



Brazil Macro | December 2021

Credit

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BRIEF OVERVIEW

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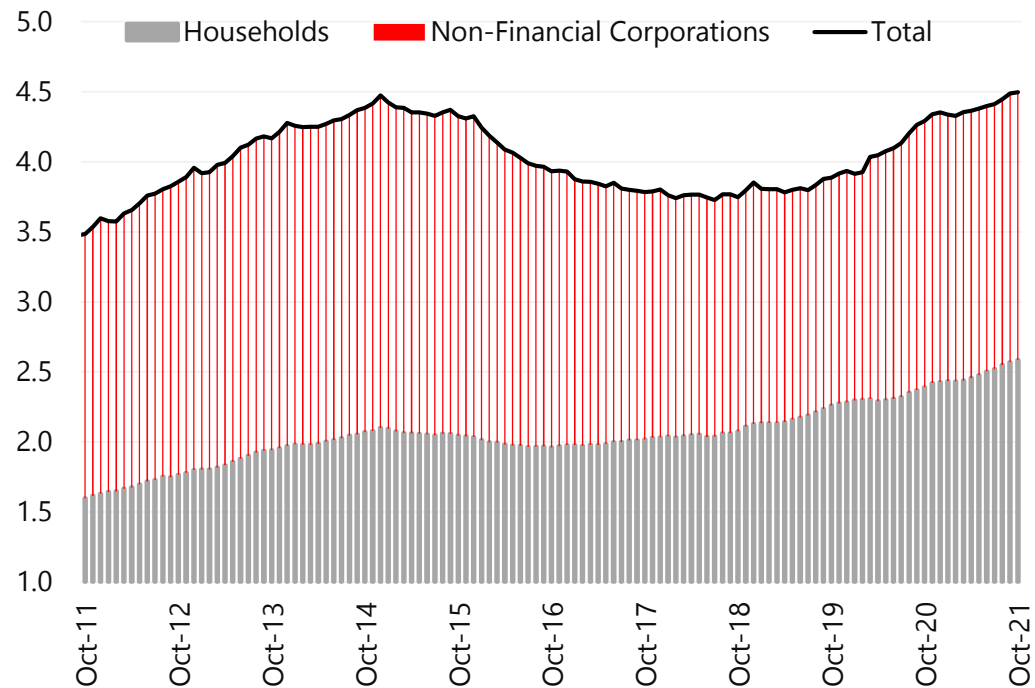
SUMMARY

- **We are revising our projections for total outstanding loan growth from 9.7% to 12.7 in 2021 and remaining at 6.3% in 2022, 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 segment posted a decrease of 1.6% MoM-sa in October. In the earmarked segment, new loans recorded a decrease of 0.5% MoM-sa.
- For companies, there was a decrease of 0.5 % MoM-sa in October in the non-earmarked segment. The earmarked segment also registered a decrease of 28.4% MoM-sa after the last month rise (16% MoM-sa).
- Considering total corporate financing so far this year, through October vs. the year-ago period, issuances in the capital markets are 56.6% higher, while (SFN) concessions are now up 5.3%. As a result, total corporate financing is up 13% compared to the year-ago period.

Credit market still strong

- Total outstanding loans posted inflation-adjusted growth of 4.8% YoY to BRL4.5 trillion
- The growth rate of total outstanding loans remained the same at 16%

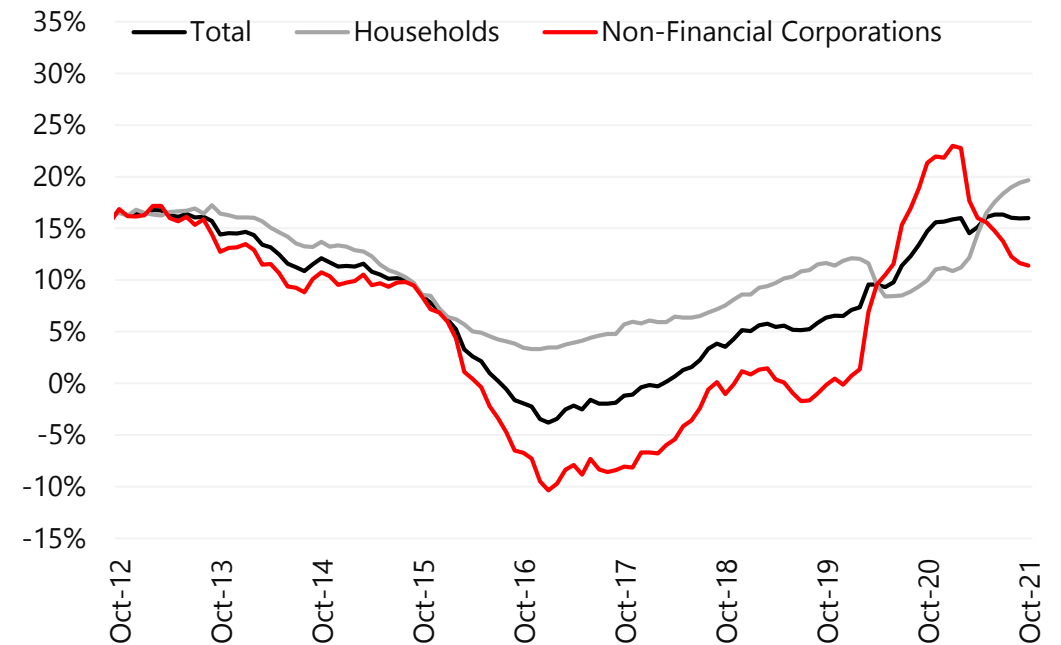
Total Outstanding Balance of Credit Operations



Sources: Brazilian Central Bank, Santander.

* BRL billion, inf. adj, seasonally adj.

Total Outstanding Balance of Credit – Growth Rate (%)



Sources: Brazilian Central Bank, Santander.

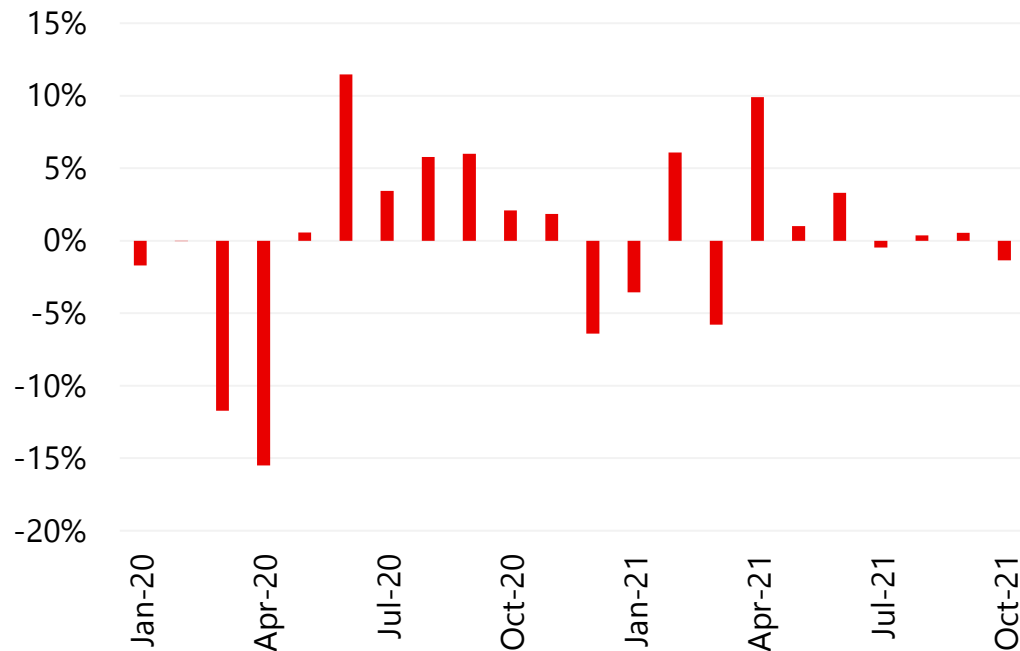
HOUSEHOLD

02

Non-Earmarked new loans posted a decrease

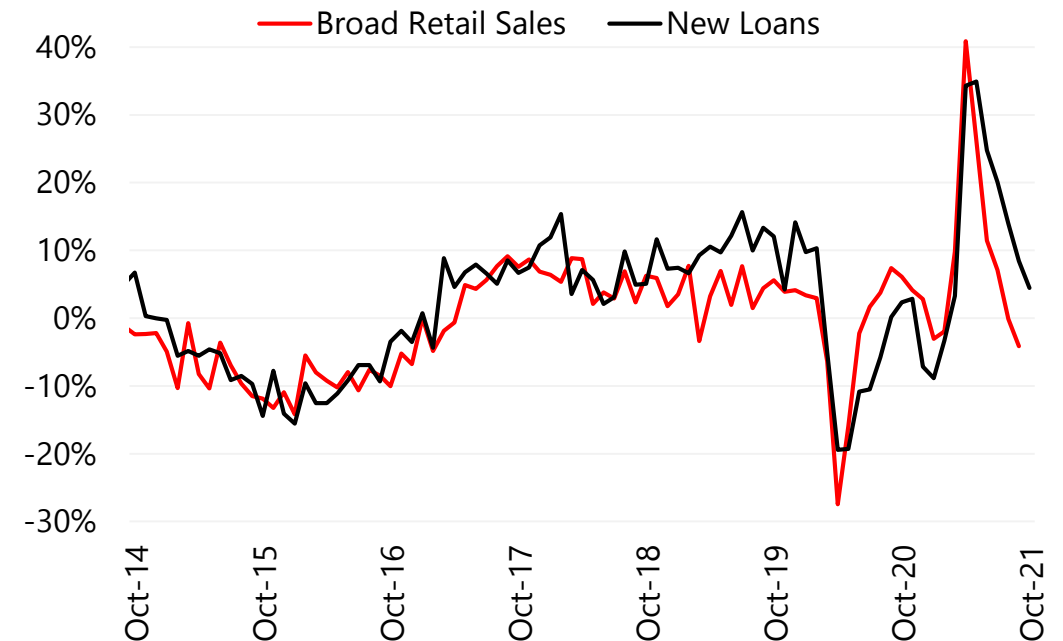
- For households, the non-earmarked segment posted a decrease of 1.6% MoM-sa.
- This result is mainly composed of personal credit (-9.8% MoM-nsa) and vehicle purchase (-0.5% MoM-nsa).

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY New loans Household Non-Earmarked YoY

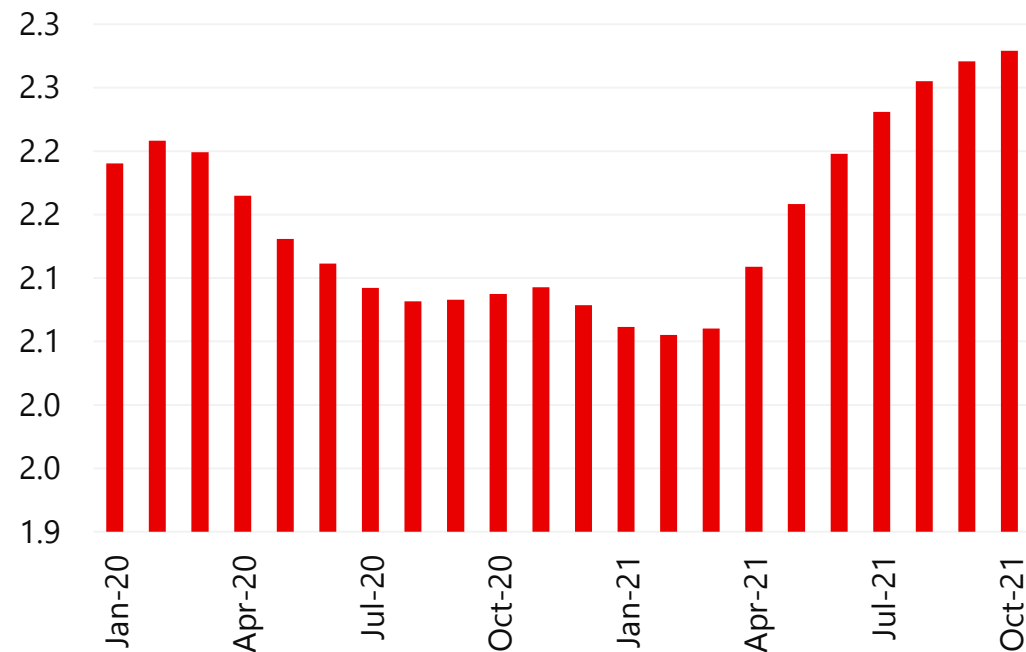


Sources: Brazilian Central Bank, Santander.

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

- The average of new loans grew 11.7% until October-21, compared to the same period in 2020.
- The average interest rate for non-earmarked new loan increased 2.5% p.p from September-21.

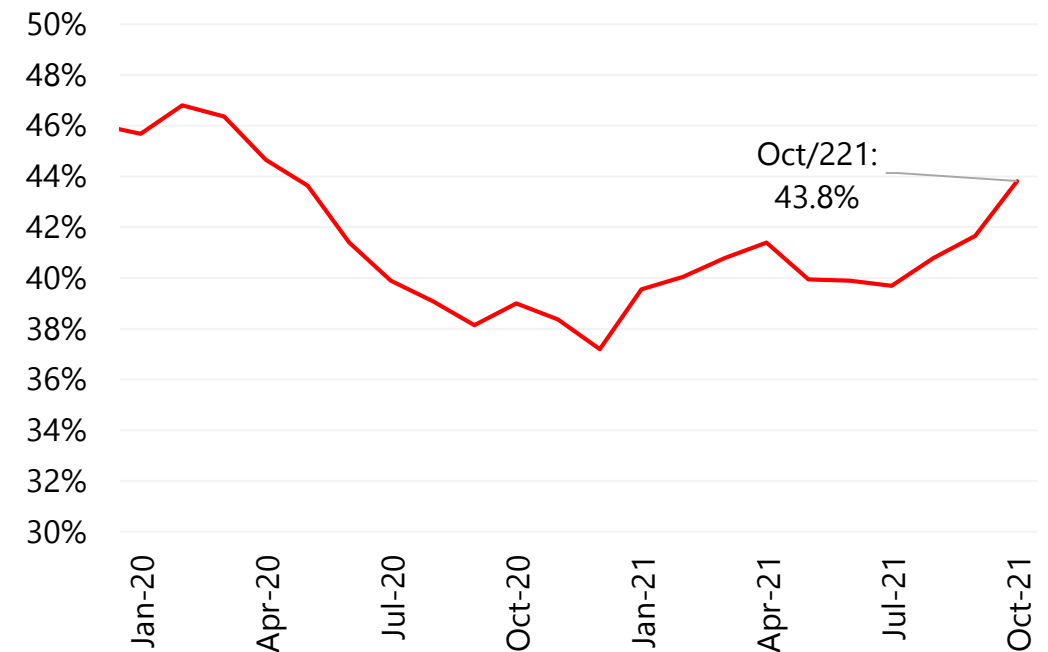
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

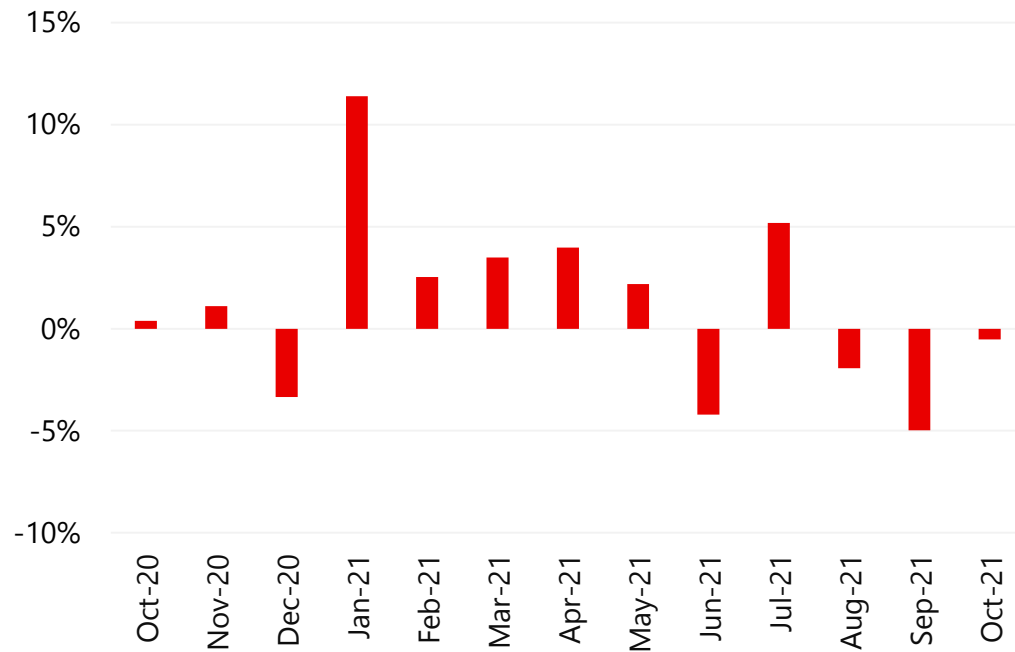


Sources: Brazilian Central Bank, Santander.

Earmarked new loans remains high, though decelerating at the margin

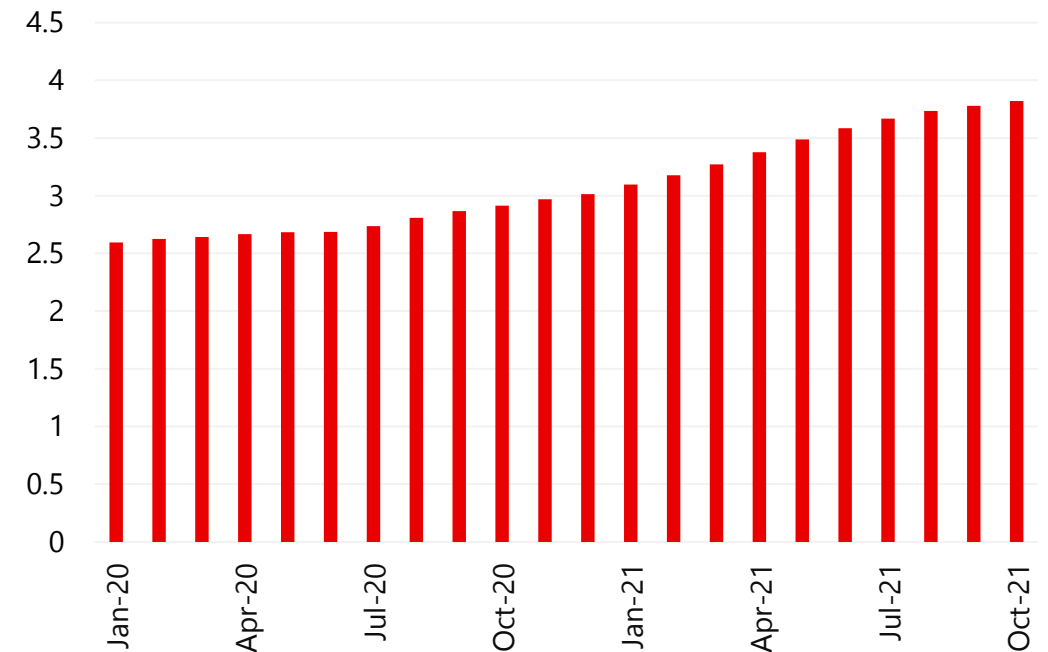
- For households, the earmarked segment posted a decrease of 0.5% MoM-sa.
- New Loans accumulated for 12 months are at historic highs due to the real estate financing.

Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* - 12 months acum.



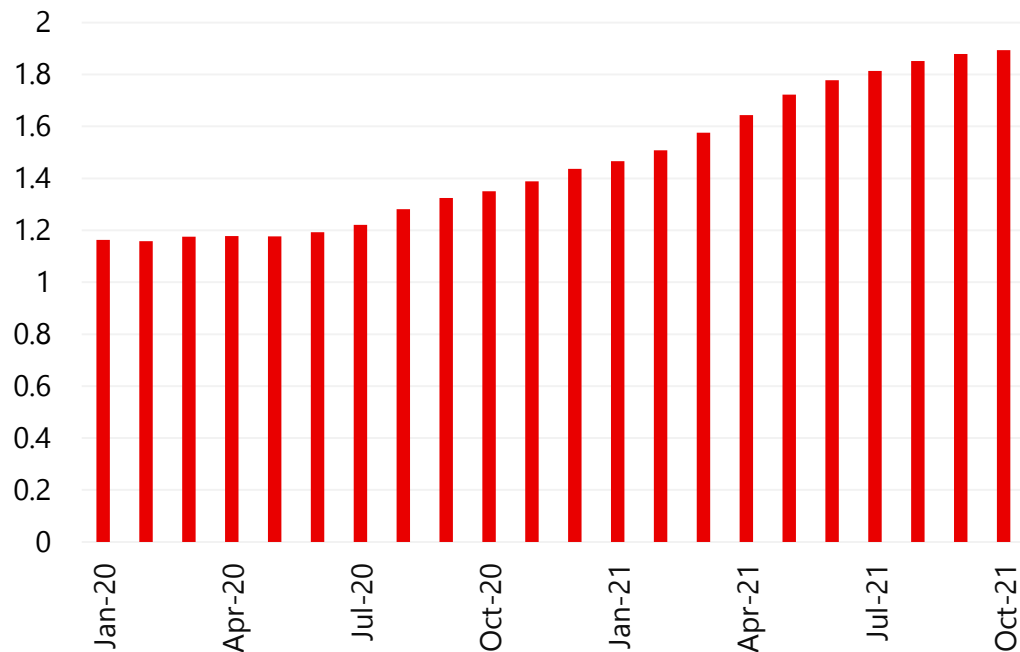
Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

Earmarked segment: Heated demand for Real Estate

- Real Estate Financing remains high (10.4% YoY), reflecting favorable financial conditions
- But it's decelerating at the margin (-5.1% MoM-nsa), mainly because of higher interest rates and economic uncertainty.

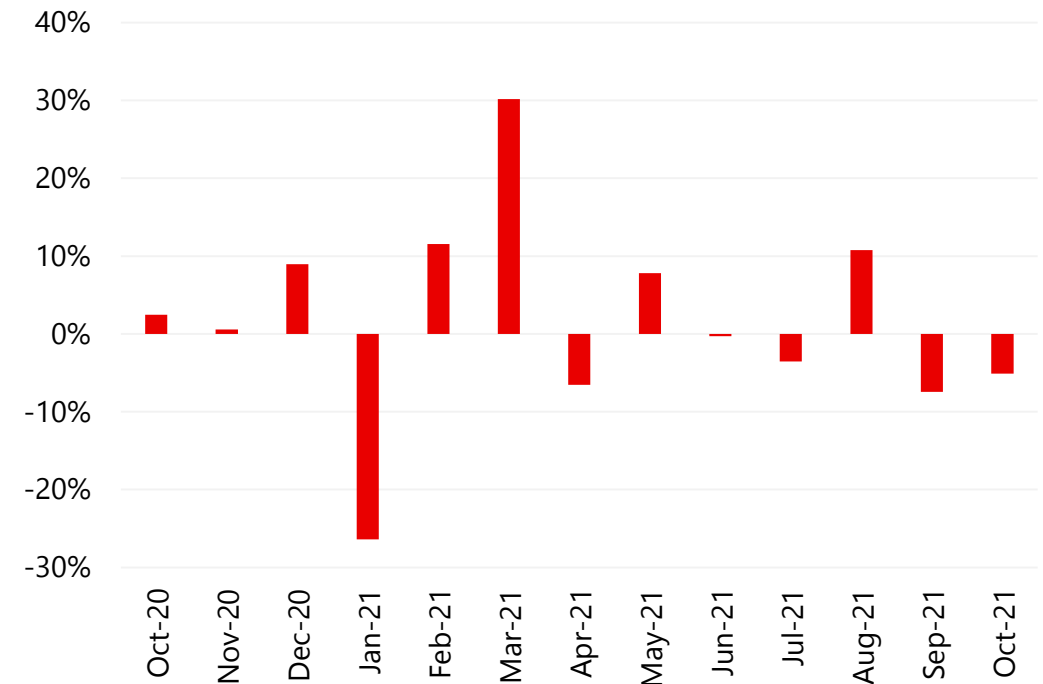
New Operations – Earmaked - Real Estate Financing* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans MoM

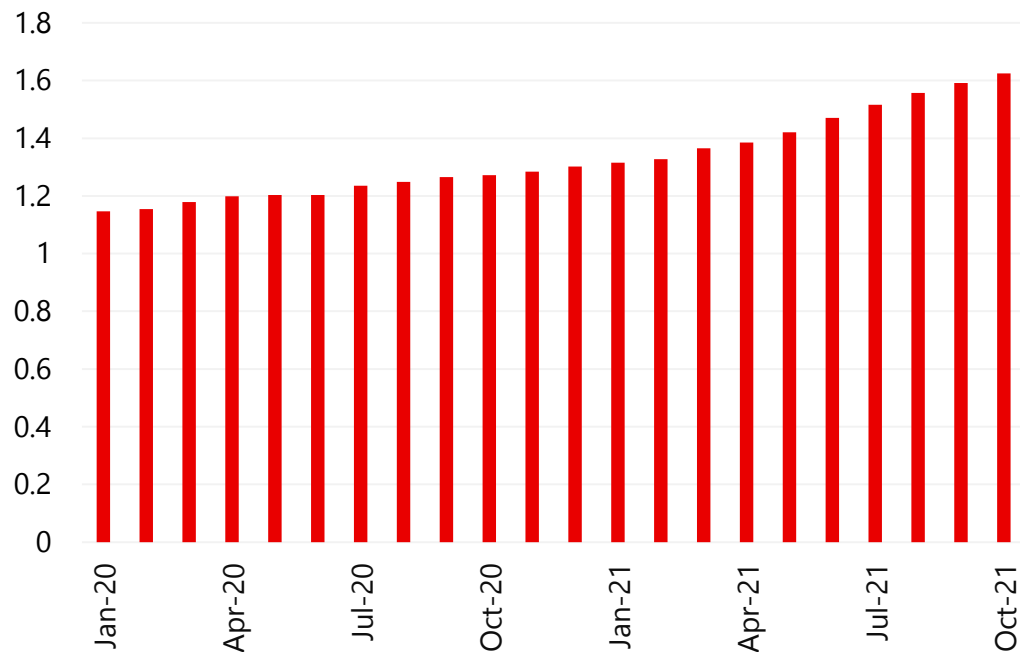


Sources: Brazilian Central Bank, Santander.

Earmarked segment: Heated demand for Rural Credit

- Rural Credit remains high (26.3% YoY), reflecting favorable financial conditions
- But it's decelerating at the margin (-11.6% MoM-nsa).

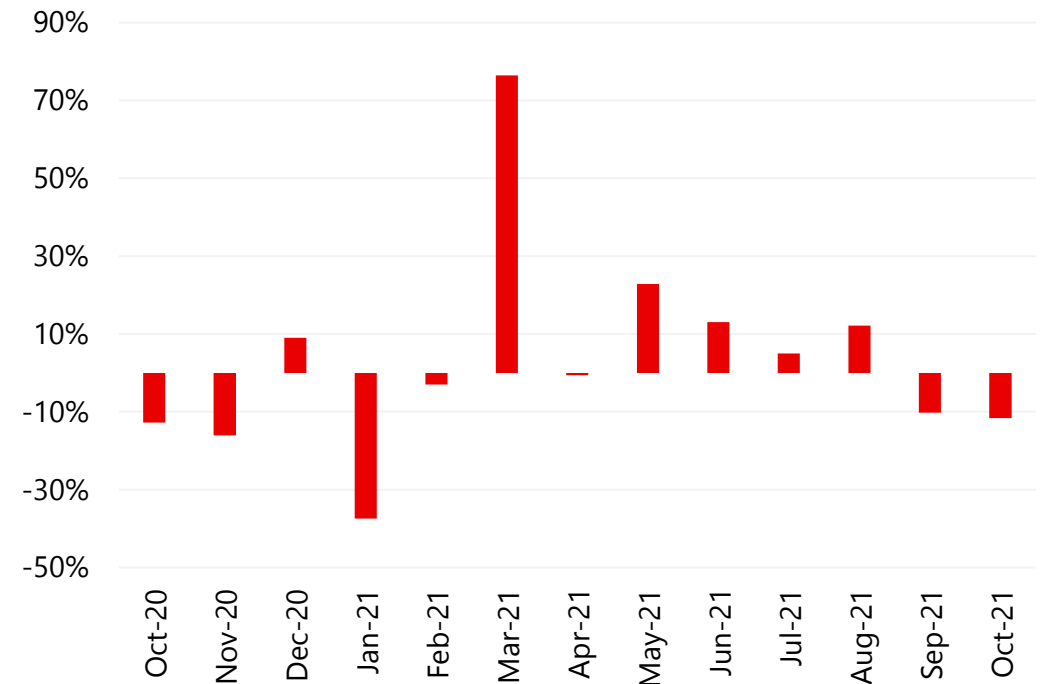
New Operations – Earmarked – Rural Credit Total* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

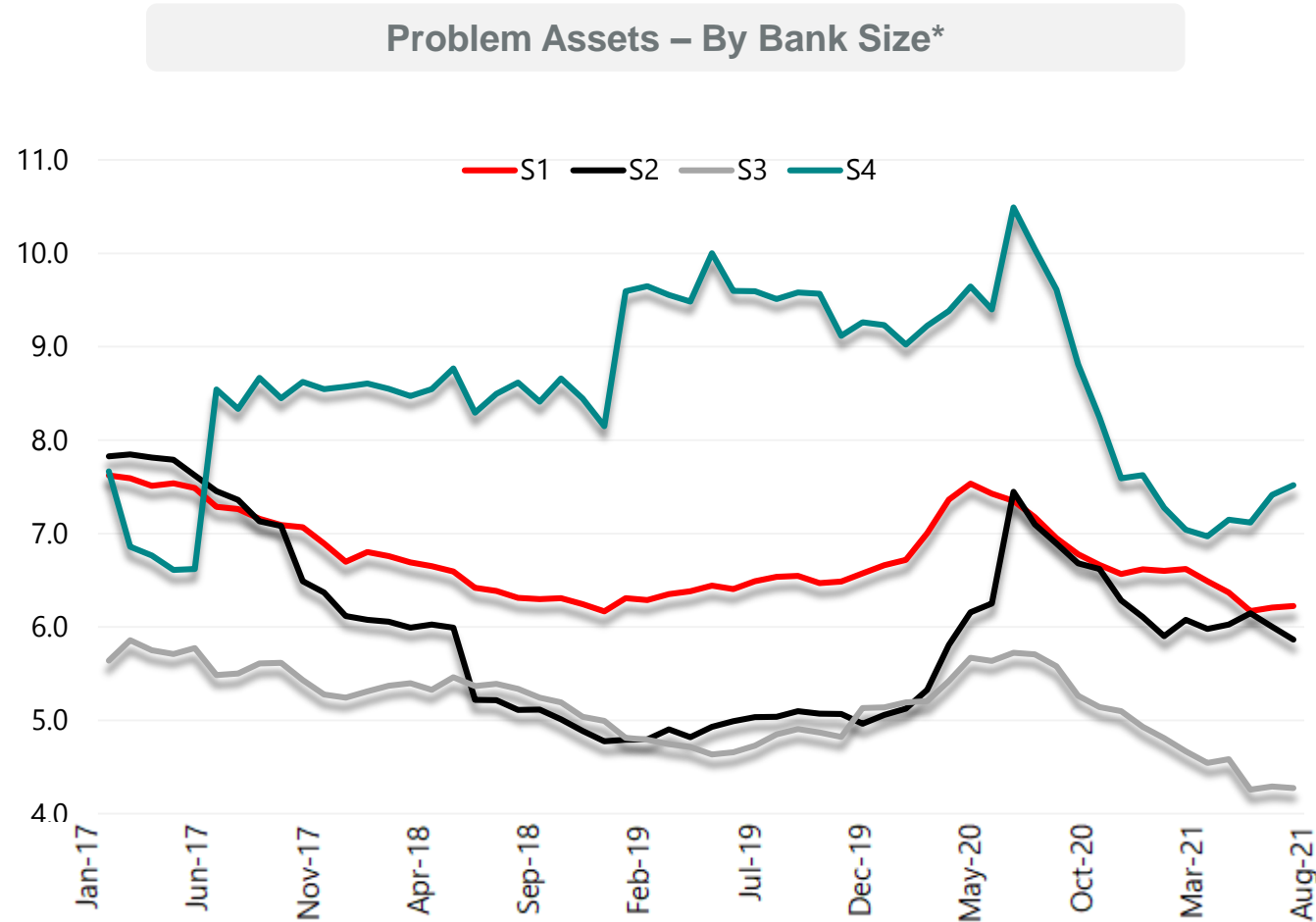
Rural Credit - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Early warning signs of Households default

- The riskiest (smaller) banks have more problem assets.

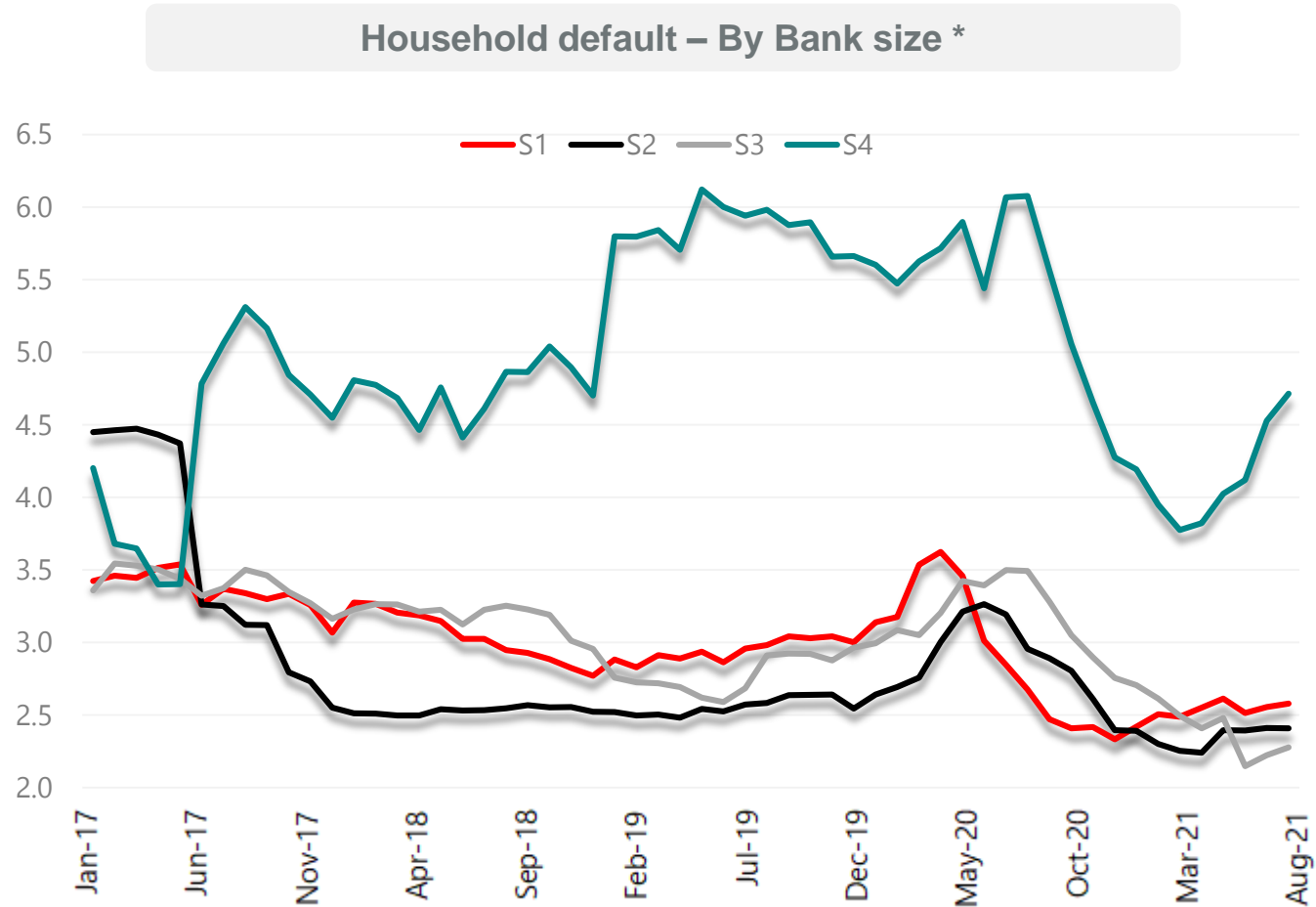


Sources: Brazilian Central Bank, Santander.

* The segmentation is about the size and international activity of the institutions, for more details available on: <https://bit.ly/banks-segments>

Early warning signs of Households default

- The riskiest (smaller) banks have more defaulting assets.



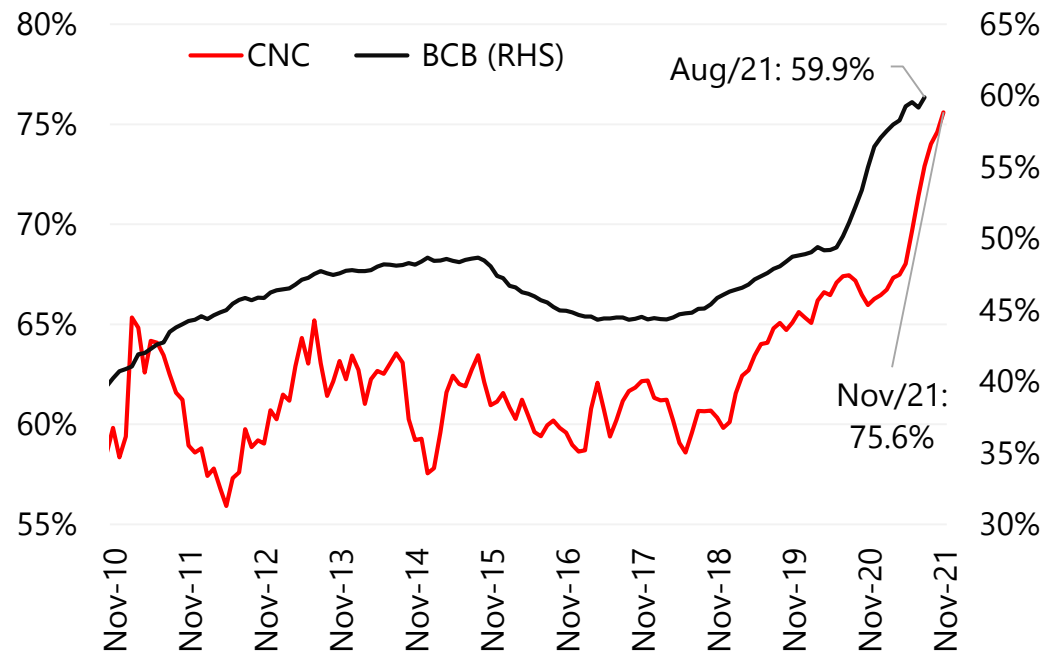
Sources: Brazilian Central Bank, Santander.

* The segmentation is about the size and international activity of the institutions, for more details available on: <https://bit.ly/banks-segments>

Families Indebtedness is the main (big) problem

- Household indebtedness keep rising fast, reaching the highest point in the series, 59.9% in August-21.
- The situation is getting worse due to the credit operations increasing and the household income stagnation.

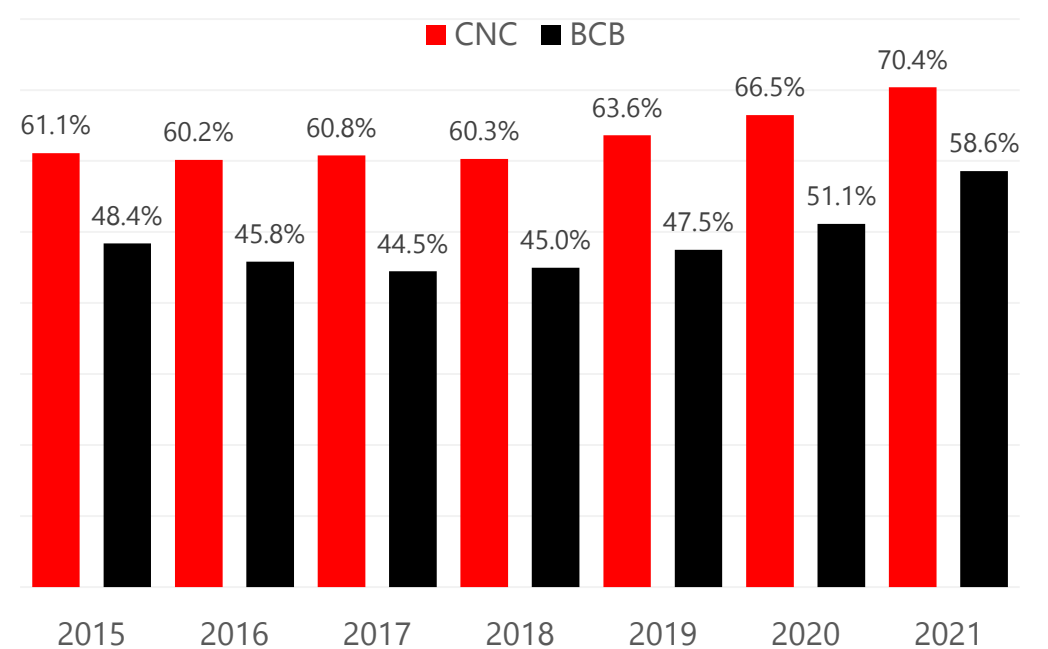
Extended household Indebtedness (%)



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 %)

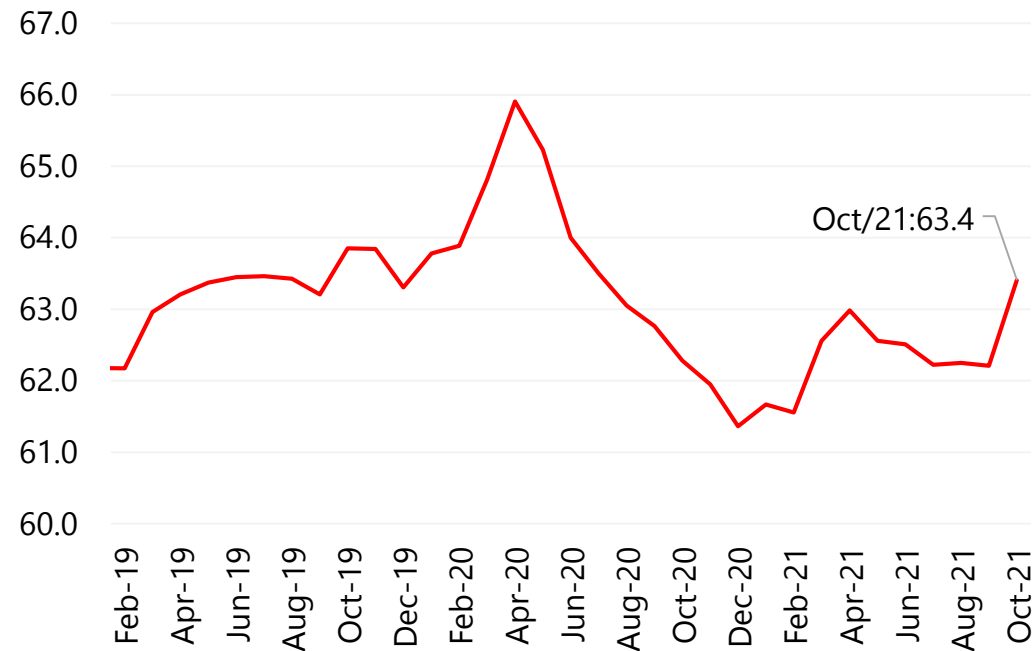


Sources: Brazilian Central Bank, CNC, Santander.

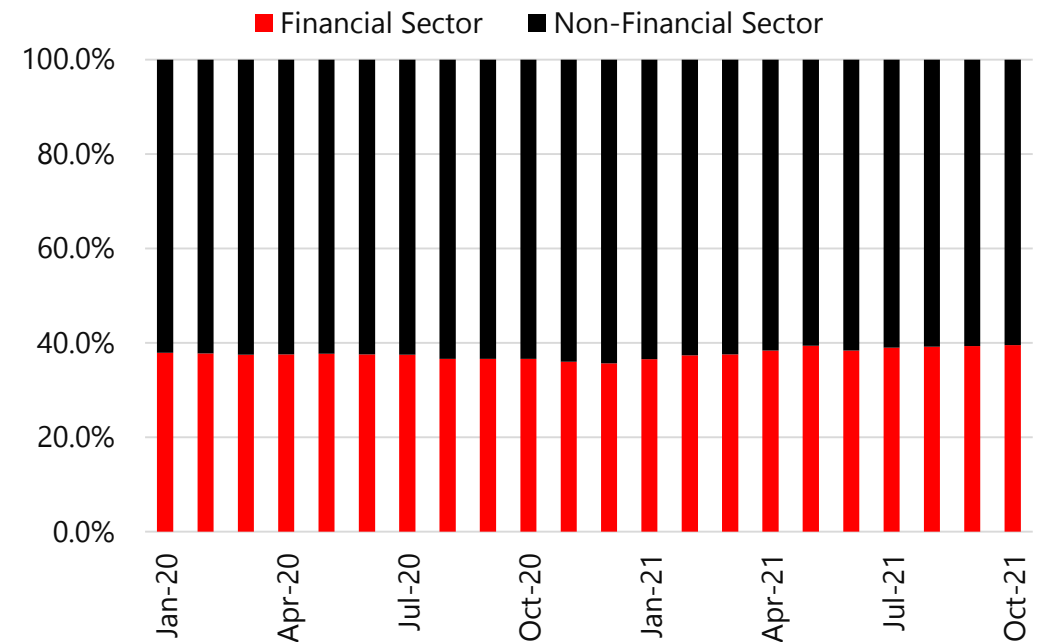
Families Indebtednes: better than the pre-pandemic level

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

Household Defaulting - Millions



Total Default – By Sector

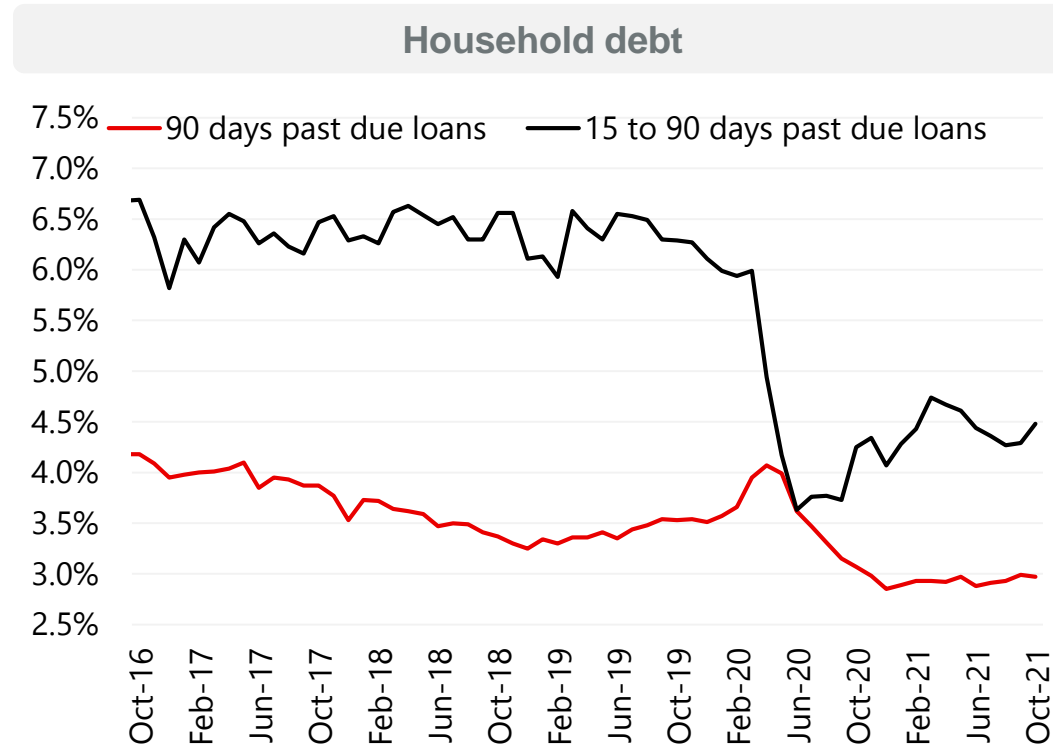


Sources: Serasa Experian, Santander.

Sources: Serasa Experian, Santander.

Families Indebtednes: An upward trajectory for arrears

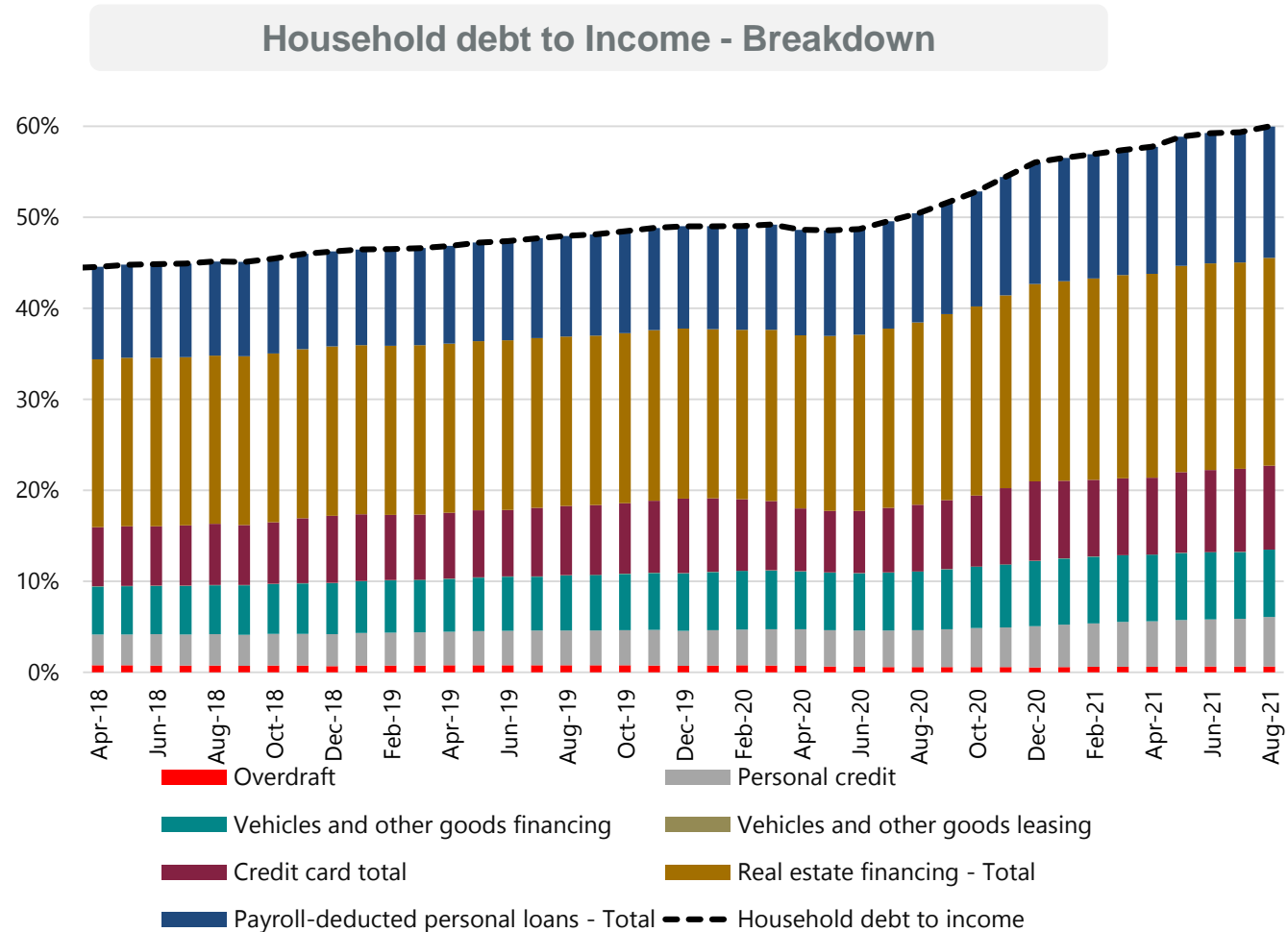
- The arrears is starting to give warning signs.
- However, the delinquent loans is still low.



Sources: Brazilian Central Bank, Santander.

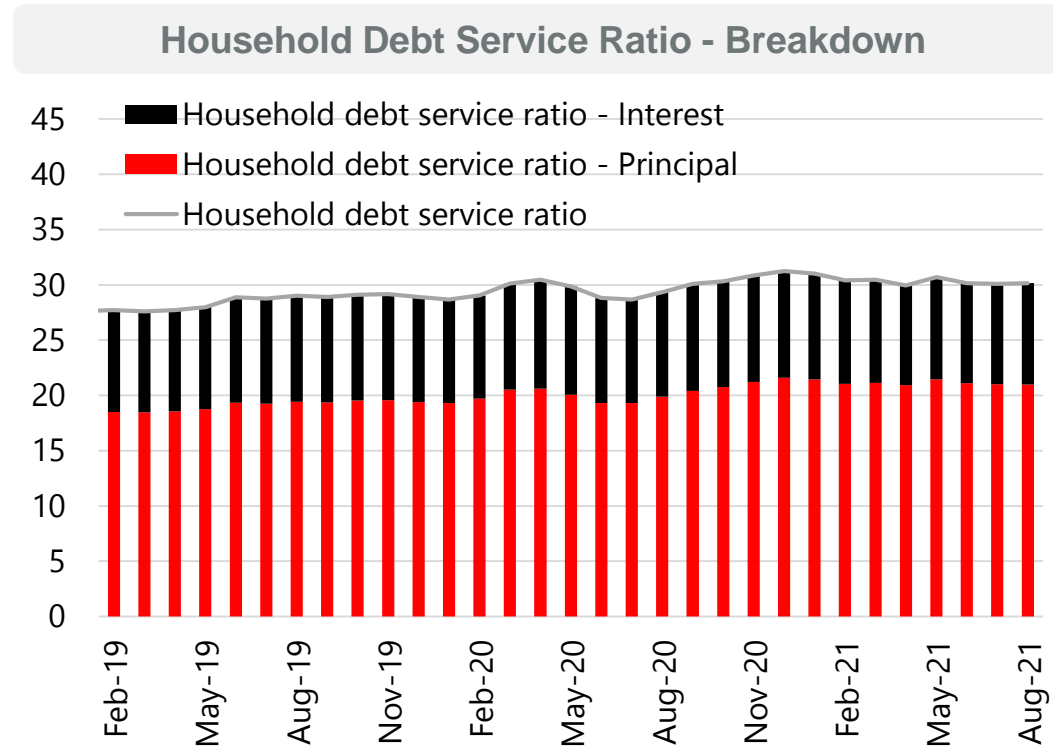
Families Indebtednes - Breakdown

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



Families Indebtednes - Breakdown

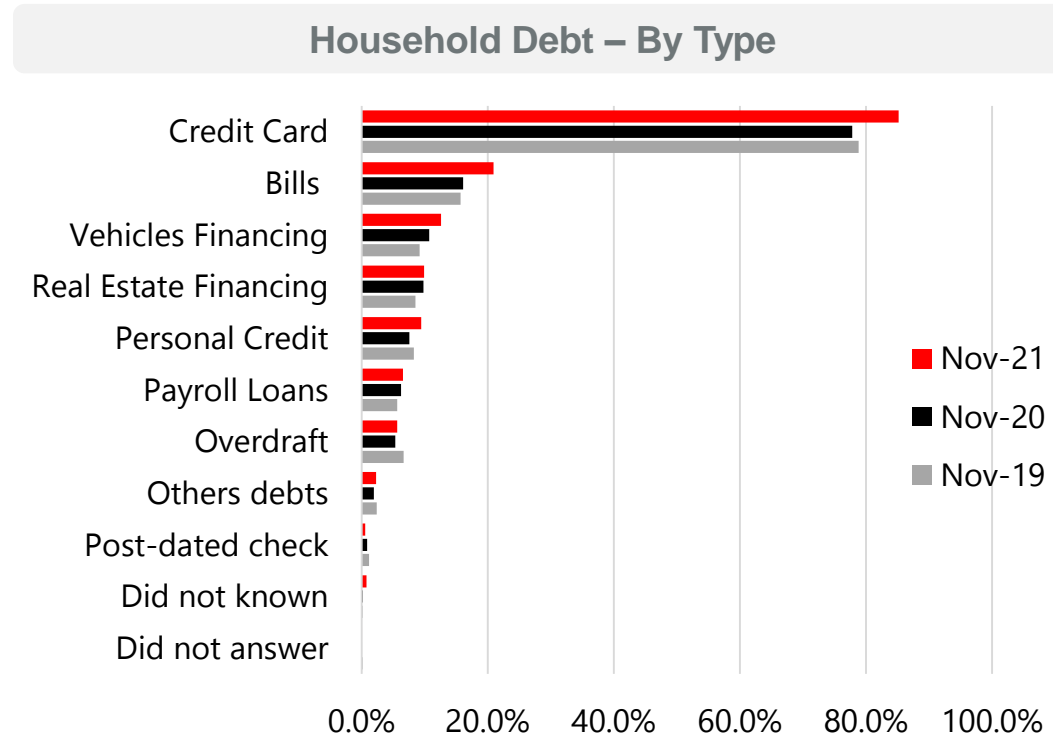
- Household debt to income ratio reached its peak in Aug/21 at 59.9%, since the beginning of the series in Jan/05.
- Household debt service ratio is higher than pre-pandemic levels



Sources: Brazilian Central Bank, Santander.

Families Indebtednes – By Type

- More than 80% of families have Credit Card as a type of debt.

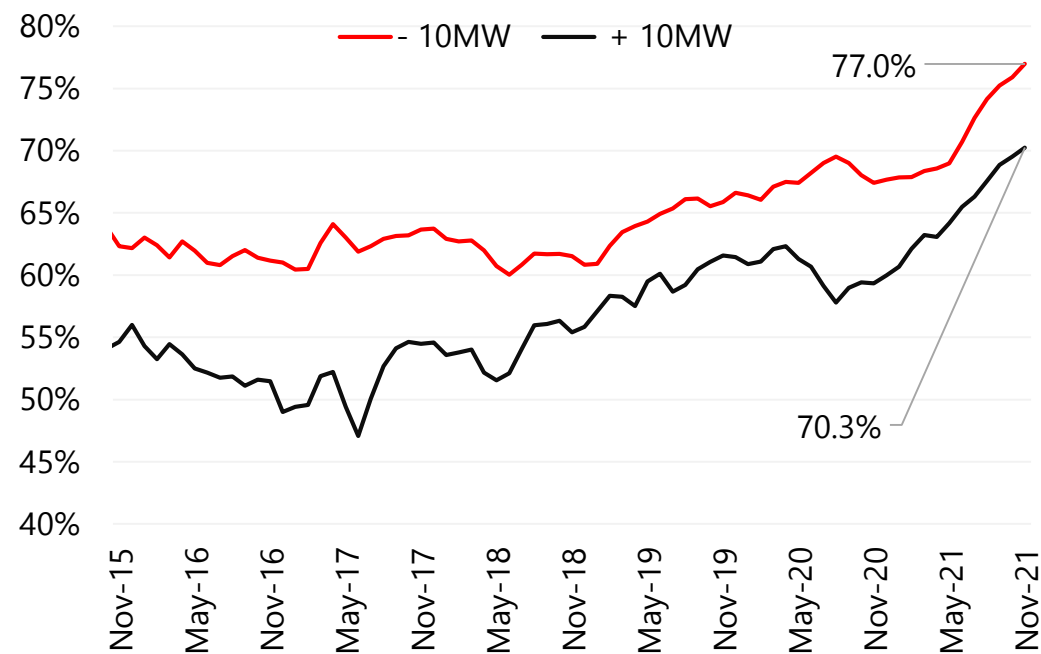


Sources: CNC, Santander.

Families Indebtednes – by Income

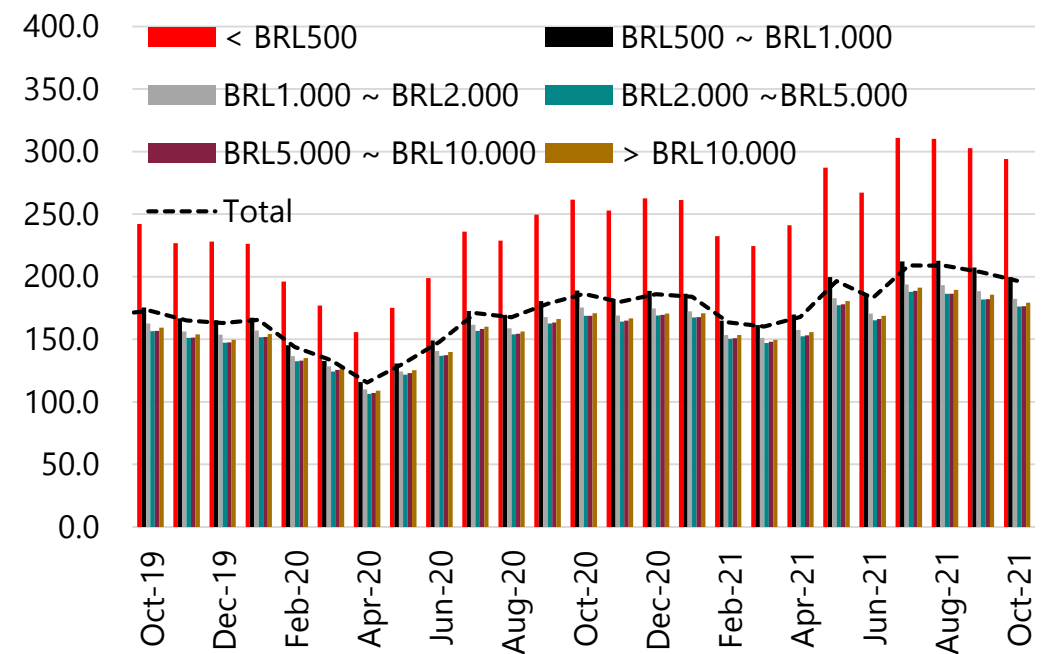
- Naturally, families with less income have suffered the most.
- They are the ones who have the most debt and also who demand the most credit.

Family's indebtedness – By Income



Sources: CNC, Santander.

Household demand for Credit – By Monthly Income Class

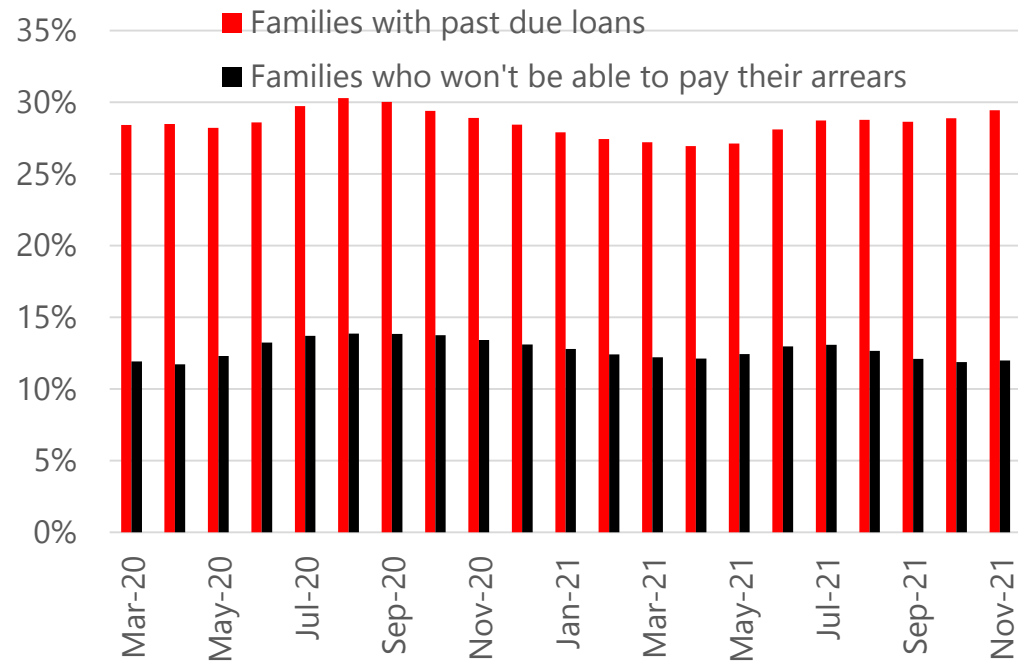


Sources: Serasa Experiean, Santander.

Families Indebtednes – by Income

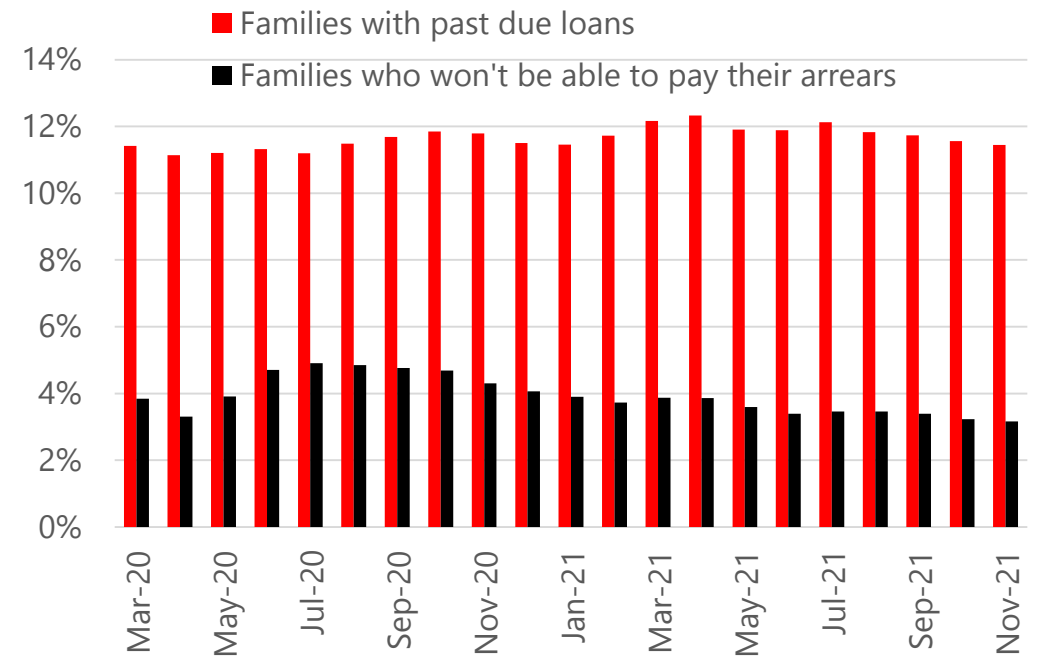
- For both types of families, delinquency has remained high, which represents a warning point

Families who earn less than 10 minimal wage



Sources: CNC, Santander.

Families who earn more than 10 minimal wage



Sources: CNC, Santander.

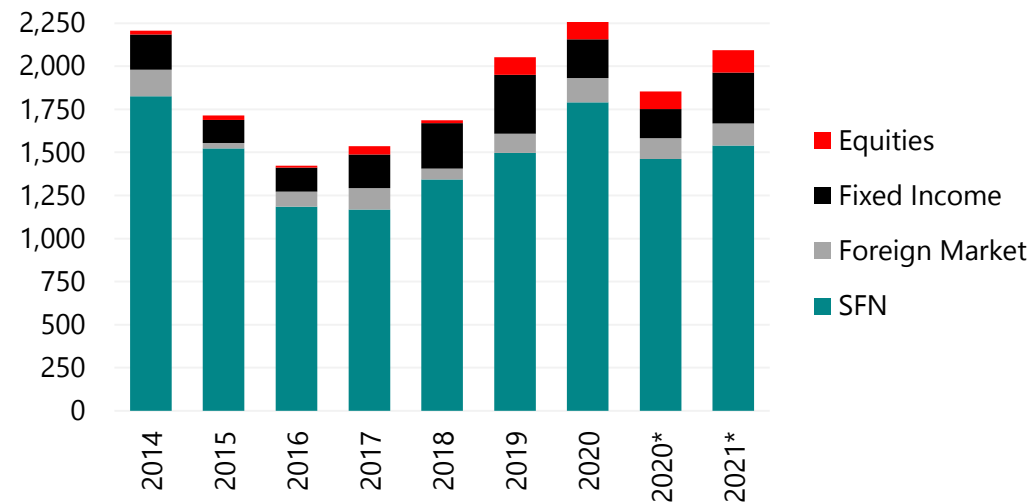
CORPORATE

03

Bank lending above year-ago period

- Considering total corporate financing so far this year, through October vs. the year-ago period, issuances in the capital markets are 56.6% higher, while SFN concessions are now up 5.3%.
- As a result, total corporate financing is up 13% compared to the year-ago period.

Total Corporate Financing (BRL billion, Inflation Adjusted)



*January to October.

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.

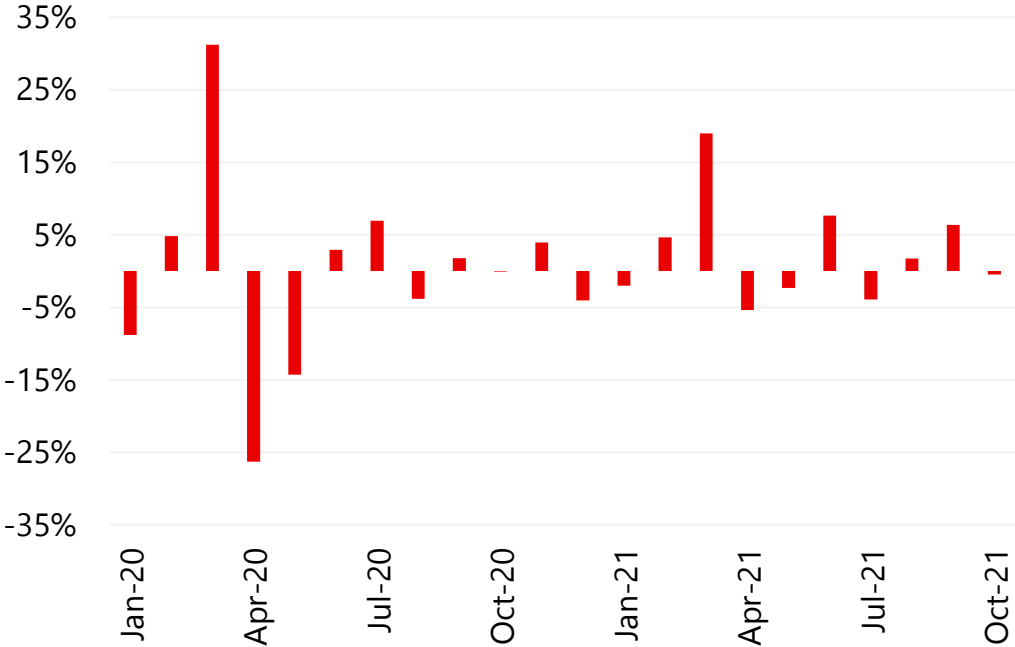
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

A decrease in the non-earmarked segmented

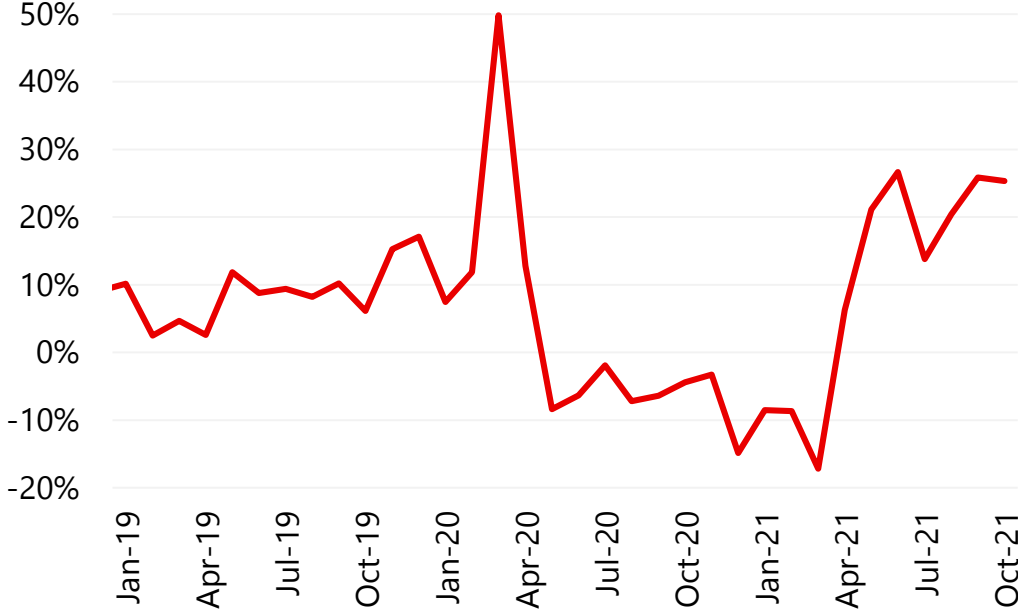
- For companies, the non-earmarked segmented posted a decrease of -0.5% MoM-sa.
- As YoY, the segment showed a side growth of 25.3% YoY.

Non-Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Non-Earmarked – New Loans YoY*

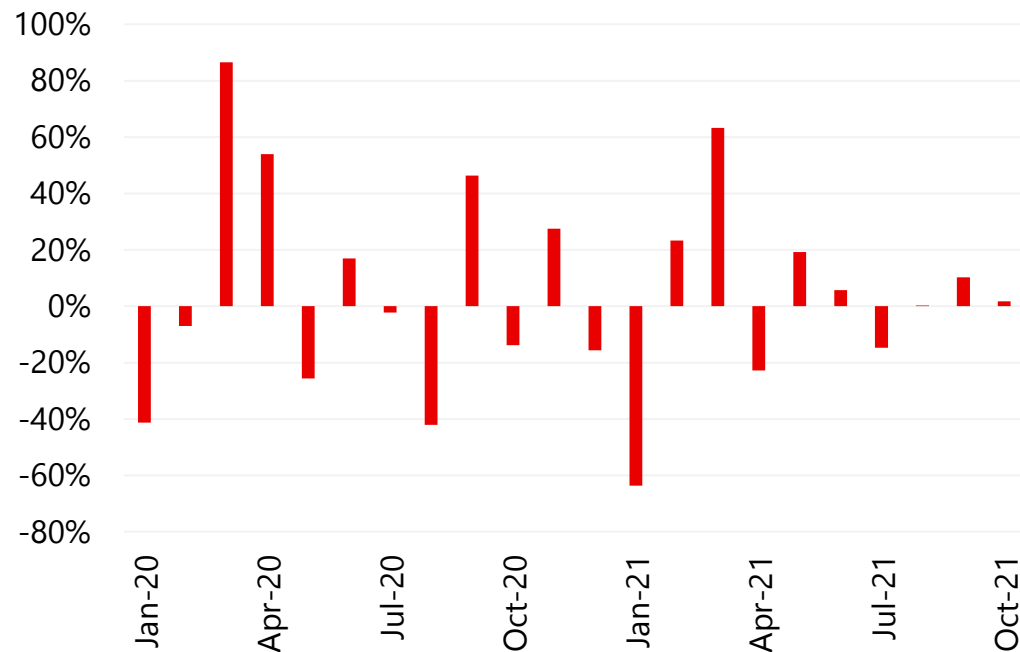


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Weak movement in Working Capital

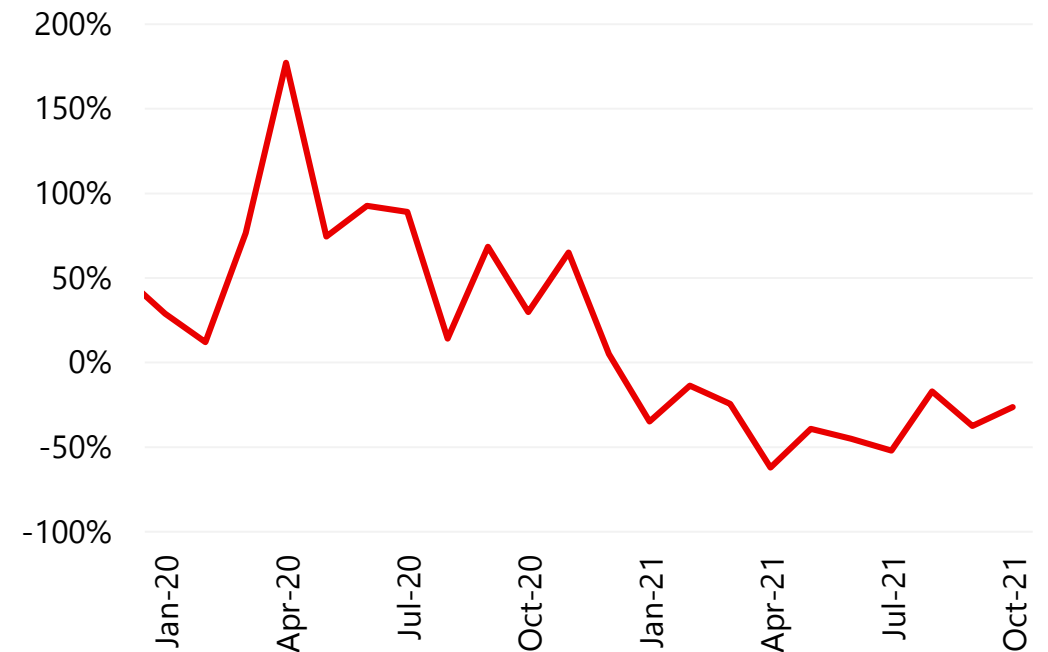
- Working Capital showed a small increase of 1.8% MoM-nsa.
- Working Capital presented the tenth negative variation in a row (since Jan/21)

New Loans – Working Capital MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

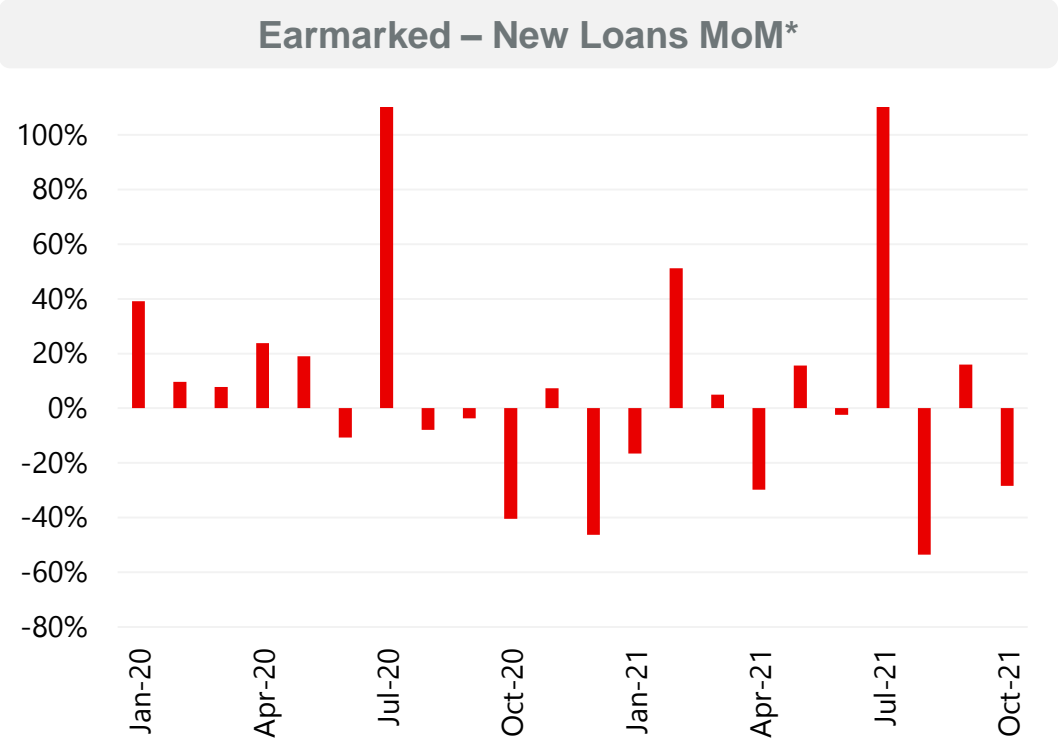
New Loans – Working Capital YoY*



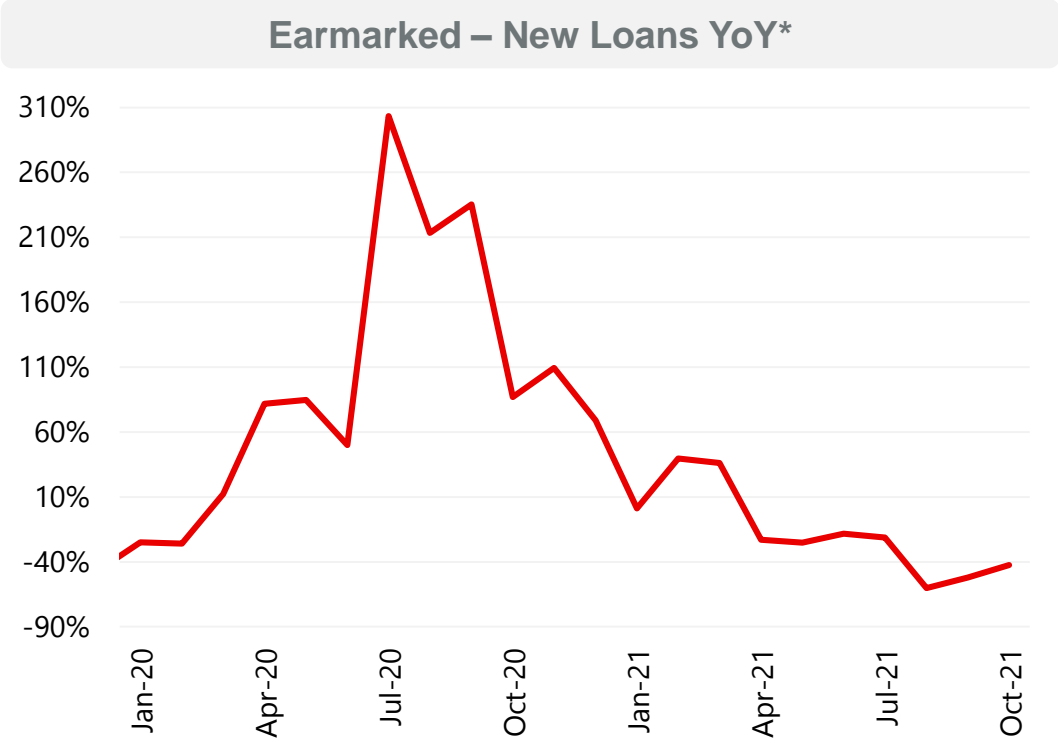
Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A decrease in the earmarked segmented

- For companies, the earmarked segmented posted a decrease of 28.4% MoM-sa.
- As YoY, the segment presented the seventh negative variation in a row (since April/21)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

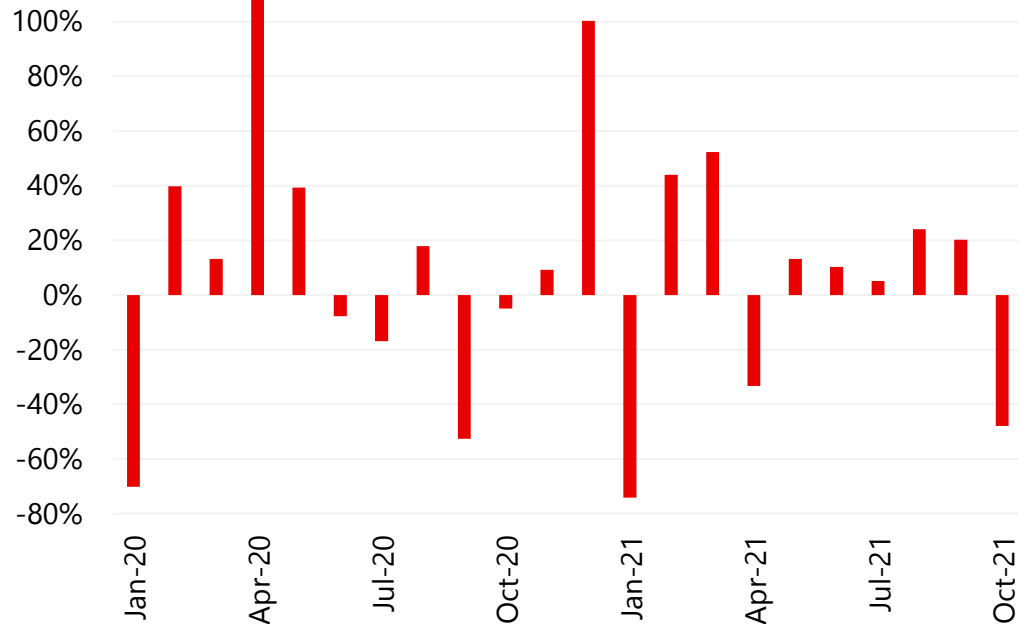


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

BNDES Funds and Others stood out

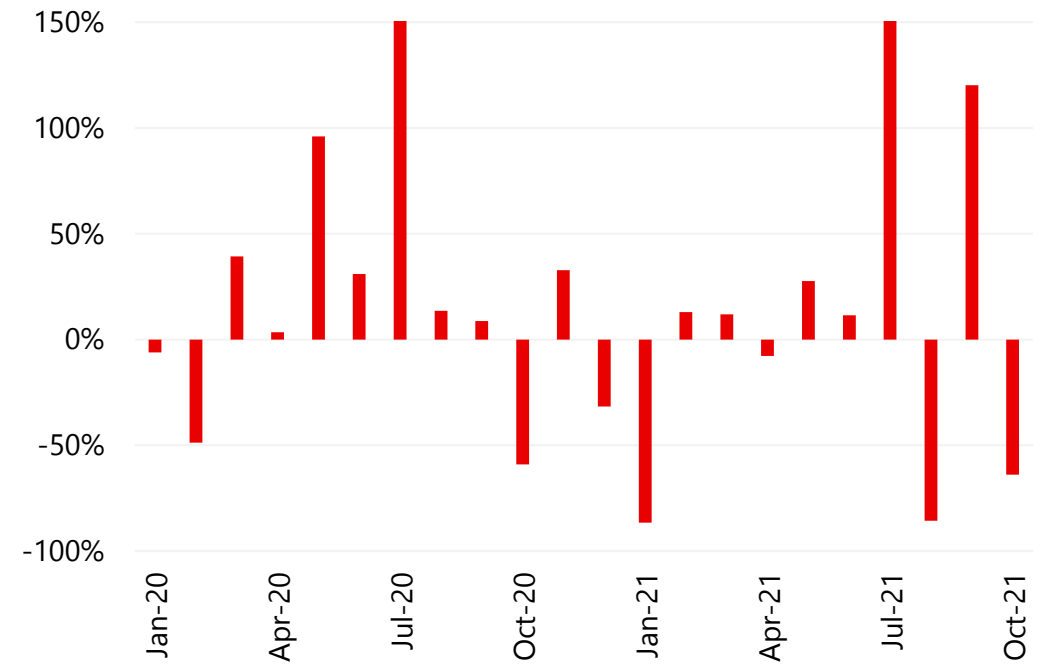
- In the earmarked segmented, BNDES funds posted the first negative variation (-47.9% MoM) since April/21.
- Others showed a negative figure (-63.9% MoM) after last month strong result (120.2% MoM).
- These results are due to the end of government credit programs.

BNDES Funds - New Loans* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

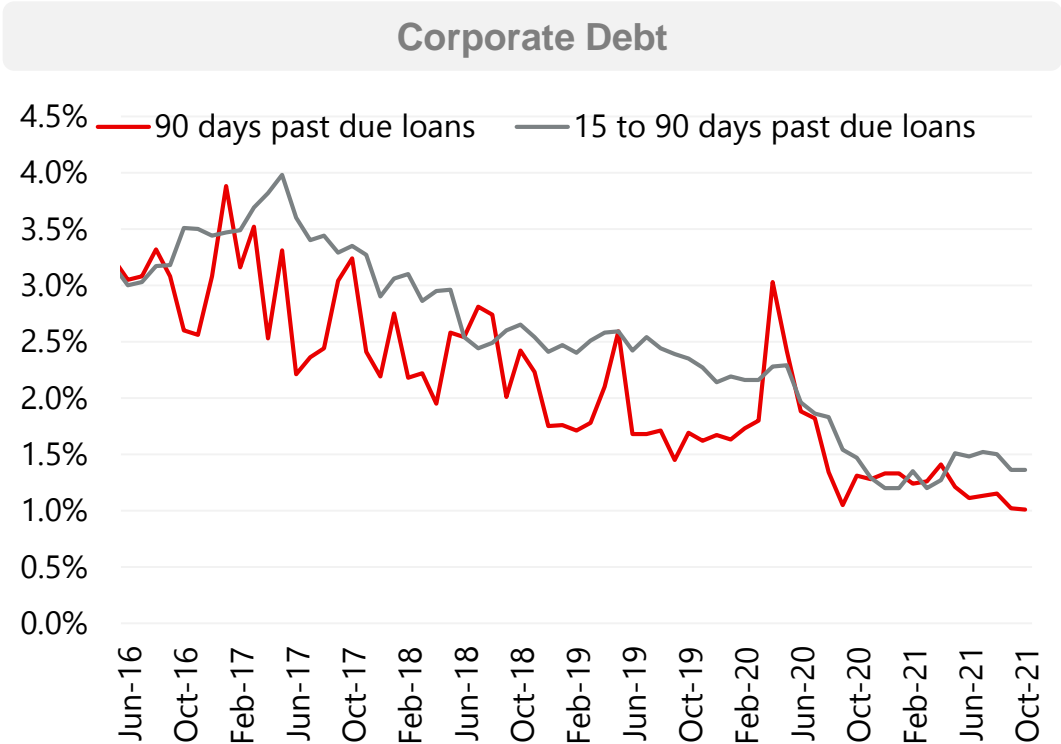
Others – Others* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

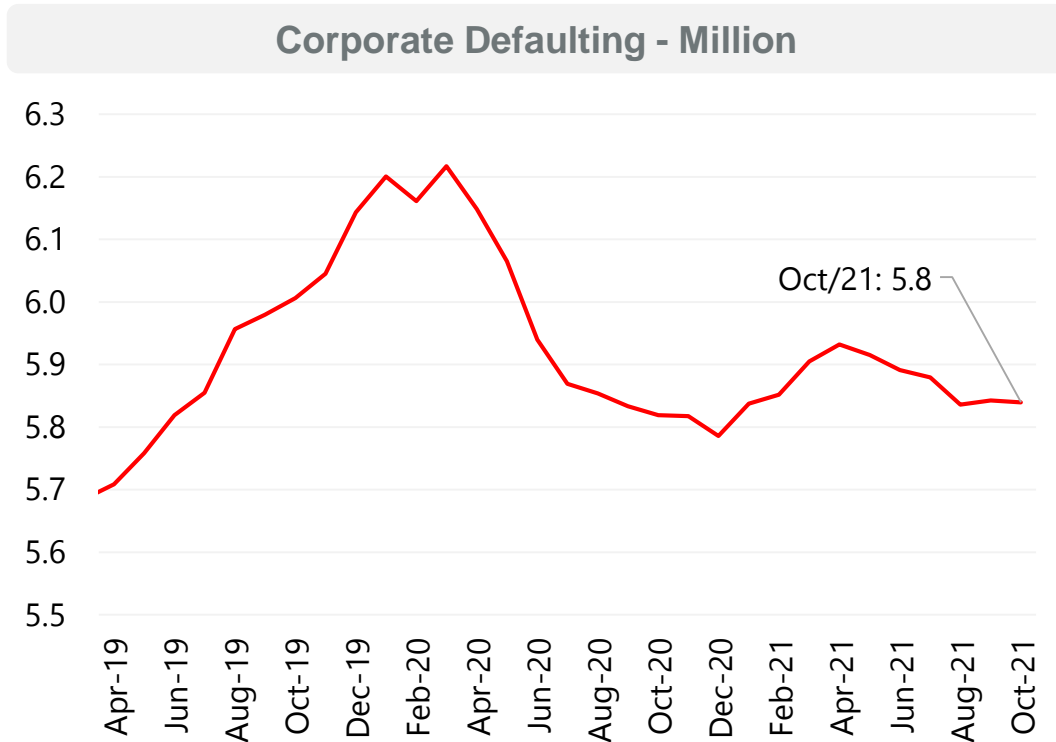
- o Eyeing arrears to anticipate warning signs



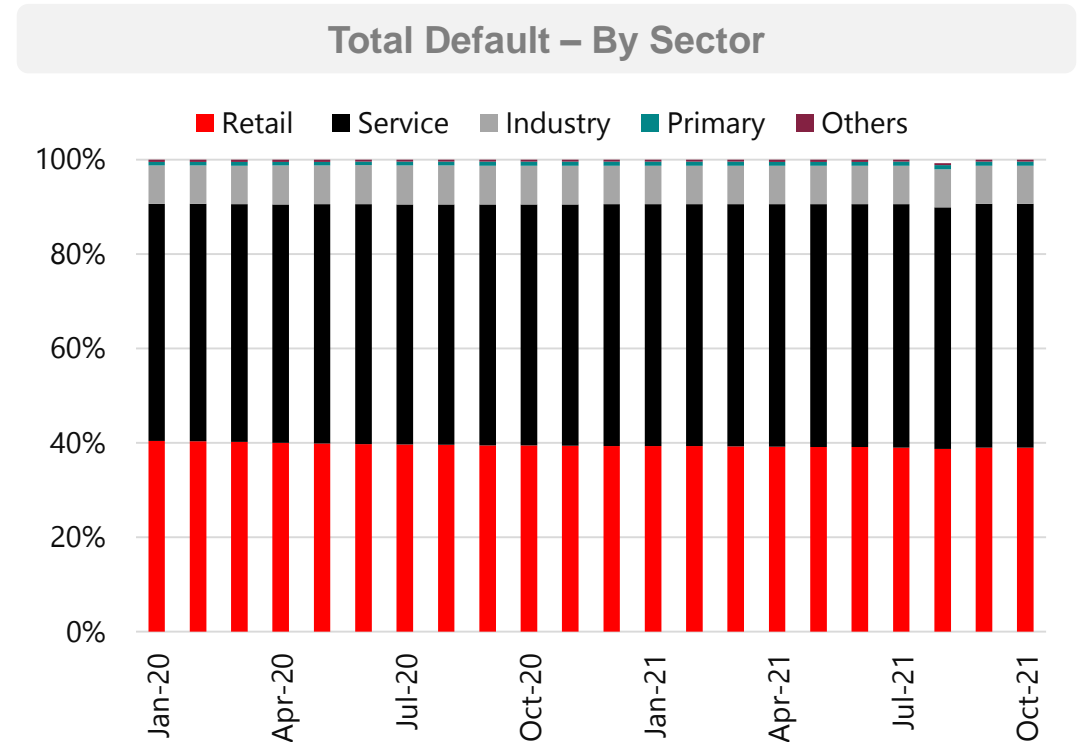
Sources: Brazilian Central Bank, Santander.

Corporates defaulting

- The number of defaulting companies has stabilized at 5.8 million since the peak at the beginning of the pandemic (Feb-21: 6.2 million).



Sources: Serasa Experian, Santander.

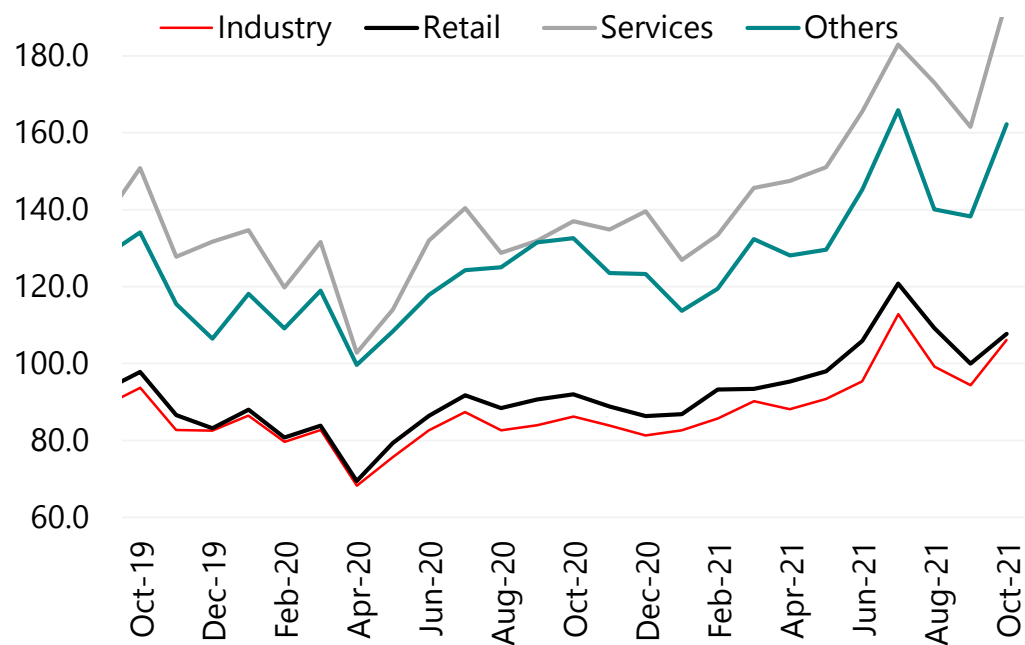


Sources: Serasa Experian, Santander.

Services demand for Credit

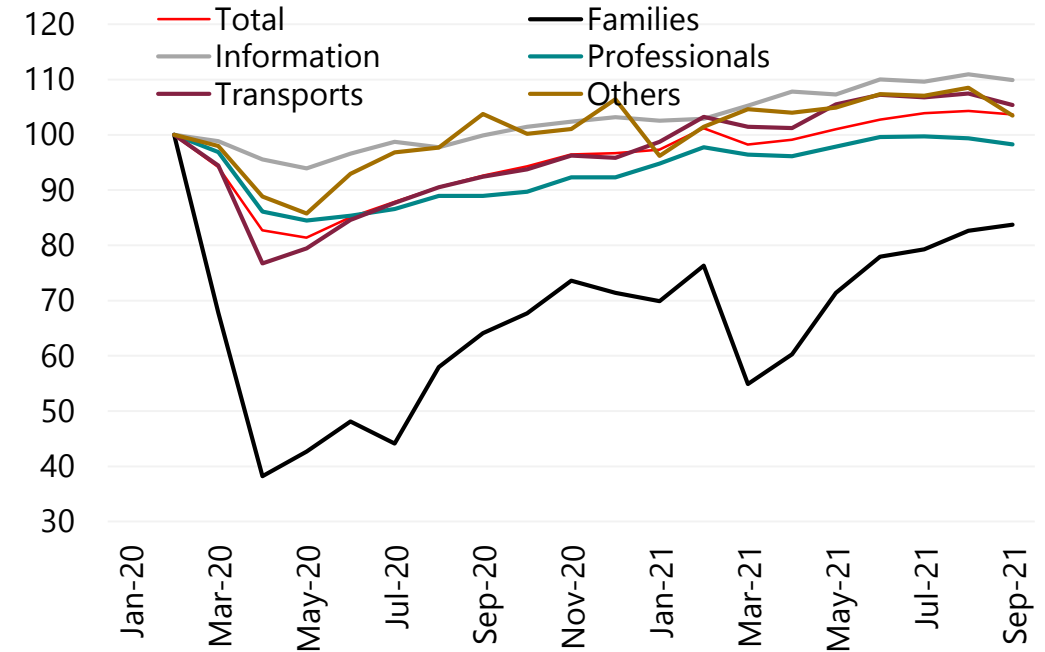
- After being the sector that suffered the most, and consequently, the one that demanded the most credit – the Service sector showed a recent improvement (as a lower credit demand).
- This is, probably, due to the economy reopening. From which the service sector is still expected to profit.

Corporate demand for Credit – by Sector



Sources: Serasa Experian, Santander.

Services Breakdown (sa, Feb/20=100)

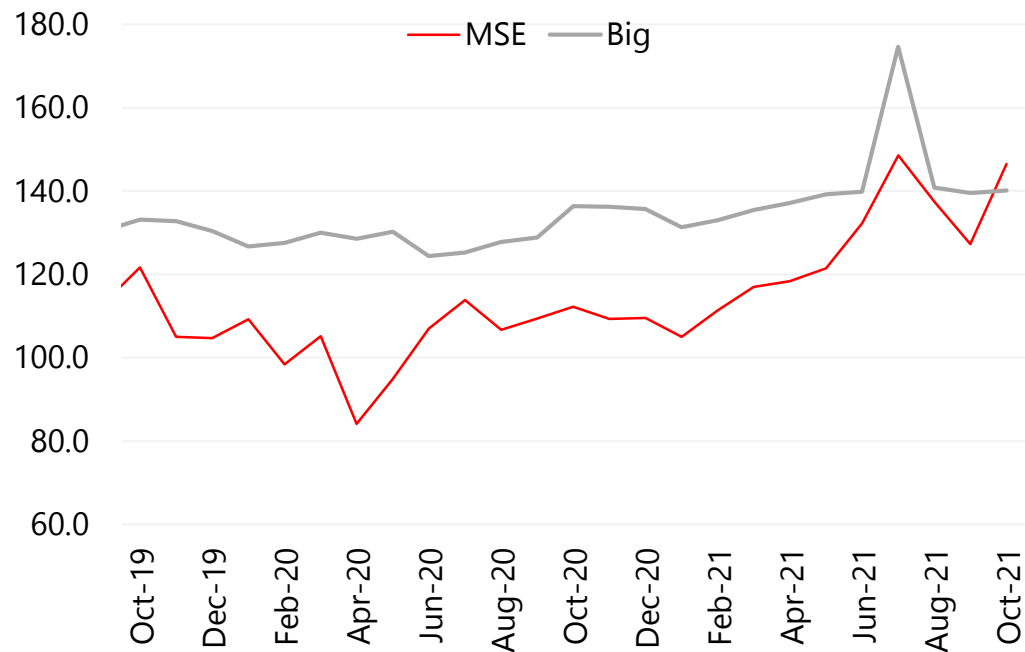


Sources: IBGE, Santander.

Corporate demand for Credit

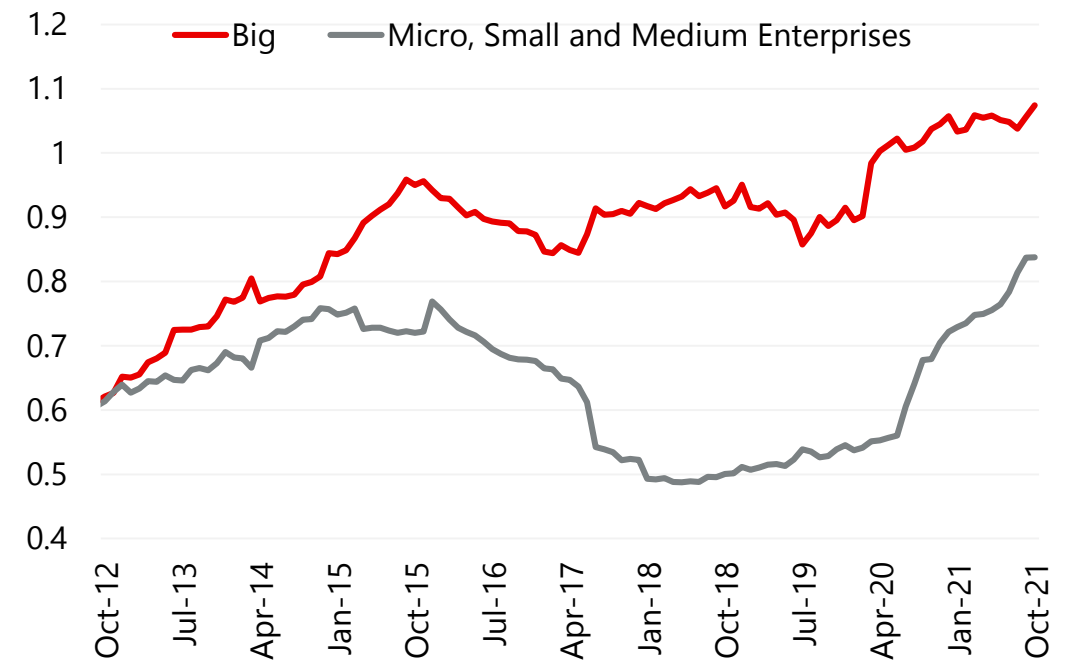
- Micro and Small Enterprises (MSE) are increase their demand for credit. Big companies are in a plateau.
- Corporate Credit Outstanding is at an all-time high.

Corporate demand for Credit – by Company Size



Sources: Serasa Experian, Santander.

Credit Outstanding – By Company Size*



Sources: Brazilian Central Bank, Santander.

* BRL million.

Credit Forecasts: Nominal

Credit Outstanding (%YoY)						
	2018	2019	2020	2021e	2022e	2023e
Total	5.1	6.5	15.6	12.7	6.3	4.3
Household	8.6	11.9	11.2	15.5	7.6	7.5
Non-fin. Corp.	1.2	-0.1	21.8	9.3	4.6	0.1
Nonearmarked	10.9	14.0	15.4	14.6	6.5	4.5
Household	11.6	16.5	10.8	16.7	6.5	4.6
Non-fin. Corp.	10.1	11.0	21.2	15.9	6.6	4.5
Earmarked	-0.9	-2.4	15.9	11.5	1.2	1.1
Household	5.4	6.6	11.7	12.5	5.9	2.9
Non-fin. Corp.	-8.1	-14.0	22.8	10.5	-3.5	-0.7

Credit Conditions						
	2018	2019	2020	2021e	2022e	2023e
Delinquencies	2.9	2.9	2.1	3.2	3.5	3.5
Household	4.8	5.0	4.2	5.1	5.9	5.9
Non-fin. Corp.	2.7	2.1	1.5	2.1	3.8	2.9
Household Indebtedness	45.1	47.7	51.9	60.4	65.1	67.0
Burden Income	27.1	28.6	30.1	31.7	32.7	34.6

Sources: Brazilian Central Bank, Santander.

Credit Forecasts: Real

Real Credit Outstanding (%YoY)						
	2018	2019	2020	2021e	2022e	2023e
Total	1.3	2.1	10.6	2.0	0.5	0.7
Household	4.7	7.3	6.4	4.5	1.8	3.8
Non-fin. Corp.	-2.5	-4.2	16.6	-1.1	-1.1	-3.3
Nonearmarked	6.9	9.3	10.4	3.8	0.7	0.9
Household	7.6	11.7	6.0	5.7	0.7	1.0
Non-fin. Corp.	6.1	6.5	16.0	4.9	0.8	0.9
Earmarked	-4.5	-6.4	10.9	0.9	-4.3	-2.4
Household	1.6	2.2	6.8	1.8	0.1	-0.7
Non-fin. Corp.	-11.4	-17.6	17.5	0.0	-8.8	-4.1

Sources: Brazilian Central Bank, Santander.

Brazil Macroeconomic Research Team

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



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