BRAZIL

Brazil’s economic freedom score is 53.7, making its economy the 144th freest in the 2020 Index. Its overall score has increased by 1.8 points, led by dramatic increases in scores for government integrity and investment freedom. Brazil is ranked 25th among 32 countries in the Americas region, and its overall score remains well below the regional and world averages.

Brazil’s score this year marks an encouraging turnaround after 15 years of steadily declining Index scores. It means that Brazilians can begin to hope cautiously that their economy will continue on an upward trajectory and escape eventually from the mostly unfree category. Brazil’s economy continues to recover from the deep 2015–2016 recession and achieved GDP growth of slightly more than 1 percent in 2018.

A major reform of the country’s pension system passed by the government in 2019 should greatly improve future government spending scores. If a tax reform package is approved in 2020, a higher rate of economic growth is likely.

BACKGROUND: Brazil, the world’s fifth-largest country, has a mostly coastal population of more than 200 million and is dominated geographically by the Amazon River and the world’s largest rain forest. In 2018, after a long period of political chaos prompted by massive public corruption scandals, angry voters elected Jair Bolsonaro of the Social Liberal Party to serve as president. A virtually unknown conservative Congressman, Bolsonaro took office in January 2019 and had a tumultuous first year contending with fractious relations among the many parties in Congress and a still-weak economy. Bolsonaro has generally pursued a free-market agenda and has sought approval from Congress to simplify the tax code and reform Brazil’s unsustainably costly pension system.

POPULATION: 208.3 million
GDP (PPP): $3.4 trillion
1.1% growth in 2018
5-year compound annual growth -0.8%
$16,154 per capita

UNEMPLOYMENT: 12.5%
INFLATION (CPI): 3.7%
FDI INFLOW: $61.2 billion
PUBLIC DEBT: 87.9% of GDP

2018 data unless otherwise noted. Data compiled as of September 2019.
Property rights are generally enforced, although the system for mortgage registration is uneven. The judicial system is generally independent but burdened by a huge backlog of cases. Elected in part because of public outrage at corruption scandals, the Bolsonaro government sent an anticrime package to Congress in February 2019 to consolidate gains in the fight against rampant corruption and take on organized crime.

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 32.3 percent of total domestic income. Government spending has amounted to 38.9 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 7.9 percent of GDP. Public debt is equivalent to 87.9 percent of GDP.

Starting a business, getting electricity, and obtaining credit have become easier, and Brazil scored slightly above the regional average on the World Bank’s 2019 Ease of Doing Business survey. Rigid and outmoded labor regulations undermine employment growth, but President Bolsonaro has pledged to reform the labor code. The new government has also pledged to cut subsidies, but a politically unpopular 2019 hike in the price of diesel fuel was cancelled.

The total value of exports and imports of goods and services equals 29.1 percent of GDP. The average applied tariff rate is 8.6 percent, and 635 nontariff measures are in force. Efforts to improve the investment framework are ongoing, but bureaucratic hurdles remain considerable. Banking and capital markets are diversified and growing, but state involvement in credit markets lingers, and public banks account for about 50 percent of loans.