

LONG-TERM PRIVATE FINANCING: AN AGENDA FOR STRENGTHENING THE DEBENTURE MARKET

- *Lower interest rates, low and stable inflation and lower remuneration of National Treasury bonds enhance the development of the private securities market.*
- *The capital market may have an increasing participation in the long-term financing of productive investment.*
- *Brazil's Development Bank (BNDES) should broaden the scope of its activities in order to become an active agent in promoting the development of the capital market.*

The debenture market has a secondary participation of a little more than 4% of GDP in the long-term financing of the productive sector despite the growth observed in this market over the past 15 years. Opportunities are available for developing this market as a result of the lower interest rates, low and stable inflation, and lower remuneration of government bonds prevailing in Brazil today and of the new credit policies adopted by BNDES.

Long-term financing for companies in Brazil in the last decades has been basically ensured by loans granted by the BNDES.

As of 2015, with the fall in output and investment, recession in the Brazilian economy interrupted a process of fast expansion of investment credit, with a stronger impact on BNDES financing than on debenture issues. At the same time, fiscal imbalance and public accounts in disarray have clearly revealed the limitations of the credit policy implemented over the last decade.

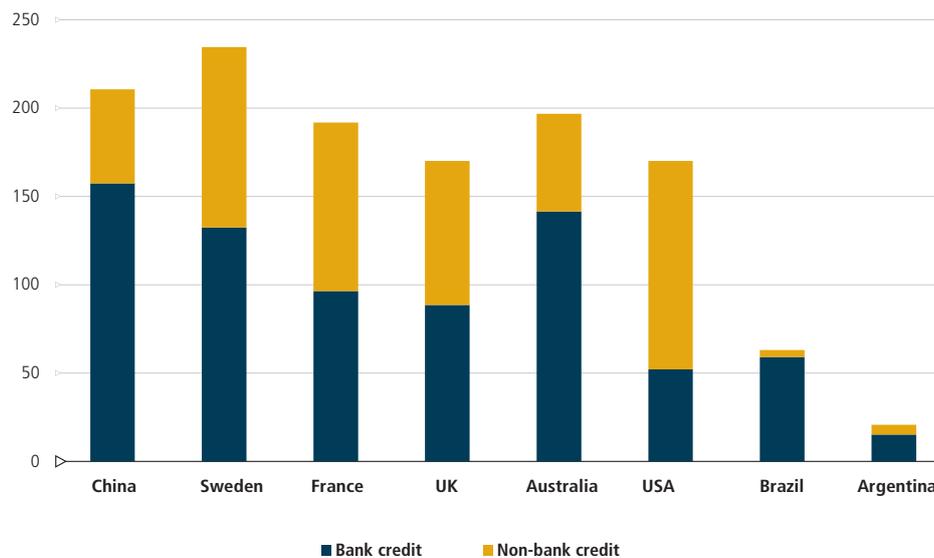
The fiscal adjustment policy, especially the recovery by the Union of funds transferred to the BNDES and the replacement of the Long-Term Interest Rate (LTIR) with the Long-Term Rate (LTR), has major immediate impacts on the performance of the BNDES. This new situation brought significant implications from the point of view of its future performance, thus requiring a review of its financing and fundraising policy.

In contrast to these effects, **the results of these changes can have a positive impact on the development of the debenture market**, since they affect factors that have been inhibiting the supply of and demand for long-term private securities.

The economic policy has a double challenge to face. The first one is that of promoting the development of the capital market, and the second one is that of reviewing BNDES' financing and fundraising policy due to the recent fiscal crisis.

The responses to these two challenges should take the form of coordinated and convergent actions designed to promote a transition process towards a new configuration of productive investment financing, in which the capital market gradually increases its share in this financing.

From this perspective, **the review of BNDES' financing policy should not be merely designed to overcome an adverse economic situation.** Above all, it should be designed to include the Bank in this new configuration by, among other measures, defining its role in the transition to this new scenario. **For this inclusion to be possible, the BNDES must expand its scope of action to become an active agent in promoting the development of the capital market.**

STOCK OF CORPORATE, BANK AND NON-BANK CREDIT IN PROPORTION TO GDP (%)
IN SELECTED COUNTRIES

Source: Bank for International Settlements (BIS).

Note: a – Stock up to the third quarter of 2017.

b – excludes loans to companies operating in the financial sector.

Main recommendations

1 Guidelines for promoting the development of the debenture market.

- Possibilities for reducing operational and administrative costs and simplifying the process of issuing and distributing debentures should be considered.
- Obstacles to greater demand for debentures by institutional investors should be removed.
- Greater participation of individuals in the debenture market should be ensured.
- The maturity date of debentures should be extended through a review of the securities taxation system.
- Actions designed to promote the gradual development of the secondary debenture market and BNDES' performance as a dealer and market maker in these markets should be encouraged.

2 Guidelines for strengthening BNDES' role in the debenture market.

- Actions focused on developing the capital market should be included among the bank's priorities.
- Funds provided by the Workers' Support Fund (FAT) should be complemented with funds raised in the market.
- Longer-term operations should be given priority.
- Direct integration of private funds in the structuring of its financing in larger projects should be considered.
- Coordination with institutions operating in the capital market should be considered with the aim of ensuring finance for small enterprises.

The full version of the document can be accessed through the QR code on the side or at: <http://www.cni.com.br/eleicoes2018/downloads/> This summary is part of the series Proposals of Industry for the 2018 Elections comprising 43 documents. The series, which is based on the *2018-2022 Strategy Map for Industry* is a CNI contribution to the new federal administration and presents analyses and proposals of priorities to increase Brazil's competitiveness. Any part of this publication may be copied, provided that the source is acknowledged. Brasília-DF, July 2018.

