



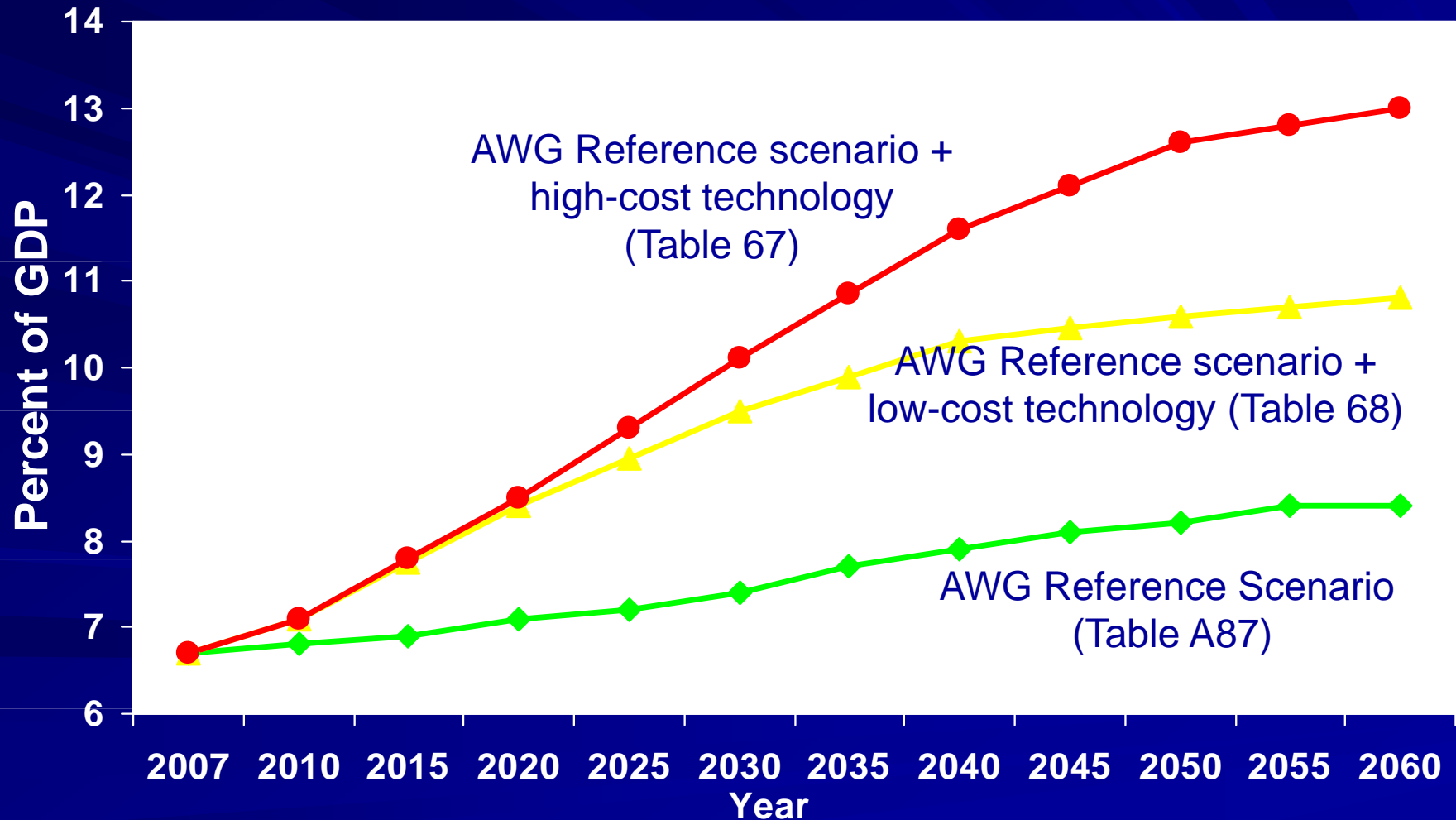
Ageing and the Long-Term Sustainability of Public Finances

**Brussels Economic Forum
May 14, 2009**

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International Monetary Fund**

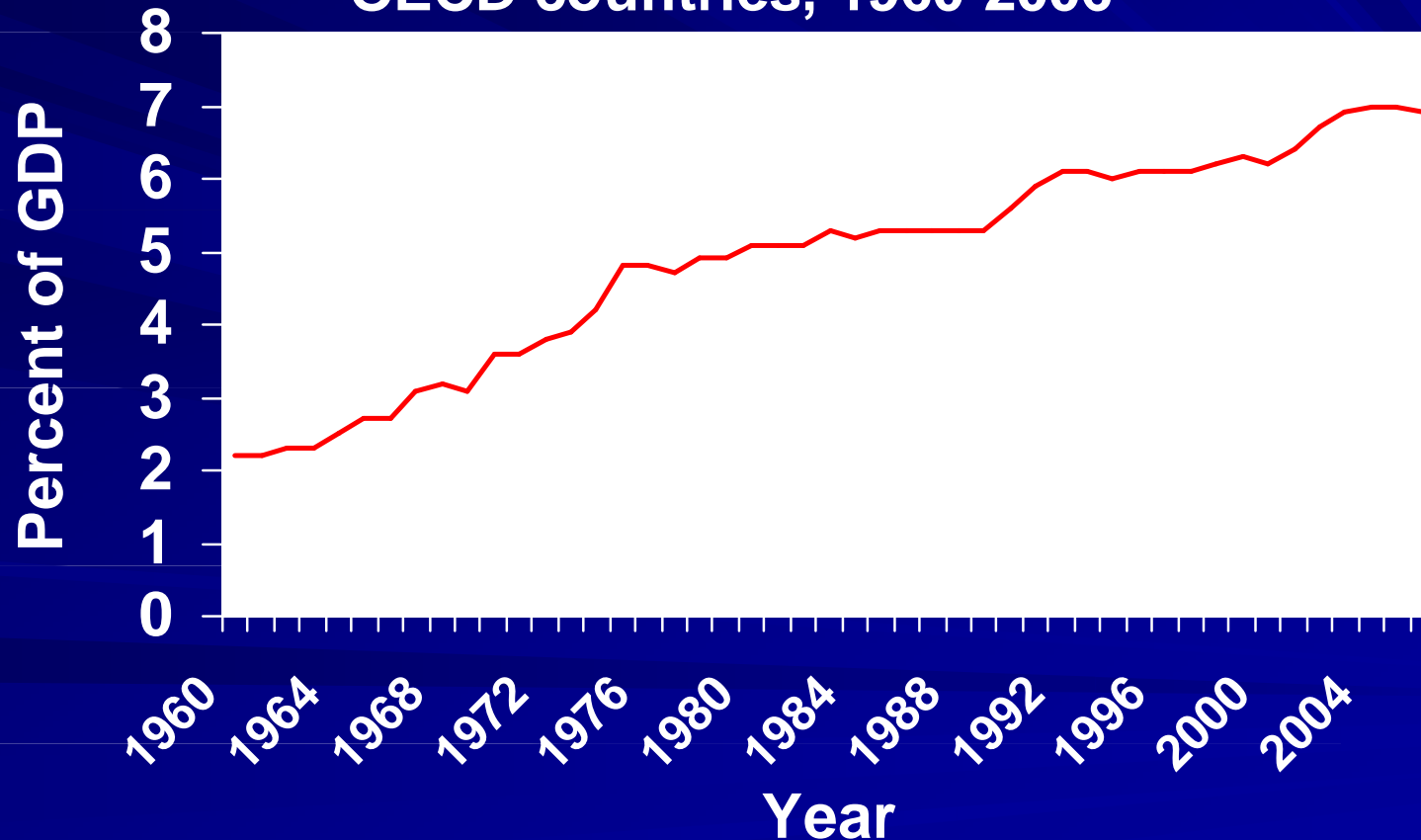
Health Care Projections: Are They Too Optimistic?

AWG Public health spending projections



Public health care spending: Past Trends

Average public health care spending in 12
OECD countries, 1960-2006



Source: OECD Health Data

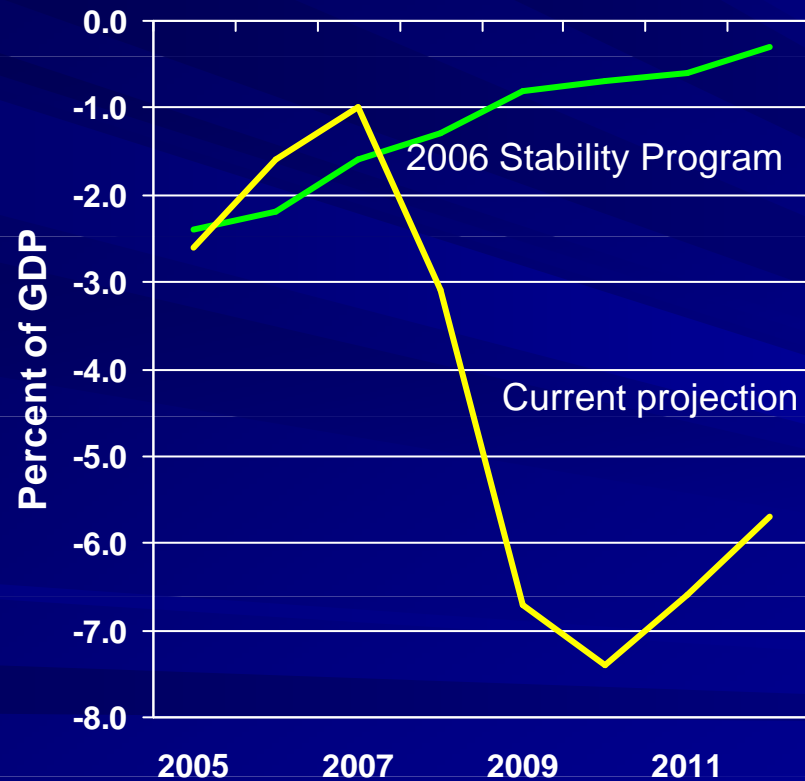
Note: Countries include Australia, Austria, Canada, Finland, France, Iceland, Ireland, Japan, Norway, Spain, UK, US

Policy responses to increased age-related spending

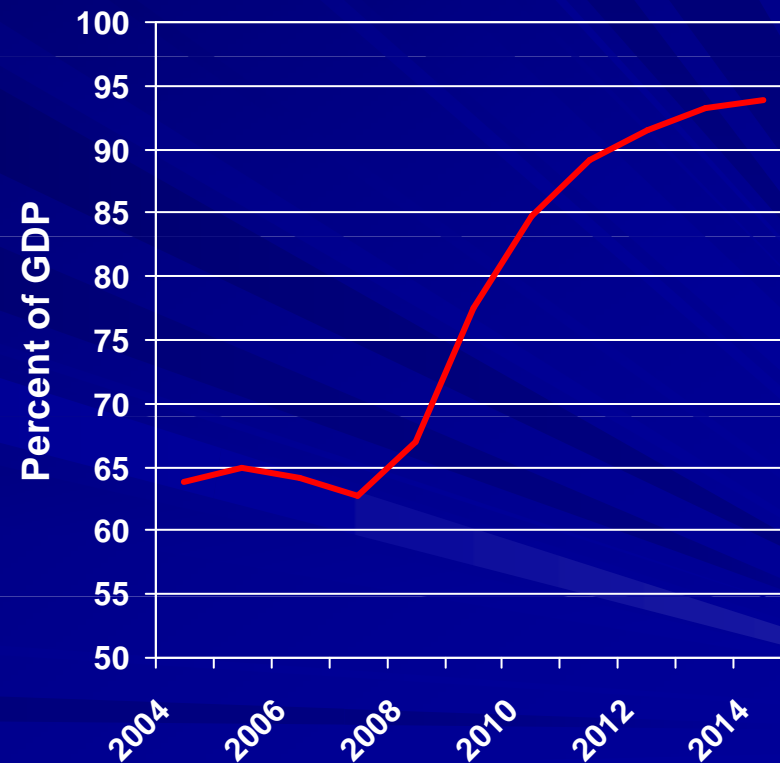
- Policy strategy prior to current crisis:
 1. Entitlement reform (primarily pensions)
 2. Prepositioning through increased government saving and lowering debt

But prepositioning has been (at least temporarily) derailed

Fiscal balance projections in EU-5



Public debt projections in EU-5



Source: European Commission and IMF World Economic Outlook

Note: EU-5 includes average of France, Germany, Italy, Spain, and United Kingdom

Policy must now focus on entitlement reform

- Pension reform: Options well established (e.g., adjust parameters in PAYGO systems), but political economy challenges
- Health reform: More difficult
 - How to balance costs and benefits of technological change?
 - How to ration health care?

Thank you