



# The Fiscal Consequences of Shrinking Populations

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# Outline

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- **Motivation**
- **Long-term trends, demographic uncertainty and fiscal sustainability**
  - Fertility
  - Longevity
- **Policy options to address fiscal challenges of shrinking populations**
  - Policies that affect demographics and labor markets
  - Reforms to age-related spending programs
- **Conclusions**

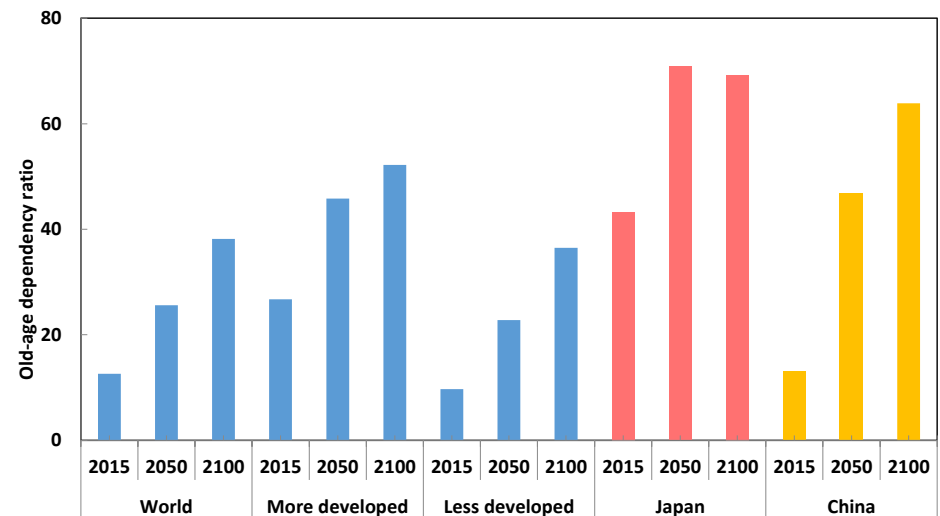
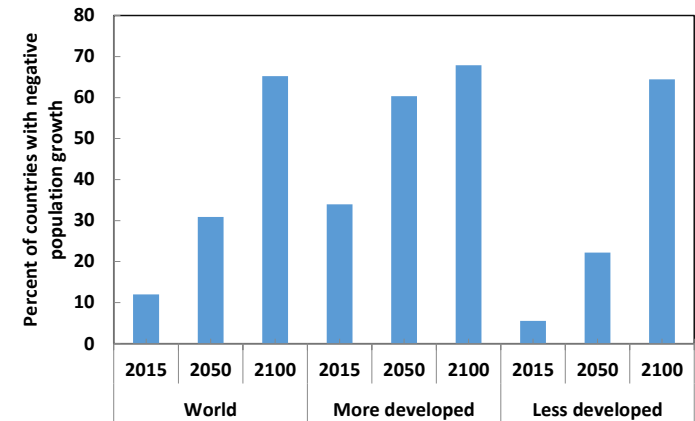


# Motivation

# Motivation I



- Population is already shrinking in many countries and populations are aging
- Shrinking populations pose a formidable fiscal challenge
  - Age-related spending projected to reach levels incompatible with fiscal sustainability
- Reforms should start now so that they will be gradual and lasting



# Motivation II

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**This presentation makes three major contributions to the debate:**

- 1. Uses July 2015 UN population projections to help project health and pension spending for over 100 countries**
- 2. It presents spending projections to 2100**
- 3. Reviews potential options to address these fiscal pressures, including migration**

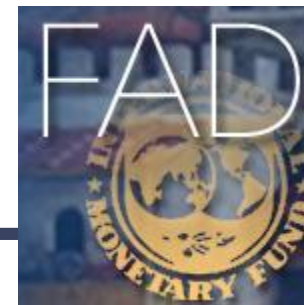


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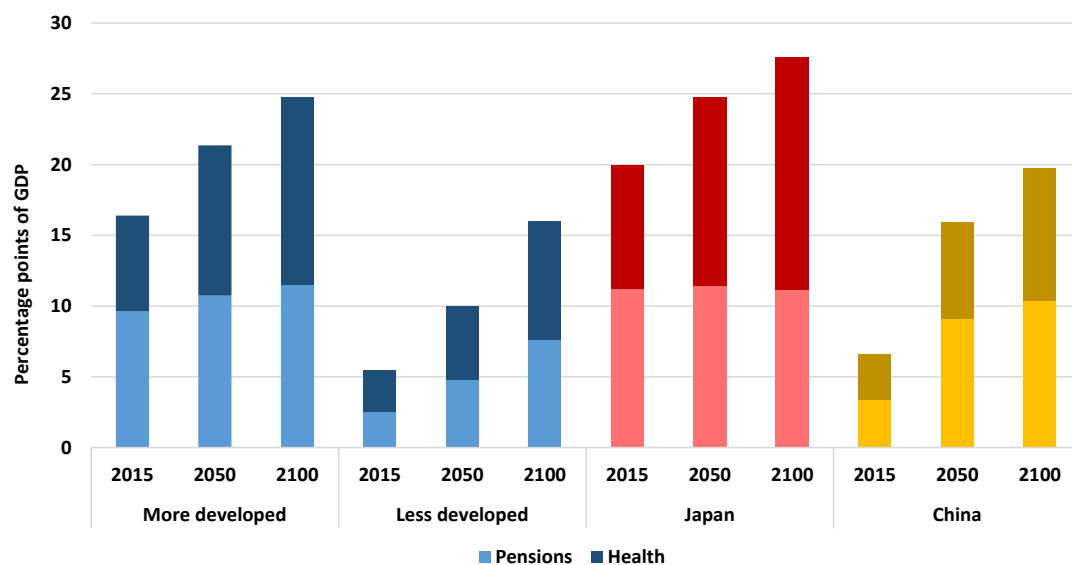
# Long-term Trends, Demographic Uncertainty, and Fiscal Sustainability

# Long-term trends

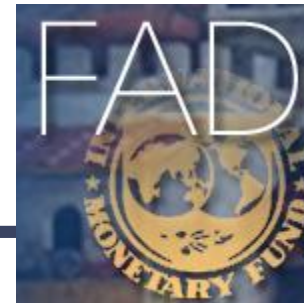
The prospect of aging, shrinking populations, and higher age-related expenditure



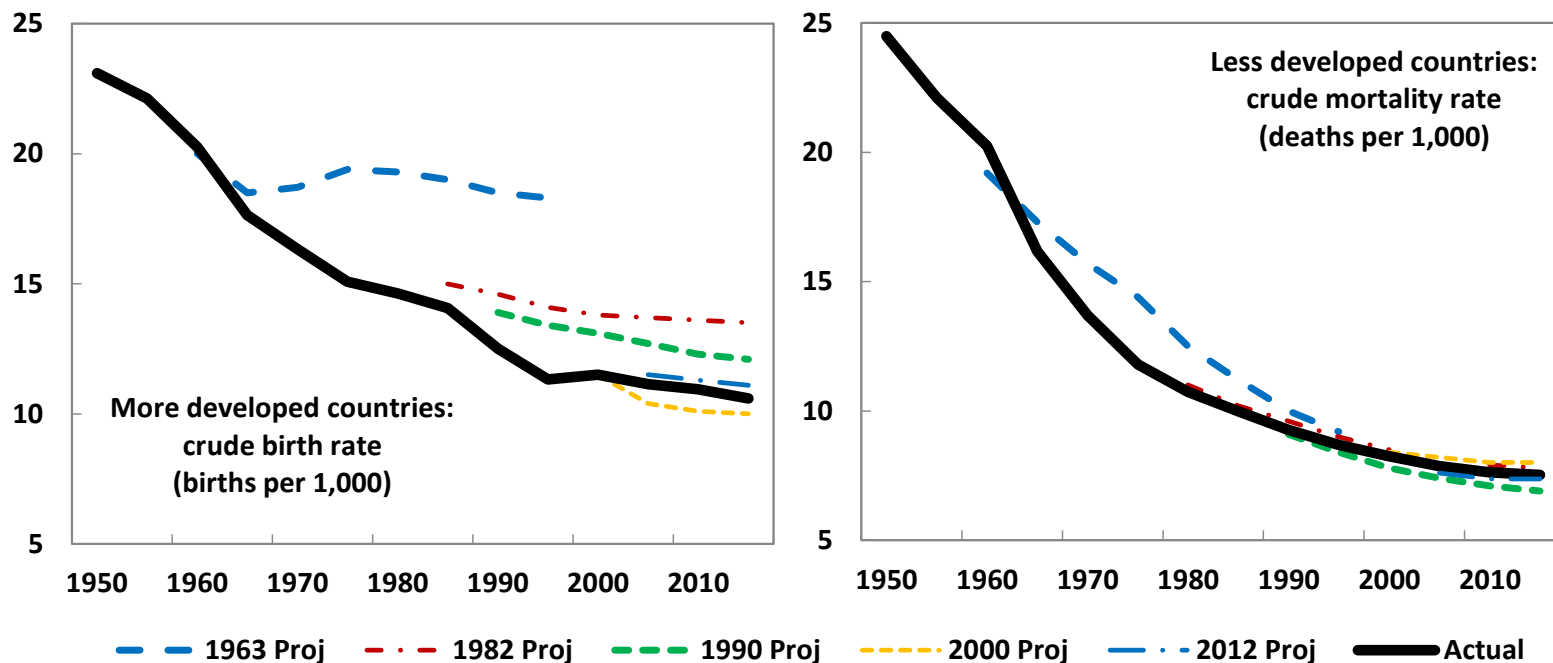
- Population aging will have a large direct impact on public spending
- Demographic changes will also affect fiscal sustainability through their impact on growth



# The impact of demographic uncertainty on fiscal sustainability



- Demographic projections are surrounded by substantial uncertainty
- Past projections have been subject to large errors

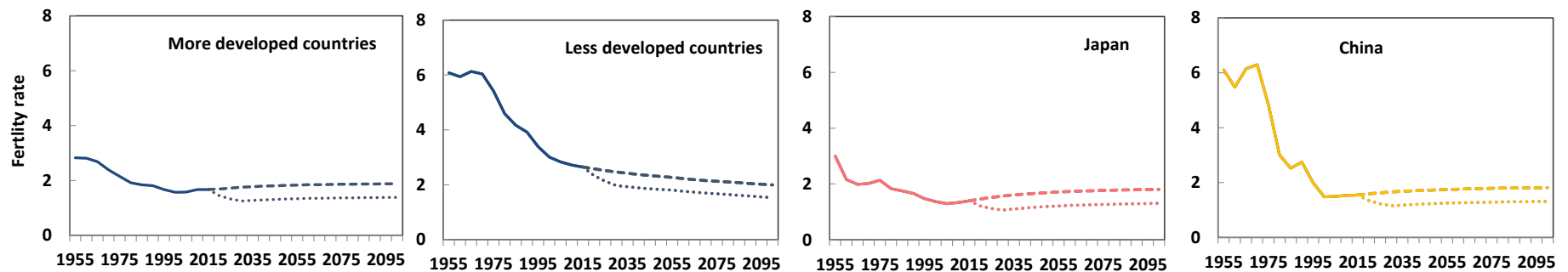




# Fertility



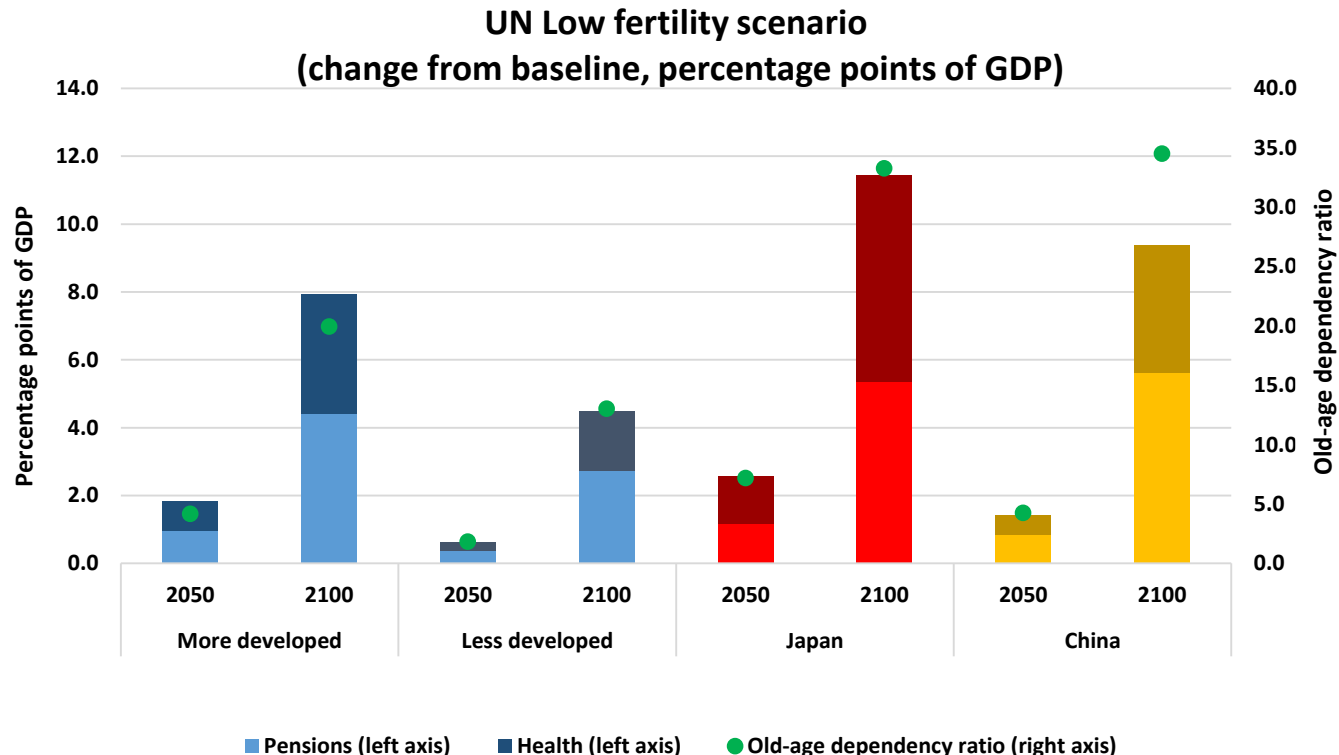
- After declining for over 100 years, fertility rates are projected to increase slightly in the more developed economies over 2015–2100
- For the less developed economies, the projections assume a continued but gradual decline in fertility rates



# Lower fertility scenario



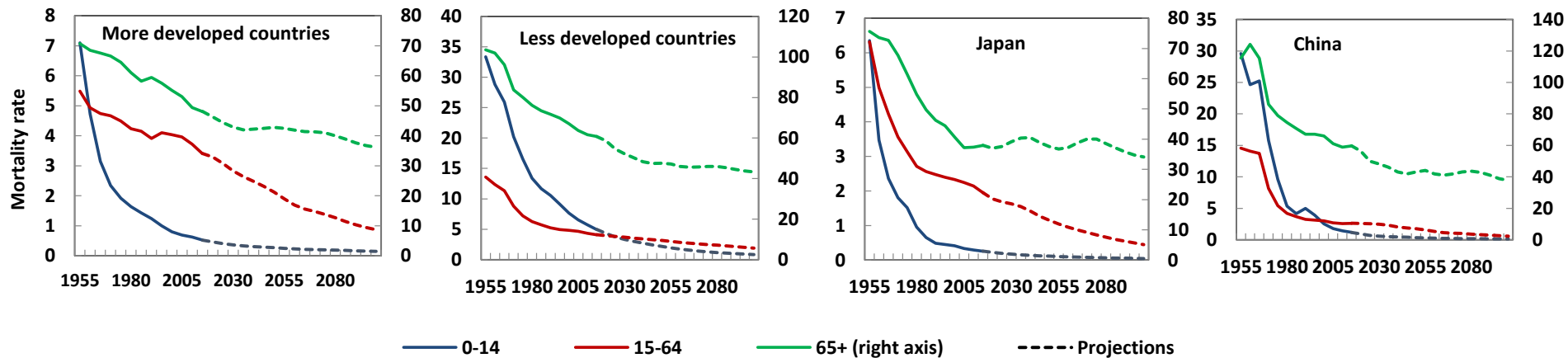
- The impact of lower fertility rates on fiscal variables is significant



# Longevity



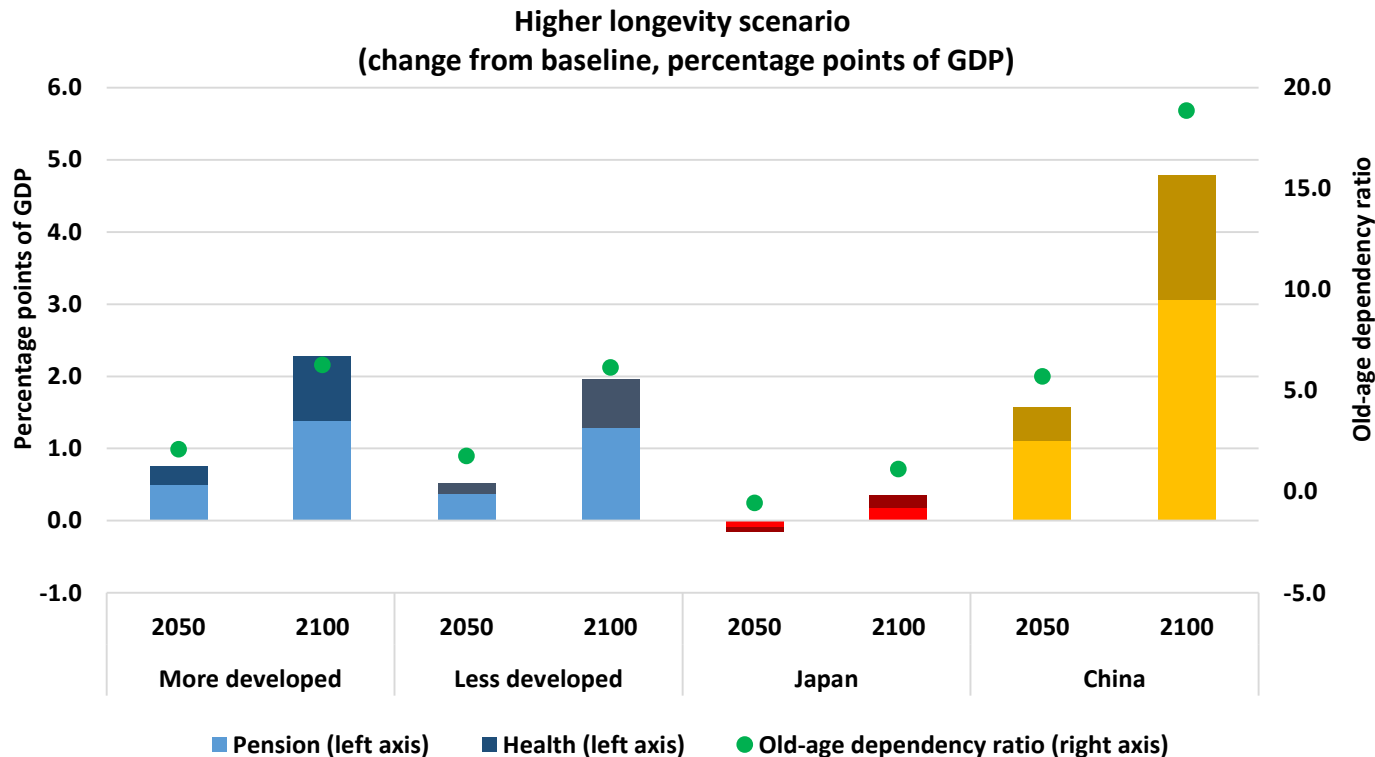
- Longevity improvement is expected to slow down in the more developed economies
- For the less developed economies, the projections suggest continued improvements in longevity



# Higher longevity scenario



- Improvements in longevity can also have an important fiscal impact





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# Policy Options to Address Fiscal Challenges of Shrinking Populations

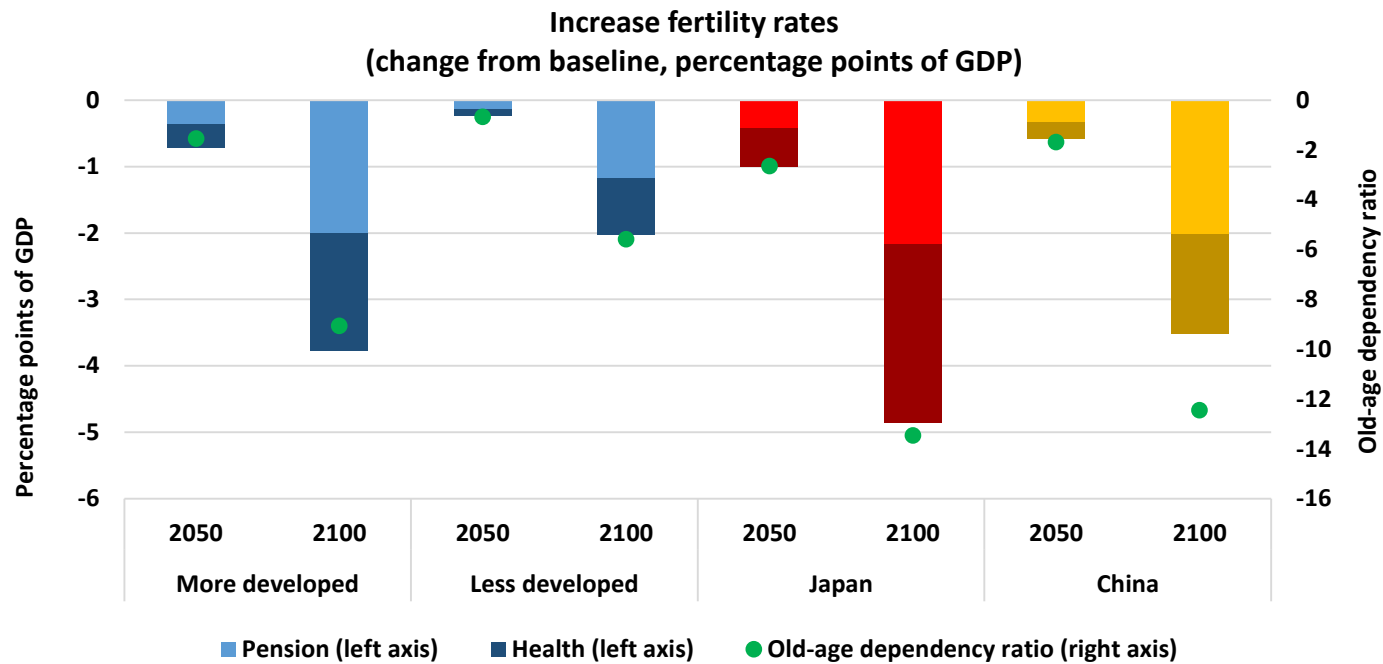
# Overview of policy options

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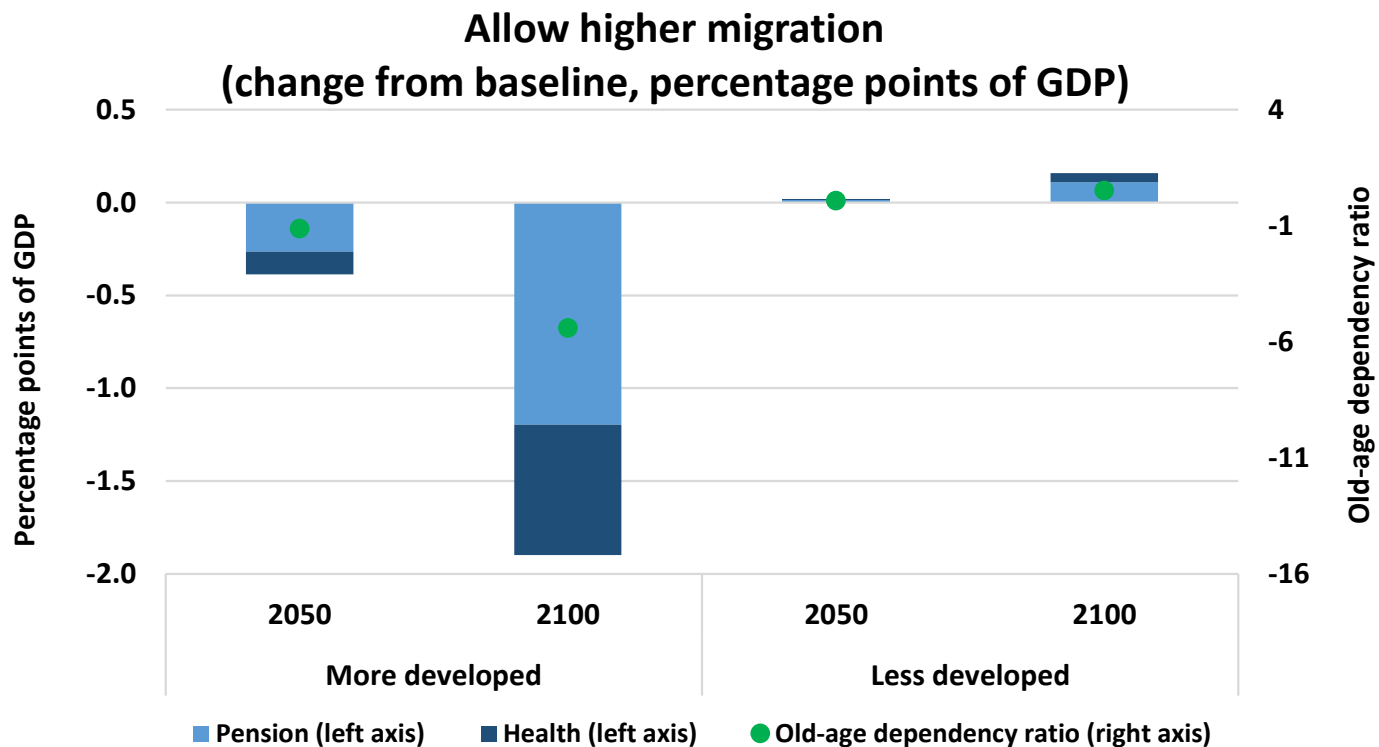


- **Categories of potential policy responses to the fiscal challenges posed by population trends:**
  1. **Policies to raise fertility rates?**
  2. **Labor market policies**
    - Allowing greater migration
    - Raising labor force participation
  3. **Reforms to age-related spending programs**
    - Increasing retirement ages
    - Addressing the growth of age-related costs

# Fertility rates?

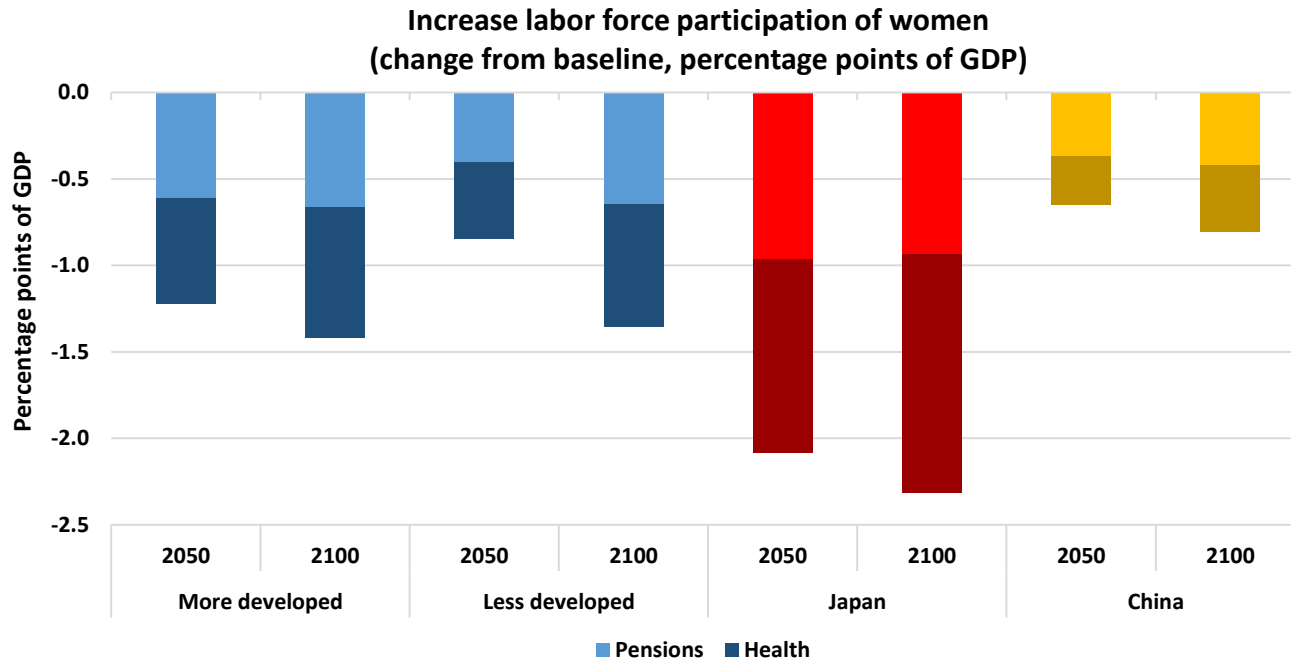


# Allowing greater migration

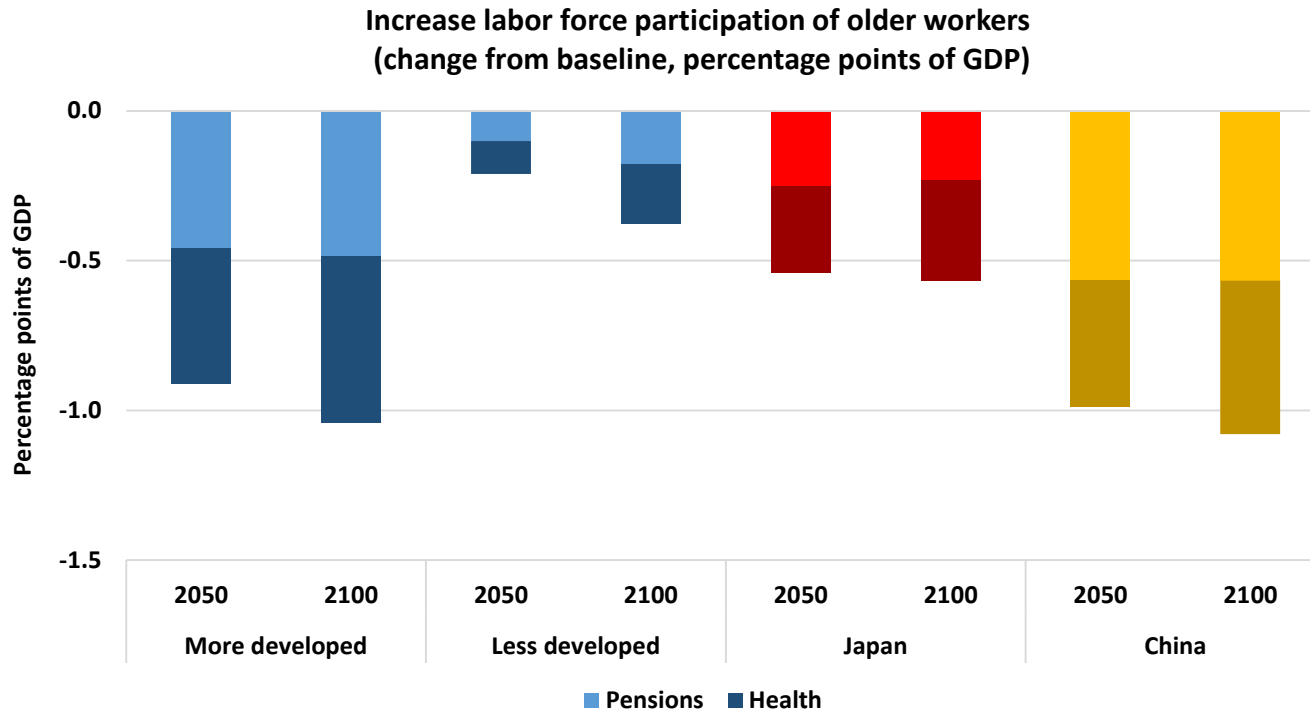




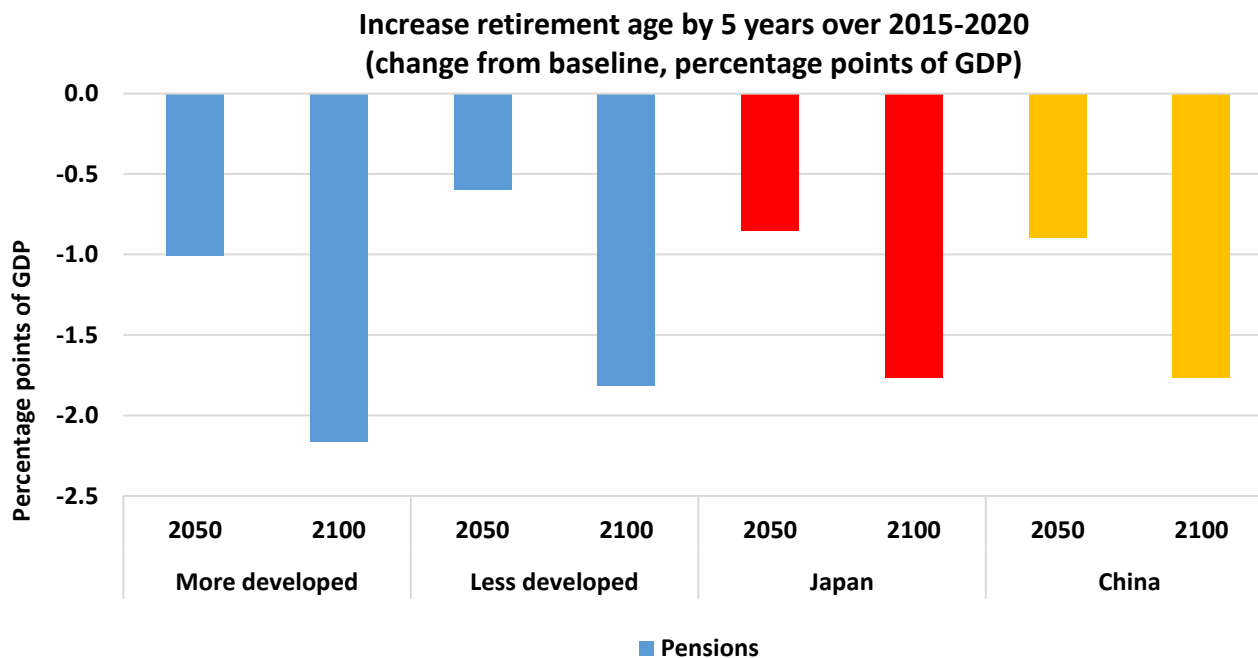
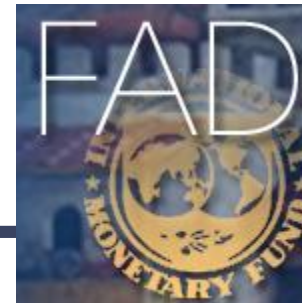
# Raising labor force participation I



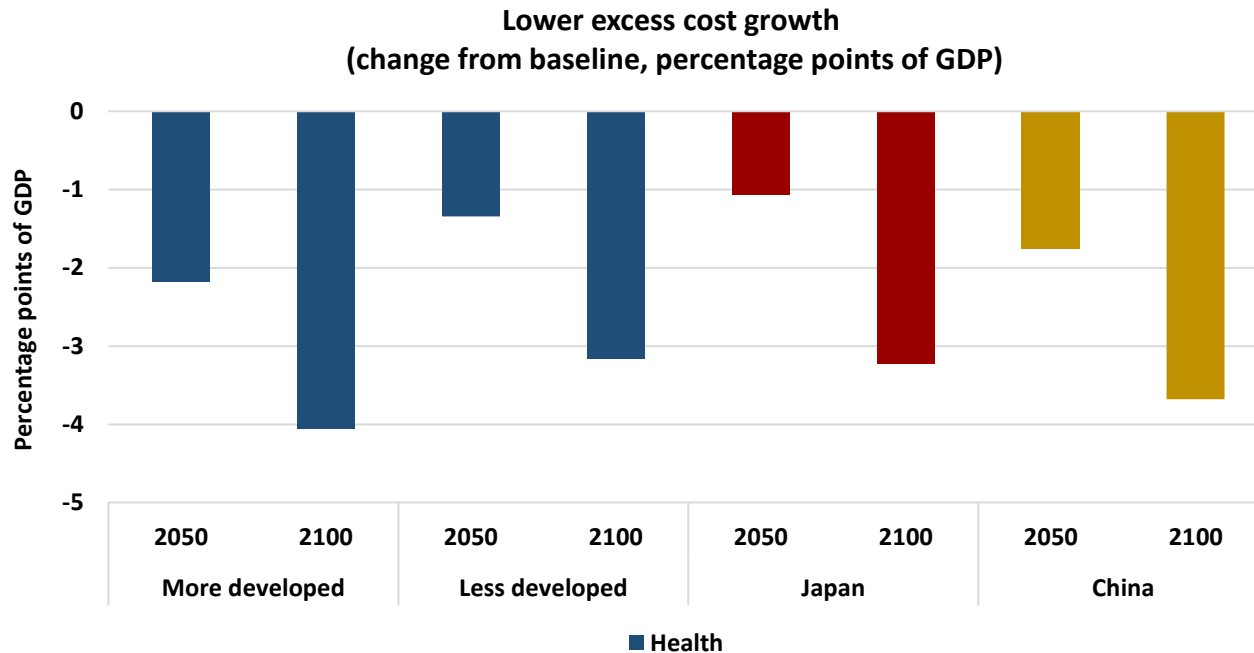
# Raising labor force participation II



# Addressing the growth of age-related costs I



# Addressing the growth of age-related costs II



# Conclusions

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- **The fall in fertility and eventual decline in world population are part of the transition to a sustainable growth path**
- **Nevertheless, shrinking populations pose a grave fiscal threat**
- **Demographic and age-related spending projections are surrounded by substantial uncertainty**
- **There is no escape from reforming entitlements**
- **Migration and labor market policies can ameliorate the impact of aging in the more developed economies**
- **Given the magnitude of the fiscal challenge, reforms should start now but be gradual**