Discussion Paper

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EXECUTIVE SUMMARY

IMPACTS OF SUBSIDIZED CREDIT ON THE OPTIMUM LEVEL OF POST-CRISIS INVESTMENT OF BRAZILIAN FIRMS

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In this paper we report evidences that the Tobin's q explain a meaningful fraction of investment levels of large Brazilian enterprises. Firms' investment decisions involve analyzing prices, products, technologies, productive capacity and the availability of credit. These and other factors were greatly impacted by the 2009 post-crisis economic environment in Brazil. We measure the after crisis impacts of subsidized credit on the optimal level of investment of Brazilian firms from the perspective of the Tobin's-*q*. We combined the Tobin-*q* framework with the estimation of a panel data stochastic frontier model to establish what optimal levels of investment the subsidized firms should have had. In general the after crisis average-*q* was very low and it appeared to differ substantially across subsidized and non-subsidized firms.

In accordance to the literature, we found that Tobin's *q* has positive sign in all stochastic frontier models. The subsidized credit did not appear to explain investments levels in the same intensity as the Tobin's *q*, past sales and cash flow in all the econometric specifications.

We didn't found a meaningful gap in the optimal levels of investment between subsidized firms and firms non-subsidized by BNDES. For instance, in the true fixed effects stochastic frontier models, the Tobin's q is always positive and significant. In the after-crisis period the subsidized credits supply weren't able to attenuate the credit restrictions and didn't have an effect over the optimal investment frontier. This suggests that development banks should not be used as a tool for prolonged countercyclical polices, as the persistence to intervene in credit market could be a source of even more market frictions.

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