximise employment and technological benefits.

Second, the transition must be socially fair, ensuring that the costs of decarbonisation do not disproportionately affect low-income households and workers.

Third, investments in renewable energy must be integrated with broader energy efficiency policies, particularly in the building sector and in industrial production processes.

A successful energy transition must therefore combine environmental sustainability, industrial development and social fairness.

LATVIA

Policy drivers

1. JER: Inequality and poverty risks remained high: impact of social transfers (other than pensions) on poverty reduction is now a 'critical situation: low adequacy of pensions: The AROPE rate for persons with disabilities has increased and self-reported unmet needs for medical care remained in a 'critical situation.

TRADE UNION RECOMMENDATION: It is early to have in depth evaluation as the reform was implemented at the beginning of 2025. But CSB (Central Bureau of Statistics) statistics on month over month changes reflect that there is a gradual upwards movement through income groups especially from the lower income groups. However without an in-depth statistical analysis it is hard to evaluate the impact of tax reform as opposed to natural wage growth.

LBAS agreed that we need to simplify the tax system, however remains cautious regarding the impact of flattening the PIT system and how pronounced the impact of reduced tax progressivity will be on income inequality. In the current system low wage earners will have to rely on stable and consistent minimum-wage growth as well as reliable non-taxable minimum growth to ensure that lower wage earners do not fall behind in terms of real wages.

2. JER: Unemployment and long-term unemployment rates increase

TRADE UNION RECOMMENDATION:

In order to have quality approach to address lack of labour force several factors need to be considered:

- ALMP (addressing unemployment in regions) focused on skills development (improving employability of workers and unemployed), quality of AMLP training programmes, availability of trainers, career consultants and their training.
- Improving mobility infrastructure (transport connections). Availability of transport connections (which was chosen as a tool to reduce inequality in the RRF) still not solved, preventing workers to be mobile between regions for the purpose of employment.
- Foreign workers: stronger control over companies is necessary in order to prevent employment of third country nationals for the purpose of sending them abroad instead of employing in Latvia to fill in for the lack of labour (example: construction company requesting permission to get work permit for 300 third country nationals - plumbers or transport company having 1 car and requesting 50 third country nationals as cargo truck drivers). It needs to be controlled that companies have real economic activity, contracts signed.
- Capacity and cooperation of enforcement authorities is challenging and needs to be improved.

It is necessary:

- to introduce more dispositivity clauses and references to collective agreements in the Labour Law considering that labour laws are very detailed, autonomy of social partners and more topics to collective bargaining need to be expanded;

- restrictions to collective bargaining in public sector in the Law on Remuneration of Officials and Employees of State and Local Government Authorities need to be solved;
- expanding further motivational factors for benefits of collective agreements (transport, education, health, food) is necessary;
- amending the law to provide that the only representative in collective bargaining is trade union and not authorised employee representatives, collective agreements therefore can be concluded only with trade unions;
- public procurement regulation should provide more incentives for employers who have collective agreements setting wages and social benefits for workers.

3. JER: share of adults with at least basic digital skills and percentage of university students enrolled in STEM programmes is low.

TRADE UNION RECOMMENDATION:

- Strengthen targeted measures to increase the attractiveness of STEM education - through improved teacher training, competitive pay and early engagement of students in science and technologies
- Accelerate the development of digital skills across all age groups - in general, vocational, and adult education with a stronger focus on low-skilled adults.
- Address the ageing and renewal crisis of teaching workforce by improving workload management, professional prestige and long-term career sustainability especially in rural areas
- Reduce regional disparities in education outcomes providing additional support to rural schools, learners at risk of early school leaving and those with low basic skills.
- Reassess quality of ALMP training, employability of workers after the training, ensure availability and training of trainers and career consultants.
- Expand adult learning participation and employer involvement to meet the national target of 60% by 2030.

4. SOCIAL CSR: Address labour and skills shortages, in particular STEM and for the green transition, and digitalisation, as well as in the social and healthcare sectors, ... Strengthen social protection to reduce inequality, including by improving the adequacy of old-age pensions and the access to quality social services, notably home care, while maintaining fiscal sustainability. Strengthen the adequacy and accessibility of the health system to improve health outcomes, including by providing additional human and financial resources, broadening the statutory benefits package and reducing out-of-pocket payments. Increase the availability and quality of social and affordable energy-efficient housing, including through renovations.

TRADE UNION RECOMMENDATION:

- To further strengthen institutionalised social dialogue ensuring early and meaningful involvement of social partners in the design of reforms.

- Address low trade union density (6%) and collective bargaining coverage (25%, see “Main indicators and characteristics of collective bargaining: Latvia,” OECD, 10.2025: <https://www.oecd.org/content/dam/oecd/en/data/datasets/oecd-aias-ictwss/Latvia.pdf>), and promote sector-level collective agreements. Provide quality discussion on real obstacles to collective bargaining and find solutions.
- Make more effective use of ESF+ funding for capacity building of social partners, particularly in skills, education and labour market reforms.
- Ensure that recommendations of the NTSP and other tripartite bodies are consistently reflected in policy decisions and legislation.

In-depth analysis and recommendations

LBAS comments: Implementation of the CSRs and Latvia's reform

The EC fact finding mission 21.01.2026

(1) Skills

To what extent have there been synergies between employers and educational institutions to strengthen vocational education and training (VET)? How effective is the work of the tripartite national sub-council for cooperation in VET and the sectoral expert councils?

Cooperation between employers and educational institutions in VET - from the trade union perspective, has improved, but remains insufficiently systemic. Cooperation is often concentrated in specific sectors and projects while the involvement of employees and trade unions in issues such as training quality, working conditions and the rights of learners during training is still limited.

The sub-council on VET of the National tripartite Cooperation Council and sectoral expert councils are important instruments of social dialogue on education and VET but their practical impact and effectiveness remains limited. Trade unions point out to unequal capacity among social partners involved, including insufficient regular engagement and the fact that agreed decisions are not always consistently reflected in education and training policies.

Sectorial experts' councils operate good, but trade union point out to low capacity to participate, e.g. conflicting meetings on the same day (overlaps), employers do not provide paid working time to participate in the NEP meetings which prevents participants from participating risking loss of income or unjustified absence from work.

What is the progress on the development of work-based learning programmes?

Progress in work-based learning (WBL) has expanded but trade unions emphasise that quality assurance, occupational safety and fair conditions for apprentices are not always adequately ensured. There is a risk that WBL placements without sufficient supervision, properly trained mentors and active involvement of social partners may be used as a source of cheap labour.

How effective is the involvement of employer organisations in establishing training opportunities and is there a need to strengthen sectoral and/or regional employers organisations or trade unions to increase upskilling?

Employer organisations play an important role in establishing training opportunities, but trade unions emphasise that high-quality upskilling cannot be achieved without strong trade unions participation and balanced social dialogue. There is a clear need to strengthen both sectoral employer organisations and trade unions, particularly in regions and service sectors to ensure broader access to training opportunities

What can still be done to make VET more labour market relevant and to improve the employability of VET graduates?

Further necessary actions from the trade union perspective include the following:

- ensure equal involvement of social partners in the design of VET curricula;
- strengthen training on issues concerning social skills and issues of the labour law and occupational health and safety;
- provide high-quality, paid work placements for VAT students;
- improve career guidance and graduate tracking;
- promote stable employment for VAT students, not only short-term labour-market matching.

From your experience, are the current upskilling and reskilling programmes effectively meeting the labour market needs in STEM, green transition, digitalisation, and social/healthcare sectors?

Trade unions have assessed that current upskilling and reskilling programmes do not sufficiently reach workers, especially those in lower-paid occupations in public sector. Programmes often focus on short-term skills rather than sustainable qualification development in STEM, green transition, digitalisation, healthcare and social care.

Which sectors are particularly affected by skills shortages and mismatches? Are new shortages emerging in some sectors, professions or regions?

Trade unions underline that shortages of skills are closely linked to low remuneration, high workloads and poor working conditions. The most affected sectors include:

- healthcare and social care;
- education (especially STEM teachers);
- manufacturing and construction;
- transport and logistics;
- ICT (particularly high-level specialists);
- interior affairs (police, prison administration, border-guards, firefighting service)

New shortages are emerging in green economy occupations, qualified workers leave the sector or the country due to unattractive working conditions in regions.

Social partners were not involved in design implementation of the project on **Individual learning accounts**. Social partners were involved only as members of the Monitoring Committee. Initial idea from the trade unions side was to develop a project as it operates in France, namely, based on general collective agreement. At the moment trade unions are involved in a passive way - formally trade unions are involved in the Monitoring Committee but practically trade unions do not have rights and power to influence the process of implementation of the individual learning accounts.

Regarding active labour market policies (ALMP), LBAS again draws attention to the necessity of quality of training provided to unemployed persons, availability of trainers (including pedagogical skills) and quality of work of career consultants (their availability, training). In addition, short duration of unemployment period doesn't motivate unemployed people to be involved in training activities. The average unemployment period is 6 months - it is not sufficient to obtain new skills especially regarding the long training programmes like vocation education programmes and change the profession. Furthermore, benefits provided by municipalities provide no incentive to invest time and energy to get new skills and competences.

Recommendations for the 2026 European Semester – Education and Skills

- Strengthen targeted measures to increase the attractiveness of STEM education - through improved teacher training, competitive pay and early engagement of students in science and technologies
- Accelerate the development of digital skills across all age groups - in general, vocational, and adult education with a stronger focus on low-skilled adults.
- Address the ageing and renewal crisis of teaching workforce by improving workload management, professional prestige and long-term career sustainability especially in rural areas
- Reduce regional disparities in education outcomes providing additional support to rural schools, learners at risk of early school leaving and those with low basic skills.
- Reassess quality of ALMP training, employability of workers after the training, ensure availability and training of trainers and career consultants.
- Expand adult learning participation and employer involvement to meet the national target of 60% by 2030.

Particularities of the sector of interior affairs and early retirement in public sector

Currently there 20% of vacancies that are not filled in the sector of interior affairs (police, prison administration, border-guards, firefighting service), therefore it is essential to make workplaces attractive and improve quality of work places. The occupation of police, firefighters, border-guards, prison guards requires specific education, physical condition (training) as well as in general good health conditions, which makes these positions not suitable for everyone. In order to motivate persons to apply for such positions the working conditions have to be attractive in order to compensate for the high requirements, working conditions of high risk for health and life, constant exposure to violence from. This means that the issues of remuneration, social guarantees, service retirement, age retirement, overtime pay need to be at least protected at the current level and moreover increased where possible. In any way working conditions cannot be subject to austerity.

Latvian Trade union for workers of interior affairs (LIDA) is planning to apply to the Constitutional Court of Latvia (Satversmes tiesa) to challenge the amendments to the Budget law adopted in December 2025 that reduce overtime payment for workers in the public sector. In the times of increased geopolitical tensions and necessity for internal security, working places of internal security and emergency services, can be part of austerity measures which is done by the government.

The EU financing could be necessary to cover skills and professional support mechanisms for police, firefighters, border guards, prison guards in the sector. They could include among other the following issues: AI, operation of drones and algorithmic management, training and education of persons performing HR functions, psychological support, supervisory support groups, including for support occurring third party violence which is part of working conditions.

Another important concern is the government initiative to reduce **service retirement (early professional retirement) schemes in the public sector**. There are around 12 thousand service pension receivers. In the opinion of the LBAS, service retirement does not make a significant impact on the public budget. LBAS has been involved in the initial period of the reform's development regarding the service pensions and is strongly opposing deterioration of service pension regulation in particular in the sector of interior affairs, health care, culture. Please see in the attachment LBAS letter to the government.

Finally, the outcomes of the working group on service retirement (opinions and argumentation provided and time and resources devoted by social partners) was not taken into account by the governments. The State of Chancellery developed its own proposal on how to reorganize the system of service pensions. Social partners were not involved and received final proposal without possibilities to change anything. Social dialogue on such important topic impacting interests of workers and working conditions did not respond to the EC recommendation on social dialogue.

(2) Social dialogue and collective bargaining

Has the social dialogue situation improved since the joint LDDK and LBAS letter sent to Ms Mînzatu in Autumn 2025?

In LBAS views, sectoral sub-councils under the National tripartite cooperation council (NTSP) are still the most important discussion platforms on sectorial issues. Usually meetings are organised well, but have formal format, not regular, very rarely when decisions are actually made. Discussions have no real influence on the decisions made by government.

It is hard to evaluate improvements after the Social Partners letter to the EC, since too short time has passed.

Quality of consultation and dialogue depends on the sector and the respective ministry. For instance, transport, employment and education could be considered as a good case practice. Health sector needs substantial improvements. Social partners still often do not receive information in advance or are informed about the decision already made, e.g. as previously explained regarding service pension reform, initiative on individual learning accounts.

With a view to improve the working conditions of employees, (e.g. strengthened minimum wages and increased employee protection), what is being done to improve the collective bargaining coverage in Latvia? What is the progress on developing the Action plan to improve collective bargaining?

Social partners had a meeting and a discussion on the adopted plan to facilitate collective bargaining (adopted by the unilateral order of the Ministry of Welfare), but there was no discussion on what are the real problems and obstacles to collective bargaining, why there are no collective agreements and why coverage is low. The government is not showing an example in collective bargaining with no collective agreements in public sector (apart of the sectorial collective agreement in social care sector) In private

sector employers refuse to talk to trade unions, refuse to bargain. When trade unions ask the government for help with collective bargaining, no help is provided. When trade unions submit claims to the State Labour Inspectorate claiming employer refuses to bargain or bargains in bad faith, the inspectorate decisions mostly favour employers position, explaining the inspection cannot force to sign collective bargaining.

In LBAS assessment, the adopted plan is formal and not helping to facilitate more collective bargaining. It provides for opportunities to have discussion but no concrete proposals.

It must be pointed out that visions on improving collective bargaining in Latvia significantly differs among employers and trade unions. Employers (LDDK) consider that collective bargaining would be improved by deleting provisions that regulate ultractivity of collective agreements, reducing overtime payment to all workers in Labour law from 100% to 50% and deleting in the Labour Law the provision that protects trade union members against dismissal (employers may dismiss trade union member only with permission of trade union, otherwise through the court). Please see official letter by the LDDK here:

Amendments to Labour law, Nr: 1022/Lp14;

<https://titania.saeima.lv/LIVS14/saeimalivs14.nsf/webSasaiste?OpenView&restricttocategory=1022/Lp14;>

<https://titania.saeima.lv/LIVS14/saeimalivs14.nsf/0/CA26DD828D4B2A60C2258D7E0039FDF7?OpenDocument>. The Minister of Economics submitted the proposals by the LDDK.

At the same time LBAS sees no causality between necessity to delete ultractivity, reduce overtime and delete right to dismiss trade union member only after permission of the trade union and improvement of collective bargaining. Deleting these provisions will not motivate employers to conclude collective agreements, will not improve competitiveness of Latvian companies. Instead, it will send a signal that working conditions and trade union rights and protections are not a priority of the legislator in the times of lack of labour force and tensed geopolitical security situation.

What could be improved to improve situation of workers?

- LBAS has submitted its detailed proposals to the Government and last year has attached the letter to its European Semester comments to the European Commission. Please see the letter attached again.
- Please see also: Muller T., Here comes the sun The formal transposition and political impact of the European Directive on Adequate Minimum Wages in the EU, p.49 (https://www.etui.org/sites/default/files/2025-12/Here%20comes%20the%20sun_2025.pdf)
- As was explained in the letter, it is necessary:
 - to introduce more dispositivity clauses and references to collective agreements in the Labour Law considering that labour laws are very detailed, autonomy of social partners and more topics to collective bargaining need to be expanded;
 - restrictions to collective bargaining in public sector in the Law on Remuneration of Officials and Employees of State and Local Government Authorities need to be solved;
 - expanding further motivational factors for benefits of collective agreements (transport, education, health, food) is necessary;

- amending the law to provide that the only representative in collective bargaining is trade union and not authorised employee representatives, collective agreements therefore can be concluded only with trade unions;
- public procurement regulation should provide more incentives for employers who have collective agreements setting wages and social benefits for workers.
- In order to improve sectorial collective bargaining, it is necessary to reconsider and lower representativity criteria (thresholds) for employer organisations to expand the collective agreements *erga omnes*. Current threshold of 50% of employees in the sector or 50% of turnover apparently is too high, and it is questionable whether sectorial employers' organisations can reach this threshold.
- Working conditions and social guarantees can not be subject to austerity in public sector. LBAS acknowledges that the geopolitical situation in Latvia includes a necessity to invest in defence and preparedness. However, it is important to preserve and improve public investment in essential services. Strengthening defence cannot be done at the expense of reducing public investment into essential services, namely, health care, education, public transport, energy and emergency services, as well as reduction of overtime pay, deterioration of conditions of service pensions. Vice-versa, to improve internal preparedness of society, it is important to strengthen public and emergency services, in particular, by ensuring decent work in those services to guarantee their continued operation. These sectors of economy cannot be subjected to austerity and cuts in public spending in order to reallocate finances to the production of military products.

Recommendations for the 2026 European Semester – Social Dialogue

- To further strengthen institutionalised social dialogue ensuring early and meaningful involvement of social partners in the design of reforms.
- Address low trade union density (6%) and collective bargaining coverage (25%, see “Main indicators and characteristics of collective bargaining: Latvia,” OECD, 10.2025: <https://www.oecd.org/content/dam/oecd/en/data/datasets/oecd-aias-ictwss/Latvia.pdf>), and promote sector-level collective agreements. Provide quality discussion on real obstacles to collective bargaining and find solutions.
- Make more effective use of ESF+ funding for capacity building of social partners, particularly in skills, education and labour market reforms.
- Ensure that recommendations of the NTSP and other tripartite bodies are consistently reflected in policy decisions and legislation.

(3) Taxation:

What is the impact of the recent tax reform? Has it helped reducing the labour tax wedge for low-income earners and those earning the average wage and above? Has the estimated lowering of the average personal income tax rate (personal income tax divided by earnings) for middle-income earners (i) encouraged transition from low-income to medium-income jobs and/or (ii) reduced the incentive for employers to underreport salaries?

It is early to have in depth evaluation as the reform was implemented at the beginning of 2025. But CSB (Central Bureau of Statistics) statistics on month over month changes reflect that there is a gradual upwards movement through income groups especially from the lower income groups. However without an in-depth statistical analysis it is hard to evaluate the impact of tax reform as opposed to natural wage growth.

LBAS agreed that we need to simplify the tax system, however remains cautious regarding the impact of flattening the PIT system and how pronounced the impact of reduced tax progressivity will be on income inequality. In the current system low wage earners will have to rely on stable and consistent minimum-wage growth as well as reliable non-taxable minimum growth to ensure that lower wage earners do not fall behind in terms of real wages.

Within the tax-reforms social partners reached an agreement on a schedule for non-taxable minimum growth:

| | 2024 | | 2025 | | 2026 | | 2027 | |
|--|-----------------|------------|----------------|--------------|----------------|--------------|----------------|--------------|
| Social contributions | 34,09% | | 34,09% | | 34,09% | | 34,09% | |
| Employer share | 23,59% | | 23,59% | | 23,59% | | 23,59% | |
| Employee share | 10,5% | | 10,5% | | 10,5% | | 10,5% | |
| Maximum social contribution, euro per year | 78 100 | | 105 300 | | 105 300 | | 105 300 | |
| PIT | | | | | | | | |
| 1.bracket | 0 – 20 004 | 20% | 0 – 105 300 | 25,5% | 0 – 105 300 | 25,5% | 0 – 105 300 | 25,5% |
| 2.bracket | 20 004 – 78 100 | 23% | | | | | | |
| 3.bracket | Virs 78 100 | 31% | Virs 105 300 | 33% | Virs 105 300 | 33% | Virs 105 300 | 33% |
| Non-taxable minimum, per month | 500 | | 510 | | 550 | | 570 | |
| Wage level at which maximum non taxable minimum is applied | 500 | | | | | | | |
| Wage level at which non-taxable minimum is not applied anymore | 1 800 | | | | | | | |
| Non-taxable minimum for pensions | 500 | | 1 000 | | | | | |

As well as schedule on the minimum wage growth with the goal to reach gross minimum wage of 820 euros in 2027, while minimum wage is also subject to re-evaluation if it deviates too far from the ratio towards average wage set in rules of Cabinet of Minister on minimum wage setting.

(<https://likumi.lv/ta/id/356499-minimalas-menesa-darba-algas-noteiksanas-un-parskatsanas-kartiba>)

Introducing new incentives for social dialogue, and collective bargaining was also included in the reform package in the form of tax exemptions for benefits provided by collective agreements. Exemptions on mobility costs (transportation, relocation, and temporary living) covered by an employer were added to

the previous package (dinner and healthcare costs). From the law On Personal Income Tax (*unofficial translation*):

The expenses specified in the collective labour agreement paid by the employer, expenses related to the employee's transfer to another place of residence, the amount of accommodation expenses and transportation expenses, and the amount of all employee expenses (the total amount of annual expenses and the small amount of the number of employees obtained, annual expenses) shall be excluded from the payer's employee's income on which payroll tax is paid. with 700 euros, and if the employer meets the following conditions.

(<https://likumi.lv/ta/id/56880-par-iedzivotaju-ienakuma-nodokli>)

(4) Private investment in research and innovation

What are the main areas that should be prioritized to improve private R&D investment? How would you describe the administrative burden and reporting requirements in the science and research sector? What are key areas of improvement? From your perspective, what is the main bottleneck in patent registration in Latvia and how can it be addressed?

From trade union perspective the following factors need to be taken into account:

- Remuneration researchers
- Lack of researchers having qualified skills;
- Dependency on projects of researchers due to precarious (not stable) working conditions;
- Administrative burden in ensuring compliance. For instance, in evaluation of research it is hard to get external audit, it takes long period of time;
- Weak cooperation between the Ministry of Economics and the Ministry of Education and Science;
- Lack of financing for research system. No increase in public investment for R&D, no clear medium-term pathway towards the EU average;
- Late funding allocation: timely base funding for research is required (institutions receive base funding late every year) along with a review and improvement of administrative procedures to support high-quality and sustainable research;
- Science institutions have technical budgets, they receive only 1/12 of the previous year budget. That does not allow for scientific institutions to plan finances and resources;
- The reporting system is overregulated;
- No National Human Capital strategy adopted.

It is necessary to introduce stronger incentives for private sector to participate in R&D investment, to reduce structural reliance on public funding, improve quality jobs of researchers (full time employment contracts, protection of intellectual property)

Do you think there has been improvement in terms of attractiveness of academic/research careers over the past year? From your perspective, how can human capital shortages be remedied?

- Address the shortage of researchers by improving pay levels, employment stability and predictable career paths in both academic research areas;
- Ensure that reform supports careers not only in academic but also in industry and public sector area;
- Strengthen science–industry cooperation while safeguarding academic independence and decent working conditions for researcher.

(5) Labour migration

What is the impact of internal labour migration policies on access to qualified workforce? What policies/instruments are missing to improve the framework for legal labour migration and legal employment of foreigners in Latvia?

Quality discussion and joint understanding is necessary on how to address lack of labour and skills and develop migration strategy. Human capital strategy has not been adopted yet.

Mobility in particular public transport mobility has not improved to facilitate mobility of labour force inside Latvia and improve development of various regions of Latvia. Migration strategy and agreement on how to approach migration is necessary among the government and social partners. There is no joint national level understanding on how to govern incoming migration, in particular, employment of third country nationals.

In order to have quality approach to address lack of labour force several factors need to be considered:

- ALMP (addressing unemployment in regions) focused on skills development (improving employability of workers and unemployed), quality of AMLP training programmes, availability of trainers, career consultants and their training.
- Improving mobility infrastructure (transport connections). Availability of transport connections (which was chosen as a tool to reduce inequality in the RRF) still not solved, preventing workers to be mobile between regions for the purpose of employment.
- Foreign workers: stronger control over companies is necessary in order to prevent employment of third country nationals for the purpose of sending them abroad instead of employing in Latvia to fill in for the lack of labour (example: construction company requesting permission to get work permit for 300 third country nationals - plumbers or transport company having 1 car and requesting 50 third country nationals as cargo truck drivers). It needs to be controlled that companies have real economic activity, contracts signed.
- Capacity and cooperation of enforcement authorities is challenging and needs to be improved.

LITHUANIA

Policy drivers

1. JER: AROPE increased constituting a 'critical situation'. People in rural areas and vulnerable groups such as the unemployed, older people and persons with disabilities were particularly exposed. Inequality is a 'critical situation'

TRADE UNION RECOMMENDATION: 1. Structural wage & Inequality solutions

LPSK identifies the lack of collective bargaining as the primary driver of Lithuania's high inequality.

- **The "Procurement-Collective" link:** LPSK proposes that public tenders should exclusively be awarded to companies that have a collective agreement with their employees. This ensures that state funds only go to companies that guarantee fair wage distribution and social standards.
- **National Collective Agreement (NCA) 2026–2028:** LPSK successfully negotiated a new NCA (signed in late 2025) that increases the base salary rate by €12.60 (reaching €1,798) and covers over 70,000 workers. A key union solution is to continuously expand this agreement to cover municipal and private-sector workers to narrow the regional wage gap.
- **Minimum wage strategy:** Unions lobbied for the 12.3% increase of the Minimum Monthly Wage (to €1,038 in 2025). Their proposed long-term solution is to link the minimum wage to 50% of the average wage via a legally binding formula to ensure the lowest earners aren't left behind by inflation.

2. Solutions for rural areas & vulnerable groups

LPSK views rural poverty as an "access crisis" rather than just a "income crisis."

- **Regional Mobility Guarantee:** LPSK proposes that municipalities must treat public transport as a non-negotiable social right. They advocate for transport subsidies for low-income rural workers to prevent "geographical unemployment" where people are trapped in poverty because they cannot afford to commute to urban job hubs.
- **Workplace Mentorship for Disabilities:** LPSK advocates for a shift from passive subsidies to "Supported Employment." They propose that trade union representatives act as "Inclusion Mentors" within companies to ensure that persons with disabilities receive the necessary workplace adaptations and are protected during company restructurings.
- **Older worker protection:** To address high AROPE among older people, LPSK proposes "Phased Retirement" models. This allows older workers to move into mentorship roles with reduced hours while maintaining full social insurance contributions, preventing the sharp income drop that often leads to poverty just before full retirement.

3. Fighting "Social Dumping" & the shadow economy

- **"Digital ID" for workers:** To protect vulnerable groups from exploitation, LPSK supports the mandatory use of the Construction Worker ID (Skaidri dirbančiojo ID) across other high-risk sectors (agriculture, transport). This ensures that every hour worked is logged and taxed, preventing the "envelope wages" that fuel long-term poverty.
- **1% turnover fines:** To deter exploitation of the unemployed and refugees, LPSK proposes that fines for labour law violations be tied to 1% of a company's annual turnover, making it financially unviable for firms to "profit" from underpaying vulnerable staff.

2. JER: NEET showed a 'critical situation' in 2024:

TRADE UNION RECOMMENDATION

Legally mandated paid traineeships:

* **Solution:** Ban unpaid internships and traineeships.

• **Argument:** Unpaid work is "socially selective" (only those with family support can afford it). Unions demand that all training-at-work schemes must pay at least 80% of the sectoral average wage to make employment financially viable for the most vulnerable young people.

• **"Conditionality" for state aid:**

• **Solution:** Link state subsidies and Youth Guarantee funds to collective bargaining.

• **Argument:** State support should only be granted to companies that engage in social dialogue. This ensures young people enter high-quality, union-monitored jobs rather than being used as "cheap labor" to replace regular staff.

• **Mobile vocational guidance (Regional inclusion):**

• **Solution:** Replace or combine the "krepšelis" (individual vouchers) with *Mobile Career Labs*.

• **Argument:** Rural NEETs often face transport and digital exclusion. Unions propose that VET centers and career advisors must travel to remote municipalities to provide on-site orientation and direct job placement.

• **Psychological and social support Integration:**

• **Solution:** Integrate mental health services into the Youth Guarantee.

• **Argument:** For many in the "critical" NEET category, the barrier is not a lack of skills but social/psychological trauma. Unions push for a "holistic" approach where the first stage of the 4-month guarantee is social stabilization, not just a job listing.

• **Sectoral "Skills Passports":**

• **Solution:** Fast-track recognition of informal skills through trade union-certified modules.

• **Argument:** Many NEETs have practical digital or social skills that are not formally recognized. Unions propose a certification system that allows young people to enter the labour market at higher wage coefficients immediately.

3. the disability employment gap widened, indicating a 'critical situation'.

Mandatory hiring quotas with "Enforcement Teeth":

- **Solution:** Establish a mandatory 5% hiring quota for persons with disabilities in all public sector institutions and large private enterprises (250+ employees).
 - **Argument:** Current "voluntary" measures have failed. Firms that do not meet quotas should pay a "Social Solidarity Fee" into a national fund specifically for workplace adaptations.
 - **"Inclusion Auditors" in Trade Unions:**
 - **Solution:** Create a legally recognized role for trade union representatives as inclusion Auditors.
 - **Argument:** Unions are on the shop floor and can monitor "reasonable accommodation" better than distant state inspectors. They would ensure that workers with disabilities aren't just "hired" but are given the tools (tech, flexible hours) to succeed.
 - **Personal assistance during working hours:**
 - **Solution:** State-funded personal assistants should be allowed to support workers at the workplace, not just at home.
 - **Argument:** Many disabled individuals are "work-ready" but cannot navigate the physical or administrative demands of a 40-hour week without support. Shifting assistance to the workplace turns a "social cost" into "economic productivity."
 - **"Collective Agreement" Protection:**
 - **Solution:** Mandate that any company receiving state aid for disability employment must have a Collective Agreement.
 - **Argument:** This prevents "social dumping," where workers with disabilities are hired at sub-standard rates or in "sheltered" roles with no career progression.
4. SOCIAL CSR: Improve the quality, equity and efficiency of the general education system, particularly addressing the urban-rural achievement gap, while increasing the attractiveness of the teaching profession to address persistent shortages and ageing in the workforce. Address the skills mismatch by increasing the labour market relevance of higher education, promoting the acquisition of green skills, improving adult learning including for unemployed people, low-skilled people and other vulnerable groups, and increasing the coverage of active labour market policies through improved incentives to participate.

TRADE UNION RECOMMENDATION: 1. General Education & The achievement gap

Union Solutions:

- **Sectoral Collective Agreement (standardized quality):** LŠMPS proposes a unified "Quality Floor" where teachers in rural schools receive the exact same resources and pay coefficients as those in elite city gyms. This stops "staff poaching" by urban municipalities.
- **Transport & Housing subsidies:** To fix the urban-rural gap, unions demand state-funded housing and commute vouchers specifically for young teachers relocating to rural "achievement gap" zones.
- **The "Millennium Schools" social guardrail:** Unions demand that investment in high-tech schools (Tūkstantmečio mokyklos) must be inclusive. Their solution is to mandate cross-municipal student transport so rural students can access these hubs without leaving their local communities.

2. Attractiveness of the teaching profession (Shortages/Ageing)

Union Solutions:

- **The 130% wage target:** LŠMPS is strictly holding the government to the 2024 target: ensuring the average teacher salary reaches 130% of the national average wage.
- **Workload rebalancing (the 60/40 split):** To combat burnout and ageing, unions propose a mandatory limit of 60% contact hours (teaching) and 40% for preparation/community work, preventing the "hidden" unpaid hours that deter new recruits.
- **"Master-Mentor" phased retirement:** Instead of abrupt retirement, unions propose a Phased exit where teachers over 60 reduce their teaching load by 50% but maintain a full salary by acting as certified mentors for novice teachers.

3. Higher education & Skills mismatch

Union Solutions:

- **Tripartite curriculum audits:** LPSK proposes that higher education programs must undergo a mandatory review by social partners (unions and employers) every two years to ensure curriculum "Green and Digital" modules match real industrial shifts.
- **Modular "Skills Passports":** Instead of long 4-year degree changes, unions advocate for Micro-credentials—short, university-certified courses for current workers that are legally recognized in collective agreements for immediate pay raises. They must lead to qualifications.

4. Adult learning & Active labour market policies (ALMP)

Union solutions (LPSK):

- **The "Paid Learning Hour":** To improve adult learning participation (especially for low-skilled/vulnerable groups), LPSK proposes a legal right to 5 days of paid educational leave per year, fully funded by a national "Skills Fund" contributed to by employers.
- **Tripartite ALMP contracts:** For the unemployed and NEETs, unions push for "Tripartite Training Agreements" (Employer-Employee-State).
- **Mechanism:** The state pays for training, the employer guarantees a job, and the union monitors the quality to ensure the worker isn't just used for temporary subsidized labor.
- **Incentives for vulnerable groups:** To increase ALMP coverage, LPSK proposes "Social Security Waivers" for the first 6 months for long-term unemployed or disabled persons entering the green economy, ensuring their net "take-home" pay is significantly higher than benefits.

In-depth analysis and recommendations

Dossier: Social Convergence & Education Strategy (Lithuania 2024–2026)

Prepared for: Coordination Meeting on Social Convergence Framework
ANNEX

Focus: Lithuanian Trade Union Solutions (LPSK & LŠMPS/LESTU)

I. Executive summary of 2025/2026 policy milestones

The following table summarizes the core legislative results achieved by Lithuanian trade unions that directly address the European Commission's 2024–2025 recommendations.

| Feature | 2026 Implementation Status |
|--------------------------------|--|
| Minimum Wage (MMA) | Increased by 11.1% to €1,153 (as of Jan 1, 2026). Source |
| Public Sector Base Rate | Raised by €12.60 to €1,798 via the National Collective Agreement. Source |
| Teacher Salary Target | Budget 2026 targets an increase toward 130% of the average wage . Source |
| Poverty Status (AROPE) | Classified as "Critical" in the EU Social Scoreboard 2025. Source |

II. Trade Union solutions to critical challenges

1. Poverty (AROPE) & Inequality (The "Critical Situation")

- **Quarterly indexation of benefits:** Unions demand moving away from annual adjustments to **real-time indexation** of the Minimum consumption Basket to prevent inflation from eroding the income of the elderly and disabled.
- **Public procurement reform:** LPSK proposes that state contracts be awarded **only** to companies with active collective agreements. This ensures state funds support fair wage distribution.
- **Social security reform:** Abolish the contribution ceiling for the highest earners to fund a higher, dignified "Base Pension" for those currently below the poverty line.

2. Youth & NEETs (critical status)

- **Ban unpaid internships:** Legally mandate that all traineeships pay at least **80% of the sectoral average wage**.
- **Mobile youth hubs:** Instead of online vouchers, unions propose **mobile career labs** to reach rural youth who face transport and digital exclusion.
- **Integrated mentoring:** Every "Youth Guarantee" placement should be monitored by a trade union representative to prevent exploitation as "cheap labor."

3. Disability Employment Gap (Critical Situation)

- **Mandatory hiring quotas:** Establish a **5% hiring requirement** for large enterprises (250+ employees) and public institutions.

- **Union inclusion auditors:** Empower union reps to act as on-site auditors for "reasonable accommodation," ensuring disabled workers have the necessary tech and flexible hours.
- **Source:** [Study on Alternative Employment Models \(EC 2025\)](#)

4. Education: Teacher Shortages & Quality

- **The 60/40 workload split:** LŠMPS proposes a mandatory limit of **60% contact hours** (teaching) and **40% for preparation**, reducing the burnout that causes teachers to leave the profession.
- **Rural teacher housing:** State-funded housing and transport vouchers specifically for teachers relocating to rural "achievement gap" zones.
- **Master-mentor phased retirement:** Allow senior teachers to reduce hours while maintaining full pay by acting as mentors for new recruits.

III. Evidence & Data Dossier (References)

1. Social Scoreboard & Poverty Data

- [EU Social Scoreboard Dashboard \(2025\)](#): Live tracking showing Lithuania's "Critical" status in AROPE and NEET rates.
- [EC Joint Employment Report 2025 \(PDF\)](#): Detailed breakdown of the Social Convergence Framework findings for 2025.
- [European Disability Forum - Lithuania Country Data \(2024\)](#): Evidence on the **39.2 percentage point** disability employment gap.

2. Labor Market & Collective Bargaining

- [LPSK Analysis of the 2026 National Collective Agreement](#): Official text on the €1,798 base rate and health/study leave guarantees.
- [Minimum Wage Strategy 2026 \(Arletti Partners\)](#): Technical impact of the €1,153 MMA on social contributions (PSD/VSD).

3. Education & Skills Adaptation

- [OECD Education at a Glance 2025 \(Lithuania\)](#): Data on the persistent rural-urban achievement gap and higher education mismatch.
- [EU Education & Training Monitor 2025](#): Tracks the progress of the "Millennium Schools" and adult participation in learning.

LUXEMBOURG

Policy drivers

1. JER: Persisting skills mismatches, the employment rate fell. share of NEET rose significantly.

TRADE UNION RECOMMENDATION

Unemployment and NEET

Luxembourg is experiencing an upward trend in NEET and unemployment rates. The country must improve its performance not only in youth education and employment but also in reducing overall unemployment.

Solutions:

Making initial vocational training more accessible and appealing for youth and ensuring lifelong upskilling for all through the continuing vocational training.

The OGBL and the LCGB underscore the strategic importance of a robust vocational training system for youth, the national economy, and competitiveness.

2. JER: share of the adult population with least basic digital skills and early leavers from education and training, large deterioration.

In-work at-risk-of-poverty

Luxembourg has the highest share of employed individuals at risk of poverty among all EU countries. Additionally, the current minimum wage does not meet any of the benchmarks set by the EU directive which is not yet implemented.

Solutions:

The implementation of Directive 2022/2041 should align with its core intent: ensuring workers receive an adequate minimum wage that guarantees fair compensation.

3. JER: AROPE rate for children remained above the EU average.

Housing crisis

Luxembourg's housing crisis has emerged as one of its most pressing socio-economic challenges. The persistent mismatch between housing supply and demand—fuelled by population growth—has driven property prices and rents to unsustainable levels since 2010, threatening both social cohesion and economic progress. The recent spike in interest rates and the sharp decline in residential investment have further destabilized the construction sector, leading to job losses and business failures. While short-term relief, such as expanded rent subsidies, has been provided, lasting solutions require bold structural reforms.

Solutions:

To effectively address the housing crisis, Luxembourg must consider a reform of rent caps; fighting land hoarding and speculation; expanding affordable housing and addressing market concentration and anticompetitive practices

4. SOCIAL CSR: Improve performance and ensure equal opportunities in schools, including by adopting a national school quality framework and an external school evaluation system, and by adapting teaching to the needs of disadvantaged students and those from various linguistic

backgrounds. Address skills mismatches, in particular for the green and digital transitions, by stimulating skills development. Improve the resilience of the health system by ensuring appropriate availability of health workers. Accelerate reforms to improve the governance of the health system and e-health.

TRADE UNION RECOMMENDATION

Luxembourg should adopt a coherent reform strategy that simultaneously addresses housing affordability, fair wages, and skills development to safeguard social cohesion and long-term competitiveness.

To tackle the housing crisis, structural action is needed: reforming rent caps, fighting land hoarding and speculation, expanding affordable housing supply, and addressing market concentration and anti-competitive practices. At the same time, the implementation of Directive (EU) 2022/2041 must fully respect its core objective—ensuring an adequate minimum wage that guarantees workers fair compensation and a decent standard of living.

Investing in skills is equally essential. As emphasized by the OGBL and LCGB, initial vocational training must be made more accessible and appealing to young people, while continuous vocational training should ensure lifelong upskilling opportunities for all workers and jobseekers. Meanwhile, unemployed individuals and NEETs require stronger support to improve their chances of sustainably re-entering the labour market.

In-depth analysis and recommendations

Key points that can be discussed in the context of the Social Convergence Framework and of 2024 CSRs addressed to Luxembourg.

1. **Context and position on housing** (also in response to CSR 2024 “Accelerate the adoption of a comprehensive land use policy and a property tax reform and prioritize the development of large-scale district projects on government owned land.” (addressing the housing cost overburden)

After a decade marked by a profound imbalance between (over) demand and supply — driven by strong population growth and a historically accommodating monetary framework that led to a regrettable surge in real estate prices — the energy price crisis and the sharp, significant rise in interest rates have caused a notable decline in activity in the residential construction sector. This downturn further exacerbates the persistent gap between housing production and household growth, worsening the overall housing rights crisis.

While awaiting a further improvement in financing conditions, it is more crucial than ever to introduce a series of long-overdue structural measures that are now unavoidable. These measures should ensure a sustainable and steady increase in annual housing production (both private market and public housing) while providing the necessary protection for the most vulnerable households in an increasingly strained private market.

First and foremost, we welcome the fact that the authors of the 2024 Country Report for Luxembourg highlight that the evolution of supply in Luxembourg remains structurally limited,

regardless of demand levels, due to "the limited number of available building plots and land hoarding". Consequently, it is recommended that Luxembourg "accelerate the adoption of a comprehensive land-use policy and a property tax reform" and implement "recurring taxes aimed at increasing the supply of buildable land and unoccupied real estate properties".

Indeed, the Chambre des salaires du Luxembourg regularly points out that supply levels are de facto "artificially" constrained due to the primary structural barrier: the difficult and expensive access to constructible land. Therefore, to combat the widespread speculative behaviors of multi-property owners (particularly large landowners), which play a key role in the ongoing crisis, our Chamber advocates for an ambitious reform of the property tax (IFON) and additionally calls for the introduction of a national tax on land hoarding and unoccupied housing.

Regarding the IFON reform, we advocate for the implementation of an automated land valuation system that establishes a base value reflecting the actual value of the parcel as accurately as possible. We also propose the introduction of a tax deduction for taxpayers who reside in their own homes to partially exempt primary residences from taxation. Furthermore, to combat the excessive and growing concentration of wealth in the hands of a privileged social class, we propose adding a progressive element. Specifically, the property tax rate should increase progressively based on the total real estate value owned by the taxpayer, effectively transforming IFON into a progressive tax on real estate wealth.

Beyond the IFON reform, we demand for a swift introduction of national taxes on land hoarding and unoccupied housing. These instruments should feature tax rates that rise significantly with the duration of retention to ensure these measures have a tangible short-term impact on housing supply.

Additionally, we welcome the recommendation to accelerate the development of public affordable housing, which is essential for protecting the most vulnerable groups. Our Chamber consistently emphasizes that developing a public affordable housing stock of a critical mass (focused mainly on rental units) is a key vector in combating the housing crisis. We therefore call for massive public investments in this area.

While we also acknowledge that the Council's recommendations mention the potentially inflationary effects that certain tax incentives may have on demand and consequently on real estate prices, our Chamber insists on differentiating between incentives available to investor-buyers and those available to owner-occupiers. We categorically reject tax benefits for investors, as we consider them ineffective, unfair, and likely to exacerbate the concentration of residential property ownership. However, we support incentives for owner-occupiers (particularly first-time buyers), who require state support given persistently high property prices and deteriorated financing conditions.

Given the intense pressure on the private rental market and the increasingly unacceptable housing cost burdens faced by less affluent tenants, our Chamber calls for an ambitious reform of rent control. The current system is outdated and largely ineffective. In general, the reform should prioritize tenant protection over the financial returns of multi-property owners and curb the progressive financialization of residential real estate. In this context, we specifically demand

the introduction of a mechanism that aligns potential rent increases in the private market with tenants' purchasing power.

2. **Context and position on pensions** (also in response to CSR 2024 “*Address the long-term sustainability of the pension system, in particular by limiting early retirement options and by increasing the employment rate for older workers.* ») :

Although the pension system is projected to run a deficit by 2030, its substantial reserves can absorb these shortfalls, eliminating any immediate urgency for drastic measures. Ensuring long-term sustainability should mainly focus on strengthening revenue rather than restricting early retirement options.

Indeed, while the CSL also supports an increase in the effective retirement age, this should be achieved through incentives to the employees, rather than in a coercive approach, like restricting early old-age pensions. Trade unions have put forward several recommendations, including the introduction of a so-called “*plan des âges*”, requiring employers to adapt working conditions for older employees and provide ongoing training to prevent skill obsolescence. Another key demand is progressive retirement disposition, which would allow employees to combine a partial pension with part-time work, encouraging them to remain in the workforce longer and thus contributing to an increase in the effective retirement age.

It is to note that the employment rate of older workers in Luxembourg has risen significantly over the past decade, demonstrating that the country is already moving in the right direction on this issue.

In any case, any measures restricting early old-age pension options are categorically rejected. Not only are they socially unjust due to significant inequalities in life expectancy, but they are also unnecessary, as increasing the system’s revenues would achieve better results in a fairer and more equitable manner.

These aspects should be subject to discussions with the social partners—unfortunately, this is not currently the case.

3. **Proposals on poverty:**

The 2025 budget includes several useful measures aimed at supporting vulnerable individuals, aligned with demands from the CSL. These include increasing the Cost-of-Living Allowance and

energy grants, launching a public campaign, simplifying administrative processes, and establishing a single social welfare office to reduce the number of people not accessing social benefits. While these initiatives are steps in the right direction, they are isolated measures rather than part of a comprehensive action plan.

- ➔ Addressing the AROPE rate (21,4 %) and “at-risk-of-poverty or social exclusion rate of children (26,1 %):
 - Luxembourg would benefit significantly from developing a poverty reduction plan (which is supposed under construction) that integrates both preventive and corrective measures. This plan should include clear objectives, a timeline, and specific actions to be evaluated for their impact both before and after implementation. Collaboration with civil society, including unions active in these areas, would be essential.
 - Concretely, family benefits should be adjusted to compensate for losses due to the stop in indexation in effect until 2021. Currently, only the basic allowance and age supplements are subject to automatic indexation, but other benefits, such as back-to-school allowances, should also be included. Strengthening cash benefits is crucial, especially since investments in in-kind benefits have primarily benefited children under 12.
 - Single-parent families are insufficiently supported by the Luxembourgish government, despite fiscal measures. Additional social transfers are needed to address the financial burdens of single parenthood. Although efforts to facilitate access to social benefits are necessary, they do not address the insufficient level of aid.

- ➔ Addressing the low impact of social transfers:
 - The minimum pension should be increased to exceed the reference budget for an elderly person and the poverty threshold. Part of this increase could be achieved through a minimum pension tax credit. Additionally, the full readjustment of pensions and the continuation of the end-of-year allowance should be preserved.

- ➔ Addressing in-work poverty of employees (14,7 %, Luxembourg ranking first among EU countries):

- Structural revaluation of the minimum social wage is also necessary. The adjustment should be annual, aligning with pension adjustment mechanisms and reducing update delays. Between 2021 and 2022, the loss amounted to nearly €340 annually for the unqualified minimum social wage (SSMNQ) and €410 for the qualified minimum social wage (SSMQ). According to CSL calculations, the minimum wage should be increased by 3.1% to 32.7% in gross terms to meet the directive's references, equivalent to a 2.5% to 22.0% net increase.
- Income tax exemption up to the qualified minimum social wage and reduced taxation for low incomes are also recommended. While the focus is often on attracting highly skilled talent, these measures could enhance Luxembourg's attractiveness for essential workers, who are often underpaid.

➔ Others:

- Public investments in daycare centers are needed to address the shortage of places in some municipalities and enable more people to work. Additionally, investments in vocational training can help both native and foreign-born individuals access decent employment.

ROMANIA

Policy drivers

1. JER: The employment rate continued to increase, showing a 'critical situation'. Regional disparities are wide. Gender employment gap still one of the widest in the EU. NEET still at a very high level. Disability employment gap increased significantly.
2. JER: early leavers from education and training, pointing to 'critical situations'. Share of people with at least basic digital skills also a 'critical situation'.

TRADE UNION RECOMMENDATION: Romania urgently needs labour market policies that restore access to quality employment, fair working conditions and effective social dialogue, in line with Chapter I of the EPSR. Declining employment, high NEET rates and rising in-work poverty show that work no longer guarantees protection against poverty. Policies should therefore prioritise income adequacy and access to employment by ensuring predictable minimum wage adjustments and reducing the excessive tax burden on low-paid work, which discourages formal employment and fuels undeclared work. The freezing of the ISR in nominal values affects the unemployment support and not only- the reversal is critical.

Rights at work and social dialogue must be strengthened, as major labour market decisions are often taken without genuine consultation of social partners. Effective enforcement of labour legislation and collective bargaining is essential to ensure fair working conditions.

Equal opportunities must be promoted, especially for young people and women, through active labour market policies, better access to childcare, education and training, and targeted support for NEETs.

3. JER: AROPE and AROPE rate for children still among the highest in the EU.

: RO most urgently needs policy action aligned with EPSR, as recent developments show a clear deterioration in poverty reduction and social protection outcomes. Social transfers have a very limited impact on poverty reduction and are growing below inflation, while planned reductions in social assistance expenditure risk reversing recent improvements in the AROPE indicator. Policies should therefore strengthen minimum income schemes, ensure their adequacy in real terms and improve coverage, especially for families with children and vulnerable groups.

Child poverty remains among the highest in the EU, and limited access to early childhood education and care undermines both social inclusion and labour market participation. Expanding childcare services and integrated support for children at risk of poverty is essential to break intergenerational transmission of disadvantage.

Given the weak effectiveness of social transfers, ensuring adequate minimum wages and linking income from work to a decent standard of living is critical, so that employment itself becomes the primary route out of poverty, complementing, not replacing, social protection systems.

4. SOCIAL CSR: Strengthen labour market participation of women and young people through improving effectiveness of active labour market policies and participation in early childhood education and care. Tackle skills shortages by boosting basic skills and labour market relevant skills of the workforce, as well as improving stakeholder engagement and making best use of skills intelligence in education and skills policies. Reduce poverty and social exclusion risks

TRADE UNION RECOMMENDATION: Romania should urgently ensure the effective implementation of the MWA Directive, beyond its formal transposition. Repeated postponements and the freezing of the minimum wage undermine social dialogue and increase in-work poverty. Income from work must become the main safeguard against social exclusion. This requires linking the net minimum wage to objective adequacy criteria, including a reference basket for a decent standard of living, and ensuring genuine consultation with social partners.

Adjusting the minimum wage is clearly necessary. Freezing the gross minimum wage until 1 July 2026 has significantly reduced purchasing power. Regular, predictable and transparent updates are essential to prevent further income erosion, reduce in-work poverty and support social convergence. These should be accompanied by lower taxation on low wages, limit undeclared work and improve employment outcomes. Government Decision No. 827/2025 adopted the action plan for collective bargaining, but it is not respected in practice by state-owned companies, in the private sector collective agreements concluded with employee representatives continue to proliferate.

In-depth analysis and recommendations



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BNS viewpoint on

Some indicative questions to the Social Partners as relevant for all countries discussed

(any other labour market, skills and social issues can be raised on a country-specific basis as deemed relevant):

Romania is still far from the European Union average in most monitored social indicators. Over the past ten years, economic growth has done little to reduce economic and social inequalities, which continue to proliferate, while the state has proven incapable of protecting its citizens in need through social transfers.

At present, Romania faces a challenging situation, with an economy growing at the limit, private consumption constrained by government measures affecting public sector salaries, pensions, and other social protection benefits (including child allowances), as well as a widening current account deficit and an almost unmanageable public budget deficit.

- l) **What are in your view the three key labour market, skills and social challenges for the Member State in question?**

From our perspective, three key challenges are worth mentioning:

A. The lack of attractiveness of the national labour market is a major obstacle to employment growth

(1) Employment remains low despite a low unemployment rate and increased labour demand.

Employers report difficulties in finding workers, and the import of labour from Asia has grown significantly in recent years. In 2023, Romania's employment rate was equivalent to the EU average from 2015, with minimal progress in closing the gap with the EU average. Although Romania's employment rate is significantly lower than the EU-27 average - by 6.6 percentage points in 2023—its unemployment rate remains below the EU-27 average.

(2) Multiple factors contribute to the labour market's lack of appeal.

The absence of significant investments in the workforce, extreme income inequality, major regional disparities, low wages in many sectors, a tax policy that discourages work, and the inability of relevant institutions to effectively monitor the labour market all contribute to making Romania's labour market unattractive to a significant portion of its potential workforce.

(3) Neglect of workforce development is reflected in long-term unemployment trends.

Until 2020, Romania's long-term unemployment rate was below the EU-27 average. However, between 2020 and 2023, it increased by 22%, surpassing the EU-27 average in 2023. Only 6% of the unemployed individuals aged 15-25 transition from unemployment to employment - the lowest rate in the EU. For the 25-54 age group, the transition rate was 15%, again the lowest in the EU.

(4) A significant portion of the workforce remains outside the labour market.

There are approximately 4.4 million individuals—the difference between Romania's 12.09 million available workforce and the 7.7 million employed - who are not engaged in the labour market. Many of these individuals, though capable of working, either choose or are forced to remain outside the national labour market. In reality, a portion of them migrate to European labour markets that offer opportunities better aligned with their expectations.

(5) Employment structures reveal vulnerabilities.

Of the 7.7 million employed individuals in Romania, only 5.6 million are employees. Among the approximately 2 million people employed in other forms, around 835,000 are self-employed. However, only 12% of the self-employed individuals in

Romania have employees, far below the EU average of 30%. Additionally, 53% of the self-employed workers are in agriculture - a sector with low productivity and high exposure to adverse weather conditions. As a result, only about 44,000 self-employed individuals contribute to the social security system.

(6) **Regional disparities in employment are significant.**

Employment levels, particularly among paid employees, vary greatly across Romania. In only 11 counties does the proportion of employees within the available labour force exceed the national average.

(7) **Many workers prefer migration over low wages in Romania.**

Rather than working for the minimum wage in Romania, many workers, especially young people, choose permanent or seasonal jobs in other EU member states. Seasonal migration has expanded significantly, facilitated by informal recruitment networks. No Romanian authority has precise data on how many citizens are engaged in such activities abroad.

Under the above conditions, a significant increase in the employment rate seems almost impossible to achieve without prioritizing the improvement of employment quality as a national priority.

B. Income inequality and the in-work poverty rate remain at a very high level, with a fluctuating evolution since 2018, without notable progress.

(8) Almost 60% of a wage-earning household's expenditure is consumption-oriented and almost 34% is tax-oriented. Therefore 94% of the expenditure is allocated to basic consumption and to taxes, fees, and contributions. If we analyse the structure of the wage incomes and total expenditures for wage-earning households, we can conclude that the majority of these families, on average, earn subsistence wages rather than wages adequate for a decent living. The expenditure structure of a wage-earning household also indicates which spending categories are underfunded - meaning categories that are clearly under-allocated in a statistical household: Education: 0.6% of total expenses; Insurance and financial services: 1% of total expenses; and Savings/Investments: 0.6% of total expenses (15 RON/month per person). Under these circumstances, it is no surprise that the school dropout rate is very high.

(9) Employee remuneration as a percentage of the GDP continues to be over 10 percentage points lower in Romania than the EU average. Since 2016, Romania has not managed to reduce the gap compared to the EU average; in nine years, we have not changed anything in the way value-added is distributed.

- (10) Only 2 out of 10 employees in Romania earn more than the gross average salary. The in-work poverty rate is one of the highest in Europe, as is income inequality from labour earnings. In 20 counties, which together account for over 24% of Romania's wage-earning workforce, the average gross salary is below 60% of the average gross salary in Bucharest. Meanwhile, 26% of Romanian employees work in Bucharest.
- (11) 20% of full-time employees are currently paid the gross minimum wage. For the private sector the percentage is over 23%. Over 80% of full-time employees had wages in February that were lower than the estimated 2025 gross average wage in the private sector and in state-owned companies, with over 85% in the private sector and over 85% in state-owned companies. 46% of full-time employees and 53% of private sector employees have net wages lower than half of the net average wage.
- (12) Romania has transposed the provisions of the European Directive 2041/2022. We were actively involved in this process and believe that the transposition was relatively close to the spirit of the Directive, except for the failure to impose the standard of at least a 50% ratio between the minimum gross salary and the average gross salary. The action plan for promoting collective bargaining is still being developed. The initially submitted version requires additions that will encourage social partners to negotiate rather than merely providing informational measures about the importance of collective bargaining.
- (13) Excessive taxation of the labour income, the preferential tax treatment given to those earning an income through employment forms other than labour contracts, the abandonment of progressive income taxation, the full transfer of social contributions to employees, and, most importantly, the destruction of collective bargaining - these are just some of the factors that have led to the current structure of wage incomes, which is extremely unattractive, especially for young people.
- (14) Romania has the lowest personal income tax rate. However, the flat tax, applied generally regardless of income level, combined with the high level of social contributions, places a heavier burden on low-income individuals (thus encouraging tax evasion among this category) and does not allow flexibility in fiscal policy at different stages of economic development. Today, Romania taxes labour income almost identically, regardless of the income level. Even for incomes equal to the average salary, taxation in Romania is higher than the EU average. It is necessary to reduce taxation for the low-income earners without increasing the tax burden on the above-average salaries.

- (15) The tax policy measure promoted as early as 2023 and continued in 2025, of exempting from the minimum wage tax base the amount of 200 and 300 lei respectively from 2024, has trapped a significant number of employees in the low wage trap and created major distortions in the wage policy.

As this measure was laid out - an employee with a minimum wage of 4050 lei has a net salary of 2574 lei, meaning a tax burden of 36.4%, while an employee with a minimum wage of 4055 lei has a net salary of 2450 lei - with a tax burden of 39.6%. In order to have a net salary equal to the net value of the minimum wage, the gross employment salary must be at least 4285 lei, namely, all employees with gross incomes in the salary range between 4051 and 4284 lei have a net salary lower than the net salary corresponding to the minimum wage.

Such a fiscal policy measure only encourages employees to accept the minimum wage in the contract and the difference to receive it in the informal economy, thus proliferating undeclared work and cash-in-hand wages.

- (16) A healthy income structure that encourages work and performance requires real collective bargaining to decompress salaries at the lower end of the wage scale. The increase in the minimum wage must be accompanied by proportional increases for salaries positioned between the minimum and the average wage, in order to break out of the current situation.

C. The lack of efficiency in the social security system

- (17) Romania needs resources for social security and a much better calibrated system for targeting those in need. The resources for funding cannot, however, be obtained excessively only from those who work, as is the case today.
- (18) The costs of financing the deficit have become increasingly high, nearly prohibitive. Despite all digitalization measures, the state's ability to improve tax collection has proven to be extremely weak.
- (19) Romania collects revenues for the consolidated general budget at the lowest percentage of GDP among the EU member states - 32.6% in 2024, compared to the EU average of 46.6%. Public expenditure levels in Romania are also significantly lower than the EU average of 49.4% in 2023, with a gap of over 9 percentage points. This low share is a consequence of limited financial resources.
- (20) A total of 5.6 million employees, through their social security contributions, finance over 65% of the total expenditure for all components of Romania's social protection system (pensions, child allowances, disability benefits, unemployment, kindergartens, nurseries, health insurance, minimum guaranteed income, etc.)

and 85.6% of the total costs for pensions and health insurance. Employers have been almost entirely excluded from financing the social protection system.

- (21) On July 10, 2024, during its 1504th meeting, the Committee of Ministers of the Council of Europe adopted Resolution CM/ResCSS (2024)15 on Romania's application of the European Code of Social Security. The resolution calls for measures to rebalance the proportion of social security contributions borne by employers or the state, on one hand, and employees, on the other, to align Romania's fiscal provisions with Article 70(2) of the European Code of Social Security. It is worth recalling that through the adoption of the Government Emergency Ordinance 79/2017, social security contributions were almost entirely shifted from employers to employees.
- (22) Romania spent 12.7% of GDP on social assistance in 2024, well below the European average of 19.4% in 2022, while it collected 10.8% of GDP in social contributions. In the absence of the measures to increase the income of the population realized in 2024 Romania would have recorded negative economic growth this year and it would have been the first year since 2010 (excluding the pandemic period) that Romania would have returned to negative growth rates. Without the additional consumption generated by the increase in household income, the economy would most likely have been in recession. 2024 meant not only almost no economic growth but also a further deterioration of the trade balance and thus, of the current account balance. For 2025 almost all welfare benefits have been frozen. The effect will be immediately visible in the social indicators for 2025.
- (23) The poor working conditions of the past 30 years and the lack of concern for occupational health and safety are now reflected in the indicator for healthy life years after retirement: 3.8 years for women and 4 years for men. This is less than half of the European average and 70% lower than in 2012.
- (24) The current social transfer system provides very little support to those in need, with an impact of only 15% compared to the EU average of 34%. Romania plans to further reduce social assistance expenditures as a percentage of GDP in the coming years, disregarding the increasingly evident phenomenon of population aging.
- (25) Labor market inspection institutions, as well as those managing the social insurance funds need sufficient personnel to fulfil their legally mandated responsibilities. The Labor Inspectorate requires adequate staffing and well-trained personnel to ensure effective labour relations management, as does the National Pension Agency.

II) What are in your view the most pressing priority for the country in order to ensure quality job creation and quality job transitions in light of the current socio-economic developments?

- (26) Developing a training plan for basic digital skills aimed at the general population. While the administration is undergoing a process of digitalization, less than 27% of people aged 17 to 64 have basic digital skills.
- (27) Adopting a plan of measures to encourage collective bargaining, ensuring that it includes more than just informational initiatives. To make the labour market attractive for Romanians, wages must increase, and inequalities must be reduced. The fact that 23% of private-sector employees are on minimum wage contracts is extremely high and discouraging, especially since this salary is not limited to unskilled or medium-educated workers.
- (28) Strengthening social dialogue and ensuring the consultation of social partners in economic and social decision-making processes.
- (29) Enhancing the capacity of the Labor Inspectorate by increasing the number of labour inspectors and improving their training. This is necessary to enable effective labour market oversight and to take on the new responsibilities assigned under the transposition of Directive 2041/2022.
- (30) Preparing a policy package to manage the challenges posed by an aging population.
- (31) Implementing measures to increase the transition rate from unemployment to employment, particularly among young people.
- (32) Renouncing the measure to reduce public spending on social assistance and at the same time introducing clear criteria to ensure support reaches those genuinely in need.
- (33) Renouncing the freeze on social assistance benefits.
- (34) Making employment policy a national priority to ensure that working in Romania becomes attractive, especially for young people. Reducing regional disparities in employment should also be a key concern. The excessive use of disguised employment forms such as micro-enterprises, self-employed individuals, or copyright contracts should be limited. Favourable tax treatment for these income categories has led to their widespread use as alternative employment arrangements.
- (35) Adopting tax reform measures to reduce labour taxation and overall tax pressure, particularly for low-income earners, though not exclusively for those on the minimum wage.

- (36) Eliminating the tax relief on minimum wages, which has been applied in a way that creates major distortions in the wage policy, and traps a significant number of employees in low-income situations.
- (37) Implementing the decision of the Council of Ministers and restructuring the distribution of social security contributions between employers and employees.

FINLAND

Policy drivers

1. JER: The unemployment rate increased for the second time in a row highlighting a 'critical situation'/ long-term unemployment rate also increased

TRADE UNION RECOMMENDATION: **Restore consumer confidence and boost consumption by strengthening workers' rights** (for example, by reversing the easing of dismissal rules and the expansion of temporary contracts, and by safeguarding the right to strike) **and social security** (for example, by increasing earnings-related unemployment benefits). **Introduce targeted measures for the long-term unemployed**, such as wage subsidies and labour market training, and lift sanctions of employment areas for unemployed in these services.

2. JER: Population reporting unmet needs for medical care constitutes a 'critical situation'. Staff shortages eased slightly but they remain a bottleneck particularly for specialist care. AROPE increased

TRADE UNION RECOMMENDATION: **Withdraw cuts to wellbeing services counties** and give them more time to cover accumulated deficits. **Strengthen the care guarantee and speed up access to care** by shortening the maximum waiting time from three months to two weeks. **Cancel cuts that disproportionately affect the least well-off**, such as reductions to housing allowance and social assistance.

3. SOCIAL CSR: Strengthen active labour market policies for all and address skills shortages by reskilling and upskilling the workforce and widening the higher-education offer, in particular for the skills most in demand in the labour market. Ensure that the reform of social and healthcare services: i) improves the delivery and cost-effectiveness of and access to social and healthcare services, including long-term care, and ii) addresses inefficiencies

TRADE UNION RECOMMENDATION: **Increase resources for public employment services. Restore and reform the adult education allowance. Withdraw cuts to wellbeing services counties** and give them more time to cover accumulated deficits. **Strengthen the care guarantee and speed up access to care** by shortening the maximum waiting time from three months to two weeks.