



Brazil Macro | July 2022

Credit

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

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BRIEF OVERVIEW

01

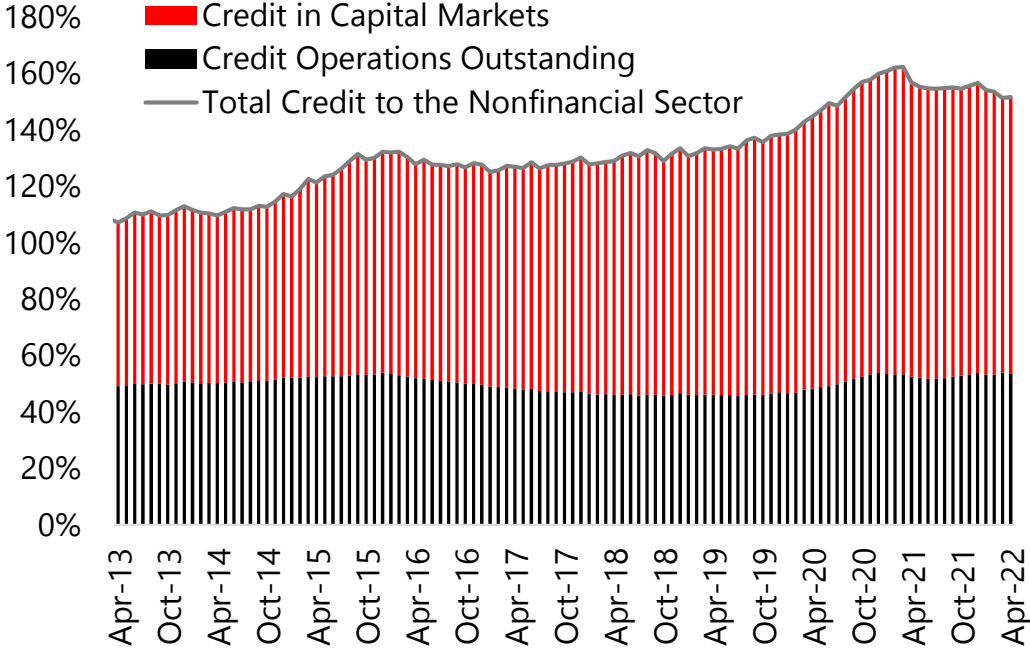
SUMMARY

- **Our projections for total outstanding loan growth is 3.1% YoY in 2022 and 1.1% 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 segment posted an increase of 1.7% MoM-sa.
- For companies, there was a decrease of 11.9% MoM-sa in April in the non-earmarked segment. The earmarked segment also decreased, falling 13.7% MoM-sa.
- Considering total corporate financing YTD through April 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 17% smaller, with SFN concessions up 16.7%. As a result, total corporate financing was up 8.4% compared to the year-ago period.

Total Credit to Non-Financial Sector

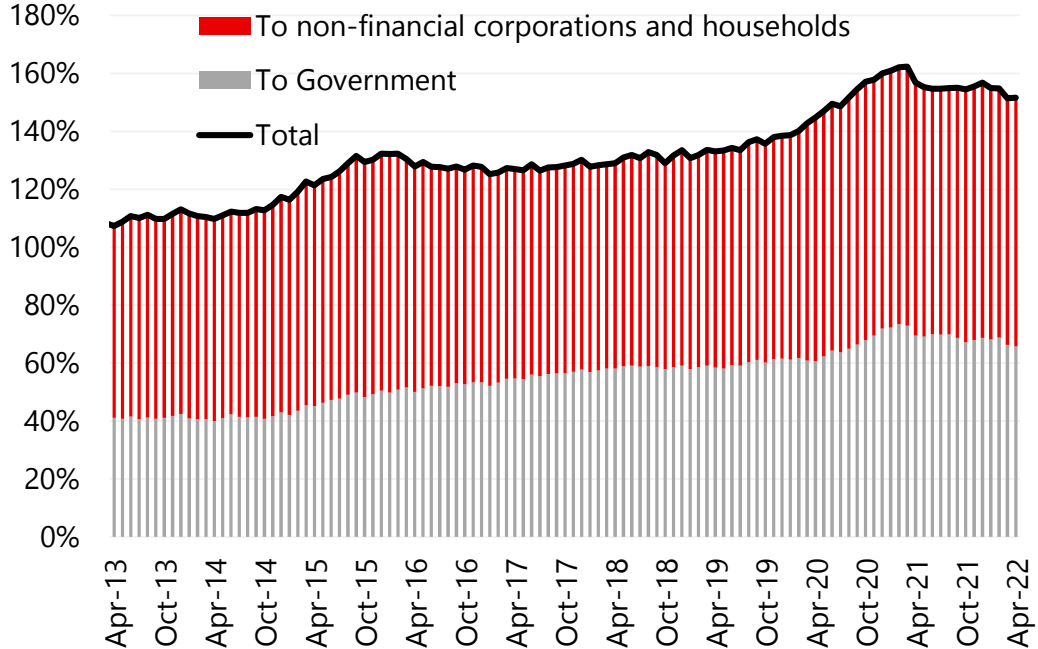
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination , %GDP

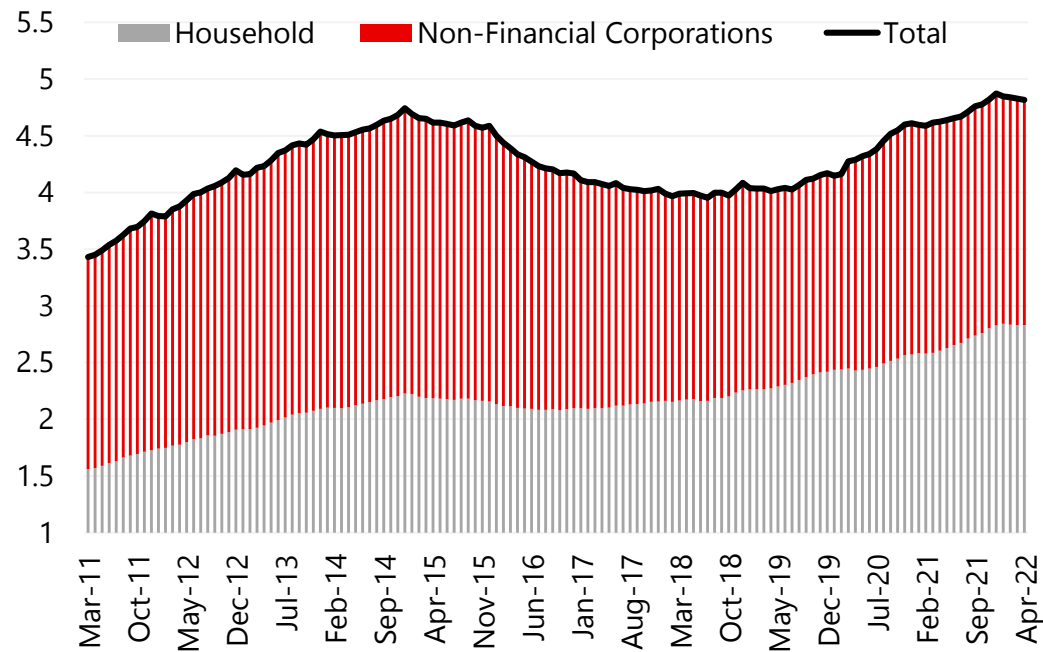


Sources: BIS, Santander.

Credit market remained strong

- Total outstanding loans posted real growth of 4.16% YoY in April 2022 to BRL4.8 trillion
- For households, loans were up 8.71% YoY; for non-financial corporations, they were down 1.71% YoY.

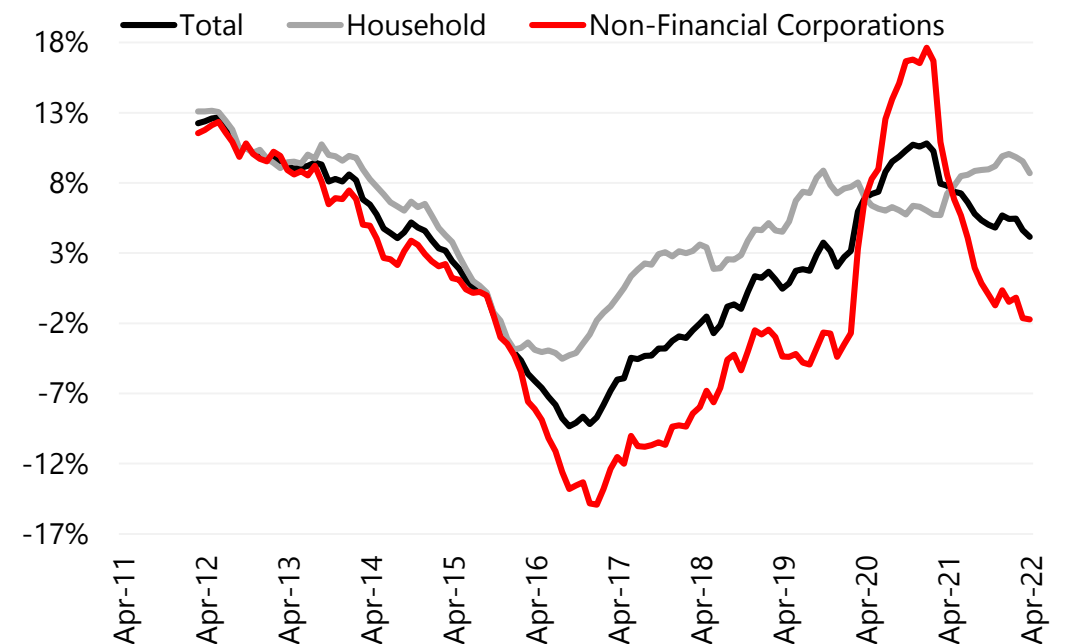
Total Outstanding Balance of Credit Operations



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.

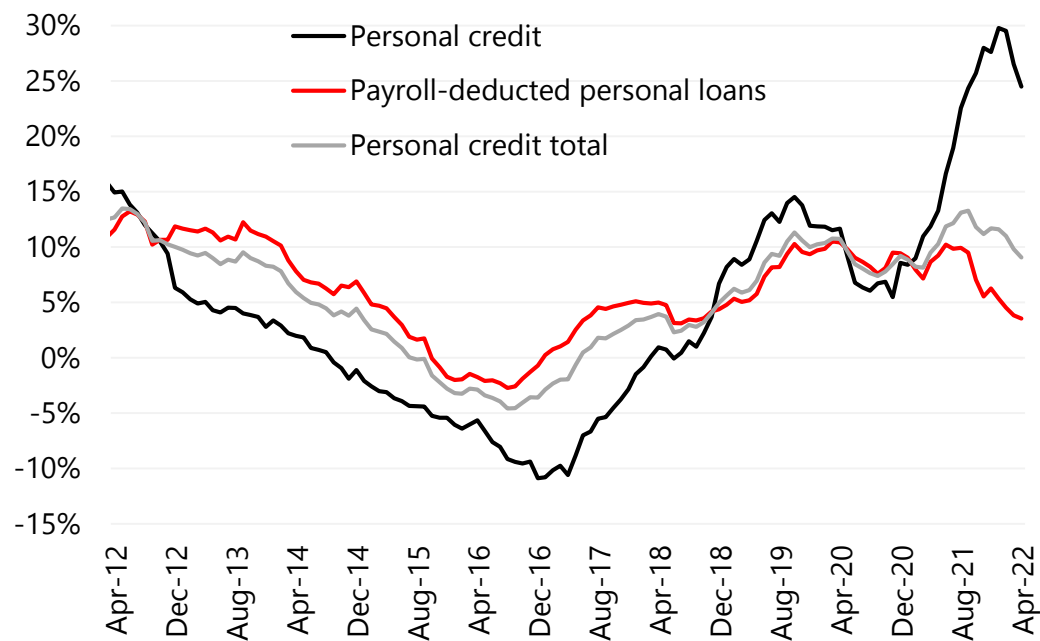
HOUSEHOLD

02

Outstanding Loans: household presenting growth

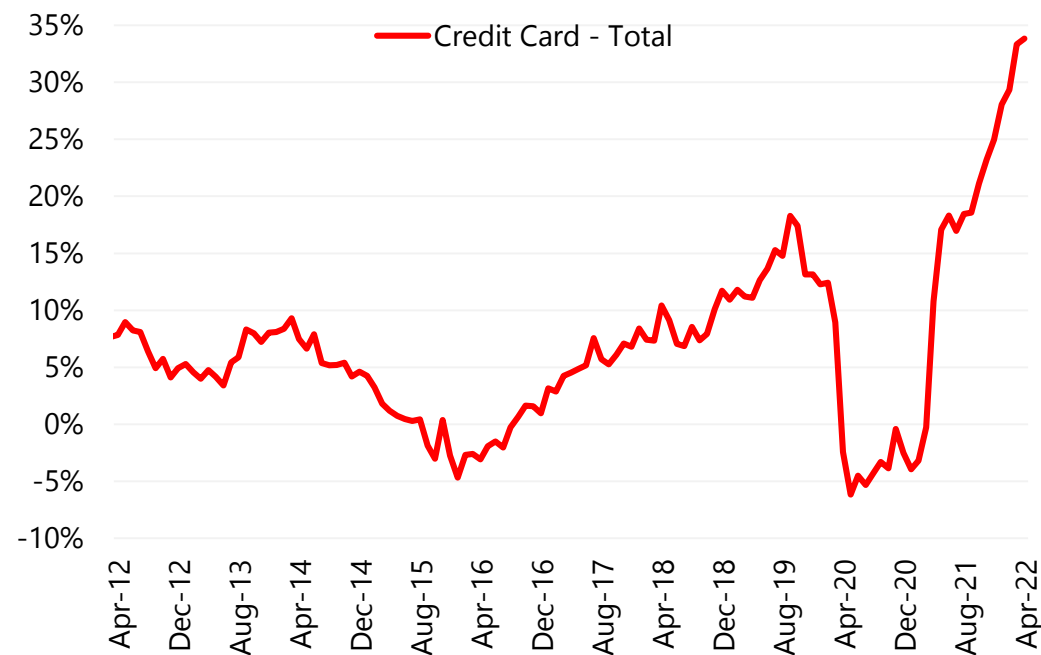
- In the Non-Earmarked segment, household credit portfolios presented real growth of 12% YoY
- Personal Credit posted a real growth of 9.1% YoY.
- Credit Card continues to accelerate, reaching the peak of the series since March 2012, at 33.83% YoY, inflation adjusted.

Outstanding Loans - Personal Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

Outstanding Loans – Credit Card (% YoY)

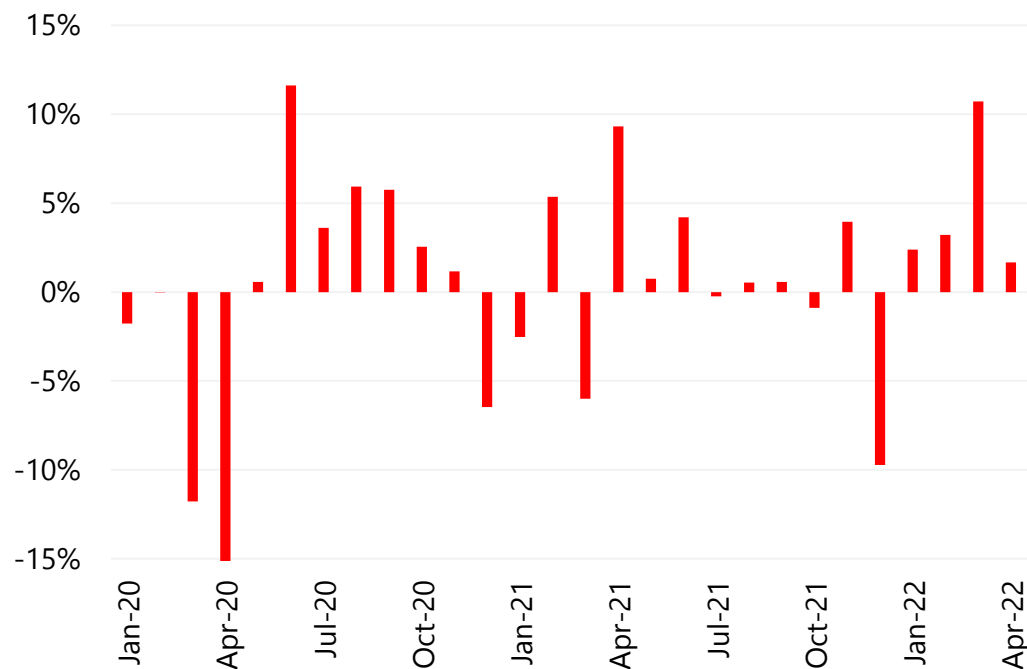


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans posted na increase

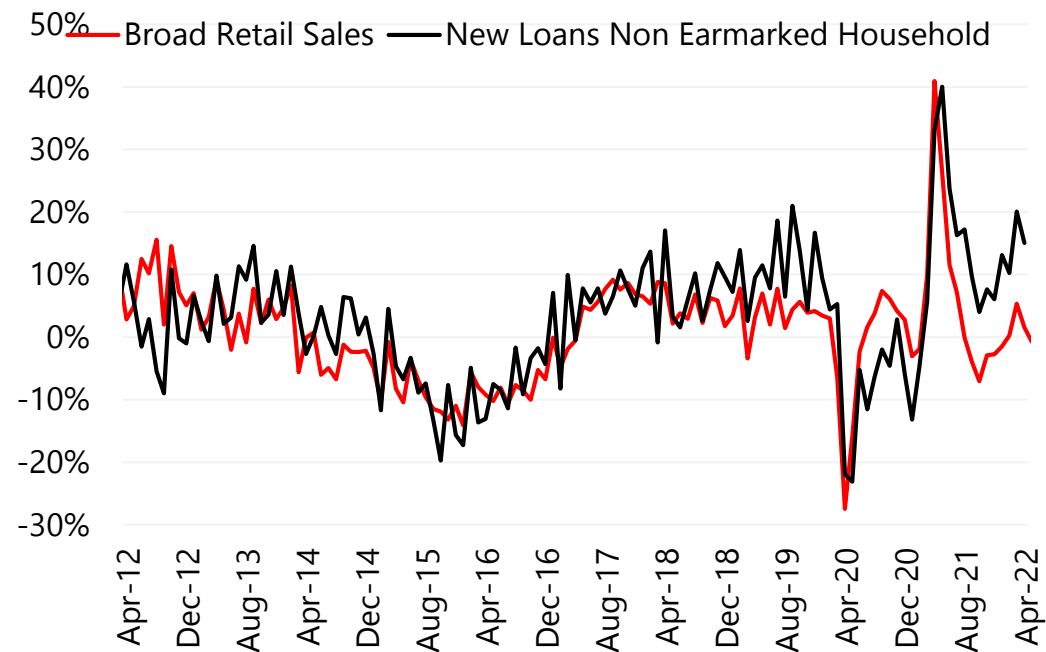
- For households, the non-earmarked segment posted an increase of 1.7% MoM-sa.
- We highlight the rise in total personal credit (14.7% MoM-sa), but credit cards presented a decline (-4.5% MoM-sa10.9).

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY New loans Household Non-Earmarked YoY

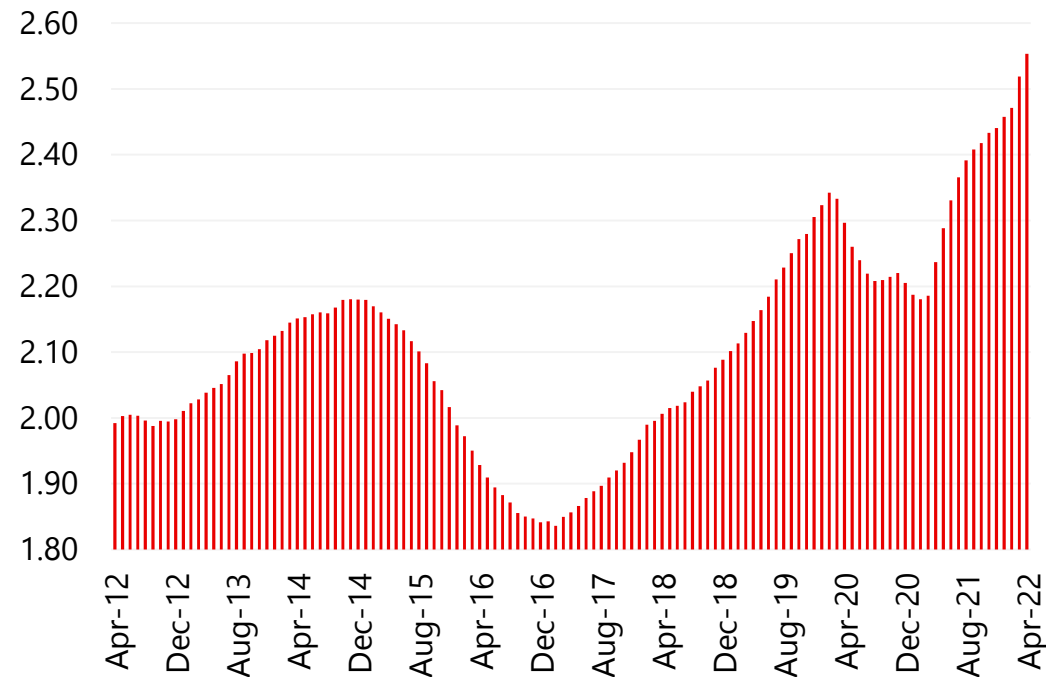


Sources: Brazilian Central Bank, Santander.

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

- The average of new loans (12 months acum.) YTD through April-22 grew 13.8% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased 9 p.p from April-21.

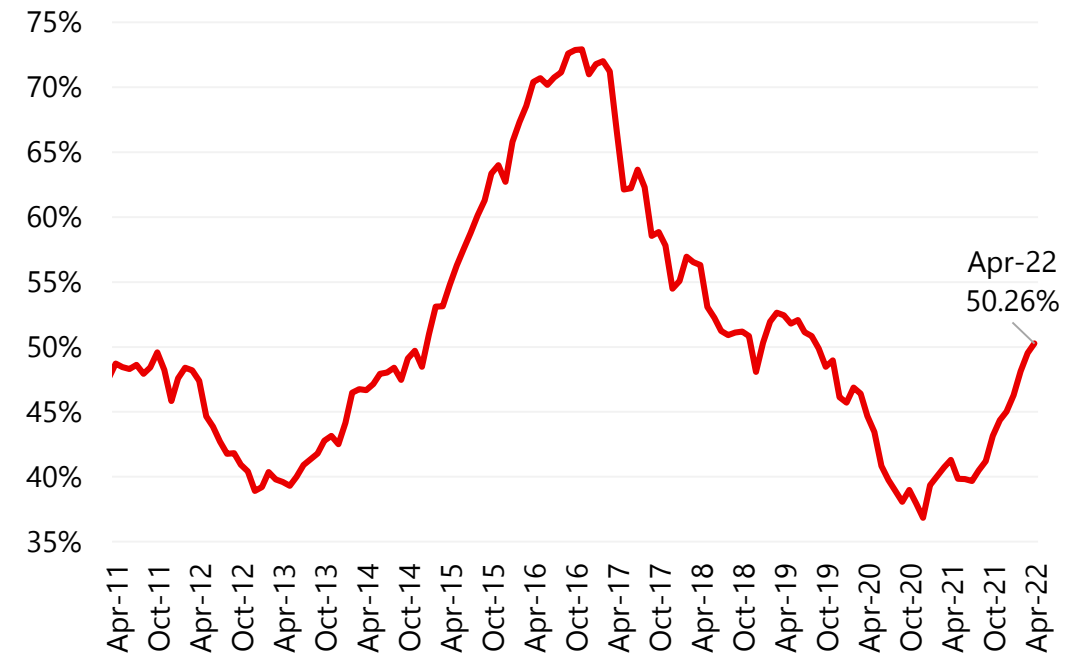
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

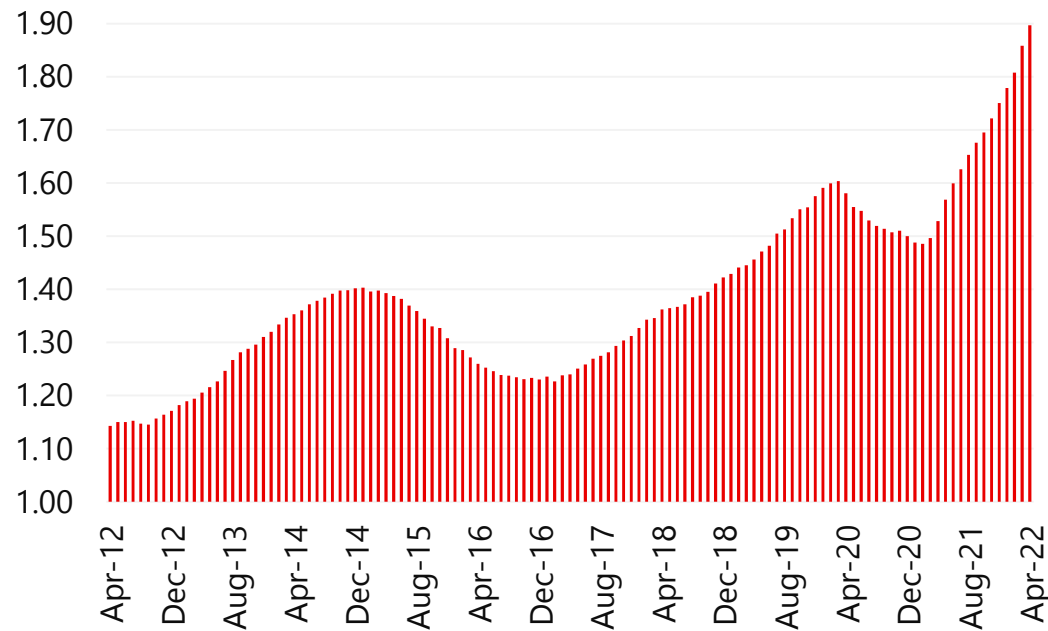


Sources: Brazilian Central Bank, Santander.

Credit Card: Continues to accelerate

- The average of new loans (12 months acum.) YTD through April-22 grew 22.4% compared to the year-ago period.
- The average interest rate for Credit Card increased almost 10.71 p.p from April-22.

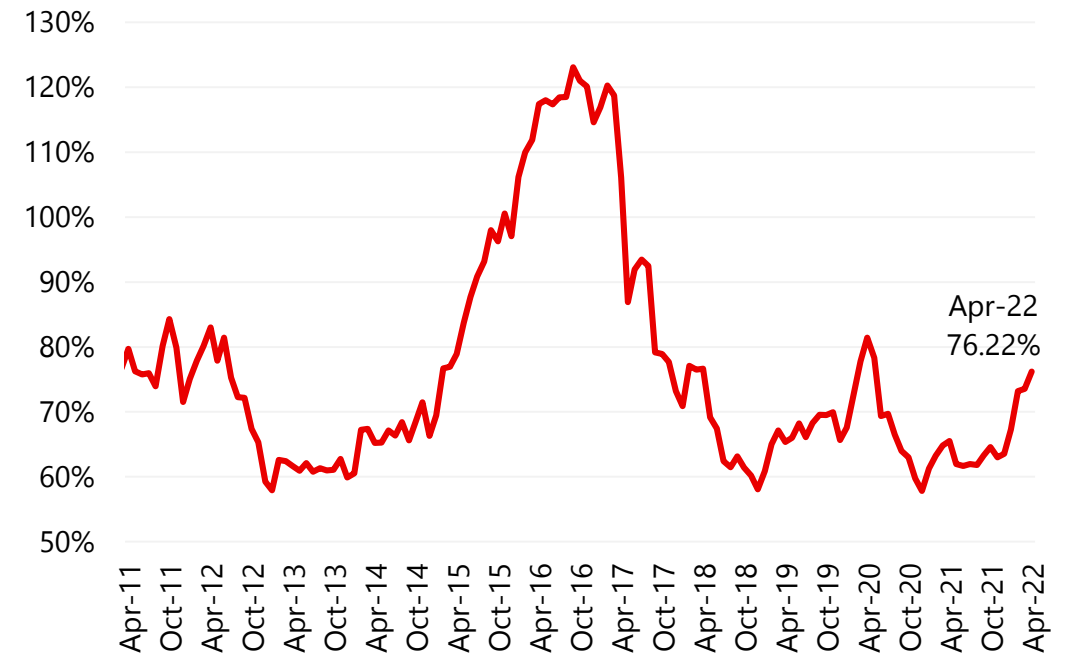
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

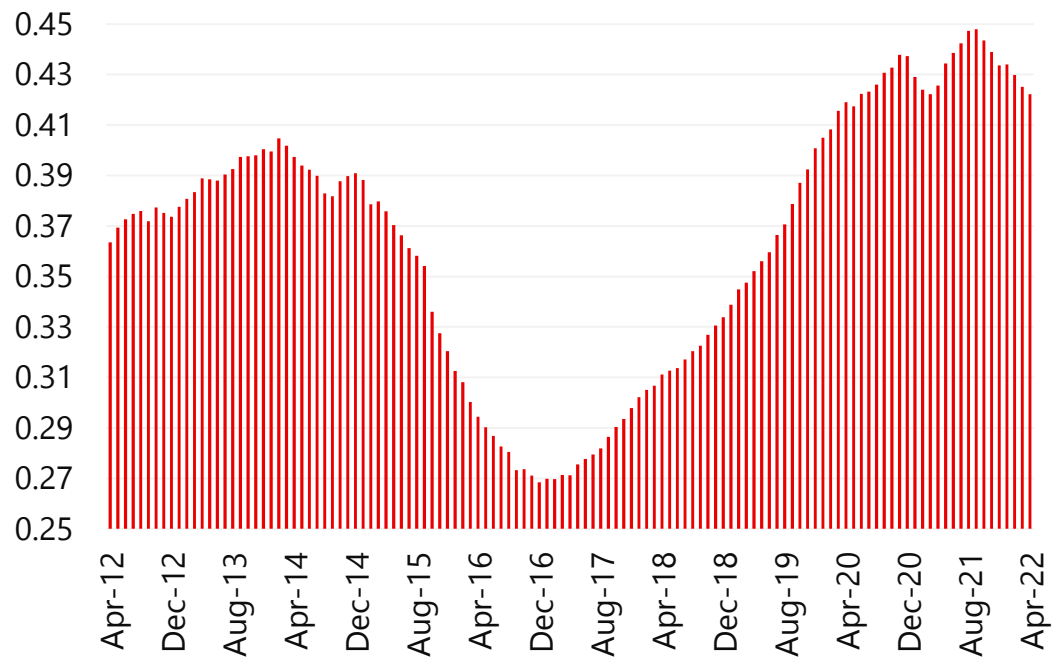


Sources: Brazilian Central Bank, Santander.

Personal Credit: Presents growth

- The average of new loans (12 months acum.) YTD through April-22 grew 0.6% compared to the year-ago period.
- The average interest rate for Personal Credit increased 6.4 p.p from April-22.

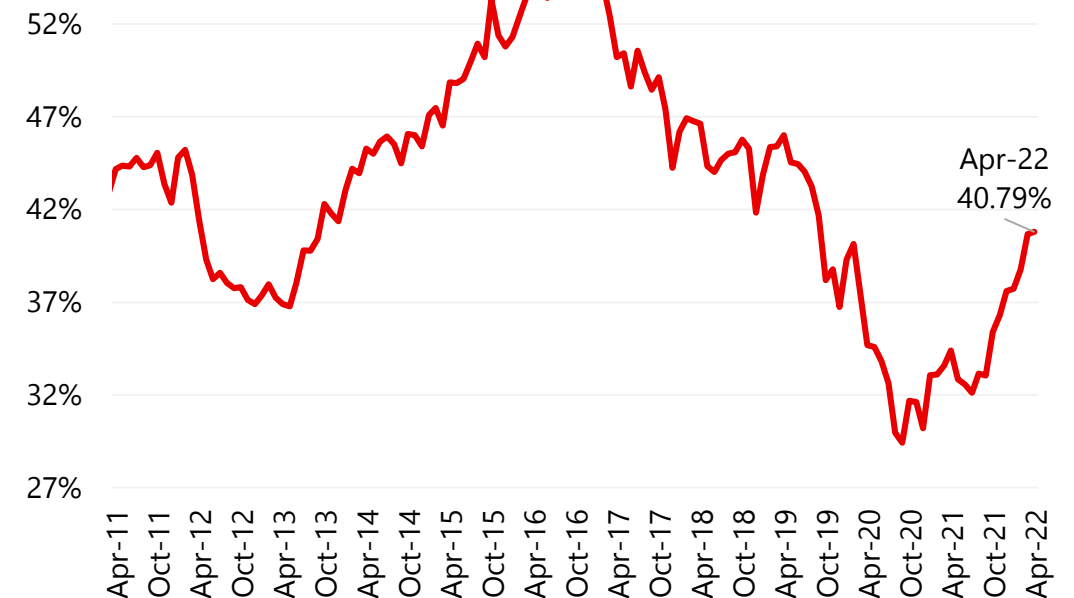
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

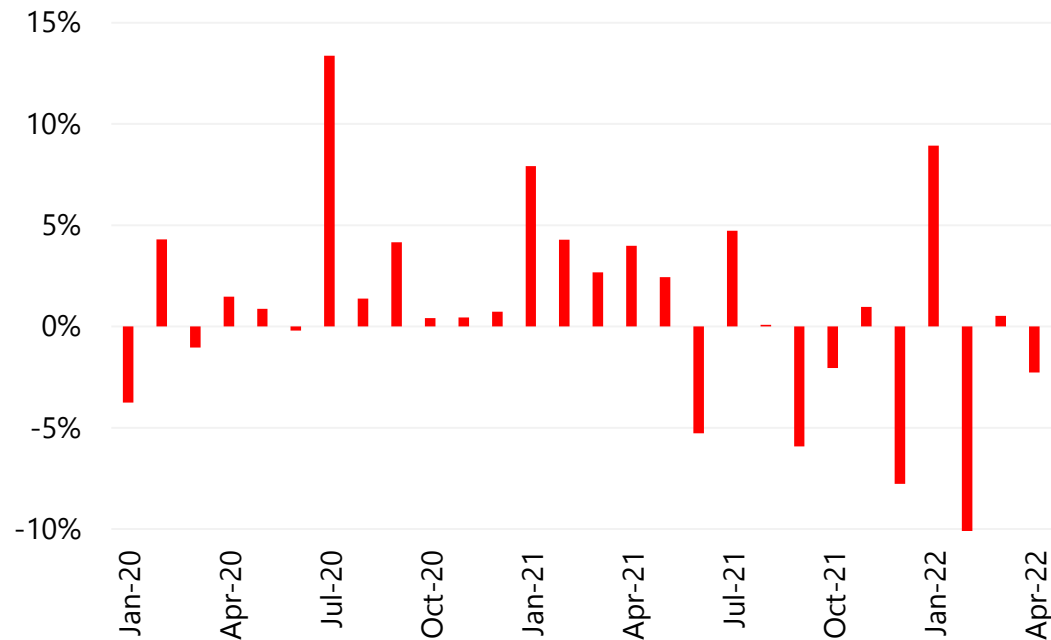


Sources: Brazilian Central Bank, Santander.

Earmarked new loans remains high, though decelerating at the margin

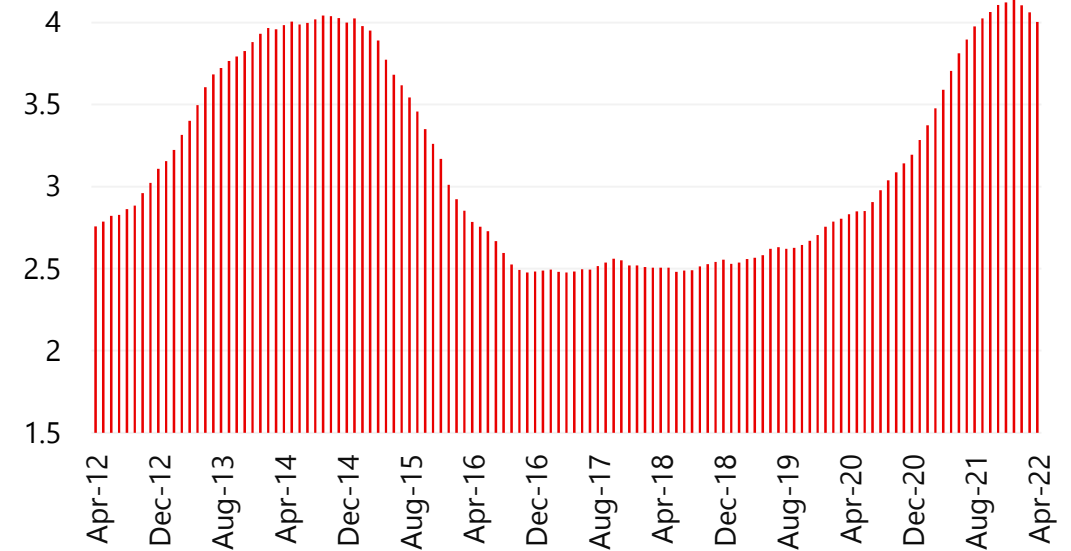
- In the earmarked segment, households posted a decrease, 2.3% MoM-sa.
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* - 12 months acum.



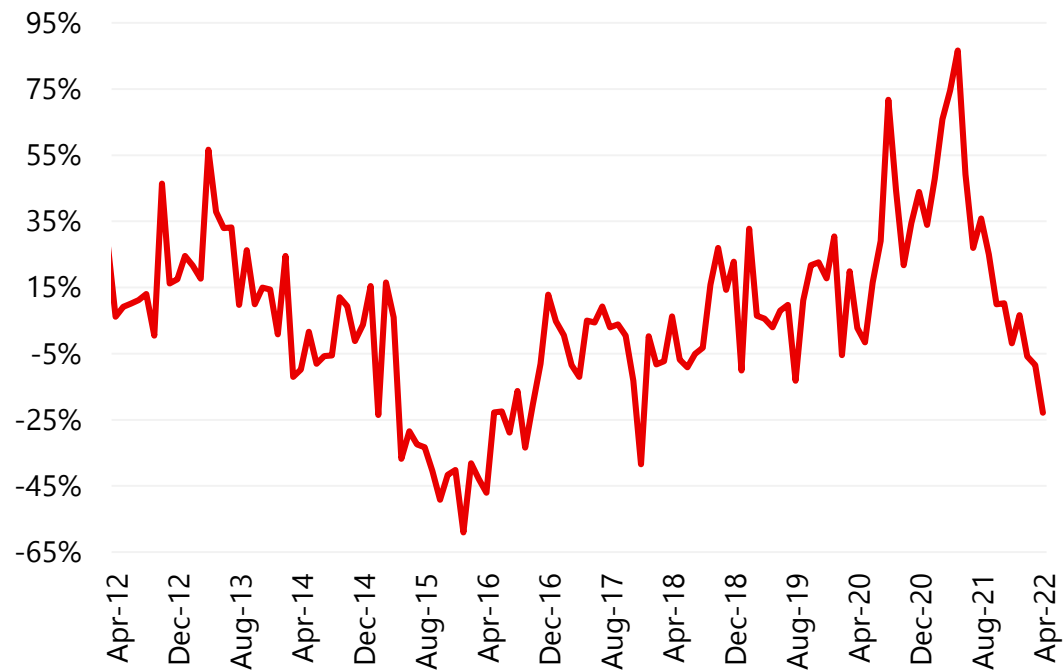
Sources: Brazilian Central Bank, Santander.

* 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 (-22.9% YoY).
- And it keeps decelerating at the margin (-10.9% MoM-sa), mainly because of higher interest rates and economic uncertainty.

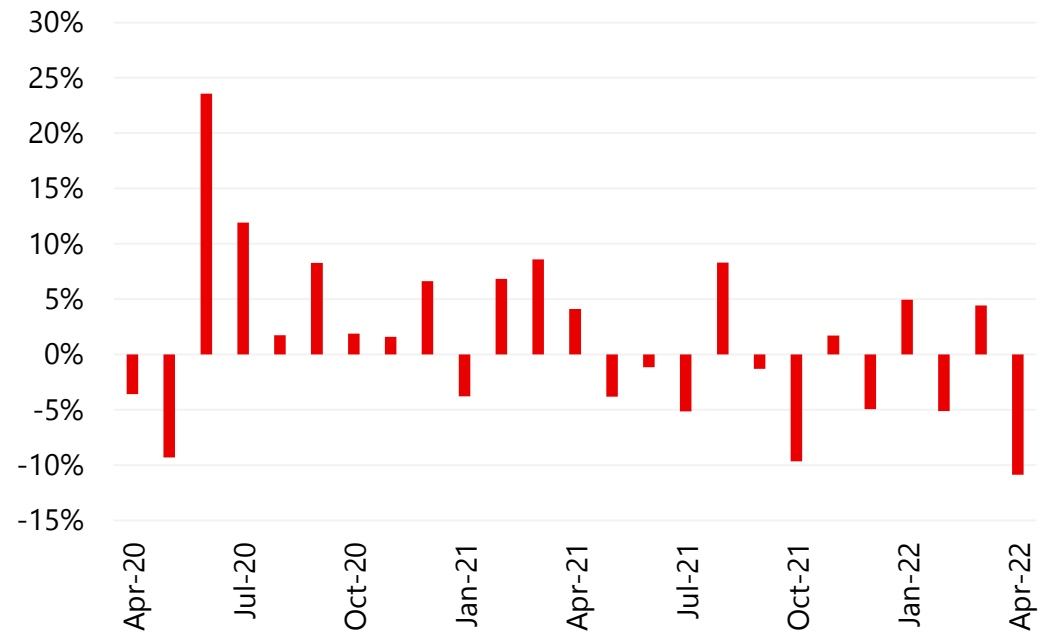
Real Estate Financing - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans MoM

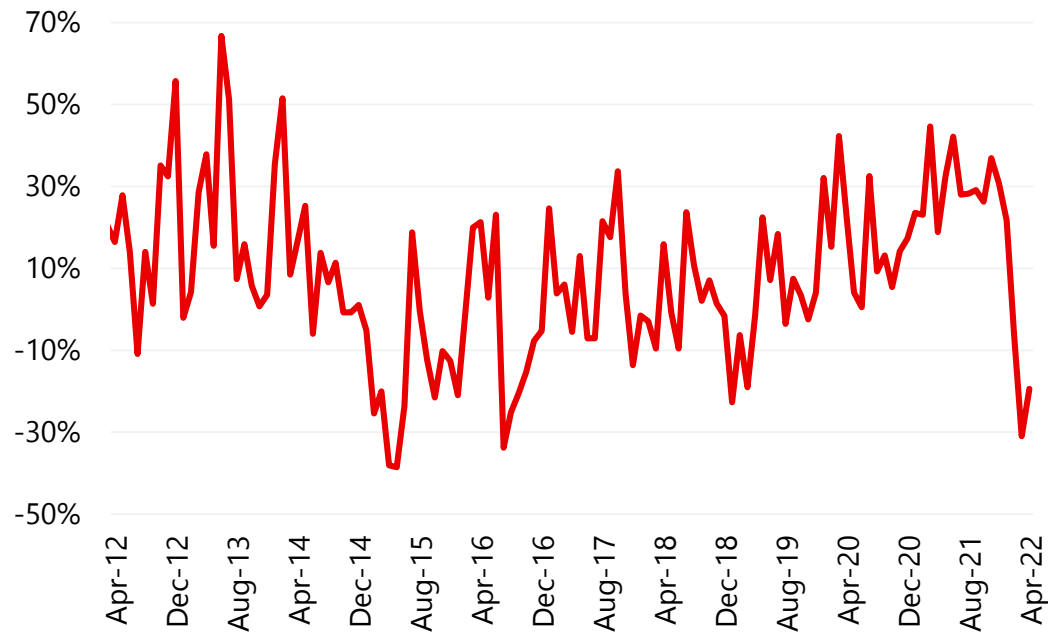


Sources: Brazilian Central Bank, Santander.

Earmarked segment: Rural Credit showing third negative variation in a row

- Rural Credit presented the third negative figure in a row (-19.4% YoY),
- But it presented the first positive variation in 4 months (6.3% MoM-sa).

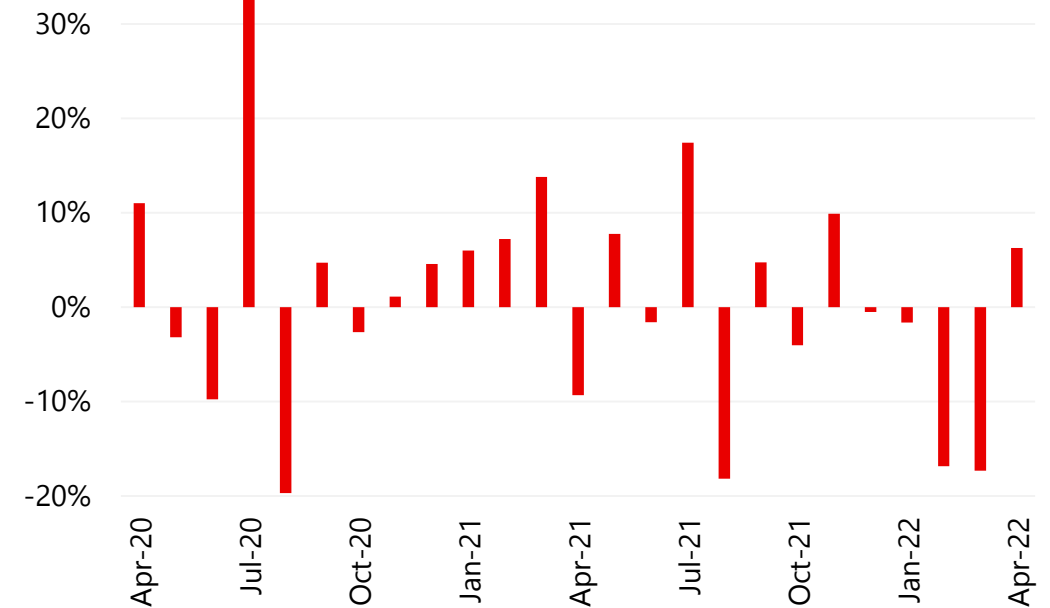
Rural Credit - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

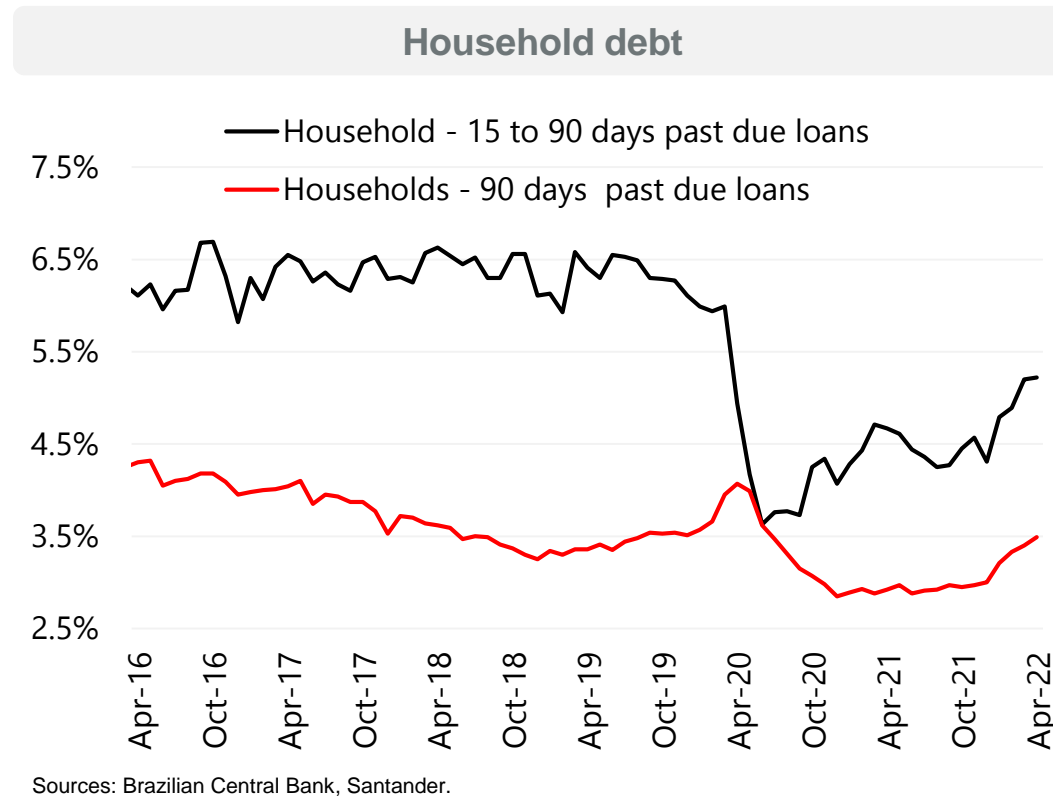
Rural Credit - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Families Indebtednes: An upward trajectory for arrears

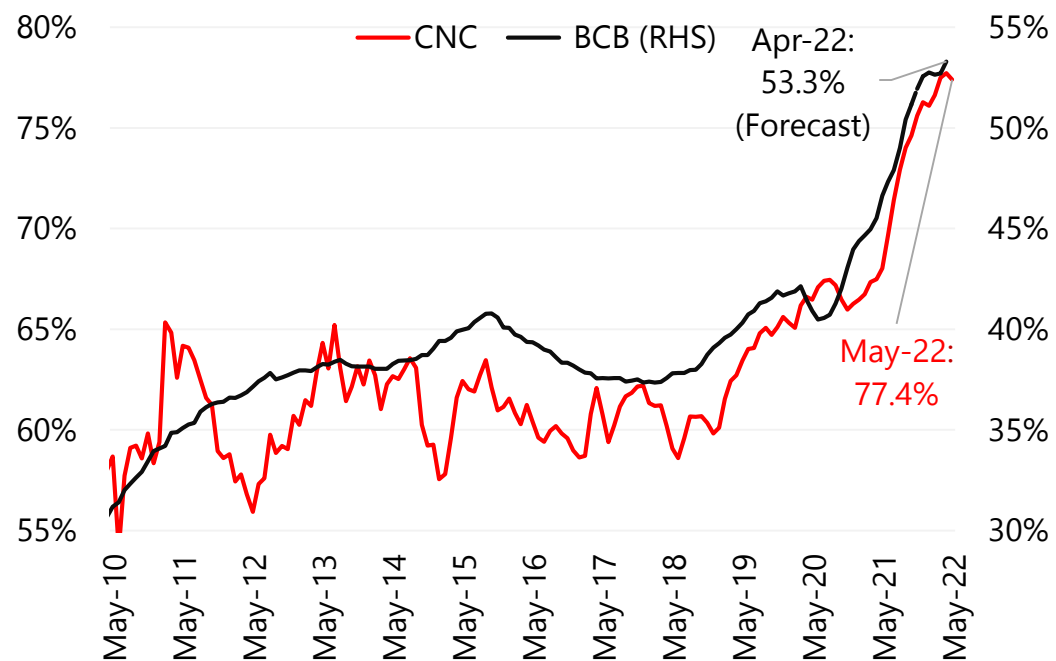
- The arrears is starting to give warning signs.
- However, the delinquent loans is still low.



Families Indebtedness is the main (big) problem

- Household indebtedness keeps rising fast, we foresee a higher figure for April-22, at 53.30%
- The situation is getting worse due to the credit operations increasing and the household income stagnation.

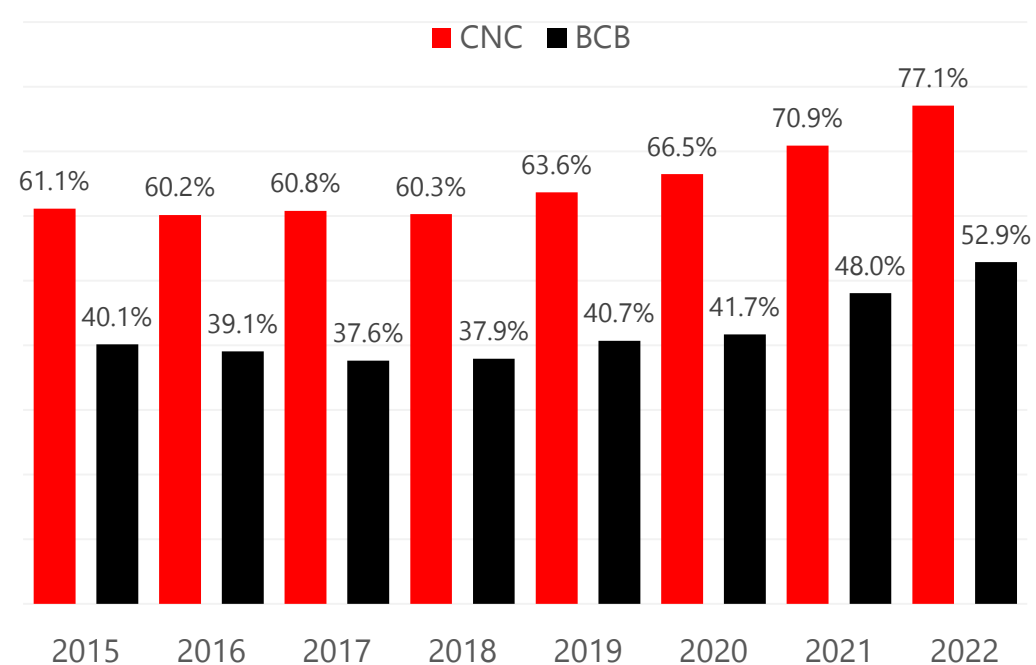
Extended household Indebtedness (%)



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).

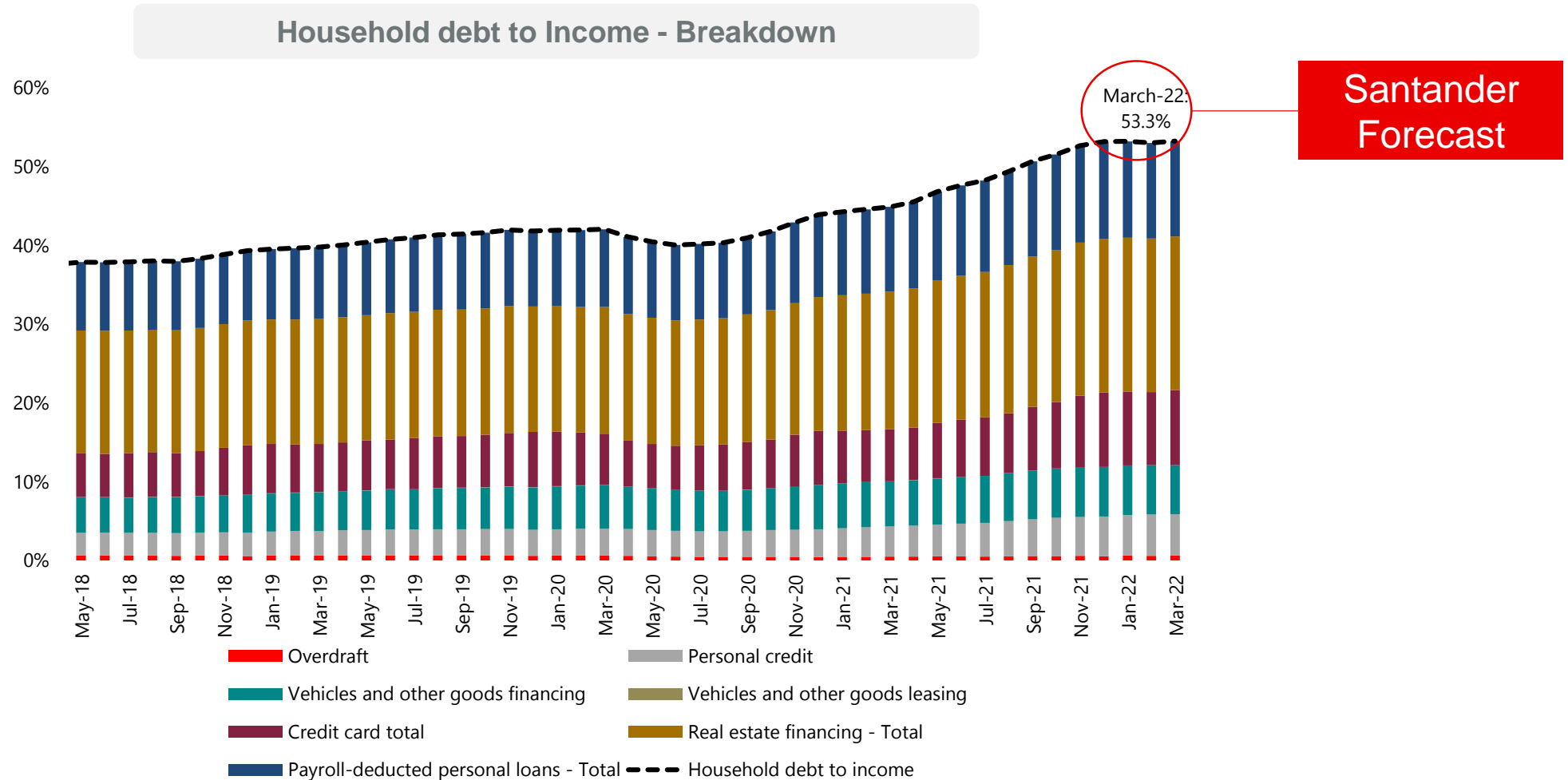
Extended household Indebtedness (annual avg %)



Sources: Brazilian Central Bank, CNC, Santander.

Families Indebtednes - Breakdown

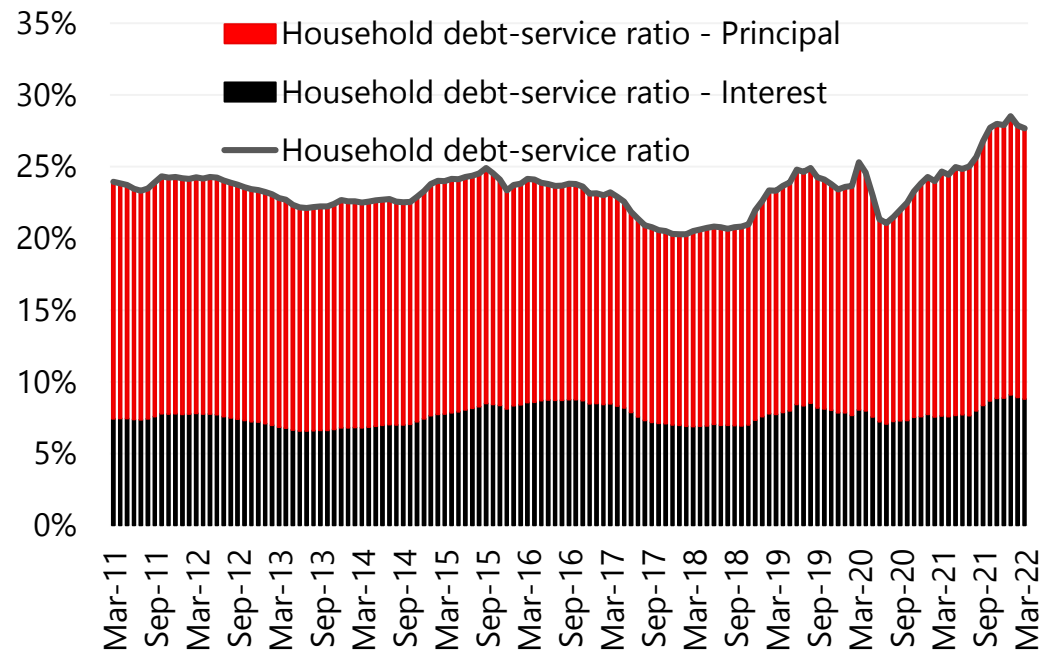
- A large part of Household debt to income is made up of: Real estate financing, Payroll-deducted personal loans and Credit card.



Families Indebtednes - Breakdown

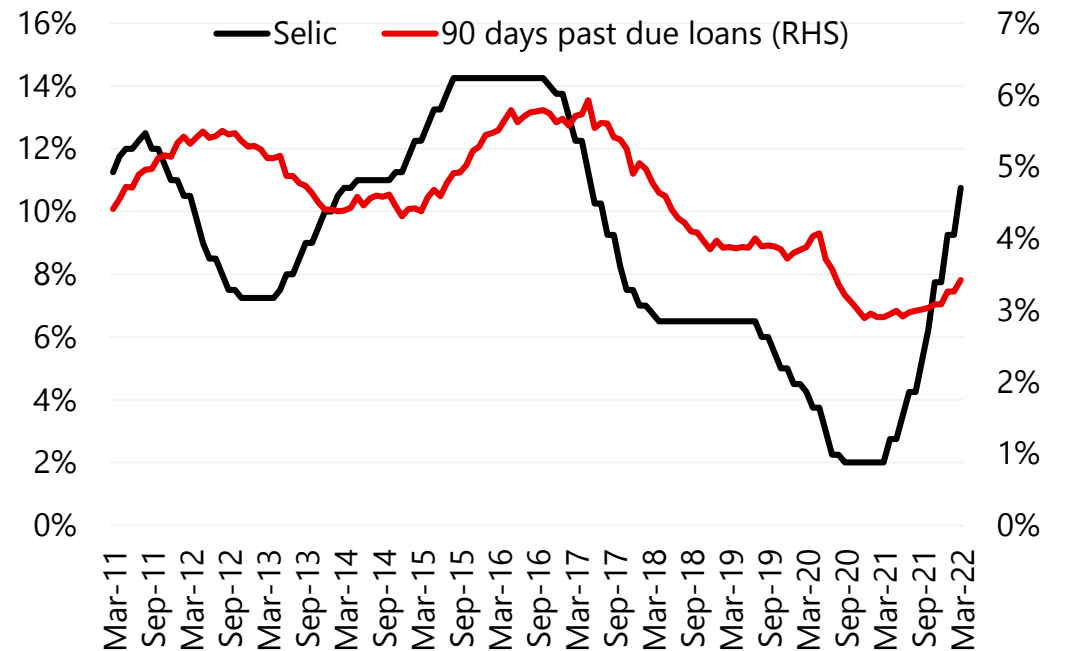
- Household debt service ratio is higher than pre-pandemic levels and keeps accelerating
- With the advance of Selic, arrears continues to rise as well

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

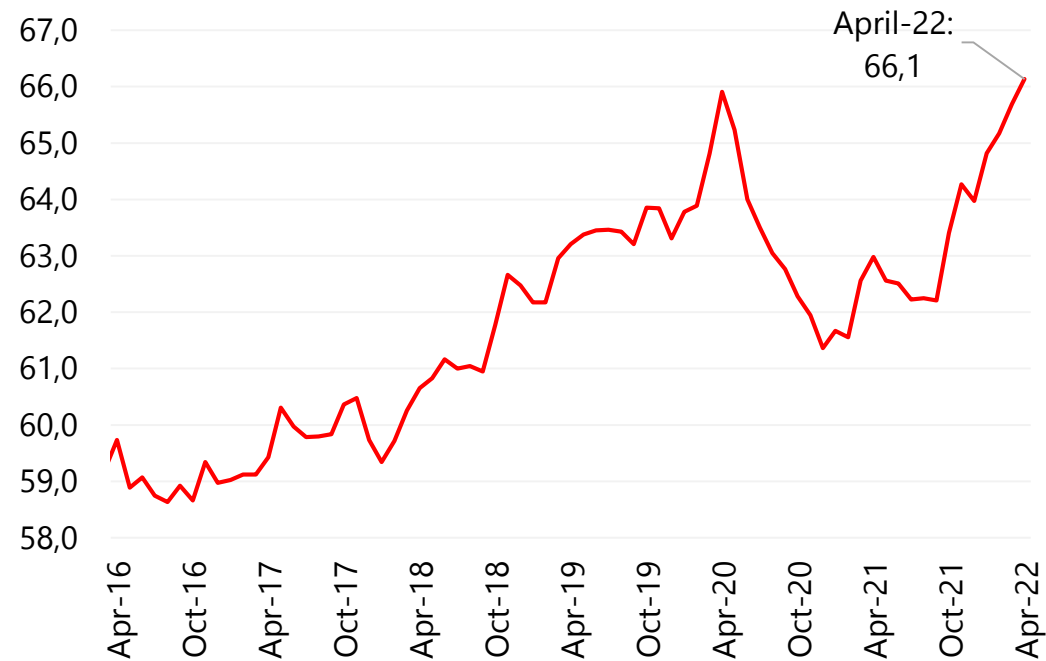


Sources: Serasa Experiean, Santander.

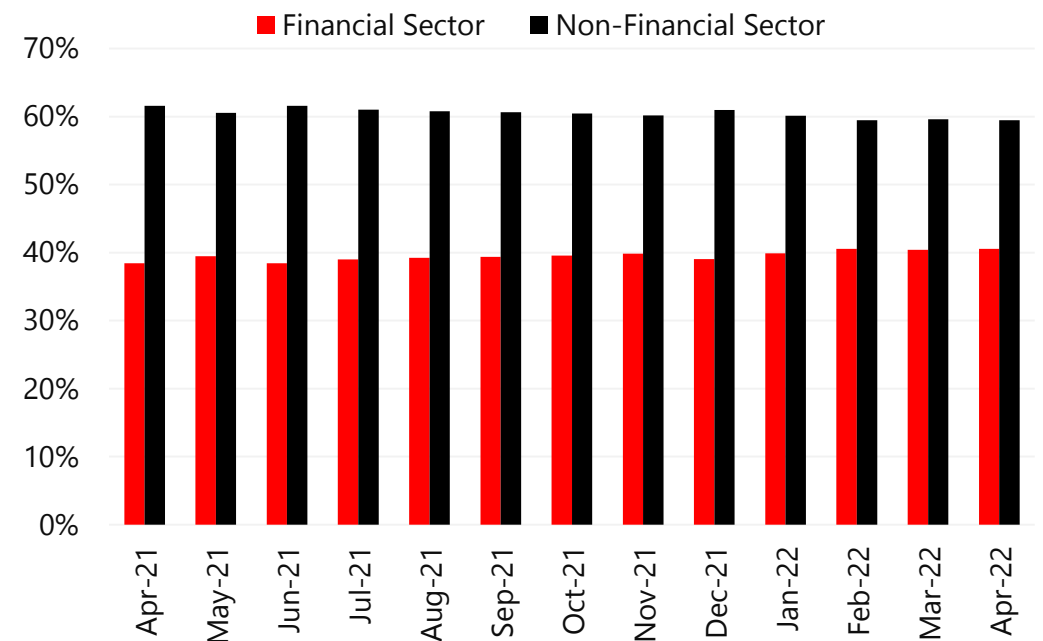
Families Indebtednes: higher than the pre-pandemic level

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

Household Defaulting - Millions



Total Default – By Sector

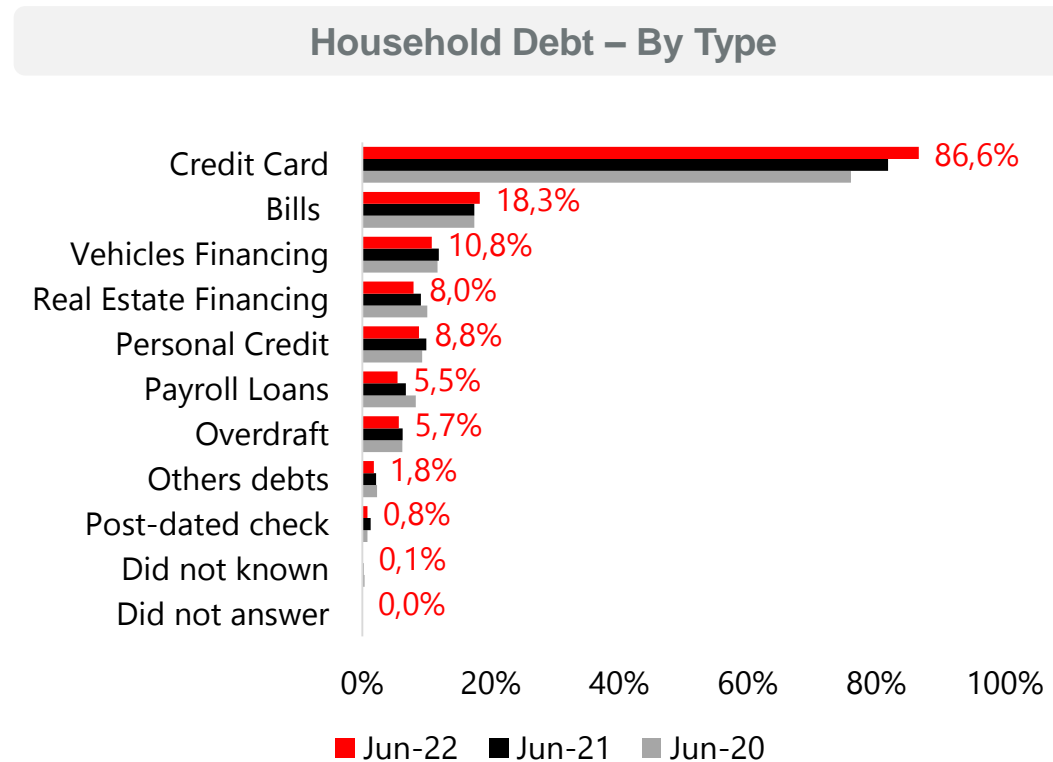


Sources: Serasa Experian, Santander.

Sources: Serasa Experian, Santander.

Families Indebtednes – By Type

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



Sources: CNC, Santander.

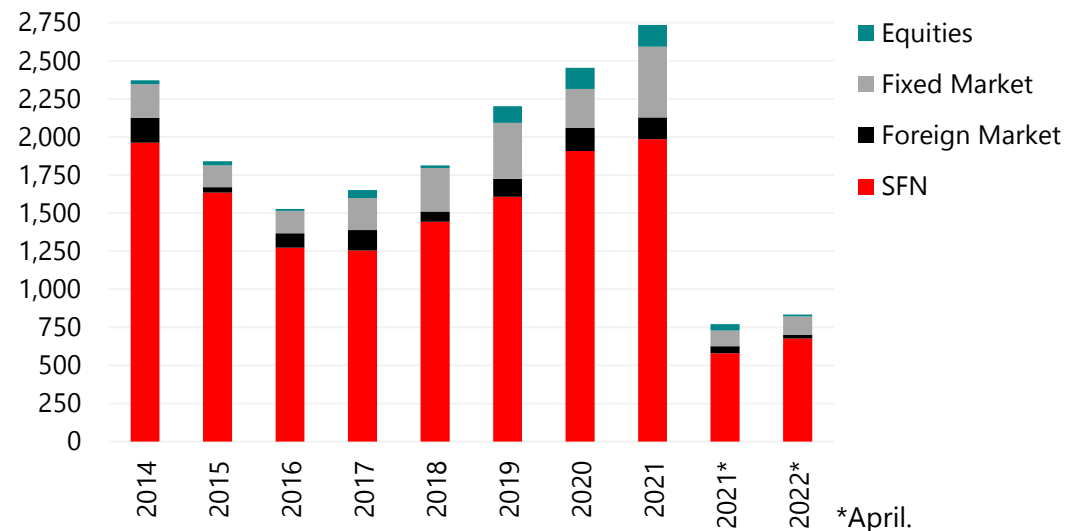
CORPORATE

03

Bank lending lower than year-ago period

- Considering total corporate financing YTD through April 2022 vs. the year-ago period, issuances in the capital markets were 17% smaller, with SFN concessions up 16.7%.
- As a result, total corporate financing is up 8.3% 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.

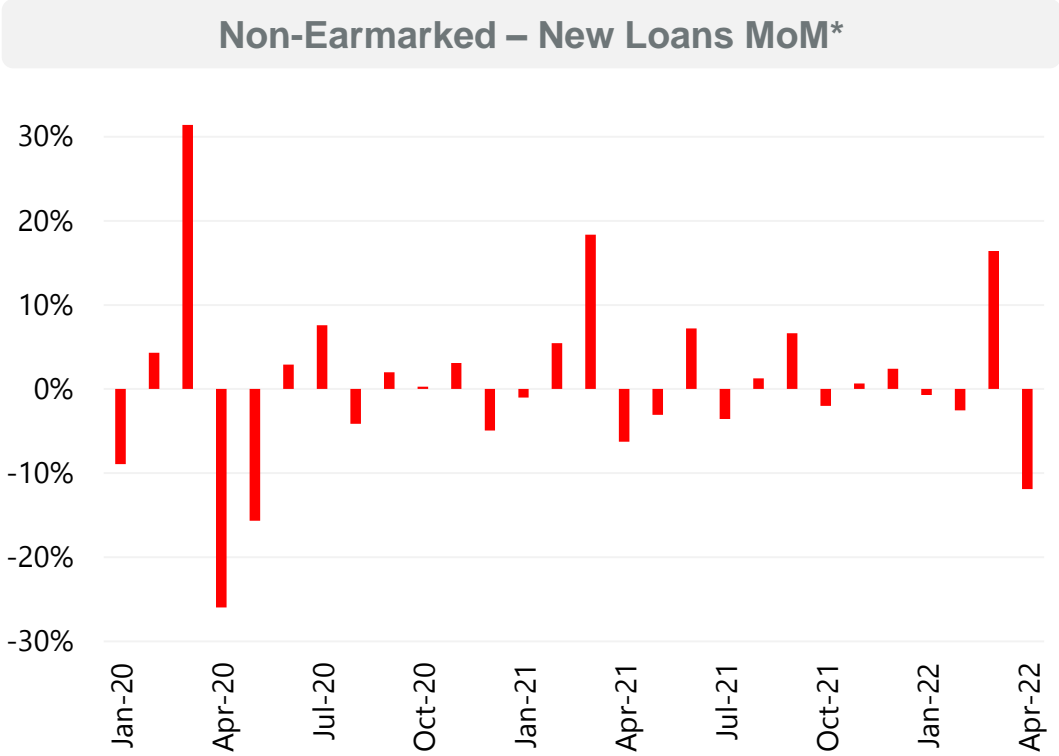
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.

Equity - IPO and follow-on.

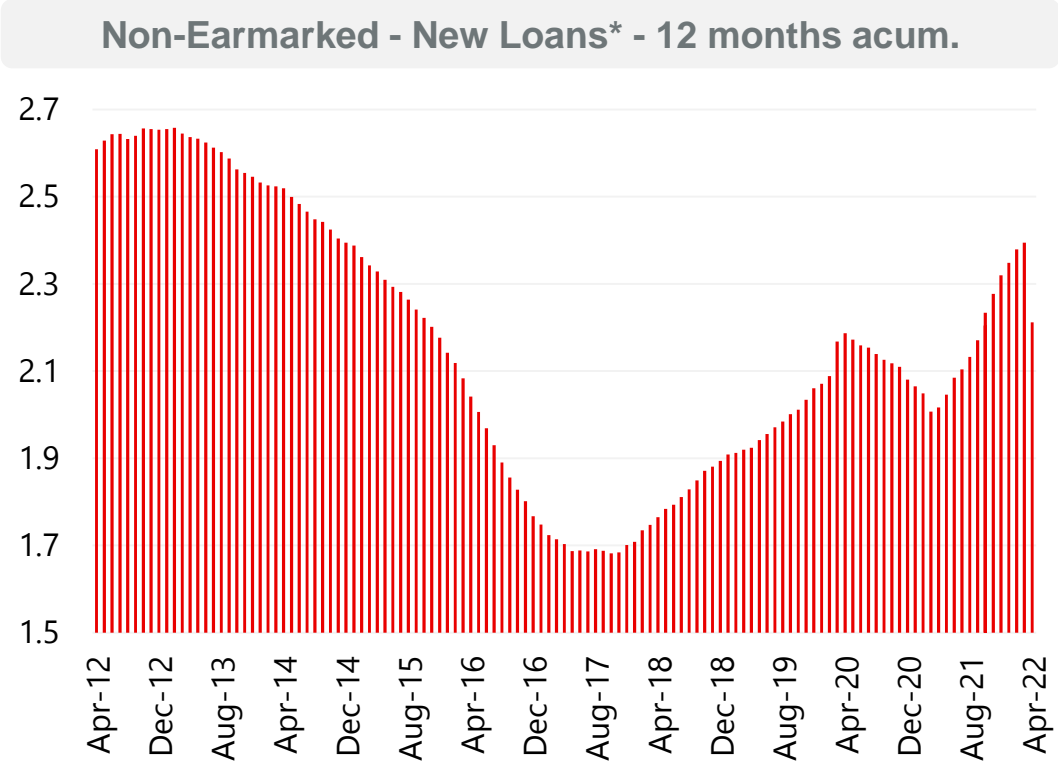
Sources: BCB, Anbima, Santander.

The non-earmarked segmented

- For companies, there was a decrease of 11.9% MoM-sa in April in the non-earmarked segment.



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

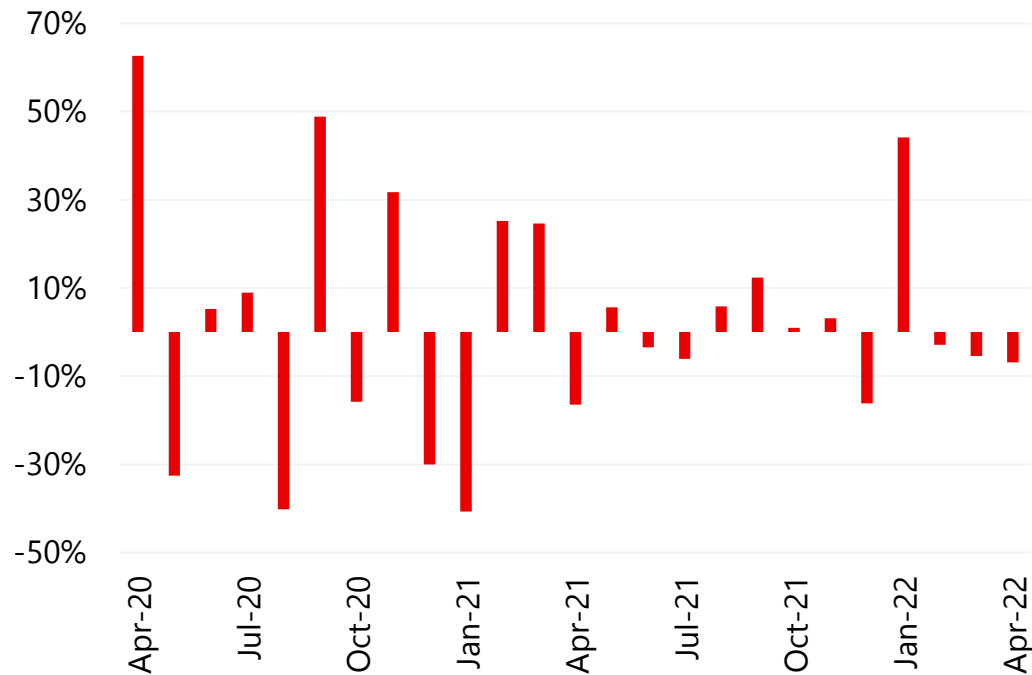


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Movement in Working Capital

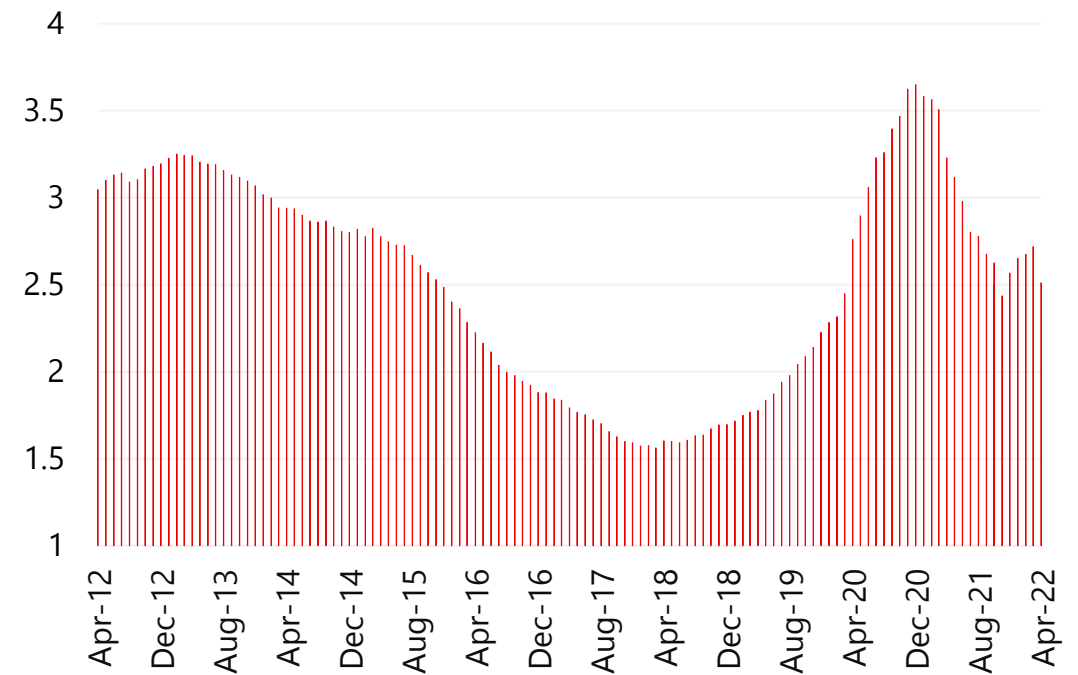
- Working Capital showed a decrease of -0.1% MoM-sa.
- Working Capital presented a positive annual variation, 30.2% YoY

New Loans – Working Capital MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

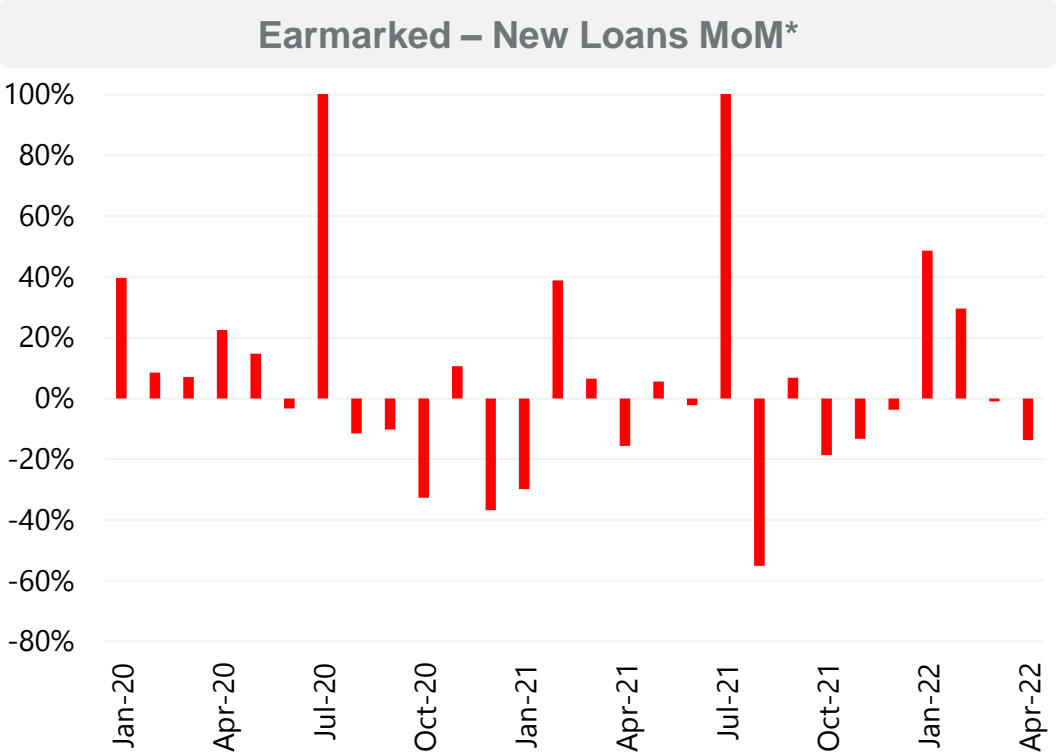
New Loans – Working Capital (12 months acum.)



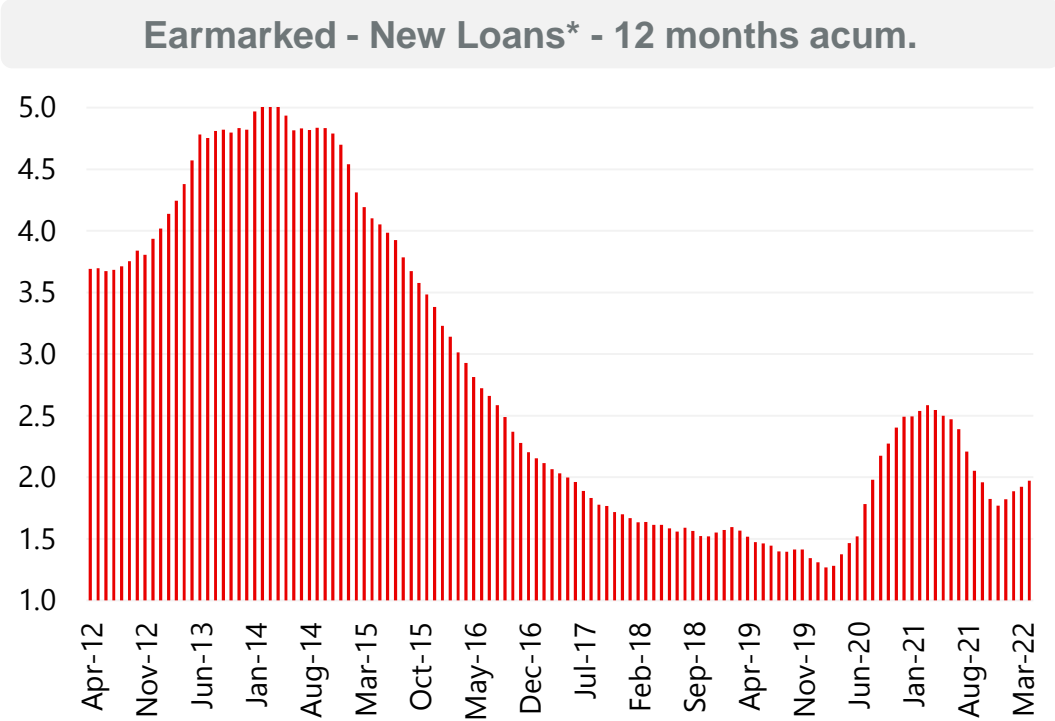
Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

An increase in the earmarked segmented

- The earmarked segment also decreased, falling 13.7% MoM-sa.
- As YoY, the segment presented a positive variation, 28.6% YoY



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

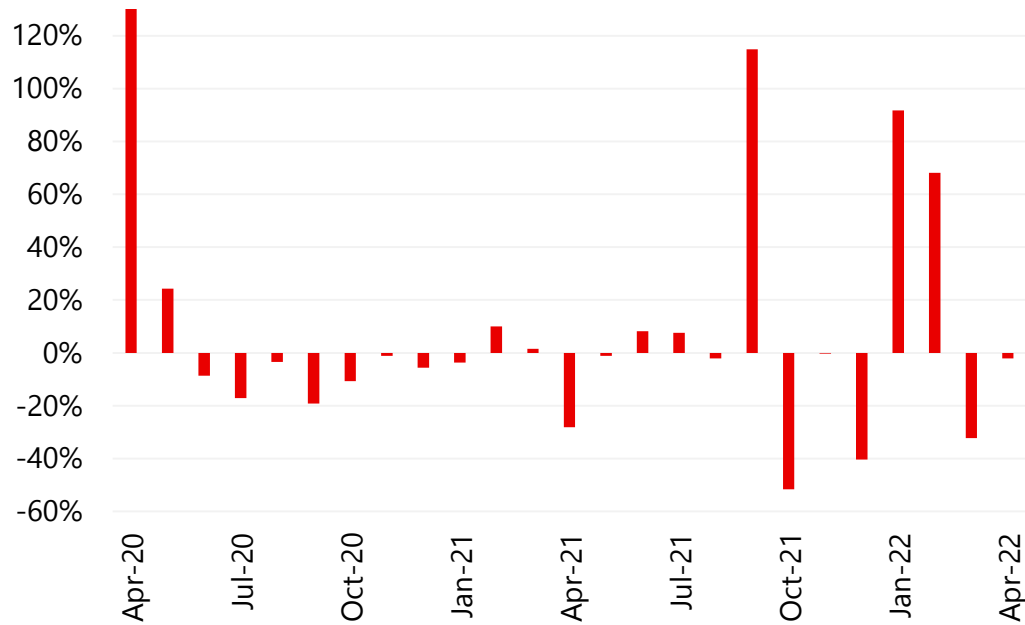


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

BNDES Funds and Others stood out

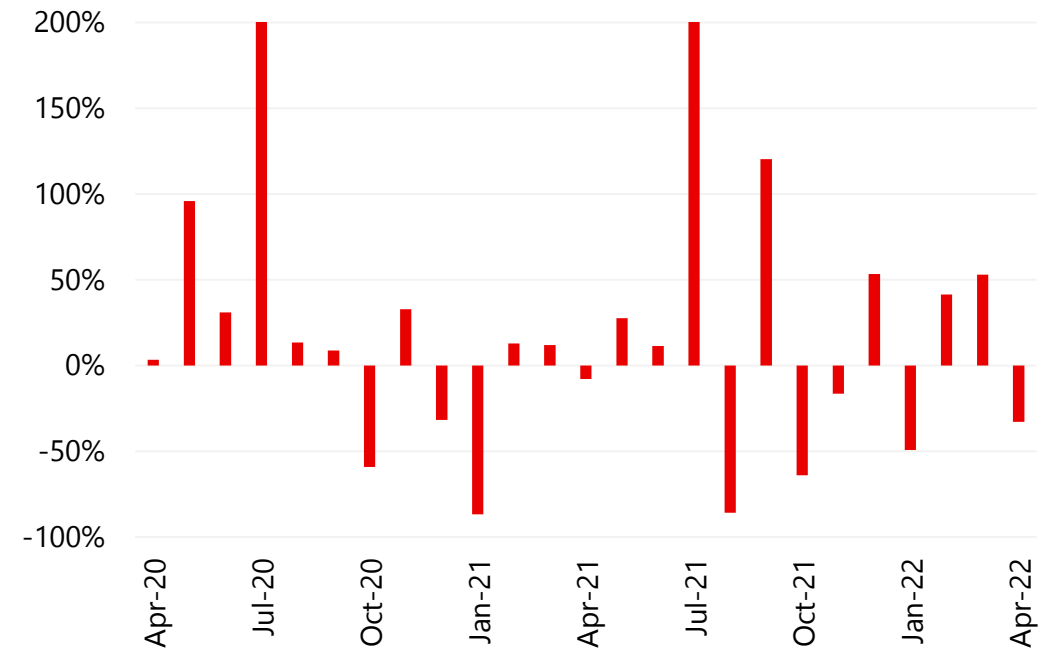
- In the earmarked segmented, BNDES funds posted a tepid variation (-2.16% MoM-sa).
- Others showed a negative figure (-32.85% MoM-sa).

BNDES Funds - New Loans* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

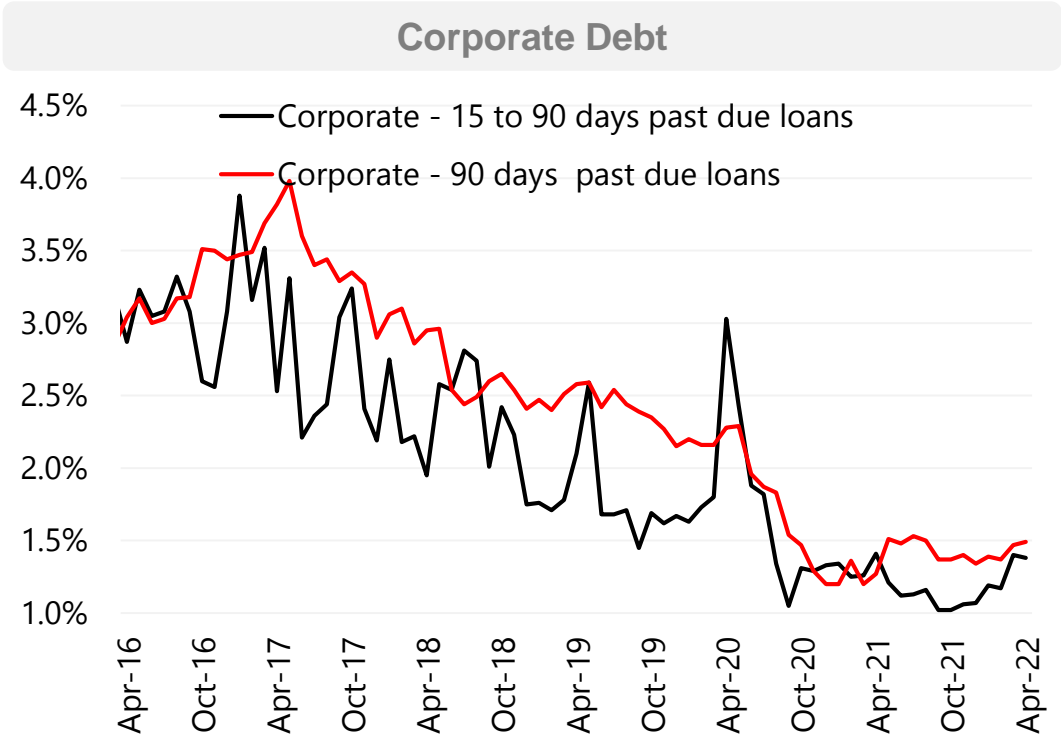
Others – Others* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- o Eyeing arrears to anticipate warning signs

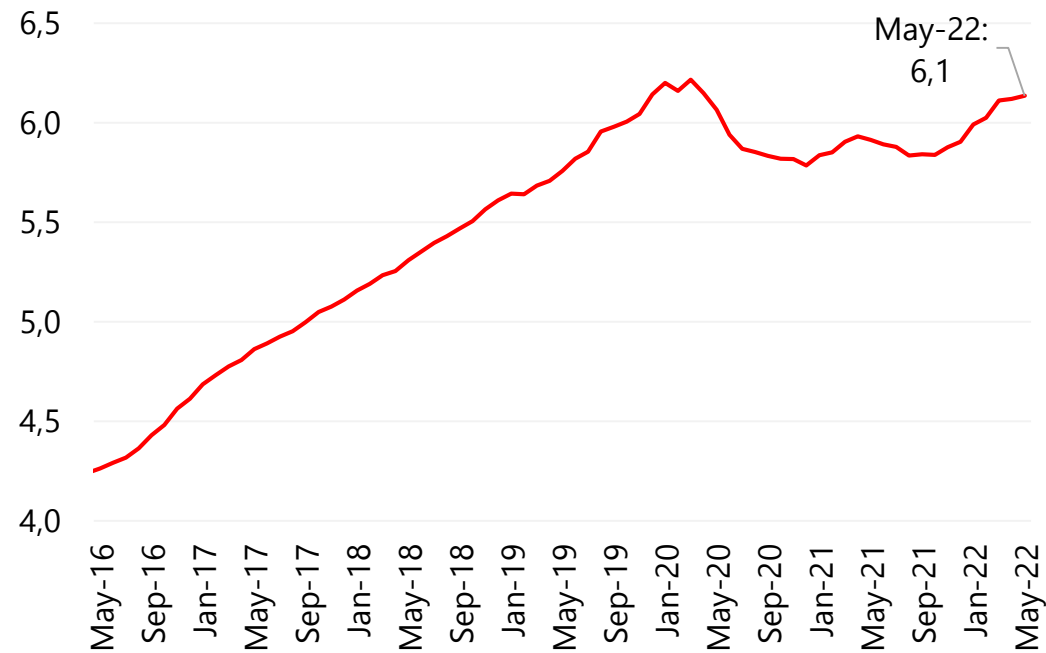


Sources: Brazilian Central Bank, Santander.

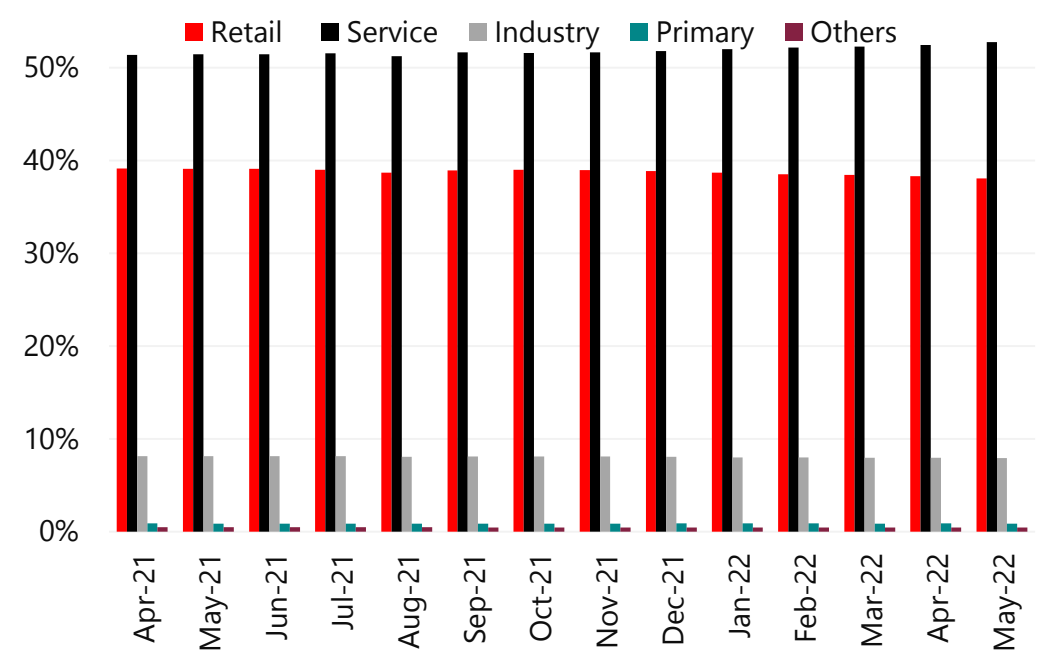
Corporates defaulting: starting the year worst

- 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



Total Default – By Sector



Sources: Serasa Experian, Santander.

Sources: Serasa Experian, Santander.

Forecasts

04

Credit: Our forecasts for outstanding loans & delinquency

Real Credit Outstanding (%YoY)					
	2019	2020	2021	2022e	2023e
Total	3.1	10.8	5.0	3.1	1.1
Household	8.3	6.5	9.2	6.3	2.8
Non-fin. Corp.	-3.4	16.8	-0.3	-1.4	-1.4
Non-earmarked	10.3	10.6	8.6	5.0	1.6
Household	12.8	6.1	11.1	7.9	2.8
Non-fin. Corp.	7.3	16.2	5.9	1.6	0.0
Earmarked	5.4	11.1	0.1	0.2	0.5
Household	3.2	7.0	7.0	4.3	2.8
Non-fin. Corp.	-16.8	17.7	-10.0	-7.0	-4.0

Credit Conditions						
	2018	2019	2020	2021	2022e	2023e
Non-performing loans (Non-Earmarked)	3.9	3.7	2.9	3.1	3.7	3.8
Household	4.8	5.0	4.2	4.4	5.0	5.2
Non-fin. Corp.	2.7	2.1	1.5	1.5	2.1	2.4
Household Indebtedness	38.9	41.4	43.9	52.6	54.9	55.6
Household debt service ratio	22.0	23.4	23.8	27.9	28.8	29.1

Sources: Santander.

Credit: Nominal outstanding loan growth & delinquency – current forecasts

Nominal Credit Outstanding (%YoY)					
	2019	2020	2021	2022e	2023e
Total	6.4	15.6	16.3	11.2	7.2
Household	11.9	11.1	21.0	14.7	9.0
Non-fin. Corp.	-0.3	21.8	10.5	6.4	4.6
Nonearmarked	13.9	15.4	20.3	13.3	7.7
Household	16.5	10.7	23.0	16.4	9.0
Non-fin. Corp.	10.8	21.2	17.3	9.6	6.0
Earmarked	-2.4	15.9	10.9	8.1	6.5
Household	6.6	11.7	18.5	12.5	8.9
Non-fin. Corp.	-14.0	22.8	-0.3	0.3	1.7

Credit Conditions						
	2018	2019	2020	2021	2022e	2023e
Non-performing loans (Non-Earmarked)	3.9	3.7	2.9	3.1	3.7	3.8
Household	4.8	5.0	4.2	4.4	5.0	5.2
Non-fin. Corp.	2.7	2.1	1.5	1.5	2.1	2.4
Household Indebtedness	38.9	41.4	43.9	52.6	54.9	55.6
Household debt service ratio	22.0	23.4	23.8	27.9	28.8	29.1

Sources: 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



Ana Paula Vescovi

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

Mauricio Oreg

Head of Research & Strategy
mauricio.oreg@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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