

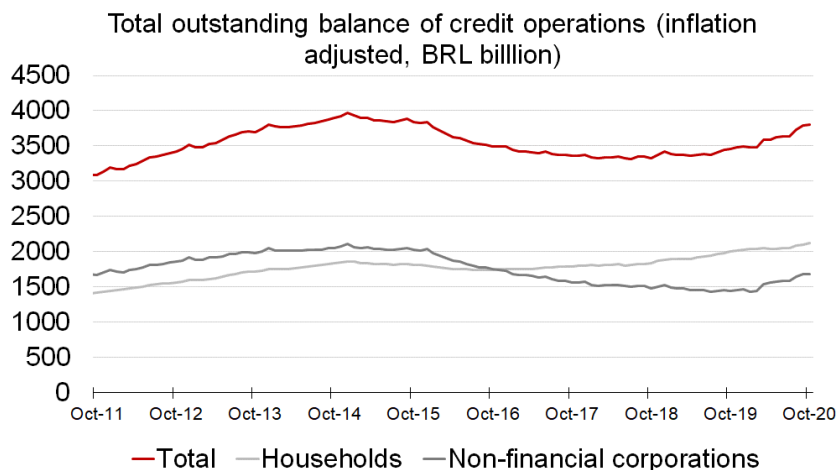
Brazil Macro: Credit

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Emergency Credit Slowdown

- Brazil Central Bank (BCB) data reveals that credit to households continues to recover, with non-earmarked new loans having returned to pre-crisis levels. Favorable financial conditions (low interest rates and spreads) should support economic activity, in our view. In the earmarked segment, new loan volume to real estate financing remains high.
- As for corporates¹, new loans decelerated, especially due to a slowdown of emergency credit-support program disbursements (notably *Pronampe*). Yet, the accumulated year-to-date new loans (inflation adjusted) to corporations is 10.5% higher year-ago period.
- 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 loan payment deferrals.

Total outstanding loans in the National Financial System (SFN) posted inflation adjusted growth of 0.5% MoM in October (BRL3.8 trillion), with 0.8% MoM for households and 0.2% MoM for non-financial corporations. In the annual comparison, total portfolio growth (inflation adjusted) accelerated from 10.3% to 10.6%, driven by loans to corporations, which accelerated from 15.7% to 17% while loans to households decelerated from 6.4% to 6%.



Source: Central Bank of Brazil.

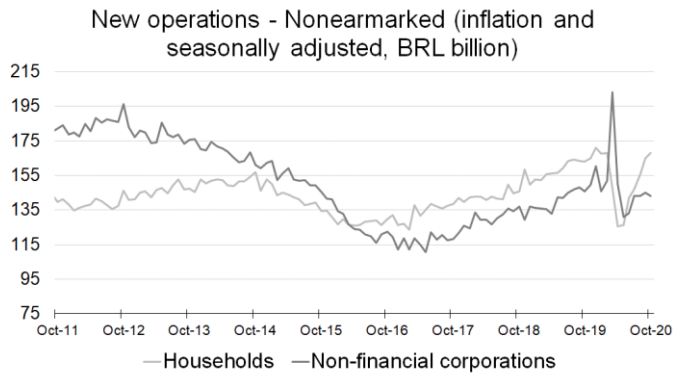
In the non-earmarked segment, loans to households have been recovering since April. This portfolio's growth was 5.5% YoY (inflation adjusted) in October. As for corporations, growth in the balance of non-earmarked remains high (17% YoY), with an emphasis on working capital (41% YoY, inflation adjusted). In the earmarked segment, growth for households reflects real estate financing (6.4% YoY, inflation adjusted), while the increase for companies is due to the emergency credit-support programs (*Pronampe*, *Pese* and *FGI*).

¹ Non-financial corporations.

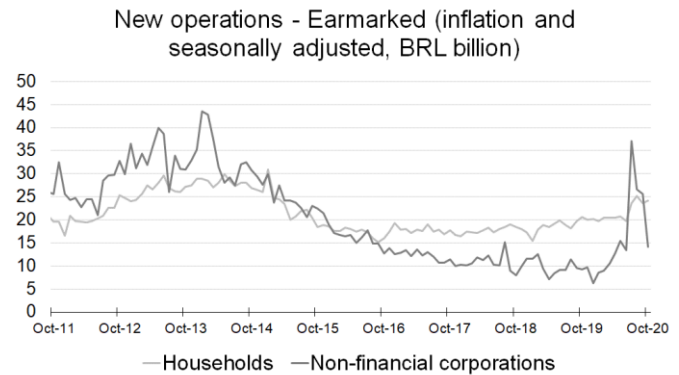
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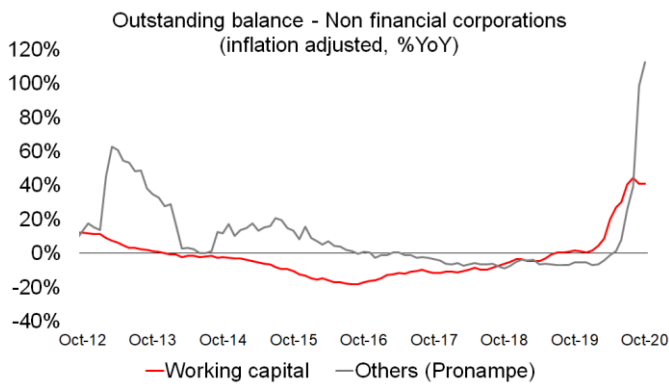


Source: Central Bank of Brazil.

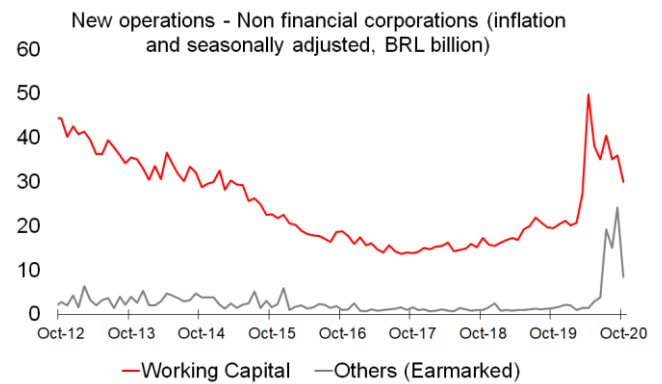


Source: Central Bank of Brazil.

New loans adjusted for inflation and seasonality (BCB methodology) decreased 0.8% in the month compared to September, with the contraction driven by corporations. For households, growth in the non-earmarked segment was 1.8% MoM (s.a.), the sixth consecutive gain, now a full recovery to February’s reading (pre-pandemic). Highlights include credit card (2.5% MoM, s.a.) and vehicle purchase (5.5% MoM, s.a.). In the earmarked segment, real estate financing remains high (12.1% YoY). For companies, there was a decrease of -1.4% MoM-s.a. in the non-earmarked. In the earmarked segment, a decrease of -44.6% MoM-s.a. due to a slowdown of emergency credit-support programs disbursements (notably *Pronampe*) in October (see charts below). Yet, the accumulated year-to-date new loans (inflation adjusted) to corporations are 10.5% higher year-ago period. We note that the BCB’s announced revisions regarding loans from these programs. These new loans will be reclassified from non-earmarked to earmarked loans, changing the composition of the results somewhat.

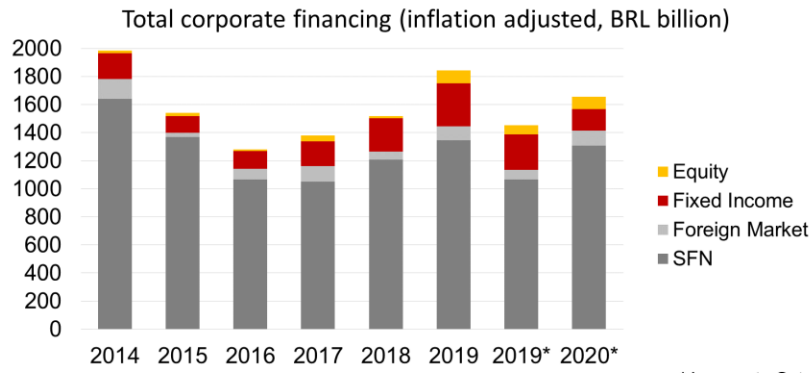


Source: Central Bank of Brazil.



Source: Central Bank of Brazil.

Considering total corporate financing (new loans in the SFN, debt and equity issues in the capital markets) between January and October 2020, compared to year-ago period, capital market issuances are 24% lower, while SFN concessions are 23% higher. As a result, total corporate financing is up 13.9% compared to year-ago period, with **growth in banking credit more than offsetting the decrease in capital markets**. Importantly, we believe it possible that Brazilian companies might be more willing to hoard cash (to protect against hypothetical liquidity constraints) than to boost investment.

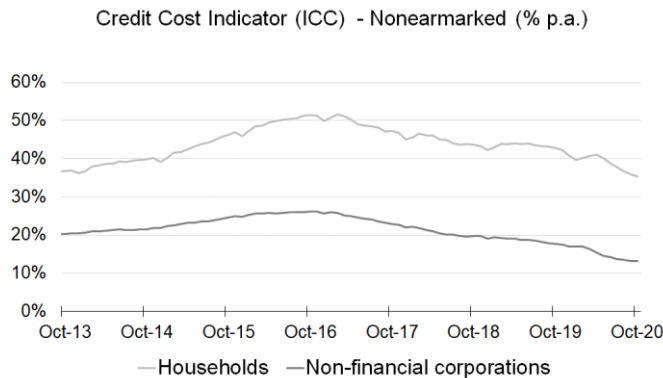


SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
 Foreign Market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
 Equity - IPO and follow-on.

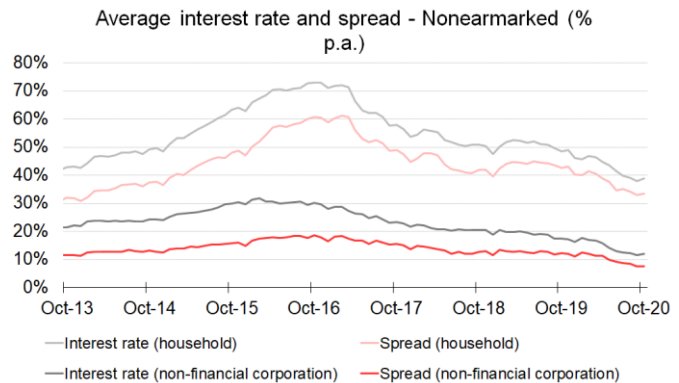
Source: Central Bank of Brazil and Anbima.

Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans for households decreased 0.5 p.p. in October compared to September, reaching 35.3% p.a., and 0.1 p.p. to 13.1% p.a. for corporations. The average interest rate for non-earmarked new loans was 38.9% p.a. (compared to 38.0% p.a. in September) for households and 12.0% p.a. for corporations (compared to 11.5% p.a. in September). The spread on non-earmarked new loans was 33.4% (+0.5 p.p. from September) and 7.6% (same figure from September), for households and corporations, respectively.

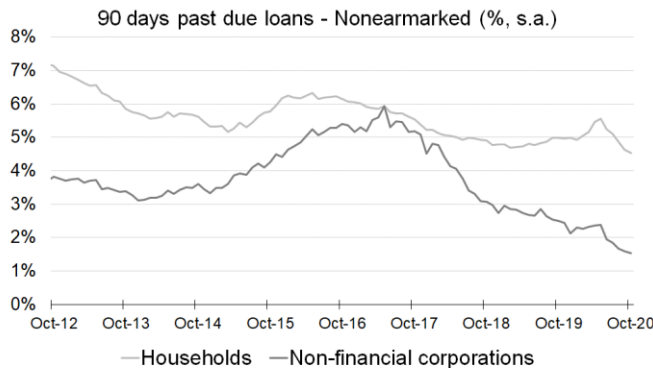
Still in non-earmarked loans, the seasonally adjusted default rate (% of 90-day past due loans) dropped another 0.1 p.p. in the month for households, standing at 4.4%. For corporations, there was a reduction of 0.1 p.p., to 1.5%. In both cases, it is the lowest value observed in the historical series started in March 2011. Despite another decrease, we are still of the view that delinquencies are likely to increase in the coming months due to a pending end of loan payment deferrals and the emergency aid.



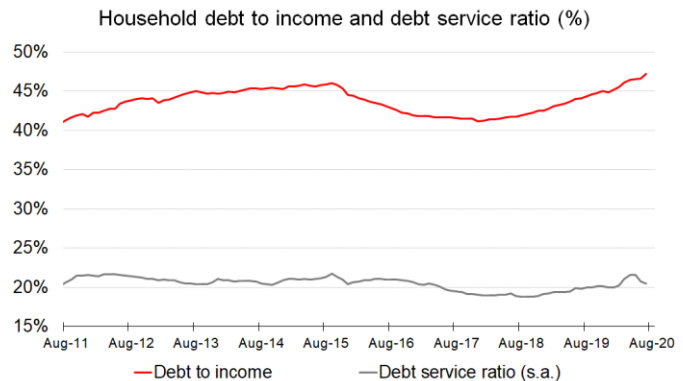
Source: Central Bank of Brazil.



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Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20
Households	5,7%	5,4%	5,2%	6,8%	6,6%	6,3%	6,2%	5,9%	5,7%
Non-financial corporations	23,9%	22,6%	20,5%	0,1%	3,3%	10,8%	14,0%	14,7%	16,6%
Total	13,7%	13,0%	11,9%	4,1%	5,3%	8,1%	9,5%	9,7%	10,2%

New operations inf. adj. (MoM s.a.)	Nonearmarked			Earmarked			Total		
	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20
Households	4,7%	7,2%	1,8%	5,3%	-2,9%	2,5%	4,3%	6,7%	1,8%
Non-financial corporations	-0,8%	2,1%	-1,4%	-9,9%	-8,4%	-44,6%	-1,9%	2,5%	-5,4%
Total	2,3%	4,0%	1,5%	-2,8%	-0,1%	-15,8%	1,7%	3,4%	-0,8%

Interest rate	Nonearmarked			Earmarked			Total		
	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20
Households	39,0%	38,0%	38,9%	7,1%	7,0%	6,9%	24,0%	23,5%	24,0%
Non-financial corporations	12,4%	11,4%	12,0%	7,4%	6,7%	7,7%	10,8%	9,9%	10,7%
Total	26,7%	25,7%	26,5%	7,2%	6,9%	7,2%	18,7%	18,1%	18,7%

	Aug-20	Sep-20	Oct-20
Total Outstanding / GDP	51,9%	52,8%	53,4%
Total Outstanding under public control	46,4%	46,1%	45,7%

Source: Central Bank of Brazil.



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