



**COUNCIL OF
THE EUROPEAN UNION**



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

*3167th ECONOMIC and FINANCIAL AFFAIRS Council meeting
Brussels, 15 May 2012*

The Council adopted the following conclusions:

- "1. Positive developments related to life expectancy have taken place in recent years. Nevertheless, an ageing population poses major economic, budgetary and societal challenges. The economic and financial crisis contributed to a strong deterioration in the budgetary positions in most Member States, resulting in high government debt levels and potentially putting at risk fiscal sustainability in several EU countries. The Council **STRESSES** the need for ensuring swift progress towards long-term fiscal sustainability of public finances by continuing appropriate consolidation of public finances. The Council **STRESSES** the urgency for further implementation of structural reforms in accordance with the Europe 2020 strategy and the Ecofin Council conclusions of 21 February 2012 in order to durably enhance the growth potential of EU economies and thereby further support the sustainability of public finances within the strengthened governance framework in the EU.
2. Against this background, the Council **ENDORSES** the 2012 Ageing Report: economic and budgetary projections for the 27 EU Member States (2010-2060) 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 2012 Ageing Report cover age related public expenditures in pensions, health care, long-term care, education, and unemployment benefits.

P R E S S

3. The Council HIGHLIGHTS the main findings of the 2012 Ageing Report:
- Following the largest economic crisis in many decades, potential GDP growth has been revised downwards in 2010 and the surrounding years, compared with the baseline projection in the 2009 Ageing Report. As a consequence, the GDP level is lower throughout the projection period in the new projections. In addition, a substantial decline in the working-age population over the projection period will result in a decrease in labour supply with a consequent trend decline in potential growth estimated to converge to below 1 ½ % in real terms in the long-term in the EU.
 - The fiscal impact of ageing will be considerable in almost all Member States. The economic crisis has already led to an increase in age-related public expenditure in 2010 compared with the previous projections and, on the basis of current policies, strictly-age-related public expenditures (excluding unemployment benefits) are projected to further increase by 4.1 p.p. of GDP between 2010 and 2060 in the EU, with large differences across countries. This increase is nevertheless lower than in the previous projection round (4.7 p.p.) thanks to recent reforms and more benign demographic developments projected for the EU.
 - The projected increase in age-related expenditure amongst others reflects public pension spending rising by 1.5 p.p. of GDP until 2060 in 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 a number of countries, recent pension reforms have had a visible positive impact by containing public expenditure dynamics, including by introducing a link between the statutory retirement age and life expectancy in some cases. The scale of reforms in some other countries is still insufficient or has not been quantified yet.
 - Mainly due to demographic developments, public expenditure on health care and long-term care is projected to increase by 2.7 p.p. of GDP between 2010 and 2060 in the EU in the AWG reference scenario. Taking into account possible future developments in non-demographic cost drivers in health care and long-term care spending, as in the AWG risk scenario, the projected increase in care-related spending could even reach 3.4 p.p. of GDP between 2010 and 2060.
4. In light of the updated age-related expenditure projections and the current economic situation, the Council REAFFIRMS that coping with these challenges will continue to require appropriate policy action in the EU. This entails implementation of the Europe 2020 strategy and of the three-pronged strategy for addressing the economic and budgetary consequences of ageing, i.e. by reducing government debt at a fast pace, raising employment rates and productivity, and reforming pension, health care and long-term care systems.

5. The Council therefore RECONFIRMS the commitment to implementing further reforms in all these areas, notably pension and health care reforms, while respecting national traditions of social dialogue. Especially, the Council HIGHLIGHTS that further steps need to be taken to raise the effective retirement age, including by avoiding early exit from the labour market and by linking the statutory retirement age or pension benefits to life expectancy, in line with the 2012 Annual Growth Survey, or may include other measures of equivalent budgetary effect. Achieving this will give rise to a double dividend: higher living standards for all, including supporting adequate retirement income in the future, which is the specific subject of a parallel work-strand in the Social Protection Committee, and an important contribution to public finance sustainability. 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 with an increasing demand related to an ageing population, technological development and growing patient expectations in the coming decades. This enhances the need to assess the performance of health care systems and implement sound and needed reforms to achieve both a more efficient use of limited public resources and the provision of high quality health care within the context of significant budgetary constraints resulting from the high government deficit and debt levels.
 6. The Council 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, as ensuring the long-term sustainability of public finances is a major challenge that needs to be addressed resolutely and monitored closely.
 7. The Council INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by autumn 2012 using this set of more comprehensive and comparable updated projections. The Economic Policy Committee should on the basis of this assessment report back to the Council. The Council RECALLS that the new long-term budgetary projections should be taken into account in the update of the MTOs incorporating implicit government liabilities, and INVITES the Economic and Financial Committee and the Commission to finalise their work considering the new role of MTO in national fiscal frameworks. The Council INVITES the Economic Policy Committee to update, on the basis of new population projections to be provided by Eurostat, its analysis of the economic and budgetary implications of ageing by the autumn of 2015."
-