**The BNDES and the Transformation of Long-term Financing in 21st Century Brazil**

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## Resumo

O presente artigo analisa o modelo de atuação adotado pelo BNDES a última década, enfatizando como ele é moldado simultaneamente por um novo paradigma global de governança financeira e pelas políticas domésticas de desenvolvimento e investimento de longo prazo. No contexto de mitigação de risco subordinada, este artigo escrutina como o BNDES se volta ao papel de criador de classes de ativos financeiros e ao subsídio ao investimento privado, que por sua vez reflete a consolidação de uma modalidade de governança promovida pelo poder infraestrutural das finanças. Por meio da análise descritiva da trajetória dos dados fornecidos pela própria instituição em relação a desembolsos e fontes de captação, além das informações financeiras disponíveis no balanço patrimonial da instituição, este artigo busca identificar a convergência do seu modelo de negócio com os princípios da mitigação de risco, suas especificidades, e compreender as possíveis avenidas de atuação do BNDES na esfera da promoção do desenvolvimento atualmente. É identificado que a operação atual do BNDES segue o que Braun et. al (2018) intitulam de "governação através dos mercados", combinando seu papel histórico de fonte de crédito produtivo de longo prazo e o papel de redutor de risco de ativos financeiros para prosseguir objetivos políticos, nomeadamente da nova política industrial encetada pelo governo Lula III. Assim, mesmo havendo vontade política para que o BNDES volte a assumir a vanguarda do investimento produtivo, as fontes de captação inadequadas, as limitações impostas pela inserção subordinada da economia brasileira e o atual paradigma de desenvolvimento econômico a nível global constituem bloqueios estruturais à sua ação. O caminho presente do BNDES parece depender, então, da conciliação impossível entre os interesses dos grandes investidores institucionais e o projeto de desenvolvimento e crescimento econômico brasileiro.

## Abstract

This article analyses the operational model adopted by the BNDES over the past decade, emphasising how it has been shaped by the new global paradigm of financial governance and by domestic policy goals aimed at economic development and long-term investment. In the context of subordinated derisking, we examine how BNDES has stepped into the role of creator of new financial asset classes and subsidiser of private investment, reflecting the consolidation of a mode of governance driven by the infrastructural power of finance. Through a descriptive analysis of historical data series on the bank's disbursements and funding sources, as well as its

balance sheets, this article seeks to identify convergences between the bank's business model and the principles of subordinated derisking and to understand possible avenues for its role in promoting economic development in the current context. We argue that the BNDES' current mode of operation reflects what Braun et al. (2018) describe as "governing through markets", coupling its historical role as a source of long-term productive credit with its new function of financial asset derisking in pursuit of political goals, particularly those related to the new industrial policy implemented by the third Lula administration. We observe that even where there is political willingness for the BNDES to step back into a leading role in productive investment, insufficient funding sources and constraints imposed by Brazil's subordinate position in the global economy constitute significant hurdles to such efforts. The current trajectory of the BNDES thus appears to depend on the seemingly impossible conciliation between the interests of large institutional investors and the Brazilian project of economic development and growth.

## 1. Introduction

Financial liberalisation on a global scale in the 1980s and 1990s granted access to liquidity and capital in international markets, especially for peripheral economies such as Brazil. However, the terms under which these economies participate in international financial markets, as well as their access to credit, have led to higher interest rates than in core economies and have continued efforts to accumulate foreign reserves to attract foreign capital flows. In the political economy literature, the externally conditioned expansion of financial markets and the increased pervasiveness of financial agents in the periphery have been denominated as subordinate financialisation (Becker et al., 2010; Kaltenbrunner and Painceira, 2028; Alami et al., 2021). However, this literature tends to underestimate the role of the State, often taken as a passive agent in the process of financialisation in peripheral economies (Alami et al., 2021). We hold the view that the analysis of financialisation in a subordinate context benefits from an approach that takes the role of the State in derisking financial assets as the binding agent of the expansion of financial markets, underpinned by securitised money markets (shadow money) and non-bank financial institutions such as investment or pension funds (shadow banks) (Gabor, 2021; Musthaq, 2021; Gabor e Sylla, 2023; Teles e Reitermajer, 2026). Derisking involves intervention through the price system, instead of the discipline and public planning instruments traditionally employed by the developmentalist State (Gabor, 2023). Aside from regulatory reforms that benefit financial markets and agents, this new mode of state intervention has veered central bank action towards market-making, and constrains fiscal policy by implementing fiscal rules that push public-private partnershipsin lieu of public investment. This reconfiguration of the role of the State in line with market imperatives in the management of financial risk, has been described by Daniela Gabor (2021) as the Derisking State.

In peripheral contexts, where external financial vulnerability is greater and financial markets are shallower, this new development paradigm implies a dual role for the Derisking State, one that couples financial stability with a financialised accumulation model through which political objectives can be pursued (Braun, 2020; Santos, 2023). This dual role requires enhanced fiscal and institutional capacity for the state to carry out what may be described as subordinated derisking (Teles and Reitermajer, 2026). This is precisely the case in Brazil, where high interest rates, profitable for both domestic and international financial agents, not only reassure private financial markets but also guarantee that investment and economic growth are not compromised. This is only possible because the State possesses the necessary fiscal and institutional capacity to simultaneously derisk financial securities and sustain the dynamics of capital accumulation in a subordinated context.

In this context, the Brazilian Development Bank (BNDES), one of the largest development banks in the world, has seen its role transform over time. The bank, which has been the main provider of long-term infrastructure and industrial credit in the country since its creation in 1952, has its role closely linked to the national political landscape and, above all, to the prevailing paradigms of economic development. At the end of the twentieth century, emphasis on private investment and fiscal discipline reduced the scope for development banks (Fine, 2003). The scenario shifted in the first decade of the twenty-first century when, despite the continued emphasis on central bank independence and fiscal discipline, greater tolerance for state involvement in the economy to address market failures emerged, thereby reviving the importance of development banks (Griffith-Jones and Tyson, 2012; Mazzucato, 2013).

This article analyses the operational model adopted by the BNDES over the past decade, emphasising how it has been shaped by the new global paradigm of financial governance and by domestic policy goals aimed at economic development and long-term investment. In the context of subordinated derisking, we examine how BNDES has stepped into the role of creator of new financial asset classes and subsidiser of private investment, reflecting the consolidation of a mode of governance driven by the infrastructural power of finance. This transformation constrains the bank's capacity to provide long-term credit, promote autonomous development policy, and guide private investment. BNDES instead progressively prioritises projects that fit into the risk-return profiles demanded by global institutional investors, in line with the paradigm of the Derisking State (Gabor, 2021; Christophers, 2023). Simultaneously, the changing domestic economic and political context moulds both the volume and the scope of BNDES investments. Through a descriptive analysis of historical data series on the bank's disbursements and funding sources, as well as its balance sheets, this article seeks to identify convergences between BNDES' business model and the principles of subordinated derisking

and to understand possible avenues for its role in promoting economic development in the current context.

After this introduction, the article is divided into four sections. First, the different roles assumed by development banks throughout history are discussed, exploring changes in their theoretical and political conceptions in light of the shifting global economic and political context, through a dynamic, historically grounded understanding of public banks (Marios, 2024). We argue that such institutions are increasingly relevant in the context of subordinated derisking. The second section briefly outlines the historical trajectory of BNDES from its founding to the turn of the century, showing how the institution transitioned from the main financier of the Brazilian industrialisation process in the 1950s and 1960s to manager of privatisation programmes in the 1990s. It also highlights the revival of its role in financing long-term investment in strategic sectors due to the countercyclical measures implemented during the Global Financial Crisis. In the third section, we turn to the transformation of BNDES within the broader paradigm of state intervention, moving from the austerity-oriented and state-minimising framework associated with the Washington Consensus toward the consolidation of the Derisking State, in which the state assumes a central role in reducing the risks associated with financial assets. By analysing the bank's funding sources, the trajectory of its disbursements, and the new financial instruments issued by the institution, the article argues that BNDES has converged toward a role that facilitates the financialisation of development, increasingly raising resources through capital markets and providing guarantees to institutional investors in an effort to stimulate capital market development. The fourth section concludes, arguing that the BNDES' current mode of operation reflects what Braun et al. (2018) describe as "governing through markets", coupling its historical role as a source of long-term productive credit with its new function of financial asset derisking in pursuit of political goals, particularly those related to the new industrial policy implemented by the third Lula administration. However, we contend that even where there is political willingness for the BNDES to step back into a leading role in productive investment, insufficient funding sources and constraints imposed by Brazil's subordinate position in the global economy constitute significant hurdles to such efforts. The current trajectory of the BNDES thus appears to depend on the seemingly impossible conciliation between the interests of large institutional investors and the Brazilian project of economic development and growth.

## 1. The changing role of Development Banks in the Derisking Paradigm

Public banks, particularly development banks, play a central role in economic policy, standing between monetary and fiscal policy: credit policy (Marshall and Rochon, 2019). Development banks are public credit institutions that can take different forms in terms of ownership (fully or partially

public), sources of funding (market-based funding backed by public guarantees, or purely fiscal), developmental goals, and business models, depending on specific national and historical contexts. Nevertheless, some common characteristics can be identified. These institutions, which often can create deposits, typically operate under an explicit political mandate to provide credit to economic sectors considered strategic for processes of structural transformation. These are sectors where investment is often unattractive to private credit markets, be it on the grounds of their innovative nature, their scale, or their uncertain returns (Ferraz, 2016).

As argued by Thomas Marois (2022), the analysis of public banks should not be static, essentialising their public ownership, whether from a critical or apologetic perspective. These institutions, particularly when it comes to development banks, must instead be analysed dynamically and in historically grounded terms, tracing the evolution of their foundations, instruments, and political mandates while taking into account domestic and international social forces that shape them over the years. This approach is essential for the comprehension of the contemporary role of development banks in specific geographical contexts.

Development banks emerged in the aftermath of World War II, a context marked by the political prestige of economic planning, influenced by the New Deal, the apparent success of existing socialism, and the wartime experience of total economic mobilisation. They arose as an alternative financing source to address the pressing need for patient, long-term capital in strategic sectors (Deeg and Hardie, 2016; Mazzucato and Macfarlane, 2023). This political prestige was accompanied by the intellectual influence of Keynes and the version of Keynesianism synthesised by Hicks and Samuelson. It is therefore not surprising that the existence of development banks continues to be justified by distinctly Keynesian theoretical principles, such as radical uncertainty and liquidity preference, that surround investment decisions, especially when they involve large-scale projects (Ferraz, 2016). The underlying assumption was that the scale and complexity of certain investment projects, their long time horizons, and their vulnerability to both domestic and international economic conditions require sources of finance beyond those typically provided by markets, which are often unable or unwilling to support such investments. Infrastructure projects and heavy industry are among the most frequently cited examples illustrating the need for public credit provision. The creation of these public banks cannot therefore be separated from a broader interventionist approach to the economy, in which public ownership through a wide range of state-owned enterprises was favoured as part of a deliberate process of structural transformation through industrialisation, establishing providers of transport, water, energy, steel, and other essential inputs for industrial development. In this context, the state, supported by public credit, was able to guide the economy not only at the macroeconomic level (through public expenditure, consumption, and investment) but also through

industrial policy at a less aggregated level, intervening across regions and sectors according to their capacity to generate spillovers, employment, and income. As providers of long-term credit with lower interest rates, development banks became particularly important in peripheral countries such as Brazil, which historically faced (and continues to face) structural constraints to its access to capital.

The rise of neoliberalism led to a loss of prestige for these institutions, which came to be regarded either as unnecessary or, worse, as hurdles to the efficient allocation of resources promoted by markets. Based on the monetarist conception of loanable funds, determined by a given level of prior savings, the existence of development banks was seen as competing with private banks for available savings, resulting in the crowding out of private credit and, consequently, higher interest rates in private markets. Additional criticisms, influenced by Public Choice theory, emphasised the risks of political intervention in the selection of "winning" sectors or, more critically, the promotion of processes of political influence and corruption, leading to inefficiency and limited financial sophistication (Barth, Caprio and Levine, 2000; La Porta, Lopez-de-Silanes and Shleifer, 2002). However, following the Global Financial Crisis of 2008, development banks played an important countercyclical macroeconomic role (Rezende, 2015). In a context of international credit contraction, these institutions helped revive credit markets in numerous countries, from advanced economies such as Germany to countries in the Global South, such as Brazil. This experience contributed to more nuanced assessments of development banks by institutions such as the World Bank, which began to emphasise their institutional diversity and their potential role in expanding credit to small and medium NFCs (Martinez and Vicente, 2012).

The theoretical understanding of this revival was vastly different from that which underpinned development banks at their dawn in the post-WWII period. Mirroring the evolution of neoclassical economics in recent decades, a World Bank-funded study published in 2017 conceptualises development banks as institutions designed to address market failures, particularly those related to information asymmetries, credit rationing, and coordination problems across different economic sectors (Musacchio et al., 2017). In this framework, the view of development banks as part of a broader institutional architecture of public institutions and enterprises that provides an alternative to private markets to foster industrialisation and structural transformation was abandoned. Instead, markets and their ideal of efficiency are taken as the starting point. For instance, when the ideal of a development bank that promotes the international competitiveness of specific firms is entertained, it is conditioned by the prior existence of already-subsidised firms in a market riddled by imperfections (Musacchio et al., 2017). Simultaneously, financial instruments associated with development banks shift away from long-term credit rooted in public coordination across sectors, toward the construction

of tradeable financial instruments aimed at making markets more dynamic. This shift is coupled with an increased emphasis on advisory and consultancy roles that lower price discovery costs.

More recently, three additional factors have contributed to the renewed prominence of these policy instruments. The first relates to the COVID-19 pandemic and its effects on international trade and the global economy (Marois, 2024; Barrowclough and Marois, 2025). Shortages of key production inputs, rising prices, and disruptions to global supply chains prompted renewed reflection on the vulnerability of national economies and the need to recover industrial policy instruments to strengthen domestic economic resilience. The second lies in the rise of the Chinese economy as a rival to the USA's, representing a successful case of state intervention, notably through public credit institutions. China is no longer merely a repository for foreign capital seeking lower labour costs, but an emerging economic power in its own right. It is therefore no coincidence that the China Development Bank is the largest in the world, with USD 2,6 billion in assets in 2020 (Griffith-Jones, 2022). Given the challenges to their technological and geopolitical dominance, core economies must respond by reinvigorating industrial policy. Finally, the third factor relates to the economic and social costs of climate change, reflected in the increasing frequency of so-called “natural” disasters, widely caused by human activity. The urgency of the energy transition has raised attention to the need for proactive state intervention in credit markets to support the restructuring of national economies, without which climate targets are likely to be decisively missed (Marois, 2021; Griffith-Jones et al., 2018).

Even so, the reinvention of development banks as institutions with a political mandate to address market failures remains a central concern in this new context, including within more critical strands of the literature (Mazzucato and Penna, 2016; Griffith-Jones and Ocampo, 2018). A focus on risk has largely displaced the Keynesian concept of radical uncertainty. Development banks are thus assigned a new role in fostering efficient markets capable of derisking, reducing systemic risk, and, in turn, promoting private capital markets, where financial inclusion becomes one of the central objectives (Griffith-Jones and Ocampo, 2018). Although this perspective represents a more flexible development paradigm than that associated with the Washington Consensus, contemporary defences of development banks place greater emphasis on the role of private finance. This focus on addressing market failures as the primary domain of state action has led to a deeper entanglement between public and private finance, which is increasingly reflected in the operation of development banks (Chang and Grabel, 2004; Öniş and Şenses, 2005).

The state, thus, gradually fits into the Derisking State model, associated with the Wall Street Consensus (WSC) (Gabor, 2021). The WSC constitutes a paradigm of development and state intervention that emerges in the context of increasing entanglements between the state and finance,

emphasising the creation and derisking of tradable financial assets (Gabor, 2021). It arises in a context in which both financial and non-financial firms increasingly rely on financial markets for funding, particularly repo markets, as well as markets for public and corporate debt securities and derivatives that serve as collateral in such operations. As banks (including development banks) become more dependent on private external sources of funding, financial institutions operating within the shadow banking[1] system acquire greater structural power, leveraging it both to resist regulation and to reshape the role of the state, emphasising its derisking role (Gabor, 2021). This process was intensified during the Global Financial Crisis, when the Federal Reserve, given its centrality within the international financial system, focused on ensuring stability for financial institutions that depend on these markets as their primary source of liquidity (Gabor and Ban, 2016). As this trend deepened and spread in the aftermath of the 2008 shock, a new paradigm of state intervention emerged: central banks increasingly act as "dealers and market makers of last resort", implying the reduction of private risk through the provision of guarantees and protections to investors in both public and private securities markets (Mehrling, 2011).

Within this framework of state intervention, state action does not depend solely on a country's position in the international financial hierarchy or on the infrastructural power of finance. In economies characterised by subordination, such as Brazil, the demands for derisking are greater, while the capacity to achieve it remains conditioned by the specificities of each economy and by state capacity, divided into three axes: fiscal capacity, the monetary policy regime, and the model of public debt management (Schwan et al., 2021; Teles and Reitermajer, 2026). It should be noted that the financial structures that emerge in each country are not mere imports, but rather the outcome of the interaction between external constraints, the interests and opportunities of domestic capital, and the more or less autonomous political objectives of the state, whether in macroeconomic stabilisation or in industrial policy. Within this context of subordinated risk mitigation, the institutional capacity to intervene in financial markets, for which public development banks are paramount, assumes increasing prominence.

The role of development banks can be understood as historically grounded in the derisking of private investment, promoting a form of *crowding-in*. However, in earlier configurations, risk reduction practices were primarily oriented toward supporting private investment in coordination with specific projects, both upstream and downstream. In the contemporary context of derisking, these institutions have shifted toward the mitigation of risks associated with financial assets (Gabor and Sylla, 2023).

[1] The shadow banking system comprises non-bank financial intermediaries that operate in financial markets in ways that influence the availability of credit and liquidity in the broader economic system, without having direct access to central bank liquidity facilities (Pozsar et al., 2010; Adrian and Ashcraft, 2012).

In doing so, they have increasingly become facilitators of the financialization of development (Mazzucato and MacFarlane, 2023). Within this framework, development banks assume core functions such as the creation of investable asset classes in priority areas, often aligned with the Sustainable Development Goals (SDGs), and the provision of direct or indirect subsidies to private investment. These may range from ensuring stable cash flows for investment projects carried out through public–private partnerships (PPPs) to offering hedging instruments against default risk or exchange rate volatility (REFS). With this transformation in their role, the capacity of development banks to finance autonomous development strategies and to discipline private capital becomes constrained. Instead, they increasingly prioritise projects that conform to the risk–return profiles sought by large domestic and international institutional investors (Gabor, 2021; Christophers, 2023).

## 2. The historical trajectory of the BNDES

The BNDES was founded in 1952, with the main goal of funding the infant industry and infrastructure sector, in support of the Getúlio Vargas administration's catch-up strategies (Mazzucato and Penna, 2015). Over the course of the twentieth century, BNDES consolidated its position as the main provider of long-term credit in the country, bolstering investment in key sectors and becoming one of the largest development banks in the world in terms of assets, equity, and disbursements (Guerra and Araújo, 2023).

By the end of the 1990s, the role of the BNDES had been fundamentally reshaped in line with newparadigm of state intervention, increasingly focused on the management and administration of privatisation programs. The bank became responsible for initiatives such as the Industrial Competitiveness Program (PCI), the Brazilian Program for Quality and Competitiveness (PBQC), and the National Privatisation Program (PND), all aimed at fostering privatisation as a means of reducing public debt within the stabilisation agenda pursued by the Collor administration. The role of the BNDES in the PND was initially limited to managing the National Privatisation Fund, but it became progressively less passive as the bank began to provide not only financial but also technical and administrative support to the programme (Paludetto and Borghi, 2021). Simultaneously, the credit evaluation model adopted by the BNDES underwent significant changes. Mirroring the criteria commonly used by private financial institutions, this shift entailed a reduction in disbursements related to higher-risk, longer-term credit segments, which had previously represented the bulk of the BNDES' lending activities (Anuatti-Neto et al., 2005). Besides its role in privatisation programmes,

the BNDES also moved away from its role as a coordinator of development policies, instead prioritising investment projects offering the most attractive return profiles. In addition, a constitutional amendment approved in 1995 granted foreign firms access to public credit agencies. This, combined with the adoption of an interest rate that better reflected market practices - the Long-Term Interest Rate (TJLP) - facilitated BNDES's adaptation to the conventions of private finance, as well as to the prescriptions of the Washington Consensus (Paludetto and Borghi, 2021).

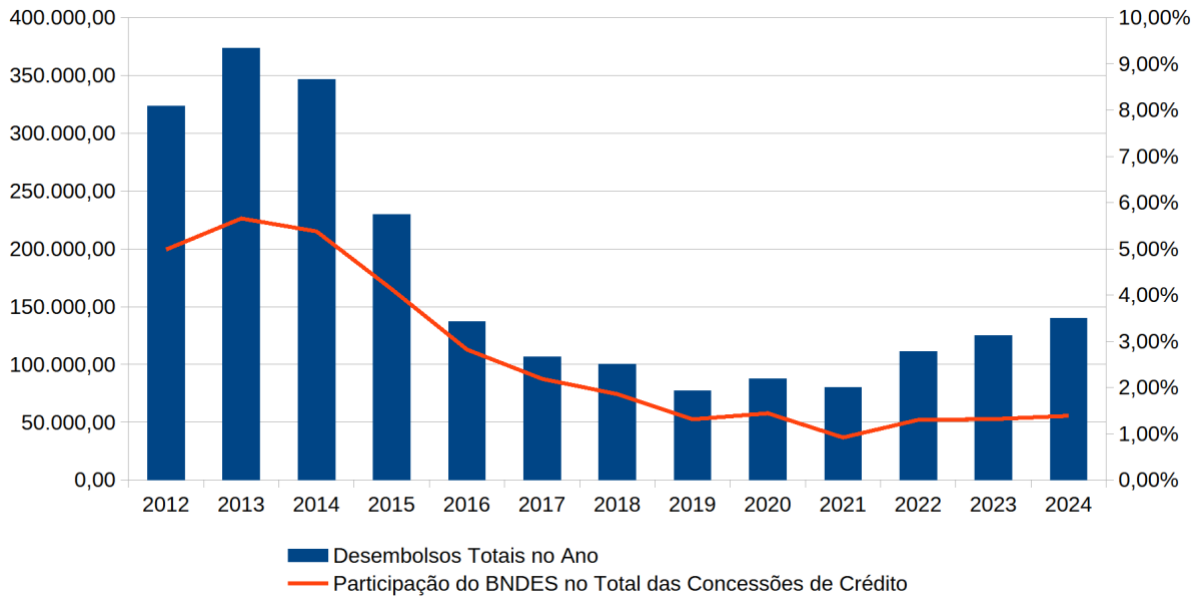
Greater integration into the international financial system from the late 1990s onward led peripheral economies to restructure their financial institutional frameworks to attract international capital flows (Gindin and Panitch, 2013). In addition to encouraging financial speculation by agents from core countries, the inflow of foreign capital reinforced financial structures oriented toward maintaining high interest rates, accumulating foreign exchange reserves, and establishing regulatory frameworks that privilege international institutional investors and attract further capital inflows (Farhi, 2017; Kaltenbrunner and Painceira, 2018). This process, described as subordinated financialisation, results in economic configurations characterised by sophisticated and internationally integrated financial markets within an environment of structurally high interest rates and increased volatility. However, the specific forms of financial integration and the particular economic structures of each peripheral economy mean that, despite these shared characteristics, such configurations reflect distinct social, economic, and political contexts (Alami et al., 2023; Bonizzi et al., 2022).

The fiscal rules and the development model implemented at the end of the twentieth century were characterised by their rigidity and by the promotion of private capital, embedded within the broader framework of state intervention associated with the Washington Consensus (Mirowski, 2013). However, the shock of the Global Financial Crisis prompted the easing of fiscal and monetary austerity, driven by the need to implement expansionary stabilisation programs to rescue the financial system and support the broader economy. In this context, BNDES was a key instrument of countercyclical policy in Brazil, with its funding sources expanded to bear the increased volume of disbursements required to sustain investment during a period of economic turbulence. The most visible quantitative expression of this shift is seen in the evolution of its disbursements. At the beginning of the century, these grew gradually, rising from BRL 102.2 billion in 2001 to BRL 176.9 billion (in constant June 2025 prices) in 2007. Between 2008 and 2015, there was a marked expansion in disbursements supported by increased funding from the National Treasury approved during this period. Annual disbursements ranged between BRL 234.3 billion and BRL 373.7 billion, well above the average throughout the 21st century, BRL 185.7 billion. This rapid growth resulted in a significant increase in the share of total credit represented by BNDES resources, peaking at 5.66 per cent in 2013. This period thus reflects a clearly countercyclical role for BNDES in response to the global

financial crisis, with positive effects on gross fixed capital formation. In addition to the expansion of credit to non-financial firms in Brazil, BNDES also played an important role in providing credit to other Latin American economies. Between 2008 and 2010, the institution extended approximately US$ 15 billion in loans to countries in the region, as well as USD 1.5 billion to other peripheral economies (Grabel, 2014). Until 2015, the direction of international capital flows toward peripheral economies, together with government support for infrastructure investment, helped sustain the high level of BNDES disbursements.

However, the period beginning in 2016 marks a significant shift in the role of the state in credit markets. The financial crisis that affected Brazil between 2014 and 2016 - largely driven by the reversal of international capital flows - was also accompanied by a major political transformation, culminating in the impeachment of President Dilma Rousseff. Following the change in government in 2016 and the adoption of a new economic policy framework, aligned with the view that BNDES hindered the development of private capital markets in Brazil, the reduction in funding from the National Treasury led to a sharp contraction in both the absolute volume of the bank's disbursements and its share of the total credit market between 2017 and 2021 (BNDES, 2025). Total disbursements fell to their lowest level since 1997 at a staggering pace, reaching 77.6 billion reais (Figure 1).

**Figure 1 - BNDES disbursements and share of the credit market**

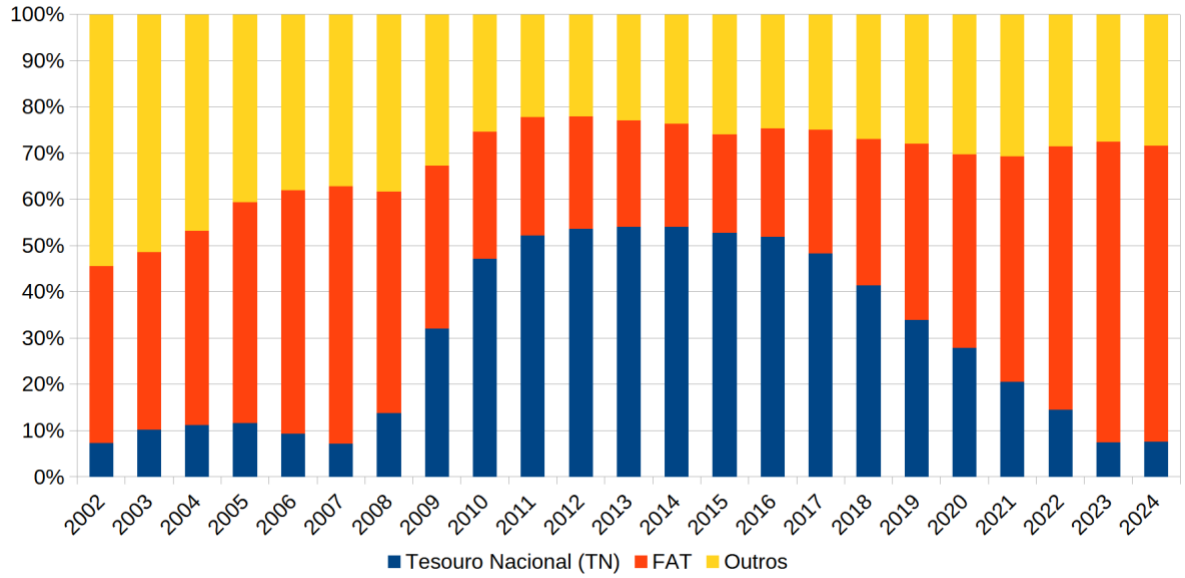



Source: BNDES and BCB (2025)

A new interest rate policy was also adopted during this period, marked by a change in the main benchmark rate for BNDES operations from the Long-Term Interest Rate (TJLP) to the Long-Term Rate (TLP). Under the argument that subsidised interest rates at BNDES, combined with its significant share in Brazil's credit market, hindered the development of a long-term private capital

market and weakened the effectiveness of monetary policy, the bank's primary benchmark rate was reformed. The new framework links the TLP to the yield on NTN-B bonds, which are floating-rate, inflation-indexed securities issued by the National Treasury. This made BNDES interest rates more responsive, at least in principle, to changes in the policy interest rate set by the BCB. The objective of reducing the spread between BNDES lending rates and those of private banks was effectively achieved. In 2024, the average TLP stood at 10.34%, whereas, had the TJLP remained in place, the rate would have been 6.89%, thereby reducing the competitiveness of credit provided by BNDES (Banco Central do Brasil, 2025).

Figura 2- BNDES funding sources




Source: BNDES

During the same period, the Federal Government launched the Investment Partnerships Program (PPI), a Public–Private Partnership (PPP) framework in which BNDES played a central role, both as advisor and as financier of projects of this kind, while also absorbing part of the risks borne by private investors. In addition to PPPs, BNDES further deepened its support for privatisation and concession projects from 2017 onward. In its derisking role within these investment modalities, the bank was involved in 216 projects between 2017 and August 2025, totalling BRL 656 billion in combined public and private investment (BNDES, 2025).

## 3. The new BNDES: a turn toward market-based finance

The decline of BNDES from 2016 onwards should not be understood as a mere hollowing out of the institution. Rather than a purely quantitative decline in funding and disbursements, what we observe is a qualitative transformation in the bank's mode of operation, as the focus of development banks shifts toward the implementation of financial derisking strategies. In this context, Brazil occupies a

particular position, one in which its subordinated integration into the international financial system introduces specific features to the implementation of global derisking paradigms within the domestic financial system.

On the exchange rate front, the Central Bank of Brazil (BCB) makes use of its international reserves and privileged access to US dollars to reduce exchange rate risk for investors (Domanski et al., 2016; Dafermos et al., 2023). Through repos backed by government securities, the BCB sterilises excess liquidity in the economy during periods of capital inflows, and conducts reverse repo operations in the case of capital outflows (Kaltenbrunner and Painceira, 2018). However, this derisking strategy entails high fiscal costs. Losses associated with foreign exchange derivatives in the event of a depreciation of the Brazilian real are absorbed by the National Treasury, which issues public debt securities to the BCB, thereby increasing public debt. Moreover, the use of repo operations to sterilise foreign exchange interventions has stimulated the formation and expansion of a domestic shadow banking system, which, unlike in advanced economies, is typically associated with large banking conglomerates.

Persistently high interest rates and a restrictive monetary policy stance increase the fiscal cost of these (subordinated) derisking strategies, leading to a rise in debt servicing costs. These high fiscal costs are further exacerbated by the enforcement of primary surplus commitments and institutional constraints on public spending: the fiscal rules introduced in 2017 and revised in 2023 stipulate that the growth of government expenditures cannot exceed 70 per cent of the increase in revenues. This constraint contributes to the persistence of low levels of public investment, which in 2024 amounted to approximately 3 per cent of GDP (Orair and Siqueira, 2018; Monteiro and Feijó, 2023). In the context of a significant retrenchment in public investment, private investment is increasingly presented as the primary solution for sustaining large-scale capital formation, leading to a growing reliance on public–private partnerships (PPPs).

PPPs as an investment strategy are no longer at their peak in core economies. However, it has become an increasingly prominent mechanism for funding development projects in the periphery. This trend is largely driven by the influence of multilateral institutions such as the United Nations, the International Monetary Fund (IMF), and the World Bank. In its 2017 report *Maximising Finance for Development*, the World Bank identifies this financing model as one of the most effective ways for peripheral economies to achieve the Sustainable Development Goals (SDGs). Influenced by these institutions, peripheral states have increasingly relied on such arrangements as a means of implementing development policies while complying with fiscal rules and attracting foreign investment.

This is particularly true in economic sectors where the BNDES has historically been the main credit source. In the infrastructure sector, for instance, investment carried out through PPP accounted for 25 per cent of total infrastructure spending between 2010 and 2019 (Economist Impact, 2022). This trend was further reinforced in 2023 with the approval of a new PPP legal framework under the Lula administration, which provides guarantees to subnational governments engaging in these arrangements and reduces the tax burden on private securities aligned with ESG investments, effectively implementing derisking mechanisms for these assets (STN, 2023). Within the PPP financing model, risk is expected to be as low as that associated with government bonds, while returns must remain sufficiently high to compete with private securities (Sclar, 2015). Brazil, which retains the capacity to derisk both public and private securities despite its condition of subordinated integration, holds a relative advantage in this type of financing model. On the other hand, the structure of the Brazilian financial system - centred on large domestic financial conglomerates with close ties to the Central Bank - limits the participation of major global asset managers such as BlackRock, Blackstone, and Brookfield in domestic financial markets. Their presence in Brazil remains largely confined to so-called alternative assets, including renewable energy, housing, and transport: sectors in which PPP-based financing has expanded significantly (IMF, 2018; Christophers, 2023).

Thus, the derisking strategies adopted by Brazil to mitigate the effects of its subordinated integration into the international financial system end up fulfilling their role of providing an environment of low risk relative to returns. These strategies are made possible by the state's capacity to guarantee and ensure favourable conditions for investors, especially when it comes to bond markets. However, this subordinated derisking also has the potential to introduce new sources of fragility and dependence into the national economy, which becomes clear when analysing the recent performance of BNDES. The shift of the development bank toward financial derisking becomes explicit in the report *"*A New BNDES for New Times*"*, which addresses new strategies adopted by the bank. What is truly new in the document is the importance given to the promotion of capital markets and to private solutions for financing development in Brazil, fitting within the state action paradigm of the Wall Street Consensus, which has financial derisking by the state as one of its main pillars (Gabor, 2021). On the one hand, the bank would increasingly make use of derisking instruments to finance projects in social infrastructure and MSMEs. On the other hand, new, lower-cost forms of funding are to be established in order to diversify its funding base (BNDES, 2024). It is already possible to identify the implementation of these new guidelines in the current operations of the BNDES.

*4.1. Derisking instruments*

The first derisking instrument employed by BNDES is linked to the mobilisation of private financing for the infrastructure sector, which includes categories such as urban mobility, ports and airports, and sanitation. This model does not involve the explicit provision of credit for project execution, but rather the structuring of financial products for capital markets, support in the form of risk-reduction guarantees, and commitments to purchase debentures associated with the projects. Meanwhile, mechanisms related to environmental policies and investments in renewable energy are carried out primarily through a programme known as BNDES Finem. This programme is aimed at the creation of financial products and, in most cases, employs a financing model based on guarantees known as Project Finance. This model requires the creation of a Special Purpose Vehicle (SPV), a separate legal entity linked to the project that isolates its assets, contracts, and, most importantly, the specific risks associated with it. In this way, the need for corporate guarantees and the impact on the balance sheet of the borrowing firm are eliminated, with the state providing guarantees against risks such as exchange rate fluctuations, demand uncertainty, and execution risks related to the investment project (Fall et al., 2024). The financing model based on the creation of SPVs allows investors to take on higher levels of risk, constituting one of the preferred forms of investment in alternative assets for asset managers and other large institutional investors (Gorton and Metrick, 2012; Christophers, 2023). One example is the Eixo SP concession, celebrated in 2021, responsible for operating 1,224 km of the São Paulo state highway network, one of the largest financing partnerships with BNDES structured under the Project Finance model.

The New Growth Acceleration Program (Novo PAC), launched by the Federal Government in 2023 to expand infrastructure projects, also seeks to broaden the derisking role of the BNDES in social infrastructure projects. This can be seen in the inclusion of an "Enhancement of Concession and PPP Mechanisms" clause in its institutional framework. This measure focuses on the simplification of procedures for employing the BNDES to conduct technical studies and structure concessions and PPP projects (Casa Civil, 2023).

Between 2020 and 2022, the institution approved more than BRL 40 billion in projects financed through these arrangements. Projects supported by BNDES through incentives and guarantees for the issuance of infrastructure debentures have gained increasing prominence in recent years, surpassing those based on direct financing as early as 2019 (Fall et al., 2024). In this way, BNDES has recently become a central agent in promoting investment through private finance. Since the approval of the Investment Partnerships Program (PPI) in 2016, the bank has taken on a leading role in structuring PPPs, providing guarantees to derisk investments for private financial agents, typically represented by institutional investors. In total, 23 PPP projects structured by BNDES have been completed, with an estimated total investment of BRL 24.2 billion.

Finally, the most prominent instrument used by the BNDES to promote subordinated derisking in Brazil is the PEAC FGI (Emergency Credit Access Programme Investment Guarantee Fund). This is a credit guarantee scheme that "reduces the risk of default for financial institutions providing credit." Resources from the FGI, operated by BNDES, complement the guarantees presented by firms during the credit assessment process. In practice, BNDES facilitates the extension of credit by commercial banks to corporate borrowers, lowering borrowing costs and offsetting the expected credit contraction in a context where the Selic rate stands at 15 per cent per year.

The programme was created in 2020, at the height of the Covid-19 pandemic (hence the origin of its "emergency" designation). However, it has since been used flexibly by the State to open temporary credit lines. Examples include the *PEAC-FGI Solidário RS*[2], aimed at producers affected by floods in the Rio Grande do Sul state, and a credit line targeting sectors impacted by the economic shocks of the tariffs imposed by the US government (Agência de Notícias BNDES, 2025). At the same time, PEAC-FGI guarantees were also announced for a total of BRL 100 billion in credit, to promote "investment and job creation" (BNDES News Agency). Despite its name, the scope of the programme transcends emergencies. The purpose of the credit is likewise broad, as established in Article 4, Section IV of programme regulations, which provides guarantees "for standalone working capital and for financing investment in fixed assets, innovation, the acquisition of machinery, equipment and other goods and projects, including complementary working capital […]."

The scale of this programme is far from trivial. Based on operational data released by the BNDES, the total volume of guaranteed credit between July 30, 2020 and January 30, 2026 amounts to BRL 332.33 billion, a monthly average of 4.96 billion. This corresponds to 71.0 per cent of the average monthly volume of total BNDES disbursements between July 2020 and December 2025, which stood at 6.98 billion reais. The ownership structure of commercial banks whose lending operations were backed by these guarantees already provides an initial indication of the shift toward private markets: public banks used these guarantees far less than private institutions, with BRL 72.06 billion guaranteed for the former and 260.27 billion for the latter.

The volume of credit guaranteed by the PEAC-FGI program has been a key driver of the earmarked credit segment, as highlighted by the BCB in its last five Monetary Policy Reports (2025a; 2025b; 2025c; 2025d; 2024). In these reports, the BCB repeatedly emphasises the importance of Law No. 14,995, of October 10, 2024, which extended maturities and eased repayment conditions for earmarked credit, enabling its expansion. As seen in Figure 3, lending under the category of Other

[2] The PEAC-FGI Solidário RS constitutes a separate programme, with distinct allocations within the fund. Nevertheless, data presented here aggregate both programmes, given their shared regulatory framework and the fact only consolidated data, coring all PEAC lines, are available.

Earmarked Credit, whose recent expansion is largely attributed to the PEAC programme, has surpassed the share of overall credit funded by BNDES. In December 2025, it accounted for 1.81 per cent of the total credit stock in the Brazilian economy, while earmarked credit funded directly by BNDES resources accounted for 1.52 per cent.

The programme thus functions as a macroeconomic policy instrument that counteracts the contraction of credit markets driven by high Selic rates. Given the strength of the view within the National Financial System that BNDES should play a more limited role, the PEAC-FGI emerges as an optimal macroeconomic tool from the standpoint of political economy and conciliation of interests. It allows private banks to become key providers of directed credit without the need to rely on BNDES funding, since ownership of the PEAC quotas within the FGI ultimately rests with the federal government.

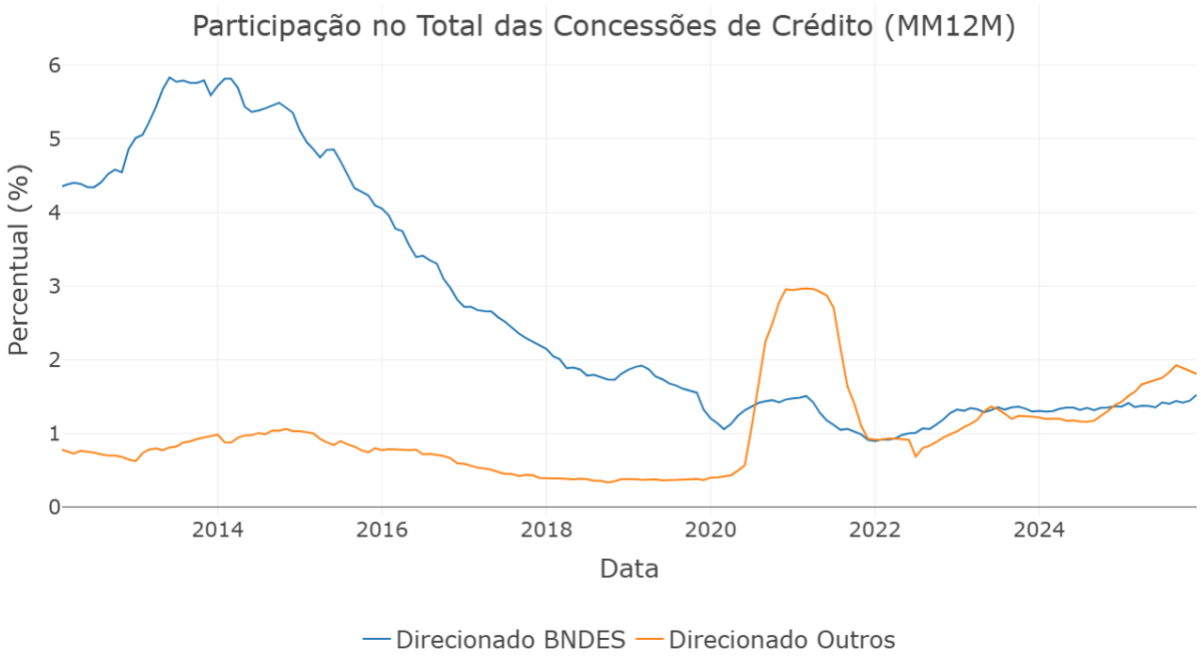
While the FGI balance sheet for 2024 reveals the first layer of subordinated derisking carried out by the BNDES through the fund, it also points to an additional upstream layer in this process. Evidence of the first layer of subordinated derisking lies in the results of guarantee operations within the PEAC and PEAC-RS programme quotas, which show an average loss of BRL 1.8 billion, corresponding to 9.73 per cent of the fund's average net equity over the same period. In other words, the Brazilian state has been absorbing multi-billion-BRL losses incurred by commercial banks through the BNDES-managed FGI, in order to offset the effects of persistently high real interest rates, themselves a product of the Brazilian economy's subordinated integration into global finance.

This, in turn, leads to the question of the mechanisms through which these losses are internalised by the State. The answer lies primarily in the fund's financial result, which averages BRL 1.66 billion, of which an average of BRL 1.38 billion (82.8 per cent) comes from repo operations backed by floating-rate government securities (LFTs and NTN-Bs). This constitutes the second - upstream- layer of subordinated derisking embedded in BNDES operations. As demonstrated by Reitermajer and Teles (2026), these operations themselves constitute the central mechanism of subordinated derisking in Brazil, insofar as the National Treasury ultimately absorbs the risk of these instruments as the Selic (in the case of LFTs) or inflation rates (in the case of NTN-Bs) fluctuate.

Therefore, by managing the resources of the FGI, the BNDES is an agent of the *Derisking State*. The multifarious structure of the BNDES is typical of development banks, closely connected to the operations of commercial banks, and would typically be used to provide direct credit funded by its own resources. Here, however, it is instead mobilised to derisk and reduce interest rates on operations that ultimately generate profits for private actors.

The subordinated character of this process lies in the very need for the BNDES to double down on its derisking role in order to offset real interest rates that exceed 10 per cent. Rather than providing credit directly, even for working capital, it increasingly guarantees it, while simultaneously managing public resources through repo operations backed by floating-rate government bonds. In this context, the twentieth-century ideal of the development bank as an institution that invests strategically in key sectors for national development now plays second fiddle to its role in sustaining privately funded credit operations.

Figure 3- Share of earmarked credit provided by the BNDES and by other sources




*4.2. Capital market funding*

The shift toward financial markets is reflected on the BNDES' funding structure, which increasingly relies on it for funding. Even if market-based funding has not yet surpassed traditional funding sources, the BNDES has become more deeply embedded in a model of development intertwined with finance, as promoted by the Consolidated Wall Street Consensus in its process of consolidation. This is a response to the dwindling public sector sources, seen in the phasing out of National Treasury-based funding and the reestablishment of the Workers' Support Fund (FAT) as the main funding source. This turn toward capital market funding is particularly evident in the financing of sustainability-oriented projects. In 2017, the BNDES carried out its first issuance of green bonds in international capital markets, raising a total of USD 1 billion to finance renewable energy projects

(BNDES, 2018). In the same year, the institution issued BRL 1 billion in *Letras Financeiras Verdes*, securities akin to green bonds but aimed at the domestic capital market, the proceeds of which were also directed toward wind and solar power projects. These securities were traded through private offerings to financial institutions and institutional investors in Brazil (BNDES, 2021).

In 2023, a new mechanism for raising private market funding for the BNDES was introduced: the *Letra de Crédito de Desenvolvimento* (LCD). As is the case of Agricultural and Real Estate Credit Bills (LCA and LCI), these securities are exempt from income tax and allows Brazilian development banks to raise funds from private capital markets. By 2024, it had already accounted for BRL 10 billion in funding for the BNDES (BNDES, 2024). The LCD serves as a source of funding for both infrastructure projects and industrial support, and its use is embedded in the institutional framework of both the New Growth Acceleration Programme (Novo PAC) and the new industrialisation policy agenda, represented by the NIB programme(Casa Civil, 2023; MDIC, 2025). It is a significant element of the financialisation of development in the Brazilian economy, aligning the BNDES with the Consolidated Wall Street Consensus (CWS) on the funding side. Finally, the creation of financial products such as the LCD for private markets can be understood as a response to criticisms that the BNDES has a relatively low degree securitisation on the liability side when compared to other national development banks (*BNDES Special Studies*, no. 58).

## 4. Concluding remarks

Since 1952, the BNDES has played a vital role in financing Brazil's economic development. Created in a context in which state activism was regarded as essential to economic development, the BNDES became a key institution for the provision of long-term credit in the Brazilian economy, particularly in the industrial and infrastructure sectors. By the late 1980s, however, the influence of the Washington Consensus prescriptions led to a substantial shift in the role of the BNDES within the Brazilian credit market, emphasising privatisation and alignment with market-based criteria. In the early aughts, a greater acceptance of state intervention increased capital inflows to Brazil, and a political project centred on supporting investment in infrastructure and industry contributed to an expansion of BNDES disbursements. This expansion, sustained during the instrumentalisation of the institution as a vehicle for countercyclical policies throughout the GFC, ended in 2016 (Guerra; Araújo, 2023). The combination of shifting international capital flows and a political context that deprioritised public investment led to a reduction in BNDES long-term credit provision. Unlike the austerity period of the 1990s, however, the contraction of public funding pushed the institution toward the derisking of financial assets for large institutional investors. This shift is closely associated with

the consolidation of the WSC, a paradigm of state intervention that emphasises the entanglement of finance and the state, thereby reshaping the role of development banks (Gabor, 2021).

As states increasingly govern through financial markets, financial agents and institutions build a closer relationship with central banks, thus becoming more influential (Braun et al., 2018). This growing influence and power stem from the convergence of state and financial interests, developing a symbiotic relationship. A major implication of this relationship is that attempts to limit the power of financial agents may undermine the central bank's capacity to implement monetary policy decisions. The increased entanglement of the State and the financial sphere becomes clearer when one considers that the very infrastructure of monetary policy requires fiscal policy to engage in the derisking of financial assets (Gabor, 2021; 2023).

As one of the largest development banks in the world (Barboza et al., 2020), the BNDES provides a compelling example of the trajectory experienced by development banks amid the broader shift in paradigms of state intervention in development projects described here. The gradual replacement of direct public sector financing and the prioritisation of market-based mechanisms signals a convergence toward the role assigned to development banks under the Wall Street Consensus, namely as facilitators of the financialisation of development (Gabor, 2021). Brazil's subordinated integration into the international financial system leads the institution to prioritise the attraction of international capital, which entails catering to the interests of large institutional investors (Kaltenbrunner; Painceira, 2017; Christophers, 2023). To this end, the BNDES increasingly focuses on tderisking of financial assets linked to investment projects, structuring and providing technical support of public-private partnerships (PPPs), and mobilising funding through the issuance of securities in capital markets. The path that currently unfolds for the BNDES is one that combines its historical role with the demands of highly interconnected financialised markets. On the one hand, initiatives such as the Nova Indústria Brasil (NIB) programme seek to revitalise its role as a provider of long-term credit to the productive sector and as a sectoral policy instrument. On the other hand, adaptation to the prevailing development paradigm pushes the BNDES toward the logic of financial asset derisking and the accommodation of large institutional investors' preferences. The future trajectory of the BNDES will thus hinge on its capacity to reconcile the dynamics of current financial markets with Brazilian economic development goals.

Aside from the usual territory of banking regulation and monetary policy, the State's activist stance in financial markets was achieved through two main avenues, which showcase the institutional and fiscal capacity of the Brazilian State. On the institutional side, the State fostered credit in key segments, utilising its public banks as vehicles for earmarked credit programs, thereby reigniting the

credit market and promoting balance sheet expansion for both public and private banks. On the fiscal side, the State curtailed vulnerability to capital flight by derisking public debt and fostering the growth of domestic money markets. Through the variegated transformation and expansion of domestic banks and credit, which fueled investment and consumption, the Brazilian State has created its own version of governing through financial markets (Braun et al. 2018).

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