

Identifying fiscal sustainability challenges in the areas of pension, health care and long-term care policies

A key objective in the EU is to ensure sustainability of the public finances, including in a long-term perspective. This paper presents a horizontal assessment framework used by the Commission services to identify structural-fiscal reforms that are deemed necessary to address fiscal sustainability challenges in the Member States. It describes the steps to ascertain the extent to which there is a policy challenge in ensuring progress towards fiscal sustainability and which policy dimensions merits closer scrutiny, taking into account the country-specific circumstances in the fields of, respectively: i) pension policy; ii) health care policy; and, iii) long-term care policy. The areas under scrutiny concern the design of national policies in the above-mentioned policy fields and are under the direct control of the Member States' governments. These areas are explicitly mentioned, in relevant cases, in the policy coordination process at EU level implementing the Europe 2020 strategy, the European Semester.

The deterioration in fiscal positions and increases in government debt since 2008, together with the budgetary pressures posed by population ageing, compound each other and make fiscal sustainability an acute policy challenge. The economic and budgetary situations and prospects vary widely among EU countries at the current juncture, pointing to a diversified policy approach and different degrees of required fiscal consolidation. The appropriate combination of policies needed to ensure fiscal sustainability will depend on the main reasons behind the fiscal sustainability challenges the different Member States are facing.

In terms of adapting economic policies to changing circumstances, structural fiscal adjustment plays an important role. In order to provide policy advice to countries in a comparable manner, it is useful to consider robust indicators so as to underpin the recommendations. From the overarching point of view of enhancing fiscal sustainability, a logical starting point is the sustainability indicators used in EU budgetary surveillance. The sustainability indicators show the extent to which there is a need for large policy adjustment now or in the future (of fiscal or structural nature or a combination of the two). On this basis, it is necessary to analyse the main causes of the sustainability gap and how they should be addressed. Hence, this process entails: i) identifying the extent to which there is an important fiscal sustainability challenge; and, ii) establishing the nature of the challenge so as to devise appropriate policies to remedy the situation in the areas of pensions, health care and long-term care policies.