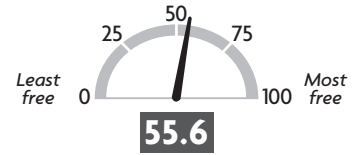


# BRAZIL

## Economic Freedom Score



World Rank: **113**

Regional Rank: **21**

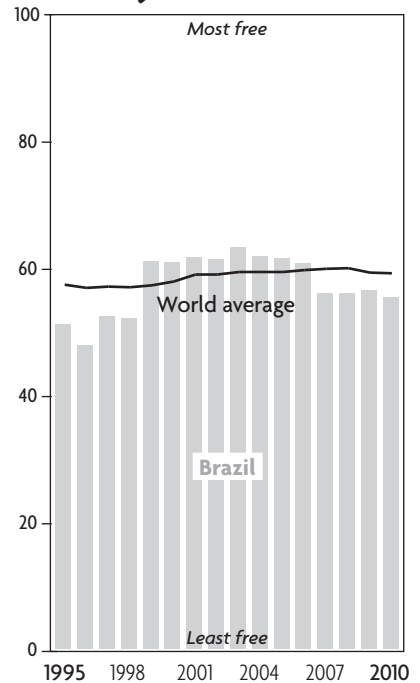
**B**razil's economic freedom score is 55.6, making its economy the 113th freest in the 2010 *Index*. Its score is 1.1 points lower than last year as a result of declines in investment freedom and labor freedom. Brazil is ranked 21st out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the regional and world averages.

In addition to its large agricultural and industrial base, Brazil's economy is driven by a growing services sector that has accounted for over 60 percent of GDP in recent years. The global financial and economic turmoil's impact on the financial sector has been moderate, and monetary stability has been maintained.

The state presence in many areas of the economy is heavy, and the efficiency and overall quality of government services remain poor despite high government spending as a percentage of GDP. Other barriers to entrepreneurial activity and job creation include a heavy overall tax burden, inefficient regulation, the relatively high cost of credit, and a rigid labor market. The judicial system remains vulnerable to political influence and corruption.

**BACKGROUND:** Brazil's democratic constitution dates from 1988. Workers' Party President Luiz Inacio "Lula" da Silva was elected in 2002 and re-elected in 2006, and despite his socialist rhetoric, he has operated as a pragmatist. He and his economic team have implemented prudent fiscal and monetary policies and pursued microeconomic reforms, and Brazil has benefited from surging prices for its booming exports of commodities. A strong currency regime has contributed to rising living standards, and the middle class is growing. Brazil is the world's fifth-largest country and is dominated geographically by the Amazon River basin and the world's largest rain forest. Its almost 200 million people are heavily concentrated on the coast, where a dozen major metropolitan areas offer direct access to the Atlantic Ocean.

## Country's Score Over Time



## Quick Facts

**Population:** 192.0 million

**GDP (PPP):** \$2.0 trillion

5.1% growth in 2008

4.5% 5-year compound annual growth

\$10,296 per capita

**Unemployment:** 7.9%

**Inflation (CPI):** 5.7%

**FDI Inflow:** \$45.1 billion

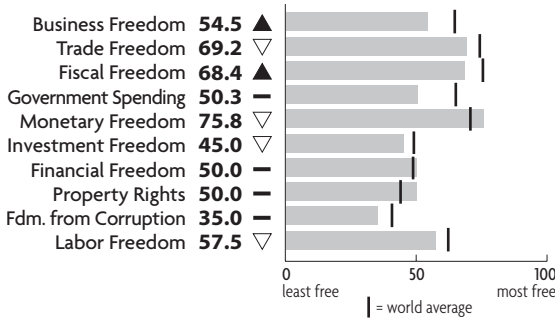
2008 data unless otherwise noted

Data compiled as of September 2009

### How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## BRAZIL'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 54.5

The overall freedom to start, operate, and close a business is limited by Brazil's regulatory environment. Starting a business takes more than three times the world average of 35 days, and obtaining a business license takes much longer than the global average of 218 days.

### TRADE FREEDOM — 69.2

Brazil's weighted average tariff rate was 7.9 percent in 2008. Import bans and restrictions, market access barriers in services, high tariffs, border taxes and fees, restrictive regulatory and licensing rules, subsidies, complex customs procedures, and problematic protection of intellectual property rights add to the cost of trade. Fifteen points were deducted from Brazil's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 68.4

Brazil's top income tax rate is 27.5 percent. The standard corporate tax rate is 15 percent, but a surtax of 10 percent and a 9 percent social contribution on net profit paid by most industries bring the effective rate to 34 percent. There is also a real estate transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 35.3 percent.

### GOVERNMENT SPENDING — 50.3

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 40.7 percent of GDP. Public debt is just below 50 percent of GDP. Privatization efforts have been unremarkable in the past year. Besides debt service, government spending is focused mainly on pensions, transfers to local governments, and bureaucracy.

### MONETARY FREEDOM — 75.8

Inflation has been better controlled in recent years, averaging 5.0 percent between 2006 and 2008. Prudent fiscal and monetary policies are credited with helping Brazil to avoid the worst of the global financial crisis of 2008 and 2009. Although such public services as railways, telecommunications, and electricity have been privatized, regulatory agencies oversee prices. The National Petroleum Agency fixes the wholesale price of fuel, and the government controls airfares. Ten points were deducted from Brazil's mon-

etary freedom score to account for the presence of price controls.

### INVESTMENT FREEDOM — 45

Foreign investors are granted national treatment, but foreign investment is restricted in nuclear energy, health services, media, rural and border property, fishing, mail and telegraph services, aviation, and aerospace. In general, Brazilian nationals must constitute at least two-thirds of all employees and receive at least two-thirds of total payroll in firms employing three or more persons. Bureaucracy and administration are non-transparent, burdensome, complex, and subject to corruption. Legal disputes can be time-consuming. There are few restrictions on foreign exchange transactions. Foreign investors, upon registering their investments with the central bank, may remit dividends, capital (including capital gains), and royalties. The central bank regulates outward direct investment in some cases, including transfers and remittances. Foreign investors must obtain specific authorization to purchase land along borders.

### FINANCIAL FREEDOM — 50

Banking and capital markets are increasingly diversified, dynamic, and competitive. The 10 largest domestic banks account for more than 60 percent of total assets. Three of the top 10 banks are foreign-owned. The two largest state-owned banks control about 25 percent of total assets. The state requires banks to channel loans to preferred sectors. Brazil's insurance sector is now the region's largest, and the reinsurance market was opened to private-sector competition in 2008. The government currently is allowed to take shares in struggling banks through the two largest state-owned banks, and a Credit Guarantee Fund introduced in March 2009 provides state guarantees on bank certificates of deposit.

### PROPERTY RIGHTS — 50

Contracts are generally considered secure, but Brazil's judiciary is inefficient, is subject to political and economic influence, and lacks resources and staff training. Decisions can take years, and judgments by the Supreme Federal Tribunal are not automatically binding on lower courts. Protection of intellectual property rights has improved, but piracy of copyrighted material persists.

### FREEDOM FROM CORRUPTION — 35

Corruption is perceived as significant. Brazil ranks 80th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Businesses bidding on government procurement contracts can encounter corruption, which is also a problem in the lower courts.

### LABOR FREEDOM — 57.5

Inflexible labor regulations hinder employment and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee can be costly. Mandated benefits amplify overall labor costs.