

## NON OBSERVED ECONOMY IN NATIONAL ACCOUNTS | YEARS 2014-2017

# Non-observed economy: +1.5% in 2017, but the weight on Gdp declined.

In 2017 **non-observed economy (NOE)** accounted for about EUR **211** billion, **12.1%** of GDP. The **underground economy** accounted for little less than EUR **192** billion and **illegal activities** for about **19** billion. The weight of NOE on GDP is slowly declining since the spike of 2014 (13.0%).

**Undeclared work** in 2017 was estimated at around **3.7** million of full-time equivalent units (FTEs), **25** thousand more to 2016.

## 211 bln

**The value of non-observed economy in 2017**

Underground economy and undeclared work account for EUR 176 billion.

## 12.1%

**The weight of NOE on GDP in 2017**

The highest rate in Other personal services activities (36.9%), in Wholesale and Retail trade, Transportation, Accommodation and Food service activities (24.0%) and in Construction (22.1%).

## +0.7%

**The growth of undeclared work**

Unregistered employees increased by 3.1% (+80 thou. units); undeclared self-employed decreased by 5.2% (-55 thou. units)

[www.istat.it](http://www.istat.it)

**UFFICIO STAMPA**  
tel. +39 06 4673.2243/4  
ufficiostampa@istat.it

**CENTRO DIFFUSIONE DATI**  
tel. +39 06 4673.3102



## Non-observed economy grows less than GDP

This report presents the estimate of the components of non – observed economy included in National Accounts. The methodologies for estimating underground economy have been reassessed on the occasion of the recent general revision of NA (<https://www.istat.it/it/archivio/233518>).

Non-observed economy (Noe) includes **underground** activities, **illegal** activities and other productive activities which are missed due to statistical reasons.

The main components of **underground economy** are under-reporting of value added and value added produced by undeclared work; in addition it includes off-the-book rents, tips and the results of the reconciliation procedure of independent estimates of supply and demand for goods and services; this integration is to be attributed, in an unidentifiable proportion, to purely statistical effects, or to an underground economy component not fully captured by means of the first two types of adjustments.

Based on the Eurostat recommendations and in line with the other EU member states, Istat produces estimates of the **illegal** economic flows generated by three main types of activity: trade of drugs, prostitution services and tobacco smuggling.

In 2017 NOE generated value added for about EUR 211 billion (compared to 207.7 bln. in 2016), with an increase of 1.5% to the previous year, a slower growth than total value added (+2.3%). Hence, the weight of NOE on GDP was slightly reduced from 12.2% in 2016 to 12.01% in 2017, confirming the downward trend that has been ongoing since the peak reached in 2014 (13%).

### Underground and illegal economy in Italy. Years 2014-2017

	2014		2015		2016		2017	
	EUR mln.	weight on GDP %	EUR mln.	weight on GDP %	EUR mln.	weight on GDP %	EUR mln.	weight on GDP %
Underground economy	195,558	12.0	191,145	11.5	189,619	11.2	191,955	11.1
<i>Under-reporting</i>	98,558	6.1	93,910	5.7	95,189	5.6	97,165	5.6
<i>Undeclared work</i>	80,894	5.0	79,729	4.8	78,492	4.6	78,750	4.5
<i>Other</i>	16,106	1.0	17,506	1.1	15,937	0.9	16,040	0.9
Illegal economy	16,464	1.0	17,233	1.0	18,078	1.1	18,896	1.1
<b>Non observed economy (total)</b>	212,022	13.0	208,379	12.6	207,696	12.2	210,852	12.1
<b>Value added</b>	1,462,745	-	1,488,049	-	1,522,917	-	1,557,833	-
<b>GDP</b>	1,627,406	-	1,655,355	-	1,695,590	-	1,736,602	-

## The weight of under-reporting slightly increased

The composition of NOE proves to be quite stable over time.

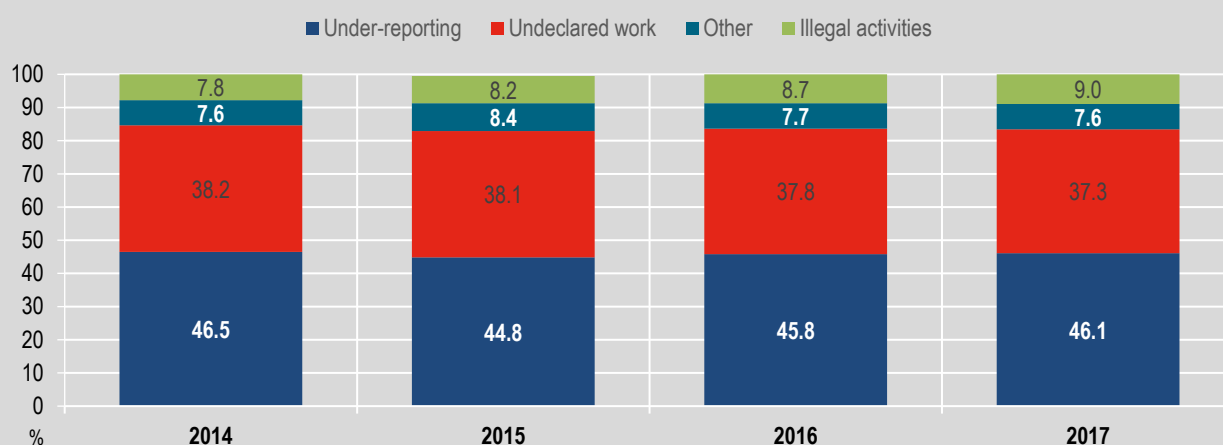
Under-reporting of value added proves to be the most relevant component: in 2017 it accounted for 46.1% over the total NOE, it increased by 0.3 percentage points to 2016.

Value added generated through undeclared work accounted for 37.3% over the total NOE (-0.5 percentage points than 2016).

Illegal activities instead have showed an increase since 2014: their weight in 2017 was 9.0%, an increase of 0.3 percentage points to the previous year.

**FIGURE 1. THE COMPONENTS OF NON-OBSERVED ECONOMY**

Years 2014- 2017, percentage composition



## Underground economy concentrates in service activities

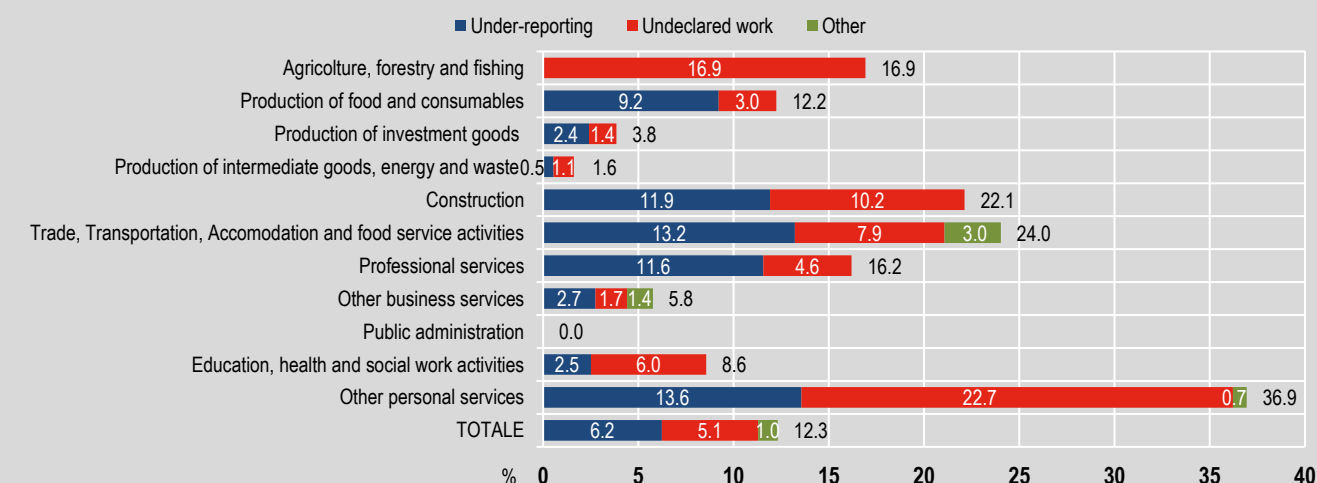
Total underground economy in 2017 accounted for about EUR 192 billion, 12.3% of the total value added: under-reporting accounted for EUR 97 billion, the use of undeclared work for 79 billion and the residual components for 16 billion.

Under-reporting of value added proved to play a relevant role in Trade, Transportation, Accommodation and food service activities, where it accounted for 13.2% over the total value added, as well as in Construction (11.9%) and in Professional services (11.6%). The phenomenon was less marked in the Production of food and consumables (9.2% of the total), in the Production of investment goods (2.4%), while it is negligible in Production of intermediate goods, energy and waste (0.5%).

The use of undeclared work is mainly relevant in Other personal services activities (22.7% over the total value added), where the Activities of households as employers of domestic personnel play a significant role.

In Agriculture, forestry and fishing underground economy is only related to undeclared work, that accounted for 16.9% over the total value added of the sector.

**FIGURE 2. WEIGHT OF THE COMPONENTS OF UNDERGROUD ECONOMY ON VALUE ADDED BY ECONOMIC ACTIVITY.** Year 2017, percentage values.



## Undeclared work grew in 2017

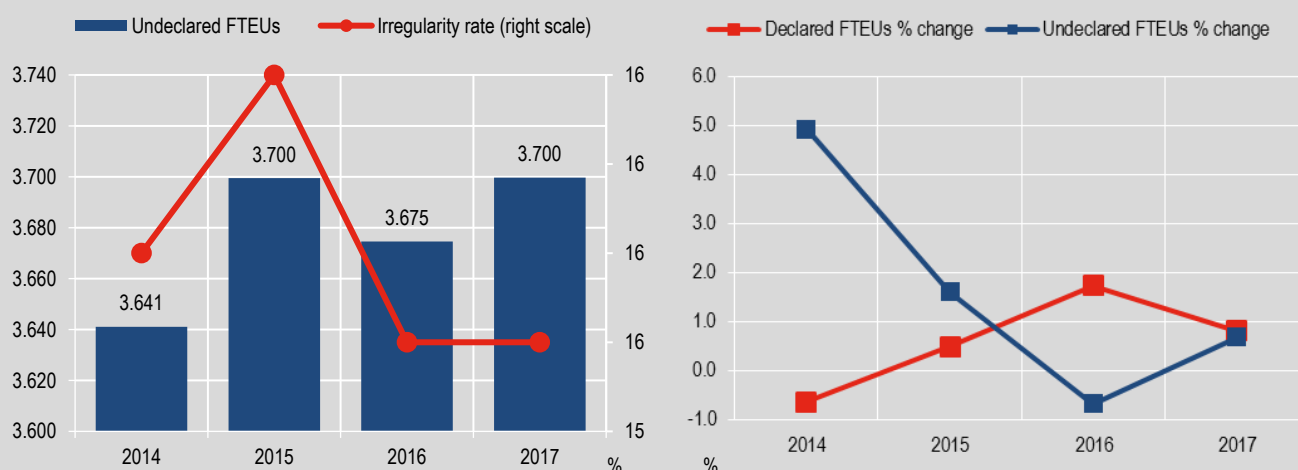
In 2017 undeclared Full time equivalent units (FTEUs) were 3.7 million, mainly employees (about 2.7 million). They grew by 0.7% compared to 2016, when, on the contrary, they had decreased by 0.7%.

The irregularity rate (percentage of undeclared FTEUs over the total) has proved to be stable in the last two years (15.5%). It was higher for employees (16%) than for self-employed (14.2%).

Over the whole period 2014-2017 undeclared work has grown by 1.6%, less than the regular workers (+3.1%), leaving the irregularity rate almost unchanged (15.6% in 2014 and 15.5% in 2017).

**FIGURE 3. FULL TIME EQUIVALENT UNITS (FTEUs), DECLARED AND UNDECLARED**

Years 2014-2017. EUR Thou.,irregularity rate and % changes.

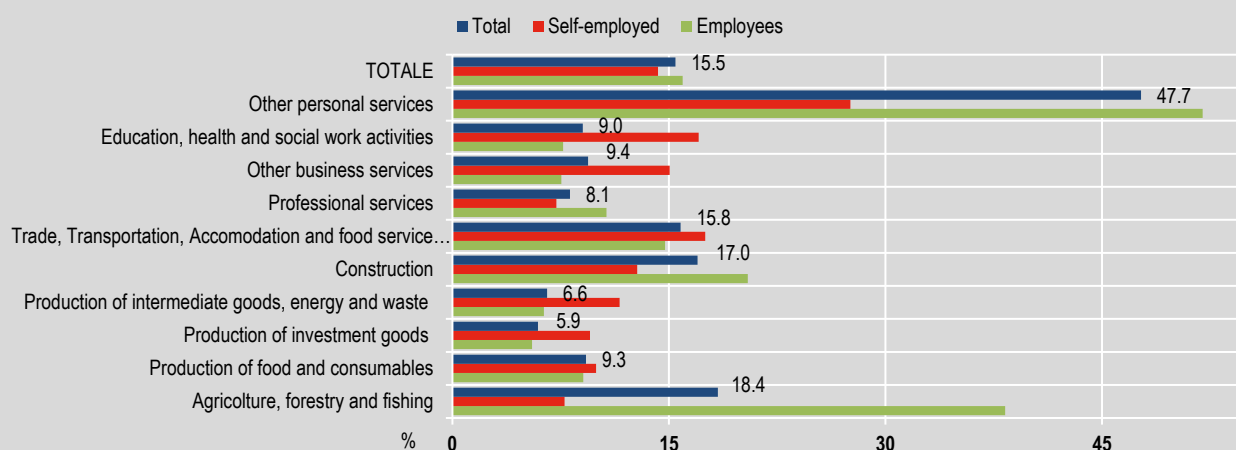


### Quite stable the share of undeclared work in the economic activities.

The weight of undeclared work was quite high in service activities (16.8%) and in particular in Other personal services (47.7%). In Construction undeclared work accounted for 17% of the total, and in Trade, Transportation, Accommodation and food service activities for 15.8%.

In Agriculture, forestry and fishing the weight of undeclared work was 18.4% of the total, but it was five times higher for employees (38.3% of the total) than for self-employed (7.8%). On the contrary in Other business services and in Education, health and social work activities, the irregularity rate of self-employed was double to the one of employees.

**FIGURE 4. IRREGULARITY RATE OF FTEUs.** Year 2017, percentage values



## Illegal activities increased in 2017

In 2017 the value added generated through the illegal activities included in NA accounts for EUR 18.9 billion, an increase of 0.8% to the previous year. The households final consumption expenditure (HFCE) of illegal goods and services amounted to EUR 20.3 billion, an increase of 0.9% to 2016.

Between 2014 and 2017 value added from illegal activities had grown by EUR 2.4 billion and HFCE by EUR 2.4 billion: the average annual growth was, 4.7% and 4.9% respectively.

The increase was mainly due to the trade of drugs: in 2017 value added grew to EUR 14.4 billion and HFCE to 15.7 billion. Over the whole period, both aggregates increased by around 5.8 percentage points.

In the same period prostitution services have grown slowly: in 2017 both value added and HFCE accounted for EUR 4 billion, broadly the same as in 2014.

The smuggling of tobacco in 2017 totaled EUR 0.5 billion and HFCE 0.7 billion.

**FIGURE 5 .VALUE ADDED AND HOUSEHOLDS FINAL CONSUMPTION EXPENDITURE BY KIND OF ILLEGAL ACTIVITY.** Years 2014-2017, EUR bln.

