

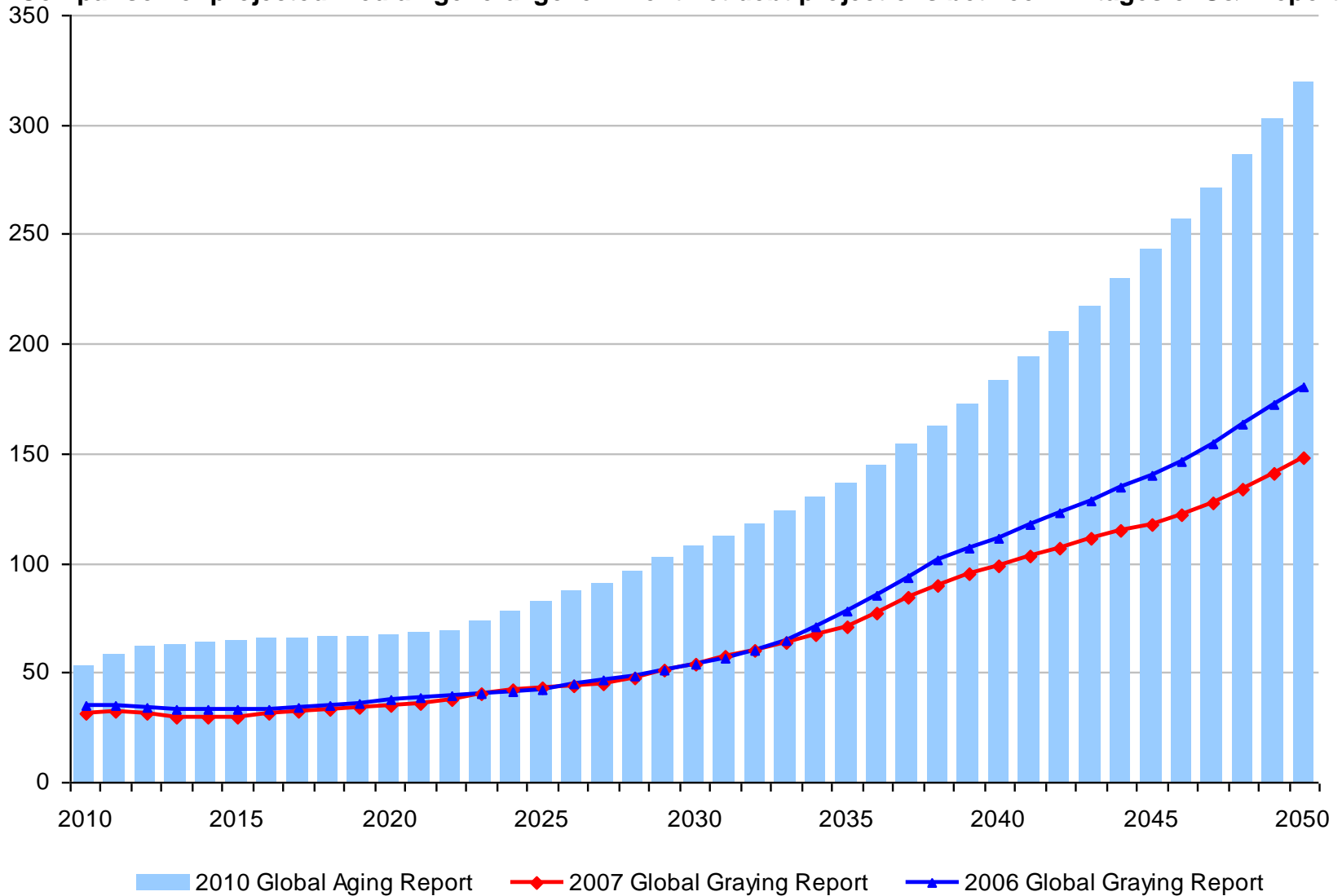
Global Aging: An Irreversible Truth

Moritz Kraemer, Managing Director
Global Head of Sovereign Ratings

September 2011

In our view, long-term budgetary challenges appear to be large

Comparison of projected median general government net debt projections between vintages of S&P reports



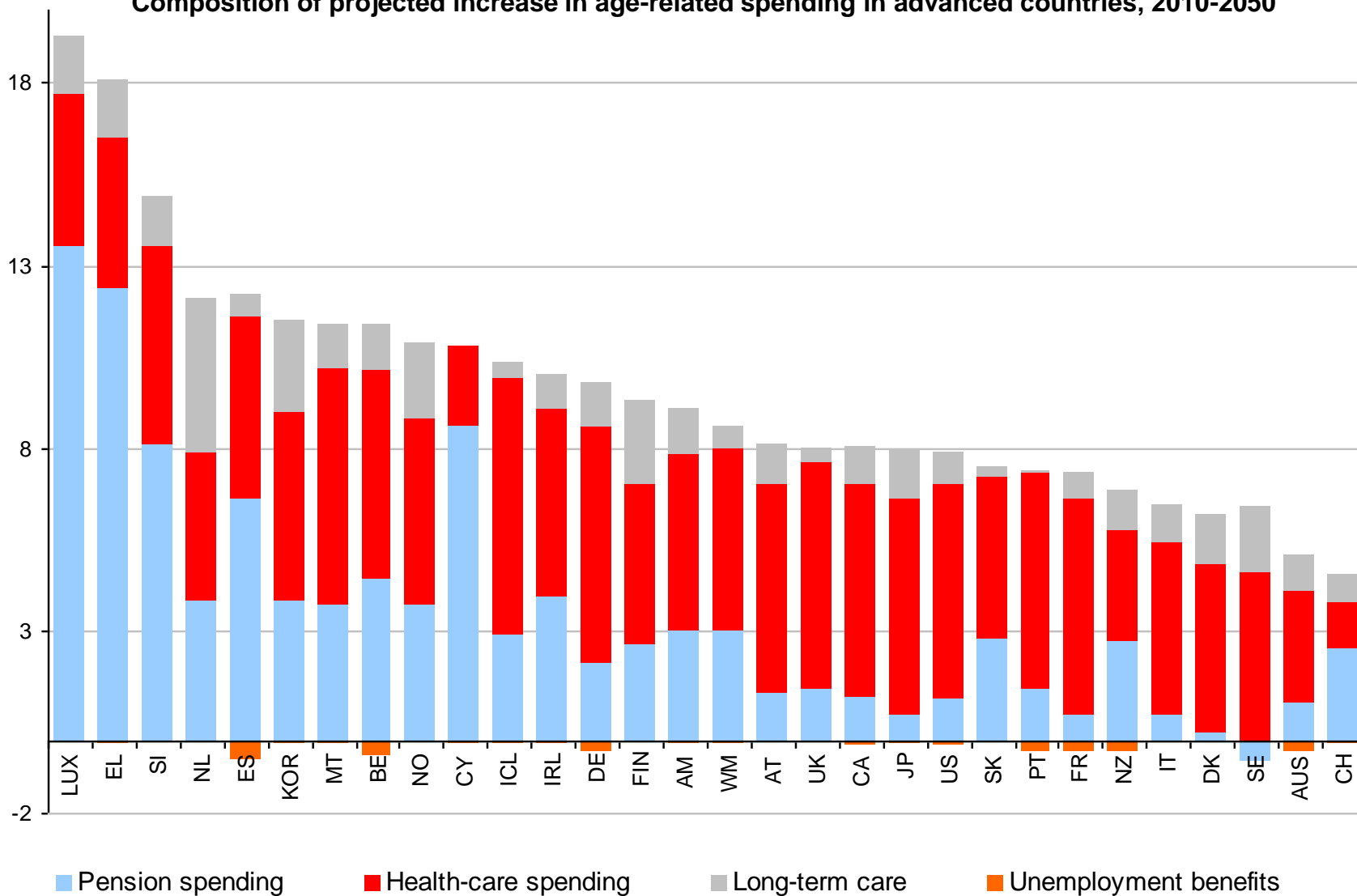
Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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

Composition of projected increase in age-related spending in advanced countries, 2010-2050

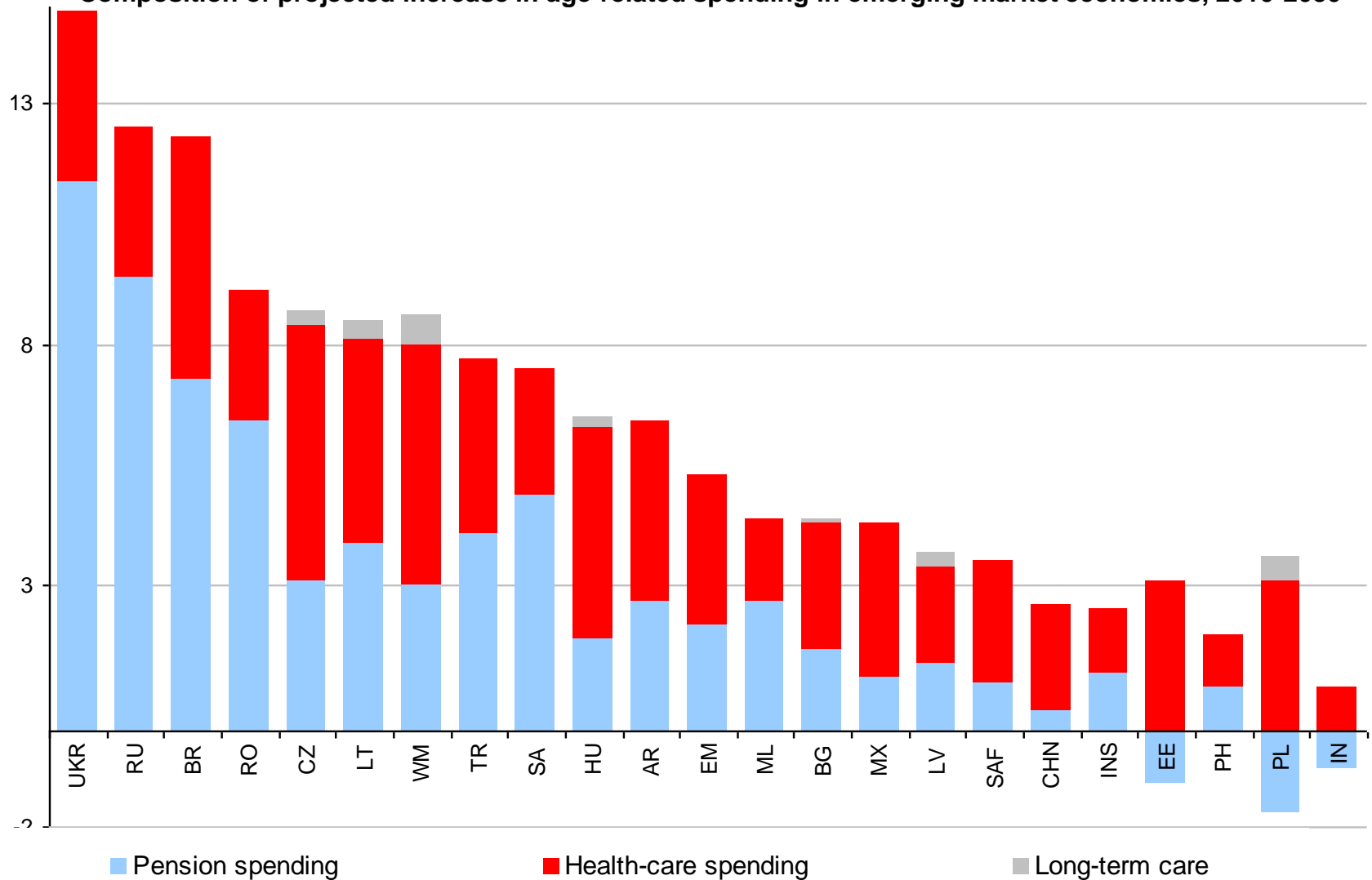


Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010; European Commission, IMF, OECD.

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...Across the world, albeit at different degrees

Composition of projected increase in age-related spending in emerging market economies, 2010-2050

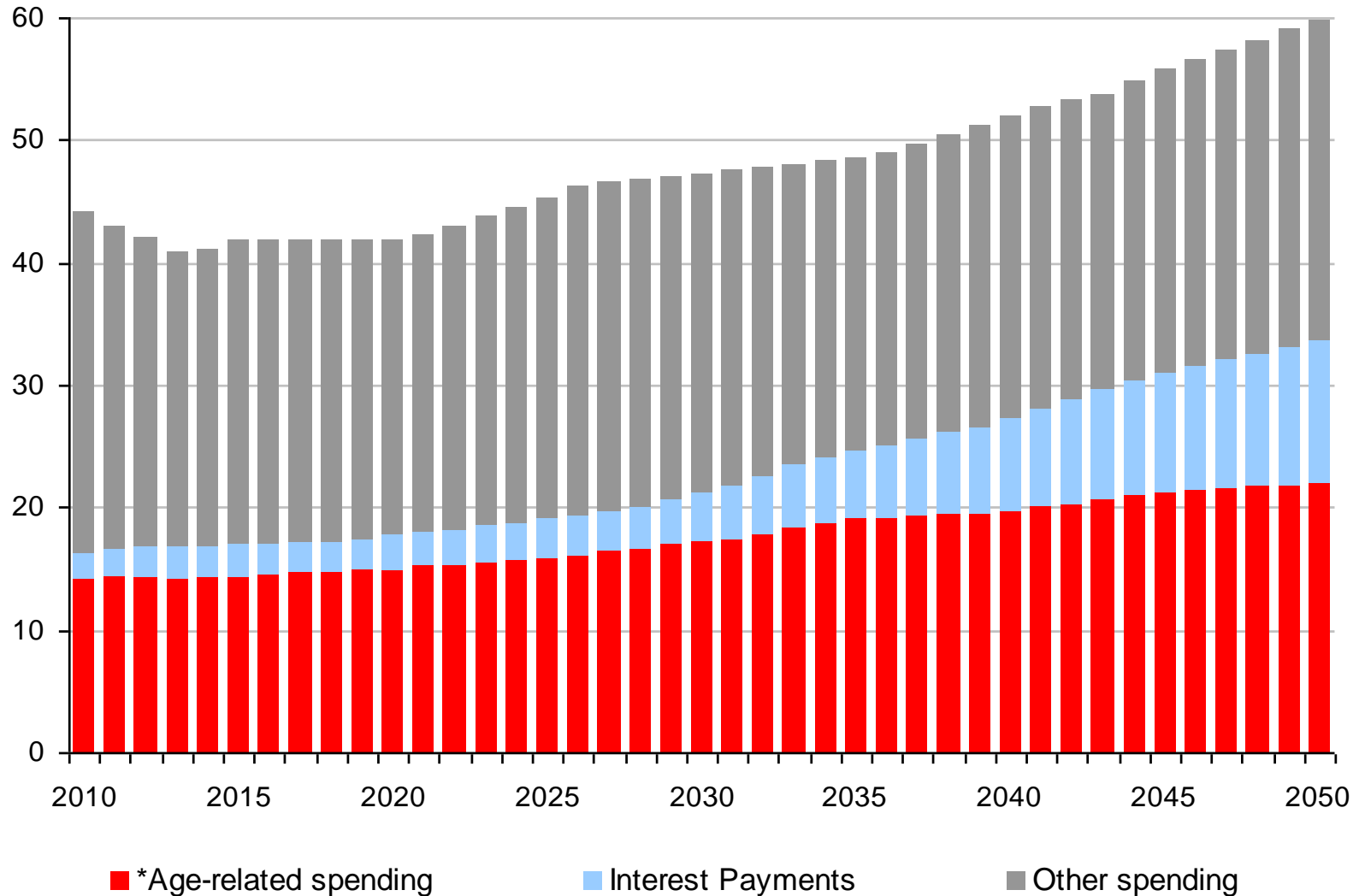


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Without policy change, government spending likely to rise

Projected median general government expenditures under no-policy-change scenario, 2010-2050



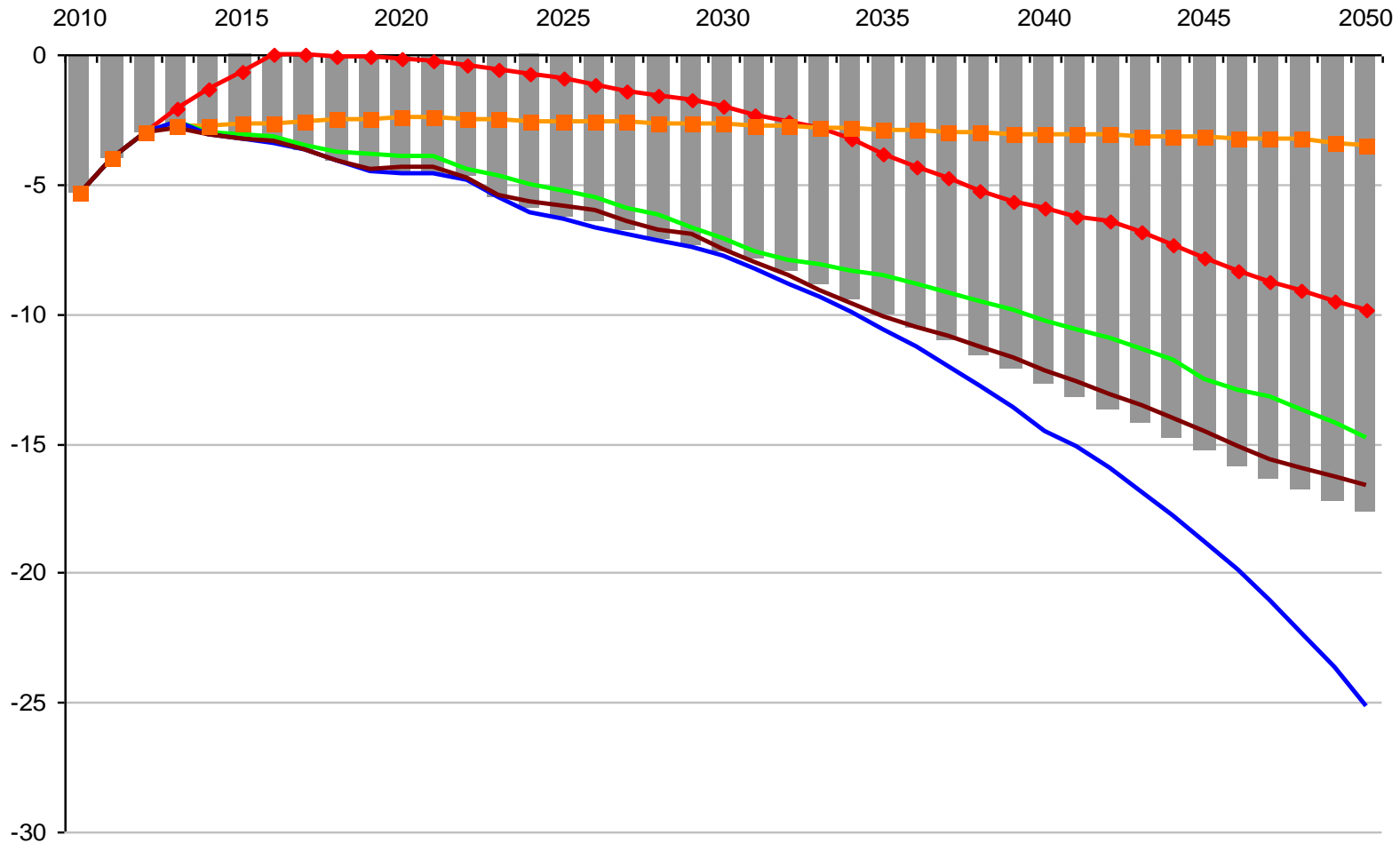
*Pensions, health-care, long-term care and unemployment benefits.

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



■ Base case scenario

■ "No-ageing" scenario

■ "Discriminating investors" scenario

◆ "Balanced budget in 2016" scenario

■ "Lower interest rate" scenario

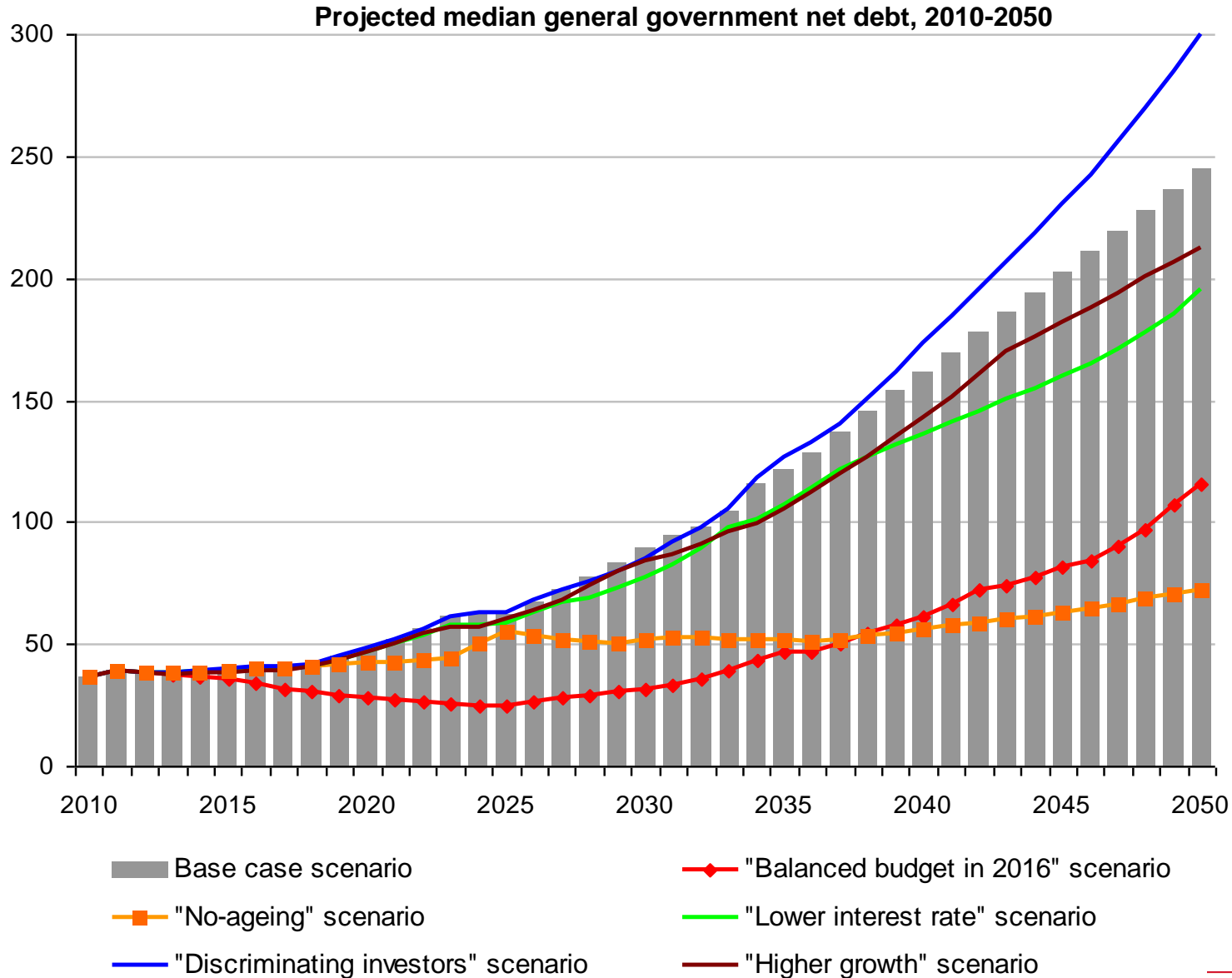
■ "Higher growth" scenario

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...Likely leading to growing government debt

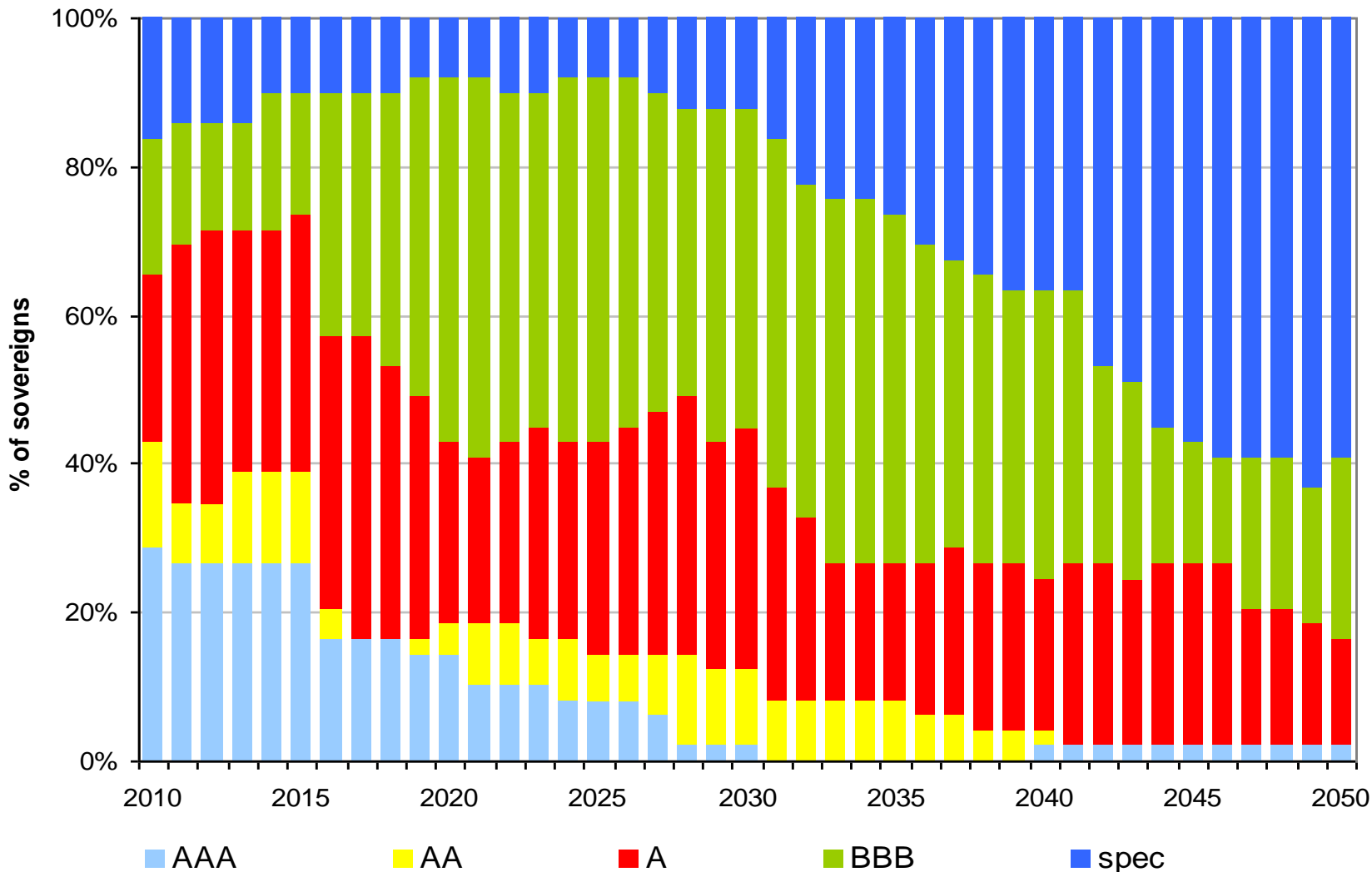


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Without policy change, sovereign ratings likely under pressure

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



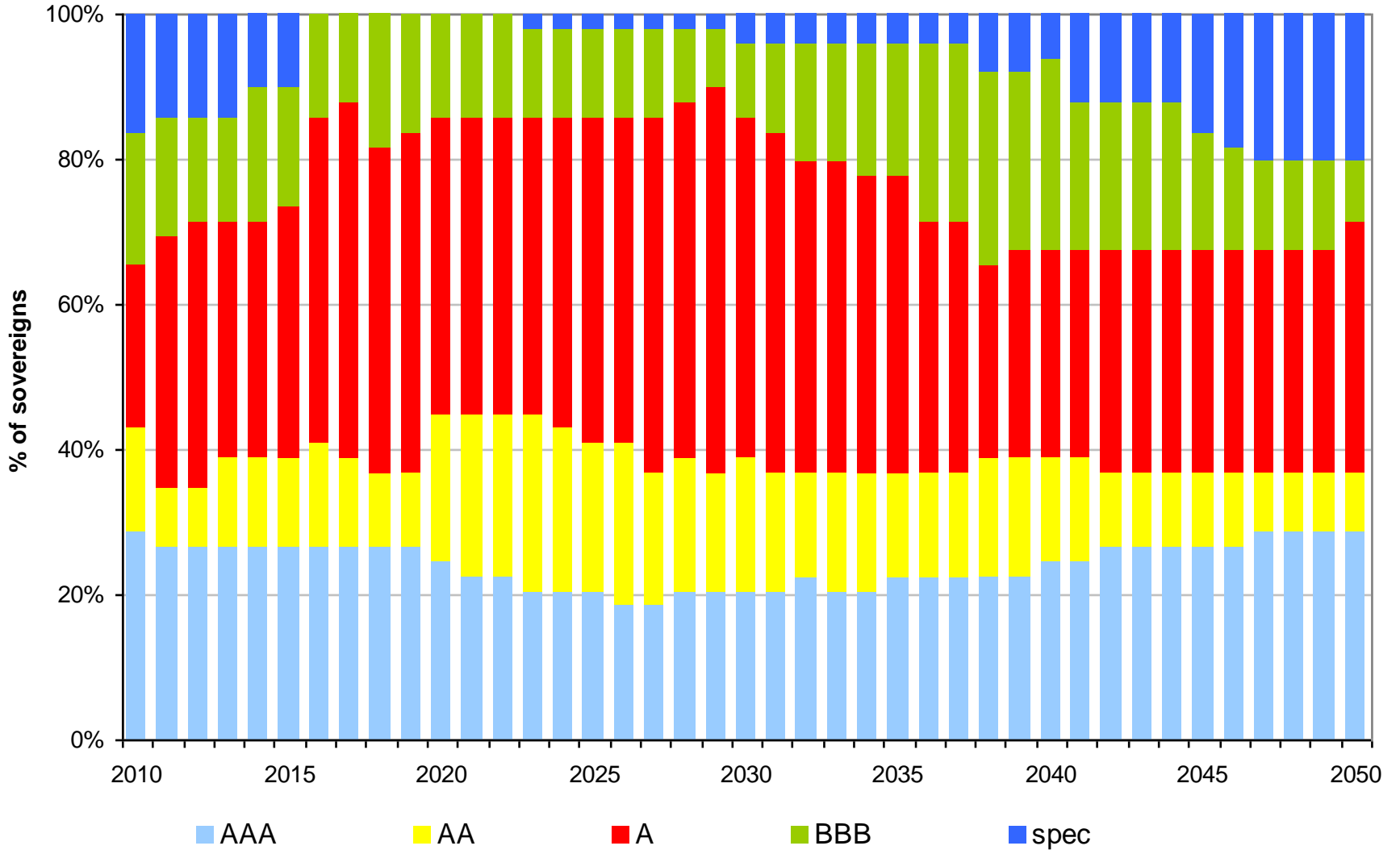
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Possible solutions: Structural reforms of social security...

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

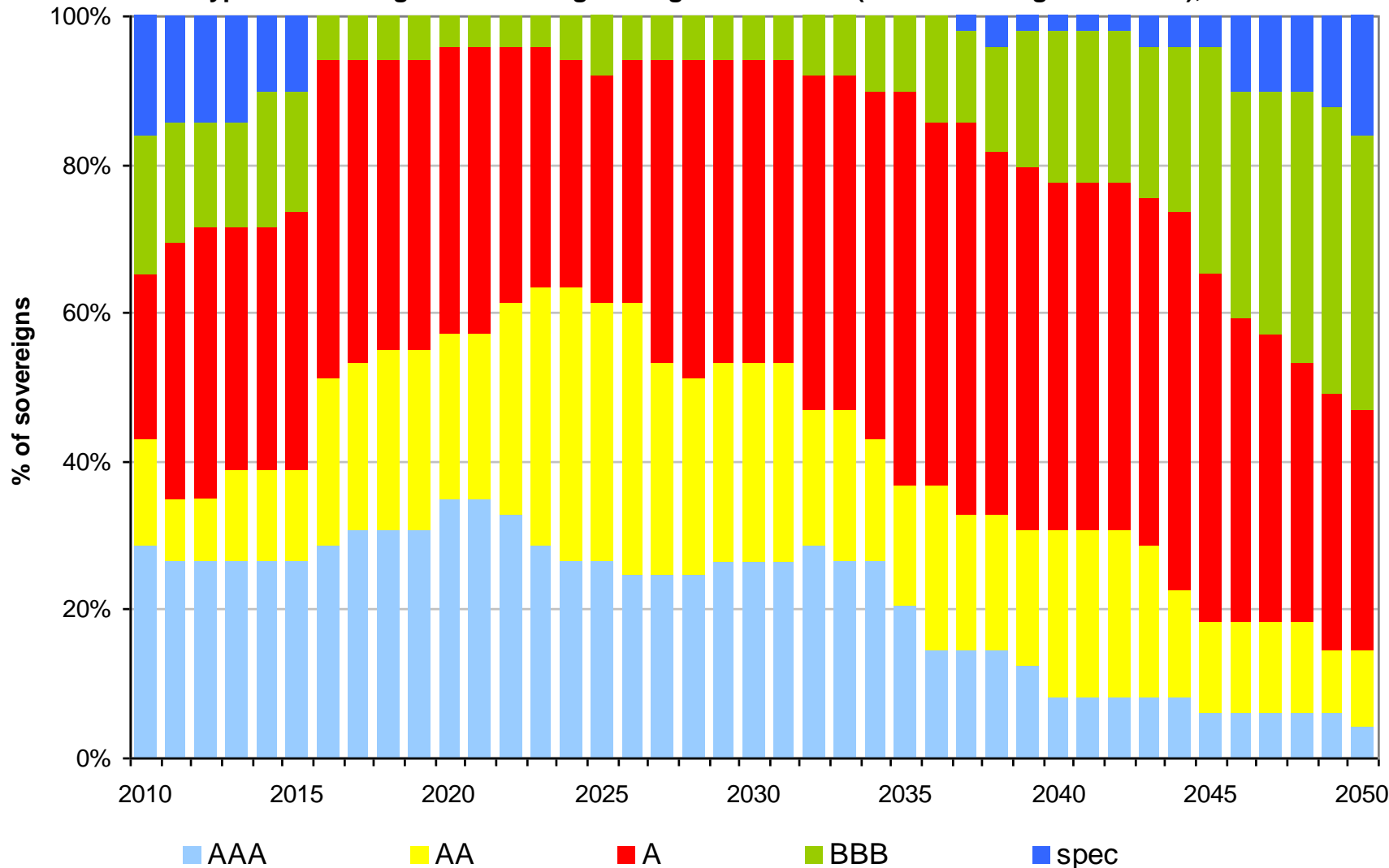


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... And/or budgetary consolidation effort

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

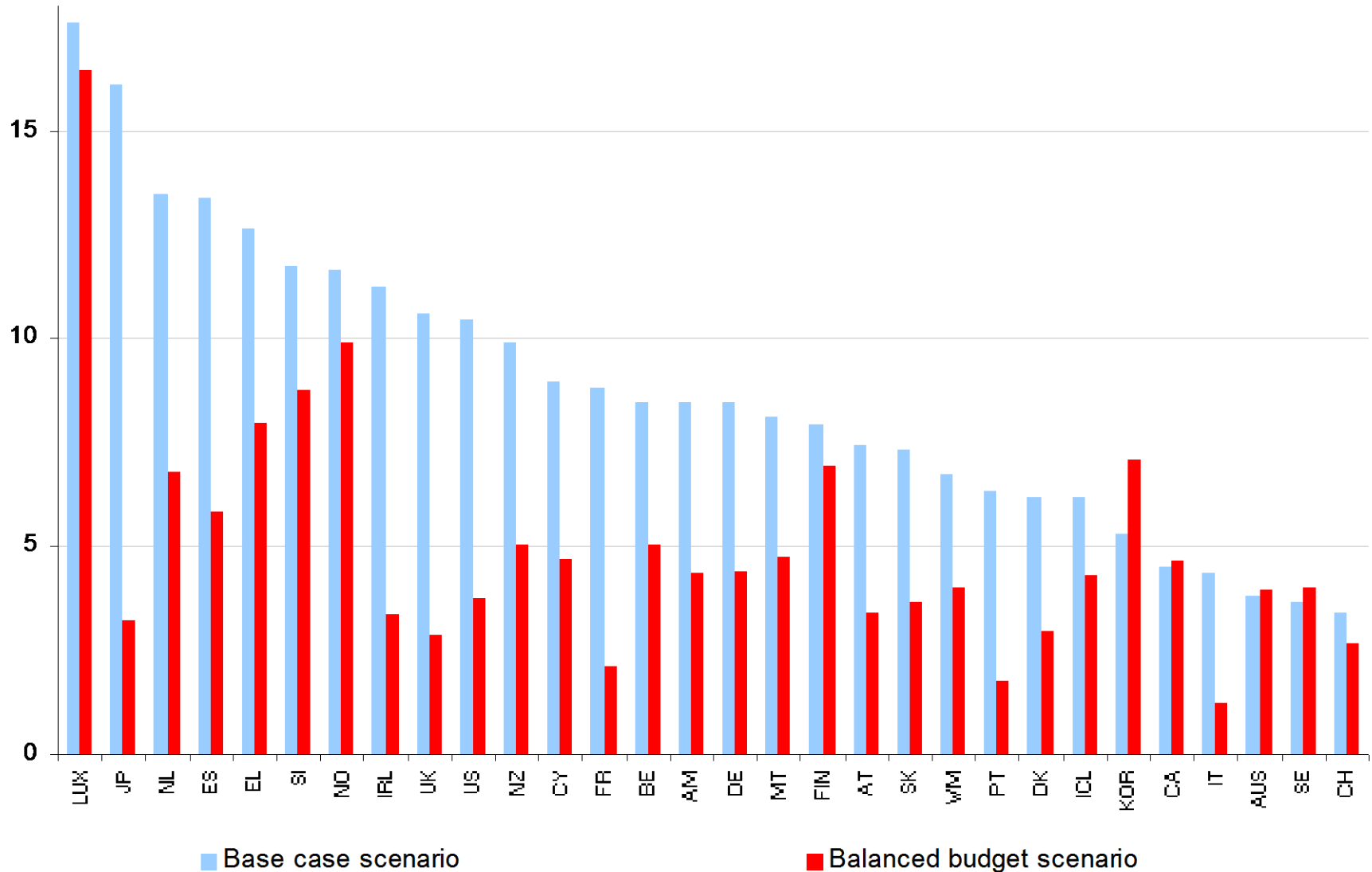


Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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

Sustainability gaps in projected no-policy change vs. balanced budget scenario in emerging market economies, % of GDP

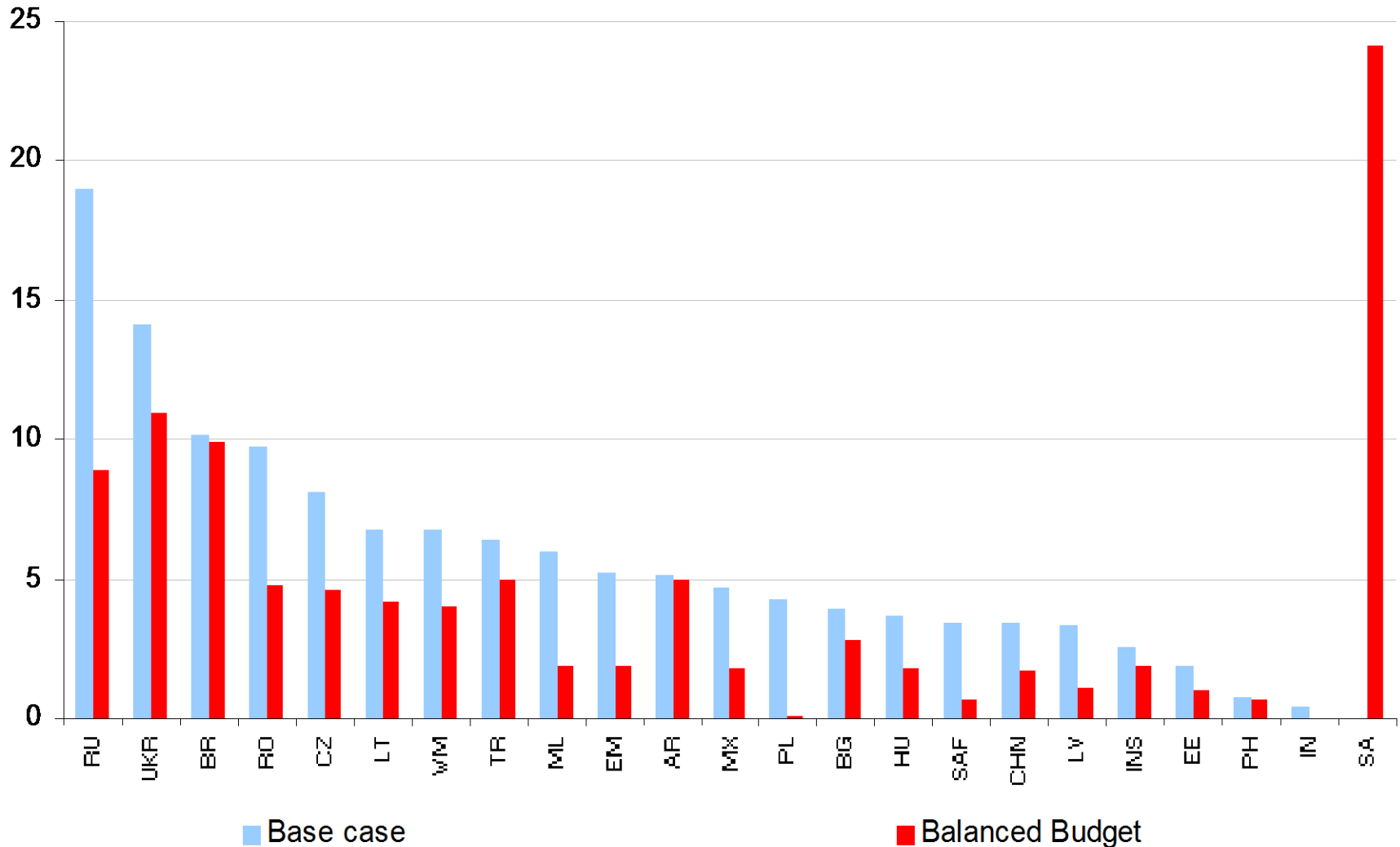


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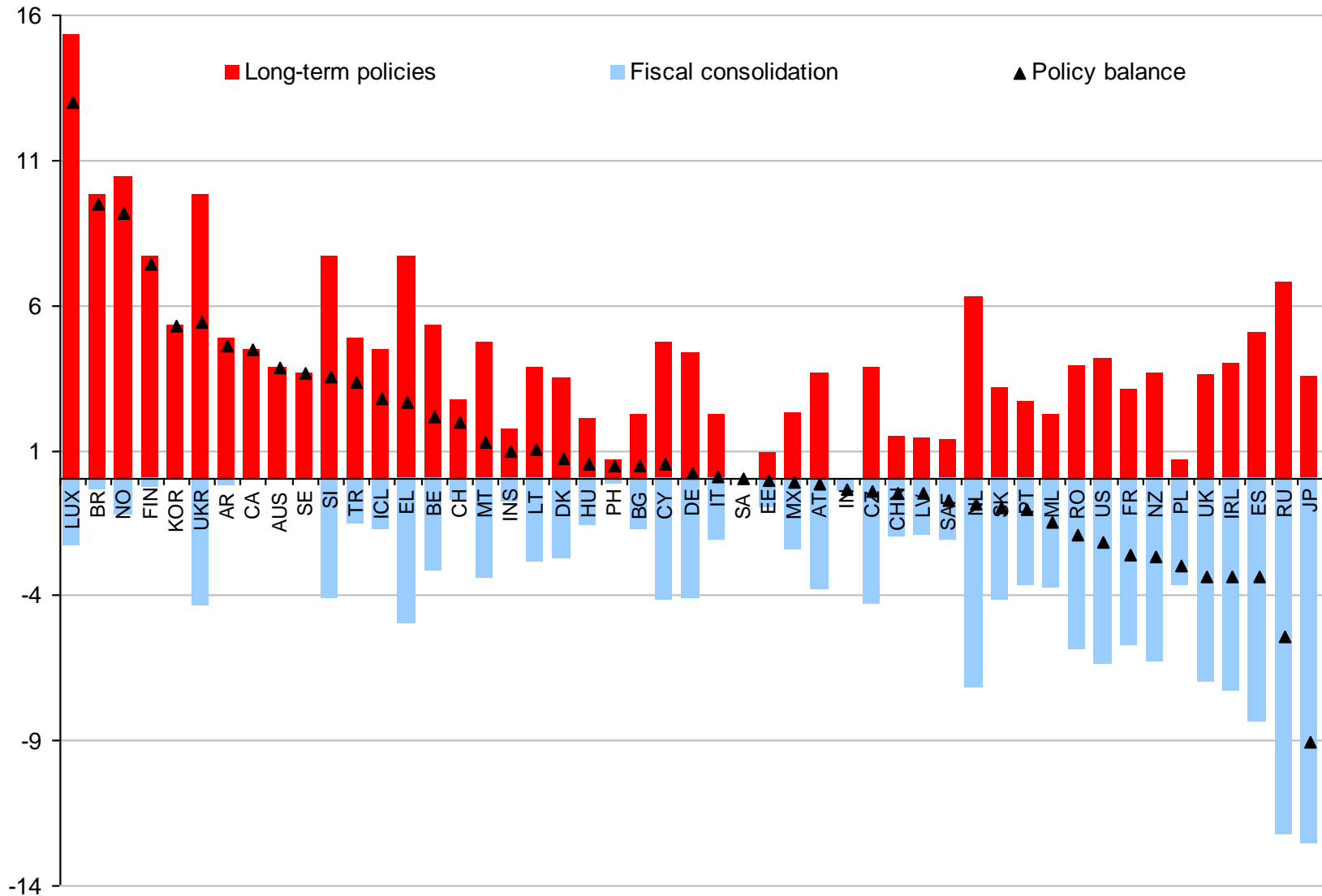


Source: Standard & Poor's, Global Aging 2010: An Irreversible Truth, Oct 8, 2010.

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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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