UN Group Meeting - “Rethinking the Role of National Development Banks”
Demian Fiocca
Vice President – BNDES
December, 2 2005
In the last years, economic growth was frequently interrupted by financial and Balance of Payments stress that affected aggregate demand.
A new development cycle

From 1995 to 2001 the current account deficits didn’t foster investments. Now, investments grow along with domestic savings.

Source: IPEADATA
Macroeconomic Performance

Public investment has fallen...

Investment as % of GDP

<table>
<thead>
<tr>
<th>Period</th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-79</td>
<td>3.7</td>
<td>18.9</td>
</tr>
<tr>
<td>1980-89</td>
<td>2.7</td>
<td>19.5</td>
</tr>
<tr>
<td>1990-99</td>
<td>2.7</td>
<td>17.7</td>
</tr>
<tr>
<td>2000-03</td>
<td>1.8</td>
<td>18.8</td>
</tr>
</tbody>
</table>

Source: Brazilian Planning Ministry
Investments are necessary

... as a consequence, infrastructure investments dropped over the last 20 years

Yearly infrastructure growth in the selected sectors (%)

- Railways
- Power Generation
- Paved Roads

<table>
<thead>
<tr>
<th></th>
<th>Railways</th>
<th>Power Generation</th>
<th>Paved Roads</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951/63</td>
<td>23.9</td>
<td>-0.3</td>
<td>9.8</td>
</tr>
<tr>
<td>1964/80</td>
<td>9.8</td>
<td>-1.6</td>
<td>9.8</td>
</tr>
<tr>
<td>1981/93</td>
<td>1.0</td>
<td>4.1</td>
<td>4.9</td>
</tr>
<tr>
<td>1994/02</td>
<td>-0.5</td>
<td>3.8</td>
<td>1.5</td>
</tr>
</tbody>
</table>
... credit can help infrastructure...

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>103,3</td>
<td>132,5</td>
<td>173,6</td>
</tr>
<tr>
<td>U.K.</td>
<td>112,2</td>
<td>116,4</td>
<td>141,3</td>
</tr>
<tr>
<td>Germany</td>
<td>93,3</td>
<td>110,1</td>
<td>117,4</td>
</tr>
<tr>
<td>France</td>
<td>91,3</td>
<td>82,0</td>
<td>87,8</td>
</tr>
<tr>
<td>Japan</td>
<td>170,1</td>
<td>175,0</td>
<td>104,6</td>
</tr>
<tr>
<td>China</td>
<td>79,5</td>
<td>95,0</td>
<td>135,5</td>
</tr>
<tr>
<td>South Korea</td>
<td>81,2</td>
<td>113,2</td>
<td>119,9</td>
</tr>
<tr>
<td>India</td>
<td>24,0</td>
<td>22,8</td>
<td>30,5</td>
</tr>
<tr>
<td>Brazil</td>
<td>23,1</td>
<td>33,0</td>
<td>33,2</td>
</tr>
<tr>
<td>Chile</td>
<td>47,7</td>
<td>62,1</td>
<td>75,0</td>
</tr>
<tr>
<td>Mexico</td>
<td>17,1</td>
<td>21,3</td>
<td>18,1</td>
</tr>
</tbody>
</table>
BNDES Highlights

- Founded on June 20, 1952
- 100% owned by the Federal Government
- Latin America’s largest development bank
- Key instrument for the Federal Government Policies
- Brazil’s main provider of long-term financing
- Brazilian Export Bank
- Equity investor through BNDESPAR
BNDES: A historical perspective

1950
- Infrastructure (Energy and Transport)
  - Steel

1960
- Heavy Industry – Consumer Goods – Small and Medium-Sized Enterprises
  - Technologic Development
  - Import Substitution

1970
- Petrochemicals, Pulp & Paper, Steel
  - Capital Goods
- Energy
- Agribusiness
  - Competitive Integration

1980
- Private Infrastructure and Exports
- Privatization: Management of Privatization Program
- Urban and Social Development

Today
- Industry – Infrastructure – Exports
- Social Inclusion – Development of Capital Markets
BNDES and Multilateral Institutions

✓ Adequate return

✓ Good asset quality indicators

**Economic Indicators**

<table>
<thead>
<tr>
<th></th>
<th>BNDES (31/12/04)</th>
<th>IDB (31/12/04)</th>
<th>World Bank (30/06/04)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$ million</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Assets</td>
<td>61,769</td>
<td>67,346</td>
<td>229,213</td>
</tr>
<tr>
<td>Net Worth</td>
<td>5,317</td>
<td>18,511</td>
<td>35,463</td>
</tr>
<tr>
<td>Net Income</td>
<td>511</td>
<td>1,176</td>
<td>(2,404)</td>
</tr>
<tr>
<td>Disbursements</td>
<td>13,748</td>
<td>3,768</td>
<td>10,024</td>
</tr>
<tr>
<td><strong>Capitalization</strong></td>
<td>8.18%</td>
<td>27.49%</td>
<td>15.47%</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>0.95%</td>
<td>1.72%</td>
<td>-1.04%</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>14.11%</td>
<td>6.60%</td>
<td>-6.55%</td>
</tr>
<tr>
<td>Non performing Loans</td>
<td>0.64%</td>
<td>0.43%</td>
<td>0.59%</td>
</tr>
</tbody>
</table>
BNDES: Funding

- **FAT – Worker Assistance Fund**
  Permanent financing or quasi-equity

- **Foreign Funding**
  Government Agencies and Multilateral Institutions
  IDB, JBIC, World Bank, KfW.

- **Market Funding**
  Bonds, Loans, Structured Notes (ABS)
Excellent source of funding without budgetary effects.

Source: BNDES Financial Area
Annual Disbursements

Converted to US dollar on the disbursement dates
The BNDES responds for 19% of the total credit in the economy.
Credit Market in Brazil

BNDES credit has a counter-cyclical effect

Free Credit grew more than BNDES Financing

Source: Brazilian Central Bank
BNDES participation increases during the downturn periods of credit/GNP ratio
BNDES credit analysis takes into consideration factors beyond the financial return of the project, seeking the promotion of economic and social development.

Spread reductions:
- 1,0 p.p. to less developed regions
- 0,5 p.p. to higher priority sectors
- 3,5 p.p. to MSMEs
- Special programs (railways, capital equipment)

Variable upside required:
- Equity and Quasi-equity participation
BNDES works in association with commercial banks

Source: BNDES Financial Area
Private firms absorb 98% of the BNDES disbursements

- **1995**: 91%
- **1996**: 77%
- **1997**: 78%
- **1998**: 91%
- **1999**: 97%
- **2000**: 98%
- **2001**: 97%
- **2002**: 96%
- **2003**: 94%
- **2004**: 94%
- **2005**: 98%

**Public firms** vs. **Private firms**
Focus on infrastructure and industry

Converted to dollar on the disbursements date

Remark: Excludes secondary market transactions

Source: BNDES Financial Area
Large number of operations with MSMEs

<table>
<thead>
<tr>
<th>Number of Operations</th>
<th>US$ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,062 Micro and Small</td>
<td>2,624 Micro and Small</td>
</tr>
<tr>
<td>8,424 Medium</td>
<td></td>
</tr>
<tr>
<td>87,435 Large</td>
<td>1,310 Large</td>
</tr>
</tbody>
</table>

Excludes secondary market transactions
Disbursements by Firm Size

Support to MSMEs and create jobs

Converted to dollar on the disbursements date
Firms supported by the BNDES presented a much higher growth of formal job creation than firms not supported.
Effect is stronger in the smaller firms
The Brazilian Development Bank

Culture - BNDES invests in Brazilian filmmaking and in the restoration of the architectural heritage.

HSMEs - BNDES promotes the growth of Micro, Small and Medium Enterprises.

Performance - BNDES disbursements totaled R$ 25.9 billion until September.

Exports - Until September, BNDES has already disbursed US$ 2.2 billion for the exports.