

Brazil's development bank

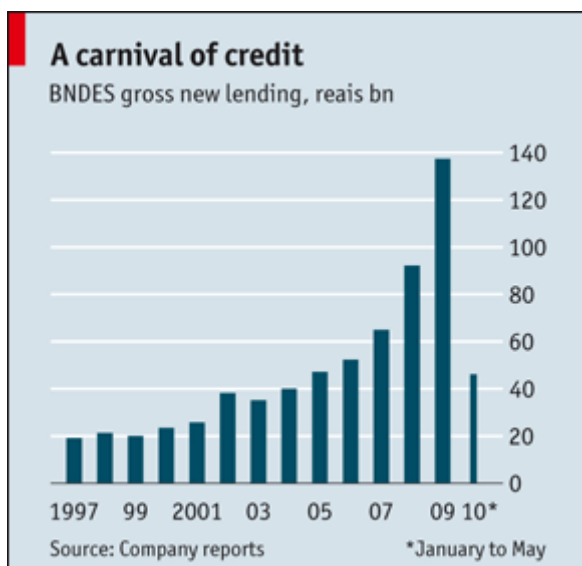
Nest egg or serpent's egg?

Ahead of presidential elections, BNDES comes under scrutiny

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EIKE BATISTA, Brazil's richest man, calls BNDES, the country's state-owned development bank, "the best bank in the world". But a former BNDES chairman, Luiz Carlos Mendonça de Barros, says it is a serpent's egg—a reference to a film about the origins of the Nazi party. And a former central-bank chief, Gustavo Loyola, dubs the bank "Jurassic" and reckons its links with the treasury recall one of the worst periods of military rule. The violence of the rhetoric reflects growing controversy over BNDES and over state interference in the economy.

BNDES's rate of new lending now far exceeds that of the World Bank. Its gross disbursements reached 137 billion reais (\$69 billion, see chart) in 2009, double the amount in 2007. Its political connections are impressive, too. The finance minister is a former head of the bank and the bank's current head is favourite to succeed him if Dilma Rousseff, the candidate of the ruling Workers' Party, becomes president.



That political background explains part of the criticism: BNDES is caught up in the campaign for the presidential election, due on October 3rd. But a larger part is attributable to a change in the bank's financing in the depths of the recession. The government used BNDES to pump money into the economy during the financial slump, with dramatic results. Between September 2008 and January 2010, credit from private banks grew by less than 10%. Credit from public banks rose by 50% and BNDES accounted for half that.

The bank's critics make three complaints. First, that BNDES has grown too big. This year, it expects to finance 40% of Brazil's total investment in manufacturing and infrastructure—a huge share and double that which it had in 2004-06. Next, they say, its loans are subsidised and its accounts murky. No one is sure of the total subsidy but, as a guide, BNDES lends at about 6%, well below the yield on ten-year government bonds of 12%. The treasury subsidises the difference which, on \$100 billion of outstanding loans, would be some \$6 billion a year. Márcio Garcia, an economist at the Pontifical Catholic University in Rio de Janeiro, calls the subsidy “a parallel [state] budget”.

Third, critics reckon BNDES lends to the wrong people. Four-fifths of the value of its loans goes to large companies (those with over 500 staff). The bank has lent Petrobras, the state oil giant, 25 billion reais. JBS and Marfrig, two large firms, got about 18 billion reais between them. Both have been on acquisition sprees abroad, snapping up American food suppliers. This, the critics say, is the covert creation of national champions by the state.

Not so, replies João Carlos Ferraz, BNDES's director of planning. The loans to JBS and Marfrig were commercial decisions, made by the bank's commercial arm, at commercial rates. The subsidy is less than \$6 billion a year (though he does not say by how much). And subsidies are not accounted for to Congress like other items of public spending because the loans are backed by assets from borrowers, so they do not increase net public debt.

There are, though, two criticisms which are harder to shrug off. First, BNDES seems to have gone on boosting its loans for too long. Between 2001 and 2008 it acted as a useful counterweight to the credit cycle. But that pattern has changed dramatically. Even though the economy has rebounded this year, BNDES loans have continued to rise sharply. Eduardo Giannetti, economic adviser to Marina Silva, the presidential candidate of the Green party, reckons that what might have been justified as an emergency measure is instead turning into an open-ended commitment for billions.

Second, BNDES is hampering the development of the financial sector. At the moment, Brazil's banking system is peculiar: commercial banks lend to the government and supply consumers credit, but do not provide much debt to businesses, which mostly finance themselves from retained profits. And BNDES is practically alone in the long-term loan business. Two-thirds of its revenue comes from loans of over five years. In contrast, private commercial banks get, on average, just 1%.

Ideally, commercial banks need to get into the business of long-term lending to companies. But so long as Petrobras, Vale (a mining giant) and JBS get subsidised credit from BNDES, why should they? Some of the criticism of BNDES is no doubt questionable. But the bank is growing too fast. And it needs greater transparency and much more competition.