

## Push the float out

*Spain's biggest bank offers shares in its Brazilian business.*

The filing by Spain's Banco Santander on September 3rd to carry out an initial public offering (IPO) of shares in its Brazilian unit may seem plucky given rising default rates on bank loans. But an offering looks certain to succeed. The Brazilian economy is in decent shape: GDP growth should reach a healthy 4% in 2010, according to the latest survey of economists by the central bank. Appetite for Brazilian assets has been strong this year, VisaNet's 8.4 billion reais (\$4.3 billion) offering in June being the most eye-catching example. And Santander's successful navigation of the financial crisis should also ensure hefty demand. The IPO, which is expected to take place this year, could raise as much as ten billion reais for a 15% stake, based on estimates of the unit's current market value.

Santander will spend the bulk of the money on an aggressive expansion of branches and ATMs in the richer south and south-east of the country, which accounts for some 75% of national output. That should help the bank consolidate its position in Brazil, where a judicious blend of acquisition and organic growth has given it a more Brazilian face than other foreign-owned banks. Santander bought Banespa, a São Paulo state bank, in 2000 and last year completed its acquisition of ABN AMRO's Brazilian business, making it the fourth-largest bank in the country. It has sensibly kept the services of Fabio Barbosa, who used to head ABN's Brazilian operations and is widely admired.

In the process Brazil has become more and more important for Santander, accounting for some 18% of global profits in the first half of this year. Mr Barbosa will focus his attention on Brazil's consumer-credit markets, which have historically been held back by swingeing interest rates and wide bank spreads but are now expanding rapidly. There's room for more growth: credit amounted to just 50% of GDP in Brazil in 2007, compared with 169% in America, according to the World Bank.

If Brazil's potential is not in doubt, Santander still faces plenty of difficulties. In the short term, defaults continue to rise: July marked the eighth consecutive month of increases. Santander Brazil has been hit by a rise in loans that are more than 90 days delinquent, from 5.4% in the first quarter to 6.9% in the second quarter, says Ceres Lisboa, an analyst at Moody's.

Competitors are on the march, too. In November Itaú and Unibanco, two of the country's largest private banks, announced a tie-up that catapulted the new entity to the number-one spot. An even bigger threat is state-controlled Banco do Brasil, which earlier this year snapped up a 49.99% share of Banco Votorantim, the country's seventh-largest bank by assets, as well as Nossa Caixa, another São Paulo state bank. In August the bank crowed that it had regained the top slot from Itaú-Unibanco. The Nossa Caixa deal in particular means it is now in a good position to turn its guns on Santander's heartland.

More active government policy to bring down fat spreads, in part through lenders such as Banco do Brasil, will also add to pressure on Santander's margins. Rosy though their prospects are, the Spaniards will not have things all their own way.

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