

NON OBSERVED ECONOMY IN NATIONAL ACCOUTS | YEARS 2016-2019

Non-observed economy declining before the Covid-19 emergency

In 2019 non-observed economy (NOE) accounts for about **EUR 203 billion**, **11.3%** of GDP. Compared to 2018, it fell by more than 5 billion (-2.6%), confirming the trend that has been going on since 2014.

The **underground economy** accounts for little less than **EUR 183 billion** and **illegal activities** for over **19 billion**.

Undeclared work in 2019 is estimated at around **3.6 million** of full-time equivalent units (FTEs), **57 thousand** less than 2018.

167 bln

The value of under-reporting and undeclared work in 2019

The two components account for 9.3% of GDP.

-4.3%

The reduction of NOE 2014 - 2019, about -€9.2 billion

-1.6%

The reduction of undeclared work

Unregistered employees decrease by 2.4%, undeclared self-employed increase by 0.7%.

www.istat.it

UFFICIO STAMPA
tel. +39 06 4673.2243/44
ufficiostampa@istat.it

CONTACT CENTRE
tel. +39 06 4673.3102
contact.istat.it



Underground economy decreases

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

Non-observed economy includes **underground** activities, **illegal** activities and other missed productive activities 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 a purely statistical effects or to other underground components not fully captured through the first two types of adjustments.

According to the recommendations of Eurostat and in line with other EU member states, Istat produces estimates of the **illegal** economic flows generated by three types of activity: drug trafficking, prostitution services and tobacco smuggling.

In 2019, NOE generated about €203 billion of value added, with a decrease by 2.6% compared to the previous year (when it was €208.2 billion) in contrast to the trend in value added, which grew by 1.3%. The weight of the unobserved economy on GDP consequently decreased by 0.5 percentage points to 11.3% from 11.8% in 2018.

Almost all components of the NOE showed a contraction: underreported value added decreased by €3.8 billion compared to 2018, while that generated by the use of undeclared labour input by €1.2 billion; the other components recorded a reduction by €0.5 billion. On the other hand, the illegal economy showed an increase, albeit very small, compared to the previous year (+174 million).

Underground and illegal economy in Italy. Years 2016-2019

	2016		2017		2018		2019	
	EUR mln	Weight in GDP%	EUR mln	Weight in GDP%	EUR mln	Weight in GDP%	EUR mln	Weight in GDP%
Underground economy	189,392	11.2	194,965	11.2	188,931	10.7	183,446	10.2
<i>Under reporting</i>	95,020	5.6	98,473	5.7	93,953	5.3	90,188	5.0
<i>Undeclared work</i>	78,403	4.6	80,234	4.6	78,034	4.4	76,817	4.3
<i>Other</i>	15,969	0.9	16,257	0.9	16,944	1.0	16,442	0.9
Illegal economy	18,078	1.1	18,896	1.1	19,238	1.1	19,411	1.1
Non observed economy (total)	207,469	12.2	213,862	12.3	208,169	11.8	202,858	11.3
Value added	1,522,754		1,557,796		1,589,576		1,609,655	
GDP	1,695,787		1,736,593		1,771,391		1,794,935	

Significant decrease in underground economy for Construction and Professionals

In 2019, the total underground economy is worth €183.4 billion, 11.4% of the value added produced by the economic system, down by €5.5 billion compared to the previous year.

The component linked to under-reporting is worth €90.2 billion while the one linked to the use of undeclared work is €76.8 billion (respectively €94.0 billion and €78.0 billion the previous year). The residual components amount to €16.4 billion, down from €16.9 billion in 2018.

The prevalence of underground economy is strongly linked to the type of market rather than the type of good/service produced. In order to capture this feature of the phenomenon more accurately, a sectoral breakdown is used to describe it, which takes into account the functional specificity of the products/services traded rather than the technological characteristics of the production processes.

In the classification used for this purpose, industrial activities are split into Production of consumer goods, Production of capital goods and Production of intermediate goods (which includes energy and waste management). In the tertiary sector, Professional services activities are considered separately from Other business services.

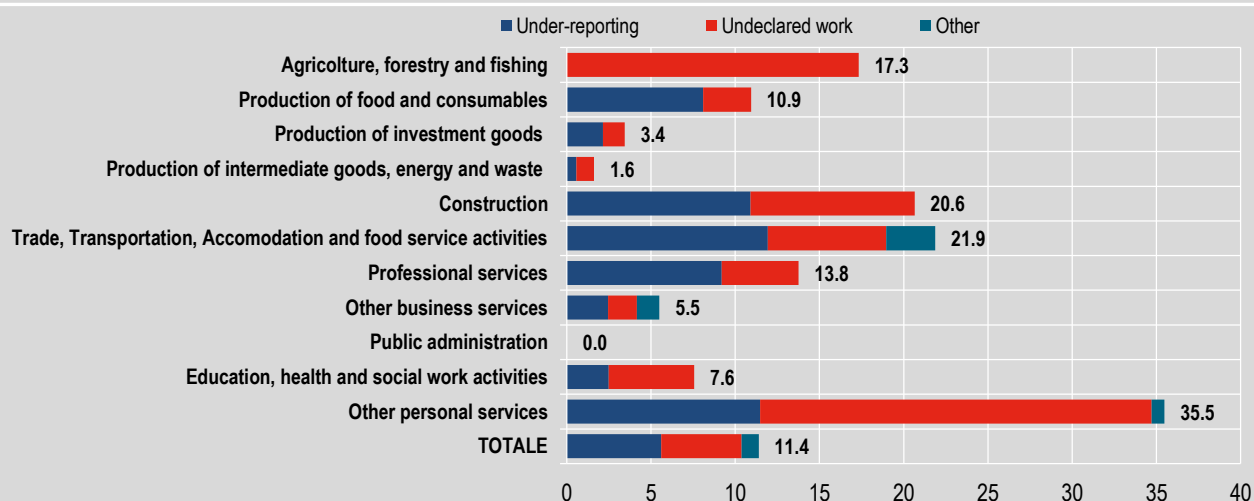
Overall, the sectors where the weight of underground economy is highest are Other personal services (35.5% of total value added), Trade, transport, accommodation and catering (21.9%) and Construction (20.6%). Other business services (5.5%), production of capital goods (3.4%) and production of intermediate goods (1.6%) show the lowest incidences.

Compared to the previous year, although there was a general reduction in the incidence of underground economy on productive activities (-0.6 percentage points of the total), the most marked drop was seen in Construction (-2.0 percentage points) and Professional services (-3.5 points).

The contribution of under-reported value added to total productive activity plays a significant role in Trade, Transport, Accommodation and Food (11.9% of total value added), Other Personal Services (11.5%), and Construction (10.9%). The phenomenon is less significant in Other business services (2.4% of the sector total), Production of capital goods (2.1%) and Production of intermediate goods, energy and waste (0.6%).

On the other hand, the value added generated by the use of undeclared labour input has a greater incidence in Other services to persons (23.2% of total value added), where the incidence of domestic work is significant. On the other hand, the phenomenon is limited in the three sectors of industry in the strict sense (with a weight between 1.0% and 2.8%) and in other business services (1.7%). In the primary sector, undeclared work, generated only by the irregular work component, accounts for 17.3% of the total produced by the sector.

FIGURE 1. WEIGHT OF THE COMPONENTS OF UNDERGROUND ECONOMY ON VALUE ADDED BY ECONOMIC ACTIVITY . Year 2019, percentage values.



Irregularity rate back to 2013 level

The use of irregular work by firms and households is a structural feature of the Italian economy. Non-regular employment is defined as work positions carried out without complying with current tax and social security contribution regulations, and therefore not directly observable at businesses, institutions and administrative sources.

In 2019, there are 3 million 586 thousand full-time work units (FTEUs) in a non-regular condition, mainly employed as employees (about 2 million 583 thousand units). The non-regular component marks a decline of 1.6% compared to 2018, recording a downsizing for the second consecutive year (-1.5% in 2018 over 2017).

The irregularity rate, calculated as the percentage of non-regular FTEUs out of the total, also declined over the last year, dropping to 14.9% (-0.2 percentage points compared to 2018) and returning to the 2013 level.

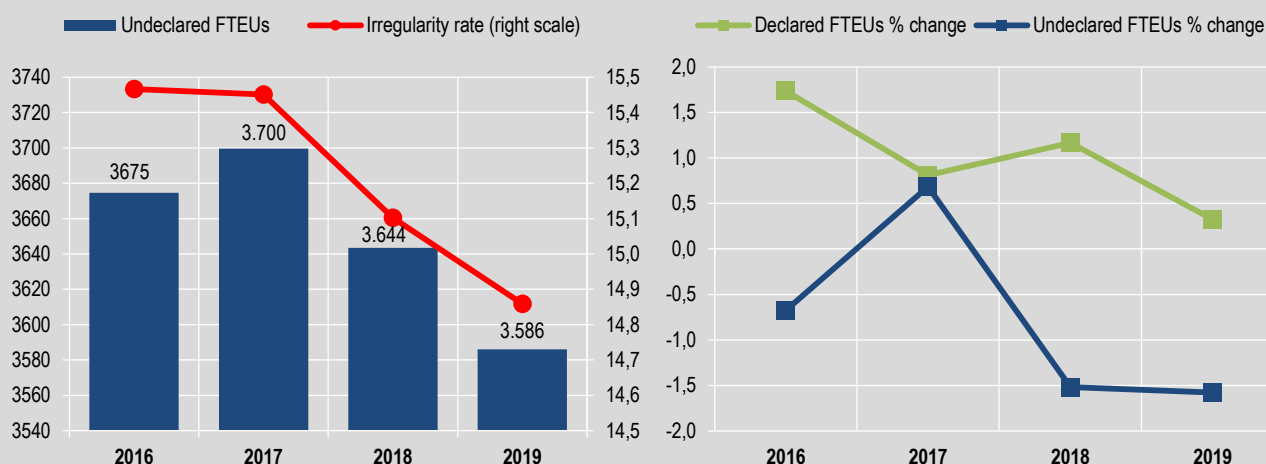
This decrease is due to the combined effect of the negative dynamics of undeclared work and the increase in regular labour input (+0.3%), attributable to the component of employees (+0.7%), whose dynamics is nevertheless slowing down compared to previous years (+1.9% in 2018).

The irregularity rate remains higher among employees than among the self-employed. However, in 2019, the two professional types show opposite dynamics: a decrease for employees, from 15.5% to 15.1%, and an increase for the self-employed, from 14.2% in 2018 to 14.4%.

Over the 2016-2019 period as a whole, regular employment increases by around 464 thousand (+2.3%) while irregulars decrease by around 89 thousand (-2.4%), resulting in a drop in the irregularity rate of 0.6 percentage points (from 15.5% in 2016 to 14.9% in 2019).

FIGURE 2. FULL TIME EQUIVALENT UNITS (FTEUs), DECLARED AND UNDECLARED

Years 2016-2019. EUR Thou., irregularity rate and % changes.



Less undeclared work in almost all sectors

In 2019, the incidence of undeclared work shows a widespread reduction in most sectors of economic activity. Construction recorded the largest decrease in the irregularity rate, by one percentage point (from 17.3% in 2018 to 16.3% in 2019).

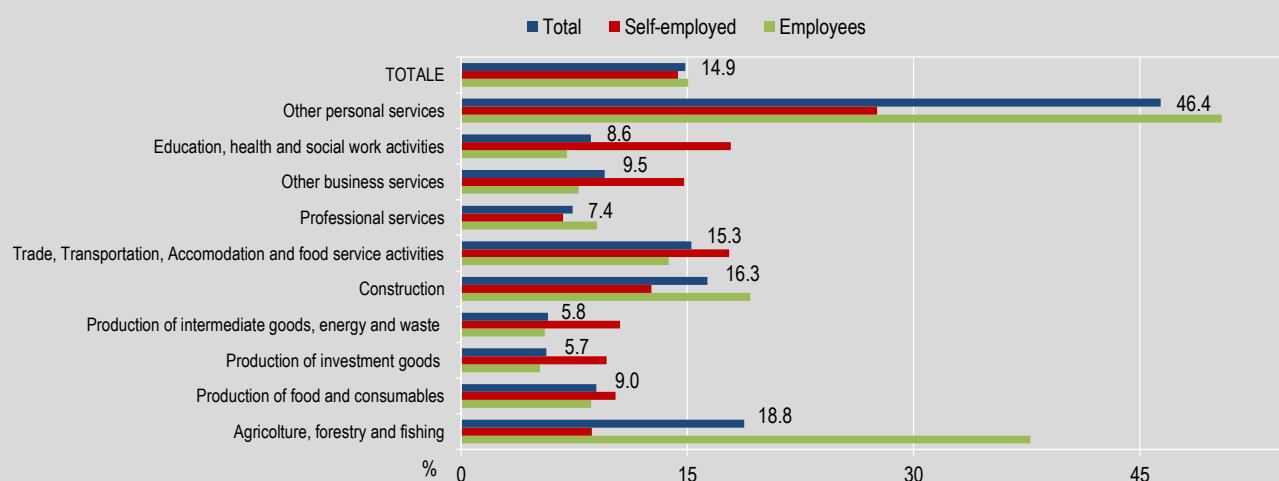
In Education, health and social work and Agriculture, the incidence stays stable compared to the previous year. In particular, for the latter sector, there has been a sign of a halt since 2015 after four consecutive years of growth. The only sector bucking the trend is Other business services, with an increase from 9.2% in 2018 to 9.5% in 2019.

The incidence of irregular work is more relevant in the tertiary sector (16.1%) and reaches particularly high levels in the Other personal services sector (46.4%), where the demand for irregular work by households is concentrated. The presence of irregular workers in agriculture (18.8%), construction (16.3%) and trade, transport, accommodation and catering (15.3%) is also relevant.

In Trade, transport, accommodation and catering and in Other personal services, 60.6% of non-regular FTEUs are employed (63.4% of dependent FTEUs and 53.5% of self-employed FTEUs), for a total of approximately 2.175 million units.

In Industry in the strict sense, where the prevalence of irregular work is low (7.1%), the Production of food and consumables has the highest rate of irregularity (9.0%).

FIGURE 3. IRREGULARITY RATE OF FTEUs. Year 2019, percentage values



Illegal activities grow slightly

In 2019, illegal activities considered in National Accounts generated a value added of €19.4 billion (1.2% of GDP). The estimate includes induced activities, i.e. the value of legal goods and services used in illegal production processes.

Compared to 2018, there was an increase of 0.9%, less marked than in the two previous years, when the illegal economy had increased by 1.8 and 4.5% respectively. The final consumption of illegal goods and services amounted to €22 billion (corresponding to 2.0% of the total value of final consumption expenditure), up by €0.4 billion compared to 2018 (1.8%).

Between 2016 and 2019, illegal activities recorded an overall increase of 1.3 billion for value added and 1.8 billion for household final consumption expenditure, with an average annual growth of 2.4% and 2.8% respectively.

Like in previous years, the dynamics of illegal activities is largely determined by drug trafficking. For this activity, value added rises to €14.8 billion in 2019 (+0.9% compared to 2018) while final consumption expenditure stands at €16.6 billion (+2.1% compared to 2018). Over the period 2016-2019, drug trafficking had an average annual increase of 2.8% for value added and 3.4% for consumption, mainly due to price dynamics.

In the same period, growth in prostitution services was modest. In 2019, both final consumption and value added remained broadly stable (€4.7 billion and €4.0 billion respectively); with an average annual growth (2016-2019) of 0.8%.

Tobacco smuggling in 2019 accounts for a 2.5% share of value added (€0.5 billion) and 2.9% of household consumption (€0.7 billion).

In the period 2016-2019, the value added of the induced activity, mainly related to the transport and storage sector, had an average annual growth of 5.1%, from €1.2 billion to €1.4 billion.

FIGURE 4 .VALUE ADDED AND HOUSEHOLDS FINAL CONSUMPTION EXPENDITURE BY KIND OF ILLEGAL ACTIVITY. Years 2016-2019, EUR bln.



For technical and methodological information

Alessandra Agostinelli
agostine@istat.it

Federico Sallusti
fsallusti@istat.it