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Subject: Fiscal sustainability challenges arising from ageing
– Council conclusions (14 May 2024)

Delegations will find attached the Council conclusions on the fiscal sustainability challenges arising from ageing, as approved by the Council at its 4023rd meeting held on 14 May 2024.

COUNCIL CONCLUSIONS ON
THE FISCAL SUSTAINABILITY CHALLENGES ARISING FROM AGEING

THE COUNCIL OF THE EUROPEAN UNION:

1. RECOGNISES that the EU population is projected to start falling in the coming years. Societies are getting older, as the working-age population shrinks considerably while the number of older people increases. NOTES heterogeneous developments across Member States, including the projected population increase in several Member States, though all Member States are expected to age to some extent.
2. STRESSES that ageing populations pose a major challenge for the long-term sustainability of public finances, exacerbated by high public debt ratios in several Member States, a slowdown in potential growth, and global uncertainty weighing on the economic outlook. UNDERLINES that the fiscal policy strategy should be aimed at strengthening fiscal sustainability, rebuilding fiscal buffers, delivering higher sustainable growth and boosting EU resilience to future challenges.
3. ENDORSES the 2024 Ageing Report's economic and budgetary projections for the EU Member States (2022–2070) prepared by the Economic Policy Committee (and its Ageing Working Group) and Commission services based on commonly agreed methodologies and assumptions. NOTES that in line with previous editions, the projections in the 2024 Ageing Report cover age-related public expenditure (pensions, health care, long-term care, and education).

4. HIGHLIGHTS the main findings of the 2024 Ageing Report:

- a) 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. The coming years will be marked by the baby boomer generation reaching retirement age. Moreover, continuing gains in life expectancy contribute to a rising share of retirees, also in view of a substantial difference between statutory and effective retirement ages in many Member States. Fertility rates remain well below the natural replacement rate and an increase in labour force participation and positive net migration flows are projected not to be sufficient to compensate for the overall decline in the working-age population.
- b) The expected decrease of the labour force means that over the long term, productivity increases become the sole driver of potential GDP growth. In the EU as a whole, the average annual potential GDP growth rate over the period 2022-2070 is projected at 1.3%.
- c) Under its baseline assumptions, total age-related public expenditure is projected to rise from 24.4% of GDP in 2022 to 25.6% of GDP by 2070 for the EU aggregate, with the bulk of this increase expected by 2045 and then broadly stabilizing, notably following the underlying demographic development. However, these projections vary considerably across Member States, with an increase above of the EU average projected for 17 Member States. In nine Member States, total age-related expenditure is projected to be above the EU average by 2070. An almost universal rise in health care and long-term care expenditure contribute to the projected increase. Pension expenditure is also projected to rise in most Member States. Declining benefit ratios in many Member States mitigate the overall increase.

d) To account for the considerable degree of uncertainty around the long projection period, the 2024 Ageing Report includes several alternative scenarios. Notably, stabilising benefit ratios would put large upward pressure on pension spending in several Member States. Moreover, a lower growth rate of productivity would imply less dynamic GDP growth, thus increasing the share of age-related expenditure relative to GDP. Additionally, a risk scenario for health care and long-term care, taking into account non-demographic factors linked to technological progress and upward convergence in cost and coverage, also results in considerably higher public spending pressures. For most Member States, these scenarios show that ageing-related public expenditure could rise substantially higher than projected under the baseline. Conversely, more positive economic or demographic developments would imply a lower relative burden for public finances.

5. REAFFIRMS the need to further address the economic and budgetary consequences of ageing, including by adopting sound public finances, raising productivity as well as participation and employment rates, and adapting pension, health care and long-term care systems to these challenges. CALLS for Member States to implement the related European Semester country-specific recommendations, including in the context of the Recovery and Resilience Facility.
6. WELCOMES that in several countries, pension reforms in the last decade have contributed to containing public expenditure dynamics, to increasing effective retirement ages and to strengthening the revenue side of pension systems. STRESSES the importance of a holistic policy view, considering both the fiscal sustainability and the social adequacy of pensions systems. The upcoming Pension Adequacy Report 2024 complements the 2024 Ageing Report in this respect. HIGHLIGHTS the need for further steps to varying degrees by Member States, including raising the effective retirement age and strengthening sustainability elements in the pension system. UNDERLINES that linking the retirement age to life expectancy substantially improves the long-term sustainability of public finances in the Ageing Report's projections. CALLS for Member States to avoid reversing already adopted sustainability-enhancing reforms.

7. WELCOMES that the reform of the economic governance framework, by focusing on putting public debt on a sustainable path, factors in ageing cost projections into the medium-term fiscal-structural plans of the Member States and increases their relevance in fiscal surveillance. INVITES the Commission to include the findings of the 2024 Ageing Report in relevant fields of economic and fiscal policy coordination in the EU.
 8. WELCOMES that Eurostat continues to timely provide the population projections and STRESSES the importance of the exchanges with the national statistical institutes in this regard, in full respect of their and Eurostat's independence.
 9. 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 2026, its analysis of the economic and budgetary implications of population ageing by the summer of 2027.
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