MINISTÈRE
DE L'ÉCONOMIE,
DES FINANCES
ET DE LA SOUVERAINETÉ
INDUSTRIELLE ET NUMÉRIQUE
*Liberté
Égalité
Fraternité*

Tresor-Economics

No. 335 • October 2023

Direction générale du Trésor

Italy and its Demographic Challenge

Pierre Farineau

- Italy is the third most populous country in the European Union. After reaching a peak of 60 million in 2014, Italy's population fell to 59 million in 2022 and could drop to 47 million by 2070. In 2022, while Italy recorded fewer than 400,000 births – the lowest figure since the country's unification in 1861 – it posted more than 700,000 deaths, the highest level since the 2020 COVID-19 pandemic. Immigration can no longer offset this stark natural decrease.

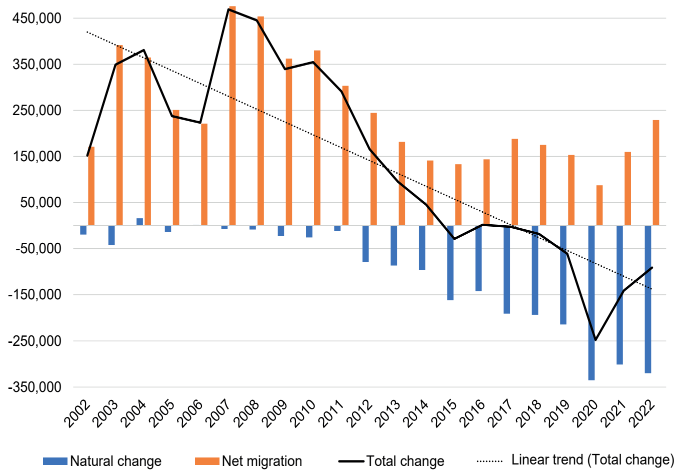
- Italy has a rapidly ageing population: life expectancy, which now stands at 83, has increased by three years since 2000. According to the World Bank classification, Italy has had a "very old population" since 2007, falling into this category three years after Japan and 11 years before France. Ahead by a few years, Italy's declining population is a harbinger of the EU's own depopulation by 2030 according to Eurostat projections.

- A dwindling and ageing population is hampering GDP growth given changes in (i) the workforce and labour market participation and (ii) investment and productivity in an economy largely formed by family-owned VSEs and SMEs faced with the issue of their hand over.

- This "longevity shock" puts pressure on public finances, since it increases the proportion dedicated to pensions, healthcare and long-term care expenditure in the budget. While the percentage of over-65s is growing, that of the workforce is shrinking, raising the risk to the sustainability of public debt which stood at 141.7% of GDP in 2022.

- Measures – whose outcomes are as yet unclear – have been taken to mitigate the impact of unfavourable demographic changes: pronatalist policies, labour market reform and selective immigration. Changes to the pension system for 2024 have yet to be determined.

Natural change (births/deaths), net migration and total change (in absolute terms)



Source: Istat, compilation from the Regional Economic Department.

1. A rapid reshaping of the age pyramid

1.1 Italy's population is rapidly dwindling and ageing

For a number of years Italy's population has fallen by over 300,000 every year. At 1.24 children per woman, Italy's fertility rate is the lowest in Europe which is well below replacement-level fertility which stands at 2.1 children per woman. Natural change (births/deaths) has been strongly negative since the early 2010s. Unlike for Germany and Spain, net migration no longer offsets the natural decrease in population. The higher birth rate of the immigrant population is trending towards that of Italian citizens.

The drop in births (down 31% since 2008) is accelerating and widening the natural decrease in population. Italy recorded 392,598 births in 2022, the lowest figure since the unification of the country in 1861, and 713,499 deaths, the second highest figure behind the COVID-19 pandemic figure in 2020. The increase in deaths (up 19% since 2008) can be attributed to the unfavourable shape of the age pyramid. Italy has the second highest proportion of elderly people in the world after Japan: over-65s accounted for a quarter of the population in 2022, a proportion that will exceed one-third in 2070. The shape of the age pyramid will continue to worsen considerably until 2040, at which point the number of over-65s will have increased by 33%, while the number of under-65s will have fallen by 23%.

Italy is rapidly ageing. Its median age is currently the highest in Europe at 48, compared to 43 in 2008 and 44 for the EU average. By 2040, it could exceed 50. In 20 years, the number of centenarians has quadrupled, totalling 22,000 as at 1 January 2023. This rapid acceleration puts Italy at fourth in the European ranking after Greece, France and Spain, and is accompanied by a post-retirement life expectancy of 20.6 years, above the EU average. Italy's regression from an "old population" to a "very old population"[1] was the quickest of any developed country other than Japan, taking 19 years. France, Germany and Japan respectively took 28, 36 and 10 years.[2]

1.2 Demographic changes are exacerbating the north-south gap

The population of northern Italy is expected to fall from 39 million in 2022 to 34 million in 2070, while the southern Italian population is projected to decline from 20 million in 2022 to 13 million in 2070. Southern Italy is ageing faster than the north as a result of the emigration of young people, with the birth and death rates standing at similar levels across the regions. Northern Italy should experience a less severe population decline thanks to a positive internal and external net migration rate, while the southern Italian population should plummet given a negative net migration rate.

At the current rate, the ageing population situation in Italy will invert. The southern Italian population, while currently younger, will be older than the rest of Italy by 2040. The young and qualified human capital in southern Italy may continue to be depleted. Nearly one out of two people internally migrating to northern Italy are under 40. Over the course of 20 years, 1.2 million young people have either emigrated from southern to northern Italy or have left the country for economic reasons.

1.3 Socio-economic conditions have reshaped the traditional family model

Couples without children account for 20% of households in Italy. At the current pace, from 2045 onwards, this contingent will outgrow households with at least one child.[3] 50% of couples with children have only one child. This situation is most often out of step with the desire to raise several children[4] in a country where family continues to hold strong cultural value. Female and youth unemployment, jobs with less security, a lack of day nurseries and difficulties in finding housing prevent people from living independently and having children (see Box 1).

(1) According to the World Bank classification, a "very old society" is one in which the over-65 contingent represents over 20% of the total population. An "old society" is one in which the over-65 contingent represents between 14% and 20% of the total population.
(2) United Nations Population Division (2022), *World Population Prospects.*
(3) Istat (2022), *Previsioni della popolazione residente e delle famiglie* (in Italian only).
(4) Istat (2020), *Situazione del paese, Il numéro di figli desiderato è più alto di quello reale* (in Italian only).

The age when women have their first child has risen to 32 (29 in France). More than two out of three young Italians (aged 18-34) live with their parents. On average, young Italians leave the parental home at 30 (23 in France). Older generations, often living nearby, continue to support the younger generations on an informal basis (child care, or financial assistance).[5]

Box 1: Birth rate and the property market

Access to housing has become more restricted for younger generations and is hampering a rebound in the birth rate. 73% of the Italian population are owners, as baby boomers have heavily driven demand for housing and for the most part funnel their savings into property. However, the housing stock in Italy is experiencing pressures and shortages in large towns and cities despite population decline. Largely comprising large family apartments, often with a low energy performance and being costly to renovate, the stock no longer meets the needs of young households, regardless of whether they have a child.

Despite a housing shortage and a drop in interest rates, residential property prices have fallen in real terms since the 2008 financial crisis due to economic stagnation and the drop in household income and savings. Housing prices in large urban centres remain high given the increasing demand for units with a small surface area in large towns and cities (for students, the elderly, smaller families).

Securing a loan is an insurmountable hurdle for young people with more unstable jobs, resulting in them taking longer to leave home and live independently. Various publicly funded support schemes were rolled out to address these difficulties. For example, between 2021 and 2023, young people under 36 could secure a loan for an amount matching the total value of the property in question, with a government guarantee covering 80% of the purchase price, subject to means testing. The Italian government currently has plans to extend the scheme to 2024 to support first-time mortgage borrowers under 36. However, access to the scheme would be more limited due to budgetary constraints. Those initiatives have not reversed the underlying trend for the time being.

The unchanged physiognomy of large towns and cities has dramatic consequences for young professionals and students. Housing costs force them to choose a career path or field of study based more on geographical factors than on genuine interest, with a preference for options close to their home or in the outer suburbs. This contributes to a misalignment of skills and a higher student drop-out rate than elsewhere, resulting in an overall smaller percentage of the population with a higher-education degree than other EU Member States. The impact of housing access issues also weighs on the alignment of supply and demand on the labour market, a situation that bleeds into sectors and professions with labour shortages and, eventually, into the competitiveness of the Italian economy.

(5) Inapp (2022), *Rapporto sull'invecchiamento* (in Italian only).

2. A linchpin for growth and public finances

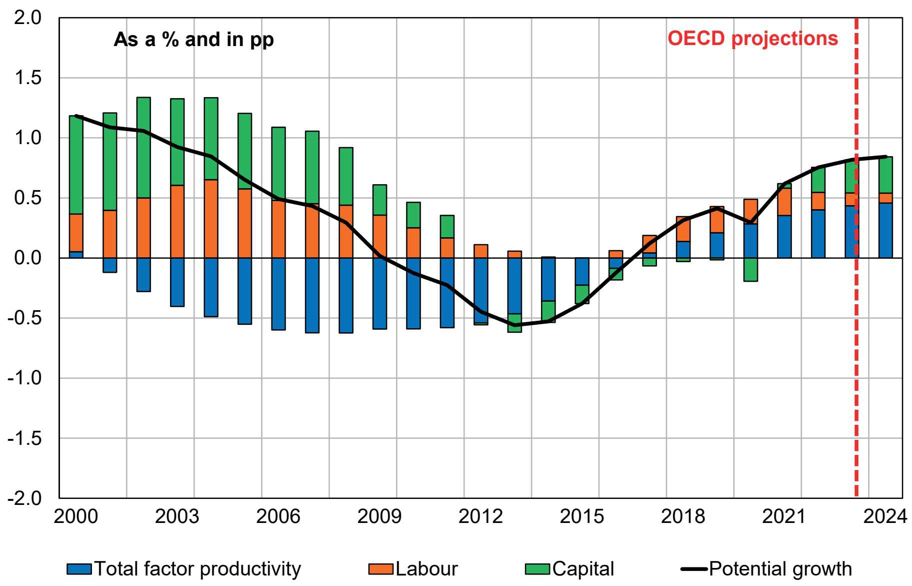
2.1 Labour-supply constraints dampen growth ambitions

Since 2014, the growth of the working-age population (15-64 years old) has only made a small contribution to potential GDP growth[6] owing to the decline in labour supply, a key factor in the contribution to growth (see Chart 1). In Italy, the working-age population has decreased by nearly 2 million over 10 years (down 5%). Against the backdrop of an ageing population, a low birth rate and a moderate increase in immigration, this reduction is expected to continue, from 63% of the total population in 2022 to 53% in 2050. On the demand side, the ageing of the population is expected to adversely impact consumption and investment with deteriorating income expectations. According to the Ageing Report[7] published by the European Commission, Italy will experience weak growth of 1% between 2019 and 2070, falling below the European average of 1.3%, as the ageing of the population is more rapid and significant than in other Member States.

The shrinking working-age population means that an increase in the employment rate is required to offset the massive outflow from the labour market of workers reaching retirement age and to reduce the labour shortages observed in certain sectors of the economy experiencing tension (construction, healthcare and ICT in particular). The employment rate has risen two percentage points since 2008 to stand at 61% in 2022. However, it is still 15 percentage points below the EU average, with a considerable gulf between northern and southern Italy still present.

The population decline could help certain segments of the population that were excluded from employment return to work because of the considerable room for opportunity for women, young people and older workers to integrate into the job market. The female employment rate is particularly low at 55% and is dwarfed by the male employment rate of 74% and the EU average, which is 15 percentage points higher. The NEET (neither in employment nor in education or training) rate is the highest in the EU (25% of young people in the 18-34 range). The older worker (55-64 years old) employment rate has risen in the past few years, but it was still only 55% in 2022, 7 percentage points below the EU average.

Chart 1: Breakdown of Italy's potential growth



Source: OECD Economic Outlook (2023), DG Trésor calculations.

How to read this chart: In 2000, potential growth was estimated at 1.1%, with 0.8 percentage points attributable to capital growth and 0.05 percentage points to TFP. Labour factor growth contributed 0.3 percentage points to potential growth in 2000.

(6) Potential growth is an estimate of the annual GDP growth rate assuming optimal use of production factors and a lack of tension on the market for goods and services, and on the labour market.

(7) European Commission (2021), "The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070)", *Economic and Financial Affairs*, Italy, pp. 309-311.

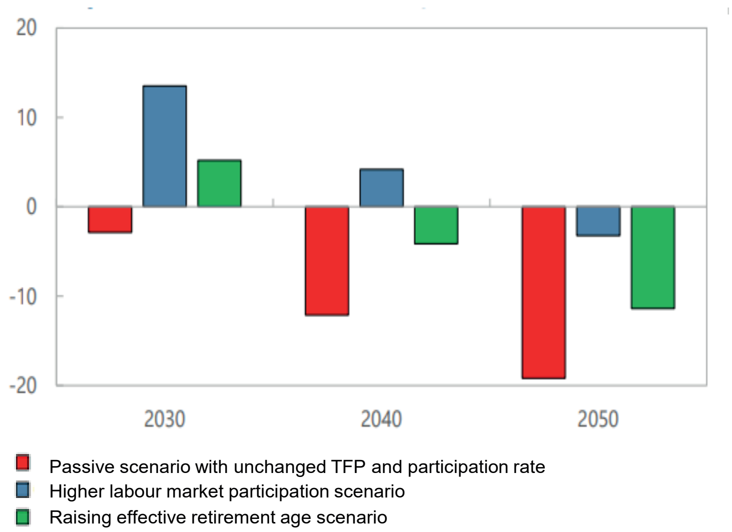
The IMF has developed three illustrative demographic scenarios for 2050 on the basis of the labour market participation level for the Italian population (see Chart 2).[8,9] All three scenarios point to a fall in real GDP in 2050 compared to its 2019 level as a result of the demographic trends: (i) Italy experiences a sharp fall in GDP of nearly 20% in 2050, as the labour market participation rate and productivity fail to increase; (ii) GDP only decreases 10% in 2050 in a hypothetical scenario where the effective retirement age is raised to 70 in 2024; (iii) the fall in GDP is more limited in a scenario where in 2024 the male and female employment rate rises to the EU-average male participation rate of 80% – GDP rises for the first few decades before falling from 2050 onwards, albeit to a lesser degree than in the first two scenarios.

2.2 Low levels of innovation, investment and education could further impede growth

Productivity, another contributor to growth, has stagnated since the early 2000s in Italy. Apparent labour productivity has plateaued as a result of a drop in the number of hours worked, in capital per worker, and in TFP, the latter triggered by insufficient productive investment and the structural rigidity of the labour market.

A lack of young people and brain drain have hindered innovation and entrepreneurial dynamism in an economy where there is a preponderance of family-owned micro and small enterprises with low productivity and faced with the issue of their handover.[10] Renewal of the ageing management structure is vital, as the managers of a third of family-owned businesses are older than 70. A third of businesses do not outlast their founding managers and only 13% survive handover to the third generation. To maintain their competitiveness, they must draw up their succession plans and bolster management practices, which can often entail the appointment of a manager from outside the founder's family. The challenge for this new generation is to considerably expand family businesses through M&A. This would give them access to global markets and value chains, following in the footsteps of the average or intermediate sized flagship industrial companies of Italy's export trade.

Chart 2: Real GDP in different labour market participation scenarios (as a %, reference year: 2019)



Source: IMF.

How to read this chart: The first so-called passive scenario is characterised by unchanged TFP – similar to Italy's experience during recent decades – and constant participation rates of 61%. The second scenario assumes that the male and female participation rates – currently at 74% and 55% respectively – will increase to the EU-average male participation rate of 80%. The third scenario involves the current effective retirement age of 64 being raised to 70 in 2024.

(8) F. Barbiellini Amidei, M. Gomellini, P. Piselli (2018), "The contribution of demography to Italy's economic growth: a two-hundred-year-long story", *Questioni di Economia e Finanza*, No. 431 (in Italian only).

(9) International Monetary Fund (2023), "Population Aging in Italy: Economic Challenges and Options for Overcoming the Demographic Drag".

(10) VSEs and SMEs that are family-owned businesses or sole proprietorships account for half of Italy's GDP and two-thirds of total employment.

Upgrading the quality of human capital with higher education and qualification levels could counteract these impacts by increasing the productivity of the workforce. Italy must upskill its workforce (only 20% of 25-65 year olds have a higher education degree versus 40% in France) and rectify the misalignment of skills – partly attributed to a preference for the humanities over science courses. The lack of career prospects after graduating, wage levels and the increase in part-time contracts – often imposed on the youngest generations – have accelerated brain drain for 20 years: between 2012 and 2021, 120,000 young graduates aged 25 to 34 left Italy.

While the ageing population has contributed to decreased productivity over the last 20 years, some economists shed a more nuanced light on the impact of Italy's demographics on long-term productivity. An insufficient and costly workforce could end up stimulating innovation and process automation by cutting the relative cost of capital. Increased capital intensity would help to rebalance the capital-to-labour ratio by bolstering productivity. By 2026, Italy will earmark €24bn in investments for enhancing its competitiveness under the EU's National Recovery and Resilience Plan (NRRP) – of which Italy is a main beneficiary[11] (€191bn) – partially funded by the issuance of common European debt and instituted in response to the COVID-19 crisis. The financing is intended in particular to fast track the digital transition of businesses (€14bn) and the rollout of optical fibre (€6bn) so as to support the competitiveness of Italy's production system. There has recently been an upturn in Italy's productivity, which has surged since 2021 (up 2%) compared to the previous period (up 0.5% between 2014 and 2021), driven by increasing investment since 2020. That said, efforts are still required in R&D investment (1.5% of GDP) and productive investment, particularly in the digital and green transition, two key drivers for productivity gains in advanced economies.

2.3 Impact of demographics on public finances

The dependency ratio of over-65s to the population aged between 15 and 64 will rapidly increase, from a rate of 38% in 2022 to 66% in 2050. For every retired citizen in Italy there are currently 1.4 people of working age. This ratio will be 1:1 by 2050, well below the theoretical point of equilibrium set at 1.5 by INPS – the National Social Security Institute, which manages the public pension system – so that its medium- to long-term balance is maintained. The demographics of Italy will also adversely affect tax revenue and in particular that from the healthcare system (smaller working age population, fewer contributions) and have an extensive impact on social expenditure (pensions, healthcare and long-term care).

Pension expenditure accounts for a third of Italian government expenditure (i.e. 15.7% of GDP) and over 75% of social expenditure, a far greater proportion than the EU average. Driven by inflation, expenditure is rising and INPS has forecast a deficit of €10bn in 2023. With no change to legislation, pension expenditure is expected to continue to increase and hit a peak of 17.3% of GDP in the 2035-2040 period (see Box 2 and Chart 3). Aggregate pension, healthcare and long-term care expenditure constitutes nearly half of Italian government expenditure (excluding interest expense). Long-term care and healthcare expenditure will follow the upward trajectory of pension expenditure; a third of over-65s have a serious chronic disease, a rate rising to 50% for over-85s. At the current pace and in the absence of reforms, the government debt-to-GDP ratio will reach 180% in 2055 versus 141.7% in 2022 based on the scenario developed by the Italian Ministry of Economy and Finance.[12]

The literature focuses on the inflationary pressure triggered by the population decline, which could in the next few decades overpower the deflationary trends observed in the past 30 years.[13] Inflation would be fuelled by rising wages, reduced growth and increased

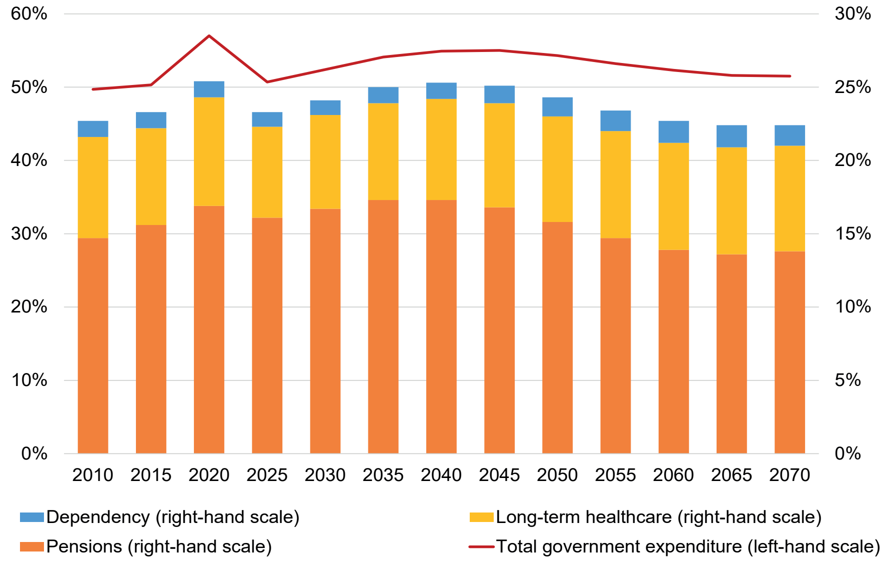
(11) M. Bastardie, H. Fatton, S. Genem and C. Pontoon (2023), "The Expected Benefits of the European Recovery Plans Introduced in the Wake of the COVID-19 Pandemic", *Tresor-Economics*, No. 324.

(12) Italian Ministry of Economy and Finance, 2023-2025 Stability Programme. The scenario for long-term debt dynamics is determined assuming that GDP growth aligns with economic growth and an inflation rate converges with the ECB target of 2% in 20 years. The public finances trajectory includes government expenditure on the ageing population as presented in Chart 3 "Total government expenditure and spending on the ageing of the population", while the primary balance is kept equal as from 2026, except for the component corresponding to expenditure on population ageing. Interest expenditure on debt is calculated from convergence assumptions on short- and long-term market interest rates.

(13) C. Goodhart and M. Pradhan (2020), *The Great Demographic Reversal*.

debt. The return of high inflation levels and the rapid hike in interest rates currently heighten the pressures exerted on the debt sustainability of governments that, including Italy, are taking a heavy blow from the high cost of pension, healthcare and long-term care expenditure. There is also the risk that the ageing of the population impairs the transmission mechanism of monetary policy[14] as a result of the reduced effectiveness of interest rate changes to stimulate or suppress demand (older households would be less affected, as they generally have less need to borrow than younger households).[15] These changes could hamper Italy's growth and competitiveness, and be the grounds for rolling out structural reforms to mitigate the impact of the ageing of the population.

Chart 3: Total government expenditure and spending on the ageing of the population (as a % of GDP)



Source: Italy's 2023 Stability Programme, Regional Economic Department.

How to read this chart: Pension, healthcare and long-term care expenditure will rise to 25% of GDP in 2040, while total government expenditure will stand at 54% of GDP in 2040.

3. Recent and ongoing reforms – with unclear outcomes

Imminently faced with a population decline that is affecting the majority of developed countries, Italy has still to identify the tools and measures capable of ensuring the sustainability of its public finances and the competitiveness of its production system. Existing immigration policies and pronatalist policies appear to have failed to correct significant demographic trends in the short term in Italy. In any case, the full effects of comprehensive and effective pronatalist policies would only be fully felt in one or two generations. It is particularly on the labour market that participation incentives can halt the negative economic impacts of the demographic trends in the shorter term.

3.1 Pronatalist policies remain ineffective

Pronatalist policies introduced by successive governments have proven to have little effect, which is partly owing to the scant resources dedicated to this matter – 1% of GDP versus 2.2% for the EU average. Complex bureaucracy – the product of the revision of measures by successive governments – and the distribution of competences and responsibilities between the central government and local authorities are the main stumbling blocks to a successful pronatalist policy in a country where there are major gaps between north and south. Access to healthcare facilities and early childhood care services is still

(14) P. A. Imam (2013), "Shock from Graying: Is the Demographic Shift Weakening Monetary Policy Effectiveness", *IMF Working Paper*.
(15) According to the life-cycle hypothesis, households purchase goods during their working lives and sell them when they are retired.

very unequal. There is no continuing public policy in place for helping young people access housing or for facilitating the handover of family-owned businesses. The risk is that regions that are already neglected in economic development terms could become like the uninhabited or sparsely populated inland areas faced with population decline and the out-migration of youth.

Recently, in a bid to stimulate the birth rate, Italy overhauled its family policy with the adoption of the Family Act in 2022. Its flagship measure is introducing the single universal allowance (*assegno unico e universale*)[16] – equal to 0.9 percentage points of GDP – the result of merging and supplanting the various support schemes in place such as the first-child "bonus". The allowance is disbursed starting from the first child and until the last child is 21. The allowance amount is determined[17] based on the household's income and the benefit increases defined by law since 2023 (an additional 50% for families with three children or more, or for any child with a disability). The scheme also primarily targets large low-income families, and so it could be considered a tool more for combating poverty within families than for boosting the birth rate. Its long-term effectiveness will therefore be determined by its ability to encourage families to have one or more children.

At the same time, since 2023, under parental leave regulations parents receive 80% of pay for one month compared to 30% previously for the nine-month period. This cash benefit is granted until the child turns six. Tax relief measures include a 5% VAT reduction introduced in the 2023 budget for baby and feminine hygiene products. The possibility of implementing other pronatalist measures is also being examined by the Italian government for 2024.

Maintaining a work-life balance is hindered by the structural issue of funding for day nurseries: there are not enough day nurseries to give all mothers the opportunity to become part of the workforce. Local day care facilities in Italy cover 25% of total needs, falling short of the EU average of 35%, and regional inequalities are considerable (in southern Italy, the coverage is only 10% on average). The institutional framework has allowed for on-site nurseries but they are not well established (220 in total in 2019) and are for the most part only offered by large firms. In reality, the vast majority of young children are cared for by friends and family. One of Italy's main priorities is to step up the opening of day nurseries, day-care centres and schools using the NRRP resources (€6.2bn), which should lift one of the barriers to parenthood and increase female representation in the workforce.

3.2 Selective immigration policies: a solution for minimising the negative impacts affecting GDP growth?

According to the Italian National Institute of Statistics (Istat), a demographic scenario that can curb the drop in the workforce in the medium to long term requires a positive net migration of 250,000 by 2050 (versus 160,000 in 2021), while an increase in the fertility rate to 1.82 per woman (compared to 1.2 today) is needed to stabilise the population in the longer term.

Since 2000, the foreign population living in Italy has risen from 1 million to 5 million (8.5% of the population). In 2021, foreigners accounted for 10% of the working-age population. According to the Bank of Italy, immigration has made an estimated contribution to growth of 3.3 percentage points of GDP between 2011 and 2016. Without immigration, growth would have been negative.[18] In the coming years, immigration may help to curb increasing levels of public debt by offsetting the impact of working-age population decline on GDP growth: based on the scenario developed by the Italian Ministry of Economy and Finance, a 33% increase in immigration would result in a 30-percentage-point decrease of public debt by 2070.[19]

Since 1998, the "flow decrees" (*decreti flussi*) have regulated legal migration by setting non-EU workers quotas for each sector and country of origin. 2023 however saw a breakaway from this arrangement, brought about by economic conditions: quotas – set for a three-year period to afford employers a degree of visibility – and intake targets were more than doubled, from 30,000 to 82,000 per year. The target sectors welcoming migrants are transportation, construction, tourism, machinery, telecommunications, agri-food and shipbuilding. At the same time, measures to combat illegal immigration – particularly in the agricultural sector – have been stepped up.

(16) The fiscal cost of the single universal allowance is €18bn in 2023, and will increase to €20bn in 2029.
(17) The allowance amount ranges from €54 to €189 per month for each minor child based on household income.
(18) F. Barbiellini Amidei, M. Gomellini, P. Piselli (2018), *op. cit.*
(19) Italian Ministry of Economy and Finance, 2023-2025 Stability Programme. Assuming a 33% increase or decrease of net immigration flows between 2020 and 2070, the projected public debt-to-GDP ratio coincides – until 2034 – with the reference trajectory outlined in the scenario detailed in section 2.3 ("Impact of demographics on public finances"). It is after 2034 that the migration dynamics shift public debt away from the reference trajectory.

3.3 Measures supporting labour market participation

In the shorter term, proactive policies supporting the labour market could reduce the negative impacts of population decline on GDP growth. The main structural weaknesses in Italy's labour market relate to regional disparities, low levels of professional integration among women and young people, and a considerable dualism between permanent and fixed-term contracts. Starting in the early 1990s, the labour market was made more flexible to raise the employment rate, a factor which played a role in the development of many kinds of atypical fixed-term contracts offering little security to workers.[20] In contrast, permanent contracts have continued to enjoy high levels of protection. In 2015, Italy adopted the Jobs Act, a labour market reform designed to address structural weaknesses and encourage more permanent contracts to be offered by granting tax incentives (exemptions from social security contributions). However, the divide and disparities between categories of workers and regions continue to be substantial. Experiencing job-rich growth for the past 20 years, Italy has also seen its productivity and competitiveness falter.

In its National Recovery and Resilience Plan Italy has set out a component, receiving funding of €6.7bn, that promotes the professional integration of women and young people. There are however no plans to introduce a new major labour market reform. Recent measures focus on exemptions from social security contributions on hires of young people under 36 for a three-year period – raised to four years in southern Italy – and exemptions from social security contributions on hires of women over 50 who have been unemployed for more than one year or who work in economic sectors with a major gender imbalance for a one-year period for fixed-term contracts and one and a half for permanent contracts. The Italian government also has plans to roll out tax relief measures for businesses that hire mothers with three children or more for 2024. Citizens' income, a scheme introduced in 2019 to combat poverty, inequality and social marginalisation, was also the subject of reform to promote professional integration. Against the current backdrop of labour shortages, the number of permanent contracts is on the rise, which could, if the trend continues, shift the previous dynamic in which atypical forms of employment prevailed.

Box 2: The pension system in Italy under the Fornero Act

Several reforms have been introduced to adapt the pension system to population changes and ensure the sustainability of public finances. In the wake of the 2008 financial crisis, the Fornero Act was introduced, under which the legal retirement age was raised from 62 to 67. However Italian citizens found this scheme hard to stomach, and so experimental early retirement arrangements were worked into the act to make the transition easier for certain categories of workers. The arrangements, which have been amended and extended by successive governments, are currently in force until 2024.

The measure with the broadest scope, Quota 103 (Quota = age + years of contribution), lets Italians retire at 62 when they have completed 41 years of contributions. The scheme is therefore particularly advantageous for those with stable and uninterrupted careers. The *Anticipo pensionistico sociale* early retirement allowance gives certain categories of persons the possibility to retire before the legal pensionable age (physically demanding jobs, people with disabilities, the unemployed). The *Opzione donna* scheme entitles female workers who have completed 35 years of contributions to early retirement at 60, with a one-year reduction for one child and two years for two or more children in exchange for a reduction of the pension payment. In reality, the average effective retirement age is 64.

Once the transitional early retirement measures expire, Italy should in principle fully shift back to the ordinary law pension scheme of the Fornero Act, with the retirement age of 67 reinstated. Given the demographic trends, the high cost of exemption measures and the question of fiscal sustainability, the debate surrounding the Fornero Act will continue until the end of the year, when a decision to either fully or partially enforce the act will have to be made. It is a contentious issue among Italy's political class, who fear that raising the Quota will haunt them when elections roll around.

(20) The proportion of fixed-term contracts rose from 15% in 2013 to 20% in 2022. Part-time jobs accounted for 18.2% of total jobs in 2021 (11.3% of which constituting involuntary part-time work) versus 15.3% in 2011.

Publisher:
Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique
Direction générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:
Dorothée Rouzet

Editor in chief:
Jean-Luc Schneider
(01 44 87 18 51)
tresor-eco@dgtresor.gouv.fr

English translation:
Centre de traduction des ministères économique et financier

Layout:
Mimose Mellia
ISSN 1962-400X
eISSN 2417-9698

Recent Issues in English

October 2023

N° 334 Interest Rates, Growth and Public Debt Sustainability

Guillaume Clavères

September 2023

N° 332 World Economic Outlook in Autumn 2023: The Economy is Holding out Against Rising Interest Rates

Raphaël Beaujeu, Louis Bertrand, Adama Hawa Diallo, Juliette Flament, Paul Mainguet, Cyprien Ronze-Spilliaert, Eloïse Villani

https://www.tresor.economie.gouv.fr/Articles/tags/Tresor-Eco

Direction générale du Trésor

@DGTresor

To subscribe to *Trésor-Economics*: bit.ly/Trésor-Economics

This study was prepared under the authority of the Directorate General of the Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry of Economy, Finance and Industrial and Digital Sovereignity