

*The role of Industrial Policy
in Brazilian development*

*A seminar for CEPAL's Summer School
August 2010*

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- Recent performance, growth prospects and challenges
- Development Policies
- A challenge: long term financing
- The role of BNDES
- Summary and implications

Recent performance, growth prospects and challenges

- Growth in check... for some time... New poles of dynamism.
- Negative externalities associated with climate change.
- Fierce competition.
- Acceleration of technical progress.
- States actively defending national interests.

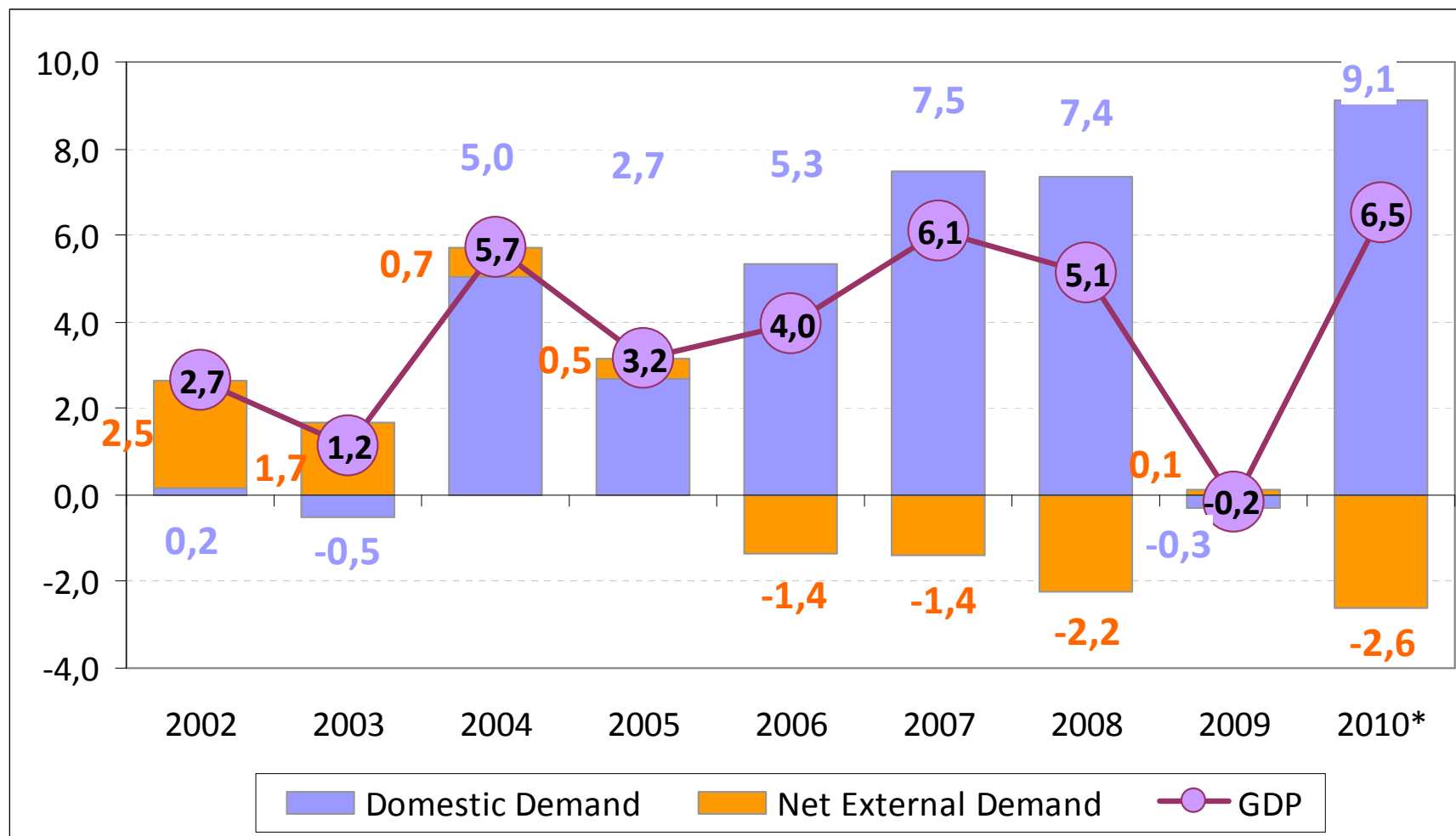
Domestic market explains 2004-2008 growth cycle and 2010 recovery...



Contribution to GDP

(in percentage points)

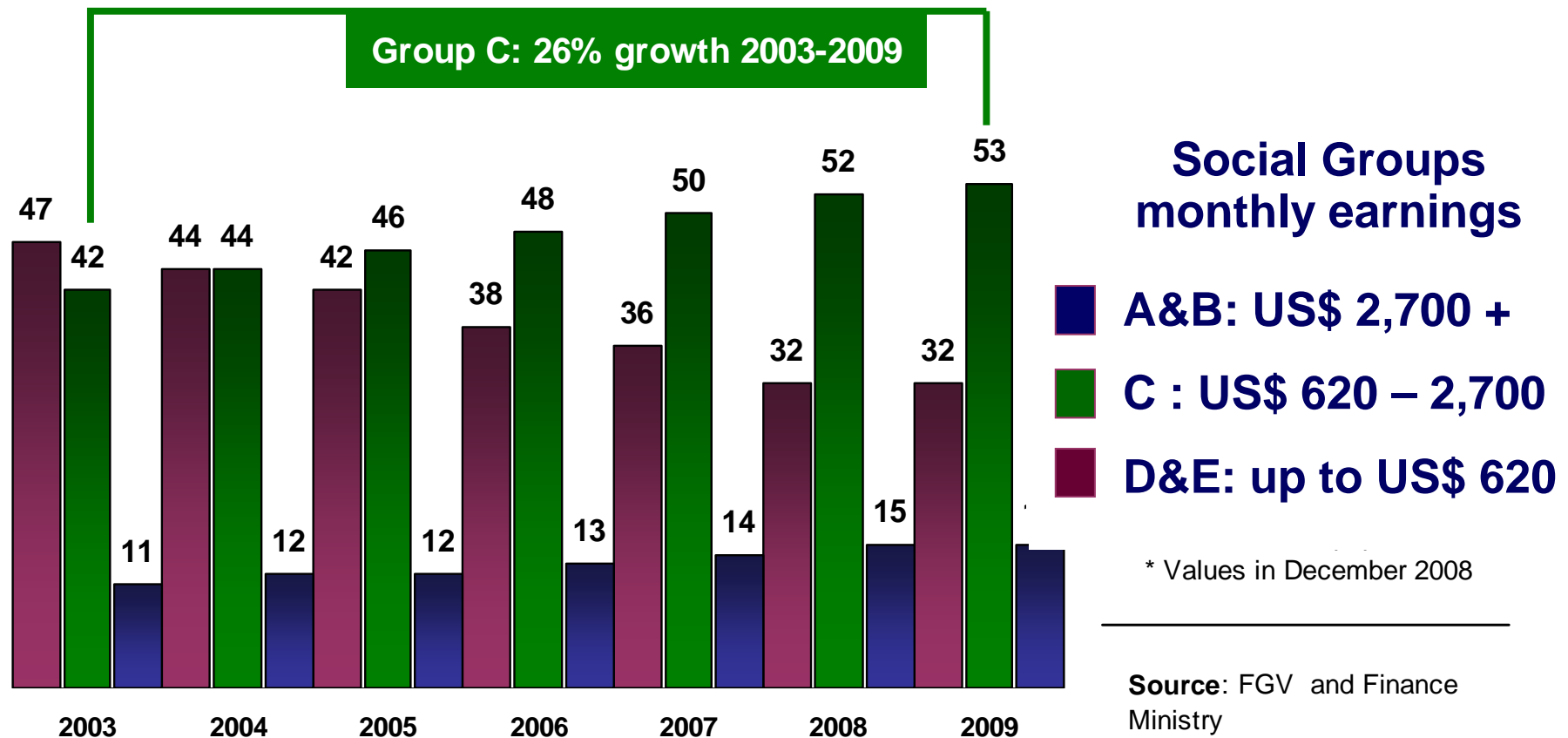
* Forecast



... as economic inclusion is on the making...



Social Groups (% of total population)

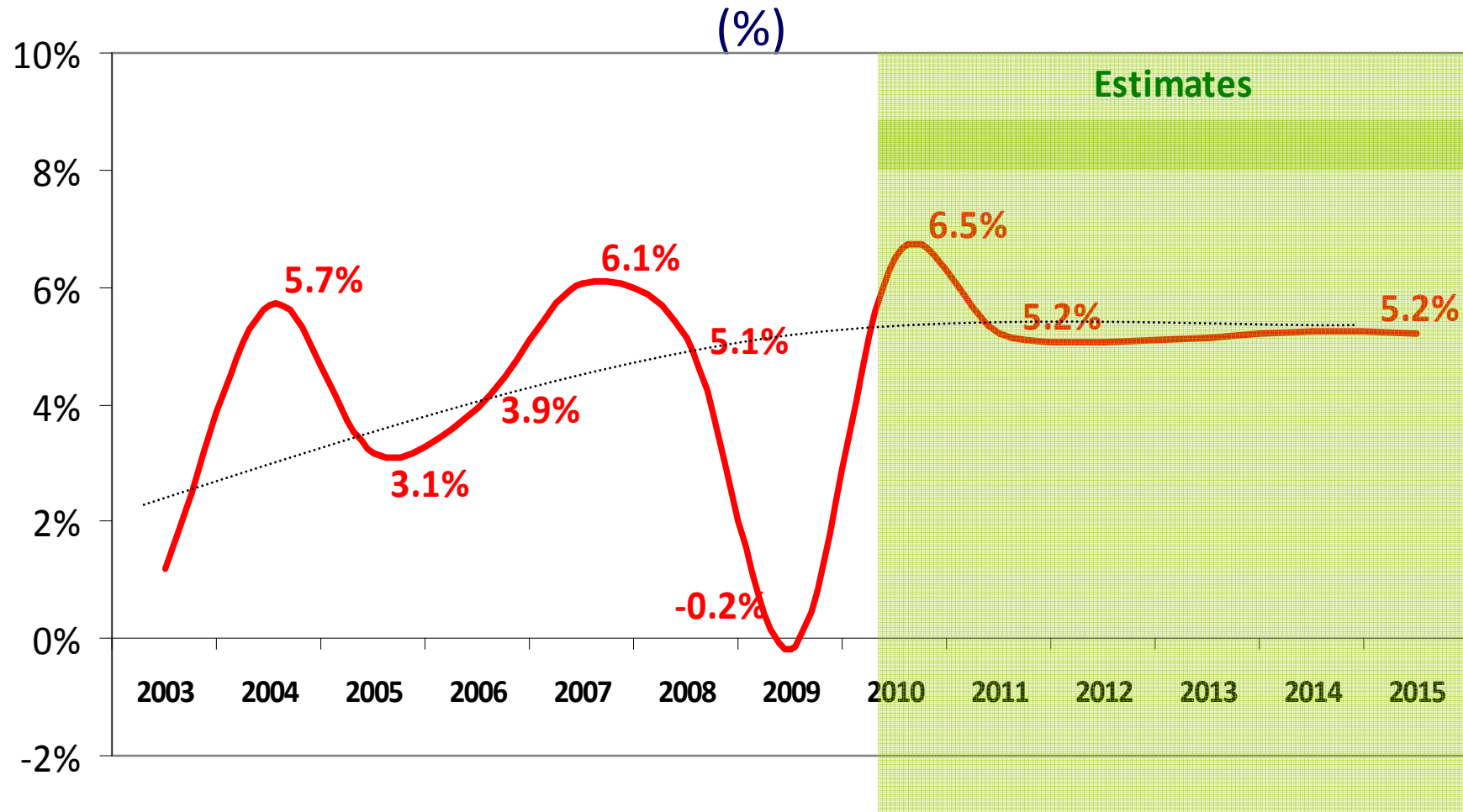


GDP (2009): US\$ 1.6 trillion
Per capita income: US\$ 8,200

An average 5% p.a. growth is feasible over the next 5 years...



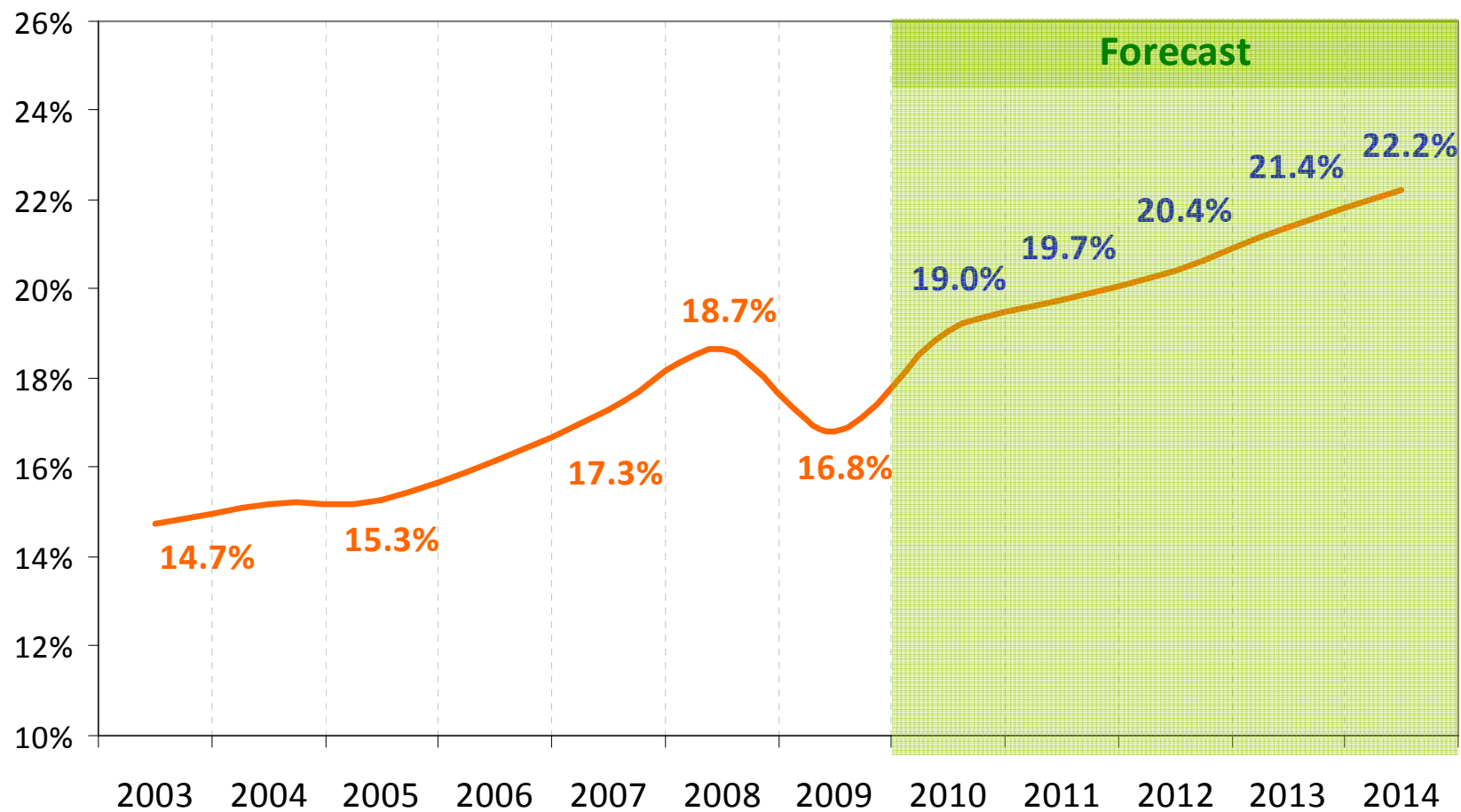
Brazil: GDP Annual Growth Rate



... with investment leading the way...



Investment/GDP (%)



... as corporate investment plans are robust and rising...



Sectors	US\$ billion		Growth
	2005-8 (observed)	2010-13 (forecast)	Implicit p.a. 2010-13 (%)
Infrastructure	111	172	9.3
Industry	174	305	11.8
Housing	191	258	6.3
Total	476	736	9.1

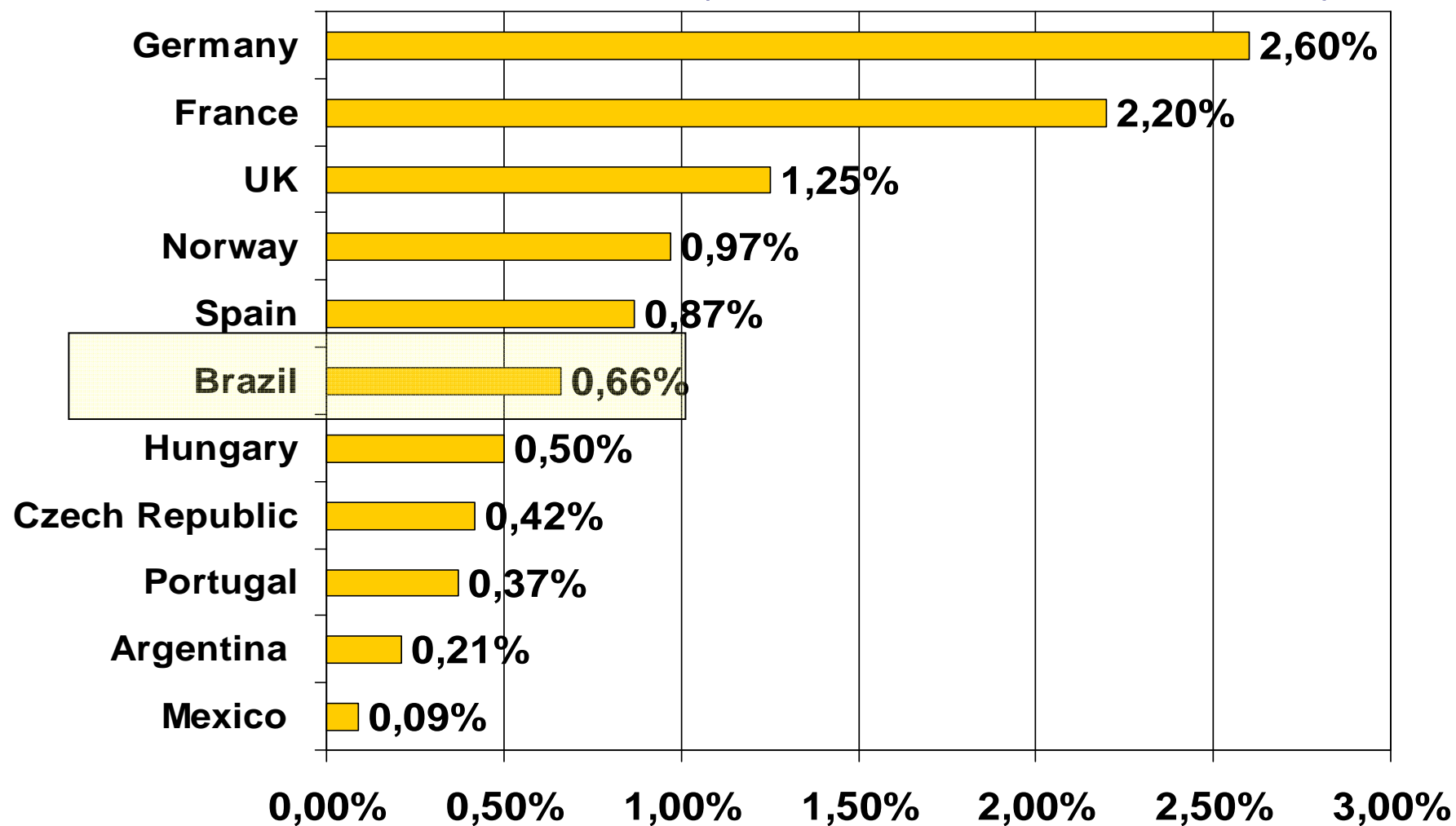
Source: BNDES Forecast

Based on Corporate Investment Plans from 13 sectors – Last Forecast: April 2010
Sample: 10% of GDP; 52% of Gross Fixed Capital Investment; 60% of Manufacturing investments; 90% of Infrastructure investments

Challenge: strengthen innovation capabilities



R&D/Sales (most recent available data)

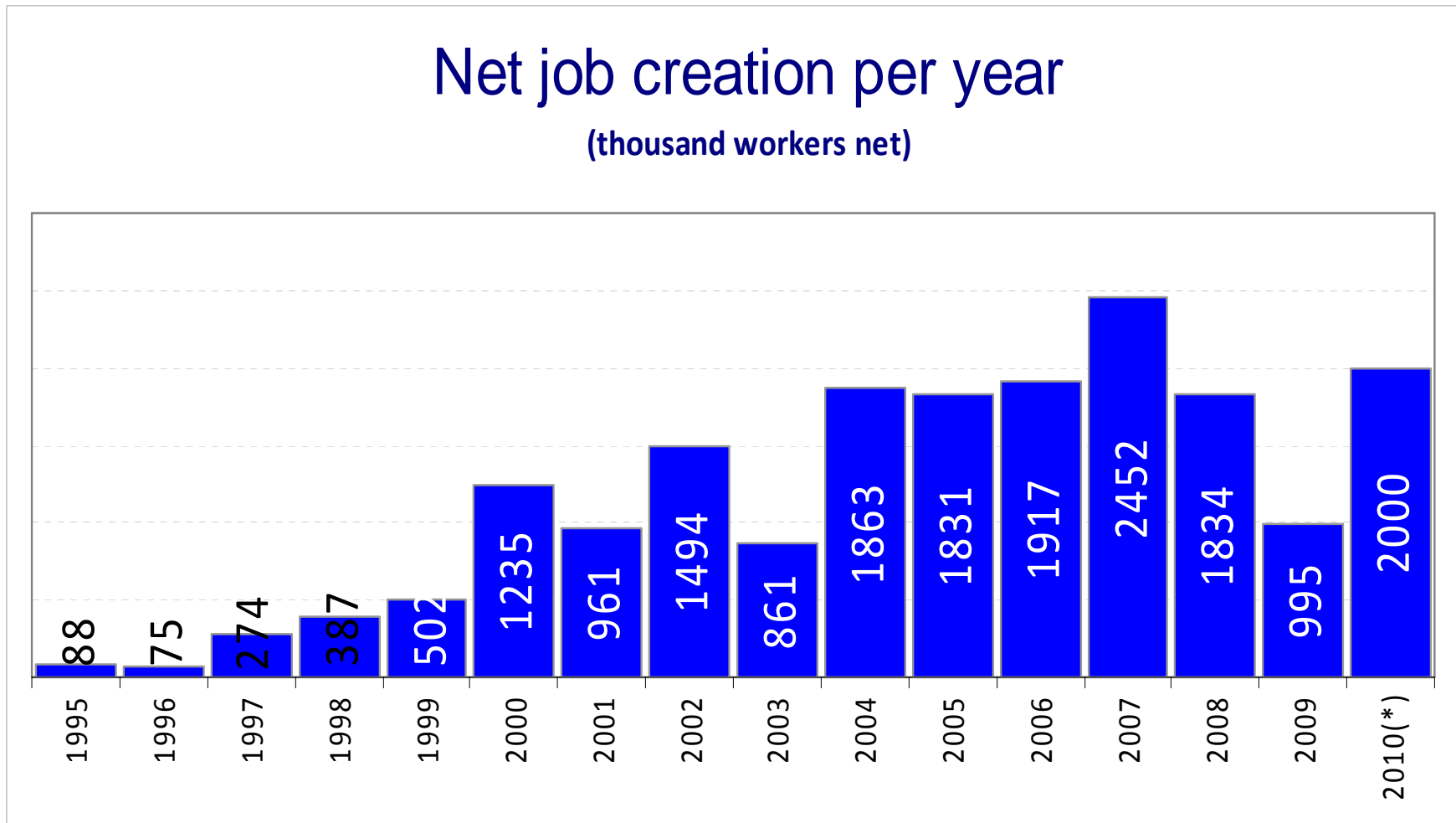


Source: Innovation Surveys, various countries

Challenge: maintain trajectory of formal job creation:



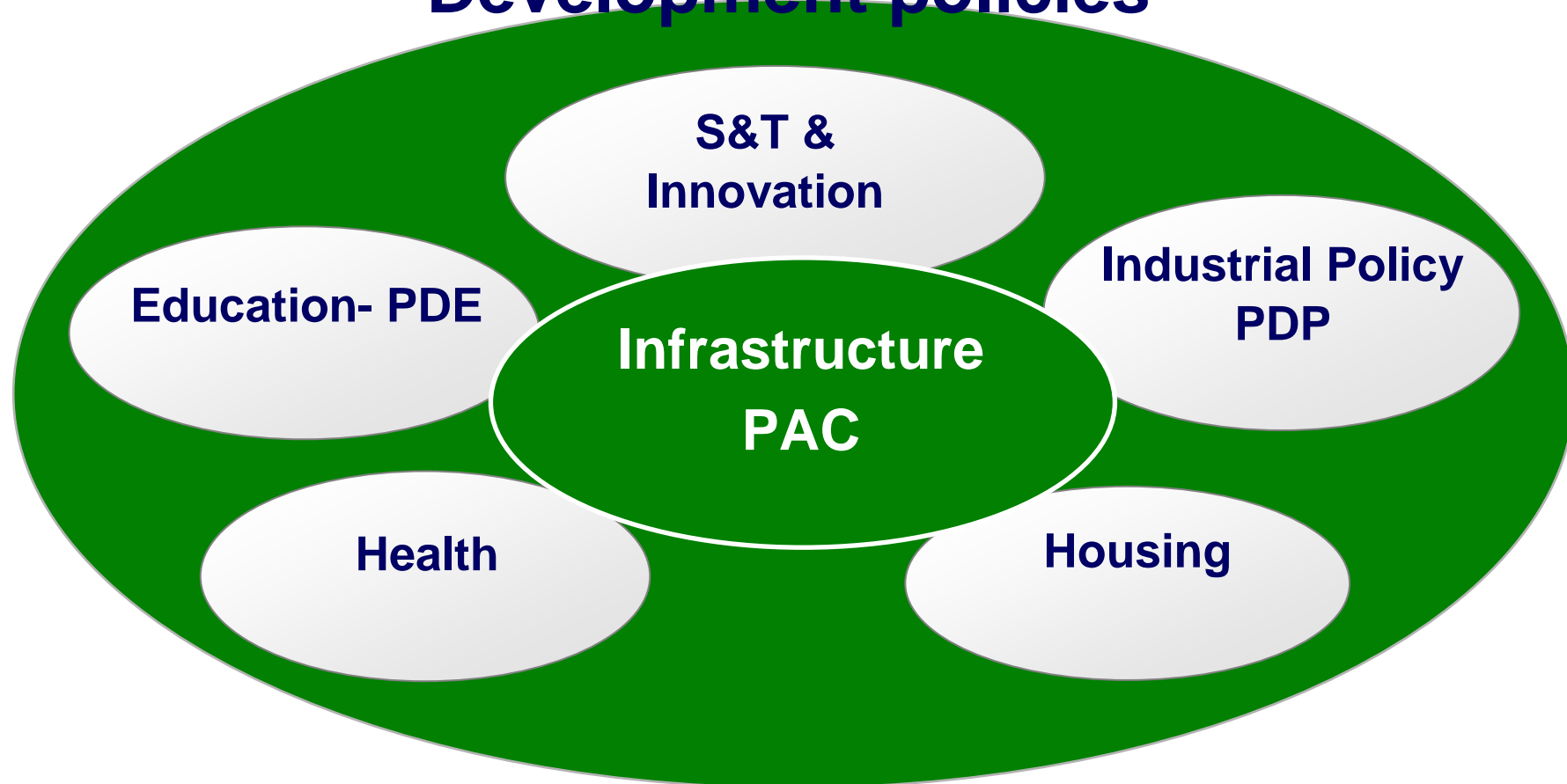
Despite 0.2% negative growth in 2009, almost 1 million jobs created



Source: MTE/Caged (*) estimated

Development Policies

Development policies



Industrial Policy:
focus on investment, innovation, exports, SMEs

Planned investments - US\$ billion

	PAC 1 2007-2010	PAC 2 2011-2014	Total
Logistics	49.4	52.3	101.7
Energy	151.8	232.8	384.6
Social & Urban development	130.8	194.5	325.3
Total	332.0	479.6	811.6

Effective management by Minister Chief of Staff of the Presidency

BNDES in PAC 1: 331 projects
Financing US\$ 76 bn for US\$ 138 bn of investments (70% → energy)

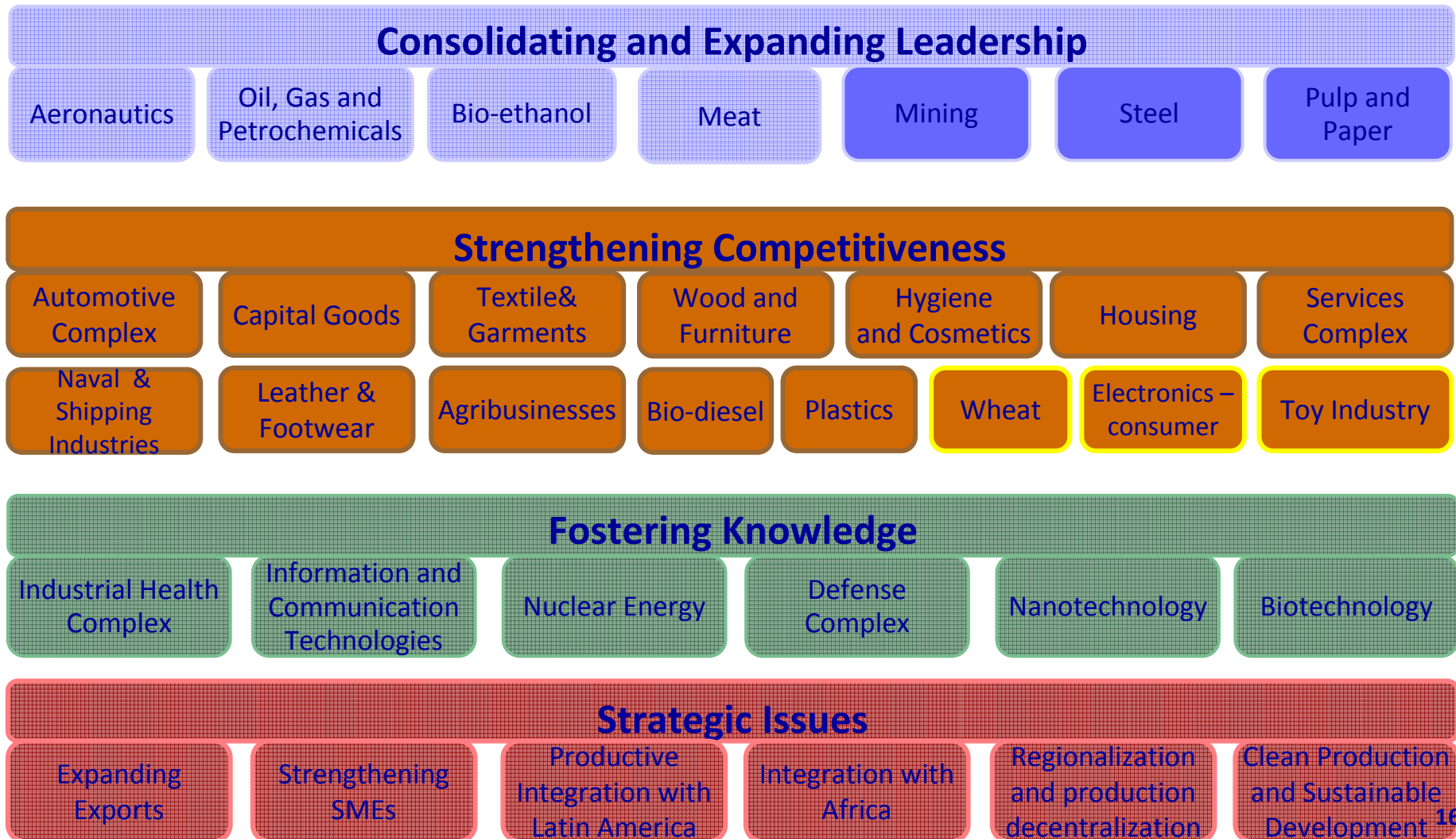
Highlights

- **Political priority:** President leadership
- **Direct involvement & partnership with relevant actors:** Ministry of Industry and Trade, Ministry of Finance, Ministry of S&T, BNDES
- Policy focus: **Investment, Innovation, Exports, SMEs**
- Main beneficiary: capital goods producers & users
- **Systematic interaction with private sector**
- **Effectiveness:** over 95% of proposed measures are operational

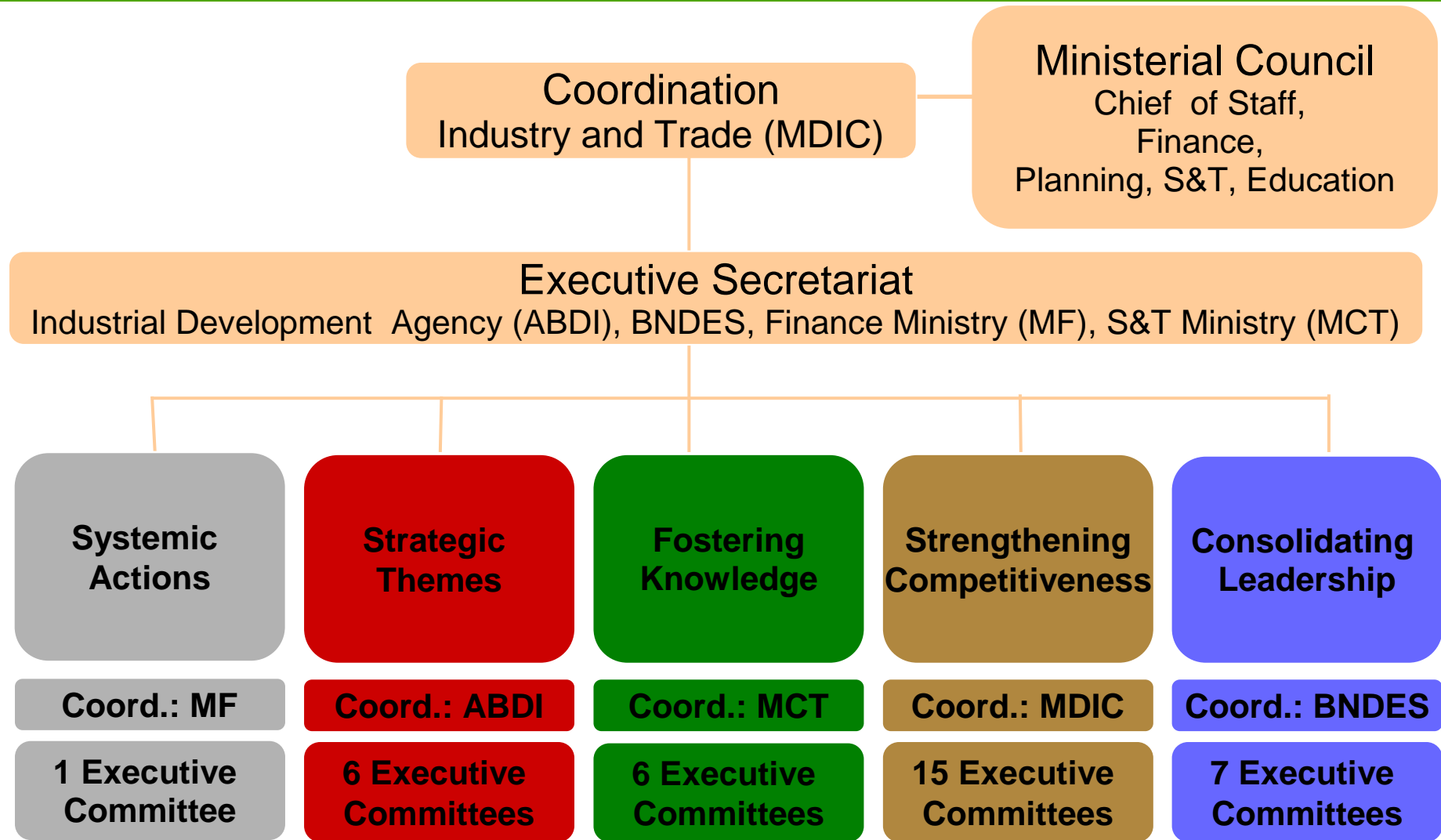
A comprehensive policy framework for a complex productive structure



PDP programmes



Governance: hierarchical structure and well defined roles for relevant agencies



The challenge: coordinating 500 civil servants; over 60 public agencies

Public-private interaction: the model



Instances for Public-Private interaction

Participation: Government representatives and Representative entities of the private sector

MDIC
Competitiveness
Forums

MAPA
Sectorial and
Thematic
Chambers

**Public-Private
GTs**
e.g.: BNDES/
Abinee

Others

- Permanent interface and dialog with private sector
- Presentation of proposals and actions
- Propositions for fine-tuning goals, actions and measures
- Establishment / Negotiation with private sector on counterparts and responsibilities



Instances for deliberating policy

Participation: Institutions, organs and agencies of the Federal Government

**Setoral or
Thematic
Executive
Committee**

- Technical assessment and fine-tuning of private sector propositions
- Consolidation of and Agreement on the Agenda for Actions
- Negotiation / validation of public-private
- Definition of Execution Plan (priorities, goals and specific actions)
- Dispatch for Implementation
- Follow up



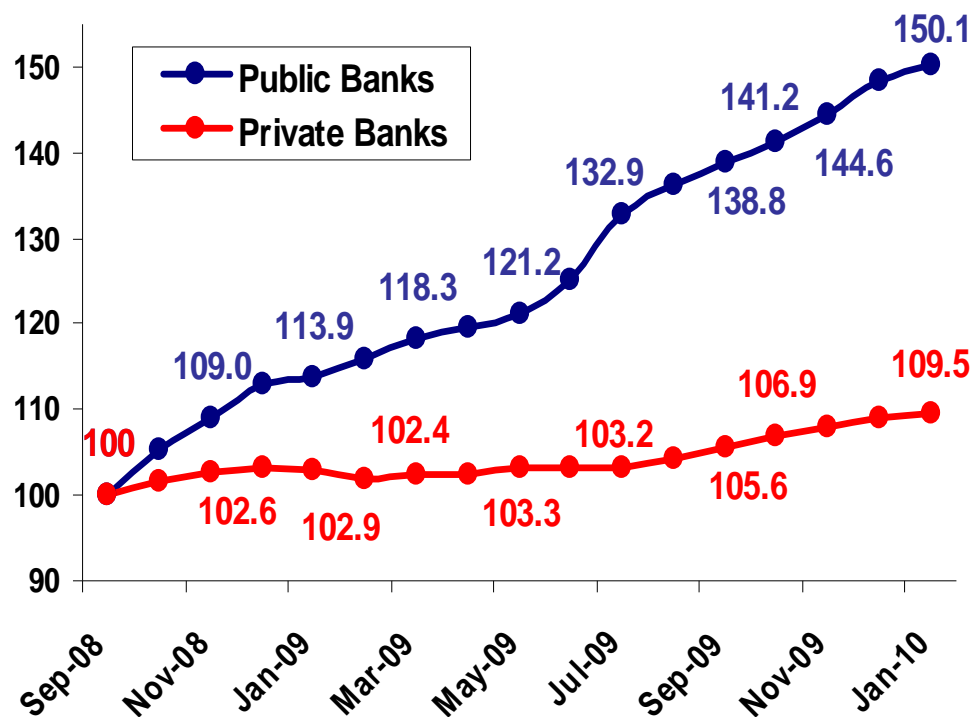
- The agenda of productive development has gained priority
- “Refreshing”, updating, upgrading the public debate over the “where to Brazilian industry?”
- Effectiveness: most measures are operational
- Intra-State interaction, especially between PDP and S&T policies
- Public-Private interaction: a growing recognition of the role each one has to play
- Recognition of the need for a permanent PDP

Short term achievement: PDP provided the framework for crisis management



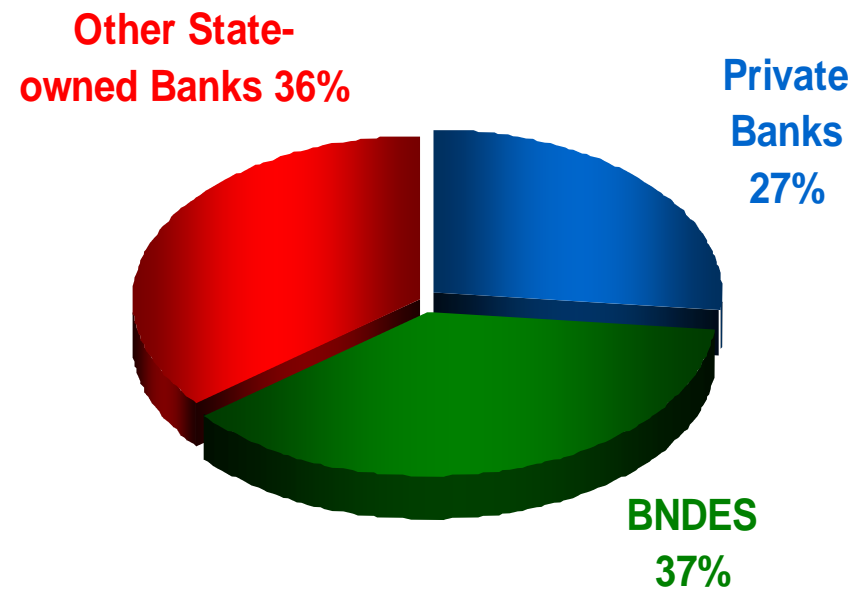
Credit Growth

(September 2008 = 100)



Contribution to Credit Growth

(Sept/08-Jan/10)

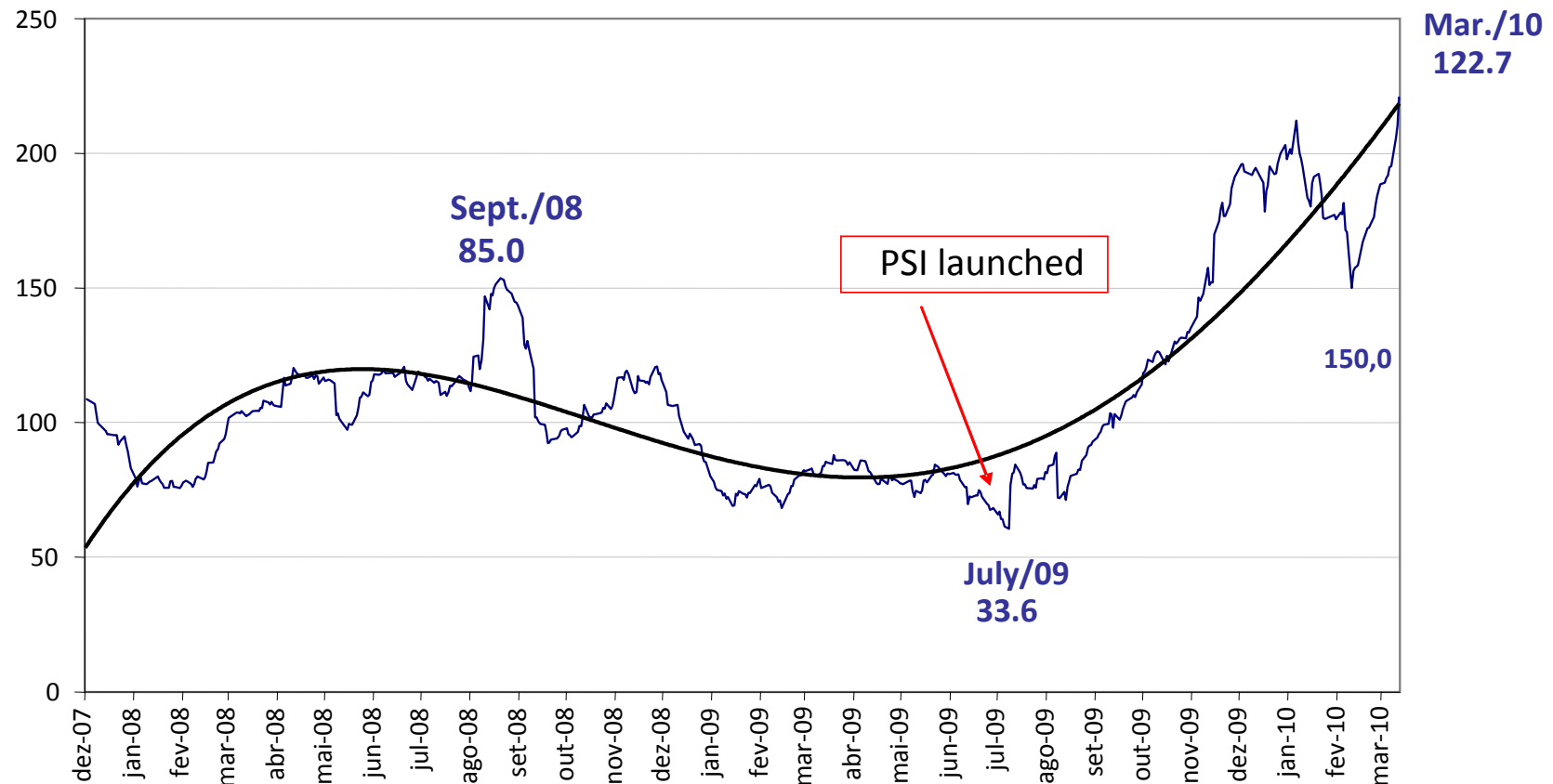


During the recent crisis, State-owned banks sustained credit expansion

Policy action & Private Sector reaction: interest rate reduction & demand for investment financing



BNDES daily disbursements for Capital Goods procurement Direct and 2nd tier operations (US\$ million)



PSI: Interest rate equalization program for investments designed by Finance Ministry and operated by BNDES

- **Executive Committees**

- Public servants of varied expertise
- Limited participation of government institutions
- Agendas for Action of varied quality
- Limited experience in similar initiatives

- **Public-private relations**

- Variance of private-sector representation
- Private preference for “own channels” to expose needs
- Difficulty in overcoming traditional negotiations of “complaints” and “support” agendas
- Difficulties in defining “contrapartidas” to benefits

A new PDP on the making

Sustainable and competitive development

Innovate & invest to strengthen competitiveness and sustain growth

Ex-post Competitiveness (at markets)

Expand market share in world exports

Increase share of knowledge & engineering intensive activities in economy's value added

Strengthen SMEs

Ex-ante Competitiveness (Eficiência)

Increase labour productivity

Increase capital efficiency and clean production

Learning and competences

Strengthen skills of labour force

Increase private R&D

Expand Fixed Investment

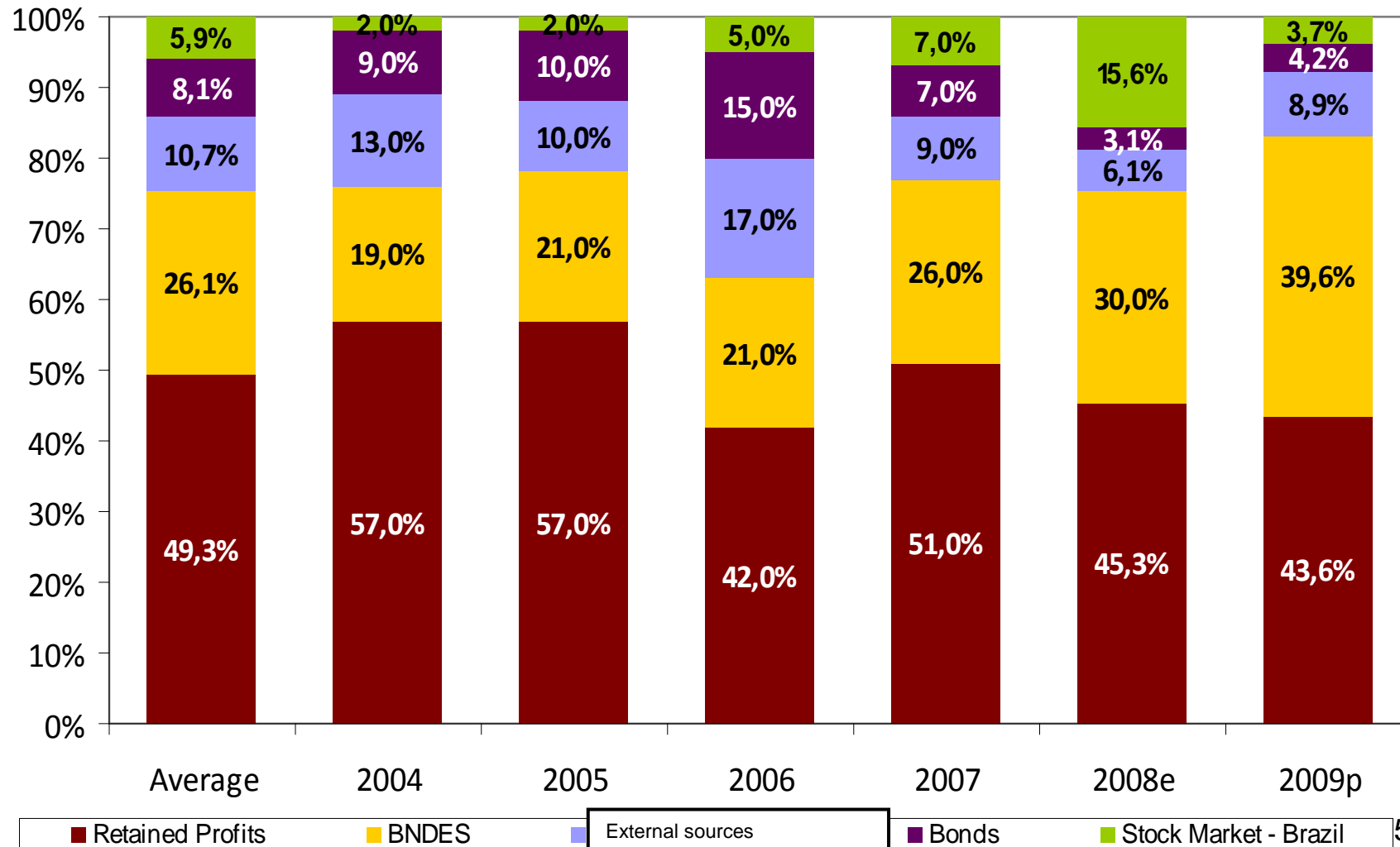


A challenge: long term financing

BNDES is important for investment financing



Financing sources for Investment in Manufacturing & Infrastructure (2004-2009) (%)



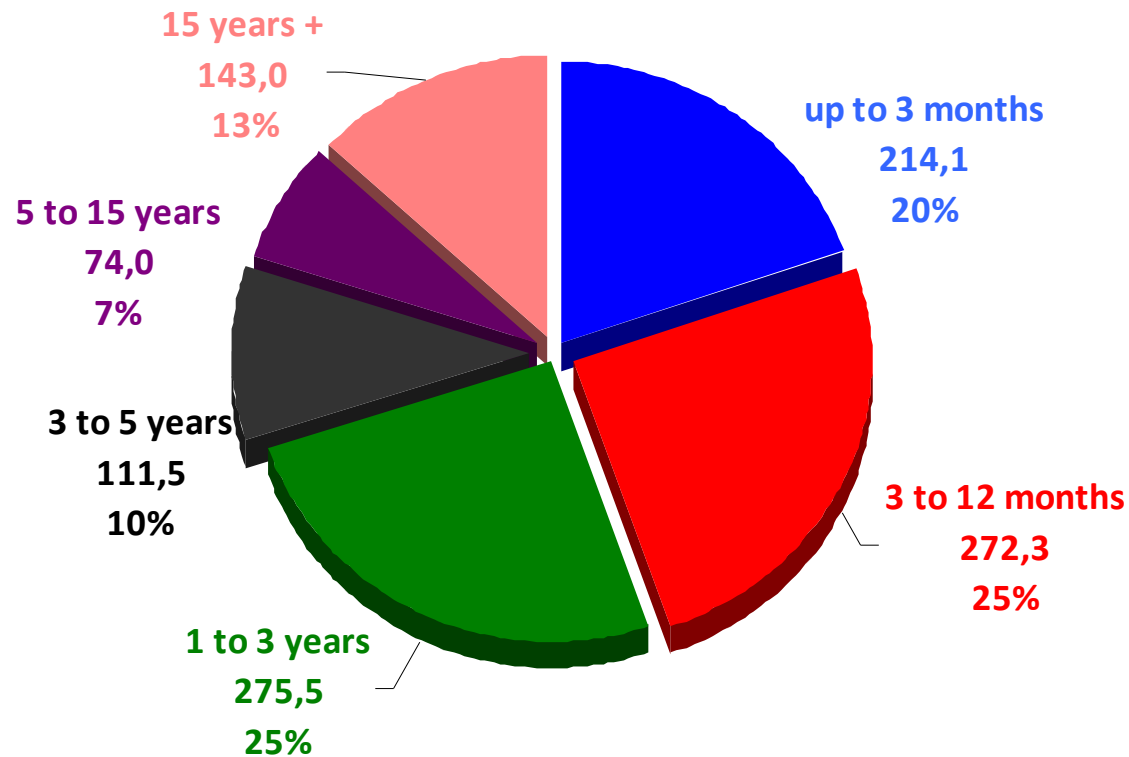
e-estimated p-forecast

source: BNDES

But credit stock held by Brazilian largest banks is focused on the short term



Distribution of credit stock by duration
Reference dec/09, 50 largest Banks



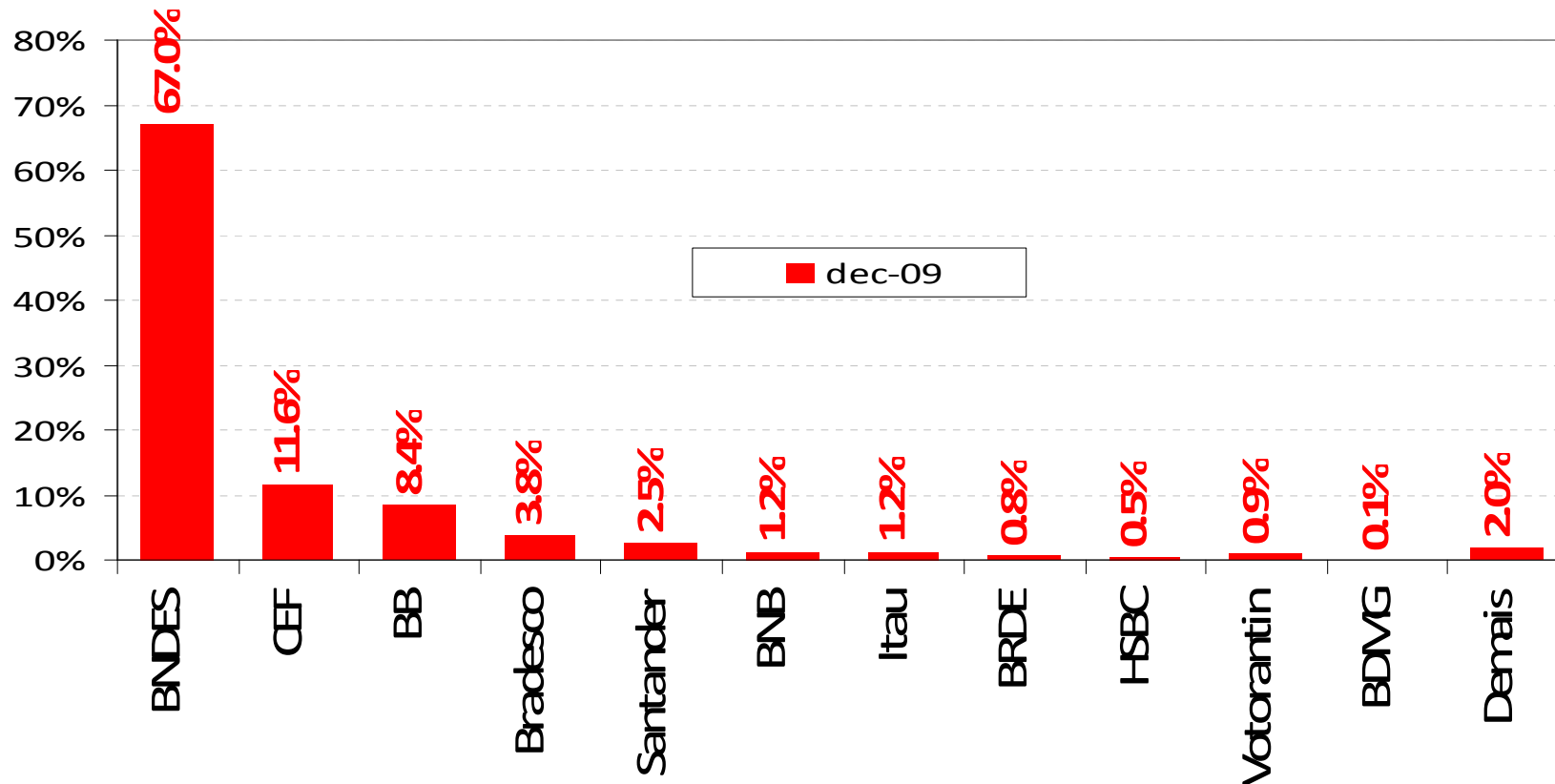
Short term prevails...

Up to 12 months: 45% - Above 5 years: 20%

Banks' revenues from long-term credit in Brazil: very limited. Exception: BNDES



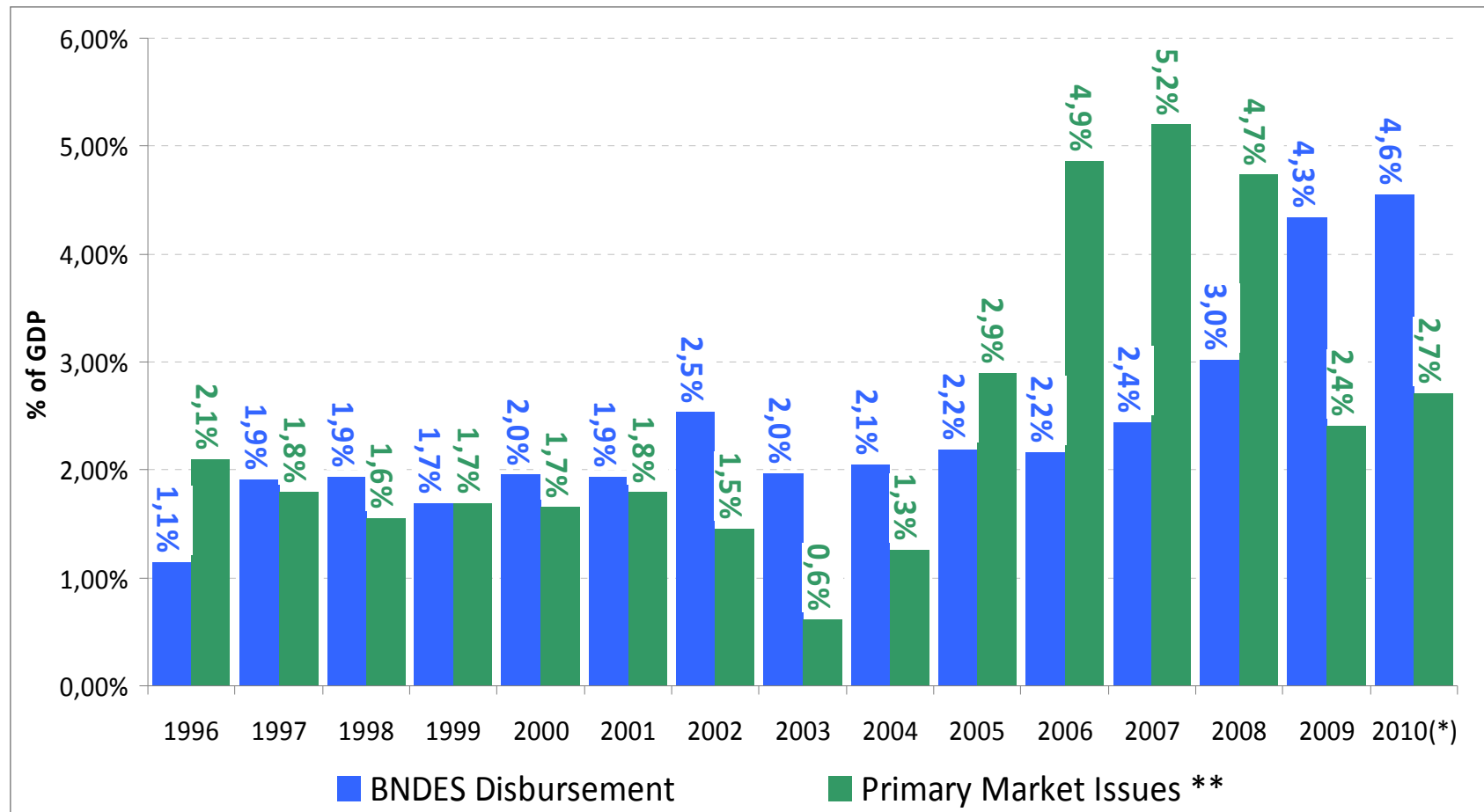
Banks' revenue from loan portfolio with duration of over 5 years
(% of total revenue)



BNDES is practically alone in providing (and profiting from) long-term loans

Capital Market offerings are expanding but they are pro-cyclical

BNDES disbursements and Capital Markets offerings (% GDP)



* 12 months may 2009/10 ** Stocks, bonds, commercial papers, asset backed securities

BNDES & Capital Markets: complementarity rather than substitution

The role of BNDES

BNDES priorities follow Brazil's economic momentum and policy priorities



BNDES priorities in time

1950s

Infrastructure (Energy and Transport)

1960s

Infrastructure (Energy and Transport) - Consumer Goods

1970s

Industrial Commodities - Capital Goods

1980s

Exports - Agribusiness

1990s

Privatization

Today

Infrastructure - Productive Structure - Exports

**Upcoming
Agenda**

Above + Innovation & Sustainability

BNDES: main features



- Main provider of long-term financing in Brazil
- 100% State-owned company under private law
- Institutional funding
- 2,500 employees

BNDES 2009 – US\$ billion

Assets	Equity	Loans
222.0	15.9*	68.8

Source: BNDES. * Book value

Delinquency rate 2009 0.20%

Instruments

Direct operations



Indirect operation



Exim Grants

SME



Project Finance

Equity investments

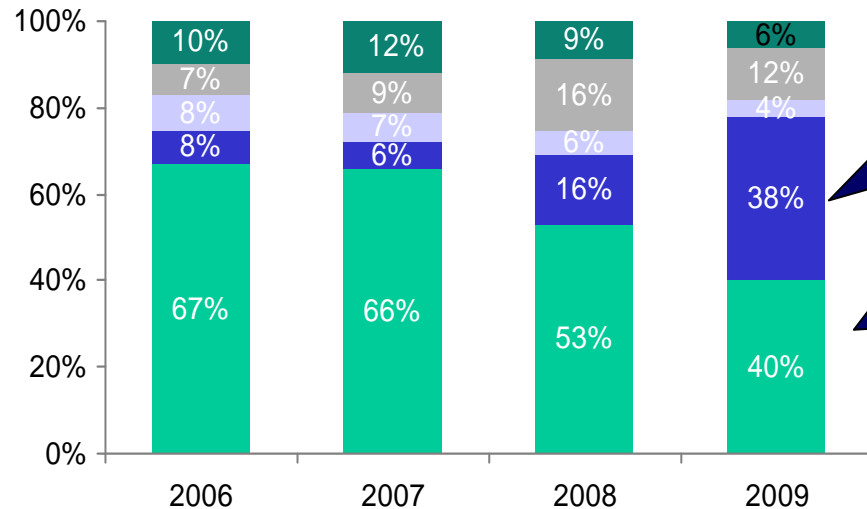


According to VneshEconombank (Russia), in 2007-08, among ten largest development banks in the world, BNDES is:

Among ten largest in assets; 1st in return to capital; 1st in return to assets;

Institutional funding

Funding Composition

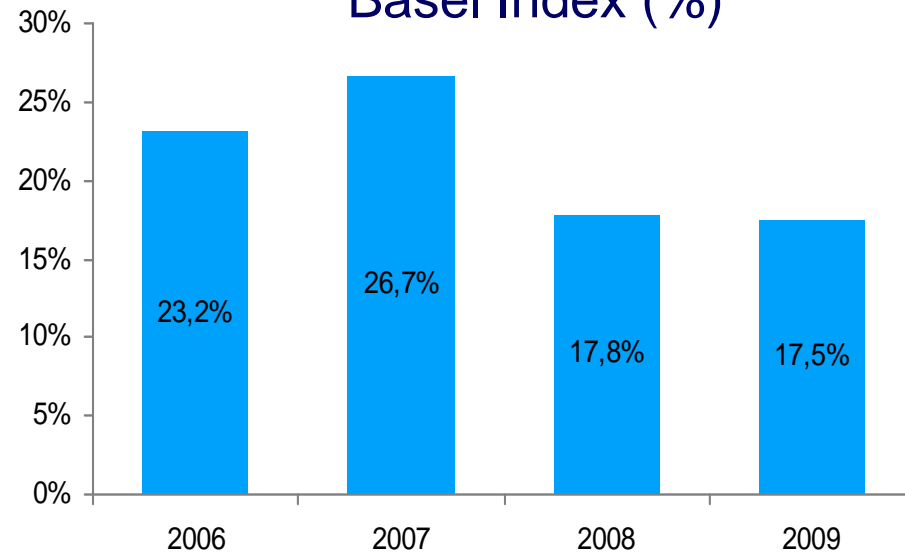


■ Institutional ■ Nacional Treasury ■ Foreign ■ Others ■ Equity

Recent expansion of demand required more support from National Treasury

Institutional Funding (Workers' Assistance Fund)

Basel Index (%)

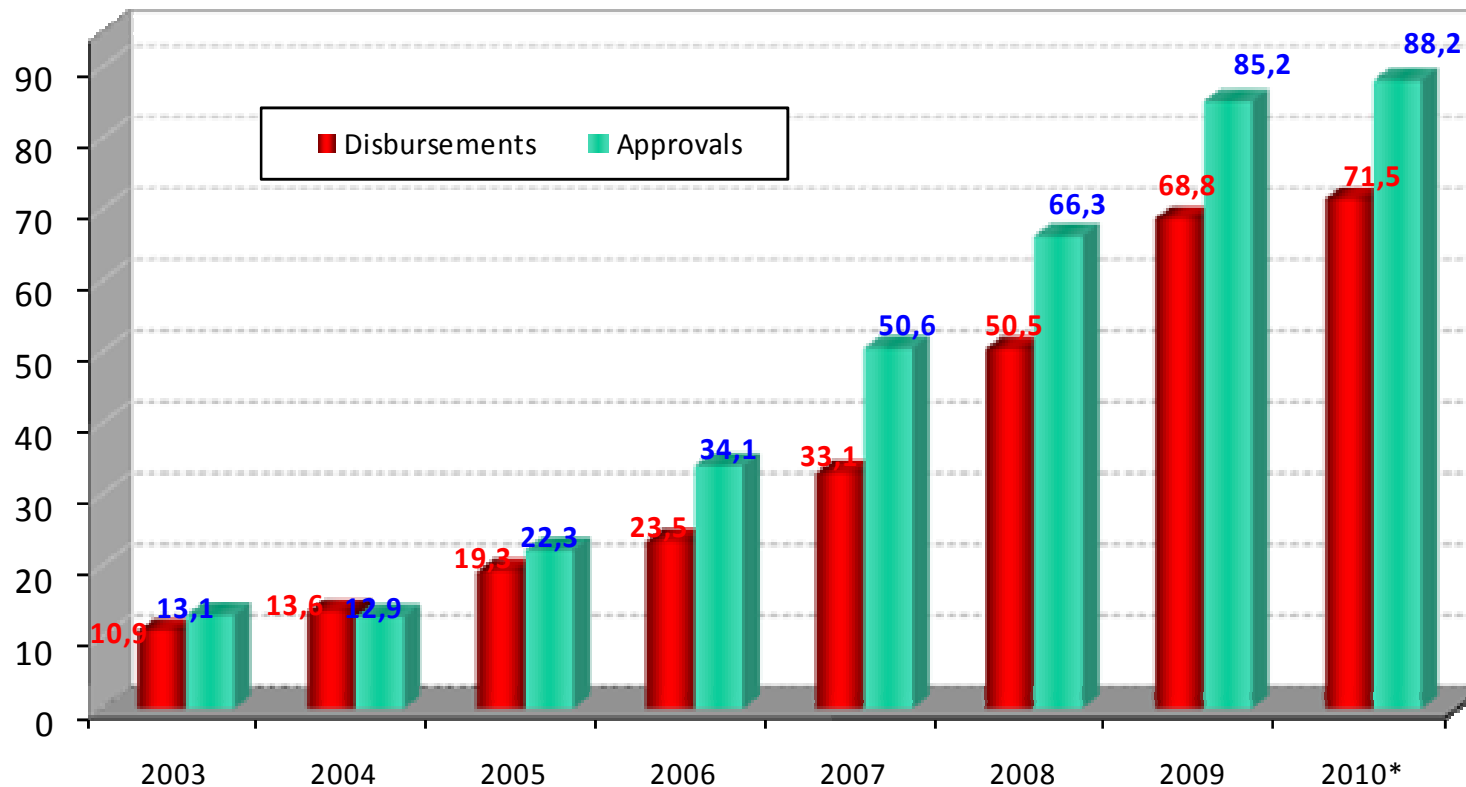


Prudential behavior is an asset of credibility

BNDES' performance: expansion to support Brazilian growth



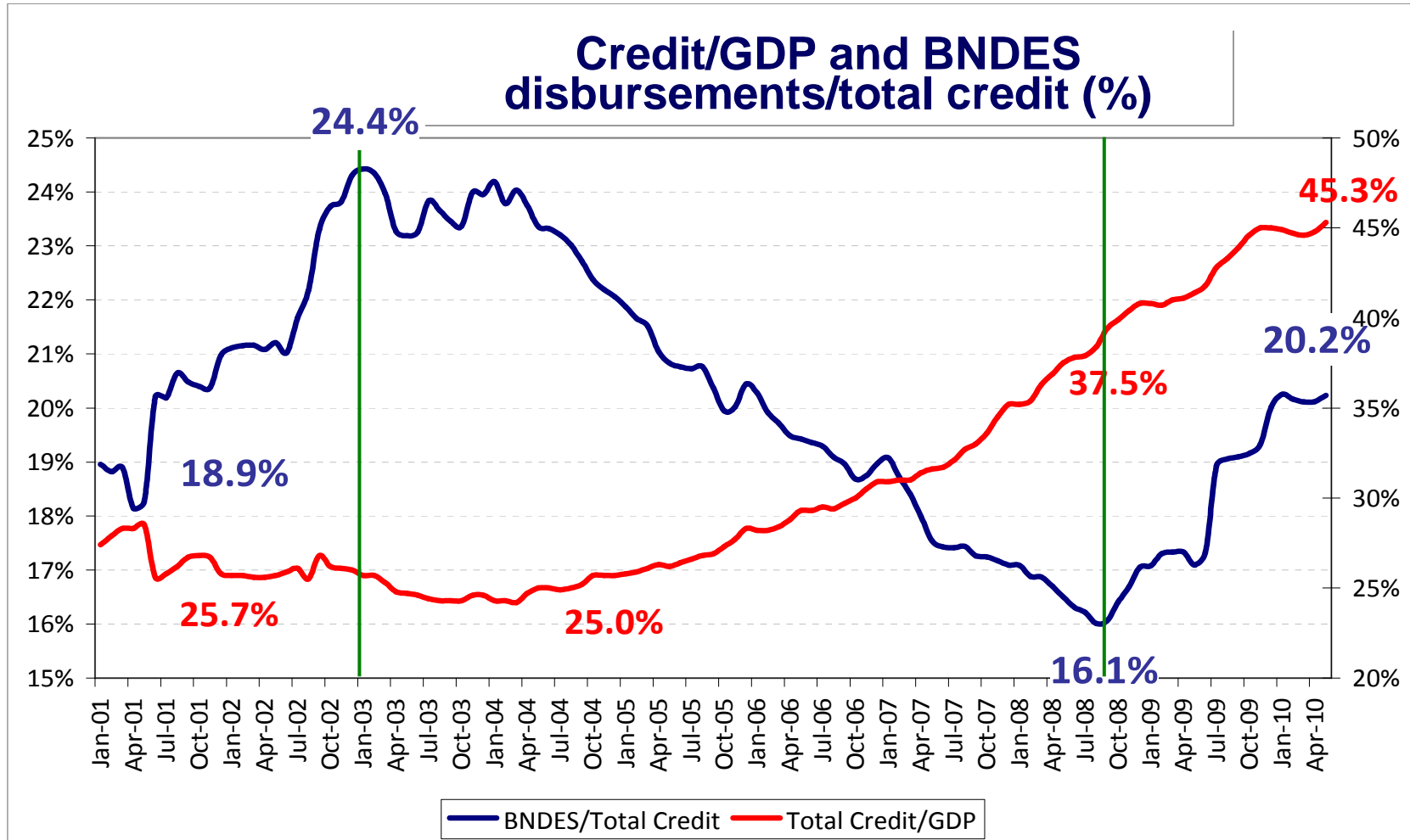
Approvals and disbursements US\$ billion



* 2010:
projected

2009: BNDES financed US\$ 46.8 bi for US\$ 93 bi of fixed investments. These generated or maintained 4.5 million jobs (direct/indirect and income effects)

BNDES supply of credit is anti-cyclical

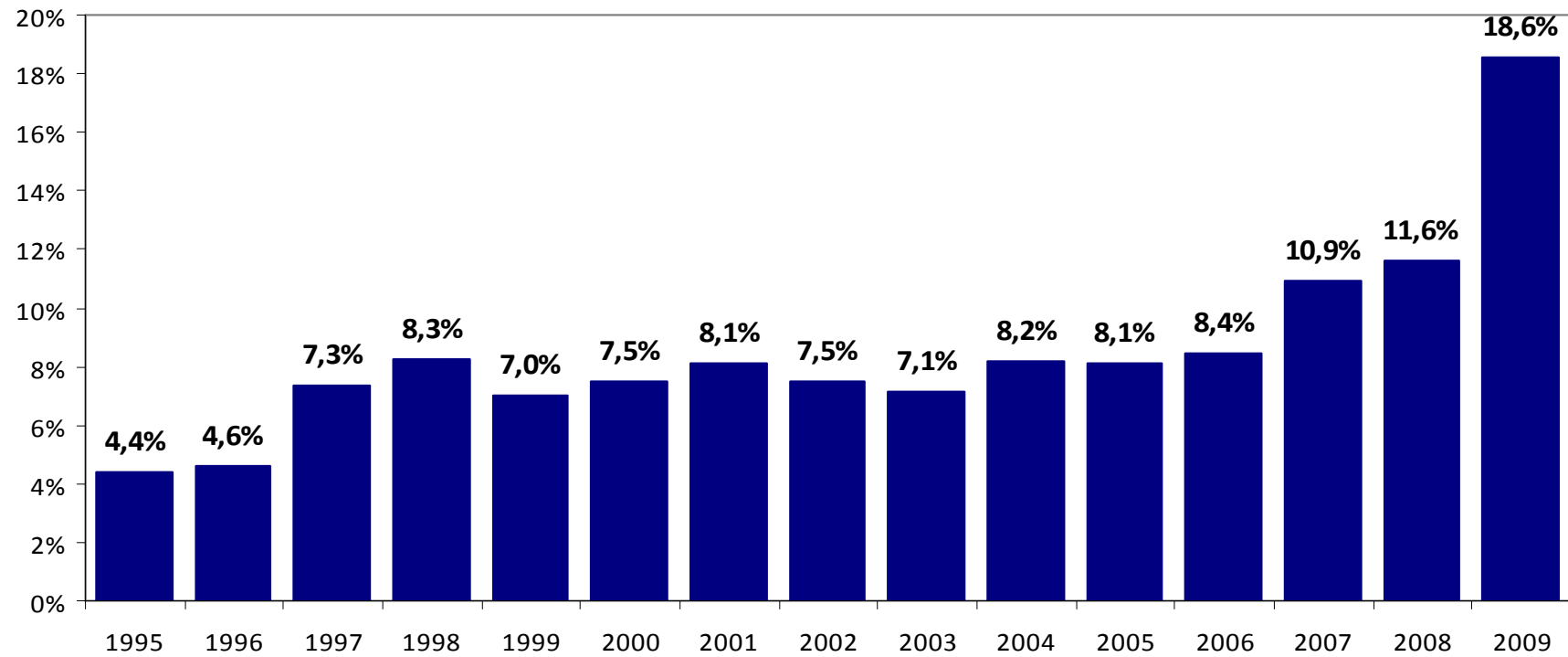


BNDES share in total credit: in crisis, higher; in good times, lower

BNDES contribution to GFKF is relevant



Disbursements*/GFKF 1995-2009 (%)



(*) excludes exim; support for internationalization; capital market operations, working capital and M&A

BNDES is contributing to the recent investment drive

Summary and implications

Domestic market

- ✓ Consumption: emerging middle class
- ✓ Investments: oil & gas, renewable energies, agribusinesses, logistics, large scale events (World Cup, Olympic Games), housing

Foreign markets

- ✓ Trade and investment for food and energy security

- ✓ Strengthen long term planning capabilities
- ✓ Improve macro performance: Savings/GDP
- ✓ Build up a financial industry oriented to the long term
- ✓ Adequate finance/guarantee/insurance for complex infrastructure projects
- ✓ Innovation focused on sustainability
- ✓ Priority for human resources: more and better jobs

- Each nation has its own structure, history & aspirations. Hence, singular institutions. But, some features of Brazilian “PDP DNA” may serve as “food for thought” for others:
 - **Flexibility**: learning and adaptation to change
 - The spirit of serving the **public interest**
 - Technical **competence** to be effective and efficient
 - **Negotiating** skills: the capacity to interact with stakeholders
 - **Opportunity**: to be on the right place, at the right time
 - **Obsession** with investment
 - **Political leadership**

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The role of Industrial Policy in Brazilian development

ANNEX – Tables and Figures

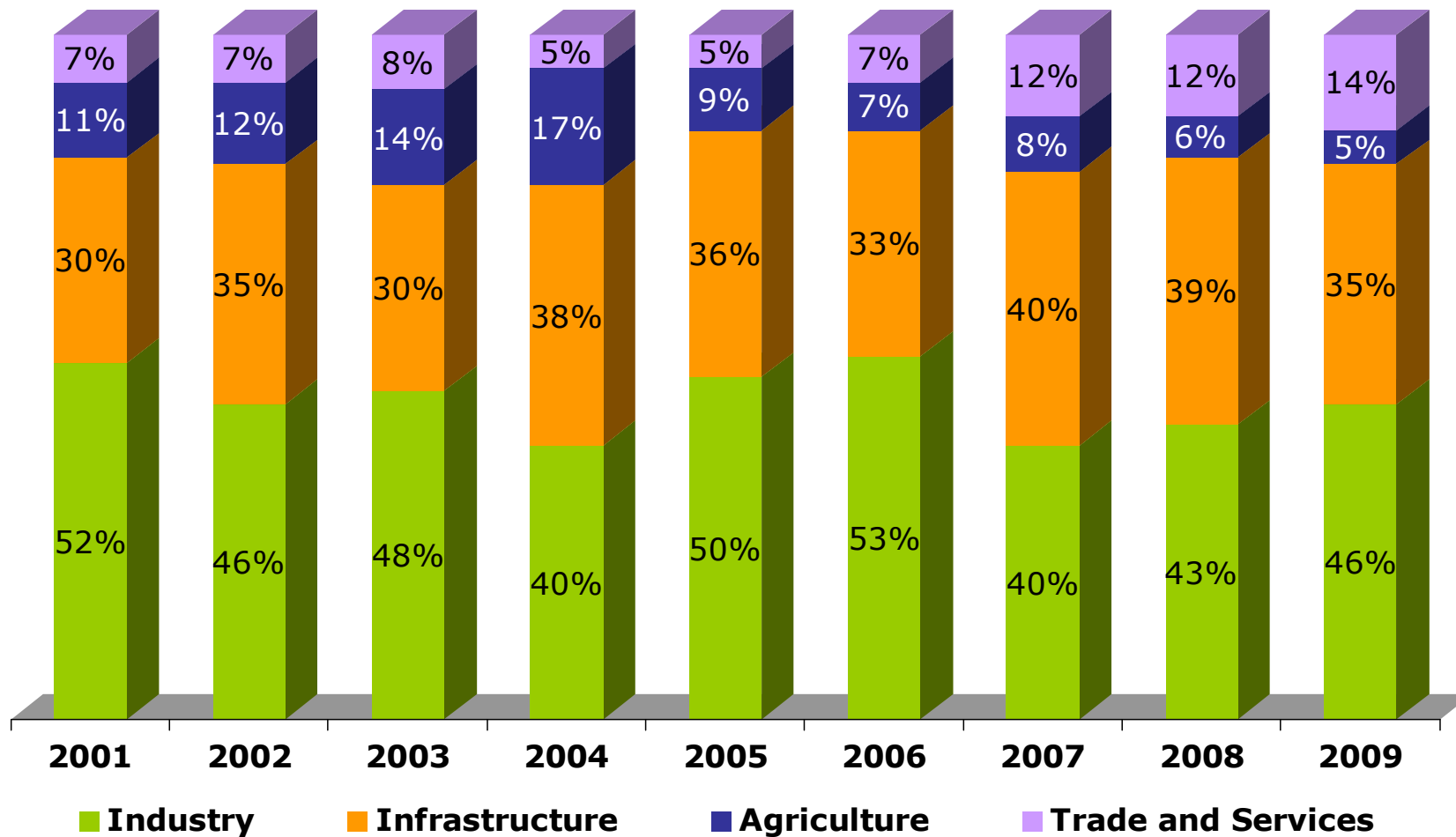
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80% of BNDES loans to industry and infrastructure

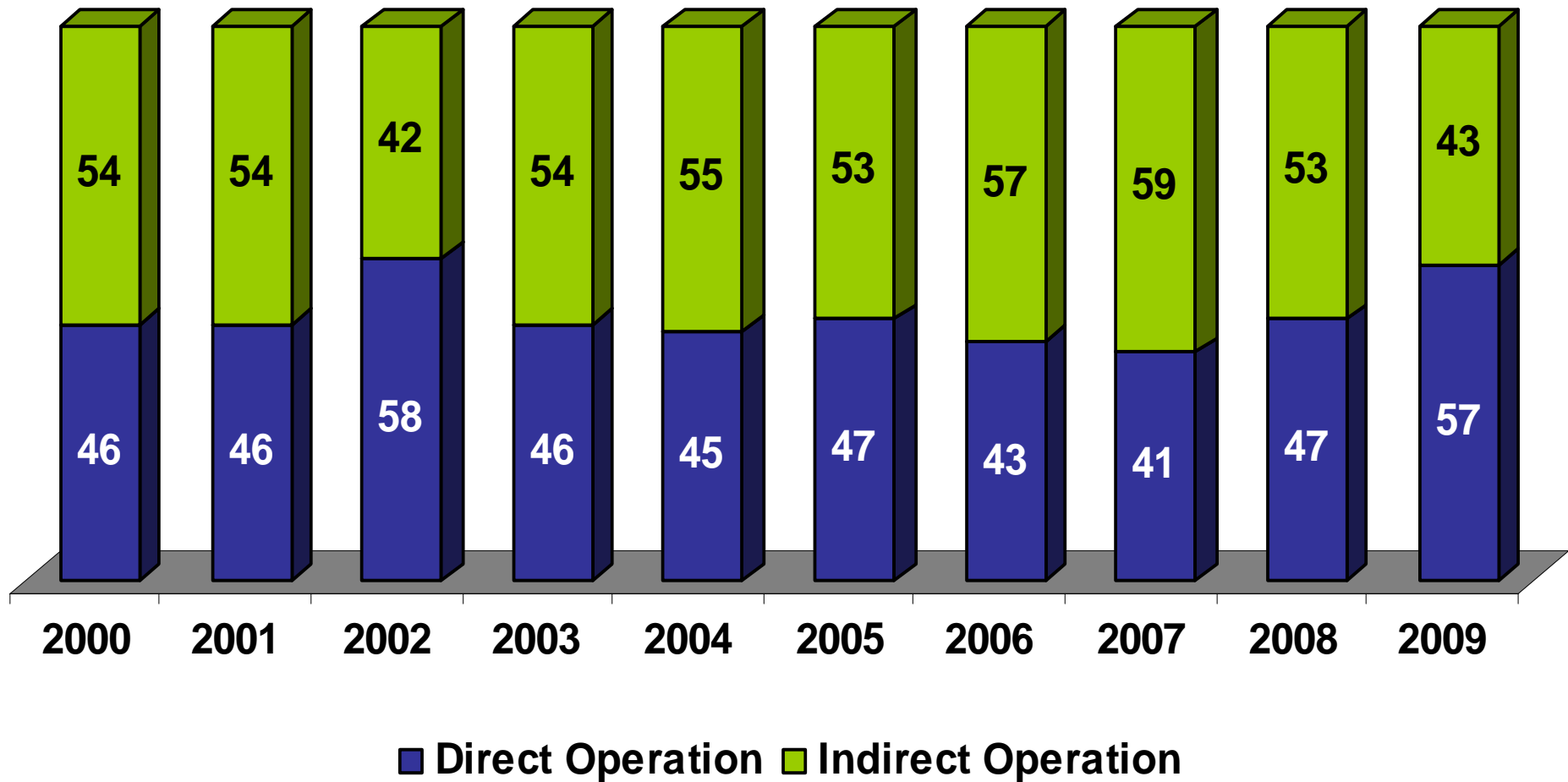


Disbursements by business sector (%)



Half of disbursements are through commercial banks

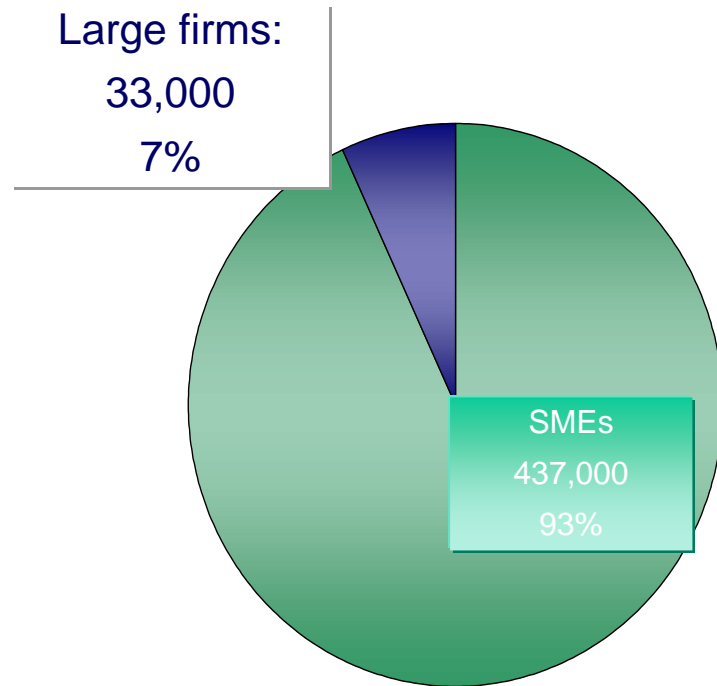
Disbursements by type of operation (%)



BNDES and size of firms: number and value of operations: a contrast

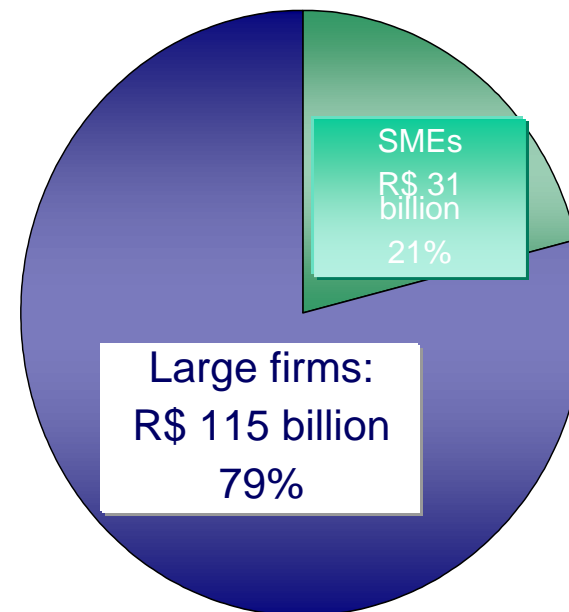


Number of operations and disbursement by size of firms



Number of operations

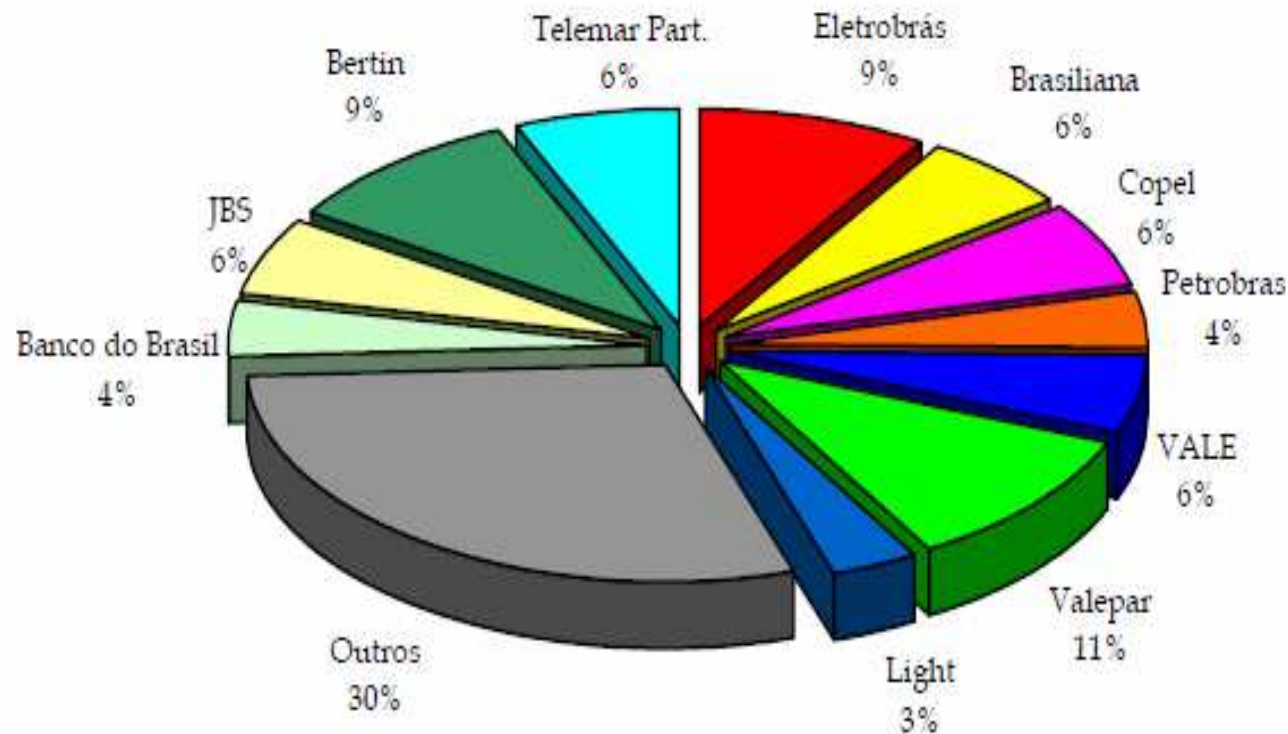
Value of operations



12 months up to April 2010 (accumulated values)

A large and diversified equity portfolio

Sectoral distribution of BNDES equity portfolio (%)



BNDES Equity Investment Portfolio:

US\$ 47.5 billion (dec-09)

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ANNEX – Tables and Figures

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