

# The ageing of Europe

## *View from An Elderly Heart*



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# Presentation Outline

- Demographic factors
- Budgetary challenges
- Labour Markets
- Economic growth
- Financial markets

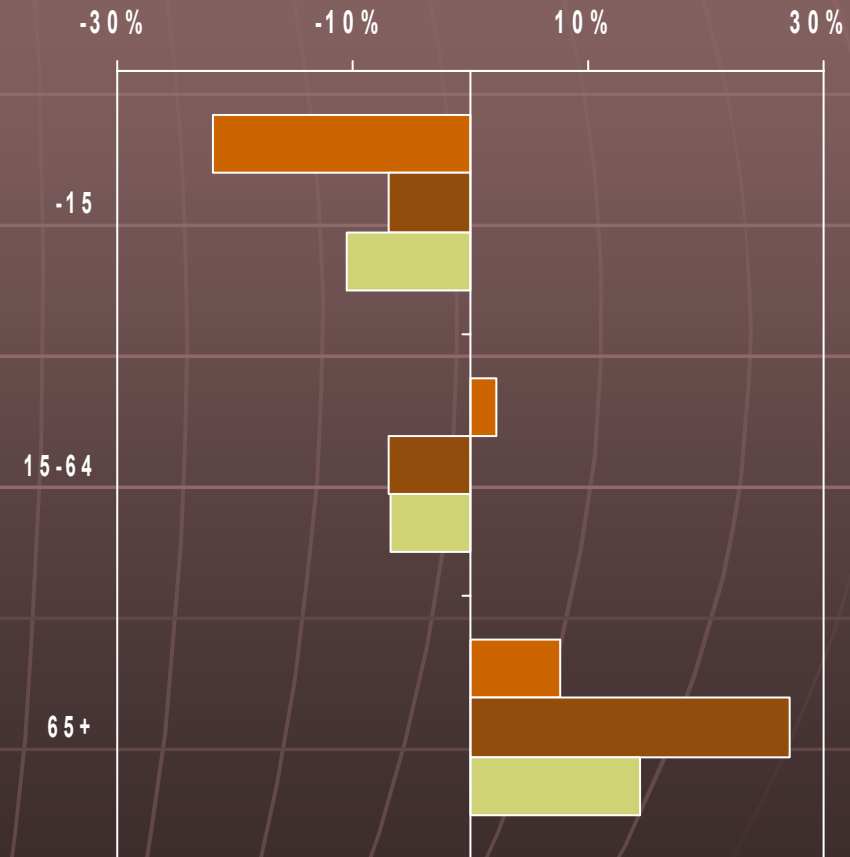
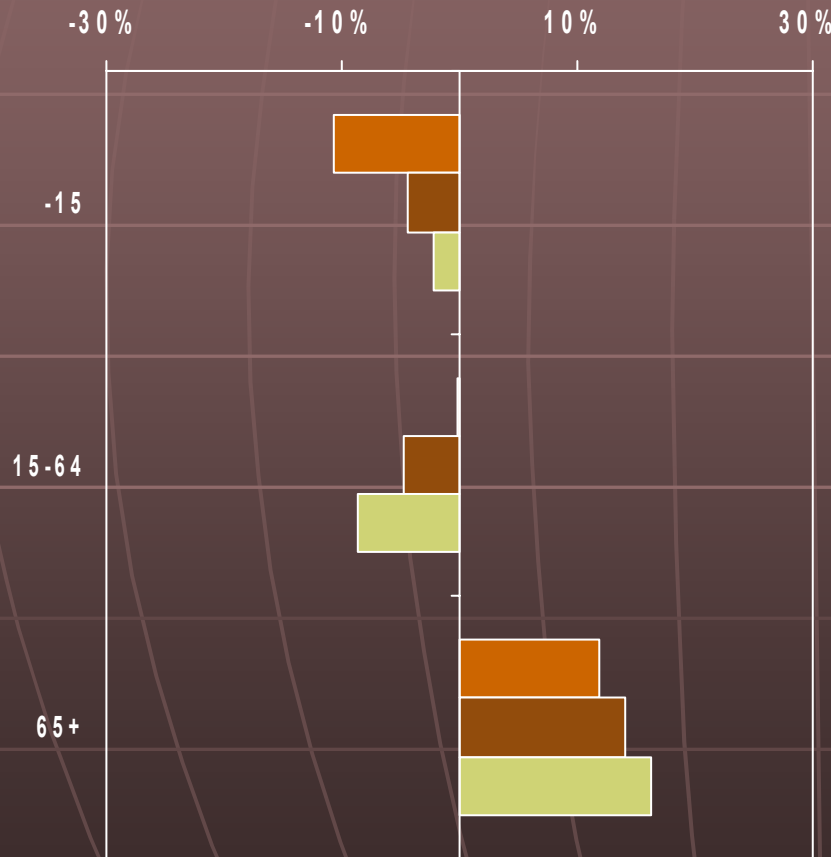
*Always with a focus on the new member states (NEW EU-10)*

# Ageing Europe

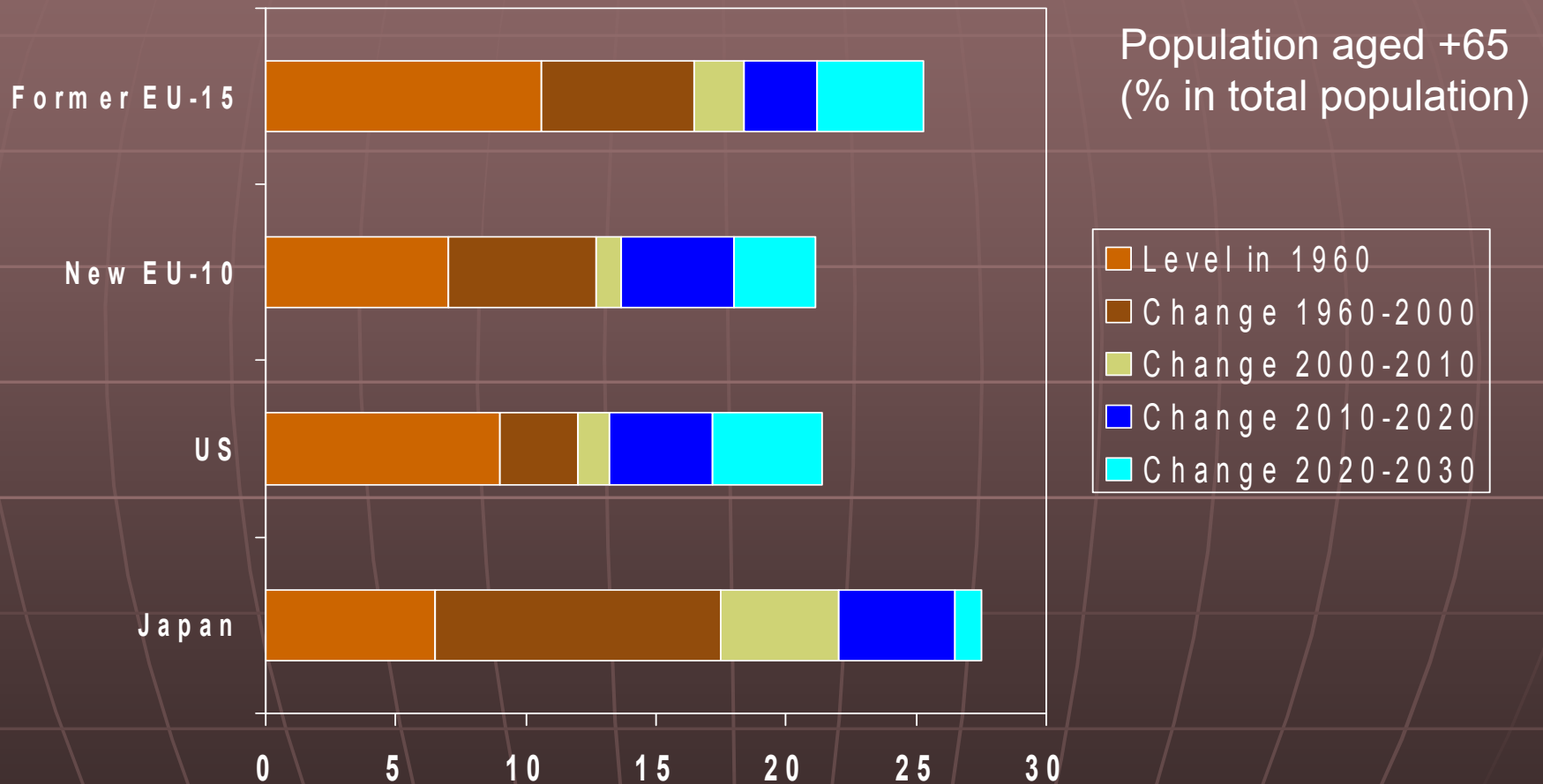
## Population growth by age group

Former EU-15

New EU-10



# The speed of ageing in Europe, US and Japan

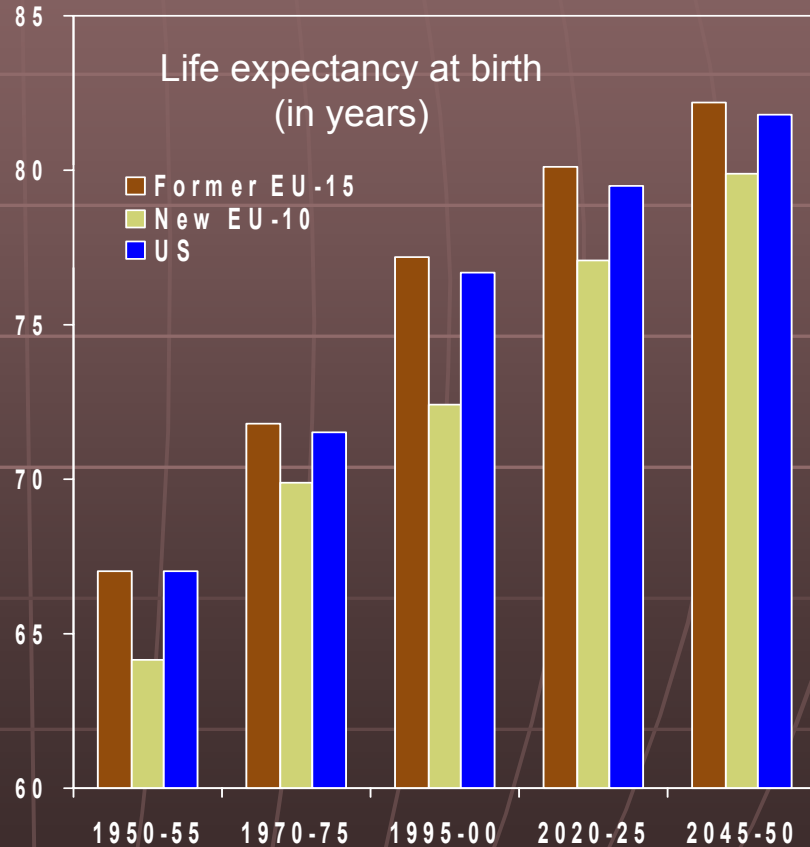
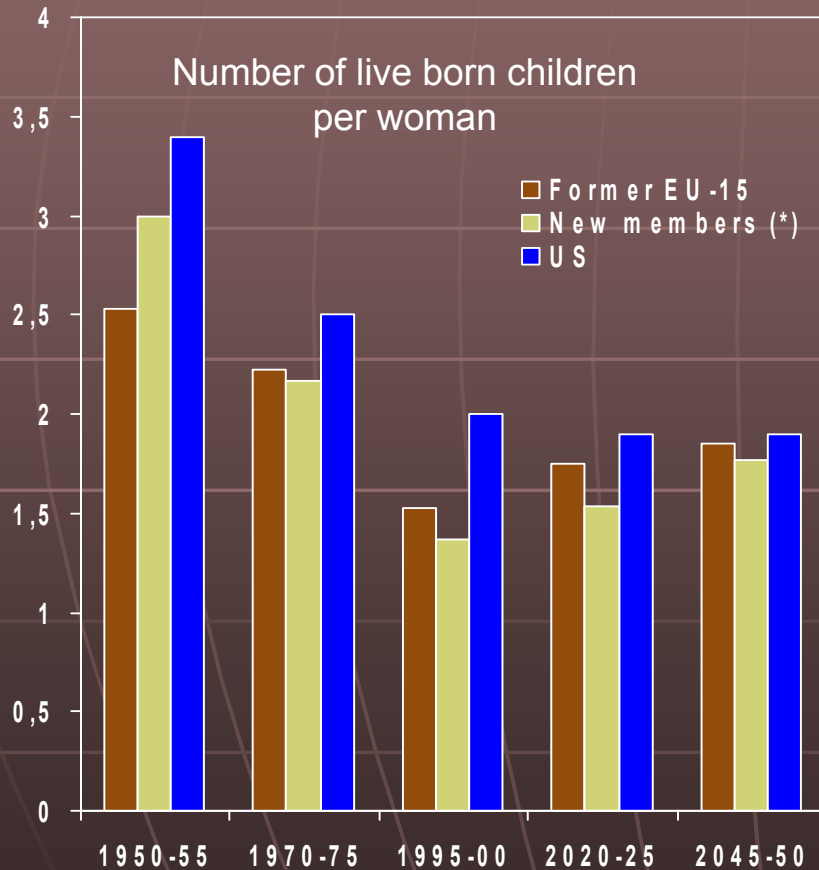


# Ageing Europe

Lack of children, increasing life expectancy

Fertility rate

Life expectancy



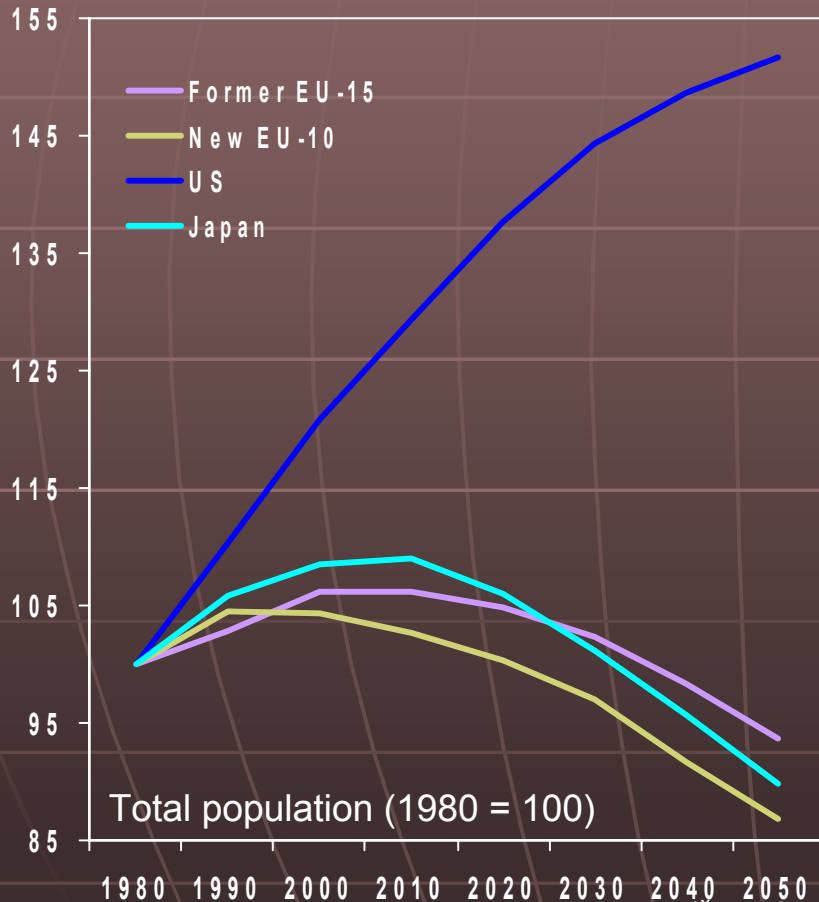
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(\*) Czech Republic, Poland and Hungary

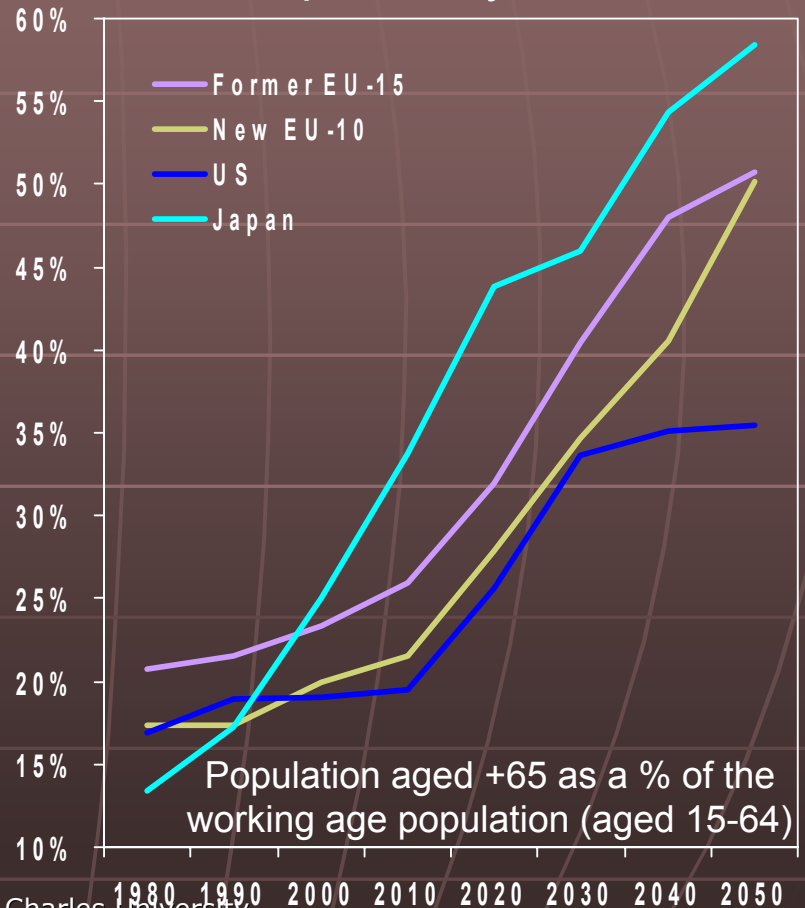
# Ageing Europe

## Population and dependency

Fairly strong population decline



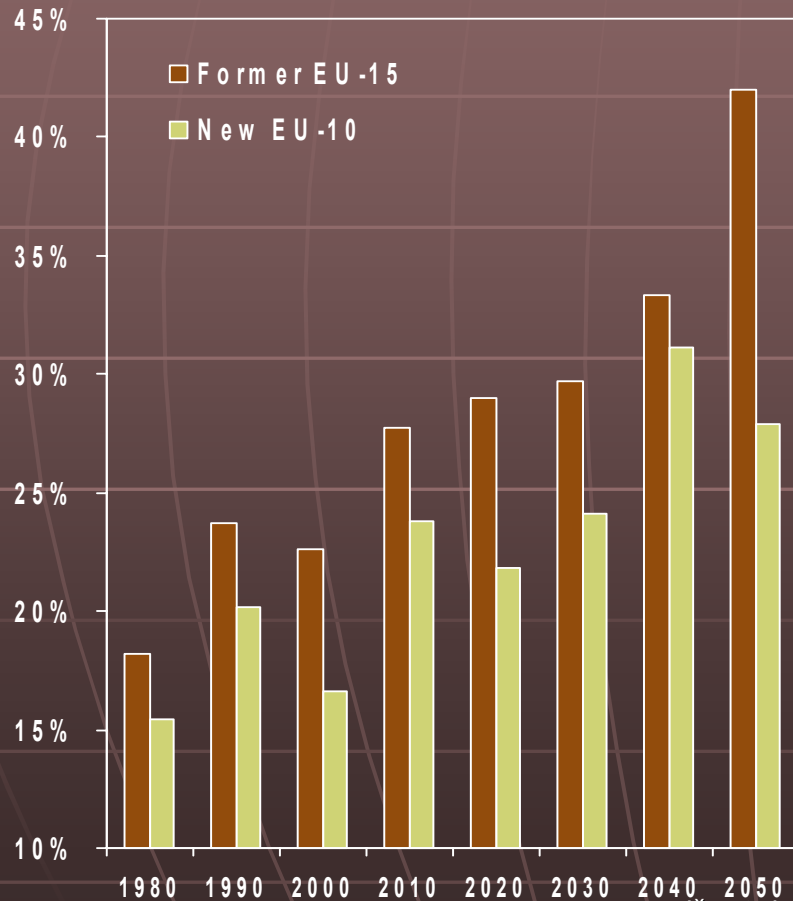
Rapid increase in old-age dependency ratios



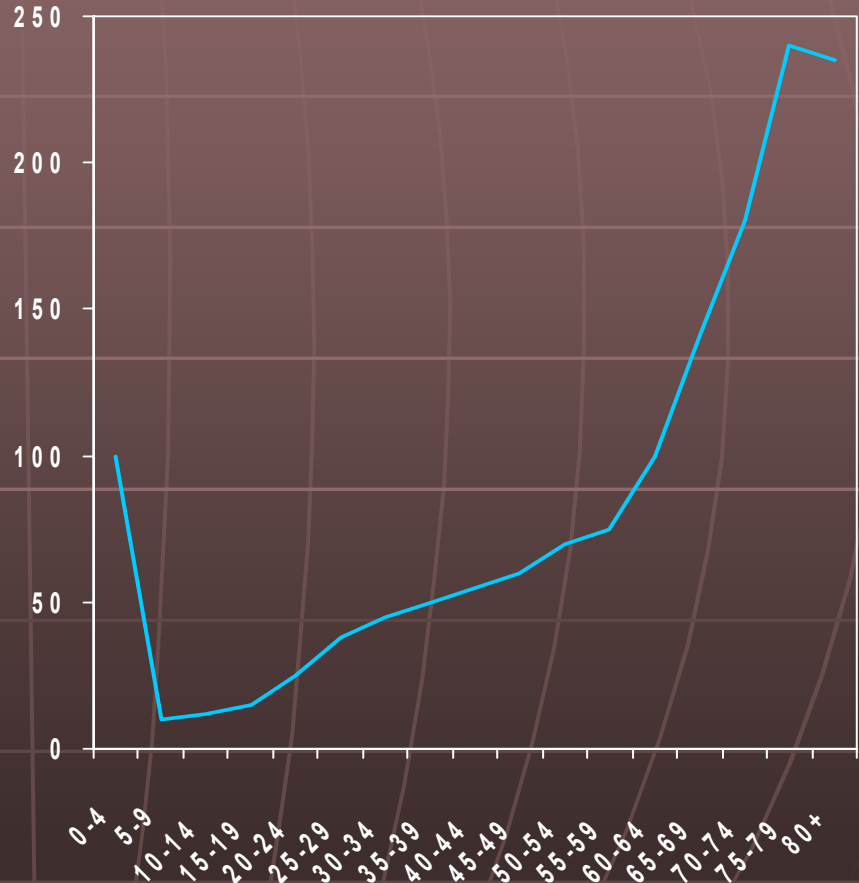
# Ageing Europe

## The elderly group expands

Percentage of 80+ in 65+



Relative health care expenditure by age group (age 0-4 = 100, OECD)



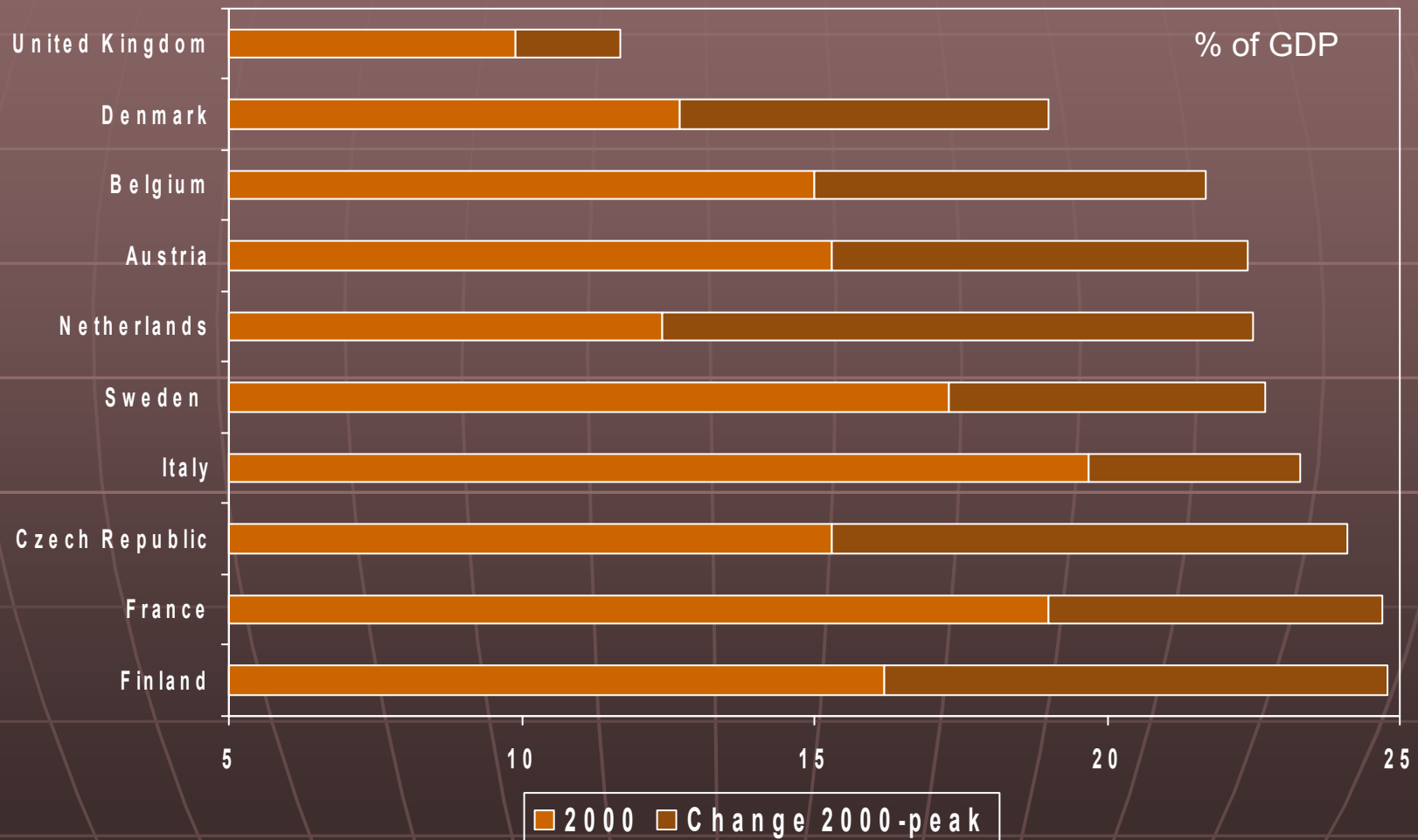
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Source: Mayhew (2000)

# Budgetary challenges

## Higher age-related public spending

### Old-age pension, health care and long-term care spending (\*)



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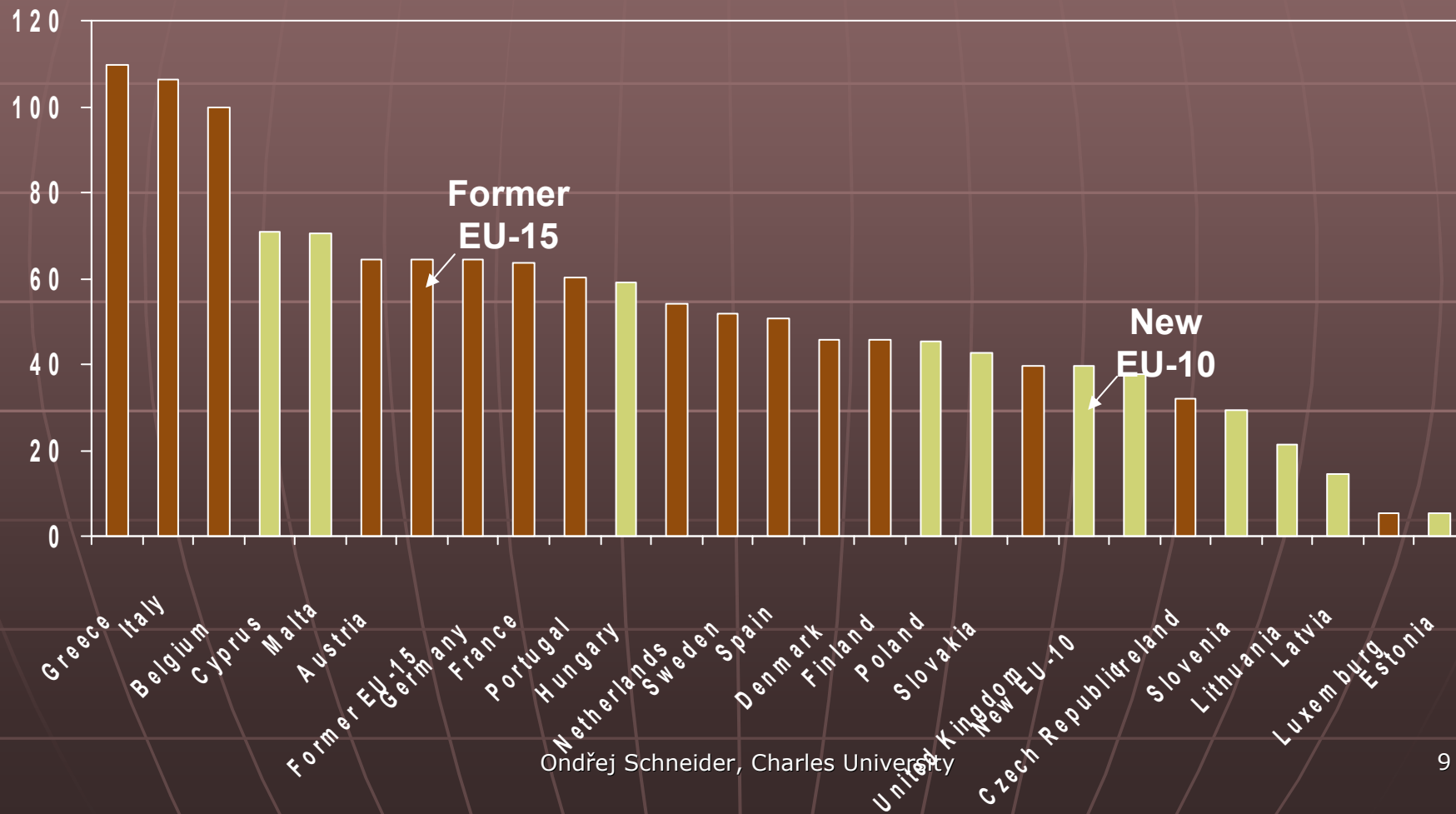
Source: OECD (2001); (\*) Long-term care includes home care and institutional care other than hospitalisation



# Budgetary challenges

## Debt level

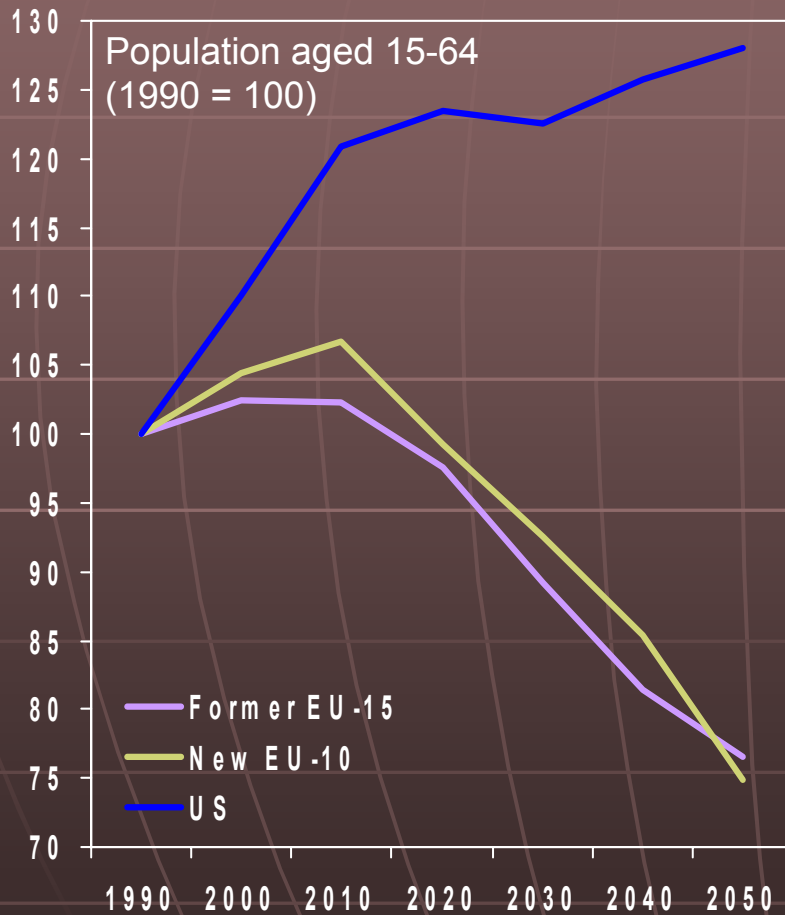
Gross debt general government  
(2003, as a % of GDP)



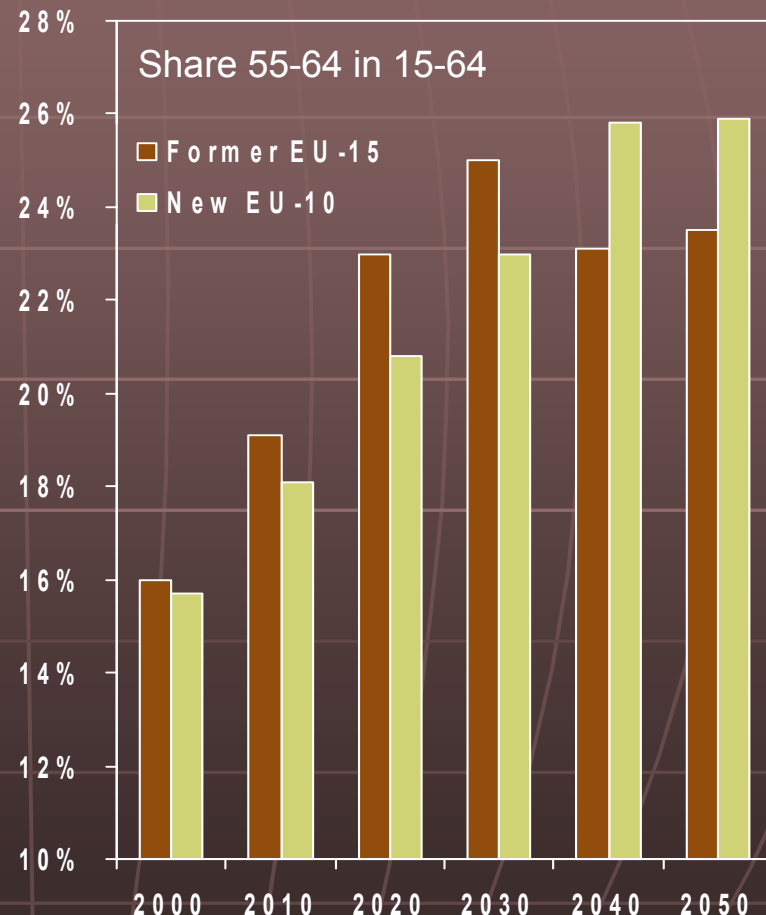
# Labour Markets

## Shrinking and greying labour force

Declining working age population



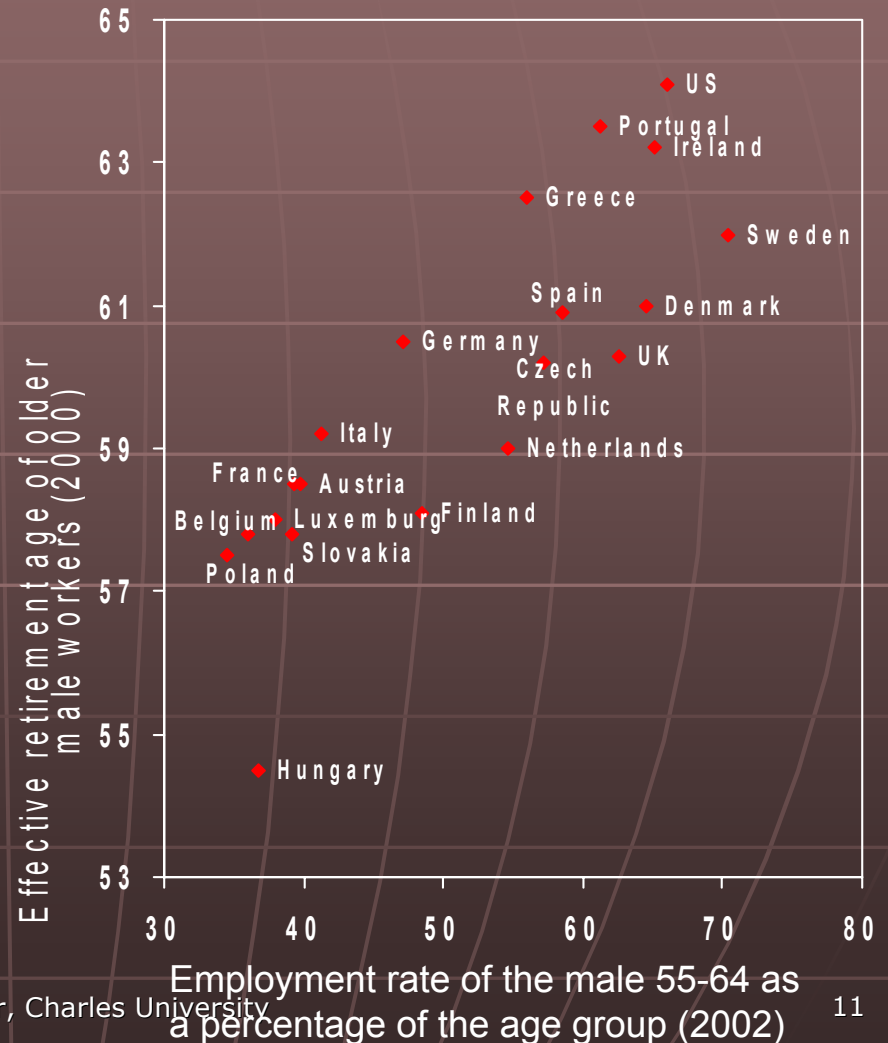
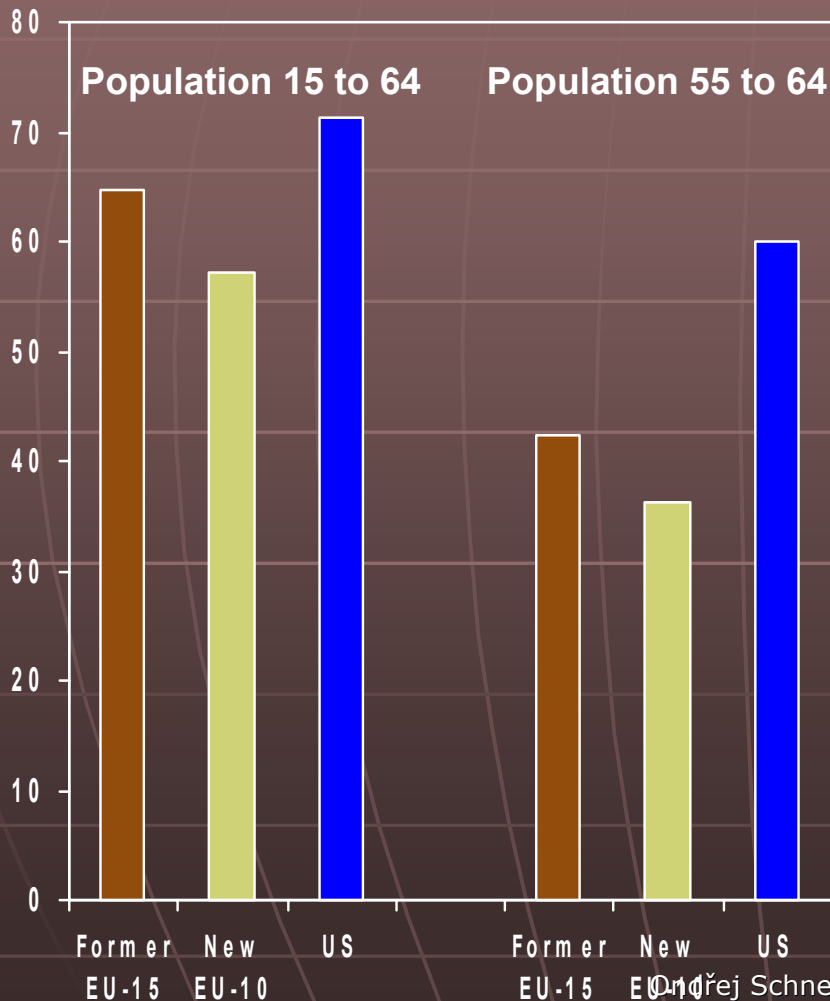
The greying of the labour force



# Labour Markets

## Low employment of the elderly

Employment rate (2003)

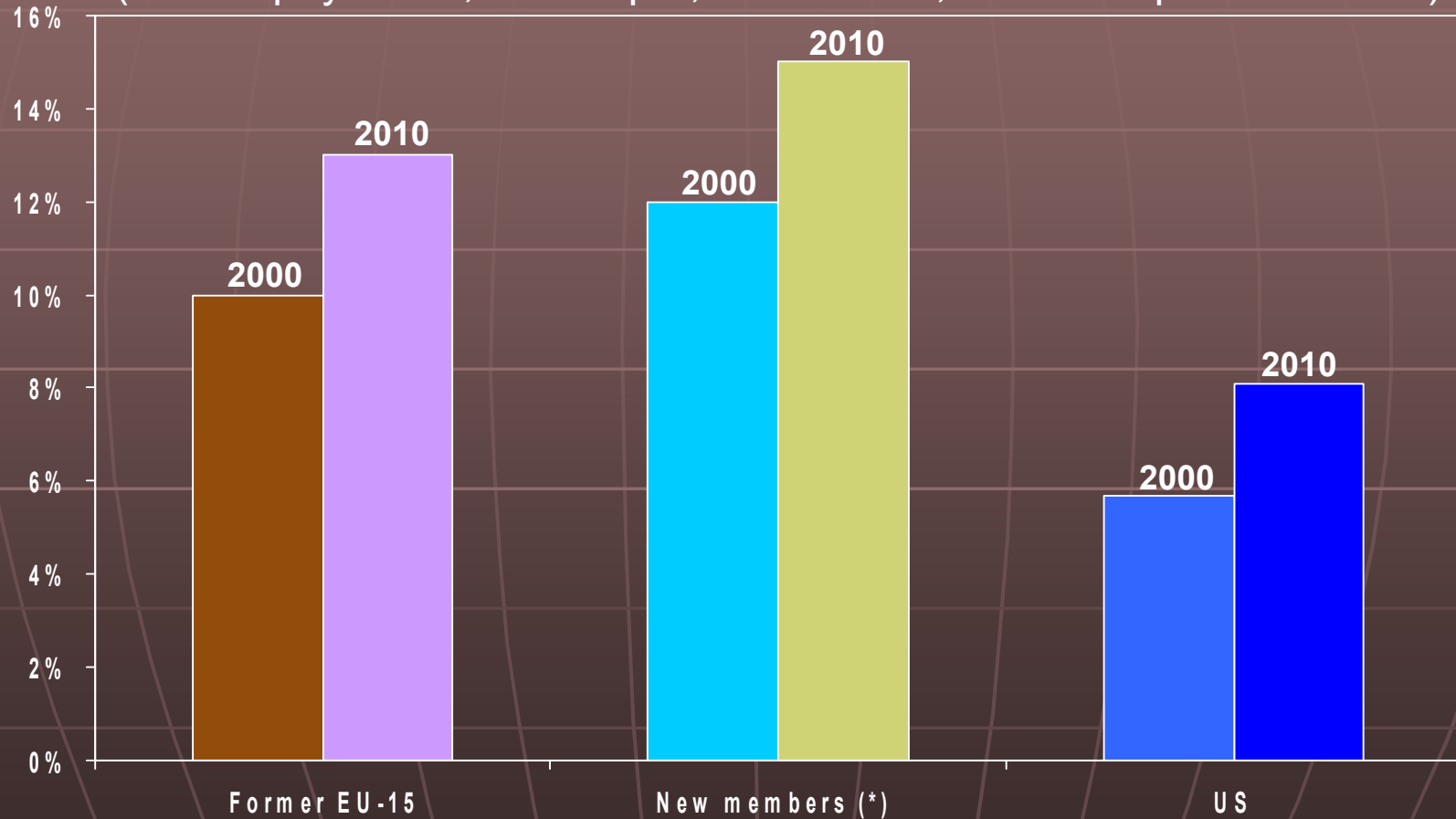


# Labour Markets

## The early retirement burden

Cost of early retirement

(benefit payments, lost output, lower taxes, as a % of potential GDP)

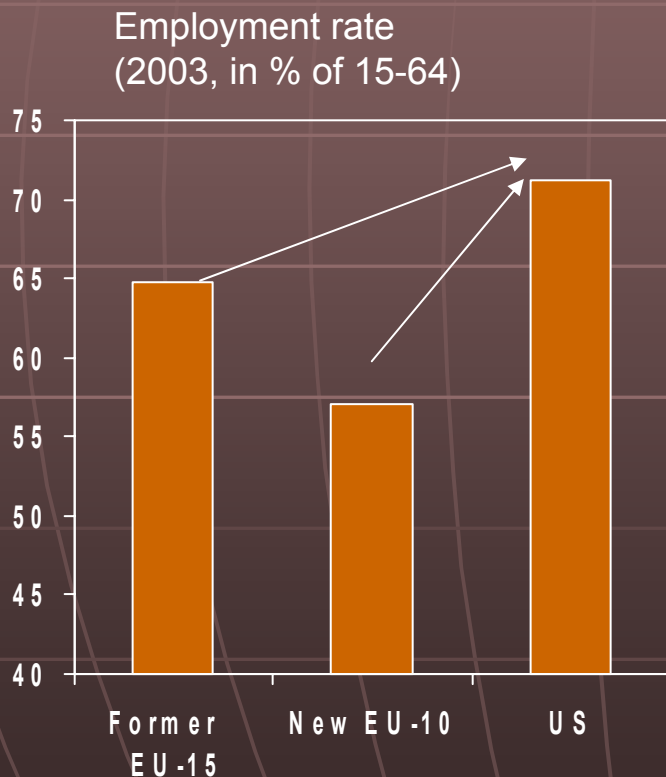


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(\*) Czech Republic, Poland and Hungary  
Source: Herbertsson and Orszag (2003)

# Economic growth

Economic growth =  
Productivity growth x Employment growth



=  $\Delta$  population  
of working age  
+  
 $\Delta$  employment rate

# Economic growth

## Employment

Economic growth =  
Productivity growth x Employment growth

<b>Impact on empl. Growth</b>	<b>EU-25</b>	<b>Former EU-15</b>	<b>New EU-10</b>	<b>US</b>
Working age population (in 2003-2030)	<b>-12.7</b>	<b>-13.0</b>	<b>-11.4</b>	<b>+11.3</b>
Employment rate (towards Lisbon 70%-target)	<b>+10.8</b>	<b>+8.0</b>	<b>+22.6</b>	<b>-</b>

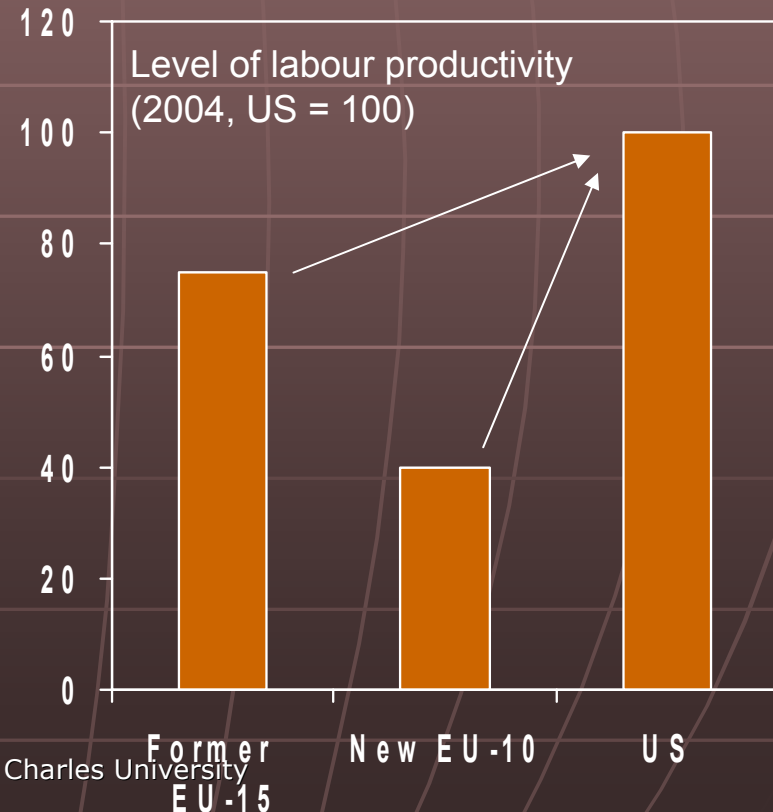
# Economic growth

## Productivity

$$\text{Economic growth} = \text{Productivity growth} \times \text{Employment growth}$$

Technological progress  
& innovation

New EU-10: high  
potential due to the  
closing of the technology  
gap



# Economic growth

## Lower potential due to ageing

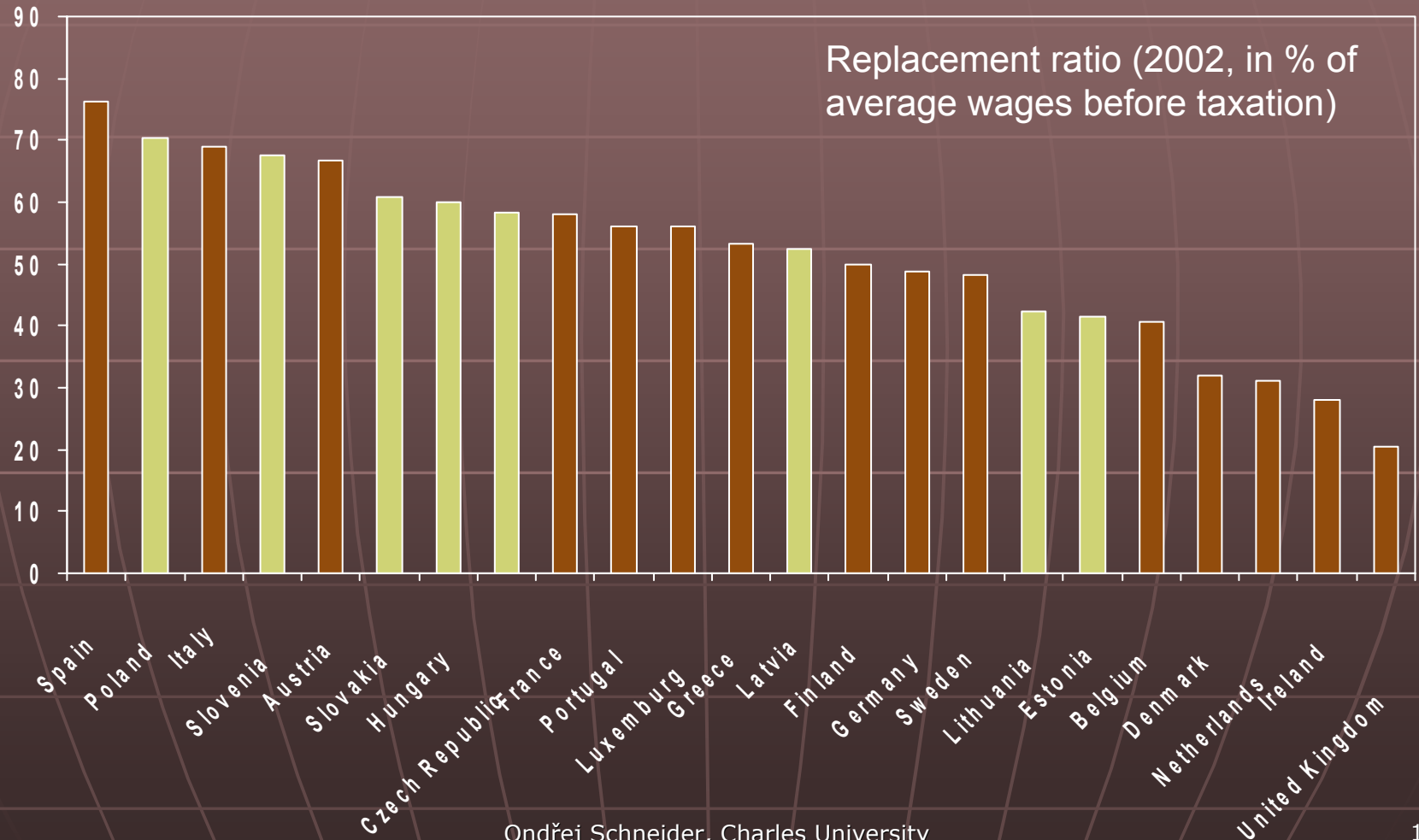
Real GDP growth, in % (period averages)	1991- 1995	1996- 2000	2000- 2010	2010- 2020
Former EU-15	1.5	2.6	2.0 – 2.5	1.5 – 2.0
New members (Central-Europe)	-0.4	3.3	3.5 – 4.0	3.0 - 3.5
US	2.4	4.1	3.0 – 3.5	2.5 – 3.0

Sources: EC, OECD, UN



# Ageing and financial markets

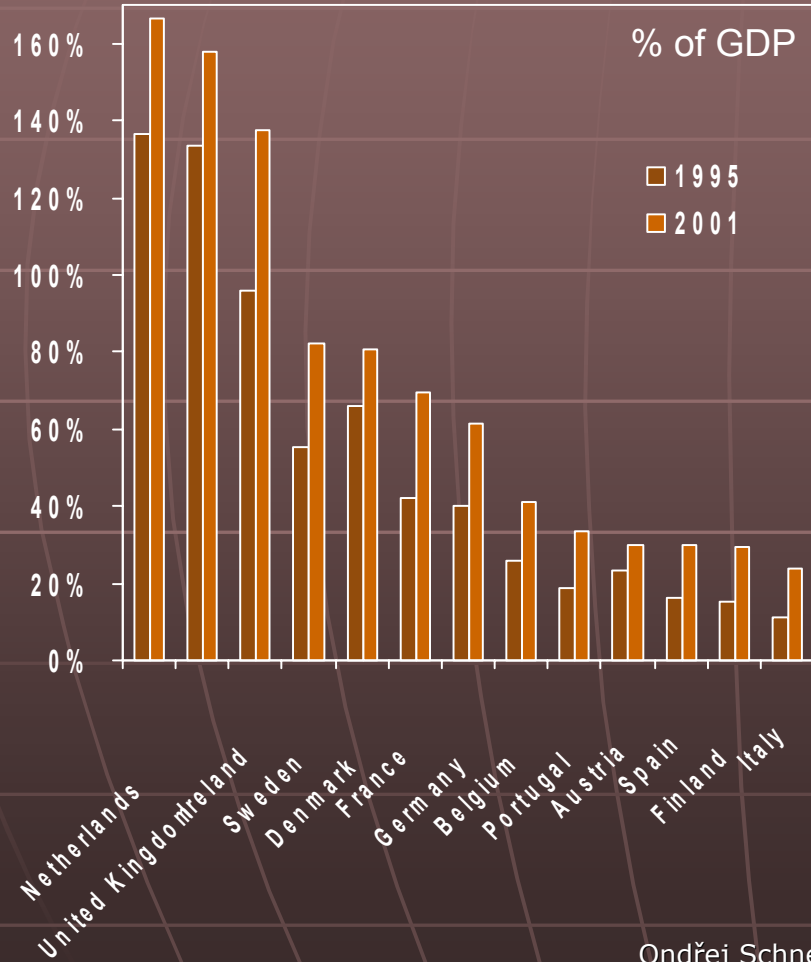
## Pension landscape: 'first pillar'-benefit levels



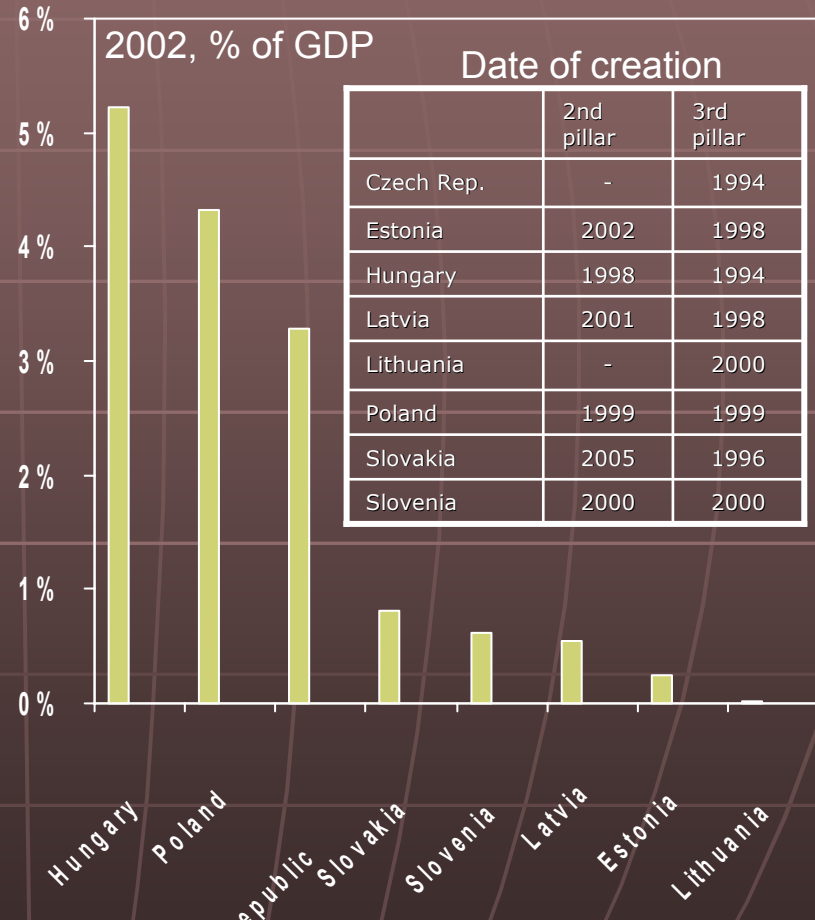
# Ageing and financial markets

## Pension landscape: funded schemes

Assets of insurance corporations and pension funds



Assets in pension funds



Source: Eurostat (2003)

Source: FI-AD Financial Advisory (2003)

# Ageing and financial markets

## Savings may fall

- Demographic changes shift the balance between savers and dissavers
- As the 'baby boom'-generation moved into the second half of its working life, pension fund growth created high demand for equities in 1980s and 1990s

# Ageing and financial markets

## The Life Cycle Hypothesis



# Ageing and financial markets

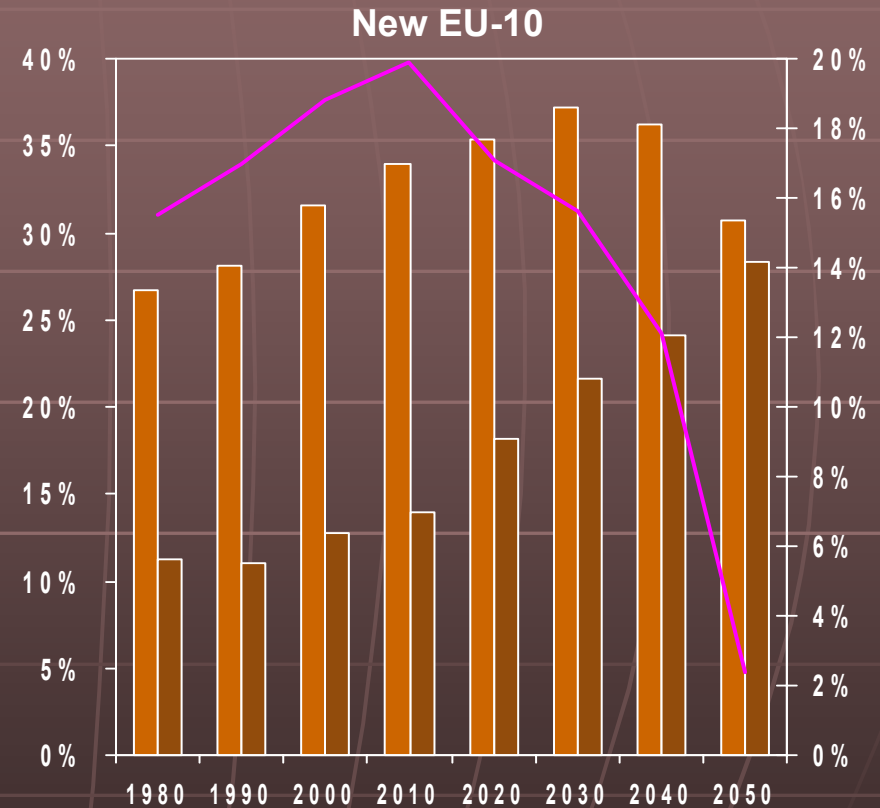
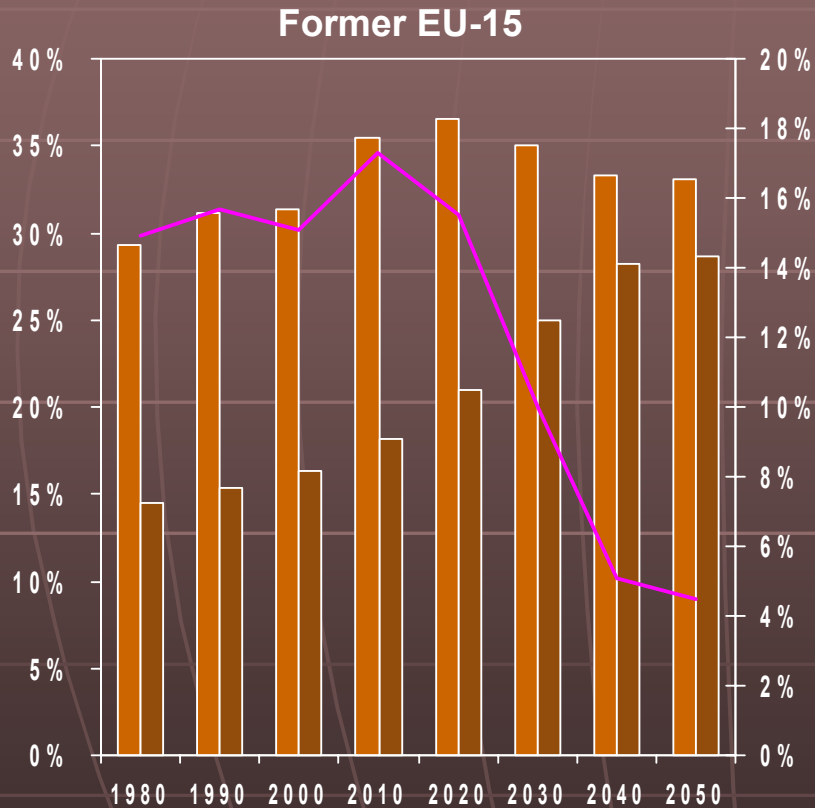
## Savings may fall

- We know little about savings motivation, but:
  - The savers-dissavers ratio (population aged 40-64 / population aged +65) will start falling after 2010 – FALL IN SAVINGS
  - The baby boomers will liquidate their assets to finance their retirement - FALL IN SAVINGS
  - Perhaps more saving by the 40-64 due to higher life expectancy and less generous PAYG-pension schemes – INCREASE IN SAVINGS

# Ageing and financial markets

## Savers' disappearance

Savers (40-64) and dissavers (+65) as a percentage of total population



■ 40-64 / total population (LHS)  
■ +65 / total population (LHS)  
— Difference (RHS)

■ 40-64 / total population (LHS)  
■ +65 / total population (LHS)  
— Difference (RHS)

# Ageing Europe

## After Enlargement

- New EU-10 do not significantly change the age structure
- In some aspects, the ageing is more dynamic in the New EU-10
- Labour markets in the New EU-10 cater less for older workers, more to be done to increase flexibility and cut costs

# Ageing Europe

## After Enlargement

- The New EU-10 have lower debt and thus more room to manoeuvre (is it necessarily good?)
- Economic growth: bigger potential in the New EU-10, but also larger challenges and vulnerability
- Financial sector is less prepared for aged society's needs in New EU-10