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**Policy space for development banking:  
The Brazilian case**

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# Financial 'policy space' under globalisation

- **Under what conditions can developing countries that have previously liberalised implement developmentalist financial policies under globalisation?**
- State-owned banks, credit quotas, interest controls for the sectoral allocation of credit
- Relevance of East Asian miracle

# Constraints to activist financial policy

- INTERNATIONAL

- BOP constraints, core countries, IFIs, WTO, private portfolio and direct investors and ratings agencies

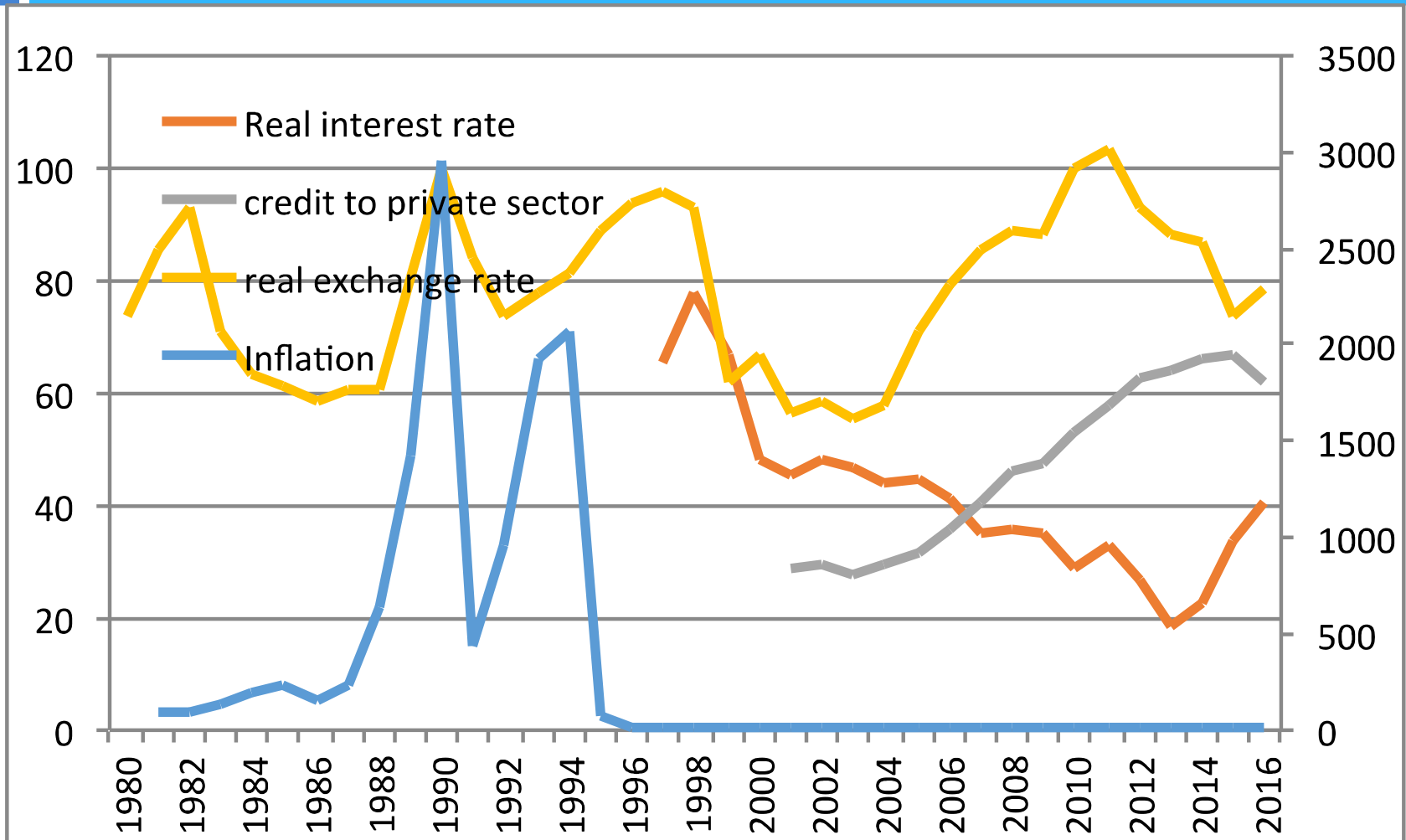
- DOMESTIC

- Liberalisation/privatisation/financialisation empowers domestic finance

# Countervailing forces

- INTERNATIONAL
  - 'South-South' finance, financial and commodity booms
- DOMESTIC
  - Labour and real economy business, SOEs

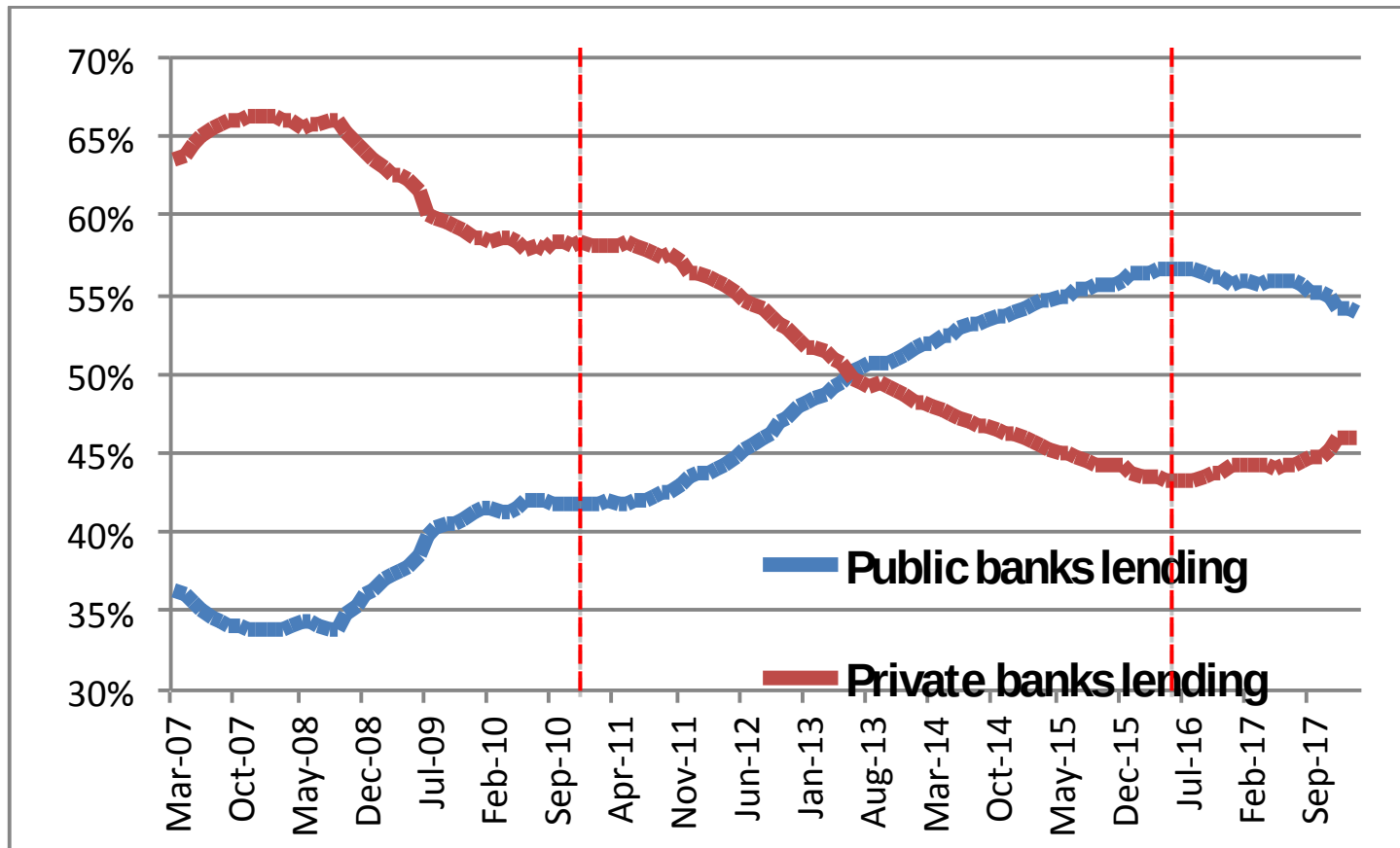
# Brazil: the environment by 2000



# Neodevelopmentalism in Brazil

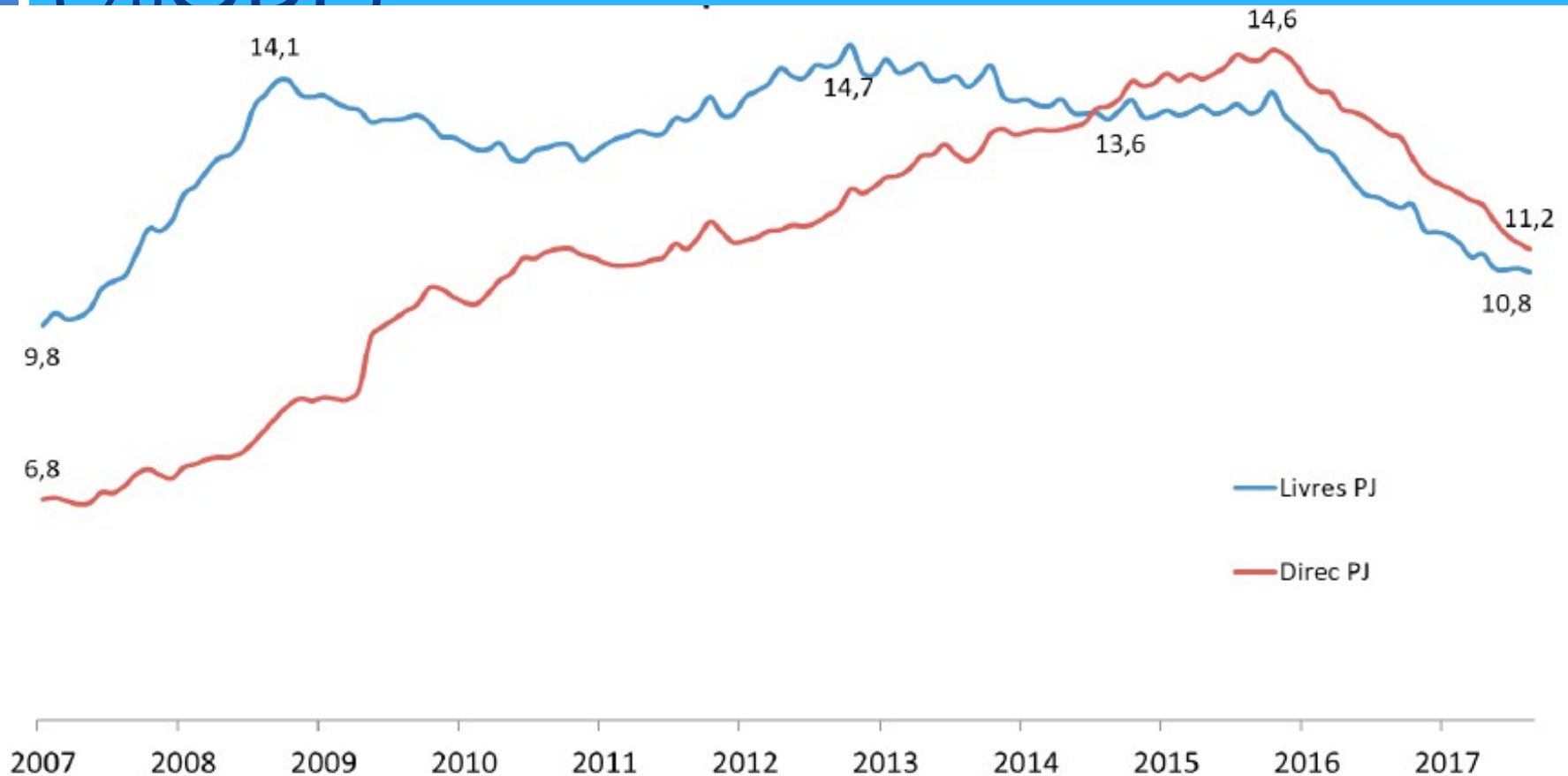
1. 2002-05: Lula's 1<sup>st</sup> term → continuation of orthodox policies with increased redistribution
1. 2006-11: Lula 2<sup>nd</sup> term, financial crisis, Dilma 1<sup>st</sup> term → orthodox (inflation targeting) macro framework with developmentalist industrial policy  
- developmentalist coalition between labour, domestic manufacturing and finance

# Brazil: Public lending by BNDES, BB and CEF



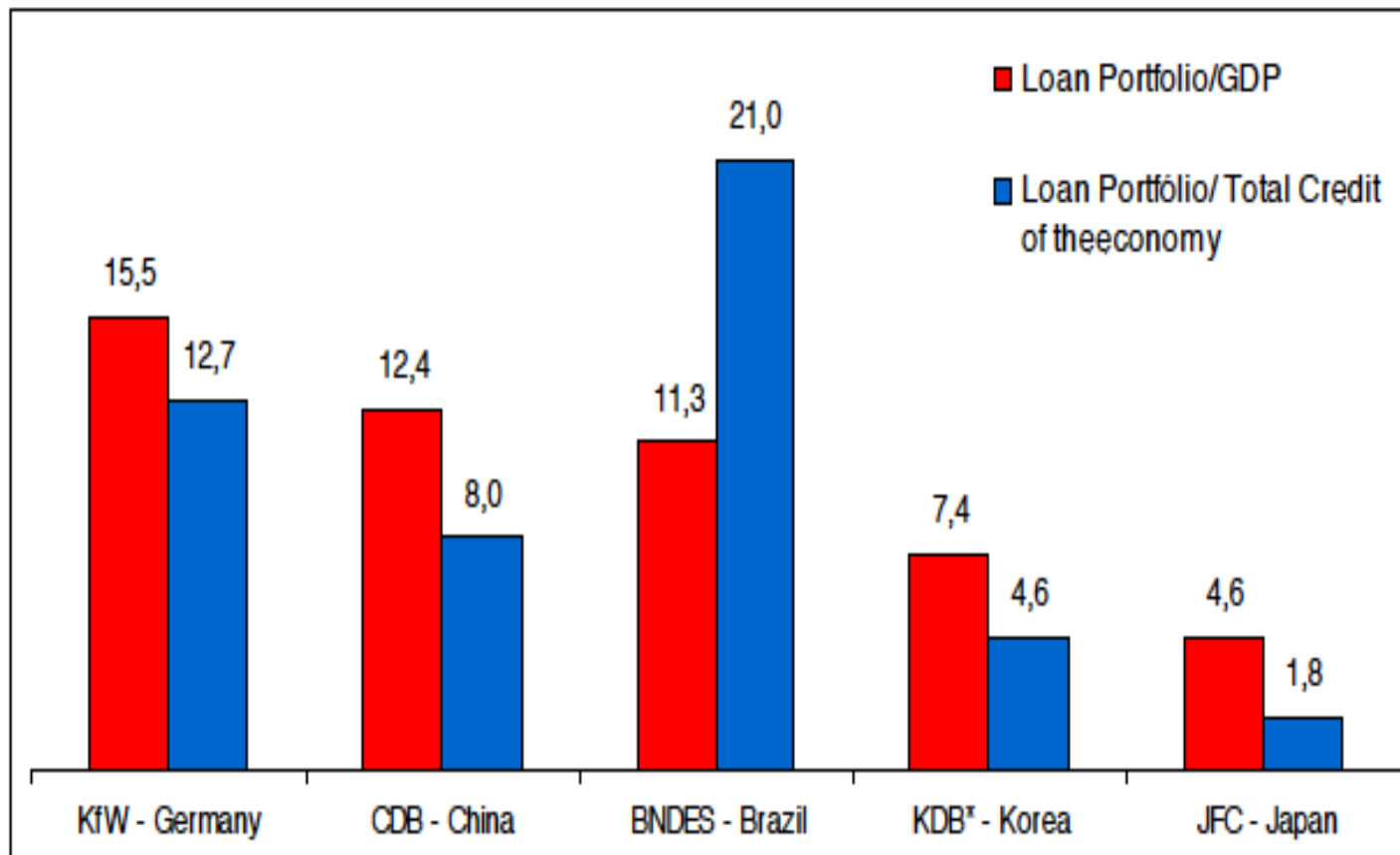
# Directed vs market based loans

(%GDP)



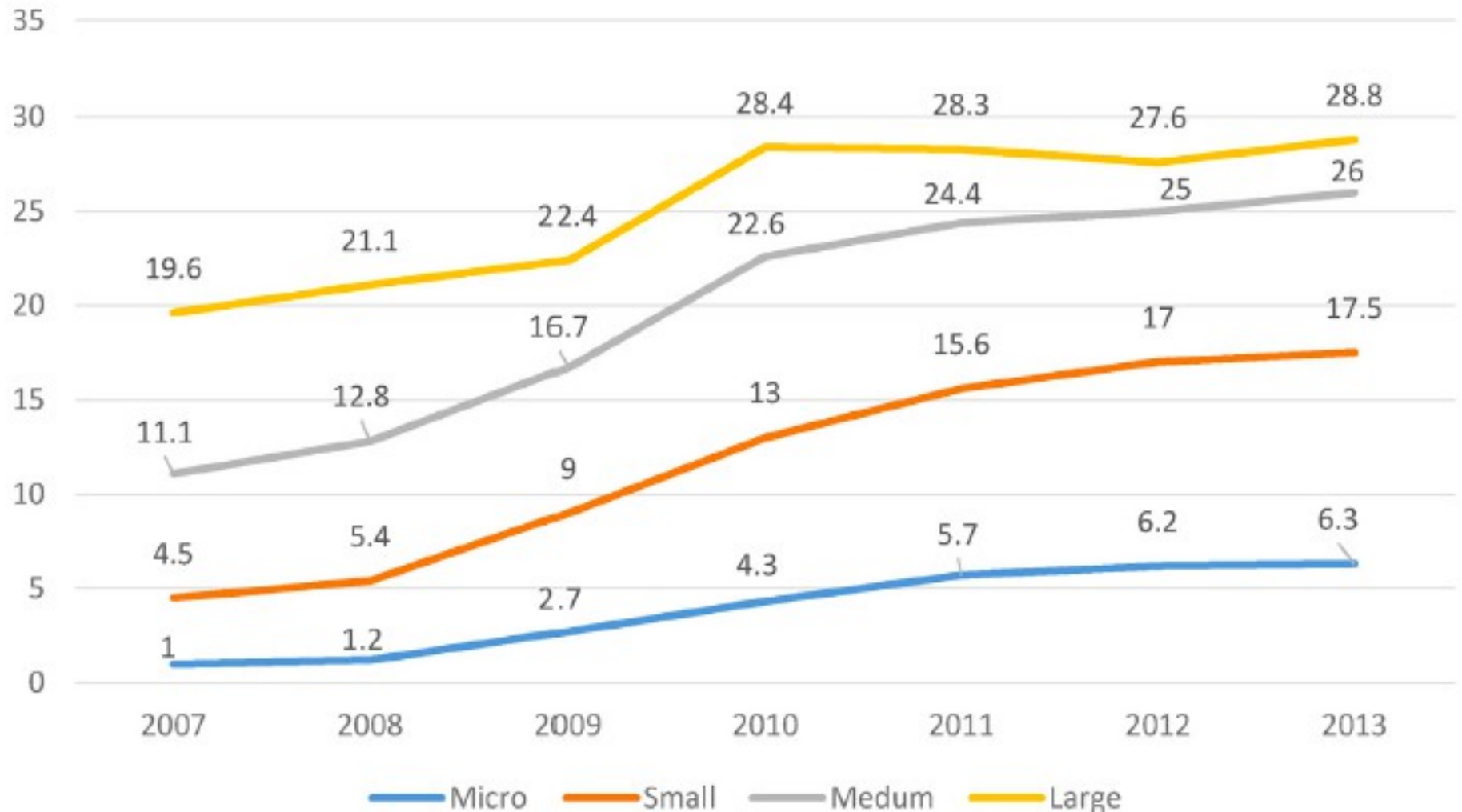


# International comparison



Source: Ferraz, Além and Madeira (2013).

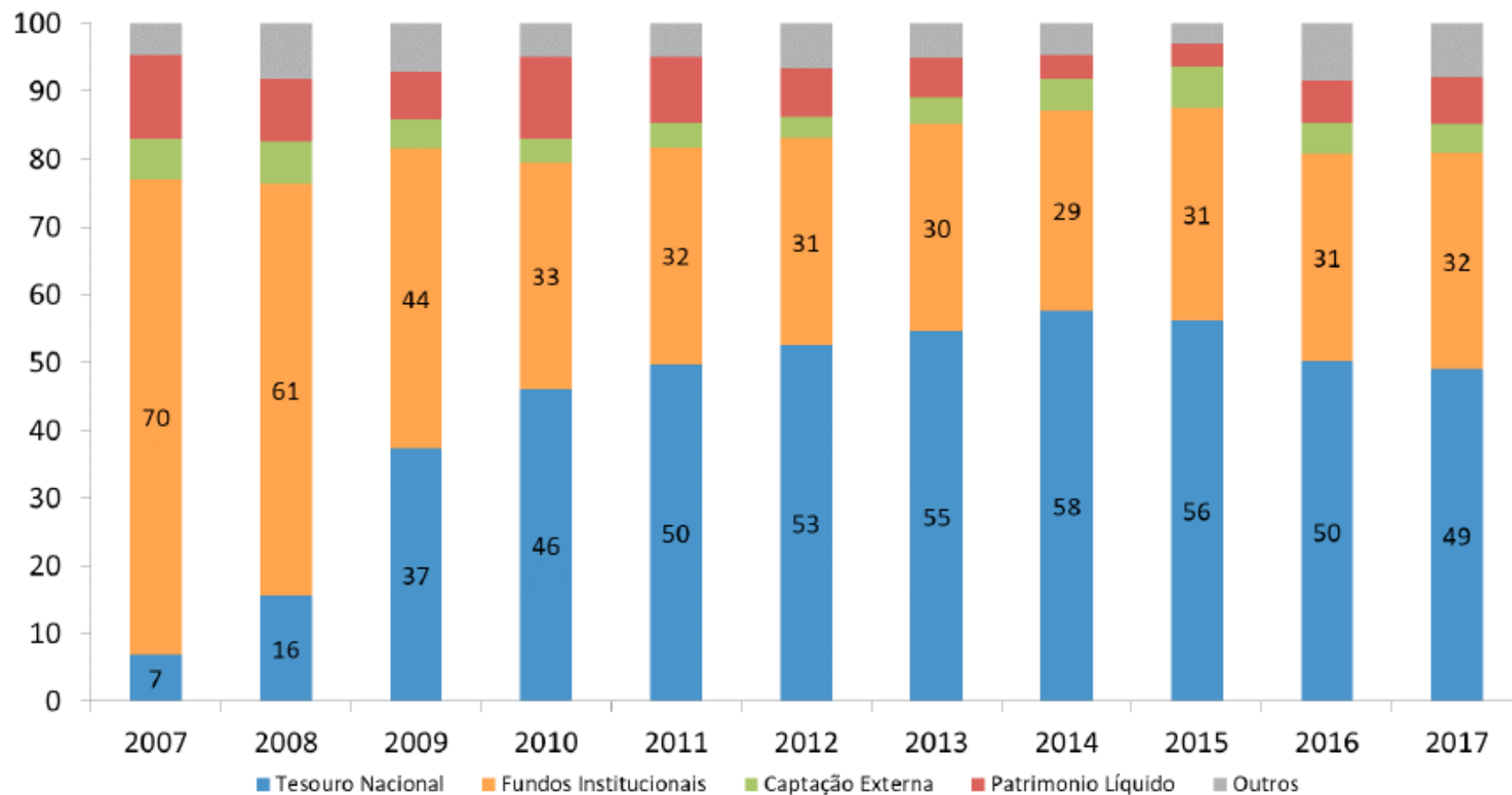
# % BNDES supported firms to total firms



# Key elements of the BNDES model

- Countercyclical role, subsidised investment, working capital finance
- Industrial policy:
  - ▣ FINAME: subsidised loans for purchase of capital goods with 60% local content requirement
  - ▣ Sectoral programs for priority sectors
  - ▣ Export finance
  - ▣ BNDESPAR: 'National champions' strategy
  - ▣ 50% on-lending through private banks

# BNDES funding sources (%)



# Unravelling of the coalition

1. 2012-16: Dilma 2<sup>nd</sup> term → breakdown of developmentalist coalition
2. 2016- Temer government - dismantling of developmentalist institutions

# The public debate

- ‘Crowding out’ and ‘unfair competition’
  - ▣ Lack of capital market development
- Funding subsidies, Fiscal deficit and sovereign default risk
- Cause of high interest rates
- National champions
- Corruption

# Relevance for South African DFIs

- ▣ Funding models
- ▣ self sustaining vs developmental functions
- ▣ Demand for funds by real sector  
business/cost of private finance
- ▣ Strategic importance of the financial sector