

Delinquencies Still Not Sparking a Credit Slowdown

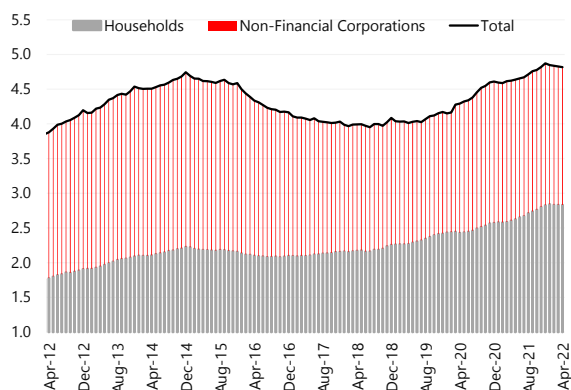
Fabiana Moreira*
fabiana.de.oliveira@santander.com.br
5511 3553-6120

- After a months-long strike at the Brazil Central Bank (BCB), the authority finally released April data, which showed overall real growth in credit to households and companies at 4.16% YoY.
- For new loans to households, the non-earmarked segment posted an increase of 1.7% MoM-sa. We highlight the rise in total personal credit (14.7% MoM-sa), though credit cards presented a decline (-4.5% MoM).
- For companies, there was a decrease of 11.9% MoM-sa in April in the non-earmarked segment, with total working capital showing a negative variation (-6.9% MoM-sa), the third decline in a row.
- Finally, debt-to-income and debt-service ratios for March continued to rise (52.7% and 27.7%, respectively), which we see as a risk for delinquencies as the economy recovers.

Outstanding Loans

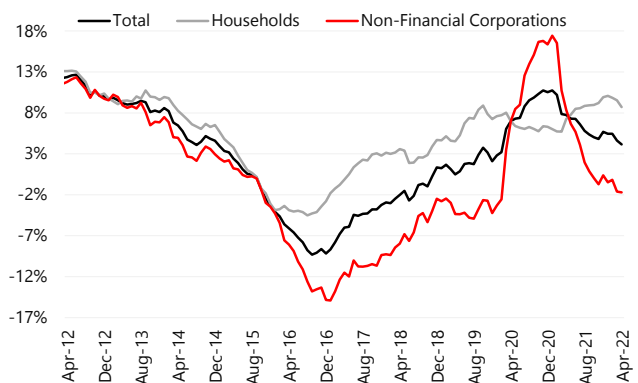
Total outstanding loans in the National Financial System (SFN) in April posted inflation-adjusted growth of 4.16% YoY (the small number since February/2020) to BRL4.8 trillion. For households, loans were up 8.71% YoY; for non-financial corporations, they were down 1.71% YoY.

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



Sources: Brazilian Central Bank, Santander.

Figure 2. Total Outstanding Balance of Credit Operations – Growth Rate (inflation adjusted) (%)



Sources: Brazilian Central Bank, Santander.

In April, in the non-earmarked segment, household credit portfolios presented real growth of 12% YoY, with **personal credit posting growth of 9.1% YoY, inflation-adjusted, and credit cards continuing to accelerate, reaching the peak of the series at +34% YoY, inflation-adjusted.** For corporations, real growth in the balance of non-earmarked loans was 4.2% YoY, with **total working capital presenting a negative variation for the tenth time in a row, -3.9% YoY (inflation adjusted) and discount of credit card bills rising 6.5% YoY (inflation adjusted).**

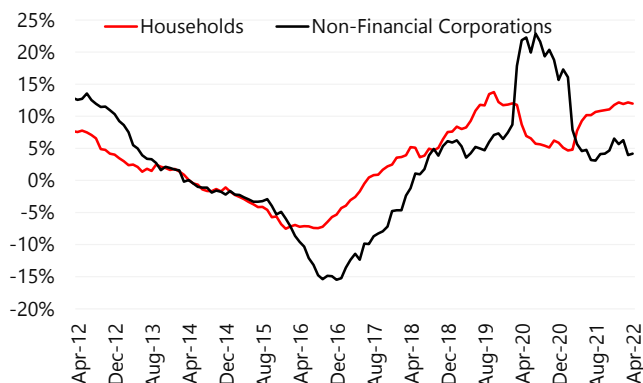
IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.
* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



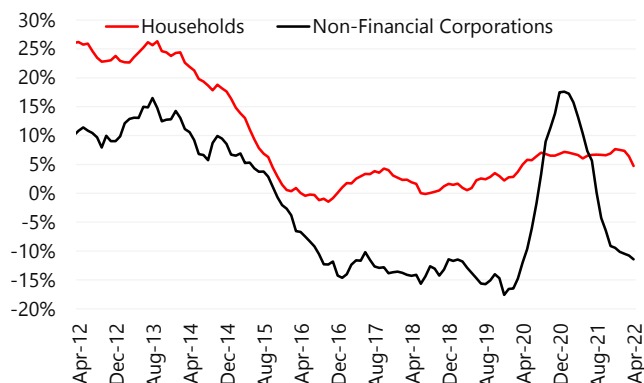
In the earmarked segment, households posted growth of 4.7% YoY (the small number since March/2020), with **real estate financing also showing a tepid growth of 1.6% YoY, inflation adjusted**, lower than the year-ago figure (6.1% YoY, inflation adjusted), **but rural credit is showing a growth of 17% YoY, inflation adjusted**. Corporations posted the eighth decrease in a row, -11.4% YoY (inflation adjusted), with **total rural credit presenting growth of 4.6% YoY (inflation adjusted)**.

Figure 3. Outstanding Balance – Non-Earmarked (inflation adjusted) (% YoY)



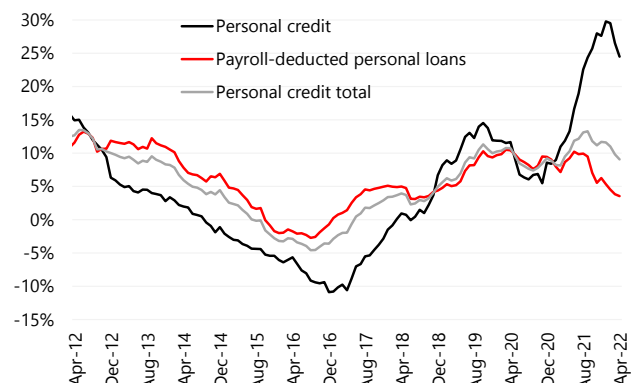
Sources: Brazilian Central Bank, Santander.

Figure 4. Outstanding Balance – Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 5. Outstanding Balance – Personal Credit – Non-Earmarked (inflation adjusted) (% YoY)



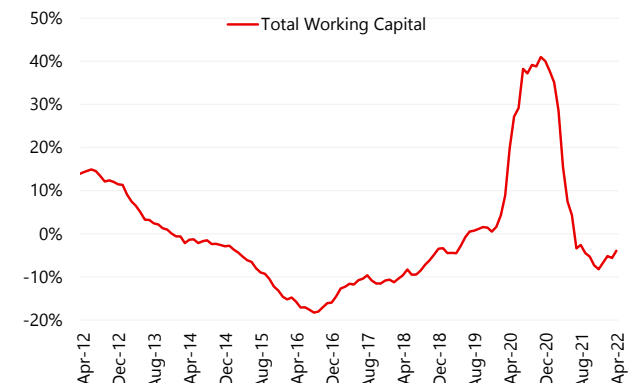
Sources: Brazilian Central Bank, Santander.

Figure 6. Outstanding Balance – Credit Card Purchases – Non-Earmarked (inflation adjusted) (% YoY)



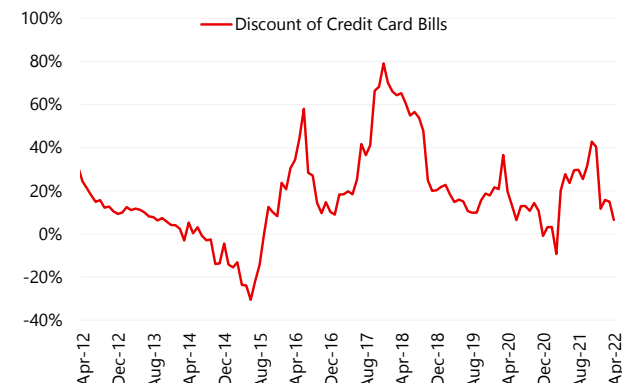
Sources: Brazilian Central Bank, Santander.

Figure 7. Outstanding Balance – Working Capital – Non-Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

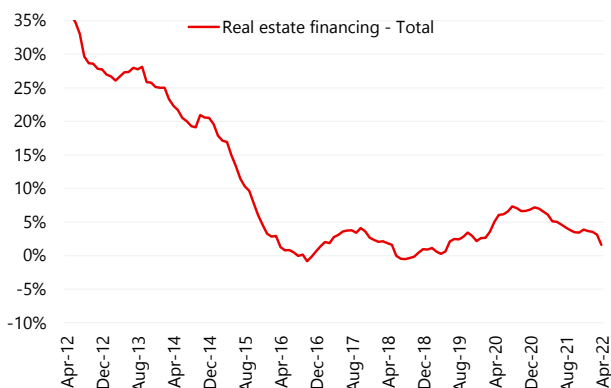
Figure 8. Outstanding Balance – Advances on Exchange Contracts – Non-Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

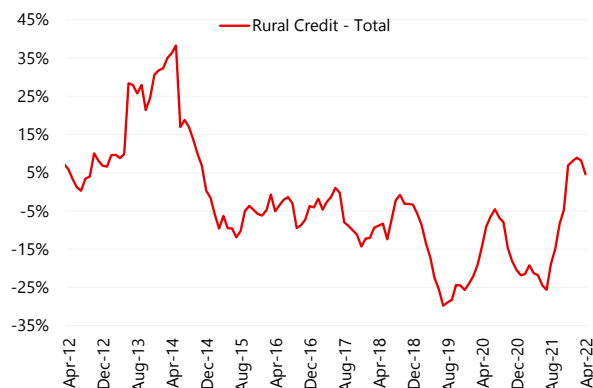


Figure 9. Outstanding Balance – Real Estate Financing for Households – Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 10. Outstanding Balance – Total Rural Credit for Corporations – Earmarked (inflation adj.) (% YoY)

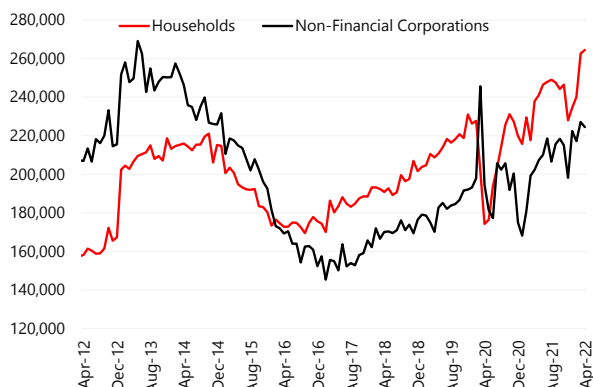


New Loans

New loans adjusted for inflation and seasonality (BCB methodology) recorded a decrease of 1.2% in April from March figure (+7.3% MoM-sa in March 2022). For households, the **non-earmarked segment posted an increase of 1.7% MoM-sa**. We highlight the rise in total personal credit (14-7% MoM-sa), but credit cards presented a decline (-4.5% MoM-sa/10.9).

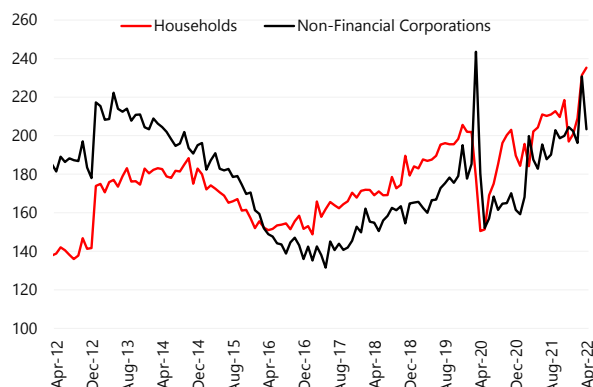
In the **earmarked segment, households posted a decrease, 2.3% MoM-sa**. Real estate financing also fell (-10.9% MoM-sa), but rural credit and others showed a positive variation (6.3% MoM-sa and 2.5% MoM-sa, respectively),

Figure 11. New Operations – Non-Earmarked (inflation and seasonally adjusted, BRL billions)



Sources: Brazilian Central Bank, Santander.

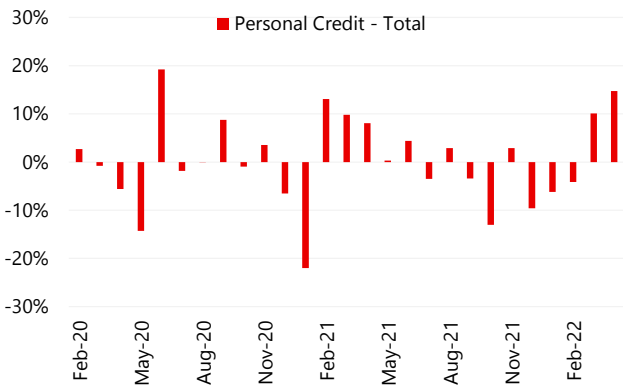
Figure 12. New Operations – Earmarked (inflation and seasonally adjusted, BRL thousands)



Sources: Brazilian Central Bank, Santander.

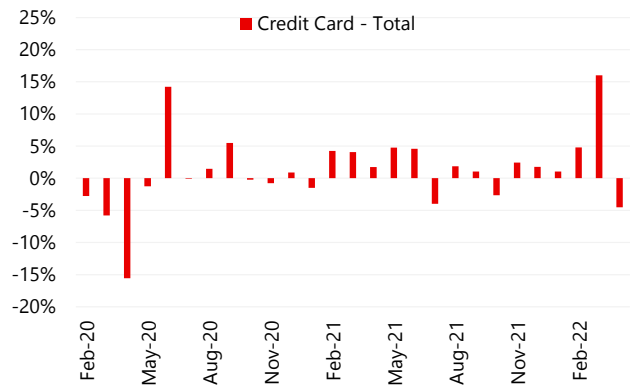


Figure 13. New Operations – Non-Earmarked – Personal Credit Total (% MoM)



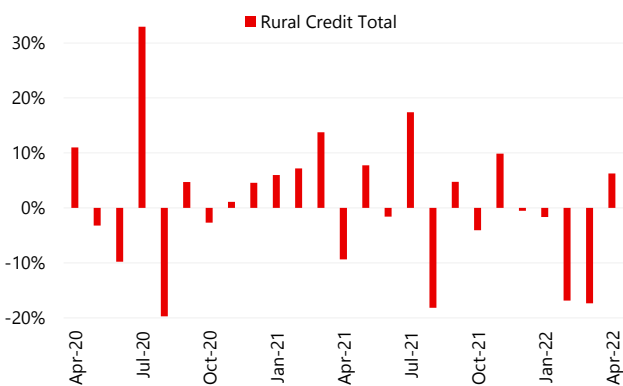
Sources: Brazilian Central Bank, Santander.

Figure 14. New Operations – Non-Earmarked – Credit Card Total (% MoM)



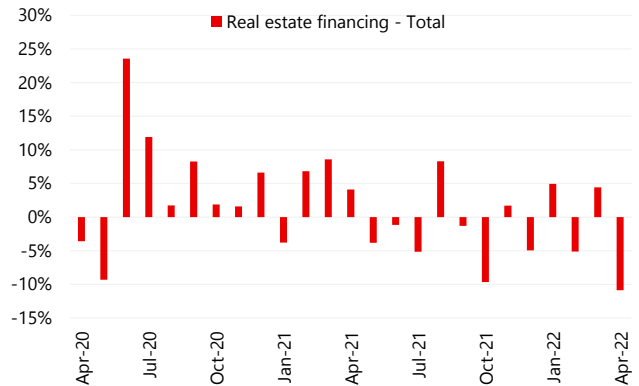
Sources: Brazilian Central Bank, Santander.

Figure 15. New Operations – Earmarked – Rural Credit to Households (% MoM)



Sources: Brazilian Central Bank, Santander.

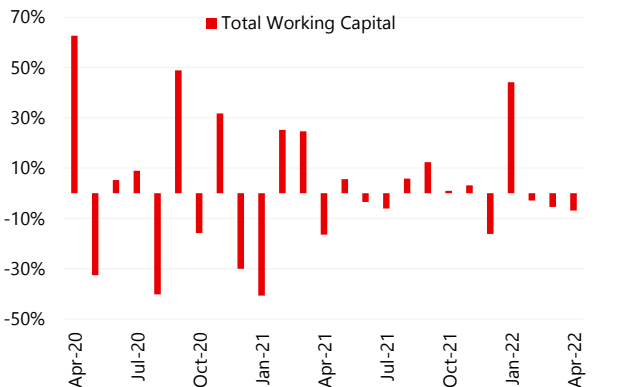
Figure 16. New Operations – Earmarked – Real Estate Financing Total to Households (% MoM)



Sources: Brazilian Central Bank, Santander.

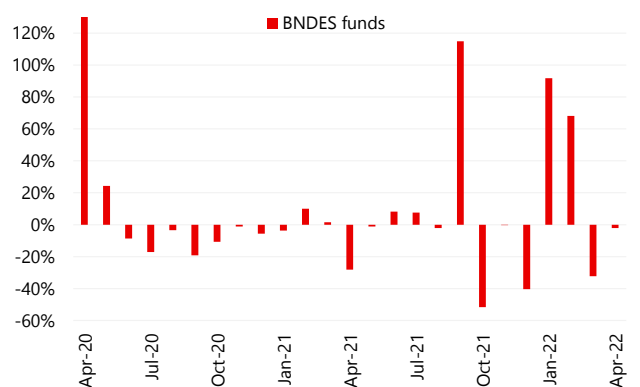
For companies, there was a decrease of 11.9% MoM-sa in April in the non-earmarked segment, with total working capital showing a negative variation (-6.9% MoM-sa), the third decline in a row. The earmarked segment also decreased, falling 13.7% MoM-sa, with new operations in BNDES Funds, which also fell 2.16% MoM-sa.

Figure 17. New Operations – Non-Earmarked – Working Capital (% MoM)



Sources: Brazilian Central Bank, Santander.

Figure 18. New Operations – Earmarked – BNDES Funds (% MoM)

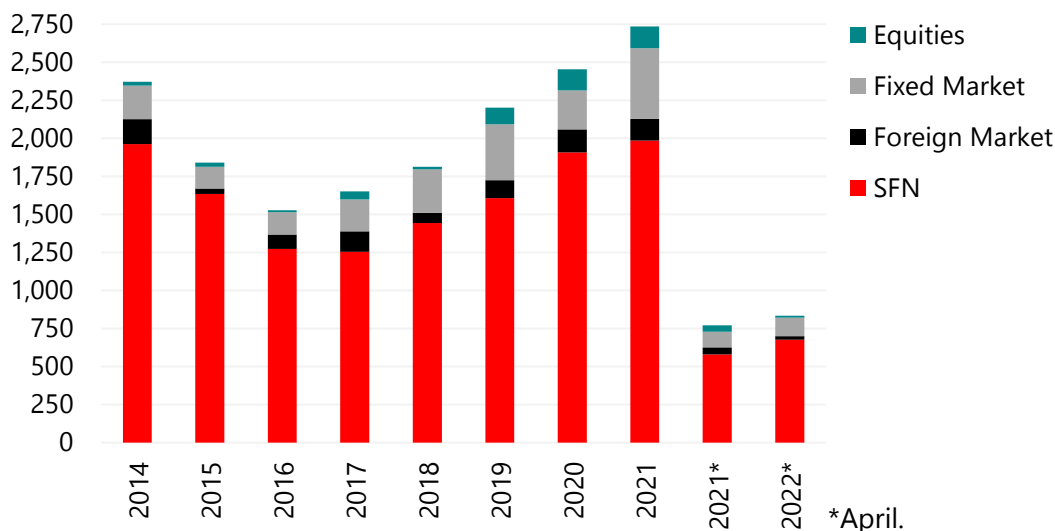




Total Credit

Considering total corporate financing YTD through April 2022 (new loans in the SFN, debt and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 17% smaller, with SFN concessions up 16.7%. **As a result, total corporate financing was up 8.4% compared to the year-ago period.**

Figure 19. Total Corporate Financing (inflation adjusted, BRL billions)



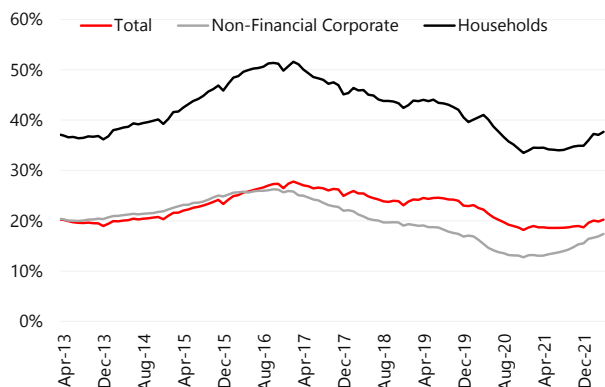
SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
 Foreign Market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
 Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Credit Conditions

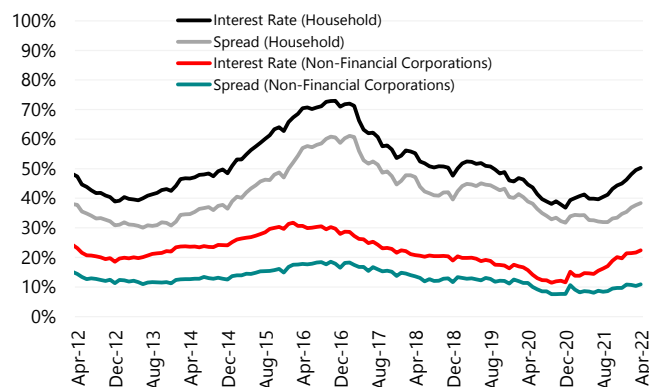
Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans to households continued to rise, reaching 37.7% p.a. in April, with the indicator to corporations rising as well, to 17.4% p.a. The average interest rate for non-earmarked new loans was 50.3% p.a. for households (up 0.7 p.p. from March 2022) and 22.4% p.a. for corporations (up 0.8 p.p. from March 2022). The spread on non-earmarked new loans was 38.4% for households (+0.7 p.p. from March 2022) and 10.9% for corporations (0.5 p.p. from March 2022).

Figure 20. Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.

Figure 21. Average Interest Rate and Spread – Non-Earmarked (% p.a.)



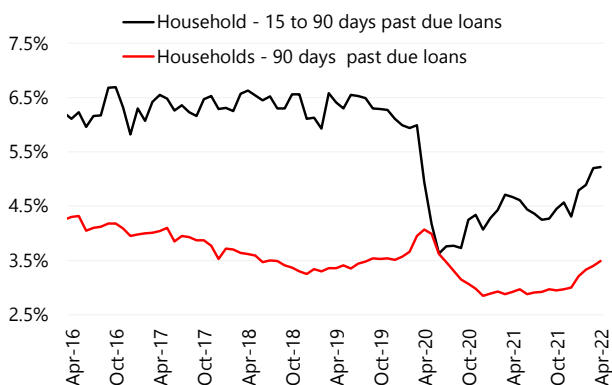
Sources: Brazilian Central Bank, Santander.



Household Debt

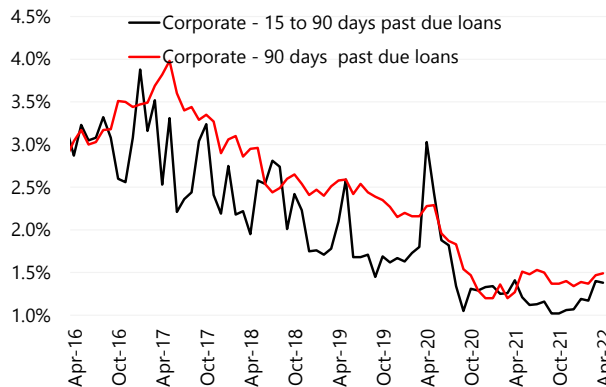
Still regarding non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) continued to rise, to 5.0% for households (the last time, it was greater than 5.0 was in July 2020), while for corporates it was 1.7% (same from March 2022). **Importantly, with the new methodology, household debt-to-income reached 52.7%, in March 2022; excluding real estate financing, household debt-to-income was at 33.2%. In addition, the debt service ratio reached 27.7% in March; excluding real estate financing, the debt service ratio was 25.6%. We see these figures as a risk for delinquencies as the economy recovers.**

Figure 22. Loans Due – Households (% , s.a.)



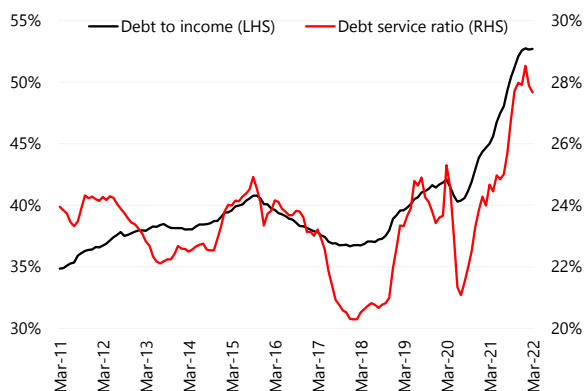
Sources: Brazilian Central Bank, Santander.

Figure 23. Loans Due – Corporate (% , s.a.)



Sources: Brazilian Central Bank, Santander.

Figure 24. Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.



Figure 25. Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22
Households	11.9%	12.2%	12.0%	7.4%	6.4%	4.7%	9.8%	9.5%	8.7%
Non-financial corporations	6.3%	4.0%	4.2%	-10.5%	-10.8%	-11.4%	-0.2%	-1.6%	-1.7%
Total	9.3%	8.3%	8.3%	0.2%	-0.4%	-1.6%	5.5%	4.6%	4.2%

New operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22
Households	4.1%	10.7%	1.7%	-12.5%	1.8%	-2.3%	2.4%	9.4%	0.7%
Non-financial corporations	-3.0%	17.6%	-11.9%	30.7%	-1.1%	-13.7%	-2.3%	4.6%	-1.1%
Total	-0.5%	6.9%	-1.9%	-0.8%	-0.8%	-7.9%	-0.9%	7.3%	-1.2%

Interest rate (% p.a.)	Nonearmarked			Earmarked			Total		
	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22
Households	48.1%	50%	50.3%	8.5%	9.5%	9.7%	30.1%	31.4%	32.1%
Non-financial corporations	21.5%	21.6%	22.4%	10.7%	11.5%	14.6%	18.4%	18.7%	20.2%
Total	36.5%	37.4%	38.1%	9.1%	10.0%	11.1%	25.7%	26.7%	27.7%

Spreads (p.p)	Nonearmarked			Earmarked			Total		
	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22
Households	36.9	37.7	38.4	3.6	3.5	3.7	21.8	22.3	22.8
Non-financial corporations	10.7	10.4	10.9	3.2	3.0	3.3	8.6	8.3	8.7
Total	25.4	25.8	26.4	3.5	3.4	3.6	16.9	17.0	17.6

Past Due Loans (%)	Nonearmarked			Earmarked			Total		
	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22
Households	4.71	4.85	5.04	1.59	1.55	1.48	3.33	3.40	3.49
Non-financial corporations	1.51	1.68	1.69	1.09	1.08	1.11	1.37	1.47	1.49
Total	3.26	3.42	3.53	1.41	1.38	1.35	2.52	2.60	2.67

	Feb-22	Mar-22	Apr-22
Total Outstanding / GDP	53.6%	53.9%	53.7%
Total Outstanding under public control	42.6%	42.4%	42.4%
Total Outstanding under private control	57.4%	57.6%	57.6%

Sources: Brazilian Central Bank, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
Murilo Riccini*	Head, Chile	murilo.riccini@santander.cl	56 22336 3359

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Fabiana Moreira*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2022 by Santander Investment Securities Inc. All Rights Reserved.

