

Ageing populations will lower living standards, warns study

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Demographic shifts will reduce living standards in large parts of Europe and elsewhere as governments face increasing pressure to implement contentious policies, a report has warned.



Falling fertility and working-age populations are projected to reduce annual GDP per capita growth by almost 0.4 percentage points on average between 2024 and 2050 in eastern Europe and the Caucasus, according to a study by the European Bank for Reconstruction and Development.

The international lender's study primarily focused on the "emerging" European countries in which it invests, such as Poland, Bulgaria and Slovenia. But it also extended to several advanced economies where the effects of an ageing population will be starker.

A dwindling share of the working age population is expected to result in a 1.1 percentage point hit to GDP per capita over the same period for South Korea, over 0.7 percentage points for Italy and Spain, 0.5-0.6 percentage points for China and Japan, and 0.4 for Germany.

"Emerging Europe is ageing. Low fertility and a shrinking workforce will increasingly weigh on its growth prospects," said Beata Javorcik, EBRD chief economist.

Raising the pension age and leveraging migration, innovation and technology to sustain prosperity could offset part of this trend, but the rising political influence of older voters may hinder such reforms, she warned.

France recently had to suspend reforms to raise its pension age from 62 to 64 in the face of bitter opposition. Other governments are also facing similar resistance to policies designed to address their demographic crises.

The EBRD study echoed a warning earlier this year by the OECD, which estimated that demographic pressure will reduce GDP per capita growth in the 38-country grouping from 1 per cent a year in the 2010s to 0.6 per cent a year on average over the 2024-60 period.

The EBRD suggested that 42 per cent of over-65s, mostly in regions in which it invests, would like governments to prioritise spending on healthcare and 25 per cent on pensions but only 18 per cent mentioned education. Older voters also have stronger anti-immigration sentiment, both in the EBRD regions and advanced European economies.

"The time to act is now before demography closes off your options," said Javorcik. "Because there may be this spiral that's being created as voters get older, as leaders get older, they care more about issues of interest to the elderly, in particular pensions, and therefore it becomes harder to do any pension reforms."

Artificial intelligence could create significant productivity gains, but these are unlikely to fully offset the impact of demographic pressures on growth in the EBRD regions, the study said. It estimated that AI could provide, on average, about half of the required productivity growth in EBRD economies in the EU under a high-impact scenario.

The EBRD defines emerging Europe as eastern Europe, including Moldova; the western Balkans, including Albania, Kosovo and Montenegro; and the Caucasus, including Armenia and Georgia.

Fertility has been in persistent decline across the EBRD regions, falling to historically low levels in many economies and well below the replacement level of 2.1 children per woman, when populations stabilise without immigration.

As in advanced economies, these declines reflect delayed childbearing, shifting marriage patterns, economic pressures and evolving social norms. However, post-communist countries are getting old before getting rich, said the report, urging policymakers to act to secure the prosperity of younger people.

"Young people are the ones who will be bearing the consequences of decisions made today, paying off public debt or supporting the pension systems," said Javorcik. "What you want to do is start changes now."