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From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	Draft Council conclusion on the fiscal sustainability challenges arising from ageing

Delegations will find attached the draft Council conclusion on the fiscal sustainability challenges arising from ageing population after EFC on 6 May 2021.

DRAFT COUNCIL CONCLUSION ON THE FISCAL SUSTAINABILITY CHALLENGES ARISING FROM AGEING POPULATION

The Council (ECOFIN):

1. STRESSES that ageing populations pose a major challenge for the long-term sustainability of public finances, exacerbated by the substantial rise in government debt levels following the COVID-19 pandemic crisis. Debt is expected to remain elevated for some time, amidst a high level of uncertainty at the current juncture. UNDERLINES that ensuring that fiscal policies take into account fiscal sustainability risks as well as the state of the recovery is particularly important. AGREES that until the health crisis is over and recovery is firmly underway, protecting our economy through the deployment of the necessary level of fiscal support remains necessary. Supporting economic activity and mitigating scarring effects through timely, temporary and targeted measures is key to longer-term fiscal sustainability and premature withdrawal of fiscal support should be avoided. AFFIRMS the importance of ambitious reforms and productive investment to support potential growth and of fully sizing the opportunities that the Recovery and Resilience Facility and the other components of Next Generation EU offer.

2. ENDORSES the 2021 Ageing Report economic and budgetary projections for the EU Member States (2019–2070) prepared by the Economic Policy Committee (Ageing Working Group) and Commission services (DG ECFIN) on the basis of commonly agreed methodologies and assumptions. In line with previous editions, the projections in the 2021 Ageing Report cover age-related public expenditure (pensions, health care, long-term care, and education).

3. HIGHLIGHTS the main findings of the 2021 Ageing Report:

- The old-age dependency ratio in the EU is projected to increase sharply over the long-term: whereas currently there are three working-age persons for every person aged over 65, there will be less than two by 2070. Continuing gains in life expectancy will notably contribute to the 'greying' of the population, while fertility rates will remain well below the natural replacement rate, and projected net migration flows will not suffice to offset the shrinking and ageing population trend.

- The expected decline of the working-age population means that over the long-term, labour productivity becomes the sole driver of potential GDP growth. In the EU as a whole, the average annual GDP growth rate over the period 2019-2070 is projected to remain broadly stable at 1.3% in the baseline scenario, assuming a sizeable increase in total productivity (TFP) growth. Under a scenario with lower productivity growth, the estimated average annual GDP growth rate in the EU would be 1.1%. At the same time, there are considerable differences in the growth potential across Member States.

- Total age-related public expenditure is projected to rise by 1.9 pps of GDP between 2019 and 2070 in the EU, to reach 25.9% of GDP in 2070, although with large differences across countries. Under the scenario with lower productivity (lower TFP growth scenario), it would increase by 2.4 pps of GDP between 2019 and 2070, reaching 26.4% of GDP in 2070. Under the scenario taking non-demographic cost and other drivers in health care and long-term care spending into account, the increase would be up to 4.9 pps of GDP. In the euro area, total age-related public expenditure is projected to rise by 1.7 pps of GDP in the baseline scenario, by 2.2 pps of GDP in the scenario with lower TFP growth, and by up to 4.4 pps of GDP in the scenario with higher (non-demographically driven) increases in health care and long-term care spending.

- Public pension expenditure is projected to rise by 1.1 pp of GDP in the period up to 2045, and subsequently to fall by 1 pp to a level close to its starting point by 2070 (11.7% of GDP for the EU). The projected pension expenditures, however, would be higher in case of more adverse demographic or macroeconomic assumptions. For example, under the assumption of lower productivity (lower TFP growth scenario), the increase to 2045 is estimated to be 1.3 pps of GDP, with pension spending ending up at 12.2% of GDP in 2070. There is also significant diversity across Member States depending on the degree and timing of population ageing, GDP growth prospects, the specific features of national pension systems and, notably, progress with structural reforms.

- Public expenditure in the EU on health care and long-term care is projected to increase by 2 pps of GDP in the baseline scenario, to 10.3% of GDP in 2070, reflecting mainly population developments. Taking into account possible future developments in non-demographic cost drivers in health care and long-term care spending, the projected increase in care-related spending would be significantly higher at 4.9 pps of GDP.

- Given the exceptional uncertainty regarding GDP growth in the wake of the COVID 19 crisis two supplementary projection scenarios have been calculated: the first assumes a lagged recovery in the early years of the projection period; the second a prolonged lower GDP-growth if the crisis has a structural impact, notably on the labour force.

4. REAFFIRMS that coping with the challenges highlighted by the age-related expenditure projections will require Member States to take further policy actions to resolve specific country issues. CALLS for Member States to address the economic and budgetary consequences of ageing by raising employment rates and productivity, also by addressing the gender gap in the labour market, adapting pension, health care and long-term care systems. CALLS for Member States to implement the European Semester recommendations related to the sustainability of public finances, including in the context of the Recovery and Resilience Facility.

5. WELCOMES that in most countries, pension reforms in the last decade have had a positive impact by containing public expenditure dynamics and contributing to an increase of the average retirement age. STRESSES the importance of a holistic view on both financial sustainability and adequacy of pensions systems. The forthcoming Pensions Adequacy Report 2021 complements the 2021 Ageing Report in this respect. NOTES that the scale of reforms in several countries is however still insufficient to curb the increase in public pension expenditure from already high levels, and is concerned that in some cases previous reforms have been reversed. NOTES that reversal risks can be usefully mitigated when forward-looking reforms are crafted to command national ownership. HIGHLIGHTS that further steps still need to be taken to varying degrees by Member States to raise the effective retirement age, inter alia by avoiding early exit from the labour market, promoting active ageing; strengthening incentives to remain in the labour market; and strengthening sustainability elements in the pension system such as, for instance, by linking the retirement age or pension benefits to life expectancy. Measures to reverse already undertaken sustainability-enhancing reforms need to be avoided.

6. REAFFIRMS that achieving the twin aim of ensuring fiscal sustainability and access to good quality health and long-term care services for all, by improving the efficiency and effectiveness of health and long-term care systems, is particularly important. In that regard, investments in prevention and primary care play a key role in strengthening the resilience of health systems. STRESSES that the COVID-19 crisis has also highlighted the importance of reforms and investments in health care including with a view to increasing crisis reaction capacity and crisis preparedness.

7. INVITES the Commission to factor these findings related to ageing challenges into its analysis and fiscal surveillance and to take account of its implications in all relevant fields of economic policy coordination in the EU.

8. INVITES the Commission to carry out its regular in-depth assessment of the sustainability of public finances by early 2022, using this set of comprehensive and comparable updated projections. The Economic Policy Committee should, on the basis of the assessment, report back to the Council.

9. STRESSES the importance of transparent and active information exchange between Eurostat and the National Statistical Institutes in all stages of the preparation of the population projections. INVITES Eurostat to treat population projections as a priority and to ensure sufficient resources to this purpose and to further enhance the reporting to the Economic Policy Committee, with the scope of guaranteeing the quality and soundness of population projections, in full respect of the independence of Eurostat and National Statistical Institutions. INVITES the Economic Policy Committee and the Commission to update, on the basis of new population projections to be provided by Eurostat by no later than March 2023, its analysis of the economic and budgetary implications of population ageing by the summer of 2024.