

# **S&P: Age-Related Spending Reforms Help Restore Sovereign Fiscal Sustainability; Emerging Markets Not Immune To Aging Pressure**

PR Newswire  
NEW YORK

NEW YORK, March 20, 2013 /[PRNewswire](#)/ -- Standard & Poor's Ratings Services has seen a significant improvement in the budgetary positions of wealthier sovereigns since its 2010 global review of the impact of aging societies on public finances. While the rapid buildup of government debt since 2007-2008--and the resulting large deficits posted by many rated sovereigns--focused attention on age-related spending, a number of sovereigns have overhauled their public pension or health care systems--the two components of age-related programs that typically account for about 40% of government spending, according to a report released today by Standard & Poor's. The report, *Global Aging 2013: Rising To The Challenge*, updates Standard & Poor's 2010 report, and continues a series begun in 2002 that analyzes the fiscal effects of aging populations.

"If sovereigns overcome their post-crisis economic and budgetary difficulties and successfully adapt their social security systems to demographic challenges, pressures on public finances exerted by aging populations could be gradually contained over the long term--a somewhat surprising conclusion at this stage of the sovereign debt crisis," said Marko Mersnik, sovereign analyst at Standard & Poor's and author of the report.

Several nations have begun to implement health care and pension measures to accommodate both their aging populations as well as their near-term budgetary pressures, although the impact of these measures in some countries is offset by economic weakness and diminished employment levels. Coupled with higher borrowing costs, such measures can hamper efforts to stabilize debt dynamics. Standard & Poor's believes, however, that if continued, the structural changes and budget consolidation processes many sovereigns have recently implemented should improve their prospects for maintaining sustainable public finances.

"This may be the start of a decades-long period of tension between two different priorities: public spending on pensions and health care for aging populations versus the need to contain sovereign budget deficits and debt," said Mr. Mersnik.

Although aging-related costs are often viewed as a problem faced primarily by wealthier sovereigns, Standard & Poor's analysis suggests that the problem may be almost as pressing for emerging market sovereigns.

For the 2013 Report, supporting data is available interactively on the Web and via an iPad app. Comparisons with various groups – such as emerging economies and AAA-rated countries – are also available. Links can be found at [www.standardandpoors.com/GlobalAging](http://www.standardandpoors.com/GlobalAging). Users may also interact with the supporting data on iPad by downloading the free CreditMatters app available by searching "S&P Ratings" at the Apple App Store or by visiting [www.standardandpoors.com/mobile](http://www.standardandpoors.com/mobile).

The 2013 Report includes simulations of hypothetical long-term sovereign ratings credit metrics under various scenarios:

- The "No Policy Change" scenario, in which nations take no measures to plan for aging populations
- The "Balanced-Budget" scenario, in which budgetary adjustments result in a balanced budget in 2016 for all sovereigns
- The "No Aging" scenario, in which government legislation fully contains future increases in age-related spending over the projection period
- The "Lower Interest Rate" scenario, in which a 2% interest rate prevails over the study period rather than 3% in the no-policy-change scenario
- The "Higher GDP Growth" scenario, in which GDP growth is increased by 1% across the projection period.

To demonstrate the scale of the challenge, by 2050 under a "No-Policy-Change" scenario nearly 60% of the sovereigns analyzed in the 2013 Report would have credit metrics that Standard & Poor's currently associates with speculative-grade sovereign credit ratings, against 20% currently--even though their finances have improved since the 2010 report.

As in previous reports, the 2013 Report also notes that Standard & Poor's does not predict the "No-Policy-Change" scenario will actually unfold, given the low likelihood that governments would allow their debt burdens to increase without enacting policy reforms. In fact, the 2013 Report shows some improvement to date from reform efforts enacted since 2010.

## WEBCAST and Q&A

Media are invited to join Standard & Poor's Marko Mrsnik, Director, Sovereign Ratings, on Wednesday, March 20, 2013, at 11 a.m. U.S. Eastern Daylight Time for an interactive, live Webcast and Q&A, as he discusses the effects of aging populations on global economies. Please register for the event here: <https://event.on24.com/eventRegistration/EventLobbyServlet?target=registration.jsp&eventid=598587&sessionid=1&key=86ED2927AEEE007926A0918C77222C85&sourcepage=register>

The report is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com). Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at [www.standardandpoors.com](http://www.standardandpoors.com). Members of the media may request a copy of this report by contacting the media representative provided.

SOURCE Standard & Poor's

---

<http://press.spglobal.com/2013-03-20-S-P-Age-Related-Spending-Reforms-Help-Restore-Sovereign-Fiscal-Sustainability-Emerging-Markets-Not-Immune-To-Aging-Pressure>