

# G20

## Statistical Update



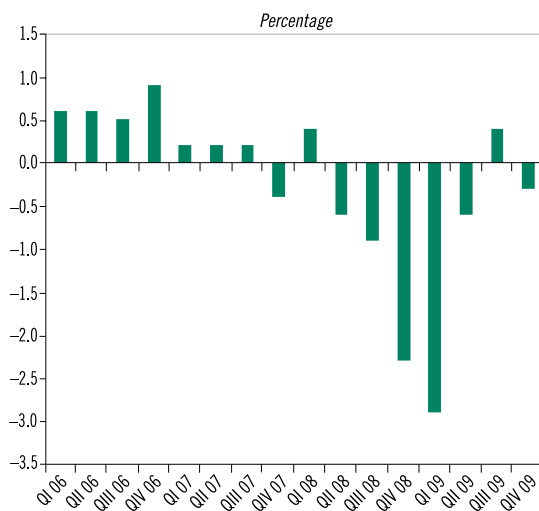
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## ITALY: MODERATELY HIGHER UNEMPLOYMENT WITH A STRONG ECONOMIC SHOCK

### A weakened Italian economy hit hard by the crisis

- The Italian economy has been severely affected by the financial crisis due to its exposure to the collapse in global trade and the credit crunch. The impact on the economy has been accompanied by falling productivity and profitability, which had dampened growth in the country for some years prior to the onset of the current downturn.
- In 2008, real GDP contracted by 1 per cent and the recession has since deepened, with economic growth contracting by 5.1 per cent in 2009.

Figure 1. Real GDP growth rate by quarter, Q1 2006 – QIV 2009



Source: EUROSTAT. Seasonally adjusted data. Real GDP growth shows quarter-to-quarter change.

### Stimulus package targets businesses, infrastructure and labour market and income support

- The overall strategy of the government has been to implement budget-neutral packages by reallocating resources towards the most effective instruments to stimulate the economy.
- The fiscal stimulus package represents spending of €14.1 billion in 2009 (0.7 per cent of GDP

in 2009 and 2010) smaller than most OECD countries.

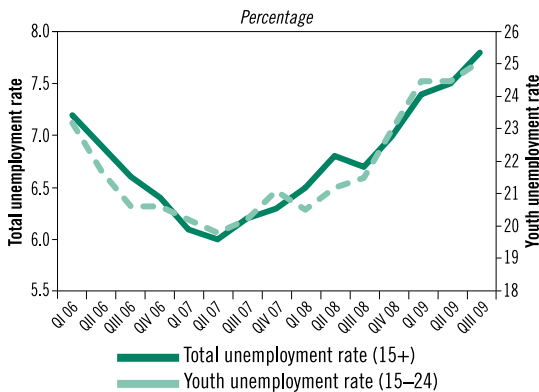
- Altogether, three stimulus packages have been announced since the start of the crisis (in November 2008, February 2009 and March 2009). The key elements of the packages are:
  - support to industry and businesses (€5.3 billion);
  - labour market measures (€2.6 billion);
  - infrastructure and research and development spending (€3.3 billion);
  - income support (€2.9 billion).
- The largest component of the combined package is support for business in the form of increased access to credit and subsidies (38 per cent of 2009 outlay).
- The next largest item is investment measures, which mostly consists of infrastructure projects including €1.3 billion.
- According to government figures, 20 per cent of the resources have been set aside for income support measures, including one-off cash transfers to low-income households. Finally, the remainder of the package (19 per cent) has been allocated to measures that improve the functioning of the labour market including training, job search assistance and subsidized reduction in working hours.

### Total unemployment rate has registered small increases, but youth unemployment rose more

- Youth have historically experienced unemployment rates that are considerably higher than the rates among the total unemployed. The ratio was about 3.2 on average during the first three quarters of 2009, about unchanged from the same period a year earlier.
- The total unemployment rate increased from a low of 6.2 per cent in the third quarter 2007 to 7.8 per cent in third quarter 2009.

- The unemployment rate has increased more for youth (aged 15–24), from 20.2 per cent in the third quarter 2007 to 25.1 per cent in the third quarter 2009.
- Rising unemployment has occurred in the context of a declining labour supply. Total labour force participation rates have fallen slightly (0.6 percentage points) between third quarters 2007 and 2009. The youth labour force participation rate fell by 2.7 percentage points over the same period.

**Figure 2. Total and youth unemployment rates, by quarter, Q1 2006 – QIII 2009**

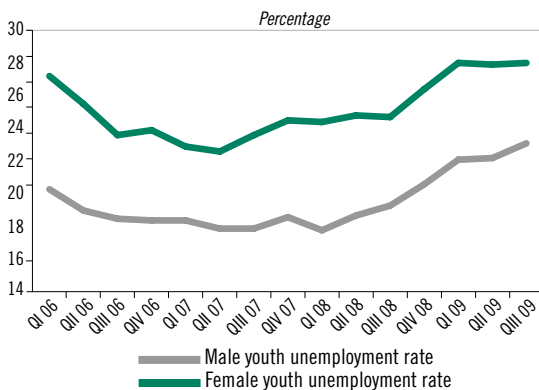


Source: EUROSTAT. Seasonally adjusted data.

### Female youth unemployment rate remains higher than the male youth unemployment rate

- The male youth unemployment rate rose 5.3 percentage points from the recent low in the first quarter 2008 to 23.1 per cent in the third quarter 2009. By comparison, the female youth unemployment rate rose 3.6 percentage points to 28 per cent over the same period.
- The difference between the two rates still remains fairly high, 4.9 percentage points in the third quarter of 2009, as young women still experience higher rates of unemployment than their male counterparts.

**Figure 3. Female and male youth unemployment rates, by quarter, Q1 2006 – QIII 2009**

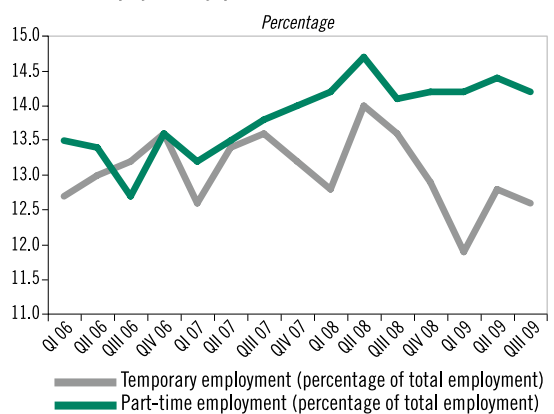


Source: Eurostat. Youth refers to persons aged 15 to 24. Seasonally adjusted data.

### Temporary employment has fallen while part-time employment has increased

- Temporary employment as a share of total employment has fallen slightly over the crisis period from 13.6 per cent in the third quarter 2007 to 12.6 per cent in the third quarter 2009. This decline could be associated with the marked increases in youth unemployment, as youth are more likely to obtain work in temporary jobs.
- Part-time employment as a share of total employment has increased over the crisis period from 13.8 per cent of total employment in the third quarter 2007 to 14.2 per cent in the third quarter 2009.

**Figure 4. Share of temporary and part-time employment in total employment, by quarter, Q1 2006 – QIII 2009**

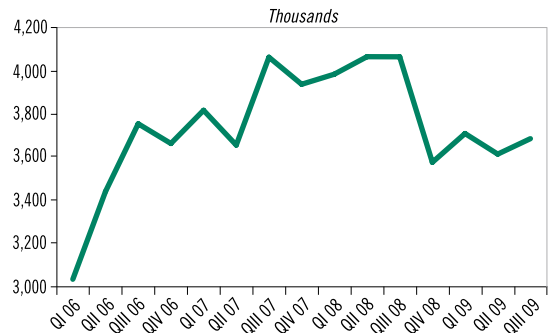


Source: Eurostat. Data are not seasonally adjusted.

### The number of discouraged workers has not risen during the crisis

The number of discouraged workers reached almost 4.1 million in the third quarter 2008 but has since fallen to nearly 3.7 million in the third quarter 2009.

**Figure 5. Number of discouraged workers, by quarter, Q1 2006 – QIII 2009**

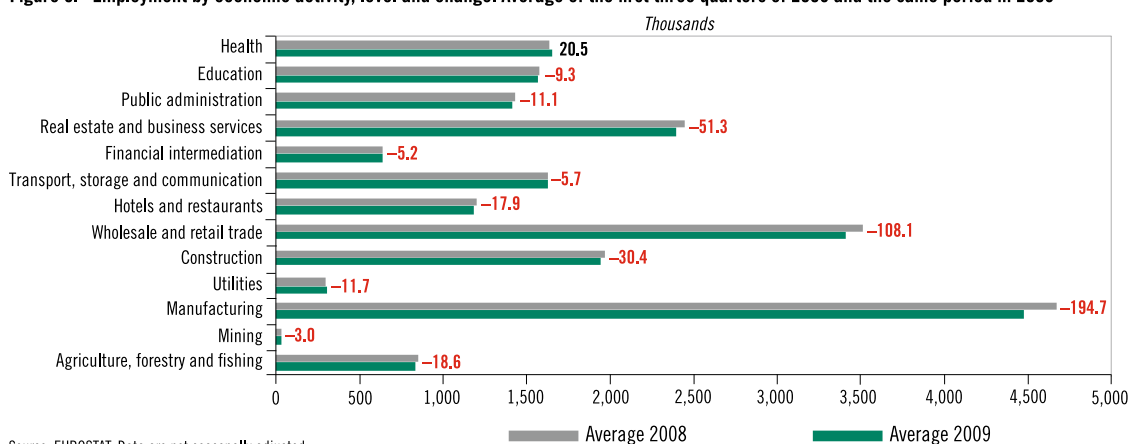


Source: Eurostat. Discouraged workers are persons who want to work but are not seeking employment because they think no work is available. Data are not seasonally adjusted.

## Most of the job losses were in the manufacturing sector, but job protection measures kept workers attached to the firms

- Job losses were most pronounced in manufacturing (194,700 jobs lost), wholesale and retail trade (108,100), and real estate and business services (51,300) on average during the first three quarters of 2009 compared with the same period in 2008.
- Job losses in manufacturing remained high in the third quarter of 2009 and accounted for 60.6 per cent of the total net employment loss in this quarter from a year earlier, despite signs of recovery in industrial production (due to inventory rebuilding) at the end of the second quarter of 2009. Declines in construction investment led to further layoffs in this sector over the same period.
- A mild recovery in private consumption was observed between the second and third quarters of 2009, boosted by government incentives for purchases of motor vehicles and other durable goods. This seems to have contributed to easing layoff pressures in wholesale and retail trade; however, employment in this sector in the third quarter of 2009 remained 1.8 per cent below the level of a year earlier.
- Initiatives such as the Wage Supplementation Fund enabled firms to cut the number of man-hours while keeping workers employed. Official estimates report that half of the industrial firms have applied to use this instrument in 2009. Job losses may have been more significant across sectors in the absence of this type of instrument.
- The Italian government has extended both the ordinary and extraordinary CIG schemes (a scheme that is used to protect workers' income in firms keeping them in jobs). More specifically, the government has broadened the coverage of the programme to (temporarily) include small and medium firms and tertiary sector.
- The impact of these measures is evident from the data provided by the *Istituto Nazionale di Previdenza Sociale* (INPS). In this respect, the number of working hours compensated by the Fund increased by 184.1 per cent in the first quarter of 2009 compared to the same period in 2008.
- Comparing the total number of hours compensated from January to October 2009 to the same period in 2007 reveals an even larger increase of 390.3 per cent. This surge in compensation under the CIG scheme has been mostly caused by its application for workers in the manufacturing sector.

Figure 6. Employment by economic activity, level and change. Average of the first three quarters of 2009 and the same period in 2008



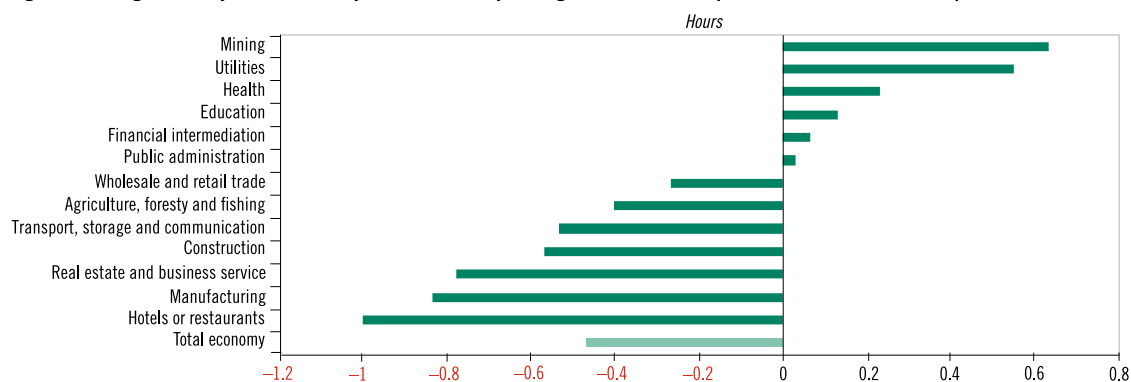
Source: EUROSTAT. Data are not seasonally adjusted.  
 Figures next to the bars reflect changes in employment between the two periods.

## Hours of work declined at the total economy level and across many sectors

- Weekly hours of work declined 0.5 hours on average at the total economy level during the first three quarters of 2009 compared with the same period of 2008.

- Declines in weekly hours of work were steeper than the average reduction at the total economy level in most economic activities, notably in hotels and restaurants (-1.0 hour) and manufacturing (-0.83) over the same period.
- Between the third quarters of 2008 and 2009, average actual weekly hours worked in Italy have fallen from 38.5 to 38.0 hours per week.

Figure 7. Change in weekly hours of work by economic activity. Average of the first three quarters of 2009 and the same period in 2008



Source: EUROSTAT. Data are not seasonally adjusted.

## The outlook suggests that economic growth will remain weak in 2010 and unemployment will rise

- The anticipated recovery in Italy will be far from robust with economy projected to grow by only 1.1 per cent in 2010 (Ministero dell'Economia e delle Finanze, 2010).
- Of greater concern is the level of public debt, which is projected to increase to nearly 117 per cent of GDP by the end of 2010 (Ministero dell'Economia e delle Finanze, 2010). This will continue to be a major challenge for the government, which has been committed in recent years to tackling the high deficit and growing public debt.
- Government projections indicate that employment levels are likely to remain relatively stable in 2010, followed by a slow improvement in the

years to follow, while the unemployment rate would reach 8.4 per cent in 2010 and 8.3 per cent in 2011 (Ministero dell'Economia e delle Finanze, 2010). The United Nations nonetheless forecasts the unemployment rate to increase 1.4 percentage points in 2010.

- Despite the relatively mild impact of the crisis on the labour market to date, long-term challenges remain such as the low level of labour force participation and the segmentation of the labour market by sex. In addition, long-term unemployment could be a major problem in Italy. As of the third quarter of 2009, 45.2 per cent of the unemployed had been without a job for more than 12 months.
- Overall, the main challenge for the Italian government in the post-crisis period is to raise economic growth through improvements in productivity and labour participation, along with tackling debt and long-term structural problems in its labour market.

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## ITALY'S RESPONSE TO THE CRISIS

### Economy hit hard by crisis

Despite the soundness of its banking system, Italy was hit hard by the financial crisis due to its exposure to the collapse in global trade and the credit crunch. The impact on the economy was accompanied by falling productivity and profitability, which had dampened growth in Italy for some years prior to the onset of the downturn. In 2007, industrial production had already begun to fall. In the following year, gross domestic product (GDP) shrank by 1 per cent. Italy's recession then deepened and the economy is estimated to have contracted by 5.1 per cent in 2009.

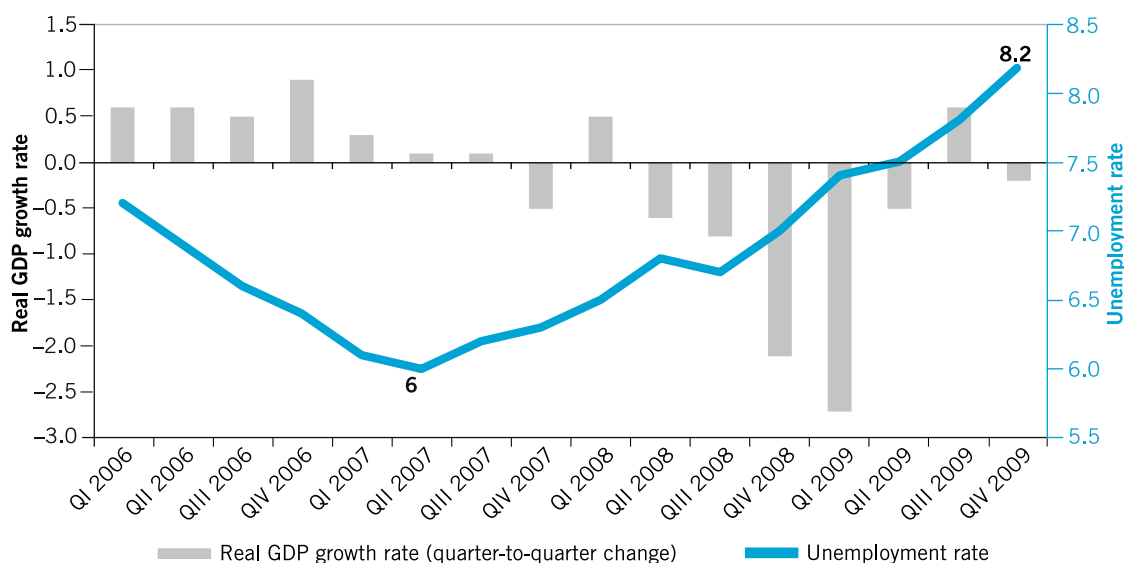
In spite of the deep recession, the impact of the crisis on the Italian labour market has been less severe. The unemployment rate rose from a recent low of 6 per cent in the second quarter of 2007 to 8.2 per cent in the fourth quarter of 2009. The rate increased more for youth, rising by

6.5 percentage points from the second quarter of 2007 to reach 26.3 per cent in the fourth quarter of 2009 (figures 1 and 2). However, there are little signs of rising structural unemployment so far.

During the crisis, Italian firms have adjusted both employment and hours worked. From the third quarter of 2008 to the same 2009 quarter, average actual weekly working hours fell from 38.5 to 38 hours per week (–1.3 per cent). In comparison, total employment fell by 2.2 per cent over the same period. Employment has decreased the most in the manufacturing sector, which accounted for 60.6 per cent of total net employment losses from the third quarter of 2008 to the same 2009 quarter. Other badly affected sectors include wholesale and retail trade, real estate, rental and business services, hotels and restaurants, and construction.

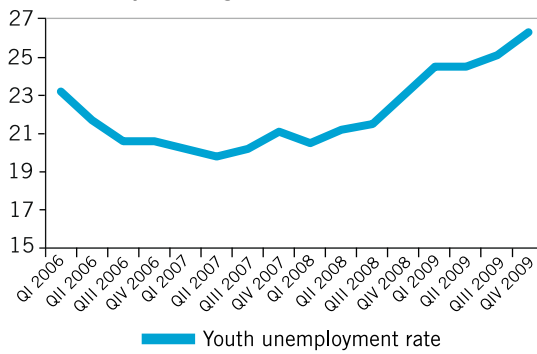
As in many other European Union (EU) countries, temporary employment in Italy as a share of total employees has fallen over the crisis period from

Figure 1. Unemployment rate and real GDP growth rate, 2006–2009 (percentage)



Source: EUROSTAT based on national sources. Data are seasonally adjusted.

**Figure 2. Youth unemployment rate, 2006–2009 (percentage)**



Source: EUROSTAT based on national sources. Seasonally adjusted.

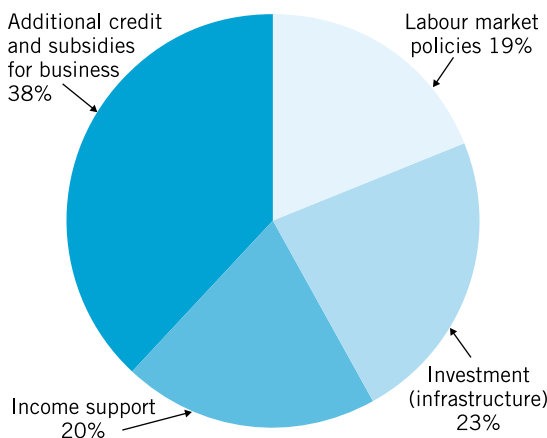
13.6 per cent in the third quarter of 2007 to 11.9 per cent in the first quarter of 2009 (before increasing again to 12.6 per cent in the third quarter of 2009).

Part-time employment in Italy increased slightly over the downturn from 13.8 per cent of total employment in the third quarter of 2007 to 14.2 per cent in the same 2009 quarter. More importantly, involuntary part-time employment has increased over recent years, reaching 28.9 per cent of total part-time employment in 2008.

### Fiscal constraints limit stimulus

Partly because of its pre-existing level of public debt, Italy initially introduced a budget-neutral stimulus package, in which increased expenditure or tax cuts were offset by measures to raise revenues. Altogether, three stimulus packages were implemented since the start of the crisis – in November 2008, February 2009 and March 2009.

**Figure 3. Composition of extra spending in the Italian stimulus packages**



Source: Ministry of Economy and Finance (2009).

**Size:** The overall strategy of the authorities has been to implement budget-neutral packages by seeking to reallocate resources towards effective instruments to stimulate the economy. Based on figures provided by Ministry of Economy and Finance, the combined resources set aside for the stimulus packages in 2009 were nearly €14.1 billion (in gross terms). Overall, the Italian stimulus has been smaller than most OECD countries due to the limited fiscal space.

**Composition:** The largest component, accounting for 38 per cent of the 2009 outlay, of the combined Italian fiscal stimulus packages was support for business in the form of increased access to credit and subsidies (figure 3). Included in this set of measures were a car rebate subsidy (“cash for clunkers” scheme) and incentives to buy energy-saving appliances. The next largest item was investment, consisting mostly of infrastructure projects, including €1.3 billion for the construction of a bridge to Sicily.

According to government figures, 20 per cent of the resources were devoted to income support measures, including one-off cash transfers to low-income households. The remaining 19 per cent of the package was allocated to improving the functioning of the labour market, including training, job search assistance and subsidized reductions in working hours.

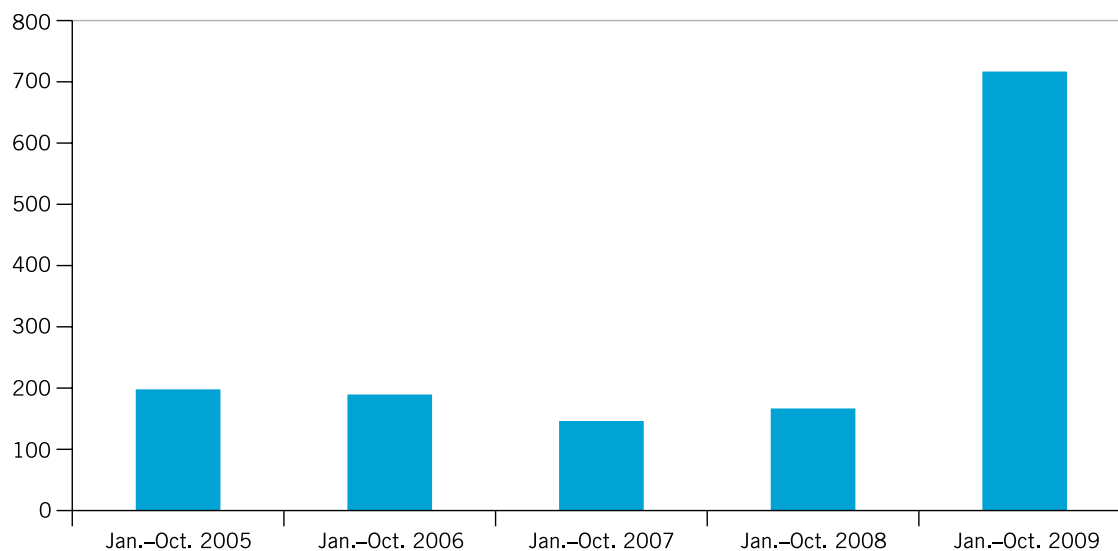
The macroeconomic effect of the Italian crisis package was estimated at 0.7 per cent of GDP in both 2009 and 2010. More specifically, measures such as the Wage Guarantee Fund (*Cassa Integrazione Guadagni*), described below, have to some extent helped the Italian government mitigate the impact of the crisis on the labour market.

### Wage guarantees

First established in 1945, the *Cassa Integrazione Guadagni* (CIG), or Wage Guarantee Fund, is a scheme to protect workers' income in firms threatened with financial difficulties due to a temporary shock or restructuring. The ordinary Wage Guarantee Fund (CIGO) covers cases involving bankruptcy, while the extraordinary Wage Guarantee Fund (CIGS) is used in instances of restructuring. Under the scheme, workers facing either a layoff or a reduction in working hours receive 80 per cent of their normal wage. Payments are co-financed by firms and the state, and are paid in normal circumstances for a maximum of three consecutive months in the case of CIGO and 12 months for CIGS.

Both the ordinary and extraordinary CIG are only available to firms above a particular size operating in certain sectors, although coverage has increased over recent decades, especially since the 1992 economic crisis. Dialogue with unions is a prior condition for firms seeking to access the fund. In the case of support during periods of restructuring (CIGS), firms also have to provide a plan detailing the restructuring process and how they will safeguard employment levels.<sup>1</sup>

Figure 4. Total hours compensated through the Wage Guarantee Fund (CIG) scheme, 2005–2009 (millions)



Source: Italian National Social Security Institute, available at [www.inps.it](http://www.inps.it)

As part of its response to the crisis, the Italian government has extended both the ordinary and extraordinary CIG schemes.<sup>2</sup> Specifically, the government has broadened the coverage of the programme temporarily to small and medium-sized firms in the tertiary sector, including retail agencies and operators with more than 50 employees, tourist agencies and operators with more than 50 employees and security companies with more than 15 employees.

The impact of these measures is evident in data on the utilization of the CIG scheme provided by the Italian National Social Security Institute (INPS), which show that the number of working hours compensated by the fund increased by about 184 per cent in the first quarter of 2009 compared with the same period in 2008. Over two years, the increase was even larger, with the total number of hours compensated rising by about 390 per cent in January to October 2009 compared with the same 2007 period (figure 4). This surge in compensation under the CIG scheme has been driven by applications for blue-collar workers, mostly in the manufacturing sector.

In addition to the CIG scheme, jobs in Italy have been protected through the *Contratto di solidarietà*, or job-security agreement. This work-sharing instrument is also financed through the CIG and allows a subsidy of up to 50 per cent of any wage cut for a maximum period of 24 months, with subsidies varying by region.<sup>3</sup> In March 2009, the government increased the resources allocated to this mechanism from €5 million to €50 million.

### Extending unemployment benefits

The unemployment benefit system in Italy has been characterized as fragmented and complex. In general, redundant workers can access benefits if they have

paid at least two years of insurance prior to losing their job. In addition, laid-off workers in specific sectors can be placed on a *lista di mobilità*, or mobility list, and subsequently become eligible for a mobility allowance, providing their previous job lasted at least 12 months. Such workers join job registers to facilitate their re-employment and receive vocational training.

Recognizing the need to provide enhanced income protection during the current downturn, the government enacted a law in January 2009 broadening the coverage of unemployment benefits to workers who were previously ineligible, such as those on fixed-term and temporary contracts, along with apprentices. Under this law, project workers are now eligible for a lump-sum severance payment, which is equal to 30 per cent of the income received in the previous year, providing they meet certain conditions.

Based on data from the Italian National Social Security Institute, there were 750,000 applications for unemployment benefits and mobility allowance in the first quarter of 2009, an increase of 44.2 per cent from the same quarter in 2008.

### Outlook and challenges

Along with the majority of EU countries, the recession officially ended in Italy in the third quarter of 2009, when GDP grew by 0.6 per cent (over the previous quarter). However, the recovery in Italy so far has appeared tentative, with output again contracting in the fourth quarter of 2009, compared to the previous quarter, by 0.2 per cent. Overall, the economy is projected to grow by 1.1 per cent in 2010 (*Italy's Stability Programme 2009 Update*, Ministry of Economy and Finance, 2010).

## References:

Bank of Italy (2009): *Bank of Italy Economic Bulletin*, No. 53, July.

Bank of Italy (2010): *The Italian Economy in Brief*, No. 35 (based on ISTAT figures), March.

European Employment Observatory (2009): *EEO Review Spring 2009*.

Ministero dell'Economia e delle Finanze (2010): *Italy's Stability Programme 2009 Update*. Available at: [www.tesoro.it/en/documenti/open.asp?idd=23571](http://www.tesoro.it/en/documenti/open.asp?idd=23571).

OECD (2009): *OECD Economic Surveys: Italy*. Volume 2009/8 June.

The level of public debt, which is projected to increase to nearly 117 per cent of GDP by the end of 2010, will continue to be a major challenge for the government, which in recent years has been committed to tackling the high deficit and public debt.

Regarding the labour market, government projections indicate that employment levels are likely to remain relatively stable in 2010, followed by a slow improvement in ensuing years. The Ministry of Economy and Finance forecasts that the unemployment rate will be 8.4 per cent in 2010 and 8.3 per cent in 2011.

Long-term challenges remain, such as the low level of labour force participation and segmentation of the labour market. In addition, long-term unemployment is a major problem in Italy. As of the third quarter of

2009, 45.2 per cent of the unemployed had been without a job for more than 12 months.

The main challenge for the Italian government in the post-crisis period is to raise economic growth through improvements in productivity and participation, along with tackling debt and long-term structural problems in its labour market.

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<sup>1</sup> See <http://www.eurofound.europa.eu/emire/ITALY/WAGESGUARANTEEFUNDCIG-IT.htm>

<sup>2</sup> See the approval of legislative decree 185/2008, which was subsequently approved as Law 2/2009.

<sup>3</sup> See <http://www.eurofound.europa.eu/emire/ITALY/JOBSECURITYAGREEMENTJOBCREATIONAGREEMENT-IT.htm>