

Employment and Fiscal Policy Implications of Ageing in the EECCA and SEE Countries

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Introduction

- The challenge to policy makers: how to make social security sustainable?
- EU and OECD research: population ageing a serious threat to long-term sustainability in many member states
- Is this a relevant problem in EECCA and SEE countries? And if so, how can policy makers cope with it?
- To answer these questions, UNECE set up a model based on a few demographic and economic assumptions

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Key assumptions

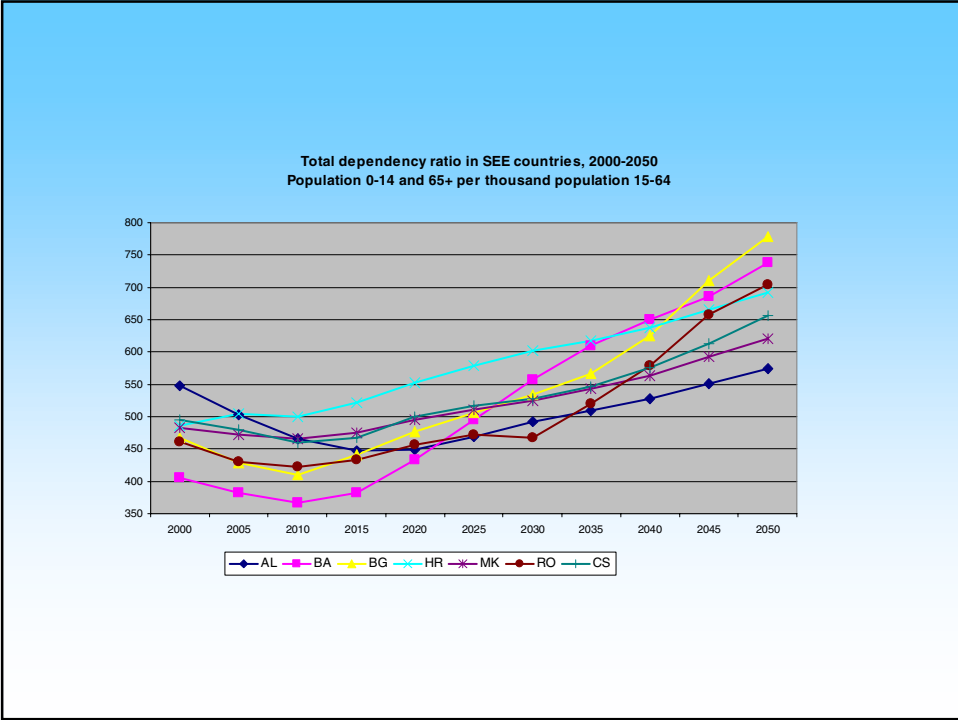
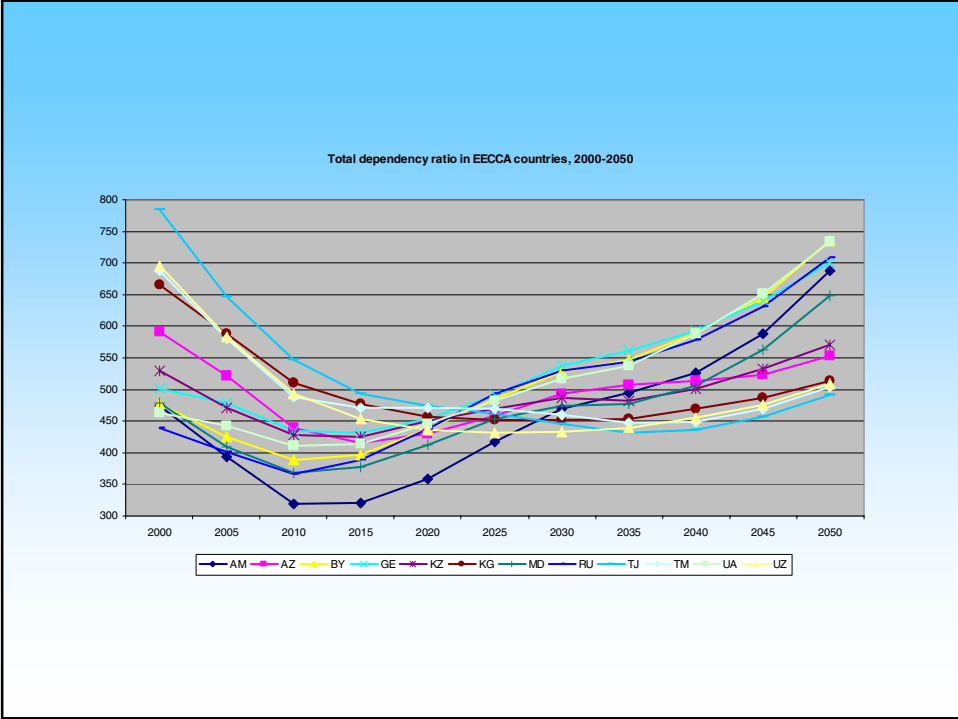
- Population projections: UN (2002)
- Labour force projections: (1) Participation rates for 5-year age groups according to ILO up to 2020, then constant; (2) Unemployment rates converge to 7% by 2010, then constant
- Labour productivity growth: Catch-up to the US level up to 2025, then 1.75% per annum
- Labour force growth and productivity growth determine GDP growth

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Partial results

- The Secretariat estimated employment, labour productivity and GDP growth paths up to 2050 for all EECCA and SEE countries
- Although the population ageing takes place everywhere, its pace varies significantly across countries
- Total dependency ratios initially decline and then rise in all countries

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Some policy implications

- Time profiles of dependency ratios are broadly similar to those in other ECE countries
- U-shaped dependency curves imply a window of opportunity to reform social security to make it sustainable while avoiding major shocks
- However, some countries have less time to start social-security reforms than others
- The window of opportunity will lapse unless there is the political will to make social security sustainable

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What remains to be done?

- The Secretariat sent the ageing questionnaire to all EECCA and SEE countries with a request to complete missing parts in a spreadsheet:
- First, actual and projected social-security revenues should be entered until 2050
- Second, itemized social-security expenditures should be entered
- Third, sensitivity tests and policy simulations should be completed

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Expected outcomes

- Once the Secretariat receives completed questionnaires from a number of countries, it intends to analyze them and present results in a comprehensive report
- The methodology assures that policy discussions in EECCA and SEE countries could be based on comparable proposals (just like in EU and OECD countries)
- The process could make fiscal impacts of ageing more transparent to the general public and thus increase support of reforms for sustainable social security

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The Czech example

- Czech Republic participated in the OECD ageing project since late 1990s
- The outcomes and comparisons of results with other OECD countries provided an impetus to domestic discussions of pension reform
- OECD economic surveys presented the Czech authorities and public with an independent assessment of social-security issues on a regular basis
- 2004: the 5 parties represented in Parliament nominate a joint Expert Group on pension reform

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The Czech example (cont'd)

- The government provides support to the project's Executive Team (economists from ministries and the central bank)
- Agreement on common demographic and macroeconomic scenarios and elaboration of a pension model acceptable to the parliamentary Expert Group
- Executive Team completes 5 comparable pension reform blueprints by June 2005
- An open process - press releases, a government website providing all inputs to and results of the pension model

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The Czech example (cont'd)

- The 5 pension reform proposals available at the website of the Ministry of Labour and Social Affairs (www.reformaduchodu.cz); see also www.mpsv.cz for additional materials
- An outside expert assessment is available from the OECD ([www.oilis.oecd.org/oilis/2006doc.nsf/linkto/ECO-WKP\(2006\)24](http://www.oilis.oecd.org/oilis/2006doc.nsf/linkto/ECO-WKP(2006)24))
- Transparency important for adequate policy responses to population ageing
- The Czech discussion has not produced yet a major pension reform: transparency necessary but not sufficient?

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Thank you for your attention.
Any questions?
I can answer them now or later.

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