Annual Report 2014 - The state of the Nation

Summary read by Istat's President, Antonio Golini, in the Sala della Regina, Palazzo Montecitorio, Rome, on Wednesday 28 May 2014

Madam President of the Chamber of Deputies, Representatives of the Government,
Authorities, Ladies and Gentlemen,

Please allow me a brief introduction. After the President of the time, Enrico Giovannini, was appointed as Minister last year, Istat was left without a President. To manage this emergency, I was appointed as president *pro tempore* of the Institute with a Decree of the President of the Council of Ministers dated 13 June 2013, until the process of appointment of the new President was completed. The duration of my appointment was not specified, but it was meant to be brief. However, a year has already gone by since then. A long lapse of time that now gives me the privilege to present this important annual Report on our country's social and economic trends in an international perspective. Despite the uncertainty of the duration around my appointment – and, for related reasons, also around some top management positions within the Institute – Istat has continued to produce and disseminate statistical and cognitive analyses at the service of the Country and of the European Union with the same commitment and quality that have always set this Institute apart, with great sense of responsibility and, in many cases, the sacrifices of its managers and all the personnel, whom I thank wholeheartedly. The same sense of responsibility and sacrifice that have allowed me – at the end of my long career in statistics and demographics – to carry out an activity that I hope will be considered fruitful, if anything for my total commitment to the institution.

Istat serves the country, its citizens, and institutions by supporting democratic debate with reliable information. We believe that good governance, now more than ever, requires tough yet forward-looking decisions at all managerial levels. However, statistics is not just about supporting public decisions; it is a "public asset" as it produces information that is a resource for the entire society.

The "absolute" truth remains unknown – and this principle is the cornerstone of statistics – but rigorous statistical data produced with advanced, transparent, and documented methods, which meet the requirements of national regulations and are shared on an international scale, require a highly responsible attitude by public institutional players in acknowledging the requirement of maximum documentable objectivity of an official statistical datum. Otherwise, credibility is at risk, not only for the data, but also for the institutional players, who doubt the quality of the data regardless of the methodological framework based on transparency and documentation.

The national and international macroeconomic scenario in 2013

In 2013, global economic growth has remained weak and below pre-crisis levels. According to the International Monetary Fund, global GDP has grown by 3.0% with a slight slowdown compared to the 3.2% in 2012.

The economic cycle was quite different for advanced economies and emerging market economies. The former have recorded a progressive improvement, thanks to the positive trends in the United States and in Japan. The economic activity has been picking up after six quarters of contraction even in the EMU, although with conflicting signals among the economies of the area. The cyclical strengthening of advanced economies was reflected in an increase in world trade in the second half of the year. During the same period, EMEs have recorded a slowdown, which was at the base of the reduction in the prices of raw materials.

A gradual pickup in global growth should be expected by the end of the year. Indicators suggest that economic activity should continue to pick up in early 2014 in both advanced and emerging market economies.

Economic dynamics are affected by international geopolitical processes, turmoil, conflicts, and serious social crises, some of which – namely those that affect the Mediterranean region and Africa – have (and will continue to have) an impact on Italy or even tragic consequences, such as the number of deaths in the Mediterranean.

In 2013, Italy's GDP contracted by 1.9%, bringing the economic activity back to a level slightly below that of 2000. The real GDP per capita level was the same as in 1996. This downward trend has slowed down during the course of the year, and some timid signs of recovery were seen during the fourth quarter of 2013. That was when the GDP grew compared to the previous quarter by 0.1%, thereby interrupting a negative series of nine consecutive quarters, which had dragged the Italian economy into its longest post-war recession. However, this positive trend did not continue and Italy's GDP contracted again by 0.1% during the first quarter of this year. All this is part of a scenario of moderate growth in EU Member States (0.2%) with the exception of Germany (0.8%).

During the past few years, Italy's macroeconomic scenario has been characterised by a strong contraction in consumption and investments (-2.2% and -4.7% in 2013, respectively); on the other hand, the net foreign demand has given significant results, although insufficient to offset weak domestic demand. The year 2013 was marked by some new elements. The slowdown in international demand, in particular from emerging countries, has contributed to cooling the prices of energy and industrial commodities. These trends, together with the appreciation of the exchange rate of the euro, have led to a strong deflationary impulse, which adds up to an already weak demand; on the other hand, they have contributed to a significant trade surplus.

In 2013, Italy's inflation rate decreased significantly. On yearly basis, the growth rate of the national consumer price index for the entire community has more than halved, from 3.0% in 2012 to 1.2%. This inflation rate slowdown continued during the first few months of 2014. A low inflation rate, on the other hand, can protect consumers' purchasing power and help competitiveness of enterprises; on the other, it does not help the correction of budgetary imbalances, implying higher real interest rates. The disinflation process started a little later compared to other EMU countries, but was more pronounced. The inflation differential between Italy and the EMU, which, on average, was equal to 0.8% in 2012, quickly decreased during the course of 2013, resulting in a 0.1% decrease on an annual average basis. If we consider the trend alone (excluding energy and unprocessed food), the drop in the inflation rate during 2013 was slower and essentially in line with the average of EMU countries. Therefore, at this stage, a deflation risk remains an extreme scenario.

Last year, Italy's trade surplus increased to € 30.4 billion (almost 85 billion excluding energy). A considerable improvement compared to 2012. The strong surplus in 2013 stemmed from mainly cyclical factors (low energy prices) and import contraction (-5.5%) due to the persistent weakness of domestic demand rather than to the substantial stability of exports (-0.1%). Moreover, on average in 2012-13, the degree of penetration of imports of goods and services (ratio between the value of imports and that of domestic demand) was essentially higher compared to the previous decade. Therefore, an acceleration of exports, backed by enterprises that are increasingly competitive on the international markets, is essential for the net foreign demand to support GDP growth.

Another distinctive feature of the crisis we are going through is the high uncertainty and the difficult access to credit, as proved by the trend in consumer and enterprise confidence. This difficulty affects enterprises' production and investment choices as well as household consumption behaviour.

An analysis carried out with Istat's macroeconomic forecasting model shows that uncertainty and scarce liquidity have enhanced the fall of private investment expenditure. In particular, this political and economic uncertainty has hit new technologies (ICT), whereas the availability of liquidity has affected all types of capital goods, especially in the short term. The lack of ICT expenditure acceleration is partly responsible for the stagnation of Italian productivity growth and is one of the obstacles to the recovery to pre-crisis levels.

From the second half of 2012, the intensity and duration of the contraction in spending power seem to have pushed families to cautious consumption behaviour, which could also incorporate a downward correction of their long-term income assessment. The behaviour analysis of types of families, grouped together based on socio-economic features, confirms how the fall in consumption expenditure reported in 2012 was affected not only by protracted recession, but also by the presence of incompressible expenditure needs (e.g. presence of children and of financial burdens) and by uncertainty in the labour market. These factors have generated a consumption correction even for medium-income households, whose expenditure levels had remained unchanged during the first stage of the crisis, thanks to the decumulation of savings.

According to the labour force survey, in 2013, employment has decreased by 478 thousand units, with a 2.1% decrease compared to 2012, which was even higher than that occurred during the worst period of the crisis (-380 thousand units in 2009). The situation is even worse in the South (-4.6 on annual average). In terms of labour volume (measured by National Accounts Annual Work Units – Awu), contraction was almost the same (-450 thousand units, -1.9%). Data show that the decrease was particularly consistent during the first part of the year (-0.7 and -0.6% seasonally-adjusted short-term changes in the first two quarters of the year), and has continued at a lower pace in the second (-0.3% in both quarters), thanks to a favourable trend in industry and construction compared to services.

Recent developments and outlook for Italian economy

During the first few months of 2014, the confidence of consumers and of the manufacturing industry have led to a considerable improvement, returning to the levels of July 2011. The confidence of the retail segment has also improved, whereas uncertainty has kept prevailing in the construction industry.

Indicators of industrial activity show signs of moderate growth. The lack of growth of the general index of industrial production in January (+1.0% compared to the previous quarter, in seasonally-adjusted terms) was followed by a decline both in February and in March (0.4 and 0.5%, respectively), which was mainly caused by the decrease in the energy sector (mainly due to weather conditions). During the last month, there has been a 0.5% decrease compared to the previous month, but a 0.8% increase on a quarterly basis.

With respect to the last quarter of 2013, the industrial turnover has continued to increase. On average, in the last three months, the overall index increased by 0.5% compared to the previous three months and even domestic turnover started to grow again.

On the other hand, during the first quarter of 2014, the retail sales index fell by 0.3% compared to the previous quarter (seasonally-adjusted data). During the first quarter of the year, exports have grown moderately (+0.3%) compared to the previous one. This was mainly due to the growth in exports to the EU market (+1.0%) and to the contraction of those to the areas outside the EU (-0.5%). Excluding energy, exports have grown by 1.0%.

The first signs of employment recovery were seen in March. After the stagnation in January and the fall in February, employment has started to grow again in March by approximately 73 thousand units compared to February (on a seasonally-adjusted basis).

This evolution is consistent with a scenario for a moderate growth of the economic activity both in 2014 and in the next two years, as outlined in the macroeconomic forecasts recently issued by Istat. This growth would be mainly due to the domestic demand net of inventories, backed by the pickup in household consumption expenditure. This was possible thanks to an increase in the nominal disposable income above consumer price inflation, which would allow consumer purchasing power to pick up for the first time since 2007 on the one hand and, on the other, to the recovery of accumulation rates due to the expectations for economic recovery assuming a gradual relaxation in the conditions of access to credit. The net foreign demand would support growth in the three-year forecast to a lesser extent than in the recent past.

Public finances

The recent crisis has caused a significant deterioration in public finances in all EU countries. At the end of 2008, following the onset of this economic and financial crisis, EU authorities had granted the possibility to implement an expansionary fiscal policy on a national scale – provided the return within the limits of European Treaties within a short period of time – in order to strengthen the confidence in the sustainability of public finances. However, this orientation was interrupted in 2009 with the launch of an excessive deficit procedure against 17 Member States, including Italy.

In 2011, this consolidation action became particularly strict following the onset of the sovereign debt crisis in Greece and the subsequent contamination that generated tensions in the government securities markets of countries with a higher public debt (in Italy, the spread compared to German bonds reached 550 basis points in November). An effective change in the orientation of the European Central Bank in 2012 helped ease these tensions.

The existence of different "fiscal spaces" – especially with reference to the initial levels of public debt – and the implementation of different fiscal policies – during both the fiscal expansion and consolidation phase – has led to heterogeneous responses among EU Member States.

Unlike most of the other Member States, between 2007 and 2012, Italy implemented only contractionary measures and, in 2013, it had the highest primary surplus of any other country in the EU, equal to more than 2% of GDP. Therefore, our country stands out for having implemented such fiscal consolidation efforts despite one of the EU's worst recessions.

The size of the fiscal measures implemented in Italy since 2010 has been remarkable (equal to -15 billion in 2011, -75 billion in 2012, and -92 billion in 2013); however the effect on the improvement of public finances was partially limited by the worsening macroeconomic conditions, which in particular, have slowed down revenue growth following the worsening of tax bases, such as consumption, income, and employment. Expenditure dynamics proved to be less sensitive to the economic cycle than revenue, with trends that are consistent with the public finance policy objectives and a higher decrease than expected. Between 2010 and 2013, expenditure held rather steadily (+0.8 in nominal terms), despite the increased interest rates mainly following a reduction in staff expenditure (-7.9 billion), gross fixed capital formation (-6.2 billion), and intermediate consumption (-3.3 billion).

In 2013, Italy's debt-to-GDP ratio was still quite high (132.6%). The breakdown of debt dynamics shows how low economic growth and a sharp increase in interest expenditure have been the main reasons of this increase in Italy's debt-to-GDP ratio between 2007 and 2012. According to the European Commission's long-term debt sustainability indicators, the public finance consolidation action implemented in Italy during the years of the crisis has led to a significant reduction in risks regarding future debt sustainability due to the considerable improvement of the initial budgetary position and pension reforms. The main element of risk for public debt sustainability in Italy is the low GDP growth, which highlights the necessity of suitable structural policies that promote long-term economic growth.

The production system

A prolonged stagnation of productivity (which started in the 2000s) and the consequences of the two crises in 2008-2009 and 2011-2013 are among the main reasons behind Italy's lack of economic growth. Productivity marks the dynamic scenario of our economy, involving contextual factors, structural elements, and strategies of our business system to different extents.

With reference to exogenous factors, the structural reforms implemented in the past few years have improved Italy's position with respect to almost every indicator taken into consideration by international bodies; however, there is a persistent difference compared to its main partners as far as general positioning and individual contextual factors are concerned. For example, according to the World Bank, starting up a business in Italy requires an amount of time that is similar to that of its main European partners, but costs three times as much in terms of minimum capital and procedure costs. According to the World Bank, the times and costs of civil justice still penalise Italian businesses. Settling a dispute takes longer (1,185 days, twice the EU average) and is more expensive than in the main partner countries of the Union.

All this adds up to the structural features of our production system, such as the high number of microenterprises (95% of approximately 4.4 million businesses) and the smaller size (3.9 employees per enterprise compared to 6.6 in the EU), which reflect in their limited technological trajectory. In fact, Italy invests 1.25% of the GDP (data referring to 2011) in Research and Development (R&D), a value well below the EU average (2.1%) and distant from the 1.53% objective established by the Europe 2020 strategy. However, an analysis of the composition of R&D expenditure shows some clear strengths. Italy is Europe's largest investor in the textile industry and the second largest (behind Germany) in the mechanical engineering industry.

New integrated statistical sources have allowed the analysis of various critical aspects of enterprise competitiveness and of the production system growth potential. A map of the efficiency of Italian enterprisesshows that efficiency – intended as the ability to provide a suitable level of added value given the allocation of factors of production – is a crucial element that affects the competitiveness of Italian production units on international markets and the possibility to exploit the fragmented recovery signals from the domestic market with positive effects on employment. The results of this analysis show how the trend between sector technology and size rewards SMEs more than LEs. Microenterprises (with less than 10 employees), which account for just under half the overall number of employees, express production conditions characterised by structural efficiency problems.

Data referring to approximately 800 thousand enterprises and services with employees (representing approximately 60% of the employees in the production system) confirm enterprises' difficulties between 2011 and 2013. Jobs decreased by 6.7% during the entire period, especially in 2013 (4.9%). The decline in employment has affected businesses in industry and market services. The worsening employment situation of 2013 mainly stems from the increased negative impact of declining businesses rather than the reduced expansionary impact of growing ones. Between 2012 and 2013, the positive contribution of enterprises that increase employment was slightly lower (from +5% to +4.3%); however, job destruction by declining businesses was much higher (from 6.8 to 9.3%) with the expulsion of over 588 thousand units during the first year and approximately 795 thousand, the second. The job destruction rate is higher than the job creation rate in every Italian province, with a higher spread in the South.

Efficiency has played a primary role – together with enterprises' behaviour, organisational and strategic features – in the determination of a more or less positive occupational performance between 2011 and 2013. In particular, almost 3 enterprises out of 10 have shown strong signs of employment growth between 2011 and 2013 (at least +8.0%). These top performers are international players, who build relations with other enterprises, are prone to organisational and process innovation, invest in human resources, and (more importantly) use factors of production efficiently.

The internationalisation of enterprises plays a crucial role in Italy's economic growth. Enterprise efficiency analyses show how, on average, exporters are more efficient in all sectors than purely domestic firms. Moreover, the significance of the optimal use of factors of production for the purposes of sales abroad seems to be clearer in smaller enterprises. As various analyses carried out by Istat have shown, these aspects are particularly important because, especially in the past few years, characterised by a widening gap between foreign and domestic demand, the overall performance of Italian enterprises has depended largely on their ability to seize the opportunities offered by the import demand from other countries. In fact, international export has held steadily (2.99% during the first nine months of 2013).

Over the years, the weight of direct sales to the European Union has gradually decreased (from 59.7 to 53.7% between 2008 and 2013, approximately 11 billion in absolute value terms), tilting towards emerging countries, in particular East Asia (from 6% to 8.3% during the same period) and Central and South America (from 3.3 to 3.7%). The presence of Italian exporters in emerging Asian countries has gradually increased, especially after 2009, involving an increasing number of markets. Nevertheless, the contribution of medium and large exporters to the overall export value is above 50% in all destination countries, which proves the need to reach significant economies of scale in order to penetrate distant markets more effectively, although some Asian markets are partially tilting towards small enterprises.

Compared to other major EU countries, Italy – consistent with the structural features of its production system – has mainly contributed to export with SMEs (18.3 and 28.6%, respectively).

Italian exporters differ from those of other EU countries not only in terms of size, but also for the limited role of commercial intermediation, which explains the 40% of imports and only 14% of exports activated by the business system. In a country as Italy, where SMEs account for over 50% of exports, the enhancement of commercial intermediation would boost the competitiveness of Italy's production system in international markets, especially new, distant, and complex markets.

An increasingly significant part of trade is activated by resident enterprises that belong to multinational groups (Italian or international). In the manufacturing industry, over 42% of exports is accounted for by Italian multinationals and one quarter by foreign-controlled resident enterprises.

Istat has recently obtained evidence that allow the correlation between production in Italy and production in Italian multinational branches abroad, which in 2011 were just under 22 thousand with approximately 1.7 million employees. Results seem to show how relocation plays a role in boosting exports of enterprises operating in highly export-oriented industries (electrical equipment, automotive, and machinery). In many traditional sectors of the Italian industry, a significant number of products manufactured abroad is re-exported to Italy. Being mainly final goods, not only the stimulus to domestic production is absent, but there is even a risk of competition with similar domestic productions.

Italy's ability to attract foreign investments is still limited. In 2011, there were approximately 13,500 foreign-controlled enterprises in Italy with almost 1.2 million employees. These enterprises explain the 13.4% of added value of the production system, a lower percentage compared to France, Germany, and Spain. An estimate on the significance (on a regional scale) of foreign multinationals in Italy shows a gap in the presence of foreign multinationals in southern regions, especially in the tertiary sector.

According to an *ad hoc* survey on the demand for labour in enterprises, in 2013, approximately two thirds of large and medium manufacturing companies and over 50% of small ones have declared to have hired young people (less than 30 years old). In the tertiary sector, 63% of small, 77% of medium, and 51.7% of large enterprises have hired young people. Given the current situation, 71% of manufacturing companies and over 76% of tertiary businesses indicate the reduction of the tax wedge borne by the employer as a possible solution that could increase the number of employed people, followed by the reduction of administrative burdens and bureaucracy (60.5% in the manufacturing industry and over 66% in the tertiary sector), reduction of dismissal constraints (52.6 and 49.8%), and more hiring incentives (43.8 and 52.1%).

The labour market in the years of the crisis: dynamics and differences

In Italy, employment growth during the years of the crisis has been dramatic and has enhanced the generational and territorial imbalances that characterise the labour market. Between 2008 and 2013, employment has decreased by 984 thousand units, men in the vast majority of cases (-973 thousand), whereas in 2013, the employment rate has reached 55.6% (almost 3 points less than 2008). Almost half of the overall decrease occurred in the past year. Unemployment is particularly severe in the South, where the employment rate started to decrease earlier compared to the North and has kept going down during the entire period. The phenomenon has increased over the past year. Between 2008 and 2013, the number of employed people in the South decreased by 583 thousand units (-9.0%) and the employment rate has gone down to 42.0% vs 64.2% in the northern regions.

During this same period, the number of unemployed people has doubled reaching 3 million 113 thousand units (1 million 421 thousand more than 2008), whereas the unemployment rate has reached 12.2% (5.4 percentage points more compared to 2008). This increase has hit the South in particular (+7.7 percentage points since 2008), where the indicators reach 19.7%, among the highest in Europe after Greece and Spain. Long-term unemployment and the potential labour force (i.e. people who would like to work but are not actively looking for a job or people who are looking for a job but are not immediately available) have grown, reaching 3 million and 205 thousand people, 417 thousand units more since the beginning of the crisis. There are significant territorial disparities. The lack of labour market participation in the South is almost three times that in the North of Italy (36.6 and 13.2, respectively).

Standard and atypical work have both decreased as the duration of employment contracts (in 2013, just over half of atypical workers had a contract for less than a year). One fifth of atypical workers has been precarious for at least five years, with a higher incidence among collaborators and those who work in general services of the public administration and in education. Atypical work continues to be widespread among young people aged between 15 and 34 years, among whom, one employed person out of four has a temporary or a collaboration contract, with the percentage rising up to 31.7% among university graduates. However, atypical work is not a prerogative of very young people, as one third of these workers is aged between 35 and 49 years.

Partially standard work (i.e. permanent part-time work) is the only type of work that keeps growing, with 572 thousand units more than 2008. Companies have been using part-time work as a strategy to deal with the crisis; in fact, this form of work has increased on an involuntary basis, with an incidence of up to 71.5% among men and 58.1% among women in 2013.

Layoffs have been used also extensively since the beginning of the crisis. According to Inps, the Italian Social Security Institute, over one billion hours of layoff were authorised in 2013, with a slight decrease compared to 2012 (-1.4%). More than half of the beneficiaries are aged between 35 and 49 years (54.3%, 2.7 percentage points more than 2012) and six out of ten laid off workers are parents. However, there has been an increase in the number of laid off workers that have returned to employment between 2012 and 2013 (from 35.3% to 41.6%).

Men have been severely hit by the crisis in every area of the country. The male employment rate has gone down to 64.8% in 2013, 5.5 percentage points less than 2008.The sharp decline in male employment is mainly due to the fall in employment in the manufacturing and construction industries, which together account for approximately 89% of the total decrease in employment between 2008 and 2013.In the South, the tertiary sector has declined over these five years (-5.0%); over the past year, it has become more widespread, with 191 thousand fewer employed people mainly concentrated in general services of the public administration and in trade.

Young people are those who are paying the highest price, with increasingly slimmer chances to find or even keep a job. Between 2008 and 2013, employment among people aged between 15 and 34 years has decreased by 1 million 803 thousand units, whereas unemployment and potential labour force have increased by 639 thousand and 141 thousand units, respectively. The employment rate among people aged between 15 and 34 years has decreased by 10.2 percentage points amounting to 40.2%, whereas the percentage of unemployment has almost doubled (12.0% in 2013); the percentage of students (from 27.9 to 30.7%) and of potential labour force (from 6.8 to 8.3%) have also increased. There are also significant gender differences. The employment rate dropped to 34.7% among women and 45.5% among men. The number of young people who are not studying and are not working keeps growing (2.4 million among people aged between 15 and 29 years). This increase is mainly concentrated among the unemployed and those would be available to work.

The transition between school/university and work is particularly critical in Italy. In 2013, only 48.3% of people aged between 20 and 34 who had completed their studies no more than three years earlier (high school or university graduates) were working, against the average 75.4% average in EU-28 countries. This gap is not as wide if we consider newly graduates only, 56.9% of which find a job within three years (against 80.7% in EU-28 countries).

Overeducation, i.e. workers taking low-skill jobs that are clearly below their qualifications, has increased during the crisis. Although Italy is among the EU countries with the lowest percentage of university graduates (16.3% of the population between 25 and 64 years of age against the average 28.4% in EU-28 countries), the incidence of overeducated workers is one of the highest, involving more than 4.8 million workers (22.0%). Overeducation is more common among women (25.3% against 21.2% of men), among people aged between 15 and 34 years (34.2%) and foreigners (40.9%).

The employment rate among people aged between 35 and 49 years has also decreased by 3.9 points (dropping to 72.2%), whereas it has grown among people aged between 50 and 64 years, reaching 52.6% (5.3 points more compared to 2008, 1 million 70 thousand more employed people), especially due to the rise in retirement age. There is an ongoing polarisation process in the segment of people over fifty years of age. Those in this age group who remain outside of the production process faces considerable difficulty in re-entering, with serious consequences in terms of meeting the requirements for pension access.In fact, both the number of unemployed (261 thousand more) and potential labour force (172 thousand) are growing.

The occupational situation of foreign-born citizens is also worsening. Despite an increase in the number of employed people between 2008 and 2013, the employment rate of foreign-born citizens shows a negative trend in every year of the crisis, especially among men, whose employment rate has dropped down to 67.9% (14 points less).The decrease in women's employment rate was smaller (-3.4 points), reaching 49.3%.This better performance is mainly due to the fact that foreign-born women are predominantly employed in the family services sector which has witnessed an increase in employment.

Women continue to experience scarce participation in the labour market. The share of employed women is 46.6%, 12.2 points lower than the average in EU-28 countries.The fact that female employment has held quite steadily is the result of a set of factors: the contribution of foreign-born employed women, who have increased by 359 thousand units between 2008 and 2013, whereas Italian women have decreased by 370 thousand units; the increase in women who enter the labour market in the South to compensate their partners' unemployment and, finally, the increase in employed women aged 50 years and up due to the rise in retirement age.

The employment rate of women aged between 15 and 49 years has decreased for all women, whether single, single parents, or mothers in couples. Moreover, the quality of female labour is worsening. Involuntary part-time work is increasing, as are unskilled occupations and executive professions in trade and services, whereas skilled professions are decreasing. Moreover, there is a higher level of employment precariousness and serious difficulty for uneducated women, especially in the South. Regional disparities are even more pronounced taking women with children into account. In the South, employed mothers are 35.3%, just over half of those in the Centre-North.The already difficult balance between work and private life for women is also worsening, given that there are still too many women who are forced to exit the labour market when they have children. In fact, the percentage of mothers not working two years after giving birth has grown (22.3% in 2012 compared to 18.4 in 2005), especially in the South, where it reaches 29.8%.The percentage of new mothers who have a job but find it difficult to balance work and private life has also grown by 4 percentage points, reaching 42.7%.Taking both unemployed mothers and potential labour force into account, one and a half million mothers aged between 15 and 49 years would want to have a job.

The socio-economic status of families

The crisis has also caused a decrease in householder employment protection, a specific feature of the Italian labour market. In fact, the number of families without employed and retired members has increased: 2.1 million in 2013, 48.9% more compared to the 1.4 million in 2008. More than half of these families live in the South. The conditions of families with foreign-born householders is also worrying. In 2013, the number of foreign-born families without retired members and without labour income has trebled in terms of absolute values compared to 2008, going from 98 to 311 thousand (14.9% of the total number of families under the same conditions).

The number of households without employed members supported only by a labour pension is also increasing (approximately 995 thousand in 2013). In Italy, 3 million 86 thousand families fall within these two types of households, i.e. 16.3% of the total number of those with at least one member of working age.

Some families move in together to cope with the crisis, thereby creating economies of scale. In fact, the number of people living in households containing more than one family has increased (438 thousand units more compared to 2006-2007, 1 million 567 thousand individuals in 2012-2013). The number of pensioners who live with employed people, especially if on low pensions, has increased as that of pensioners who live in households with people looking for a job and no employed members, more than in the past, when on high pensions. Pensioners are contributing more to the household income whilst labour income is contributing less. Pensioners are frequently an economic resource within households with members who have lost their jobs, also because pensions are among the very few forms of income that have maintained their purchasing power during the course of the crisis.

Income inequalities also have increased. In 2011, the richest 20% had an income 5.6 times higher than the poorest 20%. This value was the highest in the past few years and remains above the European average even in 2012 (5.5% vs 5.0%).

The risk of poverty – already higher than the EU average during the pre-crisis years – has reached its highest value in 2010, holding steadily over the following two years, with values close to 19.5% of families. This situation has hit, in addition to the Centre-North, families with children under 18, single-income and working class families, self-employed, and people looking for a job. This increase goes hand in hand with severe material deprivation, from 6.9% of the total number of families in 2010 to 14.5% in 2012; however, there has been an improvement in 2013, decreasing to 12.5%.

Social transfers are a significant part of disposable income, especially among the poor. In 2012, almost 38% of households have received social transfers, almost 12% of the disposable household income. Without these social transfers, the risk of poverty would be five percentage points higher (24.4% against 19.4%). However, social transfers have little impact on the structural component of poverty. Persistent poverty reaches 13.1%, a much higher value than the EU average (9.7%) and social transfers reduce persistent poverty only by 4 percentage points. The households that are most exposed to the risk of permanent poverty are in the South, live in a rented house, have children under 18, unemployed members or whose main income earner has low professional and educational skills.

Population ageing and growing difficulties of informal networks

Severe recession leads to focus public attention on the country's economic emergencies; however, from a demographic point of view, social emergencies are no less important and require interventions that can no longer be postponed. In 2012, life expectancy at birth has reached 79.6 years for men and 84.4 years for women (2.1 and 1.3 years higher than the European average in 2012, respectively). On the other hand, Italy remains characterised by very low fertility levels, on average 1.42 children born per woman in 2012 (against 1.58 in EU-28 countries). These figures make Italy a country with one of the highest ageing index in the world. As of 1 January 2013, there are 151.4 people aged 65 years and up for every 100 youngsters under 15. These data represent the "demographic debt" that threatens future generations, especially in terms of social security, health expenditure, and assistance. Demographic forecasts clearly show how the age structure of the population will change in the next 30 years. This ageing process will escalate even more in the South where, between 2011 and 2041, the ratio between people over 65 for every 100 youngsters under 15 will be more than doubled (from 123 to 278). During the same period, in the Centre-North, the ageing index will increase from 159 to 242. Italy will have to face the challenges of globalisation and financial crises with a strongly unbalanced age structure in terms of ratio between active and inactive population. This trend can only aggravate the ageing process unless social policies that can deeply change individual and household behaviour are implemented.

These dynamics can undermine the welfare system, which is traditionally based on the contribution of informal care networks and, in particular, of women who assist the most fragile members. The informal care network has entered a structural crisis for quite some time. The considerable increase in the share of the elderly population – and especially of the very elderly – determines the growth of those who need care and assistance together with the children of working mothers. On the other hand, the presence of women in the labour market has also grown, thereby increasing the overload of social care work against insufficient work-life balance policies. These complex transformations have made it particularly difficult for women– the pillars of the care network – to bear the workload, which affects increasingly longer stages of life and the consequent cuts to the hours dedicated to care.

Population ageing also has consequences on the prevalence of severe chronic diseases, which affects over half of the population aged over 75 years. In general, it is not the health conditions that have worsened, rather it is the population exposed to the risk of getting ill that has increased. The prevalence of chronic diseases has increased even more in the South, where, excluding the effects of the age structure, the share of chronically ill people amounts to 16.1% against the 14.2% in the North of the country.

Disability – intended as the condition related to a set of life activities that are restricted due to functional limitations – has also increased due to population ageing. In 2012, the share of elderly people aged 75 years and up with functional limitations was equal to 39.8% for women and 23.8% for men. These problems expose the elderly to the risk of social exclusion if policies do not intervene with appropriate care and assistance strategies to allow them to continue to be independent and participate actively in social life. Informal networks – which have always been very active to this regard – are encountering an increasing number of difficulties.

This evidence hints at the increased pressure on the National Health System that lies ahead, due to the rising number of people requiring care and assistance. Projecting the risk of suffering from at least one severe chronic disease on the population age structure forecast for the next twenty years, the prevalence of chronically ill people is expected to be over 20% in 2024 and over 22% in 2034. Currently, the share is 15%.

There continues to be social inequalities in health. In 2012, 30.2% (28.6% in 2005) of people aged 65 and up with scarce or insufficient economic resources declared to be ill or very ill against 14.8% of those who declared optimal or sufficient resources (16.5% in 2005). The elderly of the South continue to be the most vulnerable.

The criticalities of the welfare system

Italy is seventh among the 28 EU countries for the share of GDP allocated to social protection (29.7% of the GDP in 2011). In 2012, the three main items of social expenditure (social security, health, and assistance) show a limited growth of social security and a clear slowdown for health and assistance. Despite some important reforms have introduced a share of expenditure allocated to pensions, the share intended for social security remains the highest, whereas increasingly scarce resources are allocated to the protection against other major social risks. Italy is in the bottom half of the EU rankings for household resource allocations (only 4.8% of the social protection expenditure), income support policies for the unemployed, policies aimed at training for reintegration into the labour market, and policies to combat poverty and social exclusion (0.3% of the social protection expenditure).

Over the years, the Italian National Healthcare System (SSN) has had to maintain a difficult balance between spending constraints and effective actions. The public healthcare system has improved its accountability considerably, as demonstrated by the reduction of the debt accumulated over the years. Moreover, the steady increase in survival and substantial stability of the incidence of severe chronic diseases demonstrate that the assistance and care provided by the SSN have given satisfactory results, despite the heavy cuts. There are still issues regarding equality, for which indicators show persistent gender, social, and regional inequalities as far as health and access to care are concerned. It is important to draw the attention to the consequences of these cuts in public health expenditure and the difficulty of households to meet healthcare needs with their own resources. Care renunciation is an important indicator. In 2012, the share of citizens who renounced health care amounted to 11.1%, mostly women (13.2% against 9.0% of men). On a regional scale, the highest share is in the South (14.8%).

Municipalities play an essential role in the management of social services and interventions to support families in their needs to raise their children, assist the elderly and disabled, and combat poverty and marginalisation. In 2011, Municipalities have allocated fewer resources to welfare at territorial level. In particular, this reduction has involved social expenditure allocated to elderly care, fight against poverty and hardship, and household income integration. There is still an uneven distribution of main family services, such as nurseries and assistance to the disabled and dependentelderly, despite interventions aiming at balancing territorial disparities funded by cohesion policy. The South continues to be the area with greater needs and fewer services. All this adds up to disparities regarding informal care networks. Again, the South has a less structured informal care network.

The Report analyses the growing contribution of non-profit organisations to social assistance and healthcare in contrast with the difficulties encountered in the public sector. Therefore, non-profit organisations could become a resource in these fields if certain criticalities and weaknesses can be overcome. These criticalities include, in particular, the uneven territorial distribution of services – with the South already penalised by informal networks and social services – and the fragmented nature of institutions, characterised by a large number of small units and a high concentration of revenues in few institutions (16% of the institutions accounts for 95% of the revenues). Moreover, institutions operating in healthcare and social assistance frequently depend on public funding. In a period of public expenditure contraction as this one, the survival of entities as non-profit organisations could be at risk without the implementation of suitable policies.

Fiscal policies and redistribution system

Against this backdrop of reduced public resources, policies aimed at improving the quality and efficiency of public expenditure (spending review) and of wealth redistribution regarding both families and businesses, become crucial.

The result of the current redistribution mechanism reduces disparities, but ends up favouring families that earn income from pensions and penalising families with medium income. The analyses presented in the Report suggest that the Italian redistribution system – which is based on the combination of social services, taxes, and social contributions – could be made more effective by correcting some of its structural aspects that influence the achievement of equality and fight against poverty. First of all, tax evasion and tax base erosion reduce the equality of the system for obvious reasons. Gross tax insufficiency (i.e. when one cannot wholly benefit from tax deductions because higher than the gross tax) and the individualistic nature of taxation are other important issues. In the former case, taxpayers with the lowest income, including those who belong to poor households, are partly or totally excluded from the benefits of deductions. On the other hand, given the same income, the individual nature of taxation implies a higher effective tax rate for single-income households compared to others.

A negative income tax could help combat poverty allowing pro-poor expenditure, taking household size and economies of scale into account. Istat's simulations of households carried out with the microsimulation model suggest that an intervention equal to 1% of the GDP (15.5 billion) would allow a considerable reduction in the poverty rate. Granting a cheque of equal amount to all adult individuals with insufficient personal income (regardless of their family status) would be much more expensive (approximately 90 billion) and would result in a high dispersion rate, with 61% of the amount allocated to individuals who live in non-poor households.

As for business income taxation, measures have been taken to support investments and employment during the crisis, both in Italy and in other advanced countries. In particular, the introduction of the Economic Growth Aid (the so-called "Ace") was an important step towards a more neutral taxation system with reference to business financing, thereby reducing the cost of the investments financed with equity and eliminating the associated tax wedge. The Economic Growth Aid should boost investments and, in particular, innovation expenditure, which is highly influenced by the availability of internal financing sources. Simulations of enterprises carried out with Istat's microsimulation model confirm the importance of this measure. The redefinition of the regional tax on productive activities (Irap) and of the corporate tax (Ires) over the years have also moved in this direction.

Conclusions

Italy needs to gain awareness of its strengths and weaknesses in order to embark on the path to recovery. This is why the analyses we have presented herein have focused on competitive capacity, social inequalities, and regional inequalities.

The economic and social situation is highly critical in the South, which is moving further away from the rest of the country and of Europe. This territorial dualism is becoming increasingly "structural" even from a demographic point of view and will have serious consequences on the country's development and sustainability prospects. The criticalities pointed out – which add up to historical delays – are slowing down Italy's path to the achievement of the goals of the Europe 2020 strategy. Italy's recovery must be an opportunity to deal with unresolved issues, which, together with recession, are the cause of the consolidation of the difficulties for a large part of the population. It is important to start discussing solutions and strategies for the South with clear goals in mind and to share them with the public opinion and the civil society. This change of pace would be the best way to undertake the nearing European challenge.

On 1 July 2014, in fact, Italy will take over the presidency of the European Union for the next six months. This is a very important event for statistics as well. The National Institute of Statistics will play an active role in international governance to continue to develop, produce, and disseminate high quality, reliable, and relevant statistics. Istat will have the opportunity to express a leadership to promote initiatives to support development as well as the implementation and monitoring of EU policies. We will undertake new challenges to continue the work to review the European Statistical Law, which focuses on enhancing the governance of the European statistical system, on a clear coordination of national institutes of statistics within national statistical systems and Eurostat, and on the commitment of Member States to ensure the credibility of official statistics. During the Italian presidency of the Union, Istat will be committed to identifying suitable consensus solutions and constructive cooperation measures with the European Commission and Parliament on relevant topics regarding the EU's economic governance, such as public finance statistics and the quality of statistics to assess macroeconomic inequalities.

Istat will be producing structural and economic statistics regarding economy, society, and the environment, meeting increasingly complex requirements. Over the past year, we have continued to innovate our statistical production processes and increase the information disseminated to support the decisions of institutions, economic operators, and citizens. We have been able to achieve these results also thanks to an ever increasing synergy and cohesion of the European network of national institutes of statistics and to the sharing of methodological tools and cutting-edge technology to collect, analyse, and disseminate the data in compliance with Stat2015, the statistical production modernisation programme we launched a few years ago. All these measures aim at expanding the wealth of information whilst ensuring the highest quality and efficiency and reducing the response burden. Moreover, the aim is to make information more and more accessible and navigable, thanks to interactive services and open data, in accordance with the strategic guidelines just implemented by the European statistical system.

I am sure that we all agree that Istat will continue to rely on suitable operating conditions to carry out our tasks and undertake the challenges of national and international regulatory innovations. The Institute, its territorial network and the National Statistical System (Sistan) play an important role in our country's processes of change. The creation of a national register of the resident population, transition to permanent census, measurement of fair and sustainable wellbeing, introduction of a new national accounts system (Sec 2010), development of forecasting models to analyse the effects of public policies are only a few examples.

The prompt publication of economic and other indicators, the territorial and sectoral detail of the data, international comparability, and our ability to analyse and communicate the results to a wider public are the result of the hard work of those operating in the System. As President of Istat and citizen of this country, I would like to thank them wholeheartedly.