

# Demographic change in Costa Rica

## Challenges and opportunities for fiscal policy

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# Demographic Transition



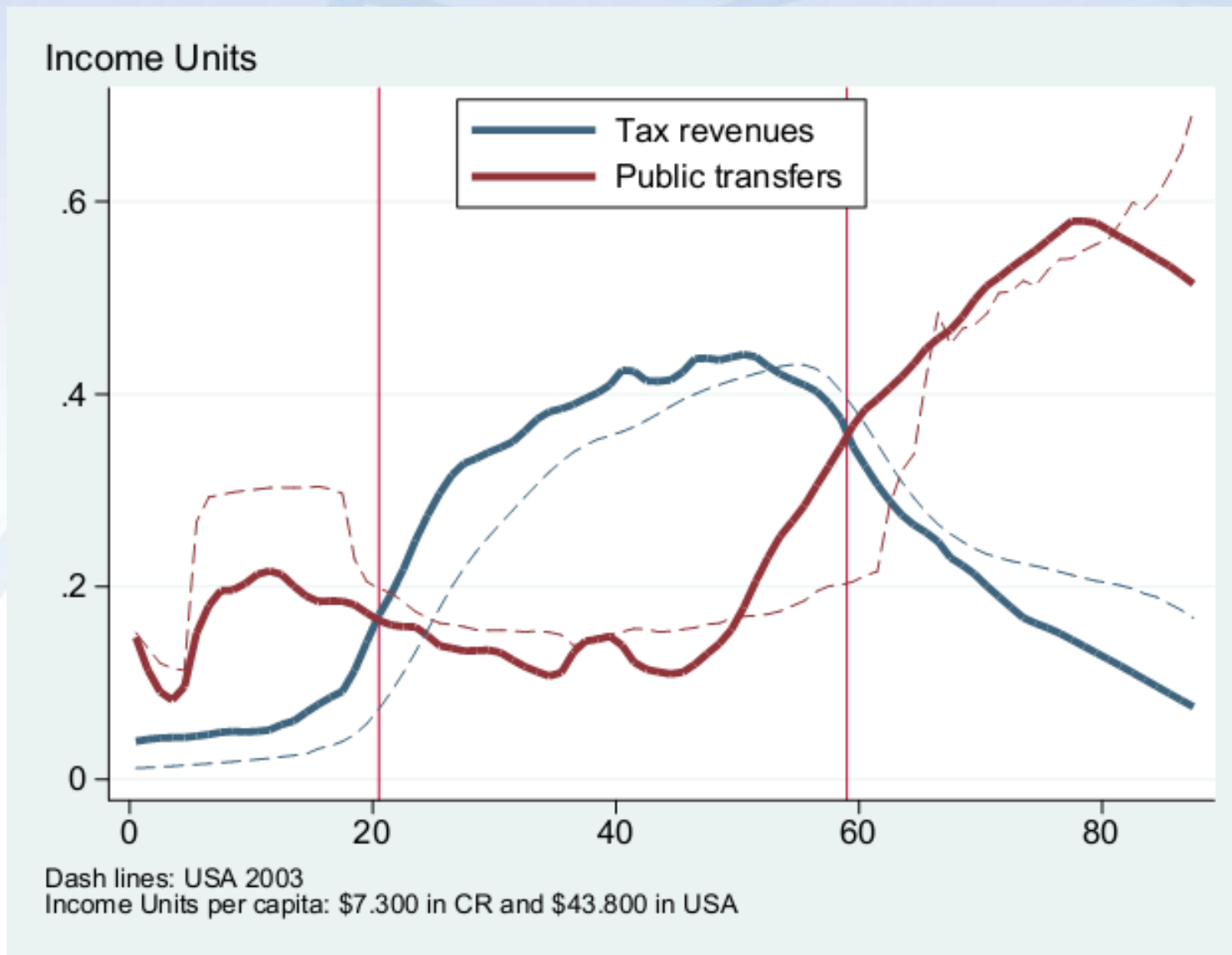
# Purpose of the study

- 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

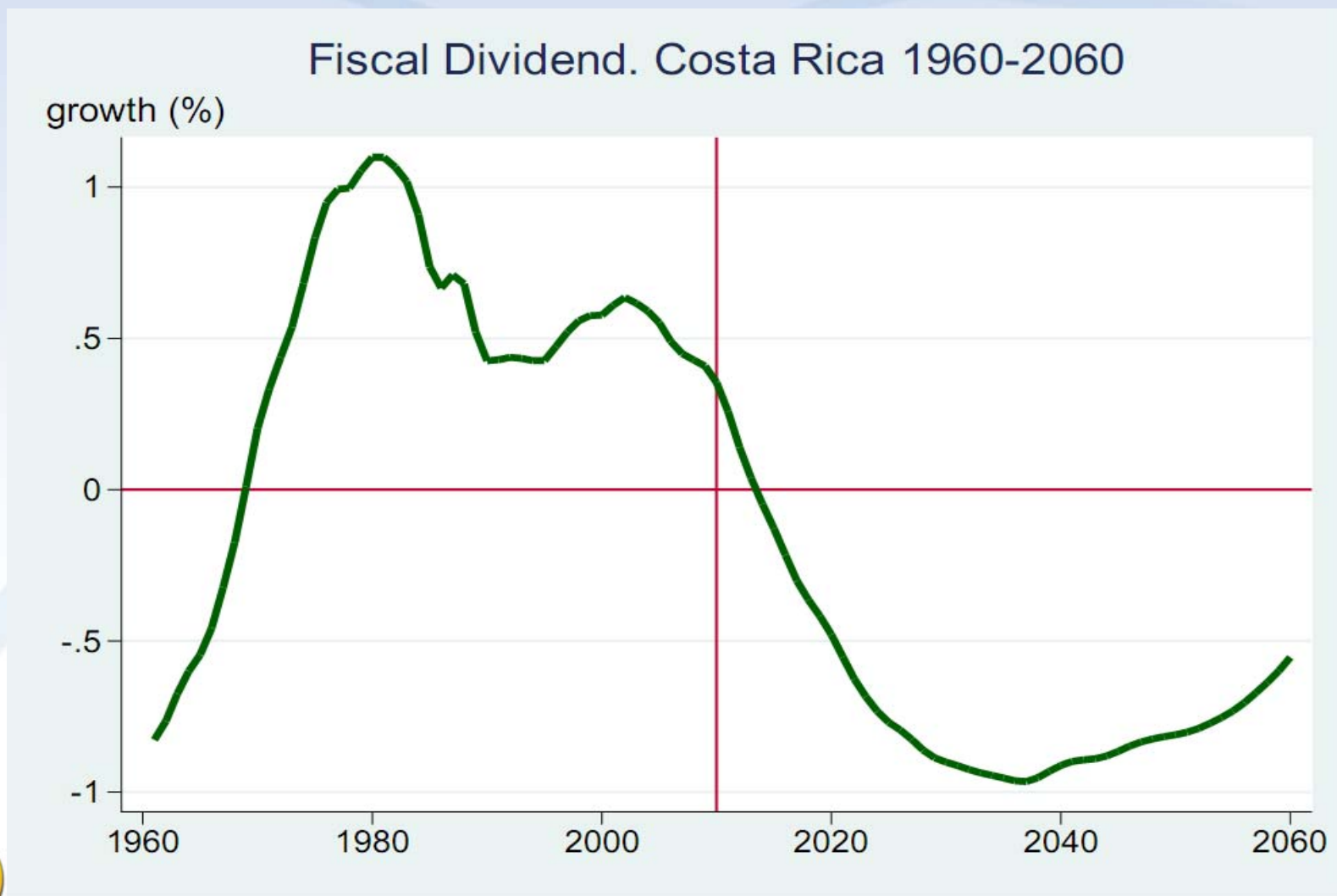


# Fiscal Life Cycle Deficit

Costa Rica 2008

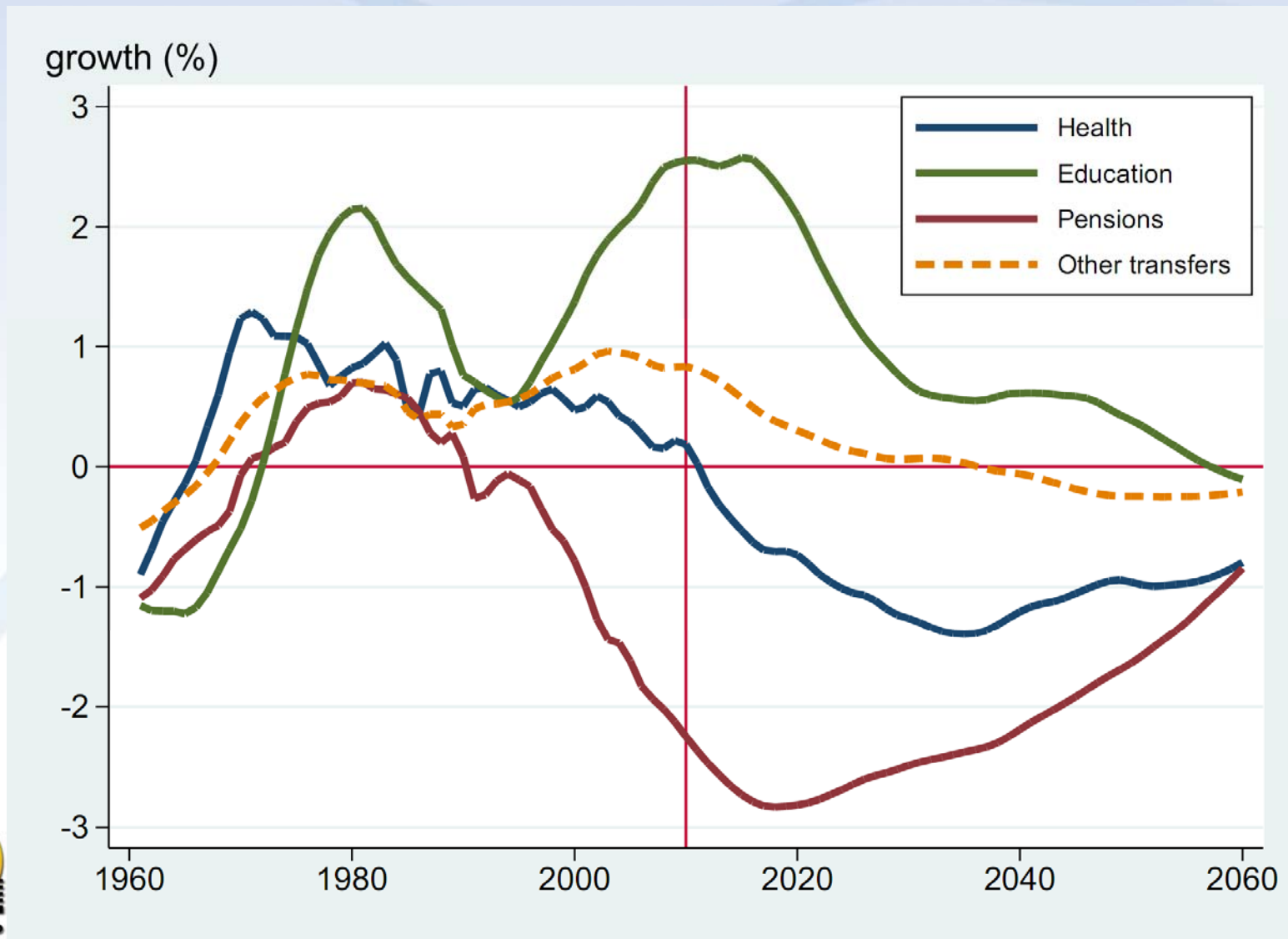


# Fiscal policy: challenges and opportunities



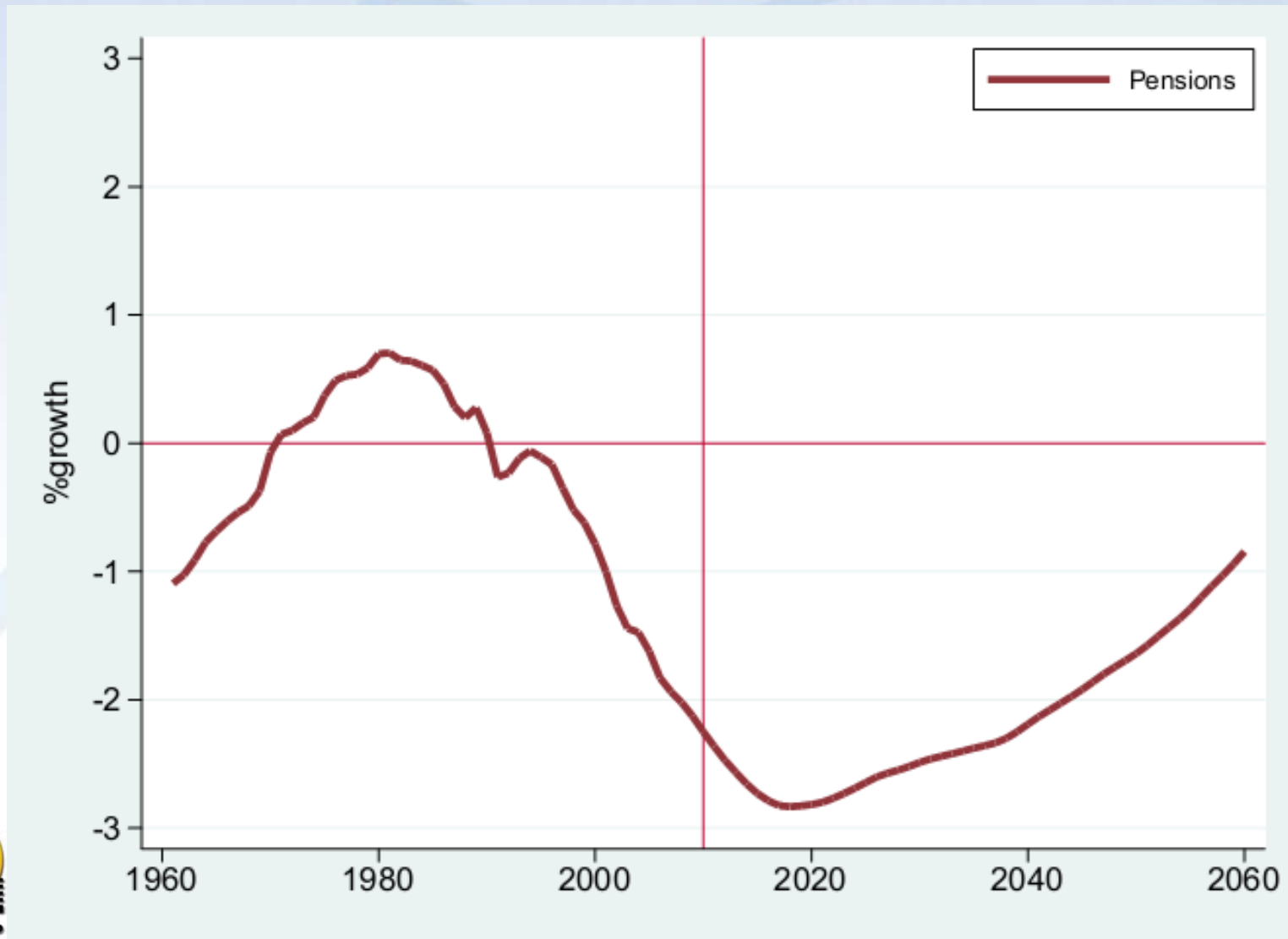
# Fiscal demographic dividend by groups of transfers

Costa Rica 1960-2060



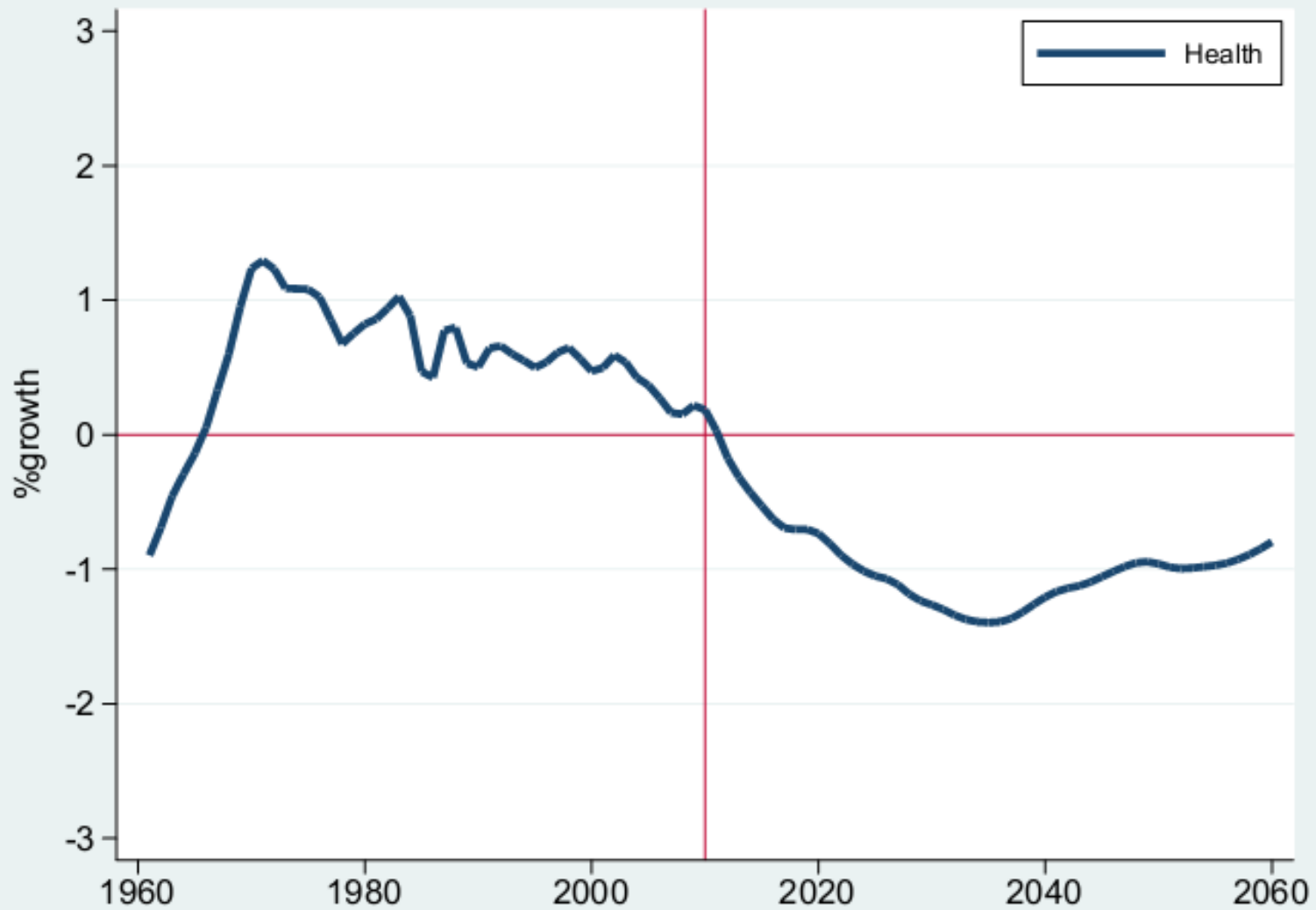
# Fiscal demographic dividend **by pensions**

## Costa Rica 1960-2060



# Fiscal demographic dividend **by health**

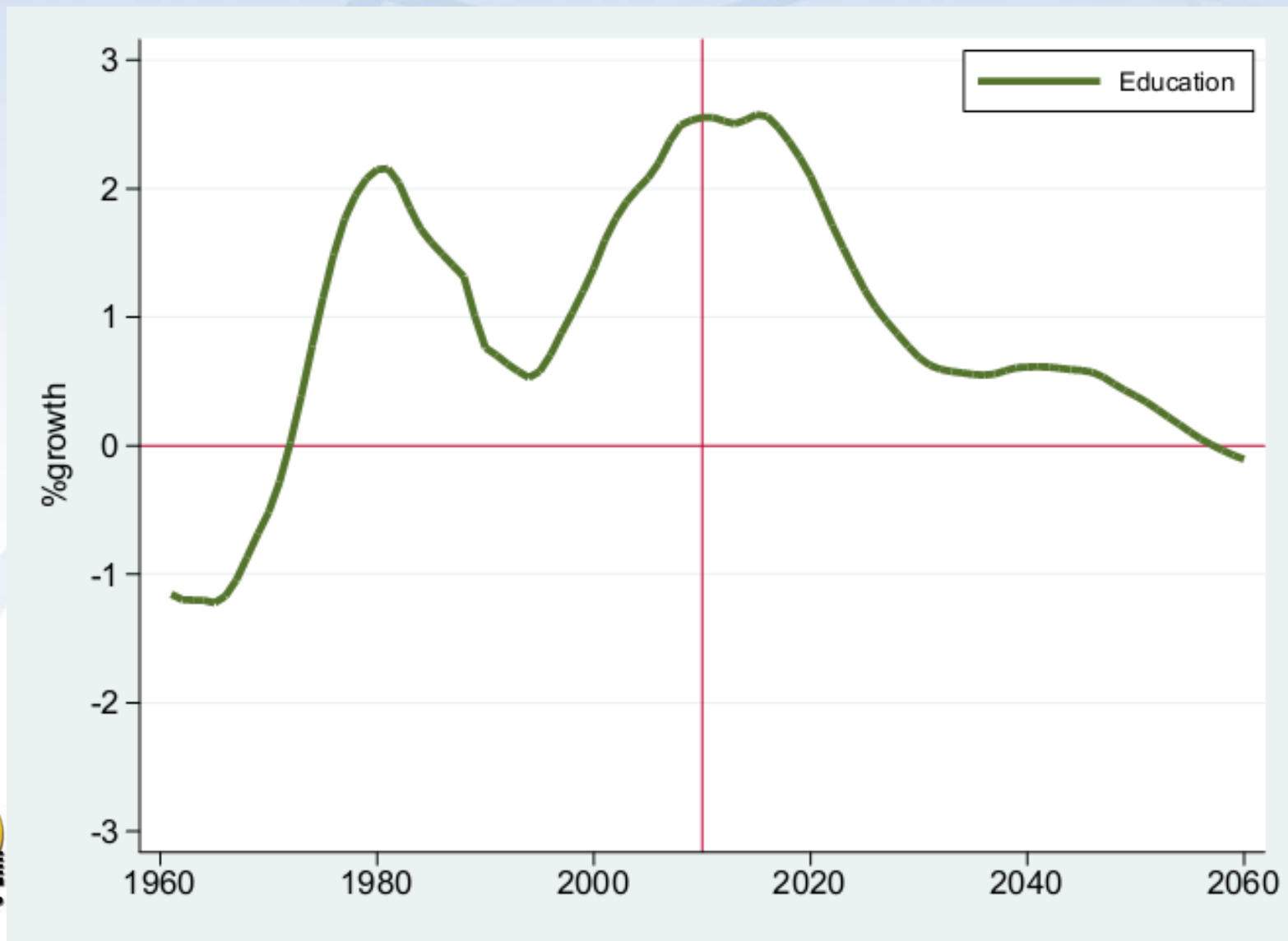
## Costa Rica 1960-2060



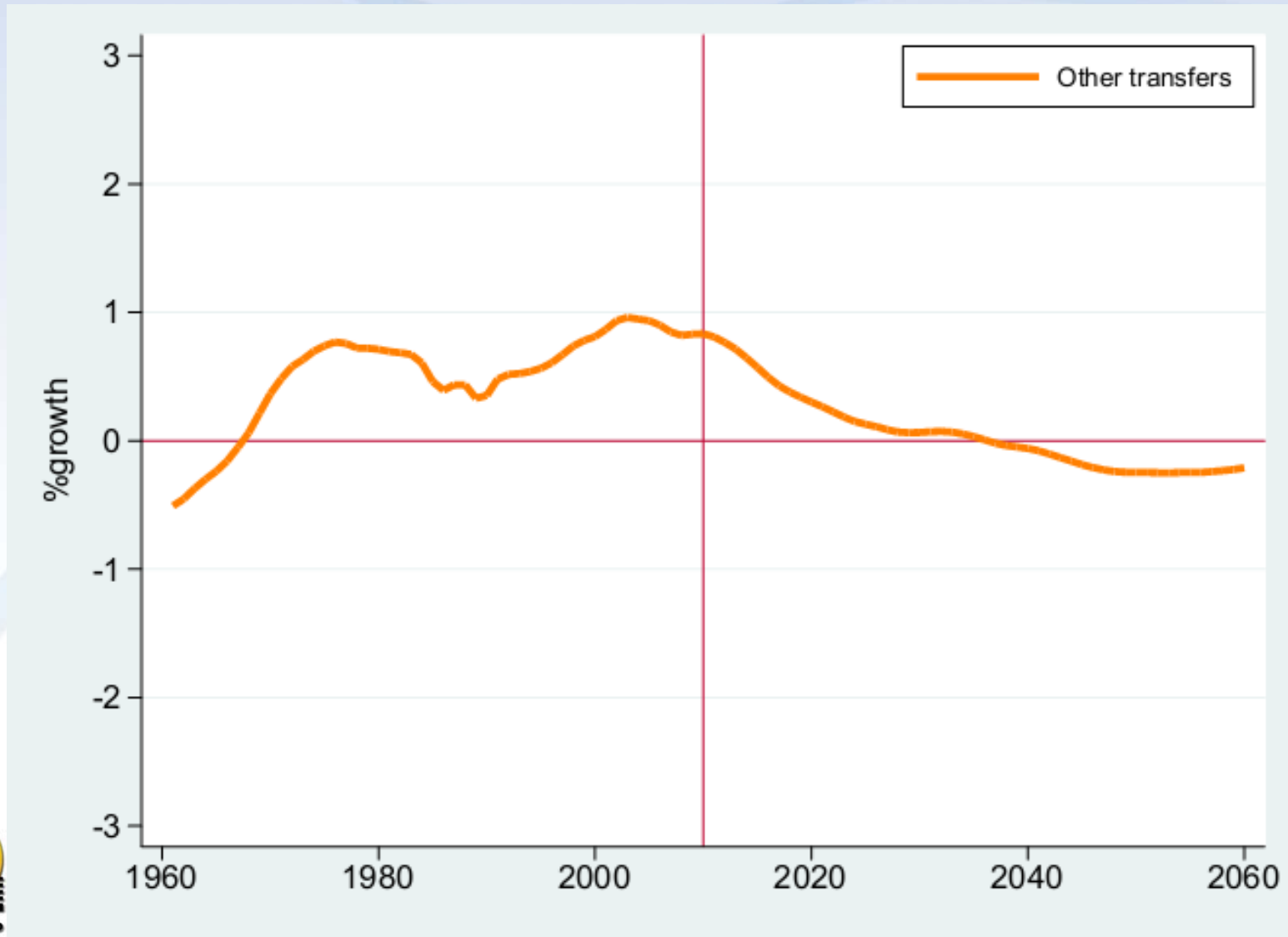


# Fiscal demographic dividend **by education**

## 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

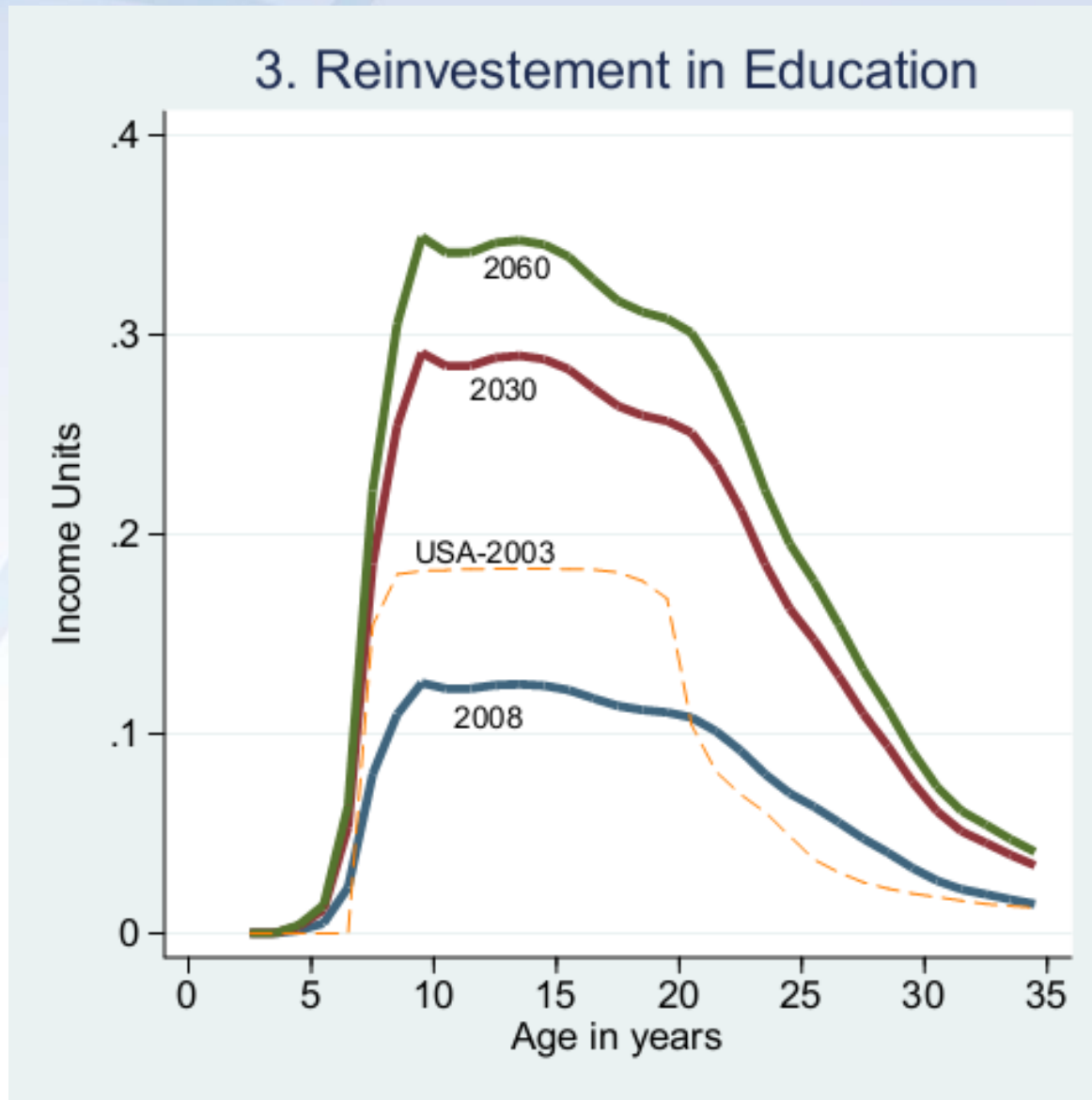


### 3. Reinvestment in Education

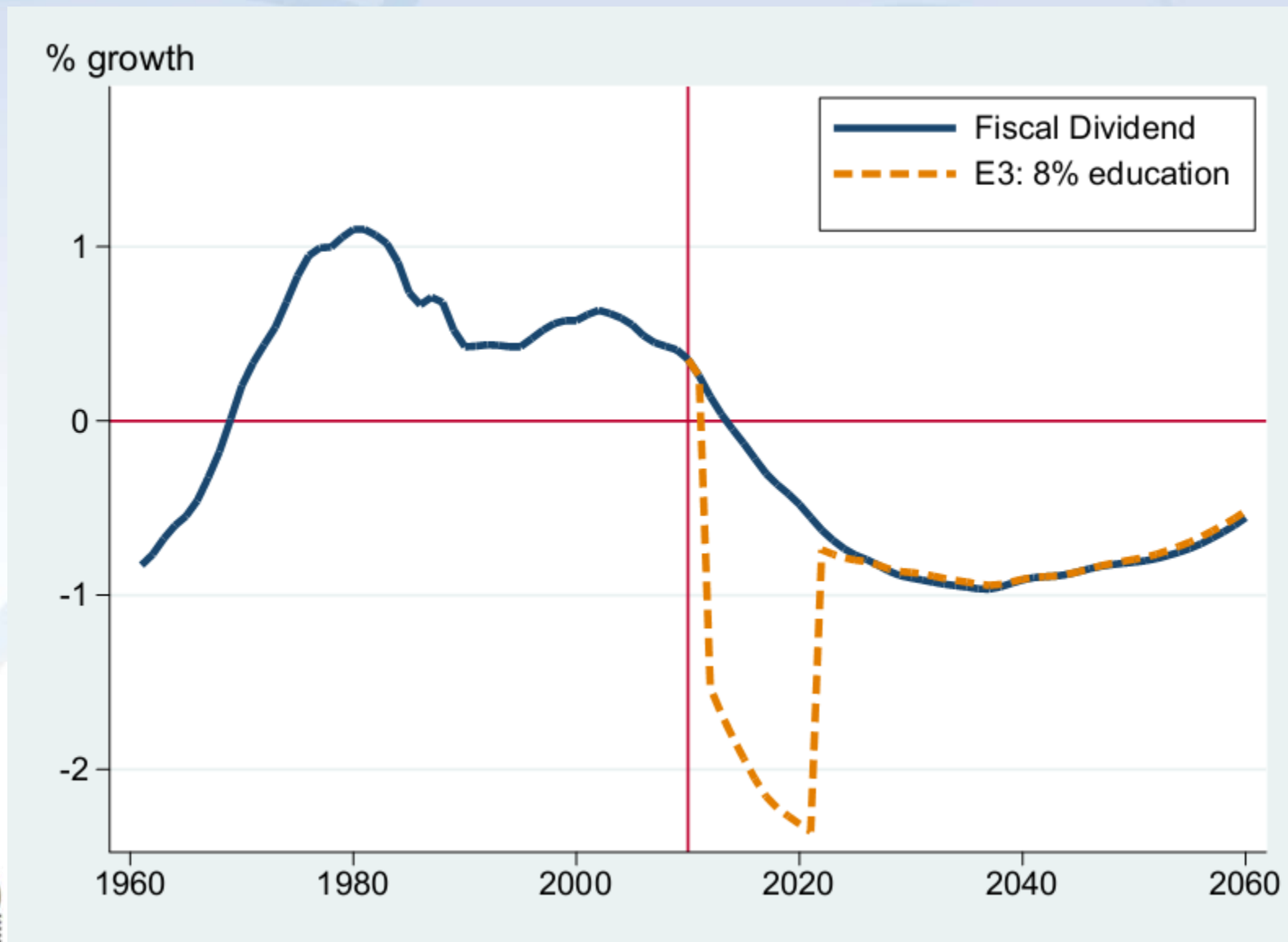
- Constitutional amendment education expenditures
  - 8% of the GDP
  - In 2008 represented 5% of the GDP
- Significant increase on education expenditure per student
- Require a tax load of about 40% of the GDP
  - Current: 26%



# 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

