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Too Little Too Late?

An Overview of the European Union's Approach to Address Demographic Change and Some Policy Implications for the Next (2028–2034) Multiannual Financial Framework

Demographic trends in developed countries are marked by low birth rates and rising life expectancy in the last decades, as a result their population is shrinking and aging. Demographic change has always existed throughout history, but the extent of these shifts is unprecedented and will require major socioeconomic adjustments in many countries. The European Union (EU) is unfortunately one of those hit hardest by demographic change: Europe is the only continent that is expected to have a population decline until 2070, and even more alarmingly, the EU's working-age population (20–64 years) is projected to decrease by around 20% during the same period, while the share of older age groups (65 years or older) in its total population will be the second highest globally among large economies. This will not only have a major impact on the EU's position in the world, as population and economic size play an important role in the world's power structures, but it will also lead to a number of significant negative consequences that have the potential to undermine its economic and social model. In addition, demographic challenges will affect EU Member States to a different degree, as there are substantial differences between and within countries, which, if not addressed adequately, will aggravate existing economic, social and territorial disparities and create political divisions. Therefore, while most of the matters associated with demographic change still remain within the exclusive competence of Member States, the EU is increasingly active in addressing these challenges ranging from areas such as pension and employment policies or issues related to health and long-term care to education policies. The aim of this article is first to give an insight into the most recent demographic trends in the EU, as well as their main economic and social consequences in order to provide a basis for better understanding the

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magnitude of the challenge. Furthermore, it provides an overview of the evolution of the EU level approach to tackle demographic challenges, including the main documents adopted and the most important issues addressed, relating to economic, social and employment policies, public finances and territorial cohesion. Finally, the article raises some of the problems of the current approach and proposes a number of adjustments and policy recommendations for the incoming European Commission, in particular in view of its proposal on the Multiannual Financial Framework for the period 2028–2034, which is expected to be published in the second half of 2025.

Keywords: demographic change, competitiveness, economic and social model, Multiannual Financial Framework, cohesion policy, EU governance, EU Member States

Introduction

The European Union (EU) has been practically in a permanent crisis mode since the 2007–2008 global financial crisis. The most severe global recession since the Great Depression was followed by the European sovereign debt crisis starting in 2009, affecting a number of Eurozone Member States and reaching its turning point with the famous “whatever it takes” speech (to preserve the euro) of then European Central Bank President Mario Draghi in July 2012.² This challenge was followed first by the migration crisis in 2015, resulting in more than 1.8 million irregular crossings in that year alone and then by the referendum in the United Kingdom to withdraw from the European Union in 2016. It took more than three and a half years of difficult negotiations (and several British governments) until the United Kingdom finally left the Union on 31 January 2020. By a twist of fate, this was just one day after the World Health Organization declared the Covid-19 pandemic a public health emergency of international concern. While the EU’s unprecedented recovery fund,³ agreed in July 2020, was a significant driving factor behind its swift post-pandemic economic recovery, it also added to the inflationary pressures building up in the Eurozone, which was further aggravated by the energy crisis in 2021–2022. Finally, the last in the series of major crises was the Russian invasion of Ukraine in February 2022, which arguably had and continues to have the most profound political, economic and security implications on the European Union. In addition, all of these crises have taken place against the background of climate change, the fight against which the EU has made its top priority in the last years as reflected in the strategic agenda for 2019–2024, defining it as an “existential threat” in June 2019.⁴

But even against the backdrop of almost two decades of constant crises, it is rather surprising how slow the Union was to react and how little it had done at EU level to respond to the daunting demographic challenges that will profoundly shape the future of our continent. Already since the 1970s, demographers have been observing negative

² European Central Bank 2012.

³ Regulation (EU) 2021/241.

⁴ European Council 2019.



trends in the population structure in Europe: low and declining fertility rates; a rapidly ageing population; coupled with a shrinking workforce. The United Nations (UN) has been providing comprehensive data and analysis of demographic trends since 1951, both globally and for all countries and areas of the world, which it re-evaluates every two years. In addition, Eurostat, the EU's statistical office, has also stepped up its efforts in the last decades on developing a comprehensive data set both at Member States and at various regional levels.

Despite all this, demographic challenges have been perceived by European leaders for a long time as a particular problem of a few, primarily Central and Eastern European Member States until 2012, when natural overall population increase in the EU had become negative for the first time. A worrying trend that has continued since then due to the rise in the number of deaths coupled with low and declining fertility rates. While migration can offset the natural decrease of population, as has been the case in a number of Western and Northern EU Member States in the last decades, nevertheless, according to the UN's⁵ and Eurostat's⁶ most recent population projections, even legal migration will not be able to compensate for natural population decrease in the long-term. Unless a comprehensive solution is found, the EU will have to face the sad fact, that 2020 and 2021, years when the overall population of the EU fell for the first time, will become the "new normal" in the near future.

The impacts of demographic change on the EU

The concept of demographic change describes a population's size and age structure adjusting to changes in birth rates, death rates and by migration, which themselves are the result of social shifts. Demographic transitions⁷ in developed countries in the last decades are marked by low birth rates (below population replacement levels⁸) and by rising life expectancy. As a result, populations are shrinking and aging. Demographic change has always existed throughout history, but the extent of demographic change we have experienced in the last decades will require major adjustments in many areas of society, economy and politics.

In order to better understand the magnitude of the challenges the EU is facing, we need to look at the main findings of the UN's and Eurostat's most recent population projections.⁹ Under the current baseline scenario, the EU's population is projected to shrink

⁵ United Nations 2024.

⁶ Eurostat 2023.

⁷ EU documents both use the terms demographic change and demographic transition in the same context, which will be used in the same way throughout the article.

⁸ The population replacement rate is the average number of children per woman (total fertility rate) that is needed to keep the population constant at the given mortality rates and is generally accepted to be 2.1 children per woman in developed countries.

⁹ Although other studies forecast a more moderate growth compared to the UN's population projections, nevertheless, the differences are sufficiently small in order to have confidence in the major trends.



by about 3.5% by 2070,¹⁰ down from 447.7 million in 2020 to around 432.2 million,¹¹ while the world's population is expected to grow by about 29.2%, from 7.887 billion in 2020 to around 10.189 billion by 2070.¹² Consequently, the EU's population share will comprise about 4.2% of the world population in 2070, down from 5.7% in 2020, while the same figure was 7.3% in 2010.¹³ By contrast, the population of all the other regions of the world are expected to expand during the same period, as can be seen in Table 1. The major shift in the relative demographic status of Europe can be best portrayed by the ratio between the populations of our continent and Africa, which will undergo a complete inversion. Whereas the figure stood at 4:1 in favour of Europe in 1950, it will shift radically to 1:10 in favour of Africa by 2100.¹⁴

Table 1: World population projection until 2070 (figures in millions)

	2020	2030	2040	2050	2060	2070	Change from 2020 to 2070
European Union	447.7	452.7	451.6	447.9	440.1	432.2	-3.5%
Africa	1,380.8	1,727.2	2,095.6	2,466.6	2,821.5	3,145.2	127.8%
Asia	4,688.1	4,969.2	5,174.5	5,280.3	5,266.8	5,172.5	10.3%
North America	377.7	397.4	414.3	426.6	436.2	447.2	18.4%
Latin America and the Caribbean	646.9	687.7	717.1	730.0	727.1	711.1	9.9%
Oceania	44.0	49.0	53.0	57.0	61.0	64.0	45.5%
World	7,887.0	8,569.1	9,177.2	9,664.3	9,989.2	10,189.2	29.2%

Source: UN Population Division, *World Population Prospects 2024* and Eurostat, *EU's population projection 2023*

In parallel to population decline, the EU's population is also getting older due to continuous improvement in life expectancy. Ageing is certainly a global phenomenon, but its speed and intensity are different from one country to another. As a consequence, and even more alarmingly, the EU's working-age population (20–64 years) is projected to decrease by almost 20%, down from 265 million in 2020 to 217 million by 2070,¹⁵ reflecting fertility, life expectancy and migration flow dynamics. As a result, the share of older age groups (65 years or older) in the EU's total population is projected to increase from 21% in 2020 to 32% in 2070 which will be the second highest share globally among large economies. Consequently, the old-age dependency ratio (people aged 65 and above relative to those aged 20–64) is projected to sharply increase from 34.4% in 2020 to 59.2% in 2070.¹⁶ In another words, the EU will go from having about three working-age people for every person aged over 65 years to only having less than two during the same

¹⁰ Eurostat 2023.

¹¹ Future enlargement can slightly increase the EU overall population, however, it will not address the main challenges since candidate countries are subject to the same demographic trends.

¹² United Nations 2024.

¹³ The figure included the United Kingdom at that time.

¹⁴ ADAM 2023.

¹⁵ European Commission 2021a.

¹⁶ European Commission 2021a.



period. Most of this increase is driven by the very old-age dependency ratio (people aged 80 and above relative to those aged 20–64), which will increase from 9.9% in 2020 to 25.7% in 2070.¹⁷

Demographic change will have a major impact on the EU's position in the world as population and economic size play an important role in the world's power structures, especially in our changing world to which geopolitics has returned. According to a projection by Goldman Sachs,¹⁸ only two EU Member States (Germany and France) will be part of the world's top 15 economies by 2050, whereas there still were six countries in 2000 (Germany, United Kingdom, France, Italy, Spain and the Netherlands). These population changes will have major implications on both the importance as well as the composition of the most influential political and economic forums such as the Group of Seven (G7) or the Group of Twenty (G20). As Europe's nations become smaller and economically less powerful relative to others, the need for the European Union to use all of its collective weight becomes even more important. While not underestimating the (geo)political implications, economic and social consequences of demographic transition will imply even more fundamental changes for the future of the EU.

The combination of a shrinking and rapidly ageing population will lead to a number of significant negative consequences and has the potential to undermine the EU's economic and social model. From a competitiveness perspective, policy challenges will arise primarily in terms of labour market shortages, among others increasing the costs of production and, as the workforce ages, decreasing labour productivity and innovative capacity. In addition, a shrinking workforce means that the source of future economic growth will dramatically change in the next decades. While the annual average EU gross domestic product (GDP) growth rate is projected to remain relatively stable at around 1.3% in the long-term, labour is forecasted to make a negative contribution to growth,¹⁹ due to the accelerating decline in the working-age population. Consequently, future EU GDP growth has to come primarily from productivity gains and innovation, thus from areas where the EU has been already falling behind its global economic rivals in the last decade.

Demographic change will also have a profound impact on savings, investments and entrepreneurship, as older people are generally more risk-averse, furthermore they are also likely to save more and invest less. Some studies suggest that countries with decreasing population tend to have bigger companies and more concentrated markets, with fewer innovative firms entering the market compared to countries with growing population.²⁰ Education will become even more important for maintaining and improving the productivity of a significantly smaller workforce, while the EU's total expenditure of 4.5% of GDP on education was already significantly lower than that of its global competitors such as the United Kingdom, the United States or South-Korea with 6.3%, 6.1% and 5.1% of their GDP's respectively in 2020.²¹

¹⁷ European Commission 2021a.

¹⁸ Goldman Sachs 2022.

¹⁹ European Commission 2021a.

²⁰ PETERS-WALSH 2021.

²¹ Organisation for Economic Co-operation and Development 2023.



These changes in the share of the working-age population in turn will pose significant challenges for the sustainability of public finances, as ageing societies cost more, while the income generated by the working-age population is set to decline. The fiscal impact of ageing is projected to represent a significant challenge in almost all EU Member States, with effects becoming apparent already during the next two decades in many countries. As a result, the overall cost of ageing, including pension, health care, long-term care and education expenditure, is set to increase over the long-term at the EU level. The total cost of ageing, which stood at 24% of GDP in 2020 in the EU, is projected to rise to 26% of GDP by 2070.²² It needs to be noted, that current health and long-term care provisions are already considered inadequate in a number of Member States, thus the European Commission's 2 percentage point increase is rather an optimistic projection. This argument is also strengthened by recent developments in Japan, where according to data published by the Japanese Ministry of Finance, the annual average long-term care costs per citizen for the state were almost 10 times higher for people aged 75 and older compared to the age group of people between 65 and 74, while the costs for medical care was also four times higher.²³

In parallel to the increased overall costs of ageing, a decreasing workforce also means lower tax revenues as most old-age benefits systems in the EU rely on social contributions and taxes, paid primarily by employers and employees. New sources of public funding need to be found in order to offset the decrease in social contributions and income tax. This will put an additional pressure on the long-term sustainability of public finances in EU Member States in the decades ahead, in particular for countries with high public debt ratios.

While the overall demographic trends already pose substantial challenges for the EU, this is further aggravated by the fact that these trends hide some very stark differences between and within Member States. The uneven effects of the demographic changes take several forms. Low fertility rates are a typical phenomenon of developed countries, nevertheless, these rates have and continue to vary significantly within the Union. The EU average stood at just 1.46 children per woman in 2022, although the fertility rate varied from 1.79 in France to 1.08 in Malta.²⁴ As shown in Figure 1, natural population change (difference between births and deaths) was already negative in about half of the Member States between 1990 and 2023, with Bulgaria, Latvia and Hungary experiencing the biggest population loss due to this component of population change. On the other hand, Ireland, Cyprus, Luxembourg and Malta had considerable natural population growth in the same period.

²² European Commission 2021a.

²³ KLEIN-MOSLER 2021.

²⁴ Eurostat 2024.



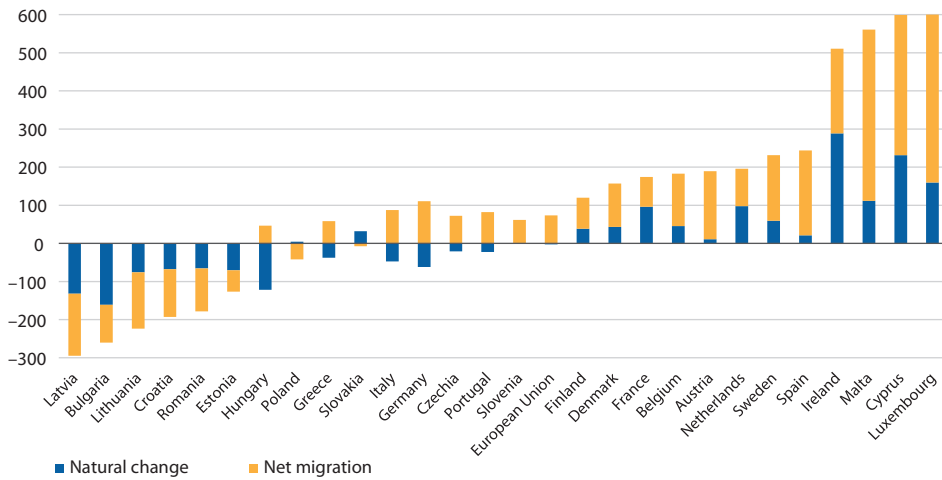


Figure 1: Natural change and net migration in Member States (1990–2023) (per 1,000 population in 1990)
 Source: compiled by the author based on Eurostat data

In addition to the impact of low levels of fertility, population decline and accelerated ageing in some Member States was aggravated by mass outward migration (of primarily young and skilled people). As a result, with the exception of Slovenia, Czechia and Slovakia, the population decreased in all Central and Eastern European Member States between 1990 and 2023. The population of Latvia, Bulgaria, Lithuania, Croatia and Romania have all seen a sharp decrease of over 18% since 1990. In contrast, population increased in all the other Member States due to both positive natural change and positive net migration. Only in four countries, Germany, Greece, Italy and Portugal has natural change been negative, but since net migration remained positive, it led to an overall population increase in these Member States as well. It is important to note, that inflows to these countries have been fed partly by migration from Central and Eastern European Member States.

These demographic trends are expected to continue to vary significantly in the next decades. As a result, Cyprus, Denmark, Ireland, Luxembourg, Malta and Sweden not only had growing populations in the past but are expected to see it continuing in the next decades, while the population of Bulgaria, Croatia, Greece, Italy, Latvia, Lithuania, Hungary, Poland and Romania is set to decline further by 2070. At the same time, the population of Austria, Belgium, Czechia, Estonia, Finland, France, Germany, the Netherlands, Portugal, Spain, Slovakia and Slovenia are projected to see an initial growth followed by a decline during the same period. These diverging population trends will also have very different effects on the working-age population of Member States. It is important to note, that future enlargement will most likely further complicate the existing social and economic problems as well as increase regional disparities within the EU, as candidate countries experience similar or, in the case of the Western Balkans, even worse demographic trends than current Member States.



These trends demonstrate that the demographic challenges will affect individual EU Member States to different degree. Some countries that are experiencing declining population and net outward migration already have a disproportionately high number of older people alongside dwindling working-age population shares, whilst others with net inward migration are not yet seeing the effects of a shrinking and ageing society. Consequently, these diverging demographic trends will not only decrease the overall economic growth at EU level but will also considerably slow down economic convergence between Member States, especially affecting the countries that joined the EU in 2004. However, while population decline is a particularly serious problem in Central and Eastern Europe, it also poses a serious problem to regions where people move from rural to urban areas within their own countries in search of better employment, education and training opportunities. In the EU, the population in rural regions decreased by 0.8 million between 2014 and 2019, by contrast the population in urban regions increased by 3.8 million over the same period.²⁵

Moreover, these negative demographic trends have accelerated as a consequence of the Covid-19 pandemic and the political and economic uncertainties caused by Russia's aggression against Ukraine. Ultimately, if not addressed adequately, demographic differences will aggravate existing economic, social and territorial disparities and create political divisions. Therefore, while most of the matters associated with demographic change remain within the exclusive competence of Member States,²⁶ the EU has been increasingly active in addressing these challenges ranging from areas such as pension and employment policies or issues related to health care and long-term care to education policies.

Initial steps at EU level to address demographic change

As some studies correctly noted,²⁷ the European Commission, but most Member States as well, have rarely emphasised the strong link between demography and economic growth. There have been a number of reports and action plans on technology, innovation and competitiveness “but humans were only studied as capital, primarily from the perspective of training”. It is, therefore, not surprising that the level of awareness of the demographic challenges facing the EU and its severe consequences has been increasing rather slowly among the governments and the wider public of the Member States. While most of the matters associated with demographic change were (and still remain) within the exclusive competence of Member States, in the 1980s the Commission has already started to consider the possibility of developing certain targeted policies, including an explicit family policy.²⁸ However, by the time Japan and South Korea, Asia's second and fourth biggest economies, were already taking a number of concrete measures confronting demographic challenges in the late 1990s, the EU was still focusing on

²⁵ European Commission 2021b.

²⁶ Treaty on European Union and the Treaty on the Functioning of the European Union 2012.

²⁷ BOUSSEMART-GODET 2018.

²⁸ JENSON 2021.



building an innovative economy in order to catch up to the United States and Japan. It is, nevertheless, important to note that while the aim of the Lisbon Strategy (launched in 2000) was to make the EU “the most competitive and dynamic knowledge-based economy in the world by 2010”,²⁹ it was in fact one of the first major EU initiatives to highlight, as well as, to address some of the impacts of demographic change. The strategy proposed a wide range of reforms in several areas, including by raising the overall workforce participation rate and increasing participation by women and older workers, or by promoting upskilling and a culture of lifelong learning.

Nonetheless, it was the report on the mid-term review of the Lisbon Strategy in 2004,³⁰ conducted by a group of experts chaired by the former Prime Minister of the Netherlands, Wim Kok that, for the first time, devoted an entire section to the dramatic demographic changes in the EU and its far-reaching consequences. The report projected that the demographic challenges of ageing may cause the potential annual growth rate of the EU to fall from 2-2.25% in 2004 to 1.25% in 2040, with all that entails for entrepreneurship in the European economy. Furthermore, it estimated the cumulative impacts to correspond to a GDP per capita around 20% lower than could have otherwise be expected. Among other things, the report called on Member States to develop comprehensive active ageing strategies in order to incentivise workers to work longer and employers to hire and keeping older workers. In addition, the report also noted that selective (non-EU) inward migration will be needed to meet European labour market shortages in the decades to come.

The Kok Report inspired the European Commission to produce a number of important documents that helped shaping a strategy for how the EU could meet some of the substantial changes in the population age structure. Beyond summarising the EU’s demographic trends and elaborating on its various forecasted impacts, the Commission’s Green Paper³¹ adopted in 2005 also initiated a series of consultations with key stakeholders of Member States. This was later followed up by a conference to discuss the issue and to collect best practices. Although the main motivation behind this was the Commission’s awareness that most of the matters associated with demographic change were within the exclusive competence of Member States, nevertheless, it helped to build on the momentum by stressing that demographic change is an issue of common concern. In retrospect, it is noteworthy that the Green Paper attached a big importance to tackling the challenge of low birth rates by pointing to the considerable gap which, according to surveys, existed (and still continues to exist) between the number of children Europeans would like and the number that they actually have. Consequently, it called on the creation of appropriate mechanisms in order to narrow this gap, as well as to decrease the obstacles to private choice resulting in low fertility rates, such as expensive housing and lack of right incentives (family benefits, etc.). It also underscored the fact that never before in history has there been economic growth without population growth. Inward migration from outside the EU on the other hand was described having a “possible contribution” that could help to mitigate the effects of a shrinking population, although

²⁹ Council of the European Union 2000.

³⁰ Kok 2004.

³¹ European Commission 2005.



“it is not enough on its own to solve all the problems associated with ageing and it is no substitute for economic reforms”.

Following up on the Green Paper, the Commission presented a communication in 2006 titled “The demographic future of Europe – From challenge to opportunity”,³² which examined possibilities for the EU to confront demographic challenges as well as how the EU could help Member States, at EU, national and regional level as part of a long-term strategy.

The five areas of action set out in the Commission’s communication:

- *promoting demographic renewal in Europe*, mainly through better conditions for families and the reconciliation of work and family life
- *promoting employment in Europe*: more jobs and longer working lives of better quality by making work more valued
- *a more productive and dynamic Europe*, by increasing productivity and economic performance through investments in education and research
- *receiving and integrating migrants in Europe* by promoting the inclusion and integration of migrants
- *sustainable public finances in Europe*: guaranteeing adequate social security and equity between generations

In addition, the communication called for a review of European policies in order to mainstream demographic challenges and recommended to the Council of the European Union and the European Parliament (EP) to consider the impacts of demographic change in the relevant policy areas. The communication also proposed to establish a European Demographic Forum in order to bring together the representatives of Member States, interest groups and experts in the field and to take stock of the latest demographic developments, furthermore to review policy responses every two years. Related to these forums, a European Demography Report was also published every two years.

Unfortunately, the momentum of confronting demographic change was lost in the aftermath of the 2007–2008 global financial crisis, which was followed by the European sovereign debt crisis. As a result, the EU’s focus shifted towards reforming the economic governance rules and eventually the European Demographic Forum was discontinued in 2013, whereas the 2015 European Demography Report was the last of its kind to be published during that decade. Member States were more concerned with addressing the immediate and severe social and economic effects of the crises, to rebalance economic policies with social considerations and to address key issues related to changes brought about in the labour markets and welfare systems, than focusing on future challenges. As a result, the EU adopted the European Pillar of Social Rights³³ in 2017, containing 20 key principles and rights. Although the main areas of action related to providing equal opportunities and access to labour markets, fair working conditions and better social protection, some of them had direct implications on demographic change as well. The directive on work-life balance is a case in point, which among others regulates the extent of maternity and paternity leave.

³² European Commission 2006.

³³ European Commission 2017.



While the Commission continued to publish some documents related to demographic change, such as the Ageing Reports, which every three years identified policy challenges and relevant options for the coordination of economic policies, the EP's Research Service has also provided an annual overview of the EU's demographic trends since 2017,³⁴ it was the newly elected Commission in 2019 that brought the issue of demographic change back into focus.

Demographic change returns to the EU's Agenda

By the end of 2010s the tide turned again, and due to a number of different factors, the focus returned on issues related to demographic change again. As the EU finally overcame the years of economic turmoil following the Eurozone crisis, with both economic growth and unemployment levels returning to pre-crisis levels by 2017, attention started to shift towards how to sustain them in the long-term. In addition, and as a consequence of the economic and financial crises, demographic trends worsened by the middle of the 2010s, including with the EU's total fertility rate decreasing to 1.51 in 2013 after a relative high of 1.57 in 2008 and 2010.³⁵ In parallel, the migration crisis starting in 2015 brought the issue of the costs and benefits of legal migration to the forefront and revealed fundamental differences between governments of and diverging societal attitudes in Member States. Finally, the outbreak of the Covid-19 pandemic in the beginning of 2020 had a major impact on the EU's economic and social resilience, especially on the elderly and the young, bringing issues in the focus, such as related to health, long-term care or accessibility as well as intergenerational fairness.³⁶

In order to respond to the growing need to tackle the pressing demographic challenges, the newly elected Commission President, Ursula von der Leyen, nominated in 2019 Dubravka Šuica as Vice-President for Democracy and Demography with the mission of supporting Europe through the demographic transition. The commissioner's tasks included, among others, analysing the impacts of demographic change and the publication of a Green Paper on ageing and launching a wide debate on long-term impacts on care and pensions. The Commission's main focus was thus primarily set on issues such as the adequacy of the current social protection in the EU, policies to make the labour market more inclusive, improving work-life balance and enabling people to work longer, investing in upskilling, all in the context of an ageing population.

As a first step, and building on the previously published European Demography Reports, the European Commission adopted a Report on the Impact of Demographic Change in June 2020,³⁷ highlighting the main drivers of the demographic developments and their implications for the EU. The report relied on a set of comparable data at EU and regional level and focused on the major impacts of demographic change, such as on economic growth, labour markets, health and long-term care needs as well as public finances.

³⁴ EATOCK 2017.

³⁵ Eurostat 2024.

³⁶ Intergenerational fairness is a concept of fairness or justice between different generations, including between currently living and future ones.

³⁷ European Commission 2020.



Croatia, which held the Presidency of the Council of the European Union at that time, and being one of the most affected of Member States by population decline, also contributed to shift more attention to demographic change by elaborating and adopting Council Conclusions on the matter in June 2020.³⁸ The conclusions, among others, stressed the importance of human capital and demographic renewal that are essential requirements for economic growth and which should have the same priority at EU level as climate neutrality or digitalisation. One of the novelties of the conclusions was to raise the adverse impact of the free movement of labour, which is a fundamental freedom of the European Union, but it also pointed to the fact that labour mobility within the EU led to different phenomena in different regions (brain drain vs. brain gain) and to further aggravated population decline in a number of Member States.

The Commission launched a number of initiatives in 2021 addressing demographic challenges, starting with the Green Paper on Ageing in February,³⁹ which also aimed at launching a broad policy debate on issues related to ageing societies. The document, which subscribed to a life-cycle approach and considered both personal and societal implications of ageing, covered wide range of issues related to ageing societies, such as lifelong learning, health and long-term care, pensions, old-age poverty, intergenerational solidarity and loneliness. The paper was followed by a Commission report outlining a long-term vision for rural areas in June 2021,⁴⁰ designed to help rural areas in meeting challenges such as depopulation, connectivity and limited access to key services. The document identified 10 shared goals and 4 areas of action in order to promote stronger, connected, resilient and prosperous rural areas by 2040. In order to achieve these objectives, the Commission proposed a Rural Pact to mobilise public authorities, relevant stakeholders and communities and an EU Rural Action Plan with tangible flagship projects and tools. Furthermore, a new interactive knowledge management tool, the Atlas of Demography was also launched in 2021. Based on official statistics and projections from Eurostat, the Atlas has mapped national demographic challenges and corresponding policy actions, thereby enhancing the understanding of demographic change and policy responses at the local, regional and national level.

In parallel to the growing number of Commission initiatives, the increasing need of addressing the challenges of demographic change has also been reflected by the fact that European leaders started to increasingly discuss the issue, as reflected in several European Council Conclusions in 2022 and 2023, including the Granada Declaration outlining the EU's key future priorities and actions.⁴¹ Moreover, the 2023 June European Council invited the Commission to present a toolbox of policy measures to address demographic challenges and their impact on Europe's competitive edge.⁴² Responding to this request, the European Commission adopted a communication in October 2023 titled "Demographic change in Europe: A toolbox for action".⁴³ Drawing on the experience across the Member States, the document set out a wide range of tools, including

³⁸ Council of the European Union 2020.

³⁹ European Commission 2021b.

⁴⁰ European Commission 2021c.

⁴¹ European Council 2023a.

⁴² European Council 2023b.

⁴³ European Commission 2023a.



regulatory instruments, policy frameworks and funding, as well as a comprehensive strategy to *demographic change* structured around four pillars.

The four areas of action set out in the Commission's communication:

- *supporting parents* by better reconciling family aspirations and paid work, notably by ensuring access to quality childcare and good work-life balance
- *supporting and empowering younger generations to thrive*, develop their skills, facilitate their access to the labour market and to affordable housing
- *empowering older generations and sustaining their welfare*, through reforms combined with appropriate labour market and workplace policies
- *addressing labour shortages*, through managed legal migration, in full complementarity to harnessing talents from within the EU

Acknowledging, that demographic change is determined by life choices made by families and individuals, the demography toolbox was intended to inspire Member States to develop and implement integrated policies to address demographic challenges. Moreover, the mainstreaming of demographic concerns into policy areas was also given priority, thereby coordinating relevant policies both at EU and national level. Although it did not provide for new funding, the toolbox, nevertheless, was the first holistic strategy aiming to compile all the relevant regulatory and policy instruments and jointly agreed initiatives together with existing programmes and funding opportunities.

Finally, by adopting the Communication on “Harnessing talent in Europe’s regions” in January 2023,⁴⁴ the Commission recognised that diverging demographic trends in Member States will trigger new and growing territorial disparities, therefore new and more targeted measures need to be developed to help the most affected regions tackling demographic challenges. As a result, although limiting its focus primarily on the urban-rural divide of demographic change, it developed the concept of regions in (or at risk of falling into) a talent development trap based on criteria related to the decline of working-age population, low share of tertiary education, and adversely affected by departure of young people. According to this, and as shown in Figure 2, the document identified 46 regions in Europe, accounting for some 16% of the EU’s population, as being in a talent development trap and another 36, accounting for some 13% of the EU’s population, which are at risk of falling into a talent development trap. In order to ensure that no region in the EU is left behind, the Commission officially launched the Talent Booster Mechanism in November 2023. This new, tailor-made, regional based and multi-dimensional approach included the use of existing EU funds and initiatives to support regions most affected by the ongoing demographic transition.

One of the conclusions that can be drawn from the evolution of the EU level approach to tackle demographic challenges is that, while a number of new policy tools and action plans have been adopted by the end of the mandate of the von der Leyen Commission in 2024, the EU still lacks a comprehensive approach to tackle demographic challenges. This is, to a great extent, due to the reason that EU countries are differently affected by demographic change, as well as, to the fact that most of the matters concerning demographic change remain within the exclusive competence of Member States. Nonetheless,

⁴⁴ European Commission 2023b.



the demographic toolbox, which assembles the available instruments at the disposal of governments by incorporating the best practices of Member States, is a first major step in the right direction.⁴⁵

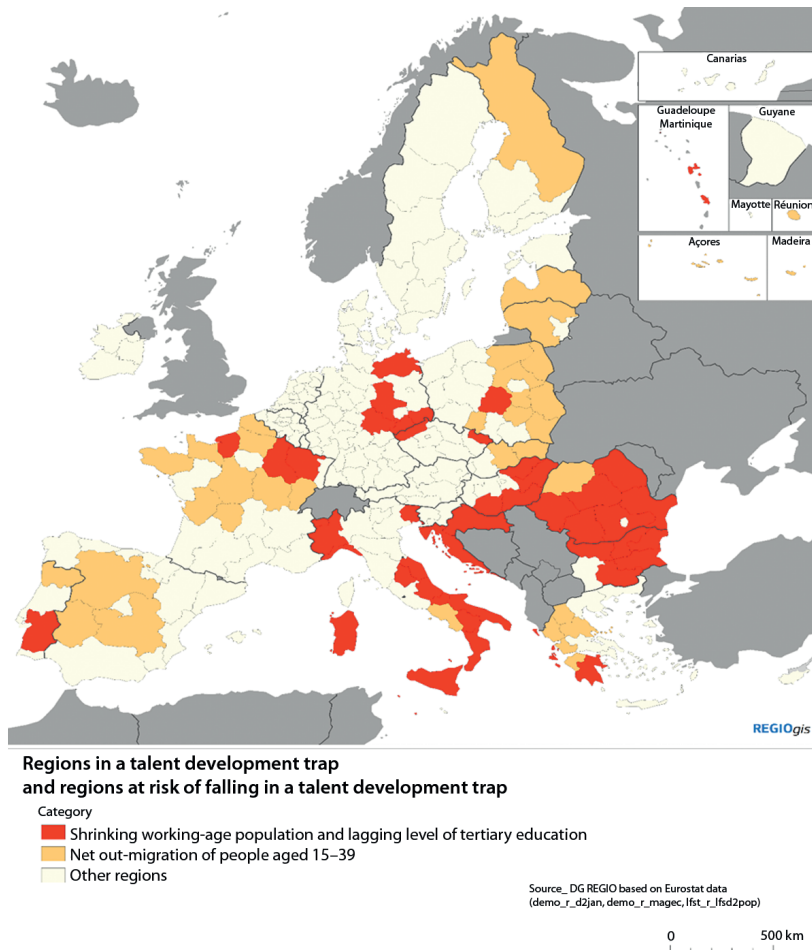


Figure 2: Regions in a talent development trap (NUTS 2 level)

Note: The EU has developed a classification known as nomenclature of territorial units for statistics (NUTS), which divides each EU Member States into 3 levels: all together there are 92 major socio-economic regions (NUTS 1); 244 basic regions (NUTS 2); and 1,165 small regions (NUTS 3) in the EU in 2024.

Source: European Commission 2023 (Communication on Harnessing talent in Europe's regions)

⁴⁵ PAPE–SZÉCHY 2024.

Despite all of this, one of the challenges of the incoming Commission will be to extend the scope of the discussion on demographic change to include all relevant policy issues, including politically sensitive ones, such as how to address the problem of low and falling birth rates. In addition, the issue of finding additional resources of funding in order to help the most affected Member States and regions to tackle demographic challenges will have to be explored in more detail. This is a particularly pressing issue, as the Commission is expected to publish its proposal on the next Multiannual Financial Framework in the second half of 2025, which will outline the financing of strategic goals for the period 2028–2034.

Some policy implications for the next Multiannual Financial Framework

Preparing the proposal on the EU's Multiannual Financial Framework (MFF) for the period 2028–2034 will be one of the first major tasks of the incoming European Commission, which is expected to take office in December 2024. Designing the overall EU budget for a seven-year period is always challenging, nevertheless, this time it will be a Herculean task to reconcile the EU's strategic goals with the limited budgetary resources available to finance them. Given the many unprecedented challenges the EU is currently facing,⁴⁶ it will be of paramount importance to find the right tools and policy mix to tackle these challenges. Demographic change is a case in point, which will require major adjustments in many areas of society and economy in the Member States, which in turn will require significant additional resources. Therefore, the next MFF will need to be carefully designed to also provide help to those Member States and regions that are most affected by demographic transition. The Hungarian Presidency of the Council of the European Union in the second half of 2024 will certainly be well placed to help triggering a wider reflection on these issues. Since addressing demographic challenges is one of the main priorities of the Presidency, it could play an important role in helping the incoming Commission to find appropriate solutions to the related problems, especially in view of the Commission's proposal on the next MFF.

It is certainly too early to assess and evaluate the impacts of the new tools and programs adopted in the last few years, nevertheless, it seems plausible that some of them have been explicitly designed by the Commission as pilot projects, which, if proven to be successful, will become either new features of or will have an impact on major EU policies, such as cohesion policy. This argument is further strengthened by the findings of the 9th Cohesion Report published by the Commission in March 2024,⁴⁷ which devotes an entire chapter to the issue of demographic transition, including the concept of regions in a talent development trap. It is, therefore, useful to widen the scope of the

⁴⁶ KOLLER–KONDOR 2023.

⁴⁷ European Commission 2024.



ongoing discussion on these issues by highlighting some of the shortcomings of this new approach. What follows next will be a number of critical issues raised in relation to the concept of talent development trap, as well as some points for consideration for the incoming European Commission linked to demographic change.

According to the Commission, regions are considered to be in a talent development trap if they meet the following criteria: the annual average reduction in their working-age population (25–64) was greater than 7.5 (per 1,000 population) between 2015 and 2020; the share of their working-age population (25–64) with tertiary education was below the EU average in 2020; and the share of their working-age population (25–64) with tertiary education increased by less than the EU average between 2015 and 2020. In addition, a region is considered to be at risk of falling into a talent development trap if (it is not in a talent development trap and) its annual average net outward migration rate of those aged 15–39 was greater than 2 (per 1,000 population) between 2015 and 2020. The talent development trap concept is thus a combination of criteria related to demographic trends (the change of working-age population and outward migration of young people) as well as to (tertiary) education. While the Commission claims in its 9th Cohesion Report that regions in a talent development trap have typically lower per capita GDP than others, it would have been more convincing had the Commission also included criteria related to prosperity (or income) in its definition of the concept. As a matter of fact, the arbitrary choice of the criteria related to (tertiary) education merits the question whether additional aspects have also been considered, such as employment or productivity. Furthermore, it would be interesting to see what considerations led the Commission in the end to incorporate the dimension of education in the concept. Against this background, there are a number of studies that attempt to define the concept of regional development trap by using a more complex approach,⁴⁸ therefore, and due to the length constraints of this article, the focus will be limited only to two important shortcomings of the concept of the Commission.

First, the concept of talent development trap does attempt to capture the dynamics of diverging demographic trends of regions (by including reference periods), however, it fails to capture the very different starting positions of Member States and regions. As we have seen earlier, the population of Latvia, Bulgaria, Lithuania, Croatia and Romania have all seen a sharp decrease of over 18% since 1990. In contrast, the population of Czechia and Germany increased by more than 5% during the same period, the same figure was 17% in the case of France, while altogether they account for one fifth of the regions (10 out of 46), which are in a talent development trap according to the Commission. To be fair, even these 3 countries have regions that experienced population decline in the same period, nevertheless, the significant differences in the overall population development of these countries (reflected in most of their regions) underline the need to refine the concept in order to better capture the very different starting positions of Member States (and regions).

⁴⁸ DIEMER et al. 2022.



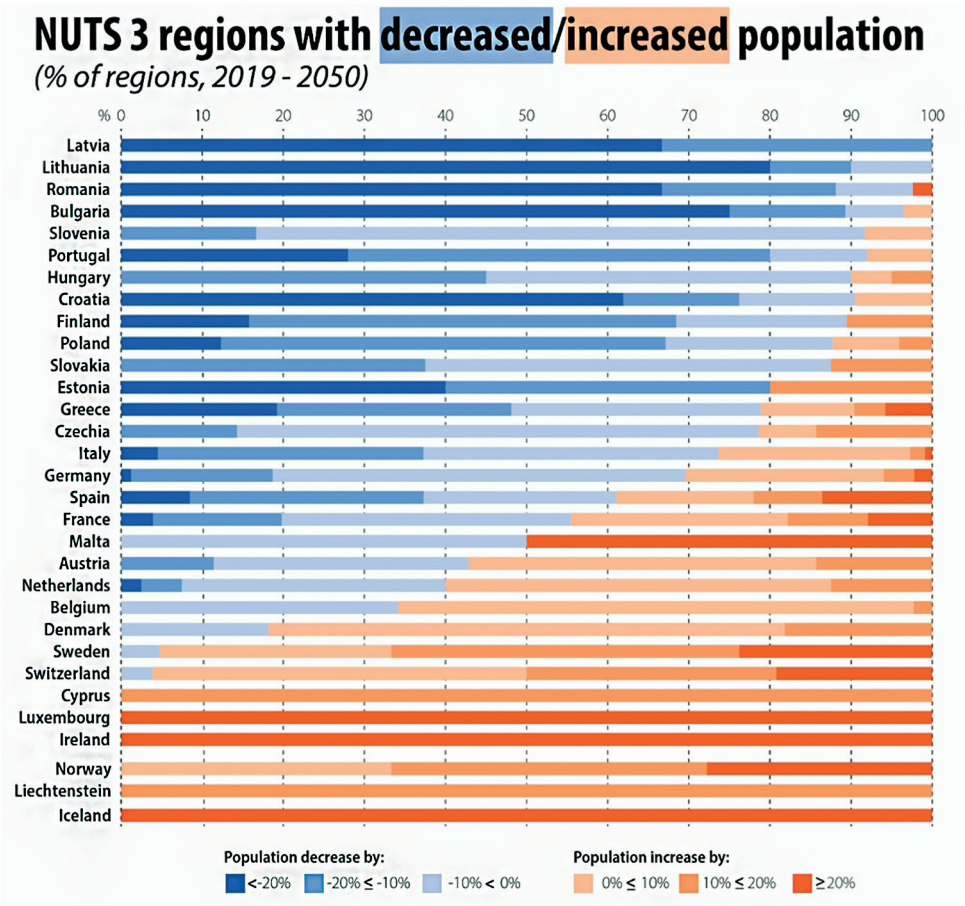


Figure 3: Regional population projections in EU and EFTA Member States (2019–2050)

Source: Eurostat 2021

Second, there is a strong argument in favour of differentiating between countries as well and not just between regions. This is underlined by the latest regional population projections published by Eurostat on the 27 EU Member States and the 4 European Free Trade Association (EFTA) countries.⁴⁹ As can be seen in Figure 3, there is a considerable variation in the projections across Member States. In Latvia and Lithuania, all the (NUTS 3 level) regions have a smaller projected population in 2050 than in 2019, most of them by at least 20%. Furthermore, there are 8 countries where the population is expected to decrease in almost all (at least in 90%) of their regions between 2019 and 2050. With the exception of Portugal, these are all Central and Eastern European Member States (Bulgaria, Croatia, Hungary, Latvia, Lithuania, Romania and Slovenia). In comparison, regional population projections in Czechia, France and Germany are much more

⁴⁹ Eurostat 2021.



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balanced, while altogether they account for one fifth of the regions (10 out of 46), which are in a talent development trap according to the Commission. This is in stark contrast to Slovakia, which will only have one region with a projected positive population change by 2050, while none of its regions qualifies as being in a talent development trap.

Finally, the implementation of policy actions related to demographic change is more efficient at Member States level, since most of these matters are within the exclusive competence of the Member States. Moreover, as indicated in a recent study of the European Committee of the Regions,⁵⁰ the divisions of powers are not homogeneously divided between the different levels of government in Member States, thus a regional approach will eventually lead to different outcomes.

All this implies, that it is difficult to come forward with simple, one-size-fits-all solutions and even more importantly, that the approach of tackling demographic challenges needs to be more carefully balanced between the Member State and the regional levels. As a consequence, cohesion policy in general needs to be adapted to address these challenges both in its objective, as well as it should become an additional important eligibility criterion. While the Commission's proposal on the concept of regions in a talent development trap is a move in the right direction, it has many shortcomings, therefore it should be fine-tuned. The Commission should also consider the creation of a specific fund for addressing demographic change providing support to Member States that have experienced a significant population decline in the last decades. Eligibility of funding should primarily be based on demographic data, such as the natural change of population and outward migration. Alternatively, instead of creating a specific fund, the aspect of demographic change could also be taken into account in the methodology for allocating structural funds, similar to the additional criterion related to migration flows (and greenhouse gas emissions), introduced during the 2021–2027 MFF. All these changes are of particular importance, because they would address the East-West divide in demographic trends within the EU, the existence of which was also confirmed by the Commission's 9th Cohesion Report. Such new instruments could be useful in view of future accessions as well, as candidate countries, in particular in the Western Balkans, are confronted with very similar demographic challenges.

Apart from dealing with issues of funding, the incoming Commission will also have to evaluate the recently adopted new tools and their impact in relation to demographic challenges. In addition, the demographic toolbox needs to be fine-tuned as well, while it should remain a comprehensive set of available instruments at the disposal of governments also incorporating the best practices of Member States. There are a number of important policy issues that need to be addressed. Among others, the EU needs to address the problem of low and falling birth rates, as well as the reasons behind the wide gap between the number of children Europeans would like and the number that they actually have.⁵¹ This is, undoubtedly, a very sensitive issue politically, as Member States have a very different approach to family policy related issues. Nevertheless, the EU cannot afford the luxury to disregard certain policy options, just because they seem more costly and their effects can only be seen in the long-term.

⁵⁰ Committee of the Regions 2024.

⁵¹ BIGNAMI et al. 2024.



Moreover, similar to the divide in demographic trends,⁵² there is also an East-West divide in Europe regarding the attitude of citizens towards demographic change, in particular in relation to issues such as population decline, families or (legal) migration. These differences in attitudes as well as in relation to how to tackle demographic challenges (supporting families vis-à-vis supporting legal migration) have been confirmed by a number of studies and surveys,⁵³ but they were also apparent in the diverging public reactions in EU countries during the migration crisis in 2015–2016. According to Bulgarian political scientist Ivan Krastev,⁵⁴ the reasons for this can be traced back to the “very real and different historical trajectories of the state-building processes in the two parts of the continent” and they still continue to shape (and can even reinforce) existing cultural stereotypes. All this strengthens the argument that Member States should be allowed to freely choose the mix of policies to tackle the challenges of demographic transition. In another words, promoting legal migration and family policy measures should be seen as equally relevant tools in relation to demographic change, which would be in line with the logic of the demographic toolbox as well. It is in this context, that appropriate mechanisms should be considered in order to help countries raising their birth rates, as well as to decrease the obstacles to private choice that lead to low fertility rates, such as expensive housing or the lack of the right incentives. The Commission should, therefore, build on some of the good practices of Member States in the area of family policy and it should also consider making targeted EU funds available for (partly) funding their implementation (like in the case of legal migration). This would not only contribute to increasing competitiveness and economic growth in the long-term, but it could also help overcoming the existing East-West divide, that according to Krastev, “is the conflict most likely to bring about the disintegration of the Union”.

Another important contribution to the discussion on tackling demographic challenges, which merits further development, was made by Enrico Letta, the former Italian Prime Minister in his report on the future of the EU internal market published in April 2024.⁵⁵ In order to unlock the full potential of the Single Market, Letta called for the EU to establish a fifth freedom, beyond the four freedoms that are the cornerstones of the Single Market (the free movement of goods, capital, services and persons). The principle of “freedom to stay” would be a kind of counterweight to the “freedom of movement” of persons and would help addressing the issues of brain drain, a phenomenon primarily affecting the countries of Central and Eastern Europe and, to some extent, southern Member States as well. According to the report, “by fostering local capacities and leveraging the unique assets of each region, the EU can help stimulate economic activity, create jobs, and reduce socio-economic disparities”. The concept aims at providing individuals and businesses of less developed Member States and regions a more inclusive and balanced form of development by facilitating access to opportunities, infrastructure and key services, without requiring (physical) relocation or cross-border movement. Such an approach could enable persons and businesses to make a choice to move or stay,

⁵² FIHEL–OKÓLSKI 2019.

⁵³ FÜRÉSZ–MOLNÁR 2023.

⁵⁴ KRÁSTEV 2022.

⁵⁵ LETTA 2024.



rather than being forced to move due to a lack of opportunities and could, therefore, lead to redefining the European economic growth model. Decoupling social mobility from geographic mobility, thus ensuring that economic prosperity is inclusive, would benefit all EU citizens regardless of their nationality and mobility choices. The potential areas for action range from ensuring affordability and quality of services of general interests, to providing significant investments in infrastructures and digital skills or ensuring the affordability of housing. Consequently, the Commission should further develop the concept of the “freedom to stay”, and its main features should be incorporated as objectives of cohesion policy instruments in the next MFF. Priority should be given to issues such as improving local living conditions (housing and public space), serving the needs of the existing population and attract new inhabitants, to the services of general interests as well as to the investment into digital infrastructure and skills.

Furthermore, finding the right balance between investments and structural reforms will be key in the next MFF. While it is evident that EU funding needs to be tailored to the specific needs of Member States, unfortunately most structural funds do not allow for adequate flexibility. One-size-fits all approach, such as incentivising structural reforms through strengthening the link to the European Semester are not universal solutions and, for some Member States, it might prove to be irrelevant at best, harmful at worst. At the same time, focusing too much on country specific recommendations and structural reforms does not take into account the different starting point of Member States, which can vary significantly. Central and Eastern European countries, for example, showed an extreme readiness and ability to make deep structural reforms in the last three decades, thus focusing on investments remains more relevant in their case, than focusing on structural reforms. Investments, especially in infrastructure and in areas like education or health care, are also crucial in order to continue their economic convergence process. Funds, such as the European Social Fund Plus (ESF+) or the Recovery and Resilience Fund (RRF), therefore, should allow for more flexibility. Member States should be able to use these funds for instance to strengthen the resilience, as well as the sustainability of their health care systems, which in turn would also help to reduce outward migration (brain drain) of health professionals. Similarly, these funds should allow countries to invest into areas related to demographic change, such as investing into infrastructure (nurseries and kindergartens) in order to support children’s access to inclusive, affordable, and quality early childhood education and care (ECEC), in line with the Barcelona Targets for 2030.

A final consideration relates to the internal organisation structure of the European Commission. Mainstreaming demographic concerns in relevant policy proposals at EU level and their accompanying impact assessments also requires the existence of a dedicated structure that can ensure a holistic approach to handle these issues. However, unfortunately, there is no such structure within the services of the European Commission, thus the commissioner responsible for demography has to rely on the Directorates-General (DGs) under the responsibility of other commissioners, which tend to focus only on their particular (sectorial) dimension of the problem. Therefore, it would be worthwhile for the incoming Commission to reflect on how to better organise internal work concerning the demographic challenges the EU is facing.



Conclusions

Demographic trends in Europe have been marked by low birth rates and rising life expectancy in the last decades, as a result the population of the EU is shrinking and aging. This will have a profound impact on the EU's position in the world and will lead to a number of significant negative consequences that have the potential to undermine its economic and social model. In addition, demographic challenges will affect EU Member States to a different degree, as there are substantial differences between and within countries, which, if not addressed adequately, will aggravate existing economic, social and territorial disparities and create political divisions.

Although Europe is the continent hit hardest by demographic change, the EU was rather slow to react to these demographic challenges. One of the main reasons for this lies in the fact that most of the matters associated with demographic change were (and still remain) within the exclusive competence of Member States. While there is a growing number of important policy areas related to demographic change that are being addressed, progress in this field was constrained by the constantly shifting focus in the last decades. First, the sustainability of public finances was at the centre of discussion, thus the macroeconomic effects of ageing, as budgetary projections tried to assess the change of public spending related to pensions, health care, long-term care and education. Later, emphasis was put on labour market related issues and the social dimension of demographic change, which eventually led to a life-cycle approach, considering both the personal and societal implications of ageing. Finally, the attention shifted towards specific areas, such as ageing, rural areas as well as on regional and local aspects of demographic change.

One of the conclusions that can be drawn from the evolution of the EU level approach to tackle demographic challenges is that, while a number of new policy tools and action plans have been adopted by the end of the mandate of the von der Leyen Commission in 2024, the EU still lacks a comprehensive approach to demographic change. Nonetheless, the demographic toolbox, which assembles the available instruments at the disposal of governments by incorporating the best practices of Member States in a holistic strategy, is a first major step in the right direction. However, the incoming Commission will need to extend the scope of the discussion on demographic change to include all relevant policy issues, including politically sensitive ones.

Among others, it needs to address the problem of low and falling birth rates, as there is still a wide gap between the number of children Europeans would like and the number that they actually have. This is a sensitive issue politically, as Member States have a very different approach to family policy related issues, nevertheless, the EU cannot afford the luxury to disregard certain policy options, just because they seem more costly and their effects can only be seen in the long-term. Furthermore, there is evidence of an East-West divide in demographic trends, as well as in the perception of both the fear of population loss and the fear of openness to legal migration. Member States should, therefore, be allowed to freely choose the mix of policies to tackle demographic challenges, thus promoting legal migration and family policy measures should be seen as equally relevant tools. This would fit well in the logic of the demographic toolbox as well.



In addition, the Commission should build on some of the good practices of Member States in the area of family policy and it should also consider making targeted EU funds available for (partly) funding their implementation (like in the case of legal migration). Moreover, the Commission should consider the creation of a specific fund for addressing demographic change providing support to Member States that have experienced a significant population decline in the last decades. Alternatively, the aspect of demographic change could also be taken into account in the methodology for allocating structural funds, similar to the additional criterion related to migration flows (and greenhouse gas emissions) introduced during the 2021–2027 MFF. Such additional funding would not only contribute to increasing competitiveness and economic growth in the long-term, but it could also help overcoming the existing East-West divide within the EU. Furthermore, such new instruments could be useful in view of future accessions as well, as candidate countries are confronted with very similar demographic challenges.

The Commission should also develop further the concept of the “freedom to stay”, as proposed in the Letta Report on the future of the EU internal market and its main features should be incorporated as objectives of cohesion policy instruments in the next MFF. Priority should be given to issues such as improving local living conditions (housing and public space), and to the services of general interests as well as to the investment into digital infrastructure and skills.

The Hungarian Presidency of the Council of the European Union in the second half of 2024 will certainly be in a good position to help triggering a wider reflection on these issues. Since addressing demographic challenges is one of the main priorities of the Presidency, it could play an important role in helping the incoming Commission to find appropriate solutions to the related problems, especially in view of the Commission’s proposal on the next MFF, which is expected to be published in the second half of 2025. Hungary’s experience with family policy related measures and incentives will also be useful to help evaluate and fine-tune recently adopted actions and instruments, in particular the Commission’s demographic toolbox.

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