INCREASED DECENTRALIZATION AND MACROECONOMIC POLICY IN BRAZIL

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1. Introduction

After several decades of increased centralization of fiscal resources and political power the Brazilian federation had undergone significant changes in the recent past. From the beginning of the eighties successive adjustments in the fiscal system were undertaken under renewed pressures from free-elected state governors and mayors of big cities for greater fiscal autonomy

The constitutional reform process which followed the handing over of the presidency to the civilians in 1985 gave new impetus to the forces behind the movement towards decentralization. The political coalition that took power in that same year were definitely engaged with the national claim for giving state and local governments better conditions to meet the public responsibilities. Decentralization was viewed by some as a new form of panacea; it should contribute to better control over governmental decisions; to more efficiency in public spending; to lower costs in the production of urban and social services; to the consolidation of the transition from authoritarism to democracy.

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Exacerbated hopes are easily transformed into frustration. The fast deterioration of the Brazilian economy did not give the chance for the decentralization movement to prove its value. Very soon it was blamed by federal authorities as responsible for the growing difficulties to the use of fiscal policy instruments as an effective anti-inflationary device. Truly, the fiscal decentralization approved by the new Constitution have its faults but it can not be held responsible for the failures of the Central Government macroeconomic policies of the late eighties with respect to economic stabilization and growth

Notwithstanding its virtues the momentum is not ripe for the decentralization process to evolve without pain. The several dimensions of the general crisis of the eighties a lost decade for Brazilians from the viewpoint of economic and social gains — will, in the nineties, amplify the conflicts among the short-run goals of the macroeconomic policies and the medium and long-term objectives of decentralization. There is not a scientific formula to solve these conflicts. Ingenuity and effort will be required to avoid a reversal of decentralization of fiscal resources and a premature abortion of the movement towards a better balanced distribution of political power in the Brazilian federation.

2. Increased Centralization: The Brazilian Federation Under the Military Regime

Under the military regime (1964-1985) the Brazilian public sector experienced a progressive submission of state and local authorities to the central government. Following the Tax Reform of 1967 successive changes in tax laws led to the concentration of the power to tax as well as of tax revenues in the hands of the federal government. Public indebtedness and prices of urban and social services provided by state and municipal agencies were submitted to federal control. The access to long-term domestic credit to finance investment projects was conditioned to the adherence to sectoral priorities set at the discretion of the central government planners.

The concentration of fiscal resources and spending power at the federal level was regarded as a necessary step to support the role to be played by the State in promoting a fast economic growth. Huge financial resources were needed for the expansion and modernization of the basic infrastructure (energy, transportation, communication) required for the development of manufacturing and the integration of national markets. Big projects needed a lot of money which would not be easily gathered in a context of great dispersion in budgetary revenues.

Compared with the situation that prevailed in the end of the fifties, the numbers provided in table 1 show the extent of the losses suffered by states and municipalities as regards the distribution of tax revenues. The five percentage points increase in the overall tax burden ratio observed between 1960 and 1975 was mainly a result of the rise in revenues from federal-owned taxes. Even though the intergovernmental transfer of fiscal resources allowed for some adjustments the increase in the concentration of public spending was also remarkable (see table 2 and 3).

The intended concentration of public sector savings and investments granted the federal government the means to support its industrial growth project through infrastructure development and price and credit subsidies. At the same time that state and local governments investment capacity almost disappeared the savings ratio of the central government reached peak levels around the middle seventies.[(1)]

The concentration of spending power in the federal hands led also to a growing interference in local affairs. Urban and social programs that had been traditionally under the responsibility of state and local governments — e.g. urban infrastructure, housing, health and education — became more and more dependent of decisions and resources administered by federal agencies. The concentration of public investments favored the concentration of income and asked for some compensatory measures to alleviate the problems generated by an increase in urban poverty and income inequalities.

In a context of sustained growth and moderate (by Brazilian standards) rates of inflation the fiscal system that prevailed till the end of the seventies gave the federal authorities ability to manage the fiscal policy according to macroeconomic objectives. Large surpluses generated in the current accounts of the federal budget made it possible to overcome the difficulties posed by the adverse international scenario of the second half of the seventies (two oil shocks) in so far as the government was able to launch an ambitious investment program aimed at

[(1)] Central government savings accounted for 50% of the public sector savings in 1975 showing a remarkable recuperation from its negative contribution of the beginning of the sixties.

provoking the structural changes envisaged as necessary to reduce the external dependency on energy and key industrial inputs. Favorable conditions in the international financial market provided for an easy access to external credit thus permitting to sustain investments at a level far above the public sector savings ratio.

The decision to promote macroeconomic adjustments through an ambitious investment program was successful from the viewpoint of giving the Brazilians the wrong impression the country was immune to the international crisis of the middle seventies. Annual growth rates averaged 7,2% between 1975-80 as compared with the 10,1 average growth of the so-called "miracle years" of the first half of the seventies. What followed, however, was a decade of despair.

The last five years of the military regime (1979-1984) inherited the difficult task of administering the ultimate stage of a gradual transition to democracy in the middle of an enourmous economic turbulence. The external debt accumulated in the previous years multiplied several times by the steep rise in international interest rates disrupted the public finances and held the Brazilian economy at bay. Servicing the domestic public debt, which grew as a counterpart and at the same rate of the external indebtedness, became more and more onerous to the Treasury — and tax-payers. Financial charges grew at unprecendent rates leaving no room for sustaining investments.(2)

(2) The extended maturity of the public investments projects financed through external loans coupled with the growing divergence among the internal rate of return of these projects and the interest rate in international markets did not allow for the repayment of the debt with the public sector own financial resources

Slower growht rates and accelerating inflation brought down the tax burden ratio to pré 1967 Tax Reform levels (the average coefficient of tax burden for the period 1987-89 dropped to 19% of the GDP equalling the rates for the first half of the sixties). The federal government lost the capability to apply an active fiscal policy to foster the macroeconomc goals of stabilization and growth. Another major reform was in need.

Political constraints also helped to further deteriorate the public sector accounts. The first general and direct elections for state governors scheduled for 1982 (after 18 years of authoritarism) were responsible for an undesirable expansion of the public spending in 1981-82, as a means of gaining support for the official candidates. By the end of 1982 the public sector deficit (excluding public enterprises) reached 5.5% of the GDP forcing the government, under international pressures, to sign an agreement with the IMF as a precondition for renegotiating the external debt.

The recessive policies adopted in the end of 1982 provoked the expected effect on the level of economic activity (per capita GDP fell 13,1% between 1980 and 1983 and employment in manufacturing dropped 22% but did not help to reequilibrate the public finances. The cut in expenditures were not sufficient to match the fall in revenues which resulted from near zero growth and high inflation. Rising interest rates offset the consumption and investment expenditures frustrating the attempt to balance the budget.

Public sector deficit remained at high levels mainly as a result of an increasing pressure of the financial charges upon the federal accounts. The contribution of state and local governments to the consolidated public sector deficit were not significant as is shown in the data provided in Table 4.

The misfortunes of the public finances and the enlargement of the fiscal crisis were both a result of cumulative effects of policy decisions that were under tight control of the federal government. The increased centralization of the fiscal system that were instrumental to the goals of the military regime in its first phase lost its functionality. The excessive centralization was responsible for a mushrooming growth of the federal bureaucracy, for the absence of an effective control over government priorities and for loosing the ties that should connect public authorities to its constituency. The fading out of the military regime furnished all the ammunition the avocates of decentralization needed to strenght their claims.

3. Increased Decentralization: The Transition to Democracy

The first decisive steps backwards in the direction of a more decentralized fiscal system were taken sooner after transmission of the presidential powers to a civilian in 1985. The movement for democratization that swept the country in 1984 were not successful in its campaign for the new President to be elected directly by the popular vote, but it helped to aglutinate the forces behind the demands for a new federation led by free-elected state governors. Fiscal autonomy was correctly seen as a precondition for the consolidation of a truly federative system. Not surprisingly the urge for a new Tax Reform got an unanimous support.

No one wanted to wait for the results of the constitutional reform process to be innitiated almost one year later (January 86). Another partial reform[3] was enacted in December 85 by a constitutional amendment with the sole objective of placating the demand of state and local representatives for immediate results. The cummulative effect of the successive modifications in the tax system contributed to improve the financial situation of states and municipalities in the following year as the effect of increases in revenue sharing were reinforced by a good performance of federal revenues in 1986 (the year in which the first heterodox stabilization plan was applied); this altered significantly the overall distribution of spending capability among the three levels of government between 1980 and 1985 as table 3 reveals. Notwithstanding this fact,renewed pressures for decentralization weighted the work to be done by the Constitutional Assembly installed in the beginning of 1986.

There were no motives to complain. The new tax system that emerged out of the constitutional reform process met all the expectatives of state and local governments officials. The

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(3) Successive amendments to the constitution had been made since 1975 with the sole purpose of increasing the share of state and local governments in federal tax receipts.

centralization of the past two decades were gone. The distribution of resources went back to the situation that prevailed in the beginning of the sixties, the main beneficiaries of the redistribution being the municipalities as data in Table 3 reveals.

The promulgation of the new Constitution (October 1988) occurred in a period of strong political instability and renewed economic difficulties. The failure of the heterodox stabilization policies adopted in 1986 aborted the hopes for an easy way out of the economic crisis. The economic growth of 1986 7,5%), supported by the expansion of domestic demand impulsioned by wage recovery and price freeze, could not continue in the absence of investments. Inflationary pressures kept underneath came to surface pushing inflation rates up again in 1987 and 1988 (price indexes accumulated an increase of 2.292% in the bienniun). The new Republic, born in a moment of euphoria, advanced melancholically towards the end of its first term of government.

The accelerated inflation brought down tax collections (The Tanzi effect) affecting mainly the federal finances. Overall the coefficient of tax burden fell five percentage points between 1986 and 1989 wiping out all the gains accumulated during the "Plano Cruzado". The federal budget suffered the greater loss but states (more) and municipalities (less) were not immune to the reversal of the economic cicle on government finances. In the short run, the expected gains from the 1988 Tax Reform vanished. The decentralization did not have the chance to show its virtues. The federal authorities dennounced publicly that the new Constitution made it impossible to administer the public finances unless the decentralization of resources were to be immediately followed by an equivalent transfer of public spending responsibilities to States and municipalities. State and local officials caught in an unexpected trap were not sympathetic to the idea of assuming greater responsibilities as the proceeds of the Tax Reform came out to be not sufficient to meet their own needs, at least for the time. The macroeconomic implications of fiscal decentralization became a subject of concern.

The accelerated inflation of 1988 lighted the red alarms of an steady approach to hyperinflation. Monthly rates climbed to 29% in December and still up to 70% in January 1989. Stabilization was obviously the main concern of the macroeconomic policy but the government had lost all control over the budget and insisted on debting its failure to the Constitution. A disastrous attempt to force the transfer of public spending responsibilities to state and local budgets by cutting down deeper in federal allowances to social programs in the budgetary proposal for 1989 did not get the approval of the Congress. A fiscal package designed to avoid the fall in revenues was only partially approved. The not so firm intention to keep the public sector deficit around 4% of the GDP in 1989 was a summer's nightdream. The federal government did not have the will nor the credibility to gain support for the hard measures that were in need. By the end of 1989 the deficit rose to 12% of the GDP (Table 4).

The data for 1989 showed that the ever growing difficult to cut the public deficit could not be ascribed to the decentralization of revenues granted by the new Constitution, as evidence by the descontrol in the federal government accounts. Personnel expenditures rose to 5.5% of the GDP, seventy percent above the level reached in 1980; in the same period expenditures on the public debt jumped from less than one to seven percent of the GDP. The wage bill and the public debt together sucked more than 100% of the "disposable" federal government tax revenues (after deducting the constitutional transfers). On the revenue side, the lack of political support to the fiscal package submitted to the Congress in December 1988, represented a "loss" of 1% of the GDP in expected tax receipts. All this put together represented a higher burden on the public debt than the decentralization of revenues decreed by the new Constitution (coeteris paribus the federal government would lose only one percent of the GDP).

Even though decentralization can not be held responsible for the failures of the stabilization policies of the late eighties it is true that its medium and long-run implications deserve further scrutiny. The one-sided decentralization decreed by the Constitution of 1988 (it failled to set rules and timing for decentralizing responsibilities) is bound to generate disturbing imbalances; the increasing dependency of state and local governments in revenue sharing mechanisms may lead to adverse incentives to local taxation; the built-in elasticities of tax revenues of federal, state and local governments need to be reappraised.

One major problem to be faced in the future is the restoration of public sector investment. Under the present rules half of the revenue gains that could be obtained in the future through broadening the basis of the income taxes and raising the rates applied to the consumption of less essential goods (the two most important federal taxes) are automatically shifted to the hands of state and local treasurers (around 50% according to the rules set by the new Constitution). Proceedings from the more income-elastic tax sources will thus be dispersed among twenty-six states and more than four thousand municipalities benefitting in greater proportion the smaller municipalities and the poorer states. This huge redistribution of tax revenues justified by purposes of reducing regional inequalities will make it progressively difficult the management of the fiscal policy as a tool of growth or stabilization strategies. The fragmentation of savings may not be desirable given the deficiencies already accumulated in the basic infrastructure and the modernization required to foster industrial development. Traditional anti-inflationary measures will also be hampered by the excessive reliance of the revenue sharing on the income taxes. The attempt to cut domestic demand through higher taxes on family and corporate income may be frustrated if the revenue proceedings shifted to state and local governments are immediately transformed into new public spending.

The bias builted into the formulas to establish each one share in the total amount to be transferred is not in accordance with the observed trends in the regional distribution of the demand for social services. The concentration of urban poverty in the major cities overpower the ability of rich states and large municipalities to find adequate solution to the problems that it creates. The signs can be seen everywhere: poor housing and sanitation conditions, ill-functioning health services, low-quality basic education, increasing urban violence. The deterioration of social services, which have already reached alarmant levels, are, thus, likely to proceed.

The redistributive goal of the fiscal policy will not only be menaced by the mismatch among the spatial distribution of social needs and fiscal resources. The regressivity of the fiscal system may also increase as a result of a decision to reduce the dependence of federal revenues on income and consumption taxes to avoid an increase in transfers. In fact some steps in this direction have already be taken. The turnover tax (Finsocial) that have been banned out of the system in 1967 to improve the efficiency of taxation were reintroduced in 1982 at low rates (0,5%) and since then had been raised steadily in the past three years (the rate is now set at 1.2% of sales). The special tax on financial transactions (a charge on bank loans, foreign exchange transactions and other financial operations), originally intended as an instrument of monetary policy will become one of the more important sources of revenues in the federal budget for 1990 (it is expected to raise revenues of 1.5% of the GDP, more than what is expected for the corporate income tax).

Another problem to be considered is the conflict that may arise with the need to increase exports. The new Constitution broadened the basis of the state value-added tax but restricted the fiscal immunity only to exports of manufactured goods. Exports of raw materials, agricultural products and semi-manufactured goods can thus be subjected to state taxation under conditions to be settled through negotiation (the basic rate of the state value-added tax is presently equal to 15%). The provisory rules established in 1989 for the implementation of this new tax already raised a sharp reaction from producers of semi-manufactured goods and federal officials against the decision to submit a wide range of these goods to the tax. The conflict among the fiscal needs of less developed non-industrial states and the macroeconomic needs became explicit but the final decision was postponed to the definitive rewritting of the tax laws to be carried out by the Congress.

To say that increased decentralization of revenues imposes new challenges to fiscal policy do not add nothing to the common knowledge. The fragmentation of resources and the deconcentration of political power requires a great deal of effort to set up institutional devices that may lead to better coordination of governmental policies. Adequate coordination is not, however, the only problem aroused by the kind of decentralization santioned by the new Brazilian Constitution. The possible adverse effects on the ability to meet the infrastructure development requirements of the Brazilian economy in the last decade of the twentieth century is a major issue to be tackled. Equally important is the expected increase in the gap between financial availability and growing social pressures in big cities of more developed states provoked by the old-fashioned redistributive criteria of the revenue-sharing mechanism.

4. Decentralization in Epoch of Crisis

The conflicts among decentralization and macroeconomic fiscal policy become more intense in periods of crisis. Prolonged staginflation undermines the fiscal capacity making it more difficult to reconcile the decentralization of revenues with the needs to reduce the public deficit. Hard-line measures to compensate for the fall in revenues through a deep cut in expenditures are not feasible in a context of a weak and discredited government. A feeble administration and a loose enforcement of the tax laws lead to high rates of evasion. The fiscal crisis become mainly a consequence of the overall economic and social crisis

To the discomfort of the enthusiastic adepts of decentralization the Tax Reform contemplated in the Constitution of 1988 came into effect at the same time that the Brazilian economy faced one of the worst crisis of the twentieth century. All the hopes raised by the redemocratization of the middle eighties were soon transformed into a general feeling of despair. The eighties turned ut to be a lost decade from the viewpoint of economic and social achievements. Authority and austerity were in need to restore public confidence in the government and to recreate the conditions necessary to the implementation of sound stabilization and growth policies.

There is a conflict of timing. The short-run needs of stabilization policies are not in accordance with the long-run goals of the decentralization process and the consolidation of the democratic regime. Coherence and coordination of the fiscal measures needed to cut down the public deficit are much more easy to achieve when the central government detains an almost absolute control over the variables that affect the behavior of public revenues and expenditures. The greater the autonomy held by state and local governments the higher might be the time needed to promote an uniform action.

Some special transitional difficulties are likely to bring additional troubles. The next years will be marked by pressures of the political calendar over the states and local budgets which, to judge from past experiences, may lead to substantial increase in expenditure costs and to partial frustration of the public deficit control target.

The perspectives for the first half of the nineties are still uncertain as no one has the recipe to get out of the trap. The quick uniform actions required to produce effective results with respect to stabilization goals do not give the necessary time for the institutional reforms that should follow the decentralization of tax revenues.

The redistribution of spending responsibilities is the major problem to be tackled. Over time, centralization of revenues were followed by an equivalent centralization of responsibilities to meet urban and social needs. Decentralizing responsibilities, though, is not as easy as the decentralization of revenues. The wide regional differences in Brazil do not allow for an abrupt and uniform process of handing out federal administered programs to states and municipalities. Political realities do not allow, either, to forcefull solutions as demonstrated in the process of preparing the 1989 federal budget referred to above. Specific rules will have to be set to account for distinct economic, financial and administrative capabilities.

As was mentioned before, the sharing formula will have to be revised. Present rules are biased towards less developed states and smaller municipalities whereas the spatial distribution of the demand for urban and social services moves in the opposite direction. This mismatch will not be easily corrected. Small municipalities are getting more than 2/3 of their budgetary revenues through transfers of taxes collected by the federal and state governments and have no reason to support any proposal of change. In most cases local taxation effort have dropped to insignificant levels.

The disequilibrium between the regional distribution of social needs and fiscal resources is another source of conflict. The recessive impact of stabilization policies will make life more difficult for low-income urban workers, whose present living conditions are already below reasonable standards. The empoverishment of the urban middle class over the eighties will incite the redistributive conflict of anti-inflationary macroeconomic policy turning it looser an already precarious social equilibrium. Countervailling social policy measures will be required to avoid social and political disturbances that work against the success of any stabilization program.

Increasing pressures to expand expenditures in programs (such as housing, sanitation and food supply) that may alleviate the negative impact of recession on income and employment will not find adequate means. Recession will bring more harm to the treasures of the federal government and of the richer industrial states, whose ability to finance public works and social meritorious spending will thus be curtailed. The only revenue source that can provide shelter to budgetary revenues during recession — the income tax — will not be of much help for reasons already pointed out before. Under the present circumstances the ability to give a quick response to signs of social and political upheaval is definitely menaced.

The external face of the Brazilian crisis is another point of concern. Whatever are the results of the short-run negotiations of the Brazilian government with its international creditors with respect to the need to reduce the transfer of income abroad (in 1988 more than US$ 37,3 billion were sent abroad to cover interests on the external debt) the Brazilian economy will have to maintain for still quite a long time an overburdened surplus in the trade accounts of its balance of international payments. Even though exports had grown in the last five years the main contribution to the generous surpluses that were generated in this period came from a tight restriction to imports. The import ratio went down to 6% of the GDP, well below the level reached in the seventies.

International trade is not a one-way traffic road. To keep exports growing restrictions to imports will have to be relaxed (the intention to liberalize the international trade had already been announced by the new Administration) if not for the sake of our trade partners for reasons attached to the technological development needs of the brazilian industry. The sustainment of a trade surplus compatible with the servicing of the external debt is a formidable challenge for the Brazilian economy — still one of the closest economies of the developing countries.

The tax system of the new Constitution widened the possibilities for divergences among the fiscal needs of state and local governments and the national goals of the export policy. The no-incidence of the state value-added tax on the exports of manufactured goods was a hot issue in the past. Industrial states government officials claimed compensation for the negative fiscal impact of export-oriented industries on their budgets (they demanded infrastructure investments without paying taxes in full) and had it approved in the new Constitution an indirect form of compensation (10% of the federal tax on the producers of manufactured goods sold in the domestic market is shared with state and local governments on the basis of the contribution of each state to the proceedings of this tax).

The broadened basis of the state tax decreed by the new Constituiton widened the chances of conflict. The first round of the fight among treasury officials from state governments and representatives of exporters ended up without a winner. As was mentioned before the provisional rules set for putting the new tax into effect in 1989 opened up the possibility for applying the tax on the exporters of semi-manufactured goods.

So far agriculture, mining and producers of semi-manufactures depend on discretionary measures to be exempted from state taxation on exports. The negotiation is difficult as the interests vary widely and each state have to bargain with others to get approval for its own demands.

5. Concluding Remark

The final point to be made here refers to the odds of fiscal decentralization under the present circumstances of an increasing lost of faith in the interventionist state. Everywhere the role of the state in economic and social matters is under a severe attack. The liberal wave spread overseas bringing in its wake a more or less uniform set of reform to curb state interference, to reduce the size of the government and to improve social control over the public policies. Increased centralization favored an overpowered and oversized government. Could decentralization be a forced diet to melt down the fat and to help the reconstruction of a truly democratic government? The risks are high but the premium at stake may well justify the bet.

Table 1

TAX RECEIPTS BY LEVEL OF GOVERNMENT - 1960/1989

Year	Composition by Level of Government, in Percent				Total Tax Receipts	
	Central	State	Local	Total	in percent of GDP	Real index 1980=100
	A	B	C	D=A+B+C	E	F
1960	64.0%	31.0%	5.0%	100.0%	17.4%	18.7
1965	63.6%	31.3%	5.1%	100.0%	18.8%	25.0
1970	65.0%	32.2%	2.8%	100.0%	24.7%	48.3
1975	70.8%	26.1%	3.1%	100.0%	22.7%	71.9
1980	72.8%	24.0%	3.2%	100.0%	22.3%	100.0
1985	70.4%	27.0%	2.6%	100.0%	20.3%	96.0
1986	67.1%	30.1%	2.8%	100.0%	22.1%	112.4
1987	68.4%	29.0%	2.6%	100.0%	19.9%	105.2
1988	70.3%	27.8%	1.9%	100.0%	18.4%	97.1
1989(p)	64.8%	33.1%	2.1%	100.0%	18.2%	99.7

Sources: National Accounts, FGV and IBGE.
(p) Preliminary data.
Real index: GDP Deflator.
Tax Receipts includes only revenues from own source; intergo-
-vernmental transfers were not taken into consideration.
Central government includes social security contributions.

Table 2

INTERGOVERNMENTAL TRANSFERS BY TYPE - 1965/1988

Year	Composition by Type, in Percent					Total Transfers	
	General purpose	Earmarked	Discre-tionary	Others	Total	in percent of GDP	Real index 1980=100
	A	B	C	D	E=A+B+C+D	F	G
1965	6.6%	79.7%	0.7%	13.0%	100.0%	1.2%	11.3
1970	41.6%	23.4%	28.2%	6.8%	100.0%	3.3%	45.7
1975	35.4%	26.1%	35.1%	3.4%	100.0%	3.0%	67.0
1980	56.1%	23.6%	16.8%	3.5%	100.0%	3.2%	100.0
1985	48.8%	27.0%	18.9%	5.3%	100.0%	4.1%	137.9
1986	53.1%	28.9%	13.5%	4.5%	100.0%	4.6%	166.5
1987	39.6%	31.3%	25.3%	3.8%	100.0%	5.5%	205.2
1988	42.6%	41.2%	10.5%	5.9%	100.0%	4.6%	177.6

Sources: National Accounts, IMF and Finance Minister.
Real index: GDP Deflator.

Table 3

EXPENDITURES BY LEVEL OF GOVERNMENT - 1960/1988

Year	Composition by Level of Government, in Percent				Total Expenditure	
	Central	State	Local	Total	in percent of GDP	Real index 1980=100
	A	B	C	D=A+B+C	E	F
1960	54.6%	39.2%	6.2%	100.0%	17.8%	19.7
1965	57.0%	35.1%	7.9%	100.0%	23.7%	32.5
1970	57.1%	32.8%	10.0%	100.0%	25.9%	52.4
1975	64.1%	26.1%	9.8%	100.0%	25.4%	83.0
1980	62.8%	26.3%	10.8%	100.0%	21.6%	100.0
1985	52.9%	33.9%	13.2%	100.0%	20.1%	98.2
1986	54.9%	29.1%	15.9%	100.0%	20.5%	107.9
1987	55.8%	30.9%	13.3%	100.0%	23.1%	125.8
1988	55.4%	31.6%	13.0%	100.0%	22.2%	121.0

Sources: National Accounts, FGV and IBGE.
Real index: GDP Deflator.
Expenditures by level of government do not include the charges on the public debt, intergovernmental transfers, purchases of stocks, land and intangible assets, and lending.

Table 4

PUBLIC SECTOR BORROWING REQUIREMENTS (PSBR) - 1981/1989

Flows in % of GDP

Sectors/Concepts	1981	1982	1983	1984	1985	1986	1987	1988	1989/p
1.Total (2+3+4+5)									
operational concept	6,0	7,3	3,0	1,6	4,5	4,0	5,4	4,0	12,2
primary concept	...	...	...	...	-2,5	-1,3	0,6	-1,7	0,0
2.Central Government									
operational concept	1,7	2,1	-0,1	0,6	1,4	1,6	3,0	3,4	8,3
primary concept	...	...	...	...	-1,3	-0,1	1,5	1,0	0,3
3.Central Descentralized Agencies									
operational concept	0,2	0,1	0,0	-0,1	-0,2	0,0	-0,1	0,0	0,0
primary concept	...	...	...	...	-0,2	0,0	-0,1	0,0	0,0
4.State and Local Governments									
operational concept	1,4	1,5	0,3	-0,3	1,0	1,0	1,6	0,2	1,4
primary concept	...	...	...	...	-0,1	0,1	0,6	-0,7	-0,3
5.State Enterprises									
operational concept	2,7	3,6	2,9	1,3	2,3	1,4	0,9	0,4	2,5
primary concept	...	...	...	...	-0,9	-1,3	-1,4	-2,0	0,0

Source: Central Bank, "Brazil Economic Program", and Finance Minister.
(p) Preliminary.
Central Decentralized Agencies include social security system maintained by central government.
State Enterprises include federal, state and municipal governments controlled enterprises.
Concepts of PSBR (IMF methodology): operacional - excluded monetary and exchange rate indexing;
primary - excluded interest on public securities.