
The implications of demographic change for global imbalances

Global Imbalances and Capital Flows in the Era of New Technologies
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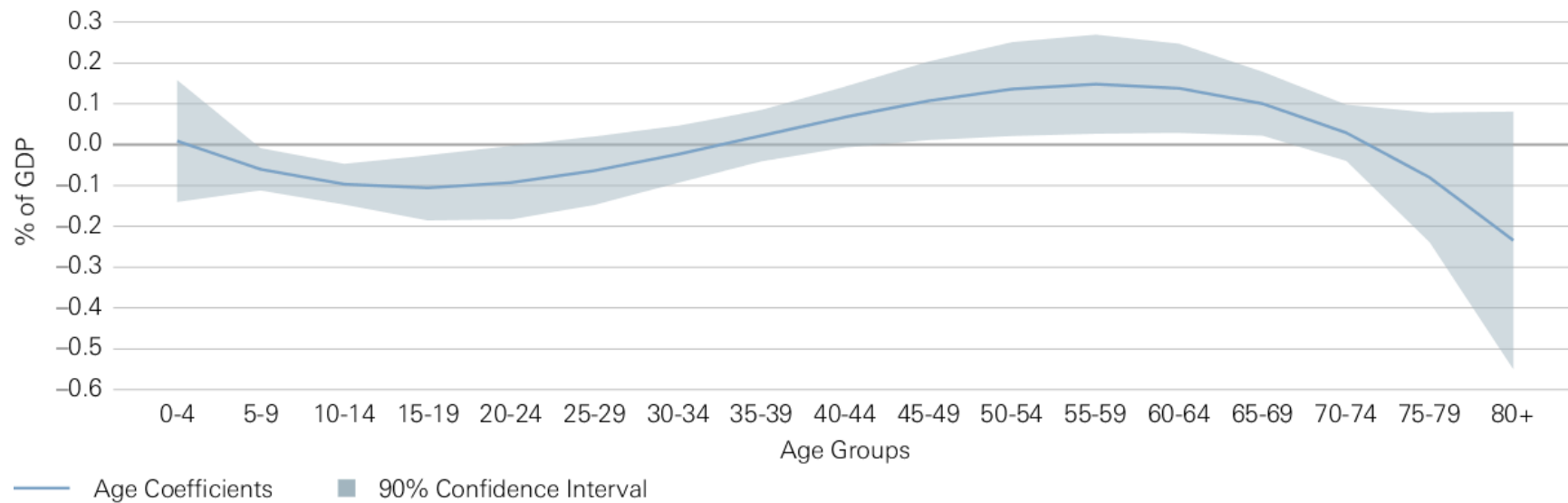
Key findings

- Differences in countries' age structure affect current account balances
- Pension systems shape the impact of demographics on the current account
- Future demographic developments should lead to a reversal in demographics-induced global imbalances

Differences in countries' age structure affect current account balances

IMPACT OF POPULATION STRUCTURE ON CURRENT ACCOUNT

Relative to world average



Source: SNB

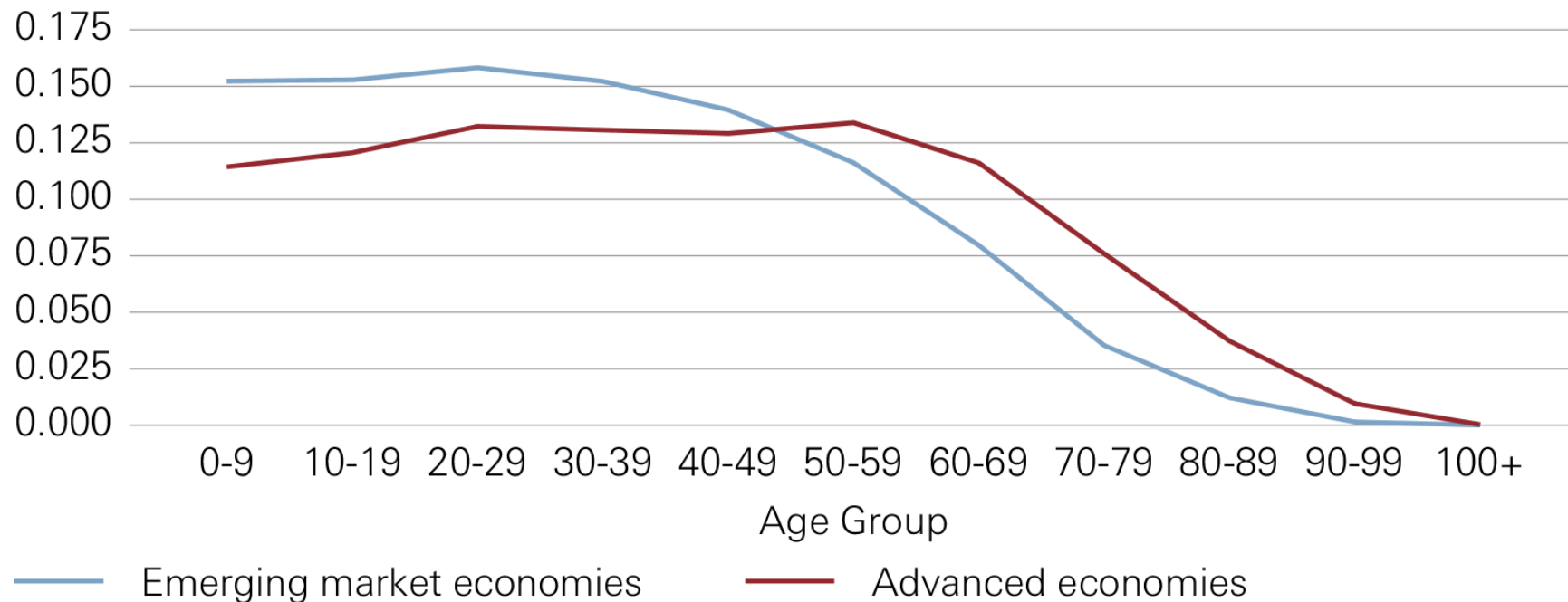
Pension systems shape the impact of demographics on the current account

- Pay-as-you-go systems use contributions from current workers to pay current retirement benefits
- Fully-funded systems accumulate assets to pay for future retirement benefits
- Pay-as-you-go (fully-funded) systems dampen (amplify) the impact of demographics on the current account

Countries differ in terms of demographics

SHARE OF POPULATION BY AGE GROUP

2018

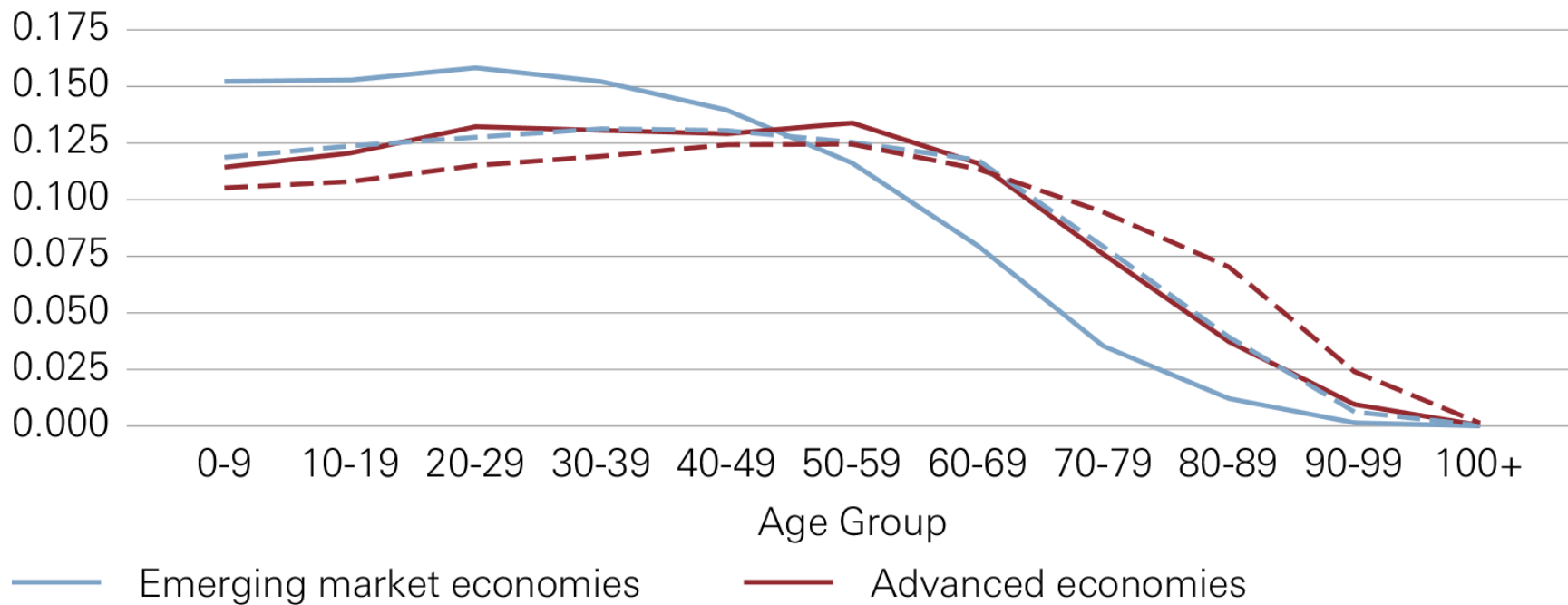


Source: United Nations World Population Prospects 2019. Country classifications based on the IMF's World Economic Outlook, April 2019.

Demographic transition occurs asynchronously

SHARE OF POPULATION BY AGE GROUP

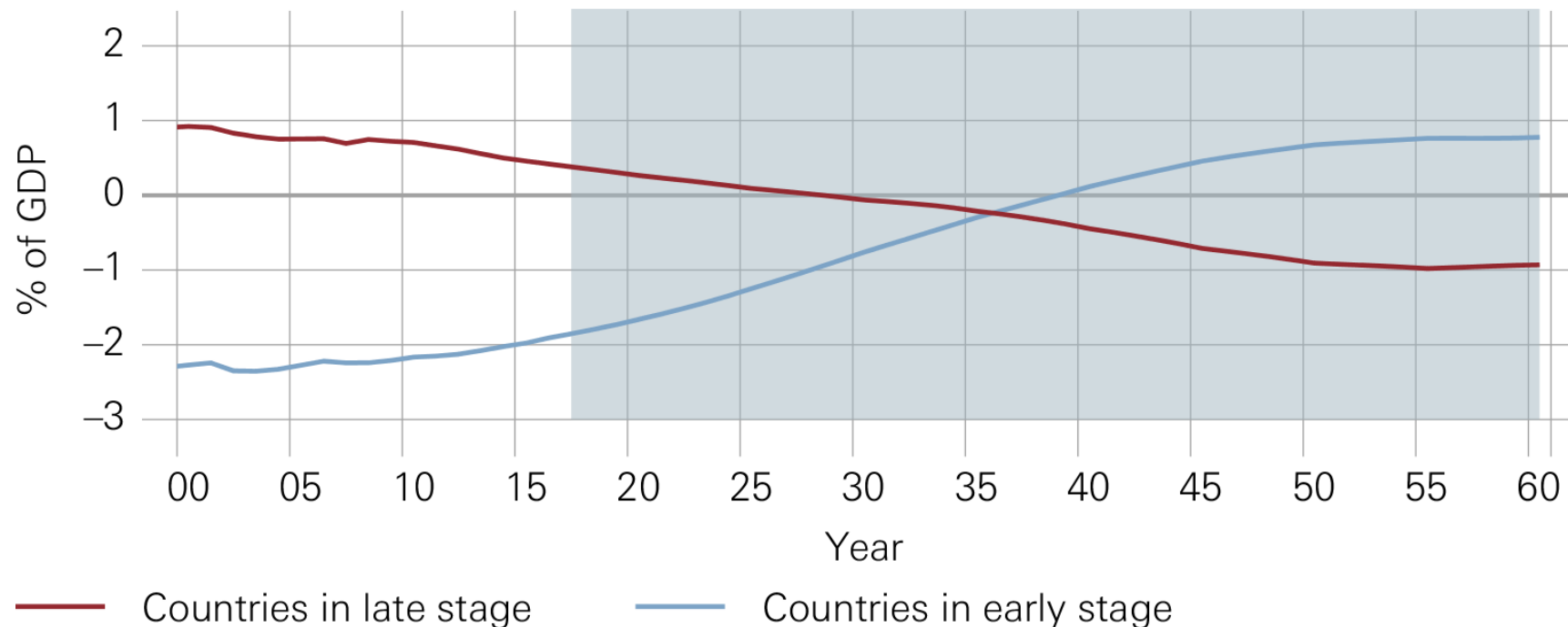
2018; dashed lines: projections for 2050



Source: United Nations World Population Prospects 2019. Country classifications based on the IMF's World Economic Outlook, April 2019.

Demographics-induced imbalances should reverse

IMPACT OF DEMOGRAPHICS + PENSIONS ON CURRENT ACCOUNT



Countries in the early stage comprise India, Indonesia, Mexico, Turkey and South Africa. Countries in the late stage comprise Switzerland, Germany, Spain, Italy and Japan.

Source: SNB

Conclusion

- Free capital flows can provide an efficient way for ageing countries to invest savings abroad
- Pension systems shape the impact of pension systems on current account balances