I Conferência Nacional de Desenvolvimento Regional

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Main Message

- Financial System and Regional Development
  - It is not a discussion about regional development funds;
  - Neither a discussion about public banks;
  - Is a discussion about private financial system and its role on regional development;
Theories of Regional Development

- First Generation Regional Policy
  - Neoclassical Approach: money are considered as neutral
  - The Keynesian Approach
    - Explicitly incorporated the concept of autonomous investment and effective demand;
    - The role of money and financial system and understood based on the theory of loanable funds and/or based on the horizontalista approach money supply;
Theories of Regional Development

- The second and third generations: the focus on competitiveness
  - A lower role for the state, allowed only to correct market failures;
  - Emphasis on human capital as a determinant of growth;
  - Emphasis on competitiveness - measured by international position - as the key to development, implying a focus on innovation, economies of knowledge and mechanisms to facilitate this process: networking, cooperation, contacts face to face, learning regions; Regional Innovation Systems, among others;
  - Local endogenous development: industrial districts, clusters, delegation of powers to regions
- No systematic analysis of the role of monetary and financial system;
- Only general indications as part of the national (regional or local) innovation
Monetary Theory for Regional Development

- From the economics side, a seminal contribution of Dow (1996, 1999) and Chick and Dow (1988):
  - Capitalists (including banks) don’t only choose between applying in different assets (financial or industrial circuits) due to uncertainties of the environment (liquidity preference), but also they choose, by comparison, in which region they will apply its resources.
  - Liquidity Preference Differentiated across the Space
  - Determines the willingness to lend (financial system) and / or go into debt (individuals)
Monetary Theory for Regional Development

- The concept of liquidity preference can be used to increase the understanding of many aspects of the geography of finance, like:
  - Financial exclusion
    - The theory of liquidity preference (TLP) of banks can be used to understand why banks choose to open a branch in a specific region instead of other, and what kind of service should be offered in a specific region;
  - Financialization
    - The TLP can help to understand the degree of financialization of a specific region;
  - Centrality
  - Resilience
    - Role of the resilience of regional financial system to the understanding of the resilience of regions;
Empirical Analysis of Brazil
Total Assets / GDP
(Indicator of Financial Deepening)
Regions

Financial System Resilience
Liquidity Preference of Banks Branches Regions

LPB = Cash Deposits / Supply of Credit (willingness to supply credit)

Decrease and Convergence of Regional LPB
Increase the supply of credit as a mechanism to make profits in less developed region.
Regional Quotient of Credit Regions

Most developed regions have a share in distribution of the supply of credit greater than their contribution to GPD.
Profits / Assets (Return on Assets Regions)

After 2005 the less developed regions become more profitable.
ROA and QRC
North Region

Little Functionality of Financial System
ROA and QRC
Northeast Region

Little Functionality of Financial System
ROA and QRC
Southeast Region

Graph showing the trend of ROA and QRC from 2000 to 2010.
QRC BNDES
Norte e Nordeste
QRC BNDES
Sudeste, Sul e Centro-Oeste
Urban Financial Structure
Supply of Financial Services
Preliminary Conclusions

- Financial System (public and private) must be a component in the analysis of regional development;
- Financial crisis shed lights on the regulation of internacional financial system
  - The same applies for regulations inside countries;
- Take a look on history:
  - What are the configuration of financial system in cases of successful policies of regional development, as example, third Italy.
Thank You
Anexos
Total Assets / GDP
Degree of Financialization
Distribution of Bank Branches by Degree of Financialization

- Inexistent
- Soft
- Medium
- Hard
Liquidity Preference of Banks Branches
Degree of Financialization

Brazil Soft Medium Hard
Total Credit / Total Assets
Degree of Financialization

Brazil
Soft
Medium
Hard
Total Credit by Regions

Soft  Medium  Hard
Regional Quotient of Credit
Degree of Financialization

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

0.0 0.1 0.2 0.3 0.4 0.5 0.6 0.7

Soft Medium Hard
Profits / Assets (Return on Assets) Degree Of Financialization
Regional Distribution of Bank’s Branches

Stability of the distribution despite the financial crises
Monetary Theory for Regional Development

- Empirical studies
  - Scarcity of financial data in regional scale;
    - Due to the short relevance of money to understand the economic performance of a specific region according to the mainstream theory (neoclassical);
  - Brazil is a special case (just a little)
    - Data of aggregated balance sheet of bank branches by city, monthly since 1988;
    - Data on employment and type of financial institution by city since 1990;
    - Make possible to analyse the behaviour of banks and financial system and their contribution to the understanding of regional disparities;