



Making better long-term fiscal policies under demographic changes and uncertainties

- Comments -

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Issues for discussion

I. Uncertainties about future fiscal burden under demographic changes

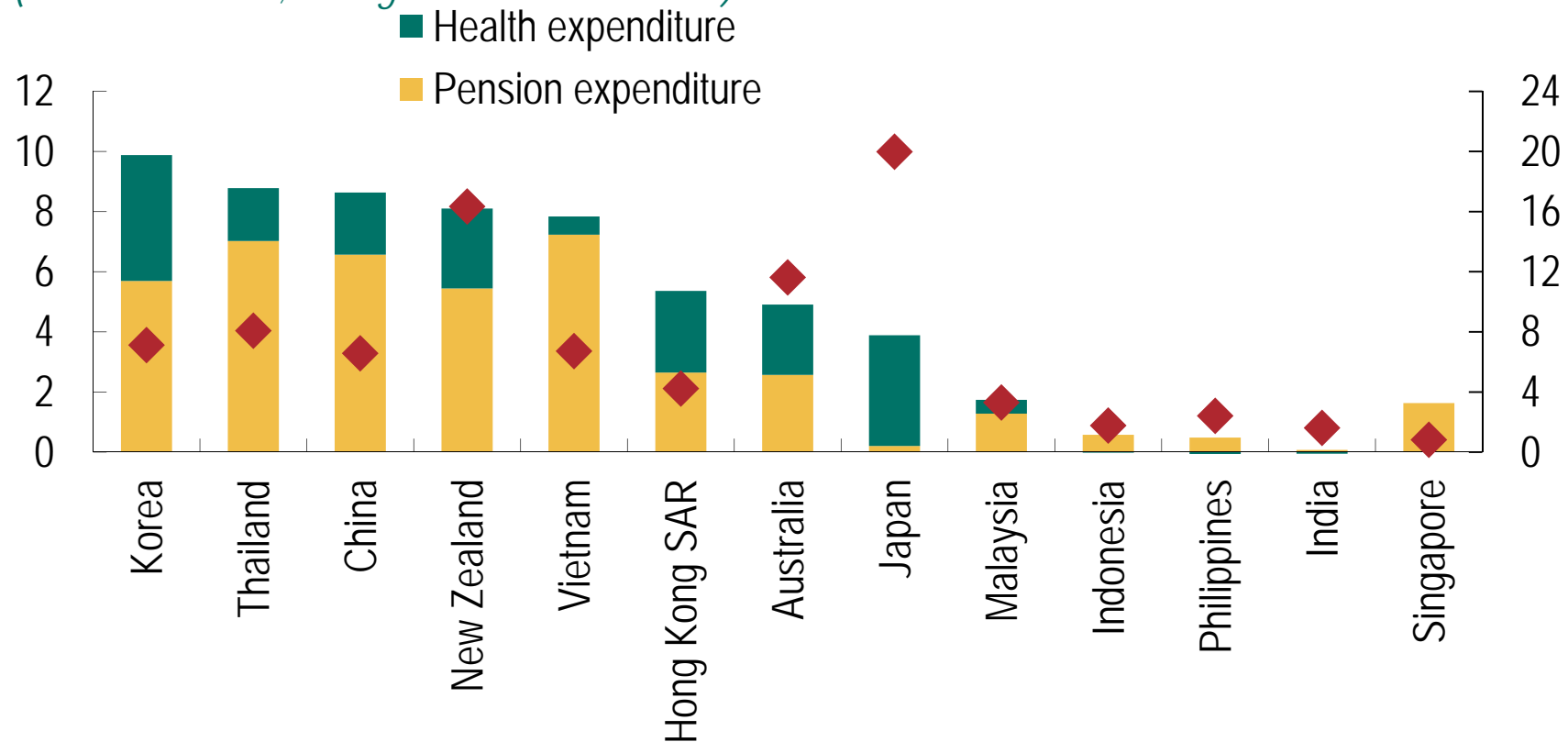
II. Possible precautionary actions

III. Effective communication to enhance judicious policy decisions

Uncertainties about future fiscal burden

Figure 2.2.1. Projected Age-Related Spending Increases

(Percent of GDP; change from 2015 to 2050)



Source: IMF staff estimates and projections based on United Nations, World Population Prospects: 2015 Revision (medium-fertility scenario); and Amaglobeli and Shi (2016)

Note: For Singapore, health expenditure projections are not available.



Uncertainties about future fiscal burden

- **Uncertainties**

- **Demographic changes**

- longevity, fertility, migration

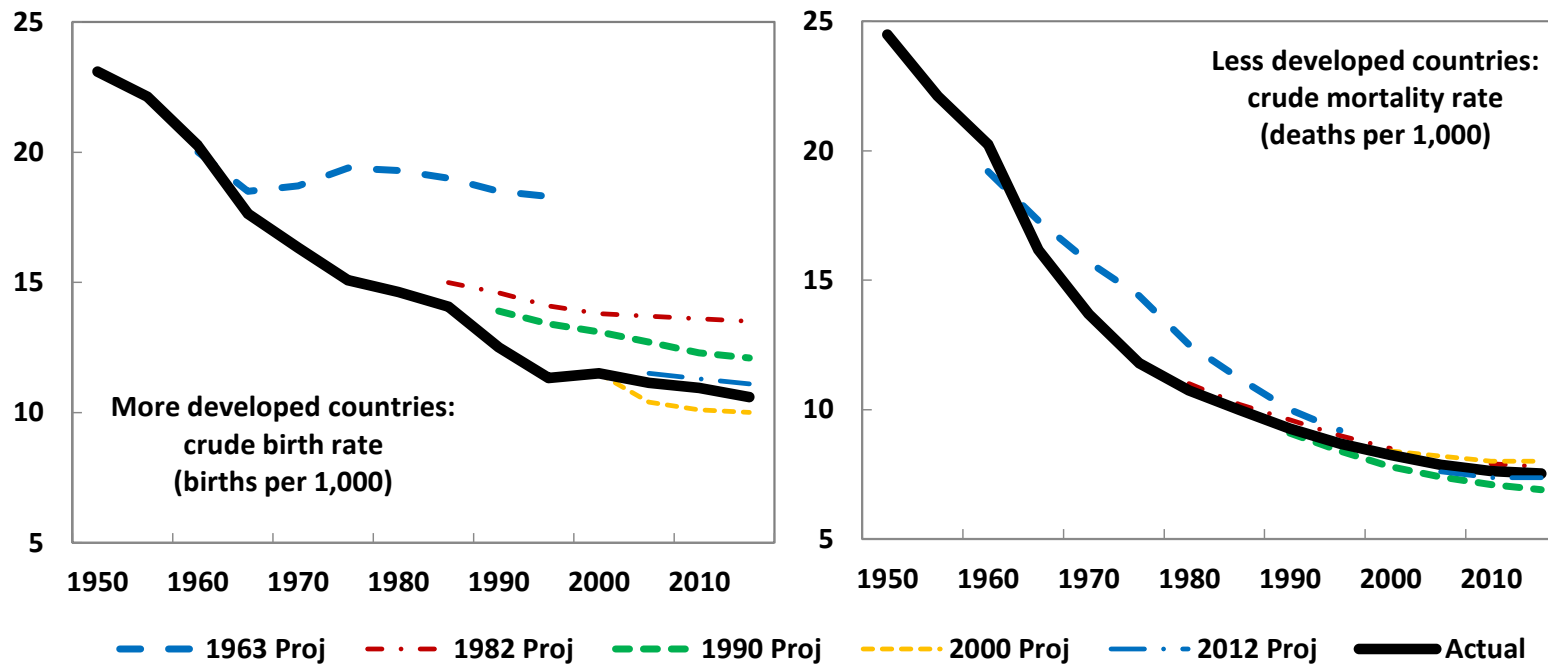
- **Per-capita benefit/expenditure**

- Health care, long-term care – health status, and other factors affecting demand and supply including technological progress
 - Public pension – coverage, eligibility, contribution history, benefit level

Uncertainties about future fiscal burden

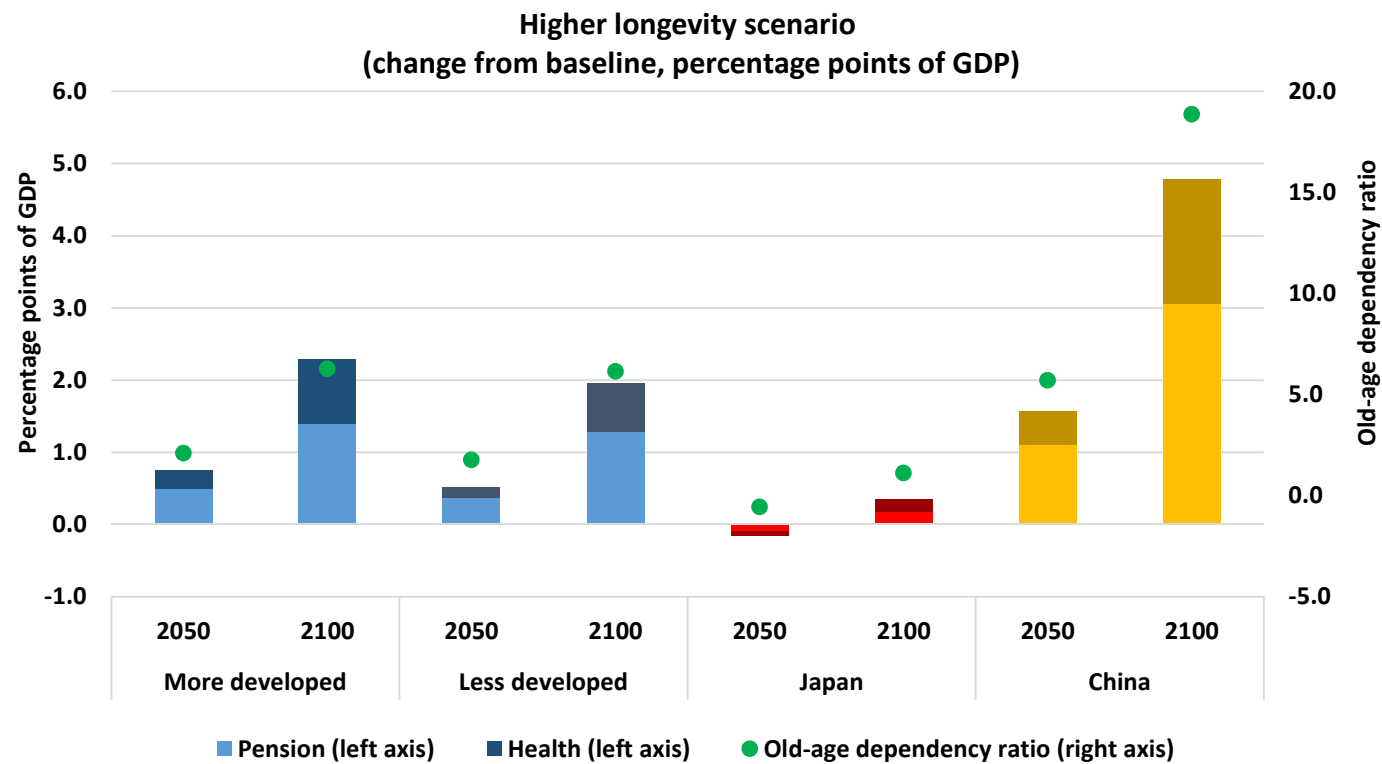
- **Uncertainty about demographic changes**

- **Past demographic projections have been subject to large errors.**



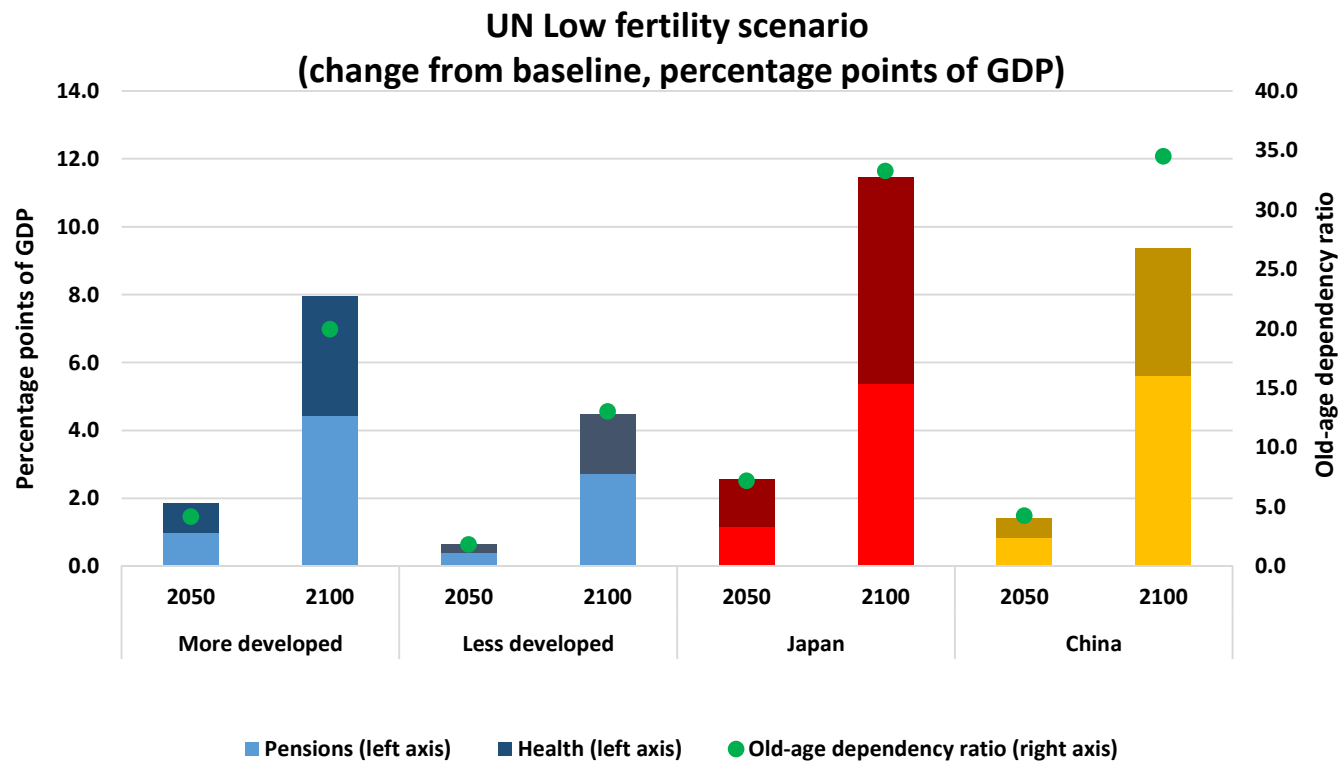
Uncertainties about future fiscal burden

- Improvements in longevity can have an important fiscal impact.



Uncertainties about future fiscal burden

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





Uncertainties about future fiscal burden

- **Uncertainties: macro economy**
 - **Macro variables**
 - TFP
 - Capital labor ratio

 - Interest rate (return on assets)
 - Saving/investment balance
 - Demand for safe assets



Uncertainties about future fiscal burden

- **Uncertainties: societal changes**
 - **Changes in relative size of different social groups**
 - Formal / Informal
 - Employment contracts
 - Urban / Region
 - Duration of residence (immigrants)



Possible precautionary actions

- **More saving?**
 - Individual precautionary actions may lead to too much saving (domestic / global).
 - ‘Output growth is central.’
 - Effective use of saving for future balanced growth is the key.



Possible precautionary actions

- **Growth enhancing fiscal policy**
 - **Growth friendly revenue mobilization**
 - Sifting tax composition to the least distortionary taxes (taxes on consumption, excises, taxes on property), and broadening tax base
 - **Productive public investment**
 - Strengthening public investment management
 - **More inclusiveness**
 - Income inequality may be associated with lower economic growth
 - More incentives for elderly and women to participate in labor market



Possible precautionary actions

- **Automatic Adjustment Mechanisms (AAM)**
 - Automatic adjustments for eligibility age of public pension with longevity
 - Automatic adjustments for benefit level to keep fiscal sustainability of pension system (NDC, Japan)



Possible precautionary actions

- **Rooms for flexible adjustments with respect to macroeconomic variables**
 - Retrospectively, some previous commitments have proven to be hard to fulfill under unexpected changes in macro-economy
 - Defined benefit scheme (under low interest rate)
 - Nominal floor of pension benefits (under deflationary situation)



Effective communication

- **Long-term projection for future fiscal positions should be a key ingredient for communications to the public, but...**
 - What is the reasonable assumption about the sustainable public debt level to keep fiscal credibility and market access in a long run?



Effective communication

- **Long-term projection for future fiscal positions should be a key ingredient for communications to the public, but...**
 - Would it be more important to analyze discrepancies between past projections and current projections?



Reference

Amaglobeli and Shi (2016), How to Assess Fiscal Implications of Demographic Shifts: A Granular Approach, How-To-Note 16/02, IMF

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