

The Finances of The State of Rio de Janeiro: A Lost Decade?

As Finanças do Estado do Rio de Janeiro: uma Década Perdida?

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ção fiscal do Estado e as perspectivas para o futuro dependem da habilidade de ultrapassar os obstáculos de natureza política, que podem dificultar o resultado fiscal das medidas a serem adotadas. A prioridade deve ser debater com profundidade o nível adequado de crédito subsidiado ao setor privado e quais setores devem ser beneficiados, considerando seu custo e benefício, no médio e longo prazo, em comparação a outras políticas fiscais e alternativas de financiamento do investimento privado, a fim de que garantam o crescimento econômico e a sustentabilidade fiscal das políticas de governo.

Palavras-chave: Gestão Financeira, crescimento econômico e sustentabilidade fiscal.

ABSTRACT

The contextualization of the finances of the state of Rio de Janeiro, especially in the face of the economic crisis that the state has faced, justifies this study. The methodology applied is qualitative, bibliographical and documental, and theoretical-empirical content analysis for the period 2013-2022. The specific objective is to identify the effects of fiscal policies on economic growth in the state of Rio de Janeiro and to seek an answer to the following question: can fiscal policies be improved to achieve economic growth and fiscal sustainability, so that public policies can guarantee social welfare in the state? Investigating the preponderant causes of the fiscal crisis shows us that the state's fiscal situation and future prospects depend on the ability to overcome obstacles of a political nature, which can hinder the fiscal outcome of the measures to be adopted. The priority should be to debate in depth the appropriate level of subsidized credit for the private sector and which sectors should benefit from it, considering its cost and benefit in the medium and long term, compared to other fiscal policies and alternatives for financing private investment, in order to guarantee economic growth and the fiscal sustainability of government policies.

Keywords: Financial management, economic growth and fiscal sustainability.

RESUMO

A contextualização das finanças do Estado do Rio de Janeiro, especialmente diante da crise econômica que o Estado enfrentou, justifica o presente estudo. A metodologia aplicada é qualitativa, bibliográfica e documental e análise de conteúdo de forma teórica-empírica no período de 2013-2022. Como objetivo específico é identificar os efeitos das políticas fiscais no crescimento econômico do ERJ e buscar resposta a seguinte indagação: as políticas fiscais podem ser melhoradas para se alcançar o crescimento econômico e a sustentabilidade fiscal, a fim de que as políticas públicas possam garantir o bem-estar social no ERJ? Investigar as causas preponderantes da crise fiscal nos mostram que a situa-

1. INTRODUCTION

Since the 1980s, practically all governments have made efforts to modernize and speed up public administration (Kettl, 2005: 75), with developments along two main lines: reducing the scope of government and making it work better.

Fiscal sustainability is an important issue for Brazilian states, especially in times of economic crisis. A study published in a periodical¹ analyzed the sustainability of the Brazilian state debt and concluded that, although the debt was sustainable during the period studied, recent challenges such as fiscal loosening and reduced economic activity cast doubt on future sustainability. Chernavsky (2017) points out that assessing the state's fiscal sustainability is a subjective process and involves factors such as projections made under high uncertainty and arbitrary choices.

Fiscal sustainability can involve responsible measures to guarantee long-term fiscal sustainability, such as controlling spending, increasing tax collection and reducing public debt.

The relevance of this study is justified in order to identify the causes and preponderant factors of the fiscal crisis in the state of Rio de Janeiro, as well as to seek an answer to the following question: can fiscal policies be improved in order to achieve economic growth and fiscal sustainability, so that public policies can guarantee social welfare in Rio de Janeiro?

The present article is structured as follows, after the Introduction: 2. Theoretical Framework: 2.1 The Principle of Fiscal Sustainability and 2.2 The Economic Conjuncture: the Brazilian Public Debt and its repercussions in Rio de Janeiro; 3. Methodology, 4. Results Achieved, 4.1 The trajectory of State Finances from 2013 to 2022 and the preponderant factors of the fiscal crisis in RJ; 4.2. How can fiscal policies be improved? 4.2.1 Realigning the ICMS rates in Rio de Janeiro to those practiced in the other states; 4.2.2 Limiting current spending to 61% of the budget; 4.2.3- Realigning the ICMS exemption - Tax Benefits and Incentives; 5- Conclusion.

In diagnosing the trajectory of State Finances from 2013 to 2022, this work ratifies the need to optimize spending, like the studies that show the importance of controlling borrowing and, conse-

¹ Revista de Administração Pública, Rio de Janeiro 50(2):285-306, mar./abr. 2016

quently, public debt (Mello, Slomski and Corrar, 2005; Lima, Sampaio and Gaglianone, 2008; Borges et al., 2013; Caldeira et al., 2016), *apud* Cruz, A. F. et al. (2018).

2. THEORETICAL FRAMEWORK

2.1 The Principle of Fiscal Sustainability

Calazans (2020) states that the interaction between fiscal policy and the time trajectory of public debt is what is known as fiscal sustainability.

The principle of the state's fiscal sustainability is a concept that seeks to guarantee the government's long-term financial health. It relates to the idea that the government must keep its finances in order to guarantee that it can meet its obligations in the future. This includes keeping public debt under control, balancing the budget and ensuring that there are sufficient resources to fund essential public services. Fiscal sustainability is important because it helps to ensure economic stability and protect the interests of citizens.

To achieve fiscal sustainability, the government must adopt classic measures such as spending control, tax collection increase and public debt reduction. Therefore, sustainability is a critical consideration for policymakers, because ignoring it can lead to economic and political collapse, when the government faces a debt it cannot repay.

2.2 Economic conjuncture: the Brazilian public debt and its repercussions in Rio de Janeiro

According to Central Bank data, international reserves increased from US\$ 53.8 billion to US\$ 378.6 billion in 2012 but fell slightly to US\$ 374.1 billion in 2014. For their part, Almeida Júnior, Lisboa and Pessoa (2015) believe that the Brazilian crisis of 2015/16 was the result of the fiscal crisis and that this was caused not only by the lack of control over public spending after 2009, but by the structural trend of growth in public spending which has been observed, according to the authors' data, since 1991.

Wagner (1890) postulated that there is a tendency for public spending to grow, which implies a greater proportional share of public goods as income increases. This phenomenon became known as Wagner's law, or the law of increasing public spending.

In Brazil, studies have sought to verify the validity of the law of increasing public spending (Silva & Siqueira, 2014), (Cândido Júnior, 2001), (Bender Filho, 2019), which reinforced Wagner's postulate.

In their studies, Pires, Orair and Gobetti (2021) concluded that the expansion of Brazil's public spending in the 2010-2019 period was substantially reduced, falling from 6.23% by the Fiscal Monitor and 4.34% for the National Treasury Secretariat, and if interest expenses were excluded, the expansion would be only 4.04%.

Another piece of evidence² that the federal domestic debt has been generated by financial mechanisms and not for investments or state maintenance is the fact that we have produced a primary surplus of more than R\$1 trillion over 20 years and, despite this, the federal domestic debt exploded from R\$86 billion in 1995 to R\$3 trillion in 2014.

² Citizen Auditor Fattorelli's position to CAE/Senate <https://auditoriacidada.org.br/video/tcu-afirma-que-divida-nao--serviu-para-investimento-no-pais/>
4 Screenshots of the presentation to the CAE/Senate available at <https://auditoriacidada.org.br/conteudo/palestra-a--importancia-da-auditoria-da-divida-publica-com-participacao-social-m-l-fattorelli-audiencia-publica-na-comissao-de-asuntos-economicos-senado-federal/> e video em <https://youtu.be/yI0a8yY7VPo>

In his research, Vieira Filho (2021) states:

(...) that the centrality of the so-called public debt is impressive and illustrates its functioning as a "System": in addition to absorbing annually around half of the federal budget and a large part of the state and municipal budgets, the so-called public debt without a counterpart has been the justification for continuous counter-reforms, such as the social security and administrative reforms; as well as privatizations and other fiscal and administrative reforms, as well as privatizations and other fiscal adjustment measures, in order to provide more resources for non-primary expenses, which are mainly financial expenses on debt.

Public debt³ is a source of funding for state public spending, in addition to taxes. In a virtuous circle, public debt promotes development, increases revenue capacity and relativizes the intertemporal restrictions that managers now face (MORA, 2016).

Among the fiscal adjustment measures, with repercussions in the period of the study, Brazil approved the Constitutional Amendment (EC) 95⁴, which subjected all primary spending to a lowered ceiling for 20 years; EC-109⁵, which inserted fiscal adjustment into the constitutional text to guarantee the "sustainability" of the debt, in addition to the various cuts in public services, programs and investments in all essential areas of citizenship, which have impacted the so-called public debt.

Tinoco and Giambiao (2018) point out that, in order to justify EC 05/96, the government started from the diagnosis that the deteriorated fiscal framework, whose main root would be the accelerated growth of debt, implied high-risk premiums, loss of trust, high interest rates and negative effects on activity.

In addition, Tinoco and Giambiao mention:

(...) the constitutional and legal framework led to procyclical spending, which tends to grow when the economy grows and vice versa, causing the government, instead of acting as a stabilizer of the ups and downs of the economic cycle, to contribute to accentuating the volatility of the economy (Brasil, 2016, p.4).

The spending ceiling will last for twenty years. For the first ten years, the spending limit will be adjusted by the previous year's

³ Public debt or passive debt means the set of commitments assumed by the State with third parties. It is classified as consolidated or founded debt (depends on legislative authorization to be contracted) and floating debt (does not depend on legislative authorization, is restricted to the national area). Oliveira. A. B. Silva. 2010. Controladoria Governamental. p. 89.

⁴ Constitutional Amendment 95/2016 establishes the New Fiscal Regime within the Union's Fiscal and Social Security Budgets. It established individual limits for primary expenditure for each financial year for the three branches of government, the MPU and the DPU. The aim of this measure was to contain the serious fiscal imbalance experienced at the beginning of the 2010s. The measure consisted of establishing a fiscal rule that would regulate the behavior of primary expenditure over a twenty-year period, from 2017 to 2036, except for those related to constitutional constraints.

⁵ Amends articles 29-A, 37, 49, 84, 163, 165, 167, 168 and 169 of the Federal Constitution and articles 101 and 109 of the Transitional Constitutional Provisions Act; adds articles 164-A, 167-A, 167-B, 167-C, 167-D, 167-E, 167-F and 167-G to the Federal Constitution; revokes provisions of the Transitional Constitutional Provisions Act and institutes transitional rules on reducing tax benefits. 164-A, 167-B, 167-C, 167-D, 167-E, 167-F and 167-G; repeals provisions of the Transitional Constitutional Provisions Act and establishes transitional rules on the reduction of tax benefits; partially unties the financial surplus of public funds; and suspends conditionalities for expenditure on granting residual emergency aid to deal with the social and economic consequences of the Covid-19 pandemic.

inflation; from the 11th to the 20th year, there is the possibility of changing the rule if the government deems it necessary.

The 'new fiscal regime' (of the spending ceiling) marks an eight-year era (2015-2022) in which net investment by the central government (and also by the general government until 2021) was permanently negative. This means that during this period, investment spending by the federal, state and municipal governments did not even cover the depreciation of infrastructure such as roads, schools, etc.

For Gobetti (2015), the adjustments promoted by the federal government are of poor quality, based on cutting investments and/or increasing the tax burden, which is practically inevitable given the structure of public spending, both in terms of composition and dynamics.

Gobetti adds that the adjustments take place not by choice of the fiscal authority, but because it is absolutely impossible to make an adjustment of any other kind, at least in the short term in which these measures are decided.

The economic stagnation of the last decade, marked by an average GDP growth rate of just 0.3% p.a. and, at the same time, a structural reduction in the federal government's revenue, has had an impact on state governments.

The renegotiation of state debts and the creation of the Fiscal Recovery Regime (RRF) were fundamental in enabling the rebalancing of states with the worst financial situation, as they make it possible to refinance some of these entities' liabilities in exchange for a more severe adjustment program. The program⁶ was signed up to by the state of Rio de Janeiro in 2017 and 2021.

However, as mentioned previously by several authors, Brazil's public debt is generated by financial mechanisms and not for development, which makes the quality of fiscal adjustment a preponderant factor for fiscal sustainability.

3. METHODOLOGY

In order to meet the objective of this research, a qualitative, bibliographical and documentary approach was used, as well as theoretical and empirical content analysis for the period 2013-2022, based on the Rio de Janeiro State budget execution reports available on the state transparency portal, information published on the website of the Brazilian Institute of Geography and Statistics (IBGE), the National Treasury Secretariat, academic articles and books.

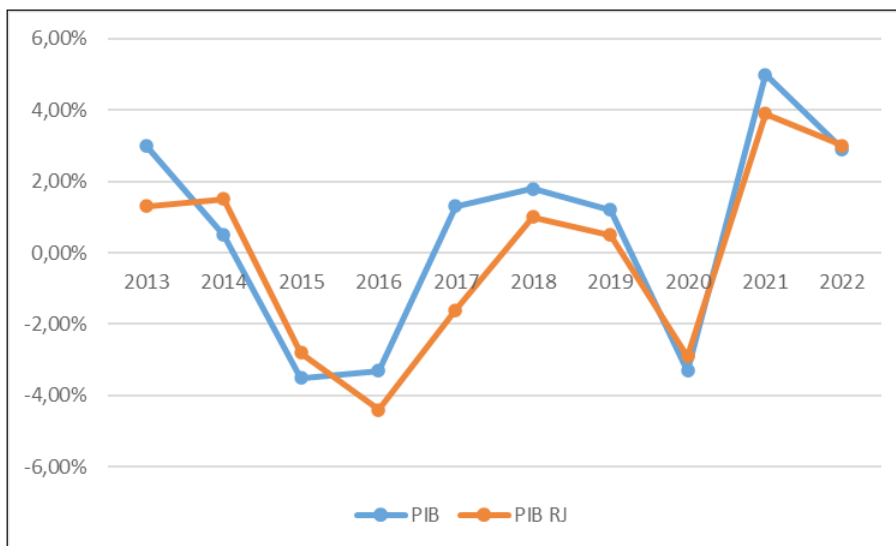
After collecting the data, indicators were constructed in tables and graphs for horizontal and vertical analysis of government revenue and expenses, indebtedness ratios (DCL/RCL), personnel expenses (DP/RCL) and debt sustainability (DCL/GDP-RJ) under the parameters of the National Treasury Secretariat - Pledged Expenses, including intra-budgetary expenses, comparing the values found with the primary result, GDP-RJ growth, interest rates and debt service of Rio de Janeiro State from 2013 to 2022.

4. RESULTS ACHIEVED

4.1 The trajectory of state finances from 2013-2022

GDP is directly related to economic performance, as it indicates the flow of new goods and services produced. Graph 1 shows that the trajectory of the Rio de Janeiro economy between 2013 and 2022 went against that of Brazil in 2017.

Graph 1 – Brazilian Economy - GDP x RJ Economy - GDP-RJ



Source: IBGE and Firjan

⁶ The PRF is the document drawn up by the state to join the Fiscal Recovery Regime provided for in Federal Law No. 159/2017. It aims to rebalance public accounts in line with the provisions of the Fiscal Responsibility Law - Federal Law 101/2000. It consists of a law or set of laws, a diagnosis recognizing the situation of financial imbalance and details of the adjustment measures, with the expected impacts and deadlines for their adoption. The PRF was submitted to the STN on July 31, 2017, and the new application to join the Fiscal Recovery Regime was published in the Federal Official Gazette on June 4, 2021.

Table 1 shows the performance of Total Revenue and Net Current Revenue (RCL) in relation to Rio de Janeiro's Gross Domestic Product.

The Fiscal Responsibility Law, Complementary Law 101, of 2001, defines in its article 2, item IV, that Net Current Revenue (RCL) is a financial indicator calculated by the sum of tax revenues, contributions, property, industrial, agro-livestock, services, current transfers and other current revenues of the federate entity, deducting amounts transferred to States and Municipalities by

constitutional or legal determination, contributions mentioned in item "a" of item I and item II of art. 195 (employer's social contribution, worker's and other social security insured persons' contributions). 195 (employer's social contribution, worker's social contribution and contribution from other social security insured

Table 2 shows the amounts committed by the state of Rio de Janeiro between 2013 and 2022, relating to expenditure on active staff, inactive staff and pensioners, as well as the amounts relating to court judgments, including off-budget expenditure. It should be noted that in 2015 and 2020 there was a significant

Table 1 – TOTAL REVENUE, NET CURRENT REVENUE AND GDP-RJ

R\$ Thousand

YEAR	RT	Δ RT	Δ %RT/GDP-RJ	RCL	RCL/ RT	Δ RCL	GDP -RJ	Δ GDP - RJ	RCL/ GDP - RJ
2013	71.192.474	12%	11,33%	47.064.198	66%	15,9%	628.226.069		7,5%
2014	75.790.988	19%	11,29%	46.045.518	61%	-2,2%	671.076.844	6,82%	6,9%
2015	69.891.158	10%	10,60%	51.224.317	73%	11,2%	659.138.952	-1,78%	7,8%
2016	59.333.570	-7%	9,27%	46.228.984	78%	-9,8%	640.401.206	-2,84%	7,2%
2017	65.884.661	4%	9,81%	50.194.045	76%	8,6%	671.605.668	4,87%	7,5%
2018	75.361.529	19%	9,93%	58.290.778	77%	16,1%	758.859.047	12,99%	7,7%
2019	72.994.187	15%	9,36%	58.566.004	80%	0,5%	779.927.917	2,78%	7,5%
2020	73.923.257	16%	9,81%	59.498.087	80%	1,6%	753.823.710	-3,35%	7,9%
2021	99.601.502	57%	12,78%	82.455.460	83%	38,6%	779.453.716	3,40%	10,6%
2022	100.713.183	58%	12,53%	89.631.905	89%	8,7%	803.616.782	3,10%	11,2%

Source: Elaborated by the author based on data from the Transparency Portal of the State of Rio de Janeiro, IBGE and Firjan (2021/22). Nominal values of Committed Expenditure.

persons) and art. 239 (PIS/PASEP) of the Federal Constitution, parcels transferred to municipalities by constitutional determination, contribution from civil servants to fund their social security and assistance system and revenue from the financial compensation mentioned in § 9 of art. 201 of the Federal Constitution.

In the period under analysis, it can be seen that in 2014 and 2016 there was a negative variation in the RCL, which justifies Rio's fiscal adversity and the need to enter the first Fiscal Recovery Regime (2017).

The recession in the country also had an impact on the fall in revenue between 2015 and 2017, especially the fall in the price of the barrel of oil, which was widely reported in the media, based on the Technical Note from the Energy Research Company⁷.

It should also be noted that from 2013 to 2020, the RCL was on average 7% of the RJ GDP, rising to 10% in 2021 and 2022, due to the increase in revenues from Royalties and Special Participations. In this two-year period, the rise in the price of the barrel of oil and the granting of water distribution licenses had a positive impact on the state's cash flow.

Regarding expenditure, the main categories of so-called compulsory expenditure⁸ are: Personnel; Debt charges; Charges such as taxes and compliance with court judgments; Expenses of the other powers (protected by the tripartite powers); and Public utility services (essential for the continuity of public administration).

⁷ https://www.epe.gov.br/sites-pt/publicacoes-dados-abertos/publicacoes/PublicacoesArquivos/publicacao-542/NT-EPE-DPG-SDB-2020-04_Pre-C3%A7os%20Petr%C3%B3le

⁸ Term: Compulsory Expenditure, Glossary of Budgetary Terms, National Congress

growth in personnel expenditure, due to the granting of readjustments and additions⁹ to most state careers.

When comparing the behavior of gross personnel expenditure (Committed Expenditure) with that of the RCL (table 2), it can be seen that from 2015 onwards, the average absorption was 70%.

In this sense, Santos (2015) points out that the states have inappropriately used article 19, paragraph 1 of the LRF, which determines the exclusion of inactive and pensioners, when the resources are linked, when calculating the Annex I limit. In the case of the state of Rio de Janeiro, the author notes that 28.5% of the corresponding expenditure is not computed in relation to the RCL, which, if added to the 43.2% of expenditure considered and disclosed by the state government (Annex 1 of the RGF) would total

⁹ Law No. 6.833 of June 30, 2014: granting raises in 5 annual installments to the careers of the Civil Police of the State of Rio de Janeiro - PCERJ (64.26% and 17.62%), the Military Police of the State of Rio de Janeiro - PMERJ (45%) and the Military Fire Brigade of the State of Rio de Janeiro - CBMERJ (45%) and the Penal Police (17.25). - EC 67/2016: - implementation of the new value and the installment payment of EC 67/2016 - Law No. 8267 of December 27, 2018: granting the incorporation of the Exclusive Dedication Additional (ADE) to careers at the State University of Rio de Janeiro - UERJ - financial effects conditional on the end of the Fiscal Recovery Regime; - Law No. 7.946 of April 27, 2018: Granting the implementation of the new career plan for staff of the State Health Secretariat and IASERJ - 2019: - Law No. 6.833 of June 30, 2014: granting increases in 5 annual installments to the careers of the PCERJ (64.26% and 17.62%), the PMERJ (45%) and the CBMERJ (45%) and ISAP (17.25). - Law 8436 of July 1, 2019: Granting a change to the salary table for UERJ personnel; - State Decree No. 43.538, of April 3, 2012: Updating the values of the RAS of the servants of the Secretariat of Penitentiary Administration - SEAP and Instituting the Additional Regime of Services - RAS for the Socio-educational Security Agents of the General Department of Socio-educational Actions - DEGASE.

Table 2 – TOTAL EXPENSES, PERSONNEL EXPENSES AND CHARGES, CONSOLIDATED DEBT, RCL/ GDP-RJ INDEX AND DP/RCL AND DC/RCL RATIO, NOMINAL DP VARIATION.

R\$ Thousand

	PERSONNEL EXPENSES	Δ DP	DT	Δ DT	DP/RCL	DC	% DC/RCL
2013	20.850.560	45%	71.663.151	12%	44%	79.696.467	169,34%
2014	20.743.746	-0,51%	75.704.294	19%	45%	89.868.557	195,17%
2015	32.454.194	56,45%	73.961.419	16%	63%	107.569.562	210,00%
2016	34.054.996	4,93%	68.624.625	8%	74%	108.103.232	233,84%
2017	38.750.953	13,79%	70.966.934	11%	77%	137.177.501	273,29%
2018	40.823.694	5,35%	73.433.999	15%	70%	154.992.808	265,90%
2019	41.179.556	0,87%	70.488.458	10%	70%	166.854.171	284,90%
2020	70.163.589	70,38%	71.346.716	12%	118%	191.534.257	321,92%
2021	43.961.585	-37,34%	85.679.663	34%	53%	184.129.078	223,31%
2022	56.438.704	28,38%	94.185.316	48%	63%	177.062.768	197,54%

Source: Elaborated by the author. Data from the STN website - State Budget Results, for the 2015-2021 period, and from the SEFAZ RJ website - RREO 6th Bimester Annexes 1 and 6, for the 2013, 2014 and 2022 financial years.

71.7% in 2014, exceeding the limit allowed by the LRF and jeopardizing the payment of debt service and investments, as has effectively been the case since 2015.

Regarding public debt, the LRF establishes the parameters for controlling indebtedness, credit operations, granting guarantees and refinancing the public debt. In addition to stipulating these limits, the LRF reinforces the importance of the primary result in maintaining the public debt at sustainable levels (Borges et al., 2013).

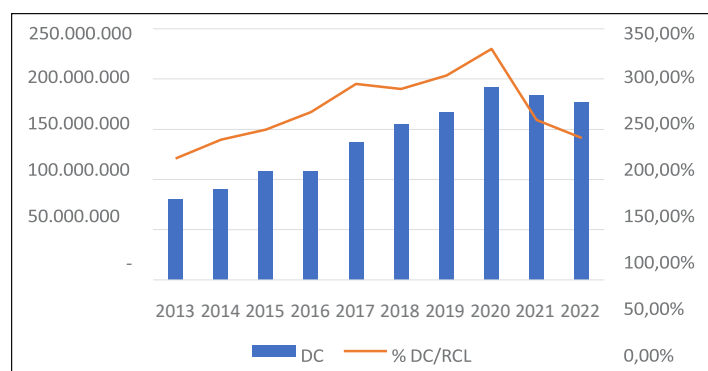
Graph 2 shows that the intertemporal sustainability of the state debt is worsening, due to the readjustments of internal financing with the Federal Government and external financing contracted in dollars, the retraction and sustainability of the debt in the period analyzed, reaching 321% of the RCL in 2020, due to the country's internal crisis (Sobral, 2021).

dated Net Debt/Net Current Revenue ratio (DCL/RCL), culminating in non-compliance with the maximum limit of 200%¹⁰ between DCL and RCL, from 2016 to 2021.

In fact, from 2013 to 2017, it can be seen that the state's total expenses exceeded its total revenues (Graph 3). However, from 2018 onwards, there was a brake on current expenditure, and with the arrival of a new government, a 30% cut in operating expenses was made in 2018¹¹.

From 2013 to 2018, the state showed primary deficits, strongly impacted by investment spending financed with resources from credit operations (non-primary income). This trend has been reversed, with the state now producing an increasing primary surplus (Graph 4).

Despite the effort to reduce Total Expenses, in the 2013 and 2014, 2017 and 2018, 2021 and 2022 biennia, primary expenses

Graph 2 – Consolidated Debt x RCL

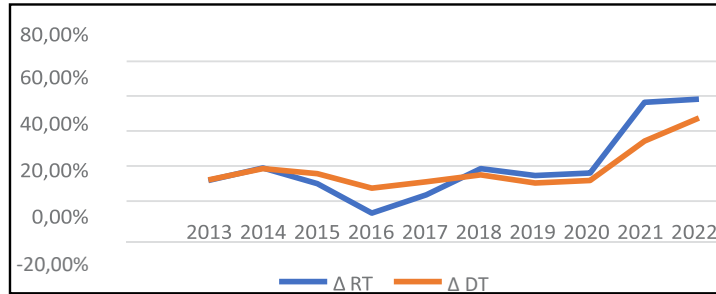
Source: Elaborated by the author, based on data from the Rio de Janeiro transparency portal.

From 2014 onwards, the speed and effects of the economic downturn on state revenue, as well as the deterioration of macroeconomic variables, altered the downward trajectory of the Consoli-

¹⁰ Limit established by Resolutions 40 and 43, 2001, of the Federal Senate

¹¹ Decree 46.548, of January 1, 2019, §2, of article 1 - Operating Expenses Revaluation Program

Graph 3 – Variation in Total Revenues x Total Consolidated Expenses - 2013 to 2022



Source: Elaborated by the author, based on data from the Rio de Janeiro transparency portal.

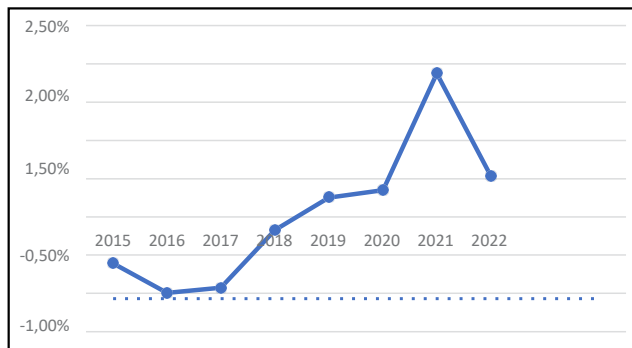
grew, above the trend line, strongly impacted by personnel expenses (Graph 5).

It is worth noting that Law 7,483 suspended the adjustment deadlines for 2017 in order to comply with the limits established by the LRF and the Federal Government suspended payment of the state debt for three years, without limiting the obtaining of new loans by the Rio de Janeiro administration.

4.2 The main causes/factors of Rio de Janeiro state's fiscal crisis

It is important to mention that the effects of the new Coronavirus (COVID-19) pandemic culminated in the health crisis and produced

Graph 4 – State Primary Result - % GDP-RJ - 2013 to 2022 2.50%

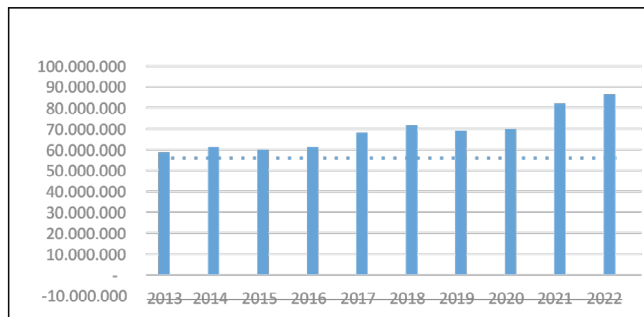


Source: Elaborated by the author, based on data from the transparency portal of Rio de Janeiro, IBGE (2013/2020), Firjan (2021/2022). Nominal values

The deterioration of the fiscal management of the state of Rio de Janeiro is recognized when Law 7,483 of November 8, 2016, was published, which established a state of calamity within the state's financial administration until December 2017, and when the agree-

a significant reduction in economic activity in the state of Rio de Janeiro, starting in the second quarter of 2020, with the government decreeing a state of public calamity¹², by Decree 46.984, of March 20, 2020.

Graph 5 – Real growth in current primary expenses - 2013 to 2022



Source: Elaborated by the author, based on data from the Transparency Portal of the State of Rio de Janeiro.

ment was reached with the Federal Government in January 2017 to implement a fiscal recovery plan for the state from 2017 to 2019 (TCE-RJ, 2017).

¹² State Law 8,794, of April 17, 2020, recognized a state of public calamity, due to the emergency situation recognized by Decree 46,973/2020. The deadline was extended by Decree 47.665, of June 29, 2021, until December 31, 2021.

Sobral (2021) reaffirms that the expenses for dealing with the Covid-19 pandemic - an exceptional situation, are not subject to the main fiscal rules, since the National Congress decreed a public calamity¹³ suspending the Union's primary result target and EC 106/2020, exempted compliance with the golden rule while the calamity lasts.

Assessing whether the expenditure generated in the context of dealing with the pandemic has been carried over to subsequent financial years, and whether the transitional cash transfer measures have been transformed into permanent measures, has become a challenge.

It is true that the public calamity affected the fiscal situation in the short term, with implications for the increase in indebtedness and public revenues for subsequent years, since economic growth occurred on a less favorable tax base.

The growth in primary expenditure is uninterrupted throughout the period. In other words, government spending has a strong structural expansion component, only interrupted occasionally in the fiscal adjustment of 2003 and at the peak of growth in 2008 ("Fiscal Adjustment - text for discussion - Accounting Applied to the Sector...").

In this period, the state of Rio de Janeiro suffered a serious financial imbalance, as its annual Net Current Revenue (RCL) is lower than its Consolidated Debt at the end of the last financial year, and the sum of its expenditure on personnel, interest and amortization is higher than 70% of the RCL.

In this context, what remains to be done - in the short and medium term - to promote a recovery in the primary result? And what should be done given the situation of low economic growth? This is what we will discuss in the next section.

4.3 How can fiscal policies be improved to promote economic growth and the well-being of the population?

The exhaustion of the state's investment capacity, given the fiscal restrictions, has led, rightly or wrongly, to alternative ways of providing public goods and services, such as public-private partnerships (PPPs) (Brito and Silveira, 2005).

This diagnosis is based on the hypothesis originally formulated by Giavazzi and Pagano (1990) that in some circumstances, such as Ireland and Denmark in the 1980s, fiscal contractions could have short-term expansionary effects not predicted by Keynesian theory, according to which an adjustment made on the public spending side should anchor expectations and promote economic expansion rather than contraction, as advocated by Keynesian theory.

Alesina and Perotti (1996) were the first to argue that the probability of a fiscal contraction becoming successful (in terms of positive effects on GDP) would depend on how it was carried out, whether through cuts in the current budget (good quality), or by reducing investments and increasing taxes (bad quality). One issue that is often pointed out by both Firjan¹⁴ and Fecomercio¹⁵ is that

Rio de Janeiro has high taxes and that this would be a strong impediment to the state's development.

President of the Republic forwarded through Message No. 93, of March 18, 2020, with effects until December 31, 2020.

In the case of electricity, until 2022 Rio de Janeiro had a tax rate of 30%¹⁶, São Paulo and Minas Gerais 18% and Espírito Santo 12%. However, in 2022, the Tax on the Circulation of Goods and Services on fuels in the states was set not to exceed a certain rate.

This proposal was approved by the federal government and published in the Federal Official Gazette (DOU) on June 23, 2022. As a result, almost all the states have already announced the new tax rate, which cannot exceed 18%.

There is no doubt that the political conditions for tackling the most serious structural problems, which are determining the medium and long-term trajectories of spending, are a major challenge for the state government.

There are also indications, according to the Fiscal Transparency Portal¹⁷, that tax incentives have contributed positively to the regional deconcentration of the economy that has taken place in the country since the 1990s, especially since 2000, when the fiscal war became widespread and intensified in Brazil, according to IBGE data.

The ICMS tax exemption, through incentives and tax benefits, amounted to 40 billion in 2021 and 2022, as shown in Table 3, which may or may not be onerous for the state and municipal coffers, according to criteria defined by the state tax authorities¹⁸.

Table 3 – ICMS EXEMPTION OF A GENERAL AND NON-GENERAL NATURE - GENERAL ANALYSIS EFD ICMS-IPI

R\$ Thousand

R\$ THOUSAND			
FISCAL YEAR	GENERAL	NON-GENERAL	TOTAL
2021	10.692.515	7.756.810	18.449.325
2022	12.238.599	9.324.604	21.563.203
Total	22.931.114	17.081.414	40.012.528

Source: Panel of Tax Benefits of the Transparency Portal of the State of Rio de Janeiro - elaborated by the author.

Legal tax benefits are divided into general and non-general. Adherence to the General Benefit does not depend on a prior concessionary act by the Public Administration, and the mere communication by the taxpayer who meets the requirements set out in the law is enough. The Non-General Benefit, on the other hand, is that benefit or incentive granted by order of the administrative authority, at the request of the interested party; by State Law or Decree; by term of agreement or contract; or by mere communication, when there is a requirement to comply with requirements.

Table 4 shows that, in the two-year period 2021 and 2022, of the total ICMS exemption, the Manufacturing Industry economic

Mota / Leonardo Pessoa, coordinator]. - 1.Ed. - Rio de Janeiro: FECOMÉRCIO-RJ, 2010

¹⁶ Rate increases promoted by the state of Rio de Janeiro between 2013 and 2022: Law 7.508/2016 and Law 8.643/2019.

¹⁷ http://www.fazenda.rj.gov.br/transparencia/faces/oracle/webcenter/portalapp/pages/navigation-renderer.jspx?_afLoop=91877654320571875&datasour-ce=UCMServer%23dDocName%3AWCC188805&_adf.ctrl-state=1dbghzsbmj_58.

¹⁸ Acessado em 04/10/2023. <https://portal.fazenda.rj.gov.br/transparencia-da-receita-estadual/>

¹³ 13 Legislative Decree no. 006, of March 20, 2020, which recognizes, for the purposes of art. 65 of Complementary Law no. 101, of May 4, 2000, the occurrence of a state of public calamity, under the terms of the request of the President of the Republic sent through Message no. 93, of March 18, 2020, with effects until December 31, 2020.

¹⁴ <https://www.firjan.com.br/noticias/posicionamento-da-firjan-sobre-projeto-de-lei-6510-2022-que-trata-de-aumento-de-icms>.

¹⁵ Comparison of ICMS taxation between the states of Rio de Janeiro, São Paulo, Minas Gerais, Espírito Santo, Goiás, Bahia and Paraná / [Alessandra

sector received 68% of the Non-General Benefit, while in the General Benefit, the Trade, Motor Vehicle Repair and Motorcycle sectors absorbed 53%.

Table 4 – % GENERAL AND NON-GENERAL ICMS EXEMPTION BY ECONOMIC SECTOR - CNAE- 2021/2022

ECONOMIC SECTOR - CNAE	GENERAL	NON-GENERAL
Trade/Repair of cars and motorcycles	52,54%	31,46%
Manufacturing Industry	35,76%	68,05%
Others	11,7%	0,49%

Source: Panel of Tax Benefits of the Transparency Portal of the State of Rio de Janeiro - elaborated by the author.

Financial incentives, on the other hand, are those that represent financing and are used to support the implementation of projects, most of which are large-scale and do not have a negative impact on the state treasury, according to the Presentation Report (2016). The resources originate from the generation of revenue in the state's cash flow, increased by the implementation of the new ventures supported, or by the expansion of existing ventures (generation of incremental flow). Most states have financial incentives, and in Rio de Janeiro the instrument used is the Economic and Social Development Fund (Fundes), created in 1975 and amended by Law 2823 of 1997.

In the state of Rio de Janeiro, the distribution of funding from Fundes in the 2021/2022 biennium was concentrated in the automobile, pickup truck and utility vehicle manufacturing sector, followed by the beer and draft beer manufacturing sector, as shown in Table 5.

Table 5 – FUNDES FISCAL RENUANCE

R\$ Million

ECONOMIC SECTOR - CNAE	FUNDES DISTRIBUTION		TOTAL
	2020	2021	
Manufacture of cars, vans and utility vehicles	150	305	455
Brewing beer and draft beer	89	98	187
Manufacture of lime and plaster	10	14	24
Wholesale of new vehicle parts and accessories	8	9	17
TOTAL	257	426	683

Source: Panel of Tax Benefits. Transparency Portal of the State of Rio de Janeiro. EFD ICMS/IPI (SEFAZ RJ database), elaborated by the author.

Identifying the appropriate level of subsidized credit for the private sector and which sectors should benefit are issues that should be debated in depth, including whether or not there will be a need to review the tax benefits granted, considering their cost and benefit,

in the medium and long term, compared to other tax policies and alternatives for financing private investment.

According to Oliveira (2008) and Sobral (2015):

(...) a large part of the productive restructuring and the last major investment cycles in the period prior to the current financial crisis played a disruptive role in regional dynamics, rather than a structuring role, due to the lack of sufficient governance bodies and respective planning actions. By not consolidating leading economic sectors and their potential links to structure strong logistical-productive complexes, there is a lack of an integrated system of regional economies in the territory capable of reclaiming Rio de Janeiro's national prominence from a productive perspective. And this is a fundamental challenge that deserves to be dealt with centrally.

5. FINAL CONSIDERATIONS

This article seeks to identify the effects of fiscal policies on economic growth in the state of Rio de Janeiro, from 2012 to 2022, and to answer the following question: can fiscal policies be improved to achieve economic growth and fiscal sustainability, so that public policies can guarantee social welfare in the state?

By investigating the main causes of the state's fiscal crisis, possible opportunities for improvement can be identified, such as realigning ICMS rates with the other states in the federation, as well as realigning ICMS exemption - Tax Benefits and Incentives.

Although there are also obstacles of a political nature that could hinder and limit the fiscal results of the measures to be adopted, the priority should be to debate in depth the appropriate level of subsidized credit for the private sector and which sectors should benefit, considering their cost and benefit in the medium and long term, compared to other fiscal policies and alternatives for financing private investment.

The current fiscal situation is not worse only because, in 2022, total revenue grew due to cyclical factors, such as the unusual increase in the price of oil, which provided - via royalties, and the onerous grant in basic sanitation services promoted by the state government¹⁹ which injected R\$24.9 billion into the coffers of the state and the participating municipalities.

The fiscal scenario remains very challenging. The high growth in compulsory expenditure, as well as contributing to the fiscal imbalance, has imposed a strong adjustment in public investment.

All of the above demonstrates that the main and specific objectives have been met, as well as answering the problem question. The possibilities are there, but none of them should involve a rerun of what we experienced in the last, in this article called the lost decade.

¹⁹ International Competition 01/2020

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