

Demographic change in Costa Rica

Challenges and opportunities for fiscal policy

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Demographic Transition



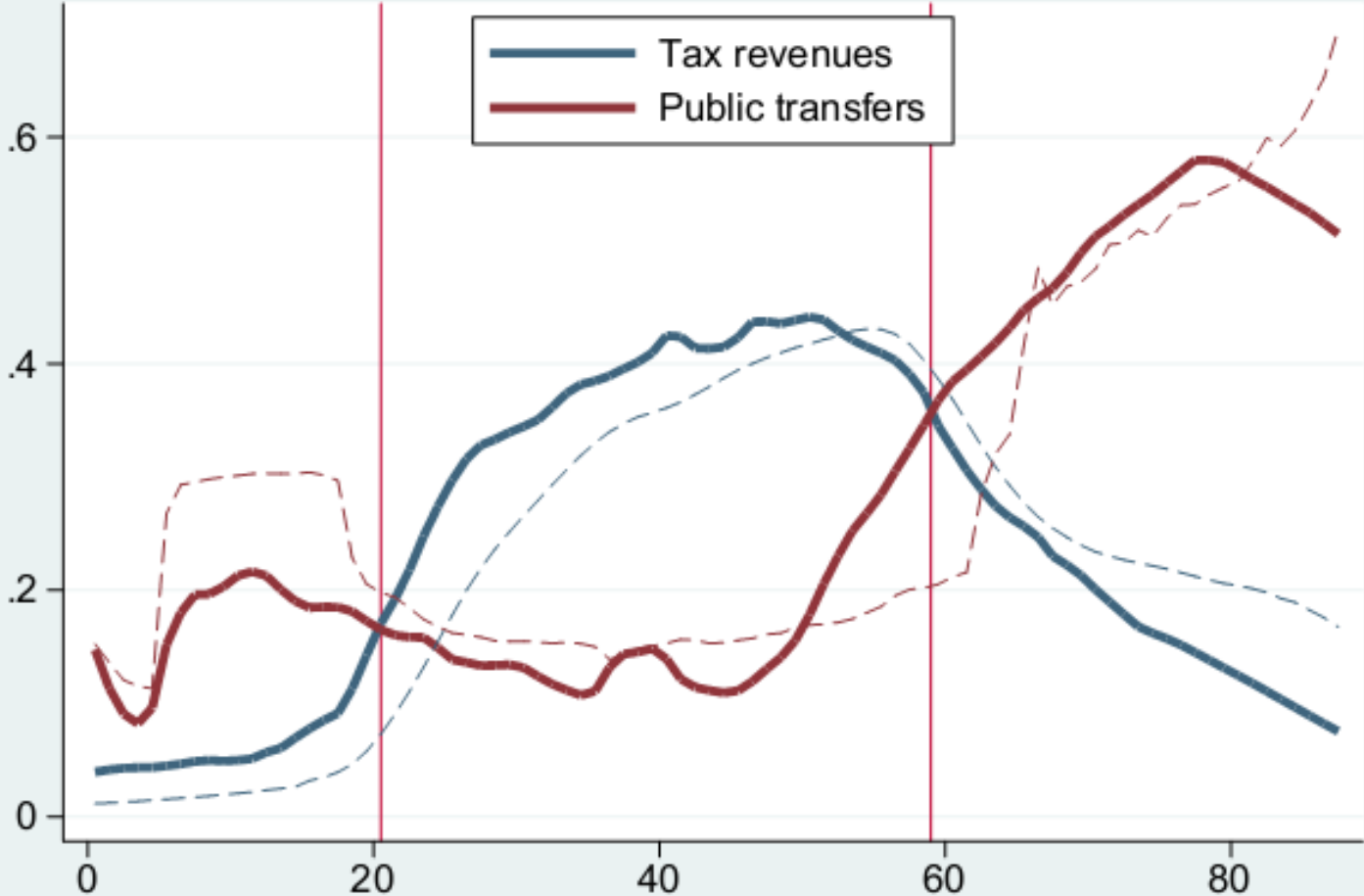
Purpose of the study

- 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

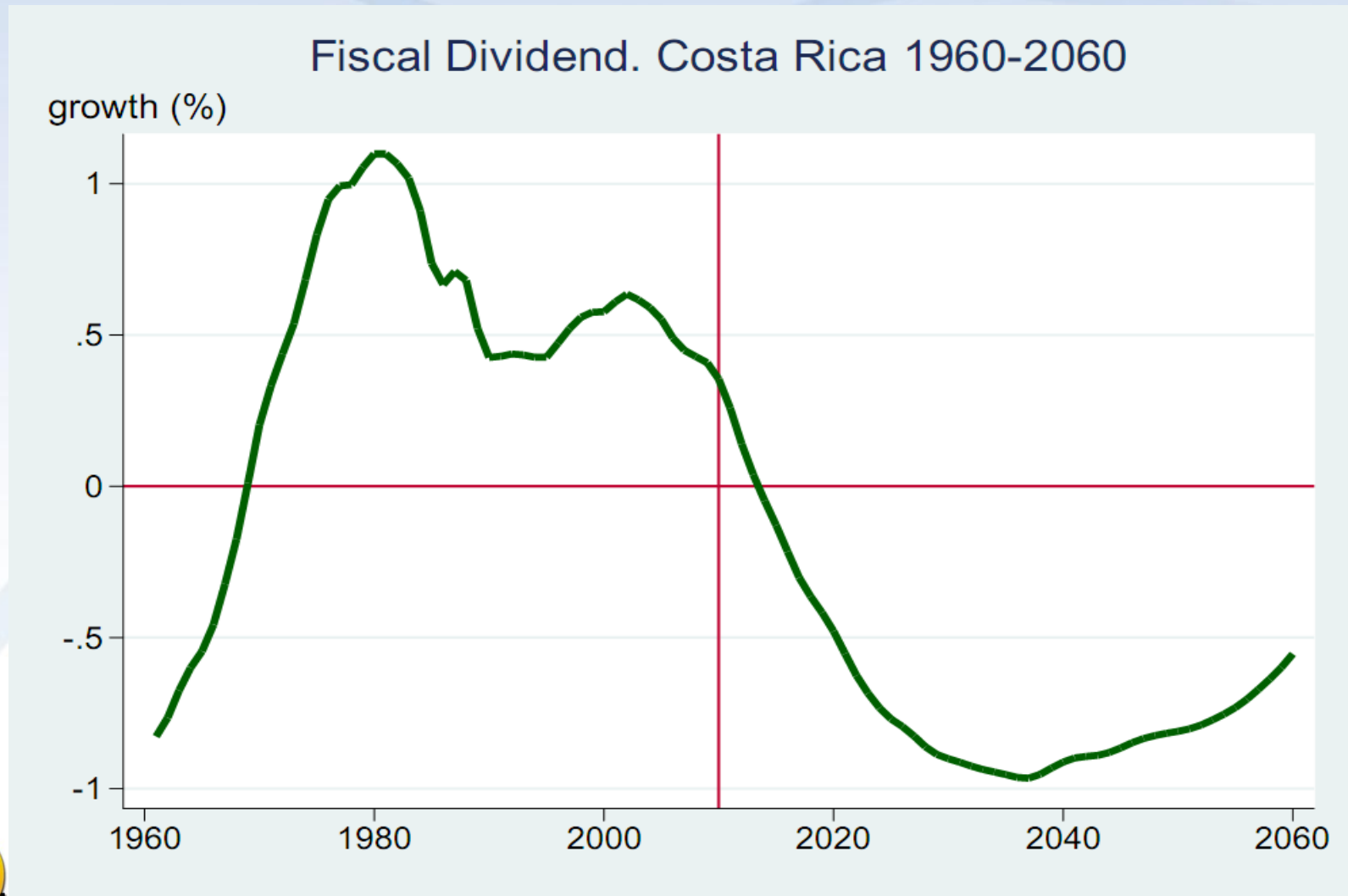
Income Units



Dash lines: USA 2003
Income Units per capita: \$7.300 in CR and \$43.800 in USA



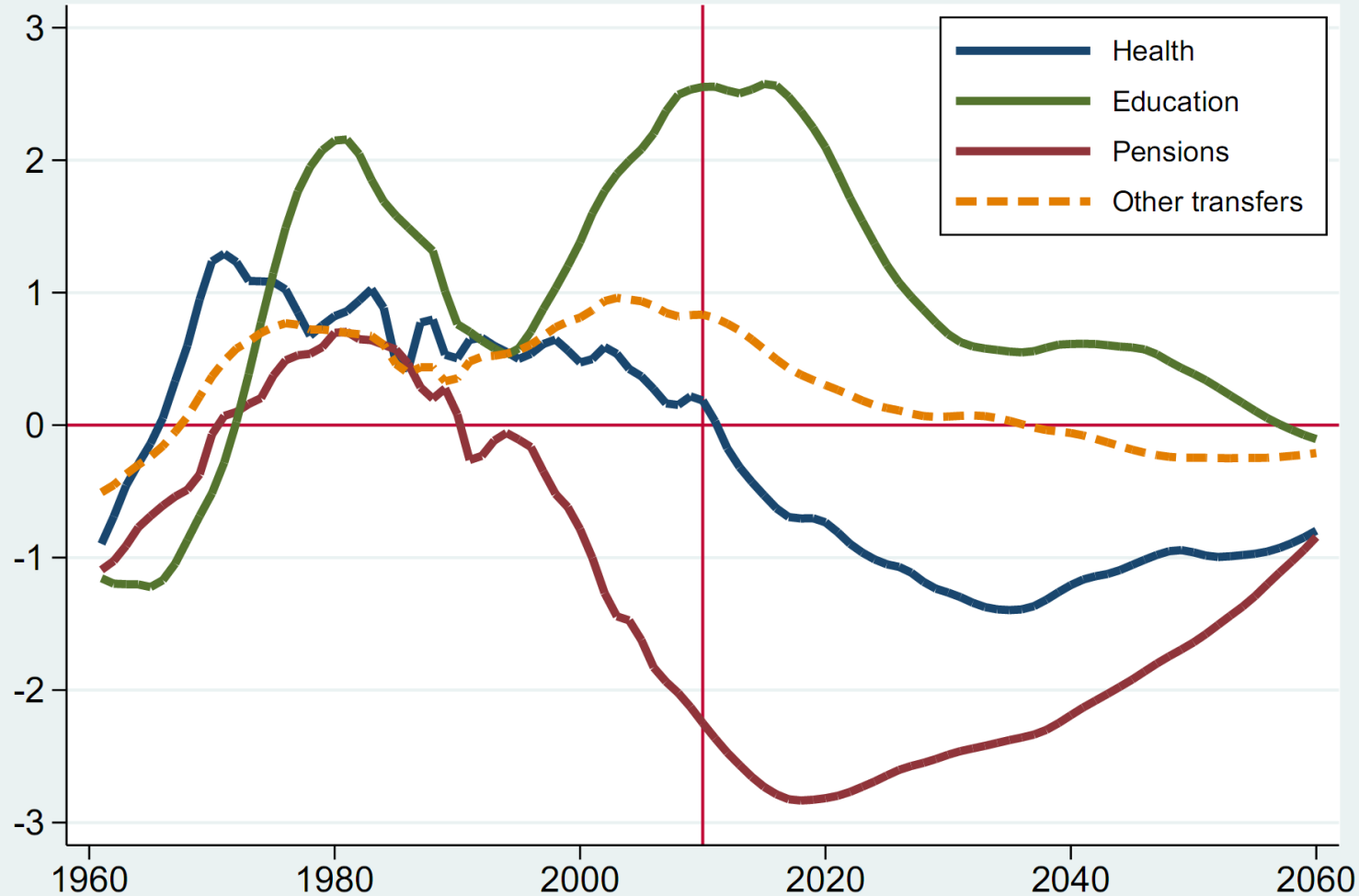
Fiscal policy: challenges and opportunities



Fiscal demographic dividend by groups of transfers

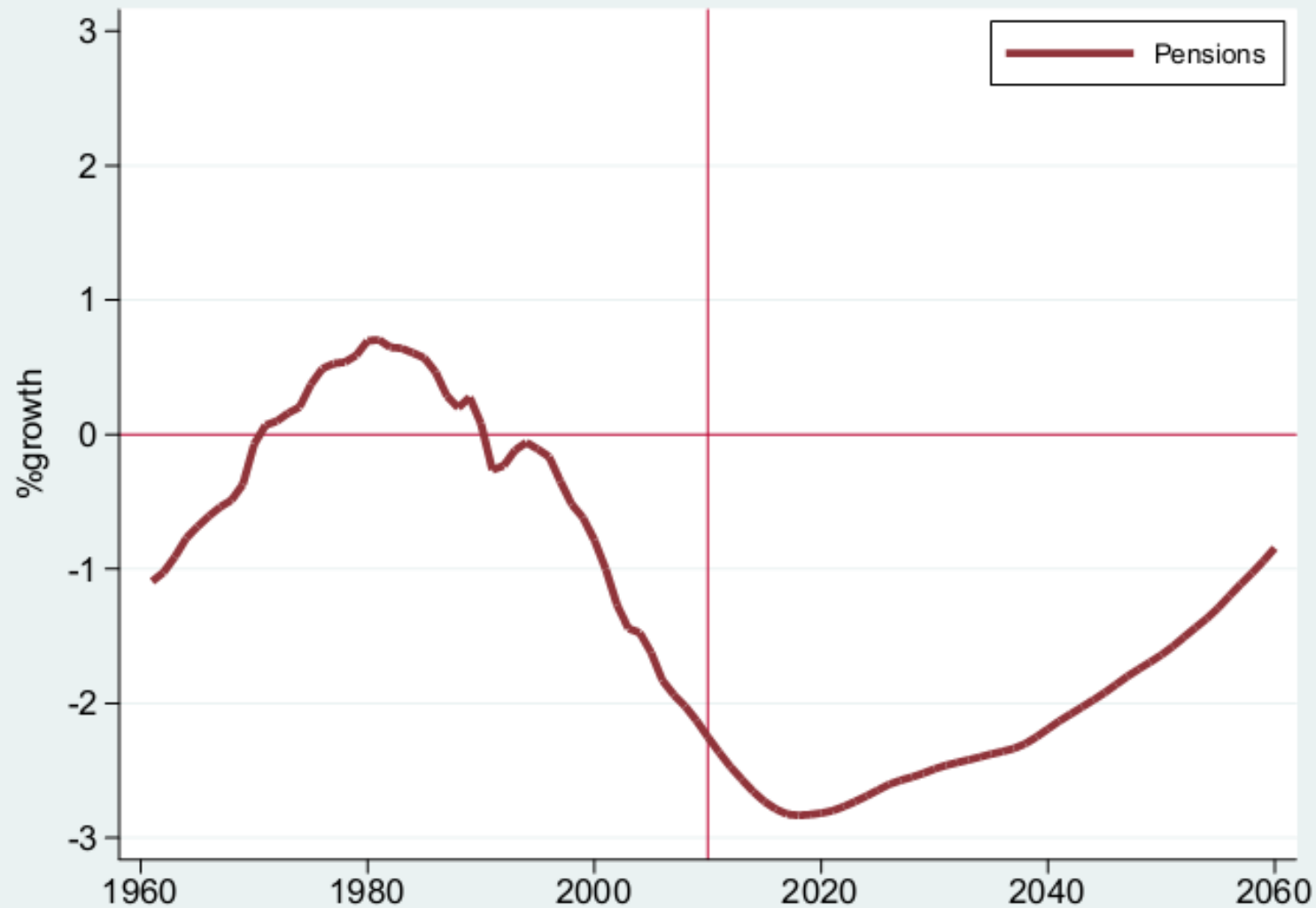
Costa Rica 1960-2060

growth (%)



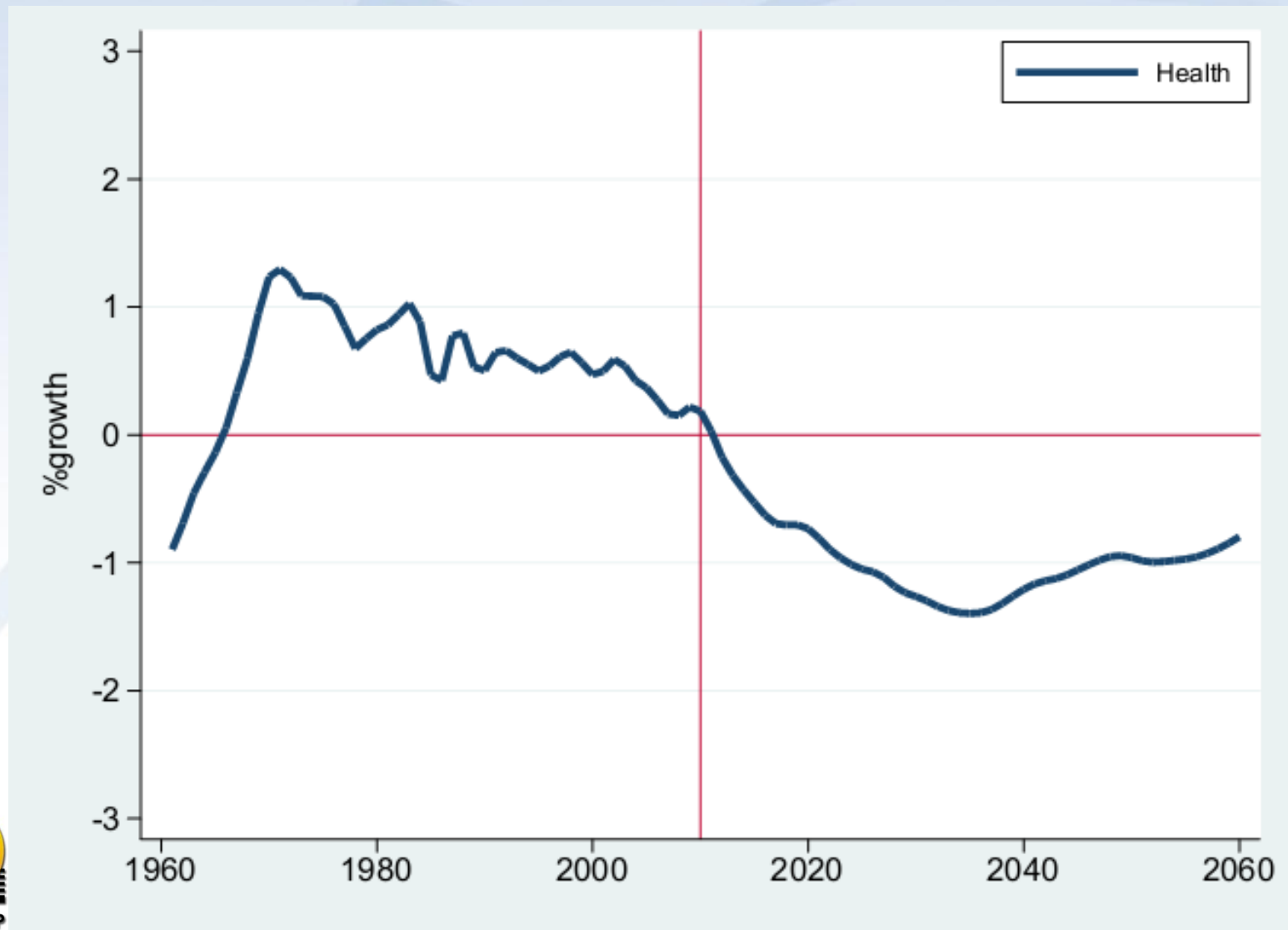
Fiscal demographic dividend **by pensions**

Costa Rica 1960-2060



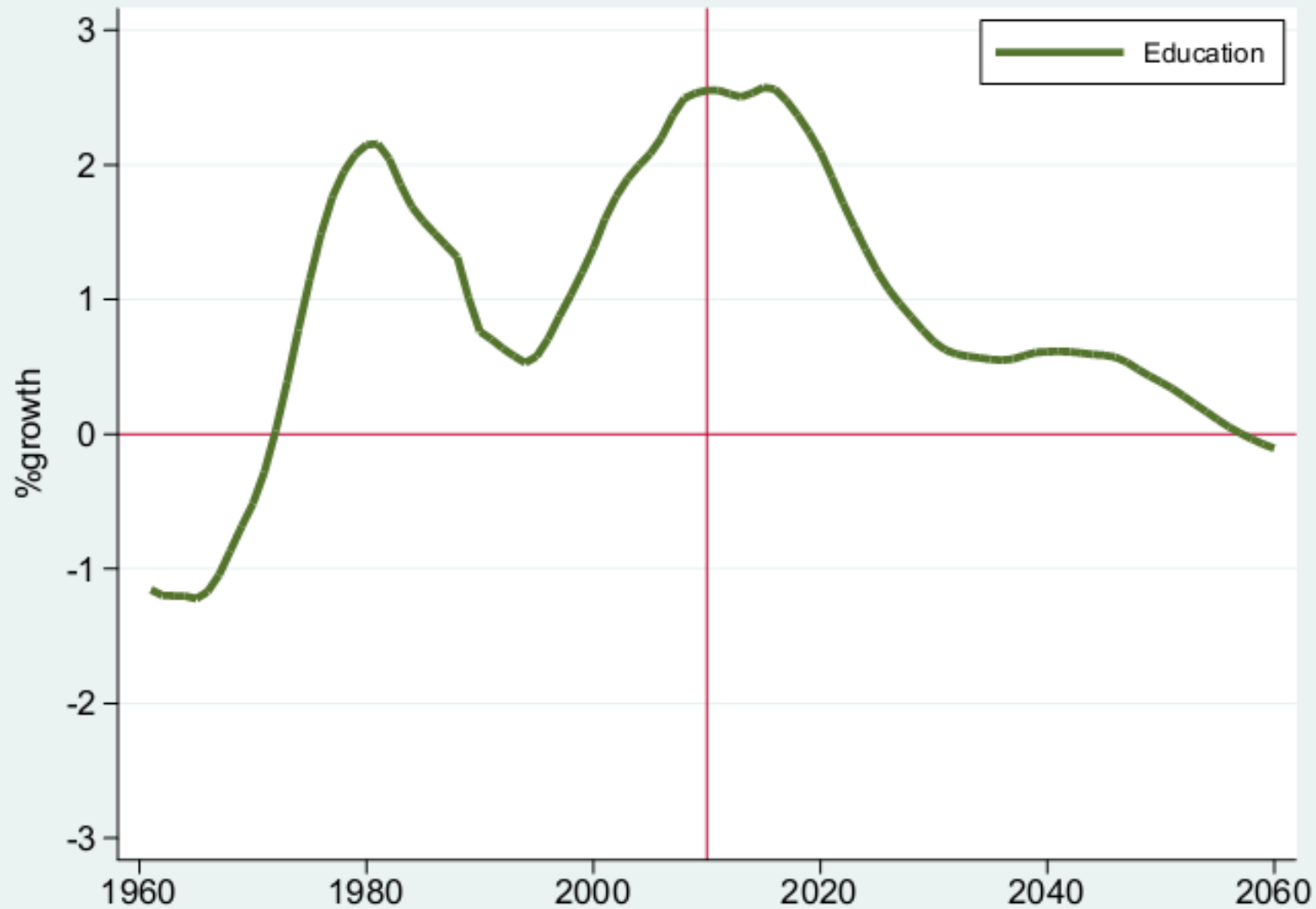
Fiscal demographic dividend **by health**

Costa Rica 1960-2060



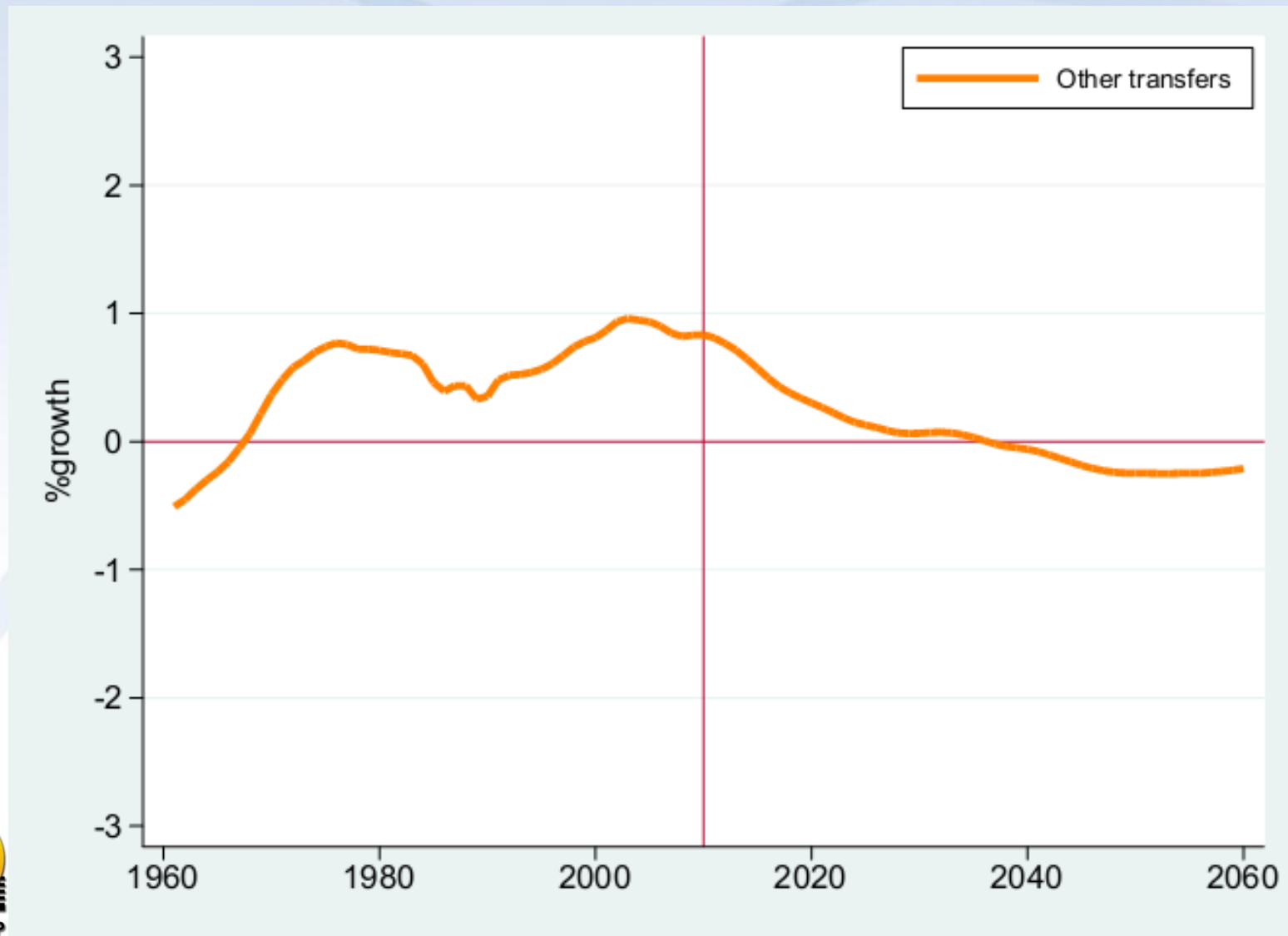
Fiscal demographic dividend **by education**

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

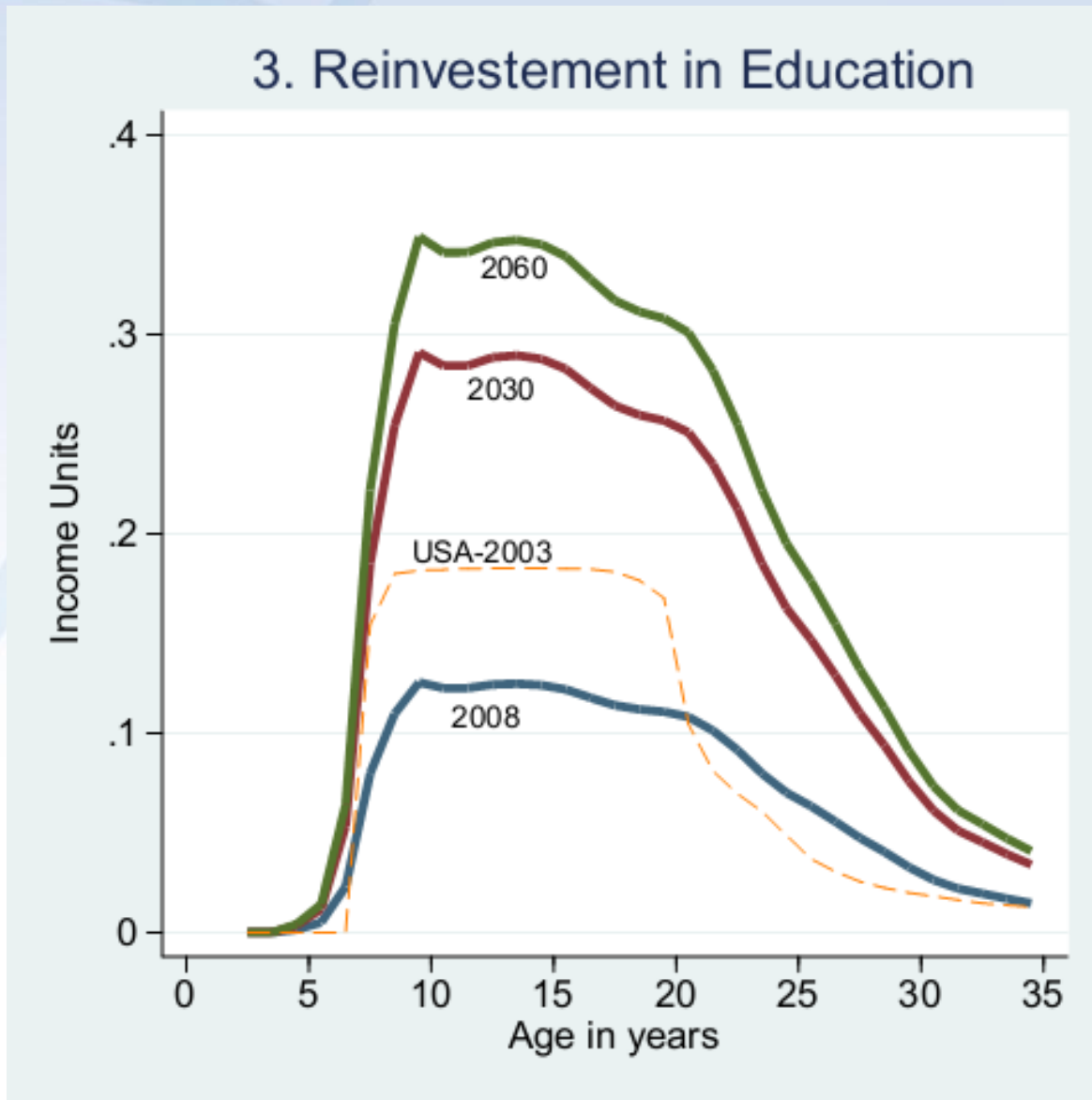
Scenarios of public policy

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

3. Reinvestment in Education

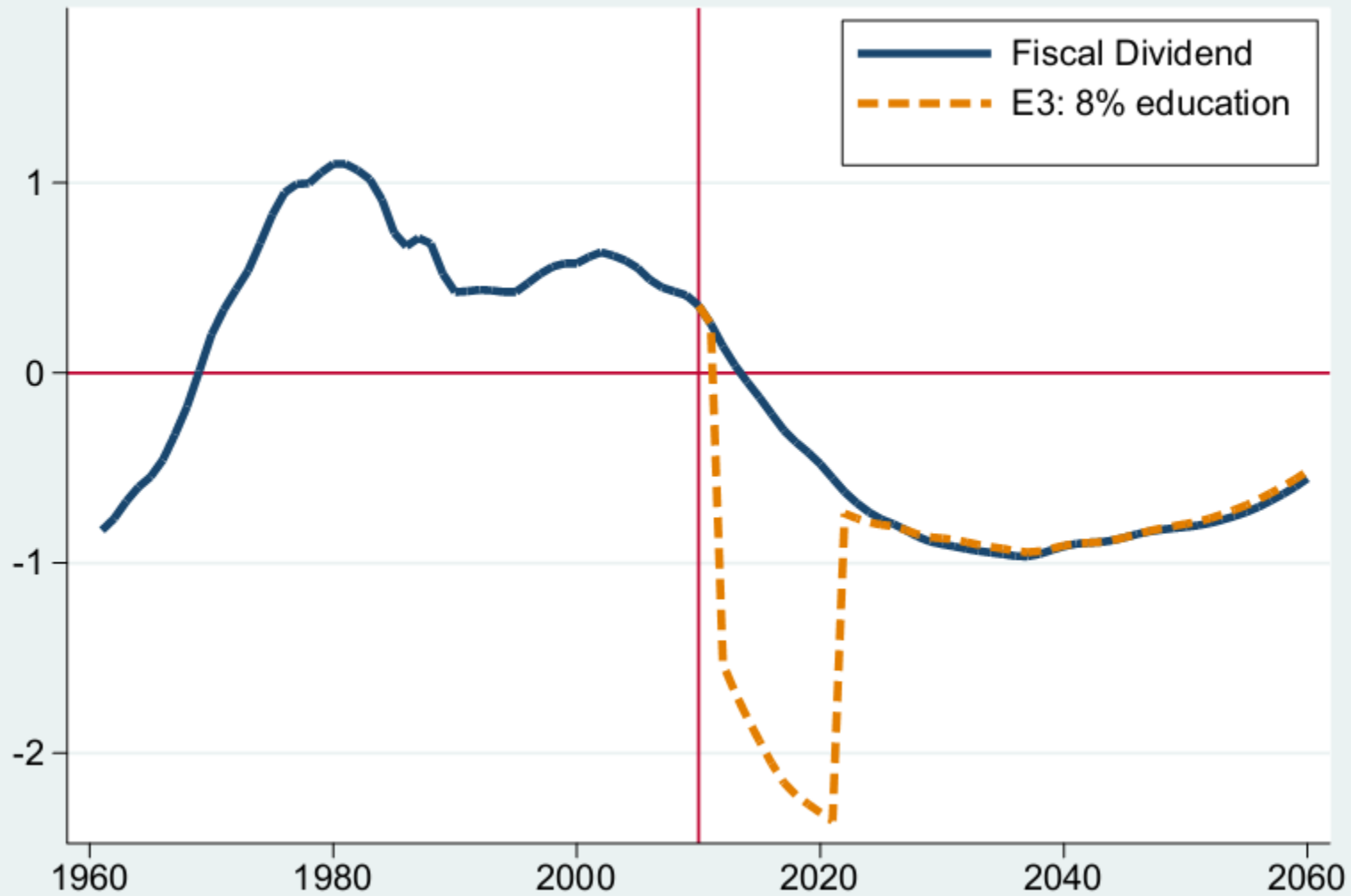
- Constitutional amendment education expenditures
 - 8% of the GDP
 - In 2008 represented 5% of the GDP
- Significant increase on education expenditure per student
- Require a tax load of about 40% of the GDP
 - Current: 26%

3. Reinvestment in Education



Fiscal Dividend and 8% education

% growth



C C P



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