

Mrs. Eva Maria Poptcheva
Member of the European Parliament

Mr. Paolo Gentiloni
Commissioner for Economy

Brussels, 14 April 2023

Dear Commissioner Gentiloni,

Europe is at the door of a historical demographic challenge: the ageing of our population. Spain is no different. The Spanish Baby Boom generation, born between 1957 and 1977, is on the brink of retirement. This will soon cause an exponential increase in the number of retirees per worker in the country, blowing up the expenditure of the pension system as well as the healthcare system, adding more pressure to the already imbalanced Spanish public finances.

Moreover, we are facing this challenge completely unprepared. After decades chaining consecutive crises - the 2008 crisis, the Covid-19 and the Ukrainian war - the public debt in Spain is at 113,2% of GDP¹. Therefore, we do not have the fiscal margin to face such an increase in spending.

On 24th of March, the AIREF, the Spanish independent fiscal institution responsible of overseeing the sustainability of public finances in Spain, published a report on its “*Opinion on the long-term sustainability of public administrations: The impact of demographics*”². This report provides a projection of several macroeconomic indicators regarding public finances. It states that, **as a consequence of the ageing of the population, the spending will greatly overpass the estimated income, pushing the debt to levels never experienced before.**

The report includes the following key figures:

- Without economic policy measures or fiscal rules, and taking into account the most recent pension reforms, ageing could bring the Spanish public debt to 186% of GDP in 2070 and the deficit to 7% of GDP that same year.
- Spending on pensions would begin to accelerate, especially after 2035, reaching a maximum of 16,3% of GDP in 2049 before stabilizing at 13,9% in 2070.
- In 2050, the dependency ratio will be 51,4%, meaning that **every two workers will bear the cost of one person’s pension**. For example, if the average pension is €1,200 per month, as it is now, each worker will have to pay an average of €600 per month to cover the cost of pensions.
- Health spending would stabilize at around 8,4% of GDP from 2049, while in long-term care, it would be about 2% around 2060. On the contrary, spending on education would fall to 3,6% in 2041.

¹ Banco de España (Eurosystem). December 2022. <https://www.bde.es/webbde/es/estadis/infoest/a1107.pdf>

²https://www.airef.es/wp-content/uploads/2023/03/OPINI%C3%93N-SOSTENIBILIDAD/AIREF-2023_Opinion-sostenibilidad-de-las-AAPP-largo-plazo.pdf

Given the looming demographic avalanche and considering that we are only at its beginning, we might be the last generation of public servants that can do something to prevent the worst outcome. Only if we make now the necessary, yet likely unpopular, **pension reform**, we might have a chance to preserve its long-term sustainability and the prosperity of our economy.

Far from it, the current Spanish government has passed several pension reforms that will only exacerbate the problem. According to the AIREF report, the elimination of the *sustainability factor* and the increase of pensions according to CPI will result in an additional 2.4% of GDP spent on public pensions by 2050. Whereas the rise in social security contributions is expected to generate just 1.3% of GDP in revenue. **As a result, the recent pension reforms will increase the structural deficit by 1,1% of GDP by 2050.** Therefore, the same reforms that allegedly intend to mitigate the future deficit resulting from the ageing population will not only fall short to do so, but rather they will contribute to further increase the deficit, up to the projected 7% of GDP by 2050. Spain is only an example of the demographic challenge that looms over Europe. Whatever happens there might lead the way for other Member States.

For all these reasons, I believe it is of utmost importance that the Commission demands the necessary reforms from the Spanish government to ensure the long-term sustainability of the pension system and protect the fundamental values of the European project. Furthermore, the RRF presents a historic opportunity, as it enables Member States to undertake transformative, structural reforms, whilst it empowers the Commission to monitor their effective enforcement from national governments. It gives the possibility to provide them an incentive to implement deep and meaningful policies that would never happen otherwise.

Therefore, I would herewith like to ask the Commission to fulfil its duties and to evaluate the pension reform carried out by the Spanish government within the examination of milestone number 409 of the Spanish national recovery and resilience plan in a meaningful and truthful manner, taking into account the opinion of the Spanish independent fiscal institution AIREF. The CIUDADANOS delegation and the European Parliament as a whole will monitor closely the fulfilment of the commitments under the Recovery and Resilience Facility in the interest of the European taxpayers but, above all, in order to ensure a dignified future for the next generations.

Yours sincerely,

Eva-Maria Poptcheva,

*Vice-Chair of the Committee on Economic and Monetary Affairs of the European Parliament and
Member of the ECON-BUDG Working Group on the scrutiny of the Recovery and Resilience Facility.
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