

## ESM SEMINAR 30 NOVEMBER - 1 DECEMBER 2022: LONG TERM CHALLENGES TO FISCAL SUSTAINABILITY

As the euro area grapples with the Covid19 aftermath and an ongoing war at the gates, one should not lose sight of longer-term challenges to fiscal sustainability. The main risks to long-term sustainability come from

- i) climate change
- ii) ageing transition
- iii) inequality
- iv) trade block fragmentation

Climate change has emerged as a main challenge to the health of public finances, already having an effect on growth and public spending. The impact is likely to increase with the severity of the shocks, and mitigation and adaptation needs.

This is exacerbated by an aging population, and an inverted demographic pyramid, where people save more and work longer. Longer life expectations also lead to higher health costs, with social security becoming an almost unsustainable burden in countries with unfunded systems. Migration could help alleviate demographic pressures, but not until migrants become net contributors to the European social welfare states.

Inequality is already a challenge, likely to intensify. The gap between returns to capital and labour has opened up, and the ensuing higher savings contributed to push interest rates down. Purchasing power and aggregate demand could further suffer as the middle class thins out.

Trade fragmentation and re-shoring could boost growth in the short term, but also raise costs and constrain efficient business decisions with negative longer-term growth effects.

The ESM in cooperation with ADEMU is organizing a seminar to discuss the implications of these risks and their interactions to fiscal sustainability and identify policy measures and reforms to help alleviate their negative impact of growth and public finances.

### **Objectives of the seminar:**

- Exchange views on the main long-term risks and their interactions for growth and fiscal sustainability
- Discuss policy implications and challenges for national governments and European institutions

### **Seminar Setup:**

- This will be a hybrid seminar, taking place at the ESM premises and online
- Presenters: senior policy makers and academics

| <b>DAY 1 – 30 November</b>          |   |
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| 8:00 – 8 :45                        | Registration and breakfast  |
| 8 :45 – 9:00                        | Welcoming remarks by Rolf Strauch, ESM Chief Economist  |
| Session I (part 1)<br>9:00 – 12:00  | <p><b>The bumpy road ahead</b><br/><i>(Chair: Giovanni Callegari, European Stability Mechanism)</i></p> <p><b>Part I-a: Demographic transition</b><br/><i>Speaker 1: Ronald Lee (University of California, Berkeley)</i><br/><i>Speaker 2: Elsa Fornero (University of Turin)</i></p> <p><b>Part I-b: Climate change</b><br/><i>Speaker 1: Paul Hiebert (European Central Bank)</i><br/><i>Speaker 2: Stavros Zenios (University of Cyprus)</i><br/><i>Speaker 3: Irene Monasterolo (EDHEC Business School)</i></p> |
| 12:00 – 13:30                       | Lunch break   |
| Session I (part 2)<br>13:30 – 15:45 | <p><b>Part II-a: Inequality</b><br/><i>Speaker 1: François Bourguignon (Paris School of Economics)</i><br/><i>Speaker 2: Andrea Brandolini (Banca d'Italia)</i></p> <p><b>Part II-b: Trade</b><br/><i>Speaker 1: Andrea Presbitero (International Monetary Fund)</i><br/><i>Speaker 2: Andrew Bernard (Tuck School of Business)</i></p>   |
| 15:45 – 16:000                      | Coffee break  |
| Session II<br>16:00 – 17:30         | <p><b>Policy implications for sustainable finances</b><br/><i>(Chair: Rolf Strauch, European Stability Mechanism)</i></p> <p><u>Lead discussant:</u> <i>Ramon Marimon (Universitat Pompeu Fabra)</i></p> <p><u>Panellists:</u> <i>Ceyla Pazarbasioglu (International Monetary Fund)</i><br/><i>Beata Javorcik (European Bank for Reconstruction and Development)</i><br/><i>Debora Revoltella (European Investment Bank)</i><br/><i>Xavier Debrun (European Fiscal Board)</i></p>                                   |

| <b>DAY 2 – 1 December</b>     |  |
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| <b>Methodological aspects</b> |  |
| 9:00 – 9:30                   | Breakfast  |
| 9:30 – 9 :45                  | Intro short session: Giovanni Callegari (European Stability Mechanism) |

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| 9:45 – 10:55    | <p><b>Demographic transition, aging costs and the DSA</b><br/>Practice and modelling options<br/>(Chair: Giovanni Callegari, European Stability Mechanism<br/>Ramon Marimon (Unversitat Pompeu Fabra)</p> <p>Speaker 1: Philip Mohl (European Commission)<br/>Speaker 2: Joao De Sousa (Nova School of Business and Economics)</p> |
| 10:55 – 11:10   | Coffee break   |
| 11:10 – 12:20   | <p><b>Embedding inequality in the DSA frameworks</b><br/>(Chair: Giovanni Callegari, European Stability Mechanism<br/>Ramon Marimon, Unversitat Pompeu Fabra)</p> <p>Speaker 1: Jaejoon Woo (International Monetary Fund)<br/>Speaker 2: Enisse Kharroubi (Bank for International Settlements)</p>                                 |
| 12:20 – 13:20   | Lunch break  |
| 13:20 – 14:40   | <p><i>Stochastic DSA &amp; DSGE-based assessments: Can they work together?</i><br/>(Chair: Ramon Marimon, Unversitat Pompeu Fabra)</p> <p>Brainstorming: Lilia Cavallari (UPB/University of Rome), Francesco Bianchi (Johns Hopkins University, Kostantinos Theodoridis (European Stability Mechanism)</p>                         |
| 14 :40 – 15 :00 | Coffee break   |
| 15 :00 – 16:40  | <p><i>Climate change in the DSA – Technical considerations</i><br/>(Chair: SPR, International Monetary Fund)<br/>Speaker 1: SPR Debt Policy<br/>Speaker 2: Philip Mohl (European Commission)</p>   |