Brazil Macro | April 2023

Credit

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BRIEF OVERVIEW

01

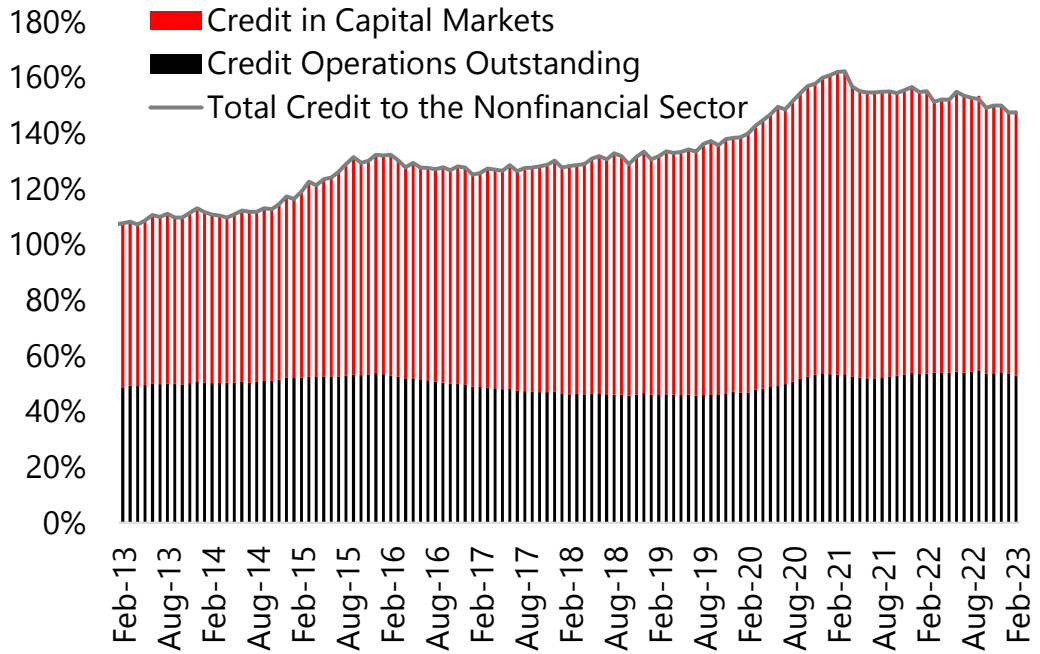
SUMMARY

- **This chartbook brings details on Credit outlook, contemplated in our latest Scenario Review, released on April 06 – "Upping CPI Estimates…again" - available in: https://bit.ly/Std-scenreview-apr23**
- The credit market is clearly reversing gears, with the deceleration of credit in 2023 coming in the context of high consumer indebtedness, high interest rate and slowing real activity. We marked down our total loan-growth estimate to 4.7% (from 5.8%) for 2023.
- Total outstanding loans in the National Financial System (SFN) in February posted inflation-adjusted growth of 6.7% YoY, to R$5.3 trillion, reflecting the slowdown in the activity and more restrictive financial conditions.
- In our view, higher consumer debt continues to impart upside risk to NPLs ahead, in the context of high interest rates and slowing economic activity. Finally, household debt-to-income continued to decelerate at the margin, reaching 49.0% in December 2022, still a high level; but a drop of 0.7 p.p from December 2021.

Total Credit to Non-Financial Sector

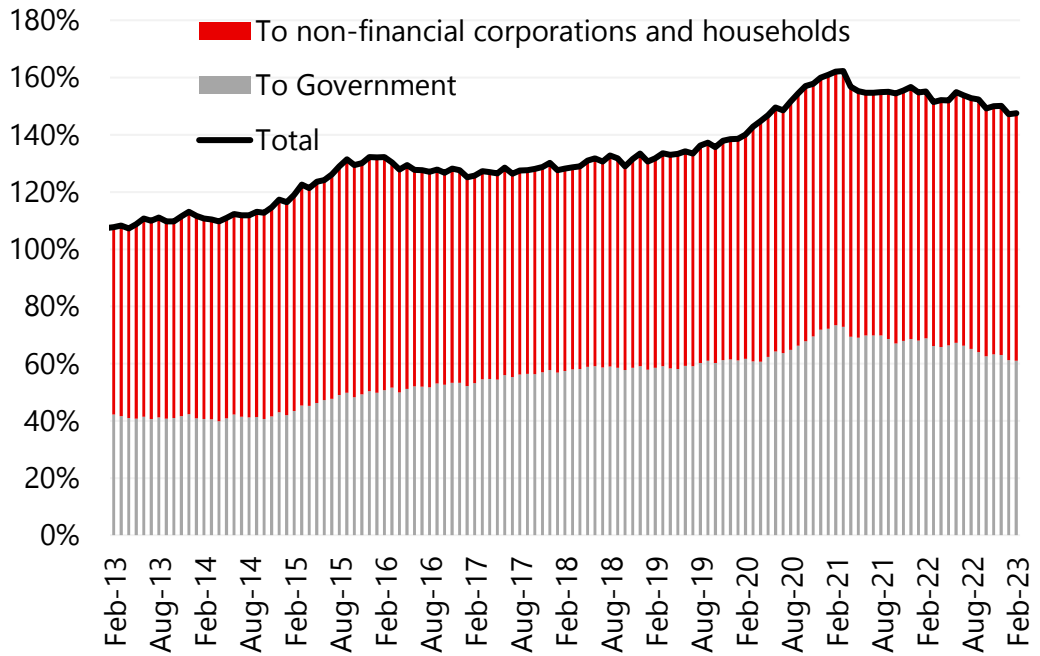
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination (% GDP)

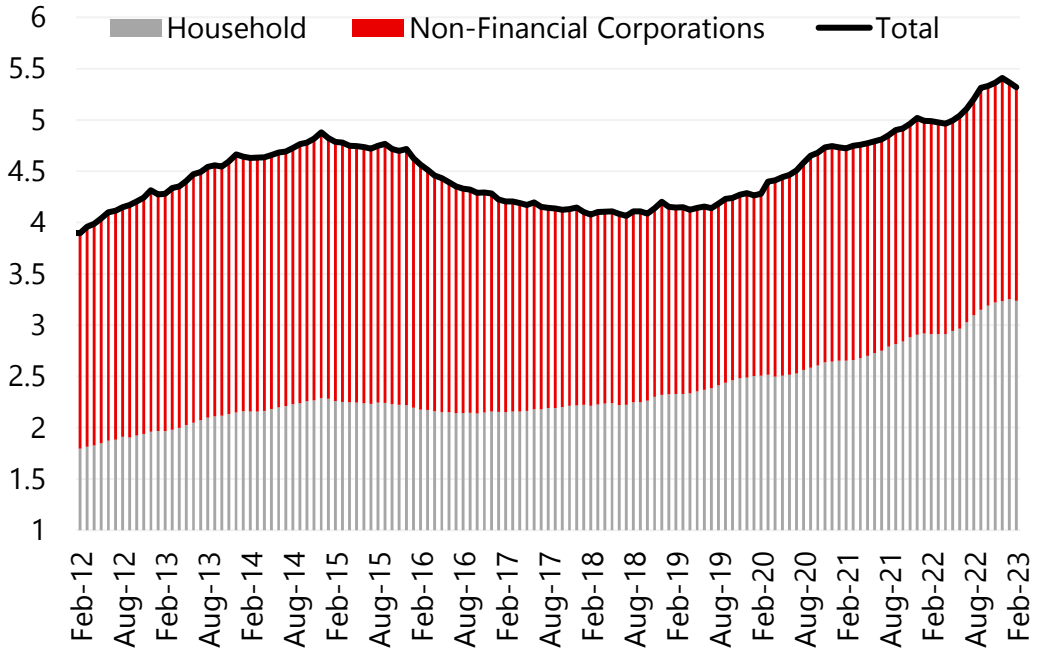


Sources: BIS, Santander.

The credit market starts to decelerate

- Total outstanding loans posted inflation-adjusted growth of 6.7% YoY for February, to R$5.3 trillion, reflecting the slowdown in the
- activity and more restrictive financial conditions.
- For households, loans were up 11.2% YoY; for non-financial corporations, they were up 0.3% YoY.

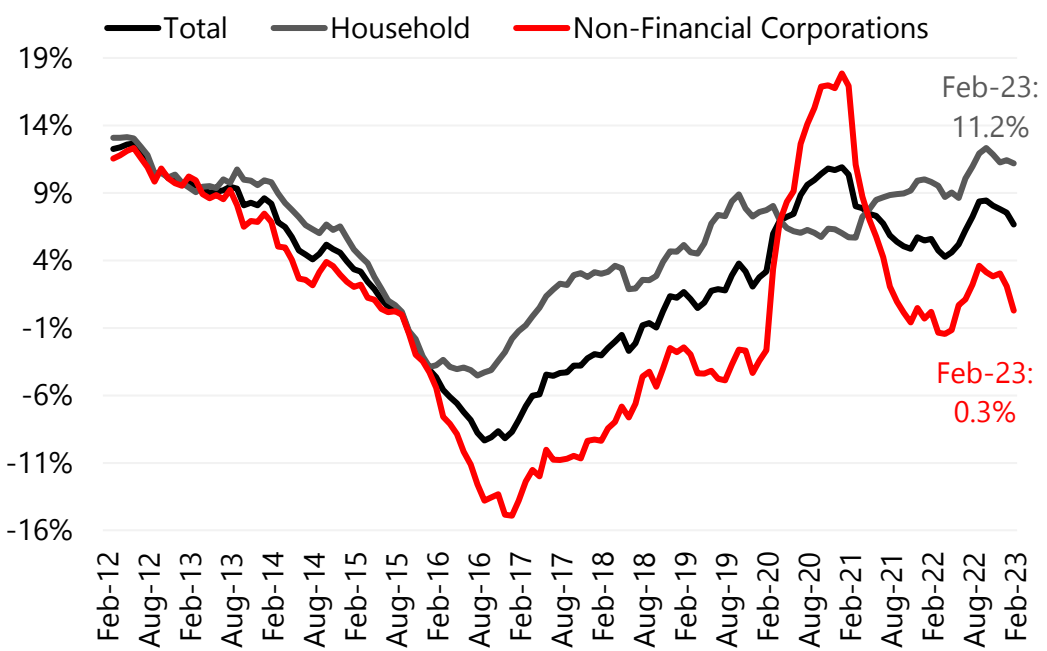
Total Outstanding Balance of Credit Operations*



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.

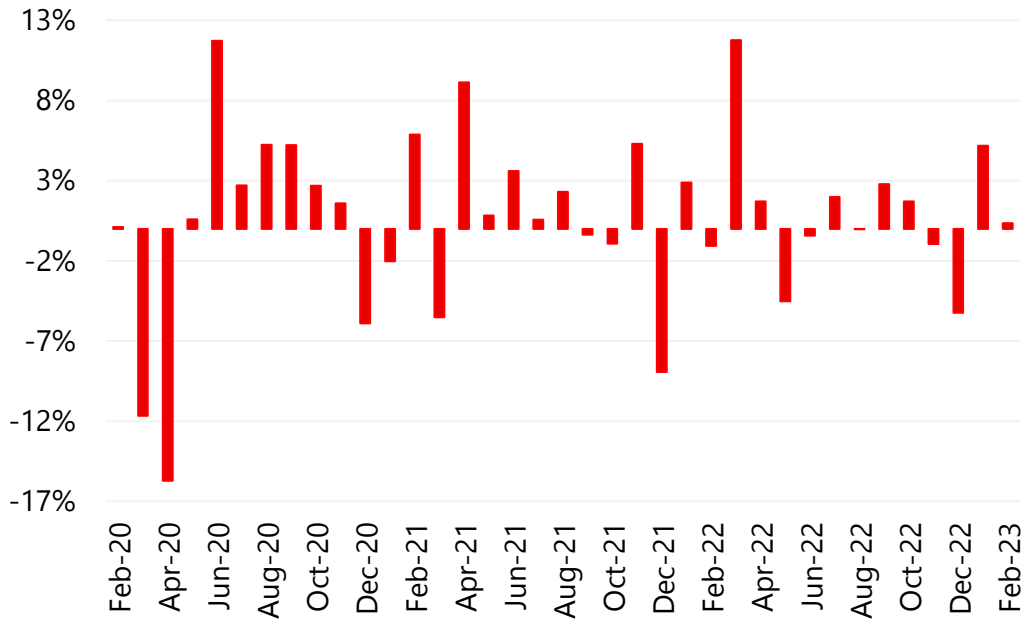
HOUSEHOLD

02

Non-Earmarked new loans: posted an increase in January

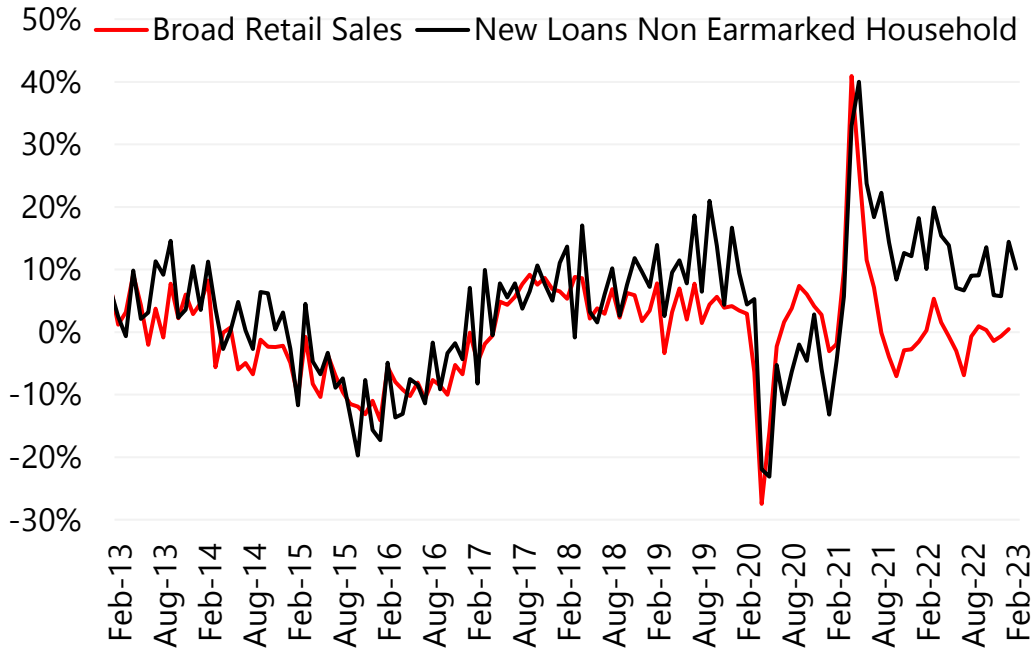
- For households, the non-earmarked segment increased 5.1% MoM-sa, in January. We highlight the strong increase in total personal credit (23% MoM-sa) and in credit cards (5.1% MoM-sa), after a slight drop (- 1.3% MoM-sa) in December 2022.

Non-Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales (% YoY)
New loans Household Non-Earmarked (% YoY)

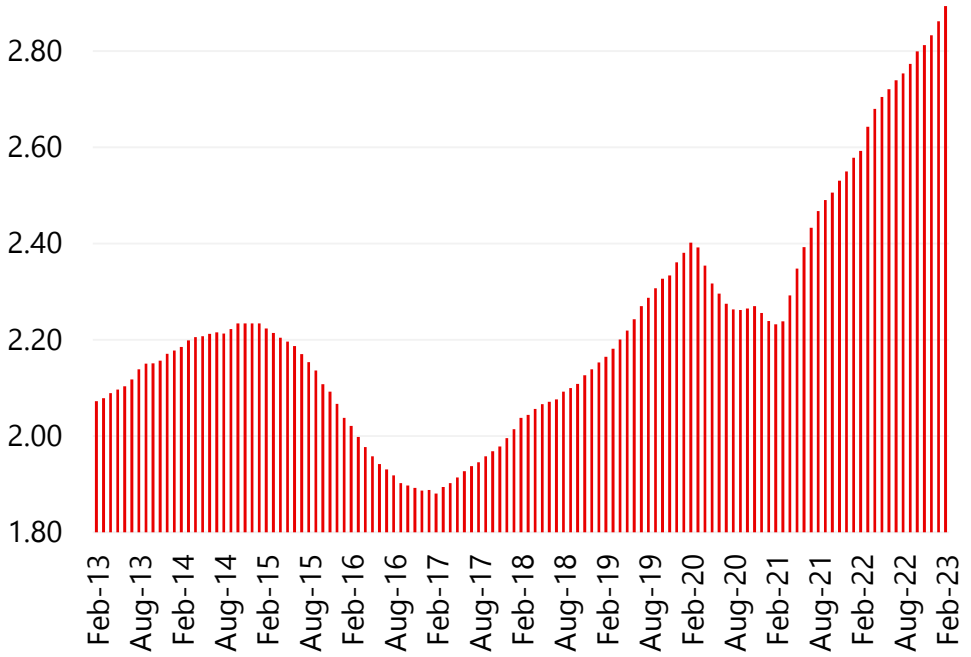


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans to families keep rising although higher interest rates

- New loans (12 months acum.) in January grew 11.6% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased by more than 10 p.p from February 2022, the highest rate since October 2017 .

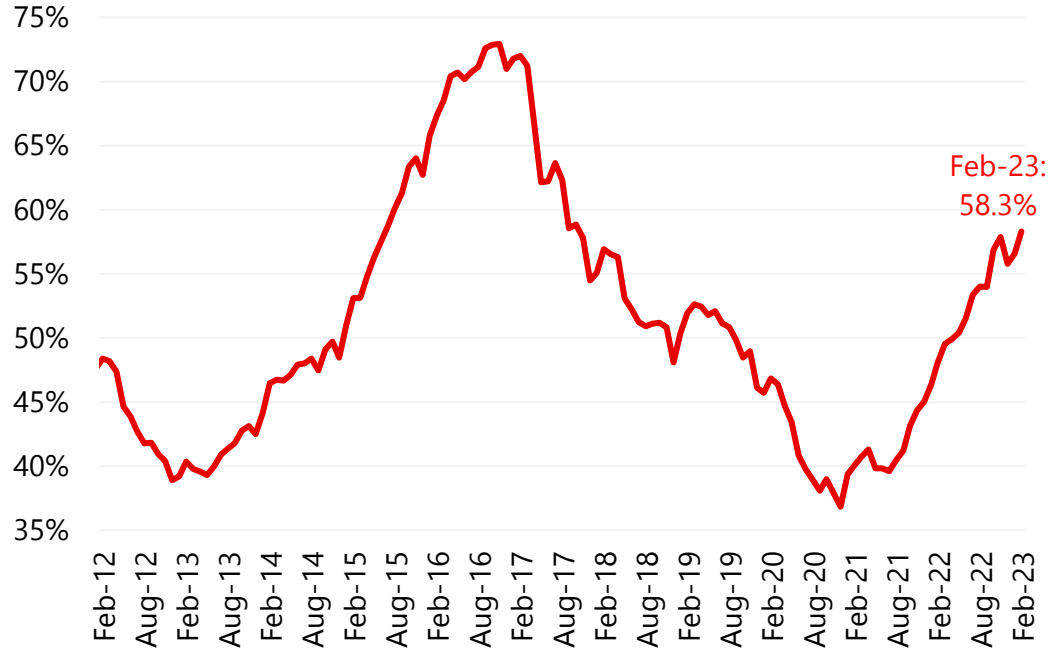
Non-Earmarked - New Loans* (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

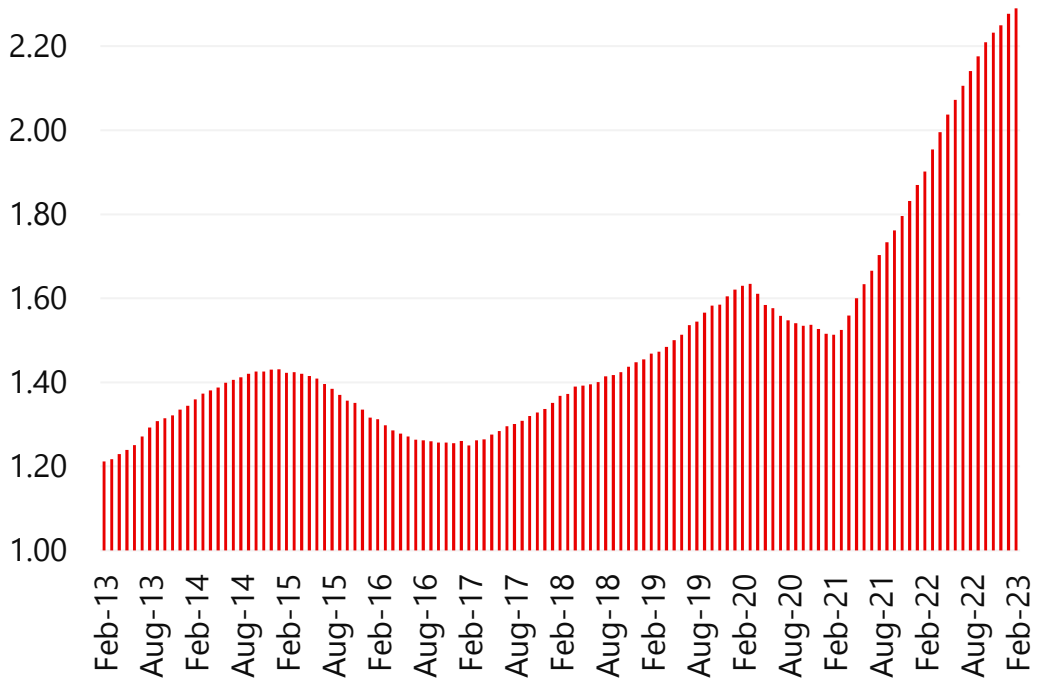


Sources: Brazilian Central Bank, Santander.

Credit Card: fell slightly at the margin

- New Loans accumulated for 12 months keeps at historic highs, and it grew 20% compared to the year-ago period.
- In the non-earmarked balance, credit cards fell slightly at the margin, up 17.30% YoY, inflation adjusted, -2.2 p.p from January 2023, in line with the accommodation of consumption and the highly adverse economic conditions.

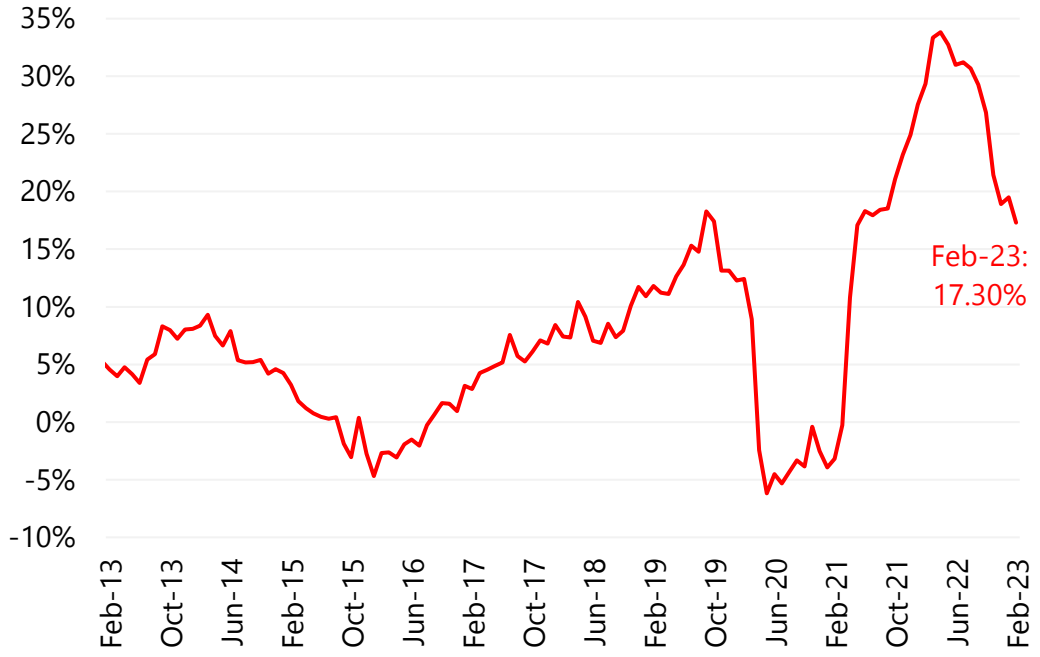
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

Outstanding Balance* – Credit Card Total (% YoY)

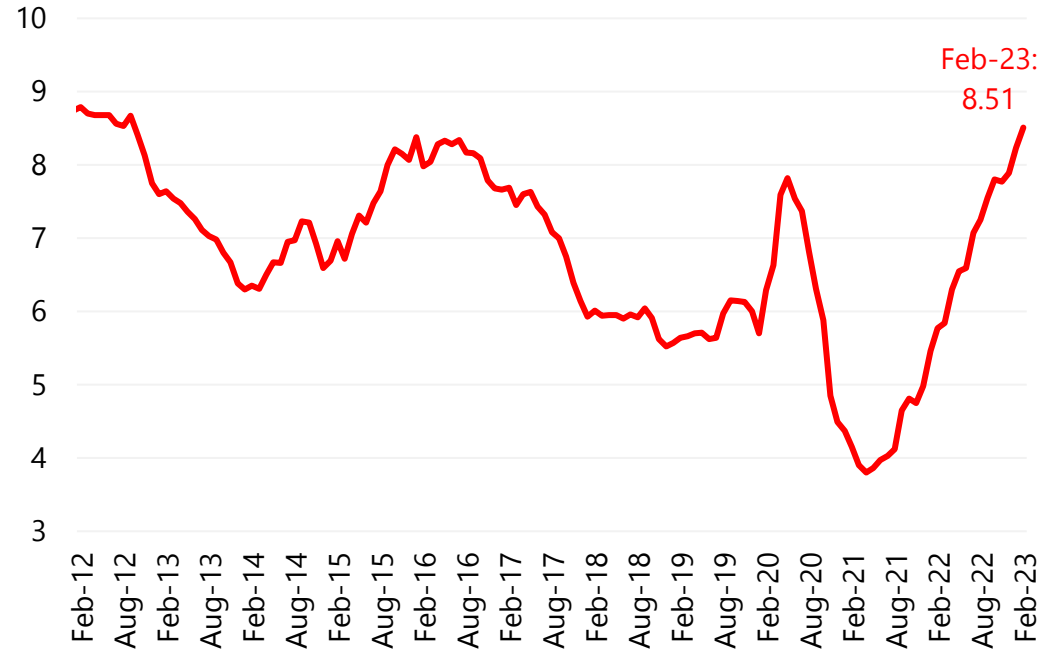


Sources: Brazilian Central Bank, Santander.
* Inflation adjusted

Credit Card: still a high delinquency

- Credit card delinquency is still at historic highs and shows no downward trend.
- In addition, the average interest rate for Credit cards increased by more than 28 p.p since February 2022, the highest rate since April 2017.

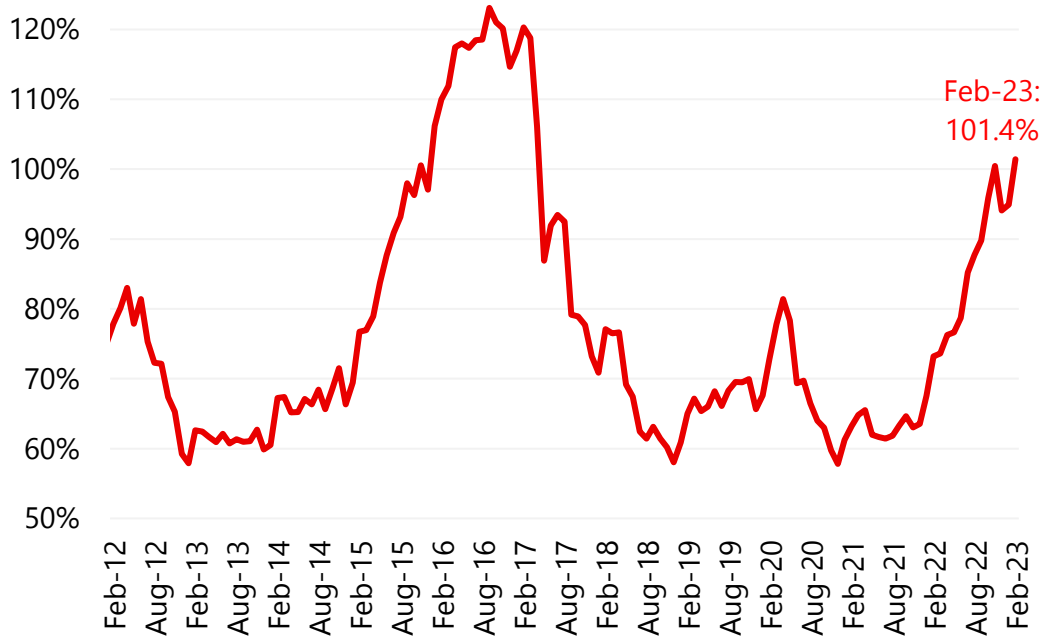
Delinquency (%) – Credit Card Total



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

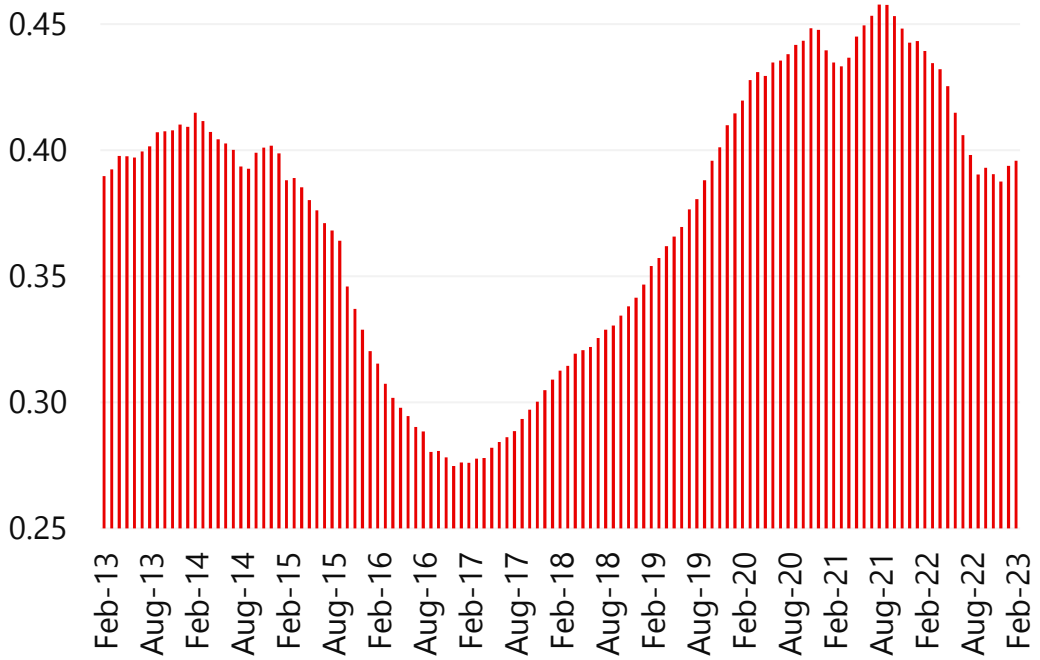


Sources: Brazilian Central Bank, Santander.

Personal Credit: decelerating

- New Loans (accumulated for 12 months) fall 9% compared to the year-ago period..
- In the non-earmarked segment, personal real credit (ex-payroll) grew 8.4% YoY, -1.1 p.p from January 2023, in line with the accommodation of consumption the highly adverse economic conditions.

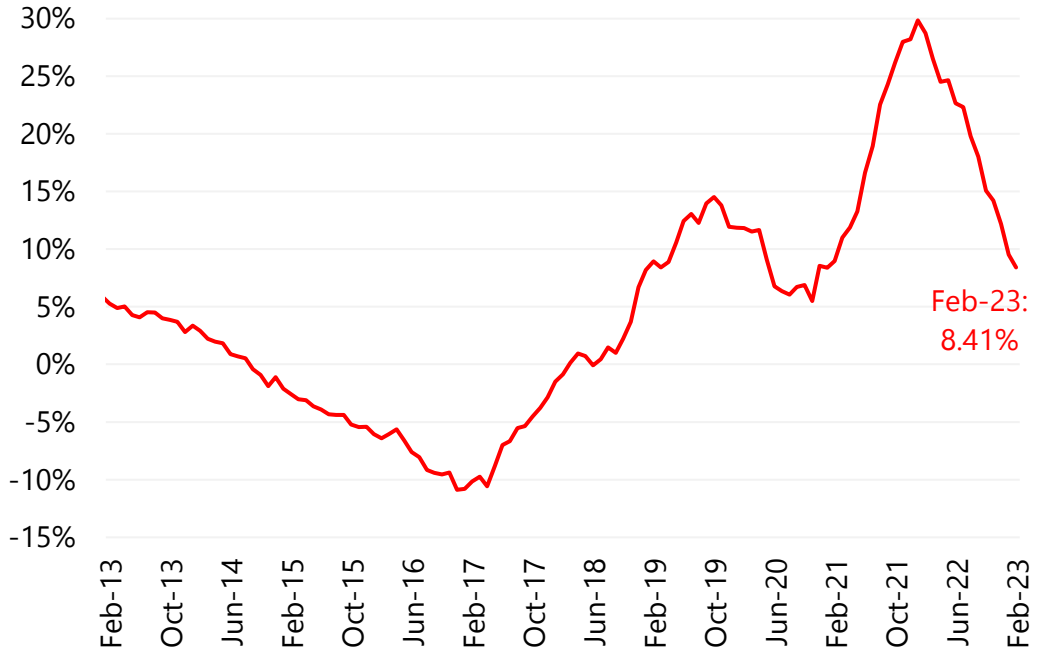
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

Outstanding Balance* – Personal Credit** (% YoY)

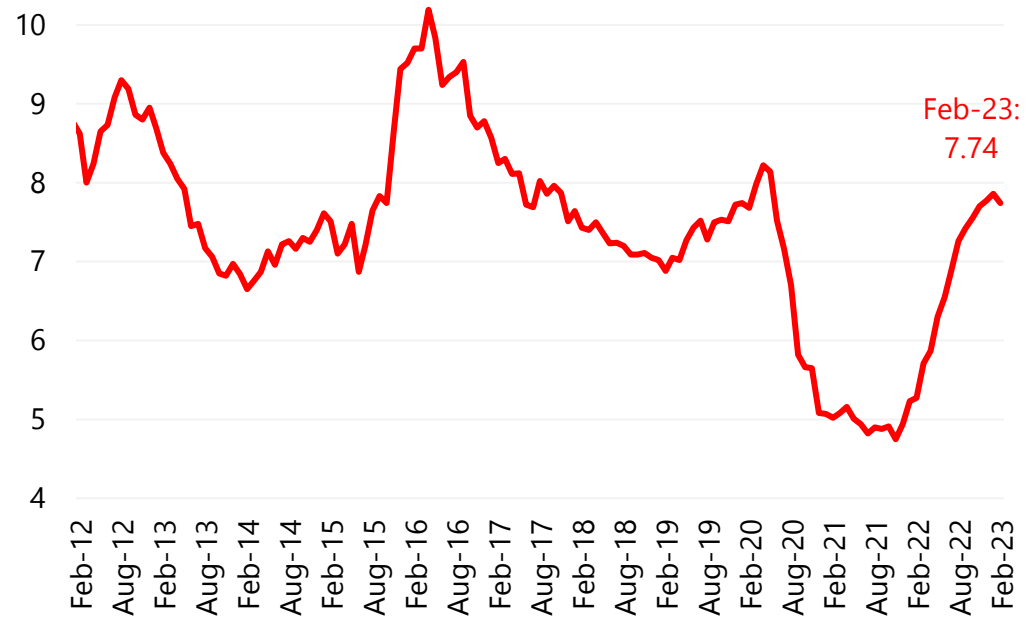


Sources: Brazilian Central Bank, Santander.
* Inflation adjusted
** Personal Credit (Ex-Payroll)

Personal Credit: delinquency starts to slow down

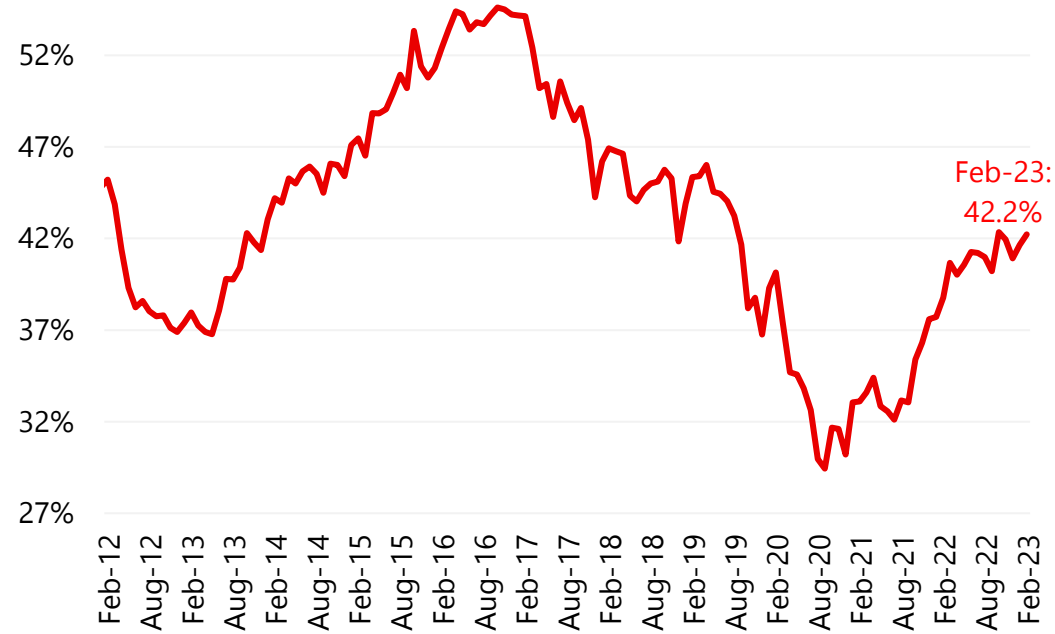
- Personal credit (ex-payroll) delinquency shows a downward trend at the margin.
- The average interest rate for Personal Credit increased 3.5 p.p from February 2022.

Delinquency (%) – Personal Credit (Ex-Payroll)



Sources: Brazilian Central Bank, Santander.

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

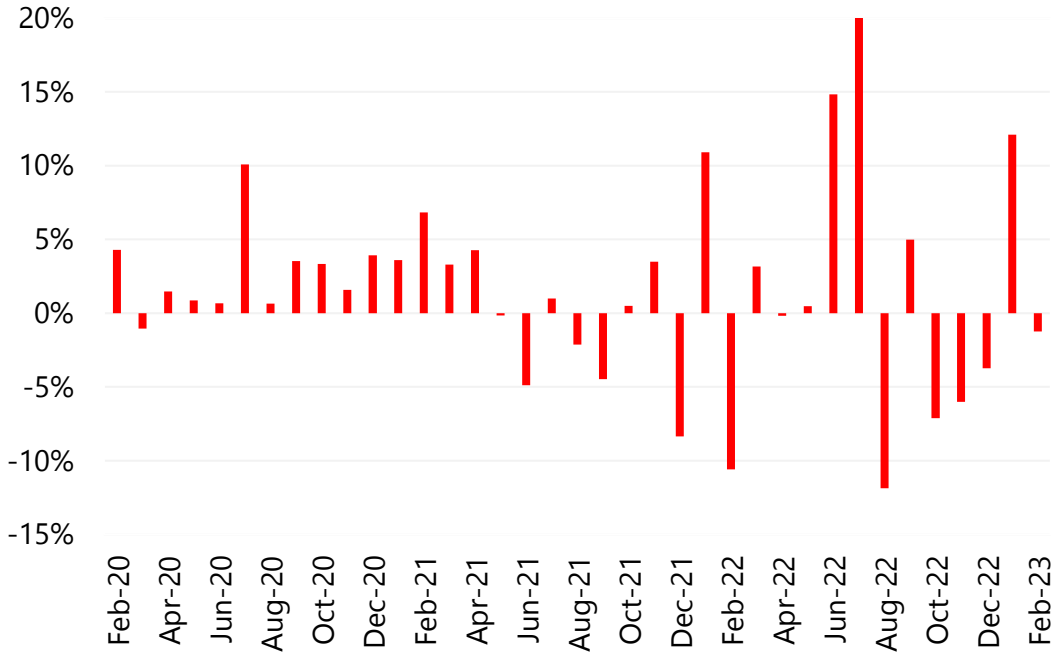


Sources: Brazilian Central Bank, Santander.

Earmarked Segment

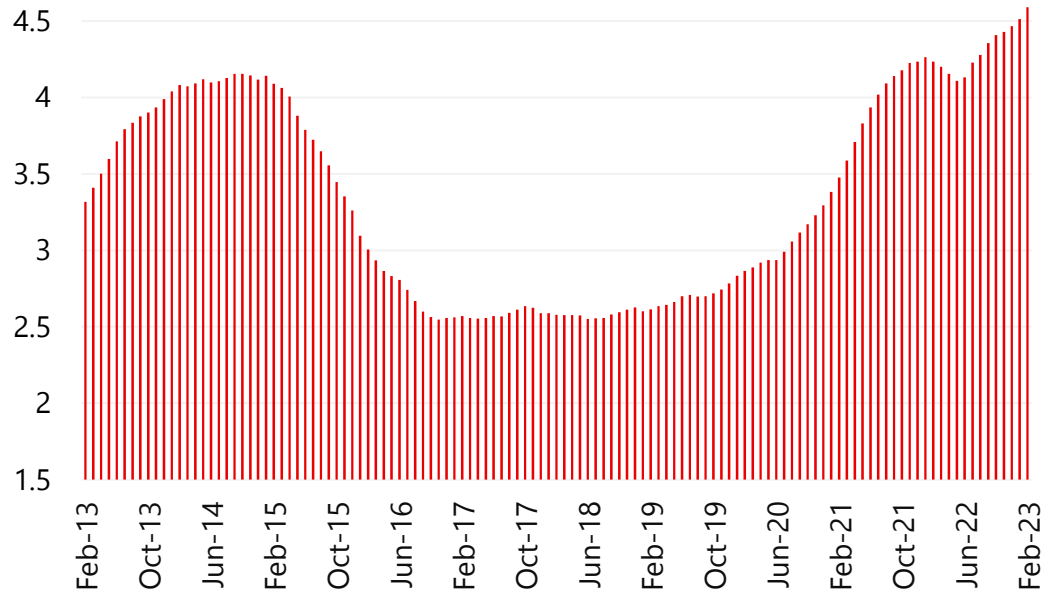
- In the earmarked segment, loans to households decreased 1.2% MoM-sa in February .
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* (12 months acum.)

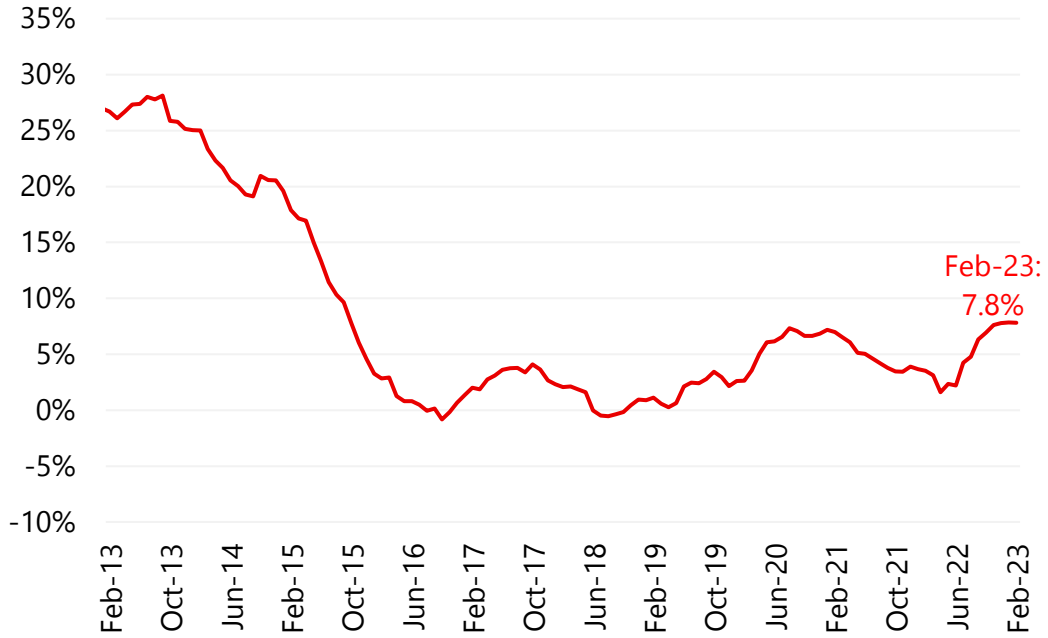


Sources: Brazilian Central Bank, Santander.
* Millions, Inflation adjusted and seasonally adjusted

Real Estate: kept the same growth rate

- For the third month in a row, the outstanding balance of Real estate financing rose 7.8% YoY in February.
- New loans presented a strong fall of 10.7% MoM-sa, after January strong rise of 14.4% MoM-sa.

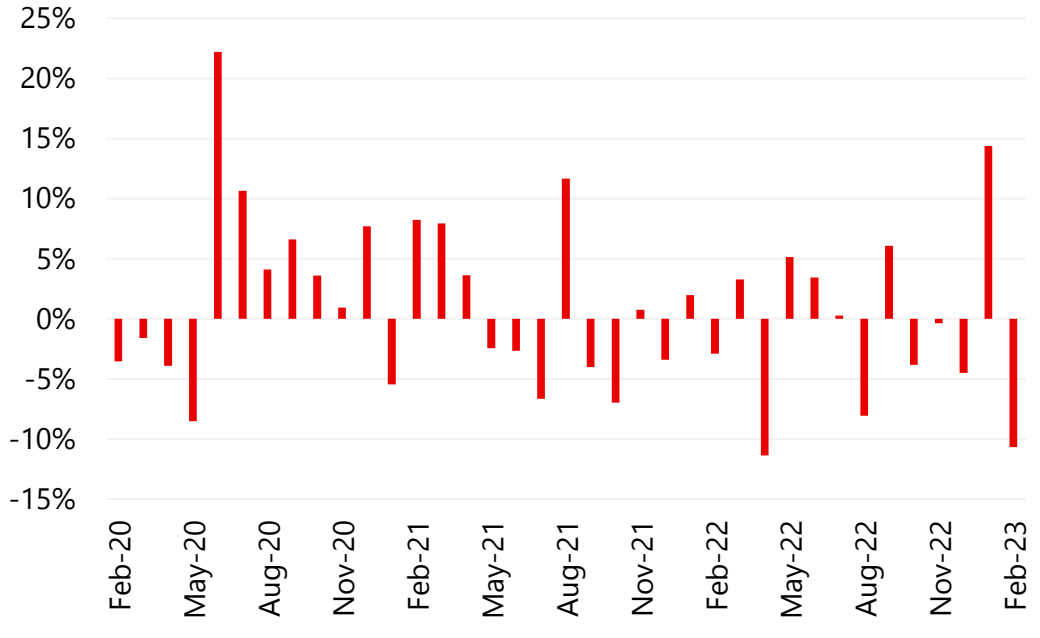
Outstanding Balance* – Real Estate Financing (% YoY)



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans (% MoM)

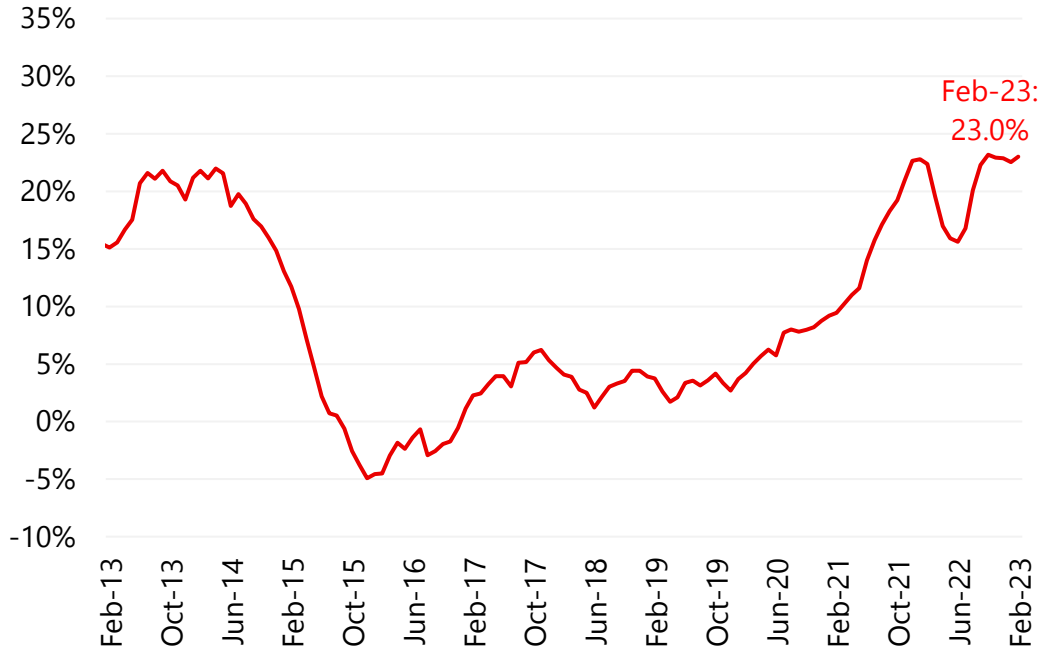


Sources: Brazilian Central Bank, Santander.

Rural Credit

- The outstanding balance of Rural Credit is at a high level (23% YoY), a rise of 0.5 p.p. from January 2023.
- New loans showed a tepid variation of -1.28% MoM-sa, after January's strong rise of 11.4% MoM-sa.

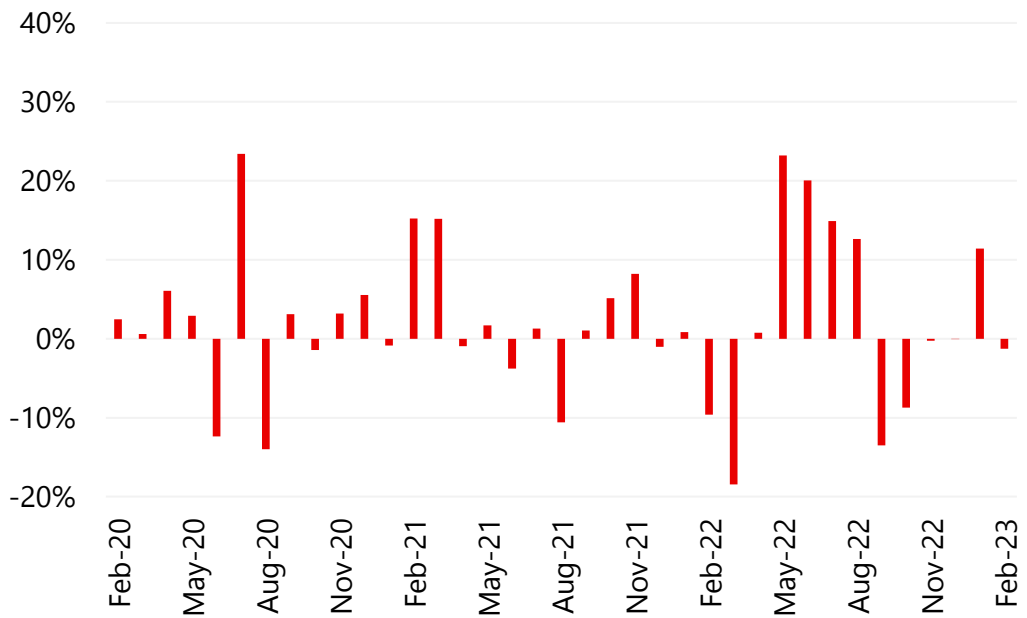
Outstanding Balance* – Rural Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

New Loans - Rural Credit (% MoM)

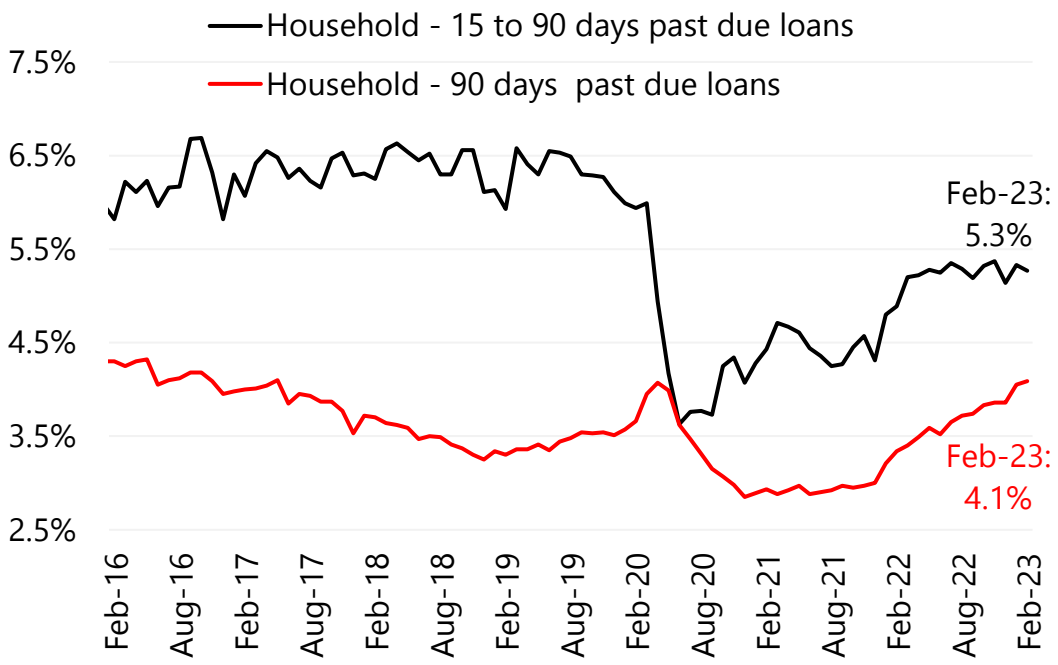


Sources: Brazilian Central Bank, Santander.

Families Indebtednes - Breakdown

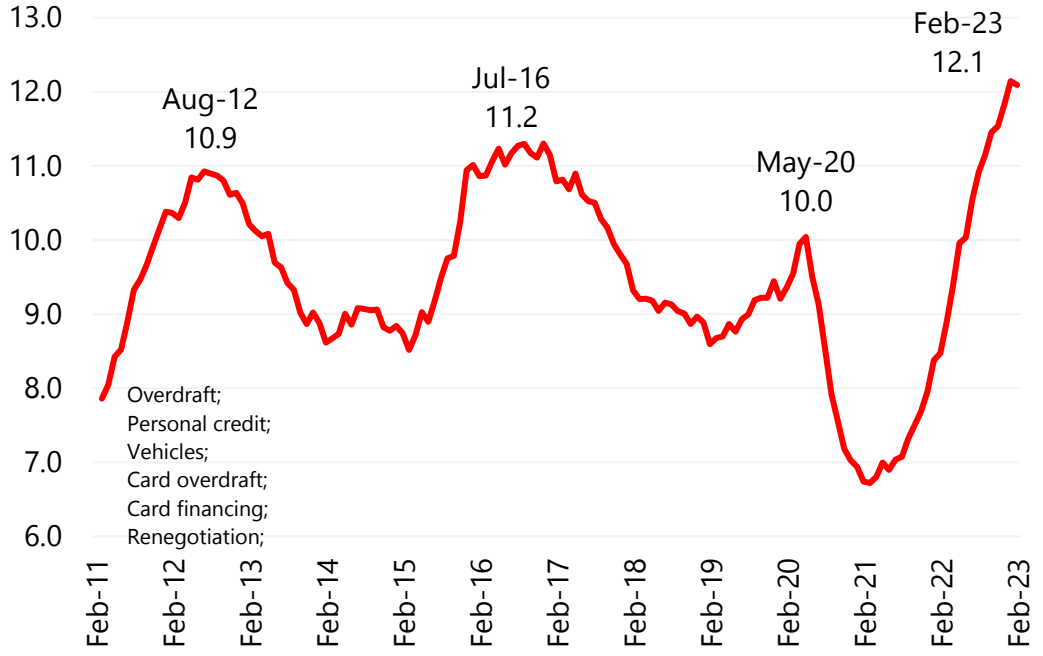
- The arrears are giving warning signs. And the delinquent loans are starting to rise. The Core Household NPL indicator considers only the most "problematic" categories, that is, those that represent the non-earmarked delinquency of families. So, we see that NPL is higher than at the peak of the 2016 crisis, and with an upward trend.

Household – Past Due Loans



Sources: Brazilian Central Bank, Santander.

Core* Household NPL



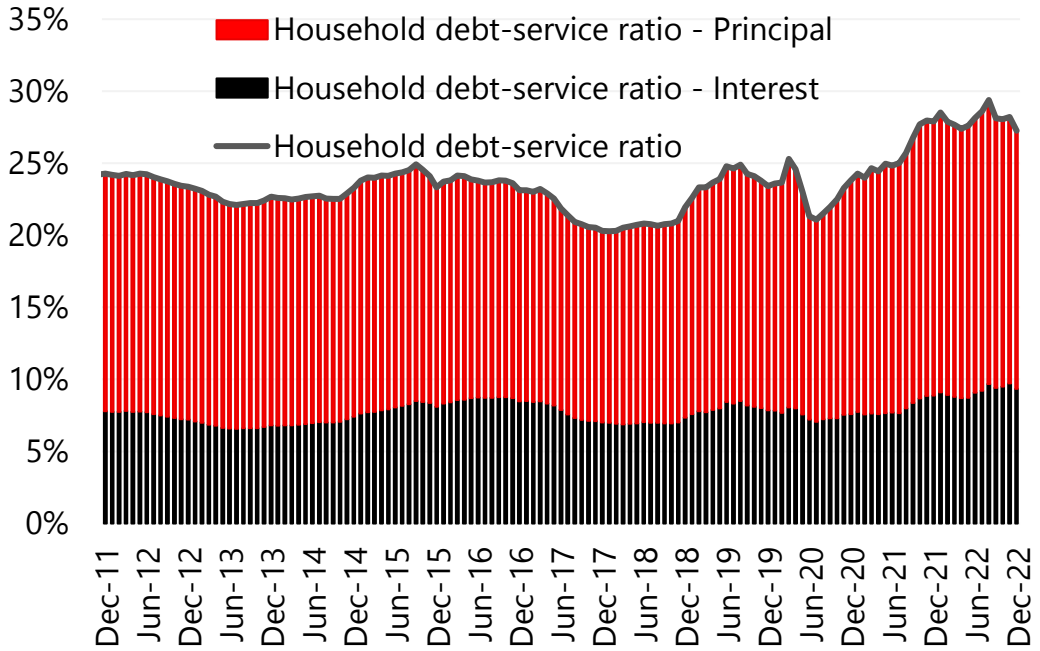
Sources: Brazilian Central Bank, Santander.

* This NPL considers the following categories : Overdraft, Non-Payroll Personal Credit, Vehicles, Credit Card and Renegotiation

Families Indebtednes - Breakdown

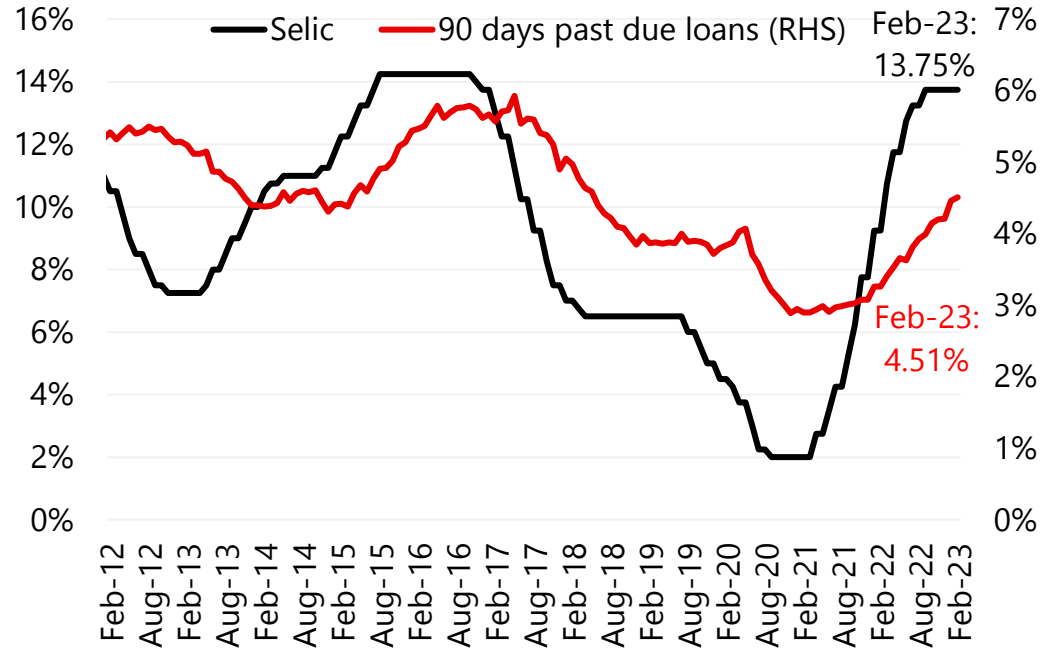
- The household debt service ratio is higher than pre-pandemic levels, but it has been decelerating.
- With the high Selic, arrears continues to rise as well.

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

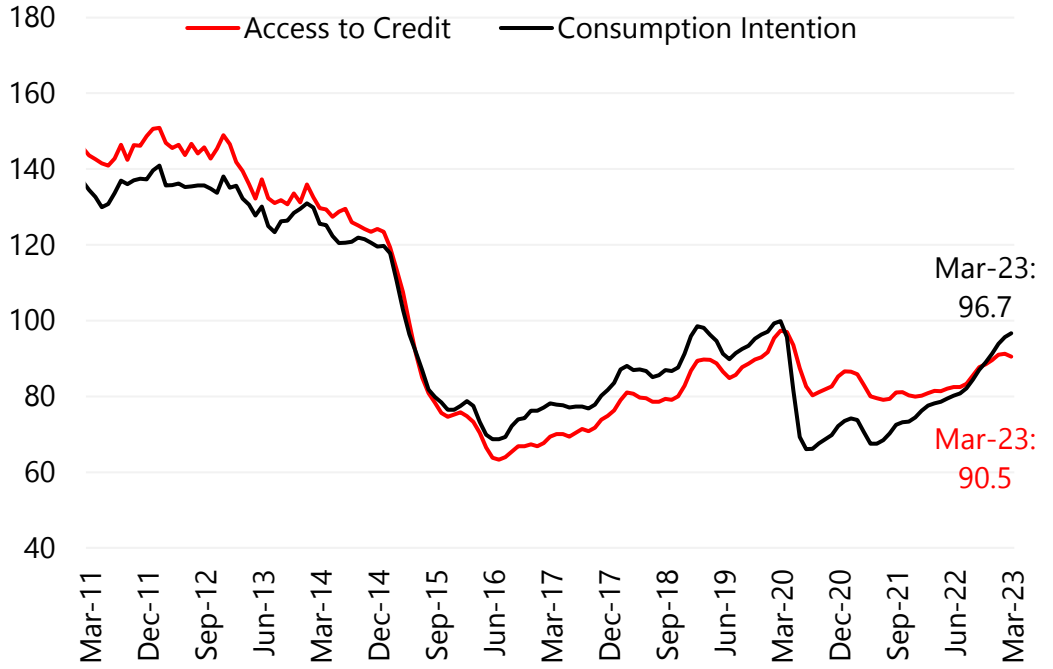


Sources: Brazilian Central Bank, Santander.

Household Consumption and Credit

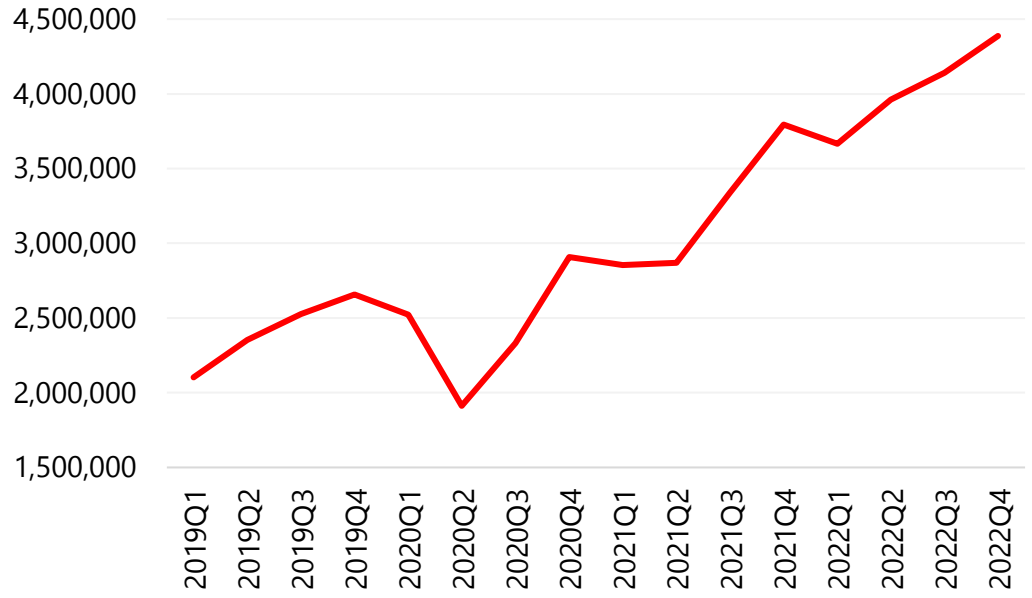
- Household consumption intentions keeping accelerating, despite inflation and higher interest rates. This can be attributed to income support measures and the positive evolution of the labor market. Consumption has relied on personal credit, such as credit cards

Household Consumption Intention



Sources: CNC, Santander.

Credit Cards – Volume of transactions

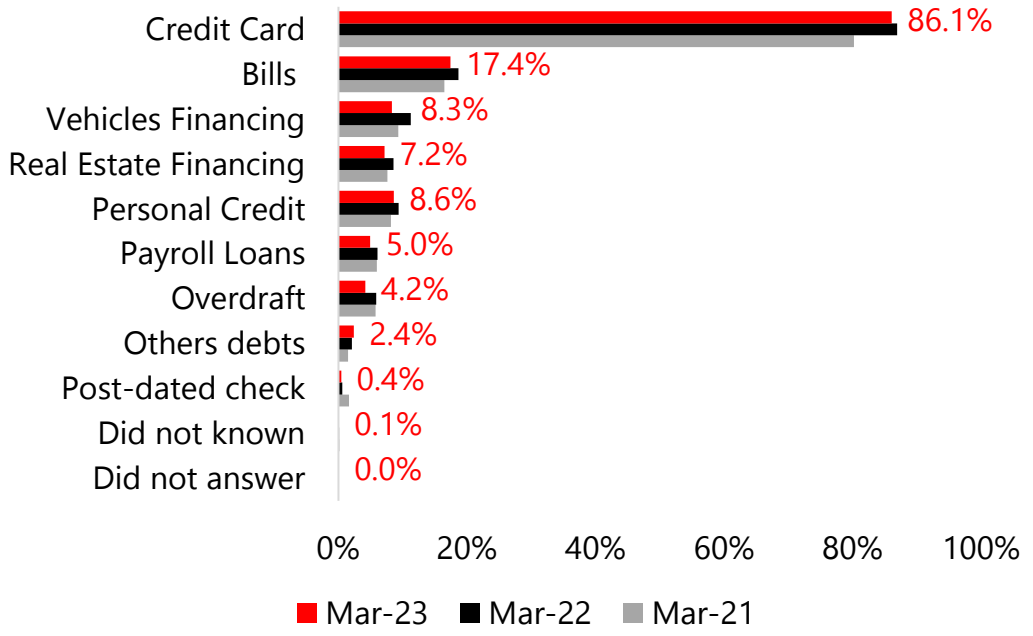


Sources: Brazilian Central Bank, Santander.

Families Indebtednes: by type

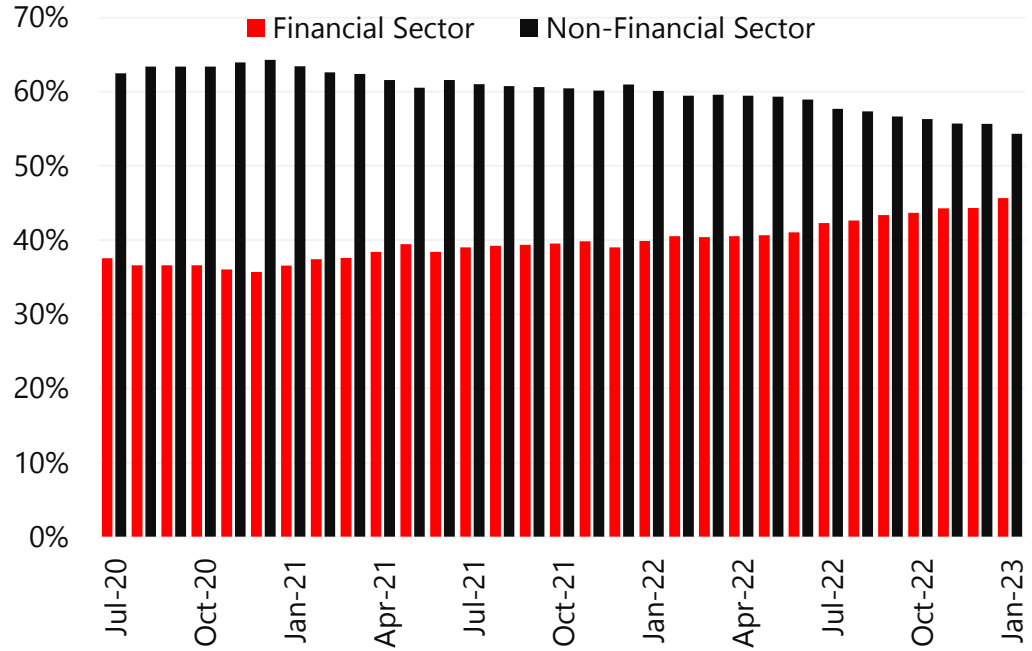
- There was a deceleration in Credit cards as a type of debt, but still, more than 86% of families have this type of debt.
- And most of the debts are in the non-financial sector, and it is slowing down. Debt in the financial sector is also rising.

Household Debt – By Type



Sources: CNC, Santander.

Household Debt – By Sector

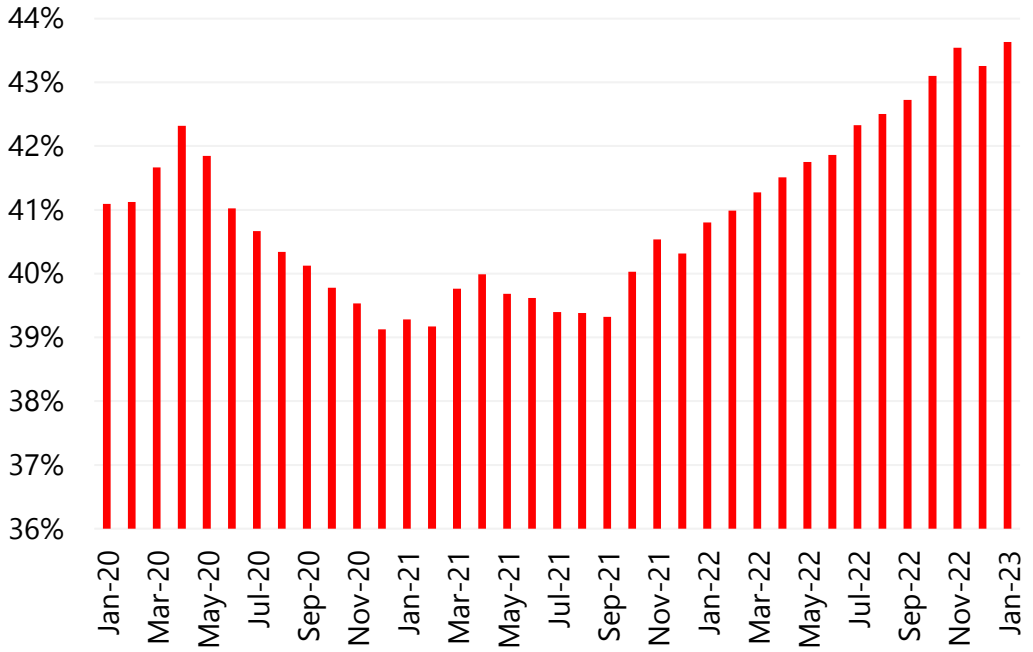


Sources: Serasa Experian, Santander.

Families Indebtednes: a new peak

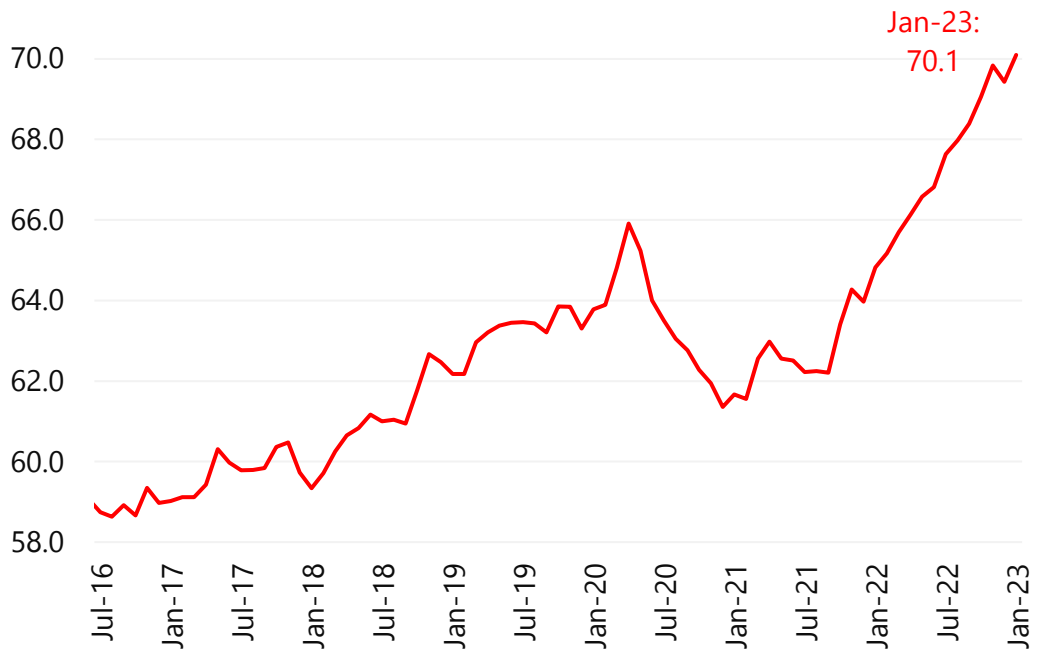
- In January 2023, 43.1% of the adult population is in debt, which is a new peak of the series. This is more than 70 million people, also, a new peak of the series.

Defaulting Population (% of the Adult Population)



Source: Serasa Experian, Santander.

Household Defaulting*



Source: Serasa Experian, Santander.

* Millions

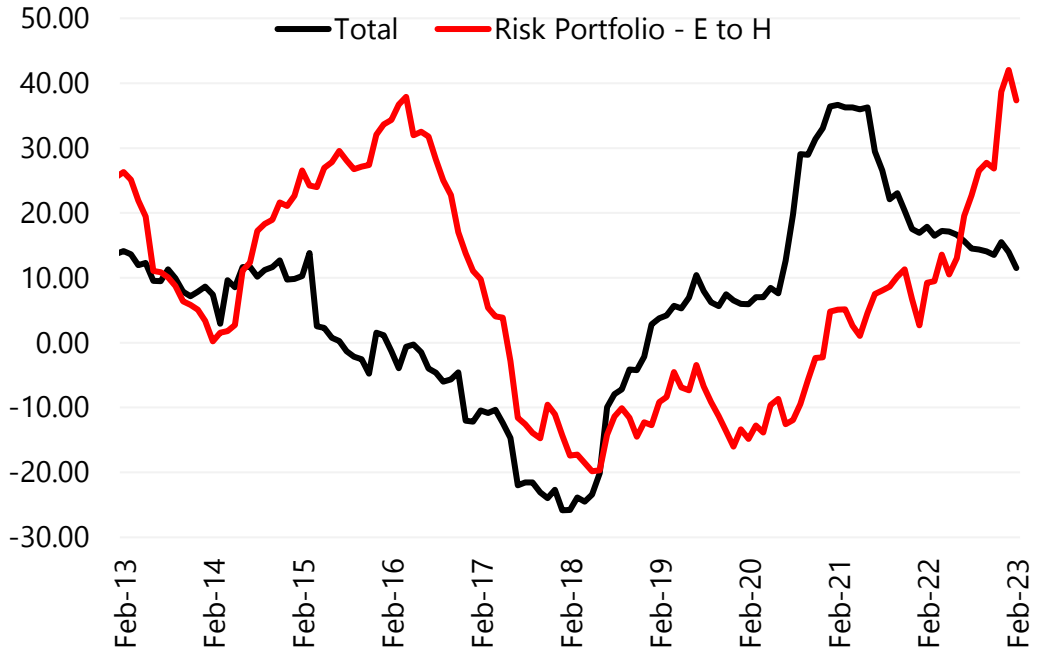
CORPORATE

03

Riskier portfolios (E to H) - Company credit

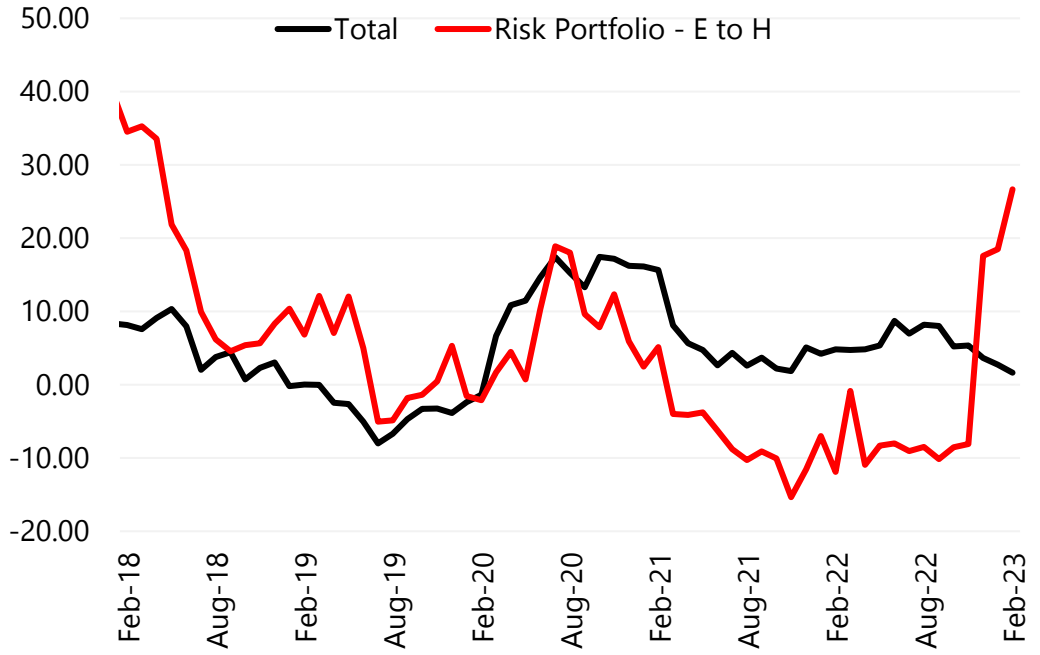
- The Risk portfolio has grown faster than the total portfolio for micro and small companies.
- For large companies, the atypical event at the end of 2022 caused the sharp increase observed; but there are no structure problems for this group of companies..

Total Portfolio vs Risk Portfolio – SMEs (% YoY)



Fontes:: SFN, Santander.

Total Portfolio vs Risk Portfolio – Large (% YoY)

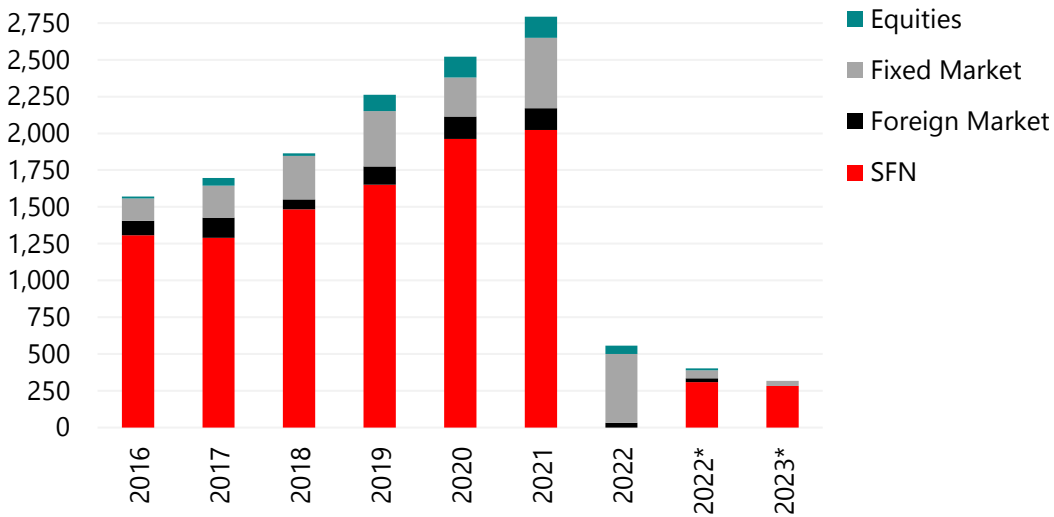


Fontes:: SFN, Santander.

Bank lending smaller compared year-ago period

- Considering total corporate financing YTD through February 2023 (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 62.2% smaller, with SFN concessions also down 9%.
- As a result, total corporate financing was 21.2% lower than 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 and FIDCs.
Equity - IPO and follow-on.

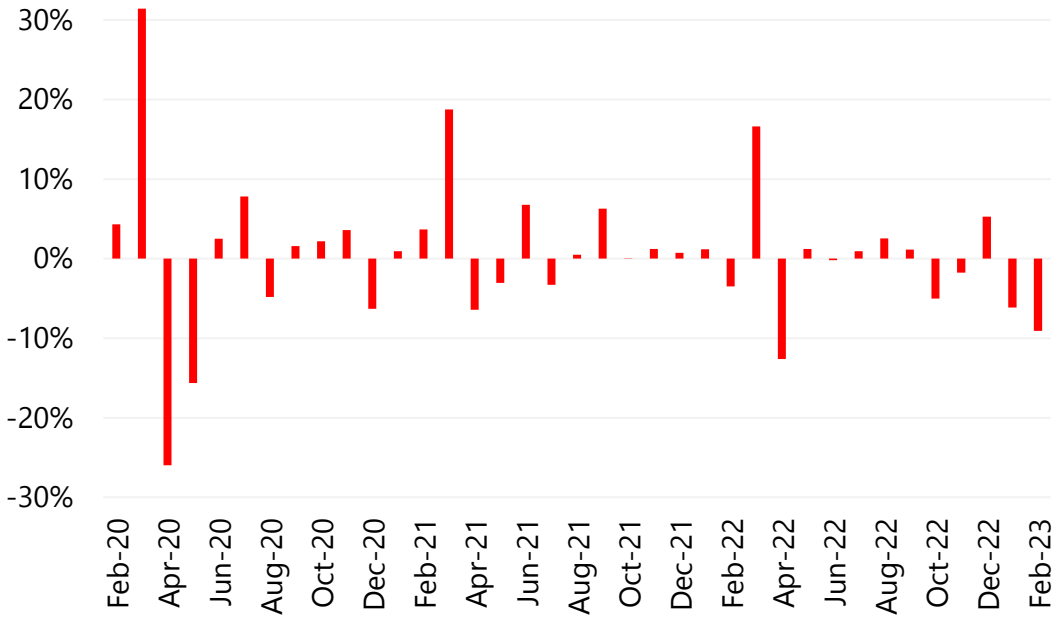
*January~February

Sources: BCB, Anbima, Santander.

The non-earmarked segmented

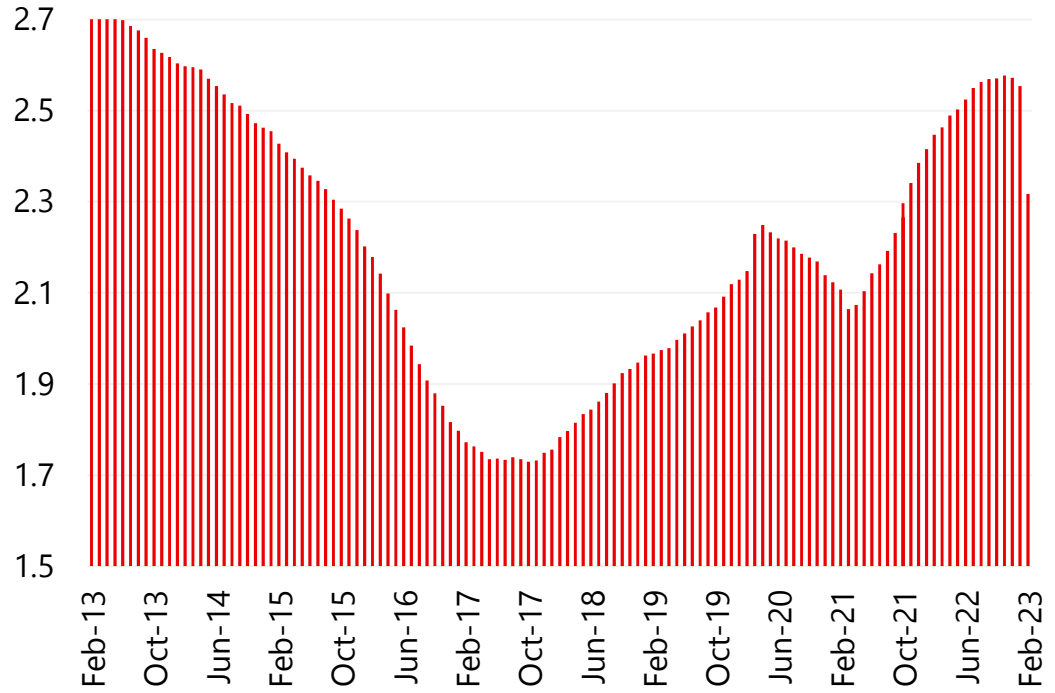
- For companies, there was a decrease of 8.7% MoM-sa in February in the non-earmarked segment,

Non-Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

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

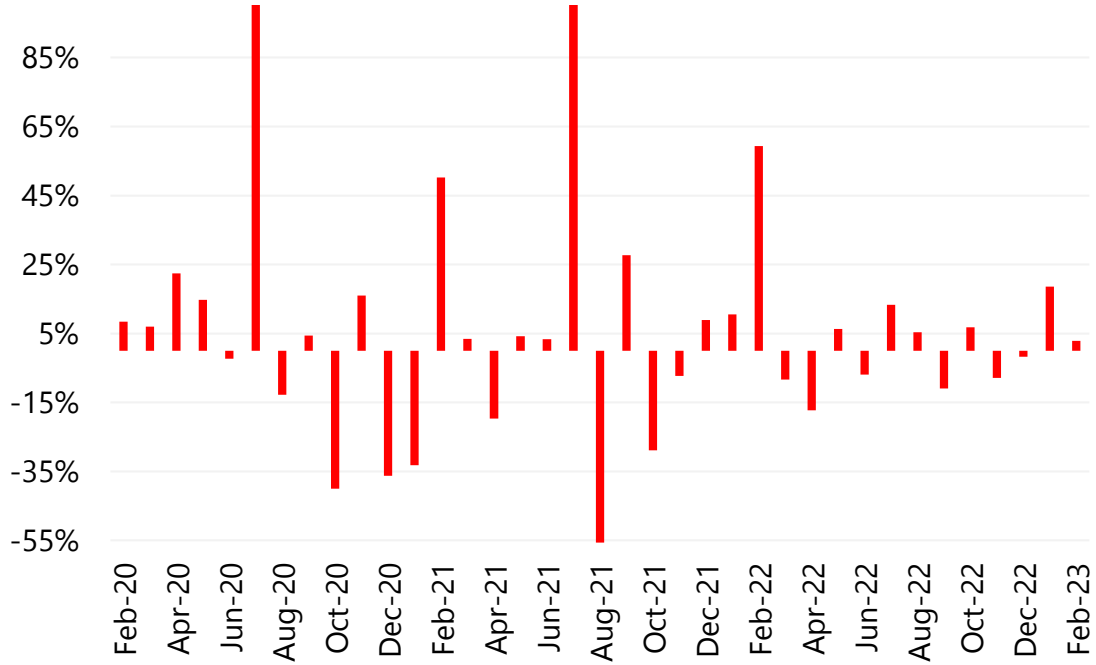


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

The Earmarked segmented

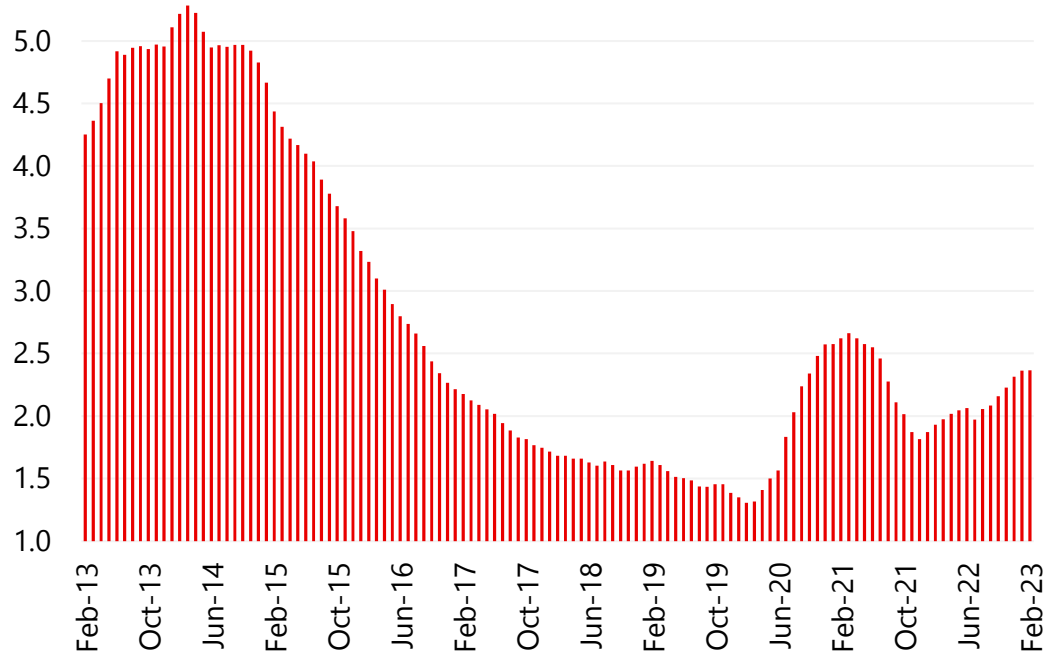
- For companies, the earmarked segment posted a tepid increase of 0.8% MoM-sa.

Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

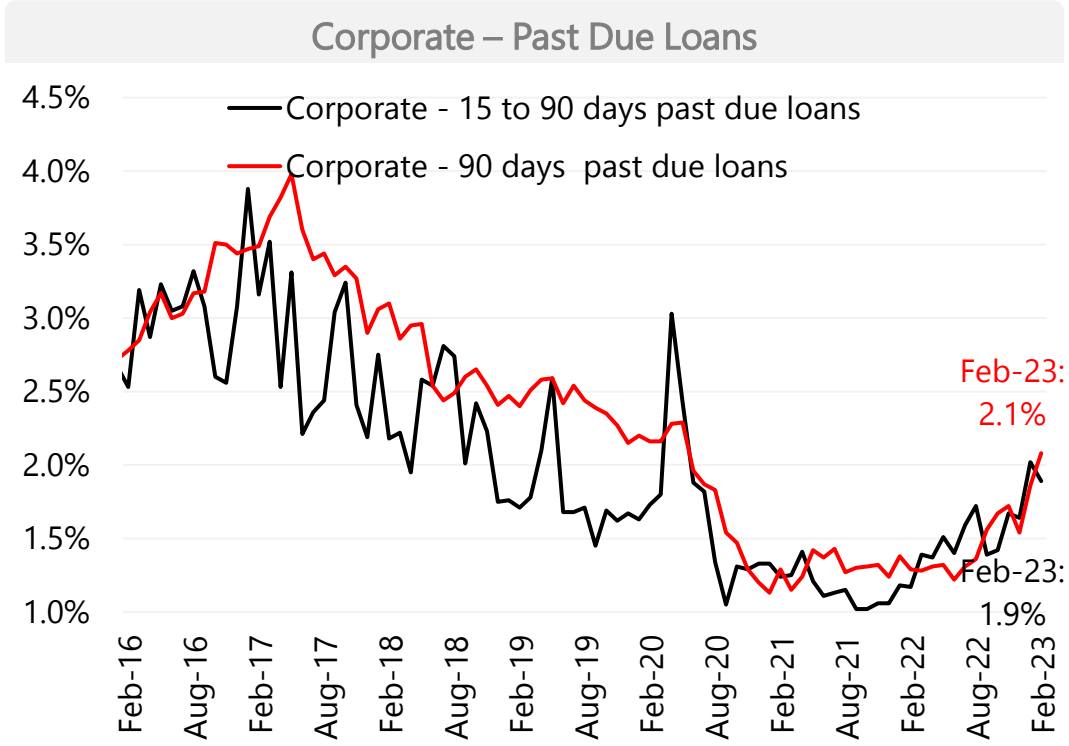
Earmarked - New Loans* (12 months acum.)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- Eyeing arrears to anticipate warning signs

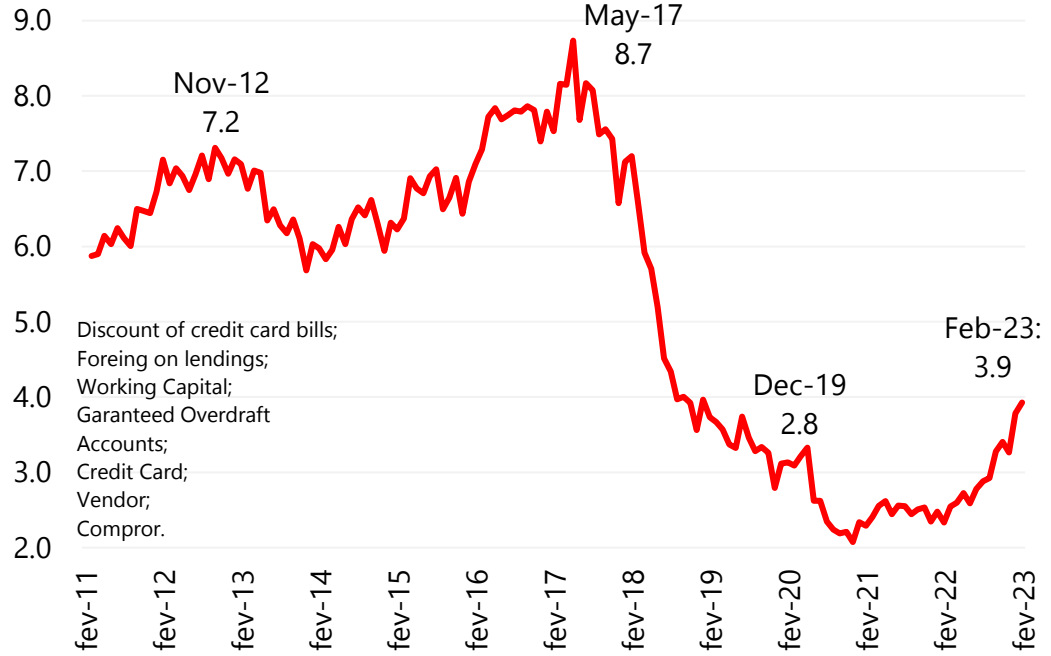


Sources: Brazilian Central Bank, Santander.

Corporate Data: show some concern

- For Corporate, NPL is at a low level of series but has been rising.
- As for risk level, it is also at a low level of series, but Big companies showed a fast rise since last year.

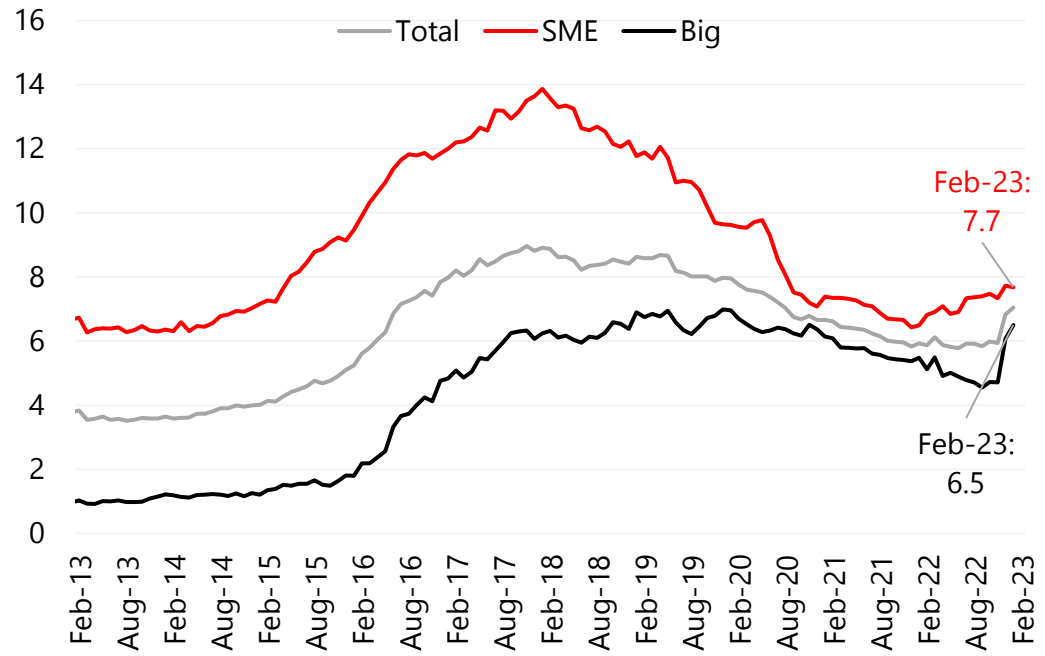
Core* Corporate NPL



Sources: BCB, Santander.

* This NPL considers the following categories: Discount of credit card bills, Foreing on lendings, Working capital, garanteed overdraft accounts, Credit card, Vendor, Compror.

Risk Level Balance – By Company Size

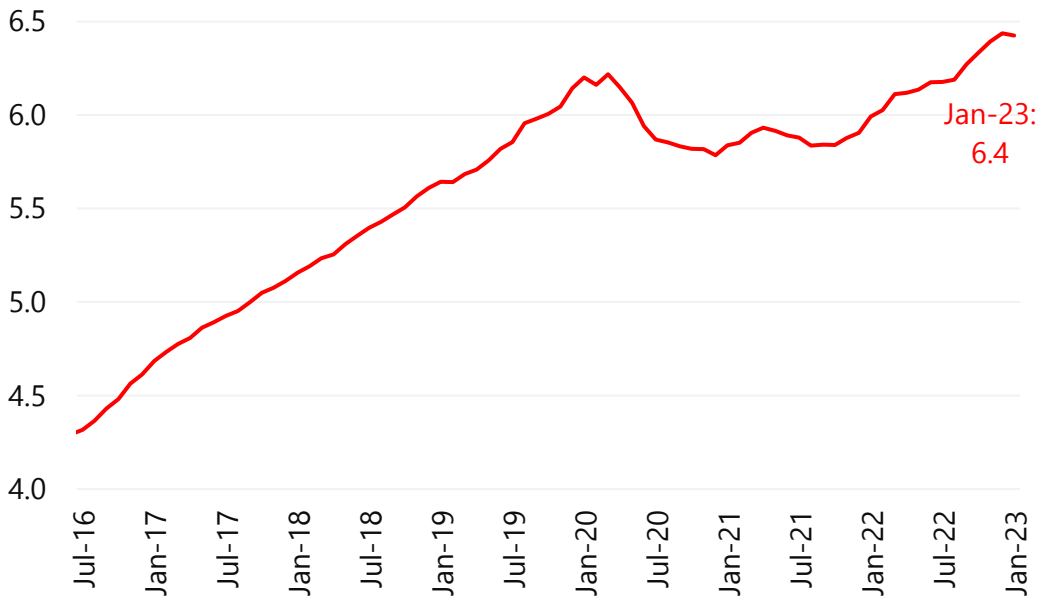


Sources: BCB, Santander.

Corporates defaulting: still not a big problem

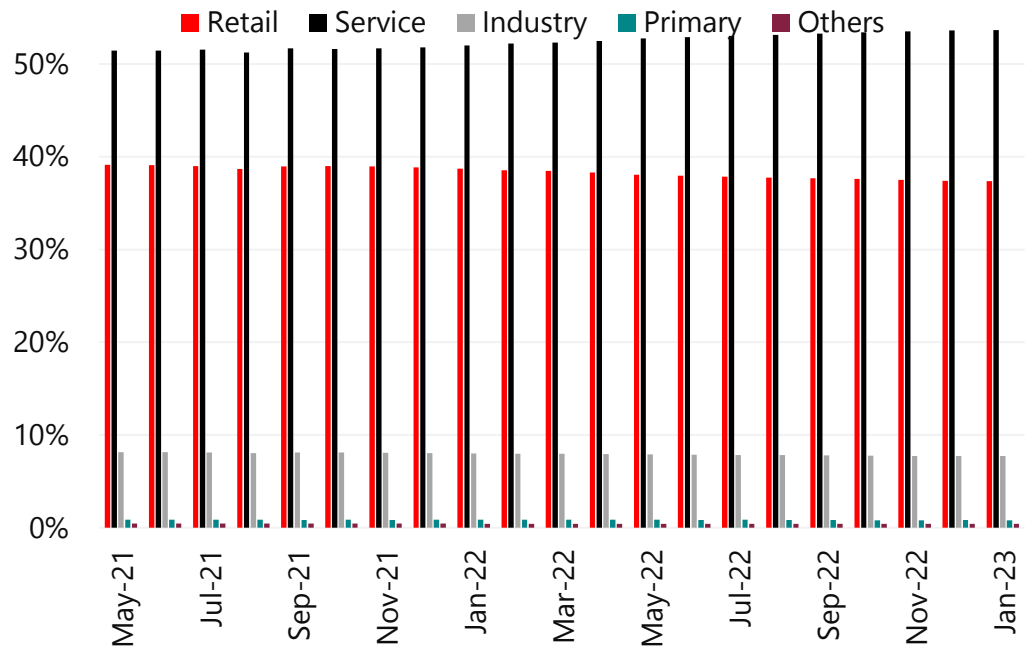
- The number of defaulting companies reached 6.4 million in January (Jan-2022: 6.0 million).
- Retail and Service sectors are the most sectors that have a default

Corporate Defaulting - Million



Sources: Serasa Experian, Santander.

Total Default – By Sector



Sources: Serasa Experian, Santander.

Forecasts

04

Credit: Our forecasts for outstanding loans & delinquency

Nominal Credit Outstanding (%YoY)	2019	2020	2021	2022	2023e	2024e	2025e
Total	**6.4%**	**15.6%**	**16.3%**	**14.0%**	**4.7%**	**9.0%**	**9.0%**
Household	11.9%	11.1%	21.0%	17.7%	7.3%	8.9%	8.7%
Non-fin. Corp.	-0.3%	21.8%	10.5%	9.0%	0.8%	9.1%	9.6%
Nonearmarked	**13.9%**	**15.4%**	**20.4%**	**14.1%**	**3.7%**	**9.3%**	**9.4%**
Household	16.5%	10.7%	23.0%	17.4%	7.9%	9.2%	8.9%
Non-fin. Corp.	10.8%	21.2%	17.4%	10.1%	-1.7%	9.5%	10.2%
Earmarked	**-2.4%**	**15.9%**	**10.9%**	**14.0%**	**6.8%**	**9.2%**	**9.3%**
Household	6.6%	11.7%	18.5%	18.0%	6.5%	8.5%	8.5%
Non-fin. Corp.	-14.0%	22.8%	-0.3%	6.9%	5.5%	8.4%	8.6%

Credit Conditions	2018	2019	2020	2021	2022	2023e	2024e	2025e
Non-performing loans (Non-Earmarked)	**3.9**	**3.7**	**2.9**	***3.1***	***4.2***	***4.8***	***4.6***	***4.1***
Household	4.8	5.0	4.2	*4.4*	*5.9*	*6.2*	*5.8*	*5.4*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*2.1*	*2.9*	*2.8*	*2.3*
Household Indebtedness	**39.0**	**41.5**	**41.6**	***49.7***	***49.0***	***50.4***	***50.6***	***50.3***
Household debt service ratio	**23.0**	**23.0**	**22.1**	***26.1***	***27.3***	***28.2***	***28.4***	***30.6***

Sources: Santander.

Thank you.

Our purpose is to help people and businesses prosper.

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

Simple Personal Fair

Santander

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