If the exchange rate remains at this level for four months, 2027 will be even more challenging, says Bradesco CEO

According to Marcelo Noronha, if the government delivers a credible fiscal adjustment and appoints strong ministers, the Brazilian Real could strengthen, easing inflationary pressures and creating room for Selic rate cuts

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A meaningful improvement in Brazil's outlook for 2027 depends on shifts in the economic trend, in the debt trajectory and renewed confidence among economic agents. Even if such a turnaround takes place, its effects would only be felt further down the road, as Brazil's Gross Domestic Product (GDP) growth for 2027 is already largely determined, regardless of the election outcome, according to Marcelo Noronha, CEO of Bradesco.

Noronha believes that the fiscal adjustment package approved by the Senate on Wednesday, November 18th, is insufficient to alter this trajectory. **"I understand that the first year of the next administration should require greater sacrifice"**, he told **Estadão/Broadcast** during a break in the 16th Annual Bradesco BBI CEO Forum, held on November 17th and 18th in New York.

The current inertia, which could push Brazil's debt-to-GDP ratio to 89% in 2027, is one of the main factors driving the sharp depreciation of the Brazilian currency, according to him. **If the exchange rate remains around R$5.80 per U.S. dollar for four months**, Noronha says **it will begin to feed into inflation**, pushing potential Selic rate cuts even further away and making the credit market, whose growth is expected to average around 6% next year, more challenging.

When discussing technology and artificial intelligence (AI), Bradesco's CEO emphasized that the bank's investment in the area is inevitably expanding. " AI is the present and the future for companies and individuals alike", said the executive, speaking with the enthusiasm of someone who, at age 61, writes his own AI prompts on his computer.

Next week, Noronha will mark three years as CEO of Brazil's second-largest privately owned bank. However, he measures time through a different milestone. Upon being appointed on November 23rd, 2023, the board tasked him with transforming the institution, to which he responded by launching a strategic plan built around ten initiatives. That transformation program will celebrate its third anniversary in May of next year.

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In New York, **Bradesco hosted 120 Latin American companies**, not only from Brazil, for one-on-one meetings with **more than 300 investors** from around the world. Despite the aviation disruption in the United States on Friday, November 13th, cancellations were minimal, allowing the event's schedule of 1,700 bilateral meetings to proceed as planned.

Below, the main topics of the interview:

Estadão/Broadcast – How is the bank preparing for 2027, and how does it view the outlook for the households, already highly indebted, and corporates at such a challenging time in terms of recovering?

Marcelo Noronha - Our base-case scenario assumes GDP growth of 0.4%, more persistent inflation around 5%, and a flat interest rate. But what are the alternative scenarios, and what changed after the election? Expectations shifted significantly. First, interest rates stopped declining and the dollar strengthened considerably, reaching as high as R$5.80. If the exchange rate remains at this level for four months, it will affect inflation, worsening the overall outlook. Expectations for interest rates would increase, making 2027 an even more difficult year.

Estadão/Broadcast - What factors have been driving the exchange rate?

Noronha - Two variables are particularly important. The first is U.S. interest rates, which are likely to rise given inflationary pressures in the country. The second is Brazil's fiscal policy, which has eroded confidence among economic agents. In this more adverse scenario, the exchange rate weakens further. A more optimistic scenario would involve a credible fiscal adjustment that the agents understand as capable of containing the growth of public debt. Debt is expected to close this year at 83% of GDP. If nothing is done, it could increase by six percentage points to 89% next year. If the government implements a strong fiscal adjustment and appoints good names for ministerial positions, the Real could appreciate, helping contain inflation and creating a realistic path for Selic rate cuts. As for credit, Brazil is already set for a very low growth next year, regardless of expectations or election results. Household debt service now consumes nearly 29% of disposable income, an extremely high level, affecting the lower-income and middle classes. With the Selic rate at 13.75% and real interest rates near 8%, corporate borrowing costs can reach 20% once spreads and the Financial Transactions Tax (IOF) are included That is a really high level, especially for companies facing compressed EBITDA (an indicator that measures operational cash generation before deducting interest, taxes, depreciation, and amortization) margins, which, simply because of higher interest rates, may find themselves operating at leverage ratios of three times net debt-to-EBITDA. The credit outlook for 2027 is, therefore, extremely challenging. I expect average loan portfolio growth of roughly 6%, depending on each bank and market segment.

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Estadão/Broadcast - Is the fiscal adjustment package proposed by the government sufficient?

Noronha – In my view, no. I understand the political aspects and the challenge to negotiate with a diverse Congress, but I also believe that the first year of the new administration must be a year of greater sacrifice.

Estadão/Broadcast – Is politics itself a barrier? The current Congress seems to be willing to approve the plan. Next year's is a different one.

Noronha - That is where the Executive Branch must make the case that the sacrifice needs to happen now if we want to change the trend and rebuild confidence. The country could revise tax incentives and reduce mandatory expenditures to create greater fiscal flexibility. Brazil has already achieved an annual growth of 2.5% and a primary surplus of 1.5% of GDP. So, it can be done. President Lula has earned the position to say, "I need to do this here and now". To support this process, of course, he needs people around him with strong political negotiation skills. This capability is useful both in negotiating with the Congress and in advising the president himself.

Estadão/Broadcast - Regarding tax incentives, part of the resistance comes from the private sector. How is that debate evolving?

Noronha – It is necessary to reach an agreement with the society. I am not talking about reducing social benefits. There are incentives that impose costs on everyone and generate limited benefits for society. Without discussing any specific case, Brazil currently provides R$ 580 billion in tax incentives. Some of the larger lines could be gradually reduced; there are many available levers.

Estadão/Broadcast - Bradesco did not participate in Desenrola 3. Have initiatives like that worn out?

Noronha – I understand that, in some cases, yes. Programs such as Desenrola create a moral hazard issue: people keep expecting the next, which is bad for the market. There are good programs, like FGI (Investment Guarantee Fund) and FGO (Operations Guarantee Fund), which genuinely expand access to credit through longer maturities - 60 months, with a one-year grace period - and differentiated terms. As companies recover, they repay the funds; there is a recycling mechanism.

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Estadão/Broadcast - I'd like to hear your views on AI. In September, Anthropic CEO Dario Amodei warned about the need to slow development. In recent weeks, companies such as Microsoft and JP Morgan have experienced service disruptions, some involving AI technologies. Bradesco invests heavily in this area. Has that made the bank more cautious?

Noronha - AI is both the present and the future, for companies and individuals alike. We created a foundational platform that improved productivity and allows us to scale operations.

Estadão/Broadcast – But did anything change at the bank after Anthropic's warning?

Noronha - We understand technology and its implications. We cannot afford to fall behind. Several quarters ago, people asked me, "When will you start investing less?". I will never stop investing in technology, especially AI. Amodei spoke, but his company is thriving. He has a point: we need strong guardrails. I enjoy reading philosophers. Yuval Harari's latest book is excellent, but pessimistic. I would rather hear LinkedIn's CEO: "The ones who will be left behind in the market are those who do not use AI". I tell at the bank: if you have not started using it yet, start today. This is a uniquely transformative human revolution, regardless of age. On my own laptop, I write my own prompts.

Estadão/Broadcast - Do you believe regulation is necessary?

Noronha - No. Companies need to protect themselves, because hackers are not regulated. In Brazil, what is missing is stronger legal characterization of cybercrimes so that appropriate penalties can be imposed; current punishments remain too lenient.

Estadão/Broadcast - Is cybersecurity Bradesco's largest investment?

Noronha - We do not disclose figures, but it is inevitably increasing. We created a metric called Return on Tokens (ROT) to measure the return on our investments. Our largest expenditure is on Bia Cliente, which handles millions of client interactions. We also have BIA Tech, which supports software developers, and BIA Corporativa, which assists employees. All these systems consume tokens. The big deal is that the foundational model learns continuously and suggests improvements for new processes. It is incredible. We have changed the way we do things, always maintaining human supervision, because there is still the risk of model "hallucinations".

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