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

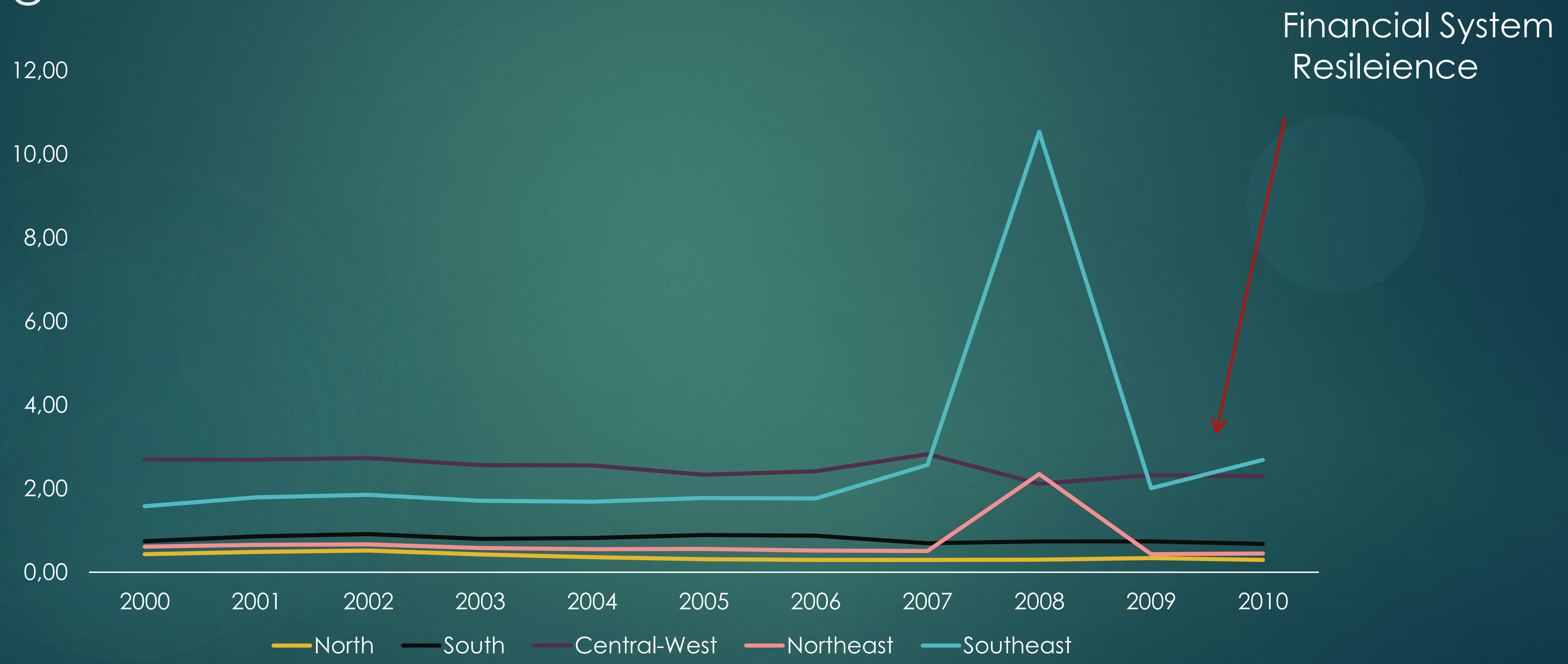
- Liquidity Preference Differentiated across the Space
- Determines the willingness to lend (financial system) and / or go into debt (individuals)

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 both 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 de 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 Deppening)
Regions

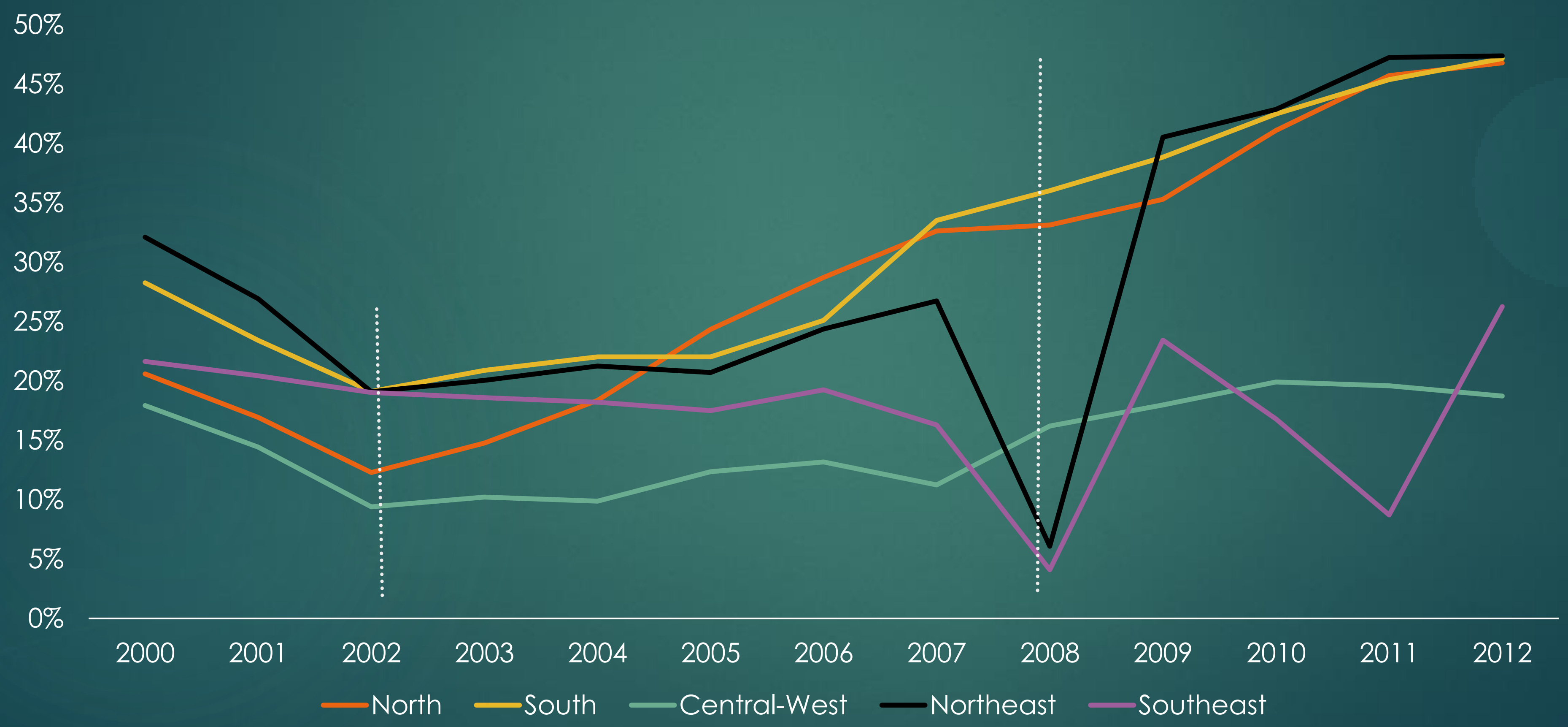


Liquidity Preference of Banks Branches Regions

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

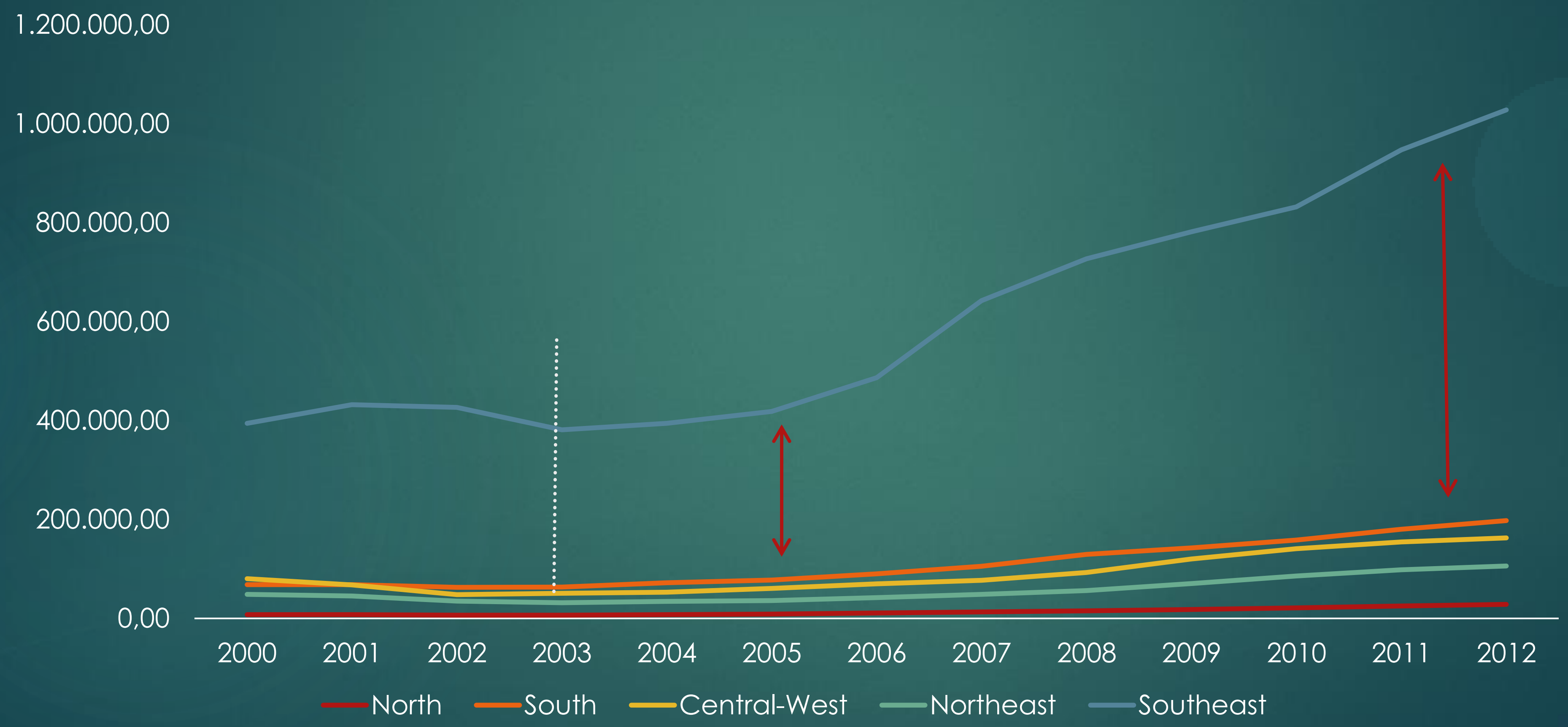
Decrease and Convergence of Regional LPB

Total Credit / Total Assets Regions



Increase the supply of credit as a mechanism to make profits in less developed region

Total Credit by Regions



Regional Quotient of Credit Regions

$$QRC_i = \frac{\dfrac{CRED_i}{CRED_{br}}}{\dfrac{PIB_i}{PIB_{br}}}$$

Futher regional disparities

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

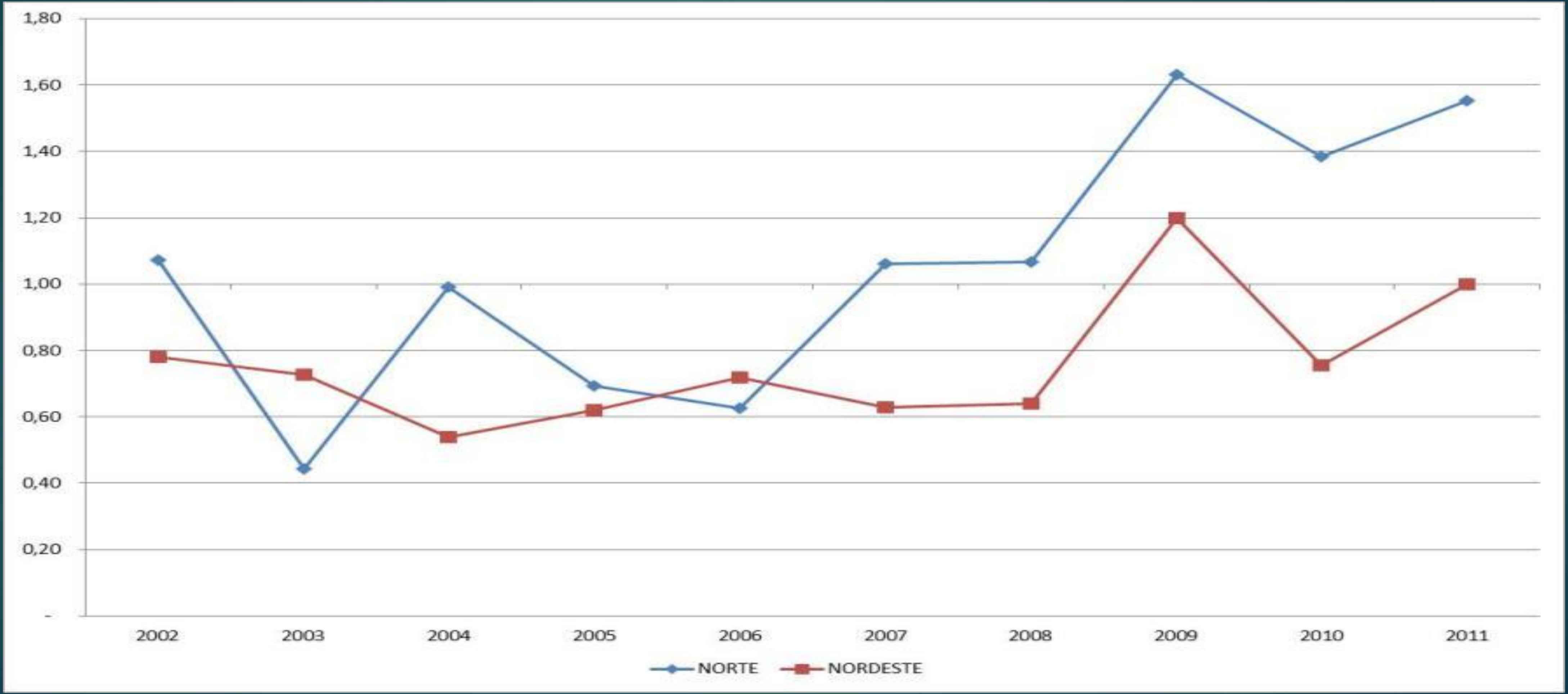
Little Functionality of Financial System

ROA and QRC Northeast Region

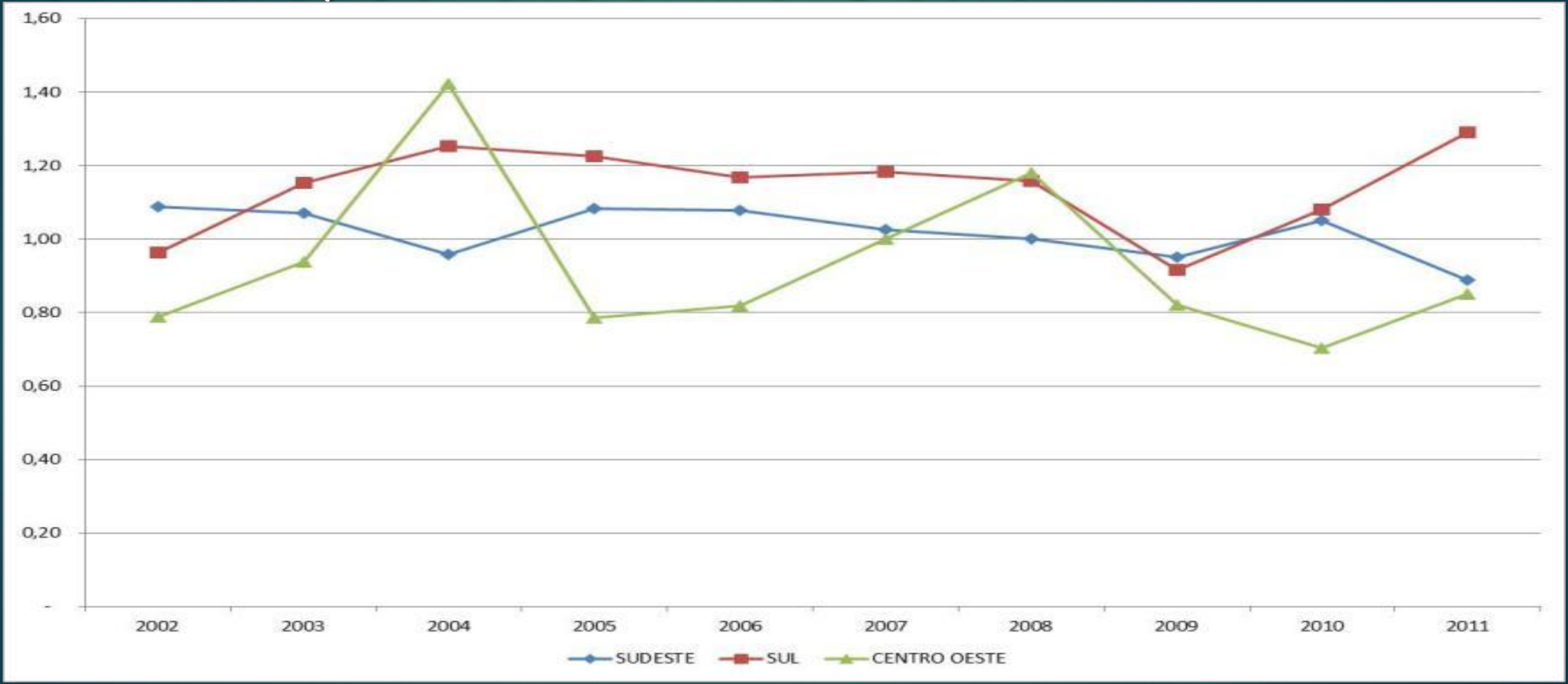
Little Functionality of Financial System

ROA and QRC
Southeast Region

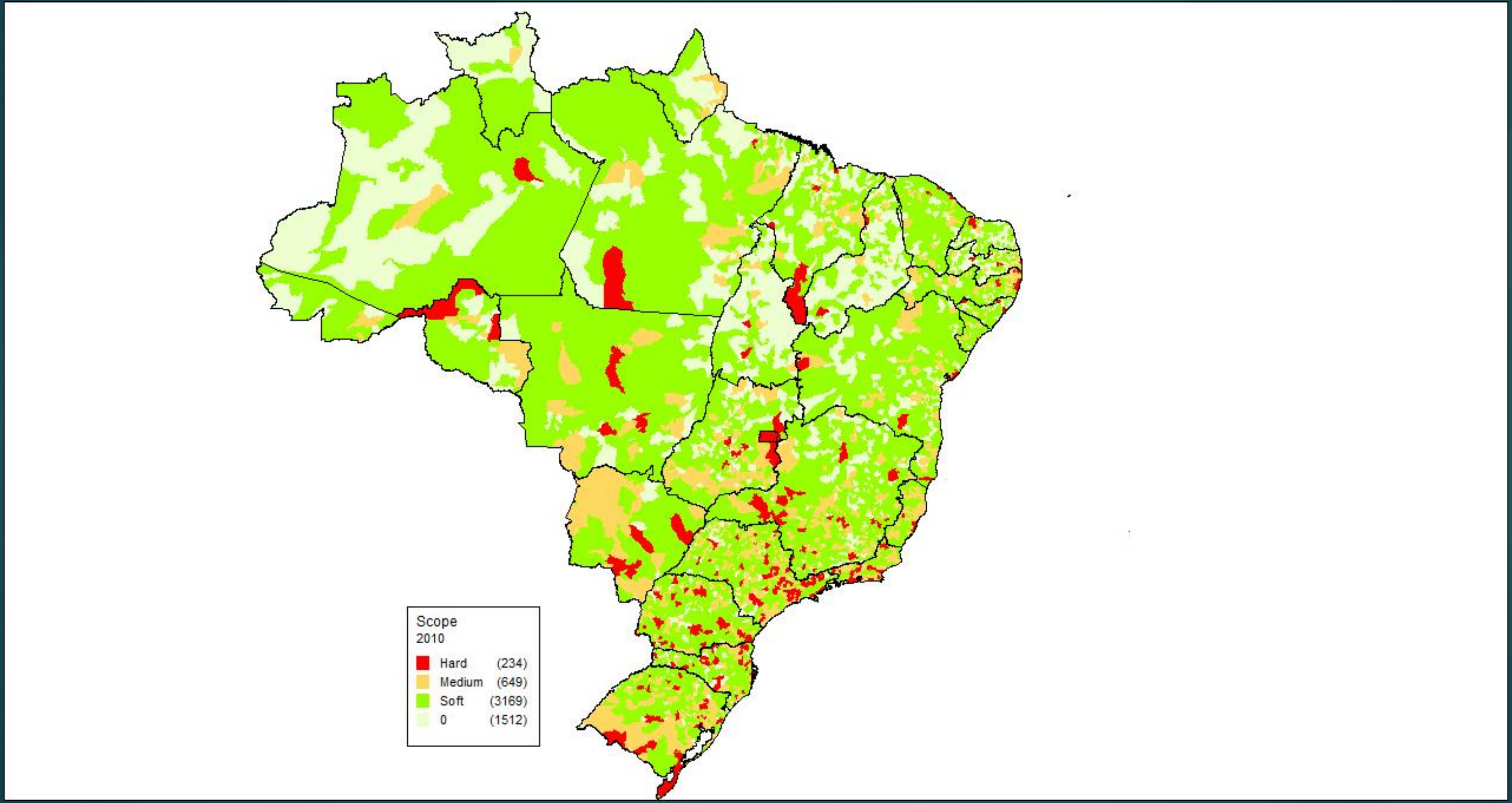
QRC BNDES
Norte e Nordeste



QRC BNDES
Sudeste, Sul e Centro-Oeste



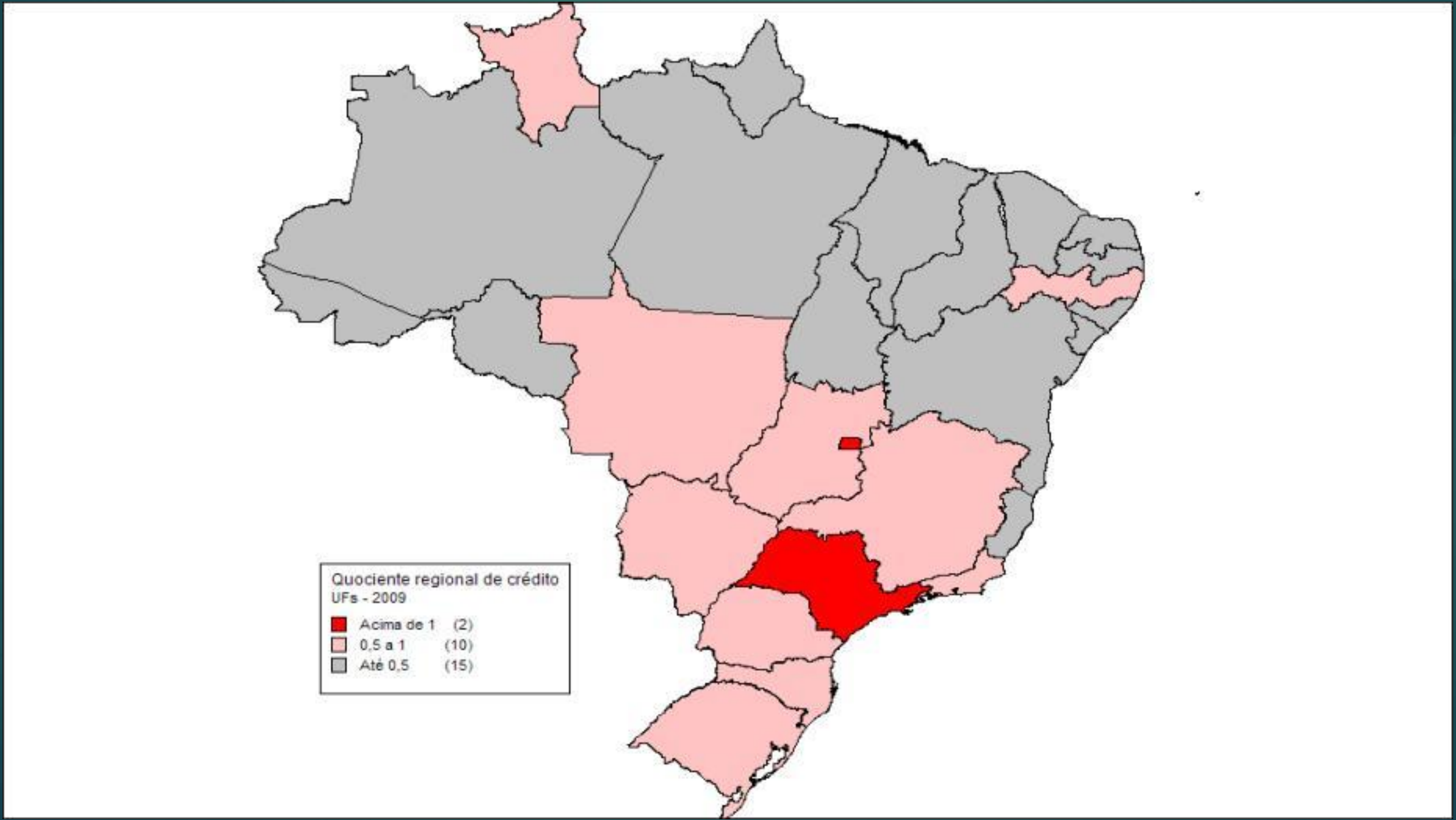
Urban Financial Structure
Supply of Financial Services



Preliminary Conclusions

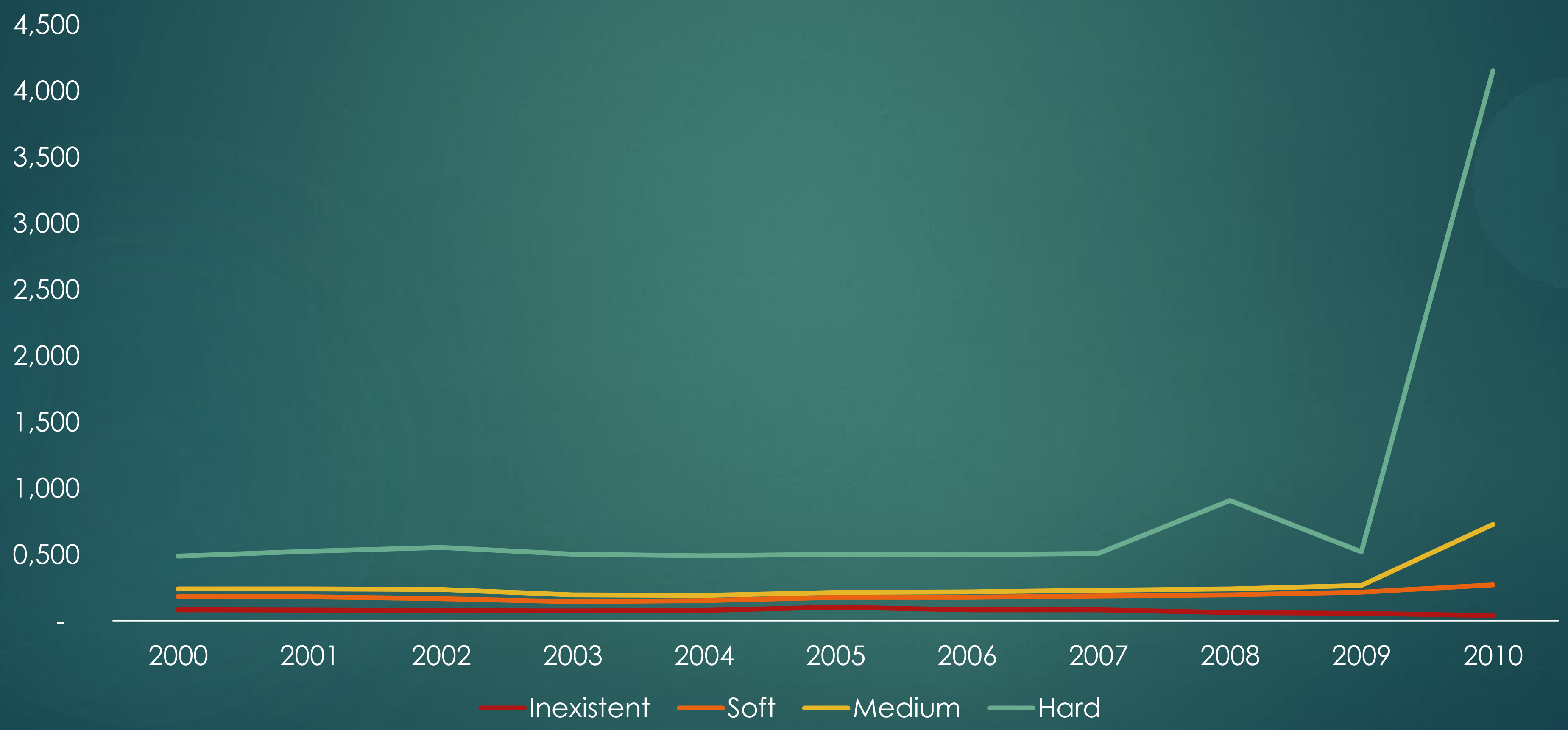
- Financial System (public and private) must be a component in the analysis of regional development;
- Financial crisis shed lights on the regulation of internacional financial system
  - The same applies for regulations inside countries;
- Take a look on history:
  - What are the configuration of financial system in cases of succesful poicies of regional development, as example , third Italy.

Thank You

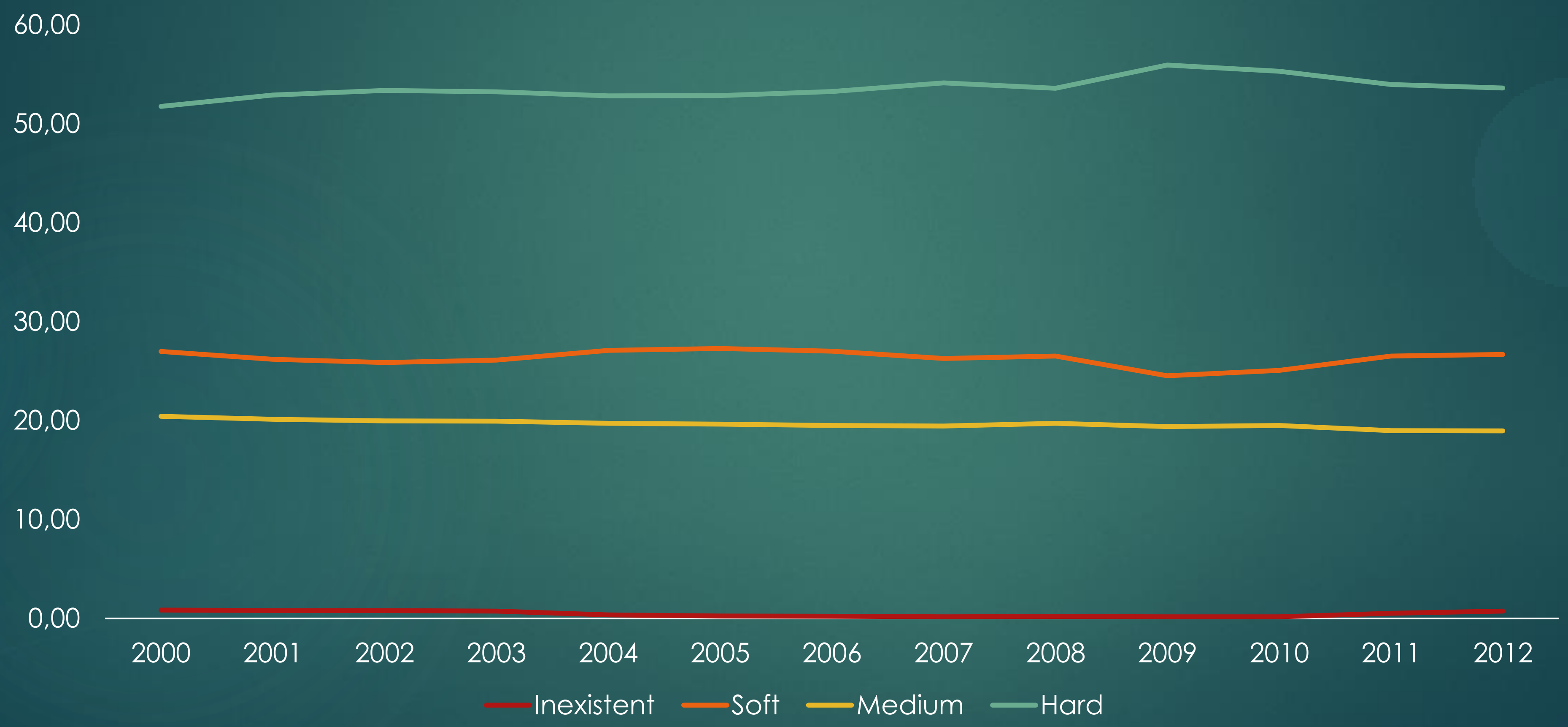

Quociente regional de crédito
UFs - 2009
Acima de 1 (2)
0,5 a 1 (10)
Até 0,5 (15)

Anexos

Total Assets / GDP
Degree of Financialization

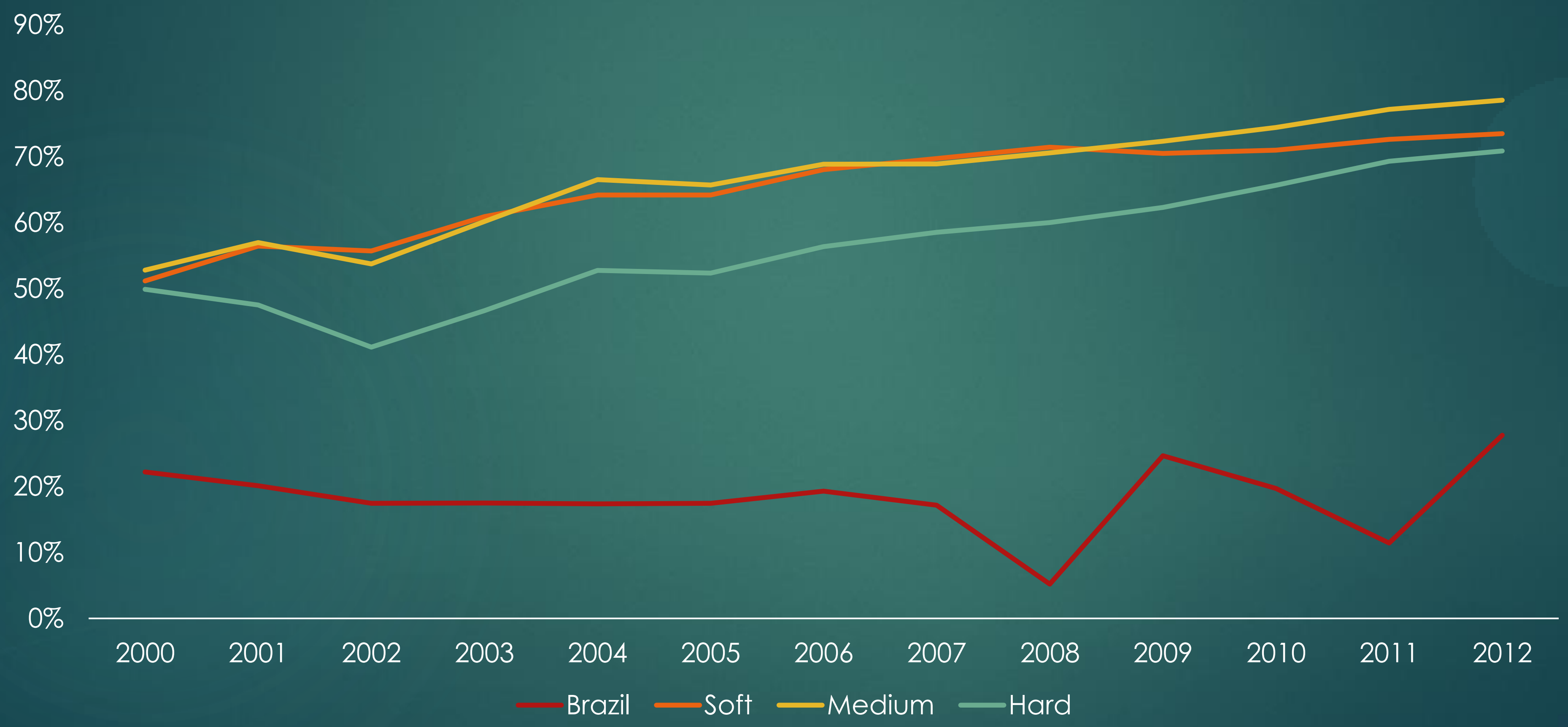


Distribution of Bank Branches by Degree of Financialization



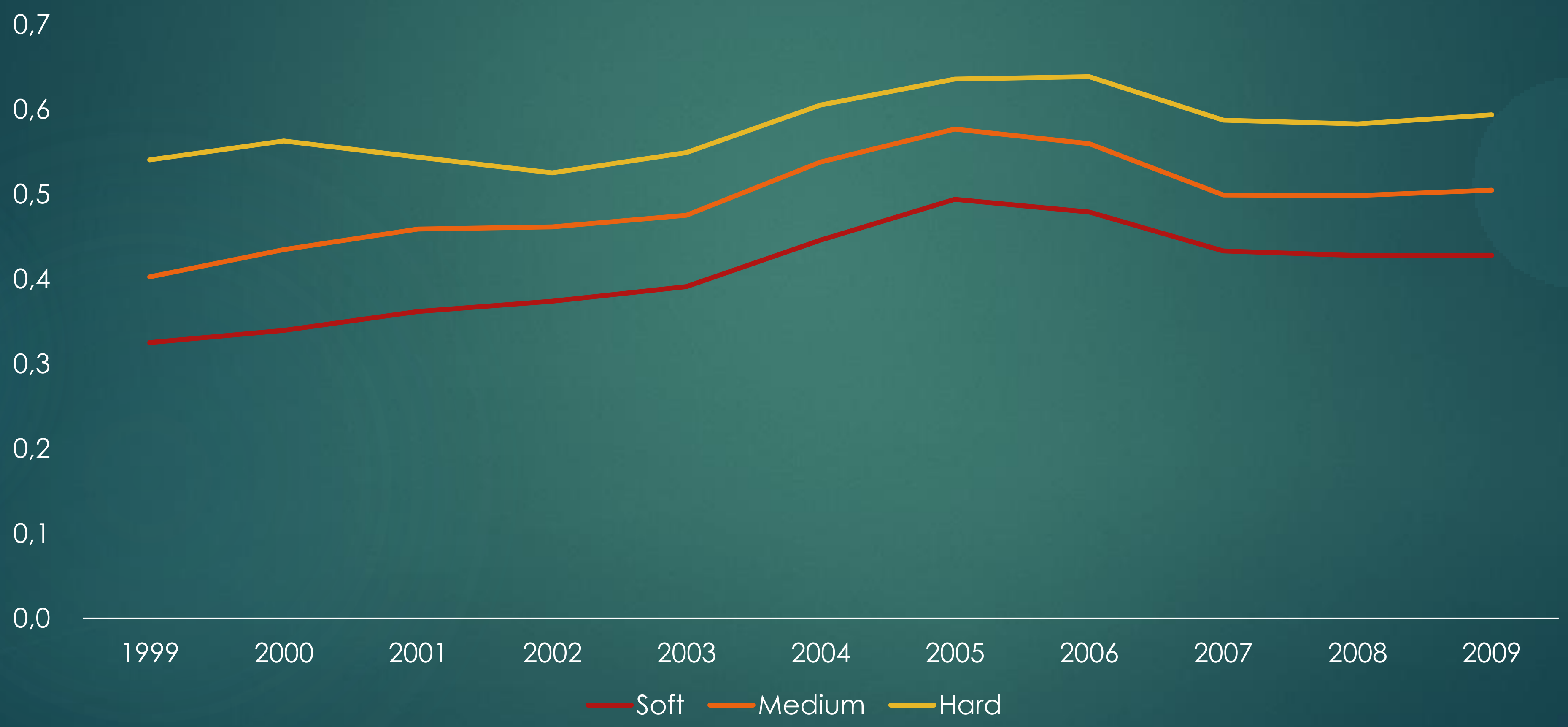
Liquidity Preference of Banks Branches Degree of Financialization

Total Credit / Total Assets
Degree of Financialization

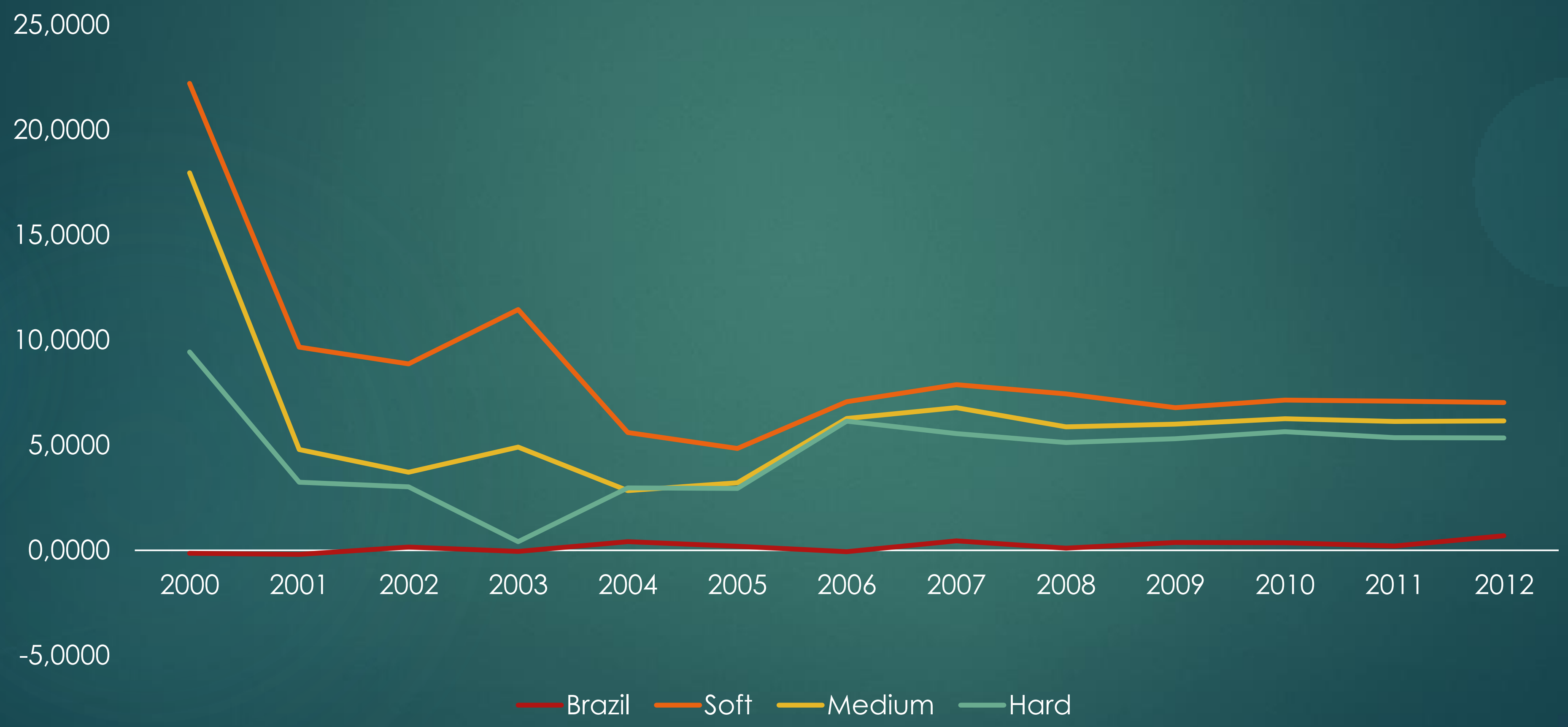


Total Credit by Regions

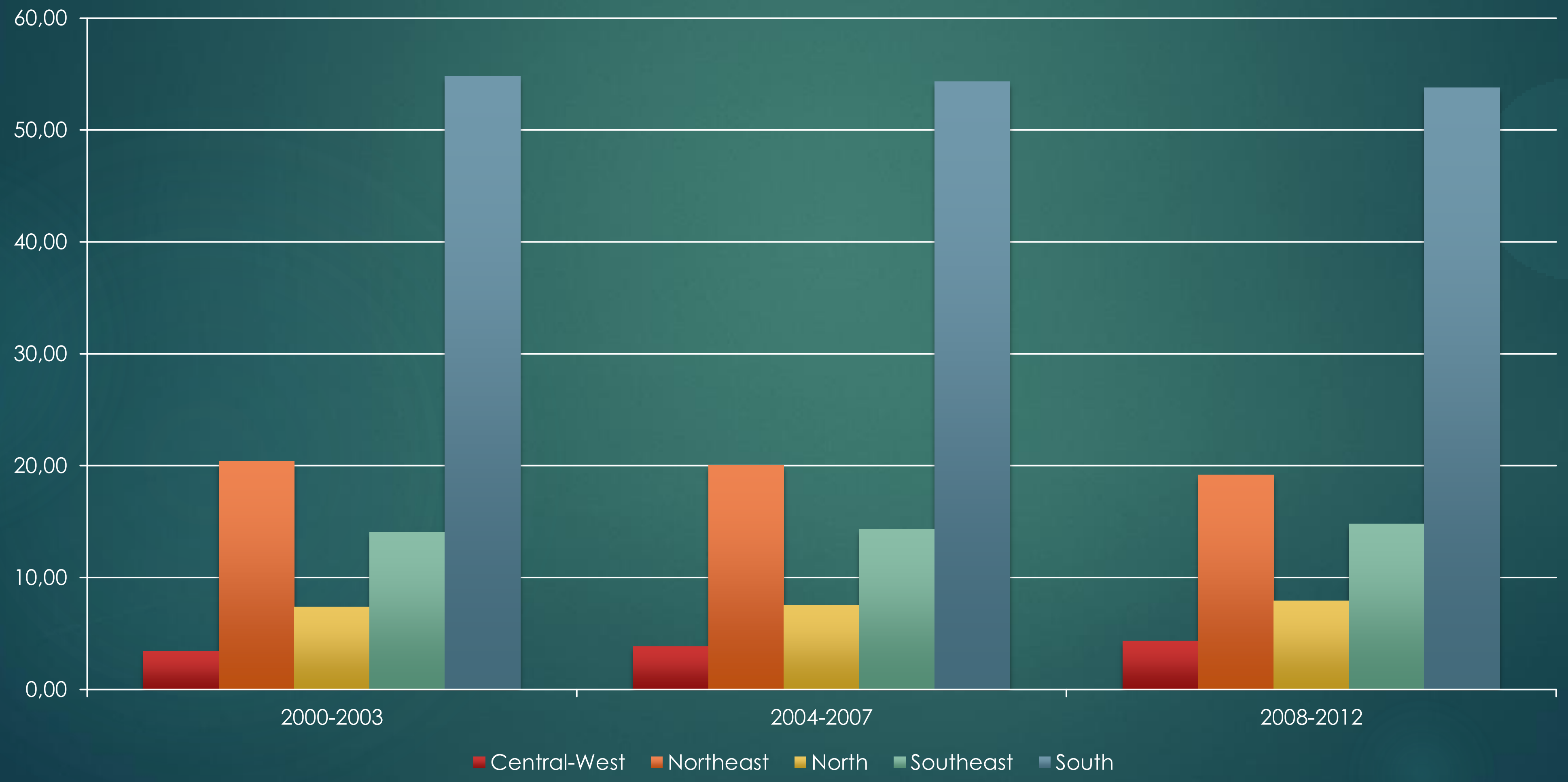
Regional Quotient of Credit
Degree of Financialization



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 ;