

Brazilian Long-Term Corporate Credit Market at a Crossroads

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Long Term Corporate Finance in Brazil has always been provided by government

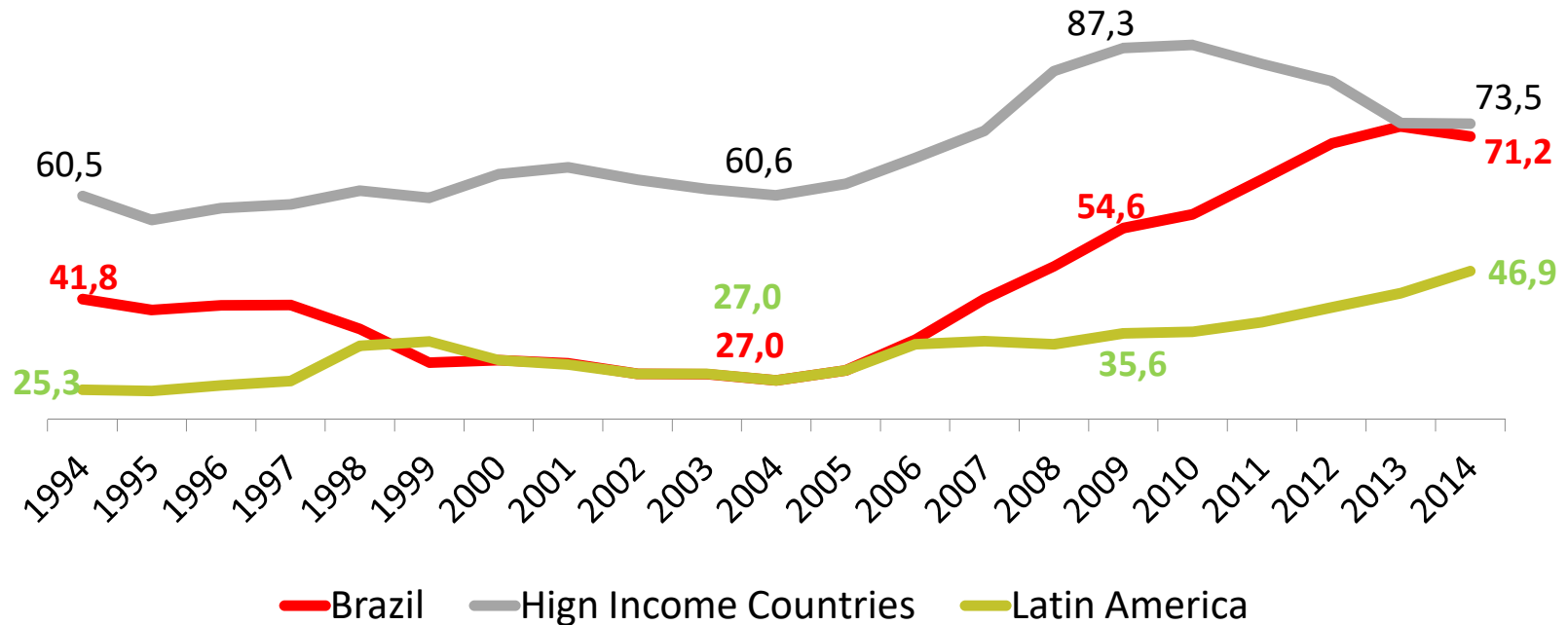
- Traditional diagnosis:
 - Scarcity of Credit: Total Credit/GDP < 30% in 2005
 - High Volatility: Unstable macroeconomic environment
 - High Real Interest rates > 12,5% in 2005
 - Insufficient Regulatory Environment
 - Incomplete Fiscal Adjustment

Has a private long-term credit market developed since then?

- Maria Sílvia, the new BNDES president, in an interview in June 2016: “The entrepreneur was going to make the investment (anyway) and only replaced a more expensive source of financing with a cheaper one, and the investment rate of the economy did not rise. In this new stage, we see the role of the BNDES as a long-term financier, which is the one that exists, but opening up more and more space for the private sector ... The bank is going to fund a much smaller share [of projects] than it did in the past. ”
(Valor Econômico).

Credit is not Scarce anymore

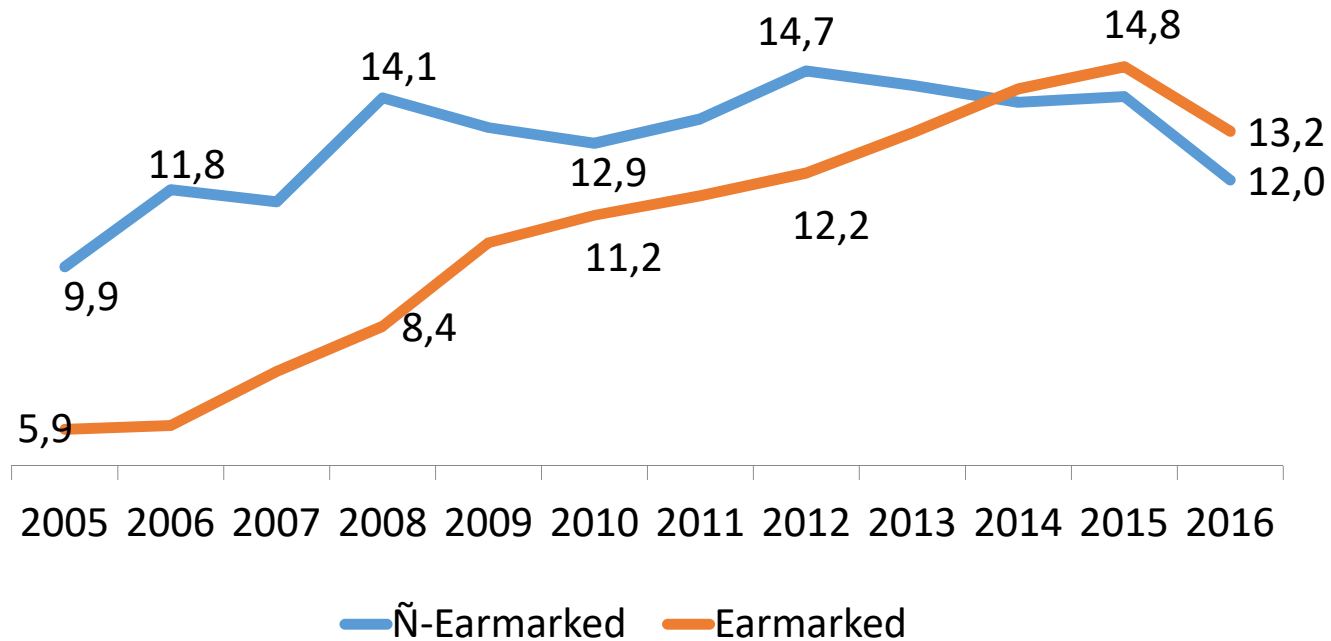
Credit to the Private Sector from Banks and other Financial Institutions to GDP (%)



Source: World Bank

... but earmarked funds are the main source of finance to corporations

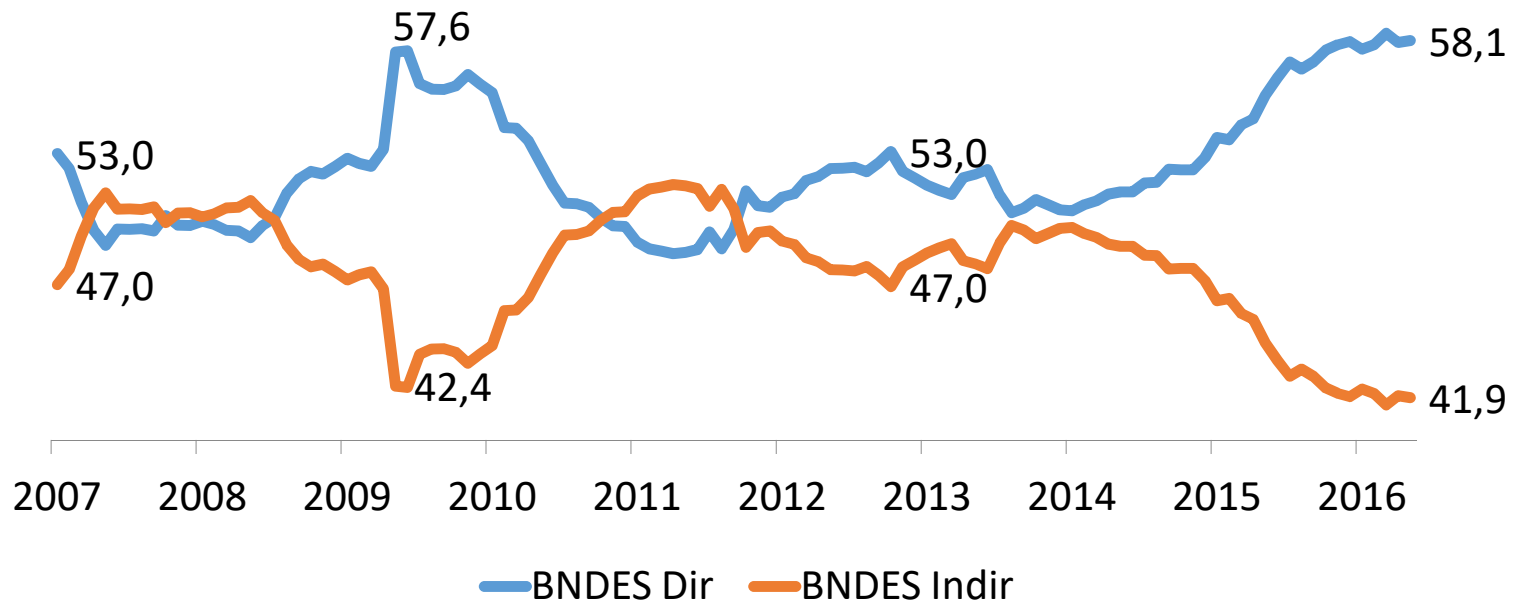
Credit to the Private Sector from banks to GDP (%)



Source: BCB

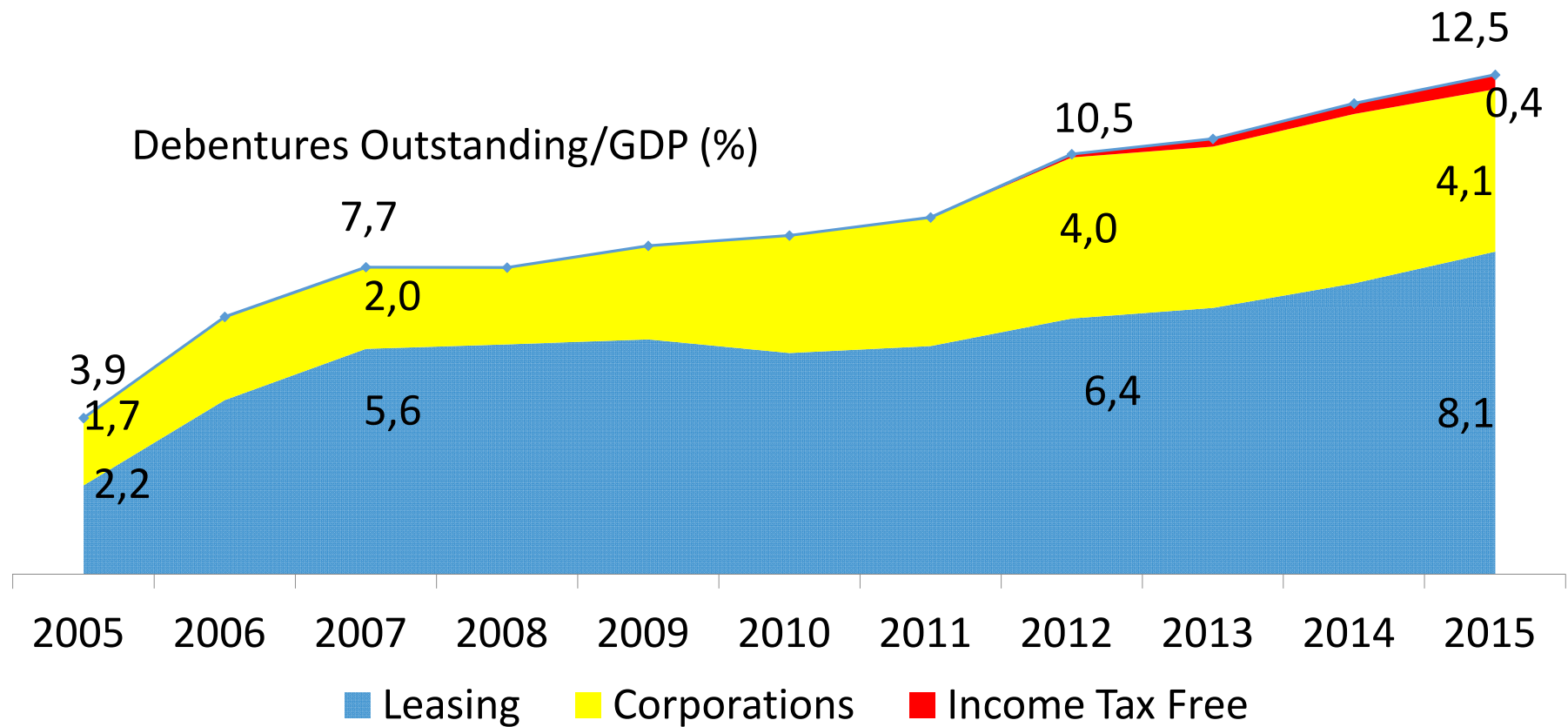
Participation of Indirect Loans decreased in Total BNDES loans

BNDES Funding: Direct and Indirect Loans(%)



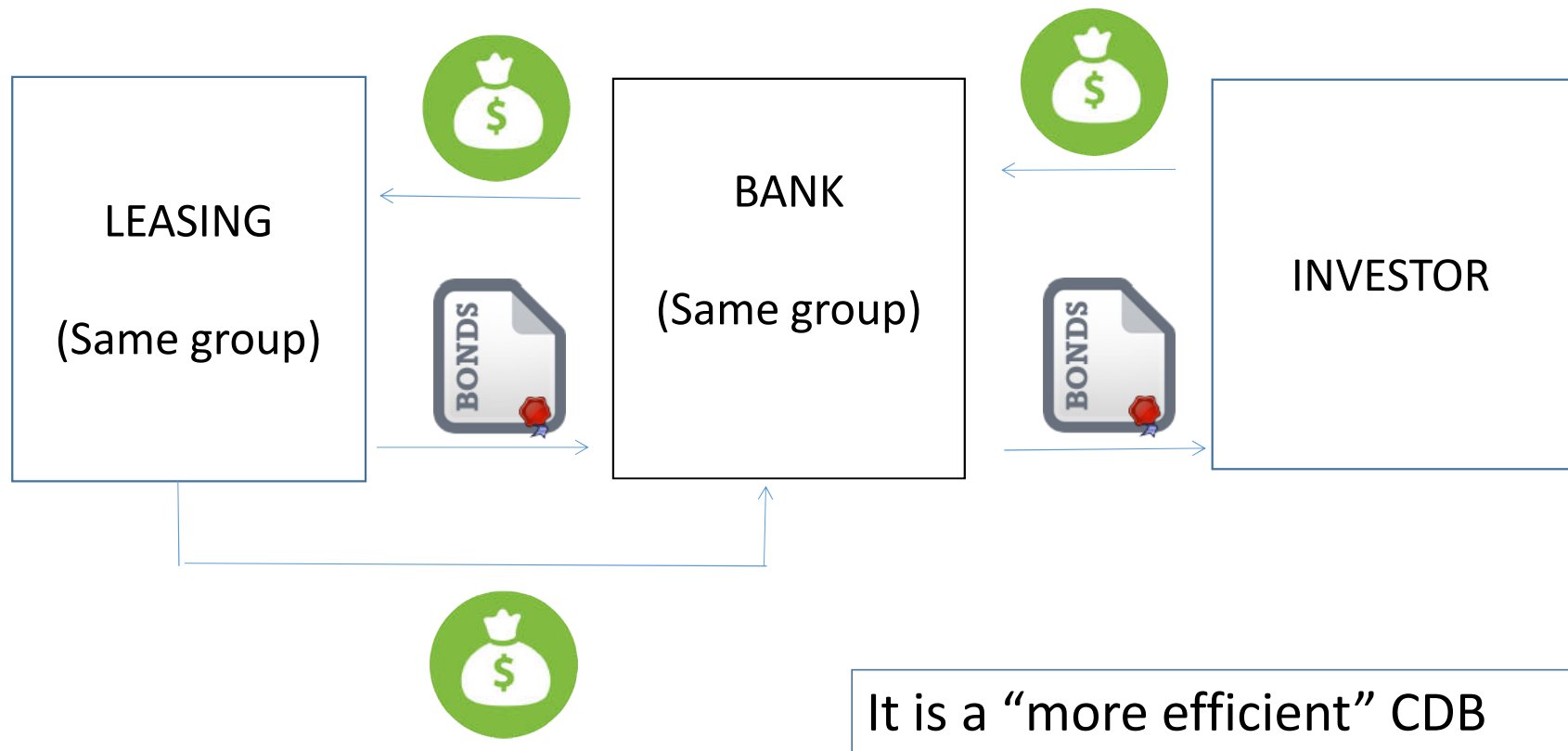
Source: BCB

Debentures outstanding grew fast and steady



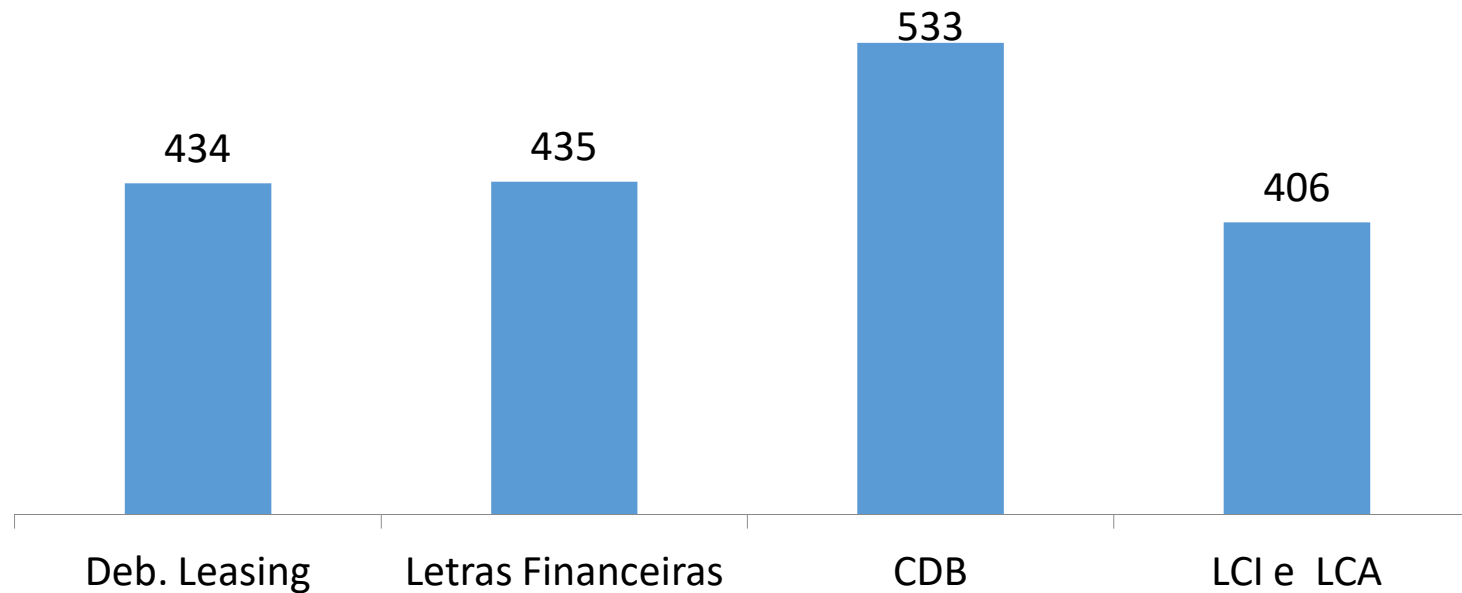
Source: CETIP and ANBIMA

Leasing Debenture is a way Banks used to avoid taxes and compulsory deposits at the Central Bank



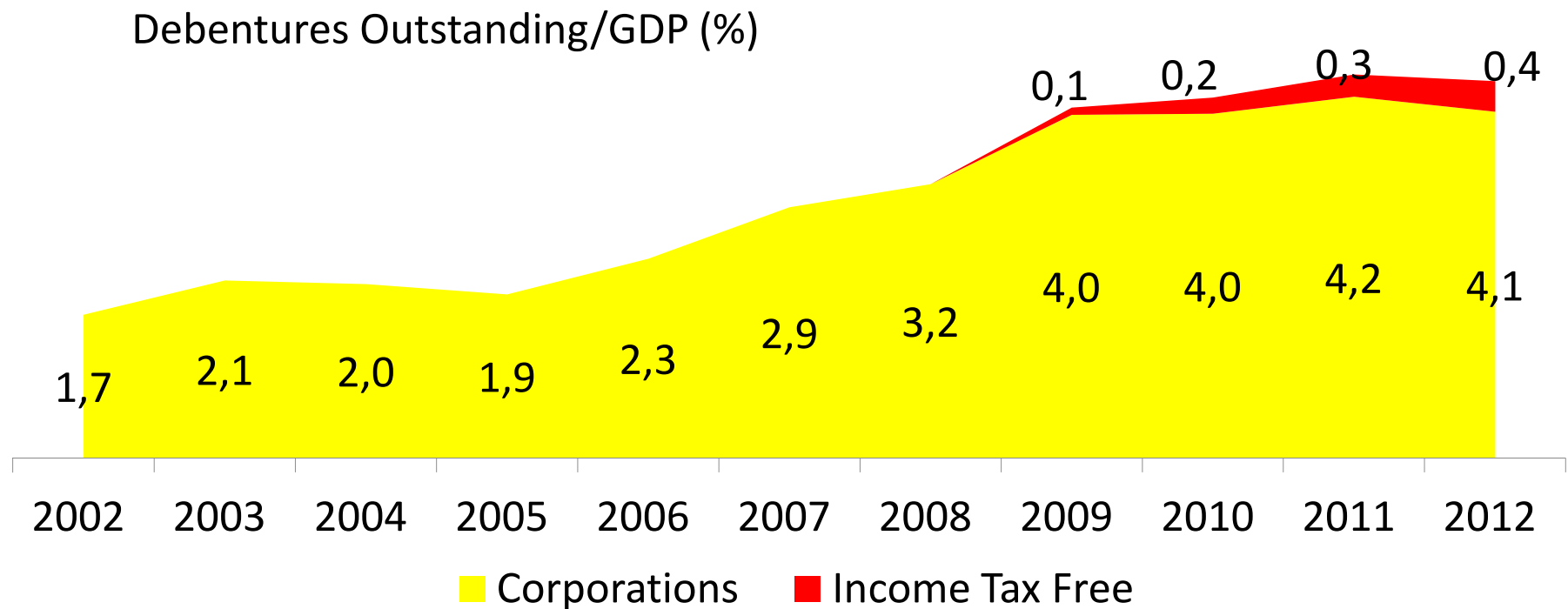
Despite Central Bank's efforts, leasing debentures are still very important on banks funding

Bonds Issued by Banks Outstanding in March 2016 (In R\$ billions)



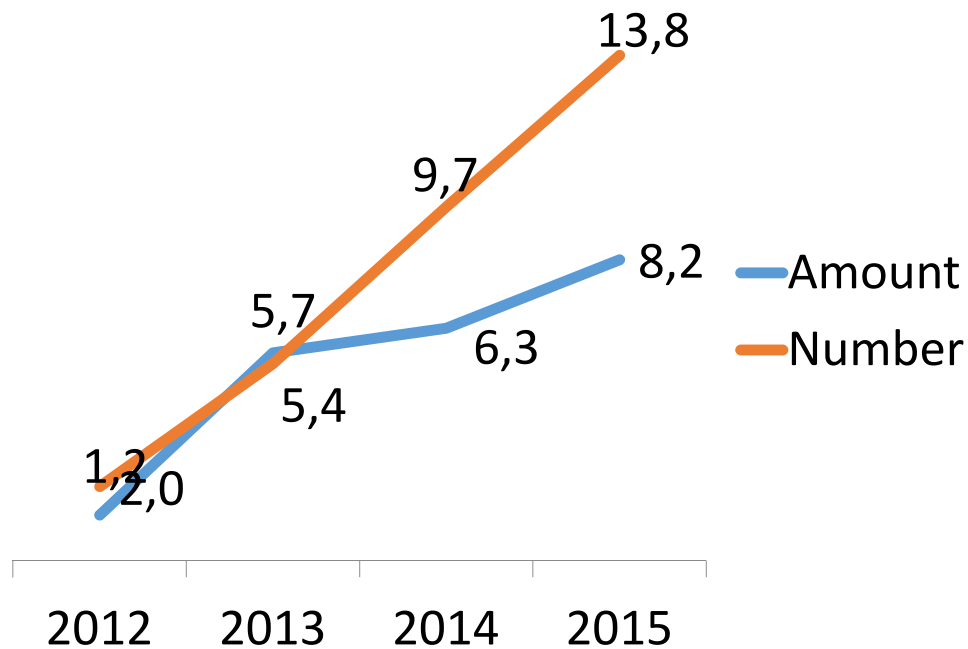
Source: Valor Econômico

Corporate debentures are a bank loan which avoid taxes and banking regulations



Source: CETIP and ANBIMA

Tax Free Debentures are growing fast, has different characteristics, but this market is still very small.



Source: ANBIMA

Debentures (2012-2013)

Items	Tax Free	Ñ-Tax Free
Average size (R\$ millions)	428	262
Average period (days)	3.668	1.960
Share of households (%)	45 ¹	5 ²
Average trading (number)	638,8	18,2
Amount traded/total issued (%; average)	30,3	¹¹ 6,1

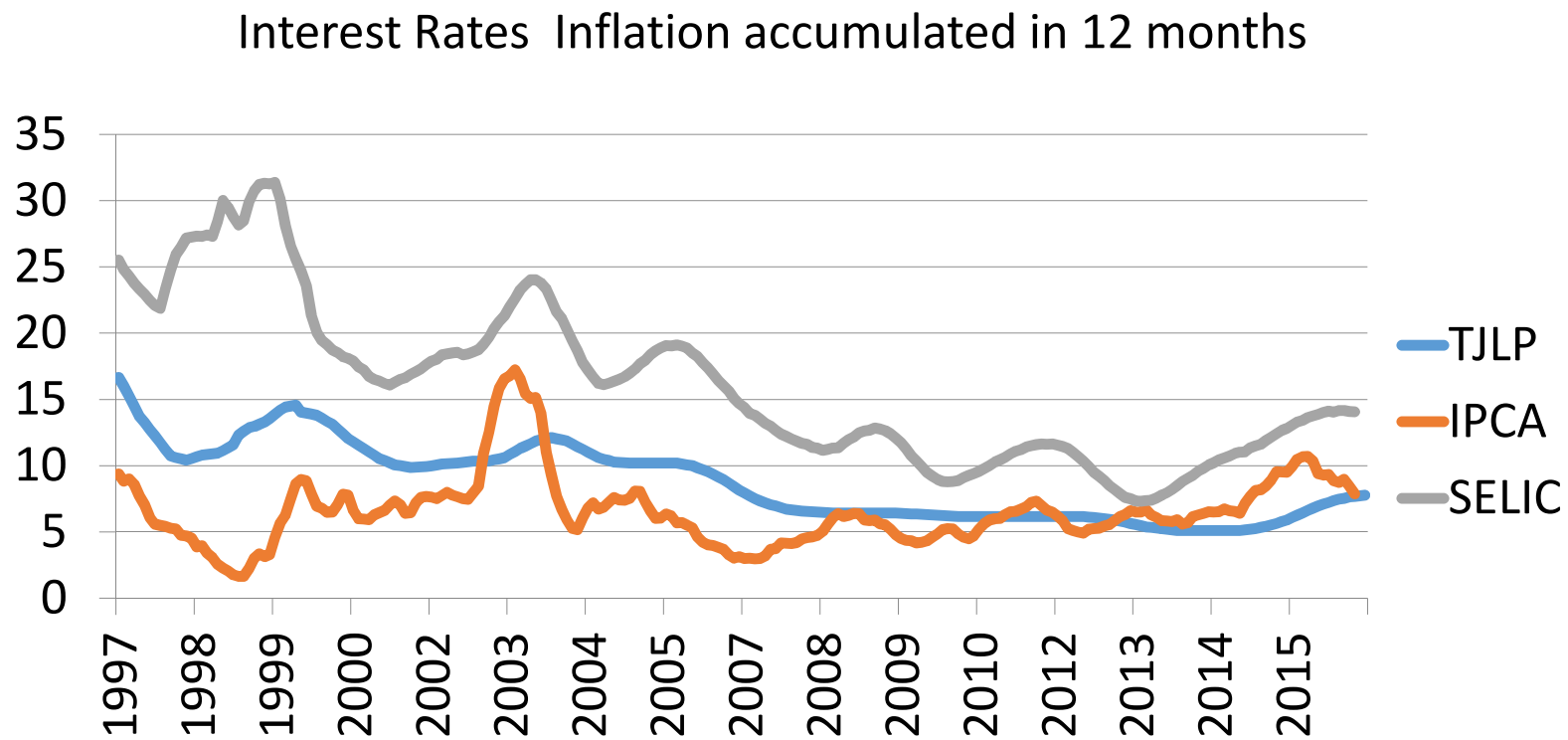
What is the size of the Long-Term Corporate Credit Market in Brazil?

Long Term Credit Market in Brazil by Origination and Sources of Funding in 2013

Agents	Source of Fund		Origination	
	In % of GDP	In % of Total	In % of GDP	In % of Total
BNDES	10,4	68,9	5,3	35,1
Other Banks	2,3	15,2	7,4	49,0
Other Investors	2,4	15,9	2,4	15,9
Total	15,1	100,0	15,1	100,0

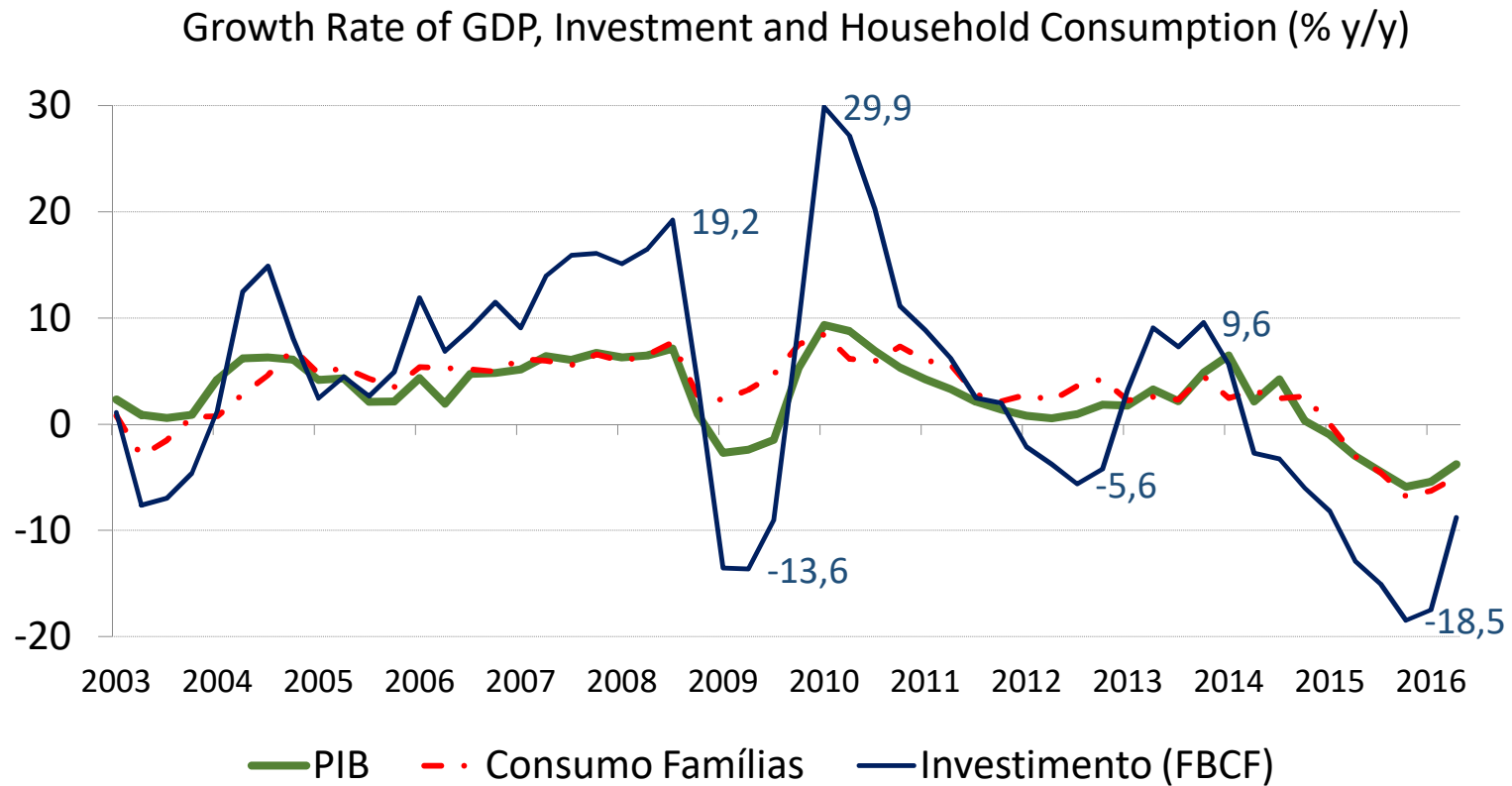
Source: Central Bank and ANBIMA

What the new administration of BNDES is doing? Increasing the financial costs of investment ...



Source: Central Bank and BNDES

... when investment is already in depression and



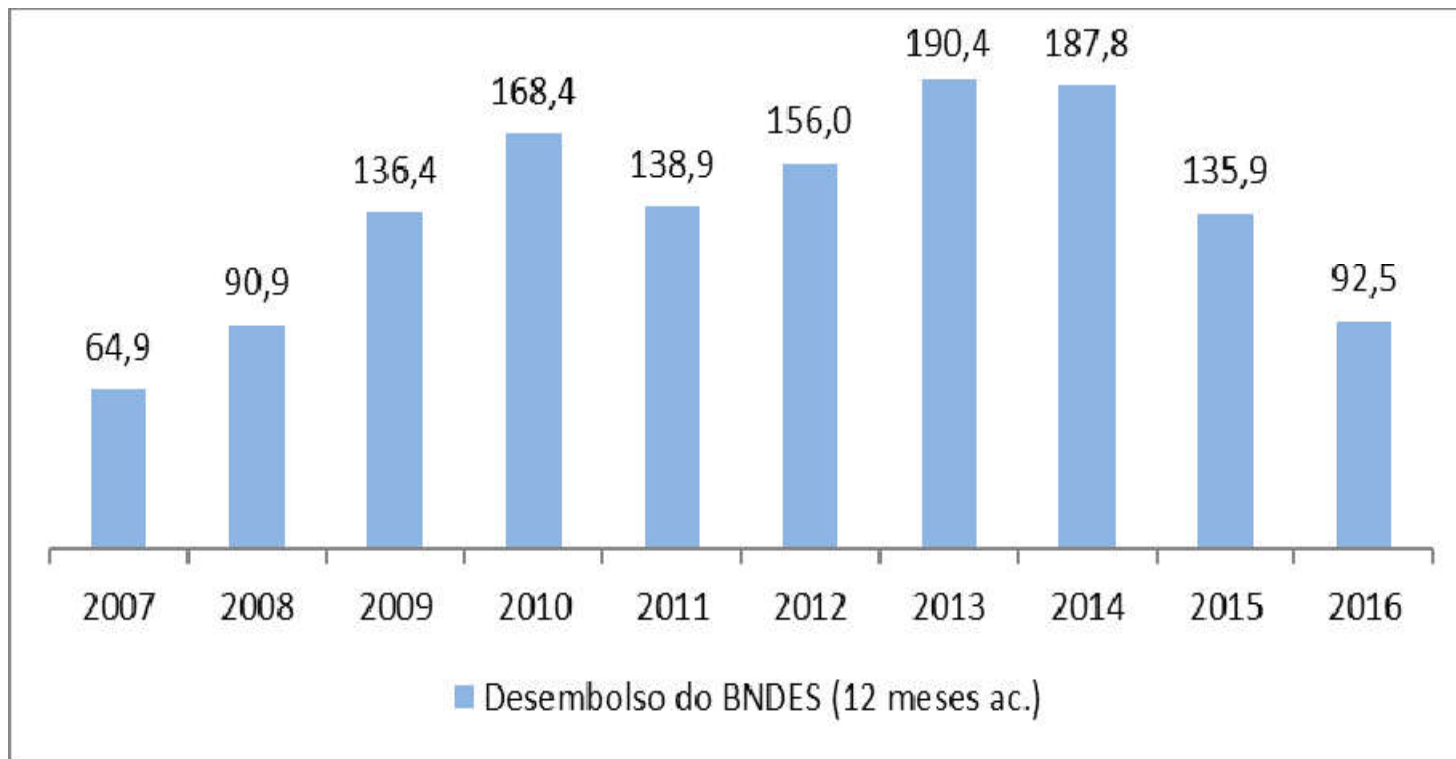
... and corporations are not able to pay the service of their debts

Indicadores Financeiros Selecionados para as Principais Empresas Abertas excluía a Petrobras

Anos	Despesa Financeira/ EBITDA	Dívida Financeira Líquida/EBTIDA	Desp. Financeira +Dívida CP _{t-1} / EBTIDA + Caixa _{t-1}
2010	0,36	1,47	0,55
2011	0,51	1,87	0,63
2012	0,57	2,46	0,69
2013	0,58	2,25	0,66
2014	0,66	2,54	0,77
2015	1,72	4,20	1,30

Fonte: CEMEC (2016)

Reducing BNDES credit at a fast rate.
Is it demand or supply?



For the purpose of paying a third of the interest bill of the National Treasury

Tabela 1 – Resultado Primário, Juros Nominais e NFSP – (% do PIB)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Primário	3,69	3,74	3,15	3,24	3,33	1,94	2,62	2,94	2,18	1,72	-0,57	-1,88
(+) Juros Nominais	6,56	7,28	6,72	5,98	5,32	5,13	5,03	5,41	4,45	4,68	5,48	8,50
=NFSP	2,88	3,54	3,57	2,74	1,99	3,19	2,41	2,47	2,27	2,96	6,05	10,38

Fonte: BCB

BNDES will accelerate the payments of its debt with the National Treasury

24/11/2016 às 05h00 1

BNDES recebe aval do TCU e decide pagar 'à vista' R\$ 100 bi ao Tesouro

Por Murillo Camarotto | De Brasília



Valor^{ECONOMICO}

ECONOMIA | TCU

Devolução de R\$ 100 bi do BNDES enfrenta resistências

ESTADÃO ECONOMIA & NEGÓCIOS

Apesar do aval do TCU, um conselheiro do banco já se manifestou contra a proposta; há também questionamento sobre legalidade da operação no âmbito da Lei de Responsabilidade Fiscal

... this means:

- 6 times all tax free debentures
- 15% of all BNDES loans
- 3,4% of the Public Debt

Perspectives

- the long term market will decrease faster than the credit market in the near future
- BNDES is been managed as a tool to help the fiscal adjustment, instead of a countercyclical tool as in the past – new kind of “fiscal dominance”.
- Government has no other tool to compensate BNDES absence
- Higher financial fragility and risk of more corporate failures and , as a consequence, of bank failures

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