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# Political Economy of The Brazilian Banking System: Why Are Interest Rates And Banks' Profits So High?

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## Résumé

Despite the economic crisis Brazil has been facing since 2014, we have yet to see Brazilian banks suffer its effects. The profitability of Brazil's five largest banks – Itau, Bradesco, Santander, Banco do Brasil and Caixa Economica Federal – seems to be immune to the economic context, reaching extremely high levels even with greater defaults on loans. Interest rates on credit, especially for consumers, do not appear to fall, even with the Brazilian Central Bank promoting substantial cuts in the short-term policy rate (SELIC) in the past years. This article aims to understand Brazil's banking system particularities that allow these features to continue. We investigate changes in the composition of banks' balance sheets, focusing on their revenue sources. Using the Brazilian Central Bank database IF.data, preliminary results show the predominance of banks' liquidity preference when the economic scenario deteriorates. We also discuss interest rates on loans and the five 'too big to fail' banks in Brazil. Several rounds of M&A in the past years led to a highly concentrated credit market. With less competition from other sources of funding, since the capital market in Brazil is underdeveloped, banks respond to around 94% of total credit to the private sector. While the credit/GDP ratio is around 60%, lower than other countries, and banks charge more than 300% per year in some lines of credit, including overdrafts and credit cards, our main conclusion is that the market power of the five largest banks is one of the most important factors explaining why Brazil has at same time a banking system that is very resilient to crises and one of the highest bank spreads in the world.

**Mots-Clés:** Brazilian banking system, interest rates, banking credit

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