It is better to make the fiscal adjustment in the 1st year, says Bradesco's CEO, Noronha

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Bradesco's prudence
(Portuguese only)

Marcelo Noronha (Bradesco)

The government's goal should be to "inflect the growth curve of public debt" through a fiscal adjustment – and it is better to do this in the first year of the term, said Marcelo Noronha, CEO of Bradesco, at the **Bradesco BBI CEO Forum** in New York.

For Noronha, the adjustment needs to be more rigorous than what is set out in the measures already announced by the government. At a panel at the same event, Finance Minister Dario Durigan said that these measures are only the first step and that "there will be others".

Speaking about how Bradesco has prepared for this more complex scenario, Noronha said that "prudence is the greatest of virtues", that it is not possible to take unnecessary risks in order to grow, and that he does not want to "reap good results in the short term and give them back in the long term".

Video: Bottom Line - It is better to make the fiscal adjustment in the 1st year, says Bradesco's CEO, Noronha

Participants:

Marcelo Noronha (Bradesco's CEO)

Giuliana Napolitano (Brazil Journal)

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Giuliana Napolitano: I am here with Marcelo Noronha, CEO of Bradesco, at Bradesco BBI's CEO Forum, in New York. Noronha, thank you for the interview. Minister Dario Durigan said, at a panel here at the event, that the fiscal adjustment measures announced by the government so far are only a first step. He said: "There will be other measures". Considering this and what the government has done so far, what is your forecast for Brazil's economic scenario this year and in the coming years?

Marcelo Noronha: First of all, Giuliana, thank you for the invitation and thank you for being here as well. This is our 16th edition of the CEO Forum, and it has been very successful: despite all the problems with air traffic to the United States at the very end of the week, on Friday, we had, and still have, a full house here. The conversations we have had here have been very interesting.

Look, from a macroeconomic standpoint, we have a base-case scenario that our Economics department has drawn up and presented to us, which is the following: the growth expectation for 2027 is for very modest GDP growth, of 0.4%; more pressured inflation, with the IPCA closer to 5%, slightly above 5%; and a slightly more pressured exchange rate as well, above R$5.00. And they saw, I say "saw" because I have the impression that we will experience somewhat different scenarios, the Selic rate falling from 13.75% to 12.75% by December 2027.

Well, we have two extremes here, given what we have seen lately. First, a scenario that may be more pessimistic, if we do nothing in Brazil; and a scenario that may be somewhat more optimistic. It depends on decisions, on political will, and here, primarily, on the Executive and Legislative branches, to carry out the necessary and feasible fiscal adjustment, because we also understand the political aspects of this kind of debate.

So, first, the Selic rate stopped falling at the last Copom meeting and remained at 13.75%. The exchange rate closed yesterday at R$5.77; today it was opening even somewhat more depreciated, at R$5.80. Look, if you have an exchange rate of this magnitude, with the Real (BRL) depreciated in this way, which also carries the pressure of rising interest rates here in the United States, what happens? It hits inflation. And, if it does in fact hit Brazilian inflation, if it stays like this for a long time, three or four months, what will we see? We will certainly see higher interest rates. That is one scenario.

The other scenario is one of fiscal adjustment, which I think has to be more rigorous than the first measures. So, I was glad to see these words from Dario Durigan, the Finance Minister, that other adjustments will come. This is important for Brazil, because what has to be done is to set a goal of inflecting the growth curve of public debt. And it is better to do it now, in the first year, because we can have extremely positive effects in the second year of the next government, in the third and in the fourth, that is, I am talking about 2028, 2029 and 2030, with Brazil growing more.

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And the combination, and we have always talked about this, is a combination that has to take into account the following: does Brazil have the potential to grow 2.5% of GDP? It does. How much of a primary surplus do we have to run, and what is our track record on the primary surplus? Between 1% and 1.5%. Perfect. So, what is the other variable that has to be on the table? A real interest rate, which is around 8% today and should fall to 4%, up to 4.5%. But we have to make this fiscal adjustment so that we can see a much more benign scenario, because, going forward, you start to see Brazil grow, and this even helps with the fiscal adjustment. So, I keep this as an expectation. Basically, all of us, as executives, business leaders, Brazilian society, have to support this, so that we see a country growing much more than the 0.4% being forecast for next year.

Giuliana Napolitano: And, when you make the announcement now, you also calibrate expectations. And the expectation of something rigorous also helps with the adjustment, it helps interest rates come down.

Marcelo Noronha: Exactly.

Giuliana Napolitano: Now, Bradesco has prepared for a more difficult scenario, you have said this several times, for example, by growing credit in lines with more collateral, becoming a bit more conservative. Are you in a position to gain market share from competitors that may not be in such a good position?

Marcelo Noronha: Naturally. We see the opportunity, but look: I said it here, and I have been saying it for a while, with prudence. Prudence, they say, is the greatest of a person's virtues. The greatest of all virtues is prudence.

So, in a scenario like this one, in which you have a level of growth like the one we are seeing, and part of this scenario is already set, Giuliana: regardless of candidate A or candidate B, it is set. The household debt service ratio is almost 29%, which will reach those 29%, as Central Bank data have been indicating, and very high interest rates. Because, if we are looking at a Selic rate of 13.75%, you also have to look at the long end of the curve, which is higher, and at how much companies are paying in financial charges, those that carry debt and have a more compressed EBITDA margin. So, in fact, we have a more challenging scenario. And it is not only for Bradesco: it is for all banks in Brazil, for those who operate, but also for asset managers, investors, including individuals. I mean, risk appetite has fallen; it has been falling and is even lower now.

So, we have to keep our feet on the ground. I do not believe in high growth for next year. I am now talking about the financial system average, because we do not yet have guidance to give.

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Our economists point to growth of around 6% in total credit, with one or another bank growing above, one or another bank growing slightly below.

Now, there is always opportunity. We are more competitive in some markets, as we have been saying. First, in the vehicle financing market, where we want to operate; in the SME (small and medium-sized enterprises) market, particularly with collateral, with guarantees. We are competitive and continue to be competitive in payroll-deductible loans as well. So, these are secured loans, which may eventually present some kind of opportunity. But, again, at a time like this, in our business, we have to have, first and foremost, prudence. It is better not to grow the loan portfolio, if that is the case, to reduce the pace of revenue, and to keep investing in the transformation, so that we gain competitiveness regardless of the economic scenario, to see and believe, and also to work towards a positive scenario, more towards the end of the year and for 2028.

Giuliana Napolitano: You mentioned the transformation, which is the transformation plan that Bradesco began in early 2024. So, it is more or less halfway through, because it was a five-year plan. Looking ahead, in this more challenging scenario, what will Bradesco deliver in the remaining half?

Marcelo Noronha: Look, we have important deliveries. First of all, I can mention to you that we are completing, for example, the Principal segment now in December. We said this in the earnings release at the beginning of the year and in the last quarter. So, we will end December with more than 800,000 clients in this Principal segment, with 122 offices set up across Brazil, and it moves into run the bank. Can more offices be opened? Yes, but then, if you want to close one or two, that is also possible. You enter a natural dynamic, delivering increasingly better experiences to clients. And, for companies, we will also have some new developments going forward, for next year.

So, we have important deliveries, and we continue to increase our investments in technology, GenAI, to meet clients' needs, Giuliana, and to increase our operational efficiency as well. That is what we want. We are not doing anything simply to reap here in the short term and give it back in the long term. Quite the opposite: our vision is long-term, to increase the bank's competitiveness in the long term and effectively improve our relationship with all clients, across all segments.

Giuliana Napolitano: And the ambition, I do not want to say target, but the ambition, is a 20% ROE by the end?

Marcelo Noronha: That one I will not answer for you. I always say that we do not promise, we deliver. So, I prefer not to make promises and, in a scenario like this, even less so. But the fact

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is this: looking ahead, with a long-term view, we have done a lot of good things; the bank has taken important steps forward.

Giuliana Napolitano: Now, what do you see as the alternatives for growing revenue? Because growing revenue is going to be extremely complicated: competition practically makes it unfeasible to charge for checking accounts; investment banking with fewer offerings, fewer transactions as well. What avenues do you see for this moment?

Marcelo Noronha: Look, we see many avenues. The loan portfolio itself, let us see: looking at the wholesale bank, we still have many opportunities for growth with clients with good ratings and specific deals. Our market NII (net interest income) performed much better than the market expected. We remain positive here. And also in the further development of our relationship with large companies and with small business as well. And this complete business relationship will also leverage us, not only in the loan portfolio, but in liabilities and fees.

Looking at the fees pillar, we have a highly diversified conglomerate, Giuliana. Look: the Insurance Group is going full steam ahead in its various verticals. We have a payments holding company with five companies, in partnership with Banco do Brasil, all of which are doing well and are also fees generators, with different levels of credit risk among them, but, as a whole, most of them do not even carry credit risk. Our investment banking has shown strength and growth, in both DCM (debt capital markets) and M&A (mergers and acquisitions), and we continue to bet on that. Our brokerage firms: Ágora posted 100% year-over-year growth among individuals, and, on the global markets side here as well, we have important growth, which generates fees. I would add: our consortium business, which is the leader where it operates, has been growing and will grow even more. And the interesting thing about the consortium business is that it is countercyclical: when rates are high, it is in much greater demand. So, we have the consortium opportunity as well, not to mention our asset management company, BRAM (Bradesco Asset Management), which has been gaining market share and generating fees as well. So, there is diversification here for us to pursue higher revenues in 2027 as well.

“Oh, but if there were credit growth, it would be much higher.” Of course: lending is very important for incumbent banks in Brazil. Now, you cannot take certain risks.

And, in addition, we have the expense side. In the last quarter, we showed very tightly controlled expenses, and our expectation is that this will be maintained, because, if you look at our earnings report, you will see that several administrative and operating expenses have negative growth year-over-year and quarter-over-quarter, which means an efficiency gain as a result of our transformation. So, we will keep working. And, if necessary, if the economy is more sluggish, we will accelerate our transformation. So, it is not a problem. We do not lose sleep over it; we work harder.

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Giuliana Napolitano: On agribusiness, Noronha: you serve this segment through the wholesale bank and also through Banco John Deere, which you acquired. Are there still opportunities in this segment, especially with the weakening, let us say, of Banco do Brasil? Is it possible to lend more to this segment selectively?

Marcelo Noronha: I am not happy about the weakening of any competing organization. There is a challenge there for them, as they have the largest portfolio in Brazil, but I would say this: you have crops, islands of prosperity. And, surprisingly, none of them likes high interest rates. I think high interest rates are not good for anyone in the country: neither for individuals, nor for banks, nor for companies. Now, when the exchange rate moves like this, it is positive for several crops that are exporters, for proteins. So, you can even promote, for some time, some recovery for those who are actually able to export and take advantage of this exchange rate, with a more depreciated Real (BRL).

Now, there is a process of consolidation in one region or another, in one crop or another, and we are still doing good business. So, I strongly believe in Brazilian agribusiness. I think there is a recovery process, which is slower; they went through a crisis, but they will come out of it, because Brazilian agribusiness is highly productive and competitive. And look: it continues to gain productivity relative to other parts of the world. So, I see agribusiness recovering in the coming years and plenty of opportunity to do business. Obviously, at this moment, there is somewhat greater restraint on the part of economic agents. I am not talking only about banks, again, I am talking about banks, with lower risk appetite, but about institutional investors and investors, including individuals, regarding credit-risk securities in the market in general and in agribusiness as well. Now, we have a thriving agribusiness sector, business opportunities, and we will see agribusiness recovering and gaining productivity over the coming years.

Giuliana Napolitano: Perfect. And you mentioned household indebtedness. Of course, a drop in interest rates may help resolve this, but it takes time. What scenario do you project for 2027 and 2028, and what should be the impact of this high level of indebtedness on the financial market in general?

Marcelo Noronha: Look, Giuliana, it is inevitable. If you take the Central Bank data, so as not to talk specifically about bank A or bank B, they have been showing, for a few months now, an increase in delinquency, and by delinquency I mean over 90, loans more than 90 days past due, and the cost of risk has been rising. It is inevitable that we go through this. And you cannot think that incumbents and some new entrants are not also part of the macro scenario. We are part of Brazil; Bradesco has a credit portfolio of almost R$1.2 trillion, so you do not come through completely unscathed. We have a much higher-quality portfolio than we had some

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time ago; we are being much more careful, but the fact is this: we are within the Brazilian economy. So, if it grows less, we grow less. It is inevitable, for everyone, not only for us. "Oh, is there a bit more cost of risk, more delinquency?" It hits us too: the wind that blows here blows there too.

Now, this does not mean that we are not working to do better and better and get out of this. And I am not even talking about household indebtedness; I am talking about the debt service ratio. That is the more complex indicator, and I think we will need some time to recover from this. This does not recover overnight. So, it is natural that we will see a cycle, and that is why I think it is already locked in for 2027. It is inevitable. Now, lower interest rates help in this exit, as does the assurance that there are jobs. Unemployment is low, but, eventually, if you have a slowing economy, it may rise. So, the assurance that we will return to growth also helps with this kind of reduction over time. And, to help companies, effectively, we need much lower interest rates.

Giuliana Napolitano: And Bradesco carried out a capital increase this year. Did this resolve the bank's capital structure, or do you expect new transactions for that?

Marcelo Noronha: Look, Giuliana. strictly speaking, we did not even need it; we had sufficient capital, Common Equity Tier 1, Tier 1 capital, Basel ratio. And we had two moves here: the Bradsaúde transaction, which was very successful and is going full steam ahead, you can look at the analysts' comments, everything that has been happening in the market and Bradsaúde's prospects, and then the capital increase, to increase the organization's tangible capital. So, this gives us more strength; it is not that we needed it, but it gives us more strength. It puts pressure on return on equity, ROE, but, on the other hand, it gives us more strength, because you increase tangible capital. So, the bank is prepared to face a somewhat more adverse scenario, which lies ahead, and we will work to do our best and seek out the opportunities that will arise along the way.

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