

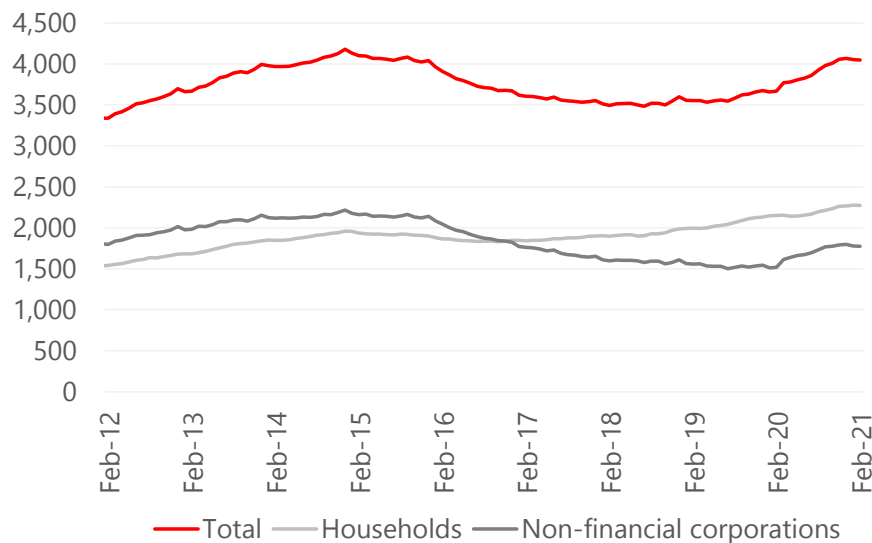
A (Partial) Rebound in February

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- Brazil Central Bank (BCB) data for February, released today, shows that non-earmarked credit to households rebounded from the January drop. However, recent restrictions owing to a worsening of the pandemic are likely to weigh on March figures, in our view.
- In the corporate segment, despite the slowdown in pandemic-related types of credit, a new round of BRL16 billion in *Pronampe* credit support is expected in the coming months.
- Importantly, both the debt-to-income and debt service ratios for households have been rising fast, a risk for delinquencies and credit supply as the economy recovers.

Total outstanding loans in the National Financial System (SFN) posted inflation-adjusted growth of 10.3% YoY in February (BRL4.0 trillion), up 5.7% YoY for households and 16.8% YoY for non-financial corporations.

Figure 1 – Total Outstanding Balance of Credit Operations (inflation adjusted, BRL billion)



Sources: Brazilian Central Bank, Santander.

In the non-earmarked segment, household portfolios grew 4.7% YoY (inflation adjusted) in February. For corporations, growth in the balance of non-earmarked loans continued to be high (+16.4% YoY), with an emphasis on working capital (+41.9% YoY, inflation adjusted). In the earmarked segment, growth for households reflects real estate financing (+12.3% YoY, inflation adjusted), while the increase for companies is due to the emergency credit-support programs (e.g., *Pronampe*, *PEAC*).

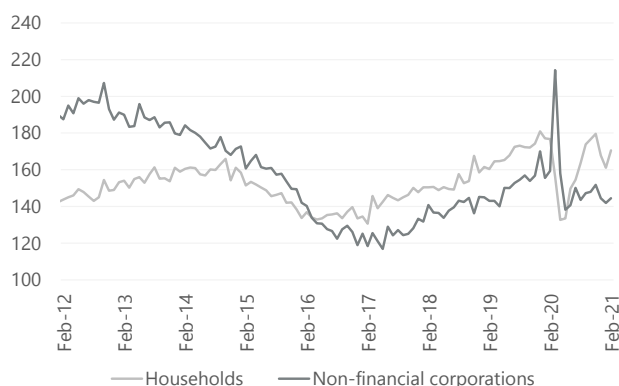
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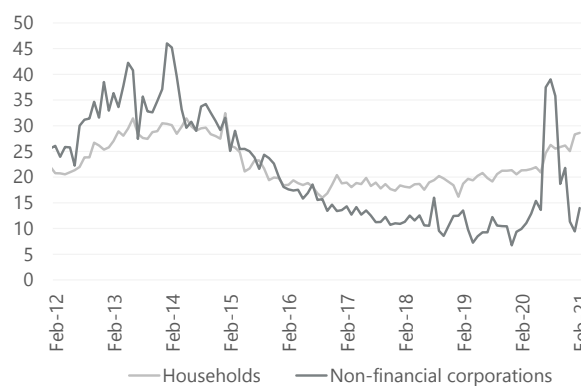


Figure 2 – New Operations – Non-Earmarked (inflation and seasonally adjusted, BRL billions)



Sources: Brazilian Central Bank, Santander.

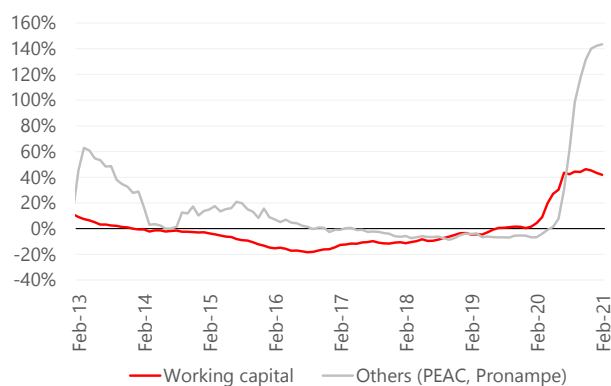
Figure 3 – New Operations – Earmarked (inflation and seasonally adjusted, BRL billions)



Sources: Brazilian Central Bank, Santander.

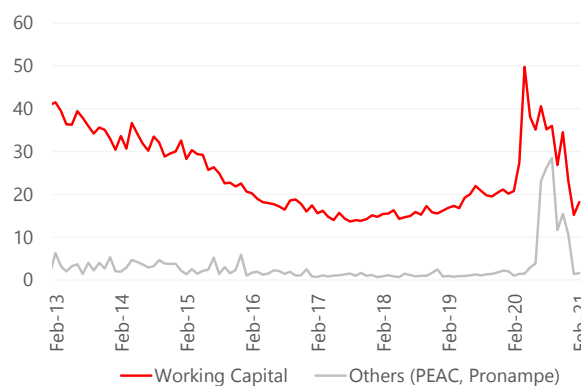
New loans adjusted for inflation and seasonality (BCB methodology) rose 5.1% in the month, a significant increase from January (+1.5% MoM-sa). For households, the non-earmarked segment saw an increase of 5.8% MoM-sa in February, driven by overdrafts, payroll-deducted personal loans for retirees and pensioners, and vehicle financing. In the earmarked segment, real estate financing remains high (+55.1% YoY), as financial conditions are favorable. For companies, there was an increase of 1.7% MoM-sa in the non-earmarked segment, with working capital rebounding at the margin. In the earmarked segment, February saw an increase of 47.7% MoM-sa. **Despite the slowdown in these pandemic-related types of credit as economic activity recovers, a new round of BRL16 billion in *Pronampe* credit support is expected in the coming months.**

Figure 4 – Outstanding Balance – Non-Financial Corporations (inflation adjusted, %YoY)



Sources: Brazilian Central Bank, Santander.

Figure 5 – New Operations – Earmarked (inflation and seasonally adjusted, BRL billion)

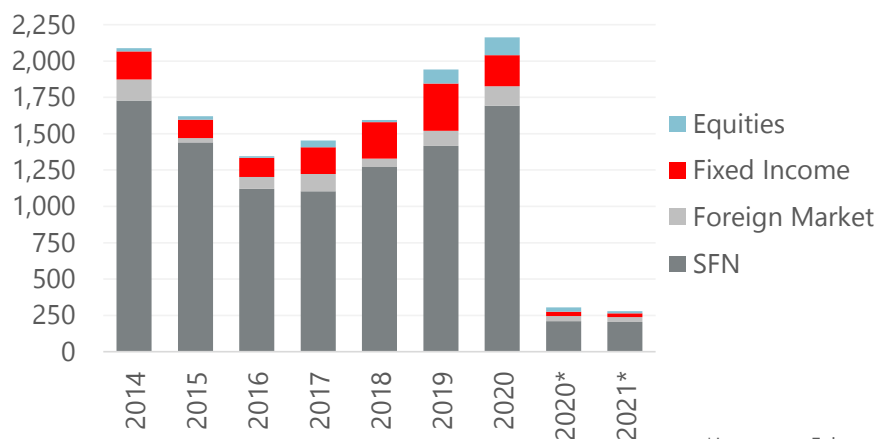


Sources: Brazilian Central Bank, Santander.

Considering total corporate financing (new loans in the SFN, debt and equity issues in the capital markets) in 2021 (through February), compared to same period of 2020, issuances in the capital markets are 32% lower, while SFN concessions are down 3%. As a result, total corporate financing is down 9% compared to the year-ago period.



Figure 6 – Total Corporate Financing (inflation adjusted, BRL billions)



*January to February.

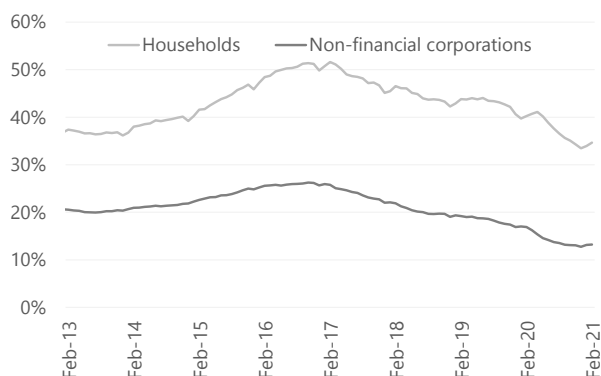
SFN - exclude *conta garantida, cheque especial* (overdraft) and credit card.
 Foreign Market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
 Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans to households increased 0.8 p.p. in February compared to January, reaching 34.7% p.a., and was stable at 13.2% p.a. for corporations. The average interest rate for non-earmarked new loans was 40.1% p.a. for households (compared to 39.4% p.a. in January) and 13.8% p.a. for corporations (compared to 15.2% p.a. in January). The spread on non-earmarked new loans was 34.4% for households (+0.5 p.p. from January) and 9.2% (-1.5 p.p. from January) for corporations.

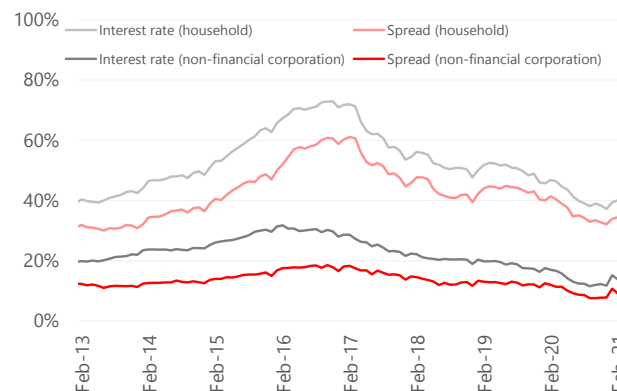
Still in non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) came in at 4.1% and 1.6%, respectively, for households and corporations, stable versus January. **Importantly, both the debt-to-income and debt service ratios for households have been rising fast, a risk for delinquencies and credit supply as the economy recovers.**

Figure 7 – Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)

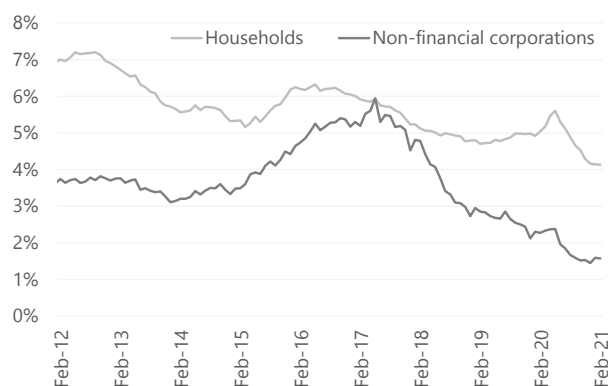


Sources: Brazilian Central Bank, Santander.

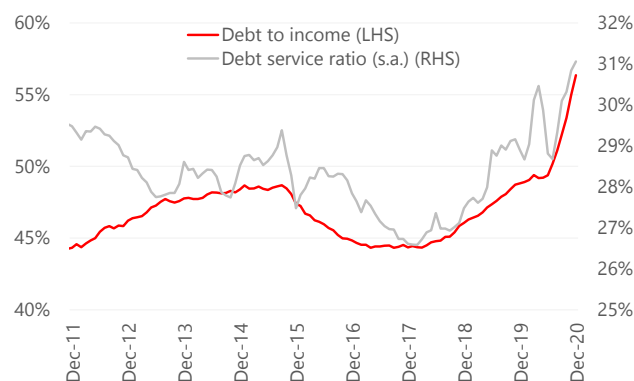
Figure 8 – Average Interest Rate and Spread – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.


Figure 9 – 90 Days Due Loans – Non-Earmarked (% , s.a.)


Sources: Brazilian Central Bank, Santander.

Figure 10 – Household Debt to Income and Debt Service Ratio (%)


Sources: Brazilian Central Bank, Santander.

Figure 11 – Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
Households	6.0%	5.2%	4.8%	6.8%	7.2%	7.0%	6.4%	6.1%	5.8%
Non-financial corporations	16.0%	17.8%	16.5%	17.5%	17.6%	17.4%	16.6%	17.7%	16.8%
Total	10.5%	10.7%	10.0%	10.9%	11.1%	10.9%	10.7%	10.9%	10.4%

New operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
Households	-7.2%	-3.4%	6.1%	-4.4%	12.9%	1.4%	-5.8%	-1.5%	5.2%
Non-financial corporations	-4.8%	-1.6%	1.9%	-48.1%	-19.3%	52.5%	-13.3%	3.2%	4.0%
Total	-7.4%	1.6%	4.3%	-17.1%	1.8%	6.0%	-9.9%	1.6%	5.3%

Interest rate	Nonearmarked			Earmarked			Total		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
Households	37.2%	39.4%	40.1%	7.0%	7.0%	6.9%	23.2%	24.3%	24.6%
Non-financial corporations	11.7%	15.2%	13.8%	10.0%	9.5%	8.3%	11.2%	13.4%	12.2%
Total	25.5%	28.4%	28.1%	7.9%	7.7%	7.3%	18.4%	20.0%	19.8%

	Dec-20	Jan-21	Feb-21
Total Outstanding / GDP	54.2%	54.1%	54.0%
Total Outstanding under public control	45.0%	45.0%	44.9%

Sources: Brazilian Central Bank, Santander.



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