

Underpinning social development

INTERVIEW WITH DR GUIDO MANTEGA

PRESIDENT, BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL (BNDES)



GUIDO MANTEGA graduated with a BSc in economics from the University of São Paulo. He went on to take his PhD in economic development sociology at the same university, with further studies at the Institute of Development Studies (IDS) in Sussex, UK. Dr Mantega was a lecturer in economics at the Catholic University of São Paulo (PUC-SP) from 1982-87 and Assistant Vice-Chancellor of the University from 1984-87. He was a member of the economic team of the Workers' Party (PT) during the presidential elections in 1984, '89 and '98, and Economics Programme Coordinator for the successful PT Presidential campaign of 2002. Before assuming his current role, he was Minister of Planning, Budget and State Administration.

How would you characterise the role of BNDES in Brazil's political and economic life?

The aim of BNDES has always been to support the economic policy of the government of the day, and the Bank is one of the main tools of the government's economic policy.

Brazil is a country that achieved great strides economically during the last century. For a long time it was one of the fastest growing countries in the world and could almost be described as the China of its day. Then, from the 1980s onwards, it grew at a mediocre rate for 20 to 25 years. The mission of the Lula government was to put development back on the agenda and to put Brazil back on the path of economic and social development.

The task of BNDES is to create the conditions for this development to take place, mainly by financing production. We therefore have to identify what needs to be done for this new phase of development to take place, and to provide the tools and conditions for this to occur.

How has the bank's role evolved in response to the transformation of the Brazilian economy?

Each development cycle has its own characteristics. BNDES is nearly 50 years old, and it has played a part in the various stages of development in Brazil. For example, in the 1950s and 1960s, the role of BNDES was to enable the establishment of State companies. BNDES financed the country's infrastructure and its basic industrial production by funding State enterprises. Now times have changed; Brazil now has a modern and competitive production structure, which explains why the country has increased its involvement in international trade at a much faster rate than the growth in international trade globally.

World trade is currently growing at a rate of nine per cent per year, and Brazilian exports are growing at a rate of over 20 per cent. Brazil is therefore gaining ground, and this is due, to a large extent, to its modern production structure and its competitiveness, whether in agriculture or manufacturing.

Brazil is a world leader in terms of productivity and competitiveness in various agricultural sectors, although of course this doesn't mean that Brazil is an agricultural economy. In fact only eight per cent of Brazilian GDP is agricultural; the majority of Bra-

zilian exports are industrial products, such as cars, aircraft, petroleum products, white goods and other electrical equipment. So, today BNDES is essentially financing the private sector, because the private sector has replaced the State in a range of different functions. The bank therefore has to identify key movements in the economy, and decide which are the priority sectors that deserve our support.

What do you regard as the greatest challenges facing the corporate sector in Brazil today?

One of Brazil's biggest problems is credit. The country has a very low credit to GDP ratio, although this is increasing under the Lula government. When we came to power, the volume of credit available in the economy was 26 per cent of GDP. Today it is 31.3 per cent. In absolute terms it is still small, but we are rapidly increasing the amount of credit available.

Unfortunately, because of fiscal and other problems over the past few years, Brazil has had to live with very high interest rates, but they are now gradually falling. The previous government worked with a real average interest rate (above inflation) of 15 per cent. We already have an average rate of 11 per cent, and falling. Why? Because the fundamental pillars of the Brazilian economy are in an unparalleled situation. Never, at any time, under any government, have the foundations of Brazil been as solid as they are today. Based on this, and on a responsible fiscal policy, the interest rate will remain on a downward trajectory.

Even so, the interest rate charged in the private sector is high for companies. BNDES therefore has the task of providing credit at a lower rate than the private sector, in order to facilitate investments, mainly in infrastructure and capital-intensive industries, in which entrepreneurs run the greatest risks and investments take longer to mature. We therefore have special lines of credit, for example, for the electricity sector, because we know that the supply of electricity is crucial for capitalist development. Not only for conceptual reasons, because we know that electricity is the power that drives the whole production structure, but because the previous government made a serious mistake in its electricity strategy and left the country with an energy crisis. Which is a paradox, because Brazil is probably the country with the greatest hydroelectric potential in the world.

What is the current administration doing to avoid a repeat of such crises?

The Lula government has drawn up a new electricity model and BNDES has created special lines of credit for the sector, providing incentives for the installation of new hydroelectric plants and power lines. Brazil has a great many rivers, but most of them are a long way from the centres of consumption. This government is therefore installing 12,000 km of power lines; that's enough to connect the whole of Europe. The public sector awards the contracts, but the private sector makes the investment and then the government buys the energy. It is therefore an ultra-safe form of business, because the demand is guaranteed, it is profitable, and BNDES provides financing with special long-term lines of credit.

Another important aspect of the new energy scenario is oil and gas. Never has so much been invested by Petrobras and other companies in the oil and gas sector in Brazil. The oil and gas sector is currently attracting more investments than any other, and in 2006 we will achieve self-sufficiency in crude oil production, despite increasing consumption.

In addition, Brazil is a leader in ethanol technology, which has become the leading alternative fuel for the automotive industry. Japan, for example, is interested in buying ethanol from Brazil, and we expect other countries to follow suit.

We are now developing a third source of alternative energy, namely biodiesel, and BNDES has special lines of credit for this as well, serving small and large producers alike. Because biodiesel can be produced using castor oil, and the castor-oil plant grows in the economically-deprived Northeast of Brazil, this programme also has a strong social aspect.

Brazil could therefore become the world's biggest biodiesel producer, because biodiesel can be produced using either castor-oil or soya, and Brazil tends to produce a surplus of soya. So, instead of exporting soya beans, it can now make and export biodiesel.

Despite lending to the corporate sector at below market rates, BNDES manages to generate significant profits. How has this been achieved?

BNDES not only finances but participates as well. It takes a minority shareholding in order to capitalise companies. We are shareholders in almost all of Brazil's leading companies, including Banco do Brasil, Petrobras, and Companhia Vale do Rio Doce. Over the past two years, Brazilian companies have been hugely cash rich, because the level of profitability of the Brazilian economy is very high and dividends have been amongst the highest in the world. As a significant shareholder in all these companies, BNDES is now reaping what it has sown.

The modernisation of Brazil's infrastructure is crucial to the country's ambitions as an economic power. What role is BNDES playing in this process?

One of our main priorities at the moment is the railway industry. There is a railway boom at the moment in Brazil. The current Brazilian rail network was originally installed by the British during the nineteenth century, so it is now undergoing a long overdue period of modernisation and expansion. This is because rail has once again become a profitable form of transport. Over the last century, Brazil expanded largely thanks to road transport, which is an easier form of transport to install but has higher operating costs. Now we are going through this period of great economic expansion, with a boom in foreign trade, so we have all these goods to transport. There is also a boom in agricultural production, the volume of which is huge, so the railways have therefore become extremely profitable.

The marine industry is also recovering in Brazil. In the 1970s, Brazil was the second biggest ship builder in the world, then it had a crisis and was reduced to nothing. But today the ship-building industry is recovering, mainly thanks to Petrobras, which is ordering numerous oil and gas drilling platforms, each in the region of US\$700-800 million, as well as tankers and FPSOs. In addition, there is currently a worldwide boom in sea transport, so once again Brazil is enjoying a renaissance because we have centres of excellence, skilled labour, highly-qualified engineers and we have locally-abundant, competitively-priced steel.

BNDES has become more outward looking recently. How do you see the role of the bank in Latin America in the context of Brazil's own infrastructure and energy requirements?

President Lula came in with a well-defined strategy to create a South American bloc of countries; to do what has been done in other areas of the world, such as Europe and North America. For this to become a reality, real integration has to be achieved between the various countries; there has to be communication between them, they have to be able to exchange goods, there has to be a flow of tourism between them – a de facto union, as there is in the case of EU.

Various integration projects have therefore been launched, ranging from roads and bridges to railways and trade agreements. So as well as becoming stronger, Mercosul has tried to bring countries outside the organisation into the fold. Venezuela has already joined, and there is now a possibility that Bolivia may join as well, and BNDES has special lines of credit to finance the export of goods and services that will make it viable for installations to be set up abroad. Brazilian contractors have a great deal of know-how and technology to build hydroelectricity plants, subways,

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railways and roads, so BNDES finances part of this activity. For example, the Bank provided US\$250 million of financing for a gas pipeline to carry gas from the south of Argentina to the Buenos Aires area. The company supplying the gas is an Argentinian subsidiary of Petrobras, while the pipelines were made in Brazil by an Argentinean company called Techint. This is what I mean by South American integration.

What steps are you taking to streamline the organisation to respond to your clients' needs?

The Bank has a planning department that includes perhaps one of the best economists in Brazil, Antonio Barros de Castro. His job is to identify key trends, and at the moment, the most important of these is information technology.

In the past, the bank required exports to consist of 65 per cent goods and 35 per cent services, such as an engineering project, for example. Now, we can finance up to 65 per cent of services and 35 per cent of goods.

The new trend in capitalism is services and intangibles. For example, Brazil is now carrying out engineering design projects in the area of car production. This is a revolution in Brazil, because in the past the engineering design arrived ready from abroad. Now, Ford has a design laboratory in Bahia and various international cars are being designed in Brazil.

BNDES has long been involved in the promotion of energy integration in Latin America. How important is the proposed Venezuela-Argentina gas pipeline project for the Continent and for Brazil?

South America has a lot of gas but it is badly distributed. The North has plenty but the South has very little. This gas pipeline is therefore important for various reasons; firstly, because it will provide an important fuel which will be in short supply, due to trends in global demand. Secondly, because it will mobilise a whole parallel industry, such as the iron and steel industry for example, which will make the pipes and other components. So, it will have a major economic impact. Thirdly, it will forge links between South American countries, creating economic integration in the region. This means good business for Petrobras, for PDVSA and many other companies besides, and BNDES will have the opportunity to finance it.

For the first time in its history, Brazilian productivity is growing at the same time as employment. To what do you attribute this new virtuous cycle?

You are talking about something that few people have understood here in Brazil, and which is now beginning to take off. There is a major growth in the productivity of industry, which is the leading technological sec-

tor in Brazil. Over the past two years it has grown by around nine per cent, and the strange thing is that it is actually creating jobs. The unemployment level in Brazil is the lowest it has been for years.

What it boils down to is innovation. Productivity can grow in one of two ways: it can grow through company rationalisation, that is to say by making workers redundant, which is what happened in the 1990s here in Brazil. Companies were in a defensive position, they needed to cut costs, so they sacked workers. Therefore production per worker increased. By contrast, we are now in a positive cycle, which means that companies are not cutting production; instead they are increasing it. There are technical innovations being introduced that are increasing production and employing more workers.

What is your view of the outlook for the Brazilian economy in 2006?

As I see it, the conditions exist for the Brazilian economy to achieve a balanced growth of more than five per cent in 2006, but the monetary authorities here in Brazil, as in Europe, are always a little more conservative. The Central Bank's projection is four per cent. I'll wager that we will grow by at least five per cent. If Brazil grows by five per cent, and the conditions remain as solid as they are, Brazil will have a long growth cycle. If the economy continues to grow at five per cent a year over the next 10 years, the situation will be excellent because with the growth that has been achieved so far you can see that things have already improved noticeably. Our internal market is consolidating, the income of our workers is growing, real salaries are increasing and unemployment is falling, so I think we now have the right conditions for long-term growth in Brazil.

In 2006, Brazil will have its best year of growth under the Lula government. Better than 2004, which was 4.95 per cent. And Brazil may continue to grow at this rate for several years.

Goldman Sachs estimates that if Brazil grows by 3.5 per cent until 2050, its economy will be bigger than that of Japan. I think this is correct and that Brazil may grow at a faster rate than 3.5 per cent, which is something that European countries cannot achieve.

The important thing is for Brazil to conquer markets. Never have Brazilian products been so well received abroad as they are now. Brazilian products are fashionable now; the Brazilian flag is a designer label, it's a brand. Therefore, despite the fluctuations, Brazil is a lot less vulnerable as a country to external shocks. Might it experience a recession? It might. In which case, instead of growing by 20 per cent, trade will grow by 10 per cent, or by eight per cent. But it will maintain its level; it won't recede. **F**

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