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Guest post: time to wean Brazilian companies off the BNDES

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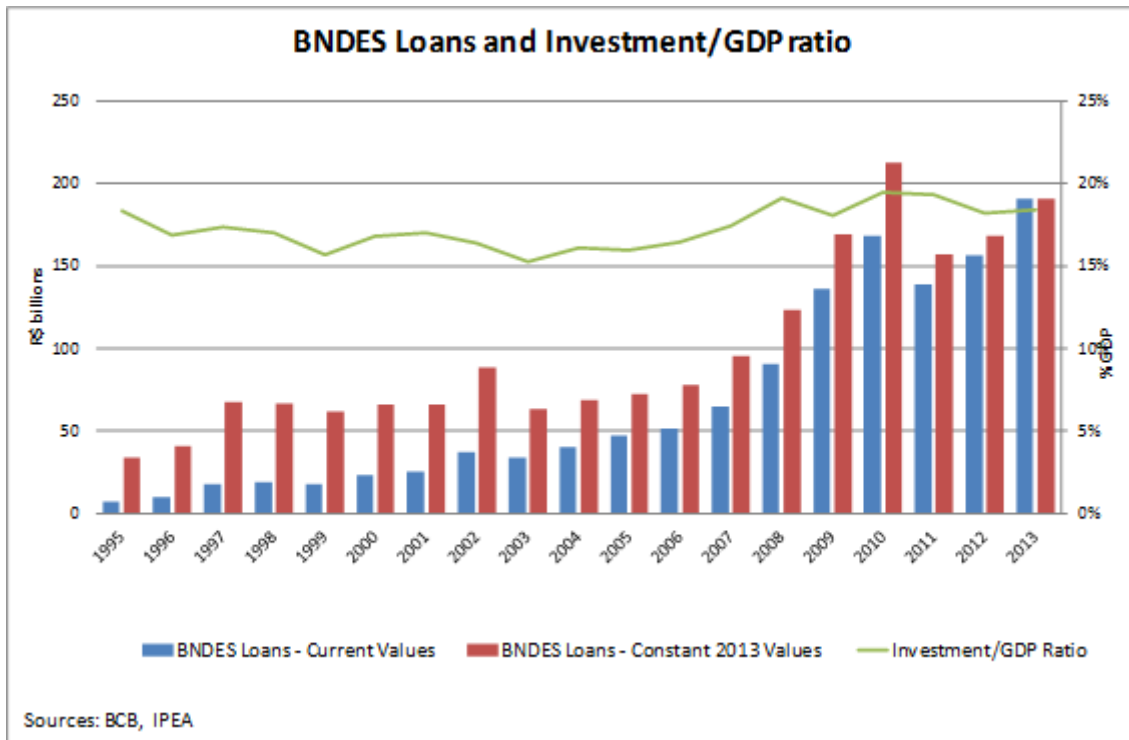


By Márcio Garcia of PUC Rio

Another R\$30bn (\$13.5bn) in long-term loans will be given this year by Brazil's National Treasury to the BNDES, the government-owned National Bank for Economic and Social Development. These transfers are made at a highly subsidised interest rate, called the TJLP, currently 5 per cent a year, while the central bank's base rate, the Selic, is currently at 11 per cent. The Treasury's transfers to government-owned banks, initiated in 2008, currently amount to almost 10 per cent of GDP, of which R\$414bn has gone to the BNDES. These resources are lent by the BNDES to corporations, also at subsidised rates.

Nonetheless, Brazil's investment to GDP ratio remains anaemic.

As the chart shows, in spite of the BNDES's hyperactivity, the national investment rate remains below 20 per cent of GDP. This low investment to GDP ratio is one of the main explanations for Brazil's mediocre average GDP growth for the 2011-2014 period, probably of less than 2 per cent a year.



Source: Márcio Garcia

One may argue that the level of investment would have been even lower had the BNDES not taken steroids. But there is no evidence of this being the case. After all, in stark contrast to its initial mandate, BNDES loans go mostly to large corporations – 67.9 per cent of them, according to the bank’s 2012 Annual Report, the most recent available on its website. Yet large companies have access to financial and capital markets, in Brazil and abroad. They only resort to the BNDES because of the substantial subsidy on offer.



Honoré Daumier : La République. 1848. Paris, musée d'Orsay

Estimates put the cost of such transfers at more than 0.6 per cent of GDP, more than the 0.5 per cent of GDP spent on Brazil's acclaimed *Bolsa Família*, a conditional cash transfer programme for poor families. And the cost is growing. Even if it were successful in boosting investment, it would not be feasible to maintain the growth of BNDES subsidised loans for much longer.

The big expansion of the BNDES's parallel budget has been used to mask the true, lax position of fiscal policy. The National Treasury, which has a very high cost of capital (higher than the Selic's 11 per cent a year), lends to the BNDES at a subsidised rate (the TJLP's 5 per cent, or lower). The BNDES, in turn, lends to corporations adding a small spread. This generates (fictitious) profits for the BNDES, a share of which is passed back to the Treasury in the form of dividends. In other words, on the operation's general reckoning, the Treasury incurs a high loss but, in the fiscal accounts, its primary fiscal revenues increase! This is an accounting trick that, in spite of repeated promises, the government refuses to give up.

In 2015, whoever he or she is, the next president of Brazil should heed calls to reverse the growth of subsidised loans. As the BNDES lends over the long term, the best policy would be to make the change gradually, reducing the volume of loans while steadily raising the TJLP towards the Selic rate, in order to prevent harm to long-term investment projects in progress. It would be unwise to go on raising lending until a fiscal crisis emerges. But the non-cooperative game of politics can end up leading to the worst outcome.

Recently, business leaders have reacted fiercely to criticism of the BNDES's subsidies. One executive from the automotive sector, speaking off the record, was quoted in the newspaper [Valor Econômico](#):

Brazil has big problems of competitiveness, generated partly by the cost of capital and the lack of a strong and dynamic capital market... I think it is justifiable to give loans solely for productive investment at incentivised rates to support competitiveness, for as long as the big reforms that the country needs, such as tax and social security reform, are not carried out.

So, instead of fighting for reforms that could actually help to solve the problems of Brazil's high cost of capital and low competitiveness, this executive prefers to go for a rather selfish logic. First, the reforms should be carried out. Then, and only then, may the subsidies be withdrawn!

If part of Brazil's business elite has such a non-cooperative attitude to reform, why should other beneficiaries of government programmes behave any differently? The next president's job will certainly not be an easy one!

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