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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Draft Council conclusions on the sustainability of public finances in light of ageing populations

Delegations will find attached the revised draft Council Conclusions on the sustainability of public finances in the light of ageing populations after EFC on 29-30 April 2015.

The only change on the revised document is the distribution marking LIMITE on the cover page.

Council conclusions on the sustainability of public finances in light of ageing populations

The Council adopted the following conclusions:

1. The economic and financial crisis has put a significant burden on public finances and has led to rising deficits and debt levels. Ensuring the long-term sustainability of public finances is therefore particularly important at the current juncture. The Council STRESSES the need for appropriate growth friendly fiscal consolidation and for further implementation of structural reforms in order to enhance the sustainability of public finances.

2. Against this background, the Council ENDORSES the 2015 Ageing Report: economic and budgetary projections for the 28 EU Member States and Norway (2013-2060) prepared by the Economic Policy Committee (Ageing Working Group) and the Commission (DG ECFIN) on the basis of commonly agreed methodologies and assumptions. In line with previous editions, the projections in the 2015 Ageing Report cover public expenditures on pensions, health care, long-term care, education and unemployment benefits.

3. The Council HIGHLIGHTS the main findings of the 2015 Ageing Report:

   - Over the whole period 2013-2060, average annual GDP growth in the EU is projected to be 1.4%, unchanged compared to the 2012 Ageing Report. However, there are significant differences in the growth potential across Member States.

   - Total age-related public expenditures are projected to increase by 1.4 p.p. of GDP between 2013 and 2060 in the EU, to reach 27% in 2060, with large differences across countries. Excluding unemployment benefits (strictly-age-related expenditure), an increase of 1.8 p.p. of GDP between 2013 and 2060 is projected in the EU, to reach 26.3% in 2060.

Taking into account possible more adverse macroeconomic assumptions, such as the TFP risk scenario, strictly ageing-related public expenditures could increase by 2.1 p.p. of GDP between 2013 and 2060. As a result of recent reforms and more benign demographic developments projected for the EU as a whole in EUROPOP2013, the projected increase in the total age-related expenditure over 2013-60 is now significantly lower than projected in 2012 (3.3 pp. of GDP).

- After a projected increase up to 2040, also related to the baby boom generation reaching the retirement age, public pension expenditure is projected to return close to its 2013 level by 2060 (11.3 % of GDP for the EU). The diversity across Member States is very large, depending on the degree and timing of population ageing, the specific features of national pension systems and, notably, countries' progress with structural reforms. In most countries, recent pension reforms have had a visible positive impact by containing public expenditure dynamics. Pension reforms have also contributed to an increase in the effective retirement age and thus labour input. The scale of reforms in some Member States is however still insufficient to curb the increase in public pension expenditure.
- Public expenditure on health care and long-term care is projected to increase by 2 p.p. of GDP between 2013 and 2060 in the EU in the AWG reference scenario with considerable differences across countries, reaching 10.6 % of GDP in 2060, which is mainly due to demographic developments. Taking into account possible future developments in non-demographic cost drivers in health care and long-term care spending, as foreseen in the AWG risk scenario, the projected increase in care-related spending could even reach 4 p.p. of GDP between 2013 and 2060.

4. In light of the updated age-related expenditure projections and the current economic situation, the Council, while welcoming recent reforms in many Member States, REAFFIRMS that there is a need to continue appropriate policy action in the EU in all age-related areas, notably pension, health and long-term care reforms while taking into account country specificities, and to avoid measures resulting in the reversal of sustainability enhancing reforms already undertaken. This entails a prompt implementation of the Country Specific Recommendations issued under the European Semester and of the three-pronged strategy for addressing the economic and budgetary consequences of ageing, i.e. by reducing government debt, raising employment rates and productivity, and reforming pension, health care and long-term care systems.

5. The Council HIGHLIGHTS specifically that further steps still need to be taken by Member States, though to varying degrees, to raise the effective retirement age, including by avoiding early exit from the labour market and by linking the retirement age or pension benefits to life expectancy. Moreover, the Council, recalling its Conclusions of 7 December 2010, INVITES Member States to balance the need to provide universal health care and long-term care, meet an increasing demand related to an ageing population, as well as growing patient expectations due to technological development in the coming decades with the need to reduce high public debt levels. This highlights the need to assess the performance of health and long term care systems and implement sound and necessary reforms in order to achieve a more efficient use of public resources as well as the provision of high quality health and long term care.

6. The Council INVITES the Commission to factor these findings related to ageing challenges and other relevant information including updated estimates of nearer-term potential GDP growth[1] 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.

[1] On April 1st 2015 the EPC endorsed a revised approach to projecting population growth for the purposes of potential GDP estimation for Ireland, Latvia and Lithuania.

7. The Council INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by the end of 2015 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.

8. The Council INVITES the Economic Policy Committee to update, on the basis of new population projections to be provided by Eurostat, in close cooperation with the National Statistical Institutes (NSIs), its analysis of the economic and budgetary implications of population ageing by the autumn of 2018. Moreover, the Council INVITES Eurostat to systematically provide annual updates of their population projections, in particular as regards migration flows, to be used over the short to medium term forecast horizon.