Brazil Macro | April 2022

Credit

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BRIEF OVERVIEW

01

SUMMARY

- **Our projections for total outstanding loan growth is 1.1% YoY in 2022 and 0.0% YoY in 2023 (inflation-adjusted), as recent data (inflation and interest rate) support our view on bank credit this year. Besides, a continued increase in household debt is a risk for loan growth and, especially for the delinquencies in the medium term.**

- For households, the non-earmarked new loans segment posted an increase of 4.6% MoM-sa.

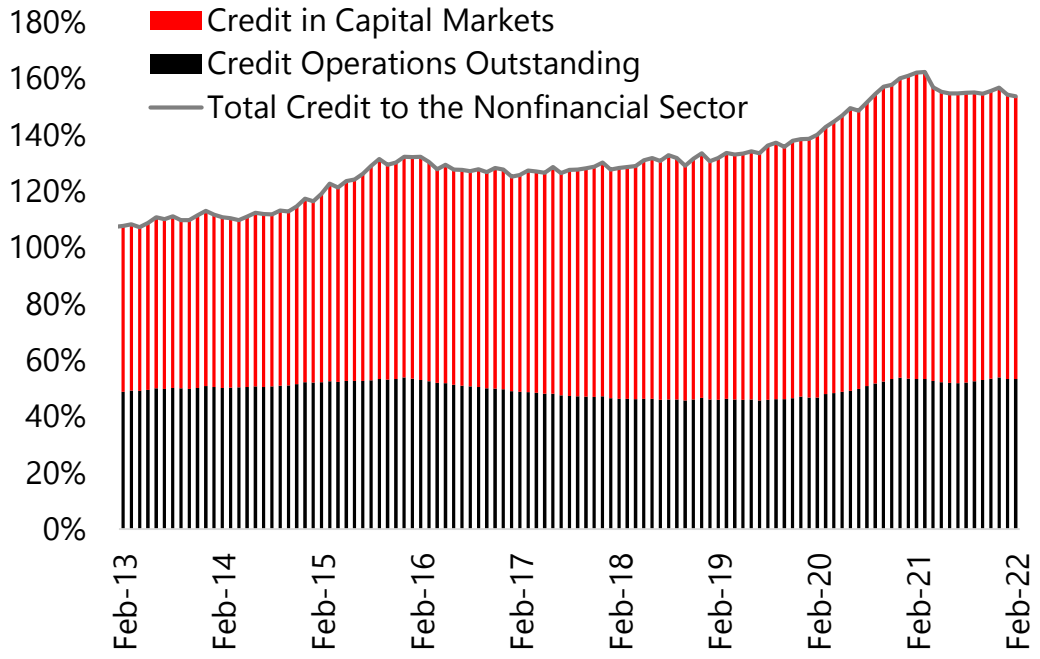
- For companies, there was a decrease of 3.3% MoM-sa in February in the non-earmarked new loans segment. The earmarked segment kept accelerating, showing a significant increase of 55.6% MoM-sa, after January's increase of 29.9% MoM-sa.

- Considering total corporate financing YTD through February 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 42% higher, with SFN concessions up 31.3%. As a result, total corporate financing was up 23.1% compared to the year-ago period.

Total Credit to Non-Financial Sector

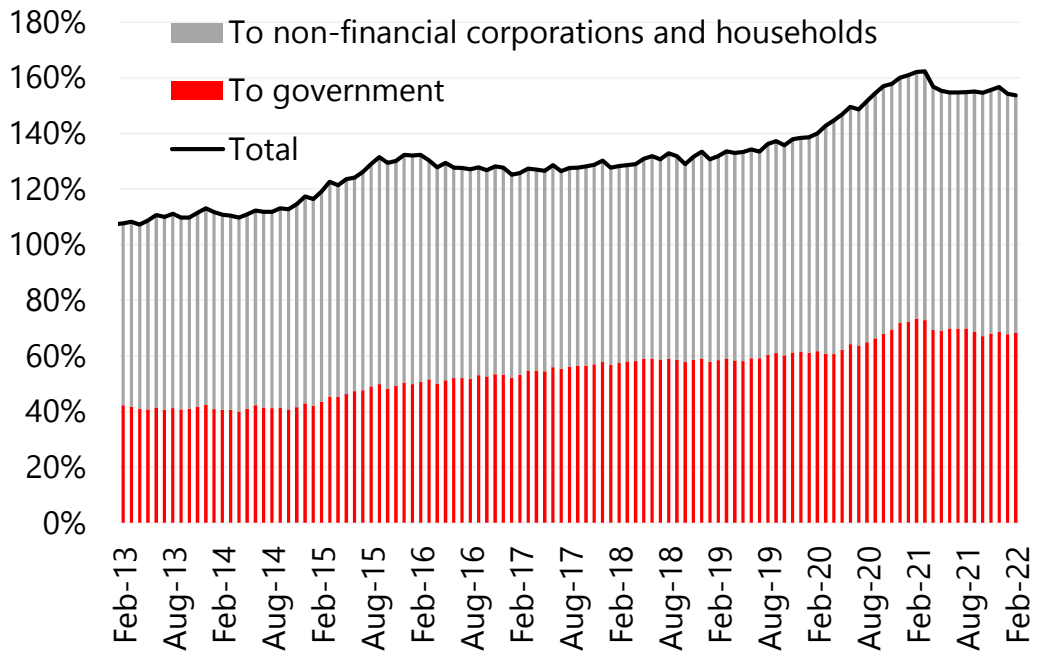
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

Total Credit to the Non-financial Sector (% GDP)



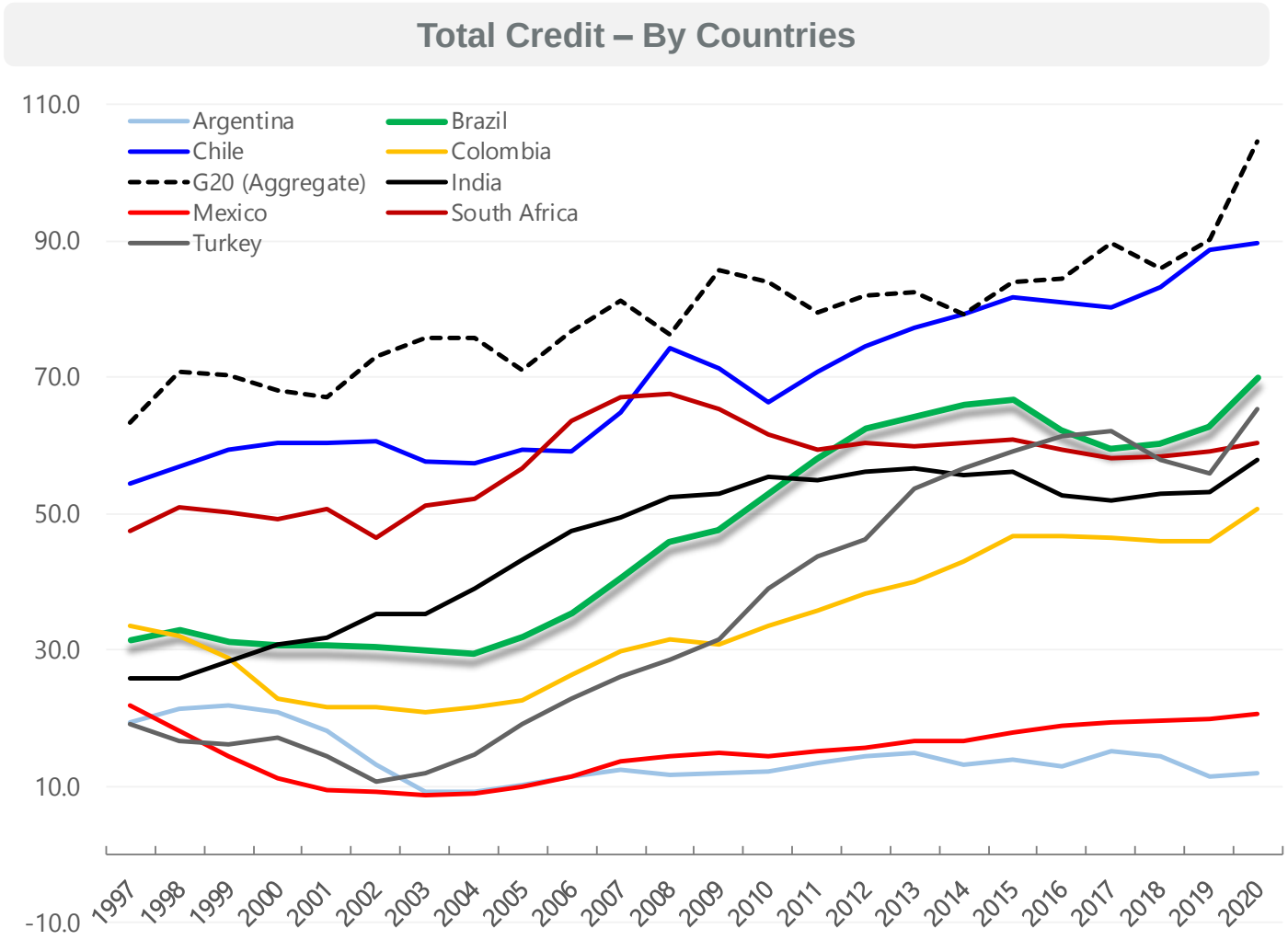
Sources: Brazilian Central Bank, Santander.

Total Credit - Destination , %GDP



Sources: BIS, Santander.

There is still room to grow

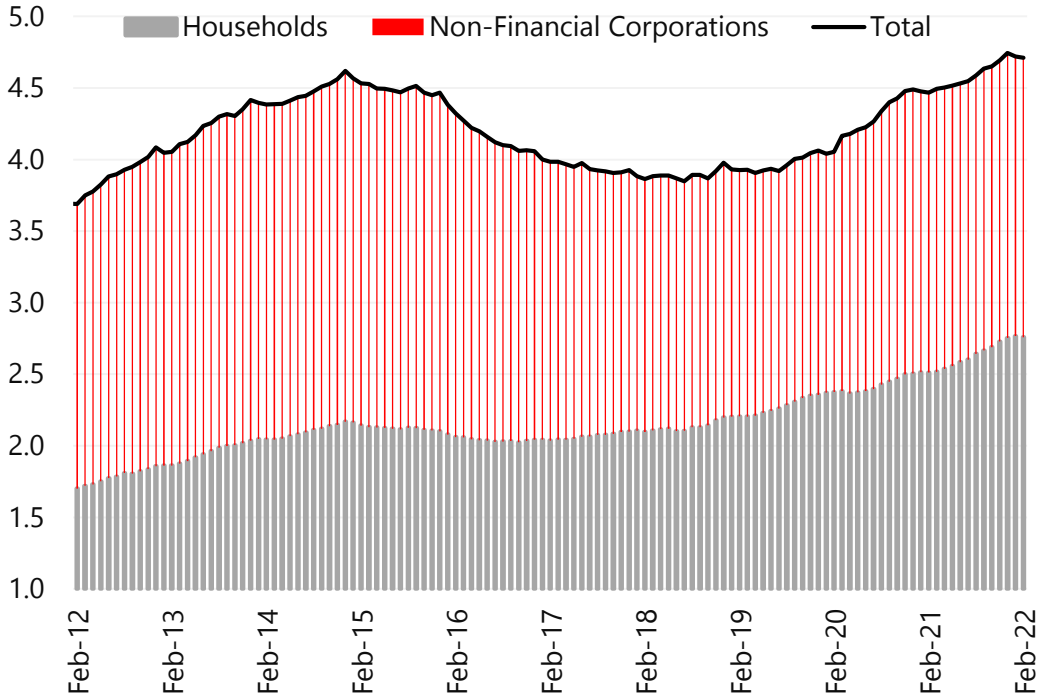


Sources: BIS, Santander.

Credit market remained strong

- Total outstanding loans posted real growth of 5.46% YoY in February 2022 to BRL4.7 trillion
- For households, loans were up 9.85% YoY; for non-financial corporations, they were down 0.18% YoY.

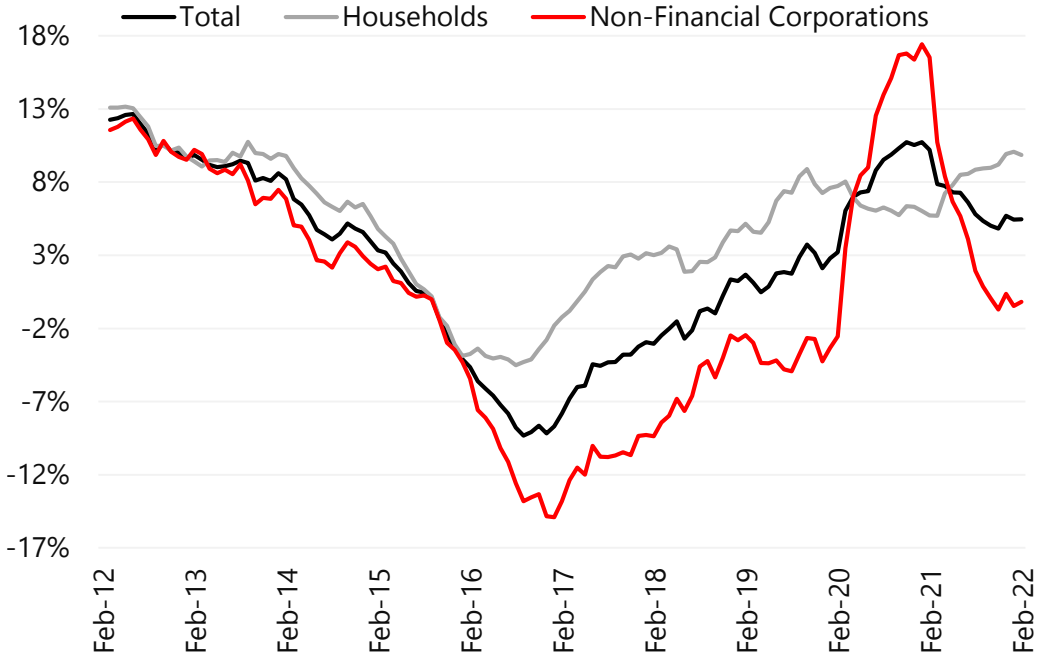
Total Outstanding Balance of Credit Operations



Sources: Brazilian Central Bank, Santander.

* BRL billion, inf. adj, seasonally adj.

Total Outstanding Balance of Credit* – Growth Rate (%)



Sources: Brazilian Central Bank, Santander.
* Inflation adjusted.

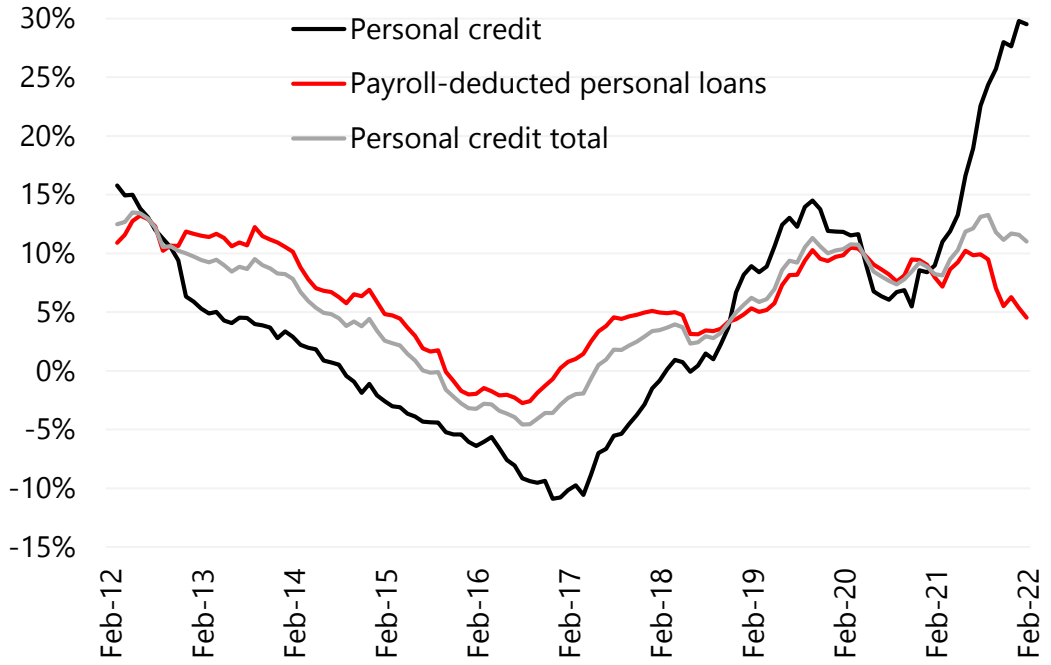
HOUSEHOLD

02

Outstanding Loans: household presenting growth

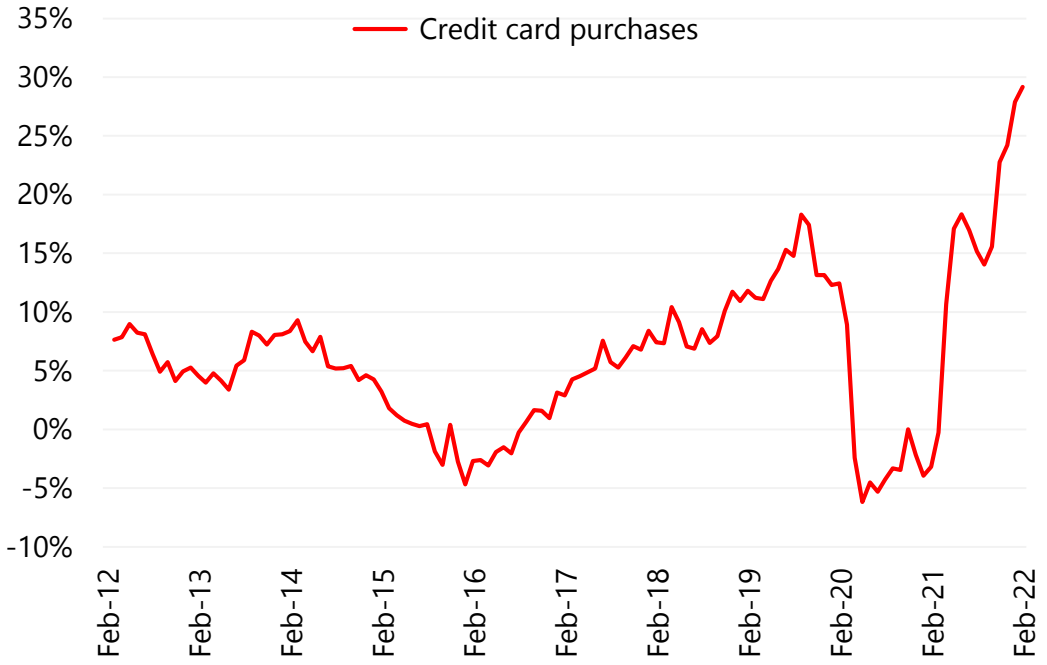
- Household credit portfolios presented real growth of 11.9% YoY
- Personal Credit posted a real growth of 11% YoY.
- Credit Card continues to accelerate, reaching the peak of the series at 29.2% YoY, inflation adjusted.

Outstanding Loans - Personal Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

Outstanding Loans – Credit Card (% YoY)

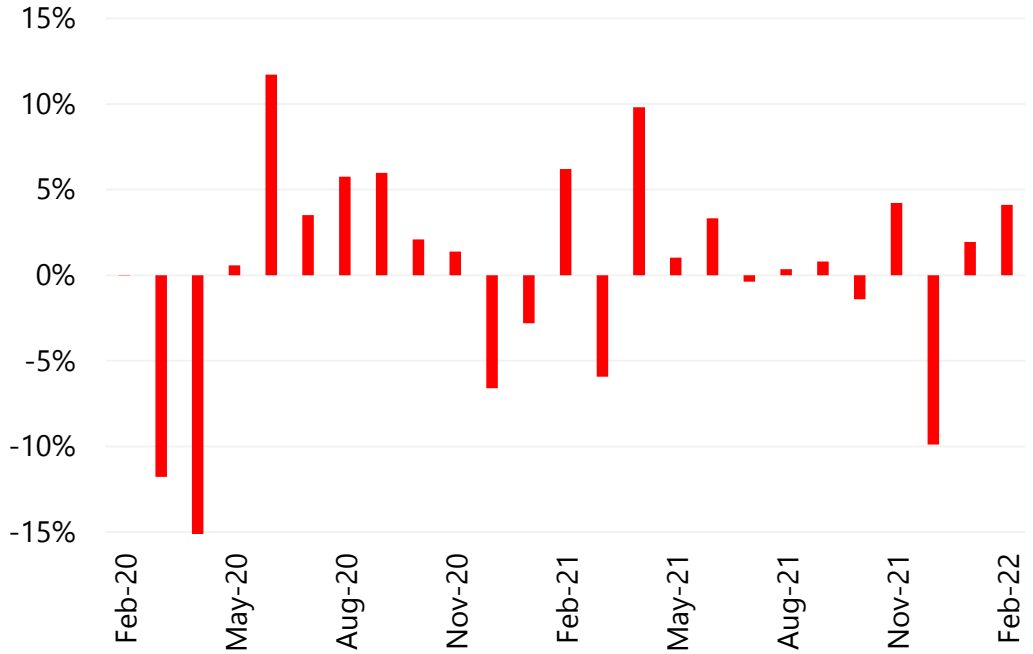


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans posted na increase

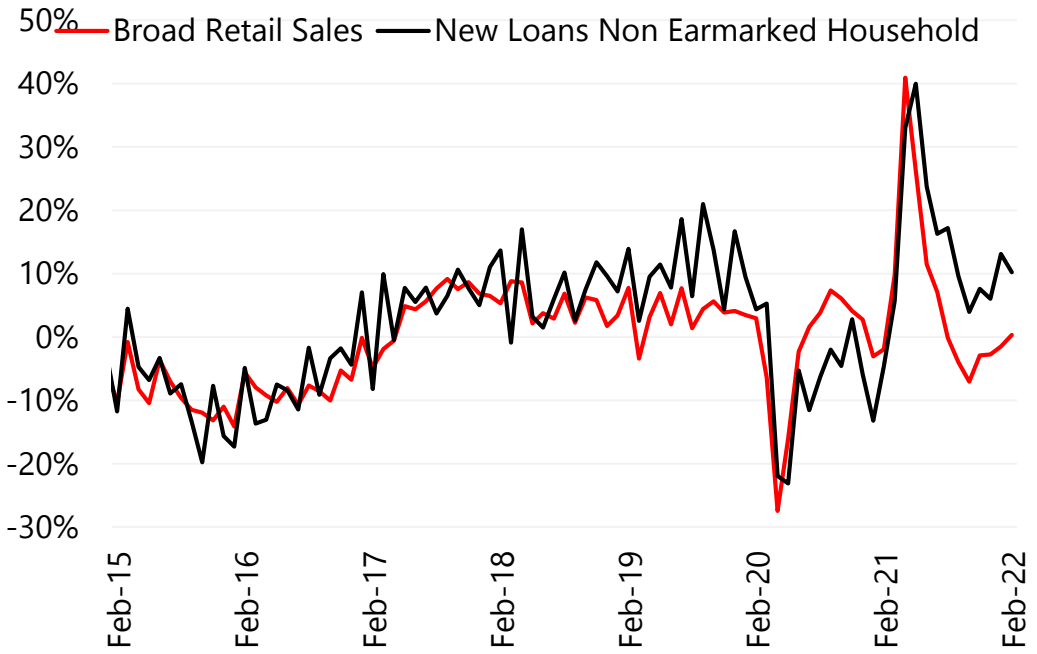
- For households, the non-earmarked segment posted an increase of 4.6% MoM-sa.
- Despite the increase overall, we highlight the declines in total personal credit (-9.7% MoM), which was the sixth decline in a row, and credit cards (-2.6% MoM), which posted the second decline in 2022.

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY
New loans Household Non-Earmarked YoY

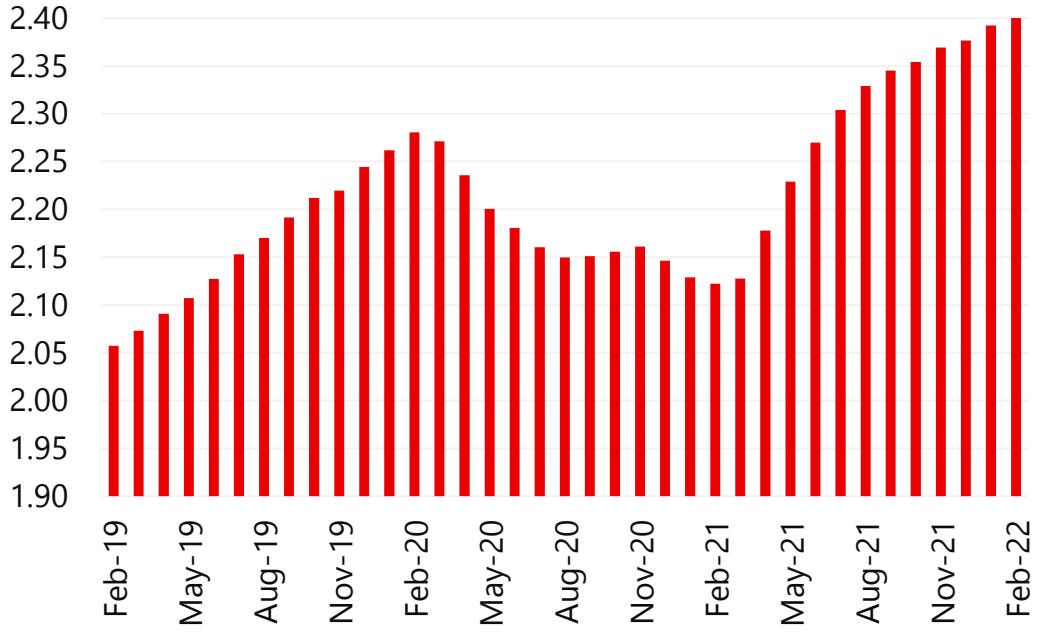


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans to families reinforcing the signs of reopening process

- The average of new loans (12 months acum.) YTD through February-22 grew 12.9% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased 8.1 p.p from February-21.

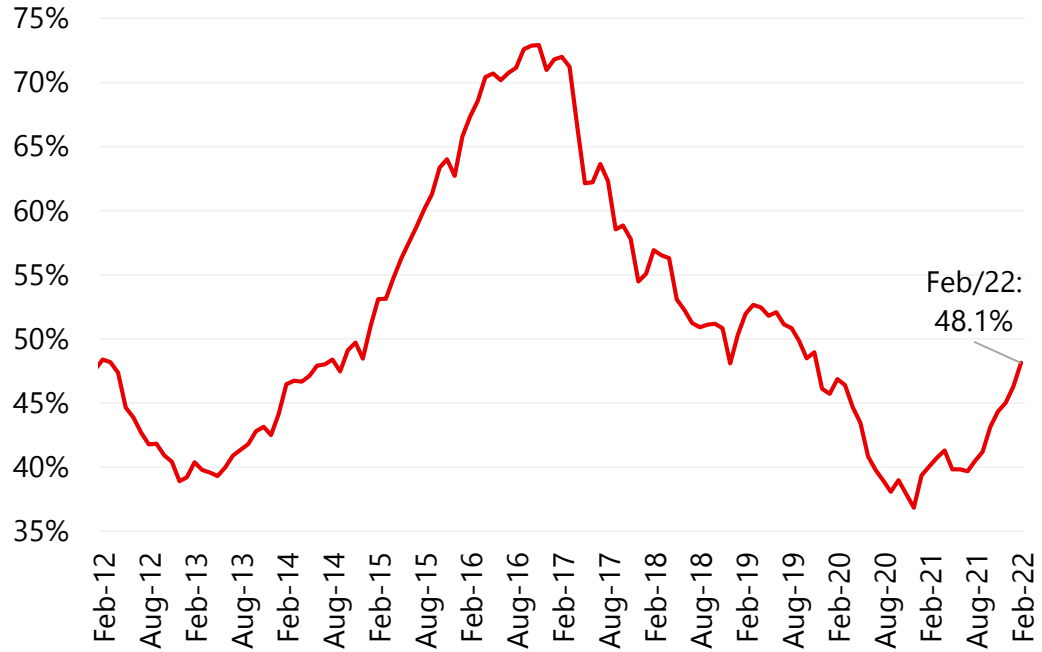
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

Non-Earmarked – Average interest rate (%p.y.)

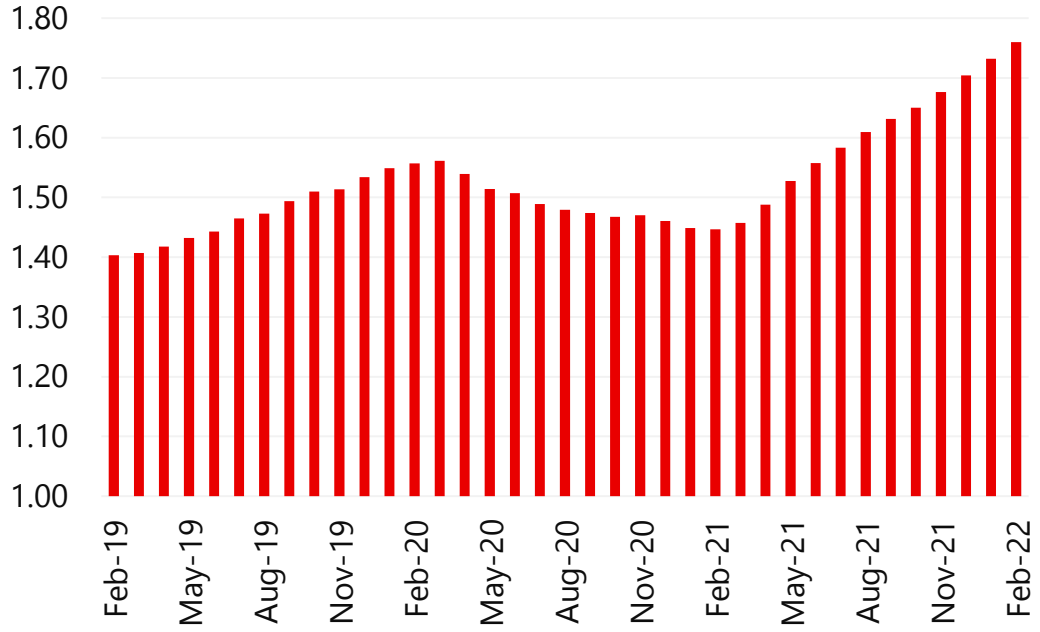


Sources: Brazilian Central Bank, Santander.

Credit Card: Continues to accelerate

- The average of new loans (12 months acum.) YTD through February-22 grew 20.6% compared to the year-ago period.
- The average interest rate for Credit Card increased almost 10 p.p from February-22.

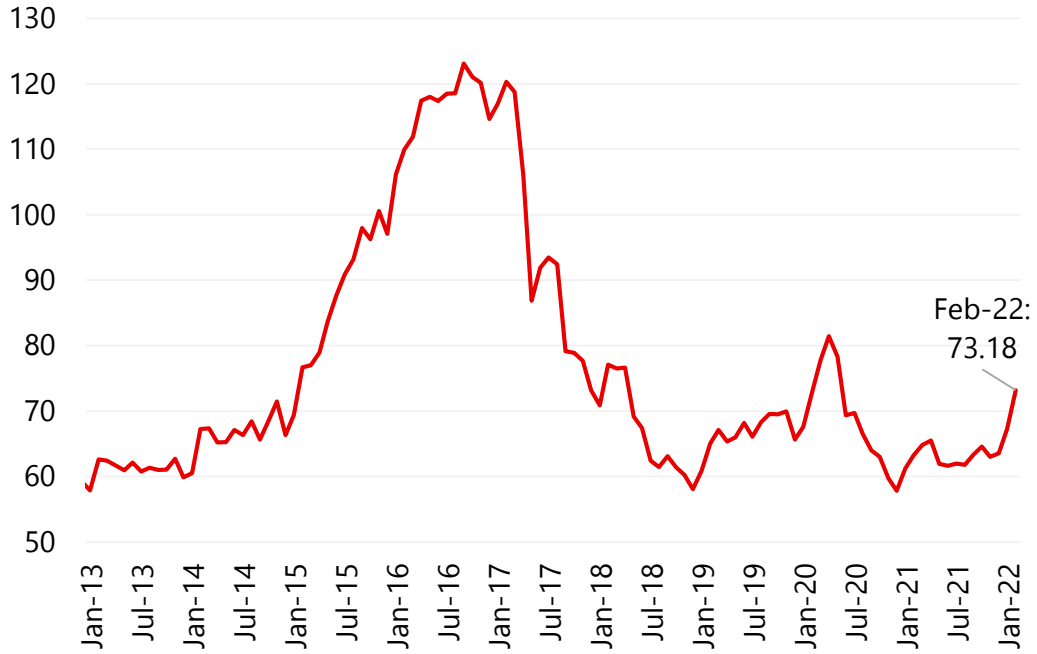
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

Average interest rate (%p.y.) - Credit Card Total

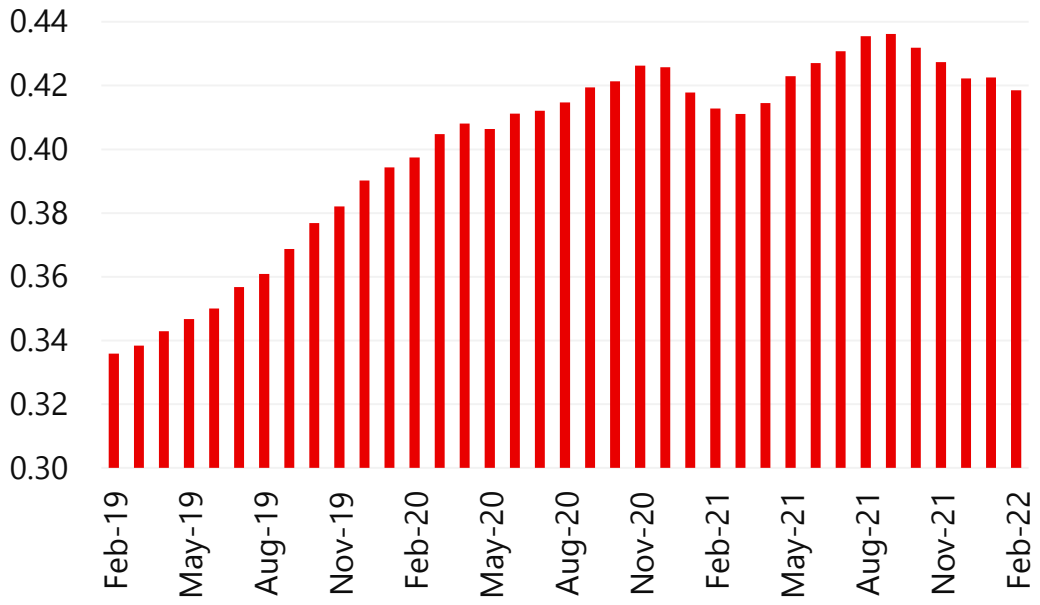


Sources: Brazilian Central Bank, Santander.

Personal Credit: Presents growth

- The average of new loans (12 months acum.) YTD through February-22 grew 1.3% compared to the year-ago period.
- The average interest rate for Personal Credit increased 5.7 p.p from February-22.

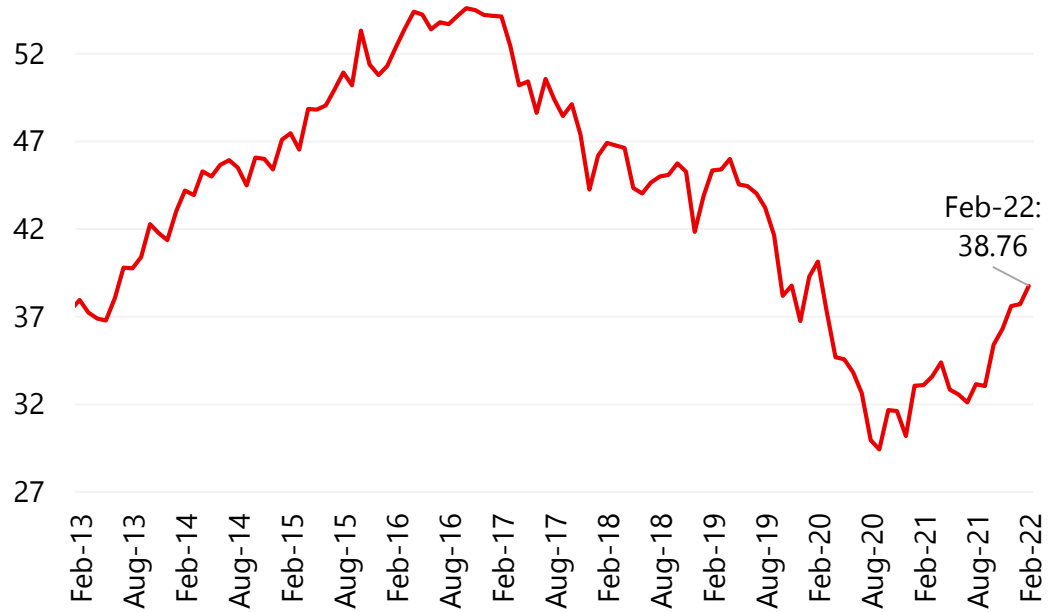
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

Average interest rate (%p.y.) – Personal Credit Total

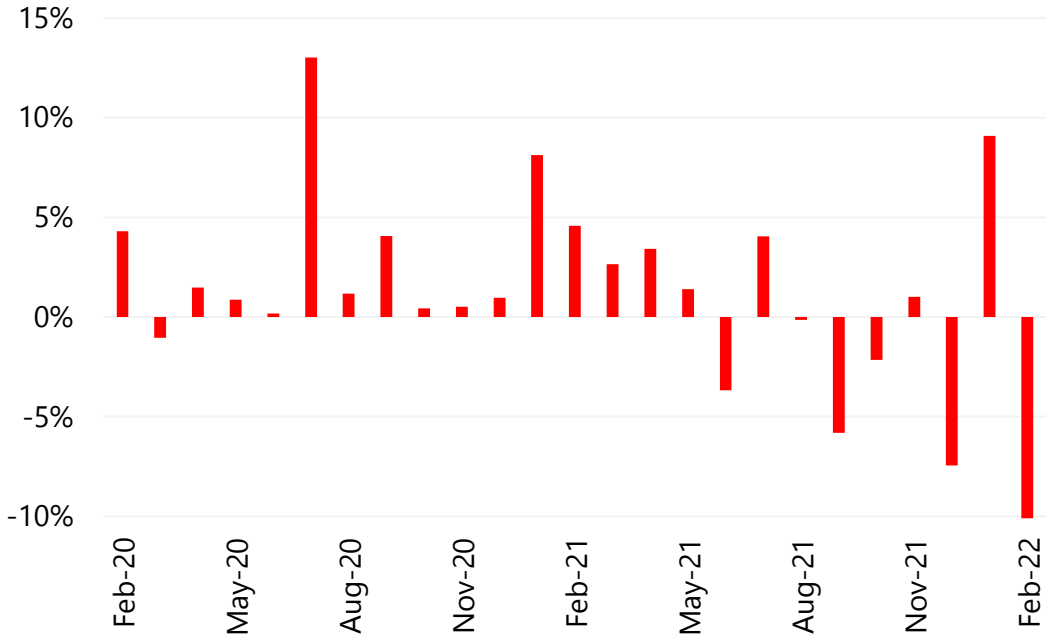


Sources: Brazilian Central Bank, Santander.

Earmarked new loans remains high, though decelerating at the margin

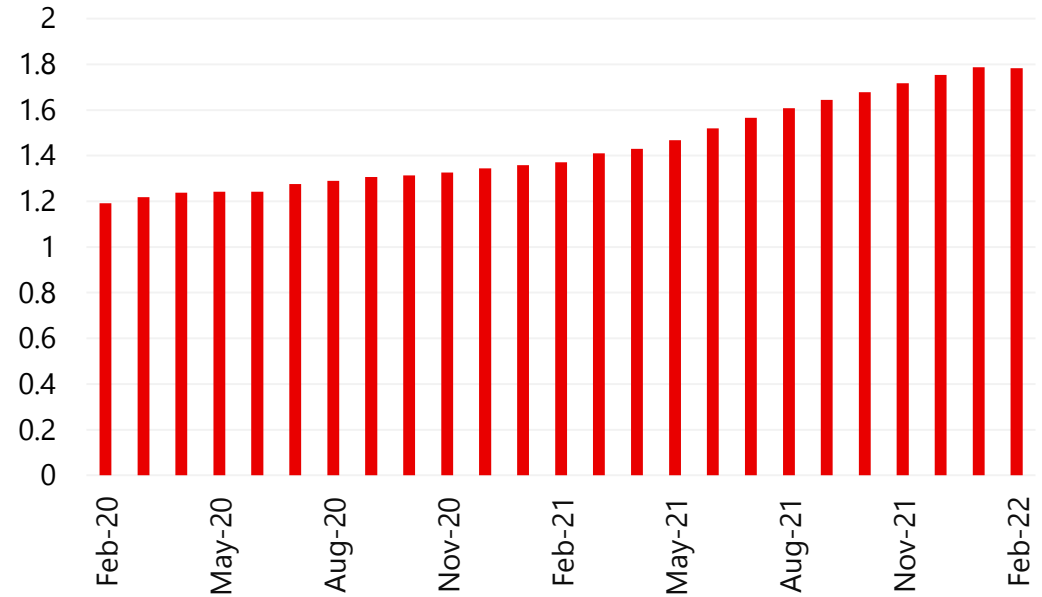
- households posted a substantial decrease, -17.8% MoM-sa, compared to January's figure (+15.4% MoM-sa).
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* - 12 months acum.

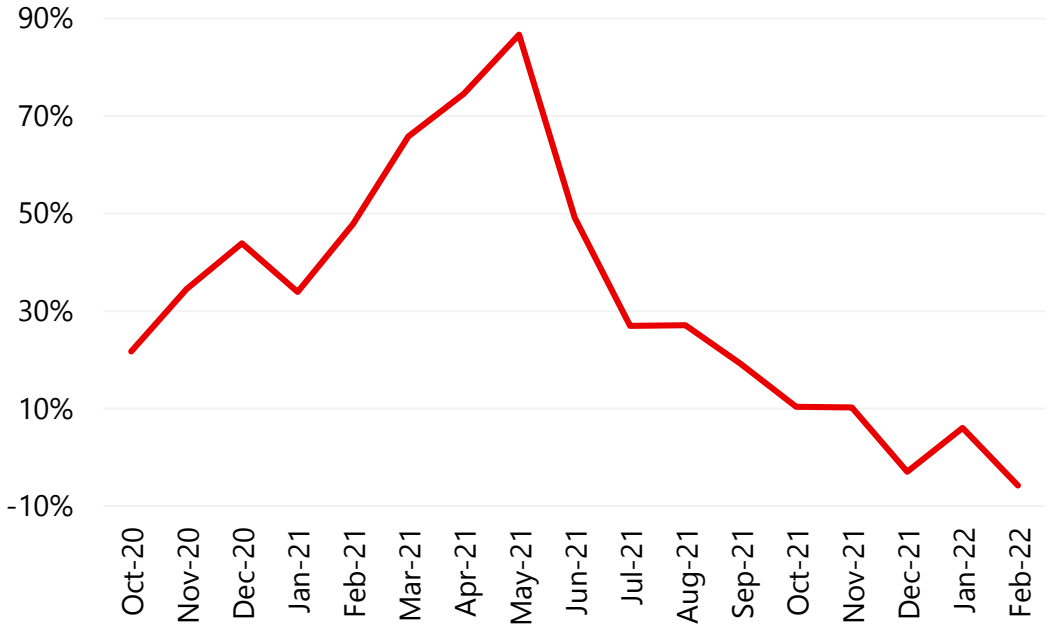


Sources: Brazilian Central Bank, Santander.
* Millions, Inflation adjusted and seasonally adjusted

Earmarked segment: warning sign for Real Estate

- After Real Estate Financing starting 2022 with a positive figure, the segmented presents a negative result (-5.8% YoY).
- But it kepps decelerating at the margin (-1% MoM), mainly because of higher interest rates and economic uncertainty.

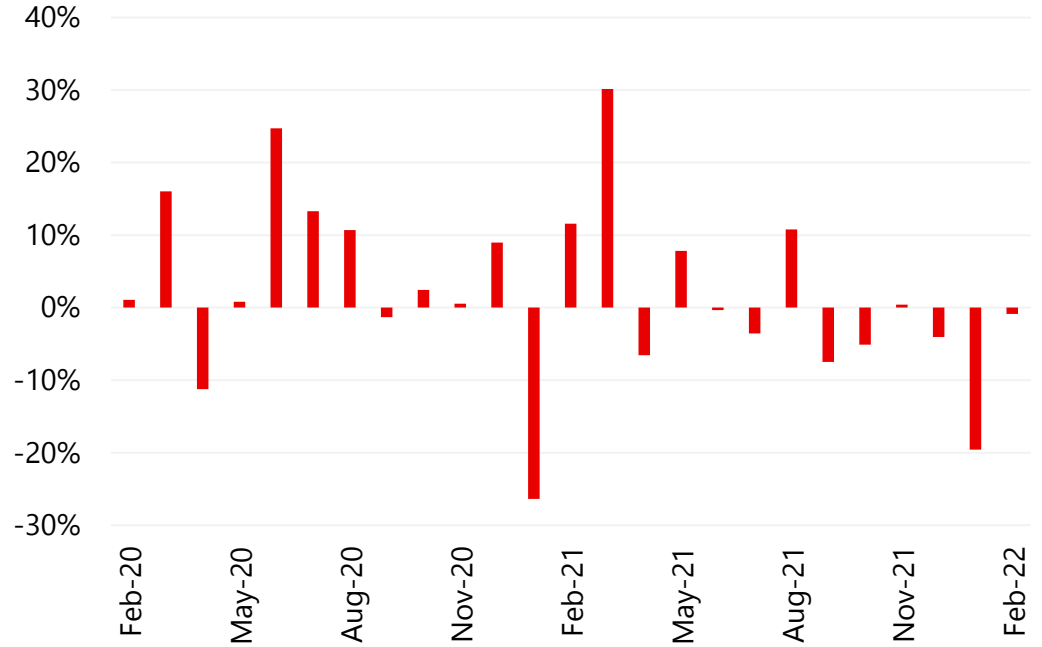
Real Estate Financing - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans MoM

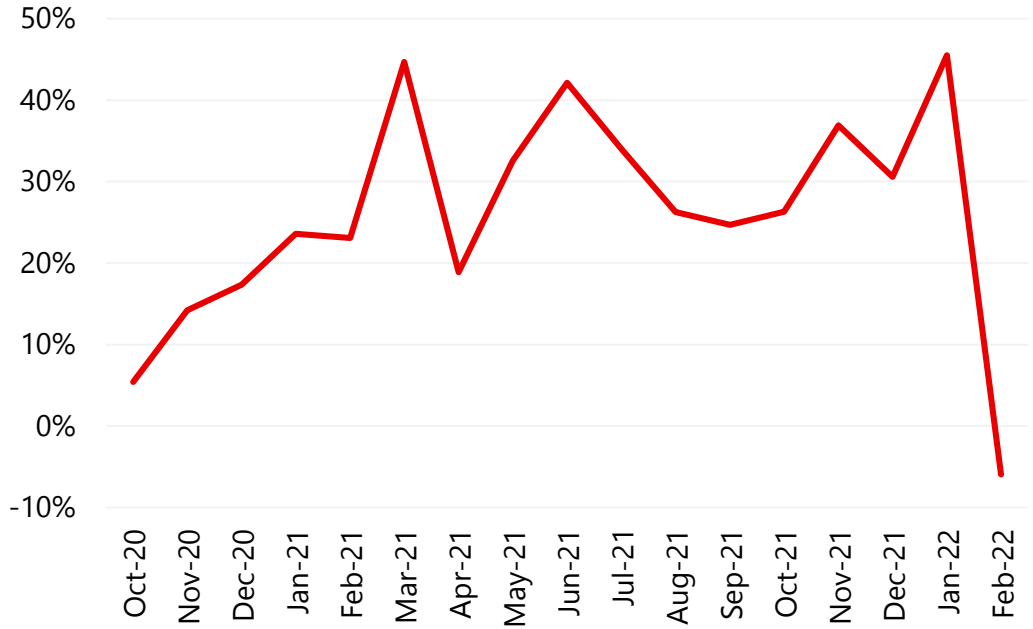


Sources: Brazilian Central Bank, Santander.

Earmarked segment: Rural Credit showing first negative variation since 2020

- Rural Credit presented the first negative figure since 2020 (- 5.9% YoY),
- And it's decelerating at the margin (-37.3% MoM).

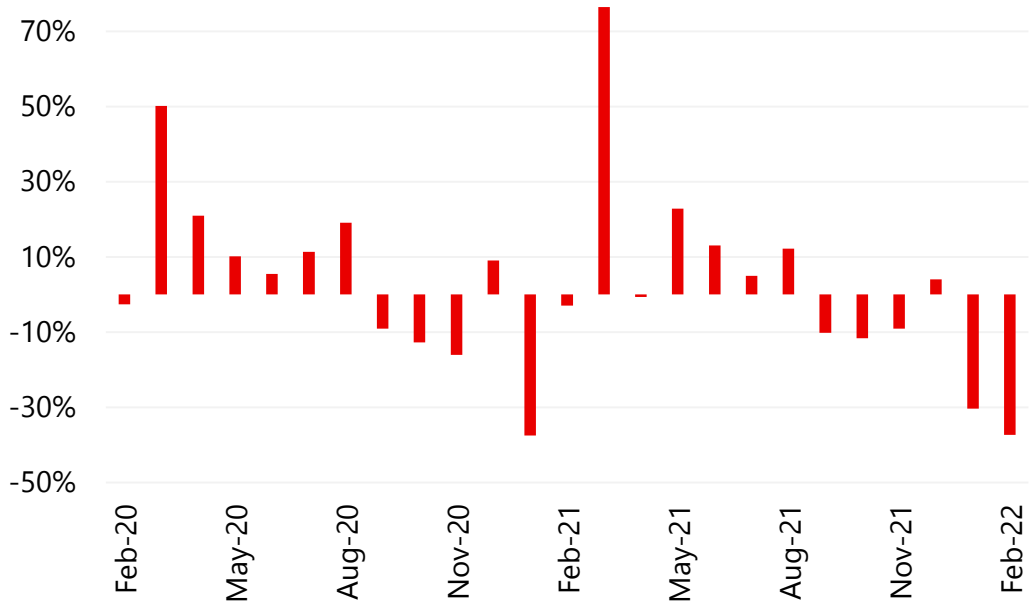
Rural Credit - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

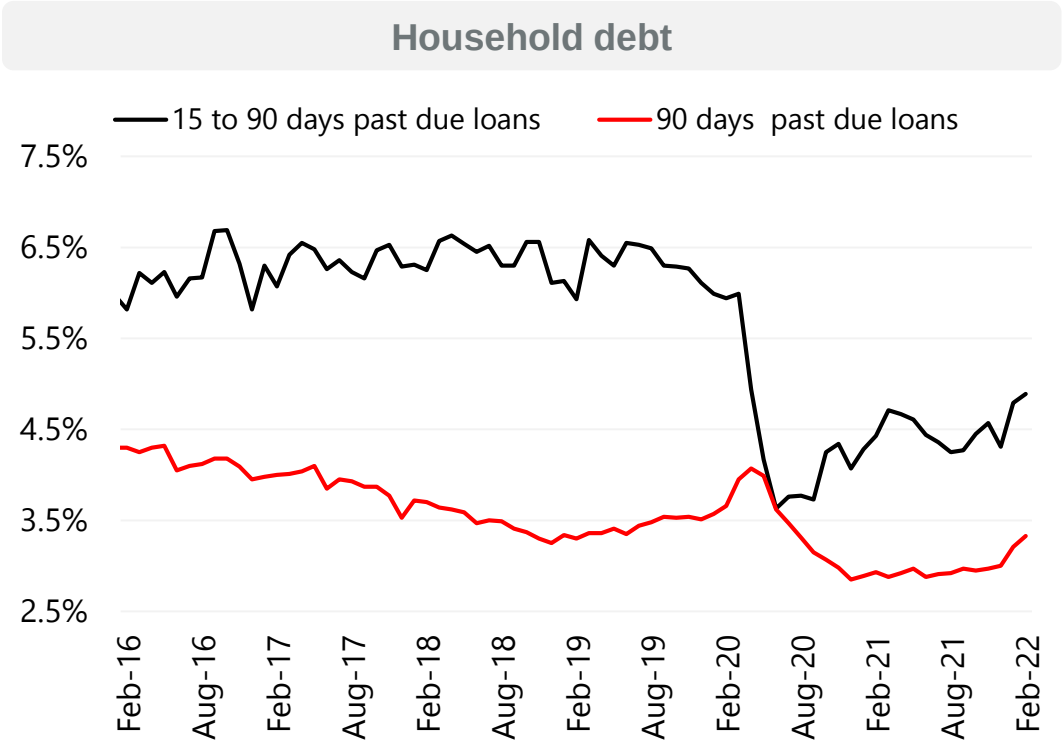
Rural Credit - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Families Indebtednes: An upward trajectory for arreas

- The arrears is starting to give warning signs.
- However, the delinquent loans is still low.

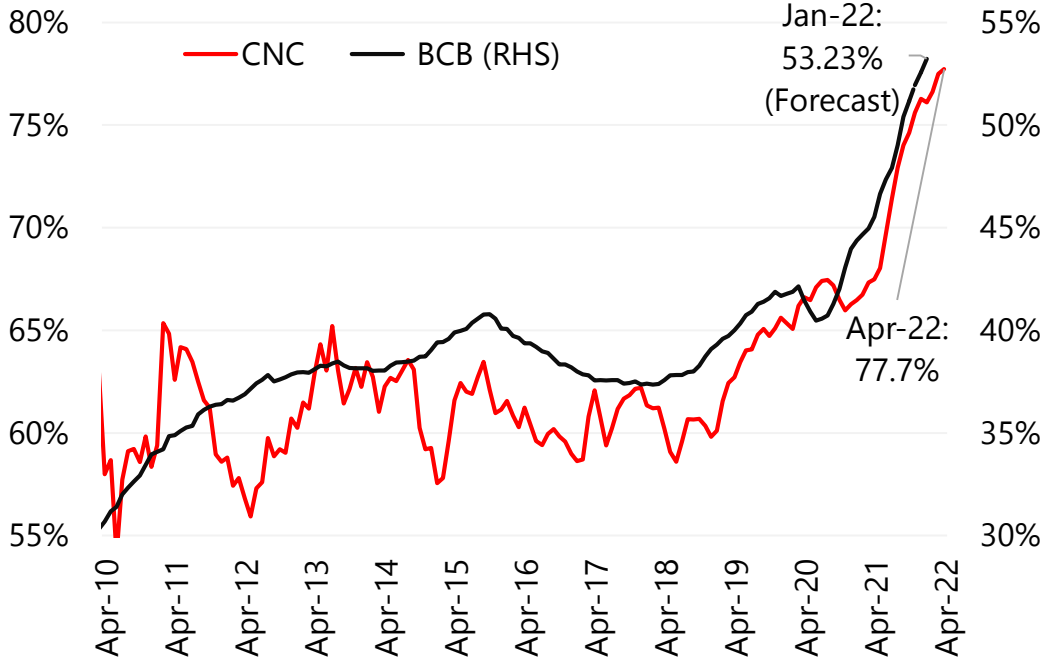


Sources: Brazilian Central Bank, Santander.

Families Indebtedness is the main (big) problem

- Household indebtedness keeps rising fast, we foresee a higher figure for January-22, at 53.23%
- The situation is getting worse due to the credit operations increasing and the household income stagnation.

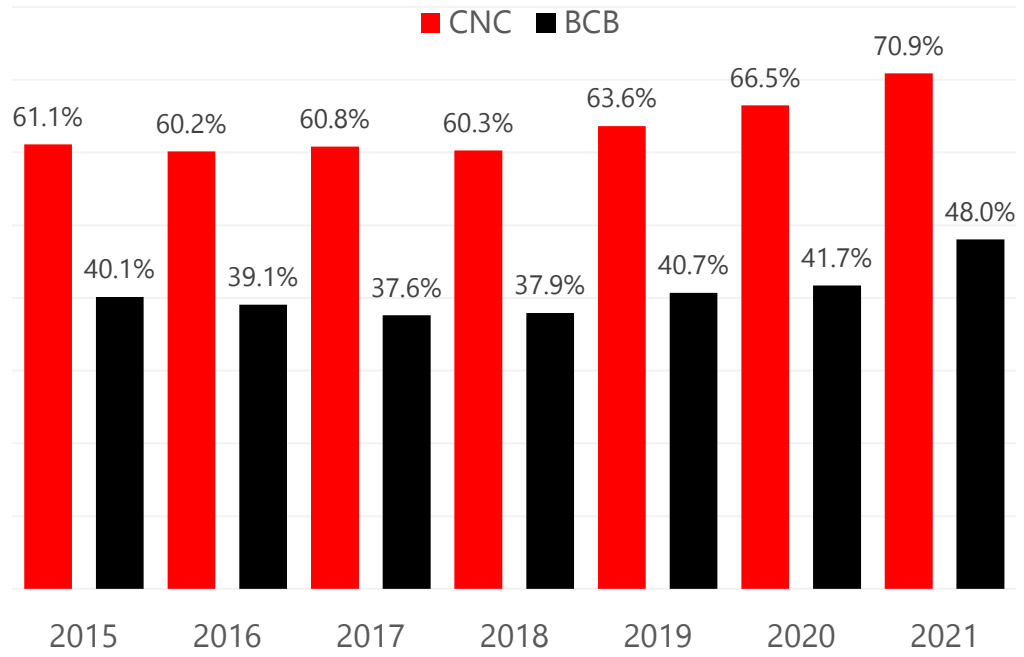
Extended household Indebtedness (%)



Sources: Brazilian Central Bank, CNC, Santander.

The indebtedness indicator built by the National Confederation of Commerce (CNC, in Portuguese acronym) – measured through a survey carried out in all Brazilian capitals with approximately 18 thousand consumers. Those numbers could herald the trends in the BCB series (official data).

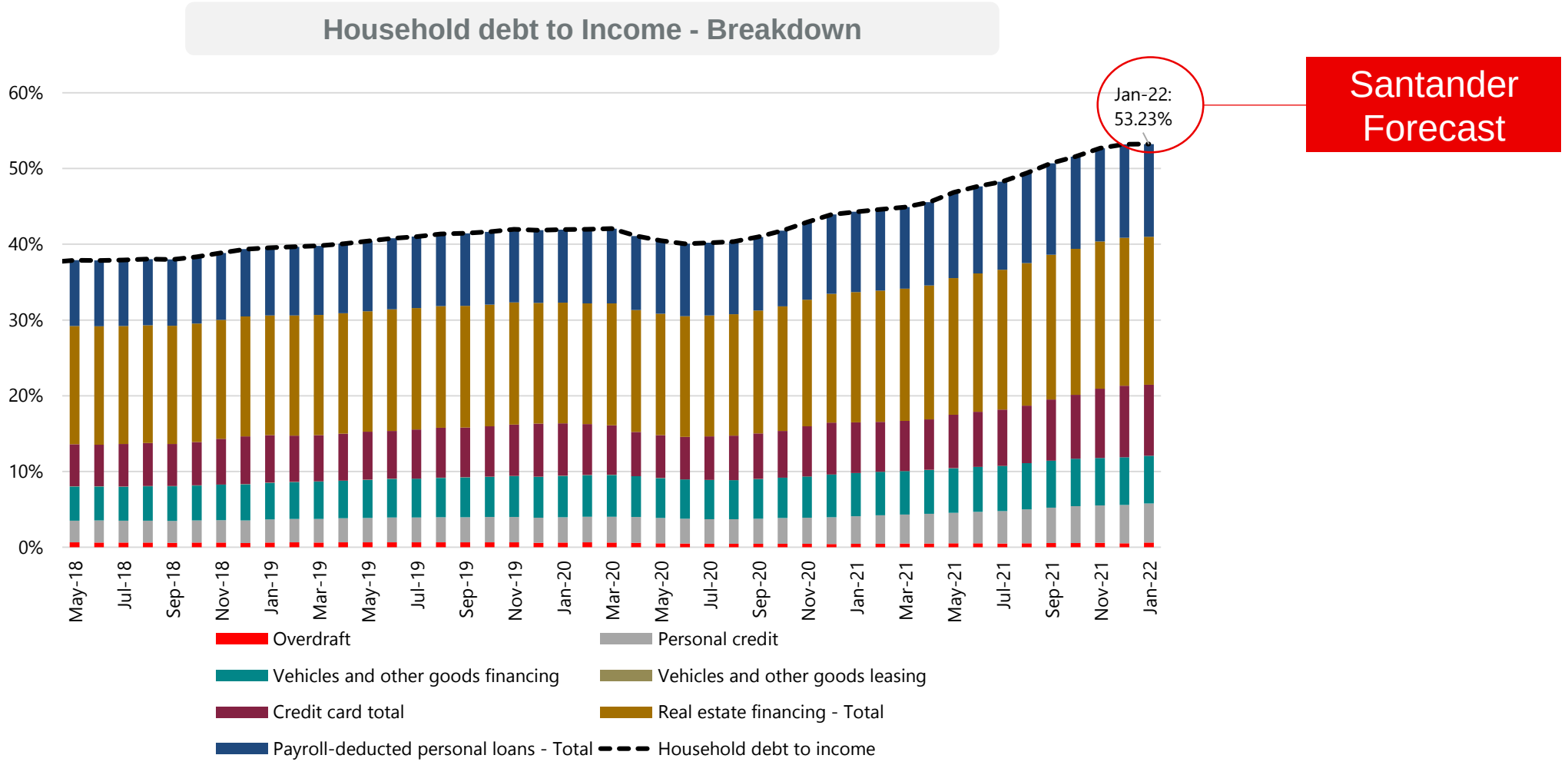
Extended household Indebtedness (annual avg %)



Sources: Brazilian Central Bank, CNC, Santander.

Families Indebtednes - Breakdown

- A large part of Household debt to income is made up of: Real estate financing, Payroll-deducted personal loans and Credit card.

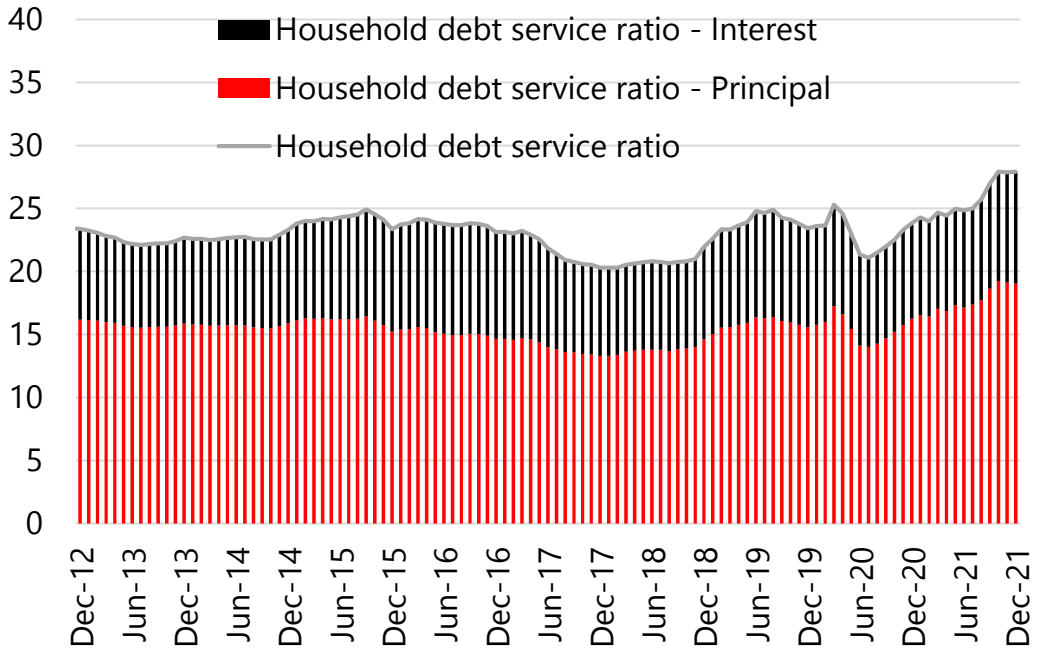


Sources: Brazilian Central Bank, Santander.

Families Indebtednes - Breakdown

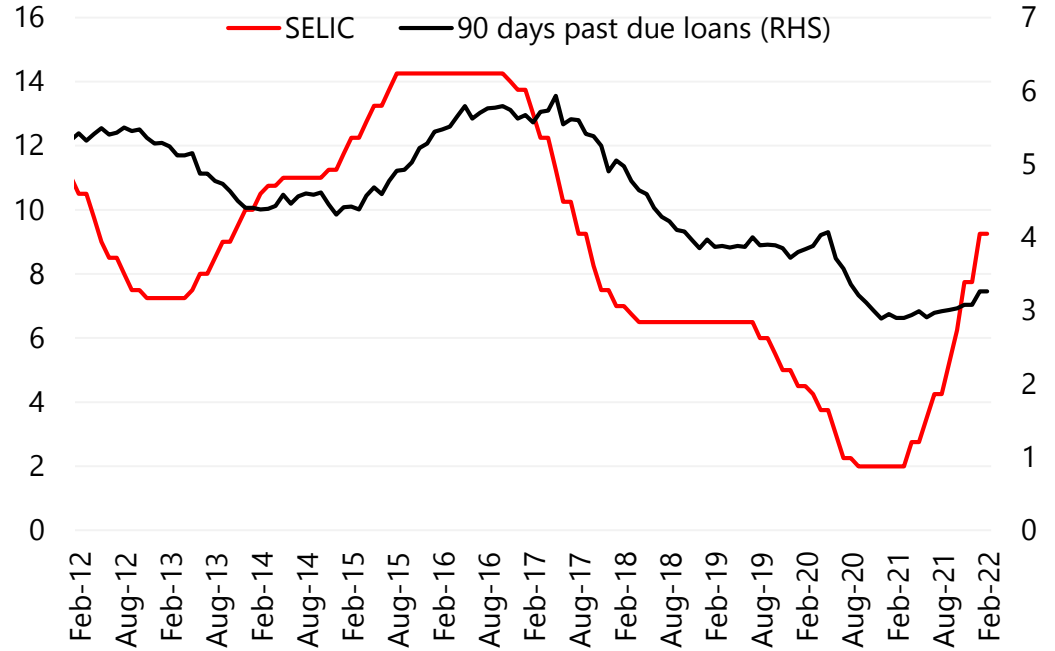
- Household debt service ratio is higher than pre-pandemic levels and keeps accelerating
- With the advance of Selic, arrears continues to rise as well

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

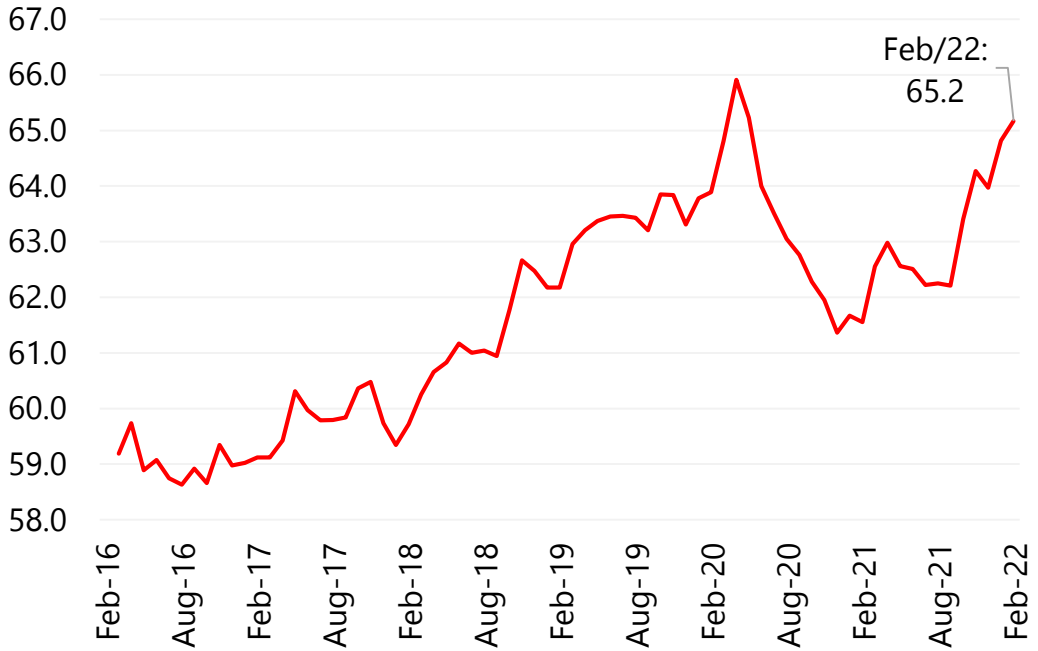


Sources: Serasa Experiean, Santander.

Families Indebtednes: higher than the pre-pandemic level

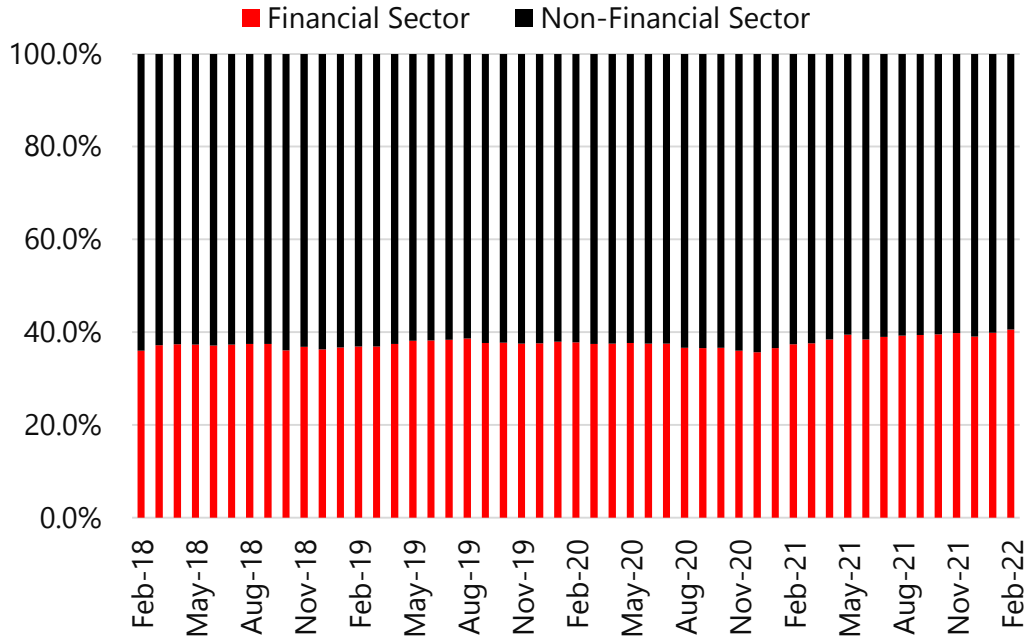
- The number of delinquent consumers is higher than the pre-pandemic level (Feb-20: 63.9).

Household Defaulting - Millions



Sources: Serasa Experian, Santander.

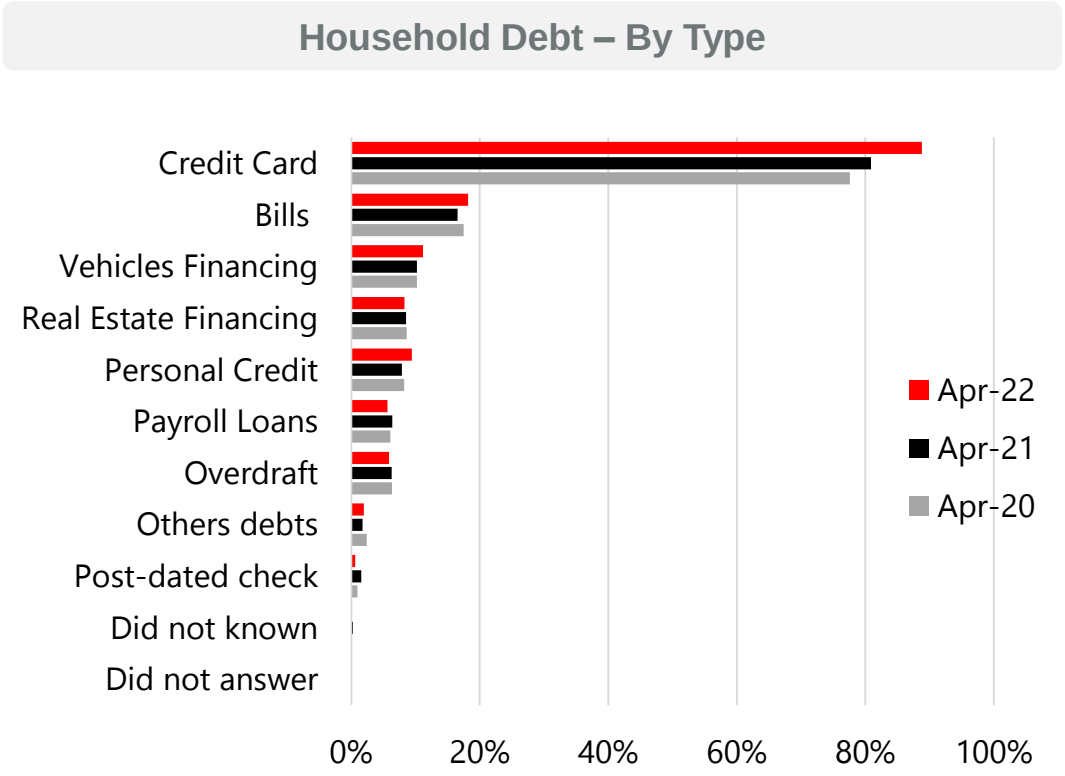
Total Default – By Sector



Sources: Serasa Experian, Santander.

Families Indebtednes – By Type

- More than 85% of families have Credit Card as a type of debt.

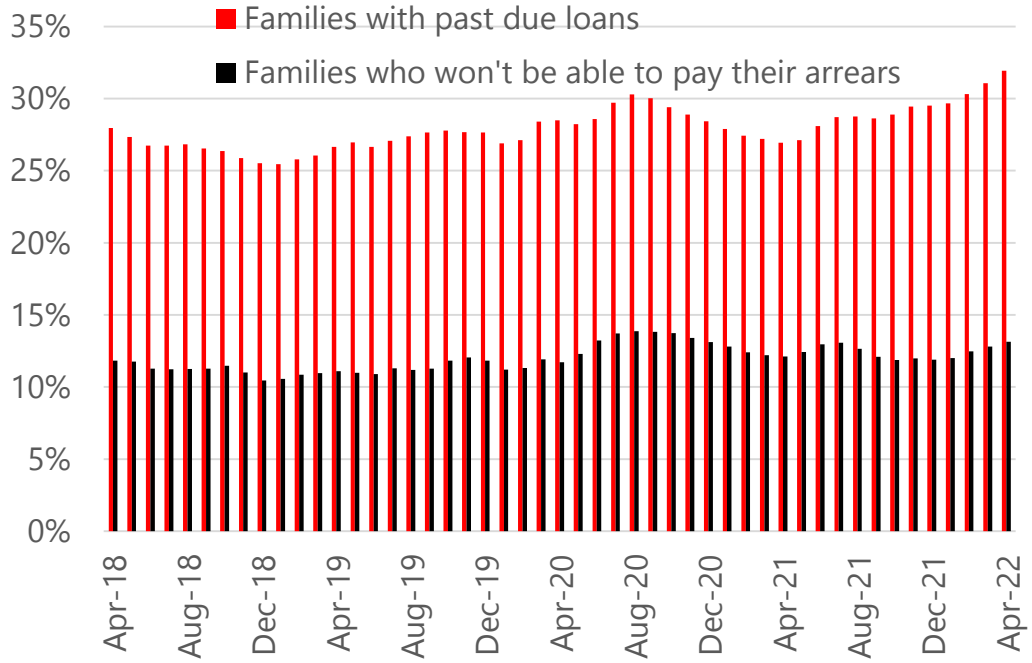


Sources: CNC, Santander.

Families Indebtednes – by Income

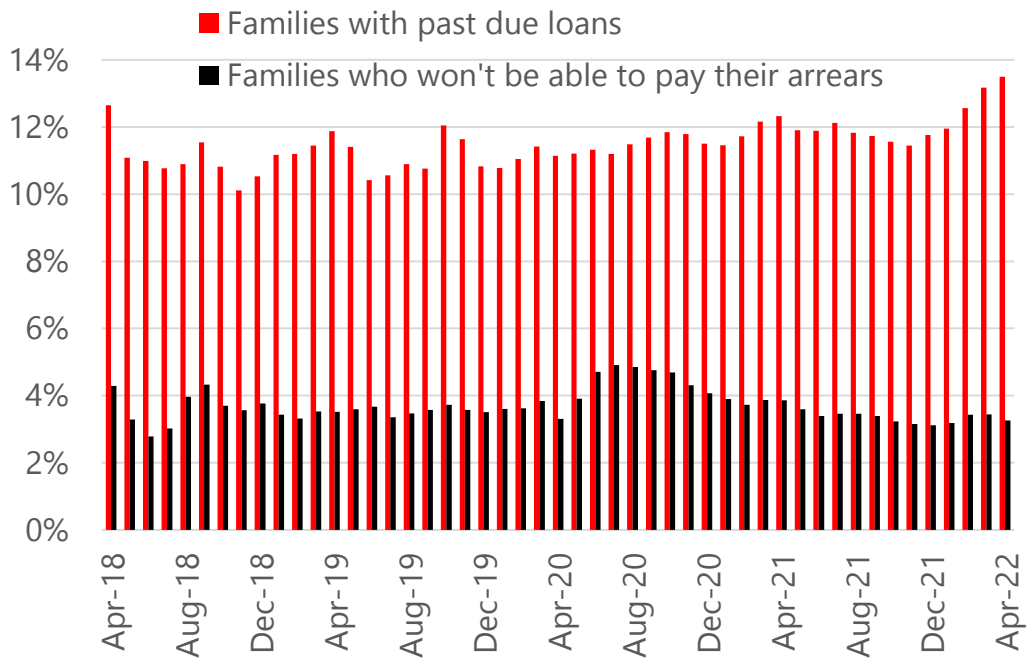
- For both types of families, delinquency has remained high, which represents a warning point

Families who earn less than 10 minimal wage



Sources: CNC, Santander.

Families who earn more than 10 minimal wage



Sources: CNC, Santander.

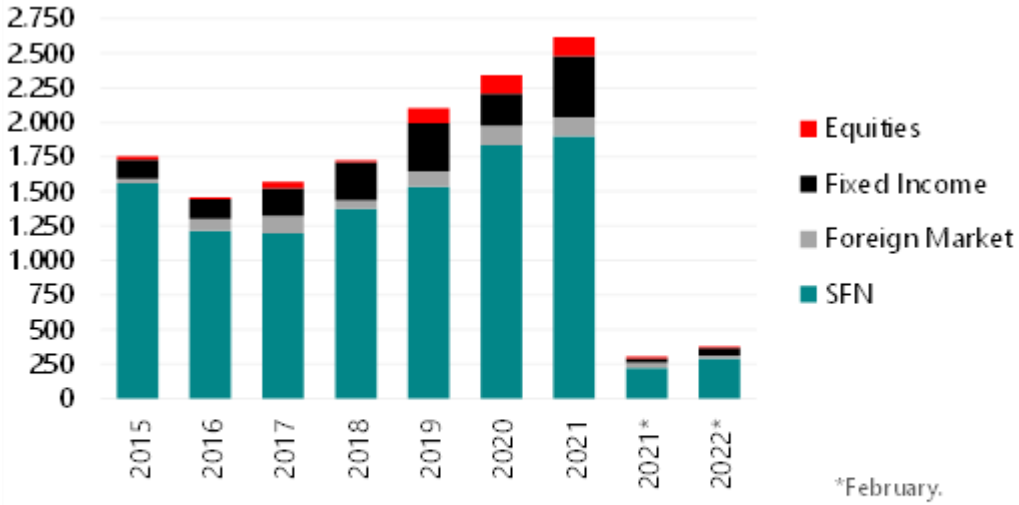
CORPORATE

03

Bank lending above year-ago period

- Considering total corporate financing YTD through February 2022 vs. the year-ago period, issuances in the capital markets were 42% higher, with SFN concessions up 31.3%.
- As a result, total corporate financing is up 23.1% compared to the year-ago period.

Total Corporate Financing (BRL billion, Inflation Adjusted)



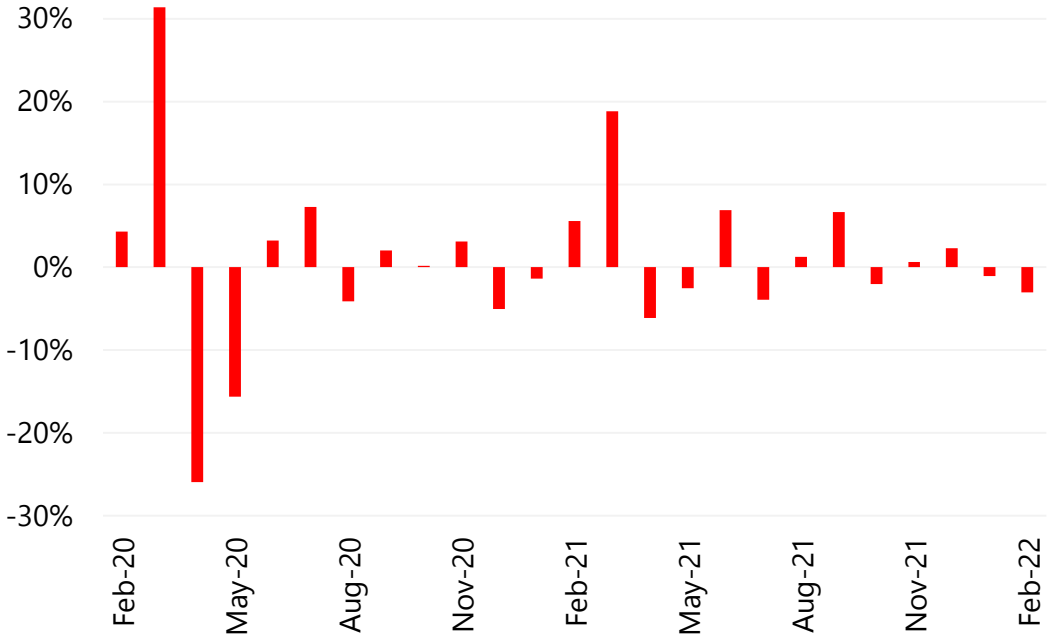
SFN - exclude *conta garantida, cheque especial* (overdraft) and credit card.
Foreign Market - bonus, MTNs and securities.
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

The non-earmarked segmented

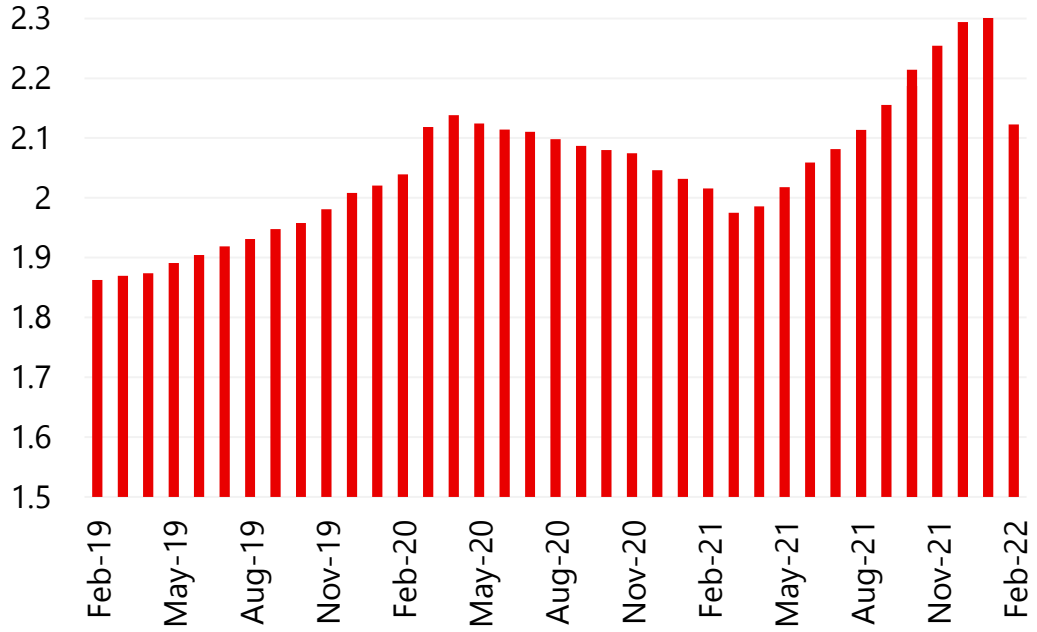
- For companies, there was a decrease of -3.3% MoM-sa in February in the non-earmarked segment.
- As YoY, the segment showed a growth of 20% YoY.

Non-Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Non-Earmarked - New Loans* - 12 months acum.

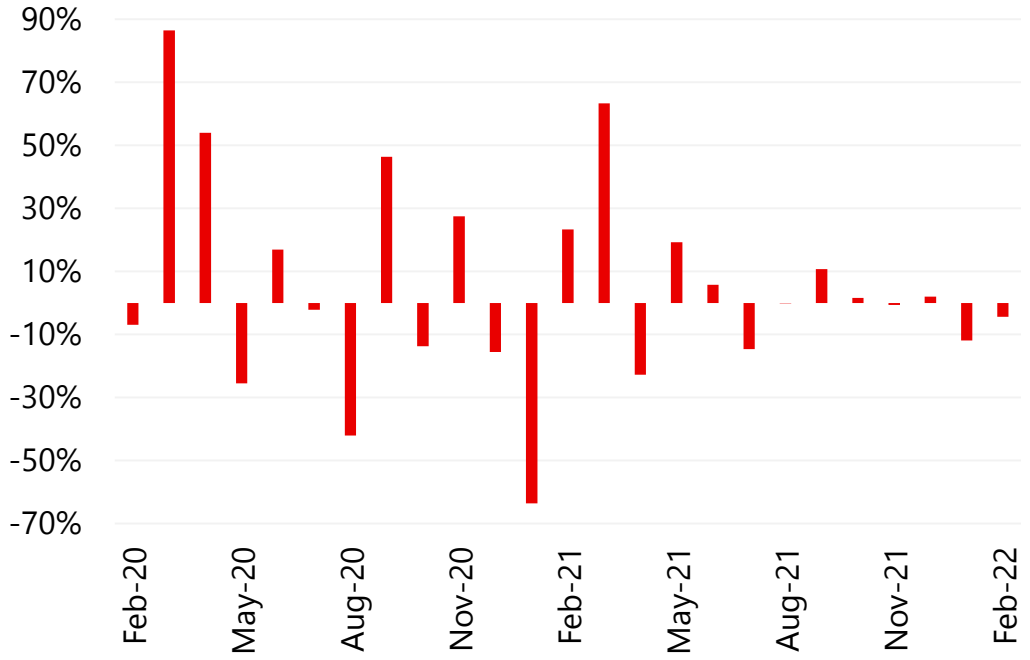


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Movement in Working Capital

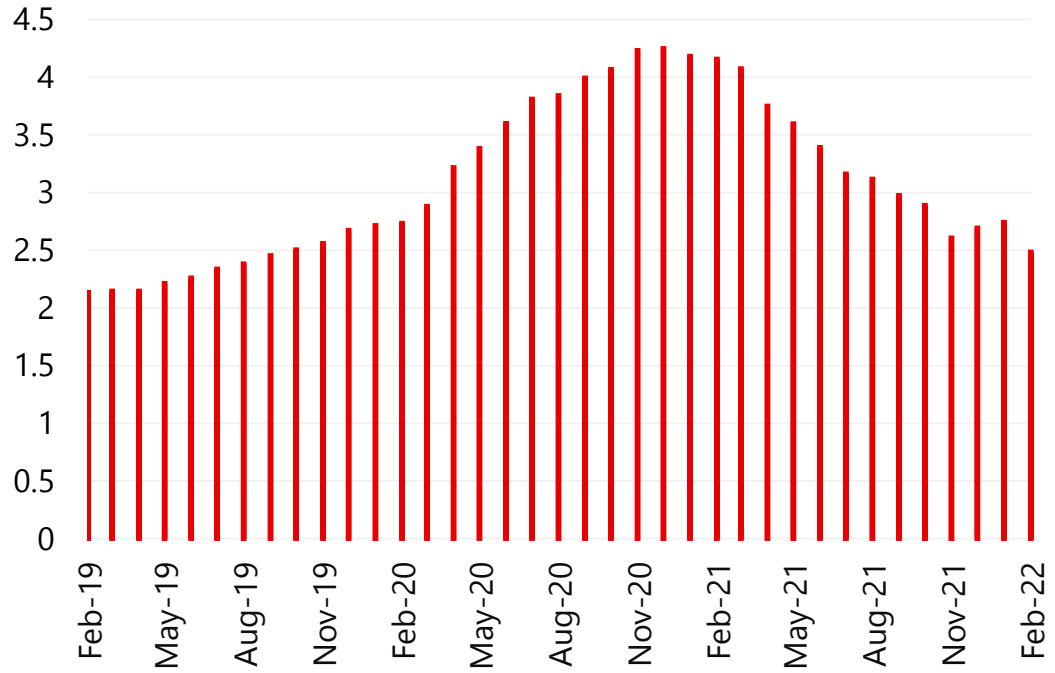
- Working Capital showed a decrease of -4.4% MoM-nsa.
- Working Capital presented a positive annual variation, 30.2% YoY

New Loans – Working Capital MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

New Loans – Working Capital (12 months acum.)

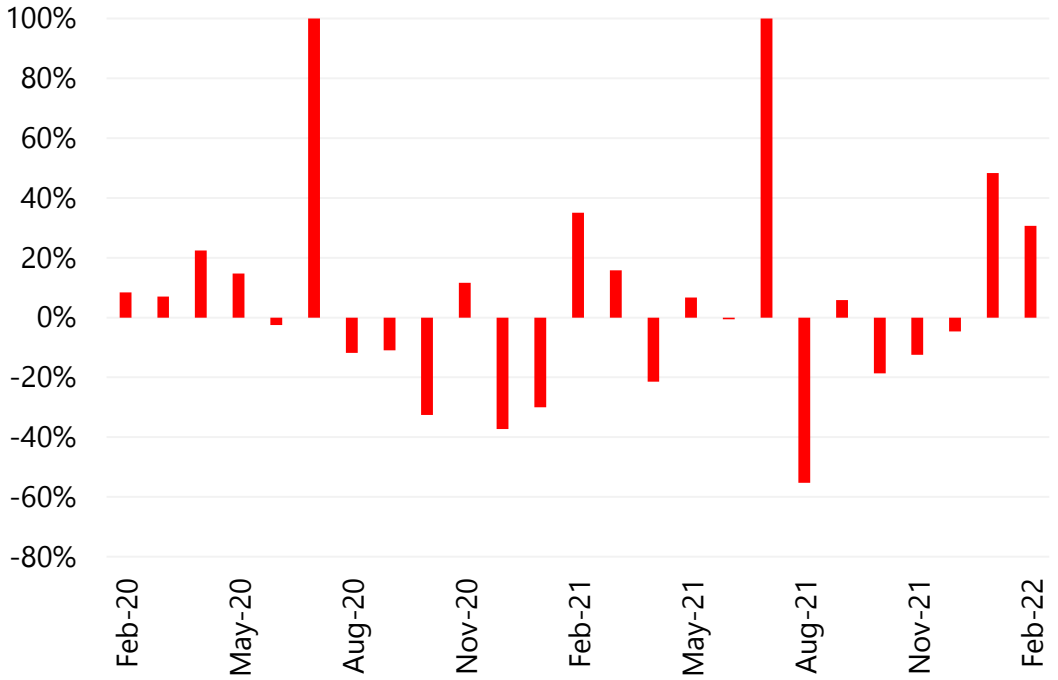


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

An increase in the earmarked segmented

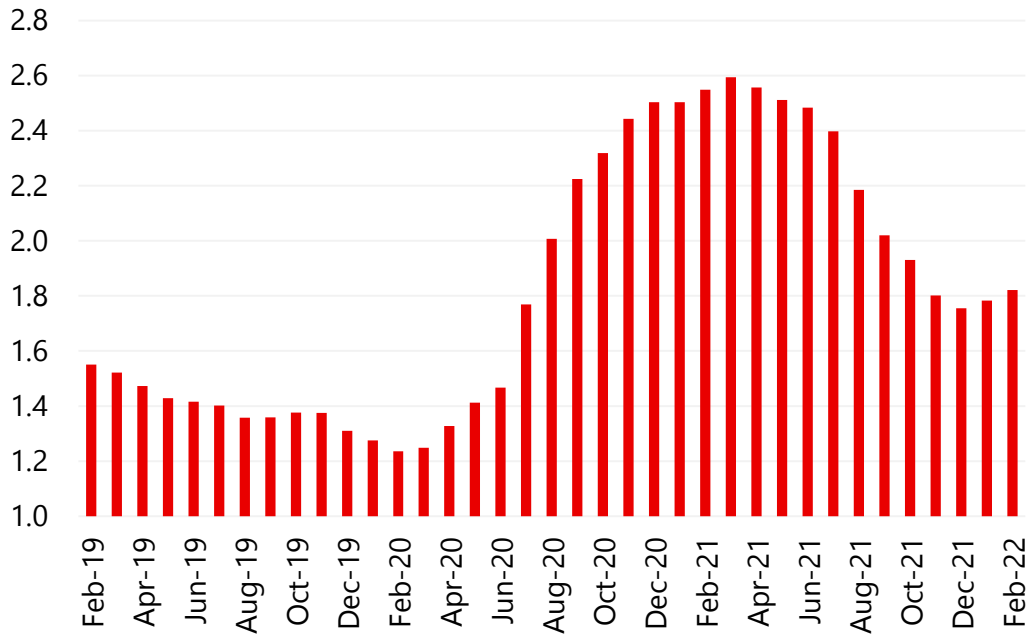
- The segment kept accelerating, showing a significant increase of 55.6% MoM-sa after January's increase of 30% MoM-sa.
- As YoY, the segment presented a positive variation, 24% YoY

Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Earmarked - New Loans* - 12 months acum.

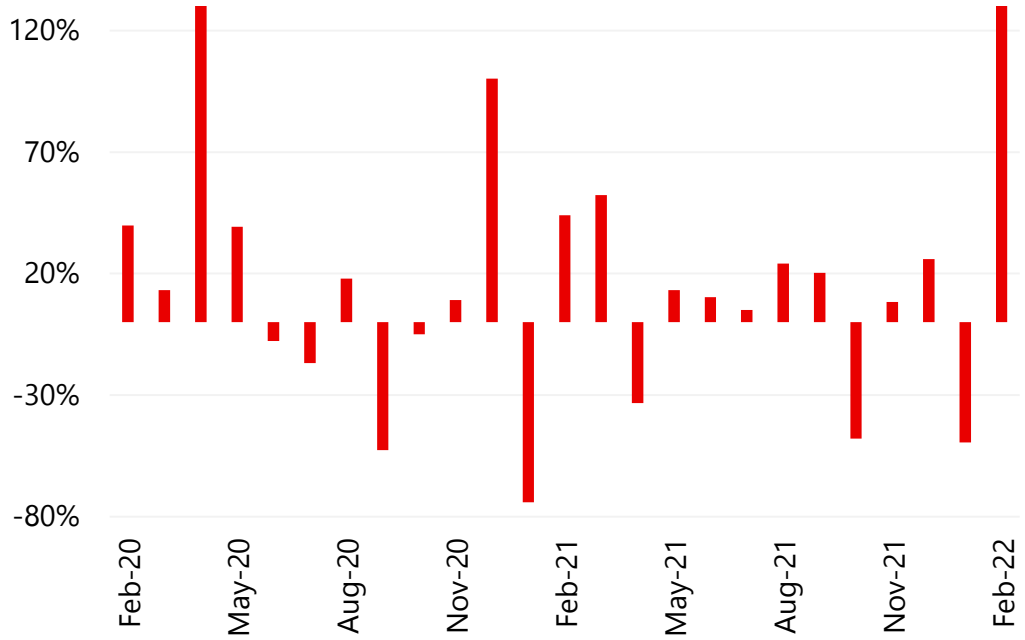


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

BNDES Funds and Others stood out

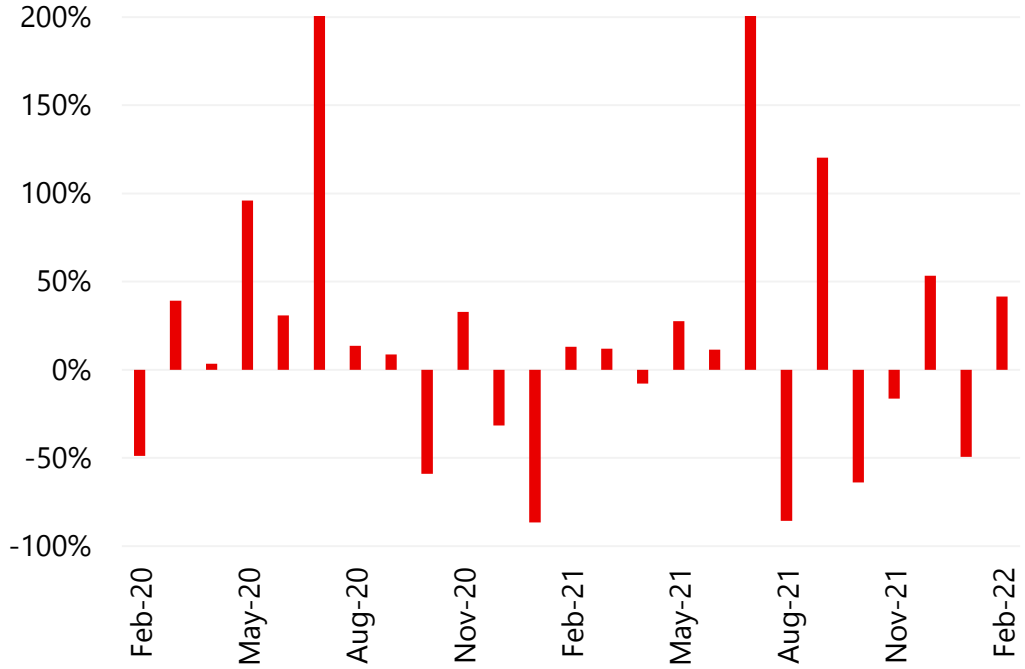
- In the earmarked segmented, BNDES funds posted a strong variation (130.5% MoM).
- Others showed a positive figure (41.6% MoM) after January result (-43.3% MoM).

BNDES Funds - New Loans* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

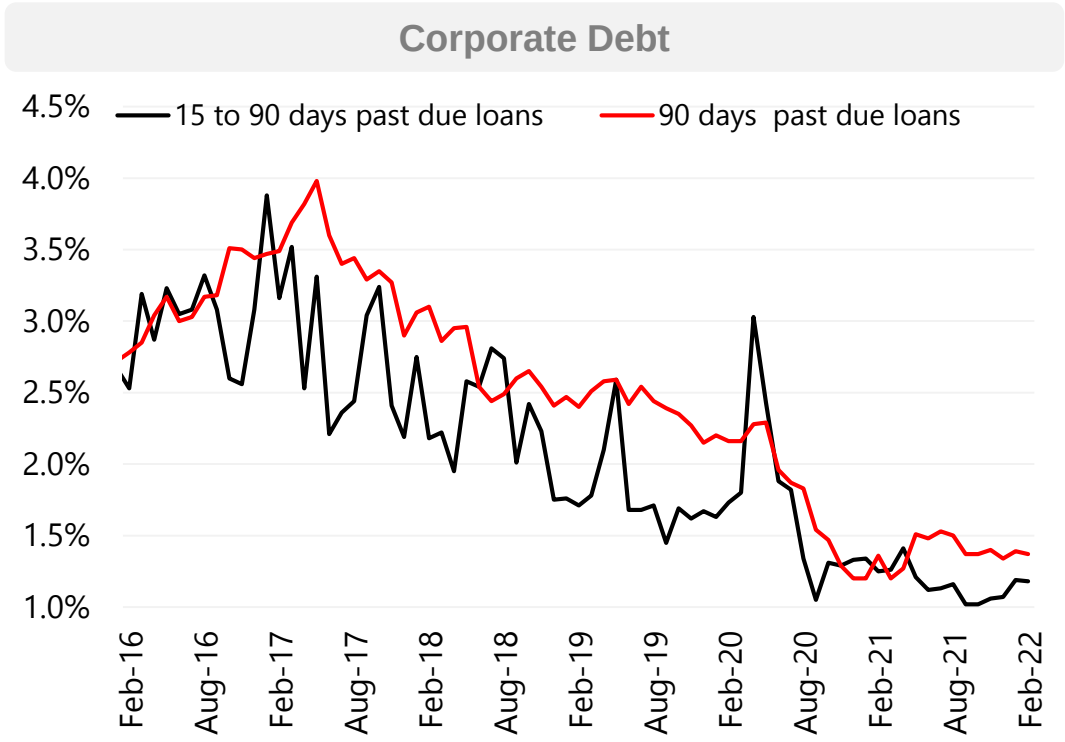
Others – Others* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- Eyeing arrears to anticipate warning signs

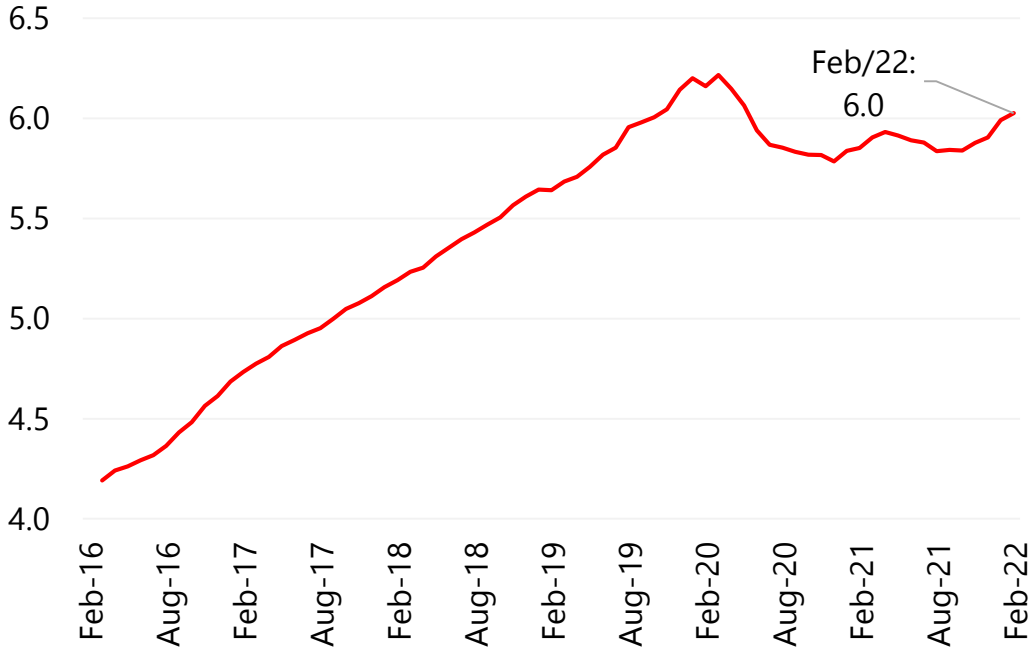


Sources: Brazilian Central Bank, Santander.

Corporates defaulting: starting the year worst

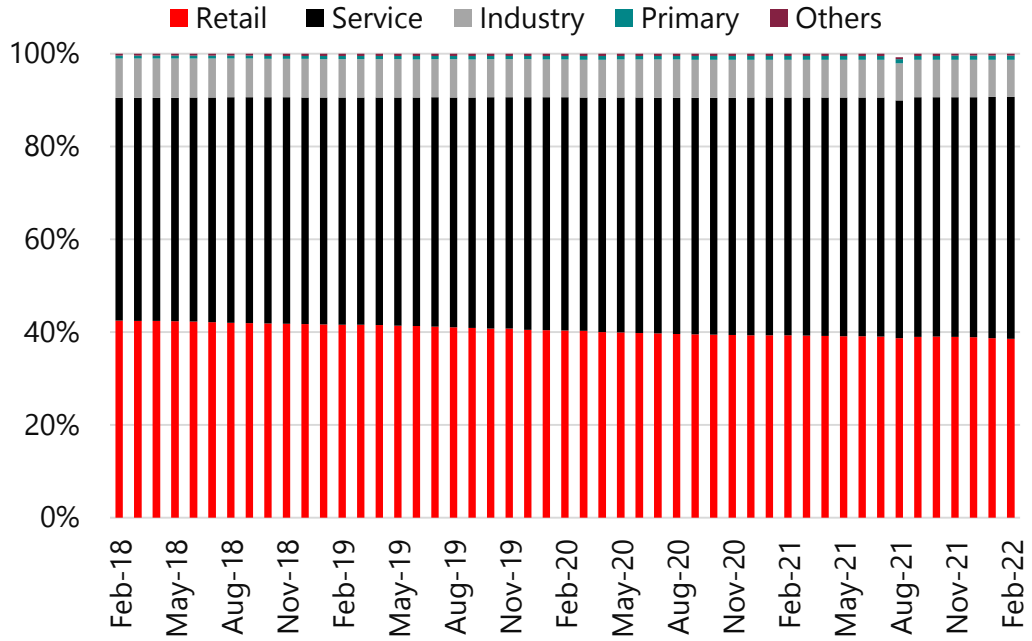
- The number of defaulting companies reached 6.0 million, (2021: around 5.8-5.9 million).
- Retail and Service sectors are the most sectors that have default

Corporate Defaulting - Million



Sources: Serasa Experian, Santander.

Total Default – By Sector

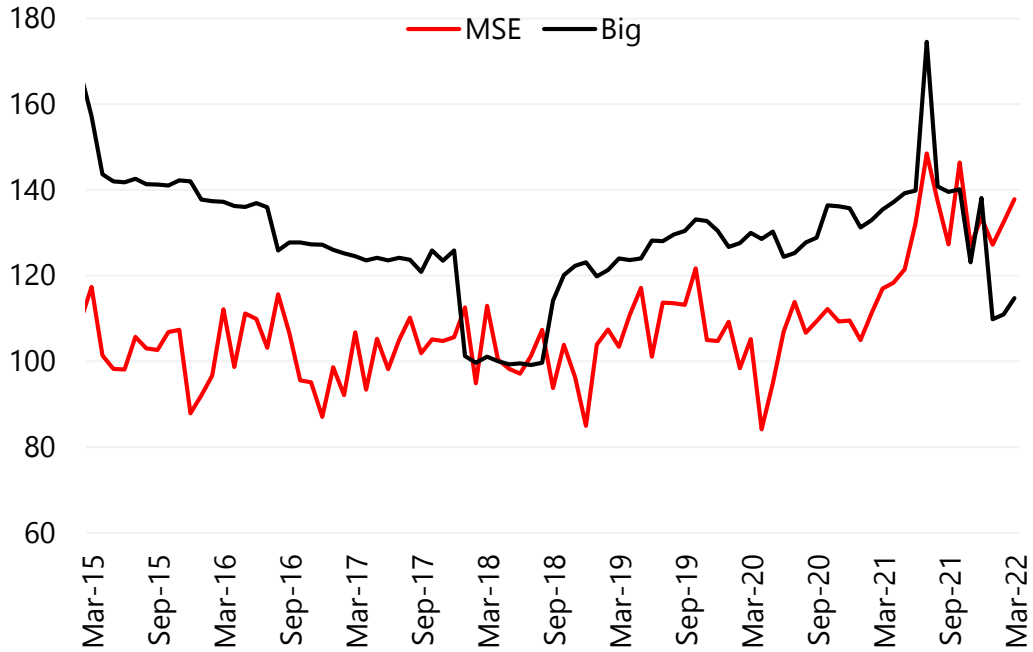


Sources: Serasa Experian, Santander.

Corporate demand for Credit

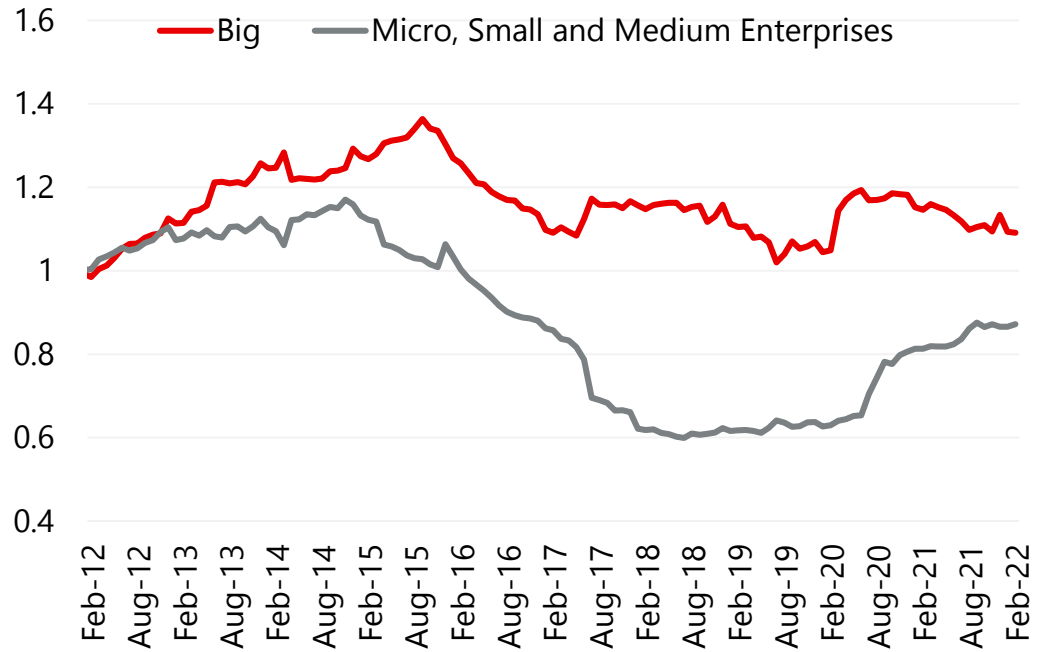
- Micro and Small Enterprises (MSE) are increasing their demand for credit. Big companies are decreasing.

Corporate demand for Credit – by Company Size



Sources: Serasa Experian, Santander.

Credit Outstanding – By Company Size*



Sources: Brazilian Central Bank, Santander.

* BRL million and Inflation adjusted.

Forecasts

04

Credit Forecasts

Real Credit Outstanding (%YoY)	2019	2020	2021	2022e	2023e	2024e
Total	**3.1**	**10.8**	***5.0***	***1.1***	***0.0***	***2.5***
Household	8.3	6.5	*9.2*	*3.4*	*0.6*	*3.2*
Non-fin. Corp.	-3.4	16.8	*-0.3*	*-2.1*	*-0.9*	*1.4*
Nonearmarked	**10.3**	**10.6**	***8.6***	***2.4***	***1.2***	***4.3***
Household	12.8	6.1	*11.1*	*3.3*	*3.1*	*6.2*
Non-fin. Corp.	7.3	16.2	*5.9*	*1.3*	*-1.2*	*1.8*
Earmarked	**-5.4**	**11.1**	***0.1***	***-0.9***	***-1.8***	***-0.4***
Household	3.2	7.0	*7.0*	*0.9*	*1.0*	*0.6*
Non-fin. Corp.	-16.8	17.7	*-10.0*	*-4.2*	*-7.1*	*-2.3*

Credit Conditions	2018	2019	2020	2021	2022e	2023e	2024e
Non-performing loans (Non-Earmarked)	**3.9**	**3.7**	**2.9**	***3.1***	***3.7***	***4.0***	***4.1***
Household	4.8	5.0	4.2	*4.4*	*5.2*	*5.6*	*5.7*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*2.0*	*2.2*	*2.2*
Household Indebtedness	**23.4**	**23.9**	**24.4**	***27.9***	***28.8***	***29.1***	***29.6***
Household debt service ratio	**39.1**	**41.7**	**44.0**	***51.9***	***54.9***	***55.6***	***56.5***

Thank you.

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Our culture is based on believing that everything we do should be:

Simple Personal Fair

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