

Public Banks and recent anticyclical policies: a comparative study of the experiences of
Brazil and Chile

Ana Rosa Ribeiro de Mendonça¹

Brunno Sibin²

Abstract

In the 1990s, Latin American economies have experienced a broad and deep liberalization. Despite of that, as a result of government strategies or even the rise of left parties to power, some of these institutions were preserved. Since then, these public banks have assumed different roles, depending on the political and economic environment in which they operate. However, a point of convergence of the different experiences was confronting the effects of the international financial crisis on their economies. This seems to be the case of public institutions in Brazil and Chile. In the former, that statement can be taken from the growing involvement of the government owned banks in the credit to the private sector, which certainly explains the activism of such institutions, even after the crisis. In Chile, Latin American country that has experienced the broadest liberalization process - including in the financial markets - it is worth to note the still relevant presence of BancoEstado, responsible for a substantial portion of credit to the private sector. During the first year of the crisis, this institution had experienced an intense activism in the Chilean credit market. So, one could say that, in these two countries, the public financial institutions have adopted anti-cyclical strategies, in order to compensate the pronounced decrease in the credit offered by private banks. Nonetheless, their strategies were quite diverse in the following years. The Brazilian banks kept increasing the credit to the private sector, as the Chilean bank started a reversal strategy. An analysis of their performance points out a broad research agenda. The Brazilian and Chilean experiences allow us to observe parallels between the actions of Caixa and BancoEstado in coping with effects of the international financial crisis. Thus, this paper aims to draw a comparative analysis of the performances of Caixa and BancoEstado in their respective economies, regarding anticyclical policies. We defend that the presence and activism of public financial institutions are important instruments of financial and social policy, which can and should assume regulatory role of the private banking capital. In order to achieve that goal, it is organized as follows: After the introduction, sections 2 and 3 deal with the opening and privatization processes, as well as the composition of the banking systems of Chile and Brazil. In Section 4, after a brief description of the Chilean system, BancoEstado is its main object of analysis, with particular attention to its performance in 2008/09, just after the first movement of the international financial crisis. The performance of Caixa in the credit market and the importance of its role on public policies are discussed in section 5, after a brief characterization of the Brazilian

¹ Assistant Professor at the Institute of Economics, University of Campinas.

² Student at the Master Program on Economic Development, Institute of Economics, University of Campinas.

system, especially its public financing system. Finally, final considerations are presented.

1. Introduction

Capitalist economies are marked by the presence of banks as central actors. Not simply because they are resources intermediators, but mainly by their capacity to create money and to affect the asset prices (Minsky 1986). The discussion of resource allocation in the credit markets is central, especially when considering the relevance of the financing of spending decisions, which are fundamental to the income and employment creation and therefore to the promotion of economic and social development. However, decisions about credit allocation, when taken by private agents - in their inherent and relentless pursuit of wealth appreciation, the logic of the system logic, and given their liquidity preference - not always lead to development. It is therefore necessary to rely on institutions and policies that are alternatives to the typical behavior of the private agents (Nunes, Mendonça and Deos, 2014).

The most widespread debate concerning public banks stands on the understanding the role to be played by these institutions relates to the awareness of immaturity or incompleteness of in the development of systems and banking markets. In this regard, public financial institutions would be justified to face the gaps left by the private sector concerning the attendance to credit demands of certain economic segments, geographical areas and even related to the provision of certain financial services (Deos and Mendonça, 2010).

This paper presents a broader view of the role to be played by these institutions: a) pivots of specialized credit subsystems, including earmarked credit to housing sectors, agriculture and microcredit; b) instruments of economic and social policies; c) regulators of the concurrence in the financial system (prices or even the creation and development of funding mechanisms and/or financial instruments; d) counter-cyclical actions; e) and in the case of development banks, in addition to the funding, the coordination of investment decisions. Thus, the role that can be played by public banks should go beyond addressing the deficiencies in the credit allocation. They can contribute significantly to counter and mitigate the uncertainty and inherent instability of capitalist economies (Deos and Mendonça, 2010). Therefore, it is argued here that public banks, beyond being fundamental actors in credit allocation, required to finance decisions of generating employment and income, can and must contribute to the economic and social policies.

Finally, it is worth adding that the reference to the public treated concerns to the role to be played within society. This means contributing to better quality of people's life, not restricted to servicing what is not interesting to the private sector, related to actions that can have significant consequences on the local, sectoral or national economy. (Deos e Mendonça, 2010).

The starting point of this paper is the different and broad roles that can be played by public banks. It aims to analyze the experiences of the Brazilian Caixa Econômica Federal (Caixa) and the Chilean BancoEstado as active institutions in its own countries system. The question that pervades the paper is whether the performance of Caixa and BancoEstado in the years after the international financial crisis can be understood as anticyclical. Our hypotheses is that BancoEstado acted mainly as part of the Chilean government anti cyclical policies, but the performance of Caixa, even understood as part of the Brazilian government action, is far more complex than that, being anticyclical just after the crisis, but pro cyclical before and after that. For that purpose the paper is organized as follows. After this introduction, as an approximation of systems in which the institutions under analysis operate, sections 2 and 3 deal with the opening and privatization processes, as well as the composition of the banking systems of Chile and Brazil. In Section 4, after a brief description of the Chilean system, BancoEstado is its main object of analysis, with particular attention to its performance in 2008/09, just after the first movement of the international financial crisis. The performance of Caixa in the credit market and the importance of its role on public policies are discussed in section 5, after a brief characterization of the Brazilian system, especially its public financing system. Finally, final considerations are presented.

2. Liberalization and deregulation: openness and privatization in the banking systems of Brazil and Chile

Until the 1970s, financial systems were highly regulated in capitalist economies. This regulatory and supervisory system was intended to prevent the occurrence of systemic crises. Although some episodes of instability, the existence of such financial apparatus contributed to the stability of the financial system for at least five decades.

Since then, it was initiated in many countries, a process of liberalization and deregulation of the financial services industry. Gradually, restrictions on financial transactions, established after the 1929 crisis and during the regime of Bretton Woods were eliminated. The emergence and dissemination of technological and financial innovations such as securitization, derivatives and off-balance sheet operations were important elements of this movement. These changes alter the form of sector performance, beginning even a sharp consolidation of the financial services industry through mergers and acquisitions. With regard to developing countries, intensified pressures towards privatization of government-owned banks and the entry of foreign banks. The arguments were: the need to improve the operational efficiency of domestic financial systems and the need to make them stronger, which could contribute additionally to the greater stability of the markets. Thus the restructuring and modernization of domestic banking systems came to be seen as fundamental and the way to get it, privatization and opening of markets to foreign banks. Most developing countries, mainly from Latin America and Europe, welcomed this view and, during the years of the 1990s, legal and regulatory restrictions were gradually relaxed or eliminated.

In Latin America, the process was deeper, due to the financial crisis and to the entry of foreign banks. Thus, if at the beginning, the governments of countries like Brazil and Chile actively participated in the bank consolidation process, which at the end of the 1990s, was driven primarily by market forces. The process generated more concentrated systems, marked by a greater private and foreign participation.

The Brazilian financial system experienced in the 1990s, even if late, changes that reflect the more general movement described above: financial liberalization, allowance of foreign capital entries, mergers and acquisitions in the financial system, interventions and liquidations of private banks, closure or privatization of state owned banks.

At first, in the years following the inflation stabilization plan (Plano Real, 1994) and amid a strong weakening of private banks, policy makers have concentrated their efforts on the restructuring the private banking sector and state owned banks, which were driven by the launch of two big programs: to the private banks, the Program Stimulus to the Restructuring and Strengthening of the National Financial System (Proer); and to the state owned banks, the Program of Incentives to the Reduction of the State Public Sector in Banking Activity (Proes). In the midst of these, movement of foreign banks entry was triggered.³ Regarding the ownership and operation of federal government owned banks, even if changes have been planned or even initiated, the story was different. These had their institutional mission reaffirmed, were capitalized and restructured through a great asset enhancement and unequivocal financial revitalization.

The Brazilian banking system, which resulted not only but including the above processes, is complex, sophisticated and concentrated, marked by the presence of universal banks and specialized institutions, which operate under strict regulations imposed by the Central Bank. And, despite the significant increase of the capital markets in the early 2000s, banks are still the spine of the financial system. One of its peculiarities is, even after privatization and opening to the foreign capital, the central presence of large domestic private and public banks. In other words, despite the entry of foreign capital through mergers and acquisitions of private institutions and privatization of state owned banks, domestic banks still play the crucial role in the financial system.

Chile, in its turn, also experienced a process of opening, privatization and mergers from the mid-1980s, but different from laggard experience of Brazil, was an anticipation of the movement that would later be generalized across Latin America. However, privatization and opening took a more important part in the recent history of the Chilean system, had been initiated in the mid-1970s.

After the military coup of 1973, within a broader movement of opening and liberalization of the Chilean economy, privatization of banks took place, as a clear strategy to change the strong process of nationalization occurred in the Allende's government. Unlike other banks, BancoEstado has been preserved as a government-owned institution.⁴ Privatization and opening up, combined with weak bank regulation

³ Within the Proer, the domestic private bank Bamerindus was acquired by the HSBC. And within the Proes, Santander purchased the Banespa (São Paulo owned bank).

⁴ At the end of 1976, 13 public banks were privatized.

and supervision have been important for the exacerbation of the Chilean experience of the Latin American countries crisis, in the early 1980s. At that time, Chilean banks were particularly vulnerable, mainly by the combination of the large foreign currency exposure – a result of high the external funding - and the rising of the non performing loans of local borrowers. At that moment, Chilean Central Bank (BCC) has implemented an intensive rescue program of banking institutions and depositors, which meant the purchase of private banking portfolios.⁵ Resulting of the crisis, the Chilean system has become more concentrated, foreign participation has grown and an "involuntary" nationalization occurred, as part of the privatized banks in the mid-1970s returned to state control, in charge of nearly half total credit. Obviously, it was not desired by the policy makers then in power, becoming the privatization of the banking system a priority. Thus, a second wave of privatization took place from the mid-1980s, with Chile opening a move which subsequently occurred in many of the LA countries.⁶ This process was marked not only by the alienation and liquidation of government-owned banks, but also by the capitalization of the ones privatized. Improvements in regulation and supervision were taken.⁷ Privatizations were followed, in the 1990s by mergers that led to the greater concentration and an increase in foreign participation.

3. Banking in Brazil and Chile

The currents bank indicators analysis of Brazil and Chile, as well as the participation of institutions under review in the system, contributes to the discussion proposed here. First, it is observed in the Brazilian financial system banks are central. Deposits show to be funding instruments of great importance. In Chile, besides the banks, stand out other financial institutions. The combined performance of bank and non-bank is shown more relevant in financing the economy. Regarding the role played by non-bank institutions, it is clear the further development of capital markets in Chile, directly associated with the importance of pension funds. One could not help but notice the higher spreads in Brazil, which surely result from the higher level of interest rates and explain the bigger profitability of the institutions (Table 1).

⁵ An estimate of Superintendence of the Chilean banks shows the fragility of the banking system: the not provisioned loans exceeded 200% of the total capital of banks. If one considers the pension fund linked to banks under intervention, 70% of the funds returned to state control.

⁶ Note that the privatization of banks occurred within a broader process in which large state-owned companies operating in other sectors, such as telecommunications and electricity among others, were sold.

⁷ The two biggest banks were sold, as well as an important part of the major pension funds.

TABLE 1
Banking and Financial Indicators: Brazil e Chile, 2011 (%)

	Banking Assets/ GDP	Other Financial Institutions Assets/ GDP	Credit/ GDP	Credit/ Deposits	Concentration ¹	Spread	Net Interest Margin ²	ROA ²
Brazil	91,9	18,3	63,5	115,7	62,6	34,42	7,54	1,56
Chile	67,7	56,7	89,1	162,2	52,1	3,98	0,11	0,61

Source: Financial Structure Datatabase, WB.

1. The three biggest Banks in the system (assets). Chile, 2007 data.
2. 2009 data

As regards to the amounts, as it should be, the Brazilian system is much larger and has a more robust system of public financing. Draws attention, in the case of Brazil, the highest vocation of Caixa and Banco do Brazil (BB) to lend, expressed in the share of loans in their portfolios. In Chile, points out the importance of BancoEstado and makes explicit the small systemic participation of Corfo (Table 2).

TABLE 2
Assets, Loans and Market Share of Public Banks: Brazil e Chile, 2014 (%)

Assets and Loans of the Banking System (US\$ thousands)		
	Assets	Loans
Brazil	2.809.769,87	1.174.675,29
Chile	303.098,03	218.032,41

Market Share (%)		
	Assets	Loans
BNDES	11,6%	10,2%
BB	19,01%	21,27%
Caixa	13,1%	17,7%
BancoEstado	15,1%	13,0%
Corfo	2,9%	2,3%

Source: BCB e BCC.

In terms of access and inclusion to the system, elements under analyses in this paper, some considerations can be used. Note that the Brazilian adult population has more access to products and services than the Chilean one, which is revealed by the current accounts in debit card usage (linked to an account current as well) and especially by the the account for receiving government transfers.⁸

4. Chile

4.1. Chilean Financial System: a brief description

⁸ The latter certainly reveals the capillarity of income transfer programs engendered by the Brazilian federal government.

As already placed, by the mid1970s, the Chilean financial system experienced an important process of liberalization. Until 1973, as well as other systems in Latin America, it was marked by the presence of a robust regulatory framework, with interest rates controls, credit quantitative restrictions mechanisms and targeting, besides the presence of large public banks (Freitas et al, 2013). From 1974 onwards, with the change of political regime and within a broader economic opening, the mechanisms of control interest rates were extinguished form, the credit controls eliminated and much of the banking sector privatized. Nevertheless, this process was not accompanied by the settlement of a suitable regulatory and supervision framework, a factor that may be important in explaining the financial crisis of the early 1980s, as previously stated.

Still in times of crisis, a pension reform (1981) took place - the existing system was changed to an individual capitalization system - a landmark for the structure of the financial system in the country, as it allowed the development of the bond market, including longer-term.⁹ In the mid 1980s (1986), the liberalization process was strengthened: international investment capital funds were authorized, a new banking law and new law on bankruptcy were institutionalized, with the declared aim of improving the regulatory framework.

In the 1990s, new changes in the Banking Law were introduced, allowing a greater internationalization of the financial system, the deregulation of the investment fund and insurance industry, and also the adoption of international supervisory standards. It important to highlight is the authorization of private funding for public infrastructure projects through long-term concessions. The resulting system is diverse and deep, with a significant presence of large financial conglomerates, marked by the centrality of pension funds and a complex interconnection between banks and asset managers, as well as strongly integrated into the international financial market. (OECD, 2011; Mendonça, 2015) The regulatory framework, composed of a set of institutions, Superintendency of Banks and Financial Institutions Supervision (SBIF), Superintendencia de Seguros y Valores (SVS) and Superintendencia de Pensiones (SP) and Central Bank of Chile, is consistent with the diversified structure assumed by system (Mendonça, 2015).

TABLE 5
Economic System Sources of Funding (%)

Domestic Debt	66,4
Banks and other loans	53,8
Commercial loans	41,1
External Trade	6,5
<i>Factoring e leasing</i>	6,1
Domestic Securities	12,6
External Debt	33,4
Loans	12,2
Commercial loans	3,1

⁹ Corbo y Schmidt-Hebbel (2003) estimate that more than 30% financial development of the Chilean System until the 2000s derived of this reform.

Securities	6,3
EDI – related loans	12,1

Source: BCC, FSR, 2014.

The Chilean economy's funding instruments elucidates some of the already outstanding characteristics. Banks play a central role, acting by means of different instruments and segments.¹⁰ Non-financial companies are also funded through the placement of direct debt instruments. The development of the system and of the long-term financing is marked by instruments of longer maturities available in the fixed income market, based on the mandatory private pension system (OECD, 2011, p.10). The capital market is reputable and marked by longer maturities and its development is linked to the pension funds.¹¹ The existence of contracts against inflation protection mechanisms - the *unidades de fomento* (UF) - also contributed to the longer term instruments, not only in the capital, but also as well as in the credit market (Mendonça, 2015).

One cannot help but notice the considerable share of funds raised in the international markets, which certainly denotes the level of integration of the Chilean system to these markets. In another way, but in the same direction, the foreign ownership of financial institutions is also relevant.

4.2 BancoEstado: the role played in the system

The BancoEstado ranks among the three largest Chilean banks. Created in 1953 by the merging of different savings banks became the largest in the country.¹² In its origin, it was meant to ensure credit to productive sectors and to the people not served by the private sector. It has been explicit at that moment a concern that still accompanies it: to attend to all over the country and to promote people's access to banking services (BE, Memoria, 2008). In 1973, within the liberalization and thereby constraints to the state intervention policies, its role was weakened, undergoing major changes: the reduction of their social role and the strengthening of the private character of the system (Memoria, 2008). In the late 1980s, in the midst of broader privatization process, once again its role and performance were limited (Memoria, 2009). In the 1990s, when the country was back to democracy, a resumption of their social and business functions was observed (Memory, 2008). At that time, the privatization was more explicitly discussed. Nevertheless, the maintenance of the public property was then decided and, based on the understanding of the presence of deficiencies and limitations in its administration and management, a series of internal changes was implemented, in two phases. In the first (1990-1995), was marked by a recovery and gradual stabilization of the bank, so that in a second phase (1996-2000) an extensive process of comprehensive modernization could be initiated, which made feasible its repositioning within the

¹⁰ The banking system is marked by a broad presence of private banks, domestic and foreign capital. Among the three largest institutions, accounting for nearly 50% of the loans and total deposits, are a foreign bank (Banco Santander-Chile), a domestic bank (Chile Bank) and BancoEstado, single system of public bank (Mendonça, 2015).

¹¹ In a lesser extent, also to the insurance companies.

¹² Caja de Ahorro Nacional: Caja de Ahorro de Santiago, Hipotecario Loan Caja, Agrarian Credit Caja and Industrial Credit Institute.

system financial about to reaffirm its status as a public bank and strengthen its social role.

In the 2000s, the BancoEstado was kept as a capital 100% public institution ruled by organic law and subject to the same regulation and supervision than private banks.¹³ Within its objectives, there is the concern for the attention of all the country's territories, as well as all the sectors and segments least served by private institutions - particularly small businesses. It seems that its role is more attached to the idea of social inclusion than the promotion of economic and social development, understood in a broader sense. Moreover, among its objectives arises the need to encourage saving for promoting development, which somehow reflects the character of its operations, as a commercial bank funded by the markets.¹⁴ It is responsible for 13% of total loans and 18% of system deposits. The objectives of the only public bank in Chile would then be access, economic and social integration, and assistance to small businesses. It is clear the need to combine the social role with management efficiency. (Mendonça, 2015)

TABLE 6
BancoEstado: Loan Portfolio (% jun./2014)

Comercial	51,7%
Mortgage	37,9%
Consumption	8,4%
Interbanks	2,0%

Source: BancoEstado, 2014.

With regard to the composition of its loan portfolio, there it is in charge of a significant share of housing loans,¹⁵ being the largest Chilean bank in the segments of residential mortgage loans, educational loans and loans to micro enterprises. It plays a special role in the housing finance market, especially for the low-income population. In this segment, it is the largest lender by number of contracts and the second one in terms of volume (53% and 19%: respectively), being responsible to almost all of the lower debt.¹⁶ (Table 7)

¹³ The organic law (Banco del Estado of Chile DL 2079 of 1977) assures advantages or exclusive rights, including but not limited to maintenance of unified tax account. Moreover, it prohibits performing loans to the State or public companies.

¹⁴ It acts as a traditional commercial banking, brokerage, insurance and asset companies, and advisory services to microenterprises. It has partnerships with international capital in subsidiaries: insurance (Metlife) e mutual funds (PNB Paribas) (BE, 2014a).

¹⁵ In mid-2014, housing loans accounted for 37.7% of the bank's loan portfolio of the (BE, 2014a).

¹⁶ The portfolio is composed of residential loans in UFs, at fixed interest rates. The bank lends up to 80% of the property value for periods of up to 30 years. (BE, 2014)

TABLE 7
Mortgages, by debt ranges (% - dec/2014)

	BancoEstado	Other institutions
Up to 400 UF ¹	99,9%	0,1%
400 UF -1.000 UF	63%	37%
1.000 UF -3.000 UF	26%	74%
More than 3.000 UF	3%	97%

Source: BancoEstado, 2008 e 2009.

1. In 31 / Dec/ 2014, 1 UFC worth 24,627.10 pesos, near \$ 37.00 or 9 Chilean minimum wage.

4.3 BancoEstado anticyclical actions

In the last years of the first decade of the 2000s, the Chilean economy and society suffered two major shocks: the international financial crisis (2008) and the earthquake that hit the country (2010). Even having a sound financial system, far from the U.S. experience which led to the crisis, Chilean economy suffered from the sprawl international crisis in late 2008 and early 2009. Although to a lesser extent than other peripheral economies, the economy felt the crisis "classic effects", facing a considerable rise of uncertainty and worsening international financing conditions, which led to a sharp increase in search for security. In the domestic market it led to an increase in the liquidity preference and a consequent rise in interest rates, shortening of maturities, restricted access to private credit, especially to the most vulnerable players and economic sectors. Regarding the foreign market, an intense capital outflow led to exchange rate depreciation. (BE, Memoria, 2009; Mendonça, 2015)

Two groups of strategies were used to address the most important deleterious effects on the Chilean economy: liquidity and credit problems. Concerning the reestablishment of liquidity conditions, particularly in foreign currency, measures were taken by the Chilean Central Bank (BCC). The retraction of the private banks lending pace that was confronted by a more active performance of BancoEstado. (Mendonça, 2015)

Due to the constraints of external financing, the BCC announced temporary measures to ensure external liquidity to domestic actors: i) put an end to the reserve accumulation program; ii) resumed swap operations; iii) altered temporarily the requirements in foreign currency to banks and savings and loans cooperatives; iv) accepted bank deposits as collateral for repurchase agreements; v) held deposit auctions in foreign currency to domestic banks. (BCC, 2009; Mendonça, 2015)

The BCC designed measures from two sets of criteria, explaining its temporality and the concern for keeping the market mechanisms. First, the instruments were clear and had limited time in order to reduce uncertainty in the private sector regarding their liquidity conditions in the future. Second, the public instruments should be accessories to private sources of external financing. To this end, their costs should be high and the amounts limited, which would aim to ensure the active role of economic actors in the search of market resources. (BCC, 2009)

Regarding the understanding of the effects on credit, the restricting access to foreign markets, even if concentrated in foreign trade loans, ended up in an increasing demand for short-term funds in the domestic market, at the same time as the liquidity preference of banks in Chile was growing significantly. This combination led to important restrictions on the access to credit and resulted, in 2009, in stagnation of the pace of commercial and foreign trade loans, as opposed to that observed in previous and

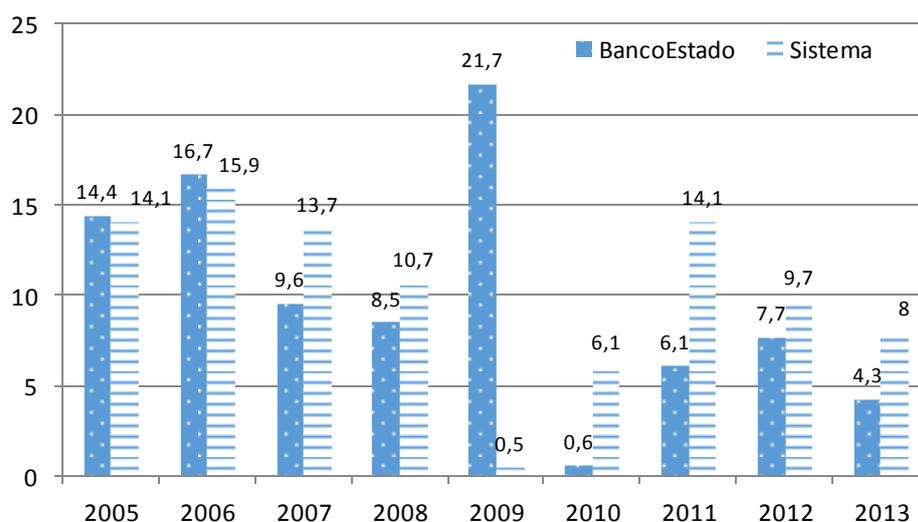
subsequent periods. And it was not more relevant due to the BancoEstado's performance. (Graf 1; Table 8)

In order to face the worsening of the domestic credit conditions, Chilean government made use of measures to strengthen the BancoEstado performance: in 2008, it authorized the capitalization of 95% of the profits of 2007 (about US\$ 100 million), later supplemented by the bank's capitalization by US 500 million (law passed by Congress). Moreover, it extended the performance capacity of the Guarantee Fund for Small Businesses (Fogape) at \$ 130 million. The BancoEstado, meanwhile, signed an agreement with 260 real estate companies, implying a reduction of the mortgage interest rates in the first 36 months, in order to support low and middle-income sectors of the construction industry. The BE network was used by the government for the payment of the two “Bonos de Apoyo a la Familia”¹⁷. (Mendonça, 2015)

Up to 2008, BE loans evolved in line with the system ones, growing at sustained rates every year. In 2009, given the constraints and the credit increased costs, BancoEstado started to act in the opposite direction of private banks, extending loans for businesses, especially for productive sectors, lowering interest rates and creating new lines of credit, counting with the extended guarantees provided by FOGAPE (Memoria, 2009). Credit growth rates and the shift in market shares are instructive of such behavior. (Graf 1 e Table 8).

GRAF 1

Credit Evolution: BancoEstado e Banking System (rate of change %)



Source: Own elaboration based on BancoEstado Memoria, several years.

TABLE 8

Credit by type of borrower (rate of change %)

	Total	Corporations	Household	Mortgages	Consumption
BancoEstado	21,7%	32,0%	12,8%	12,7%	13,3%
Other					
Institutions	-2,7%	-7,2%	6,5%	8,9%	2,6%

Fonte: BancoEstado, 2009.

¹⁷ Bonus Family Support.

The BancoEstado lent at faster pace than other institutions across all segments of borrowers and, in the absence of its performance, a credit crunch would have occurred. The strongest contraction was in the loans to companies. It was in this segment that the action of BE was more intense. (Table 8) The role then assumed by BancoEstado is elucidated in the bank's president letter, who explained two questions, which appear to be central to Chilean system: the centrality of the countercyclical role of public banks and the need for efficient banks. It means there is no room for "unsuitable" and "unmarketable" use of public resources.

"In 2009 it was found that the role of a public bank as BancoEstado is indispensable to support the government and Central Bank in their countercyclical effort in circumstances such as those then experienced. I ask myself: What would have happened in 2009 without a public bank, even with a solid and efficient financial system like we have?" (Memoria, 2009, p. 1; Carta do Presidente)

5. Brazil

5.1 Brazilian Banking System: a brief description

The Brazilian financial system is complex, sophisticated and concentrated¹⁸, marked by the presence of universal banks and specialized institutions, which operate under strict regulations imposed by the Central Bank of Brazil (BCB).¹⁹ And despite the growth of capital markets in this decade, banks are still spine of the financial system.

A peculiarity of the Brazilian banking system is the presence of large domestic private and public banks. In other words, although the entry of foreign capital through mergers and acquisitions of private institutions and privatization of state owned banks: domestic banks still play a crucial role in the financial system. (Table 9).

TABLE 9

Brazilian Banking System: Loans and Market Share of the biggest 4 banks (R\$ bilhões)

	Caixa	Banco do Brasil	Bradesco	Itaú Unibanco	Total
2006	41,22 7,2%	101,92 17,8%	56,84 9,9%	51,89 9,0%	573,83
2008	73,16 8,1%	176,09 19,6%	100,51 11,2%	83,85 9,3%	897,77
2010	164,64 12,4%	272,08 20,4%	135,75 10,2%	108,62 8,2%	1332,65

¹⁸ The participation of the largest national banks in total loans increased from 43.9% in 2006 to 61.3% in 2014 (Table 9).

¹⁹ After the military coup of 1964, a wide financial reform was carried out, establishing the foundations of the institutionality and markets still in scene. The Central Bank was created, as well as the housing financial system, including the FGT'S. At that time, the organization of the Brazilian financial system was printed in the American pattern: segmented, with the presence of specialized institutions. In the 1970s, a great effort for establishing a capital market was carried out, especially for long-term financing, with very little success. In that same decade, there was a market movement of creation of large financial conglomerates, headed by large commercial banks, leading to a strong concentration of the system. Somehow, there was a reorganization of the system, that rather operated in a segmented manner. In the late 1980s, a new banking regulation allowed the conformation of universal banks, printing legal what already happened in fact.

2012	334,02 17,6%	400,17 21,1%	173,97 9,2%	126,86 6,7%	1900,31
2014	570,58 22,7%	542,91 21,6%	214,17 8,5%	211,10 8,4%	2512,24

Source: BCB, own elaboration

Regarding the public banks, a broad privatization program implemented in the 1990s led to a significant decrease in both number and importance of the state's banks. Nevertheless, even if it were not clear in the 1990s and a possible new round of privatizations were being prepared, a different path was designed for the federal government owned banks (hereinafter referred to as federal banks) as the properties of Banco do Brasil, Caixa Econômica Federal (Caixa), Banco da Amazônia (BASA) and Banco do Nordeste (BNB), both regional banks, Banco Nacional de Desenvolvimento Econômico e Social (BNDES). Almost all of these banks (BNDES was an exception) were capitalized by the federal government (the late 1990s and early 2000s), and, after that, they are all under the same regulatory framework than private banks. And they are managed according to the principles of governance.²⁰ This means they face a complex range of objectives: to achieve their social mission and to get good micro results measured by efficiency and profitability ratios.

The Brazilian public financial system is composed, in addition to banks, by compulsory savings funds, which are not the only federal banks sources of funding, but are essential to guarantee institutional and stable resources, fundamental to the long-term operations, FAT (Fund for worker), FGTS (Warranty Fund for Employees) and the Constitutional Funds (FNE, FNO and FCO).

Among the main sources of FAT funds are the quasi-fiscal contributions paid by companies depending on their profitability, as well as financial results of use of the resources by BNDES. The funds are used for two main motives: workers protection (through the unemployment insurance program) and qualification of unemployed workers, and the creation of employment. This latter function is directly linked to the BNDES: as it finances investment decisions, it contributes to the employment and income creation. In a broader view, it contributes to the economic development. Thus, the FAT is an important source of funds for BNDES.

The FGTS is an accounting fund, consisting of linked and individual accounts (social insurance for the employee), opened by employers on behalf of their employees, which can only use them in specific situations.²¹ At the same, given its characteristics and

²⁰ The restructuring of public banks took place under the umbrella of two different programs. One for state owned banks, which encouraged and enabled the privatization or closure of most of these institutions, "Incentive Program for Reduction of the State Public Sector in Banking Activity" (Proes / 1996). Other for the federal banks - "Programme of Restructuring of Federal Banks" (Proef / 2001).

²¹ In broad terms: retirement, unemployment, serious illness or purchase of housing..

maturities, this fund is a long-term funding source for low-income families housing and urban infrastructure (sanitation and transport) financing.²²

Finally, the Constitutional Funds, created to ensure resources for the financing of productive sectors in less developed regions of the country - North (FNO), Northeast (FNE) and Midwest (FCO) - are an important source of funding for regional banks: BNB and Basa.²³

Historically, the lack of long-term financing has shown to be a limiting factor for the Brazilian economic development. To meet these constraints, several initiatives were - actually still are - taken to stimulate the creation of an institutional framework, public and private, attended by institutions, mechanisms and tools - that provides for appropriate long-term financing. To this end, from the 1950s until almost now, certain events can be understood: in a broader sense, the creation of the BNDES, the establishment of the compulsory savings funds (FGTS and FAT), the set up of private investment banks and more widely the regulation of capital markets. An important part of them, which we call major or even structural initiatives, occurred until mid 1970s. Initiatives at different levels are still taken. For instance, in late 2010 in order to expand and increase the depth of corporate long-term bonds markets, fiscal stimulus measures were designed by policy makers. In other words, it can be said that it is a continuous process.

The liquidity preference of capitalists, which affects their wealth allocation decisions is one of the most significant Keynes' proposals ideas in the 1930s. This understanding assumes brighter colors on the behavior of wealth owners who take their decisions facing the peculiarities Brazilian economy. Other behavior could not occur in the credit markets, structurally marked by a strong short-termism, historical low relation credit to GDP and extremely high interest rates. Among the explanations for this trend is the high macroeconomic instability and as part of that, the high inflation rates that were in effect for decades. The way developed by the system to get along with such a situation was the establishment of a financial structure that led to short-term capital application, in fact, government bonds: liquid ,safe and, given the high interest rates, very profitable. From the point of view of wealth owners, including banks, government bonds have always been a good chance. Thus, the decisions on the composition of their portfolios, banks always favored the safety of government bonds, which partly explains the low credit to GDP. The stabilization in prices since 1994 and changes in the regulatory framework - adherence to Basel agreements and changes in provisioning rules for overdue loans - were not enough to reverse the situation.

A new scene started to be designed in 2003, when an unprecedented increase on credit had it starting point. The understanding of such a cycle should be supported by the combination of institutional and macroeconomic elements. As regards the first ones, the

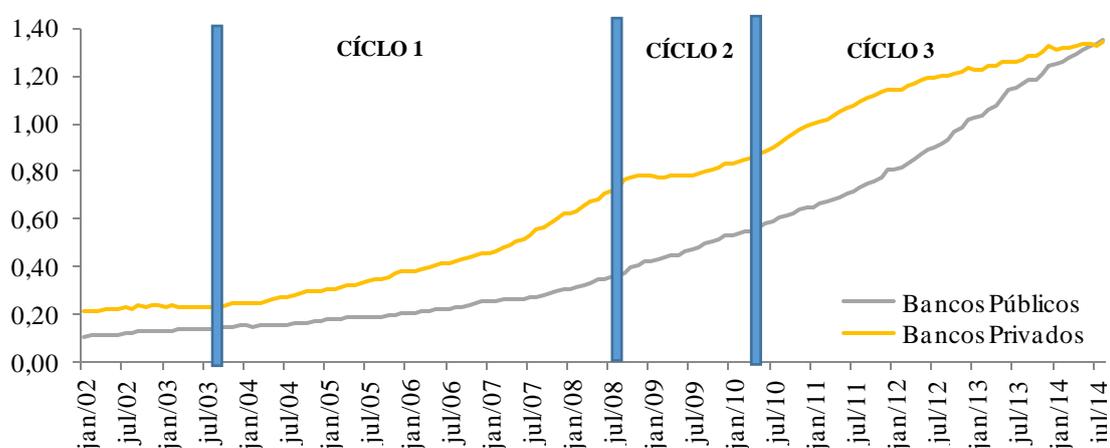
²² Institutions participating in the housing finance system, private or public, can use FGTS funds for loans. However, as the spreads are low, private banks are less interested. In 2013, Caixa was responsible for the lending of about 90% of FGTS funds used for loans.

²³ FNO, FNE and FCO were created by the Constitution of 1988. Part of the taxes on income (IR) collection are transferred to them (3%).

regulation of payroll loans can be highlighted. Regarding to the second ones, the lowering of interest rates and the increase in families' income should be highlighted. The effect of this movement has been increased attention of banks to loans, as they became more interesting alternatives for the composition of their portfolios: dropped returns on government bonds and a less risky type of loan.

From the perspective of households, one could explain the significant credit growth by: the historical restrained demand for credit, the greater capacity of indebtedness, comparatively low interest rates and, above all, greater access to credit. Thus, the cycle started and was fueled by loans to households, and only in a second moment, loans to companies.

GRAF 2
Loans by Capital Property (R\$ B)



Source: Banco Central do Brasil.

A closer look enables the organization of the recent credit cycle in three phases. The first phase, which covers the period between the years 2003 and 2007, was marked by the expansion of private and public banks credit portfolios, being the pace of the first ones more intense. The second phase started in 2008 with the spillover effects of the international financial crisis. At this stage, while private banks had drastically reduced the supply of credit, public banks stepped up the pace of credit granting. The third phase, which began shortly before the end of 2010, shows a resumption of private banks acting on credit markets and an even larger and intense movement of public banks, which let public banks credit to exceed private banks credits. (Graf 2).

In order to understand the performance of public banks in the period, a closer look will be taken to Caixa.

5.2 Caixa Econômica Federal: the role played in the System

Caixa is a 100% public financial institution. It was established in 1861, aiming to encourage savings and loans under pledge. Since 1961, holds the monopoly of the Federal Lotteries. Historically, it has occupied central role in housing financing, especially after the incorporation of Banco Nacional da Habitação (BNH), in 1986. In the 1970s and 1980s, it accounted for 80% of total funding through savings deposits, which is a fundamental funding instrument for real estate loans, within the Brazilian

institutionality.²⁴ In the 1980s, it absorbed the FGTS, major source of resources for long-term and low costs, as already placed. Important to note, FGTS behaves as a major funding instrument for mortgages and long term loans to sanitation and basic urban infrastructure (Camargo, 2009). The fund has the ability to contribute to the financing of social policies, especially through the provision of credit to sectors not served by the private financial system (Mendonça, 2006).

From the mid-1990s, the BCB and the CMN carried out a major effort on restructuring and banking regulation, regarding the adherence to Basel II and the loans risk classification and provisioning, which required a higher level of capital of banking institutions. (Camargo, 2009). These actions began to take place in 2001, when the federal government launched the PROEF, which involved swap of assets and a capitalization. At that time, Caixa received 90% of the PROEF's funds in an attempt to neutralize the results of the problematic Housing Finance System. There was swap of non-liquid assets (real estate loans) for more liquid assets at market price (government bonds). The credit risk has been transferred to the National Treasury and to the Asset Management Company (EMGEA), created precisely for this purpose. The transfer of distressed assets to the National Treasury turned the Caixa asset portfolio more liquid and profitable. (Camargo, 2009).

Phase 1: Caixa and the resumption of credit granting (2003-2007)

In 2003, a new and more progressive government was established, deciding to face the "credit supply anemia" and the dismantling of public banks were introduced to the economic policy tool bag. A number of measures were implemented aiming to develop and set conditions favorable for expanding the credit availability for both consumers and business (Mattoso and Vasconcellos, 2006). These measures included ones which had direct impact on the housing credit market, such as the regulation of liens regime, the establishment of a special tax regime for asset allocation and the creation of securitized debt instruments.

Regarding to households, payroll loans were regulated in 2004, being Caixa a pioneer among the big banks in this market segment. In the field of housing, the bank prepared to the expected growing competition with private banks by making some internal improvements: reviewing processes, adapting risk analysis, reducing interest rates, raising the financing loans maturities and creating so-called "Feirões da Casa Própria" (Mattoso and Vasconcellos, 2006). Chart 1 summarizes the main movements which explicit Caixa's action on the credit market, especially to housing loans.

Chart 1: Caixa and the resumption of credit granting

²⁴ SBPE, Brazilian System of Saving and Loans.

2004	First half	<ul style="list-style-type: none"> ▪ Caixa initiated a growth in its credit operations, mainly through the release of credit lines to small businesses and self-employed (R\$ 300 million) and the allocation of R\$ 3 billion in credit lines housing for the middle class; ▪ Caixa launched a housing credit line for active and retired employees through the FGTS and FAT resources; ▪ Caixa announced the housing finance with funds from the FGTS (R \$ 360 million for the financing of units with selling price up to R \$ 80,000).
	Late	<ul style="list-style-type: none"> ▪ Caixa announced for 2005, R\$ 15 billion to finance housing, sanitation and urban infrastructure.
2005	Jan	<ul style="list-style-type: none"> ▪ In order to increase the share on the payroll loan market, Caixa acquired R\$ 3 billion portfolio of the BMG bank.²⁵
	May	<ul style="list-style-type: none"> ▪ Caixa launched housing credit lines funded by FGTS, with the adoption of special subsidies, with the purpose of increasing the purchasing power of families with income of up to R \$ 1,500.00, a clear movement of inclusion low income people. The bank also expanded the ceiling limits of values of the houses to be financed.
2006		<ul style="list-style-type: none"> ▪ The government encouraged the expansion of housing loans through measures such as the changes on the interest rates (TR) and the creation of consignment lines for workers of both the public sector and the private sector. Besides, new measures were inserted in order to reduce the cost of credit to the borrower. From then, banks choose among different ways of charging the earmarked loans.²⁶
2007		<ul style="list-style-type: none"> ▪ The Brazilian government launched extraordinary credit from the National Treasury to Caixa (R\$ 5.2 billion), aiming to finance urban sanitation and housing (Growth Acceleration Program - PAC). Regarding the housing credit, in August 2007, Caixa increased the maturities of housing loans from 20 to 30 years (FGTS funds) and launched a series of measures aiming the decrease of interest rates and the opening of new lines of housing loans.

²⁵ The payroll credit portfolio was formed by loans to people retired by the public pension system, INSS. Important to note that it was the first Caixa experience of acquisition of a commercial portfolio from another bank.

²⁶ New contracts could be charged by TR + 12 % per year, fixed rates of up to 12% per year; or use a fixed rate that would add the annualized TR.

TABLE 10
Caixa Econômica Federal: Housing Credit, Credit and Total Assets ((R\$ b)

	Housing Credit (A)	Credit (B)	Total Assets (C)	(A) / (B) %
2003	16,42	21,87	134,33	75,1%
2004	17,22	25,56	166,39	67,4%
2005	20,20	33,42	188,67	60,5%
2006	26,11	41,22	209,53	63,3%
2007	32,47	50,80	253,58	63,9%

Source: BCB, own elaboration

The share of loans in the assets portfolio is enlightening of the Caixa strategies and performance in the recent credit cycle. Besides, housing loans have high participation in its loan portfolio. Despite some fluctuations over the period, the values of housing loans have always been above 50% of the total. Nevertheless, it explicit the advance in the last half of the 2000s - the ratio more than doubled between 2007 (20.0%) and 2014 (53,6,6%). (Table 10).

Phase 2: Caixa anti cyclical action facing the crises (2008-2010)

In 2008, the Brazilian economy was hit by the financial crisis, at the height of a robust credit cycle and sustained economic growth. In this context, while banks and companies faced difficulties in obtaining external financing, foreign capital flows began to return “safety”. The spread of uncertainty led to increases on the liquidity preference, including of private banks, which drastically reduced the loans and middle and small-sized banks began to weaken by the difficulty of funding. (Mendonça, 2014).

In order to mitigate the effects, the government adopted a coordinated countercyclical policy, aiming at tackling the liquidity problems of the banking system and maintaining credit to companies. At that moment, the federal government strategy was drawn having as parameters the seriousness of the crisis and its repercussions on the financial system and the real economy.

The role of public banks as part of a counter-cyclical policy was due to a political decision, in the context of necessity of finding a way to mitigate the losses resulting from the international economic crisis. (Mora, 2015)

The public banks owned by the federal government (Caixa, Banco do Brasil and BNDES) initiated an intensive process of credit grants in order to offset the slowdown in private credit, therefore contributing to the prevention a credit crunch. They acted strongly by raising the pace of credit granted, mainly but not exclusively to sectors more affected by the crisis effects: agriculture, construction industry, petrochemicals and sale of durable goods. Besides that, BB and Caixa acquired small and medium-sized banks credit portfolios and decrease in loan interest rates. The following is a summary of the Caixa performance at the peak of the financial crisis.

Chart 2: Caixa granting credit, anti cyclical efforts and capitalization

2008	Oct	<ul style="list-style-type: none"> ▪ contracts of R \$ 400 million for financing the sales of consumer - 10,000 per borrower, for 24 months; ▪ in order to avoid non performing loans, an additional fee on performing loans;
------	-----	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

		<ul style="list-style-type: none"> ▪ according to determination of the federal government, the bank helped improve the liquidity of the productive sector by releasing R\$ 4.5 billion to companies.
	late	<ul style="list-style-type: none"> ▪ credit line of R \$ 3 billion to the construction industries, to finance the companies' working capital and avoid problems in the housing sector; ▪ inclusion of the finance of building materials in the earmarked microcredit; ▪ Caixa increased the Construcard credit line (to \$ 25,000) allowing commercial establishments to be debt guarantors.
2009	Feb	<ul style="list-style-type: none"> ▪ Brazilian parliament authorized the federal public banks to buy stakes in banks and other financial institutions in difficulty, with no need of previous authorization; ▪ Brazilian parliament authorized the establishment of Caixa Banco de Investimentos SA (PAR Fund), exclusive subsidiary to buy shares of construction companies. In this context, using FGTS funds, Caixa acquired R \$ 600 million in debentures of Construtora Tenda, which has construction activity linked to low income. In April 2009,
	Apr	<ul style="list-style-type: none"> ▪ Program Minha Casa Minha Vida (MCMV), part of countercyclical policy in order to deal with the effects of the international crisis on the Brazilian economy, aiming to stimulate the generation of jobs and income and to mitigate the housing deficit concentrated on low income families.
	Oct	<ul style="list-style-type: none"> ▪ The National Treasury issued R\$ 2 billion in bonds to capitalize Caixa, in order to meet the increased demand for the MVMC. The bank managed to fit the minimum capital requirement of 11% set by the Brazilian version of the Basel rule. ▪ Taking advantage of the Brazilian previous parliament authorization, Caixa held the acquisition of 35% of the total capital of the Pan Bank, enlarging its positions on payroll credit and vehicle financing.
2010	Aug	<ul style="list-style-type: none"> ▪ as the Brazilian economy showed signs of recovery, Caixa expanded its participation in the credit market ▪ securitization transactions as a way to complement the funding for the financing of housing; ▪ Caixa was once again capitalized by the Brazilian government. At this time, instead of treasury bonds, it received Petrobras common shares (77.6 million common shares, amount of R\$ 2.5 billion), having its level II capital increased. This capitalization enabled the expansion of the bank's ability to finance public works, such as those related to the Growth Acceleration Program (PAC). ▪ New capitalization from National Treasury: R\$ 2.5 billion to expand the capacity for growth of the bank's business, financing sanitation and infrastructure works.

One can observe that Caixa was broadly supported by the federal government, as a central piece of the anti cyclical policies then carried out. Important to note that, all the capitalization program was more attached to the regulatory capital levels necessities than to the funding. As a result of these measures and of its active performance, Caixa not only consolidated its prominent position in housing credit markets, but also affected

the credit market to households. Regarding to the loans to companies, besides the real estate loans, it moved forward to middle term loans (Table 11 and 12).

TABLE 11
Caixa Econômica Federal: Credit to Household during the crisis (2008-2010) (R\$ b)

	2008	2009	2010
Loans to Household			
Personal	12,49	19,11	24,20
Pay-roll	9,16	15,00	19,00
Revolving	1,25	1,49	1,69
Other	2,06	2,61	3,51
Durable goods	0,13	0,65	0,83
Credit card	0,87	1,15	1,45
Housing loans	45,07	70,50	108,33

Source: Mora (2015)

TABLE 12
Caixa Econômica Federal: Credit to Companies during the crisis (2008-2010) (R\$ b)

	2008	2009	2010
Credit to Companies			
Commercial Credit	15,10	23,53	28,53
Discount bills	1,15	1,47	1,43
Working capital	9,77	17,49	21,91
Durable goods	3,03	3,33	3,88
Financiamento Habitacional	0,36	2,13	3,57

Source: Mora (2015)

Phase 3 Caixa's growth acceleration

The performance of public banks credit compared to the banking system's as a whole is enlightening of their behavior in the years under analyses. The growth of their credit operations demonstrates their performance, much more stimulating the economy, then counteracting the private banks movement, as expected in anti-cyclical actions. Regarding Caixa, from 2011 to 2014, the intense expansion of the credit granted was largely influenced by the ability of the institution to diversify its funding, as well as the actions of capitalization made by the Government via treasuries and state-owned companies shares. The main accounts of Caixa's portfolio, assets and liabilities (except for the deposit accounts), show some clear movements. On the asset side, it is evident not only the continuity, but the growing importance of the housing loans (213.69%), as well as the great growth of commercial loans (239.28%) and the credit to infrastructure (393.70%), hinting the complementarity of these two type of operations. Concerning to the liabilities, there was a relevant increased of the funding through bonds (real estate credit notes, mortgage notes) and the important role of the FGTS funds was confirmed.

TABLE 13
Caixa Econômica Federal: Financial Instruments (R\$ b)

	2010	2011	2012	2013	2014
ASSETS					
Securities and Financial Instruments	108,57	119,4	138,96	162,40	166,02
Loan Operation	178,51	252,89	361,23	488,02	594,75
Housing	108,33	152,87	205,78	270,39	339,83
Commercial	56,01	79,75	124,41	172,04	190,51
Infrastructure	11,44	16,92	23,56	36,83	56,48
LIABILITIES					
Funding Transactions	41,74	60,29	108,01	153,29	227,64
LCI/LH	11,31	20,07	45,87	77,49	126,97
Repurchase Agreements	46,01	56,29	94,1	116,57	172,76
Local Borrowing and onlendings	57,68	84,16	109,15	141,59	180
FGTS	54,17	80,59	104,79	132,73	145,03
Hybrid Capital and debt instruments	13,01	13,88	40,64	48,51	20,17

Source: Caixa Econômica Federal, Financial Statements, Own Elaboration.

The significant increase on the Caixa portfolio, liability and asset sides, can only be understood as part of a broader economic policy framework. During these years, the bank was broadly capitalized by its only share holder, the National Treasury. Important to note that the capitalizations were more attached to capital needs, given the regulatory framework, than to fund needs, as was the case of other Brazilian public banks. At the end of the period, sales of credit portfolio, especially of nonperforming loans, started to happen, certainly as a result of the fast pace of loans and the deterioration of the Brazilian economy, but also allowed a new breath on the credit operations. All the measures taken are summarized in the Chart 3.

Chart 3: Expanding credit, capitalization and sale of portfolio

2011	Feb	<ul style="list-style-type: none"> ▪ a new capitalization was authorized by the federal government in the amount of R \$ 2.2 billion, assuming the form of shares of public corporations: Petrobras (62.3 million preferred shares and 9.3 million common shares) and Eletrobrás (13, 6 million shares of Eletrobrás);
	Mar	<ul style="list-style-type: none"> ▪ Caixa announced the sale of R\$ 232.7 million in secured credit agreements;
	Jul	<ul style="list-style-type: none"> ▪ .Announcement of the sale of R\$ 2 billion in real estate credit contracts for the FGTS, involving 40,000 household contracts. These contracts were denominated Real Estate Receivables Certificates (CRIs);²⁷
	Dec	<ul style="list-style-type: none"> ▪ Caixa expanded by R\$ 5 billion the credit availability for household, to finance consumption; ▪ New mechanisms to finance vehicles and building materials were created, as also the contracts to finance consumption through big retail stores were stimulated; ▪ New capitalization of R\$ 500 million, via the transfer of Petrobras shares.

²⁷ Securities backed by housing credit notes, representing sales of residential properties, commercial or urban lots.

2012	May	<ul style="list-style-type: none"> ▪ the government announced a change in rules on the interest rates of the saving deposits.²⁸ ▪ Caixa announced new rules for housing loans, mainly a fall on interest rates and an increase in maturity terms of credit lines. The financing of new vehicles were also benefited.
	Sept	<ul style="list-style-type: none"> ▪ National Treasury announced new resources to the public banks. As receiving part of these resources, Caixa had to allocate R\$ 3 billion to finance construction materials and consumer goods and R\$ 3.8 billion to projects infrastructure. ▪ New capitalization of R\$ 500 million, through the transfer of Petrobras and Eletrobras common shares.²⁹ The financial terms set by the Ministry of Finance allowed the classification of the resources as a hybrid instrument of capital and debt.
	Dec	<ul style="list-style-type: none"> ▪ Caixa's capital was increased by R\$ 5.4 billion, on Petrobras shares.³⁰ ▪ The National treasury was authorized to grant credit of R\$ 7 billion to Caixa
2013	Jun	<ul style="list-style-type: none"> ▪ National Treasury was authorized to issue R\$ 8 billion in public debt securities to Caixa in order to enable the creation of "Minha Casa Melhor".³¹ These R\$ 8 billion credit were considered a hybrid instrument of capital and debt. ▪ Caixa was dismissed by the government to collect to the National Treasury the dividends and interest on equities that would be payable in respect of 2013 and subsequent years.
2014	Jun	<ul style="list-style-type: none"> ▪ FGTS approved the conversion of R\$ 10 billion debts of Caixa to FGTS into subordinated debt, which, as hybrid instruments can be considered part of the regulatory capital of the bank. This change in debt classification made possible a leverage of up to R\$ 90 billion, in order to finance housing, sanitation, infrastructure ;
	Jul	<ul style="list-style-type: none"> ▪ as never seen before, Caixa raised R\$ 500 million in the international market, through the issue of subordinated debt. These bonds were eligible to comprise the Tier 2 capital of the institution under the rules of Basel 3, enabling the expansion of the portfolio of real estate credit from R\$ 10 billion and R\$ 30 billion.

²⁸ In the Brazilian banking regulation, there are mechanisms of credit guidance, from banks liability instruments to credit operations, known as earmarked credit. 65% of the saving deposits received by banks must be lend to housing and real estate credit. Both, deposits and loans remunerations are on terms of a special rate, the referential interest rate (TR). The remuneration on saving deposits is fixed by rule, TR + 6.17%, and the interest rates on housing loans of up to TR + 12%. In order to avoid important outflows of the saving deposits, as seen main funding for the housing loans, a new rule was established: Whenever the basic rate (over selic) became equal to or less than 8.5% a year, new savings deposits would be corrected by 70% of this basic rate. Existing deposits remained with the profitability rule in effect: TR + 6.17%.

²⁹ Caixa became a minority shareholder of not only Petrobras, but also of Telebras.

³⁰ . And other companies shares, at the discretion of the National Treasury.

³¹ This program was intended to furnish and equip houses acquired by the borrowers under the MCVM. The bank began offering subsidized credit to \$ 5,000 for the purchase of furniture and appliances, at the rate of 5% per annum, per 48 months.

	Sep	<ul style="list-style-type: none"> ▪ Caixa transferred to the NT R\$ 2,14 billion on dividends and interest on equity capital.³² ▪ after nearly two years of negotiations, Caixa transferred R \$ 7.23 billion in loans to Asset Management Company (EMGEA), of which R \$ 4.81 billion were non performing loans already written off as losses.³³ ▪ sale of R\$ 3.7 billion of the loan portfolio, which had ended up as an .capitalization.
--	-----	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

6. Final Remarks

This paper aimed to discuss the role played by public banks as anticyclical actors, considering the Chilean experience (BancoEstado) and the Brazilian one (Caixa) in the years after the international financial crisis. Our hypotheses was that BancoEstado acted mainly as part of the Chilean government anti cyclical policies, but the performance of Caixa, even understood as part of the Brazilian government action, was far more complex than that, being anticyclical just after the crisis, but pro cyclical before and after that.

The starting point was the assumption that the performance of public banks should go beyond coping gaps left by the private financial institutions. Broadly, it argues that such institutions can act as: a) pivots of specialized credit subsystems; b) actors in the financial and social policy; c) players in the regulation of the financial system, affecting competitive relations; d) performers of countercyclical actions; e) agents at coping with endogenously unstable nature of financial systems; f) and in the case of development banks, not only capital, but also coordinators of investment decisions.

In both countries, the creation of public institutions aimed to stimulate economic and social development. The introduction of non-democratic regimes in both countries led to a change of the importance of institutions: while in Brazil the public financing system was enlarged, in Chile, marked by a tough political regime and liberal economic regime, public financial institutions experienced a decreased role.

Both systems have undergone intense economic liberalization, especially in 1980 and 1990. In Brazil, there were major changes, as a mergers and acquisitions took place within the private sector and the privatization of major share of state-owned banks' of public banks happened. However, in both systems the presence and importance, even from different rules and increasingly by the mark logic of efficiency and profitability, public institutions were maintained. In Chile, BancoEstado. In Brazil, some state banks without leadership, but especially the federal owned banks, BB, Caixa and BNDES. It is worth mentioning: despite the experienced liberalization process, in both countries public institutions, ie, a public financing system was maintained. It is undeniable that the Brazilian public system is larger and much more complex than the Chilean, marked not only by a diversity of banks, which assume different roles, but also by funding mechanisms that enable performance in specific segments, such as FGTS to fund low-income housing financing. BancoEstado relies solely on market funding.

³² The payment was made through the transfer of 2.23 million National Treasury Bills (LTN).

³³ It has taken place in a context of shortage of funds transferred by the National Treasury.

Regarding the role of the institutions in lending in the last two decades, it is possible to detect some peculiarities, which confirm the current general logic in each system. In the years immediately preceding the international financial crisis, public banks in Brazil and Chile acted pro-cyclically, even though in some years, at a slower rate than the private sector. When the spreading of the crisis, countercyclical performance was notable: in Brazil in 2008, but more significantly in 2009, and Chile in the past year, the role of public banks in credit was essential to avoid a shortage in the market and their deleterious consequences on the economy as a whole. It is noteworthy that in Brazil, the crisis came amid an unprecedented credit cycle, in which economic agents were more leveraged, which would exacerbate the effects on the economy, but for the performance of public institutions.

In the post crisis, the performances of both institutions in their respective systems are distinguished: while in Chile the BancoEstado decreased the intensity of activity in credit, Caixa continued to lend at a faster pace than private banks, contributing to economic growth in the years in which it occurred. Thus, the action of Caixa has been much more complex than the label of anticyclical, even if strongly supported by the Brazilian government, which falls under the umbrella of a broad vision of credit and financial policies. Certainly, if it is possible to classify a main line for the actions of Caixa, this would be employment and income creation.

7. References

- Banco Central de Chile (BCC). Informe de Estabilidad Financiera (segundo semestre 2008).
- Banco Central de Chile (BCC). Informe de Estabilidad Financiera (primeiro semestre 2009).
- Banco Central do Brasil.** Sistema Financeiro Nacional, Informações para análise econômico-financeira, balancetes, several years.
- BancoEstado . Corporate Presentation: Financial Results as of September 2014, (November 2014).
- BancoEstado.** Corporate Presentation: Financial, several years..
- BancoEstado. Memoria Anual: Estados Financieros, 2008.
- BancoEstado. Memoria Anual: Estados Financieros, 2009.
- BancoEstado. Memoria Anual: Estados Financieros, 2013.
- BancoEstado.** Memoria Anual: Estados Financieros, several years..
- BCC (2009). Informe de Estabilidad Financiera (primeiro semestre 2009).
- Beltran, Andrea Riquelme. Historia de la Concentración y Privatización de la Banca Chilena. Confederación de Sindicatos Bancarios y Afines, 2005. Disponível em https://www.sbif.cl/sbifweb/servlet/ArchivoCB?ID_IMAGEN=12500000000004326.
- Caixa Econômica Federal.** Balanços e Demonstrativos financeiros, vários anos.
- FGTS.** Relatórios e Demonstrações, Demonstrações financeiras, vários anos.
- FGTS.** Relatórios e Demonstrações, Relatório de gestão, vários anos.
- Hornbeck , J. F. (2009)Financial Regulation and Oversight: Latin American Financial Crises and Reform Lessons from Chile. Congressional Research Service. Disponível em www.crs.gov.
- IMF (International Monetary Fund) (2011). **Chile: Financial System Stability Assessment**, IMF Country Report No. 11/261 (August 2011)

- IMF (International Monetary Fund) (2011). **Chile: Financial System Stability Assessment**, IMF Country Report No. 11/261 (August 2011)
- Mendonça, A.R.R. e Deos, S. **Facing the Crisis: Brazilian Central Bank and Public Banking System as Minskyan “Big Banks”**. AHE Annual Conference 2012 Political Economy and the Outlook for Capitalism. Joint Conference, Paris, 5/ 8 July 2012.
- Mendonça, A.R.R. **Notes on Development Banks and the Investment Decision: finance and coordination**. In: 17th Conference of Research Network Macroeconomics and Macroeconomic Policy: The Jobs Crisis: Causes, Cures, Constraints', 2013, Berlin.
- Mendonça, A.R.R. Bancos Públicos e políticas anticíclicas: um estudo de experiências no Brasil e Chile. In: **Brasil: em busca de um novo modelo de desenvolvimento**. CGGE, 2015, forthcoming.
- Nunes, A.; Mendonça, A.R.R.; Deos, Simone. **The role of Brazilian public banks facing inequality: some reflections on the case of Brazilian Development Bank, Caixa and the Federal Regional Banks**. GLU paper, 2015, forthcoming.
- OECD (Organisation for Economic Co-Operation and Development). **Chile Review of the Financial System**. OECD, (October 2011)
- Rubin, Graziela Rossatto. O Problema Habitacional na América Latina: Exemplos do Brasil e Chile. Programa de Pós Graduação em Geografia e Geociências da Universidade Federal de Santa Maria, 2000
- Sarti, F., Mendonça, A.R.R. **Challenges for Brazilian Development: Investment and Finance**. In: 18th Conference of Research Network Macroeconomics and Macroeconomic Policy: Inequality and the Future of Capitalism, 2014, Berlin.
- Superintendencia de Bancos y Instituciones Financieras**. Información Financiera, Estados Financieros, vários anos.