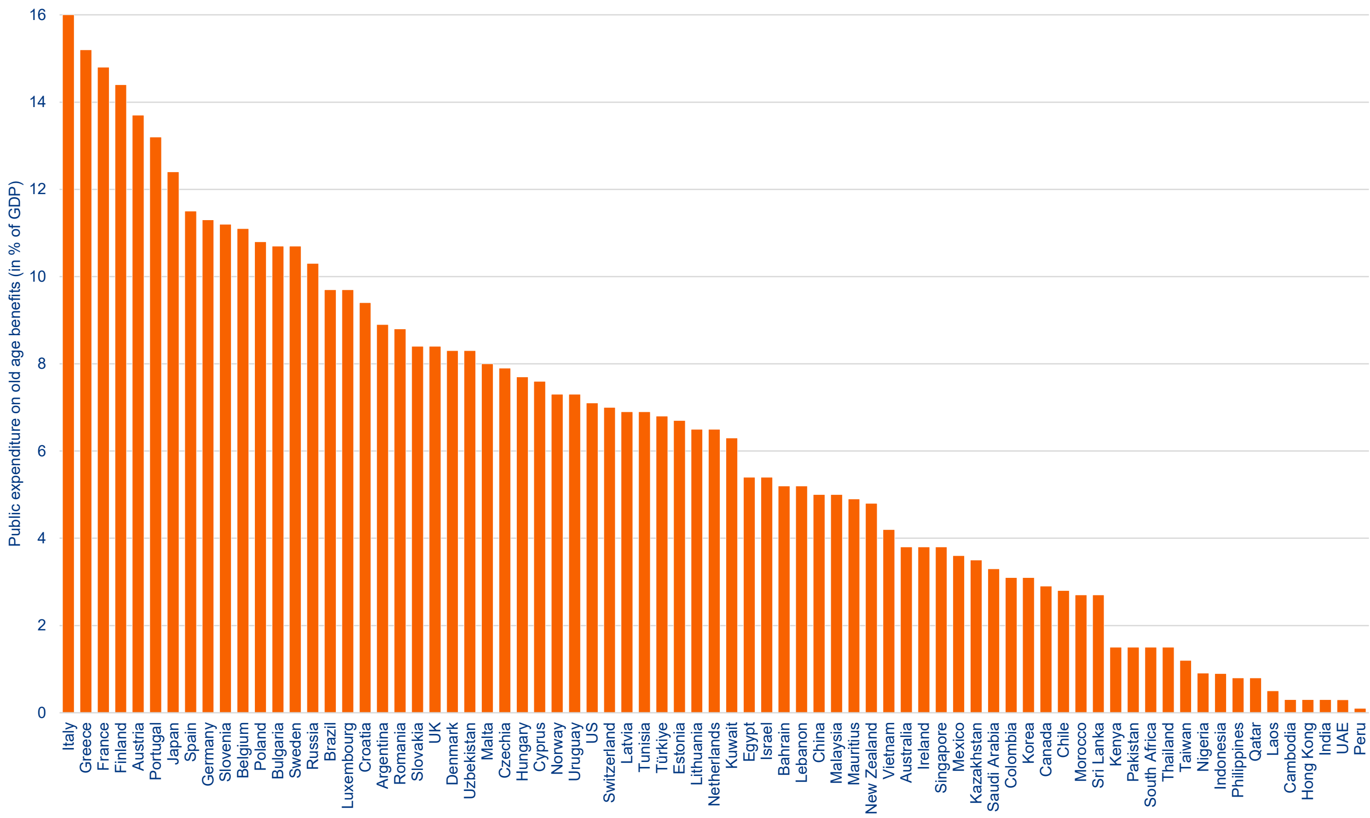
Figure 6: Public expenditure on old age benefits



Source: ILO.

How much a society is willing to spend on its older population t is a political question, reflecting public opinion. But given the already high shares of public expenditure on old-age benefits on the one hand, and the expected increase of old-age dependency ratios on the other, the question becomes less political and more technical: Can future generations even afford these payments? Especially since the Covid-19 pandemic has deteriorated state budgets in most countries, squeezing the financial leeway to subsidize further ailing pension systems in the future. In 60 of the countries[12] that we cover in our analysis, gross budget deficits have increased since the outbreak of the Covid-19 pandemic, with debt levels at the end of 2022 ranging from 3% of GDP in Kuwait to 261% of GDP in Japan. In the top 10 countries with the highest gross debt, we also find some that also lead the ranking for public spending on old-age benefits: Greece, Italy, Portugal and Spain, followed by France and Belgium. In all these countries, gross budget deficits exceed GDP: 105% in Belgium, 116% in Portugal, 144% in Italy and 177% in Greece. The return of positive interest rates is set to reduce governments' financial leeway even further since (re-)financing debt is no longer free. Already in 2022, net interest payments in the Eurozone alone are likely to have increased by almost +20% to EUR207bn[13] (see Figure 7).

[12] The exceptions are Argentina, Croatia, Cyprus, Denmark, Greece, Ireland, Kuwait, Netherlands, Portugal, Qatar, Slovenia, Sweden, Switzerland, Taiwan and Vietnam.
[13] See Holzhausen, Arne and Stoffel, Kathrin (2023): Rates not roses.