Brazil Macro | December 2022

Credit

Fabiana Moreira
fabiana.de.oliveira@santander.com.br

INDEX

1. Brief Overview
2. Household
3. Corporate
4. Forecasts

BRIEF OVERVIEW

01

SUMMARY

- **This chartbook brings details on our credit outlook, contemplated in our latest Scenario Review, released on December 9 - 'Bigger GDP, Higher Inflation, and Increased Fiscal Concerns' - available in: https://bit.ly/Std-scenreview-dec22**

- Accompanying the positive trends in economic activity, the credit market has seen solid growth so far this year. Led by the household segment, in the context of income support measures and the positive evolution of the labor market, bank lending has had a special role in supporting household consumption.

- Our total real loan-growth estimate increased to 8.6% (from 7.7%) for 2022; we also changed our estimate to 0.5% (from 0.7%) for 2023, amid an expected slowing of the broad economy next year.

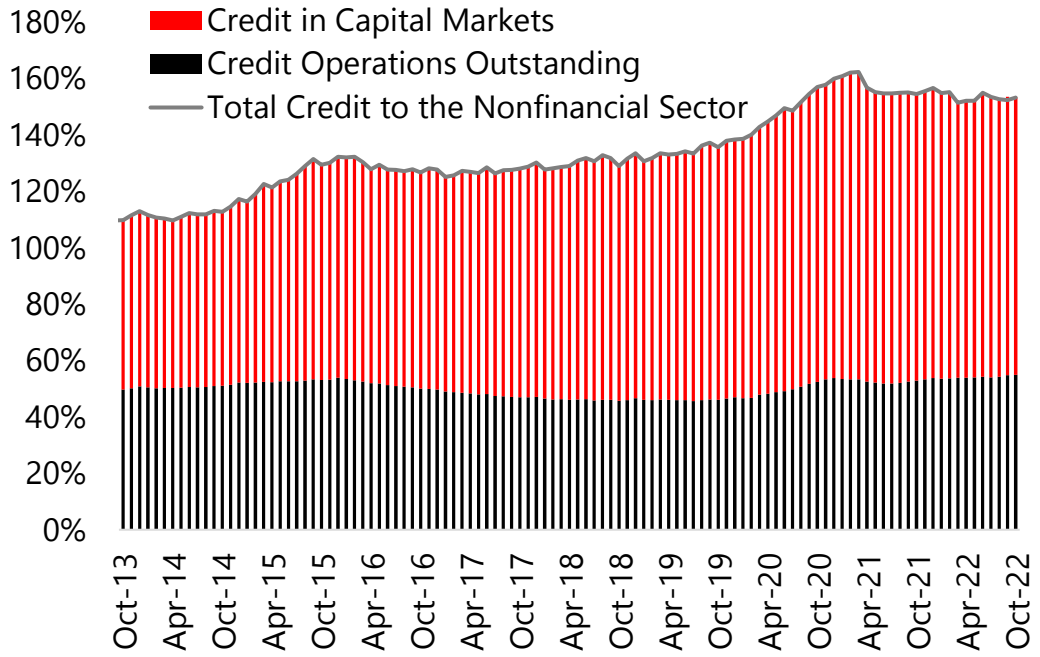
- The upward revision for this year is led especially by earmarked loans to households, for which we raised our growth estimate to 8.8% (previously 7%), given the extension of subsidized lending programs and new stimulus announced by the government, especially aimed at rural credit.

- Yet we remain worried about the outlook (and risks) for NPLs next year, given the scenario of still-high inflation, slowing real activity, and high consumer leverage.

Total Credit to Non-Financial Sector

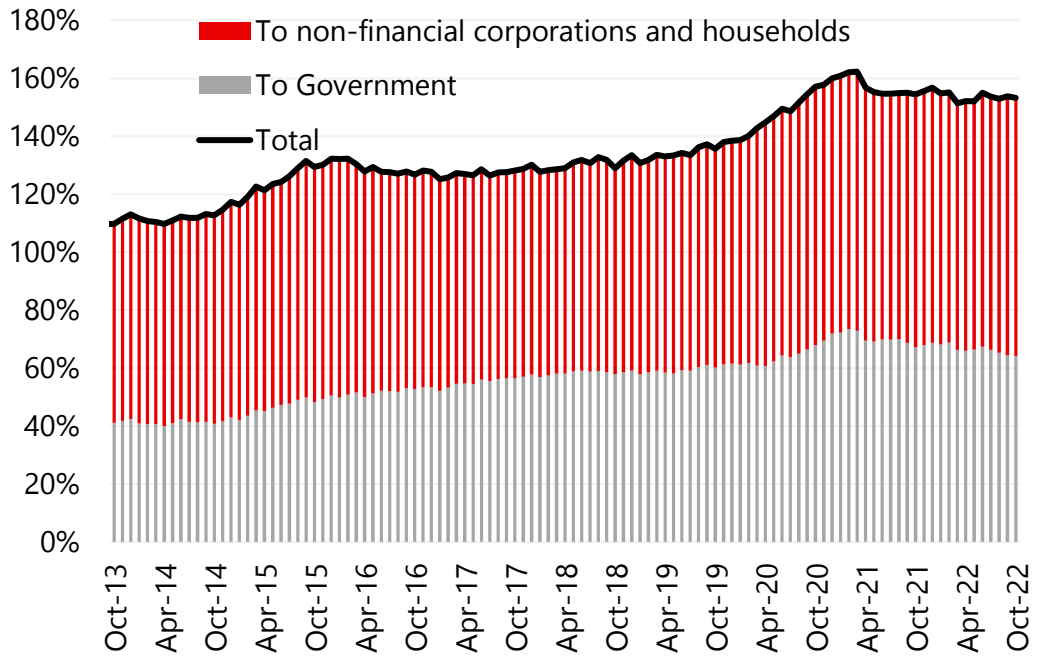
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination (% GDP)

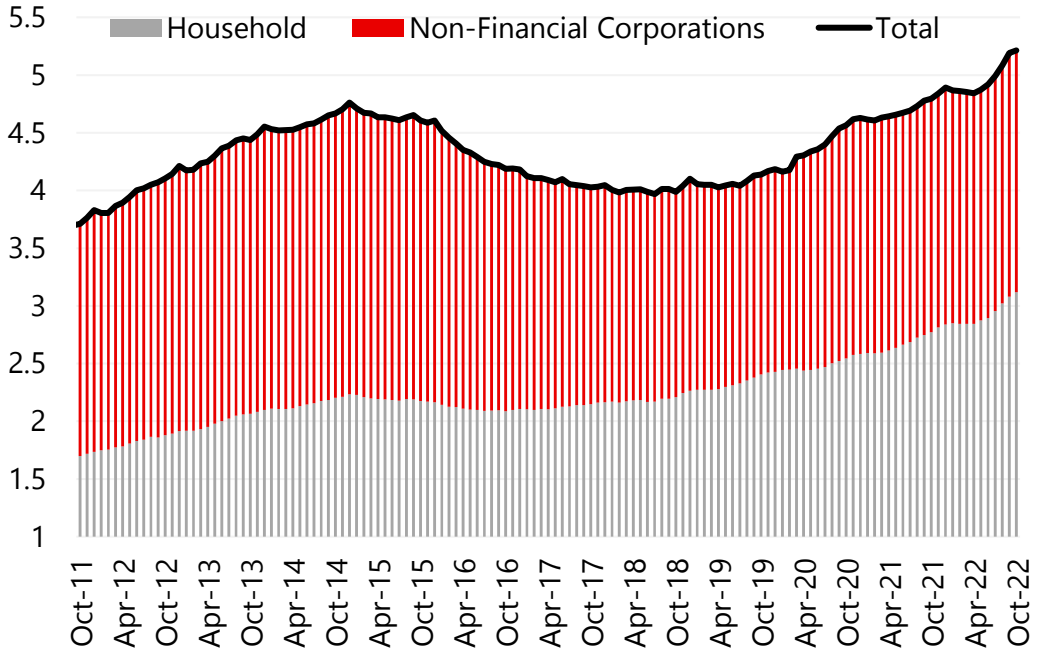


Sources: BIS, Santander.

Credit market remained strong

- Total outstanding loans posted real growth of 8.7% YoY in October 2022 to BRL5.2 trillion
- For households, loans were up 12.4% YoY, the greatest increase so far this year; for non-financial corporations, they were up 3.6% YoY.

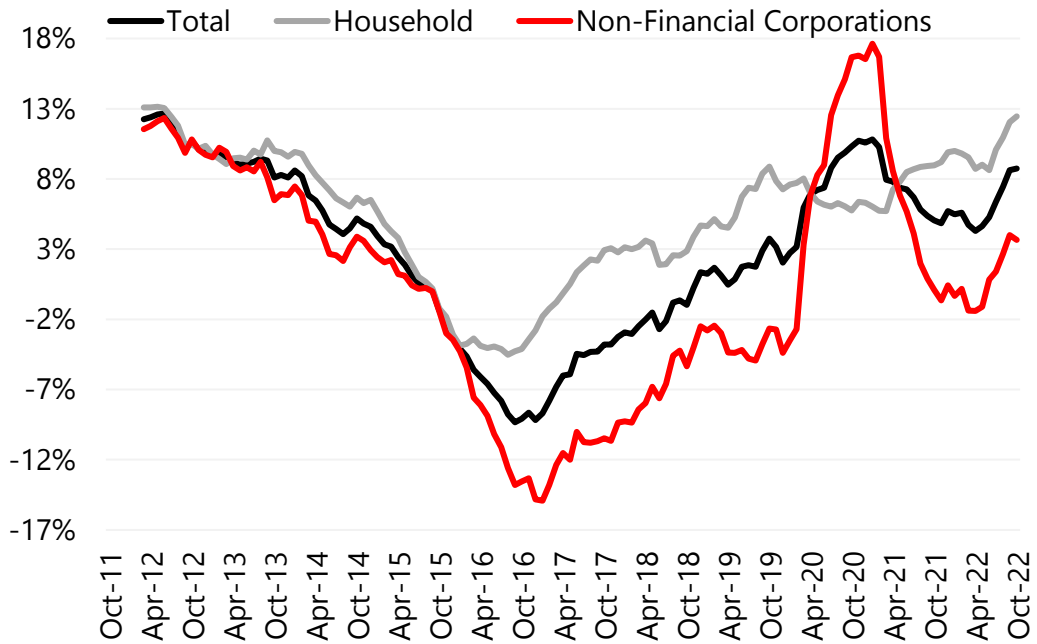
Total Outstanding Balance of Credit Operations*



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.

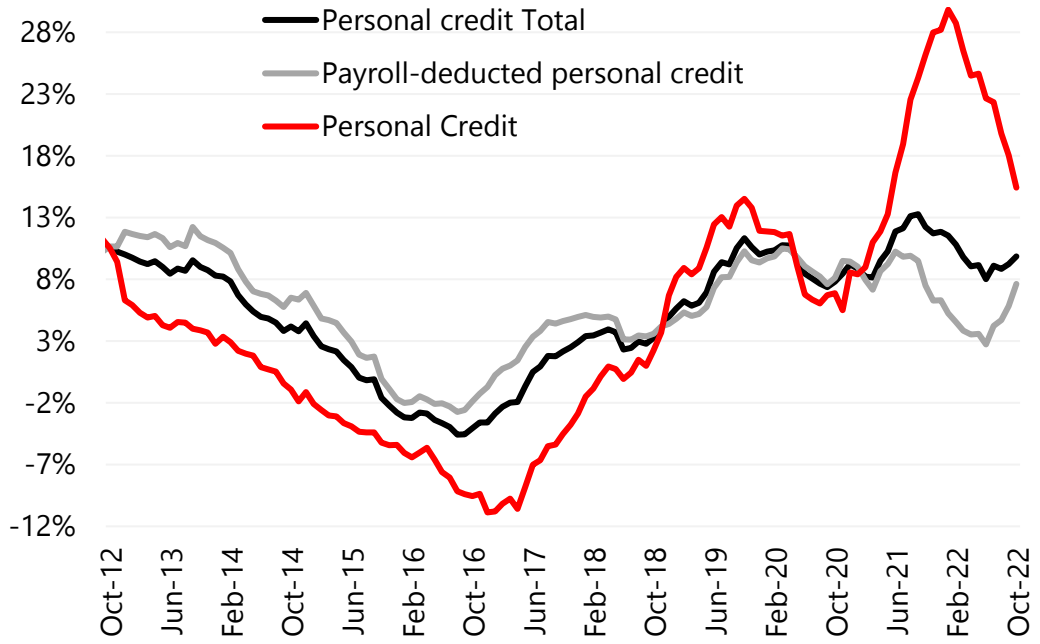
HOUSEHOLD

02

Outstanding Loans: household continue to accelerate

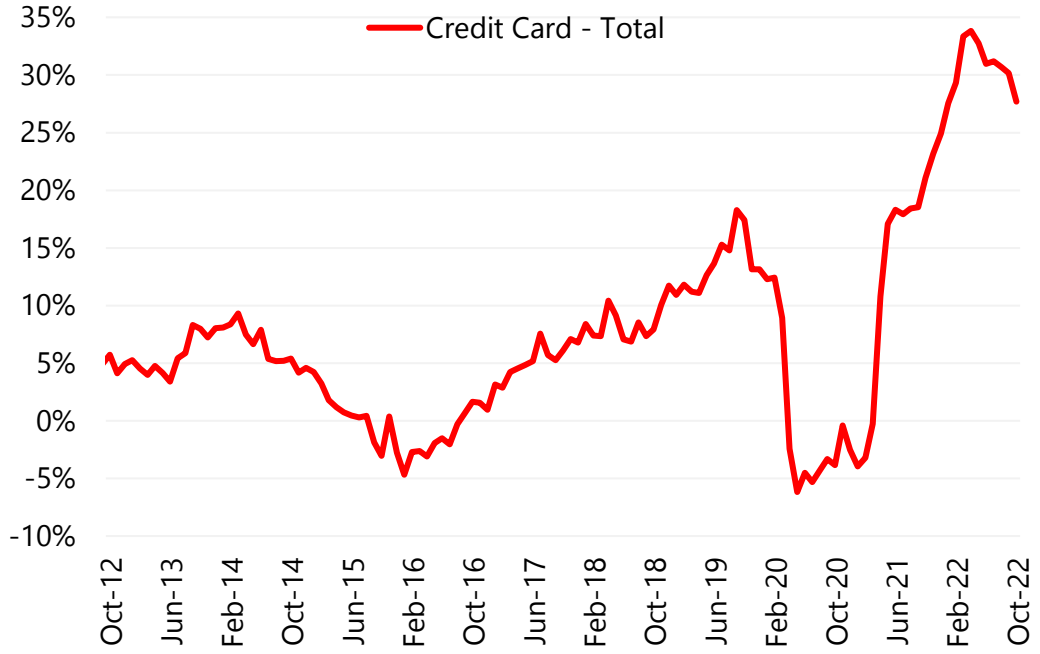
- In the non-earmarked segment, household credit portfolios posted the same growth rate in October as in September, at 13.6% YoY. Total personal real credit grew 9.8% YoY, while credit cards slowed at the margin but still increased rapidly, +27.6% YoY, inflation adjusted, which is the smallest growth so far this year.

Outstanding Loans - Personal Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

Outstanding Loans – Credit Card (% YoY)

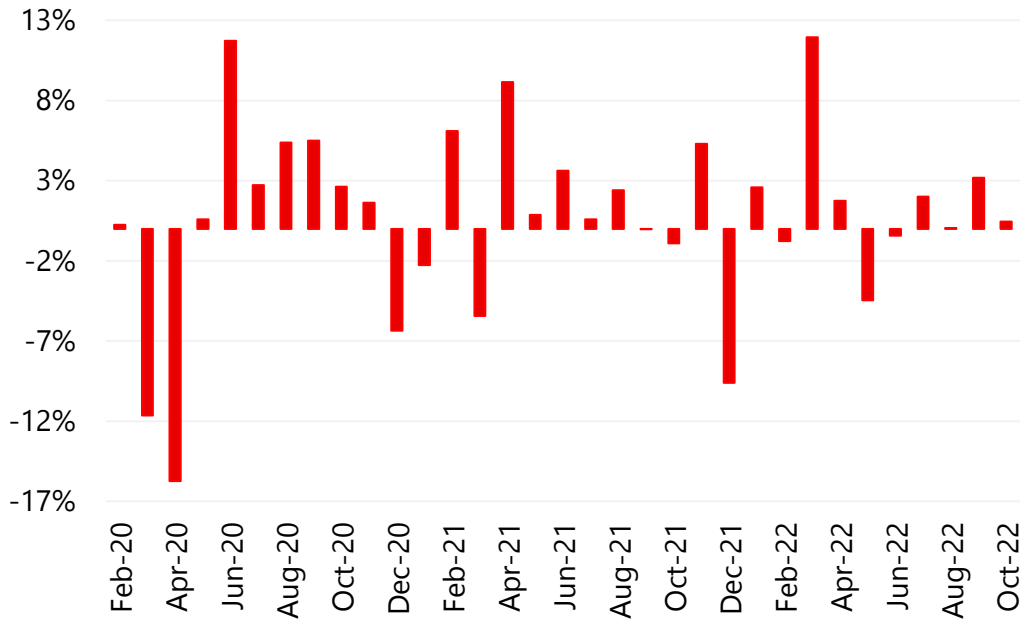


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans: posted a tepid increase

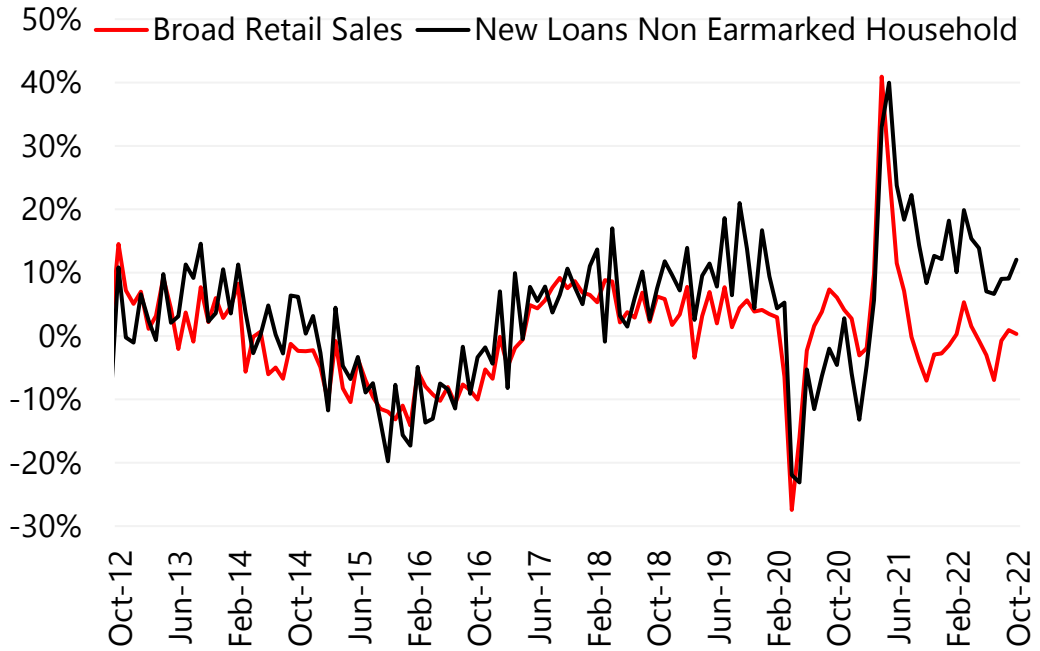
- For households, the non-earmarked segment posted an increase of 0.5% MoM-sa in October.
- We highlight the strong increase in total personal credit (8.4% MoM-sa) and the decline in credit cards (-1.7% MoM-sa).

Non-Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

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

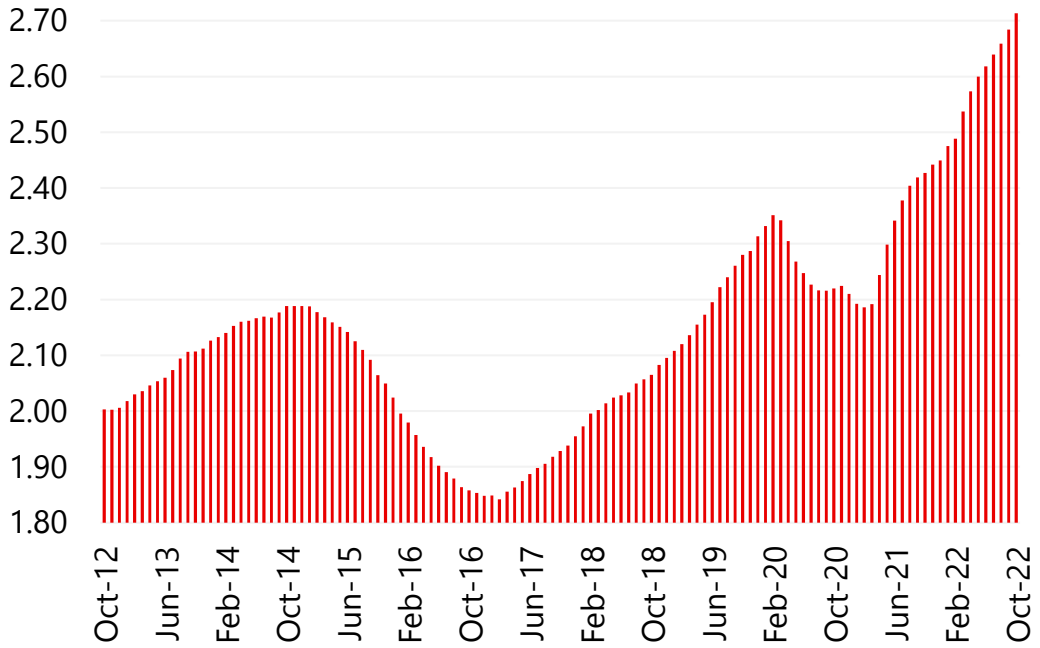


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans to families: higher interest rate

- New loans (12 months acum.) YTD through September 2022 grew 11.8% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased more than 13 p.p from October 2021.

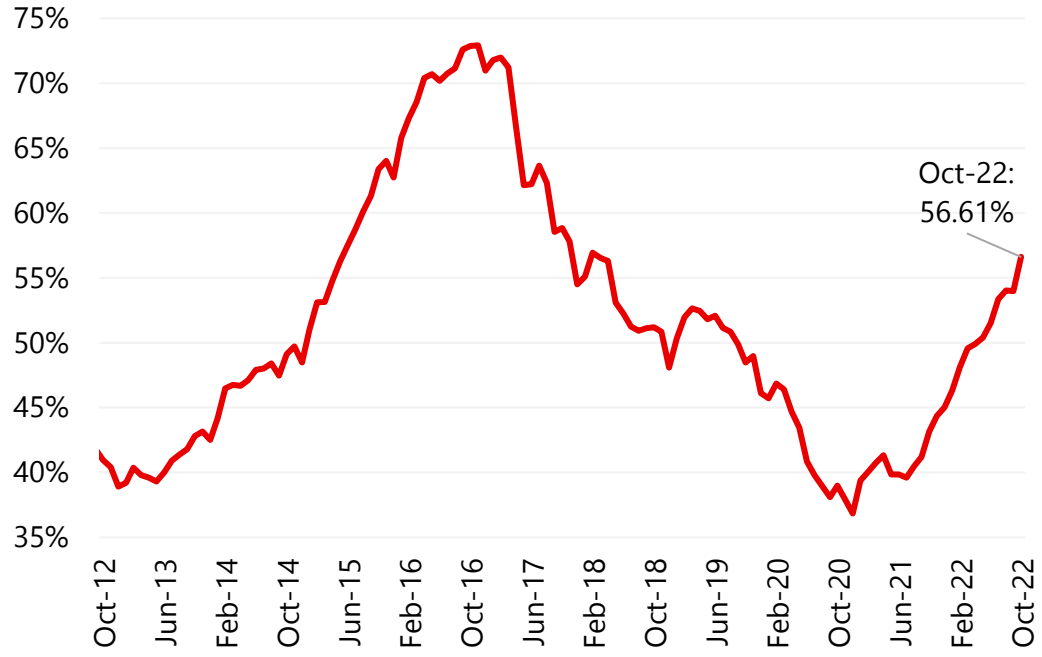
Non-Earmarked - New Loans* (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

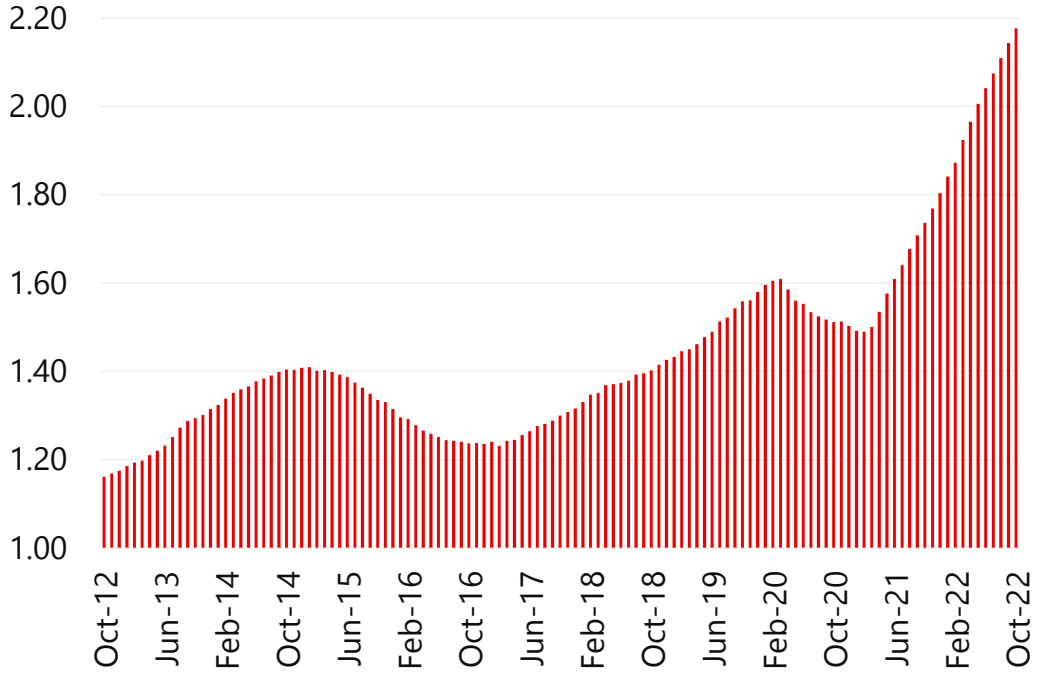


Sources: Brazilian Central Bank, Santander.

Credit Card: continues to accelerate

- New Loans accumulated for 12 months keeps at historic highs.
- The average interest rate for Credit Card increased more than 30 p.p from October 2021.

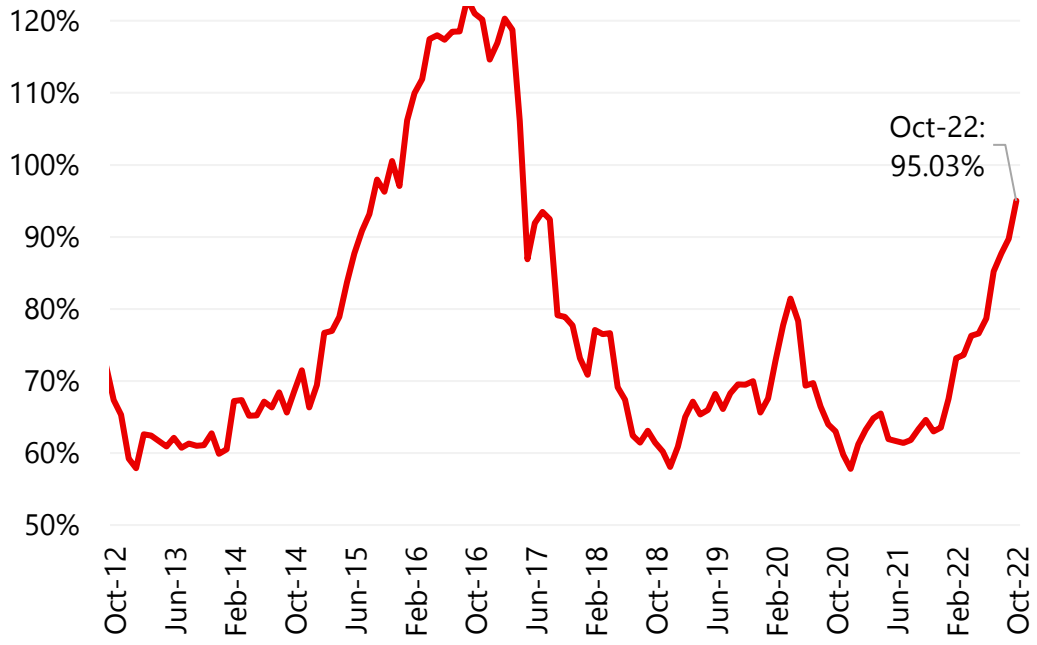
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

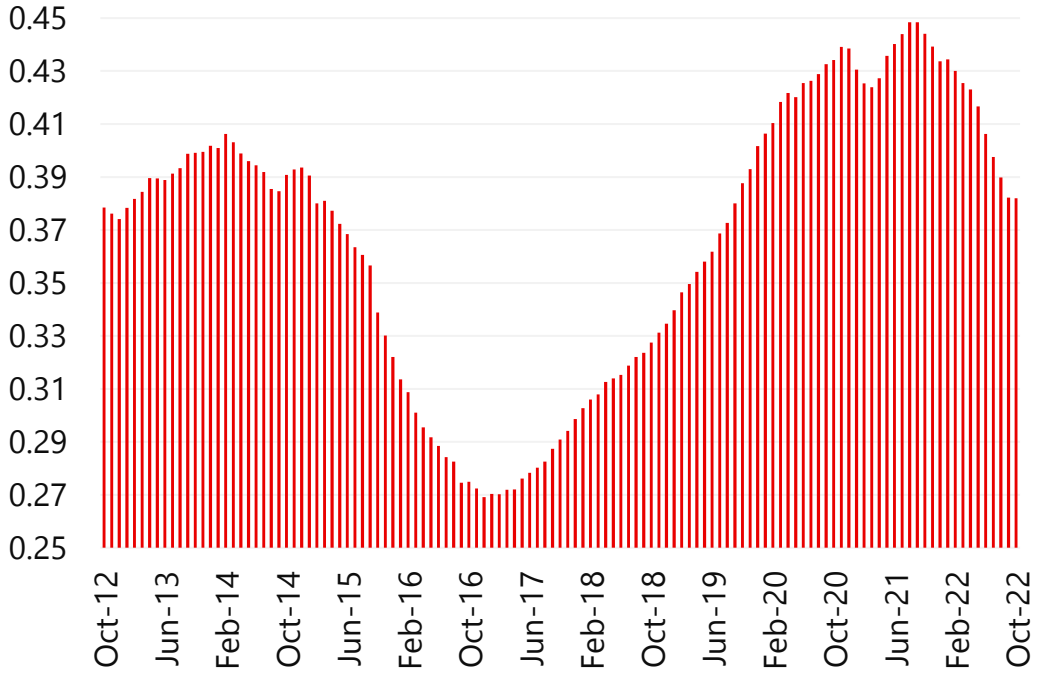


Sources: Brazilian Central Bank, Santander.

Personal Credit: starts to slow down

- New Loans (accumulated for 12 months YTD through October 2022 fall 14% compared to the year-ago period..
- The average interest rate for Personal Credit increased 7 p.p from October 2021.

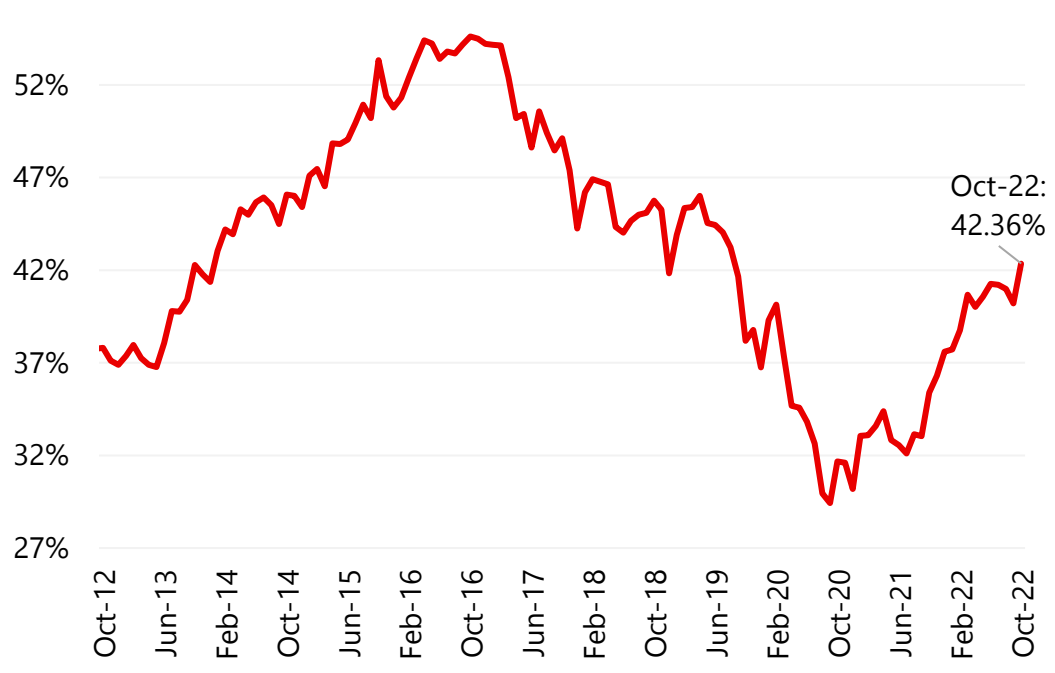
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

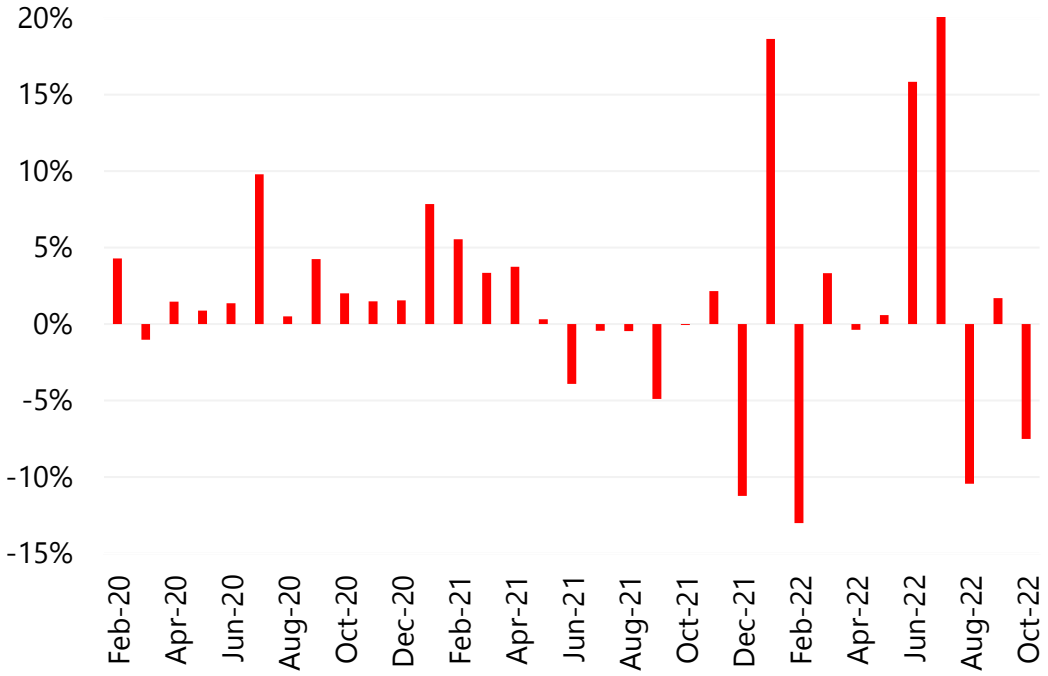


Sources: Brazilian Central Bank, Santander.

Earmarked new loans fell after tepid increase in September

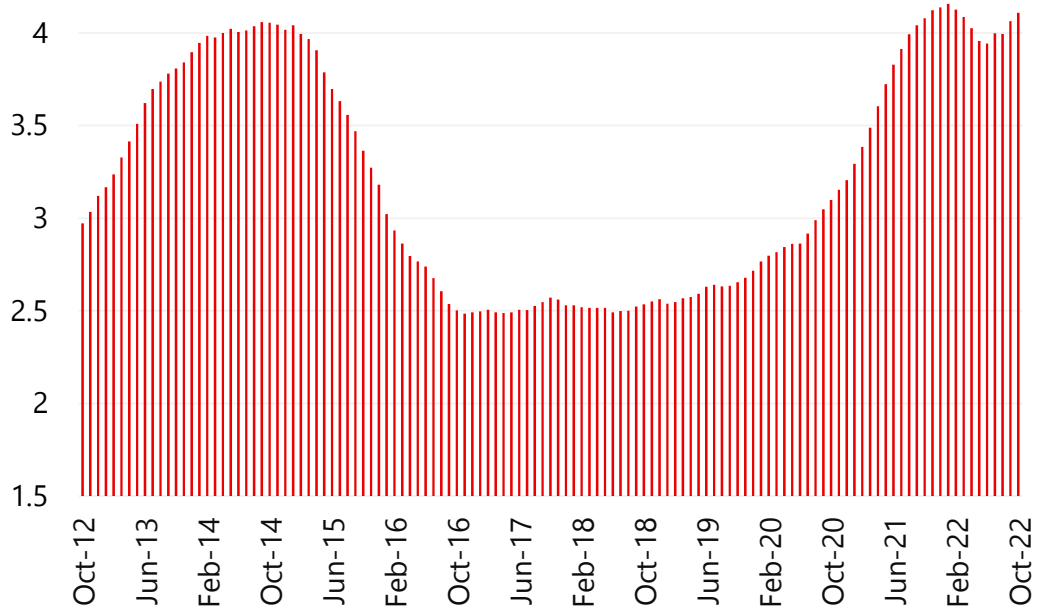
- In the earmarked segment, households increased fell 7.5% MoM in October.
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* (12 months acum.)

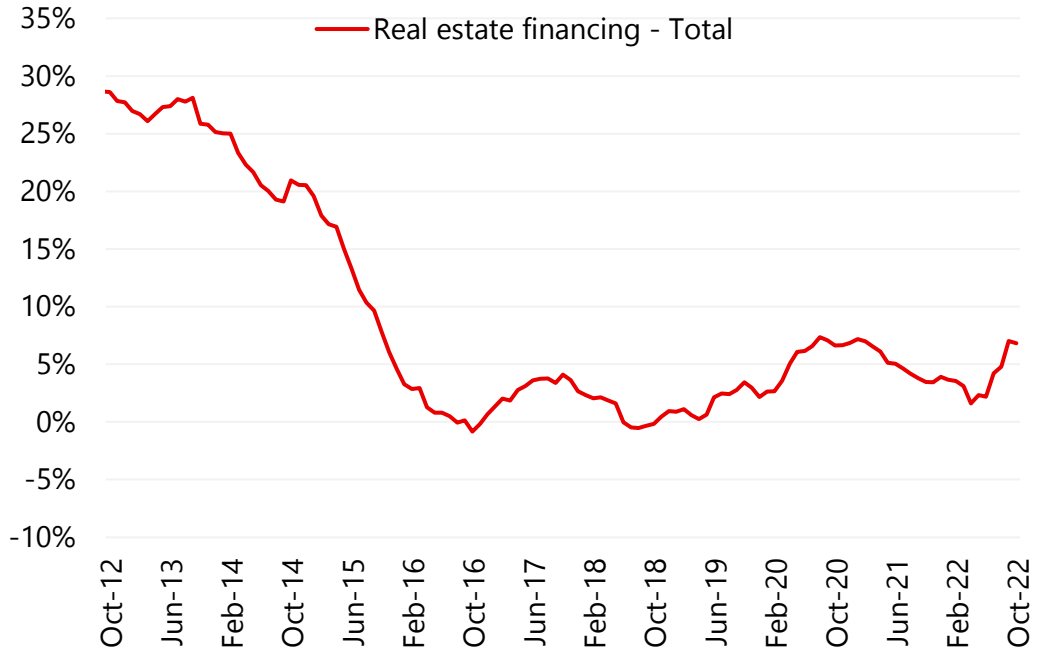


Sources: Brazilian Central Bank, Santander.
* Millions, Inflation adjusted and seasonally adjusted

Real Estate

- The outstanding Balance of Real estate financing rose 6.8% YoY in October
- New loans presented a tepid fall of 3.3% MoM-sa.

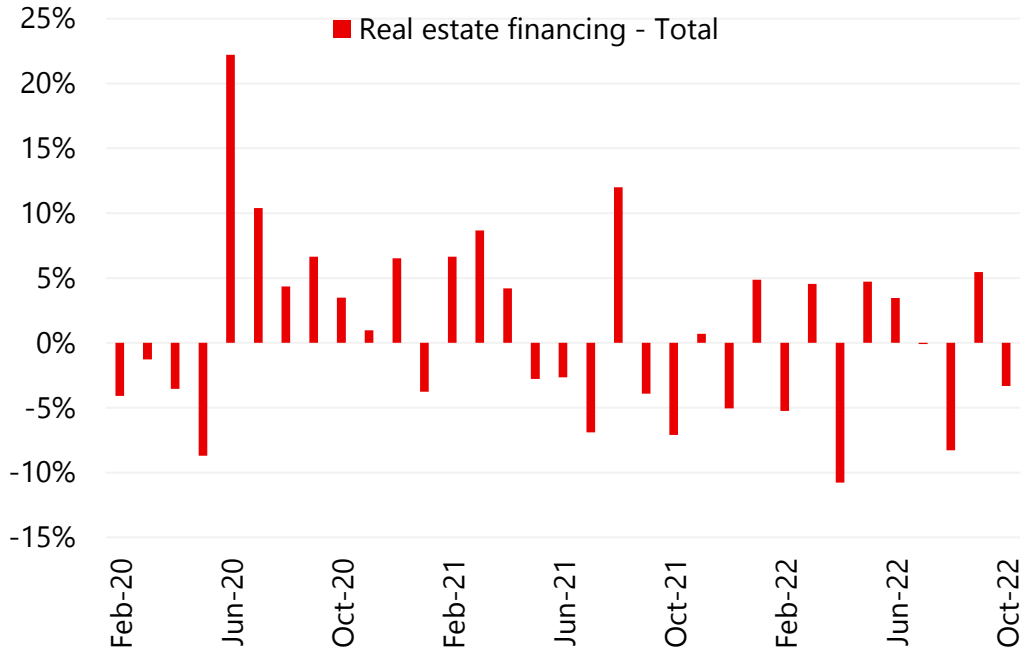
Real Estate Financing - Outstanding Balance (% YoY)



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans (% MoM)

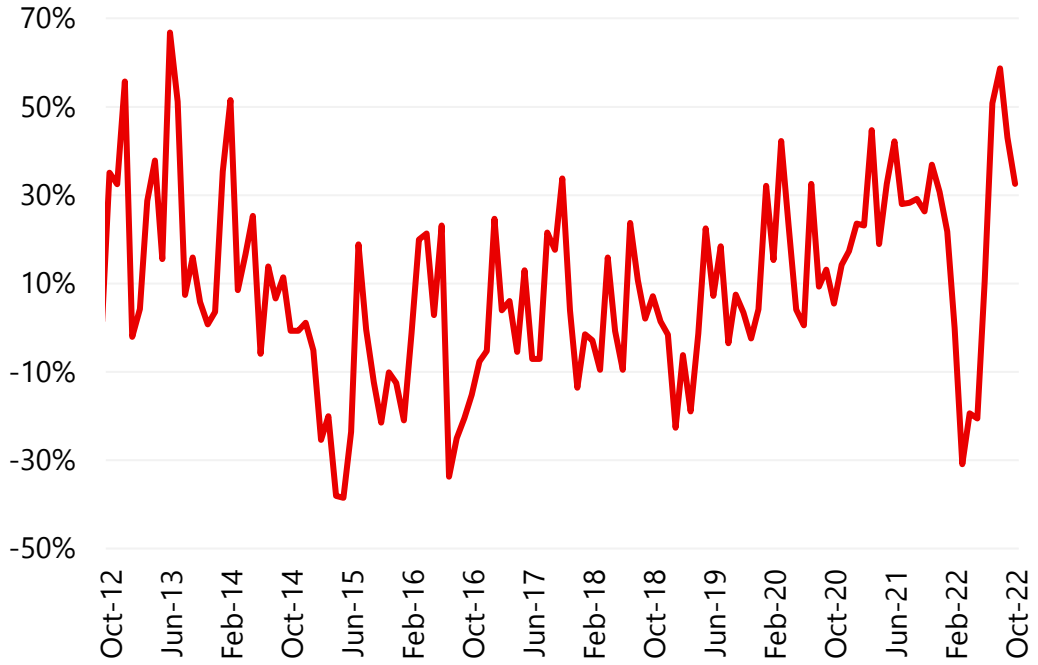


Sources: Brazilian Central Bank, Santander.

Rural Credit

- Rural credit new loans showed an annual variation of 33% YoY, in line with the government release of R$ 148 billion in Rural Credit until October (this value represents an increase of 22% compared to the same period in 2021).
- And it presented a negative variation of -8.8% MoM-sa for the third time in a row.

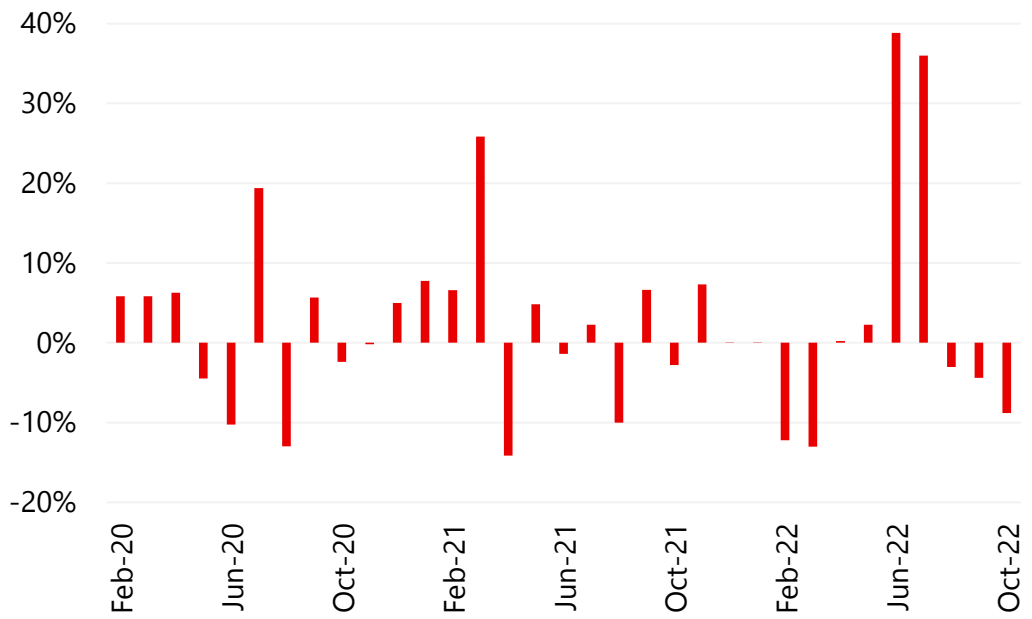
Rural Credit - New Loans (% YoY)



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

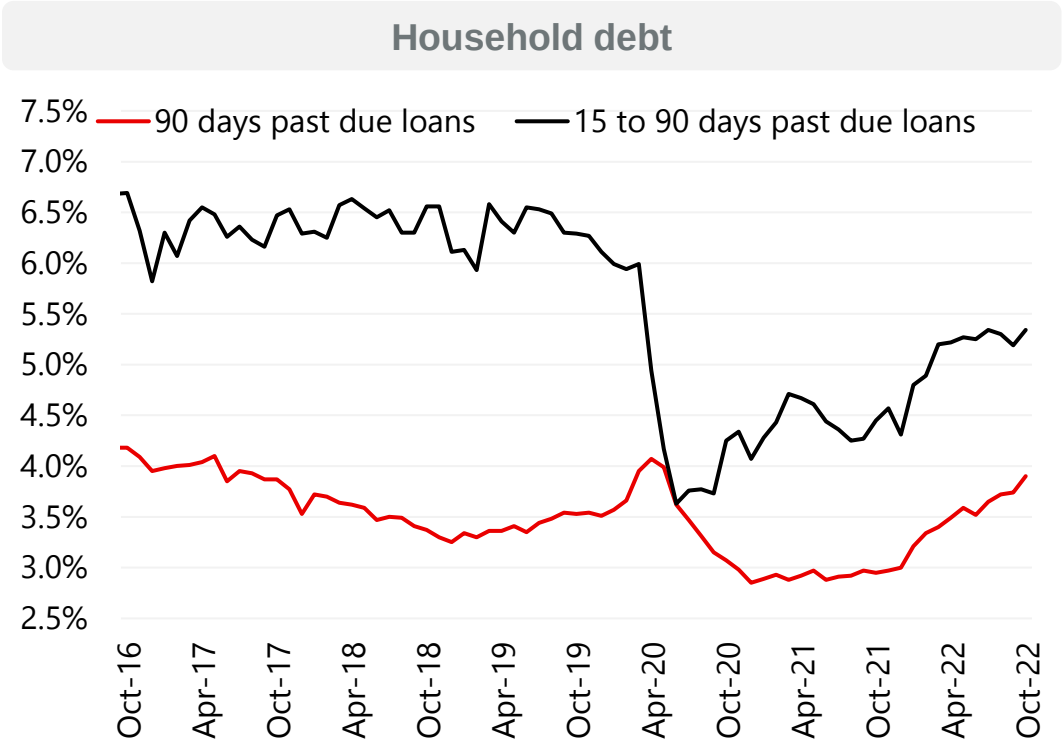
Rural Credit - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

Families Indebtednes: An upward trajectory for arreas

- The arrears are giving warning signs. And the delinquent loans are starting to rise.

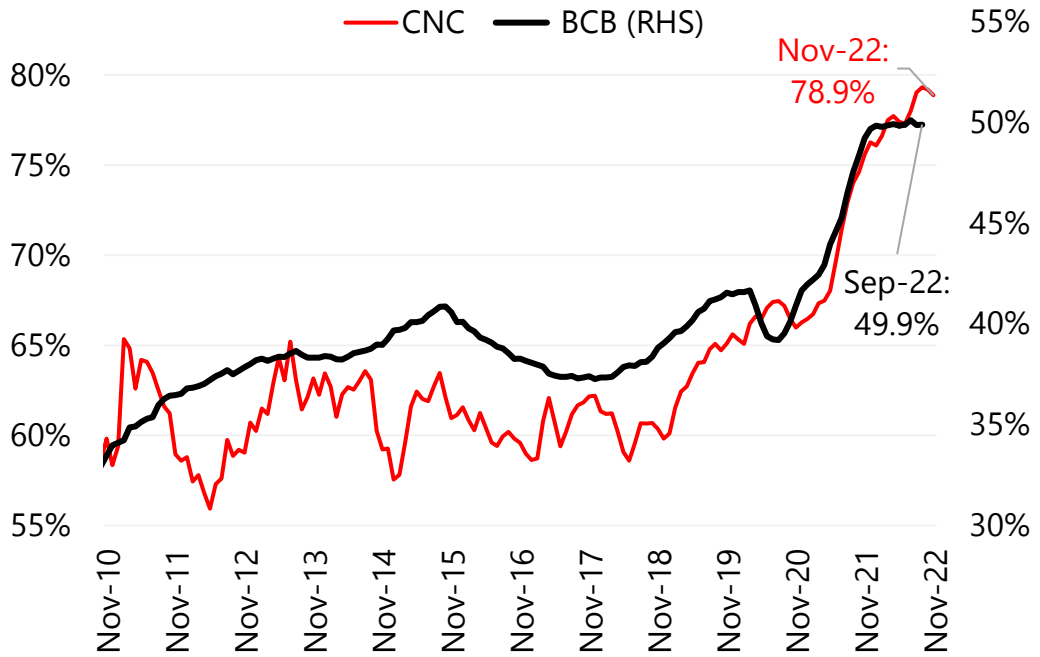


Sources: Brazilian Central Bank, Santander.

Families Indebtedness is the main (big) problem

- Household debt-to-income showed a revision in the series, reaching 49.9% in September 2022, still a high level.
- The situation is getting worse due to the credit operations increasing and the household income stagnation.

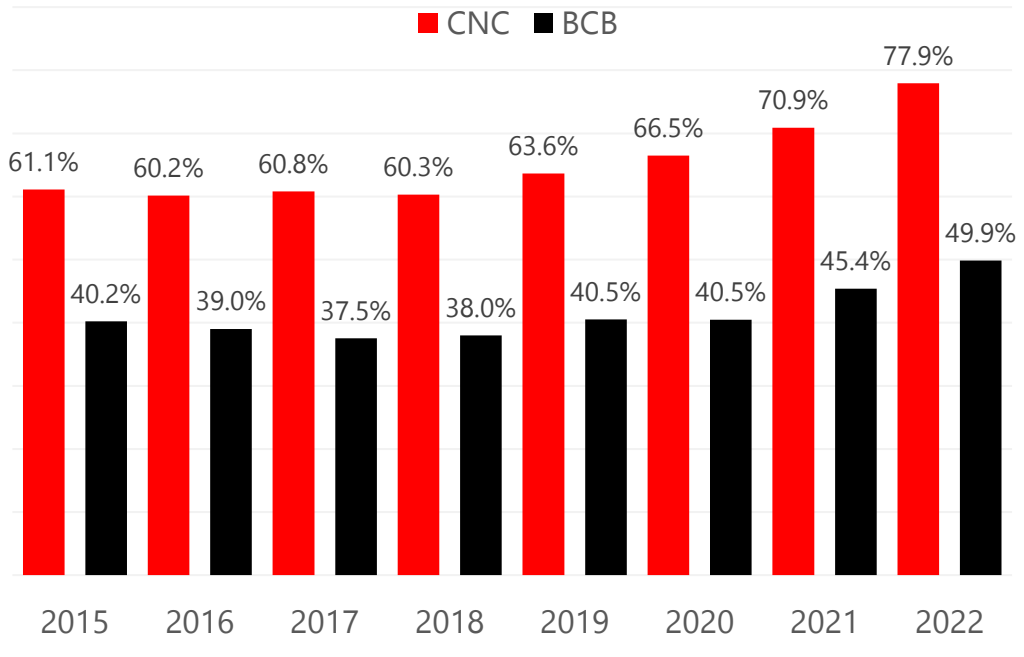
Extended household Indebtedness (%)



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 %)

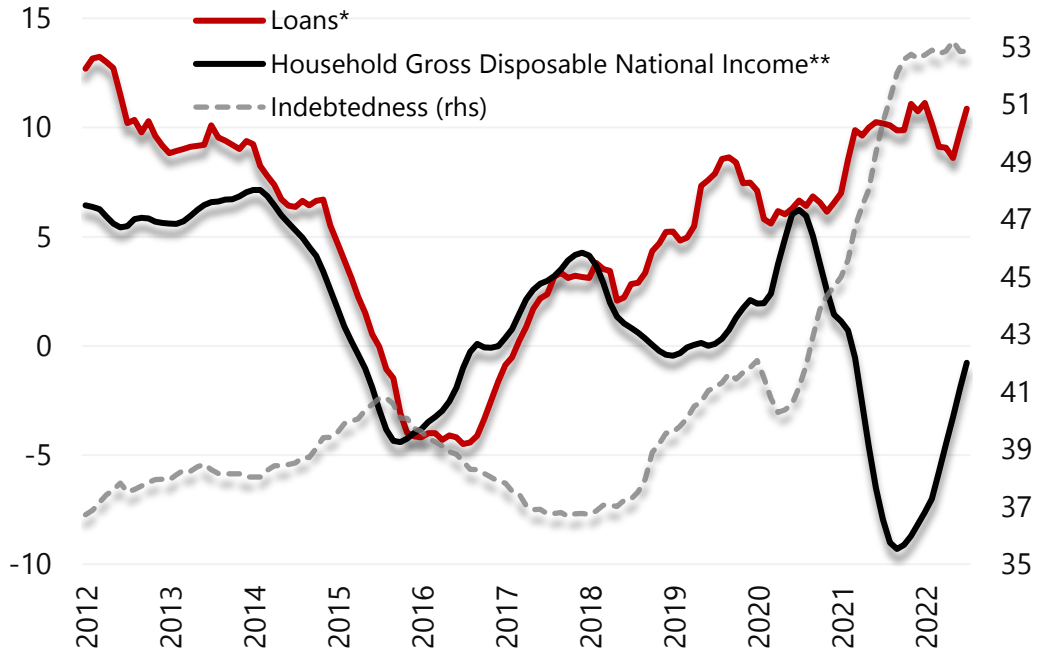


Sources: Brazilian Central Bank, CNC, Santander.

Families' Indebtedness Is (Still) the Main Concern

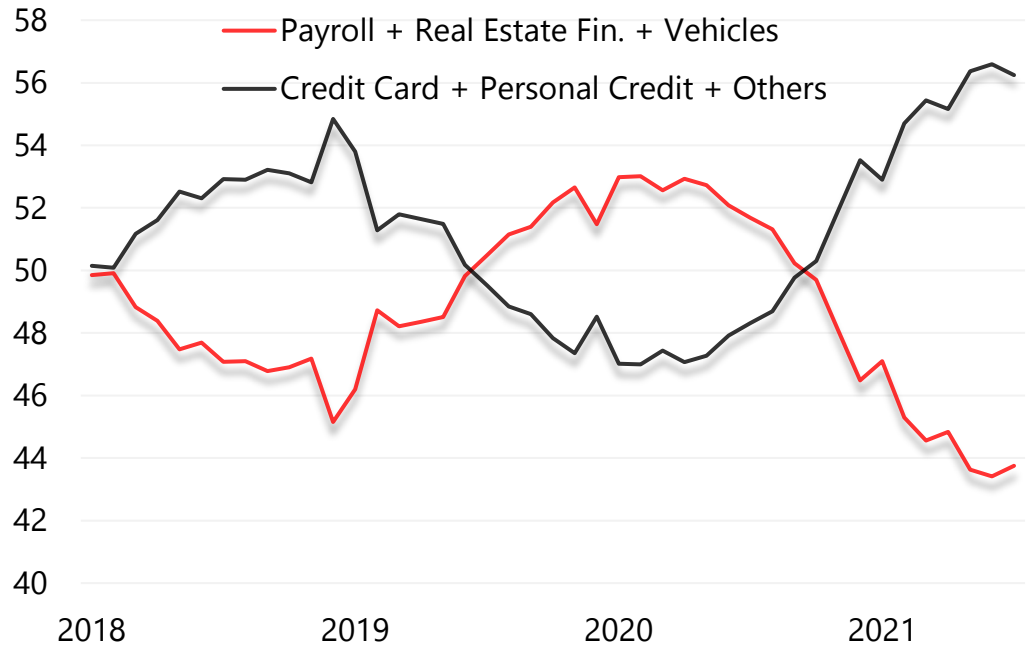
- From Dec/19 to Sep/22, household credit grew a little over 25% in real terms. In the same period, income fell by around 4.0% (already considering the recent recovery), resulting in the current levels of household indebtedness.
- In addition to being at its highest level in the historical series that started in 2005, household debt services have worsened; with the recent expressive growth of more expensive types of credit without real guarantees.

Household – Credit vs Income



Sources: BCB, Santander (inflation adjusted). * Non-Earmarked and Earmarked Credit (adjusted by inflation). ** Household Gross Disposable National Income, adjusted by inflation, seasonally adjusted (accumulated in 12 months)

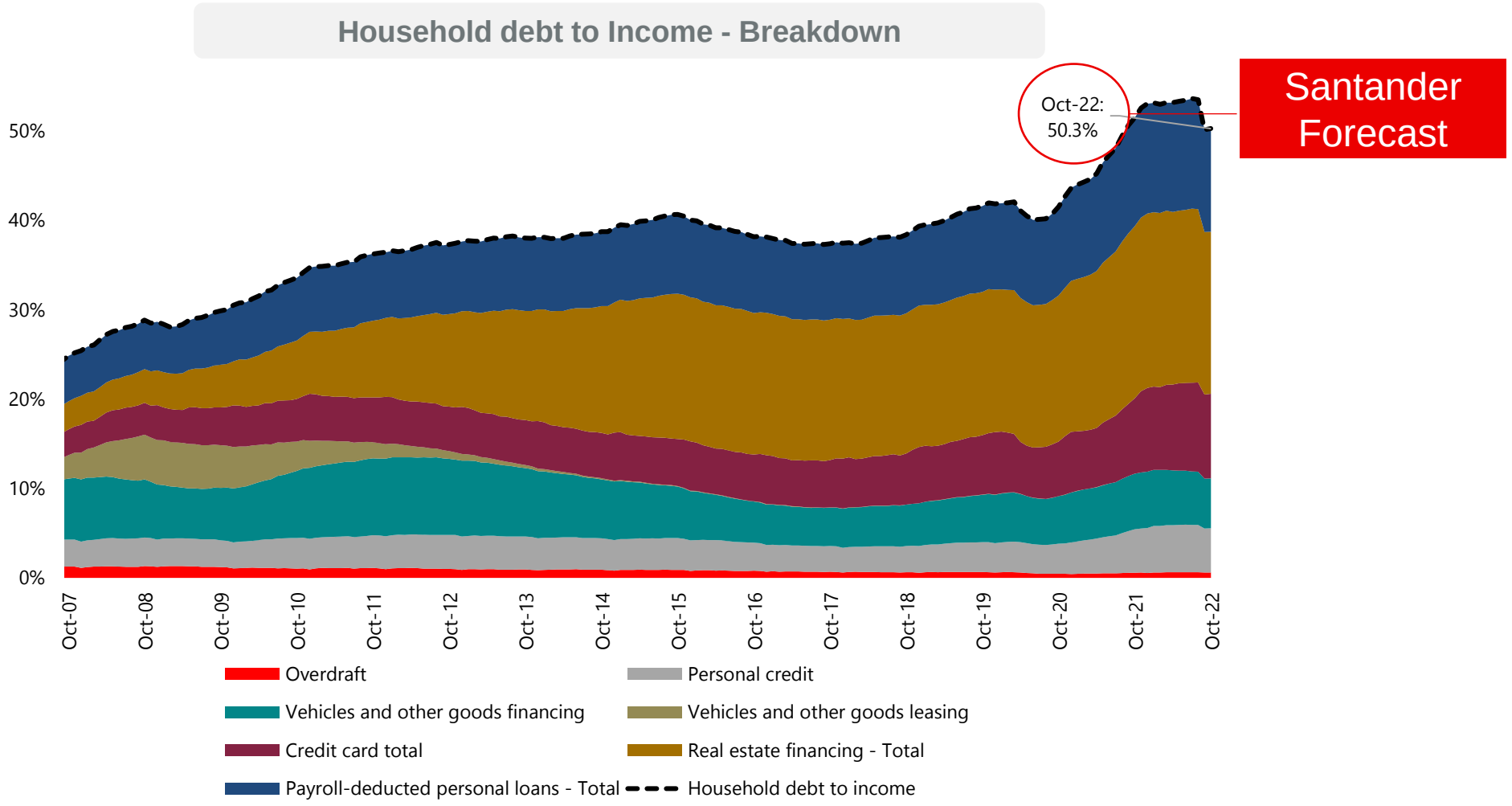
Household Debt Service



Source: BCB, Santander (inflation adjusted)

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.

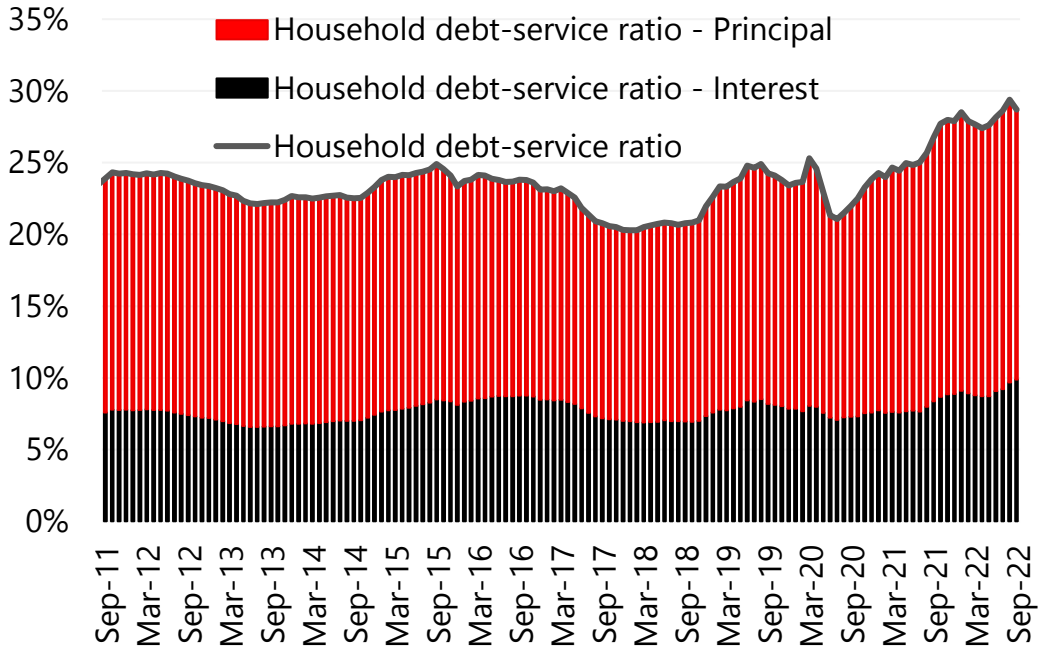


Sources: Brazilian Central Bank, Santander.

Families Indebtednes - Breakdown

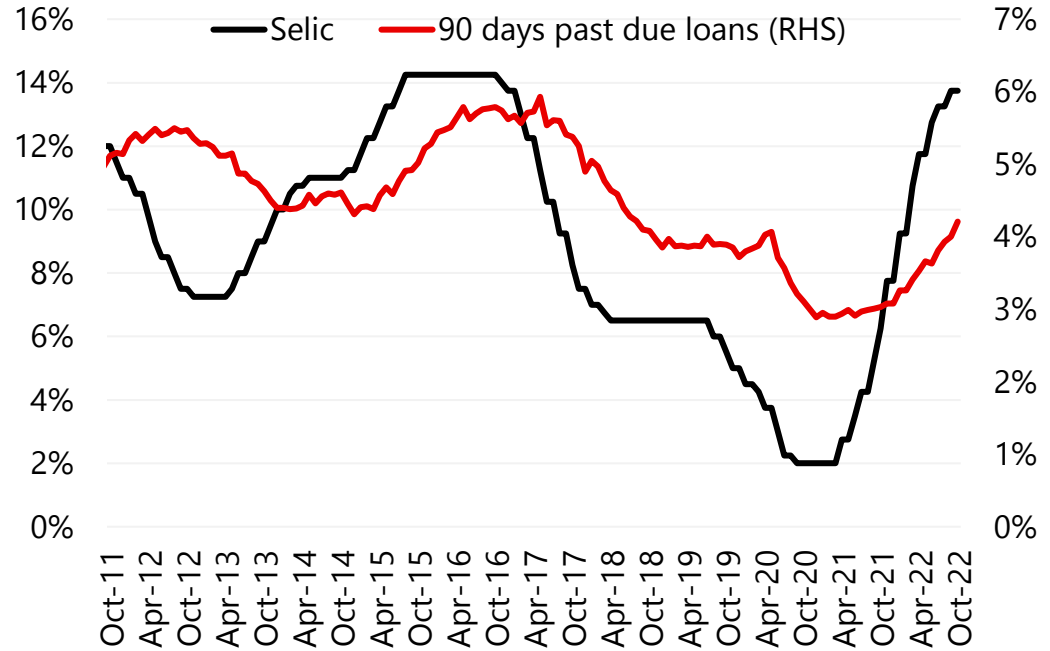
- Household debt service ratio is higher than pre-pandemic levels and keeps accelerating
- With the advance of Selic, arrears continues to rise as well

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

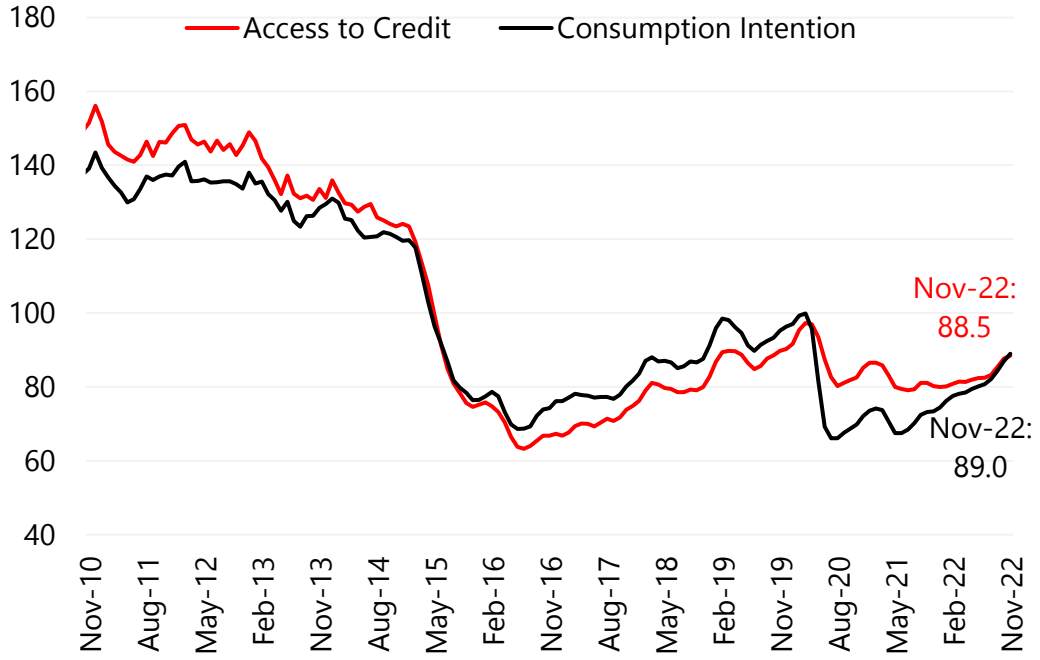


Sources: Serasa Experiean, Santander.

Families Indebtednes: higher than the pre-pandemic level

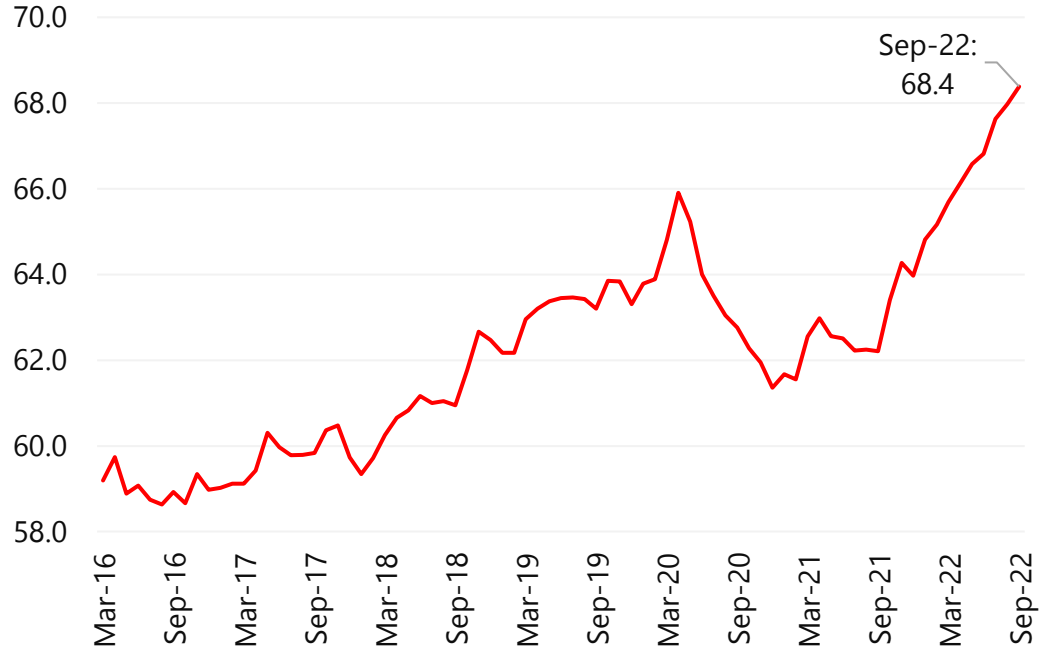
- Household consumption intentions keeping accelerating, despite inflation and higher interest rates. This can be attributed to income support measures and the positive evolution of the labor market.
- The number of delinquent consumers is at the peak of the series at 68.4 millions in September.

Household Consumption Intention



Sources: Serasa Experian, Santander.

Household Defaulting - Millions

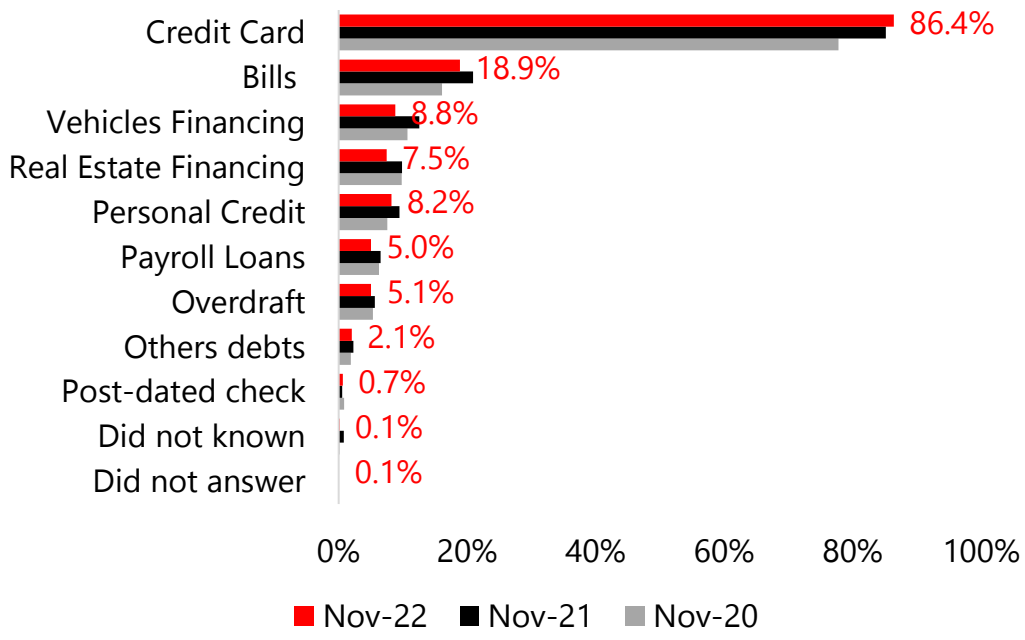


Sources: Serasa Experian, Santander.

Families Indebtednes – By Type

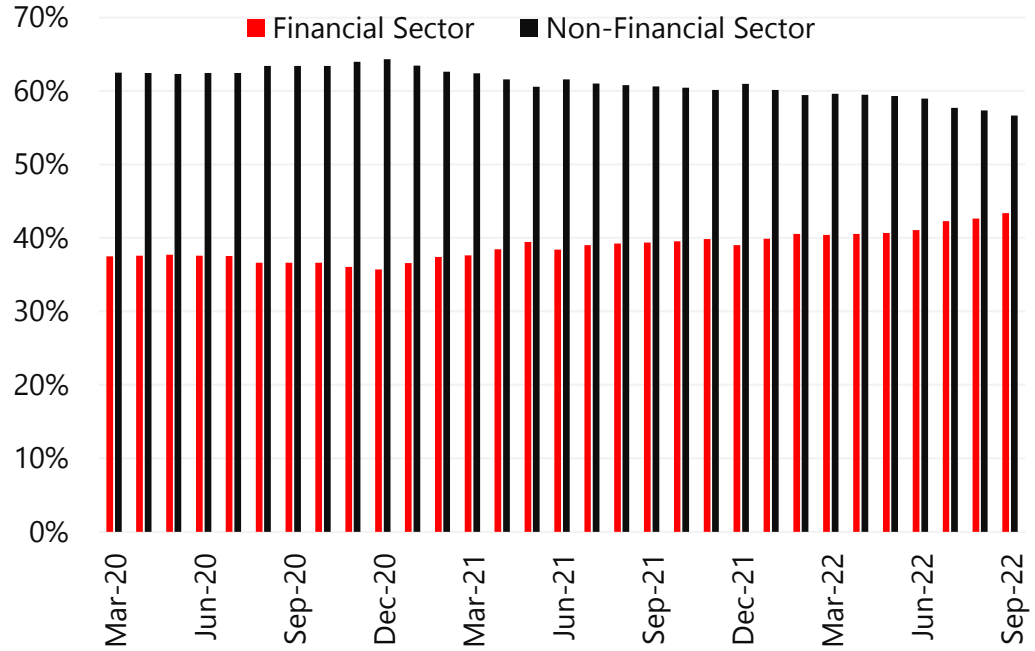
- More than 85% of families have Credit Card as a type of debt.
- And most of debts are in the non-financial sector.

Household Debt – By Type



Sources: CNC, Santander.

Household Debt – By Sector



Sources: Serasa Experian, Santander.

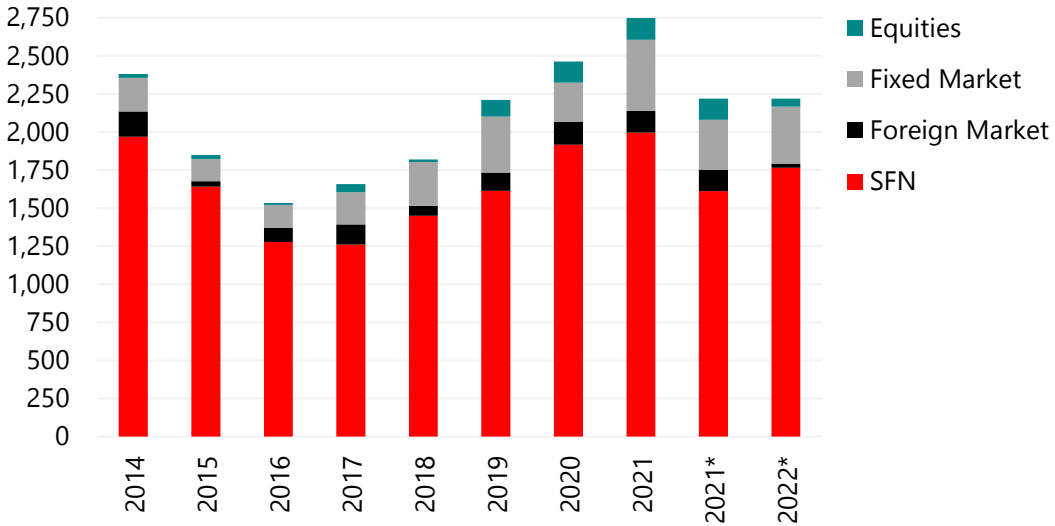
CORPORATE

03

Bank lending tepid compared year-ago period

- Considering total corporate financing YTD through October 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 25.3% smaller, while SFN concessions were up 11.5%.
- As a result, total corporate financing was at the same level as in 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.

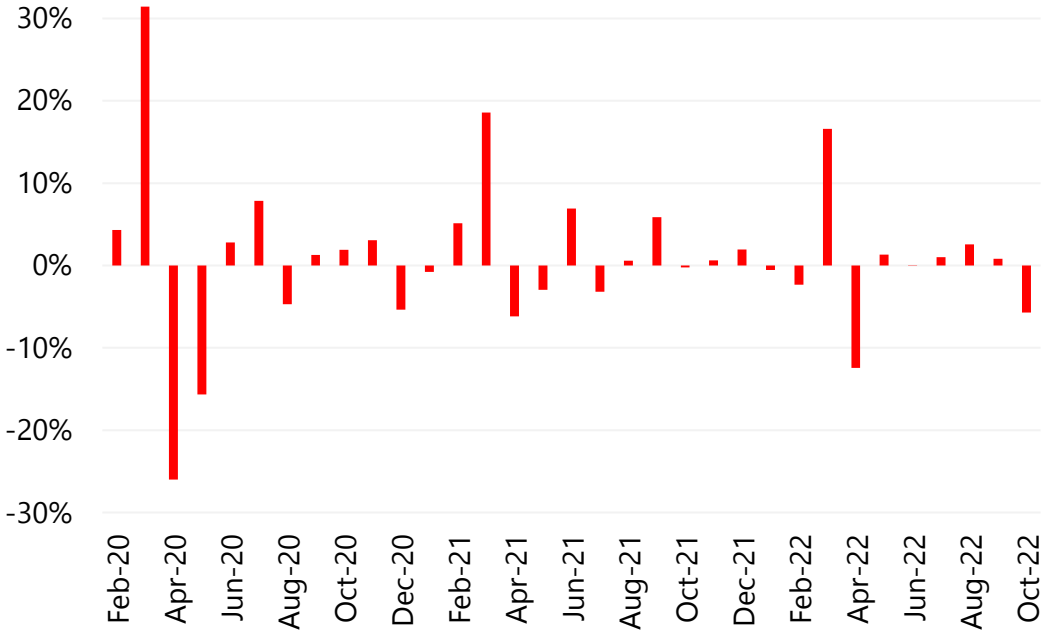
*January~October.

Sources: BCB, Anbima, Santander.

The non-earmarked segmented

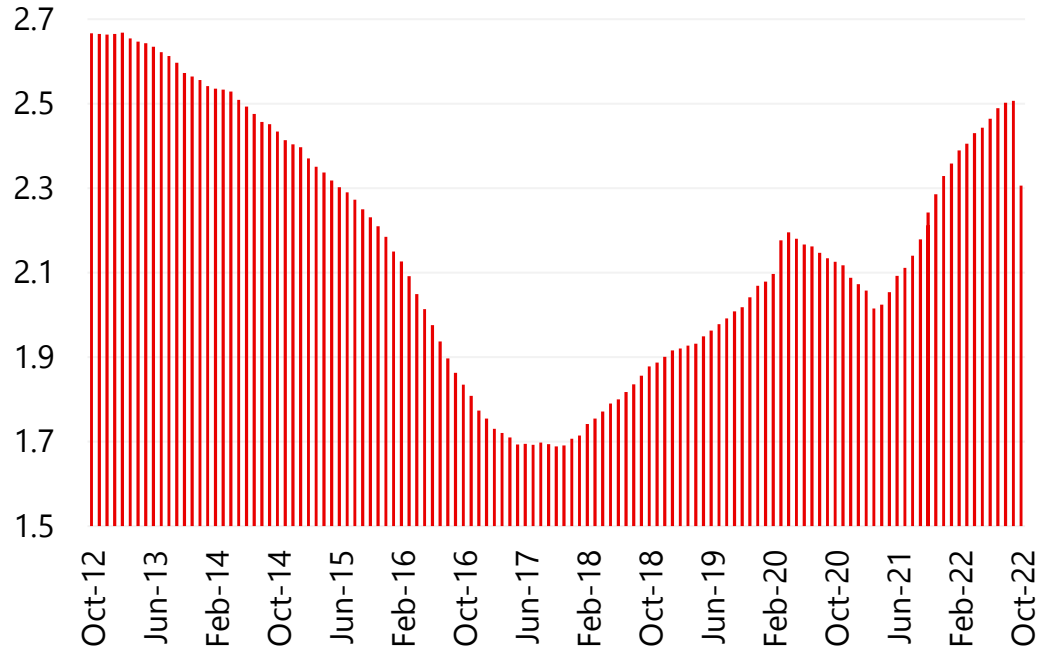
- For companies, there was a decrease of 5.7% MoM-sa in October in the non-earmarked new loans segment.

Non-Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

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

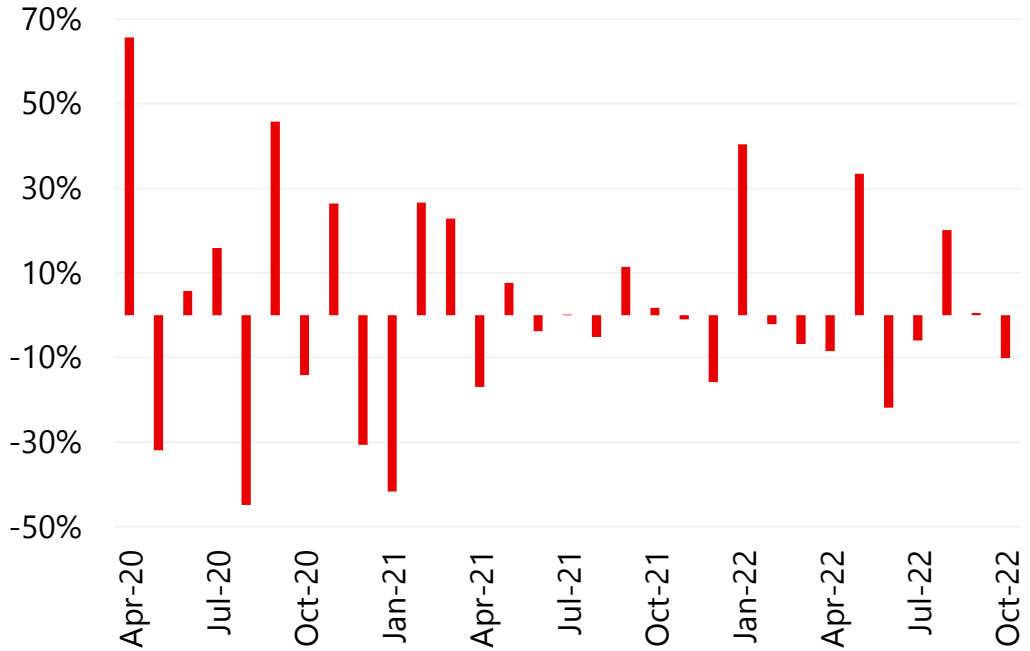


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

The movement to the downside in working capital

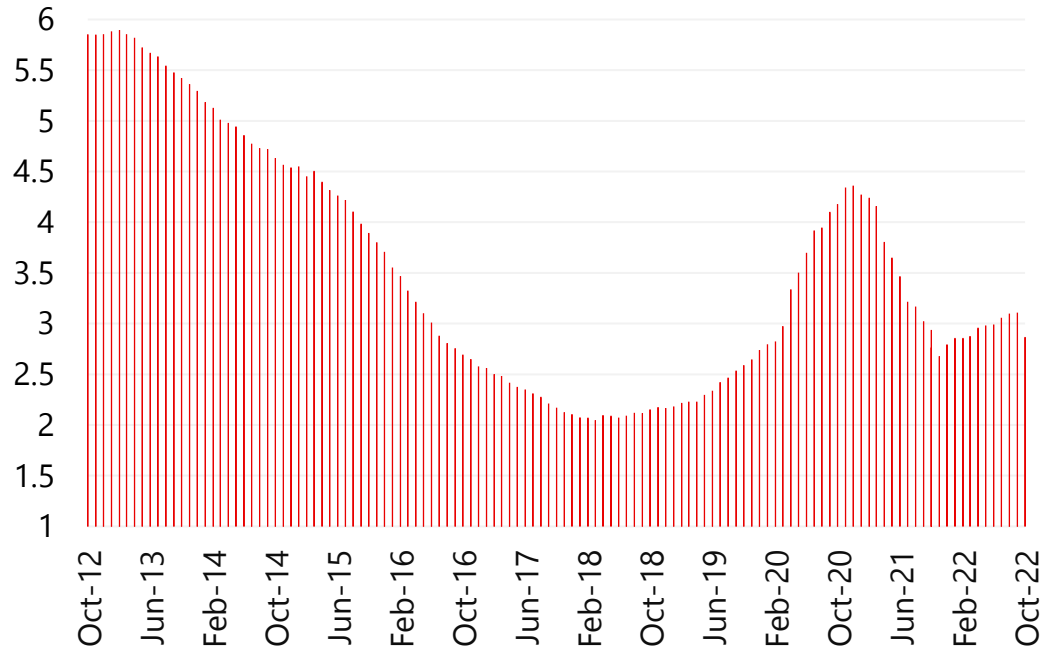
- In October, Working Capital presented a negative variation (-10.2% MoM-sa)

New Loans – Working Capital* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

New Loans – Working Capital* (12 months acum.)

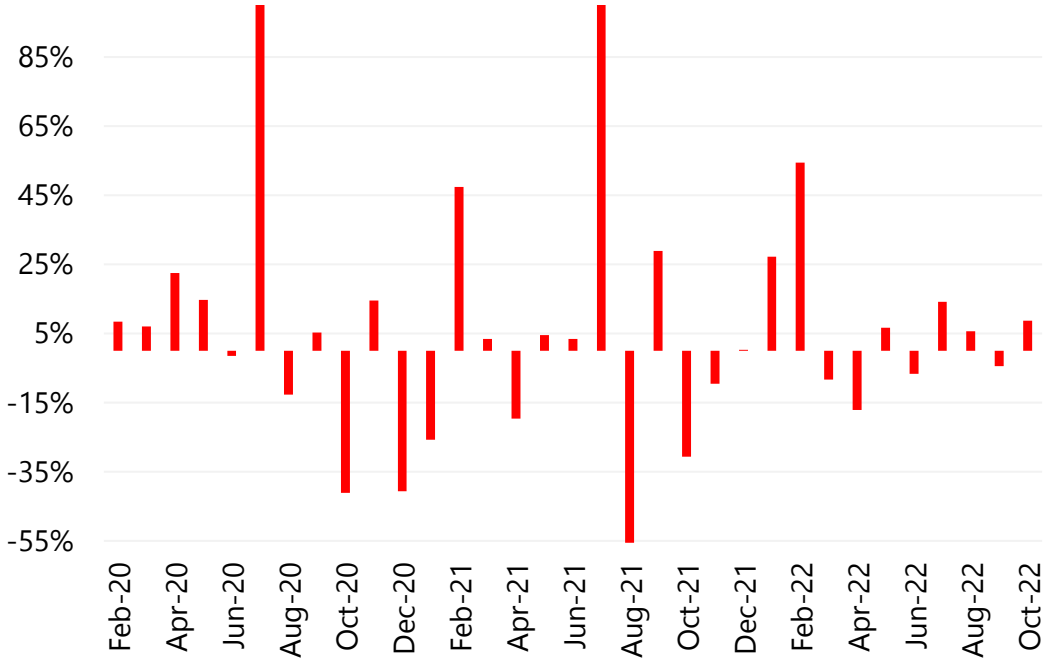


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Mixed signs in the earmarked segmented

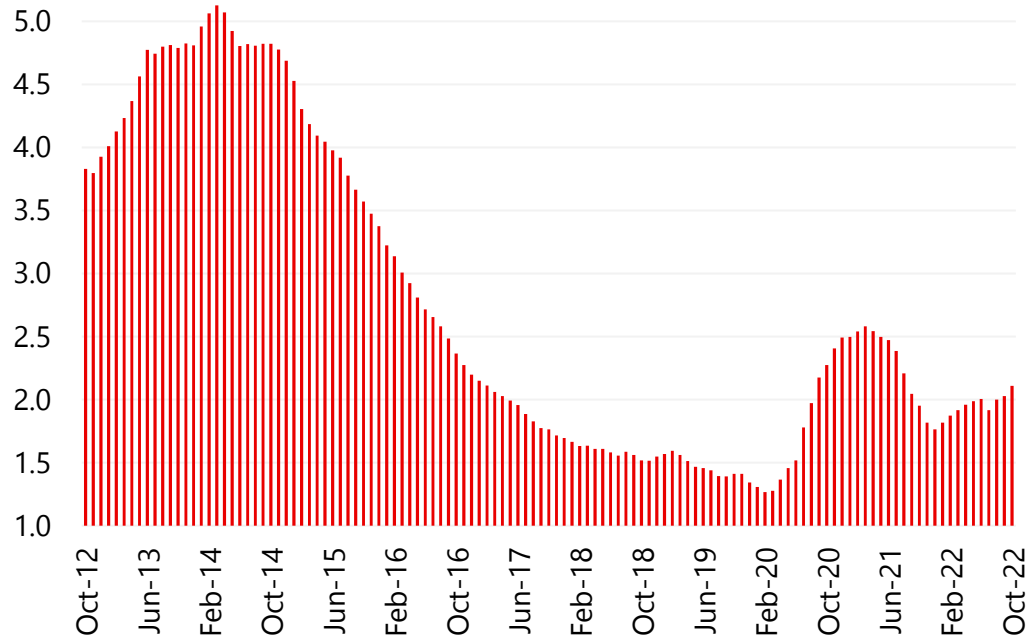
- The earmarked new loans segment posted an increase of 8.7% MoM-sa in October.
- As YoY, the balance of loans posted the 14th decrease in a row, -1.5% YoY (inflation adjusted).

Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Earmarked - New Loans* (12 months acum.)

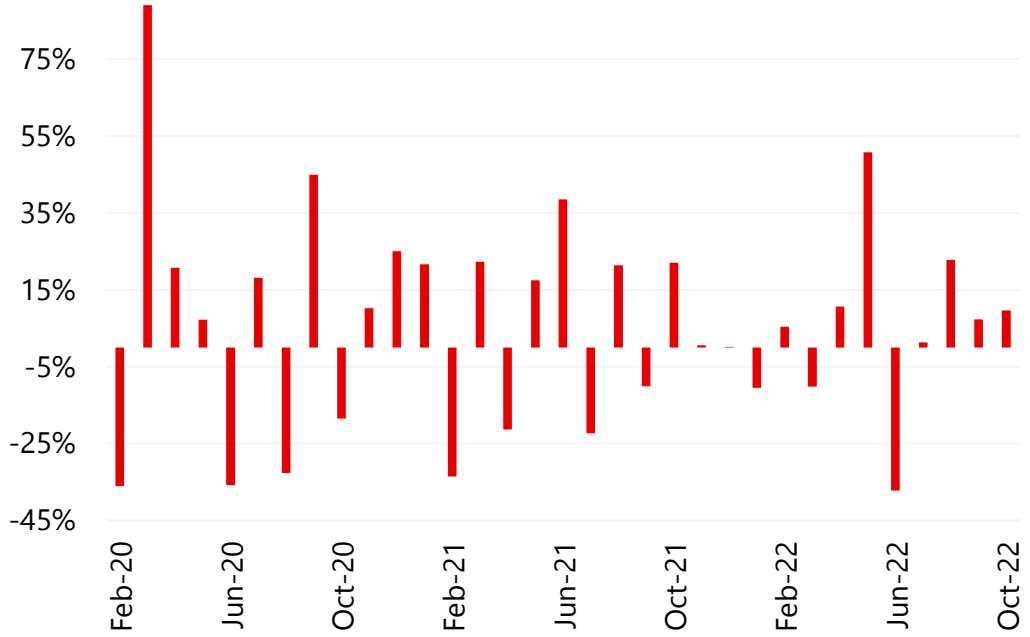


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Real Estate and Rural Credit stood out

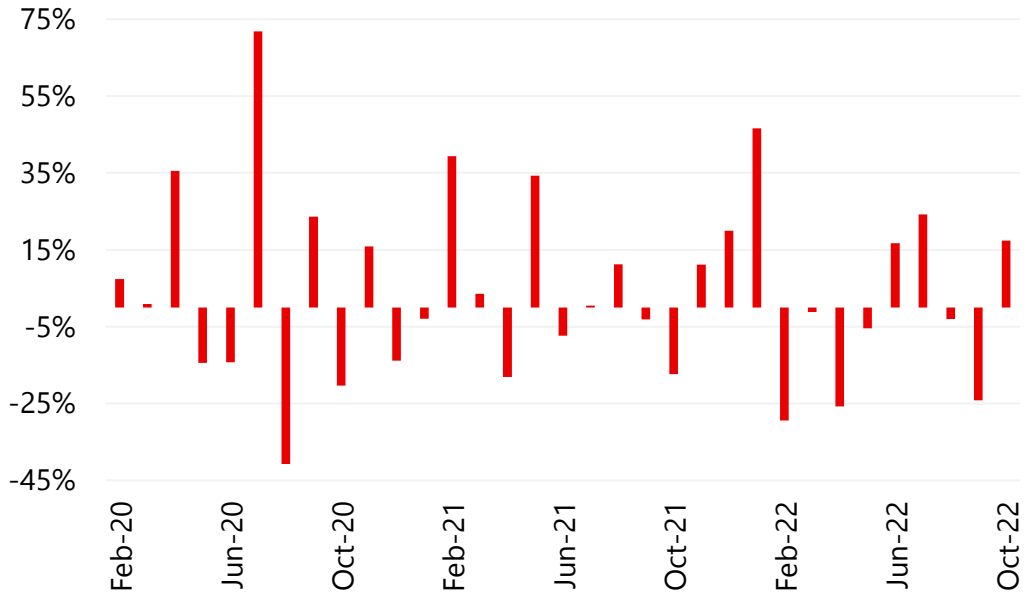
- Real estate financing presented a rise fo 9.6% MoM-sa in October.
- Rural credit showed a variation of 17.3% MoM-sa, in line with the government release of R$ 148 billion in Rural Credit until October (this value represents an increase of 22% compared to the same period in 2021).

Real Estate - New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

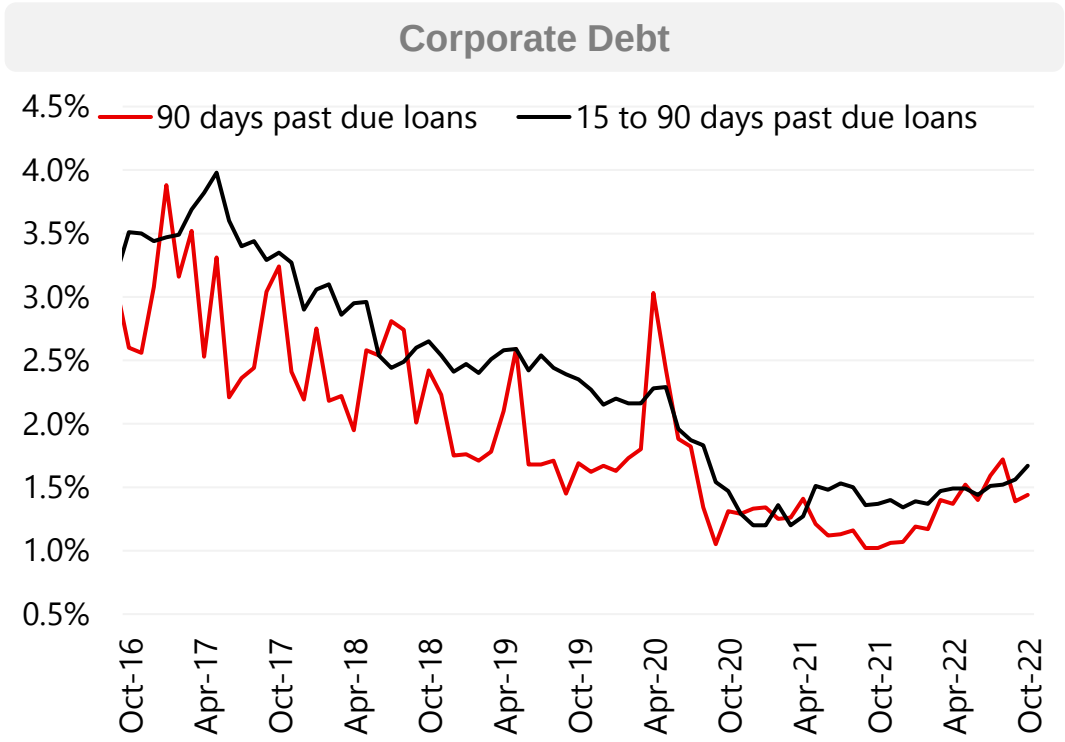
Rural Credit – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- Eyeing arrears to anticipate warning signs

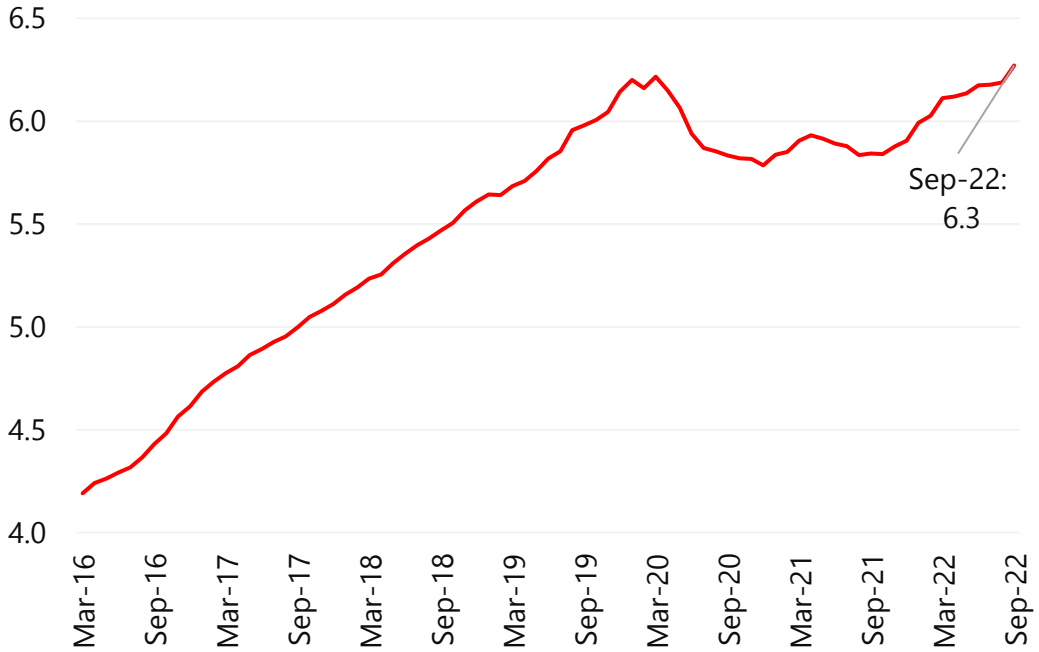


Sources: Brazilian Central Bank, Santander.

Corporates defaulting: still not a big problem

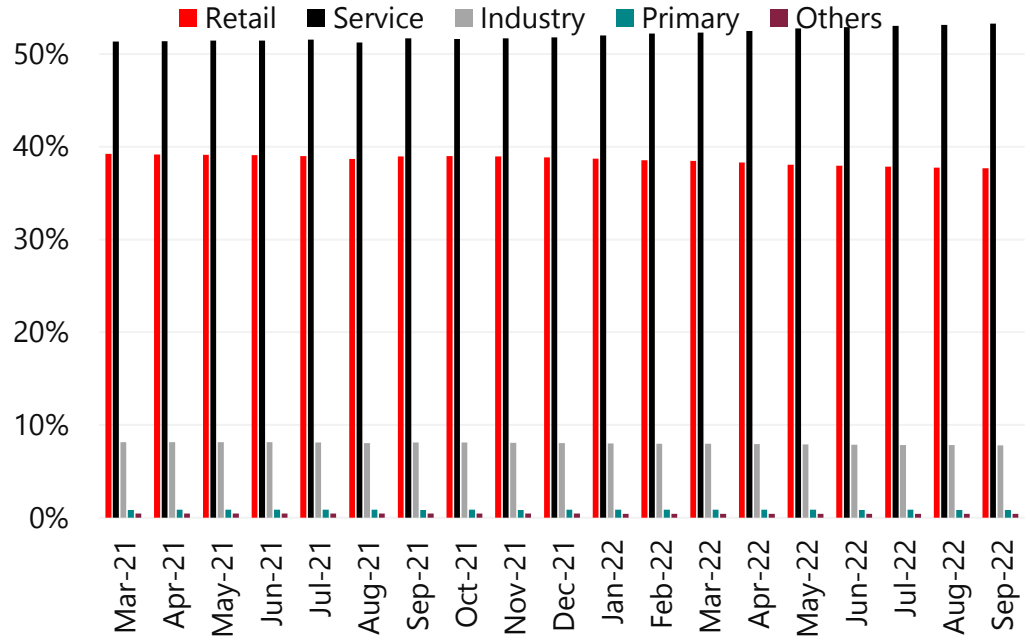
- The number of defaulting companies reached 6.3 million in September, which is the peak of the series, (2021: 5.8-5.9 million).
- Retail and Service sectors are the most sectors that have a default

Corporate Defaulting - Million



Sources: Serasa Experian, Santander.

Total Default – By Sector



Sources: Serasa Experian, Santander.

Forecasts

04

Credit: Our forecasts for outstanding loans & delinquency

Real Credit Outstanding (%YoY)	2019	2020	2021	2022e	2023e	2024e
Total	**3.1%**	**10.6%**	***5.7%***	***8.6%***	***0.5%***	***7.4%***
Household	8.3%	6.3%	*9.9%*	*11.1%*	*1.5%*	*7.7%*
Non-fin. Corp.	-3.4%	16.5%	*0.4%*	*5.1%*	*-1.1%*	*6.9%*
Nonearmarked	**10.3%**	**10.4%**	***9.4%***	***10.6%***	***-0.2%***	***8.2%***
Household	12.8%	5.9%	*11.8%*	*13.0%*	*2.1%*	*8.6%*
Non-fin. Corp.	7.3%	15.9%	*6.7%*	*7.6%*	*-2.9%*	*7.8%*
Earmarked	**5.4%**	**10.9%**	***0.7%***	***5.7%***	***1.4%***	***6.1%***
Household	3.2%	6.8%	*7.7%*	*8.8%*	*0.9%*	*6.5%*
Non-fin. Corp.	-16.8%	17.5%	*-9.4%*	*0.3%*	*2.3%*	*5.3%*

Credit Conditions	2018	2019	2020	2021	2022e	2023e	2024e
Non-performing loans (Non-Earmarked)	**3.9**	**3.7**	**2.9**	***3.1***	***4.1***	***4.9***	***4.3***
Household	4.8	5.0	4.2	*4.4*	*5.8*	*6.5*	*5.6*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*2.0*	*2.7*	*2.9*
Household Indebtedness	**38.9**	**41.4**	**43.9**	***52.6***	***53.9***	***56.9***	***57.3***
Household debt service ratio	**22.0**	**23.4**	**23.8**	***27.9***	***28.6***	***30.2***	***30.4***

Sources: Santander.

Credit: Our forecasts for outstanding loans & delinquency

Nominal Credit Outstanding (%YoY)	2019	2020	2021	2022e	2023e	2024e
Total	**6.4%**	**15.6%**	**16.3%**	**15.0%**	**5.8%**	**10.6%**
Household	11.9%	11.1%	21.0%	17.7%	6.9%	10.9%
Non-fin. Corp.	-0.3%	21.8%	10.5%	11.3%	4.1%	10.1%
Nonearmarked	**13.9%**	**15.4%**	**20.4%**	**17.1%**	**5.1%**	**11.4%**
Household	16.5%	10.7%	23.0%	19.7%	7.5%	11.8%
Non-fin. Corp.	10.8%	21.2%	17.4%	14.0%	2.2%	10.9%
Earmarked	**-2.4%**	**15.9%**	**10.9%**	**11.9%**	**6.8%**	**9.2%**
Household	6.6%	11.7%	18.5%	15.2%	6.3%	9.6%
Non-fin. Corp.	-14.0%	22.8%	-0.3%	6.2%	7.7%	8.4%

Credit Conditions	2018	2019	2020	2021	2022e	2023e	2024e
Non-performing loans (Non-Earmarked)	**3.9**	**3.7**	**2.9**	***3.1***	***4.1***	***4.9***	***4.3***
Household	4.8	5.0	4.2	*4.4*	*5.8*	*6.5*	*5.6*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*2.0*	*2.7*	*2.9*
Household Indebtedness	**38.9**	**41.4**	**43.9**	***52.6***	***53.9***	***56.9***	***57.3***
Household debt service ratio	**22.0**	**23.4**	**23.8**	***27.9***	***28.6***	***30.2***	***30.4***

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

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Brazil Macroeconomic Research Team

Ana Paula Vescovi
Chief Economist
anavescovi@santander.com.br
+55 (11) 3553-8567

Mauricio Oreng
Head of Research & Strategy
mauricio.oreng@santander.com.br
+55 (11) 3553-5404

Jankiel Santos
Economist – External Sector
jankiel.santos@santander.com.br
+55 (11) 3012-5726

Ítalo Franca
Economist – Fiscal Policy
italo.franca@santander.com.br
+55 (11) 3553-5235

Tomas Urani
Economist – Global Economics
tomas.urani@santander.com.br
+55 (11) 3553-9520

Daniel Karp Vasquez
Economist - Inflation
daniel.karp@santander.com.br
+55 (11) 3553-9828

Lucas Maynard
Economist – Economic Activity
lucas.maynard.da.silva@santander.com.br
+55 (11) 3553-7495

Felipe Kotinda
Economist - Commodities
felipe.kotinda@santander.com.br
+55 (11) 3553-8071

Fabiana Moreira
Economist - Credit
fabiana.de.oliveira@santander.com.br
+55 (11) 3553-8071

Gilmar Lima
Economist – Modeling
gilmar.lima@santander.com.br
+55 (11) 3553-6327

Gabriel Couto
Economist – Special Projects
gabriel.couto@santander.com.br
+55 (11) 3553-8487

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