Juggling with the public accounts



In the past, many governments tried to create money from nothing. In modern societies, there are more sophisticated ways of doing this than the old expedients, such as reducing the amount of precious metals in the coins minted. But inflation offers a classic example of what happens when governments try to be too clever; the maneuvers turn against them in the end. When governments use their power to create money so that they can increase spending beyond what is feasible, they generate inflation.

Many analysts see that stubborn human inclination recurring in the Treasury's financing of the BNDES (National Bank for Economic and Social Development), which has already exceeded more than US$100 billion. Some contend that this financing mechanism was a resurrection of the movement account, which was extinguished in the late 1980s; that account which gave the government commercial bank, Banco do Brasil, unlimited access to funding from the Central Bank.

We do not believe this is the case. In fact, the great virtue of Treasury funding of the BNDES is that it is very transparent. By making it clear how the BNDES is financed, the government drew the attention of the public, who have responded with questions and criticism. This reaction in turn has encouraged the government to place healthy limits on this financing mechanism.

A quite different case is the complex megacapitalization operation of the state oil company, Petrobras. Indeed, the scheme is so complicated that except for a few experts, almost no one can actually understand how R$25 million materialized in the Treasury's vaults at the end of the web of share transfers, barrels of oil, and cash spun by the Treasury, BNDES, and Petrobras. This opacity is evidence of excessive craftiness.

The Treasury purchased R$50 billion of shares from Petrobras, increasing the government participation in company ownership. To pay for the shares, the Treasury issued bonds in that amount and transferred them to Petrobras, for which the company issued shares to hand over to the government. The government then sold Petrobras the rights to barrels of oil worth R$50 billion to be extracted in the future from the deep sea oil fields and was paid back with the bonds it had itself issued. The government has thus bought shares of Petrobras with barrels of oil that it expects to turn up in the future.

This is where it gets complicated. The BNDES also participated in the capitalization of Petrobras, buying R$25 billion in shares — using money loaned by the Treasury. Petrobras used the money to buy more rights to future barrels oil from the government, paying the Treasury in cash. Petrobras thus acquired five million barrels worth R$75 billion by issuing shares to the Treasury and BNDES, and the government ended up with R$25 million.

But there is one crucial detail that has been overlooked: When the government chipped in its R$50

billion, Petrobras should have reciprocated with only 3.3 million of barrels, not the 5 million worth R$75 billion. Moreover, BNDES paid in cash rather than in barrels of oil for its shares of Petrobras. There was no reason for Petrobras to buy the additional third in barrels.

So Petrobras used the R$25 billion in capital it acquired by selling shares to the BNDES, funded by the Treasury, to purchase from the government 1.7 million barrels in oil futures. In fact, the government financed the BNDES acquisition of Petrobras shares. This allowed Petrobras to acquire government property, which effectively can only be sold, and which will generate cash for the government at an uncertain and relatively distant future. Thus a loan turns into government revenue.

The government argues that the operation was not very different from the privatization of state-owned companies by previous governments, when promises of future cash flows from the companies' operations were exchanged for money now; these arrangements were often financed by the BNDES. The comparison does not hold water. In the government of Fernando Henrique Cardoso, during which keeping Brazil solvent was the imperative, it made sense to anticipate future cash flows. Regardless of the opinion one might hold about privatization by the Cardoso government, at that time there was neither excess demand nor pressure on prices. The solvency of the public sector was the main concern. Interest rates were high to curb capital flight, and not to cool the economy.

Today, there is considerable reason to be concerned about overheating of domestic demand, and putting more money in the economy does not seem sensible.

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The reason for juggling the public accounting, apparently, was to meet the government primary surplus target of 3.3% of GDP. Whether the juggling will be convincing to investors and experts in public accounts is another matter.