

Pension Systems in Emerging Europe: Reform in the Age of Austerity

**The aging crisis and financial market assessment
of public sector debt sustainability**

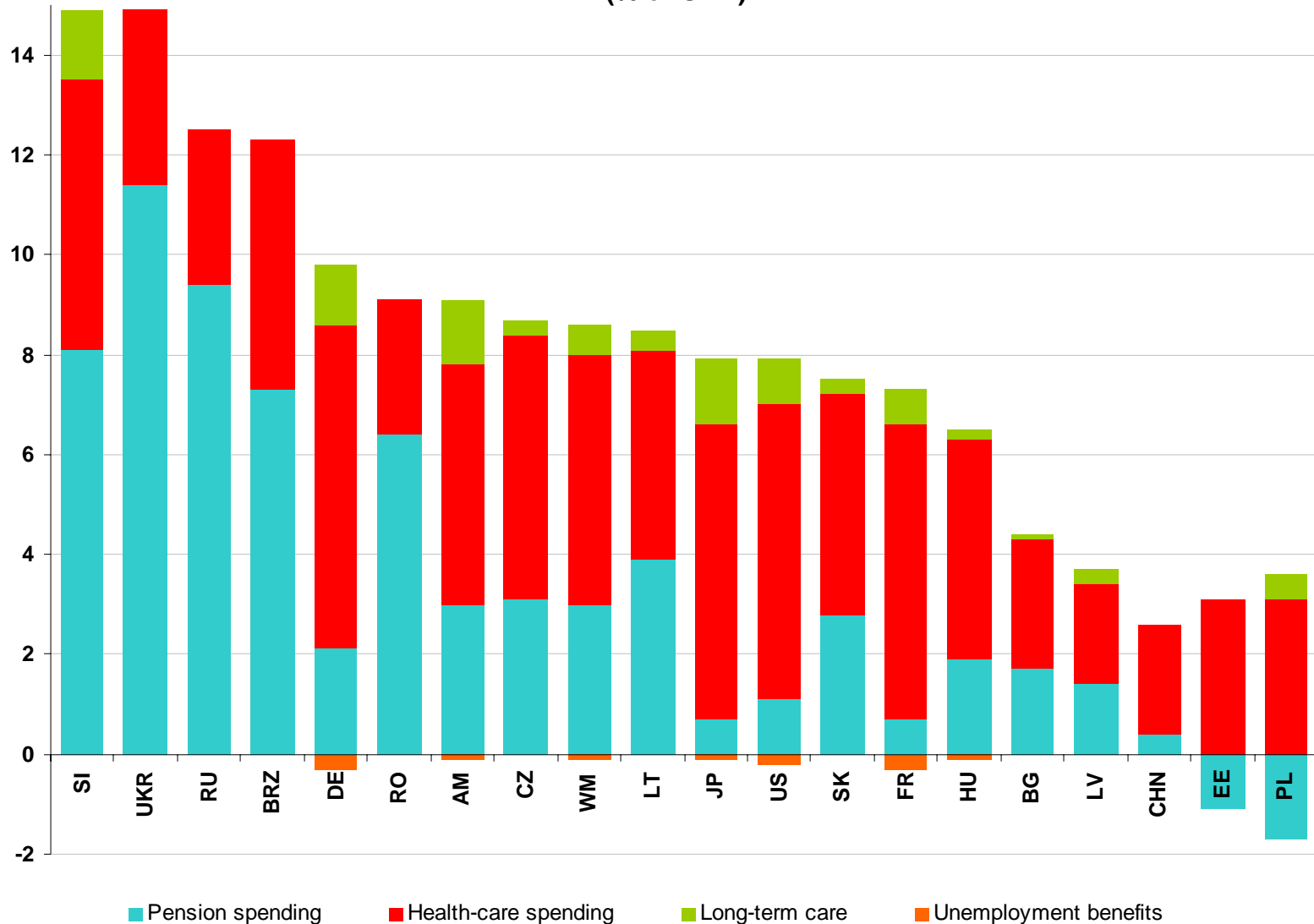
**Marko Mršnik, Director
Sovereign Ratings Europe**

EBRD, London, April 1, 2011

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Population ageing to lead to higher age-related spending...

Composition of projected increase in age-related spending in CEE and other selected sovereigns, 2010-2050
(% of GDP)



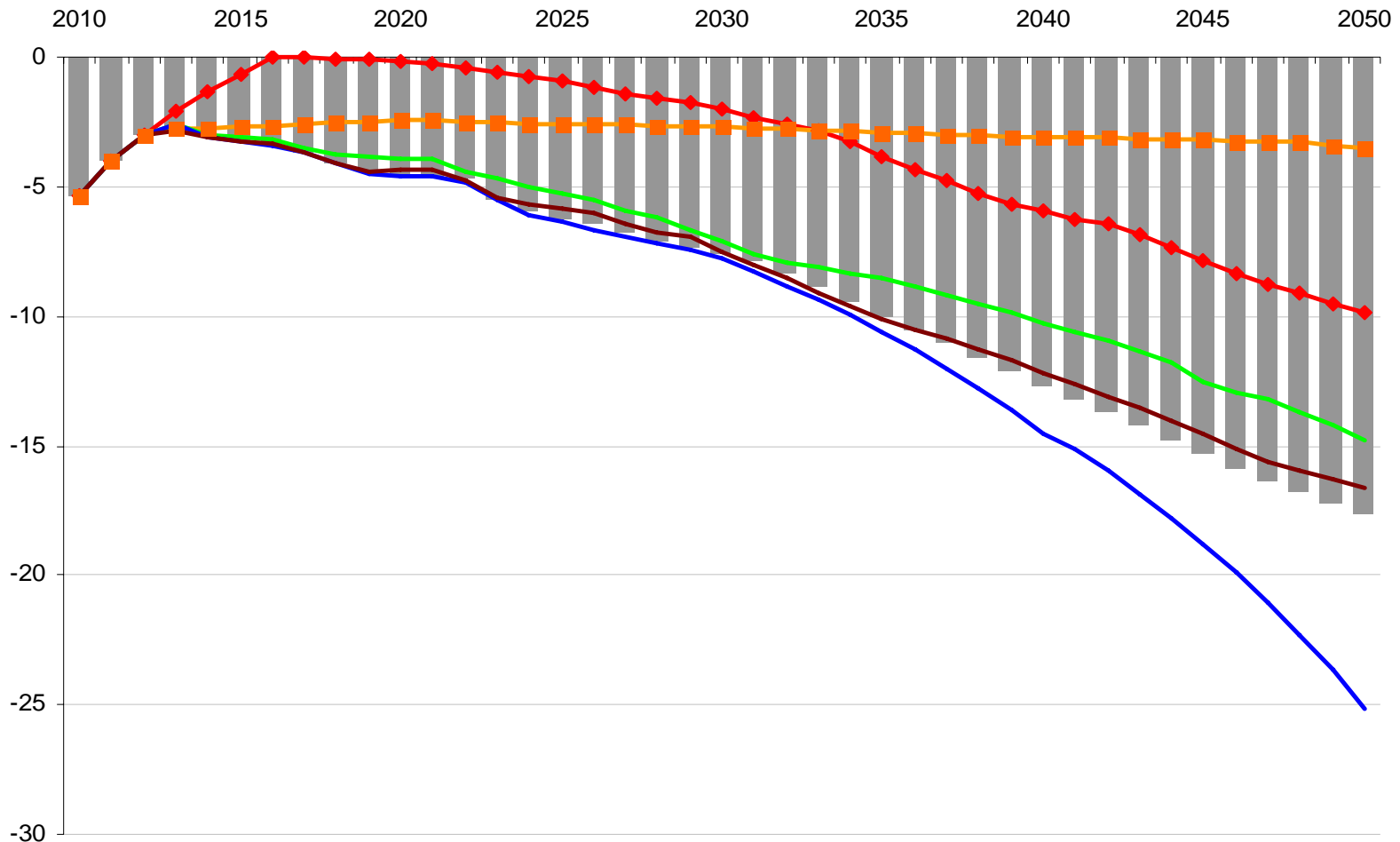
Note: AM – Advanced sovereigns median; WM – World median.

Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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As a consequence, government deficits expected to widen...

Projected median general government balance, 2010-2050 (% of GDP)

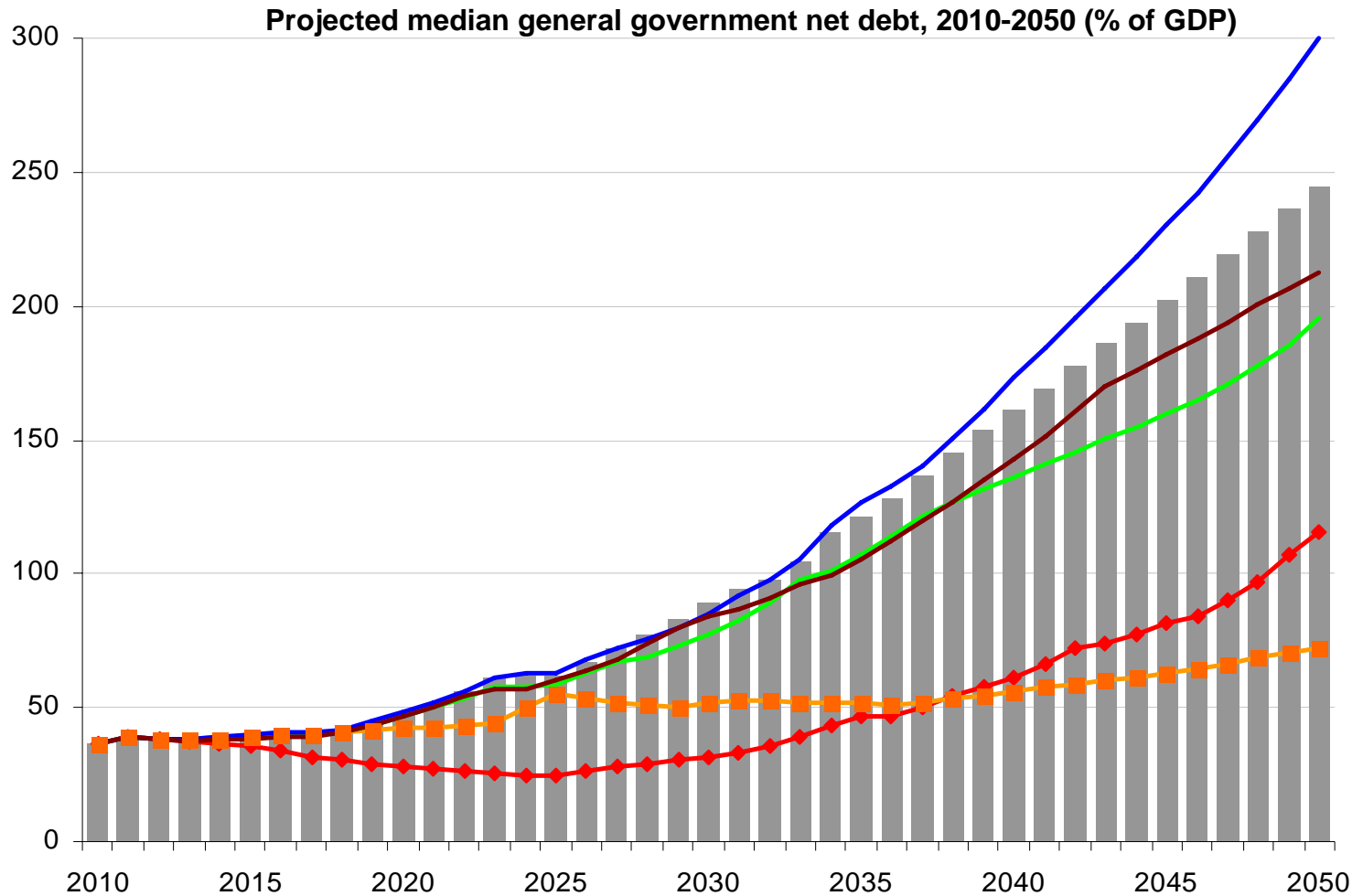


- Base case scenario
- "No-ageing" scenario
- "Discriminating investors" scenario
- ◆ "Balanced budget in 2016" scenario
- "Lower interest rate" scenario
- "Higher growth" scenario

Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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...Likely leading to growing government debt



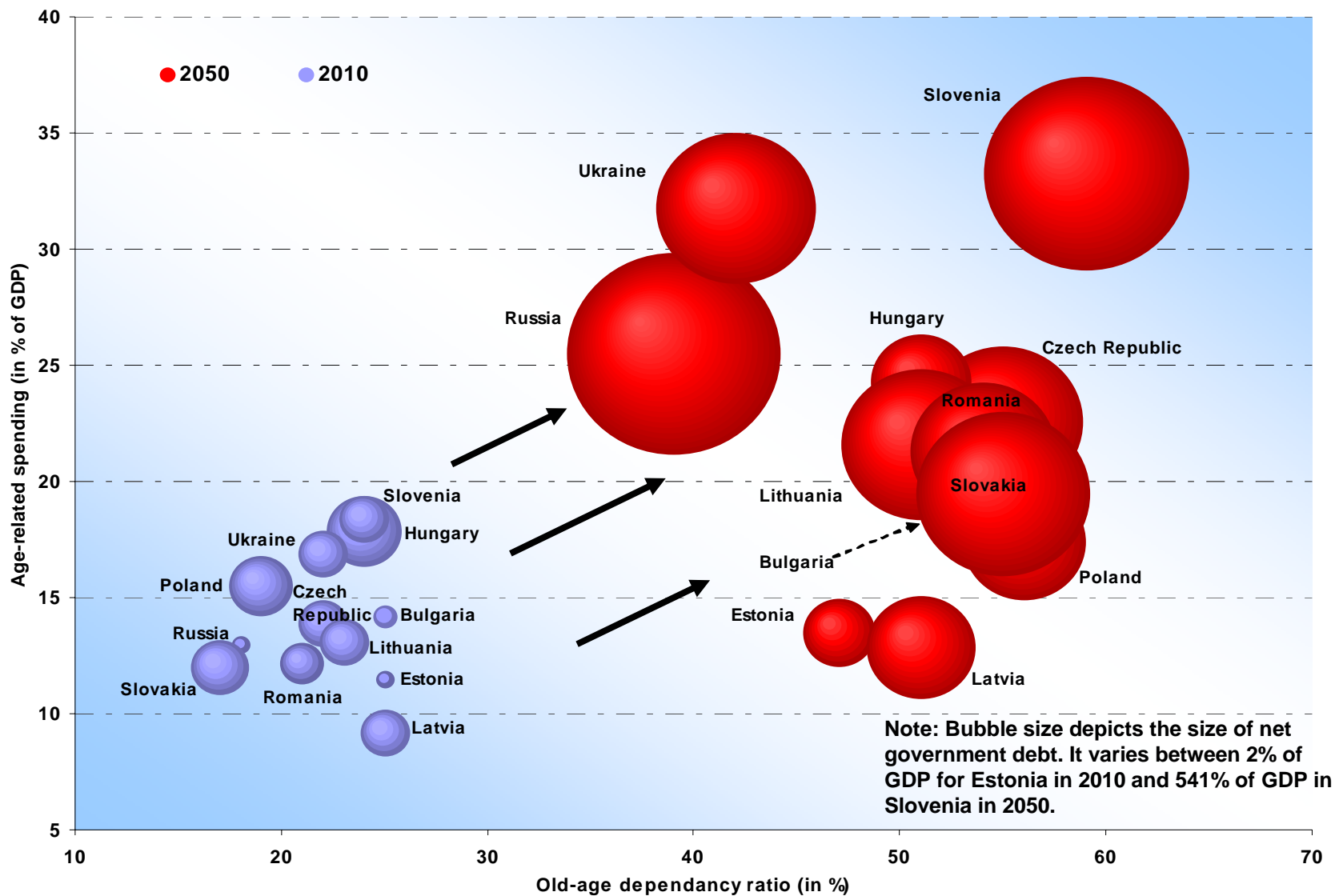
- Base case scenario
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Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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Without policy change, CEE sovereign debt expected to grow fast

Aging and its budgetary impact in CEE sovereigns

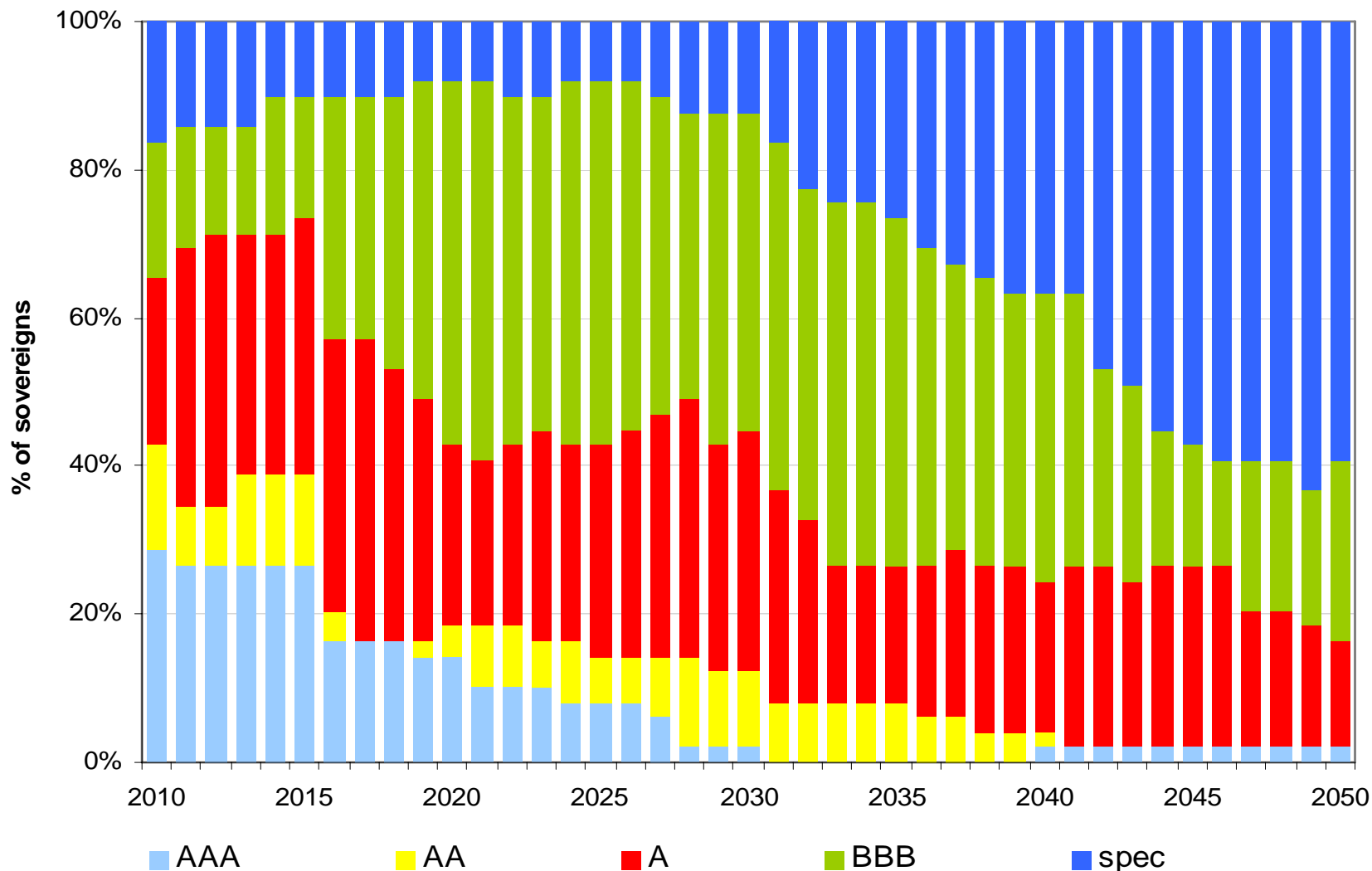


Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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Without policy change, sovereign ratings likely under pressure

Simulated hypothetical long-term sovereign ratings distribution (no-policy change scenario), 2010-2050



Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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Hypothetical sovereign ratings in CEE without policy change

	2010	2020	2030	2040	2050
Bulgaria	BBB	BBB	A	BBB	BBB
Czech Republic	A	A	A	BBB	Spec
Estonia	A	A	A	A	A
Hungary	BBB	A	A	A	BBB
Latvia	Spec	BBB	A	A	BBB
Lithuania	BBB	A	A	BBB	Spec
Poland	A	A	A	BBB	BBB
Romania	Spec	BBB	Spec	BBB	Spec
Russia	BBB	BBB	BBB	Spec	Spec
Slovakia	A	A	A	BBB	Spec
Slovenia	AA	A	BBB	Spec	Spec
Ukraine	Spec	Spec	Spec	Spec	Spec

Note: Hypothetical ratings defined at the rating category level, without the “+” or “-” rating qualifiers.

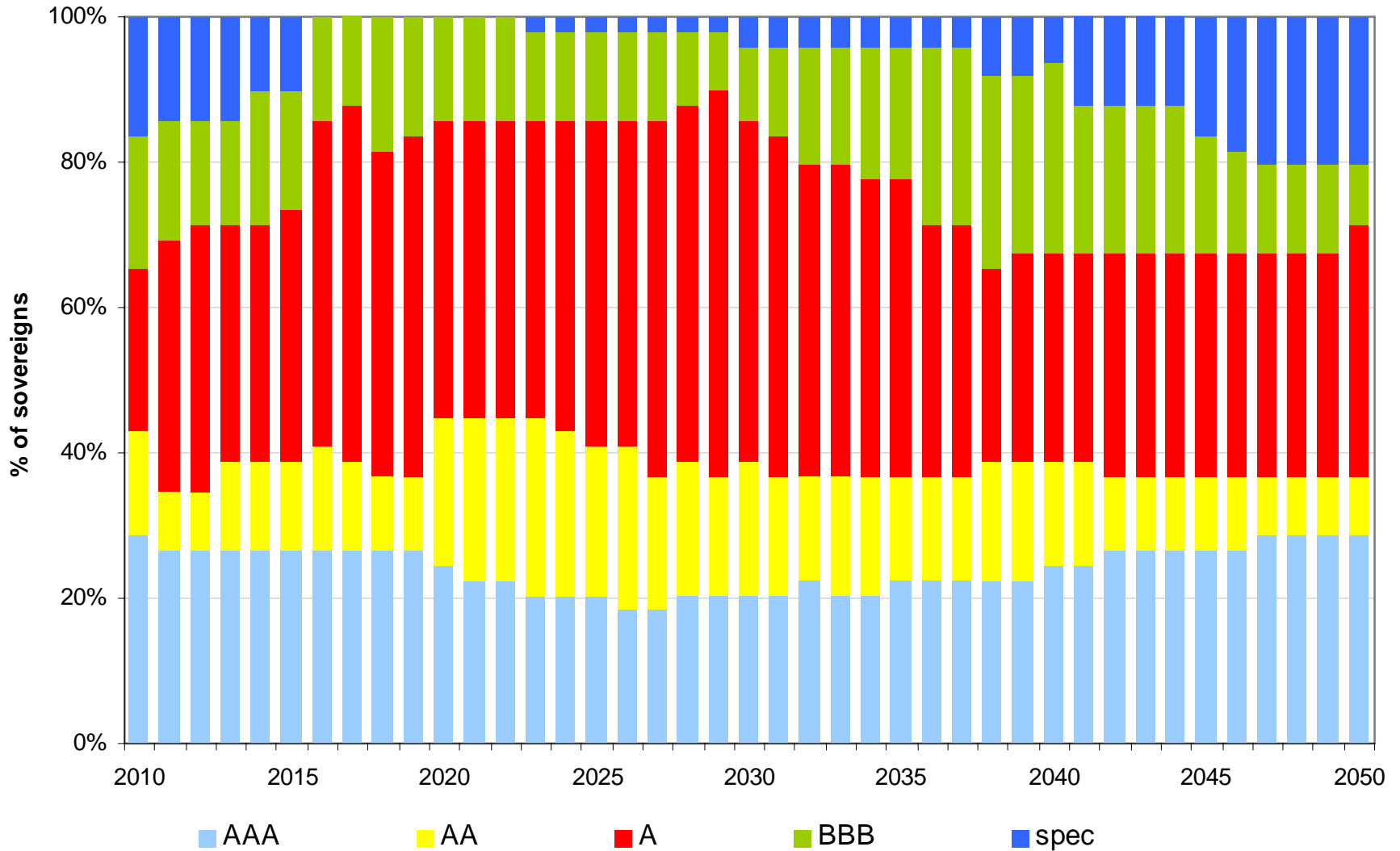
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Possible solutions: Structural reforms of social security...

Simulated hypothetical long-term sovereign ratings distribution (no-ageing scenario), 2010-2050



Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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Hypothetical sovereign ratings in CEE: “No aging” scenario

	2010	2020	2030	2040	2050
Bulgaria	BBB	BBB	A	A	A
Czech Republic	A	A	A	BBB	BBB
Estonia	A	A	A	A	A
Hungary	BBB	A	AA	AA	AA
Latvia	Spec	A	BBB	A	A
Lithuania	BBB	A	A	A	A
Poland	A	A	A	A	BBB
Romania	Spec	BBB	BBB	BBB	BBB
Russia	BBB	BBB	A	BBB	Spec
Slovakia	A	A	A	BBB	BBB
Slovenia	AA	AA	A	AA	BBB
Ukraine	Spec	BBB	BBB	A	BBB

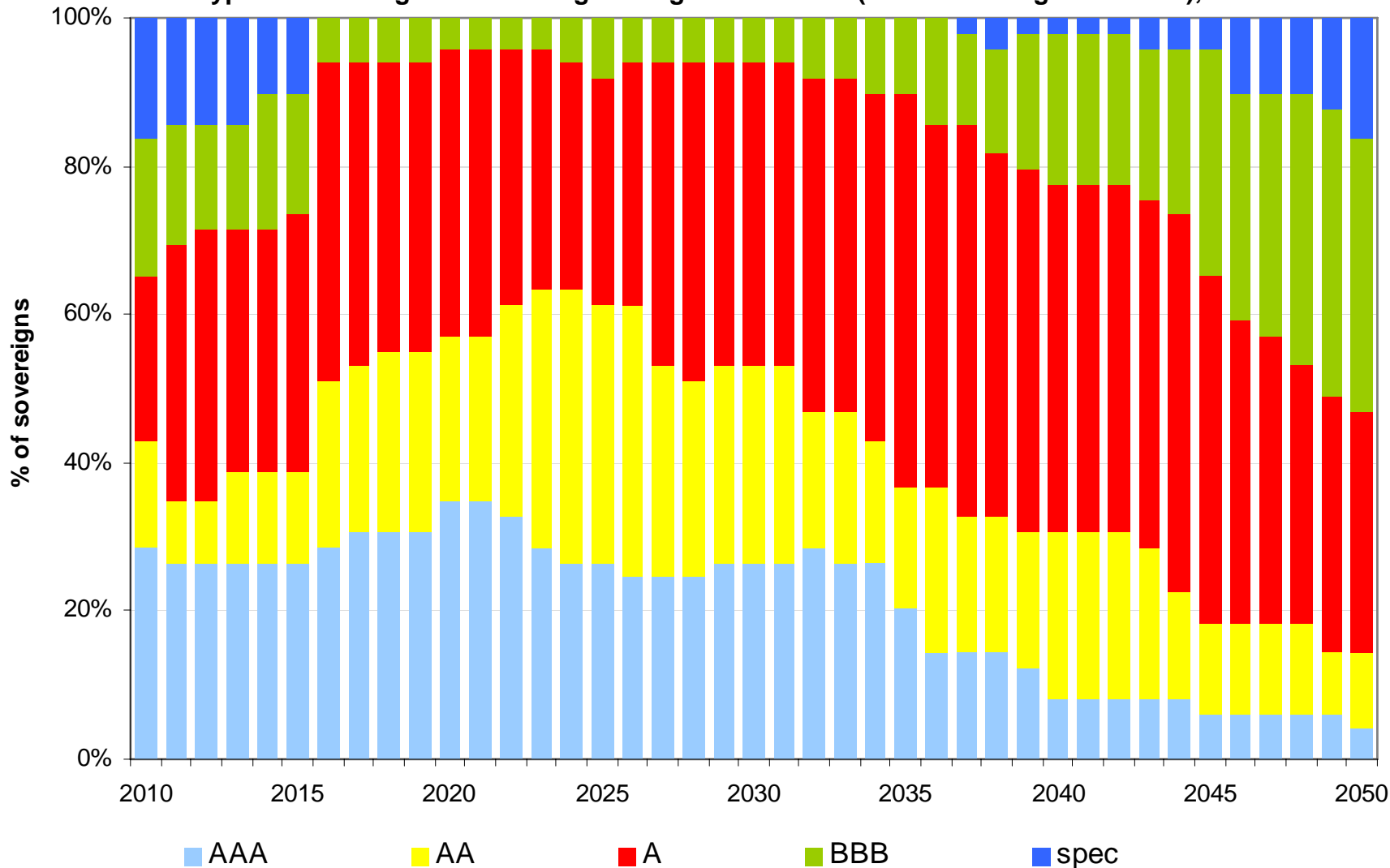
Note: Hypothetical ratings defined at the rating category level, without the “+” or “-” rating qualifiers.

Source: Standard & Poor’s.

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... And/or budgetary consolidation effort

Simulated hypothetical long-term sovereign ratings distribution (balanced budget scenario), 2010-2050



Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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Hypothetical sovereign ratings in CEE: “Balanced Budget” Scenario

	2010	2020	2030	2040	2050
Bulgaria	BBB	BBB	A	BBB	BBB
Czech Republic	A	AA	AA	A	BBB
Estonia	A	AA	AA	A	A
Hungary	BBB	A	AA	A	A
Latvia	Spec	A	A	A	A
Lithuania	BBB	A	A	A	BBB
Poland	A	A	AA	AA	AA
Romania	Spec	A	A	A	A
Russia	BBB	A	AA	A	BBB
Slovakia	A	AA	AA	A	BBB
Slovenia	AA	AA	A	BBB	Spec
Ukraine	Spec	BBB	Spec	Spec	Spec

Note: Hypothetical ratings defined at the rating category level, without the “+” or “-” rating qualifiers.

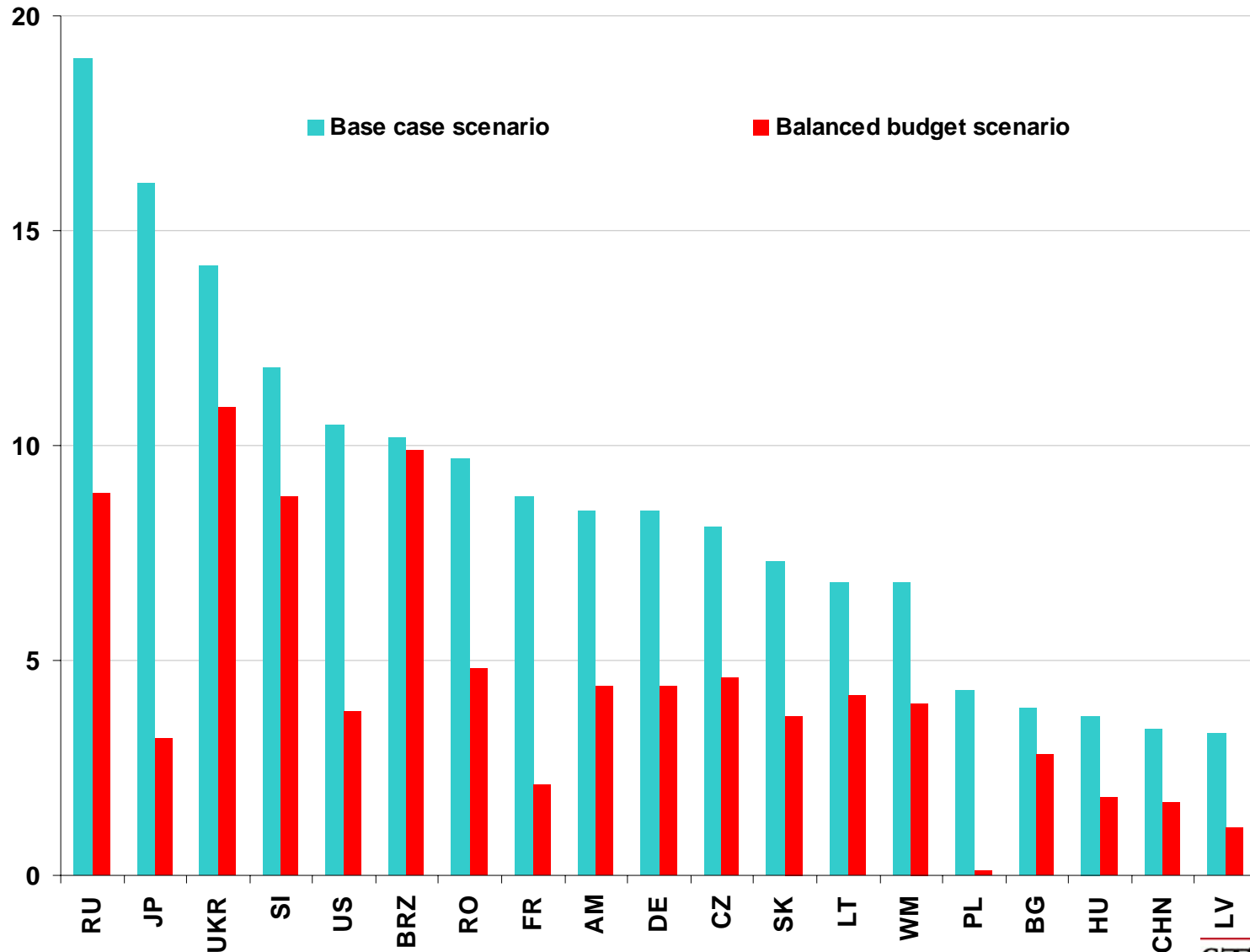
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In general, we believe a mixture of both would likely reduce the gap

Sustainability gaps in CEE and other selected sovereigns, % of GDP

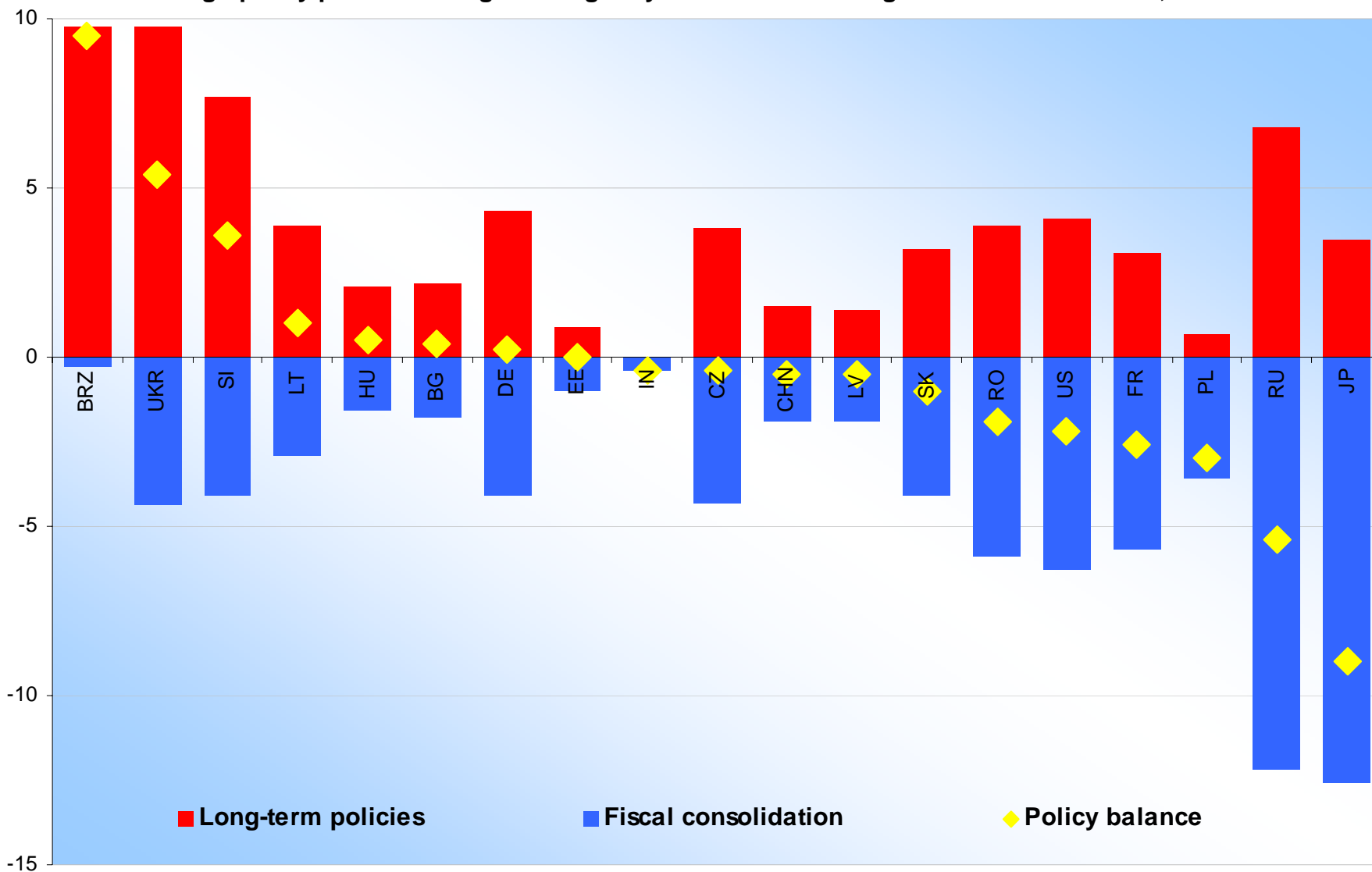


Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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In our view, there is no one-size-fits-all strategy...

Sovereign policy priorities – urgent budgetary consolidation or age-related costs reform, % of GDP



Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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