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Future Trends Series - GR:REEN Project

Title of the report

Europe's Demographic Future Facts and Figures on Challenges and Opportunities

Area

Demography

Reporter

European Commission (EC)

Type of the Reporter

International Organisation

Periodically updated?

No

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2007

Latest update

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Official website

www.ec.europa.eu

Language available

English

Short summary

The EC 'Europe's Demographic Future Facts and Figures on Challenges and Opportunities' report presents the main facts and figures that underpin the debate on Europe's demographic future and appropriate policy responses.

The report on the demographic situation in Europe 2006 consists of three main sections corresponding to the main subjects covered by the communication on the demographic future of the EU. It proposes an overview of the drivers of demographic change, that are "fertility, mortality (life expectancy) and migration; in addition, the passage of age cohorts of different sizes through the life cycle can have significant impact". It then proceeds with an analysis of the main impacts of the population's change and concludes with a description of the potential for responding to the challenges posed by demographic change within five key policy areas.

Key trends

- **Main economic impacts of demographic change.** Demographic change will gradually limit the scope for future employment growth. Total employment in the EU-25 is expected to continue growing up to around 2017 due to rising labor force participation. Thanks to higher education levels and greater labor force attachment of younger cohorts of women, female employment rates are projected to rise from just over 55 per cent in 2004 to almost 65 per cent by 2025. The employment rates of older

workers are also projected to increase, from 40 per cent per cent in 2004 for the EU-25 to 59 per cent in 2025. From around 2017 onwards, however, the shrinking working age population will lead to stagnation and, subsequently, reduction of total employment. Projections show that, as employment decreases and productivity becomes the only source of future economic growth, the annual average potential GDP growth rate in the EU-25 will decline from 2.4 per cent in the period 2004 to 2010 to only 1.2 per cent in the period 2031-2050.

• **Main social impacts on demographic change.** Declining employment at a time when the number of older people in need of adequate pensions and health and long term care is rising will make it a challenge to provide sufficient resources for social protection in a sustainable way. The projected increase in these expenditure categories by 2050 is about 4.5 percentage points of GDP in the EU-25. Public and private spending on pensions, which averaged 13 per cent of GDP in the EU (in 2003), has ensured that being old is no longer associated with being poor or being dependent on one's children. However, Europe's future ability to provide the ageing population with adequate pensions will crucially depend on whether the effective retirement age can be raised and the pension systems adapted to increasing life expectancy, thereby making the relationship between contributions and benefits transparent. The main consumers of health and long-term care today are elderly people, whose projected increasing numbers will result in greater demand for these services. According to Eurostat projections, the share of the total population over 80 will rise from 4.1 per cent in 2005 to 6.3 per cent in 2025 and to 11.4 per cent in 2050. Although age in itself is not the only factor influencing healthcare spending (though it does serve as a proxy for a person's health status), projections illustrate that an ageing population will bring about pressure for increased public spending on health and long-term care.

Suggestions

In order to face up the demographic change, Europe should pursue three essential priorities:

- Return to demographic growth. Europe can create new opportunities for investment, consumption and the creation of wealth thanks to the implementation of the Lisbon agenda, which envisages the modernisation of social protection systems and the increase of the rate of employment both for females and older workers.
- Ensure a "balance between the generations, in the sharing of time throughout life, in the distribution of the benefits of growth, and in that of funding needs stemming from pensions and health-related expenditure".
- "Find new bridges between the stages of life". Young people still find it difficult to get into employment. A rising number of 'young retirees' want to get involved in social and economic life. Study time is getting longer and young working people want to spend time with their children. "These changes alter the frontiers and the bridges between activity and inactivity".
- Five key policy areas to tackle the demographic challenge. "Constructive responses to the demographic challenge can be developed in areas like birth rates, employment levels, productivity growth, migration and the sustainability of public finances". If policies in these areas are formulated in a combined manner, synergies may be reached.

Methodology

Modelling

Reference to other trends reports? If yes, which reports?

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