

[State-controlled companies and political risk: Evidence from the 2014 Brazilian election](#)

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A sizable empirical literature shows that state owned firms are usually less profitable than private companies. This difference might depend on the incumbent government. This might be particularly important in emerging economies, where institutions are strong enough to allow for the existence of capital markets, but might fail to prevent policies that negatively affect the value of a state-controlled company for its shareholders. The implication is that state-controlled firms in emerging economies would be particularly vulnerable to political risk.

Petrobras, the Brazilian oil company, is a case in point. During her first term as president (between 2011 and 2014), Ms. Dilma Rousseff took several measures that were not aligned with the objective of maximizing Petrobras' profits. She was re-elected in 2014 in a hotly contested race, narrowly beating Mr. Neves, an opposition candidate identified with a pro-market platform. This paper uses stock options to estimate the value of Petrobras shares conditional on a different election outcome.

In our preferred specification, Petrobras would be worth 62% more in case Ms. Rousseff had lost the election. The effect is huge both in relative and in absolute terms, as it translates into a USD 45 billion difference in company valuation, around 1.85% of Brazil's GDP in 2014. Reported results for the probabilities of each election outcome are in general agreement with the movements in presidential polls. Reassuringly, from the Election Day on, the estimates attribute probability close to 1 to a win by the elected president.

We then use our estimated probabilities of re-election to assess the effect of political risk on a variety of asset prices. We find that the election of Ms. Rousseff had a strong negative effect on the value of many companies. However, the effects on Petrobras and Banco do Brasil, the Brazilian state-controlled bank, were particularly strong.