

# BRAZIL

FEDERAL COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - REAL

#### POPULATION AND GEOGRAPHY

AREA: **8 515 770** km<sup>2</sup>

POPULATION: **202.769** million inhabitants (2014), an increase of 1.5% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **85.4%** of national population

CAPITAL CITY: **Brasília** (2.0% of national population)

Sources: OECD, World Bank, UNDP, ILO, Instituto Brasileiro de Geografia e Estatística (IBGE).

#### ECONOMIC DATA

GDP: **3 275.2** billion (current PPP international dollars) i.e. 16 153 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **96 895** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.755** (high), rank **75**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>5 570</b>  | -                  | <b>27</b>  | <b>5 597</b>         |
| MUNICIPALITIES (MUNICIPIOS)<br>AVERAGE MUNICIPAL SIZE: 36 400 INHABITANTS |                    | 26 STATE GOVERNMENTS (ESTADOS) AND 1 FEDERAL DISTRICT (DISTRITO FEDERAL) |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The federal, state, and local governments obtained their respective autonomy from the 1988 Federative Pact. The 26 States and the federal district have their own constitution. The 5 570 municipalities are not a creation of the states and are not governed by them as it is the case in most federations. They are granted the status of federal entities, at the same level as the states and are governed by an organic law, which must comply with federal and state constitutions. There is great discrepancy in the size (geographical area and population), and social and economic indicators among the subnational jurisdictions but all Brazilian municipalities enjoy the same legal status. In 2015, 17 municipalities had more than 1 million inhabitants, representing 22% of population; 44% of municipalities had less than 10 000 inhabitants on average and are home of 6.3% of the population. Municipalities are subdivided into districts (around 8 000 in total), which are deconcentrated municipal localities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Brazilian Constitution determines which activities are to be performed or regulated exclusively by the federal level, and which are the responsibility of the municipalities. As for the states, they may carry out all functions that are not explicitly foreclosed to them under the Constitution. There is no clear division of responsibilities in a number of areas, such as health care, education, social security, welfare, agriculture and food distribution, environmental protection, sanitation and housing, tourism, etc. With few exceptions (e.g. defence), responsibilities are shared, with frequent overlaps of responsibilities across levels of government. A few competencies are mostly or exclusively devolved to the municipalities; those related to the provision of public services of local interest (public transport, early childhood and primary education programs, and public health services) and the management of urban planning.

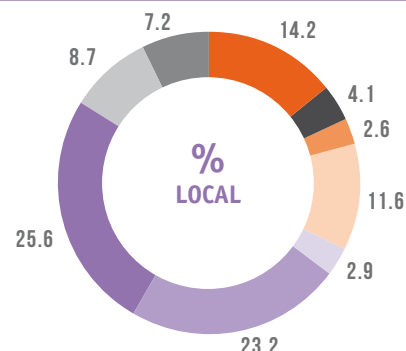
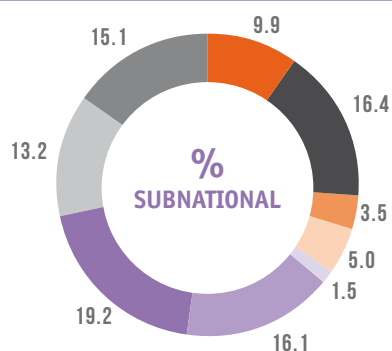
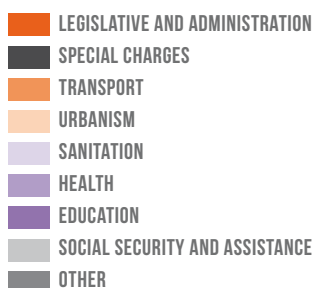
### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP |      | % GENERAL GOVERNMENT (same expenditure category) |       | % SUBNATIONAL GOVERNMENT |       |
|--------------------------|-------|------|--|-------|--------------------------|-------|
|                          |       |      |  |       |                          |       |
|                          |       |      |  |       |                          |       |
| TOTAL EXPENDITURE (2013) | 22.7% | 9.0% | 53.3%  | 21.1% | 100%                     | 100%  |
| CURRENT EXPENDITURE      | 21.0% | 8.2% | -  | -     | 92.2%                    | 91.3% |
| STAFF EXPENDITURE        | 9.0%  | 4.1% | 68.2%  | 31.1% | 39.5%                    | 45.4% |
| INVESTMENT               | 1.7%  | 0.8% | 56.8%  | 25.8% | 7.5%                     | 8.6%  |

Both States and municipalities are significant economic and social actors. They represent a large share of public spending (above the OECD average) and have important spending responsibilities in key sectors. The share of staff expenditure in public staff expenditure and in SNG expenditure is above the OECD average. SNGs also play a significant role in public investment.

## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Apart from special charges (e.g. refinancing and public debt service and constitutional and legal transfers) which represent an important share of state expenditure, main spending areas at state level are social security, education and health. At the municipal level, the main spending areas are education, health, administration and urbanism. Spending on education and health is regulated by laws which establish minimum standards.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

|                             | SUBNATIONAL DATA |             | LOCAL DATA ONLY |              |             |             |
|-----------------------------|------------------|-------------|-----------------|--------------|-------------|-------------|
| <b>TOTAL REVENUE (2013)</b> | <b>22.0%</b>     | <b>8.9%</b> | <b>56.4%</b>    | <b>22.8%</b> | <b>100%</b> | <b>100%</b> |
| <b>TAX REVENUE</b>          | 10.9%            | 2.5%        | 41.2%           | 9.6%         | 49.3%       | 28.4%       |
| <b>GRANTS AND SUBSIDIES</b> | 7.8%             | 5.1%        | -               | -            | 35.2%       | 57.4%       |
| <b>OTHER REVENUES</b>       | 3.4%             | 1.3%        | -               | -            | 15.5%       | 14.1%       |

To secure decentralisation, the 1988 Constitution allocated a substantial amount of taxes and compulsory transfers to state and municipal governments. For this reason, access to constitutionally guaranteed revenue is larger than in most Latin American countries. Tax revenue and other own-source revenue (tariffs and fees, property income) represent 65% of SNG revenue while grants and subsidies account for 35% (but respectively 43% and 57% for the municipal level alone).

**TAX REVENUE.** SNGs have considerable tax autonomy, greater than in most other OECD countries, and unlike the latter, the structure of revenue is heavily tilted towards indirect taxes (however common in Latin America). The states collect and administer the main VAT (*Impostos sobre Comercialização de Mercadorias e Serviços* or ICMS), which represent almost 80% of their tax revenue. They also receive the tax on motor vehicle and tax on heritage. States are free – within limits – to set tax rates and bases of all these taxes. This autonomy has, however, led to intense tax competition and strong regional disparities. Representing 28% of their revenue, tax revenues are less significant for municipalities than for the States. Municipalities collect three main taxes: taxes on urban property (IPTU), taxes on transfers of real estate titles (ITBI) and taxes on services (ISSQN, excluding those services covered under state collection rights and exported services). States and municipalities also receive other smaller own-source and shared taxes (with the federal government).

**GRANTS AND SUBSIDIES.** SNGs receive two main types of grants: - Constitutional transfers are the State Participation Fund (FPE) and the Municipality Participation Fund (FPM), which come from tax-sharing arrangements (share of the revenue from the federal income tax and selective VAT). They are formula-based for general purpose. - Earmarked transfers are mainly expended by “national programmes”, in particular in the health and education sectors (the national Unified Health System; funds for primary and lower-secondary education), for both the states and municipalities. Subject to federal managing and monitoring, they tend to increase.

**OTHER REVENUES.** SNGs receive other different types of income: user charges and fees (hospital services, transportation services, sale of goods, inspection services, etc.), return on financial investments, rents and dividends paid on municipal properties and industrial and agricultural activities, economic contributions on electricity services and royalties coming from the exploitation of natural resources (oil and gas, minerals, and water).

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

|                                | SUBNATIONAL DATA |             | LOCAL DATA ONLY |             |
|--------------------------------|------------------|-------------|-----------------|-------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>2.6%</b>      | <b>0.4%</b> | <b>4.6%</b>     | <b>0.7%</b> |

After several defaults by SNGs in the 90's, the federal government enacted in 1997 a deal for the restructuring of state debt. It was followed in 2000 by the adoption of the Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal e Finanças Públicas Municipais*) to prevent states and municipalities from running excessive budget deficits. It introduced borrowing restrictions and spending constraints (including limits on staff expenditure) and imposed public reporting on key fiscal indicators for SNGs.

A joint- study of:



**Sources:** Instituto Brasileiro de Geografia e Estatística (IBGE) • Banco Central do Brasil (debt data) • Souza C. (2001) “Brazil’s System of Local Government, Local Finance and Intergovernmental Relations” • Berganza J-C. (2012) Fiscal rules in Latin America: a survey, Documentos Opcionales. N.º 1208, Banco de España • Gardner E. (2013): “Essays on municipal public finance in Brazil”, UC Berkeley Electronic Theses and Dissertations • OECD (2013) Territorial Reviews: Brazil 2013 • Afonso J. R. and de Mello L. (2014) “The Global Crisis and Brazilian federalism: effects and perspectives”, Seminar on “Rebuilding Fiscal Federalism in the Aftermath of the Financial Crisis” • Fretes Cibils V. and Ter-Minassian T. (2015) Decentralizing revenue in Latin America: why and how.