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Introductory remarks

by David Lipton, First Deputy Managing Director, IMF

Good morning.

Thank you for coming to today's launch of the IMF Staff Discussion Note on *The Future of Saving: The Role of Pension System Design in an Aging World*. I would like to offer my appreciation to the Japanese authorities for hosting this week's G20 meeting, the reason I have come to Tokyo. I am joined today by Vitor Gaspar, director of the IMF's Fiscal Affairs Department, who will present an overview of the paper.

It is hardly a coincidence that we are launching this paper in Tokyo. For years, Japan has been a prime example of a rapidly aging society—and with all the economic consequences that accompany that change.

This is best illustrated by what is called the old age-dependency ratio, which is a measure of the burden that those over 65 years of age place on working-age generations. Here in Japan, that ratio is expected to rise from 44 percent in 2016 to nearly 75 percent by 2060. That means there could be profoundly serious pressure on economic growth and fiscal imbalances.

Japan gives us a preview of what many more countries are about to experience. We tend to see aging populations as a problem facing advanced economies, especially in Europe. And to a large extent this is true. But many emerging market economies—and even some low-income developing countries—also are starting to face the same challenges.

With this in mind, Japan should be complimented for making this issue a key theme of its G20 presidency.

Tomorrow the authorities will host a G20 symposium on *the macroeconomic challenges of demographic changes*. I welcome this initiative.

So what of the macroeconomic consequences of aging societies? Aging affects the size of a country's labor force. It influences public finances as pension and healthcare spending increases. And it hashas significant implications for national saving, which is to say the sum of saving by the private and public sectors.

The advanced economies that are in the late-stage of demographic transition and facing rapidly ageing populations are witnessing rising fiscal burdens. By contrast, most low-income developing countries are still in early stage, with much younger populations. Their challenge is to invest for the future.

In general, the young borrow, prime working age individuals save, and older people spend after retirement. So, aging societies will see their saving rates decline. But there are other factors that influence how much people decide to put away for retirement, such as the generosity of their pension system and availability of dedicated pension saving accounts.

Our paper looks specifically at how these demographic trends interact with pension systems to determine a country's national saving rates. It shows that private savings will drive national savings over the next 30 years. It also lays out how pension systems influence private savings. Let me highlight three points:

- First, the cost of public pensions will increase by just over 2 percentage points of GDP by 2050. But that's a global average. The increase will be particularly pronounced in emerging markets and low-income countries.

- Second, the relatively young populations in emerging markets and low-income developing countries will generate higher private saving, and this will more than offset a projected decline in public saving.

- Third, the differences in private saving rates across countries are large. This is driven by the characteristics of pension systems.

So what is our policy advice?

This can best be summarized as urging countries to think through the most effective pension and social safety net systems—and then put in place necessary reforms.

I hate to sound like the IMF here, but there are countries whose generous public pension systems could place public finances in difficult circumstances down the road. They need to consider steps they can take now like establishing later retirement ages to ensure that pension systems remain viable into the future, and thus reduce long-term fiscal vulnerabilities.

But some countries may actually have room to provide more generous pension benefits. That would reduce the need for households to maintain high levels of saving as a precaution against old-age poverty. It would also reduce inequality.

With that, let me hand the floor to Vitor, who will describe our research in greater depth.