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## BNDES lending shrinks back to 1996 levels

By **Denise Neumann, André Ramalho and Francisco Góes** | São Paulo and Rio de Janeiro

Annual performance figures disclosed Tuesday by the Brazilian Development Bank (BNDES) again mirrored the economic impact of two years of recession. Lending as a share of GDP reached the lowest level in 20 years, with R\$88.2 billion in new loans in 2016 or 1.4% of GDP (taking into account GDP figures used by the Central Bank to calculate official statistics). It's the lowest level since 1996, when lending at non-adjusted values represented 1.1% of GDP, the bank says.



*Fábio Giambiagi*

Economist Fábio Giambiagi, the bank's planning and research superintendent, says lending will not return anytime soon to the average annual pace of R\$100 billion in new borrowing. "We are not working with the prospect of [lending] R\$100 billion this year. It wouldn't be realistic." The bank lent R\$135.9 billion in 2015 at inflation-adjusted values. Lending peaked in 2010 at R\$246.3 billion, also at inflation-adjusted values.

BNDES lending as a share of GDP also peaked in 2010, when it reached 4.3%. Compared with today, it means lending fell by two-thirds in only six years. Consultations, which indicate future investments, also reached the lowest level in 20 years at 1.7% of GDP last year from 6.7% in 2009.

The policies that allowed the BNDES to reach such financing peaks also caused part of the fiscal deficit now hurting the public sector and delaying the economic recovery. It's still unclear how much past loans actually helped create a more efficient productive structure. The prior policy erred by subsidizing with taxpayer money investments that could (and should) had been financed differently, preferably in the capital markets.

Mr. Giambiagi says the BNDES is not an "island" in the Brazilian economy. He cited the accumulated drop of nearly 28% in Gross Fixed Capital Formation (GFCF) in three years, between the third quarters of 2013 and of 2016. He also pointed out the seasonally adjusted 8.3% drop in GDP between the first quarter of 2014 and the third of 2016. He says the bank's financing growth is linked to the economy's investment dynamic. Mr. Giambiagi is optimistic that it could improve but reckons it could take some time for the effects to become visible.

BNDES data from 2016 speak for themselves. The bank reported a drop in nearly all of its credit lines last year. Lending fell 35% from the previous year while consultations declined 11%, to R\$110.3 billion. Consultations are the first step to winning a BNDES loan and also function as a barometer of business interest in new investments. Loan reviews dropped 16% last year, to R\$98.6 billion while approvals fell 28%, to R\$79.2 billion.

Yet Mr. Giambiagi says there are "incipient" signs encouraging "moderate optimism" at the bank, with positive prospects "improving in the near future." He estimated that BNDES will begin 2017 at lower lending levels than a year ago. "Based on the history, you can imagine we will start the year with lending levels, in general, that are initially lower than those of 2016," he says. Lending will not grow if consultation levels also don't recover, he says.

The economist sees important indicators, like lower inflation and interest rates, having a positive influence on the bank's future demand. "We see signs that they will continue paving the way to a recovery [of the economy]. There are elements [inflation and interest rates] that allow us to

presuppose the economy could evolve throughout 2017 more favorably than today's situation." He says the bank's economic department forecasts the base rate at the single digits later in the year, ranging from 9.50% to 9.75%.

He says the real economy should get ready for a potential recovery and predicted that those unprepared will end up losing market share to rivals in 2019. "Looking at prospects beyond 2017, in a scenario in which several pieces of the [economic] puzzle start fitting in throughout 2017 and 2018, we could have in 2019, depending on the confirmation of policies, a very positive cycle for the Brazilian economy," Mr. Giambagi says.

Nearly all sectors borrowed less in 2016. Manufacturing borrowed 18% less, reaching R\$30.1 billion; the infrastructure sector saw a 53% decline, to R\$25.9 billion. Retail and services borrowed 40% less, at R\$18.3 billion. Farming and livestock were the only positive sectors, with 1% growth, to R\$13.8 billion.

A month-to-month review of lending figures leads to the conclusion that nearly all sectors borrowed less in 2016 with a few exceptions. The bank expects the declines to end gradually. Yet, looking at the bank now and comparing it to the recent past, it seems the BNDES is shrinking beyond the necessary as the economy prepares to reach the turning point.

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