BACKGROUND PAPER

REFORMS OF FISCAL RELATIONS IN BRAZIL: Main issues, challenges, and reforms

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REFORMS OF FISCAL RELATIONS IN BRAZIL

1. INTRODUCTION

1.   This document is submitted to delegates for information and discussion at the 14th annual meeting of the OECD Network on Fiscal Relations across Levels of Government. It supports the discussion of the roundtable session on fiscal federalism reforms, presenting proposed reforms of fiscal relations in Brazil.

2.   Brazil is a three-tiered federation since the Federal Constitution of 1988 decentralised the political power and strengthened federalism, turning the municipalities into a member of the federation with administrative and political autonomy. The federal pact is based on the distribution of power and assignments among the levels of government established by the Constitution. Due to this division, Brazil is characterized by a relatively high degree of political and fiscal decentralisation compared to other countries (Ter-Minassian and de Mello, 2016).

3.   Tax assignment in Brazil is clearly defined in the Constitution, and most of the transfers to subnational governments (SNGs) are made according to non-discretionary constitutional rules. On the other hand, there are competition and overlap in the division of some attributions, such as the provision of health and education services.

4.   The purpose of this document is to introduce one of the main issues regarding fiscal relations in Brazil and discuss possible reforms. The second section gives an overview of the fiscal relations and their main difficulties and challenges. The third section presents the reforms that have been recently implemented or are being carried out to address the problems presented. Finally, in the fourth section, possible complementary reforms to the previous ones are discussed.

2. FISCAL FEDERALISM IN BRAZIL, ISSUES AND CHALLENGES

2.1. Indebtedness

5.   The power decentralisation of the 1988 Federal Constitution, added to a period of macroeconomic instability, oil shocks, and a balance-of-payments crisis, led to a fiscal deterioration of the states and municipalities. In this context, the Federal Government had to restructure and assume some of the SNGs' debts. In the late 1990s, a new debt renegotiation reached 11.2 percent of GDP (Canuto and Liu, 2013). However, after repeated debt assumptions and renegotiations in the 1980s and 1990s, the Federal Government set out to develop a complex system of debt control in order to align the fiscal policies of the SNGs with the guidelines of federal macroeconomic policy. In this way, the states had to commit to a Fiscal Adjustment Program – FAP – as a counterpart to this last bailout. Nowadays, 23 out of 27 states are still in the program, and they have to negotiate and accomplish fiscal goals annually.
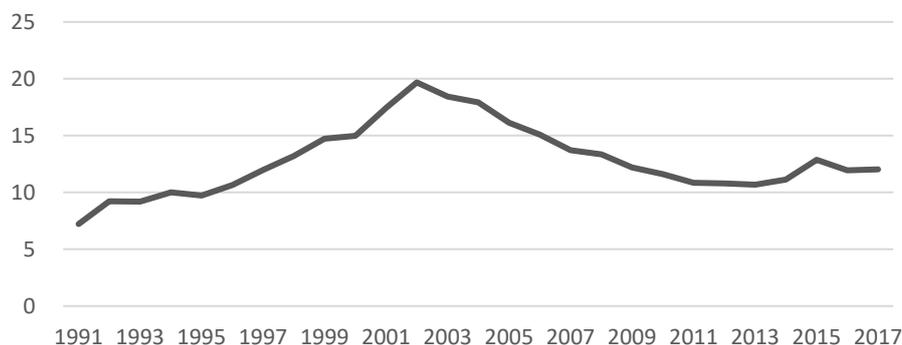
6.   An important tool for controlling the states' debt is that they can only borrow under the rules of the Fiscal Adjustment Program, and there is a limit of authorisation for new loans for each state. This mechanism worked well, and the states' debt began to decrease. However, these rules were changed in 2009 as part of an expansionist policy. This new policy allowed for discretions and authorized states in a sensitive fiscal situation to borrow, often with guarantees from the Federal Government. A high amount of loans was approved by the National Treasury through this program until 2012.

7.   Another debt control mechanism is the analysis of payment capacity, which is made by the Ministry of Finance and used to decide whether the Federal Government will guarantee a SNG's loan or not. In 2012, this methodology was also made more flexible.[1] In 2013 and 2014, more than half of the loans guaranteed by the Federal Government were to states and municipalities with C and D ratings. Because of this, the discretion of loans authorisation under the FAP and the granting of guarantees to SNGs with low payment capacity became a problem. As a result, in 2017, the National Treasury paid 4.06 billion Reais of debt originally under the responsibility of states and municipalities (STN, 2018).

8.   In addition to the control mechanisms described, in 2000, Brazil enacted a Fiscal Responsibility Law (FRL) that represented a high level of innovation in relation to the degree of transparency and austerity required of SNGs. Then, the Federal Senate regulated some points of this law, prohibiting states and municipalities from issuing bonds and establishing the limit of 2 to the Consolidated Net Debt to Net Current Revenue for states. For municipalities, this index is 1.2. However, the ceilings established are uniform regardless of the SNG's features. Thus, these limits are nonbinding for most states and municipalities, that is, they are too high for most SNGs and does not assure a good fiscal situation. Among the states, only Rio de Janeiro and Rio Grande do Sul exceed the limit, even if other states have difficulties honouring their liabilities, such as Minas Gerais and Rio Grande do Norte. This shows the need for more stringent limits and additional control mechanisms.
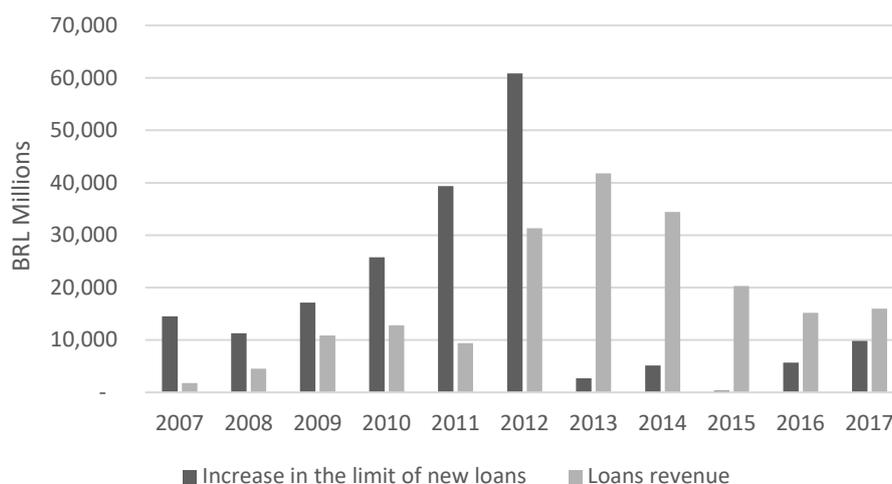
9.   Graph **1** shows the evolution of the SNGs debt to GDP ratio. The graph shows the indebtedness decline after 2003 with the strengthening of the controls system and the turnabout after 2013.

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1. At first, only SNGs with A and B ratings should receive Federal Government's guarantee. However, the 2012 methodology allowed the granting of guarantee to SNGs with C and D ratings, according to the consent of the Finance Minister. This prerogative was used indiscriminately, leading to an increase in the indebtedness of states in a poor financial situation. To avoid this, this methodology was revised in 2017, as will be seen in Section 3.

Graph 1. States and Municipalities Net Debt as a Percentage of GDP

Source: IPEADATA.

10.   Graph 2 shows the loan revenue evolution and how the authorisation limit for new loans increased for states in the FAP from 2008 to 2012 because of the expansionist policy. This policy, added to a slowdown in the Brazilian economy, led to a deterioration of the states' primary balance.

Graph 2. New loans for states in the FAP

Source: National Treasury.

11.   The Brazilian public debt has shown strong growth in recent years, especially because of the deterioration of the primary balance of the Federal Government and states. This has raised concerns about the sustainability of the public debt. The Brazilian debt (adding Federal Government, states and municipalities) has jumped from 51.5% of GDP in 2013 to 74.0% of GDP in 2017 (Cruz, 2018). The average debt to GDP in G-20 advanced countries is 91.5%, while in G-20 emerging it is 46.3% (IMF, 2018). Thus, the Brazilian debt is relatively high, and there is little room for steadily increasing indebtedness.
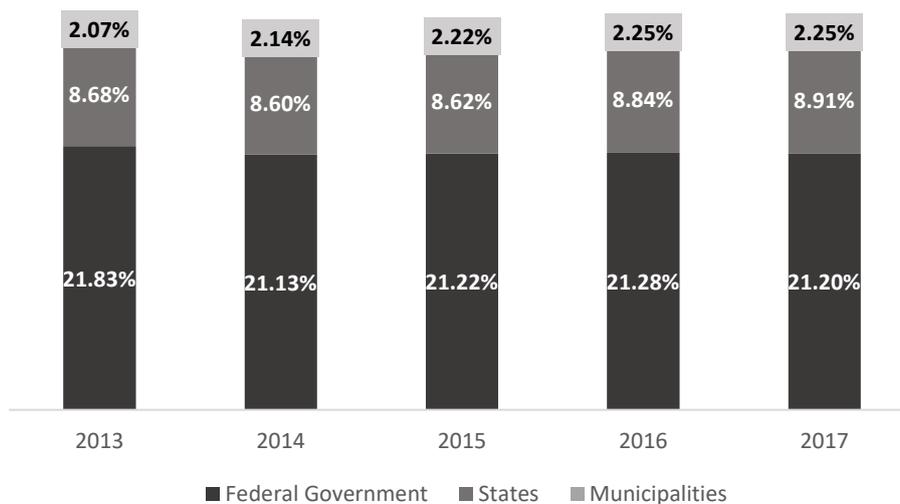
2.2. Taxation

12.   The 1988 Federal Constitution implemented major reforms with a tax assignment clearly defined in its text along with a formula-based granting system. From these reforms, most grants are shared according to non-discretionary constitutional rules, reducing the scope for political bargaining. For example, in 2017, 94% of the grants received by the states were Constitutional or Legal, and only 6% were discretionary (STN, 2018).

13.   Brazil is considered a fiscally decentralised country by international comparison, as it is one of the countries in which subnational governments have the highest tax revenue to GDP ratios. The tax revenue share to total SNGs' revenue is also relatively high, and grants' share is relatively low, comparing to other countries (OECD/UCLG, 2016). Therefore, Brazilian states have a greater level of own-source revenue than the international average.

14.   Graph 3 shows the tax share collected directly by each level of government; about two-thirds of taxes are raised by the Federal Government (a lower percentage than the international average). In 2017, the states received 2.08% of GDP in grants from the Federal Government, totalling 10.99% of total tax revenue to GDP (STN, 2018) (IBGE, 2018).

Graph 3. Brazilian Tax Burden (% of GDP)

Source: National Treasury.

15.   Although Brazil is an emerging country, its tax burden is high compared to its peers and close or even greater than in developed countries. In 2016, Brazilian tax revenue to GDP was 32%, while it was 17% in Mexico, 20% in Chile, and 26% in the United States and Korea. The OECD average was 34% (OECD, 2018). Even with a high tax burden, Brazil has faced deficits on its primary balance since 2014. However, due to the already high burden and the issues that will be presented at the next section, a tax increase may not be desirable.

2.3. Budgeting rigidity

16.   The Brazilian budget is known for its rigidity, which can be explained by the excess of earmarked revenues and the high volume of mandatory spending. Revenue earmarking is a mechanism provided by the Federal Constitution created for two main reasons: (1) to ensure that governments invest a minimum amount of the public budget in priority sectors and (2) to avoid the free rider effect on constitutional attributions that are common to all three levels of government, such as health and education, that is, to prevent a level of government from not investing in one sector in the expectation that others will (STN, 2018).

17.   For the states, the most important earmarking between revenues and expenses are: (1) transfers to municipalities; (2) the minimum spending in health and education services of 12% and 25% of tax revenue, respectively (added to the states' participation in Federal Government revenues and deducted from the tranches transferred to municipalities); (3) the revenues offered as collateral for payment of debts with the Federal Government or guaranteed by it; and (4) the resources of the states' pensions system. As a result, the main sources of funds for states are severely limited, and a maximum of 47.25% of ICMS (Tax on Circulation of Goods and Provision of Interstate and Intercity Transportation Services and Services of Communication) revenue and 63% of FPE (states and Federal District Participation Fund) revenue can be applied in other areas. Other expenditures, such as personnel from other sectors, public security, pension system deficit, and investments, must be funded by the revenue part that is not tied to any state activity (STN, 2018).

18.   In addition to revenue earmarking, mandatory spending is another factor that contributes substantially to budgetary rigidity. These expenditures are endorsed by the Constitution and other laws and have compulsory execution. Thus, their values can hardly be reduced by the decision of the ruler, and the political cost of postponing their payments is extremely high.

19.   Currently, about 90% of the Federal Government's budget is predetermined, by either mandatory spending or earmarked revenues. This rigidity creates, over time, inefficiency in public management due to the mistaken assumption that society will have the same demands indefinitely. In addition, often earmarking does not respect specific characteristics of the subnational governments, such as regional, demographic, cultural, or political aspects. For example, the minimum spending on education and health in all the states is the same, regardless of the school age and elderly populations (Giambiagi and Almeida, 2017).

20.   Another problem is the pro-cyclical character of the requirement of minimum spending for certain areas. In periods of greater economic dynamism, revenues grow more, and governments are forced to spend more on protected areas. However, when the economy slows down, governments cannot cut expenditures proportionately since they are generally rigid.

21.   The revenue earmarking can also lead to higher interest expenses. There are SNGs with surplus cash available in specific earmarks and lack in others. Thus, the governments may have to borrow to honour these commitments, even if they have financial availability overall (Giambiagi and Almeida, 2017). This budgetary rigidity has led states to take actions that jeopardize fiscal sustainability in the medium term, in some cases, even manipulating the methodology to calculate the constitutional minimums (STN, 2018).

22.   Personnel expenditure is the most important mandatory spending. In 2017, this expenditure was, on average, 61% of the states' Net Current Revenue (NCR), considering the Fiscal Adjustment Program data. In some states, this index is over 70%. Debt service

was around 6% of NCR (without the debt renegotiation with the Federal Government in 2016, this value would be around 10%). At the same time, investments, a more discretionary expense, amounted to about 7% of NCR.

23.   Within personnel expenditure, spending on pensions is one of the most important fiscal problems in Brazil due to its rigidity, autonomous growth, and the deficient character of the pension system. Most states' employees are teachers and military police officers who retire earlier under special rules due to Federal legislation. Male teachers must be 55 years of age with 30 of contribution, and female teachers must be 50 years of age with 25 of contribution. Police officers retire with 30 years of contribution. Moreover, the states' payroll and pensions are influenced by the national minimum wage and the teachers' minimum salary established by the Federal Government.

24.   The difference between the revenues of the pensions system, composed mainly of contributions, and spending on pensions is known as the pension system deficit, borne by the states. This deficit is growing and in 2017, was on average 18% of NCR, according to the Fiscal Adjustment Program data.

2.4. Accounting standardisation

25.   The 2000 Fiscal Responsibility Law was considered modern, innovative, and strict worldwide. It established important concepts, guidelines, rules, limits, and transparency standards for responsible fiscal management. However, there have been problems in the definitions adopted and liberality in the interpretation of some concepts by the states and their courts of accounts. Each state has its own court of accounts, and these courts have constitutional autonomy to issue control rules. This has been used as a pretext to decisions with lack of an eminently technical basis and endorsement of inadequate fiscal management practices.

26.   Despite the autonomy of the courts of accounts, the FRL foresees the creation of a fiscal management board composed of representatives of all government branches and levels and technical entities representative of society and responsible for monitoring and evaluating the fiscal management. The board also establishes that the specified reports must be elaborated in a standardized way according to models that can be updated by it. This board has not been created yet. Meanwhile, the National Treasury is responsible for editing the general rules for consolidation of the public accounts.

27.   From this, the National Treasury publishes the manuals of public accounting and fiscal reports and issues technical interpretations demanded by the SNGs related to these publications. The compliance with the manuals is mandatory, and its elaboration arises from a wide discussion with representatives of all branches and levels of government, including the courts of accounts. Nevertheless, some courts of accounts claim to have autonomy conferred by the Federal Constitution and states' constitutions.

28.   Thus, these discussions and a lack of standardisation have allowed irresponsible fiscal management, impaired transparency, and facilitated the states to comply with some rule-based controls established by the FRL due to different accounting interpretations. Therefore, the shortage of accounting standardisation caused by the distinct understandings of the courts of accounts has undermined FRL's efficiency and transparency.

3. RECENT AND ONGOING REFORMS

3.1. Fiscal Adjustment Program

29.   The Fiscal Adjustment Program of the states was reformulated in 2017. It was established that its concepts and definitions should be the same as those of the Fiscal Responsibility Law, and its six fiscal goals were modified. In this way, there was a convergence to the FRL to improve the transparency of the Program. Thus, it is possible to compare the performance of the states in the FAP with the evaluation made by their respective courts of accounts.

30.   The states publish their accounting and fiscal reports according to the understanding of their courts of accounts, and these numbers are adjusted according to the FRL methodology. Although the adjusted values are not used for assessing the compliance with the FRL rules, they are used to evaluate the fulfilment of the Program goals and are an important tool of transparency, since they enable the comparison of the fiscal situation of the states according to the same methodology.

31.   The targeted values of the Program goals are specific for each state, and they are negotiated annually with the National Treasury. The six goals are:

1. Consolidated Debt to Net Current Revenue;
2. Primary Balance;
3. Personnel Expenditure to Net Current Revenue;
4. Own-source Revenues;
5. Public Management;
6. Cash availability.

32.   The Fiscal Responsibility Law establishes the limit of 60% for Personnel Expenditure to Net Current Revenue. Considering the values published by the states, according to their courts of accounts guidance, only six states disregarded the limit in 2017. However, also considering the FAP methodology, only thirteen complied with the limit. Table 1 shows this comparison.

33.   The courts of accounts, therefore, still have autonomy and guide the states in the elaboration of the reports used to evaluate the accomplishment with the rules of the FRL. However, the reformulation of the Fiscal Adjustment Program allowed for greater transparency, transformed it into an instrument that watches over the compliance with the FRL and is a measure that minimizes the problem of the lack of accounting standardisation described in section 2.4.

Table 1. Personnel Expenditure to NCR – FAP vs. States Reports

State	Personnel Expenditure/NCR - FAP	Personnel Expenditure/NCR - States Reports
AC	63.53%	63.75%
AL	60.56%	58.76%
AM*	55.61%	57.04%
AP*	56.58%	53.26%
BA	60.95%	53.56%
CE	55.94%	53.40%
DF*	55.72%	50.21%
ES	54.63%	53.43%
GO	58.37%	48.51%
MA	57.32%	51.80%
MG	79.18%	60.81%
MS	76.77%	61.47%
MT	64.92%	58.85%
PA	57.88%	54.74%
PB	63.17%	58.23%
PE	58.48%	59.44%
PI*	54.83%	58.04%
PR	61.07%	53.88%
RJ	70.80%	67.04%
RN*	72.07%	52.49%
RO	55.19%	54.24%
RR*	62.04%	63.14%
RS	69.14%	56.12%
SC	60.57%	59.98%
SE	63.74%	49.29%
SP	54.45%	51.67%
TO*	55.76%	67.94%
Median	60.56%	56.12%

Note: * States that are not in the FAP or which have not joined the new methodology of the FAP. However, their reports were evaluated for transparency reasons.
Source: National Treasury.

3.2. Matrix of Accounting Balances

34.   The Matrix of Accounting Balances (MAB) is an innovation and represents a step forward to accounting standardisation. It consists of a framework for receiving accounting and fiscal information from all levels of government and producing standardized reports. The purpose is to consolidate the national accounts and generate fiscal statistics in line with international best practices. The information and data will be entered into the MAB, and it will generate automated fiscal reports.

35.   Thus, the MAB aims to improve the quality of public information available, as it elaborates more efficient and transparent analyses based on the detailed information received. Moreover, the MAB output will be comparable since the information will be converted into standardized reports according to the methodology defined in the manuals produced by the National Treasury.

36.   The information must be sent monthly, and the use of the Matrix has been mandatory since January 2018 for states and municipalities of the capital. From January 2019, it will be obligatory for all municipalities.

37.   The Matrix can, therefore, be considered an important solution for accounting standardisation and transparency.

3.3. Analysis of Payment Capacity

38.   The analysis of payment capacity is a methodology used by the Federal Government to subside the granting of guarantees to SNGs loans. As cited in section 2.1, this methodology allowed SNGs in a deteriorated fiscal situation to borrow based on the decision of the Finance Minister; thus, the Federal Government guaranteed a high number of loans to SNGs with C and D ratings.

39.   In this way, a new methodology was developed in 2017 to avoid discretions and give more transparency to the process. The new analysis of payment capacity was elaborated in partnership with the World Bank and submitted for public consultation. It reduced the number of indicators from eight to three, eliminating those that did not adequately reflect the subnational government solvency or those that overlapped and did not bring any additional relevant information. In addition, it eliminated the possibility of granting guarantees for SNGs with C and D ratings.

40.   The first indicator is the Indebtedness, and it evaluates the Consolidated Debt to Net Current Revenue. It aims to assess the level of solvency of the government by comparing the stock of liabilities and revenue. The second one is Current Savings. It verifies whether the subnational government is making enough savings to absorb any growth in current expenditures above current revenue growth. The last indicator is the Liquidity Index. It verifies whether the SNG has enough cash resources to meet the already incurred financial obligations.

41.   Therefore, the new methodology of analysis of payment capacity is an effective tool for controlling subnational indebtedness and avoiding the policies that contributed to the fiscal deterioration of some states in the past, as well as reducing Federal Government exposure.

3.4. Guarantees Committee

42.   As part of a broad process of modernisation of the Guarantees' System of the Federal Government that culminated in the reformulation of the analysis of payment capacity, the Guarantees Committee was created in 2015. This is a collegiate forum within the National Treasury Secretariat, which aims to subsidize the Secretariat's performance regarding the granting of guarantees by the Federal Government.

43.   The National Treasury has the attribution of speaking on the convenience and opportunity of granting the guarantees. So, the creation of the Committee arose from the need to improve the technical criteria for their analysis and recommendation. Thus, with the Committee, it was possible to structure procedures and set guidelines based on technical aspects, minimizing the subjectivity.

44.   It is responsible for defining guidelines, operational procedures and prudential limits, as well as analysing and evaluating claims of guarantees by the states, municipalities and public companies and the collateral offered by them.

45.   Therefore, the Guarantees Committee is responsible for defining the guideline of the guarantee policy to be followed by the National Treasury and is important for reducing the exposure of the Federal Government to SNGs.

3.5. National Monetary Council

46.   The National Monetary Council (CMN) was created in 1964, with the objective of regulating the credit policy. Since then, the CMN has controlled both the supply of credit by the institutions authorized to operate in Brazil, by the Central Bank, and the exposure of the financial system to the public sector. In the late 1990s, a global ceiling for this exposure was established. However, after this, a lot of exceptions were included in the ceiling, even the loans incurred through the Fiscal Adjustment Program. Moreover, the public banks were used to offer special credit lines to the public sector, also as an exception to the ceiling. Therefore, the CMN control mechanisms were not being effective to regulate the national loans.

47.   Thus, in 2017, the National Monetary Council revised its regulation and established two ceilings for the loans offered by the national financial institutions to the public sector: one of 45% of the Reference Equity for each financial institution, and another, global, for operations with and without guarantee of the Federal Government, determined annually. These ceilings aim to protect the national financial system against the risk of fiscal crises and contribute to the rationalisation of the indebtedness process, avoiding the incongruence of the SNGs' demand with the credit supply. Moreover, almost all exceptions to the ceiling were excluded from the rule. Therefore, the role of the financial institutions, especially the public banks, was modified, and the CMN enforced the importance of controlling the banks' exposure to the SNGs.

3.6. Limit for new loans of the states

48.   As explained in Section 2.1, the Fiscal Adjustment Program sets limits on the total amount of new loans that each state can incur. However, from 2009, the loans were authorized in a discretionary manner, and this policy allowed states in a sensitive fiscal situation to borrow.

49.   Herein, it was necessary to establish an objective rule to support this limit, to guarantee greater transparency of the analyses, predictability to the agents, and preserve an isonomic treatment among the SNGs. Thus, a methodology for calculating this limit has been developed and was submitted for public consultation at the end of September 2018.

50.   The main assumption for the loan limit is that there must be an objective criterion that conducts the states' debt trajectory to an appropriate level that is sustainable over time. In this way, the developed methodology takes into consideration the state's rating in the analysis of payment capacity, Net Current Revenue, and level of indebtedness (Consolidated Debt to Net Current Revenue). Naturally, states with a better payment capacity, higher Net Current Revenue, and lower indebtedness have a greater limit. States with a C or D rating have limit equal to zero. As the limit is set annually, it is always updated with the state's current fiscal situation.

51.   Therefore, the establishment of a limit for the total amount of new loans that the states in the Fiscal Adjustment Program can incur based on objective criteria complements the analysis of payment capacity for controlling subnational indebtedness. This limit is especially important considering that the indebtedness limit set in the FRL is nonbinding for most states, as demonstrated in Section 2.1.

4. FURTHER REFORMS

4.1. Fiscal Management Board

52.   As said in Section 2.4, the Fiscal Responsibility Law foresees the creation of a fiscal management board, composed by representatives of all government branches and levels and technical entities representative of society, and responsible for monitoring and evaluating fiscal management. This board should also be responsible for issuing general rules for the consolidation of public accounts and establishing the standardized rules for the fiscal reports.

53.   The creation of this board could strengthen the legitimacy of the technical standards currently issued by the National Treasury due to its transitory competence. Although the courts of accounts would still be autonomous, there would probably be some progress in the convergence of the standardisation, as the normative and interpretative competence of the board would derive from the FRL, and the decisions would be collective, with broad participation of the courts of accounts themselves.

54.   There are several bills underway in the National Congress for the creation of the Fiscal Management Board. The main controversy is about the representativeness of the many agents involved. It is believed that an appropriate composition should ensure balance in the number of members of the Federal Government and of the SNGs, as well as between the executive and the other branches.

55.   The states and municipalities are in a scenario of fiscal crisis, and one of the reasons pointed out by analysts is the decentralisation of the interpretation of the Fiscal Responsibility Law to the states' courts of accounts. Therefore, the creation of the Fiscal Management Board is an additional measure for accounting standardisation, which could enforce the FRL and contribute to the improvement of the SNGs fiscal situation.

4.2. Redesign of Federal rules that impact on SNGs' finances

56.   As seen in Sections 2.2 and 2.3, taxation in Brazil is already relatively high, and the budget is very rigid. An increase in taxation may not be desirable or even effective for facing the subnational fiscal crisis due to the earmarked revenues and its procyclical character: when revenue rises, spending also raises automatically. Moreover, the share of mandatory expenditures is very high, and they can rarely be reduced.

57.   This pro-cyclical effect and rigidity are generated by constitutional commandments and Federal laws; thus, it is necessary to revise the Federal legal order to expand the powers of the SNGs to define their revenues and expenditures according to local interests. Here are some important points that could be reformed:

- Pensions system: an important part of the states' problems stem from the special retirement rules of teachers and military police officers who retire relatively early because of Federal law; thus, Federal pension reform is critical for the healing the financial and actuarial imbalance of states' pensions system.
- Teachers' minimum salary: it has generated strong pressure on SNGs' expenditures. Between 2010 and 2017, the minimum wage for teachers increased 125% while inflation measured by the INPC (inflation index) was 51%. The national minimum wage increased by 84%. Thus, SNGs demand a readjustment by the INPC since there have been significant real gains in the recent period, and many governments have already exceeded their limit of personnel expenditures established by the FRL.

- Earmarked revenues: a way of avoiding the pro-cyclicality would be a rule that allowed the accumulation of the minimum spending values in a reserve account to be used in a certain period of years. In this way, the volatility of the expenditures is reduced, and the assumption of obligations without a permanent source of resources is avoided. Another way to smooth out the problem would be to link the increase in spending by the average growth of permanent revenue in the last five years rather than annual growth. By using a five-year period, a more stable growth rate is established.

5. CONCLUSION

58.   Brazil is a federation with a relatively high degree of decentralisation. Its tax burden and indebtedness are also high compared to its peers; thus, there is not much room for tax revenue increases. A reform to improve the subnational governments' finances should focus on reducing the budgetary rigidity by decreasing the mandatory expenditure and pro-cyclical mechanisms, such as earmarked revenues.

59.   Another important measure is to improve the accounting standardisation and enforce the Fiscal Responsibility Law. In this sense, progress has been made, such as the reformulation of the Fiscal Adjustment Program and the implementation of the Matrix of Accounting Balances. An important additional measure would be the construction of the Fiscal Management Board. Moreover, for a transparent and effective control of the indebtedness of the states, reforms have been made such as the revision of the analysis of payment capacity and the establishment of a limit for new loans with an objective rule based on the states' fiscal scenario.

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