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Ageing, the Crisis and its Consequences on Fiscal Sustainability in Austria

**Complementing Daniele Franco's presentation
on Fiscal Sustainability**

Vienna/22 October 2009

**Demographic change
leads to ...**

... a shrinking working-age-population.

Population 15-64: -8% from today to 2060

... an increasing elderly population.

Population 65+: +80% from today to 2060

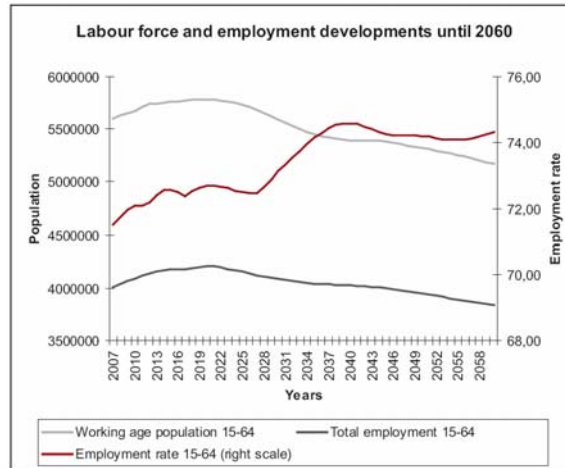
Austria will move from having 4 working-age people for every person aged over 65 years to a ratio of 2 to 1 by 2060.

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This again brings ...

4

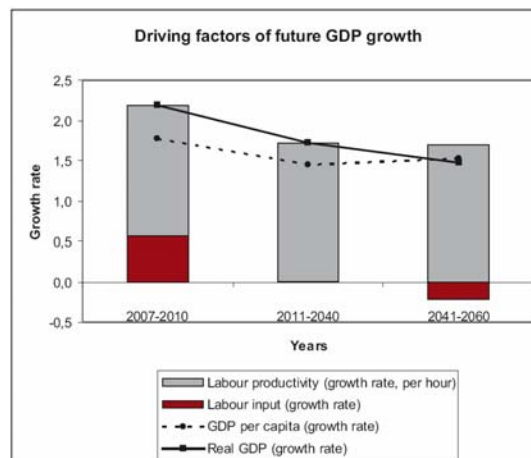
... a lower labour force,



European Commission & Economic Policy Committee "Ageing Report 2009"

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... and, thereby, a lower real potential GDP growth rate,



European Commission & Economic Policy Committee "Ageing Report 2009"

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... and increasing age-related expenditures
from today to 2060 (baseline scenario),

Pensions	+ 0.9 p.p. of GDP
Health Care	+ 1.5 p.p. of GDP
Long-Term Care	+ 1.2 p.p. of GDP
Education	- 0.05 p.p. of GDP
Unemployment Benefits	- 0.5 p.p. of GDP
Total	+ 3.1 p.p. of GDP

... in a "permanent shock scenario" in total:
+5.5 p.p. of GDP

→The crisis and ageing
put the
sustainability of public finances
at risk.

Sustainability at risk

- Budget deficit exceeding 3% of GDP and historically high debt ratio.
- The sustainability gap (SG) for Austria is 4.7% of GDP (EU 6.5% of GDP).
 - Scenario "Permanent shock": SG of 7.2% of GDP
 - Scenario "Balanced Budget in 2010": SG of 0.1% of GDP
- If governments do not counteract this could lead to extraordinary high public debt ratios by 2060.

Conclusions I

- Important to keep in mind
(*ad Ageing & Sustainability Reports*)
 - Common EU assumptions and models
(not always country specific)
 - No-policy-change assumption
 - Baseline scenario & sensitivity analysis
- The messages the reports give are important and not necessarily each single decimal place.

- **Identifying fiscal consolidation strategies (political decision) → 2010**
- **Implementing consolidation measures timely but not too early (depends on progress of recovery) → 2011**
- **EU 3-pronged strategy for securing sustainability**
 - reducing deficit and debt
 - increasing employment rates
 - reforming social protection systems