

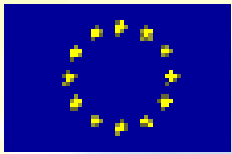
Demographic Change

An urgent challenge after the crisis

(Sustainability Report – 2009)

João Nogueira Martins
DG ECFIN - European Commission

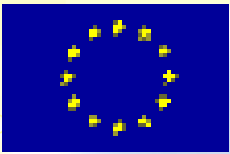
Brussels, 24 November 2009



Sustainability Report 2009

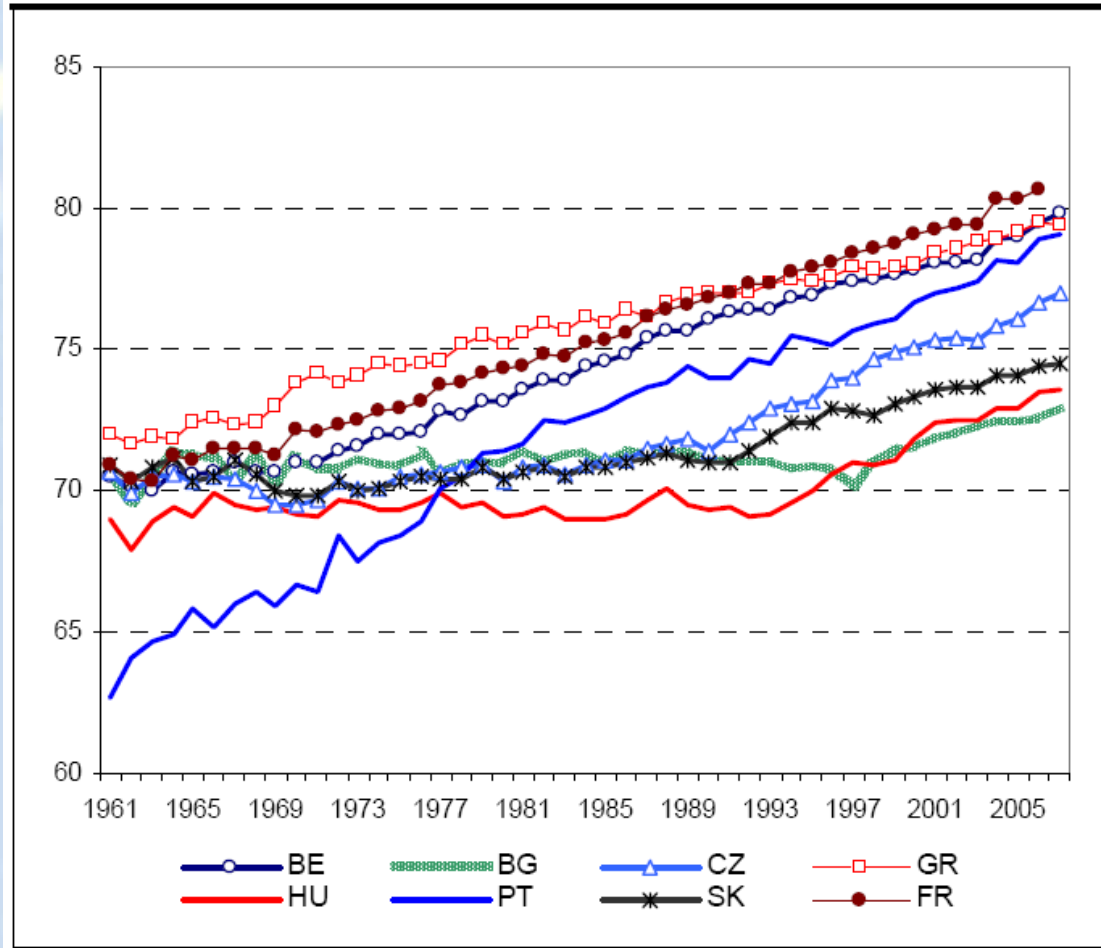
EUROPEAN ECONOMY 9 | 2009
(provisional version)



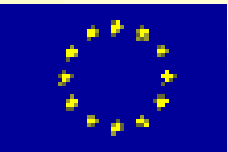


Demographic prospects

Graph II.1.1: Life expectancy at birth, 1960 to 2008, selected countries (males and females)

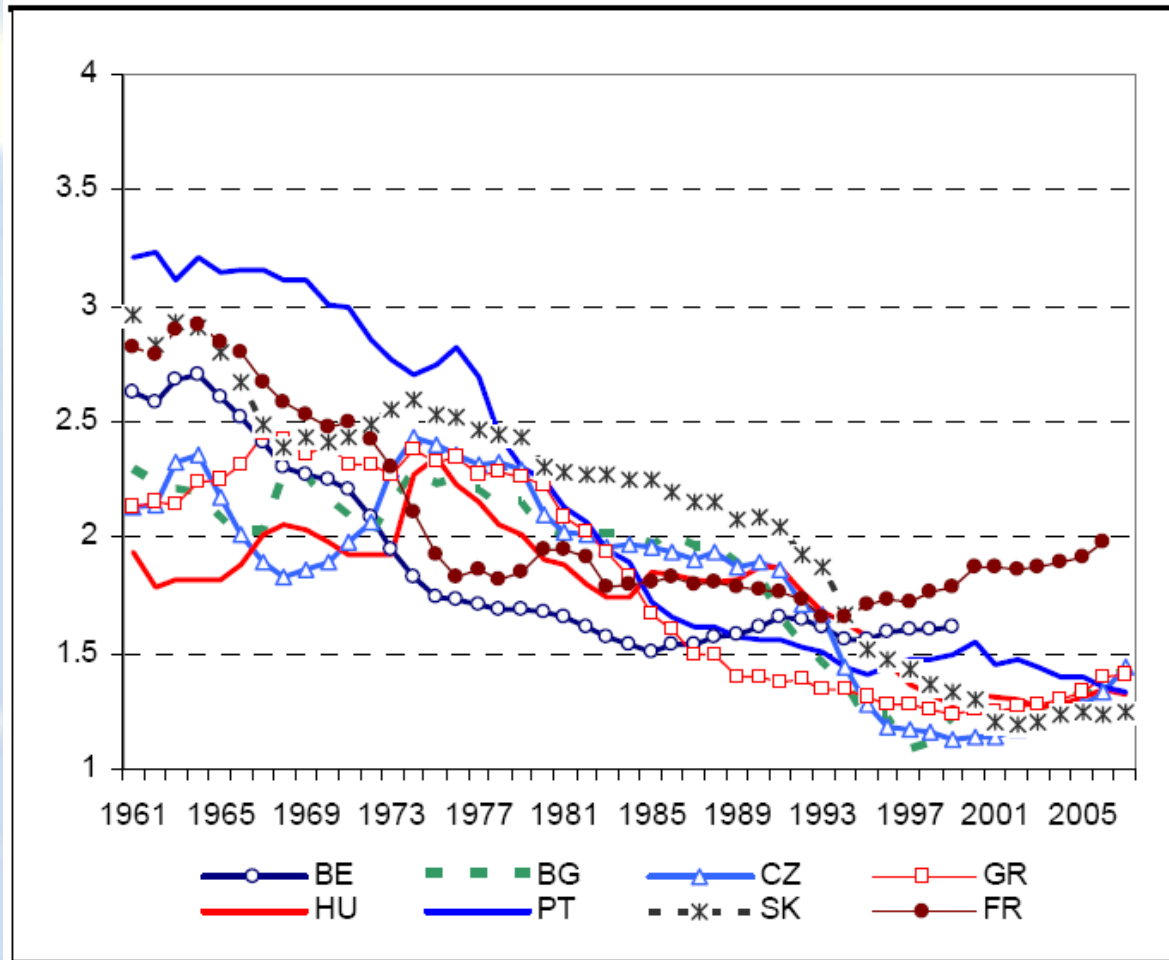


Source: Eurostat.



Demographic prospects

Graph II.1.2: Fertility rates, 1960-2008, selected Member States



Source: Eurostat.

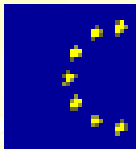
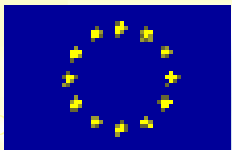


Table II.1.1: Demographic projections for the EU countries

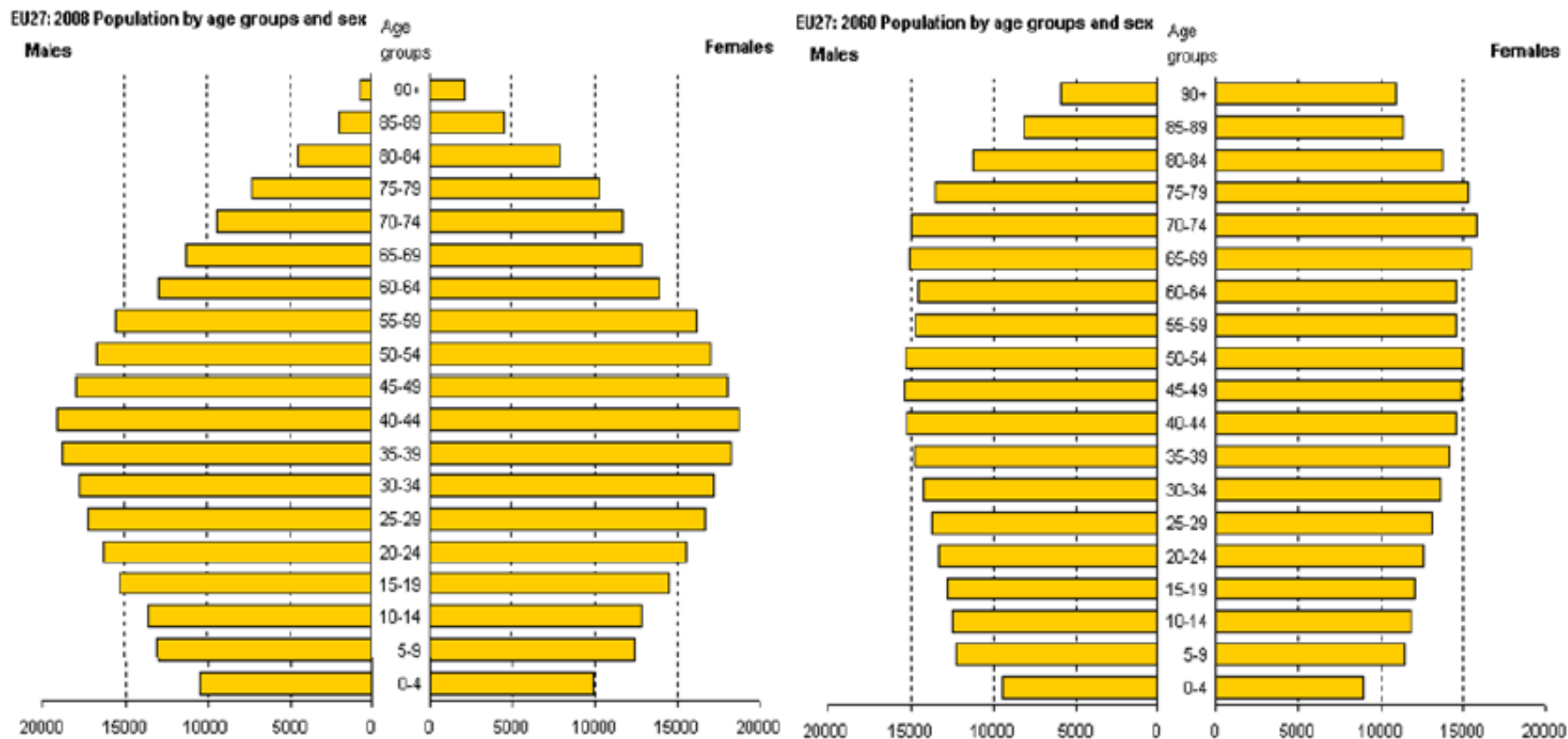
	Fertility rate		Life expectancy at birth				Net annual migration flow (as % of population)	
	(births per woman)		Females		Males			
	2008	2060	2008	2060	2008	2060	2008	2060
BE	1.8	1.8	82.3	88.9	76.7	84.4	0.5	0.2
BG	1.4	1.6	76.7	86.5	69.7	81.6	0.0	0.0
CZ	1.3	1.5	80.2	87.8	73.9	83.2	0.2	0.2
DK	1.9	1.9	81.0	88.4	76.4	84.3	0.2	0.1
DE	1.3	1.5	82.6	89.1	77.3	84.9	0.2	0.2
EE	1.6	1.7	78.7	87.5	68.0	80.8	0.0	0.0
IE	1.9	1.9	81.9	89.2	77.5	85.2	1.4	0.1
EL	1.4	1.6	82.6	88.7	77.4	84.8	0.4	0.2
ES	1.4	1.6	83.9	89.6	77.4	84.9	1.4	0.3
FR	2.0	1.9	84.3	90.1	77.5	85.1	0.2	0.1
IT	1.4	1.6	84.2	90.0	78.5	85.5	0.4	0.3
CY	1.5	1.6	81.7	88.7	78.2	85.2	1.2	0.4
LV	1.4	1.5	76.7	86.8	66.0	80.5	0.0	0.0
LT	1.4	1.5	77.4	86.9	65.9	80.5	-0.1	0.0
LU	1.7	1.7	81.2	88.5	76.3	84.5	0.9	0.4
HU	1.4	1.5	78.1	87.3	69.7	81.9	0.2	0.2
MT	1.4	1.6	81.1	88.6	76.0	84.3	0.2	0.2
NL	1.7	1.8	82.2	88.9	77.9	84.9	0.0	0.1
AT	1.4	1.6	82.9	89.2	77.4	84.9	0.4	0.2
PL	1.3	1.5	79.9	88.0	71.4	82.5	0.0	0.0
PT	1.4	1.5	82.4	88.8	75.8	84.1	0.5	0.3
RO	1.3	1.5	76.6	86.6	69.8	81.9	0.0	0.0
SI	1.3	1.5	81.9	88.8	74.7	83.7	0.3	0.1
SK	1.3	1.5	78.7	87.4	70.9	82.0	0.1	0.1
FI	1.8	1.8	83.1	89.3	76.1	84.3	0.2	0.1
SE	1.9	1.9	83.1	89.3	79.0	85.4	0.5	0.1
UK	1.9	1.8	81.5	88.9	77.4	85.0	0.3	0.1
EU-27	1.5	1.6	82.1	89.0	76.0	84.5	0.3	0.2
EA	1.5	1.7	82.3	89.0	76.6	84.6		

Source: Eurostat, EUROPOP 2008.

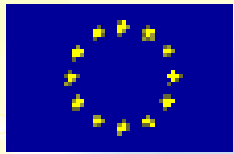


Demographic prospects

Graph II.1.3: Population pyramids (in thousands) for EU27 in 2008 and 2060



Source: Eurostat, EUROPOP 2008



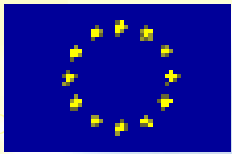
Sustainability report: third step of long-term projections

- **Demographic projections**
 - Eurostat, 2008: forecast up to 2060
- **Long-term macroeconomic projections**
 - AWG/EPC, 2009: age-related expenditure and GDP up to 2060
- **Sustainability assessment**
 - Commission forecasts for 2009
 - assumption of unchanged policy («point and vector approach»)
 - some stylised medium-term scenarios

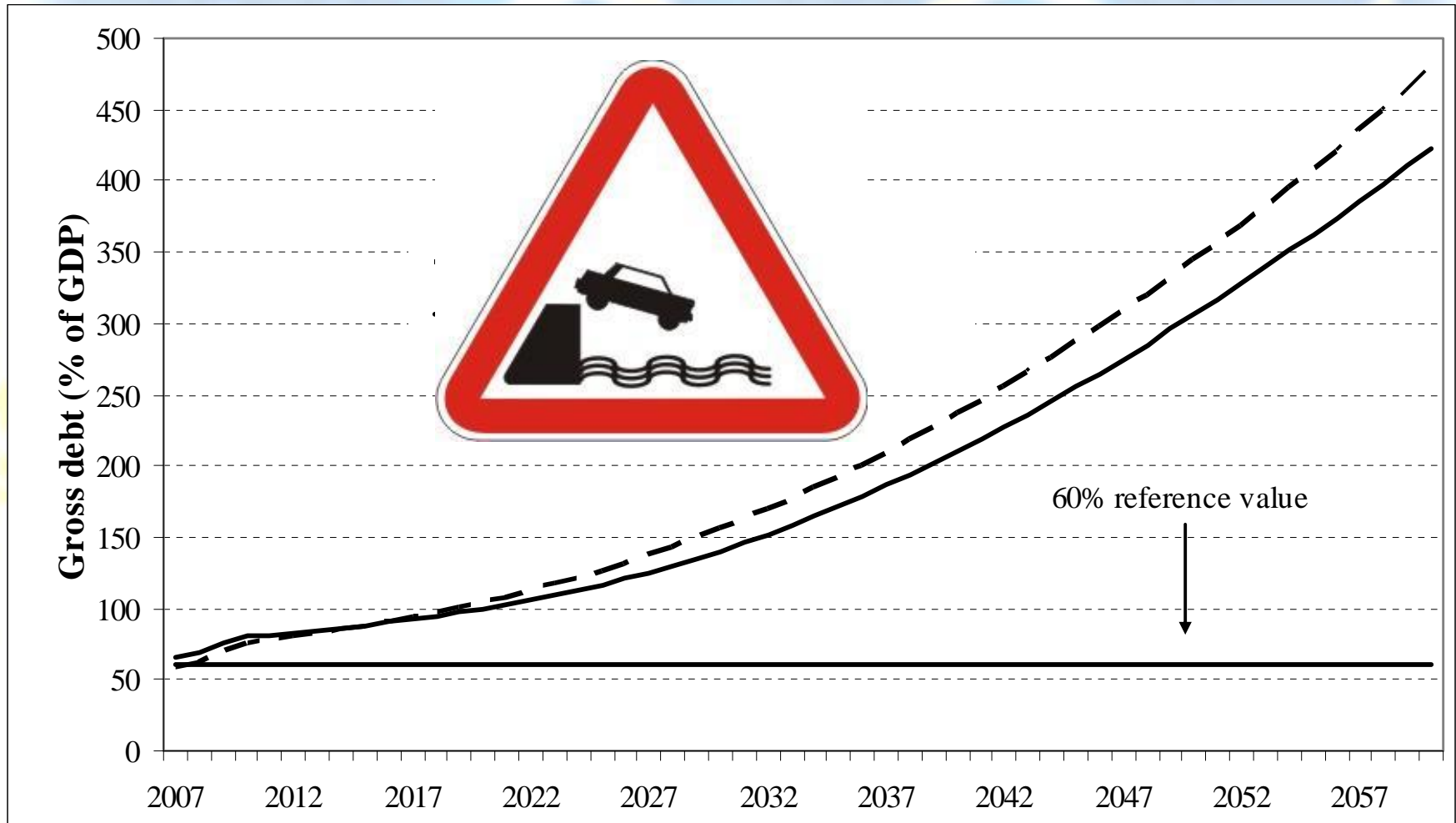
Table II.1.2: Increase in age-related expenditure, 2010-2060, % of GDP

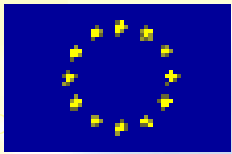
	Pension spending		Healthcare		Long-term care		Unemployment benefits and education		Total	
		Change 2010 to		Change 2010 to		Change 2010 to		Change 2010 to		Change 2010 to
	2010	2060	2010	2060	2010	2060	2010	2060	2010	2060
BE	10.3	4.5	7.7	1.1	1.5	1.3	7.3	-0.3	26.8	6.6
BG	9.1	2.2	4.8	0.6	0.2	0.2	3.0	0.2	17.1	3.2
CZ	7.1	4.0	6.4	2.0	0.2	0.4	3.3	0.0	17.0	6.3
DK	9.4	-0.2	6.0	0.9	1.8	1.5	8.0	0.1	25.2	2.2
DE	10.2	2.5	7.6	1.6	1.0	1.4	4.6	-0.4	23.3	5.1
EE	6.4	-1.6	5.1	1.1	0.1	0.1	3.2	0.3	14.8	-0.1
IE	5.5	5.9	5.9	1.7	0.9	1.3	5.3	-0.2	17.5	8.7
EL	11.6	12.5	5.1	1.3	1.5	2.1	3.8	0.1	21.9	16.0
ES	8.9	6.2	5.6	1.6	0.7	0.7	4.8	-0.2	20.0	8.3
FR	13.5	0.6	8.2	1.1	1.5	0.7	5.8	-0.2	29.0	2.2
IT	14.0	-0.4	5.9	1.0	1.7	1.2	4.3	-0.2	26.0	1.6
CY	6.9	10.8	2.8	0.6	0.0	0.0	5.8	-0.6	15.5	10.7
LV	5.1	0.0	3.5	0.5	0.4	0.5	3.3	0.3	12.3	1.3
LT	6.5	4.9	4.6	1.0	0.5	0.6	3.5	-0.4	15.1	6.0
LU	8.6	15.3	5.9	1.1	1.4	2.0	4.0	-0.3	19.9	18.2
HU	11.3	2.6	5.8	1.3	0.3	0.4	4.5	-0.3	21.8	4.0
MT	8.3	5.1	4.9	3.1	1.0	1.6	5.0	-0.7	19.2	9.2
NL	6.5	4.0	4.9	0.9	3.5	4.6	5.6	-0.2	20.5	9.4
AT	12.7	1.0	6.6	1.4	1.3	1.2	5.2	-0.2	25.7	3.3
PL	10.8	-2.1	4.1	0.8	0.4	0.7	3.8	-0.6	19.1	-1.1
PT	11.9	1.5	7.3	1.8	0.1	0.1	5.6	-0.4	24.9	2.9
RO	8.4	7.4	3.6	1.3	0.0	0.0	2.7	-0.2	14.7	8.5
SI	10.1	8.5	6.8	1.7	1.2	1.7	5.1	0.7	23.1	12.7
SK	6.6	3.6	5.2	2.1	0.2	0.4	2.9	-0.6	14.9	5.5
FI	10.7	2.6	5.6	0.8	1.9	2.5	6.4	0.0	24.7	5.9
SE	9.6	-0.2	7.3	0.7	3.5	2.2	6.6	0.0	27.1	2.7
UK	6.7	2.5	7.6	1.8	0.8	0.5	4.0	0.0	19.2	4.8
EU-27	10.2	2.3	6.8	1.4	1.3	1.1	4.9	-0.2	23.2	4.6
EA	11.2	2.7	6.8	1.3	1.4	1.3	5.0	-0.2	24.5	5.1

Source: Commission services, EPC.



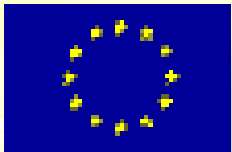
What if nothing was nothing done...



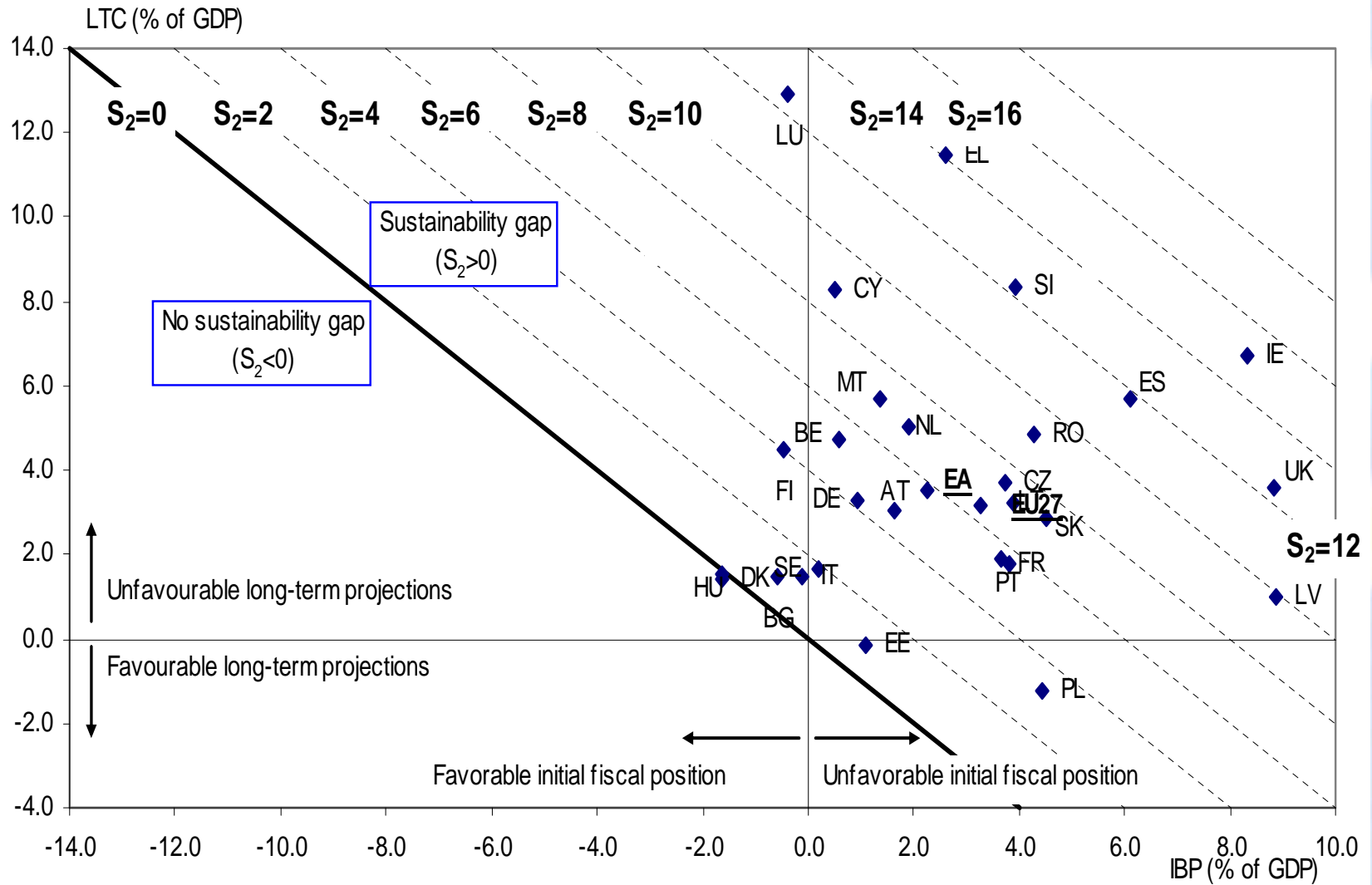


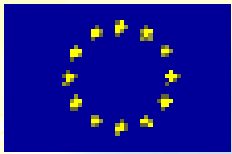
Main sustainability indicators

- **S1: Required adjustment to reach 60 % debt ratio in 2060.**
- **S2: Required adjustment to keep debt within a manageable level in the infinite horizon**
(or debt ratio stable -- at any ratio-- from 2060 on)



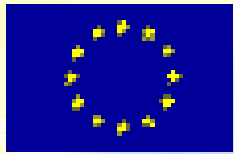
S2





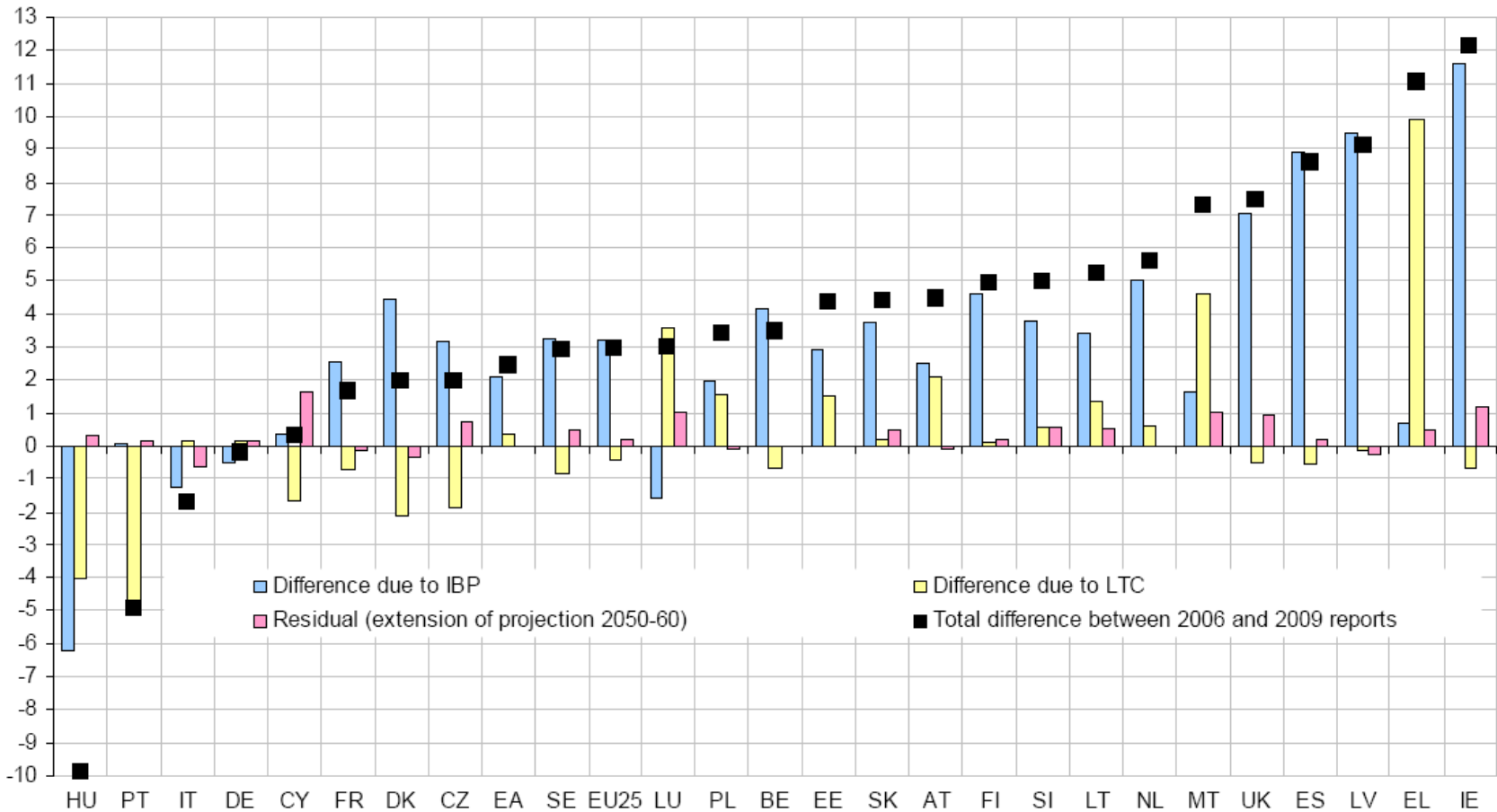
Upward and downward risks

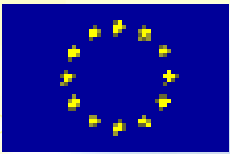
- **Initial budgetary position**
 - What is the structural balance in 2009?
 - How large is the output gap now?
- **Medium- to long-term impact of the crisis on potential growth**
 - This is not cycle as usual
- **Is long-term age-related expenditure underestimated?**
 - Very large uncertainty in relation to healthcare
- **Demography-related risks**
 - Are we underestimating gains in longevity?
 - Are we underestimating migration flows?



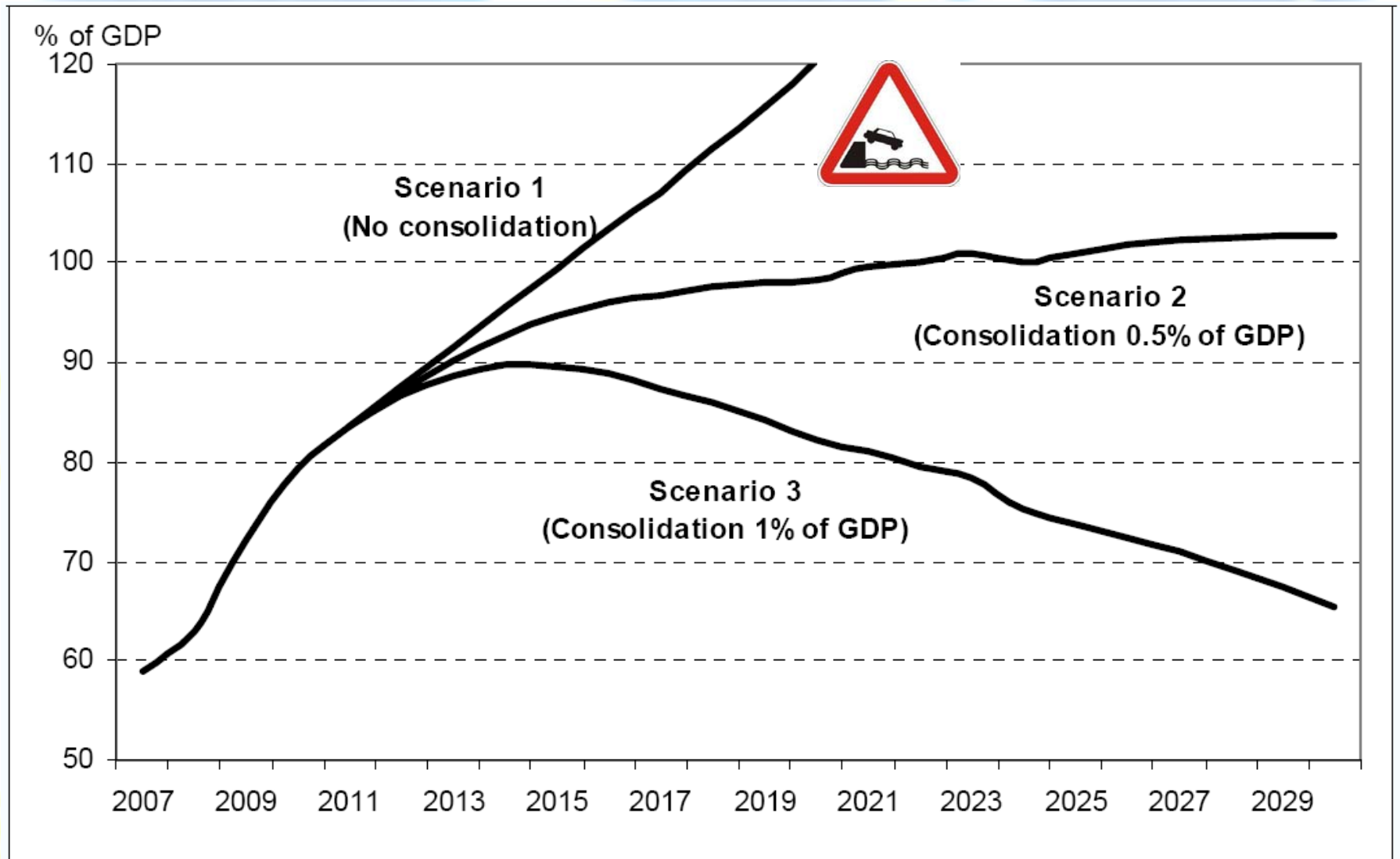
Change in sustainability over the last three years

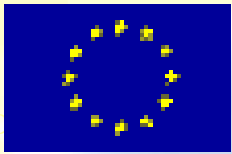
Graph III.2.1: S2 indicator in the baseline scenario compared to the results of the 2006 Sustainability Report





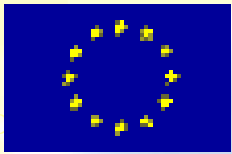
Medium-term debt prospects





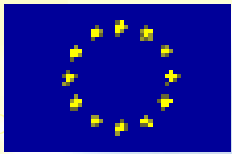
Conclusions and recommendations (Commission communication)

- **Too early to consolidate; right time to coordinate and to map strategy**
- **The sooner measures to improve fiscal sustainability are identified (credibility) and implemented the better.**
- **Any delay will imply a more severe correction at a later stage.**
- **Overcoming the ongoing economic and financial crisis without fiscal consolidation will not suffice**



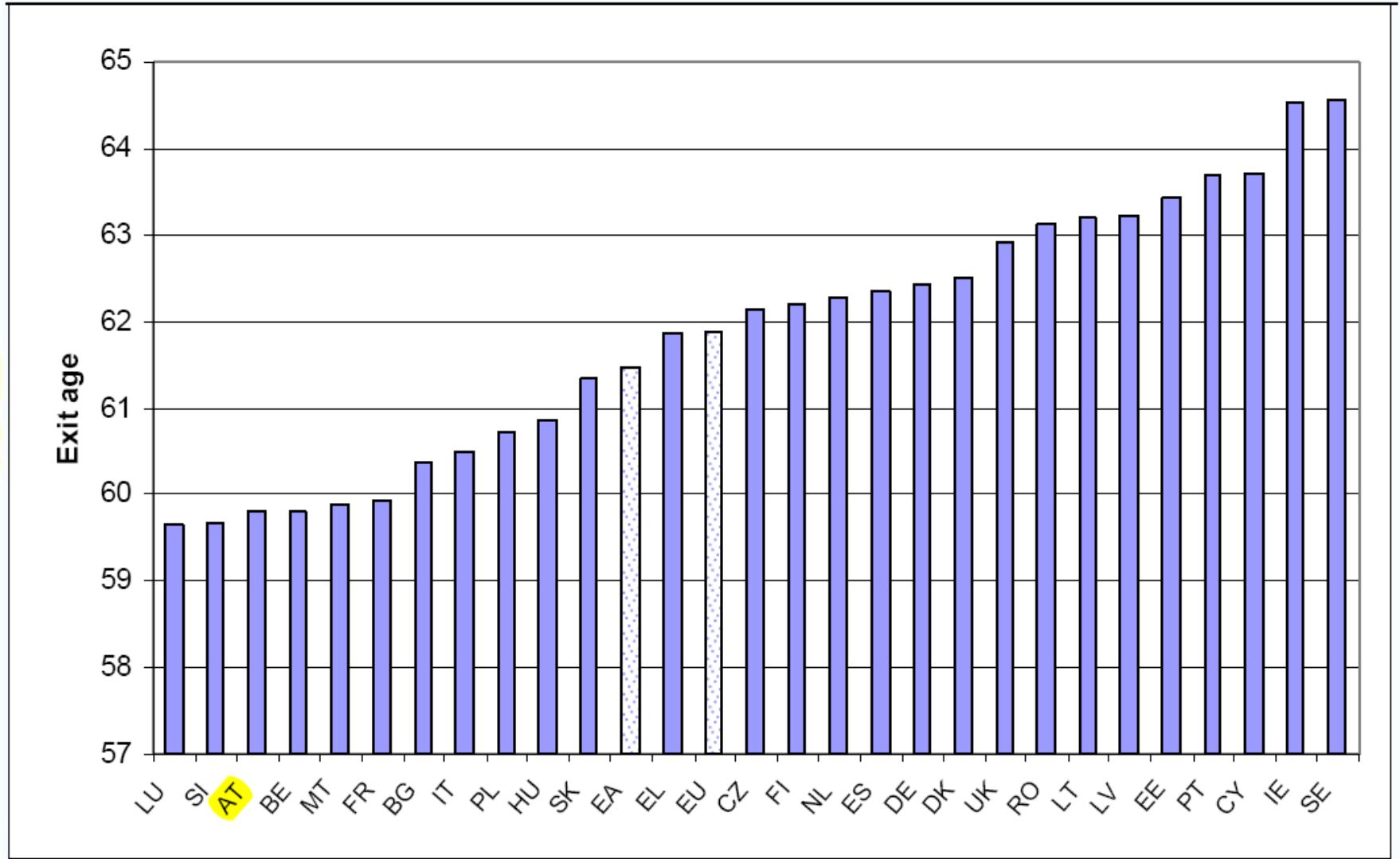
Conclusions and recommendations (Commission communication)

- **Does the Stockholm strategy remain valid?**
 1. deficit and debt reduction
 2. increases in employment rates
 3. reforms of social protection systems
- **Each pillar is now indispensable for most EU countries**
- **Reforms to social protection systems are inescapable**
 - Cut benefit ratios (??)
 - Move to private funded systems (??)
 - Increase contributions/taxes (??)
 - Increases in the effective retirement age (!!)

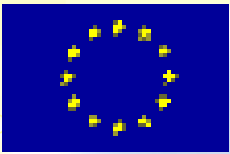


Retirement age

Graph 1: Effective exit ages in 2008

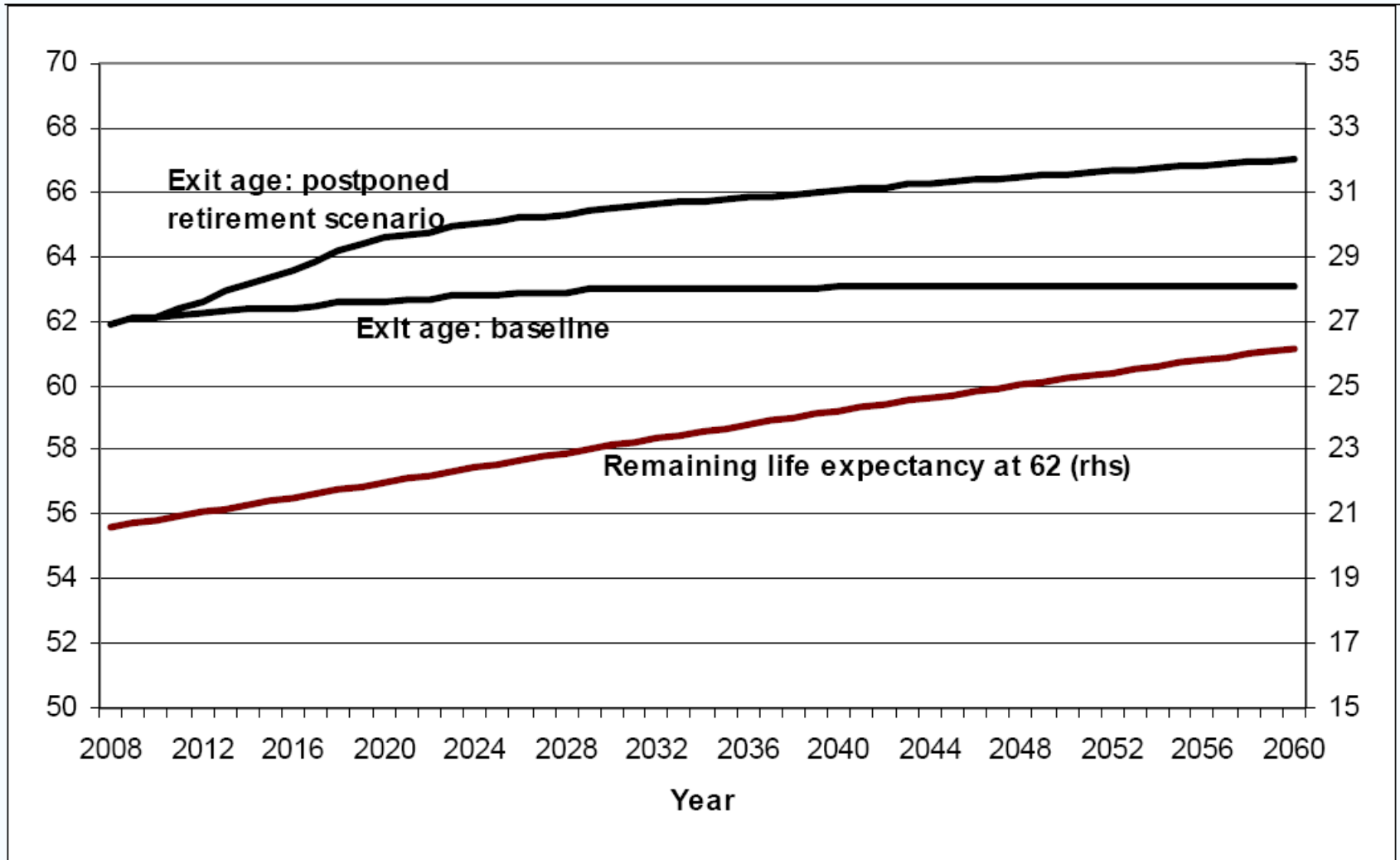


Source: Ageing Report 2009.

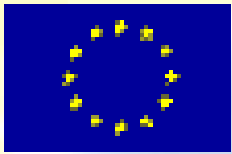


Changes in retirement age

Graph 2: Exit ages (EU27, baseline and postponed retirement scenario)



Source: Commission services.



Demographic Change

An urgent challenge after the crisis

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Vielen Dank für Ihre Aufmerksamkeit!