How well did state-owned banks expand access to financing?

A new study has found that after 2008, lending by state-owned banks mostly benefited companies that did not need support. Also, companies that have benefited from public credit did not invest more than companies that did not receive public loans.

THOUGH STATE-OWNED BANKS have taken a larger share in the credit market since the 2008 crisis, they have not necessarily supported companies that were having difficulty in accessing finance because they were innovative, higher-risk, or smaller. These were among the findings of a new study by staff economists of the Center for Public Policy of the Institute of Education and Research (Insper) and the Central Bank, part of a continuing review of the current subsidized lending policy of state-owned banks, particularly the National Development Bank (BNDES).

In “Macroeconomic and Financial Consequences of Government Credit Expansion in the Post-Crisis,” Marco Bonomo and Ricardo Brito of Insper, and Bruno Martins of the central bank research department analyzed about 1 million companies that each borrowed more than R$30,000 between 2004 and 2012 to assess how subsidized public credit affected their performance.

In general, during this period older, larger companies, with more employees and no default history were more likely to access public credit. Bonomo made it specific: “Our calculations show that a company 10 years older than another company would have been 3.3% more likely to get a credit loan before the crisis and 4.1% more likely after. And a company with twice as many employees than another would have been 5% more likely to get a BNDES loan.” Another conclusion drawn from the study is that BNDES loans favored companies that were able to borrow in the private financial sector at lower interest rates, which indicates they were less risky.

Bonomo points out that the researchers did not have enough data to observe whether companies benefiting from public loans had experienced previous problems of credit restrictions or were active in helping bring about social gains. “Large companies with projects that generate social positive externalities, such as infrastructure, could justify government intervention,” Bonomo says. However, the data allow the researchers to make some comments about how these loans affected company behavior. The researchers looked at the balance sheet and credit information of publicly traded companies and found, Bonomo says, that “Companies that have benefited from public credit did not invest more than companies that did not receive public loans.” Furthermore, as expected, for companies that did receive...
public credit the study showed increased indebtedness—which might be explained by company financial arbitrage in terms of seeking investments with rates of return higher than the cost of the loans—and a lower cost of capital.

These results, Bonomo believes, are consistent with the view that the main effect of increased public credit was to shift demand for credit from private to public financing. He says, “Before the crisis, the expansion of credit in general was centered in the private sector. With the crisis, the government asked state-owned banks to make up for the fall in private credit, but then the government seems to have become excited and expanded public credit much more than private banks.” The share of state-owned banks in total credit went up from 34% in 2008 to 48% in 2012. Bonomo points out that broad expansion of public credit can distort the allocation of resources between sectors and have a negative impact on private banking and on the capital market.

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IBRE researcher Maurício Canêdo argues for reviewing the granting of subsidized credit, especially by BNDES, to projects and companies that could be financed by the private financial market. “We indebted the Treasury, and now we cannot maintain the same level of lending as in the last five years,” he says. “This forced reduction, however, is an opportunity to review the government’s lending policy.” His conclusion? “We have to be more attentive to the costs and benefits of the credit policy of state-owned banks.”