

## **Access to Bank Credit of Brazilian Municipalities in the COVID-19 Scenario**

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#### Introdução

Especially in times of war and financial crises, public debt is an instrument for maintaining investments and economic reconstruction. The COVID-19 pandemic has reached more than 150 countries worldwide, and government officials of various political and economic orientations have implemented public policies to face the crisis on several fronts: postponement of payment of taxes, facilitation of credit to companies, direct financial support to citizens, etc.

#### Problema de Pesquisa e Objetivo

Before the pandemic scenario and the need to resume economic growth, we investigate the current eligibility and capacity of municipalities to contract credit operations given the limits and criteria imposed by regulations in force in Brazil.

#### Fundamentação Teórica

Municipalities have struggled and sought strategies to maintain such services. According to Barro's (1979) theory, governments use public debt to stabilize tax collection in periods of a deficit, so there would be no need to raise taxes in overspending periods. After periods of excessive spending, the tax burden's maintenance would end up generating enough revenue to cover the undertaken debt (Barro, 1979). Considering the pandemic moment when all governments worldwide are spending too much, municipalities can use credit as an alternative way not to increase taxes (Benton and Smith, 2016).

#### Metodologia

To achieve the proposed objectives, we gather data of 3,186 municipalities from the CAUC and the FINBRA system to verify the regularity of the Brazilian municipalities in the face of each of the 11 requirements that we extracted from the Claims Instruction Manual (2019). To analyze the payment capacity of the municipalities, we used the database of the CAPAG methodology. Then, we verify the municipalities' eligibility and capacity to access bank credit through logistic regression and identify which factors are predictors of accessing credit.

#### Análise dos Resultados

We find that 52.16% of the municipalities did not meet at least one of the 11 requirements for qualifying for bank credit listed by CIM (2019). This illustrates that these municipalities cannot access new credit and thus have to refer only to the help given by states and the federal government. We find the level of indebtedness of the municipality has a negative 20% effect on the probability of accessing bank credit and that the municipalities' financial autonomy has a positive 17% effect on the likelihood of accessing new credit.

#### Conclusão

Our results are aligned with suggestions for regulators, that should do their best to do reforms to guarantee fiscal austerity, similar to Dutch municipalities in times of crisis (Overmans and Timm-Arnold, 2016). Given the seriousness of the pandemic's economic effects, our results may also indicate how other municipalities in emerging countries are facing this crisis, given that the fiscal problem is usually severe for these countries (Akindele et al. 2015).

#### Referências Bibliográficas

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