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The advances achieved by the Brazilian financial system in the past 15 years are obvious. Privatization of public banks, government aid programs to restructure private and state-owned banks, foreign capital inflows, adoption of Basel prudential regulations, and mergers and acquisitions have produced a sound, albeit concentrated system, with a credit portfolio of relatively low risk. Thus, systemic risks are minimal, as was evidenced during the recent world financial crisis.

Yet there are some less positive aspects to the Brazilian financial system: it has the highest spread and interest rates in the world, and credit — despite the boom recorded in the past two years — is mainly short-term, expensive, and available mostly to consumers rather than businesses. Analysts are unanimous in predicting that it will take some time before the national banking system becomes a significant participant in Brazil's development through long-term financing for infrastructure and industrial projects; so far these have been financed only by the National Bank for Economic and Social Development (BNDES), sometimes with subsidized funds.

This is the main challenge for the banking sector at this moment: to support investments in energy, transportation, communication and such areas, so as to sustain the economic growth rate at over 6% a year. But the game has a new element: an expansion in loans by public banks at lower interest rates, which points to closer competition with private banks, something that was not that evident two years ago.

The feature story in this edition shows how private banks can finance the country's growth, as well as discussing the role of public banks within a new context of increased competition.