Demographic change in Costa Rica
Challenges and opportunities for fiscal policy

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Demographic Transition
Purpose of the study

• The Institute of General Auditor of Costa Rica read about NTA publications

• General Auditor was concerned about the implications of demography for the government

• Request a study using NTA accounts
Fiscal Life Cycle Deficit
Costa Rica 2008

Dash lines: USA 2003
Income Units per capita: $7.300 in CR and $43.800 in USA
Fiscal policy: challenges and opportunities

Fiscal Dividend. Costa Rica 1960-2060

growth (%)
Fiscal demographic dividend by groups of transfers
Costa Rica 1960-2060
Fiscal demographic dividend by pensions
Costa Rica 1960-2060
Fiscal demographic dividend **by health**
Costa Rica 1960-2060
Fiscal demographic dividend by education
Costa Rica 1960-2060
Fiscal demographic dividend by other transfers
Costa Rica 1960-2060
Scenarios of public policy interventions

• General Auditor requested to analyze different possible scenarios of public policies

• There are different possible scenarios
Scenarios of public policy

1. Taxes and contributions by elderly people
2. Retirement age
3. Reinvestment in education
3. Reinvestment in Education

- Constitutional amendment education expenditures
  - 8% of the GDP
  - In 2008 represented 5% of the GDP
- Significant increase on education expenditure per student
- Require a tax load of about 40% of the GDP
  - Current: 26%
3. Reinvestment in Education
Fiscal Dividend and 8% education
Recommendations

• One time adjustments: growth gap re-emerges
• Gradual corrections: preferable policy
• Policy makers must resist the temptation of using the education dividend to close the growth gap in other sectors
• Education expenditures in 6% of the GDP will also shield the sector
• Best policy option: vigorous economic growth
Recommendations

• Best policy option: vigorous economic growth
  • Investment in human capital
  • Cashing in on the second demographic dividend
    • Increase labor productivity
    • Not discouraged savings: financial institutions