

Weak Figures for December

Felipe Kotinda*

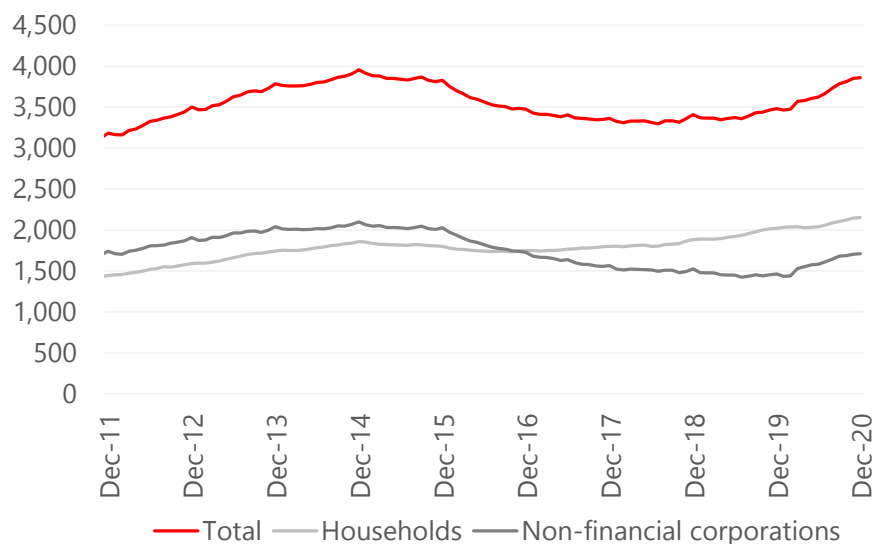
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- Brazil Central Bank (BCB) data reveals that credit to households keeps recovering, but non-earmarked new loans in December disappointed. In our view, this is likely a result of tighter social restrictions (due to the worsening pandemic) and the reduction of emergency aid. In the earmarked segment, new loans volume for real estate financing is still high.
- As for corporates, new loans decelerated, even considering the third *Pronampe* (emergency credit support) disbursement. In 2020 companies relied heavily on emergency credit programs (PEAC, Pronampe) and working capital to bridge short-term liquidity needs. Accordingly, a slowdown in these pandemic-related credit was expected as economic activity recovers.
- Despite another decrease in NPLs, we maintain our view that delinquency is likely to increase in the coming months, with the end of the emergency aid and of loan payment deferrals.

Total outstanding loans in the National Financial System (SFN) posted inflation-adjusted growth of 10.5% YoY in 2020 (BRL4.0 trillion), up 6.1% YoY for households and 16.6% 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, loans to households have recovered from the worst part of the pandemic. This portfolio's growth was 5.7% YoY (inflation adjusted) in December. As for corporations, growth in the balance of non-earmarked loans remains high (15.9% YoY), with an emphasis on working capital (45.3% YoY, inflation adjusted). In the earmarked segment, growth for households reflects real estate financing

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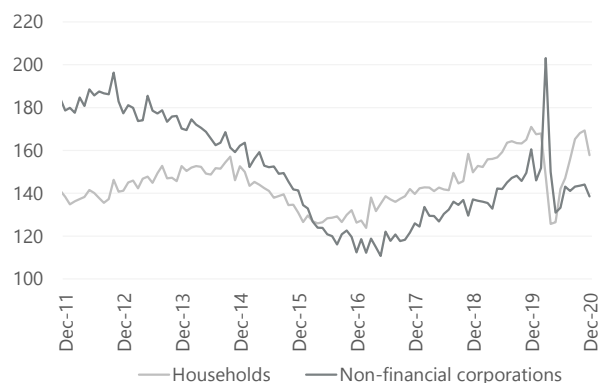
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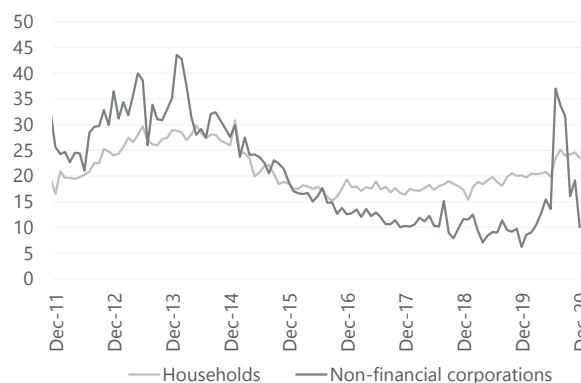
(10.9% YoY, inflation adjusted), while the increase for companies is due to the emergency credit-support programs (e.g., *Pronampe*, *PEAC*).

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



Sources: Brazilian Central Bank, Santander.

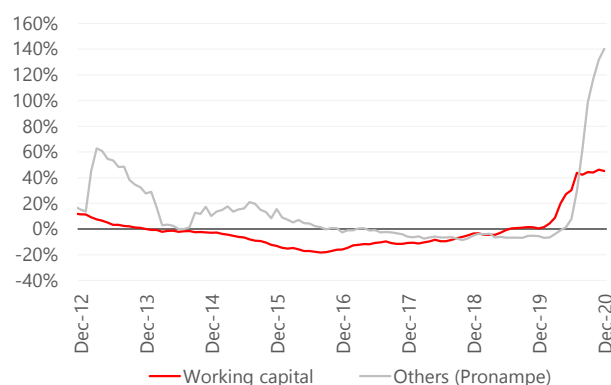
Figure 3 – New Operations – Earmarked (inflation and seasonally adjusted, BRL billion)



Sources: Brazilian Central Bank, Santander.

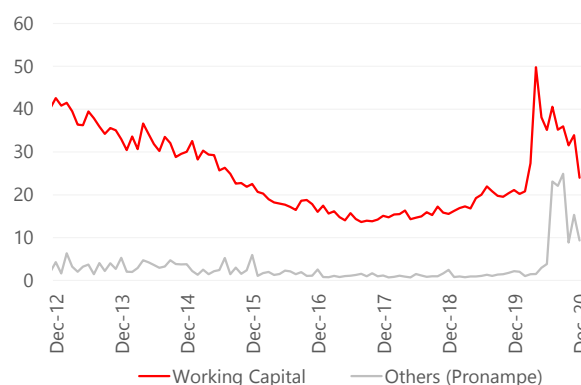
New loans adjusted for inflation and seasonality (Central Bank of Brazil methodology) decreased 11.0% in the month compared to November, with the contraction driven by corporations. **For households, the non-earmarked segment saw a decrease of 7.2% MoM-sa in December, which in our view is likely a result of tighter social restrictions (due to the worsening pandemic) and the reduction of emergency aid.** In the earmarked segment, real estate financing remains high (49.4% YoY), as financial conditions are favorable. For companies, there was a decrease of 3.5% MoM-s.a. in the non-earmarked segment, as working capital has been decelerating. In the earmarked segment, December saw a decrease of 50.8% MoM-s.a., even considering the third *Pronampe* disbursement (see charts below). In 2020 companies relied heavily on emergency credit programs (*PEAC*, *Pronampe*) and working capital to bridge short-term liquidity needs. Accordingly, a slowdown in these pandemic-related credit was expected as economic activity recovers.

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)

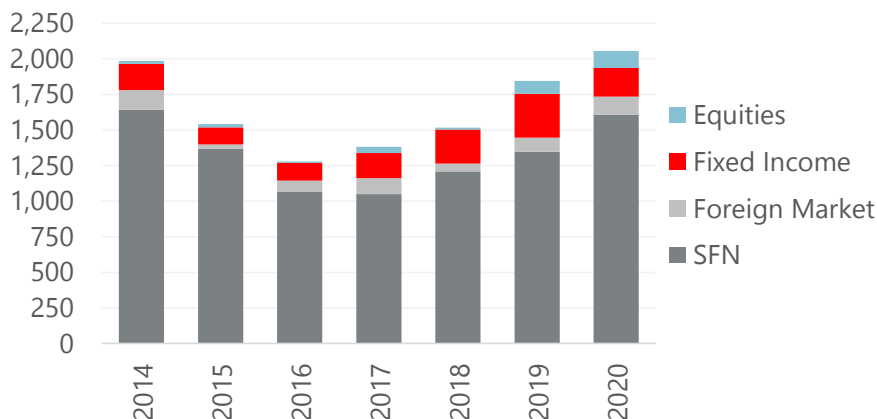


Sources: Brazilian Central Bank, Santander.

Considering total corporate financing (new loans in the SFN, debt and equity issues in the capital markets) in 2020, compared to 2019, issuances in the capital markets are 20% lower, while SFN concessions are 19% higher. As a result, total corporate financing is up 11.3% compared to the year-ago period, with growth in banking credit more than offsetting the decrease in capital markets.



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



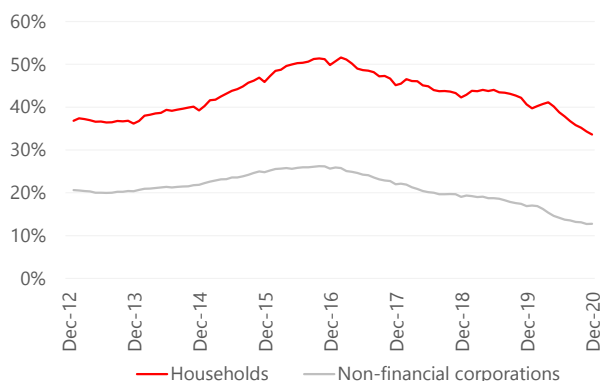
SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
 Foreign Market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
 Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans to households decreased 0.7 p.p. in December compared to November, reaching 33.6% p.a., and increased 0.1 p.p. to 12.8% p.a. for corporations. The average interest rate for non-earmarked new loans was 37.0% p.a. for households (compared to 38.1% p.a. in November) and 11.7% p.a. for corporations (compared to 12.2% p.a. in November). The spread on non-earmarked new loans was 32.0% (-0.5 p.p. from November) and 7.7% (same figure from November), for households and corporations, respectively.

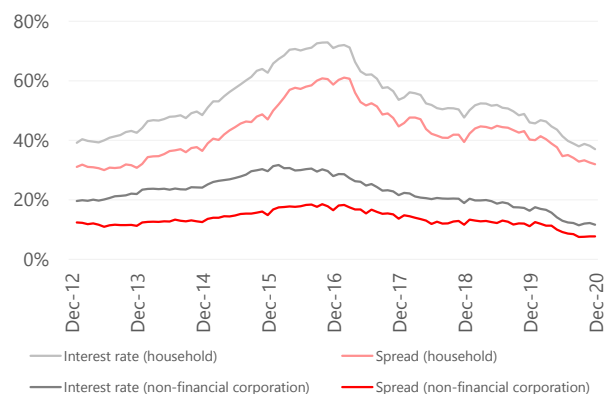
Still in non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) dropped another 0.1 p.p. in the month for households, coming in at 4.2%. For corporations, there was a reduction of 0.1 p.p., to 1.4%. In both cases, it is the lowest value observed in the historical series that began in March 2011. **Despite another decrease, we are still of the view that delinquencies are likely to increase in the coming months due to the pending end of loan payment deferrals and emergency aid.**

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

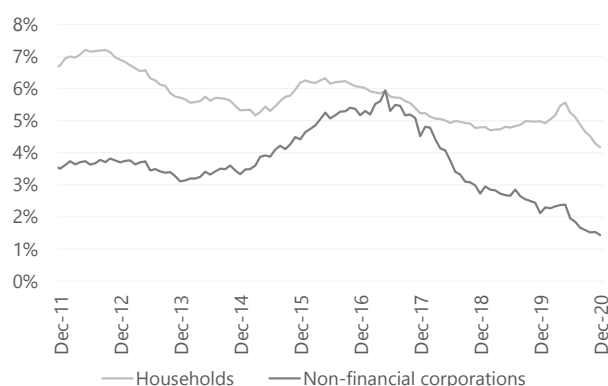


Sources: Brazilian Central Bank, Santander.

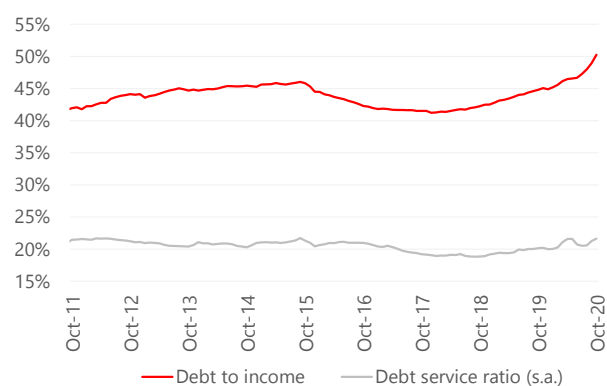
Figure 8 – Average Interest Rate and Spread – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.


Figure 9 – 90 Days Due Loans – Non-Ermarked (% 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		
	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20
Households	5.1%	6.4%	5.7%	6.4%	6.5%	6.7%	5.7%	6.4%	6.1%
Non-financial corporations	20.5%	19.0%	15.9%	11.4%	13.8%	17.7%	16.8%	16.9%	16.6%
Total	11.8%	11.9%	10.2%	8.3%	9.4%	10.9%	10.3%	10.8%	10.5%

New operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20
Households	1.6%	1.4%	-7.2%	0.8%	1.5%	-3.7%	1.9%	-0.9%	-5.3%
Non-financial corporations	0.3%	0.4%	-3.5%	-48.2%	24.0%	-50.8%	-5.9%	3.6%	-15.9%
Total	2.1%	0.3%	-7.5%	-19.8%	5.2%	-20.7%	-1.3%	1.7%	-11.0%

Interest rate	Nonearmarked			Earmarked			Total		
	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20
Households	38.8%	38.2%	37.0%	6.9%	6.9%	7.0%	23.9%	23.7%	23.2%
Non-financial corporations	12.0%	12.2%	11.7%	7.7%	7.8%	10.0%	10.7%	10.9%	11.2%
Total	26.5%	26.4%	25.5%	7.2%	7.2%	7.9%	18.6%	18.7%	18.4%

	Oct-20	Nov-20	Dec-20
Total Outstanding / GDP	52.5%	53.5%	54.2%
Total Outstanding under public control	45.7%	45.3%	45.0%

Sources: Brazilian Central Bank, Santander.



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