

Winter has come

How the Demographic Decline in Italy is affecting the Domestic Economy and Potentially the EU

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Given the specificity of the Italian social and economic model, the declining birth rates registered in the country are threatening national economic prospects and the sustainability of the welfare system, posing a significant challenge for the Prime Minister Giorgia Meloni's conservative, right-wing government. Although changes in the birth rate might be tackled by long term financial and political planning and political commitment, the Prime Minister is currently attempting to overcome the issue through short-term welfare reforms, which amount is however significantly lower than the EU average. Considering the impossibility for any Italian governments to commit for more public spending in the long run, to positively curb birth rates, Italy should focus on some structural reforms for a start:

- On the one hand, to attempt addressing the challenges of low birth rates, the government could promote greater flexibility in the job market, by reintroducing or simplifying the adoption of the smart working for companies and public institutions. Home working can have a positive effect on birth rates, as it allows to better address work-life balance issues.
- On the other hand, specific attention should be given to female employment, which can positively impact birth rates. As the level of female employment in Italy is low, the government should promote specific policies to incentivize women to work, while addressing the wage gap between men and women, which in Italy stands at 11.5%.
- Italy is the third largest economy in the EU as well as in the EMU. As such, long-term stability and viability of its economic as well as societal model is therefore of crucial importance for Europe as a whole.

Contents

1	Demographic Winter in Italy and the EU	3
2	The Wider Economic Consequences of Low Birth Rates	4
3	The Italian Government's measures.....	4
4	Beyond welfare: Italy needs long -term structural policies.....	5

List of Tables

Tab. 1:	Birth Rate in 2022 across EU member countries	3
Tab. 2:	Growth of birth rate from 2012 to 2022 (%).....	4

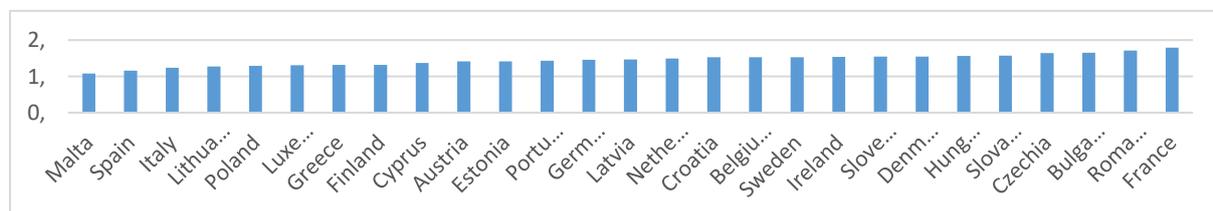
1 Demographic Winter in Italy and the EU

The unfavourable decline in Italian birth rates has been a cause for concern for every Italian government over the past 20 years. Yet, such a “demographic winter” appears to be an even greater challenge for the conservative, right-wing administration led by the current Prime Minister Giorgia Meloni. The dearth of children presents a significant hurdle for Meloni’s political agenda of rebuilding a strong nation, potentially resulting in a gradual depopulation of the country and drawing misleading political conclusions from it, with the risk of further decreasing the openness of the Italian economy.

According to the latest projections from Istat, the population, which currently stands at almost 59 million, could dwindle to 45.8 million by 2080.¹ For decades Italy has been registering among the lowest birth rates in Europe. The national fertility rate declined from nearly 1.43 at the end of the 2012 to about 1.24 in 2022, well below the replacement level of 2.1. From 2020 to 2022, there was a decrease of one in three newborns (-29.3%) compared to 2008-2010, which was the last period of relatively high birth rate compared to today. Such a trend, which is consistent across Italy from north to south, is also fuelled by the progressive aging of the female population in childbearing age to 32.2 years.

Nonetheless, when it comes to fertility rate and number of newborn children, Italy does not stand alone in this negative trend. In the last years, fertility rates have been continuously declining worldwide.² In particular, when it comes to the EU, even if some European country, such as Hungary (1.6), Slovakia (1.57), Czechia (1.64), Romania (1.71) Portugal (1.43), Bulgaria (1.65) and Germany (1.46) have been experiencing a fertility rebound of at least 0.1% to 0.2% from 2012 to 2022, none of them has reached the replacement level of 2.1. Moreover, what seems to be worrying is that even in countries where pro-natal or pro-family policies have been successfully implemented, fertility rates are not growing enough or are even decreasing.³ This is for instance the case of France, which is the unique country in the EU standing for its positive fertility rate of 1.79. Yet, from 2012 to 2022, such a trend has been downgrading of 0.1%.⁴ While this trend is a structural condition of many developed countries worldwide, it needs to be addressed especially by countries such as Italy, where apart for demographic and societal issues, negative birth rate trends, coupled with ageing population, are set to cause far-reaching economic consequences.

Tab. 1: Birth Rate in 2022 across EU member countries



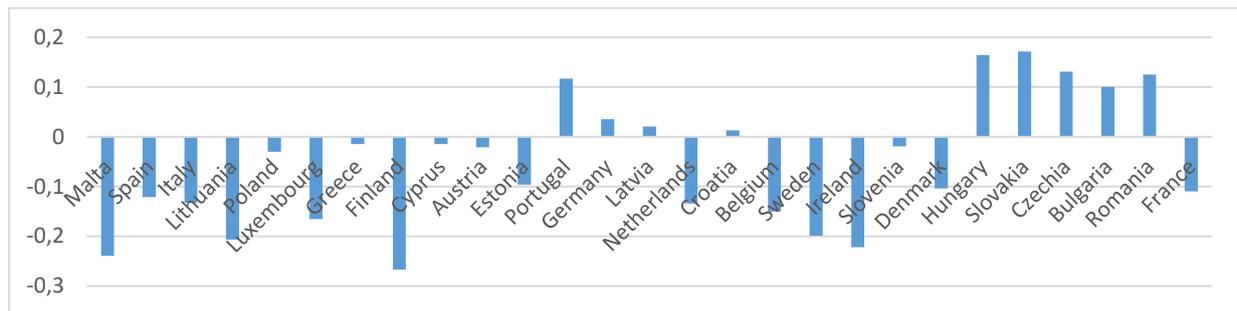
Source: Eurostat

¹ OpenPolis (2023) [In 9 comuni su 10 il tasso di natalità è più basso della media Ue](#)

² Tragaki, A. (2024). From ‘demographic bomb’ to ‘silver tsunami’: Navigating global population shifts. *European View*.

³ Bhattacharjee, N. V., Schumacher, A. E., Aali, A., Abate, Y. H., Abbasgholizadeh, R., Abbasian, M., ... & Bahri, R. A. (2024). Global fertility in 204 countries and territories, 1950–2021, with forecasts to 2100: A comprehensive demographic analysis for the Global Burden of Disease Study 2021. *The Lancet*.

⁴ Eurostat [data](#); Martuscelli, C. (2023). [The populist right wants you to make more babies. The question is how](#). *Politico*.

Tab. 2: Growth of birth rate from 2012 to 2022 (%)

Source: Eurostat

2 The Wider Economic Consequences of Low Birth Rates

As highlighted by the Minister of Economy and Finance, Giancarlo Giorgetti, the progressive and rapid reduction of the Italian population, with older generations representing the majority of citizens and a declining workforce, risks undermining Italian economic competitiveness and productivity, while affecting the financial sustainability of the national welfare system, with the cost of pensions and of the health care system being among the primary concerns. Italy is the 3rd largest economy in the Eurozone and the world's 8th. Yet, according to Eurostat, the country ranks last in Europe in the ratio of employed persons to pensioners with the result that the Italian social security system could collapse if the birth rates will not increase. This trend is also affecting the productivity level and the workforce. For instance, only in 2022 the negative mismatch between demand and labour supply cost the private sector around 37.7 billion euros.⁵ This in turn is set to impact Italian GDP growth and the possibility to repay the huge national debt. During the 2024 April Spring Meetings in Washington, the Italian Ministry of Finance maintained Italy is set to growth by 1% in 2024. Such a provision might not be realistic. According to the OECD, the eurozone is expected to grow by 0.7 % in 2024 and by 1.5% in 2025, while the Italian GDP should grow by 0.7% in 2024 and possibly 1.2% in 2025.⁶ Within this frame, considering the high level of national debt and the low growth, any pro-family measures introduced in Italy envisioning forms of financial transfer to family might not be sufficient to curb such a trend, especially since the country has accumulated a significant delay in counteracting it. On the contrary, they might inefficiently increase public spending, in a moment when Italy needs to invest its own resources in strategic projects to boost and innovate its economic model. Moreover, the Italian economy has been already burdened for long time by poor management of public finance and other institutional issues, which contributed to the country scoring below the European average in terms of economic freedom and openness. On the top of that, in 2024 the country scored 60.1 in the Index of Economic Freedom, decreasing by 2.2 points since 2023.⁷ Certainly, given the size of the Italian economy within the EU, negative economic trends and any ineffective increase of the national spending are set to negatively impact the European growth and economic stability too.

3 The Italian Government's measures

⁵ ANPAL. (2023). [Previsioni dei fabbisogni occupazionali e professionali in Italia a medio termine \(2023-2027\)](#).

⁶ OECD, (2024), *Economic Outlook*

⁷ The Heritage Foundation. (n.d.). In *Index of Economic Freedom: Italy*.

Prime Minister Meloni has delved great attention to the issue of Italian negative birth rate. With the 2024 budget law, approved in December 2023, the government allocated 1 billion euros for measures in favour of families and childbirth. The goal is to support families and dismantle the narrative according to which childbirth is a disincentive to work for mothers and that having more than one child exposes families to the risk of poverty. In this respect, in 2024 working women who gave birth to at least two children will be exempted from pension contributions up to a maximum limit of 3,000 euros per year. Additionally, both parents can benefit from two months of paid parental leave at 80%. Within this framework, the Meloni's government claims to have been inspired by the Hungarian model, which is the "perfect" example of state investments on family support. Viktor Orban is indeed spending 5% of the national GDP in policies to increase the birth rate. Not only the Hungarian government offers lifetime tax exemption to mothers with at least four children, but there is also the possibility to have financial help to buy a house and to ask for loans, which can be written off on the promise to have children.⁸ Yet, when it comes to Italy, the extra-fundings promised by the government are far from being enough to positively curb the birth rate. According to the latest available OECD data, the average EU public spending for families (e.g. child payments and allowances, parental leave benefits and child-care) is 2.56% of the GDP, with Italy accounting for 1.87%, France 3.44% and Germany 3.2%.⁹ Certainly, to overcome such a trend, more than increasing welfare from the state, which is unrealistic for Italy, there is a need to implement long term structural policies that might positively impact birth rate.

4 Beyond welfare: Italy needs long -term structural policies

When it comes to the Italian low birth rates, there are several factors the government should consider in order to incentivize a change in such a trend in the long term. For instance, constraints related to the job market continue to represent one of the main difficulties of reconciling the demands of child-rearing by one Italian out of two.¹⁰ This implies, for instance, that beyond direct welfare, national institutions should play a fundamental role in helping families combining work requirements and childbearing by implementing some structural reforms in the Italian labour policies. For instance, apart for increasing the number of childcare services available for family, which would inevitably require increasing budget, the government could start promoting flexible work and a greater use of smart working. Indeed, although home based work had different effects on birth rates during the Covid-19 pandemic because of school closure and lockdown, in normal time it can introduce a level of flexibility that can contribute to rising fertility rate, allowing parents to better face family obligations, deal with unforeseen circumstances or even cut back the cost of child care.¹¹ At the same time, it is demonstrated that smart working has a positive impact on higher female employment. While the latter could negatively affect the birth rate in the short term, it is utterly demonstrated that in the long-term having women working in a stable position has a positive impact on birth rates.¹² Yet, since April 2024, many of the smart working facilitations introduced during the Covid-19 pandemic for parents with children under 14 are no longer in place. Private companies that decide to allow they employees to work from remote will have to sign individual agreements, making the remote working not a universal right of the

⁸ Martuscelli C. (2023), The populist right wants you to make more babies. The question is how, Politico

⁹ OECD, [OECD Family Database](#)

¹⁰ Villani-Lubelli, U. (2024). [Cittadinanza e denatalità: le sfide della politica. Una comparazione tra Germania e Italia. Diritto Pubblico Comparato ed Europeo](#), ISSN 1720-4313.

¹¹ Stone, L. (2023) Is Remote Work Behind the Spike in U.S. Birth Rates? [IFS](#); B., Matysiak, & Kurowska, A. (2024). [Home-based work and childbearing](#). Population Studies, 1–21.

¹² Alderotti, G. (2020). Female employment and first childbirth in Italy: what news? *Genus* 78, 14

workers but a privilege that can even carry disadvantages in terms of career progress. At the same time, although the rate of working women has been increasing, Italy is still registering among the lowest level (41% compared to 53% in France, 56% in Germany and 54% in Hungary)¹³ as well as a high difference in salaries (-11.5% compared to men).¹⁴ In this respect, beyond direct financial support, a first and sustainable step for the Meloni's governments to help boosting the national birth rate in the long term, should be based on a set of structural and progressive reforms for introducing a more flexible, equal and inclusive approach to the job market.

¹³ World Bank [Data](#)

¹⁴ Statista [data](#)



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