Addressing the challenges of high government debt and population ageing in Japan

Category: Japan
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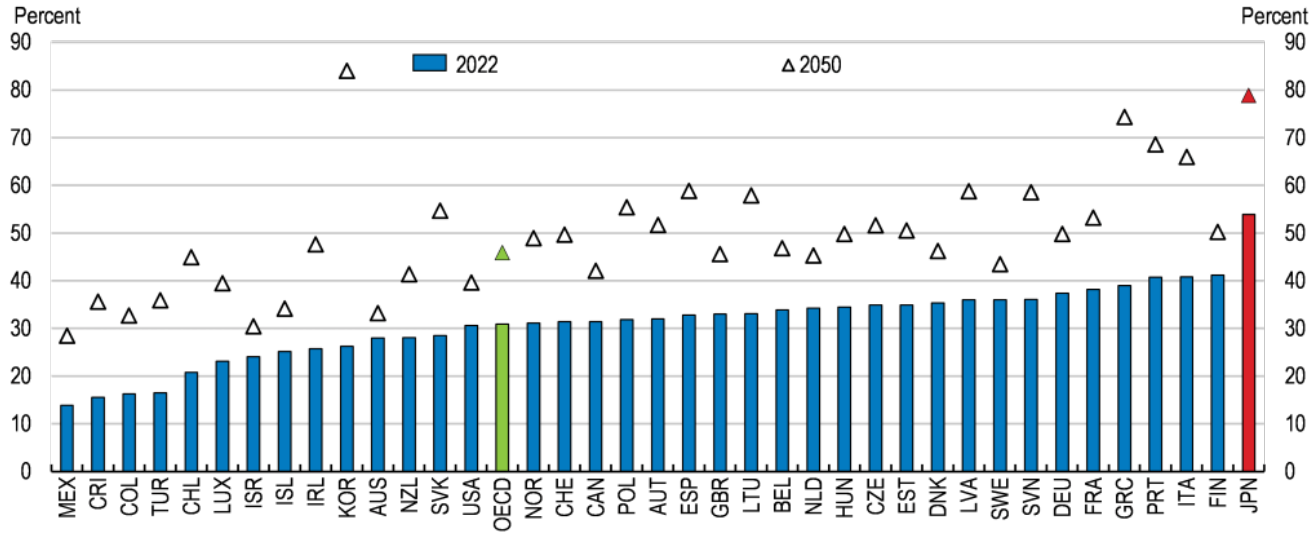
Japan has coped well with the pandemic and the energy crisis, but the fiscal support to help mitigate their impact has pushed up gross public debt to an unprecedented level of almost 245% of GDP in 2022. Demographic change will exacerbate these challenges. Japan's population is projected to decline from 135 million to around 96 million in 2060, while the elderly population will reach 79% of working-age population, one of the highest in the OECD (Figure 1). The government projects that with ageing, social security spending will rise from 21.5% of GDP in 2018 to around 24% by 2040. Without corrective action, this would substantially worsen long-term fiscal sustainability.

The *2024 OECD Economic Survey of Japan* discusses fiscal and structural reforms to bring debt levels down. Japan lacks a credible medium-term fiscal consolidation strategy to put public debt on a downward path and build fiscal buffers to increase resilience to shocks, which should include both revenue and expenditure measures. Containing spending growth requires health and long-term care reforms. Lengthy hospital stays and a high number of medical consultations suggest room

for efficiency gains in providing high-quality care to Japan's ageing population. Gradually raising tax revenues, including by increasing the consumption tax rate further in small increments, should be another element of broad fiscal reforms. Raising productivity and employment, particularly among women and older people, is also key to limit the effects of demographic headwinds.

Figure 1. Japan's elderly dependency ratio is high and will continue rising



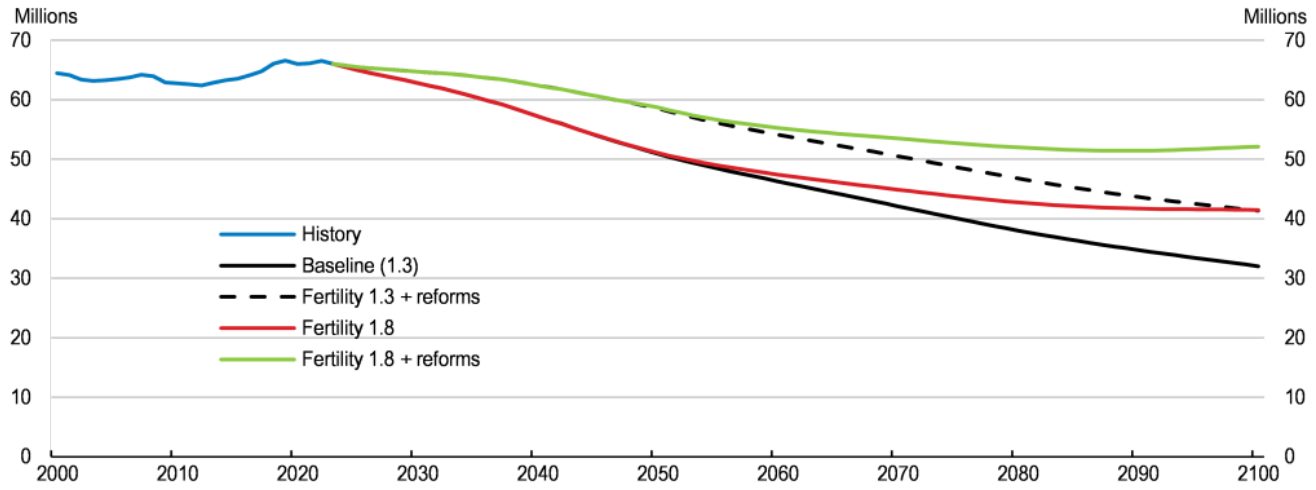
Note: Ratio of population aged 65 and above to population aged 20-64. Projections are based on medium fertility variant.
Source: OECD Demography and Population Statistics database.

Under current fertility, employment and immigration rates, employment would fall by 52% by 2100 (Figure 2). The government aims to increase the fertility rate from 1.3 to 1.8, which would help mitigate the decline in employment. One priority is to strengthen the weak financial position of youth, which leads many to delay or forgo marriage and children. Making it easier to combine paid work and family is also critical so that women are not forced to choose between a career and children. Increasing the take-up and duration of parental leave by fathers can also boost fertility rates. Policies should also cut the cost of raising children, the key obstacle to couples achieving their desired number of

children.

Given the difficulty of raising fertility, which partially reflects changing social norms, and the decades-long wait for a pay-off from higher fertility, it is essential to prepare for a low-fertility future, in part by raising labour force participation. Hence, Japan should also continue to remove obstacles to the employment of women and older persons and make greater use of foreign workers, which would have a more immediate impact on labour shortages. Breaking down labour market dualism, which disproportionately affects youth, women, and older people, is a priority. Abolishing the right of firms to set a mandatory retirement age (usually at 60) and raising the pension eligibility age would also promote employment. These reforms should be accompanied by measures to re-skill older workers, whose participation in lifelong learning is relatively low. Offering long-term residency to workers and their families and broad policies to increase the integration of foreign workers would boost foreign worker inflows.

Figure 2. Reforms to boost fertility, employment rates and foreign worker inflows would mitigate the decline in employment



Note: The reforms include; *i)* a doubling of inflows of foreigners to 200 000 per year; *ii)* a convergence of female employment rates to those of men by 2050; and *iii)* the employment rate for each five-year cohort from 60-64 to 70-74

converges to that of the preceding cohort (i.e., the rate for the 60-64 group would rise to the 2021 rate for the 55-59 age group, etc.) by 2050.
Source: OECD calculations based on the OECD Long-term Model.

References

OECD (2024), OECD Economic Surveys: **Japan 2024**, OECD Publishing, Paris. https://doi.org/10.1787/41e807f9-en

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Boosting health spending efficiency in Ireland

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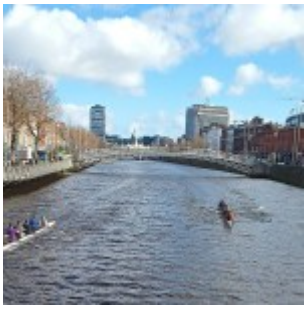

To ensure equal access to quality healthcare services, Ireland should increase health spending efficiency via the delivery of more integrated and patient-centric healthcare, while making the most of cost-saving opportunities offered by enhanced digitalisation.

Laying the foundations for strong, sustainable growth in Finland

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After a large drop in the first half of 2020, Finland regained its pre-COVID-19 GDP level by mid-2021. Policies to support incomes during and after the pandemic contributed to the powerful economic rebound. However, Russia’s war of aggression against Ukraine has boosted inflation, slashing household spending power and consumer confidence.

Securing the health of Ireland’s future

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In recent decades, Ireland made impressive strides in developing its economy and raising living standards. However, structural reforms remain key to prepare for Ireland’s future fiscal pressures due to rising ageing costs, and the need to ensure adequate supply of affordable housing and enable a sustainable green transition.