



8TH MUTUAL LEARNING EVENT ON DISTRIBUTIONAL IMPACT ASSESSMENT: REFLECTING ON PROGRESS AND LOOKING AHEAD

7-8 February 2024, Brussels (Belgium)

Summary report

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This report was prepared by the Mutual Learning Service Team (ICF and the European Centre for Social Welfare Policy and Research) with inputs from Michael Fuchs (European Centre for Social Welfare Policy and Research) and Carlo Fiorio (University of Milan).

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Executive summary and key messages

The 2022 European Commission Communication on Better assessing the distributional impact of Member States' policies (and related Staff Working Document) emphasized the importance of Distributional Impact Assessment (DIA) that is defined as *“an analysis, usually quantitative in nature, which assesses the distributional effects of policies on the income of various groups across the population. More specifically, DIA refers to the assessment of the impact of policies on the income distribution in a country by analysing their impact on disposable income, poverty and income inequality.”*

Between 2021 and 2023, the European Commission also organised seven online workshops on different methodological and thematic topics related to DIA to support mutual learning and encourage the exchange of ideas on how to further improve DIA. This, together with other recent milestones at the EU level, highlights a commitment to evidence-based policymaking, with the European Commission providing guidance to strengthen the use of DIA, including in relation to the planning and budgeting of reforms.

The '8th Mutual Learning Event on Distributional Impact Assessment (DIA): Reflecting on progress and looking ahead', which was held in Brussels (Belgium) on 7-8 February 2024, reflected on the achievements to date and provided opportunities for participants to network and further benefit from in-depth discussions about DIA. It brought together representatives from 23 Member States, primarily from Ministries of Economy and Finance, Employment and Social Affairs and national budgetary institutions, including members from the Social Protection Committee (SPC), the Employment Committee (EMCO) and the Economic Policy Committee (EPC), as well as representatives from the OECD, different Commission services and thematic experts.

The keynote speech by Romina Boarini, Director of the Centre on Well-Being, Inclusion, Sustainability and Equal Opportunity at the OECD, emphasized the importance of conducting DIA as early as possible to inform policy reforms, as well as the need to integrate DIA in the budget process and to ensure transparency of DIA and the underlying data used. Furthermore, it highlighted the need to consider impacts of structural reforms not just on income, but also on (multidimensional) well-being indicators for various population groups. It was also emphasised that DIA can be a tool to gain public acceptability of reforms.

Through interactive working group sessions, participants were able to share their national practices, as well as challenges and plans for further developing DIA. The workshops covered DIA modelling, access to and use of data for DIA, evidence-driven design of benefits, DIA in the digital and green transition and dissemination of results of DIA. Specifically, four examples of national practices (from Poland, Greece, Italy and Ireland) were presented, followed by a wider discussion on the topic covered.

The final panel with Chairs and vice-Chairs of the SPC, EMCO and EPC identified multiple policy areas relevant for the three Committees in which DIA can support evidence-based policy making, emphasizing the need for continuous and transparent coordination. The discussion called for collective efforts at the EU level to improve data collection and availability to support DIA, as well as stressed the importance of increasing political awareness of the importance of DIA.

The following key messages emerged from the presentations and discussions:

DIA plays a key role in the context of high concerns on inequalities and emerging social challenges

Inequalities remain one of the main concerns of EU citizens and whilst there has been an overall stability in income inequality on average in the EU over the last 10-15 years, the emergence of new social risks and challenges, including those related to the digital transformation, demographic change, and the green transition, raises further uncertainties. The EU is actively addressing these challenges under the overarching policy framework of the European Pillar of Social Rights, and through related initiatives, aiming at strengthening social protection and social inclusion systems and making labour markets more resilient. In this context, DIA is a crucial tool to evaluate the effectiveness of policy responses and design fair reforms across different policy domains, providing valuable insights into addressing inequalities.

Unlocking preconditions to allow more effective use of DIA, including political will and data capabilities and resources

Political commitment and awareness are crucial for effective DIA, particularly in the ex-ante phase and in the dissemination phase. It is also essential for overcoming barriers such as limitations in terms of analysis infrastructure and human resources.

DIA can be applied across multiple policy domains

DIA can be useful in addressing short-term shocks as well as long-term challenges, including in the design of compensatory measures for potential adverse effects of the green and digital transitions on different groups. Evidence-driven design is crucial in policy areas such as social security contributions and different taxes as well as minimum wages and social benefits. Tax-benefit microsimulation models like EUROMOD or country-specific models, are an essential tool for DIA. Such models are typically used to estimate the net budgetary cost together with poverty and inequality effects of tax and benefit reforms. More advanced models incorporate multidimensional analyses, including consumption and wealth taxes, benefits in-kind, and long-term policies such as education, pensions, health and long-term care. Microsimulation models can also be linked to other models to estimate behavioural responses and/or macroeconomic feedback to policy reforms, and enhance the credibility and precision of the results. However, while many countries incorporate DIA into their policymaking processes to varying extents, there is a need for more systematic use of DIA, especially ex-ante.

Leveraging relevant data for DIA to enhance its accuracy and comprehensiveness

Weighing the advantages and limitations of survey and administrative data, meticulous data source selection is essential for a granular assessment of the impact of reforms in DIA. This underscores the need to navigate trade-offs between precision, timeliness, and representativeness in data choices for robust policy analysis. Additionally, ensuring streamlined and GDPR-compliant access to high-quality administrative data is an asset for robust DIA practices. Member States should continue sharing good practices in relation to matching possibilities based on personal identifiers, while at the same time ensuring anonymity and data protection.

DIA can support a fair digital and green transition

There is consensus that DIA allows policymakers to scrutinize and understand the potential distributional effects of environmental and technological policies. In this context, it is crucial to prioritize political commitment, including in setting digital and climate-related goals, foster inter-ministerial cooperation, and facilitate data sharing to enable DIA analyses on green and digital reforms. This enhances transparency and can contribute to combat scepticism

towards the twin transition, and design policies that effectively alleviate related potential adverse distributional impacts.

Disseminating DIA results relies on effective communication

Challenges in communicating DIA results to the public persist, such as establishing credibility before dissemination by providing clear descriptions of baseline and reform scenarios and explaining any differences in results, but also in establishing a clear narrative, as media interpretation can impact public perception. Effective communication involves identifying the main message, identifying winners and losers, and engaging with the media through various channels. Strategic and transparent dissemination of DIA results is essential for ensuring a better understanding and public acceptance of policies and reforms.

The importance of cooperation, mutual learning and sharing of best practices

The event highlighted the demand for mutual learning exercises, including the sharing of effective practices to address common priorities and challenges related to DIA (e.g. limited political awareness, literacy, data access limitations and evolving methodologies). To enhance the use of DIA across Member States, some participants suggested that stricter guidelines (or potentially some mandatory elements) by the European Commission in presenting DIA results would be beneficial. Additionally, there was a call for the aggregation and sharing of information about institutions with advanced DIA practices, identifying best practices among Member States to foster collaboration and knowledge exchange. It was underlined that mutual learning events contribute to a collective effort to improve the effectiveness and transparency of DIA practices. In a field marked by complexity, staying informed and updated is crucial. Member States can benefit from each other's experiences, fostering collaboration and enhancing their DIA approaches for informed policymaking.

1 Introduction

Distributional impact assessment (DIA) is an important tool for EU and national policy making that allows the evaluation of how various policies impact different segments of the population. In the current context, in which EU Member States, and the EU as a whole, are grappling with increasing societal challenges and the risk of widening inequalities, DIA can play a crucial role in helping policymakers understand the effects of policies on vulnerable groups of the population, as well as anticipating potential negative consequences and maximising positive impacts of these policies. By revealing the distributional consequences of policy choices, DIA contribute to evidence-based policymaking, aligning with the EU's goals for inclusive growth and poverty and inequality reduction.

Recent milestones at the EU level highlight a commitment to evidence-based policymaking, with the European Commission providing guidance to Member States on strengthening the use of DIA. DIA is recognized as a valuable tool for shaping policies in response to recent shocks, such as the Covid-19 pandemic and geopolitical events, as well as long-term transformations such as the twin transition and demographic changes.

DIA varies based on the timing, models, types of data and policies analysed. Standard DIA approaches focus on aspects like taxation, benefits and their effects on poverty and inequality. More advanced tools consider additional factors such as the role of in-kind benefits, dynamic policy effects, and macro-economic feedback loops.

This report summarises the main findings from the 8th Mutual Learning Event on Distributional Impact Assessment (DIA): Reflecting on progress and looking ahead (Brussels, 7-8 February 2024)¹. The event followed a series of online events on this topic organised by the European Commission between December 2021 and June 2023. It brought together representatives from 23 Member States primarily from Ministries of Economy and Finance, Employment and Social Affairs and national budgetary institutions (including members from the Social Protection Committee (SPC), the Employment Committee (EMCO) and the Economic Policy Committee (EPC)), as well as representatives from the OECD, different Commission services and thematic experts.

The event provided an opportunity for participants to network and benefit from in-depth discussions about DIA. The event included presentations, panel discussions and interactive working group sessions on the topics of modelling, access to and use of data for DIA, evidence-driven design of benefits, DIA in the digital and green transition and dissemination of results of DIA. During the parallel working groups, examples of practices from various Member States (Greece, Ireland, Italy and Poland) were presented in relation to the different topics. Through the facilitated group discussions, participants could also share their national practices, challenges and plans for further developing DIA.

The following two sections introduce the background to the mutual learning event: section 2 delves into the socio-economic situation and the policy context within the EU, while section 3 focuses on the role of DIAs in addressing inequalities. Section 4 then goes on to present the key findings from the discussions in the parallel working groups.

¹This report was prepared by the Mutual Learning Service Team (ICF and the European Centre for Social Welfare Policy and Research) with inputs from Michael Fuchs (European Centre for Social Welfare Policy and Research) and Carlo Fiorio (University of Milan). The information and views set out in this report are those of the authors.

2 The EU socio-economic and policy context

2.1 Developments in inequalities and poverty in the EU

Overall, the 2024 Joint Employment Report and the 2023 Report of the Social Protection Committee present an encouraging outlook of the social situation in Europe, with an average decline in income inequality in EU in 2022 (with Romania experiencing the largest decline), possibly explained by developments at the lower end of the income distribution, indicating a positive shift over recent years, particularly from 2016.

The at-risk-of poverty or social exclusion indicator (AROPE) has been decreasing since 2015 and has showed broad stability during 2021-2022. Similarly, monetary poverty, severe material and social deprivation, and the share of people living in (quasi)-jobless households remained overall stable at EU level. This suggests that the policy responses at the EU and Member State level during recent crises, including the post-COVID-19 recovery, have contributed to this stability. Other positive socio-economic trends include the decline in long-term unemployment in 8 Member States, and improvements in the employment rate of older workers in 24 Member States. Youth social indicators also experienced positive outcomes, with decreases in the NEETs rate in 13 Member States and declines in the depth of poverty for both the general and child populations in 11 Member States.

However, these reports also indicate the persistence of social challenges, such as the poverty rates and relative income situation of older people in 15 Member States, with varying developments in income inequalities, as well as increases in severe material and social deprivation rates in about a third of Member States, reflecting deteriorating financial conditions due to rising inflation. Other challenges, such as energy poverty and housing affordability, issues affecting persons with disabilities, Roma inclusion, migrants and refugees, and the territorial dimension of poverty, highlight the need for effective social protection, particularly for children, and equal opportunities.

2.2 The role of the EU to strengthen the use of DIA

At the EU level, the European Commission prioritizes evidence-based policymaking, continually improving its track record in recent years. It employs impact assessments to evaluate the economic, social, and environmental impacts of policy actions, aligning with its Better Regulation approach. The Commission relies on the EUROMOD model for DIA, regularly using it to assess selected reforms in Member States. Analysis outcomes are integrated into country reports, forming part of the European Semester, or in other publications. Eurostat also uses EUROMOD for flash estimates of income inequality and poverty indicators.

To step up the application of DIA across the EU, in September 2022, the European Commission released a [Communication](#) offering guidance to Member States on the use of DIA instruments in planning and budgeting of reforms and on enhancing the quality of DIA, and a corresponding [Staff Working Document](#). Following the Commission Communication, the [2022 Employment Guidelines](#) also invited Member States to implement DIA more extensively, recognizing its role in enhancing the effectiveness of social protection systems.

The European Commission actively supports Member States in developing their use of DIA and integration into their national budgetary processes and the European Semester, by maintaining tools used for DIA, as well as offering training and facilitating platforms for the exchange of best practices:

- **EUROMOD:** Since 2021, EUROMOD has been managed by the Joint Research Centre (JRC) of the European Commission, in collaboration with Eurostat and national teams from EU Member States. EUROMOD is a static microsimulation model which calculates the effects of taxes and benefits on household incomes and work incentives for the population of each Member States and for the EU as a whole. The model is designed to ensure cross-country comparability based on a standard set of modelling conventions². The Commission makes the model available to all Member States and updates it annually.
- **Training:** JRC offers a biannual free-of-charge 3-day general training course on EUROMOD, and specific ad-hoc advanced training sessions on specific EUROMOD topics and functionalities, including on how to do DIAs.
- **Funding for tailor-made technical expertise:** Member States can seek additional assistance in developing DIA practices through the Technical Support Instrument (TSI).
- **Mutual Learning Events:** The Commission further supports mutual learning by bringing together representatives of Member States who are actively involved in doing DIAs in national administrations or, in the case of Member States where DIAs are not yet so widespread a practice, those who could be involved in doing them in the future. Discussions in mutual learning events cover various aspects of doing DIAs, thereby enabling the exchange of best practices.
- **Continuous monitoring of DIA implementation:** As part of the mutual learning process with the Member States, the European Commission monitors the use of DIAs in draft budgetary plans or other contexts and informs advisory bodies, such as the SPC, EMCO, and EPC, ensuring transparency and collaborative efforts in promoting effective DIA practices across the EU.

² EUROMOD can be supplemented by extended functionalities (plugins and add-ons) and can be linked to other models such as EUROLAB (the JRC's labour supply/demand model), QUEST (Dynamic Stochastic General Equilibrium model of the European Commission's Directorate General for Economic and Financial Affairs), JRC GEM-E3 (energy and environmental model) and JRC EDGE-M3 (pension and demographic model).

3 DIA, evidence-based policies and addressing inequalities

The keynote presentation from Romina Boarini, Director of the Centre on Well-Being, Inclusion, Sustainability and Equal Opportunity at the OECD, started by reviewing trends in income and wealth inequalities. She noted that there has been a sharp increase in income and wealth inequalities among OECD countries over-time, particularly when considering the past several decades. However, over the past two decades such inequalities have stabilised or even reduced. The strong policy response after the Covid-19 pandemic, as well as the expansion of social protection safety nets may have contributed to maintain an overall positive outlook of inequality among OECD countries. The OECD Centre [WISE](#) (Well-being Inclusive Sustainable Environments) is utilizing innovative methodologies and data to investigate factors influencing well-being beyond traditional GDP measures (see Box 1).

Box 1. Welfare metrics (OECD)

Building on the OECD Well-Being Framework, WISE is developing guidelines and enhancing metrics to assess inclusiveness and quality more accurately across multiple domains, such as workplaces and jobs, environmental conditions, subjective well-being, trust, safety, and other crucial aspects of life. This involves integrating a welfare metric into the QUEST methodology, where the metric is sensitive to the situation of the most vulnerable groups. The concept of multidimensional DIA was introduced, reflecting the OECD's comprehensive approach to understanding the impact of structural reforms on different groups.

Source: Presentation by the OECD at the event

As shown in a study led by the OECD Governance Directorate based on selected OECD countries, significant heterogeneity in the use of DIA can be found. It is conducted by various organisations and occurs at different stages within the budget process; regular analysis is not uniformly practiced across all countries. Furthermore, the availability of underlying data varies widely. The primary focus of DIA is to understand how tax and transfer policies interact and impact different groups. In the context of this study, several general recommendations emerged:

- Conducting DIA as early as possible in the policy-making process and integrating it the budget process ensures informed decision-making.
- Maintaining transparency in the DIA process and disclosing underlying data
- Leveraging available administrative data to complement survey-based information.
- Disaggregating data by socioeconomic characteristics whenever feasible.
- Coordinating various forms of analysis, including results-based budgeting frameworks and modelling.
- Pairing microsimulation models with economic models to consider broader effects, including labour supply dynamics.

Romina Boarini also addressed current trends in perceptions of inequality and how they relate to public acceptability of policies that may affect such inequalities. A key message that emerged was that, while rising concerns about inequality are correlated with actual levels of income inequality and intergenerational mobility, such concerns have not uniformly and unambiguously translated into support for more distributive policies.

The OECD has identified several explanations for this, including different beliefs on the causes of inequality³, different policy preferences and views on the role of public and private actors in reducing inequality⁴, and a general uncertainty about the effectiveness and fairness of implemented policies, such as in the case of environmental policies⁵. The OECD has studied the demand side of reform (see Box 2 below) and suggests that DIA has the potential to improve public acceptance of reforms, by filling the perception gaps when it comes to the equity implications of policies. In addition, DIA can also influence the content of policies themselves, by incentivising policymakers to incorporate fairness considerations and compensatory measures at the design stage.

Box 2. Relevance of public attitudes: 2022 OECD Risks that Matter survey and the Public Acceptability Tool (PAT)

The 2022 OECD Risks that Matter survey highlights that working-age respondents in OECD countries are increasingly concerned about personal financial risks, with worries intensifying over time. Some groups, such as lower-income households, women, and younger individuals, reported increased economic insecurity, while older adults were more concerned about healthcare access. Satisfaction with social protection systems varied across different areas. Doubts lingered about the reliability of government support, particularly in accessing benefits and income assistance during times of need. Respondents were in favour of increased government spending in areas such as health, pensions and care for the elderly, and often favoured wealth taxation to support redistribution efforts. The survey highlighted the need for evidence-based policy interventions to effectively address perceived risks and ensure that government spending has a tangible impact on societal well-being.

From these results, it appears that monitoring the demand side of reform is crucial to ensure public acceptability of policies, especially those that have distributional impacts. The OECD is developing a Public Acceptability Tool (PAT) that aims to establish a comprehensive framework for delineating the crucial dimensions that influence public acceptability. This is achieved through case studies and area-specific roadmaps for reform. In addition, the PAT aims to systematically integrate relevant insights on public acceptability obtained from perceptual and behavioural data.

Source: Presentation by the OECD at the event

Next to income inequality, the EU and more in general, our global society, is facing emerging social risks and challenges, which impact on inequality is still difficult to assess, such as the emergence of Artificial Intelligence (AI) tools, robotisation and automation of work, the digital revolution, the ageing population and other demographic changes, as well as climate change.

In this complex context, the EU is taking multiple coordinated actions to ensure fairness and reduction of inequalities, as well as to smoothen transitions. The emphasis on socio-economic coordination, the social investment package⁶, and life-cycle interventions reflects a commitment to tackling multi-dimensional aspects of inequality through a comprehensive and interdisciplinary approach. In this framework, the [EU Pillar of Social Rights](#) and related Action Plan plays a central role, providing a comprehensive framework for shaping policy actions to address inequality, poverty and social exclusion.

³ OECD (2023). "Hard work, privilege or luck? Exploring people's views of what matters most to get ahead in life". Available at: [Hard work, privilege or luck? Exploring people's views of what matters most to get ahead in life \(oecd-ilibrary.org\)](#)

⁴ OECD (2023). "Working hand in hand? Exploring people's views of the role of different actors in fighting inequality". Available at: [Working hand in hand? Exploring people's views of the role of different actors in fighting inequality \(oecd-ilibrary.org\)](#)

⁵ Dechezleprêtre et al. (2022). "Fighting climate change: International attitudes toward climate policies". Available at: [3406f29a-en.pdf \(oecd-ilibrary.org\)](#)

⁶ An initiative launched by the European Commission on 20 February 2013, which promotes social investment throughout the life-cycle, emphasising early years support for children and preventive approaches in later life. It contains recommendations for Member States on strategies for investing in children's services, long-term care systems, homeless strategies, active inclusion policies and health care systems.

As discussed during a panel with representatives of the SPC, EMCO and EPC, socio-economic coordination is leveraged as a tool to fight poverty, emphasizing the development of analytical tools and coordination between fiscal, economic, and social policies. DIA can provide a crucial tool to better understand the effectiveness of policy responses.

The SPC Chair, Rute Guerra, outlined that addressing inequality of opportunities is central to achieve sustainable and sustained inclusion. The Child Guarantee is a crucial tool for reducing child poverty. In this context, the EU, also via the SPC actively promotes actions in favour of equality of opportunities, for example through a thematic focus on child poverty. Child benefits can enhance the capabilities of children and levelling the playing field. However, challenges persist, as evidenced by PISA results linking school test outcomes to parental socio-economic backgrounds. In this context, DIA can support the design of child benefit programmes by evaluating their impact on different socio-economic groups, aiding in the improvement of equality of opportunities. Later in the life cycle, social protection benefits also prove central in supporting income and addressing other types of inequalities and DIA can contribute to design well targeted schemes.

The EMCO Vice-Chair, Maria Eirini Mountaki, recalled that well-functioning labour markets are essential for addressing inequalities. To support this goal, a combination of active labour market policies, combined with traditional social protection benefits should be a priority. The discussion also touched on the importance of upskilling and reskilling policies, particularly in the context of skill mismatches and in-work poverty. Additionally, the need to consider underrepresented groups was highlighted. DIA can inform the design of labour market policies in this context. She highlighted the EU's commitment to aligning labour markets with green economy goals, implementing the Recommendation on fair transition, and addressing environmental and economic challenges in a socially responsible manner.

The Chair of the EPC, Andrea Oliveira, stressed that well-designed tax systems can also contribute to addressing inequality, by finding a balance between meeting the needs of vulnerable groups while ensuring sustainable contributions to public systems and fostering economic growth. Decision-making is challenging, encompassing considerations such as the fiscal impacts of green and digital transitions, and the increasing dependency ratios resulting from demographic changes. Securing adequate funds remains a significant challenge and would require shifting the tax burden from labour to alternative sources like capital. Addressing the complexities of the VAT, as well as of environmental taxation about inequality is also important. In navigating these discussions, DIA becomes pivotal, offering a systematic way to evaluate the distributional effects of proposed tax policies. Incorporating DIA allows policymakers to make informed decisions, ensuring equitable burden-sharing and protection for vulnerable groups in the ever-evolving landscape of tax policy.

Overall, the representatives of the SPC, EMCO and EPC identified multiple policy areas with relevance for all three Committees, emphasizing the need for continuous and transparent coordination. The discussion also called for collective efforts at the EU level to improve data collection and availability to support DIA, as well as stressed the importance of increasing political awareness of the importance of DIA.

The role of DIA in supporting evidence-based policies and addressing inequalities was also covered in the working group discussions. In particular, multiple participants recognised the importance of increasing awareness on the potential role of DIA to tackle inequalities at the political level and to design policies based on evidence. Strong political involvement and commitment is an essential pre-condition to enable DIA analyses, especially ex-ante. Barriers to perform ex-ante DIA analyses, such as lack of capacities and resources reported by some countries could be overcome with strong political engagement. Political awareness and literacy is not only important to carry out DIA, but also to disseminate them more widely.

4 DIA across Member States, challenges and responses

4.1 Modelling, access to and use of data for DIA

The topic of availability, accessibility, and quality of data for DIA practices was discussed in one of the working groups, with different countries highlighting the challenges of performing DIAs when administrative data are not made available by public administrations for research purposes.

A presentation given by Andrea Papini (from the JRC) focused on key components of modelling approaches and data access that are essential for conducting DIA. The discussion centred on the use of microsimulation models, with particular emphasis on EUROMOD, as well as on access to different data sources to improve the accuracy and comprehensiveness of these assessments. He highlighted the crucial role of microsimulation models in assessing the budgetary impact, poverty, and inequality effects of tax and benefit reforms. These models can be linked to other models to account for behavioural reactions and macroeconomic impacts, among others. EUROMOD was mentioned as a prominent multi-country model available for all 27 EU Member States, maintained by the JRC. It is a valuable resource for conducting DIAs. One of its greatest advantages is its compatibility with various microdata, allowing for transparent, harmonised, and flexible modelling. Additionally, EUROMOD includes embedded tools for policy assessment, including DIAs.

The European Commission frequently uses EUROMOD to support EU-wide initiatives. In addition, training and support in the use of EUROMOD is provided to Member State researchers biannually. This allows EU-level and national-level policy officers to communicate more effectively when using the same model. While national models are often more detailed and tailored to specific needs, EUROMOD is open-source and therefore more accessible and transparent. Additionally, Member States may find developing and maintaining national models to be more costly than using EUROMOD.

Andrea Papini examined different options for obtaining comprehensive and timely data necessary for DIAs. These options include survey data, administrative data, or a combination of the two. Survey data provides detailed and harmonised sociodemographic information, but it has limitations such as the time lag in collection and the aggregation of benefits and incomes, as well as sometime the representativeness of the data, especially for the higher segment of the income distribution. Administrative data is another option to consider. He highlighted the timeliness and richness of administrative data, as well as its precision when used to simulate tax policies. However, he cautioned about issues such as representativeness, particularly for low incomes, and accessibility restrictions.

The presentation by Mateusz Najsztub, from the Polish Ministry of Finance, provided a practical example of the choice between administrative and survey data, and of its impact on policy analysis, based on the case of the Polish Personal Income Tax reform of 2022 (see Box 3 below).

Box 3. Using administrative data for tax policy reform assessment: the example of Polish Personal Income Tax reform (PIT) from 2022

The Personal Income Tax reform (PIT) carried out in Poland aimed to achieve three objectives: reducing the tax burden for low-income taxpayers, enhancing the progressiveness of the tax system, and increasing health insurance contributions, especially for self-employed individuals.

To achieve these goals, specific measures were implemented, such as increasing the tax-free allowance and adjusting tax brackets.

The reform unexpectedly led to a public demand for increased transparency, which challenged the Ministry of Finance to consider broader analysis disclosure. The essential role of both administrative and survey data in policy analysis were emphasized. Although administrative data may raise confidentiality concerns, it is considered essential for DIA due to its comprehensive nature. Synthesising information from various data sources is crucial for gaining a more complete understanding of the impact of policy reforms, as administrative data may exclude some income sources, e.g. non-taxable incomes and income from agricultural subsidies.

Source: Presentation from the Polish Ministry of Finance at the event

The following discussion focused on understanding the current landscape of data and tools available for DIA, as well as potential future developments in this domain. A crucial question raised was whether there are any additional tools available for extended DIA beyond those already listed. Concerns about tax evasion were raised, which can lead to inaccurate survey data, as well as the lack of information on the shadow economy. The JRC representative acknowledged the challenge of underreporting/misreporting in both survey and administrative data, as some individuals do not complete tax returns correctly.

The participants also commented on their expectations for future developments in DIA. The representative from Belgium mentioned a growing trend of making market data accessible to the public, although the legal procedures involved in passing laws related to open data are often quite heavy. The representative from Poland stated that the team at the Ministry of Finance relied primarily on data collected for control purposes within the fiscal administration. They have made efforts to enact legislation to facilitate data sharing between different branches of the government. However, accessing data on a case-by-case basis from other institutions has limited their ability to use it effectively on some occasions. It was also mentioned that national governments may request access to data from Eurostat through national statistical institutes.

When exploring additional administrative data that could be useful for DIA, the representative from JRC gave examples of administrative data in Greece. This presents opportunities for improving the country's poverty and inequality indicators, particularly in assessing policy changes. The integration of administrative data in SILC was also suggested as a way to fill gaps when survey data is insufficient. However, the Polish representative reiterated the challenges of capturing alternative sources of income, e.g. when a group or sector is taxed not on income but on assets.

The lack of procedures to request and obtain administrative data from national administrative offices while also complying with GDPR rules was highlighted across different working groups. In this context, a vast heterogeneity between countries was reported, from countries. In most countries, administrative data is not publicly available or may just be available for scientific research purposes (which may preclude access by public administrations). However, in some countries, such as Spain, Sweden, Denmark, Ireland and Italy, access to administrative data has been simplified and made possible.

In this context, Member States representatives suggested to further share best practices and exchange on how to harmonise data access rule while also ensuring the right to privacy and data anonymisation.

4.2 Evidence-driven design of benefits

The scope of DIA can extend to policies addressing short-term economic shocks (e.g. Covid-19, inflation and cost of living crises), longer-term challenges (e.g., demographic change and related policies like pension, health and long-term care, wealth taxation, energy poverty), and the design of compensating measures to mitigate potential negative impacts

of green and digital transitions. Specific policy areas where evidence-driven design can be crucial include, for example social security contributions, direct and indirect taxes as well as minimum wages, minimum income schemes, and family and child benefits, as outlined in the presentation by Michael Fuchs from the European Centre of Social Welfare Policy and Research.

Overall, many countries incorporate various forms of DIA into their policy frameworks (as described by Bazoli et al., 2022), such as Sweden, Finland, Netherlands, Latvia, and Greece, with varying experiences and extents. For instance, the Greek Unit of Experts in the Minister of Labour consistently conducts DIAs for Draft Budgetary Plans and assesses, for example annual minimum wage adjustments, and adjustments of means-tested benefits providing basic income security (see Box 4 below). To facilitate the application of DIA, beside national models EUROMOD can constitute a key tool, as showed by experiences in Greece. For example, EUROMOD's built-in labour market adjustment (LMA) tool and the possibility of linking it to macro-models can facilitate the assessment of second-order effects, supporting sensitivity analyses and enhancing credibility.

The presentation by Eirini Andriopoulou and George Planiteros, Unit of Experts in Employment, Social Insurance, Welfare and Social Affairs of the Greek Labour Ministry (MEKY), provided a great example of how political engagement can support the uptake of good quality ex-ante DIA analyses for policy reforms. When analysing ex-ante the potential impacts of a reform on the minimum income benefits, MEKY was able to leverage support from the political level. The political engagement facilitated the initiation of works and the establishment of a working group, where politicians and public officers collaborated to design the scenarios and analyses. This underscored the commitment to evidence-based policy design and provided a strong foundation for MEKY's efforts in promoting DIA.

Box 4. The Social Welfare Review in Greece

The example of DIA presented by Greece relied on the EUROMOD microsimulation model integrated with administrative datasets, along with additional indicators and built-in tools (like Marginal Tax Rates, Net Replacement Rates, Participation Tax Rates, and Labour Market Adjustments), to analyse the social welfare reform in Greece. Formerly, benefits providing minimum income security were fragmented in terms of key benefit parameters, contributing to overlapping of benefits and administrative burden. The proposed reform included the unification of rules and parameters' definitions, fiscal adequacy improvements based on automatic indexation tied to Guaranteed Minimum Income and statutory Minimum Wage and targeting measures such as exclusion criteria to identify tax evaders.

The DIA examined various scenarios, including baseline scenarios and two modified scenarios with changes and harmonisation of several parameters of child benefit, the benefit for uninsured elderly, Guaranteed Minimum Income, and housing benefit like definitions, eligibility criteria, guaranteed amount, equivalence scales, income thresholds, and means-tests. When striving for fiscally neutral scenarios, a trade-off between horizontal and vertical targeting emerged. While a decrease in coverage occurred, there was an increase in adequacy, with a significant reduction in poverty and inequality deriving from the reform. The study highlighted no apparent distortion of incentives at the intensive margin of labour supply, but noted a distorting effect on the extensive margin, which was mitigated by the introduction of an income disregard.

Overall lessons learnt include the importance of collaboration at the political level, recognition of a trade-off between coverage and adequacy under fiscal neutrality, and the potential positive impact on poverty, inequality as well as administrative burden through targeted reforms in the social welfare system.

Source: Presentation from the Unit of Experts in Employment, Social Insurance, Welfare and Social Affairs, Ministry of Labour and Social Insurance (MEKY) of Greece

In addition, reforms such as those related to social insurance and taxation systems are subject to DIA in ad hoc analyses in Greece. Similarly, in Finland, microsimulation/DIA will be used to plan the ongoing social security reform⁷ and to compare different options. Moreover, two microsimulation experts are members of the working group that has been established to plan the reform. The Netherlands showcased a systematic approach to DIA for DBPs, emphasizing the ongoing efforts to illustrate impacts of the energy crisis according to income groups.

Statistics Denmark collects all kind of administrative data offering straightforward matching possibilities and providing data access for research institutions. Also, in Belgium SILC-data can be combined with administrative data using a unique identifier. However, the process for using data other than SILC is less advanced and the trade-off between data protection and other considerations remains an important issue. In Italy, to overcome the data challenge, data access is guaranteed to the public administrations being part of the National Statistical System (SISTAN). Using these data, the Italian Ministry of Economy and Finance has developed several models (TAXBEN-DF, VATSIM, ECOP and others) matching survey data on incomes and consumption with tax return and other administrative data such as social security contributions, pensions and wealth, providing different distributive ex-ante impact assessment of the main recent reforms such as the last PIT reform and the introduction of the new family allowance, the minimum income and the policies supporting households' income and consumption during COVID-19 and the last energy crisis, as well as updating wellbeing indicators in the yearly public report on equitable and sustainable indicators. However, it was also reported that ex-ante analysis is challenging due to the legislative steps and the resources involved.

In Slovenia, DIA approaches were taken up in 2022 using the OECD Tax-Benefit model (Tax-BEN) model, primarily for ex-post analyses of the current tax system. The model was expanded to incorporate in-kind benefits, such as kindergarten vouchers and school subsidies, which significantly influences family disposable income. Furthermore, it was enriched by including the pension system, allowing estimations of work incentives for older workers. Latvia features multiple years of DIA experience and evaluation of budget proposals, though implementation varies among ministries and areas. Ex-ante DIAs are mostly based on administrative data. The country is actively developing a new forecasting model to enhance existing capabilities.

Conversely, Portugal also started to apply DIA in 2022, using a national microsimulation model based on administrative data for the analyses of direct taxes. The model is used for ex-ante analysis, which is made available to policy makers. In addition, an ex-post analysis is carried out and published once data for the policy reform year is available. At the same time, other countries face challenges in institutional capacities and personal resources for DIA on benefit reforms.

Overall, these examples showed a large heterogeneity of DIA approaches across the EU. Despite positive advancements, the systematic use of DIA still needs to be streamlined, with an emphasis on the importance of ex-ante DIA in the design of tax and welfare reforms. During the discussions, several common obstacles to DIA, especially ex-ante, were identified: issues with availability, accessibility and matching possibilities of survey and administrative data, insufficient institutional capacities and personal resources as well as lack of awareness of relevant national stakeholders and political will.

⁷ https://stm.fi/-/yleistuen-valmistelu-etenee?languageId=en_US

4.3 DIA in the digital and green transition

Individuals living in poverty are more vulnerable to the impacts of climate change, less able to adapt, and more likely to suffer the tax consequences of climate change mitigation.

Indeed, in his scene-setting presentation during the working group, Carlo Fiorio from the University of Milan, highlighted the uneven impact that the digital and green transition will have on both work and workers. Hence, having robust welfare states for ex-post compensatory policies will be crucial. Moreover, the potential for synergies between technological innovations and the welfare of individuals needs to be harnessed. For instance, digitalisation could negatively impact certain works and workers, but it could also be used to make active labour market policies more effective (e.g. through better access, diagnosis and job matching). Examples from previous mutual learning events highlighted that the distributional effects of higher carbon prices were significant, but that there are policy options that could alleviate the immediate burdens on specific population groups.

For similar reasons, the impact of the inflationary shock and subsequent policy measures on household disposable income has become a significant area of interest. Findings from previous mutual learning events suggest that the purchasing power of lower-income households was disproportionately affected by the rise in inflation in 2022 compared to higher-income households. A recent model that has been used to examine this phenomenon was presented by Cristina Cirillo, Italian Ministry of Economy and Finance (see Box 5 below).

Box 5. Energy Consumption and Poverty in Italy: the ECOP microsimulation model

The ECOP microsimulation model was created by the Italian Ministry of Economy and Finance (MEF) – Department of Finance to assess the potential regressive impact of inflation, evaluate policies to mitigate these effects, and develop indicators of energy poverty. It is based on a unique dataset that included income and consumption data from various sources, integrating social security and price data. The model analysed various scenarios, allowing for comparisons between the baseline scenario with no inflation or policy interventions, pre-policy scenarios with inflation but no policy changes, and post-policy scenarios reflecting the impact of policies.

Additionally, ECOP addressed the lack of a standardised energy poverty indicator in Italy by simulating the 2M energy poverty indicator (which computes the share of households with a ratio between energy expenditure and equivalised disposable income above twice the national median) under different scenarios, enabling consistent evaluations of energy poverty levels. The analysis revealed that the policies implemented in 2022, although temporary, effectively mitigated the adverse effects of inflation on energy prices, in particular for low-income households.

The MEF is considering expanding the ECOP to other policy domains, including EU policies, and incorporating behavioural considerations to enhance its dynamic capabilities. Despite its usefulness, it has not been used yet by policy makers for decision making, but, given the rising importance of policies related to the green transition, ECOP could represent, in the future, an important tool to support policy design.

Source: Presentation by the Italian Ministry of Economy and Finance at the event

In the discussion that ensued, it was underlined that the distributional effects of the digital transition are very relevant from both a policy and a research point of view, but that uncertainties about actual future technological developments and their impact on the labour force make it difficult to model it. Participants from Finland and Ireland both stated that they are awaiting reliable forecasts on the long-term effects of AI and digitalisation. A representative from Finland emphasised the diverse range of technological developments underway and the importance to consider the variety of the socioeconomic impacts these may have.

Representatives from different Member States pointed out that focusing on the impacts that the green and digital transition might have on employment is a matter of political will and vision, and that interministerial cooperation and knowledge-sharing may help to develop such vision.

In Estonia, challenges for conducting DIA in this area include the lack of relevant tools in EUROMOD and the inability to develop capabilities in the short term. In Germany, independent studies have applied DIA-type analyses to these topics at the national level, but highlighted difficulties in integrating DIA into decision-making processes. Specifically, such studies emphasized that determining which group to target remains a political issue rather than a technical one, and the 'double-dividend' - benefits from policies in terms of both reduced emissions and reduced inequalities - may not always materialise. They argue that a trade-off between the two might occur, such as when providing non-targeted flat rate subsidies to renovate heating systems, which mostly benefit the better-off segments of the population. Representatives from Lithuania expressed similar concerns and added that even when policies deliver a double dividend, they may lose on other grounds, such as high complexity or high fiscal costs. In Italy, a microsimulation model that relates emissions and income distribution is currently not available, but the Ministry of Economy and Finance - Department of Finance - developed a Computable General Equilibrium (CGE) model which is able to assess this double dividend.

Regarding the integration of DIA into the decision-making process, Finland had a successful experience of setting up an independent 'data room' where analysts can go for a period of time and investigate the data to gather useful information. This has facilitated interministerial cooperation and has been able to tap external sources. The Finnish government has recognised the potential of this tool and increased financing to the 'data room'. Thanks to the 'data room', high-quality studies on energy use have been conducted. The Netherlands has also reported developing a similar tool and studying the recent energy crisis, outlining a wide range of effects that disproportionately impact lower-income households. Although fuel prices data was not included in the model, the authors of analysis believe that by collecting more data and refining their assumptions, they will be able to improve their findings to account for it.

The discussions underlined difficulties in incorporating indirect taxation and excises into DIA models, although this sort of analysis will be facilitated by EUROMOD's Indirect Tax Tool (ITT) which will become publicly available in Jan 2025. In Lithuania, the tool being developed can only consider some specific changes in taxation, lacking the estimation behavioural effects to indirect tax changes. In Slovenia, an independent research institute is planning to introduce indirect taxation in one of their models. In the Netherlands, tracking changes in disposable income due to inflation is becoming increasingly challenging due to the green transition, energy crisis, and technical limitations.

4.4 Dissemination of results of DIA

Beyond informing policymakers, one of the primary goals of DIA is to provide the general public a reliable comprehension of how proposed policy reforms will impact them. As stressed in the keynote speech by Romina Boarini (OECD), DIA can also enhance public acceptance of reforms by addressing the perception gaps related to the equity implications of policies.

In his scene-setting presentation during the working group on dissemination of results of DIA, Carlo Fiorio noted that DIA involves the use of complex tools, a lot of data coming from different sources, high technical skills, and experience in working with the models and interpreting the data. Experts in DIA present results by reporting commonly used tool such as inequalities indexes and statistics on distributions. However, he argued, most people do

not know how to read such indexes, and this can hamper the ability of DIA to reach the wider public. Even detailed and informative graphs and charts, which are often used to present these statistics, may not be appropriate for dissemination. Finally, Carlo Fiorio reported evidence that the visibility of DIA results in public debates varies significantly across EU Member States.

Karina Doorley, from the Economic and Social Research Institute (ESRI) of Ireland, illustrated ESRI's approach to DIA, with a particular focus on how to communicate DIA results to the public debate and integrate them into policymaking. The ESRI, which is an institute partly funded by a core grant from the Irish government, has been employing its SWITCH microsimulation model to estimate the distributional impact of direct tax and welfare policies for over thirty years (see Box 6 overleaf). The ESRI's dissemination strategy involves a post-budget annual analysis that is promptly presented three days after the budget announcement. The audience is composed of academics, policy makers, media and NGOs. Karina Doorley stated that this rapid and transparent process is key to ensure public engagement. Media engagement is a crucial difference between ESRI's and the Government of Ireland's approach to DIA. The ESRI engages heavily with the media, while the government does not prioritize visibility. According to a government representative, this is partly a deliberate choice, as independent studies tend to be better received by the public.

Karina Doorley gave an example of the challenges researchers face in disseminating the results of the DIA. In a recent case, the ESRI had developed policy options based on its analysis of the impact of rising living costs and the associated policy response. However, the media either understated the main message of the study at best or misinterpreted it at worst, focusing instead on their preferred narrative. The lesson to be learned is that controlling the narrative is nearly impossible.

Therefore, it is important for DIA to establish credibility before disseminating information. This can be achieved by providing a clear description of the baseline and reform scenarios and explaining any differences in results. The description should include the policy and temporal scope of the scenarios, as well as whether the baseline is indexed or includes temporary policies. Furthermore, conducting DIA in a systematic manner (e.g. annually) is crucial for maintaining credibility. This enables the public to compare 'business-as-usual' years with years with more significant policy reforms.

To be effective, it is important to distil the main message. This involves identifying winners and losers, communicating the impact on poverty and inequality indices, and clearly stating whether the policy is progressive or regressive. Effective communication of this message requires media engagement through executive summaries, press releases, and press conferences. Clear and high-quality infographics can also help convey the message.

Box 6. The ESRI's approach to DIA in Ireland

The ESRI relies on the SWITCH model, based on the EUROMOD platform, which currently utilizes the 2019 SILC Research Microdata File to analyse income and welfare. To maintain relevance, it is reweighted and updated for population changes and economic shifts. Efforts are underway to link it with 2022 data. Additionally, an automatic Statistical Disclosure Controls filter has been added to ensure confidentiality and expedite budget negotiations.

There are notable differences between DIA conducted by the ESRI and the Irish government. The ESRI's DIA involves presenting a post-budget analysis to a diverse audience three days after the budget announcement. The results are subsequently summarised in a peer-reviewed publication within two months. In recent years, additional ad-hoc analyses have been conducted for specific policy packages such as cost-of-living adjustments and pandemic support. Meanwhile, more structured work has focused on tax and welfare instruments. In contrast, the government's DIA involves publishing papers from the Department of Finance's Tax Strategy Group before the Budget and releasing DIAs as part of the Budget Day documentation. Furthermore, a few months after the budget, the Department of Social Protection issues an assessment on the likely impact on household incomes.

Although the DIA led by ESRI and the government both use the same model and data, they differ in their focus. The ESRI DIA concentrates on real impacts, while the government DIA focuses on nominal impacts. Furthermore, there is a difference in how temporary policies are accounted for - whether they are included in the baseline or not - as well as how "one-off" measures that have become permanent are accounted for.

Source: ESRI presentation at the event

During the working group, participants discussed how to generate greater interest in DIA among policymakers, whether policymakers and the public's 'financial literacy' is a concern, and how to communicate results clearly and effectively without sacrificing accuracy and credibility.

The importance of DIA as a recurrent and institutionalised part of the policy process was highlighted by participants. In Belgium, the integration of DIA into policymaking is a learning process and DIA plays an important role in comparing the distributional effects of political programs. However, extreme political parties' scepticism poses a barrier to broader acceptance. Sweden has institutionalised the importance of DIA in policymaking by integrating it as a routine component of the annual budget. In fact, DIAs in Sweden are prepared for both government and parliament. Estonia's approach includes peer-reviewing methods and data by independent think tanks before analysis.

Member States representatives emphasized the need for recurrent DIAs to highlight distributional impacts consistently, even when policies yield unfavourable results, as this allows the public and policymakers to draw comparisons. Furthermore, publishing the same indicators consistently positively affect the credibility of the analysis.

Insights from Member States' experiences highlight the difficulty of communicating the distributional impacts to the public and the importance of financial and statistical literacy among the public and policymakers. Estonia emphasised that the simpler the presentation of results, the more interest and questions the DIA generates and the more credible it is perceived as a method. To improve public understanding of distributional impacts, they suggested using metaphors and alternative categorisations, such as age brackets.

A few countries suggested that there is limited awareness and interest in DIA, partly as a result of a perceived lack of transparency. In some cases, the lack of awareness and interest extends to policy makers at the national government level (e.g. Ministries). Challenges include communication barriers and overlapping competencies across ministries.

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