BNDES
BAD JABUTICABAS AND THE ELEPHANT IN THE ROOM

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JABUTICABA: THE FRUIT
SUMMARY ON BNDES: NOT A JABUTICABA, BUT EXTREMELY GOOD FRUIT

1. ☑ Provides finance to sectors that knowingly do not have access to private capital (SME) – BNDES has done that, and this was particularly expanded from the 2000s

2. ☑ Is aligned with a national development strategy, promote transformational investments that are critical in different stages of development (infrastructure, technological innovation and now greening)

3. ☑ Promoted exports and internationalization of national companies

4. ☑ Counter-cyclical role – BNDES played this role just like most NDBs and RDBs and MDBs

5. ☑ Use public resources but also leverages private capital – bridge loans, blended lending to reduce overall cost of capital, guarantees to mitigate risks

6. ☑ Promotes innovative instruments and “financing architecture” to crowd in private capital
TWO EXTREMELY BITTER JABUTICABAS IN BRAZIL
BAD JABUTICABA I: INFRASTRUCTURE, UNFINISHED TRANSFORMATION
INFRASTRUCTURE GAP IS SIGNIFICANT
Figure A2. (cont.)

Quality of Roads Infrastructure
(1 = best; 144 = worst)

Canada  South Africa  Australia  China  Mexico  India  Argentina  Kazakhstan  Brazil  Russia
23 37 43 49 52 76 110 113 122 124

Quality of Railroad Infrastructure
(1 = best; 144 = worst)

United States  China  Canada  Russia  India  Kazakhstan  Australia  South Africa  Mexico  Brazil  Argentina
15 17 18 26 27 28 32 44 64 95 96

Quality of Air Transport Infrastructure
(1 = best; 144 = worst)

United States  South Africa  Canada  Austria  China  Mexico  India  Russia  Kazakhstan  Argentina  Brazil
9 11 16 17 29 63 71 79 85 107 113

Quality of Port Infrastructure
(1 = best; 144 = worst)

United States  Canada  Australia  South Africa  China  Mexico  India  Russia  Argentina  Brazil  Kazakhstan
12 21 38 46 53 62 71 76 81 91 122 123

*Source: World Economic Forum*

Most of this determined by Brazil

EU = European Union, GDP = gross domestic product, PRC = People’s Republic of China
JABUTICABA 2:
FINANCIAL SECTOR, NOT “FUNCTIONAL”
### PRIVATE BANK CREDIT: TOO LITTLE, TOO SHORT

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Global rank</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, billion USD</td>
<td>2417</td>
<td>7</td>
<td>2014</td>
</tr>
<tr>
<td>Per capital GDP</td>
<td>11728</td>
<td>59</td>
<td>2014</td>
</tr>
<tr>
<td>GDP per capita, PPP</td>
<td>15162</td>
<td>72</td>
<td>2014</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>0.755</td>
<td>75</td>
<td>2014</td>
</tr>
<tr>
<td><strong>Bank credit to the private sector, percent of GDP</strong></td>
<td><strong>67.09</strong></td>
<td><strong>44</strong></td>
<td><strong>2014</strong></td>
</tr>
<tr>
<td>ATMs per 100,000 people</td>
<td>129.25</td>
<td>8</td>
<td>2014</td>
</tr>
<tr>
<td>Stock market capitalization, percent of GDP</td>
<td>34.91</td>
<td>38</td>
<td>2014</td>
</tr>
<tr>
<td>Stock market turnover ratio</td>
<td>85.62</td>
<td>8</td>
<td>2015</td>
</tr>
</tbody>
</table>

#### Brazil: Loans with maturities of three years or more

- **Banco do Brasil**: 51%
- **CEF**: 8%
- **BNDES**: 14%
- **Private Banks**: 22%
- **Other**: 6%
MARKET CAPITALIZATION: BEHIND THE CURVE

Exhibit 55: Ptax Americana

This map illustrates the dominance of the US stock market.
The capitalization of the US market is $17.9 trillion (MSCI) as of January 29, 2016, and it currently represents 53.4% of world market capitalization, the highest since November 2003.
The next largest equity markets are Japan, UK, France, Switzerland, Germany, and China.
Figure 3. Peer Comparison of Equity Market

**Number of listed companies**
(2011)

**Stock market capitalization to GDP**
(2011)

**Percent Value Traded of Top 10 Traded Companies**
(2010)

**Percent Market Capitalization of Top 10 Largest Companies**
(2010)

Source: FinStats and World Federation of Exchanges
Fig. 3. Historical average asset allocation of select Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs) 2010-2014

Table above shows the percentage of assets invested in various categories for LPFs and PPRFs from 2010 to 2014. The data is presented in a table format with years as rows and asset categories as columns. The table includes the following categories: Fixed income and cash, Listed equity, Unlisted infrastructure, and Alternatives and other. The data is color-coded to represent the percentage of assets allocated to each category.

- **LPFs**
  - 2014: 54.9% Fixed income and cash, 29.6% Listed equity, 13.6% Alternatives and other
  - 2013: 54.6% Fixed income and cash, 30.4% Listed equity, 15.1% Alternatives and other
  - 2012: 56.2% Fixed income and cash, 28.4% Listed equity, 15.3% Alternatives and other
  - 2011: 56.1% Fixed income and cash, 28.5% Listed equity, 13.8% Alternatives and other
  - 2010: 53.2% Fixed income and cash, 32.4% Listed equity, 12.9% Alternatives and other

- **PPRFs**
  - 2014: 56.2% Fixed income and cash, 30.3% Listed equity, 13.4% Alternatives and other
  - 2013: 54.8% Fixed income and cash, 31.2% Listed equity, 13.9% Alternatives and other
  - 2012: 59.1% Fixed income and cash, 29.0% Listed equity, 11.8% Alternatives and other
  - 2011: 60.3% Fixed income and cash, 28.5% Listed equity, 11.1% Alternatives and other

Note: Values are a simple average invested in each asset category for all LPFs and PPRFs, from which actual asset allocation was available in the periods 2010-2014, independently of their size in terms of assets. A total of 34 LPFs submitted asset allocations over the five-year period ending in 2014, a subset of the total survey population; 19 PPRFs submitted asset allocation data over the four-year period ending in 2014, also a subset of the total 2014 survey population. Asset allocation totals may not add to 100% due to rounding.

Source: OECD calculations based on responses to the OECD Survey on LPFs and PPRFs.
THE ELEPHANT IN THE ROOM
PLANO REAL: A STROKE OF GENIUS

The “Real” Plan

BRAZIL INFLATION RATE

SOURCE: WWW.TRADEZONE.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÁSTICA (IBGE)
MAIN CHARACTERISTIC OF THE POST-HYPERINFLATION MACROECONOMIC SETTING

- Law of fiscal responsibility – does bring discipline by also also rigidity given the structure of spending and the commitments, some related to the social debt and inherited infrastructure gaps - and limits enormously fiscal countercyclical policies

- "Floating Exchange rates", in a country with increasing pass-through and concerns about inflationary shocks

- Independent Central Bank with the mandate centered on inflation targeting – only…
A LONG AND WINDING ROAD
MACROECONOMIC POLICIES: COUNTER-INTUITIVE MONETARY POLICY
INVESTORS’ BEHAVIOR: NOT A JABUTICABA
PUBLIC DEBT AND INTEREST RATES: PERVERSE RELATIONSHIP
RATE OF RETURN ON RISK-FREE ASSET (I.E. TREASURY BONDS)
THAT IS NOT ALL…

Note: Interbank offered rates are CDI (Brazil), 1 month EUR LIBOR (EU), 1 month USD LIBOR (US)
SOME RECENT CHANGES

• Horizontal x vertical approach
• Focus on sustainability
• The TJLP rate will be replaced for a new benchmark rate (TLP) starting in 2018 for new operations.
• BNDES will assume a role in guaranteeing infrastructure loans by allowing other lenders access to collateral from borrowers
TJLP WILL BE REPLACED BY TLP

Source: Ernani Torres (2017)
Plinia cauliflora, the Brazilian grape tree, or jabuticaba, is a tree in the family Myrtaceae, native to Minas Gerais and São Paulo states in Brazil.
Conclusion

- 前途是光明的 (The prospects are bright)
- 道路是曲折的 (The road has twists and turns)
THANK YOU
CROWDING-OUT?
PPI: TOTAL LOW AND MIDDLE-INCOME COUNTRIES

- **Total Projects:** 7,132
- **Total Investment:** $2,585.214 Billion
- **Sector with highest investment:** ICT
- **Projects from low income countries:** 4.39%
LATIN AMERICA AND THE CARIBBEAN

2,212
Total Projects

$1,009.010 Billion
Total Investment

ICT
Sector with highest investment

0.45%
Projects from low income countries

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**Project Timeseries**

- **Total Investment**
- **Number of Projects**

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**Sectors**

- Electricity
- Basic
- ICT

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**Graph Details**

- **X-axis:** Total Investment
- **Y-axis:** Number of Projects

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BRAZIL

827
Total Projects

$513.532 Billion
Total Investment

Electricity
Sector with highest investment

0%
Projects from low income countries