



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

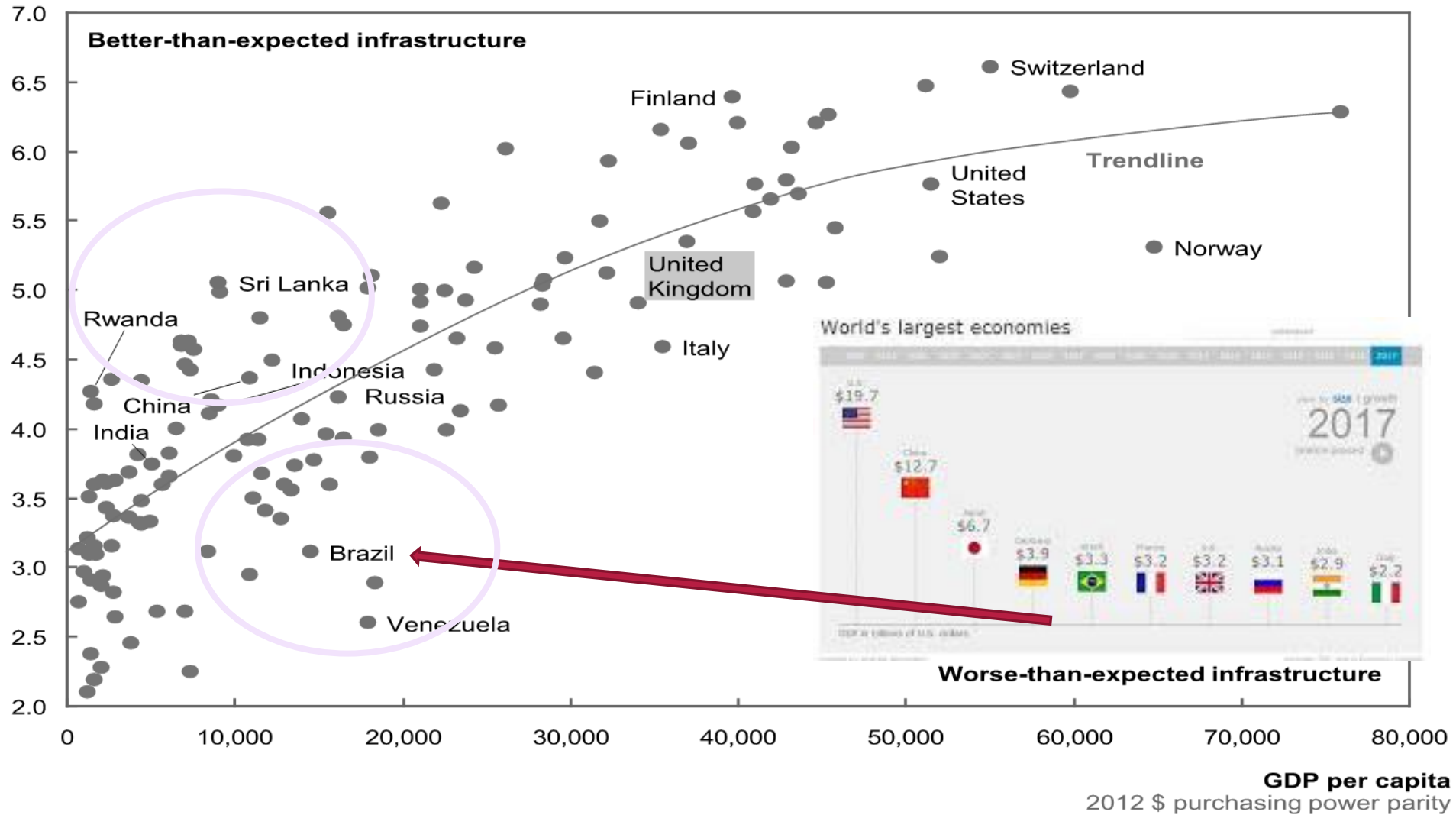


BAD JABUTICABA I: INFRASTRUCTURE, UNFINISHED TRANSFORMATION



World Economic Forum (WEF) infrastructure quality

Index (higher is better)

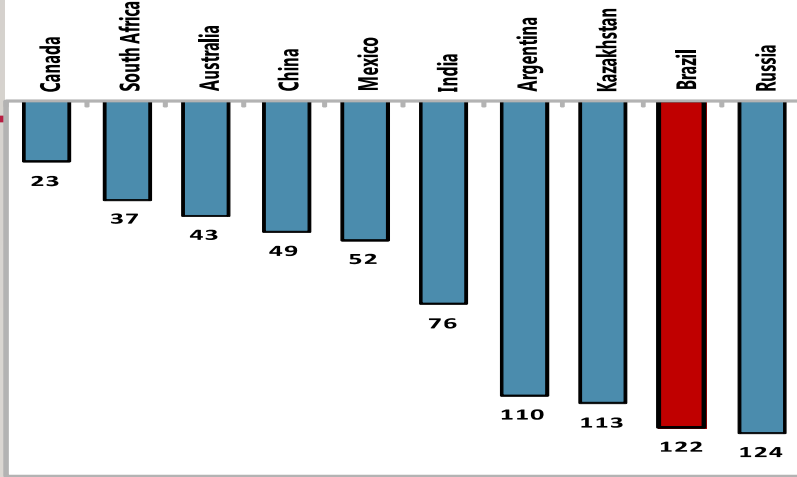


SOURCE: World Economic Forum; World Bank; McKinsey Global Institute analysis

Figure A2. (cont.)

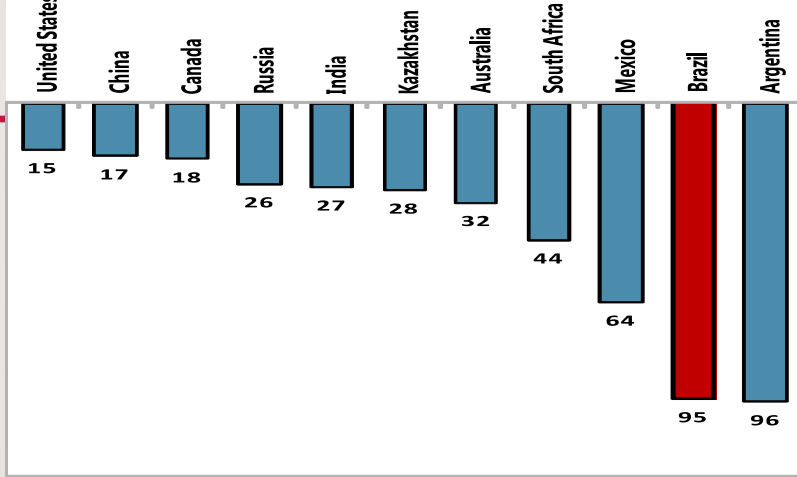
Quality of Roads Infrastructure

(1 = best; 144 = worst)



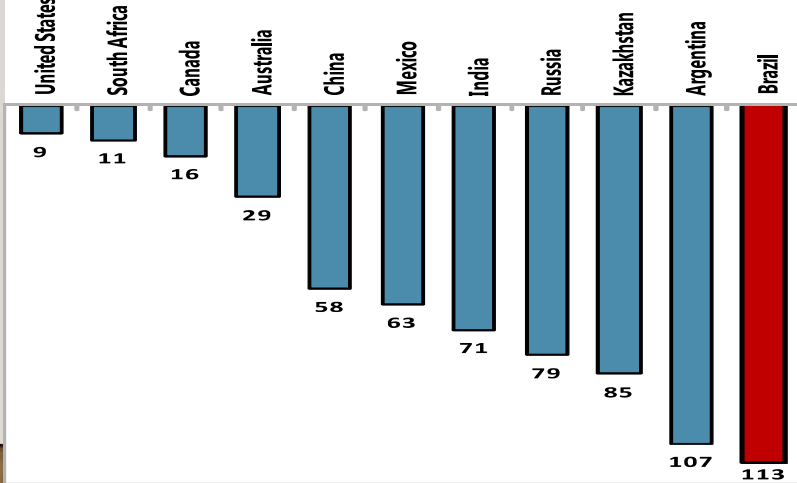
Quality of Railroad Infrastructure

(1 = best; 144 = worst)



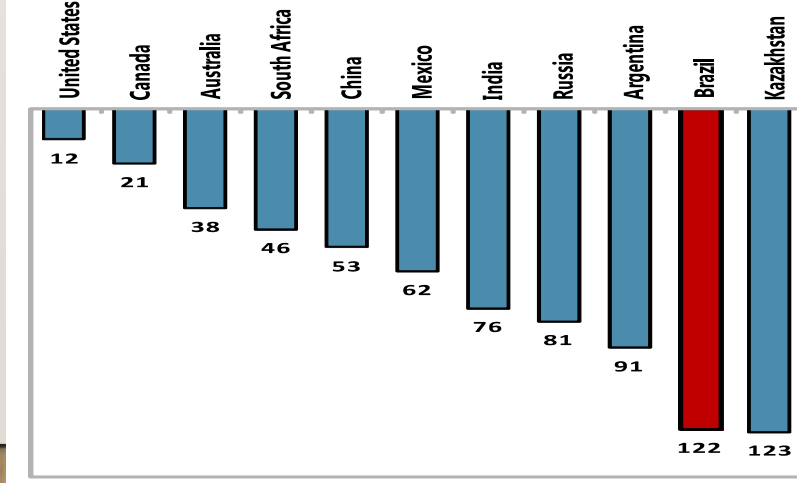
Quality of Air Transport Infrastructure

(1 = best; 144 = worst)

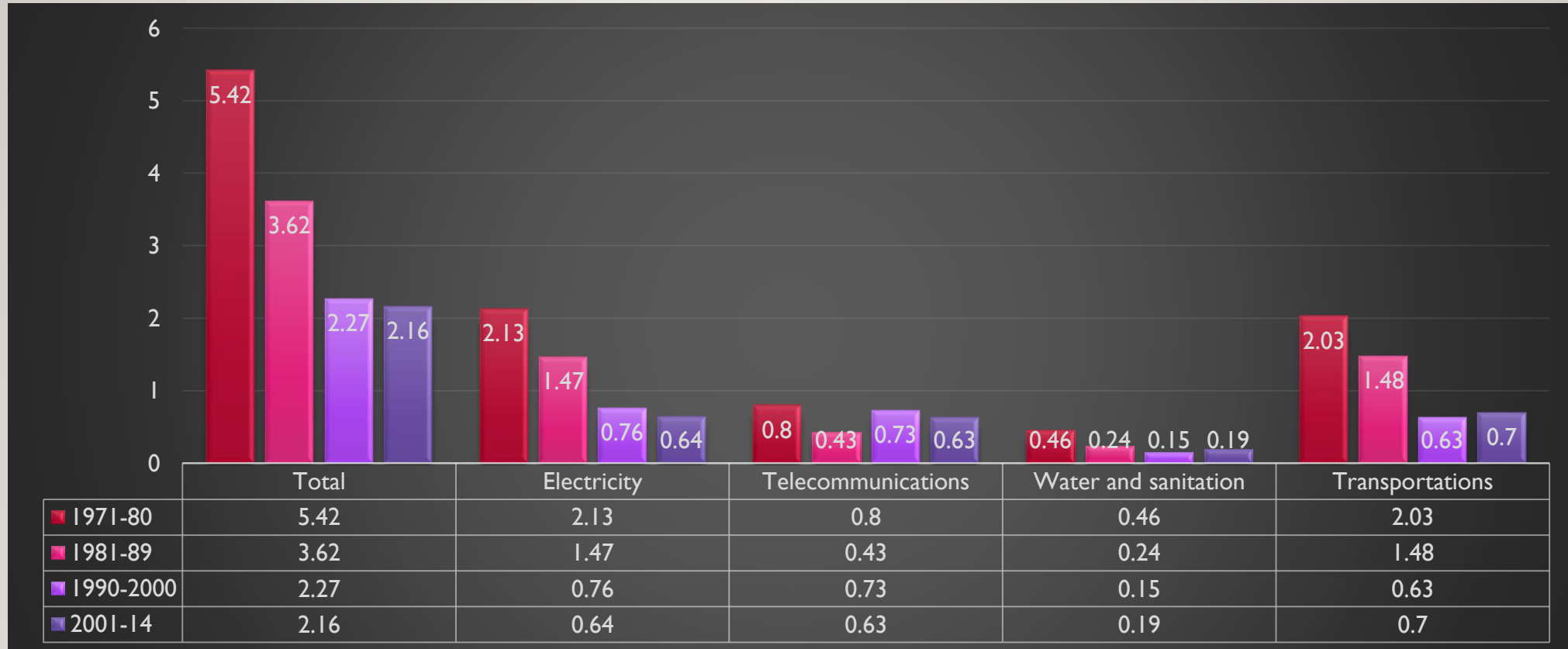


Quality of Port Infrastructure

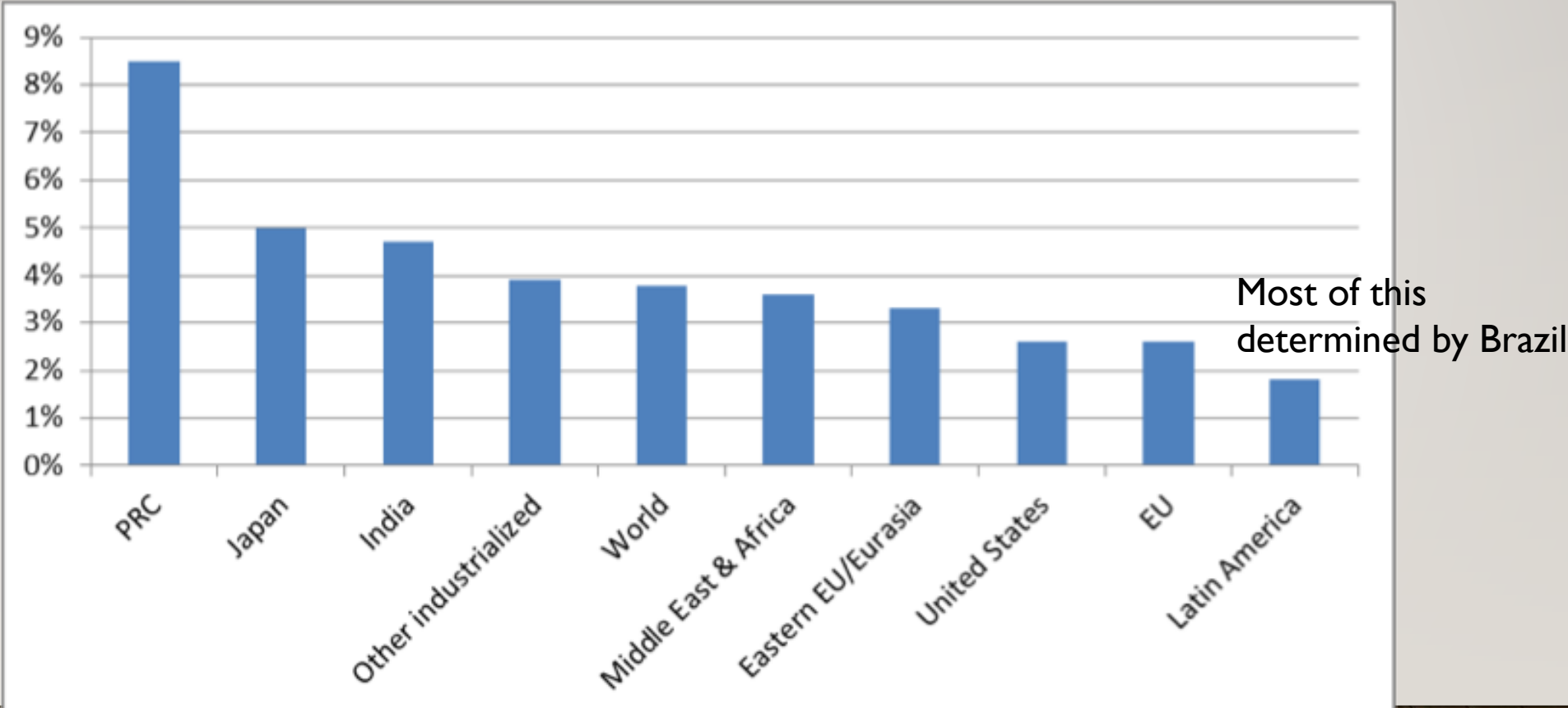
(1 = best; 144 = worst)



INFRASTRUCTURE INVESTMENT % GDP



MIND THE GAP: INFRASTRUCTURE SPENDING/ GDP – 1992-2011



EU = European Union, GDP = gross domestic product, PRC = People's Republic of China.

Source: McKinsey (2013).

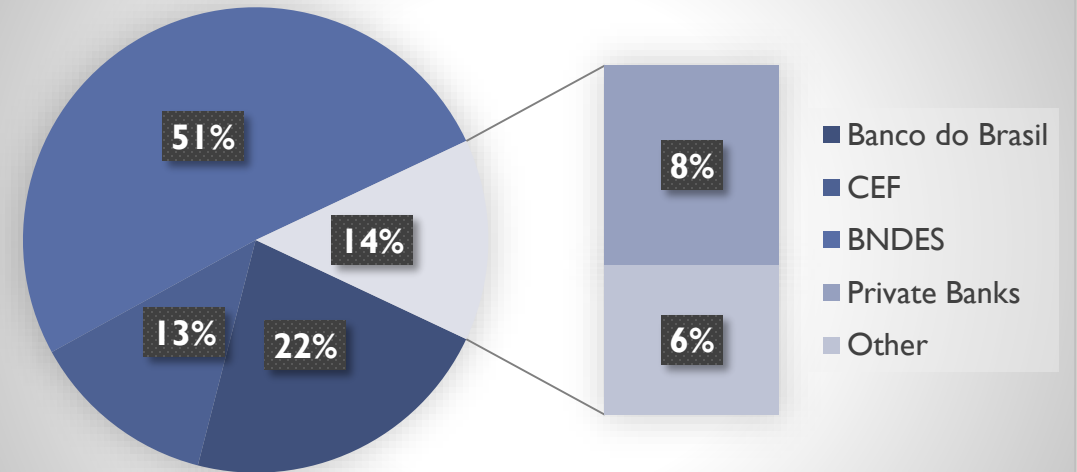
JABUTICABA 2: FINANCIAL SECTOR, NOT “FUNCTIONAL”



PRIVATE BANK CREDIT: TOO LITTLE, TOO SHORT

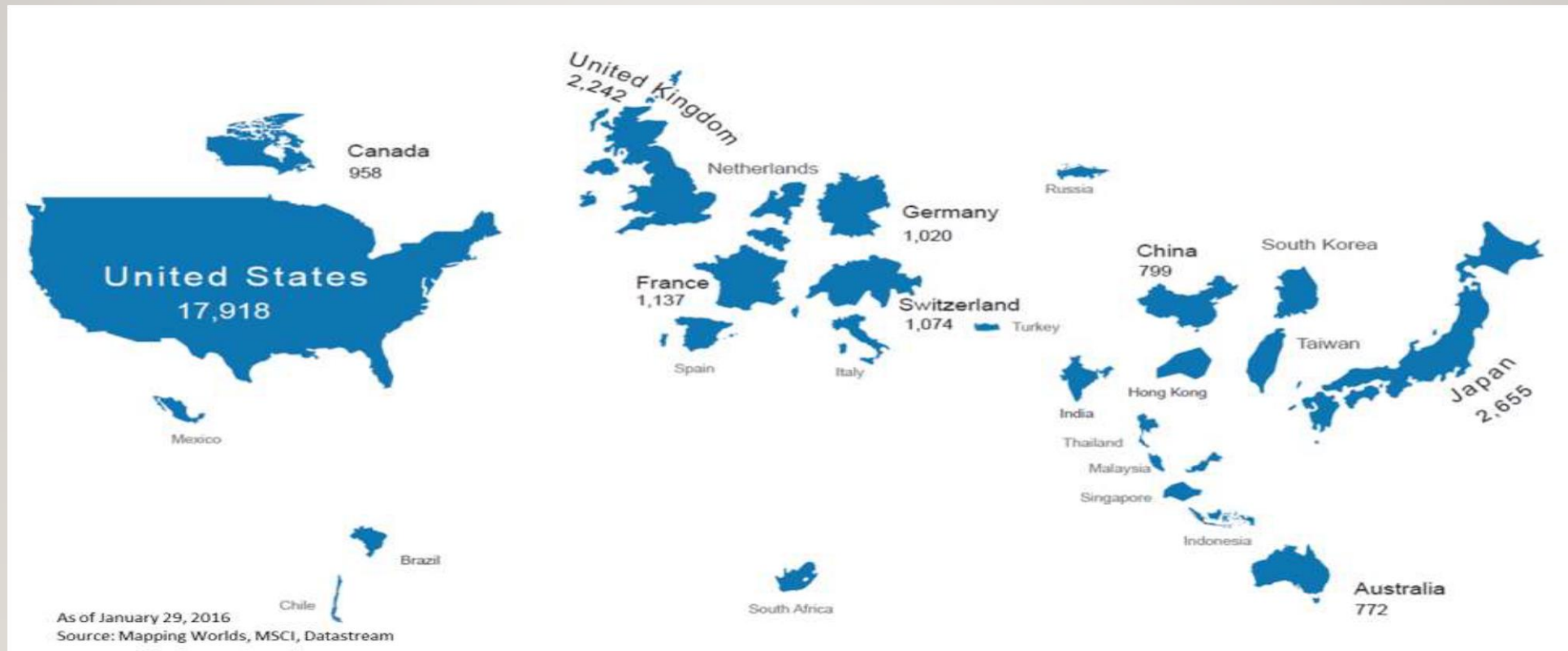
Indicator	Value	Global rank	Year
GDP, billion USD	2417	7	2014
Per capital GDP	11728	59	2014
GDP per capita, PPP	15162	72	2014
Human Development Index	0.755	75	2014
Bank credit to the private sector, percent of GDP	67.09	44	2014
ATMs per 100,000 people	129.25	8	2014
Stock market capitalization, percent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

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



MARKET CAPITALIZATION: BEHIND THE CURVE

Exhibit 55: Pax Americana

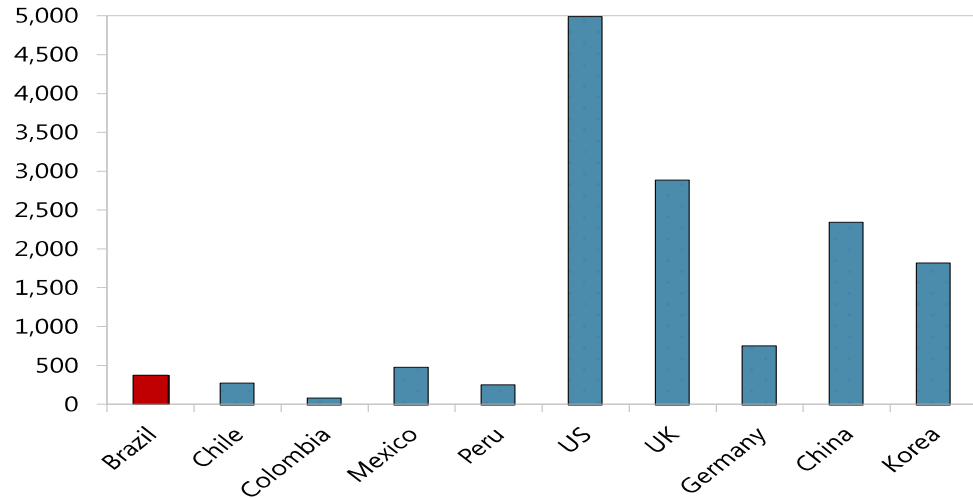


- This map illustrates the dominance of the US stock market.
- The capitalization of the US market is \$17.9tn (MSCI) as of January 29, 2016, and it currently represents 53.4% of world market capitalization, the highest since November 2003.
- The next largest equity markets are Japan, UK, France, Switzerland,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

Figure 3. Peer Comparison of Equity Market

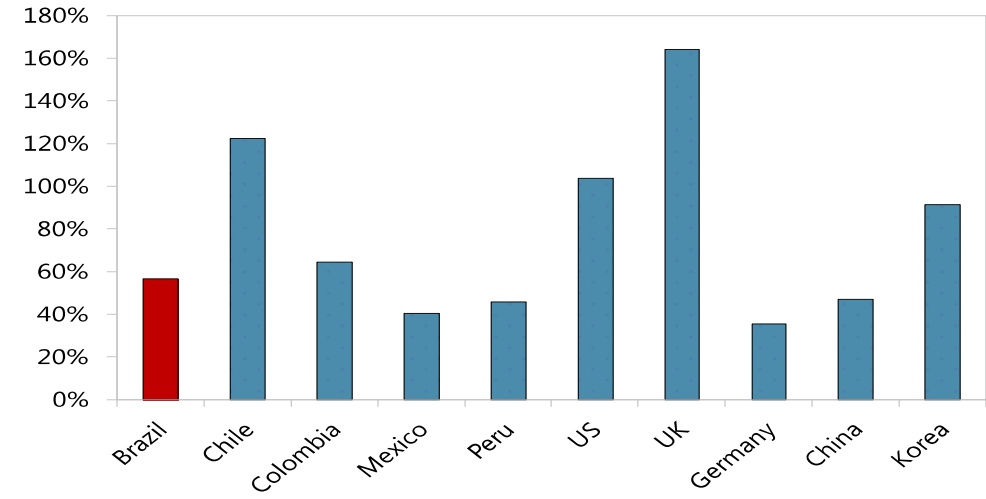
Number of listed companies

(2011)



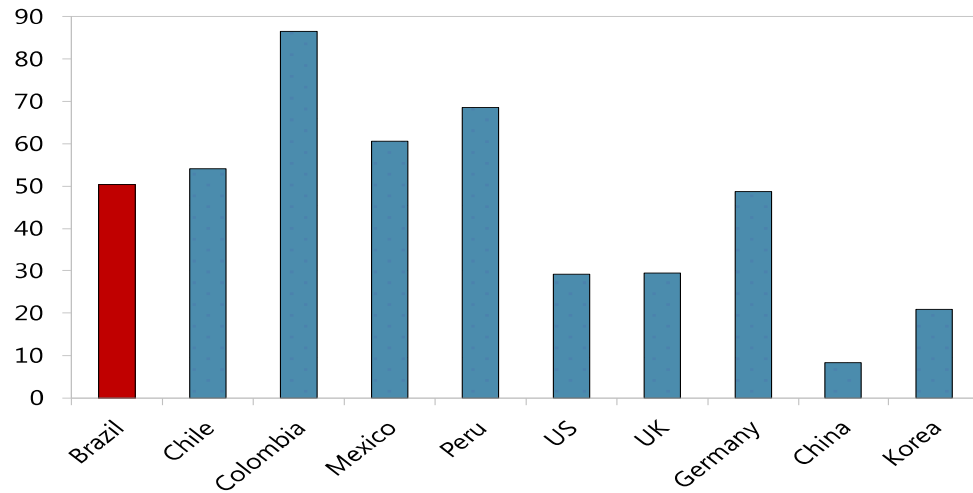
Stock market capitalization to GDP

(2011)



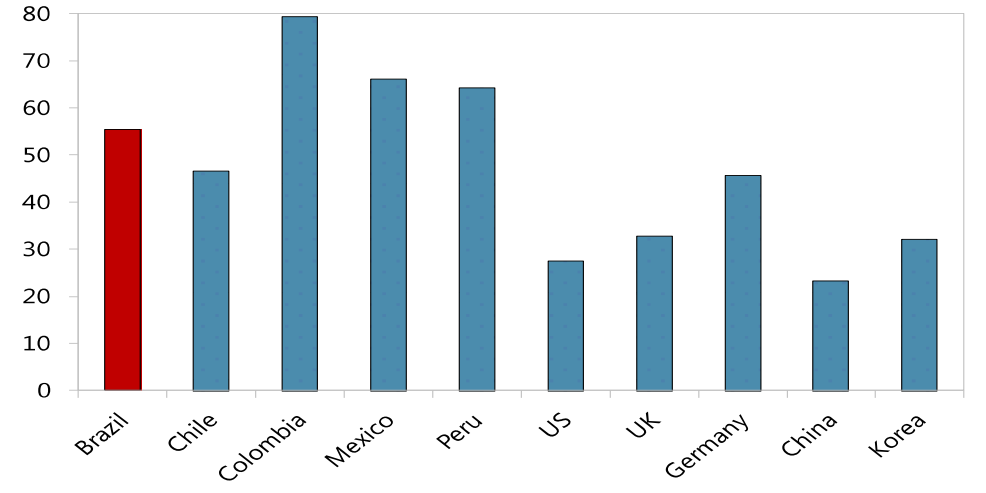
Percent Value Traded of Top 10 Traded Companies

(2010)



Percent Market Capitalization of Top 10 Largest Companies

(2010)



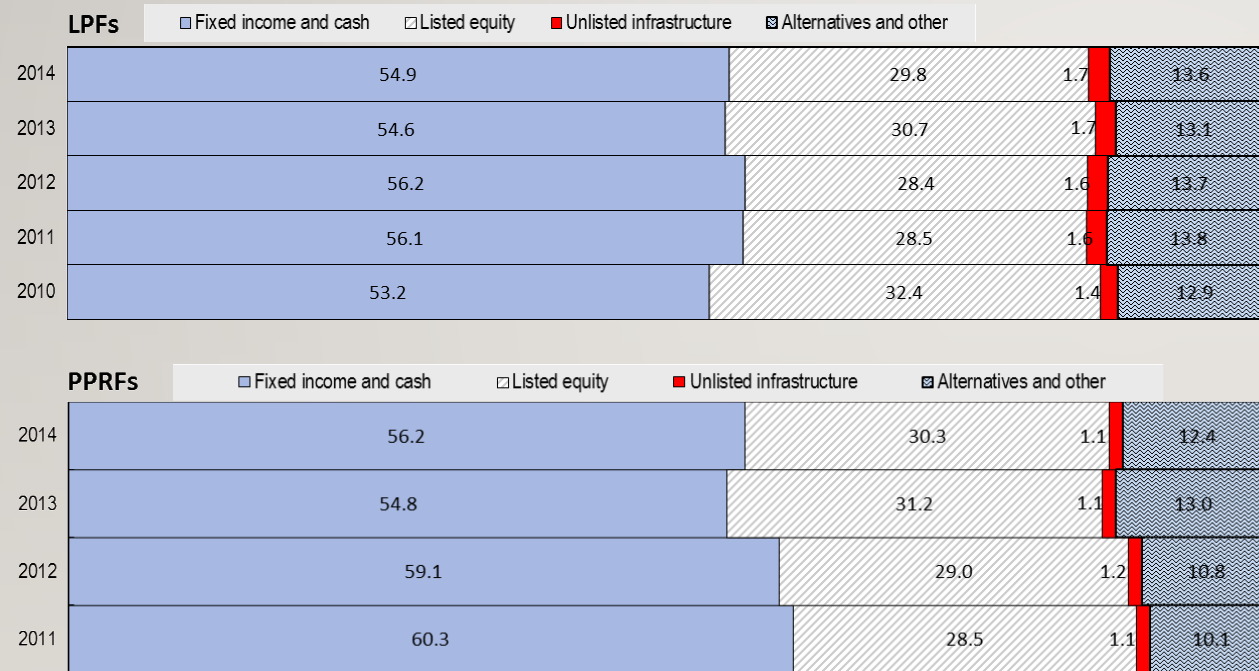
Source: FinStats and World Federation of Exchanges

NOT EVEN INSTITUTIONAL INVESTORS WANT TO TAKE LONG-TERM ASSETS

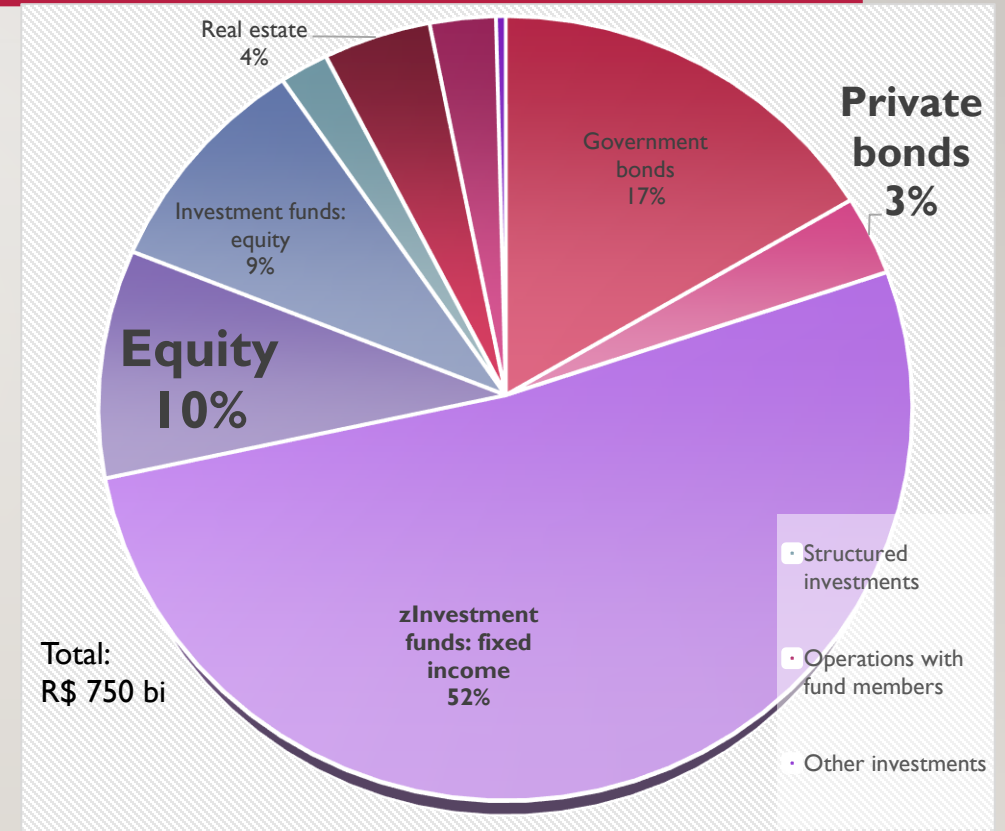
Figure 3. Historical average asset allocation of select Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs) 2010-2014

Reserve Funds (PPRFs) 2010-2014

As a percentage of total assets



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.



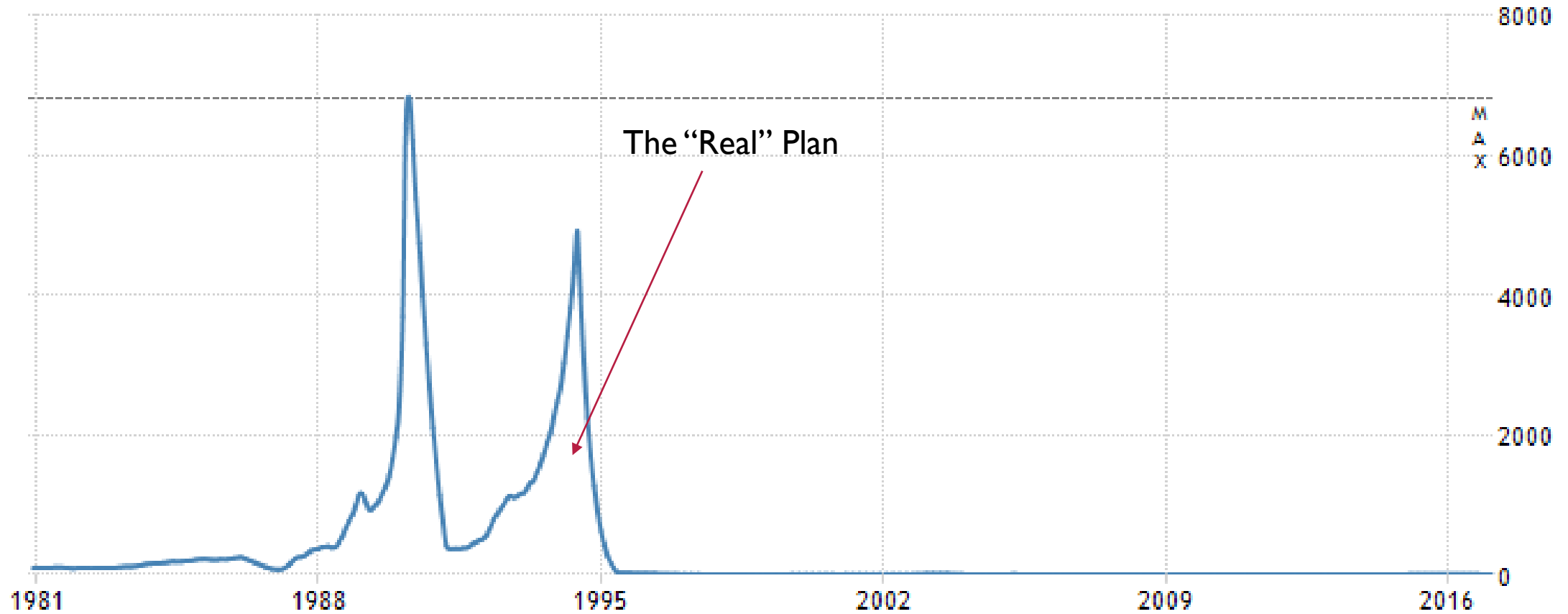


THE ELEPHANT IN THE ROOM



PLANO REAL: A STROKE OF GENIUS

BRAZIL INFLATION RATE

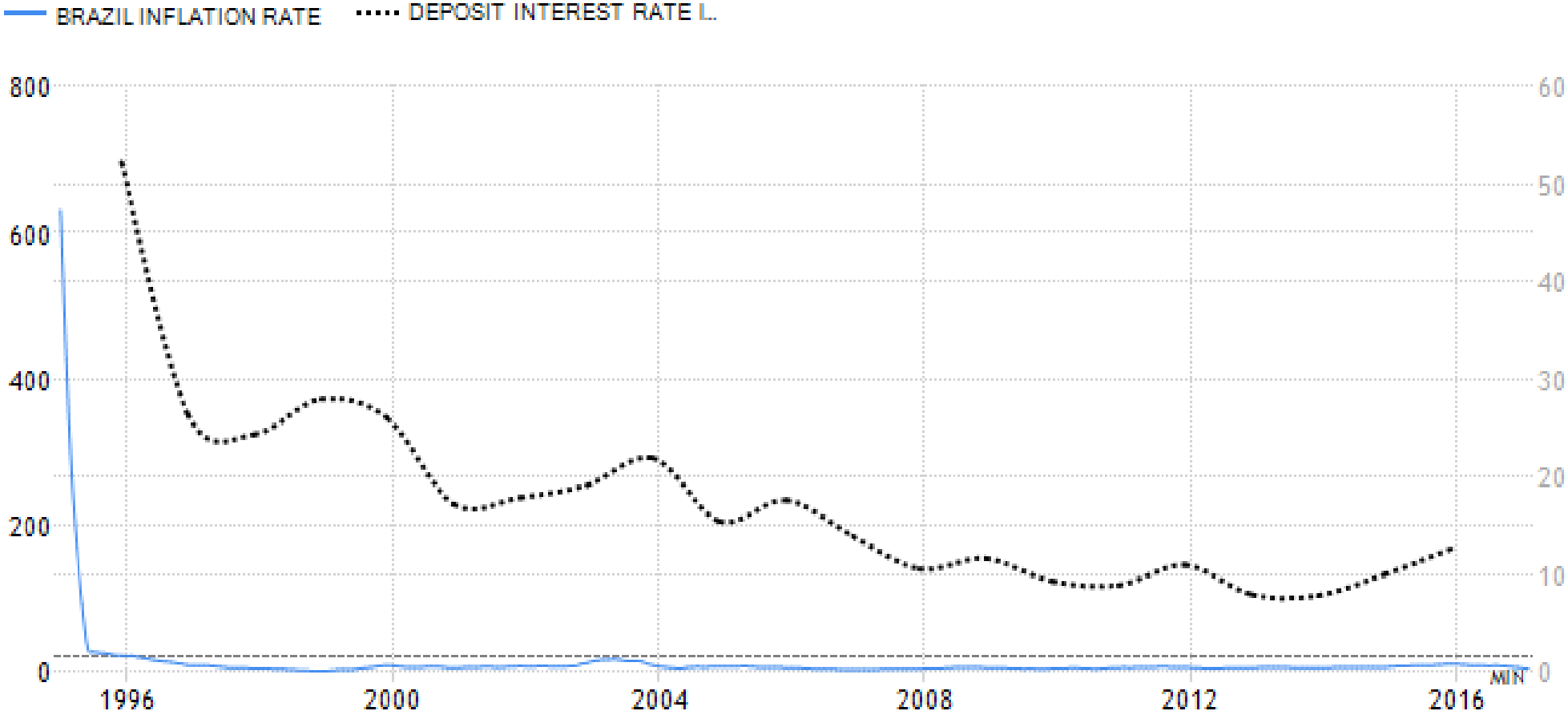


SOURCE: WWW.TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)

MAIN CHARACTERISTIC OF THE POST-HYPERINFLATION MACROECONOMIC SETTING

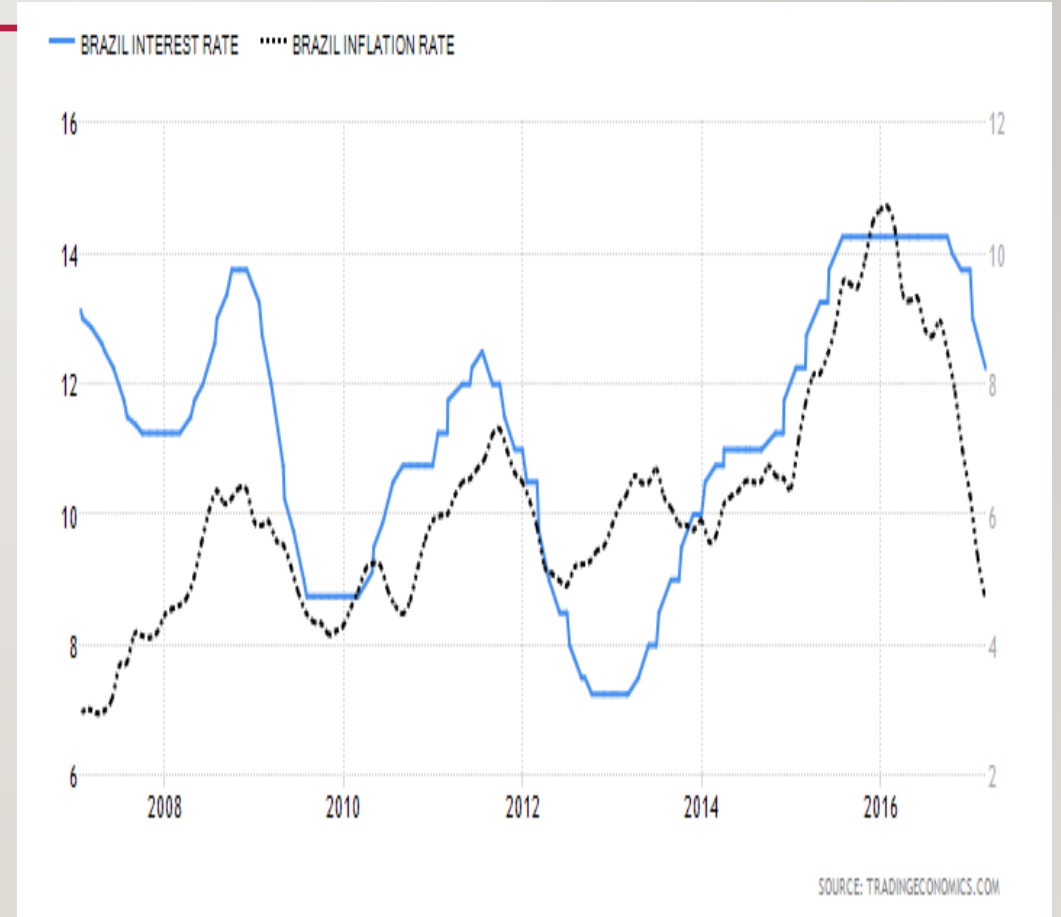
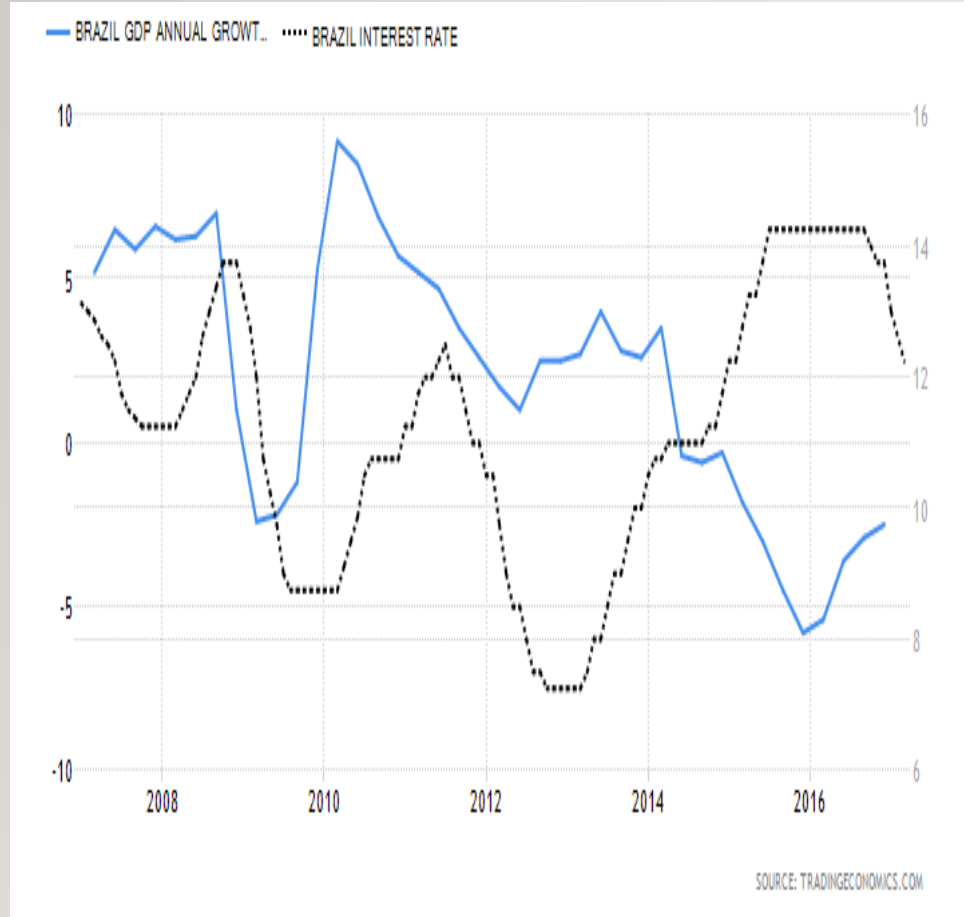
- Law of fiscal responsibility – does bring discipline by also also rigidity given the structure of spending and the commitments, some related to the social debt and inherited infrastructure gaps - and limits enormously fiscal countercyclical policies
- "Floating Exchange rates", in a country with increasing pass-through and concerns about inflationary shocks
- **Independent Central Bank with the mandate centered on inflation targeting – only...**

A LONG AND WINDING ROAD

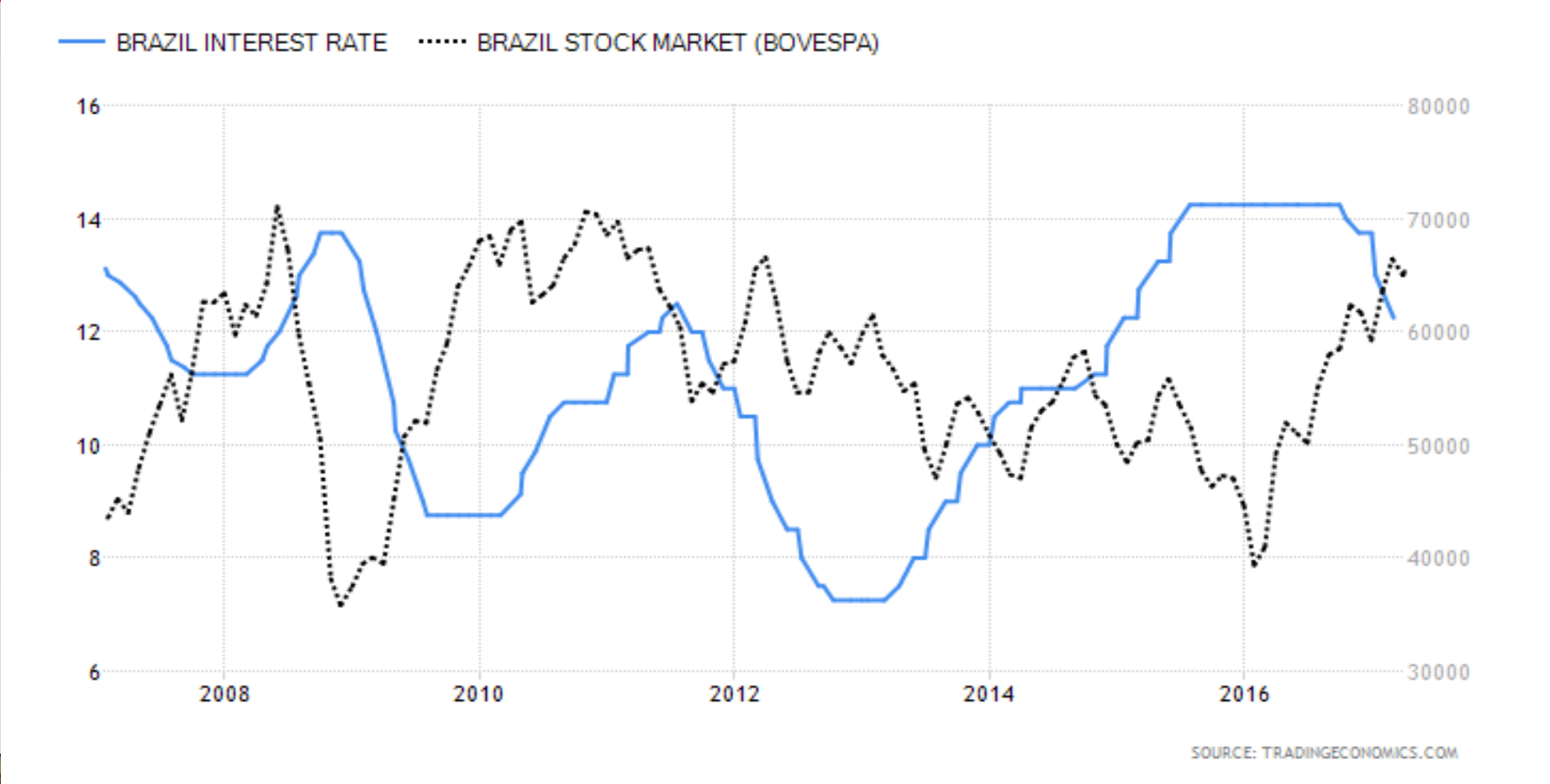


SOURCE: TRADINGECONOMICS.COM

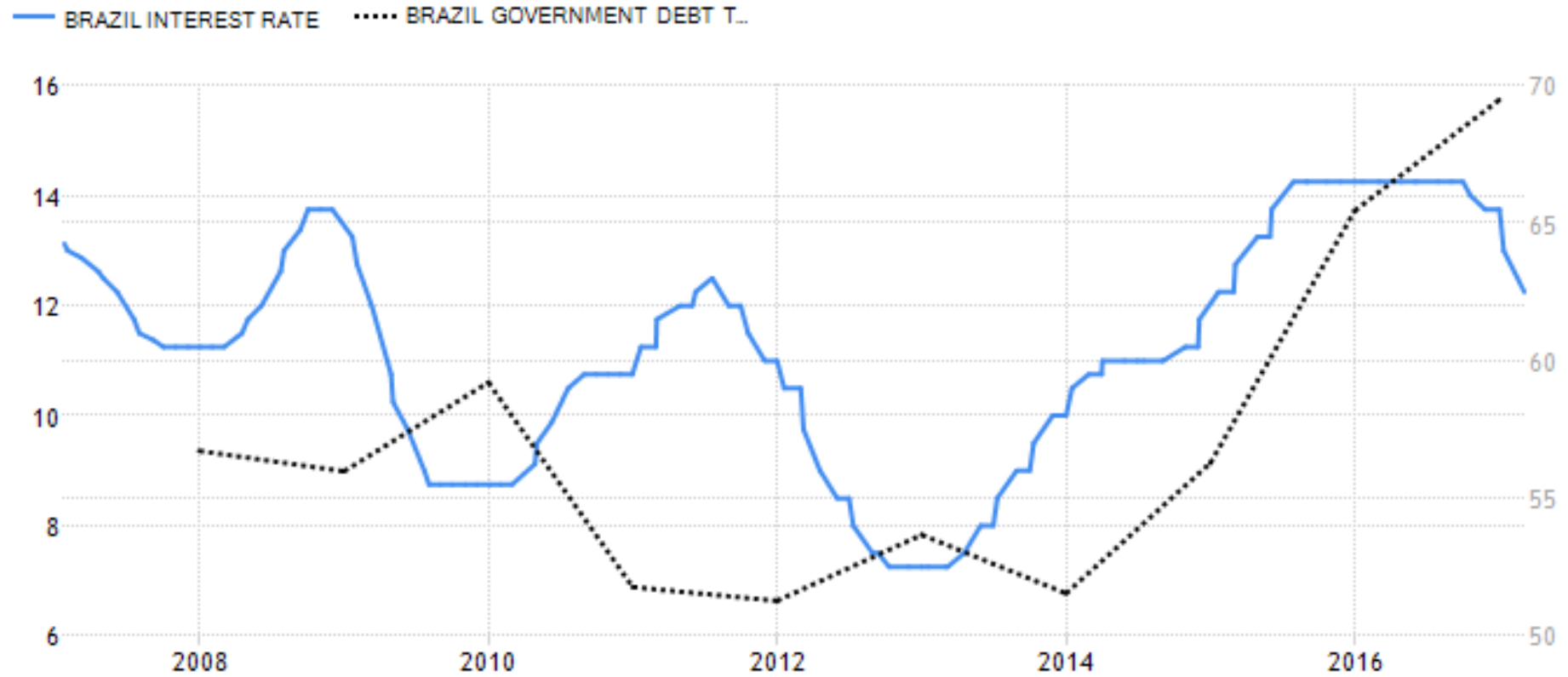
MACROECONOMIC POLICIES: COUNTER-INTUITIVE MONETARY POLICY



INVESTORS' BEHAVIOR: NOT A JABUTICABA



PUBLIC DEBT AND INTEREST RATES: PERVERSE RELATIONSHIP

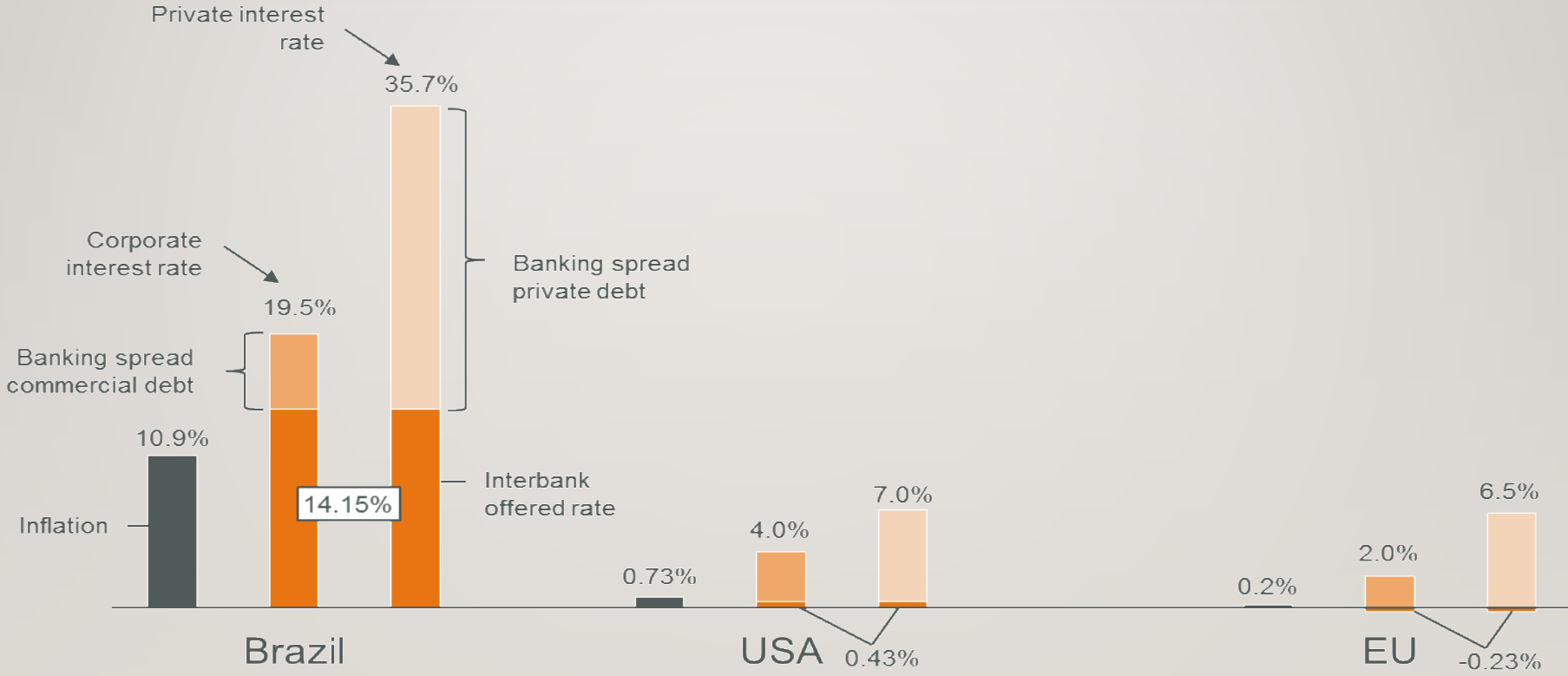


SOURCE: TRADINGECONOMICS.COM

RATE OF RETURN ON RISK-FREE ASSET (I.E. TREASURY BONDS)



THAT IS NOT ALL...

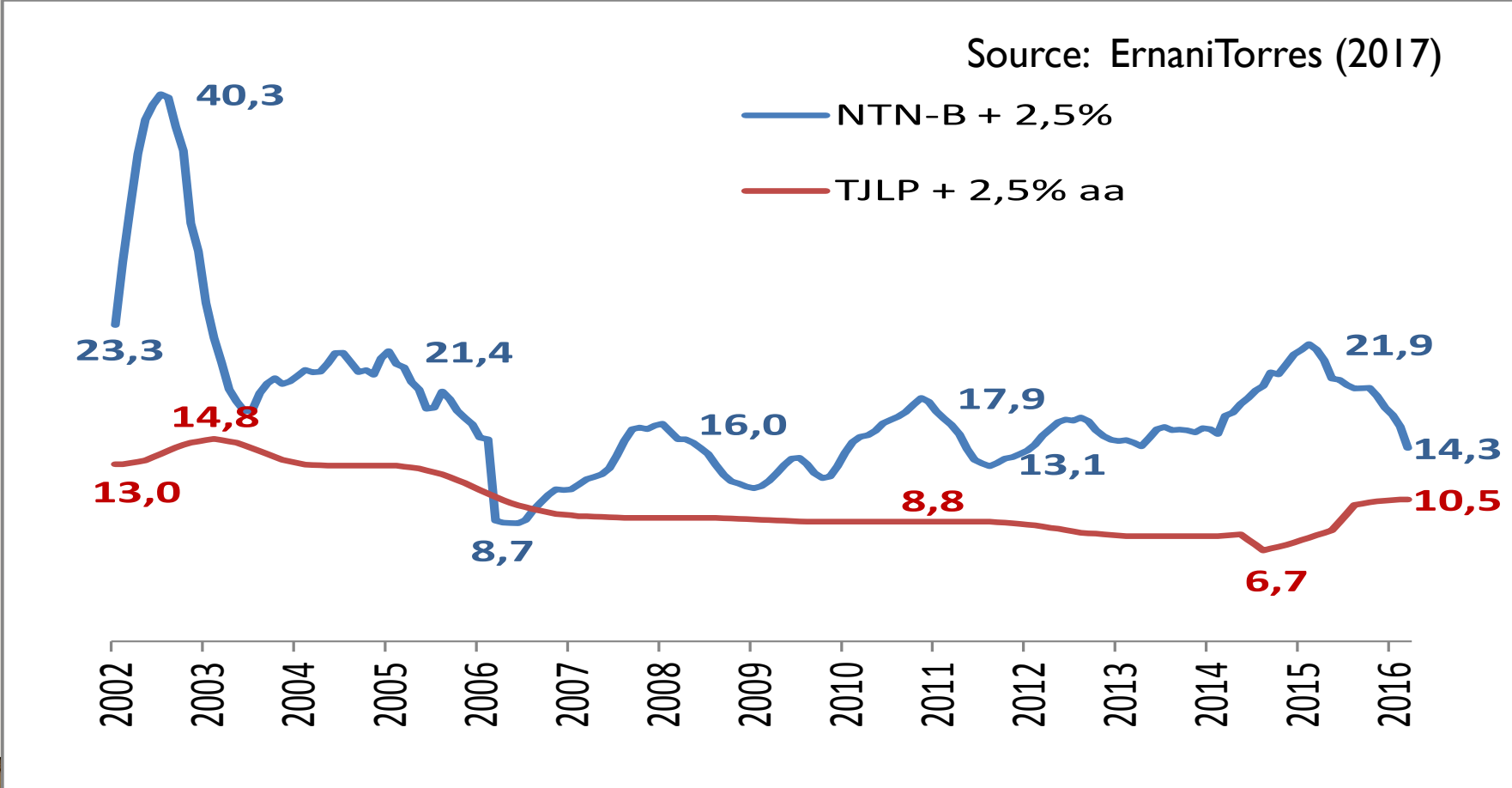


Note: Interbank offered rates are *CDI* (Brazil), *1 month EUR LIBOR* (EU), *1 month USD LIBOR* (US)

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



PLINIA CAULIFLORA OR THE “JABUTICABEIRA”



Plinia cauliflora, the Brazilian grape tree, or **jabuticabais** a tree in the family Myrtaceae, native to Minas Gerais and São Paulo states in Brazil

结语 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

7,132

Total Projects

\$2,585.214 Billion

Total Investment

ICT

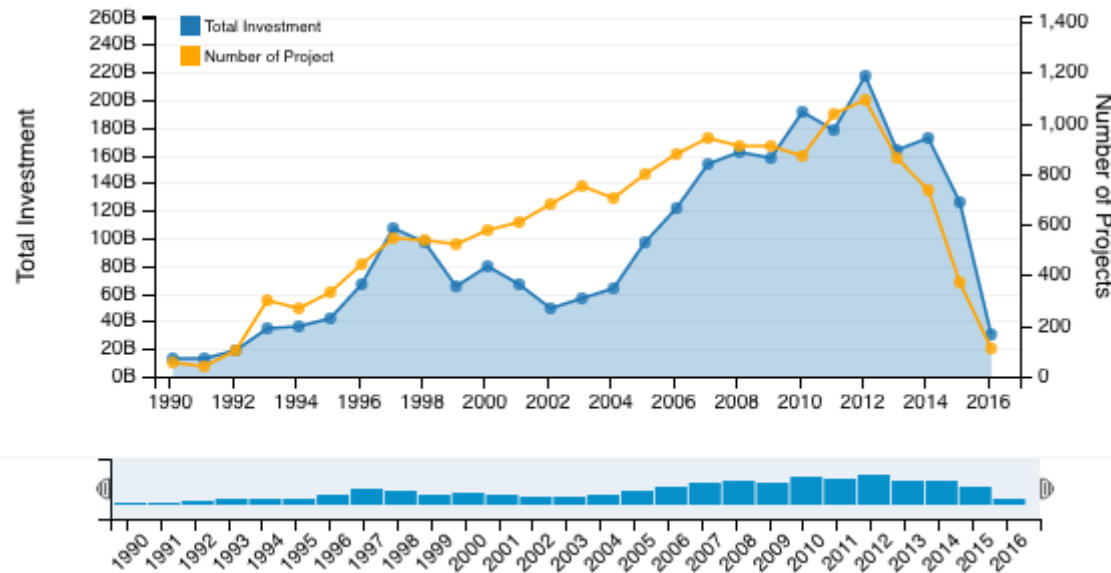
Sector with highest investment

4.39%

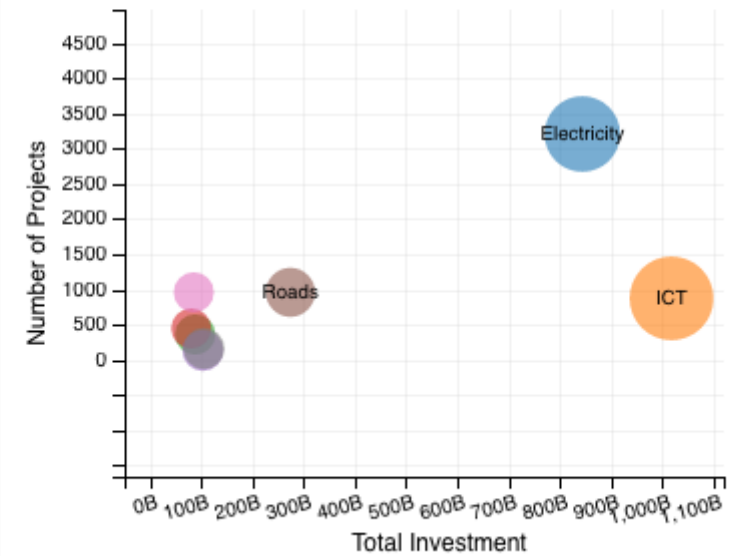
Projects from low income countries

Project Timeseries ▶ Play

Line Bubble



Sectors



LATIN AMERICA AND THE CARIBBEAN

2,212
Total Projects

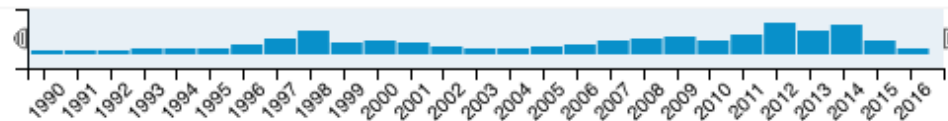
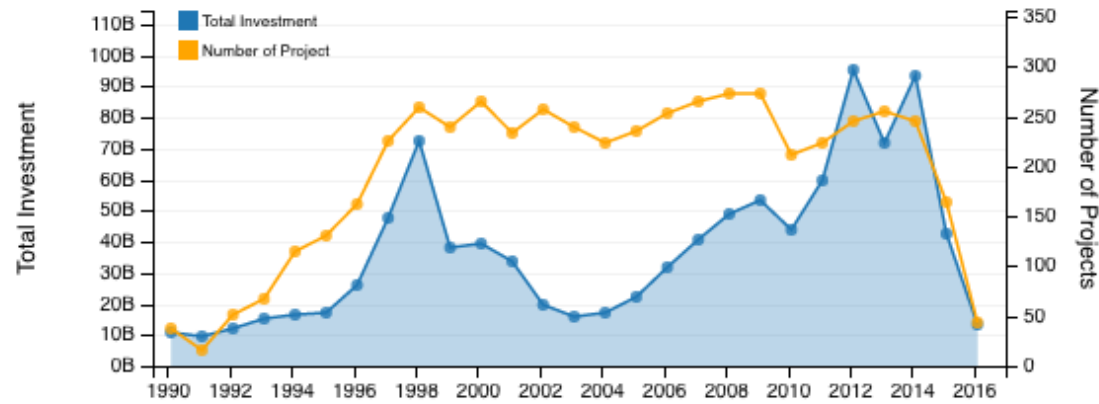
\$1,009.010 Billion
Total Investment

ICT
Sector with highest investment

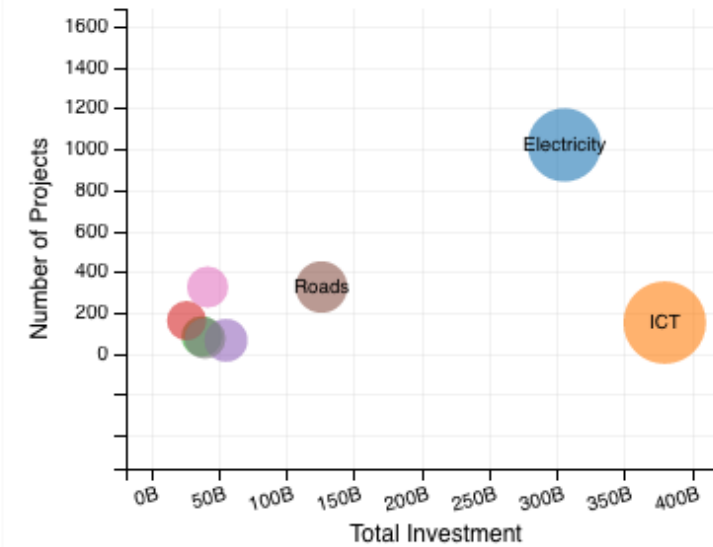
0.45%
Projects from low income countries

Project Timeseries ▶ Play

Line Bubble



Sectors



BRAZIL

827

Total Projects

\$513.532 Billion

Total Investment

Electricity

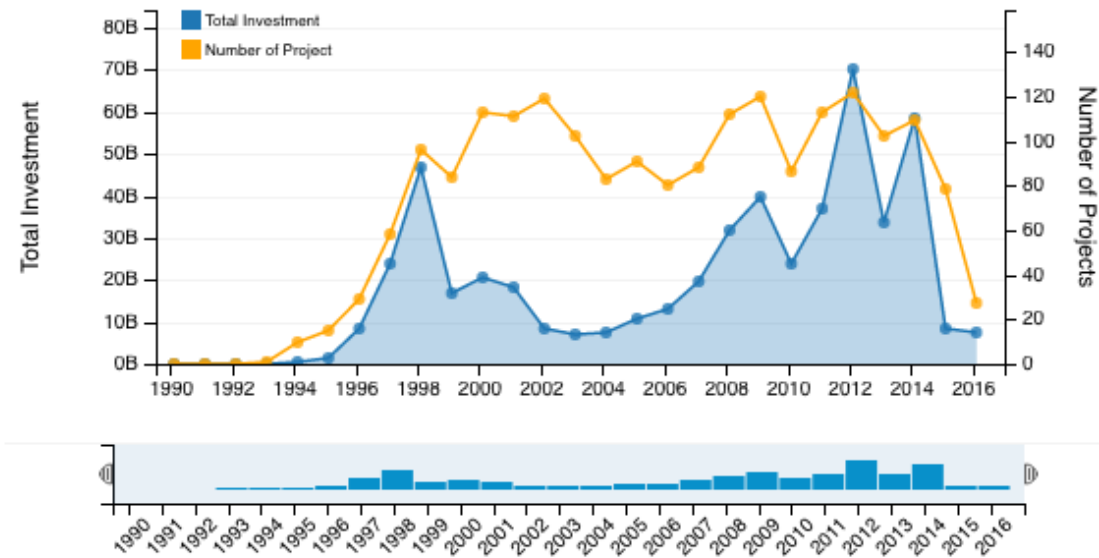
Sector with highest investment

0%

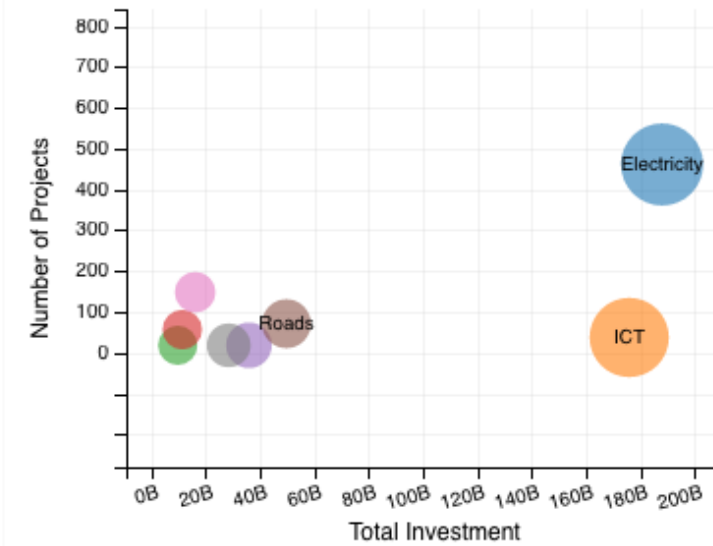
Projects from low income countries

Project Timeseries ▶ Play

Line Bubble



Sectors



CHINA

1,336
Total Projects

\$146.674 Billion
Total Investment

Electricity
Sector with highest investment

0%
Projects from low income countries

