

Difficult decisions in difficult times – Improving public spending in Brazil

By Jens Arnold and Robert Grundke, OECD Economics Department

Portuguese version: Escolhas difíceis em tempos difíceis – Melhorando os gastos públicos no Brasil

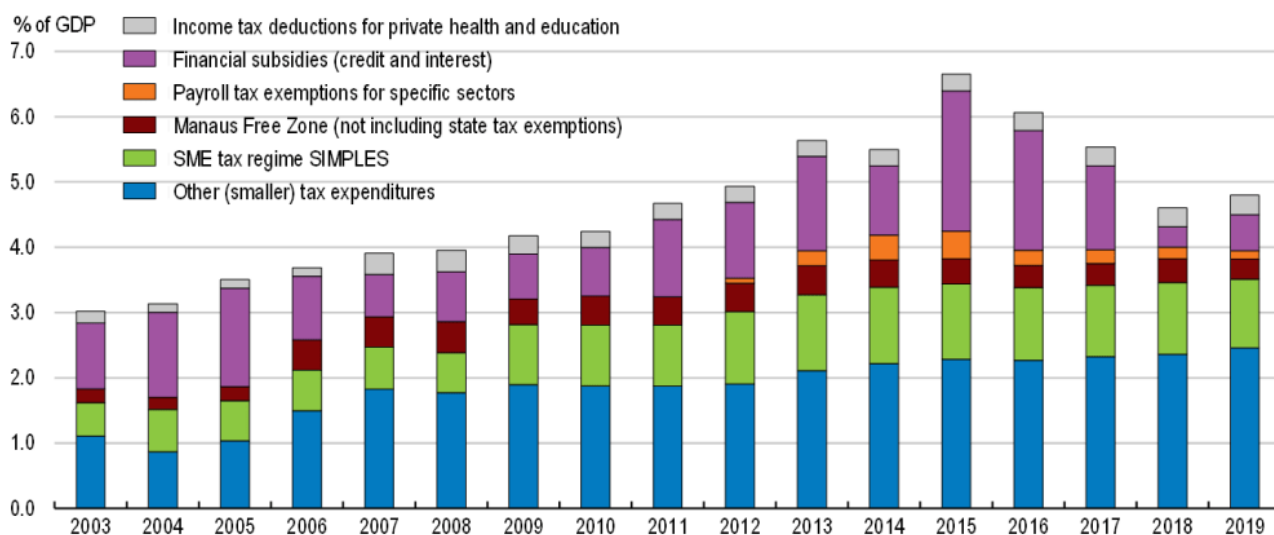
Brazil's government designed one of the strongest COVID-19 fiscal support packages in Latin America. Poor households who were already part of the government's transfer programmes received extra cash. Formal workers could benefit from short-time work schemes in which the government paid part of their salaries so that their employers would keep their jobs alive. In addition, an entirely new emergency benefit was created for informal workers, which account for 40% of the workforce. On the whole, government policies supported the incomes of more than 67 million people, spending more than 8% of GDP.

Now Brazil's economy has started to recover and is expected to grow by 2.6% next year, provided that recent increases in infections do not require new containment measures. But the bill that the state has to foot as a legacy of COVID-19 will make public finances even more complicated than they were before the crisis. Public debt has increased from 76% to 91% of GDP and is projected to exceed 100% of GDP in a few years time. This will make it difficult to continue all the emergency benefits beyond the end of December, when they are currently meant to end. At the same time, there are still 9% of workers who lost their employment with the pandemic and have not been able to find a job since. Many people are still in need, more than 9 months after COVID-19 hit Brazil.

So how can the fiscal dilemma be solved? Brazil's tax burden is already as high as in advanced economies. Moreover,

Brazil's tax system is itself in need of reform, as it does little to reduce inequality and its complicated rules weigh on productivity. But a closer look at Brazil's public expenditure reveals a number of ideas about where to start. Current subsidies, tax exemptions, special tax regimes and other tax expenditures cost almost 5% of GDP in lost revenues (Figure 1). This is a similar amount to what Brazil spends on education. Not all of that lacks a purpose, but many of these tax expenditures make tax treatment less equal and benefit special interests, not those most in need. Although some reductions have been achieved in recent years, touching these expenditures is often politically challenging, but all the more important now in the wake of COVID-19. The legislative branch will have to collaborate in efforts to make public spending more effective, as more than 95% of the budget is outside the control of the government, bound by automatic spending rules that require congressional approval to modify.

Figure 1. Subsidies and tax expenditures have risen in Brazil



Source: Ministry of the Economy, Relatório Orçamento de Subsídios da União.

The 2020 OECD Economic Survey of Brazil discusses these issues in more detail, analysing how changes to current policies could improve the situation of those most in need through better social protection, improve education and vocational training so that more Brazilians can reap new opportunities, and strengthen competition to raise productivity and incomes.

Tackling these issues now is more important than ever.

Further reading:

OECD (2020), *OECD Economic Surveys: Brazil 2020*, OECD Publishing, Paris,
<https://doi.org/10.1787/250240ad-en>.