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2022 ANNUAL REPORT
The state of the Nation

Summary
presented by Gian Carlo Blangiardo, President of Istat
Friday, 8th July 2022 in Rome - Palazzo Montecitorio

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Introduction

Mister President of the Chamber of Deputies and Authorities, good morning.

In its 30th Report, the Italian National Institute of Statistics - Istat intends to provide a snapshot of today's Italy, in the light of its recent history, highlighting the steps forward and the obstacles still to be tackled, emphasising the strong resilience and major vulnerabilities emerging with objective evidence from the most up-to-date statistical information.

After the pandemic shock, with an unprecedented fall in Gdp since World War II, there was a rapid and robust recovery. Improved health conditions also helped the country to gradually restore normality. Despite some faint signs of strain on the economy had already appeared in late 2021, the Russian invasion of Ukraine created major new obstacles. Many elements of uncertainty emerged both for businesses and those citizens who had hoped for a quick path to a better future.

Although Government measures were, as it already happened during the pandemic, timely and targeted, the overlapping of several factors jeopardised the recovery: from war prolongation, to rising inflation, to the effects of climate change, to the deepening of various forms of inequality, a heavy legacy of the past two years. A phenomenon that has existed for a long time and that, according to Istat data, is growing significantly despite government intervention.

In order to deepen knowledge of this and many other phenomena and realities of our time, official statistics provide objective information, a true public good. Autonomously and independently produced, it is the fundamental basis for understanding the country and its changes, as well as for designing the most appropriate policies to govern its development. Such information comes from the Censuses, recently modernised from various points of view, from sample surveys, from administrative records and acts, from big data, all sources that are being used in an increasingly integrated form.

In the last biennium, besides current production, the Institute conducted three broad surveys to monitor the condition of Italian enterprises, the starting point of which was the first Permanent Census of Enterprises carried out in 2019. Similarly, it carried out three specific surveys on citizens to study their reactions and behaviours, and the results of the Censuses of Population and Housing, Public Institutions, and Agriculture have been disseminated.

Istat is also contributing to the digital transition as the implementing party of a strategically important project under the National Recovery and Resilience Plan (PNRR): the creation of a National Data Catalogue. This initiative will facilitate the exchange, harmonisation and understanding of information among public administrations as part of the National Digital Data Platform. Istat will undertake the mapping of databases and information flows, documentation of data schemas, and distribution of the catalogue. It will also provide training and support services for Public Administrations on their path to digital transition.

Two years of the pandemic

Since February 2020, the SARS-CoV-2 pandemic and its aftermath have dominated the national and international scene. Just over two years after the onset of the health emergency, it is possible to make an accurate assessment of its consequences on the social and productive structure of our country.

With 16 million infections and more than 160,000 SARS-CoV-2-related deaths recorded between March 2020 and April 2022, Italy was, along with Spain, one of the most pandemic-affected countries in the Eu area, especially during its first phase. In comparison with the pre-pandemic five-year period 2015-2019, excess mortality was particularly high in 2020, especially among the elderly and frail population. As early as 2021, however, the launch of the vaccination campaign had a positive impact in counteracting the spread of the disease, and reducing associated mortality. During the most intense phases of the virus spread, mortality rates increased particularly amongst people with low levels of education and in more disadvantaged socio-economic situations, leading to an increase in mortality inequalities.

Excess mortality in 2020 caused our country to lose its pre-pandemic leading position in terms of low mortality rates in the Eu area, even though progressively recovering already in 2021, and even more so in 2022. The vaccination campaign launched in the European Union as of late December has progressively involved larger and larger segments of population, with a very positive impact on reducing COVID-19-related mortality. In April 2022, Italy, with 80.1 percent of first-dose vaccinated people, ranked third in the Eu after Portugal and Malta. According to Eurobarometer data, Italy emerged at the European level as the country with the highest compliance with Government health policies. Vaccines' usefulness in containing the spread of pandemic complications is indeed recognised in Italy by almost 9 out of 10 adults, and just as many consider them completely safe.

The impact on normal living

The health emergency changed the population's habits, significantly impacting various aspects of daily life: the organisation of the day, lifestyles, parental and friendship relationships, leisure time, and work. The upheavals in daily life resulting from the March-April 2020 lockdown have been cross-cutting and started fading in the months since. As early as 2021, clear signs of a return to pre-COVID daily life emerged, although some changes in lifestyles seemed to persist and may be set to last. The 24-hour day composition tends to “normalise”, with most people engaging in various activities for the same amount of time as in the pre-COVID period. The share of people leaving home on an average day increased, but we are still far from the percentages of the pre-COVID era. Still as of December 2021, one in three people spent less time outside the home and two in three went out less often than before.

The resumption of extra-domestic activities in the periods following the pandemic also favoured a return to previous habits in terms of family work, and the proportion of people who had managed to devote more time to housekeeping and meal preparation halved compared to April 2020.

Despite the resumption of in-person contact, the health emergency has produced profound and lasting changes in social relationships: still, during the fourth wave, only about one-third of the adult population claimed that nothing had changed in their relationships with family members or non-cohabiting friends, while more than half of the population declared to have reduced the frequency of meetings.

Book reading has been trending positively, although the book reader profile has not changed and continues to be quite modest, connoted by reading at most 3 books in a year.

Physical and sport practice has held up among the adult population, thanks to the possibility of performing activities even at home or in outdoor spaces in an unstructured way. In contrast, among younger people, aged 6-14, there has been a decrease in sports practiced on a continuous basis and an increase in sedentary activity.

A number of leisure activities continued to be cultivated during the pandemic in a virtual way: the use of digital devices continued to grow markedly, as it did the use of the Internet to download and/or read books, newspapers, magazines, play online or download games, watch streaming TV or video on demand.

Attendance of out-of-home events and performances, as well as all forms of cultural participation and pastimes that could not benefit from any form of virtualisation, experienced a real collapse between 2019 and 2021. In this area, Italy is starting only now and with some difficulty to restore normality.

The acceleration of demographic change

The pandemic significantly impacted on all components of a population dynamic that had already been in a recession since 2014. High excess mortality in 2020 was accompanied by the almost halving of marriages as a result of containment measures and the sharp contraction of migratory movements. Nuptiality showed signs of recovery in 2021 and, even more so, in early 2022, but still failed to return to 2019 levels. The decline in the wedding rate, which has not yet recovered, and the subsequent decrease in young spouses have reduced the number of potential parents. In a country where the birth rate is still predominantly depending on married couples, this suggests possible negative repercussions on births in the coming years as well. During 2020, negative effects on birth rates - at least those related to the pandemic - could only be observed in the last two months, in connection with the sharp drop in conceptions in March-April 2020. The fall in birth rates, however, continued more markedly through the first seven months of 2021, and then showed signs of slowing down toward the end of the year. Yet, the first provisional data for 2022 show a new sudden downward trend. In the first quarter of this year, there were indeed about ten thousand fewer births than in the same period of the pre-pandemic biennium 2019-2020. Meanwhile, in the Eu area, France and, above all, Germany recorded particularly significant birth rate increases in 2021, even compared to pre-pandemic trends, whereas Spain's trend was similar to the Italian one.

The widening gap between births and deaths – started about thirty years ago - along with the most recent contraction in the migration balance triggered, as early as 2014, a phase of population decline. Further accentuated by effects of the pandemic, this has been accompanied by deep changes in its age structure. As of 1st January 2022, according to first provisional data, Italy's resident population dropped to 58 million 983 thousand, that is 1 million 363 thousand fewer individuals over a period of 8 years. As of the same date, there were 188 people aged 65 and over for every 100 people under 15, *i.e.* 56 more than 20 years ago. In the coming decades, a further increase in the number of elderly over young people is expected, and the ratio, according to most recent estimates, will peak at 306 on 1st January 2059.

The gradual decrease in the population aged 15 to 49, due to fewer and fewer generations entering adult life as a result of denatality, has in turn a depressing effect on the flow of new births itself. It has indeed been estimated that, over the past decade, 60 percent of their decline was due to the decrease in the number of potential parents.

Over time, the evolution of birth rates is strongly influenced not only by the number of women in childbearing age and the intensity of their reproductive choices but also by the age at which such choices are made. It should be considered, in fact, that women residing in Italy continued to postpone their reproductive experience to increasingly higher ages: compared to 1995, the average age at childbirth increased by more than two years, reaching 32.2 years in 2020. Over the same period, the average mother's age at first birth grew even more markedly (more than three years), rising to 31.4 years. Compared with 2001, fertility rates increased among women aged 30 and older, while they continued to decline among the younger ones, thereby reflecting a progressive postponement of motherhood that appears to have become even more pronounced in 2021. The result was a drop in births among women under 30. This decrease, which was already significant between 2001 and 2011, doubled in the following decade and was only partly offset by the increase in births to mothers aged 30 and over.

In 2021, the average fertility rate of women residing in Italy was 1.25 children, unchanged with respect to 2001, but in a completely different context. In the early 2000s, indeed, the trend observed indicated a recovery in fertility after the all-time low of 1.19 children per woman recorded in 1995. Now we are on a downward trend. The decrease is mainly affecting the number of children born in households with both parents of Italian citizenship. Children of foreign couples did increase, but only until 2012, when a phase of steady decline began for them as well, and is still ongoing. In the years 2020 and 2021, the number of foreign births fell below 60,000, marking a return to the levels of fifteen years ago, when, however, foreign residents were half the current number.

Denatality has affected birth rates for all birth orders. Firstborns in 2020 showed a 28.1 percent decrease compared to 2011, which was higher than that recorded for second-born or next-order births. In the same time span, the decrease in firstborns reached 40 percent when considering births to married couples, which are also declining in number due to the simultaneous drop in nuptiality. In general, it should also be emphasised how the increase in out-of-wedlock births is continuing and strengthening: they now account for almost 40 percent of the total for all birth orders, while they were only 10 percent in 2001.

The variety of family forms

Deep changes have occurred in family forms over the past 20 years. The number of households has increased - estimated at 25.6 million in 2020-2021 - and the average household size has decreased, from 2.6 to 2.3, due to the strong growth of single-person households. Couples with children and no other adult have decreased by more than 11 percentage points in 20 years.

If at the beginning of the new millennium, the nuclear family formed by a couple with children was still the most common, though no longer the majority household form, today it is being overtaken by the single-person family. In other words, we are witnessing a polarisation: on the one hand, there are people who, for different reasons, live a phase of their lives alone and, on the other hand, the classic nuclear family of a couple with children and no other adult.

In 2020-2021, couples in Italy totalled 13.9 millions, nearly half a million fewer than twenty years ago, with a change in the relative weight of the various types of couples. First-marriage couples are decreasing, while free unions and remarried couples, in which at least one partner comes from a previous marriage, are increasing.

Couples have also transformed within themselves. Those in which partners have the same level of education are in the majority, but sharply declining. The number of couples with different levels of education, by contrast, is growing, especially those where women are more educated than men, whereas the opposite was true at the beginning of the millennium. The increase in couples in which the woman is more educated than the man represents a far-reaching change that affected all types of couples and all areas of the country and may also affect family responsibility sharing. While on the education side, changes within the couple have been very pronounced, the same has not been true on the labour side. Couples in which both partners work and women are aged up to 64 do not account for half of the total. Their number rises whereby women are aged 45-54. Conversely, the situation has remained more or less the same over the last 20 years for couples where the woman is younger, not older than 44.

Unmarried couples, reconstructed families, non-widowed singles, and non-widowed single parents are all growing family types: over the course of two decades they have almost doubled their percentage weight to 36.7 percent of households, while they were almost 20 percent at the beginning of the millennium.

According to the most recent forecasts, however, the number of households within a population that continues its declining and ageing trend is set to increase further. It is expected to reach 26.2 million in 2040, but with the average number of members still declining, from 2.3 to 2.1. Should these trends continue, between 2021 and 2040, couples with children would decline by one-fifth, while those without children would continue to increase. And if the situation continued beyond 2040, childless couples could numerically overtake those with children within the next five years. In 2040, moreover, nearly 4 out of 10 households would consist of single people, mostly aged ones.

The tendency to delay all crucial stages of life paths emerges in the formation and development paths of family units, starting with the exit of young people from the family of origin. Italy has long been among the European countries where the postponement of transition to adulthood is most pronounced. The share of 18-34-year-olds living with at least one parent, indeed, is around 70 percent, well above the European average of 50 percent.

Foreign immigration between settling and humanitarian emergency

The pandemic has also had a major impact on migration flows and the living conditions of the immigrant population, further worsening previous conditions of major vulnerability in health, employment and economic terms. The onset of the health emergency coincided with a new phase of immigration in our country, characterised by the gradual integration and settlement of a large part of the population already present in the territory and, at the same time, by the accentuation of some humanitarian emergencies that accompany mobility flows.

As of 1st January 2022, the foreign population in Italy was 5 million 194 thousand. In four years, it increased by less than 200 thousand units. This slowdown was underpinned by both the reduction of incoming migration flows and the longtime lack of those regularisation measures that in the past had led to peaks in the registration of migrants. In order to fully understand the real dynamics of migration over the past few years, however, another aspect must be considered that has become relevant in our country, as it already did in other countries with a longer history of immigration: the acquisition of citizenship. Between 2011 and 2020, more than 1.25 million people obtained Italian citizenship, and it can be estimated that as of 1st January 2021, new citizens by acquisition of citizenship residing in Italy amounted to about 1.6 million. The population with migration background (foreigners and Italians by acquisition of citizenship), has continued to grow, although not at the same pace as in the past, reaching nearly 6.8 million residents as of 1st January 2021.

In 2021, households with at least one foreigner are estimated to be 2.4 millions, 9.5 percent of total households: nearly three out of four have all foreign members, and just over one in four is mixed, that is, with foreign and Italian members. Over half of the households with at least one foreign member live in the North, about a quarter in the Centre and the remaining part in the South.

This is the third phase in our country's immigration history: the first period, in the 1970s and 1980s, was characterised by moderate levels of immigration; the second one, in the following two decades, by an unexpected and extraordinary growth. The third phase was marked by the economic crisis and humanitarian emergencies: during this period, flows of newcomers seeking international protection added to a foreign presence now firmly rooted in the territory and increasing following family reunions.

Integration processes are, of course, individual paths, and the different communities present in Italy have always followed different patterns of integration.

Specificities partially depend on the different degree of maturity reached by the presence on the territory: some nationalities have been present in Italy since the 1980s, others arrived after the fall of the Berlin Wall, and others only during the migration waves following the refugee crisis of recent years. These people arrived at different historical and economic moments and have had more or less time to establish migration networks in the territory. Moreover, the immigrants' integration path in our country does no longer involve individuals alone, but more often includes entire families, especially in certain territories.

Immigration has been recently characterised by an unprecedented contraction in labour flows, substantial stability in family reunification entries, and a sudden increase in arrivals of people seeking international protection, caused by political crises and wars in various parts of the world: the situation in Ukraine is but the latest tragic example.

As of 1st January 2021, there were 236,000 Ukrainians in our country, a significant community that ranks fifth in the country in terms of number of residents. In many cases they are a long-standing presence, first arriving in Italy at the turn of the century under the regularisation provided by the Bossi-Fini Law. At that time, almost 107,000 Ukrainians applied for regularisation. The stabilisation of the Ukrainian presence, which resulted in a significant number of new citizens (about 30 thousand), was not accompanied by a rebalancing of gender ratios: women still account for almost 80 percent of the total. Although most refugees from Ukraine are heading to other countries, the community which settled in Italy before the outbreak of the conflict has become a point of reference for friends and family members fleeing the war.

According to data from the Ministry of the Interior, as updated on June 11, 2022, 132,129 people fleeing the conflict in Ukraine have arrived in Italy since February: 69,493 are women, 20,181 are men, and 42,455 are minors. These figures are still growing.

The foreign population has a young structure. Very young people of foreign origin are growing in numbers and their presence becomes more and more articulated: there are young people born in Italy to foreign parents, *i.e.* the second generation in the strict sense, young people who arrived before the age of 18, children of mixed couples, etc. Some have foreign citizenship, others the Italian one from birth or by acquisition, normally by transmission from a parent who has in turn become Italian. Overall, about 1.3 million children are foreigners or Italian by the acquisition of citizenship and represent about 13 percent of the total under-18 resident population in Italy. The estimated number of immigrant students enrolled in Italian schools (including kindergartens) in the 2019/2020 school year exceeds 1 million.

Given the requirements set forth in the proposal to grant citizenship on the basis of *ius scholae*, currently under discussion in Parliament, the pool of eligible applicants can be estimated around 280,000 young people. Two-thirds of them reside in five regions in the Centre-North: Lombardia, Lazio, Emilia-Romagna, Veneto and Piemonte. One-fourth are young people of Romanian origin, followed by citizens of Albania, China and Morocco.

The school path is often more difficult for foreign students, including new citizens, who are thus more disadvantaged than natives with respect to school performance, repetition rates and dropouts. Nevertheless, important signs of integration come from the self-assessment of language skills, which are known to be a key element in the integration and sense of belonging of the immigrant population, as well as one of the requirements for obtaining a long-term residence permit or Italian citizenship. Among entrants to secondary schools, about 3 out of 4 foreign students claim to speak and read Italian "very well". Many more think they understand it very well, while fewer claim to write it equally well. Significant differences emerge when considering the country of birth and age on arrival. Among second-generation immigrant students and those who arrived at preschool age, the perception of mastering the Italian language very well is much more widespread. Conversely, the shares drop by more than 30 percentage points among those who arrived as early as 11 and over. For all activities, girls highlight better skills than boys. When asked "What language do you think in?" more than three-quarters of foreign national pupils answered that they think in Italian.

Foreign and Italian young people share a common way of looking at the future. Just under half of them are fascinated by it, with minimal differences between Italians and foreigners. The share of those who are afraid of it, however, is not insignificant; they are about a third of the total and again with no significant differences between Italians and foreigners. Gender differences are also on the same scale: girls, both among Italians and foreigners, are more afraid of the future than boys. This is an unease that should not be underestimated, linked to a general climate of high uncertainty that makes it more difficult to look forward with optimism. Young Italians and foreigners also share the same concerns, despite understandable differences. The environment is the focus of both and the concern of the majority. Among foreigners, moreover, one in two say they are very concerned about hunger and poverty and slightly less about wars. Their parents' history of suffering clearly accounts for the differences with their Italian peers.

Young Italians and foreigners share the dream of living their future in a country other than Italy, although foreigners more than Italians and girls more than boys. The most desired countries are the same: the United States, the United Kingdom and Germany.

The needs of the elderly with severe autonomy problems

The profound demographic and social transformations taking place in the country also affect the elderly population, outlining new potentials in health conditions and quality of life, but also new needs. As of early 2022, residents aged 65 and over - conventionally referred to as "the elderly" - amounted to over 14 million, about 3 million more than 20 years ago; by 2042 they will be nearly 19 million. The great elderly, aged 80 and over, exceeded 4.5 million, and the population aged 100 and over reached 20,000, nearly four times more than in the past 20 years. In the following two decades, people aged 80 and over will increase by nearly 2 million, while those aged 100 and over will triple.

European and internationally shared indicators investigating the level of autonomy in performing the basic activities of daily living (ADLs), as well as the instrumental ones (IADLs), highlight the great heterogeneity in the levels of autonomy of elderly people. Among the "young elderly" (aged 65-74), seven out of ten are fully independent, while after the age of 85 that share drops to 13 percent. In absolute terms, about 6.4 million people are unable to lead a fully independent life, having moderate or severe difficulties in personal care activities or home life. 3.8 million individuals have a severe reduction in independence. They are mostly women, with an average age of 82. People with moderate or severe difficulties express the need for assistance, but one-third of them does not feel adequately helped, and this figure is higher in the South and Islands. The household confirms its key role in providing care, mostly exclusively to the elderly with loss of autonomy. Nevertheless, the above-mentioned household transformations raise doubts as to whether an increasingly weakened system of family networks can cope with a demand for welfare that, given the speed and intensity of the ageing process, is expected to grow steadily.

The uncertain economic outlook

The COVID-19 pandemic triggered a profound, yet time-circumscribed economic crisis. The recovery of the world economy began as early as the second half of 2020, and continued until the beginning of this year, albeit with different intensity and pace among major countries and geo-economic areas. World trade in goods and services by volume grew last year by over 10 percent, far exceeding 2019 levels, yet losing dynamism in early 2022.

In all major geo-economic areas, the expansive tone of economic policies in support of consumption and investment has continued to be accompanied by a marked recovery in household and, above all, business confidence, which in the European Union, despite geopolitical tensions and accelerating inflation, has remained at historically high values.

Net foreign demand provided a small or even negative contribution, but in almost all countries it masked a strong dynamism of both exports and imports, which offset each other. The war triggered in late February 2022 by Russia's aggression against Ukraine heightened volatility in the markets and sparked further rises in energy and food prices. These negative factors, together with the normalisation of monetary policy announced in many countries (and in some cases already underway), have led to a sharp deterioration in the short- and medium-term international economic outlook.

Italy's macroeconomic picture as of mid-2022 remains moderately positive, despite the uncertainty and downside risks prevailing in the international scenario. In less than two years, between mid-2020 and the beginning of this year, the Italian economy fully recovered from the exceptional fall in Gdp associated with the COVID-19 pandemic. In 2021, thanks to strong dynamism in the middle part of the year, the economy grew, more than the Euro area average, by 6.6 percent, after having suffered a larger fall in 2020. In the first half of 2022 with the worsening of the international picture, growth weakened greatly in our country as in the European Union as a whole.

In the first quarter of 2022, cyclical growth of GDP in Italy came close to zero (+0.1 percent) supported by investment spending, still very dynamic, and on the supply side by construction, driven by tax breaks, and the recovery of professional activities and business support services. Industrial and trade activities, on the other hand, have stalled, as well as consumptions. Despite this slowdown, calendar-adjusted acquired growth for this year is 2.6 percent, higher than in France and Germany (1.9 and 1.3 percent, respectively), though lower than in Spain (3.4 percent). Despite the deceleration of economic activity, in the first quarter of this year GDP recovered the level of the fourth quarter of 2019, when economic activity in our country was in slight contraction compared to previous quarters.

As for net foreign demand, the trend in foreign trade since 2021 has been positive in both volume and, above all, in value, far exceeding pre-crisis levels. However, since the second half of last year, the rise in commodity prices, and especially energy prices, has led to a rapid decline in trade balances that have turned negative. In particular, in the first four months of 2022, exports of goods grew by 20.7 percent, while imports increased by more than 40 percent compared with the same period in 2021.

After the exceptional growth in deficit and debt in 2020, which added up to the effects of the fiscal imbalance and the GDP fall, the public finance picture marked a substantial improvement in 2021. Although the deficit still remained at 7.2 percent of GDP, the strong rebound in activity allowed the debt-to-GDP ratio to fall by 4.5 percentage points, to 150.8 percent, a larger decline than projected in the planning documents.

The high level of debt makes Italy particularly vulnerable to rises in interest rates on government bonds and turmoil in international financial markets, which has already become evident in the most recent months. Despite the European Central Bank's support in containing bond issuance costs and lengthening the average life of the debt stock, the current exposure suggests avoiding major fiscal deviations from the recovery path outlined in the policy documents although this line is made more difficult by the need to limit the income and price effects of energy cost increases.

The inflation flare-up

Increases in commodity prices - particularly energy prices - that began during 2021 have resulted in an unprecedented boost in production costs and an inflationary flare-up similar in intensity to that of the early 1980s. According to preliminary inflation estimates for June, trend growth in the harmonised consumer price index is 8.5 percent in Italy, and 8.6 percent in the Emu.

The Russian invasion of Ukraine last February caused new cost increases, while also heightening geopolitical uncertainty and that over the stability of energy supplies. These elements, as well as constraints in global supply chains and the gradual normalisation of economic policies, which were extremely expansive during the health emergency over the past six months have repeatedly led to downward revisions of the growth outlook for this year and next, and for all geo-economic areas.

The sharp acceleration in inflation has so far been highly concentrated in the sectors most directly linked to the growth in commodity prices but is gradually spreading through the economy. As of June, the acquired inflation rate for 2022, as measured by the consumer price index for the whole nation (NIC), was 6.4 percent, and cost pressures could probably fuel the process further, even if tensions on international quotations were to ease.

In particular, oil and natural gas prices in early 2022 stood at 1.6 and 6.8 times the average level of 2019, respectively. Those of agricultural commodities have also risen sharply: the price of wheat has almost doubled compared to the pre-pandemic period, and the price of fertilisers is 3.1 times higher. Over the same period, compared to the average in 2019, electricity prices have increased by over 80 percent, gas by nearly 54 percent, and food items currently cost 9 percent more.

Italy has a level of dependence on foreign supplies of energy products that is higher than its main European partners, equal to about three-quarters of its demand. Even the agri-food sector, which alone accounts for about 10 percent of exports, relies on foreign production inputs for more than one-fifth.

In this context, the marked rise in the prices of energy and agricultural commodities brought about an increase in production prices, which from the directly affected sectors spread to the rest of the production system, and ultimately affected consumer inflation.

In addition to the dynamics of commodity prices, geopolitical tensions are also affecting the stability of energy and agricultural supply chains. As a result, it cannot be ruled out that a supply shock could add to the price shock, thus heightening the risk of a disruption in recovery.

Due to the characteristics of sectors, which are relevant in the most upstream stages of supply chains, the impact of shocks to prices and supplies of energy and agricultural commodities results in large transmission effects, most directly affecting about one-third of the production system in terms of value added. Overall, as a result of the shock to energy and agricultural commodity prices, producer prices would rise by 8.4 percent, while the 10 percent reduction in supplies of the same products would produce a -1.2 percent drop in value added. In particular, the shocks would significantly affect sectors that are relevant in terms of their impact both on prices and supplies of consumer goods and services, and on exports, such as energy, food and beverages, transportation, hotels and restaurants, textile-clothing products, and nonmetallic mineral processing. In 2021, the consumer price index exceeded contractual wages by more than one percentage point, thus eroding gains of a similar amount made in 2020. Negotiating activity has been intensifying over the past year. Nevertheless, even in early 2022, wages continued to grow very moderately. In the second half of the year, however, they are expected to recover in the light of the ongoing renewals, whose benchmark will be the growth rate of the consumer price index net of energy products IPCA-NEI, which Istat estimated in early June at +4.7 percent for 2022. In the absence of further upward or downward changes, price growth for 2022 would be +6.4 percent; on the wage side, in the absence of renewals or adjustment mechanisms, this would result in a major decline in real contractual wages, which in late 2022 would return below 2009 values.

Differential impact on production sectors

Recovery has not been uniform among different economic sectors. In industry -and particularly in constructions, boosted by tax incentives - activity is largely above pre-crisis levels, and has been very dynamic even in comparison with other major European economies. In services, on the other hand, the situation is highly diversified due to the impact of infection containment measures that, until a few months ago, limited some activities. In particular, in the aggregate of recreational services and services to the person, the level of value added in real terms in the first quarter of 2022 was still more than 10 percentage points lower than at the end of 2019.

Most recent qualitative indicators offer an overall positive picture. In industry, trade, logistics, ICT and tourism services, business confidence and order expectations remain at very high levels. In the aggregate of business services and other services, however, the confidence index was uncertain in the first few months of the year, marking a sharp rise only in June.

Particularly critical is the situation in the agricultural sector, whose value added has declined in both 2020 and 2021. Italian agriculture is undergoing a transformation. In 38 years, 2 out of 3 farms in the sector have disappeared, and at the same time their average size has more than doubled.

The negative effects on the sector from the health crisis and the war shock have been compounded in 2022 by the climate emergency. Indeed, this year is characterised by a drought that, in terms of magnitude, can already be classified as the third major event in a decade. It should also be pointed out that from the postwar period to the 1980s, similar phenomena had never occurred. Although individual and collective behaviours can mitigate ongoing climate change, similar events should be expected to recur in the coming years, with adverse consequences particularly for agriculture and drinking water availability. Northern regions, particularly the Po River basin, are being especially affected by the shortage of water resources. This is also partly due to aqueduct losses, which in provincial capitals reach 36.2 percent of the water fed into the network. The National Recovery and Resilience Plan (PNRR) has earmarked 4.38 billion to ensure sustainable management of the water resources cycle while avoiding waste, and to improve the environmental quality of marine and inland waters. A key investment to start the most urgent interventions. A broader plan of action however is needed, as agriculture absorbs about half of the country's water use.

Recovery of employment

Italy ranks among the Eu countries where the reduction in employment between 2019 and 2020 was most pronounced. This further widened the gap between our country and the Eu average on all major labour market indicators.

After the first months of 2021, the situation has gradually improved. Employment growth, although less marked than in other major European economies, has almost fully recovered to pre-crisis levels in terms of number of employed people. The employment rate, as of March 2022, recorded the highest value since the time series was available (January 2004). In the following months, while employment dynamics slightly decreased, the employment rate nevertheless remained close to the record highs of the previous months. The recovery affected all categories of employment, although it was led by temporary employment, which had been most intensely affected by the pandemic-related recession. At the same time, unemployment and inactivity have declined, with the activity rate going back to pre-pandemic levels in March 2022.

One of the distinctive features of the impact of the pandemic on the Italian labour market in 2020 was the particularly high cost paid by female employment: such a phenomenon seems not to have been registered in other major Eu countries, such as France and Germany.

The recessive effects of the health emergency have particularly affected young people, mainly due to the increased vulnerability of the types of jobs held by most of them. This phenomenon, observed in many European countries, has led to a fall in the number of employed people below 25 almost three times as much as the Eu average compared to 25-54 year olds, with Italy and Spain recording the most pronounced losses. However, the remarkable progress observed in 2021 and early 2022 allowed Italy to recover and exceed pre-pandemic employment levels among 25-34 year olds.

Employment by education level confirms, also for the pandemic two-year period 2020-2021, the protective role usually played by human capital accumulation in reducing the risk of job loss and facilitating job search in the subsequent recovery phases. This is particularly true in our country where, in 2020, the reduction in the employment rate for university graduates was less than half compared with those completing upper-secondary school. The employment benefits of higher education look particularly strong among women. In 2021, the employment rate of women with a university degree was more than 20 percentage points (10 points for men) higher than that of upper secondary school graduates.

Recovery in employment greatly benefited the youths, who had been particularly hard hit. It was faster for women who had lost the most and in the South and islands, where the employment rate, although very low, returned above 46 percent for the first time since 2007.

However, it should be pointed out that the labour market in Italy continues to be profoundly unequal. Young people aged 25-34 have not yet recovered the employment rate of 2007, 50 percent of women are not in work and are still at the bottom of the European ranking, and there is still a large gap in employment rates between the South and islands and the North.

Inequalities in employment patterns

Standard employment, traditionally defined as full-time permanent dependent employment together with full-time self-employed persons with employees, is declining. In 2021, these types of employment involved 6 out of 10 workers. Self-employment, accounting for one-fifth of total employment, decreased due to the decline in entrepreneurs, own-account workers (farmers, artisans, and tradespeople), helpers, and collaborators. Temporary employment is on the rise, especially with short-term contracts. Almost half of the temporary employees are in employment for 6 months or less. Over the years, part-time employment has also increased, accounting for almost one-fifth of total employment in 2021, and in most cases it is involuntary. It is precisely this form of part-time that has shown the most consistent growth.

In 2021, nearly 5 million employed persons, one-fifth of the total, were non-standard, *i.e.* temporary employees, collaborators, or involuntary part-timers. Among them, more than 800,000 were both on fixed-term contracts and involuntary part-time, thus cumulating both forms of vulnerabilities. They mostly consist of young people, under 34, foreigners, women, low-educated workers, and residents in the South. A strong concentration of non-standard workers was observed in the housing and catering and agriculture sectors, household services, collective and personal services, and education. Such workers belonged to 4.3 million households, and in 1.9 million of them, the non-standard worker was the only one employed.

The growth of non-standard employment is also linked to the gradual spread of hybrid modes of work. These include the "dependent self-employed" *i.e.* those employed who, while formally self-employed, are bound by subordinate relationships with another economic unit that limits their market access or organisational autonomy. They number nearly 500,000, accounting for 35 percent of non-standard workers.

Agency and intermittent employment are also contract types characterised by an important non-standard component; the former more than doubled between 2012 and 2021 - standing at 390,000 (monthly average) - while the latter, in 2021, stood at 214,000, with an average work intensity of 11 days per month. Finally, mention should also be made of workers employed through digital platforms, estimated at around 50,000 individuals. The most debated issue in relation to this worker category is the lack of protection, especially when the platform formally manages self-employed workers, and yet determines their organisation and working conditions, including working hours.

Wage inequality

The spread of non-standard forms of work has contributed to deteriorate the overall quality of employment, also resulting in lower average wage levels. The combination of low hourly wages and employment contracts of short duration and intensity results in sharply reduced annual wage levels.

Approximately 4 million employees in the private sector (excluding agriculture and domestic work) are low-paid, *i.e.* they receive a gross annual nominal wage of less than Euro 12,000. About 1.3 million employees receive a low hourly wage of less than Euro 8.41. For 1 million employees the two elements of vulnerability add up.

Almost one-third of employees are thus low-paid (hourly or annually). Moreover, due to reduced work intensity or continuity a majority of them are unable to earn adequate annual wages, even though they earn more than Euro 8.41 per hour. Low hourly wages, as well as non-standard employment, are also more prevalent among young people, women, foreigners (especially if non-Eu), low-educated people and residents in the South and islands. While in many cases they prevail among young people still living in the family of origin, it is not uncommon to find them among parents, either single or in couples. Most of them are employed in other services (*e.g.* associations, personal service activities, repair of personal and household goods), in business support services and entertainment, in accommodation and catering, and in private education. Age differentials, education levels, career progression, sector effects and, in any case, the position of individuals in their working life cycle do play a role in determining the gap. Low-paid individuals are predominantly employed in enterprises with poorer pay conditions, where low hourly wages are combined with temporary or part-time contracts. These are 700,000 enterprises accounting for approximately 27 percent of jobs. Besides, there are 420,000 enterprises, representing almost one-third of all jobs, which are characterised by the coexistence of standard jobs, prevailing on the whole, and part-time or temporary ones.

Enterprises with the best remuneration policies are also those where full-time, permanent jobs clearly prevail: this number is small overall (less than 60,000), although it is large enough to account for around one-sixth of jobs. Hourly wages average more than Euro 15. When moving away from these wage levels, low hourly wages are associated with the use of part-time and temporary employment relationships.

High level of absolute poverty

Patterns of participation or non-participation in the labour market are among the most significant determinants of poverty status and differ according to life cycle stages. They include insufficient income from work, due to precarious employment and low professional profiles; lack of or occasional participation in the labour market, which prevents younger people from starting an independent life and makes it necessary to resort to subsidies of various kinds or to maintenance by persons outside the household; insufficient pension due to the absence of previous employment or the result of discontinuous work history in sectors that are poorly paid and often characterised by a high incidence of irregular work.

Over the past decade, absolute poverty has progressively increased and, in 2020-2021, has reached the highest value since 2005, affecting more than 5.5 million people. Similarly, the profile of households in absolute poverty has progressively changed. The incidence decreased among elderly singles, remained broadly stable among elderly couples, and increased significantly among couples with children, single-parent households, and other types of households.

The phenomenon has also progressively affected an increasing number of employed households, although its incidence is among the highest when the reference person is seeking work. Over the years, the stratification of poverty by geographic area, age, and citizenship has been confirmed and broadened: in 2021, one Italian in twenty in the Centre-North, more than one Italian in ten in the South, one foreigner in three in the Centre-North, and 40% in the South and Islands, were living in conditions of absolute poverty. Poverty among minors and young people has also greatly increased.

Economic support measures provided in 2020, in particular the citizenship and the emergency income measures, allowed 1 million individuals to escape absolute poverty. The effect was greater for the South and Islands, for households headed by an unemployed person, for foreign households, for couples with children, and for single-parent households. Those same measures provided for a decrease in the poverty intensity of some of those who remained in poverty. Without subsidies, poverty intensity would have been as much as 10 percentage points higher. The most significant effect was observed for households headed by job seekers. In the absence of subsidies, their incidence would have exceeded 30 percent (11.1 percentage points higher than that estimated in the presence of subsidies).

The inflationary surge that characterised the second half of 2021 and the first five months of 2022 is likely to increase inequality, both through the decrease in purchasing power, which is particularly pronounced among households with severe budget constraints and through the delay in contract renewals, which is longer in low-wage sectors.

In March, the year-on-year change in prices for budget-constrained households was 9.4 percent, 2.6 percentage points higher than the inflation measured in the same month for the population as a whole. Moreover, the price rise that has affected these households has badly hit essential goods and services, whose consumption can hardly be reduced; in addition to foodstuffs, in fact, most of the energy expenditure of these households is on energy goods for domestic use (electricity, gas for cooking and heating).

Inequalities induced by distance learning

While investment in quality education and training is recognised as the most effective lever to reduce inequalities and build equitable societies, a warning sign comes from the evidence that the pandemic has contributed to reducing young people's skills and constraining their social development activities. The INVALSI (National Institute for the Evaluation of the Education and Training System) tests conducted in the 2020/2021 school year showed a generalised loss of skills in Italian and mathematics, which became more evident as the level of education increased. Among lower-secondary school students, the levels of proficiency achieved in 2021 in Italian were inadequate in 44 cases out of 100, and in mathematics in 51 cases out of 100, both up 9 percentage points over 2019. The situation was particularly serious in the South and Islands, especially in Calabria and Campania, and among foreign citizens.

The compulsory use of distance education and its integrated forms has caused difficulties for both schools and students and has generated further differences between geographical areas and school orders. According to school principals, only slightly more than 60 percent of secondary schools had a virtual environment/platform for sharing teaching materials even before the pandemic. Even where available, however, in 4 out of 10 cases only some of the teachers used it. It is a positive fact that almost 90 percent of the schools without such environments/platforms before the pandemic, did manage to activate them in the period March-June 2020, while a further 10 percent achieved this during the school year 2020/2021, albeit with many difficulties. The inadequacy of schools' Internet connection, the lack of suitable spaces, but also of adequate furniture and IT tools, insufficient ventilation of classrooms or sanitation and disinfection of premises were among the main ones.

Only eight out of ten secondary school students were able to attend classes with continuity from the start; between March and June 2020, more than 700,000 students attended classes only occasionally and 156,000 did not receive training, with inevitable negative consequences on their learning levels. Nevertheless, in the school year 2021/2022, only 1 percent of the students failed to take part in online lessons, without significant differences between school orders and geographical areas, compared to 8 percent in March-June 2020. Schools' efforts to provide IT devices to students who did not have them contributed to this result.

Focussing on children with disabilities, in the school environment, as in many other areas, they resulted to face greater obstacles because of the health emergency: the share of left-out students, which amounted to one-fourth in the 2019/2020 school year (compared to 8 percent for the student population as a whole), dropped to a much more modest 2 percent in the following school year, albeit double the figure for the student population as a whole. Almost 7,000 students with disabilities have been excluded from online lessons due to the severity of their disability, socio-economic hardship, family organisational problems, or lack of appropriate technological tools.

Despite the fact that schools, as well as other public and private social structures, have tried to support the most disadvantaged students by providing PCs and tablets, difficulties remained in the South and Islands, among foreigners and in particularly difficult socio-economic contexts.

However, it should be emphasised that Italy, also thanks to the actions taken in the last two years to tackle the health emergency - including the 'Connection voucher' introduced in 2020 to support less affluent households - has shown a marked increase in the spread and frequency of Internet use in the various spheres of daily life, thus reducing the gap with the rest of Europe.

Inequalities in the business world

The health crisis and the subsequent economic recovery phase had a differentiated impact not only on workers but also on enterprises. With regard to the latter, despite an overall picture of relative soundness, heterogeneous trends emerged within the system. The greatest difficulties in the recovery process were experienced by small businesses and in the services sectors, such as tourism and catering, or the leisure and personal services, which were most affected by the pandemic-related containment measures. In contrast, medium-sized and large companies and those active in sectors such as industry and ICT services have been less affected by the crisis and have benefited more from the recovery momentum.

Microeconomic data corroborate this difference. While in November 2020 almost one-third of the enterprises considered their business to be ‘at serious operational risk’ (*i.e.* they considered it possible to close down their business within a six-month period), one year later this share had already fallen to 3.4 percent. This incidence remains much higher for the activities mostly affected by the pandemic: at the end of 2021, more than one in ten companies in the recreational services aggregate (*e.g.* cinemas, theatres, discotheques, and sport clubs) said to be at risk. If a broader definition, including those who consider themselves at least ‘partially’ at risk, is taken into account, then about one in three enterprises in this sector and in the accommodation and catering sector turned out to be at risk.

Moreover, although public support measures mitigated the effects of the most acute phase of activity contraction, in November 2021 almost one-third of enterprises with 3-9 employees estimated their production capacity to be lower in early 2022 than in 2019, and only 6.5 percent said it would be higher. Conversely, in the same period, less than 15 percent of medium-sized and large companies (*i.e.* units with 50 employees and more) expected to lose production capacity, and more than 22 percent expected to increase it.

On the whole, since last year and until the first half of 2022, business confidence has continued to grow, reaching historically high levels. Again, a certain heterogeneity in the sectoral picture could be observed. In industry, trade, logistics, ICT services and tourism, business confidence and expectations on orders remained at very high levels, suggesting that the expansion in these sectors would continue. In the aggregate of business services and other services, the confidence index fluctuated in the first months of the year, picking up sharply only in June, with a more uncertain outlook.

Due to the circumstances surrounding the pandemic, this recessionary period has been characterised by the strong stimulus to the spread of digital technologies and investment in human capital. This resulted in the business system catching up with some structural delays and experimenting with new organisational models.

Again, however, this is not a universal phenomenon. Analyses conducted in the Report reveal that around 60 percent of enterprises (representing almost 80 percent of employees and 85 percent of value added) showed - to varying degrees - the ability to quickly adapt to changes and seize opportunities, with favourable results on the development of production capacity and solidity. Structural factors, primarily related to company size and sector of activity, obviously had an influence on this, but they are not the only elements. In this respect, data show that companies that were more dynamic even before the crisis were more likely to successfully cope with the criticalities imposed by the pandemic, supported by other favourable structural elements, such as the level of education of entrepreneurs and employees.

Report's findings underline how these elements were especially relevant for smaller enterprises and, among them, particularly for those led by women, young people and foreigners, who are more often found in those sectors which have been more exposed to the effects of the health crisis.

The challenge of reforming Public administration

The health crisis has brought to light long-standing criticalities in the country's system and has made it necessary to speed up some processes such as the green transition, but also the modernisation of Italy's public administration (PA): an important and particularly challenging objective of the National Recovery and Resilience Plan (PNRR).

A complex system of interventions is envisaged which, through new recruitment and human capital training initiatives, intends to achieve greater digitalisation of the PA, develop paths of simplification and profound innovation in organisational processes and civil service policies.

The tight reform plan implemented by the Government with regard to the acquisition and training of human resources represents an important potential for development. A modern PA, capable of responding to the needs of citizens and economic operators, also paves the way for the development of the country's productivity. The reform is taking place against a background of several obstacles, first and foremost the number and socio-demographic characteristics of civil servants. As a result of recruitment freeze policies and pension reforms, employment in the public sector has not only shrunk by about 200,000 units over the last 20 years, but has also experienced significant ageing. As of 2019, among the Eu countries for which comparable information is available, Italy had the lowest ratio of civil servants to population (5.6 percent inhabitants, compared to 5.8 in Germany) and, at the same time, was among those that had most reduced the number of staff working in the public administration. Moreover, the Italian public sector had the highest incidence of workers aged 55 and over and the lowest incidence of those aged under 35. The average age has in fact increased by over 6 years in the last decade to 49.9 years against 42.4 in the private sector. A highly aged personnel is usually less motivated to take on new and major challenges, even though it is a source of great experience and knowledge to understand how best to change organisational mechanisms and the approach to users. Overall, human capital in the civil service is relatively high, albeit with a high degree of heterogeneity between the different branches. 42.5 percent of civil servants have a university degree, showing a wide gap with the private sector, where the incidence is only 18 percent. However, the salary attractiveness of the public sector, in particular for qualified staff, could in some cases be a hindrance to the recruitment plan of highly qualified staff, which is envisaged by the modernisation.

In this context, the Strategic Plan for Human Capital Enhancement and Development in Public Administration envisages substantial investments over the next five years to upgrade the managerial, organisational and digital skills of civil servants. Preliminary results of the 2020 Permanent Census of Public Institutions show a high degree of heterogeneity by size and also as far as training is concerned.

Most of the training offer is focussed on the legal/regulatory and technical/specialist areas. It should be noted, however, that although the lack of IT skills is perceived as an obstacle to digitisation, training in this area accounted for only 5.3% of activities and 6.6% of participants. More generally, and with reference to the period 2017-2020, training activities decreased by 20 percent and participants by 8.8 percent, while hours increased by 14.5 percent. The decrease was accounted for by the emergency, which led to a decline in in-person activities and, in particular, the collapse of training activities in health care companies.

The pandemic has played an important role in speeding up the digitisation process, especially in the provision of e-government services and the spread of smart working. The speed and intensity of this process has varied between the different sectors of the public sector. Differences of up to 40 percentage points have been observed in the use of technologies, such as the cloud, or in IT security - now essential - between universities and large administrations, on the one hand, and smaller, especially regional ones, on the other. In this context, resistance to change - mainly for large entities - and constraints on financial resources - for smaller entities - are perceived as major obstacles to digitisation, in addition to training and skills deficits, reported by over two-thirds of the entities.

Citizens' access to digital services has experienced a dramatic increase: administrations that have adopted the Public Digital Identity System (SPID) tripled between 2019 and today, while individual users increased from 6 to 30 million between 2020 and 2022. At the end of the emergency phase, one in five public administrations, around seven in ten of the larger ones, considered introducing agile working on a structural basis. The results are encouraging, even if some critical issues still remain. Process efficiency was generally safeguarded and the impact on the quality of work was satisfactory; many administrations, however, highlighted the need for new digital skills and improved technological equipment.

Conclusions

Last year, I closed the presentation of the 29th Report by emphasising how Istat had to cope with the arduous task of drawing a picture of a country shaken by an unpredictable emergency. This emergency had affected lives, social relations and the economy in the context of a global crisis

This year's Report is presented in a context that has been profoundly changed by the pandemic crisis and further challenged by a dramatic event such as the war in Ukraine. The war, indeed, with all its economic and social consequences, risks weakening the country's economic recovery and accentuating the already high inequalities within it.

The many changes underway in collective behaviours and choices, however, suggest that the reduction of inequalities is a key factor for transforming the overcoming of crisis into a real opportunity for revitalisation and reconstruction. The high level of heterogeneity that has developed in the country on many fronts, makes it necessary to prioritise interventions aimed at the enterprises that have fallen behind in this two-year period in order to ensure the growth of the entire production system. It is also necessary to include interventions aimed at the most vulnerable, and adequate policies for developing employment among young people, women and in the South and Islands. If employment, particularly among women, does not grow, poverty will increase and the country will be condemned to a loss of productivity potential and additional growth. Failure to address the problem of elderly and disabled care may result in a serious deterioration of their conditions and quality of life. There is the awareness that family networks will no longer be able to guarantee the same number of care hours as in the past. The reason for this is that more and more people will need help and that even fewer women will be able to take care of them as intensively as in the past. If wage and contract inequalities in the labour market are not addressed, poverty will continue to grow even among the employed. It is necessary to restore confidence to those young people who are afraid of the future and offer adequate opportunities to those who imagine their future elsewhere. If we fail to decisively embark on the path of ecological transition to cope with climate change, which also plagues our country, no sustainable future will be possible.

Istat's 30th Annual Report shows a country system characterised by a high level of complexity. Such a reality requires a response strategy that is multidimensional and of variable geometry, supported by efficient and effective evaluation and monitoring tools.

The increase in inequalities calls for new measurement systems that take into account the peculiarities of the different social actors and the emerging forms of hardship. The Italian National Institute of Statistics is able to play the role of catalyst in this direction, providing knowledge and high professionalism to develop information systems and analyses for the whole country.

The National Recovery and Resilience Plan (PNRR) has launched great challenges: the digital and ecological transition, the major investment in infrastructure, in addition to the massive reform and modernisation of the PA. The country has proved to be united in its response to the pandemic, as well as in addressing the social and economic impact of the crisis. Even more so now. Everyone has played their part. This should continue in the future. Istat will play its part, committing itself to providing reliable and up-to-date statistics. It will keep pace with the need to know in order to be able to govern the great changes that await us: in the economy, society, the population, and the environment in which it is called upon to live and interact.