Brazil is growing old

Brazil needs to seize the opportunities offered by the current demographic bonus to mitigate future problems that will be caused by the rapidly aging population.

Solange Monteiro, Rio de Janeiro

ONE OF THE STRUCTURAL factors that enhances Brazil's growth prospects and attracts the attention of many investors is the "demographic bonus": when the balance between working people and those retired peaks to become a development booster. In Brazil, however, the current bonus will end in mid-2020. Thereafter, the growth rate of the group aged 15 to 59 will decline dramatically compared to how long the change took in other countries. France took more than a century for the number of its people who were more than 60 years to double to 14% of the total; in Brazil it will take only 20 years. By 2050, falling child mortality, longer life expectancy, and a declining birth rate will cause the percentage of elderly in the population to triple.

This scenario is beginning to attract attention. The reason is clear: unlike developed countries, which managed to become rich before they grew old, Brazil will grow older before it gets rich. The change in demographic profile poses a risk to fiscal sustainability and could eventually become a drag on economic growth. A World Bank study

Pensions and health expenditures of the population over 60 years are expected to increase substantially

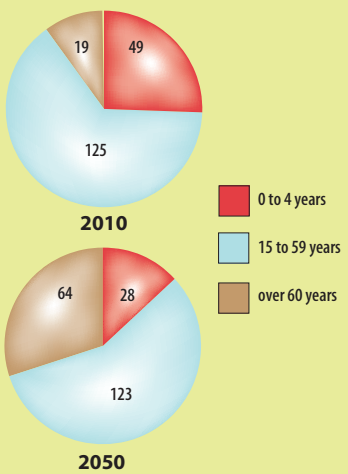
(Billions of reais at 2010 prices)

	Pensions	Health
2010	24	41
2030	50	148
2050	79	405

Source: Paulo Tafner estimates.

Brazil is getting older

(population in millions)



Source: Paulo Tafner estimates.

conducted by Paulo Tafner, an economist at the Institute of Applied Economic Research, has calculated the impact of demographic change on the public budget and found that "If social security pensions continue to be raised according to changes in the minimum wage, public spending will increase to 17% of GDP from the current 11%. In the case of health, investments to take care of an older population will reach 7% of GDP compared to the current 4%." To make up for the demographic shock, Tafner says, Brazil will need to grow 3.5% a year, "but this is unlikely to happen because in the last 35 years, the average was 3.25%."

Adjustments

So that the country does not leap directly from its current euphoria to depression, Tafner underscores the need for immediate reforms, especially to social security. "It is necessary to decouple social security pensions from increases in the minimum wage and establish a minimum retirement age," he says. These reforms would not only reduce pressures on public spending, they should also induce young people to save more for their retirement.

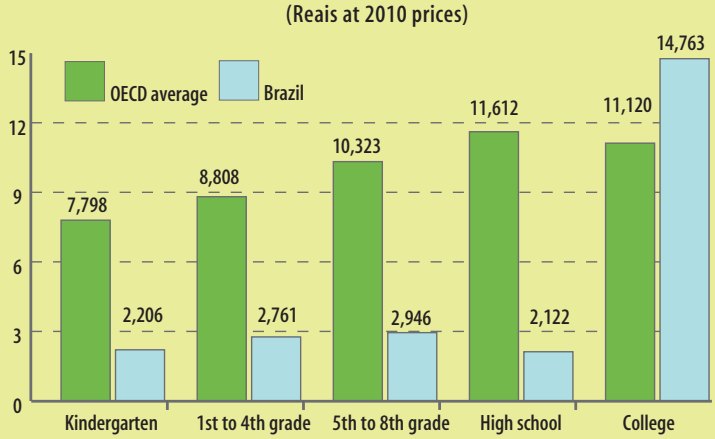
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Tafner cautions that a reduction in the number of young people should not mean less focus on education. "We spend more than the Organization for Economic Cooperation and Development average on college education, but we must increase investments in basic education. We need to ensure that enrollment in high school is at least 75% of the OECD countries," he says, and emphasizes the importance of improving the quality of basic education as well as high school. He points out that investment in education will ensure that the productivity of the working population increases enough to pay the additional costs resulting from an aging population.

In the book *Growing Old in an Older Brazil*, the World Bank also makes it clear that older workers mean that the health system must be reorganized to adapt to the epidemiological profile of this group. Prevention of disease and improvements in basic education (which is fundamental for later schooling to be successful) are investments that must be initiated to make sure that Brazilians remain active, and productive, longer.

Expenditure per student

(Reais at 2010 prices)



Source: Paulo Tafner estimates.