BRAZIL

Brazil’s economic freedom score is 51.9, making its economy the 150th freest in the 2019 Index. Its overall score has increased by 0.5 point, with improvements in labor freedom and government spending outpacing declines in judicial effectiveness and government integrity. Brazil is ranked 27th among 32 countries in the Americas region, and its overall score is below the regional and world averages.

Brazil’s bloated and overly centralized federal government has been crushing economic freedom for decades. The new administration is likely to reduce barriers to foreign investment; prioritize efforts to revitalize Mercosur (the customs union of Argentina, Brazil, Paraguay, and Uruguay); be open to the more free-market Pacific Alliance (Mexico, Chile, Colombia, and Peru); and continue the sound, market-oriented policies of its predecessor. Pension reforms are likely to pass in 2019 to slow the growth of government spending, maintain debt sustainability, and reduce inflationary pressures. Lower interest rates and inflation will aid recovery.

BACKGROUND: Brazil, the world’s fifth-largest country, has a mostly coastal population of more than 200 million and is dominated by the Amazon River and the world’s largest rain forest. Public corruption has led to political chaos. In 2018, former President Luiz Inácio “Lula” da Silva of the socialist Workers’ Party went to prison on corruption charges. His successor, Dilma Rousseff, was removed from office in 2016 for budgetary misconduct, and her successor, market-oriented centrist Michel Temer, was likewise tainted by corruption. New President Jair Bolsonaro scored an upset victory in October 2018, with a large majority of voters hoping he will restore law and order, stabilize the economy, and put Brazil on a path to economic freedom.
Mortgage registration is uneven, and there is no standardized contract. Although largely independent, the judiciary is overburdened, inefficient, and often subject to intimidation and other external influences, especially in rural areas. Corruption scandals have undermined trust in both public and private institutions and contributed to Brazil’s 17-point decline in Transparency International’s 2017 Corruption Perceptions Index.

The personal income tax rate is 27.5 percent. The standard corporate rate is 15 percent, but other taxes, including a financial transactions tax, make the effective rate 34 percent. The overall tax burden equals 32.2 percent of total domestic income. Over the past three years, government spending has amounted to 38.6 percent of the country’s output (GDP), and budget deficits have averaged 9.1 percent of GDP. Public debt is equivalent to 84.0 percent of GDP.

Bureaucratic hurdles abound, and it is costly and time-consuming to launch or expand a business. Rigid and outmoded labor regulations undermine employment growth, and the nonsalary cost of employing a worker is burdensome. To reduce its heavy debt, the government tried to cut subsidies by removing price controls on products of the state-run Petrobras oil company, but violent nationwide protests in 2018 forced a policy reversal.

The combined value of exports and imports is equal to 24.1 percent of GDP. The average applied tariff rate is 8.0 percent. As of June 30, 2018, according to the WTO, Brazil had 634 nontariff measures in force. Investment faces bureaucratic and regulatory hurdles. The financial sector is diversified and competitive, but government involvement remains considerable, and public banks account for over 50 percent of loans to the private sector.