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people younger than 54 averaged only about € 800. For long-term care, the average spending per person for these two age groups was about € 500 and € 20. Thus, spending on these categories will rise because the shares of the elderly and the very old (over 80 years of age) are projected to increase. At the same time that age-related expenditures start to increase, the relative decline in the labor force will erode the tax and social security contribution base.

Options for ensuring fiscal sustainability

Given the dramatic changes expected in Austria's demographics and the prospect of a sharp deterioration in its fiscal position, what options are available to ensure the country's long-term fiscal sustainability? Eskesen explores the outlook for age-related spending and public finance sustainability under three scenarios: a "high case" (assuming solid growth and very successful outcomes of current structural reforms); a "low case" (lower growth and more moderate success of structural reforms); and a case in which additional pension reform measures are implemented.

Even if the pension and labor market reforms already under way are successful in containing early retirements and increasing labor force participation rates (especially of the elderly), Eskesen says, the fiscal pressures associated with the aging of the population will rise significantly. A better growth performance could have some positive effects on public finances but would still not alleviate the problem. Under less optimistic assumptions, the fiscal outlook would deteriorate quickly. The deterioration would be even more pronounced if the cost of health and long-term care increased faster than currently foreseen. Significant and timely improvements in the primary fiscal balance of more than 2–3 percent of GDP would be required to ensure long-term sustainability of public finances.

What is the best way for Austria to accommodate the projected bulge in age-related spending? An increase in taxes is not likely to be an available or desirable option—indeed, the government plans to reduce the tax burden over the medium term. Eskesen stresses that policy measures should focus on reducing spending—first and foremost through pension reforms. If such measures are not taken, or are insufficient, additional savings will need to be generated in other areas, for instance through reforms of the civil service or other welfare entitlements.

Additional reforms include bringing forward the harmonization of male and female retirement ages, further raising the minimum early retirement ages, strengthening the financial incentives for working longer, moving from wage to price indexation of benefits, and lengthening the wage assessment period for



measuring benefit entitlement. The sooner such reforms are implemented, Eskesen argues, the greater the long-term savings and, therefore, the smaller the needed fiscal adjustment. Introducing more user fees, tightening eligibility to certain services and benefits, and increasing the specialization of hospitals could also help contain the escalation of health and long-term care spending. He concludes by stressing the importance of adhering to fiscal discipline over the long term, since even small fiscal slippages will have large dynamic effects on public finances. In this context, the needed fiscal discipline and time consistency of fiscal policy could be supported by introducing a formalized fiscal framework. ■

Copies of IMF Working Paper No. 02/216, "Population Aging and Long-Term Fiscal Sustainability in Austria," by Leif Lybecker Eskesen, are available for \$15.00 each from IMF Publication Services. See page 73 for ordering information. The full text is also available on the IMF's website (www.imf.org).

Aninat to leave IMF leadership post

IMF Deputy Managing Director Eduardo Aninat announced on March 7 that he plans to leave his post in June 2003. In December 1999, he joined the IMF's four-member management team with broad responsibilities in running the IMF, including chairing its Executive Board meetings.

Announcing his decision, Aninat said he held deep admiration for the IMF's dedicated staff and respect for the institution. "I have had the privilege of working in the IMF during challenging years for the international community. I am very grateful to my colleagues in management, in particular to Horst Köhler." Köhler described Aninat as a man of exceptional capabilities and said, "I have greatly benefited from his advice, support, and good counsel. During his stay here, he has contributed immensely to furthering the agenda of the IMF, drawing upon his vast experience of policy work, political acumen, and diplomatic skills. I am indeed sorry that Eduardo will be leaving us, but I understand his desire to move on to other challenges."