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Subject:	COUNCIL CONCLUSIONS on the sustainability of public finances in light of ageing populations

Delegations will find attached the COUNCIL CONCLUSIONS on the sustainability of public finances in the light of ageing populations, as adopted by the Council at its 3619th meeting held on 25 May 2018.

**COUNCIL CONCLUSIONS ON THE SUSTAINABILITY OF
PUBLIC FINANCES IN THE LIGHT OF AGEING POPULATIONS**

The Council (ECOFIN):

1. STRESSES that ageing populations pose a major challenge for long term sustainability of public finances, exacerbated by the significant rise in government debt levels following the economic and financial crisis. Although debt has recently embarked on a downward trend in the EU, it remains elevated and is expected to remain above pre-crisis levels for some time. In this context ensuring the long-term sustainability of public finances is particularly important. AFFIRMS the need for appropriate growth friendly fiscal consolidation in accordance with the Stability and Growth Pact and further implementation of structural reforms supporting potential growth in order to enhance the sustainability of public finances.
2. ENDORSES the 2018 Ageing Report: economic and budgetary projections for the EU Member States (2016–2070) 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 2018 Ageing Report cover age-related public expenditure (pensions, health care, long-term care, education), and unemployment benefit expenditure.
3. HIGHLIGHTS the main findings of the 2018 Ageing Report:
 - The expected decline of the working-age population will act as a drag on growth over the long-term, while labour productivity will be the sole growth driver. In the EU as a whole, the average annual GDP growth rate is projected to remain broadly stable over the long-term. At the same time there are considerable differences in the growth potential across Member States. Over the whole period 2016–2070, the average annual GDP growth rate in the EU is projected to be 1.4% in the baseline scenario, assuming a sizeable increase in total factor productivity (TFP) growth. Under an alternative, less optimistic scenario of lower TFP growth, the estimated average annual GDP growth rate in the EU would be 1.1%.

- Total age-related public expenditure is projected to rise by 1.7 pps. of GDP between 2016 and 2070 in the EU, to reach 26.6 % in 2070, although with large differences across countries. Under the scenario of a more adverse macroeconomic assumption (with lower TFP growth), it would increase by 2.2 pps. between 2016 and 2070, reaching 27.1 % of GDP in 2070.
- Public pension expenditure is projected to rise by 0.8 pps. of GDP in the period up to 2040, and subsequently return to slightly below its starting point by 2070 (11 % 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 lower TFP growth scenario, the increase to 2040 is estimated to be 1.1 pps. of GDP, with pension spending ending up at 11.4 % of GDP in 2070. There is again 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 on health care and long-term care is projected to increase by 2 pps. of GDP in the EU in the baseline scenario, to 10.4% 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 4 pps. of GDP between 2016 and 2070.

4. REAFFIRMS that, while welcoming recent reforms in many Member States, 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 implement the European Semester recommendations related to the sustainability of public finances, as well as apply the three-pronged strategy for addressing the economic and budgetary consequences of ageing by reducing government debt, raising employment rates and productivity, and reforming pension, health care and long-term care systems.

5. In this regard, WELCOMES that in most countries, recent pension reforms have had a positive impact by containing public expenditure dynamics and contributing to an increase of average exit age from the labour market. NOTES that the scale of reforms in several countries is however still insufficient to curb the increase in public pension expenditure and is concerned that in some cases previous reforms have been reversed. HIGHLIGHTS that further steps still need to be taken by Member States, though to varying degrees, 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 by linking the retirement age or pension benefits to life expectancy. Measures implying the reversal of already undertaken sustainability-enhancing reforms need to be avoided. NOTES the importance of a holistic view on both financial sustainability and adequacy of pensions systems. The Pensions Adequacy Report 2018 complements the 2018 Ageing Report in this respect.
6. Recalling its conclusions of 8 November 2016, 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.
7. INVITES the Commission to factor these findings related to ageing challenges into its analysis and surveillance under the European Semester 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 the end of 2018 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. WELCOMES Eurostat's ongoing work on improving the governance of population projections, including exchange of experiences and practices and suggestions for improvements with the National Statistical Institutes (NSIs) and reporting to the Economic Policy Committee with the scope of improving the quality and soundness of population projections, in full respect of the independence of Eurostat and NSIs. INVITES the Economic Policy Committee and the Commission to update, on the basis of new population projections to be provided by Eurostat, its analysis of the economic and budgetary implications of population ageing by the autumn of 2021.
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