



Brazil Macro | May 2021

Credit

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BRIEF OVERVIEW

01

SUMMARY

- For households, the non-earmarked segment saw a decrease in March, likely a direct effect from new lockdown measures in response to a worsening of the pandemic. Importantly, both the debt-to-income and debt service ratios for households have been rising fast, a risk for delinquencies and credit supply as the economy recovers.
- For companies, there was a significant increase in March in the non-earmarked segment as firms relied on working capital and discount trade bills for support activities during the business restrictions imposed by local governments for health purposes. In the earmarked segment, we expect a new round of BRL5 billion in *Pronampe* credit support in the coming weeks.
- Considering total corporate financing YTD through March 2021 (new loans in the SFN, debt and equity issues in the capital markets), total corporate financing is down 2% in real terms compared to the year-ago period.
- We revised our projections for real total outstanding loan growth to 1.4% in 2021 and 4.9% in 2022, from 3.0% and 5.3%, respectively. Changes were driven by our inflation projections revision.

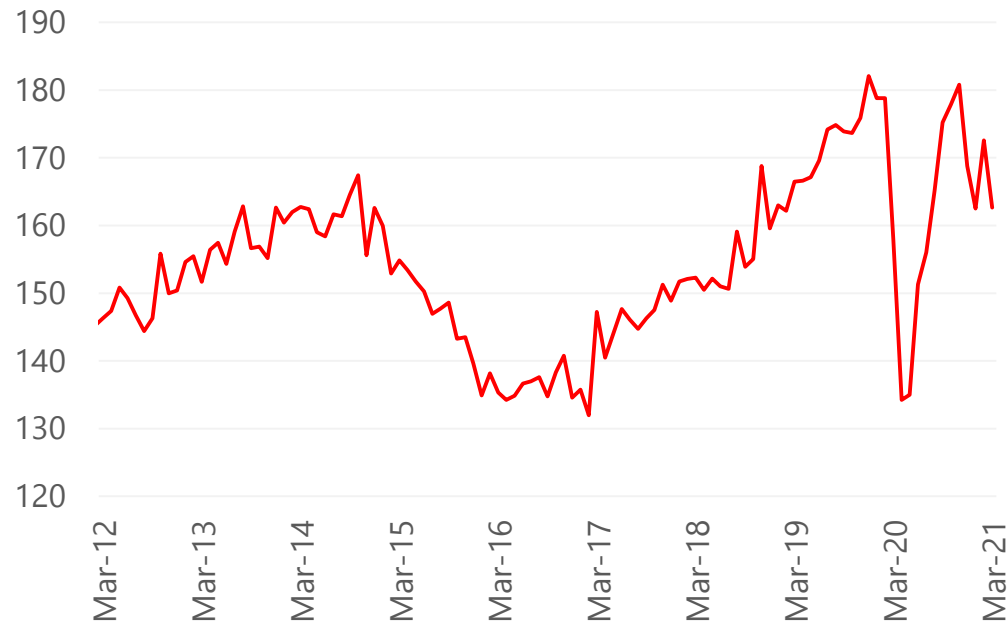
HOUSEHOLD

02

Pandemic restrictions weigh on credit

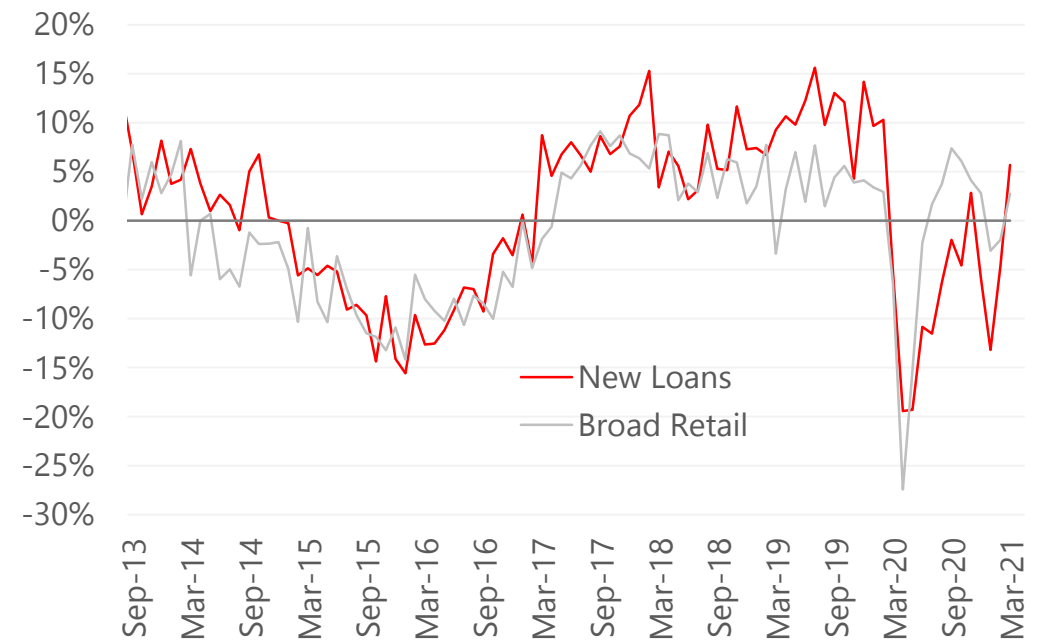
- For households, the non-earmarked segment saw a decrease of 5.5% MoM-sa, likely a direct effect from new lockdown measures in response to a worsening of the pandemic.

New Loans (BRL billion, inf. and seas. adj.) – Household Non earmarked



Sources: BCB, Santander.

Broad Retail Sales YoY
New loans Household Non earmarked YoY

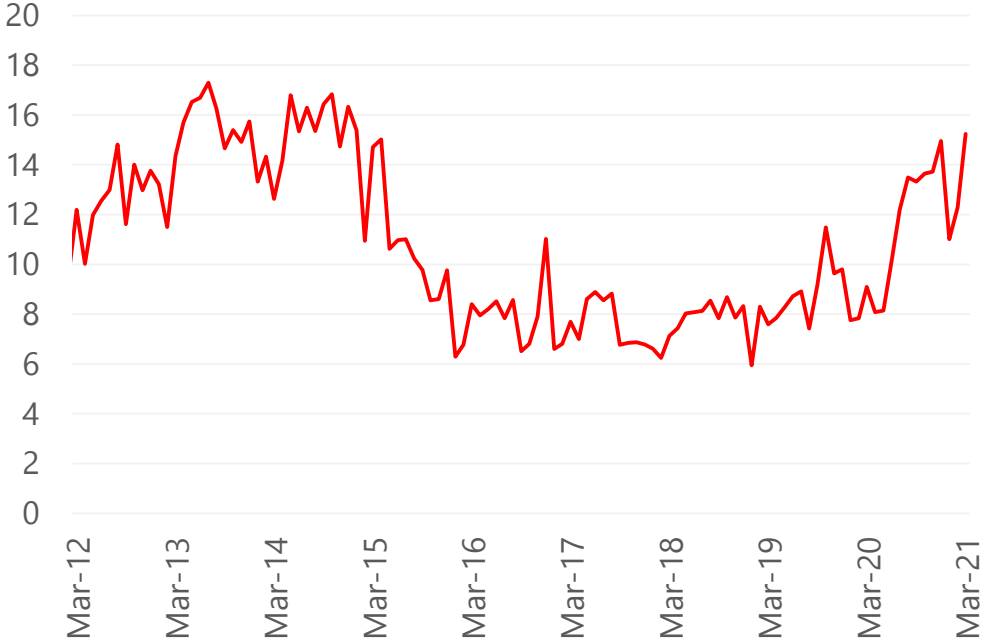


Sources: BCB, Santander.

A heated housing market

- In the earmarked segment, real estate financing remains high (+67.4% YoY), reflecting favorable financial conditions.

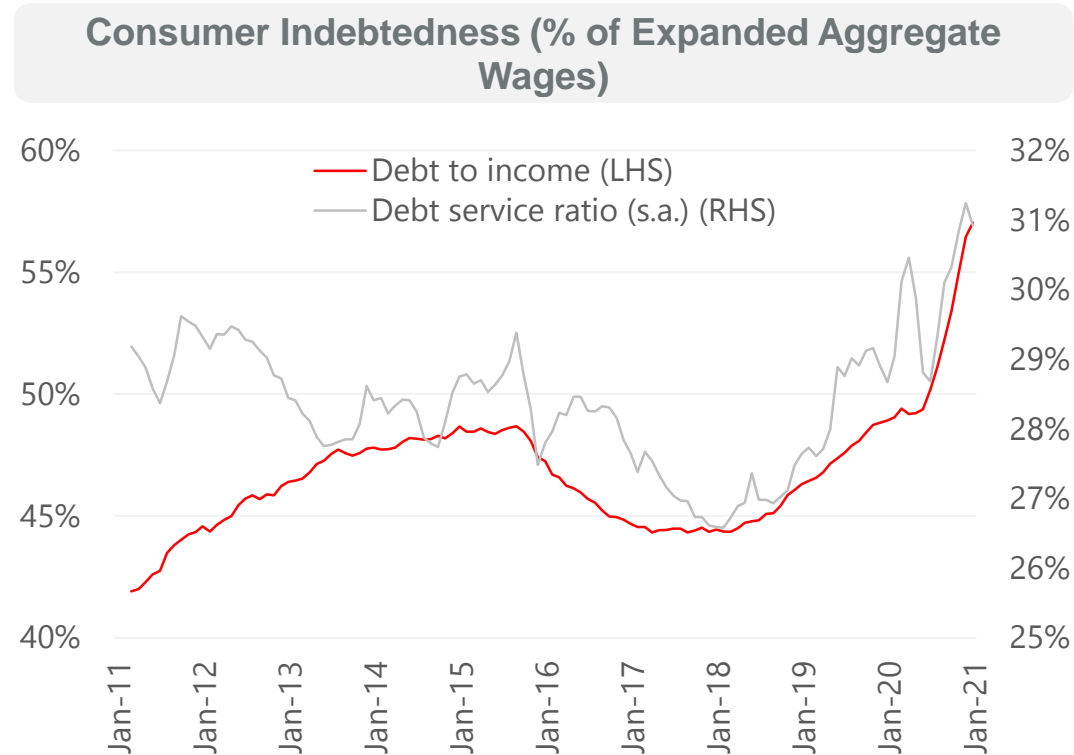
New Loans (BRL billion, inf. adj.) - Real Estate Financing



Sources: BCB, Santander.

Household Indebtedness still on the rise

- Both debt to income and debt service ratio for households have been rising fast, a risk for delinquencies and credit supply as the economy recovers.



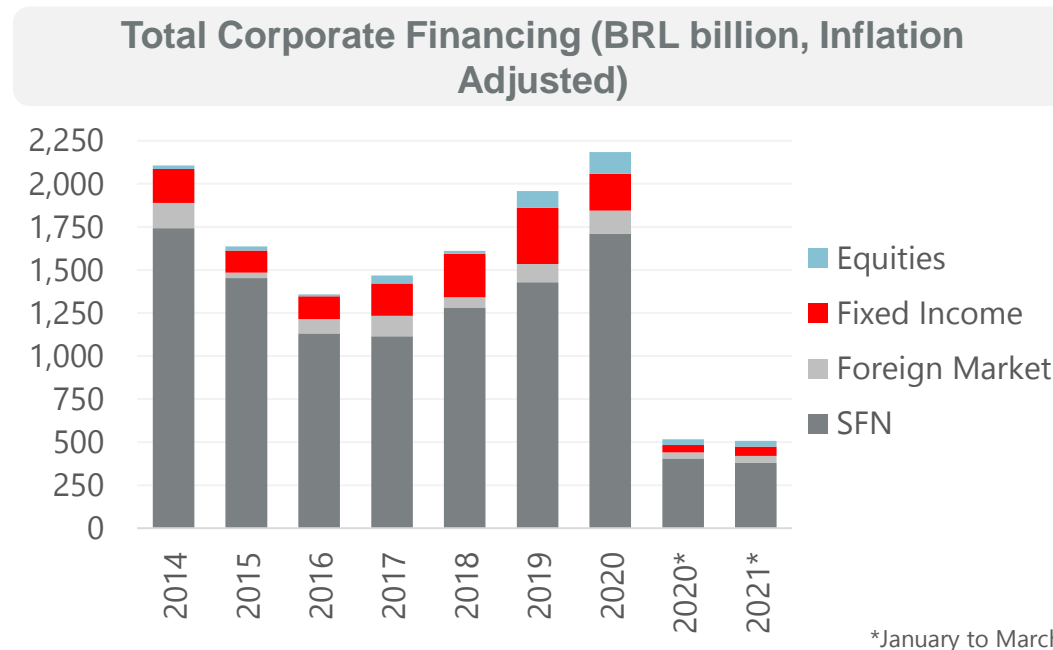
Sources: BCB, Santander.

CORPORATE

03

Bank lending below year-ago period

- Considering total corporate financing YTD through March 2021 (new loans in the SFN, debt and equity issues in the capital markets) vs. the year ago period, issuances in the capital markets are 14% higher, while SFN concessions are down 6%. As a result, total corporate financing is down 2% in real terms compared to the year-ago period.



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.

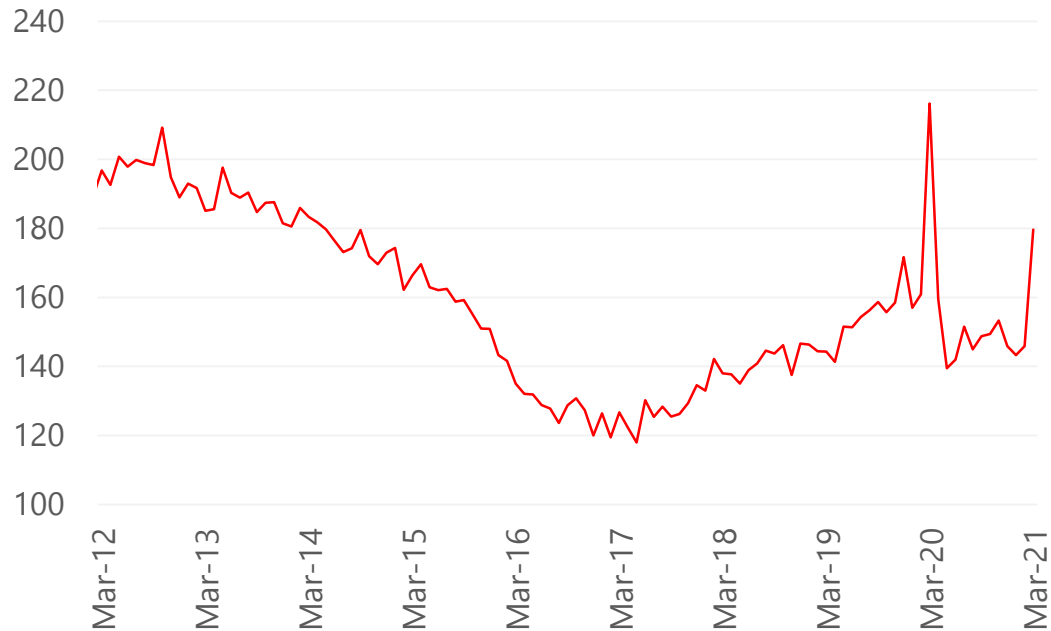
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

Working capital rebound amid new business restrictions

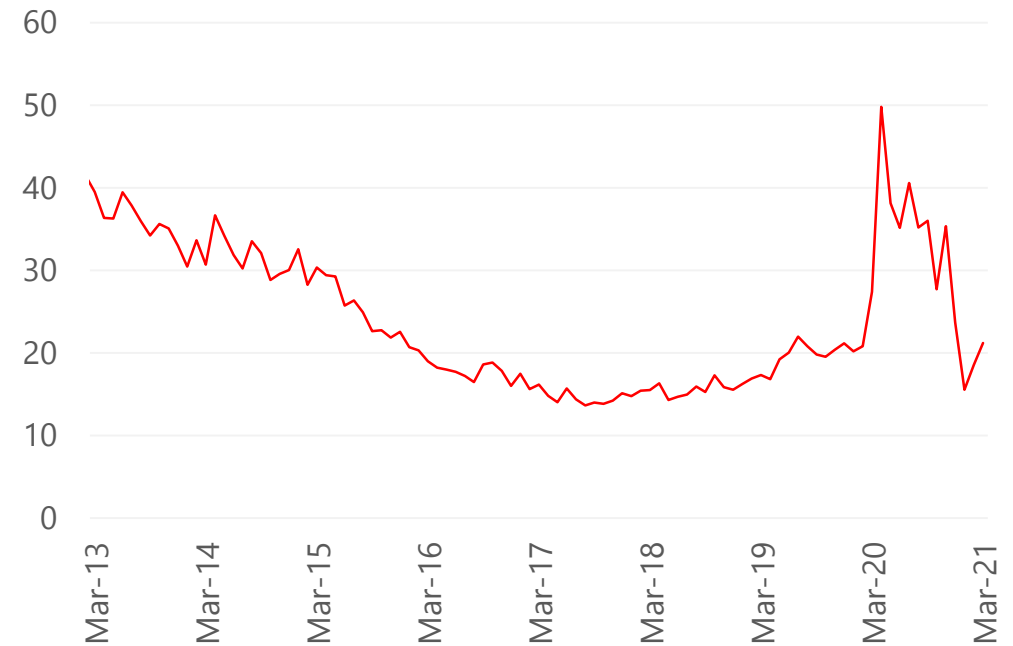
- In March, there was a significant increase of 23.1% MoM-sa in the non-earmarked segment as firms relied on working capital and discount trade bills for support activities during the business restrictions imposed by local governments for health purposes.

New Loans (BRL billion, inf. and seas. adj.) -
Nonearnmarked



Sources: BCB, Santander.

New Loans (BRL billion, inf. and seas. adj.) – Working
Capital

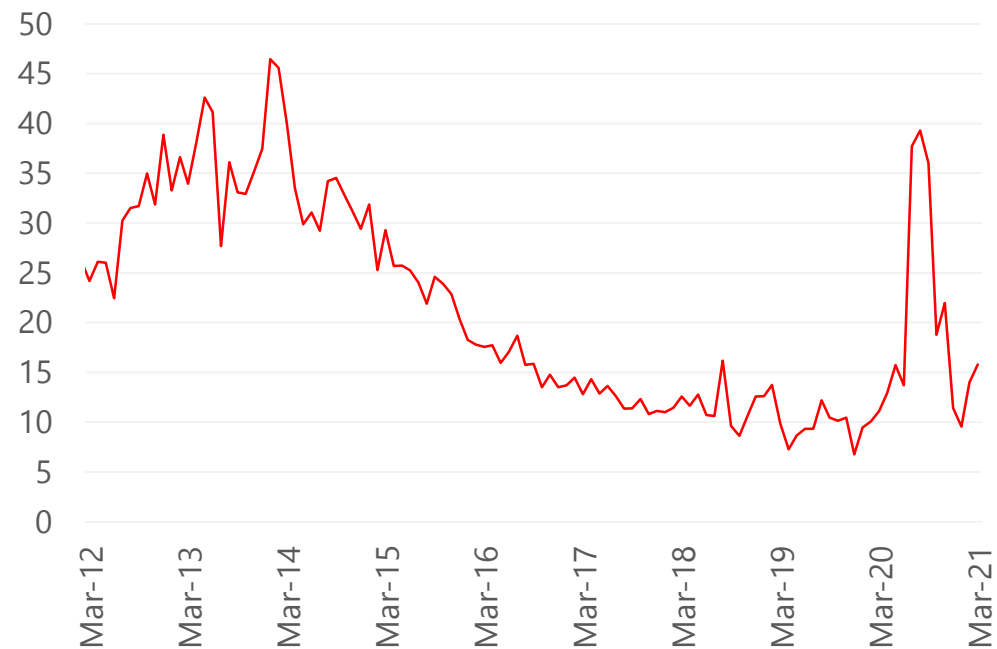


Sources: BCB, Santander.

Depending on funding, emergency credit programs could resume in 2021

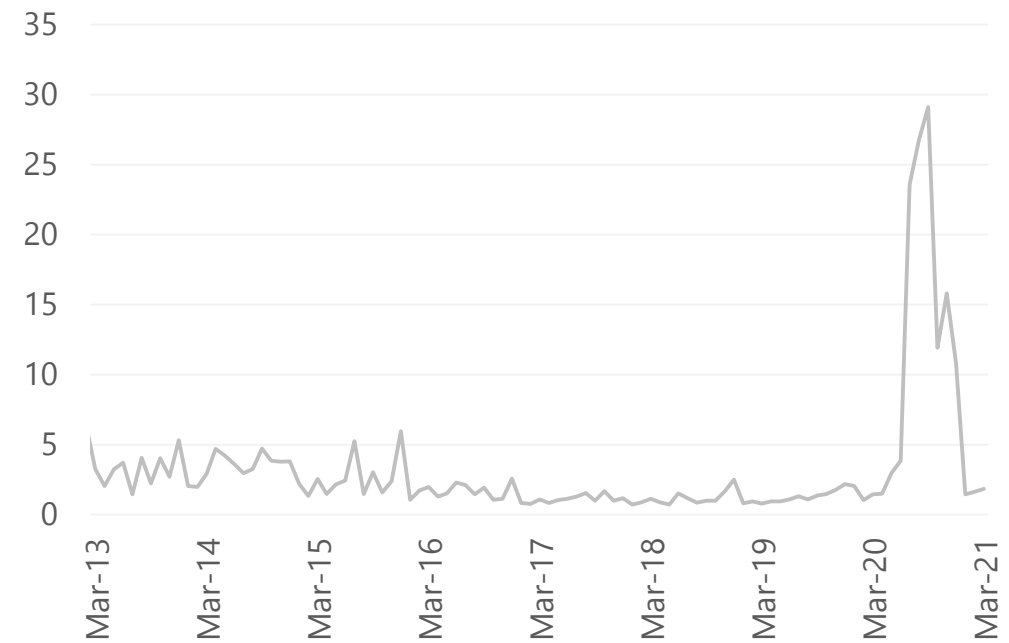
- For earmarked, there was an increase of 12.1% MoM-sa. Importantly, we expect a new round of BRL5 billion in Pronampe credit support in the coming weeks.

New Loans (BRL billion, inf. and seas. adj.) - Earmarked



Sources: BCB, Santander.

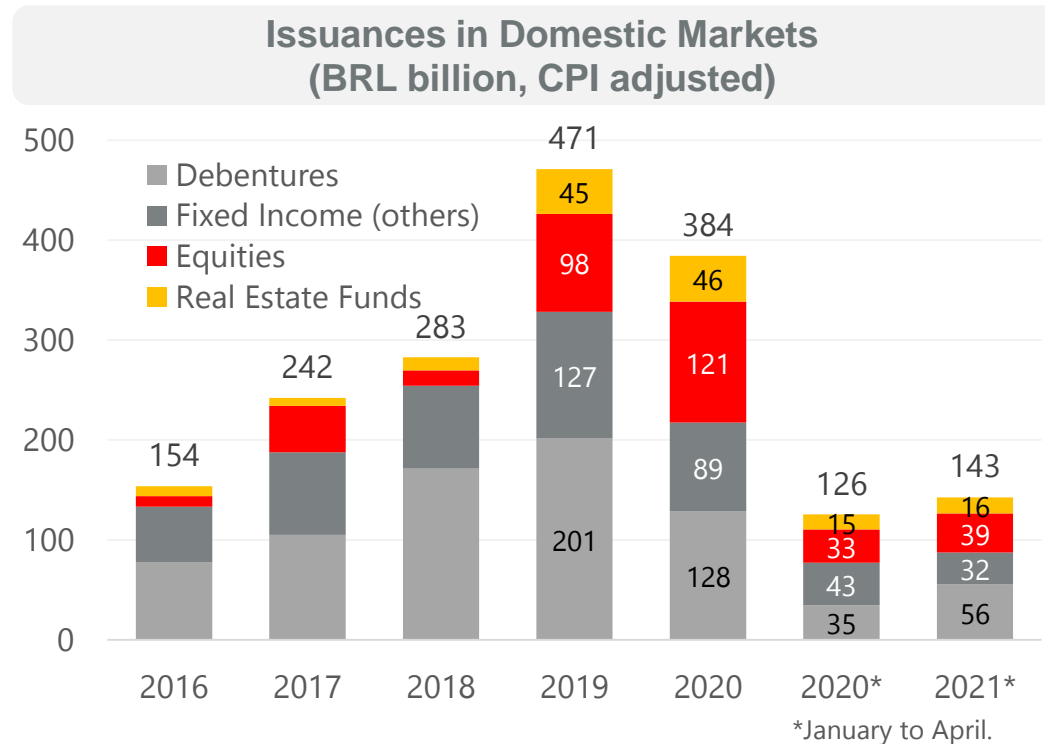
New Loans (BRL billion, inf. and seas. adj.) – Others (Emergency Credit Programs)



Sources: BCB, Santander.

Favorable outlook for the equity market

- Anbima figures on capital markets activity for April show that new issuances totaled BRL39.6 billion. Comparing issuances YTD to April 2021 versus the year ago period, there was an increase of 20.4%.



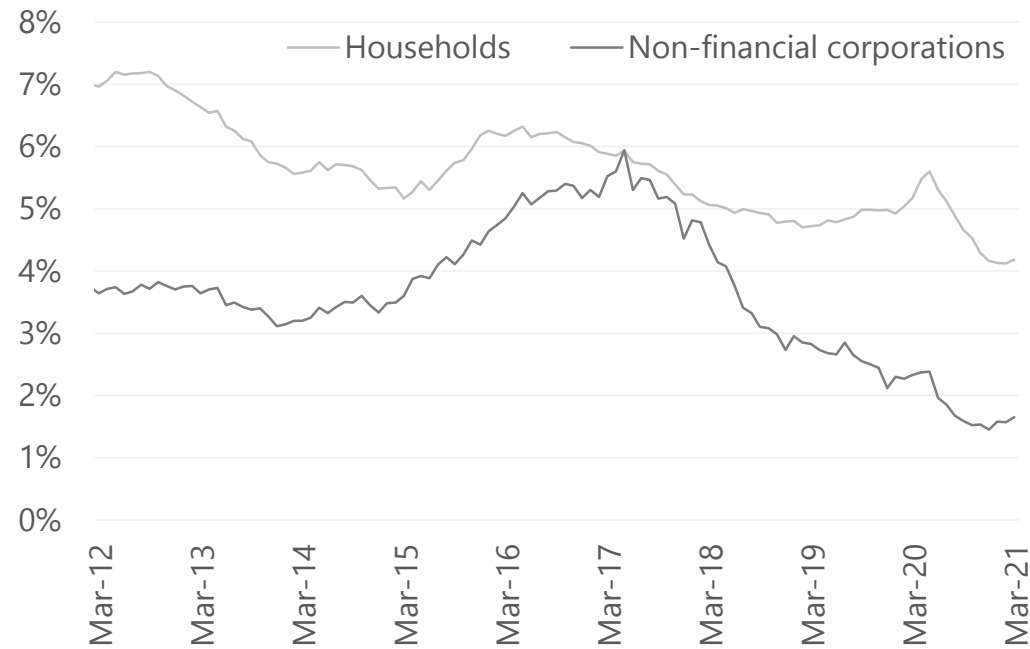
Fixed Income (others): Commercial papers, LFs, CRAs, CRIs and FIDCs.

Sources: Anbima, Santander

Delinquencies are flat and poised for an increase

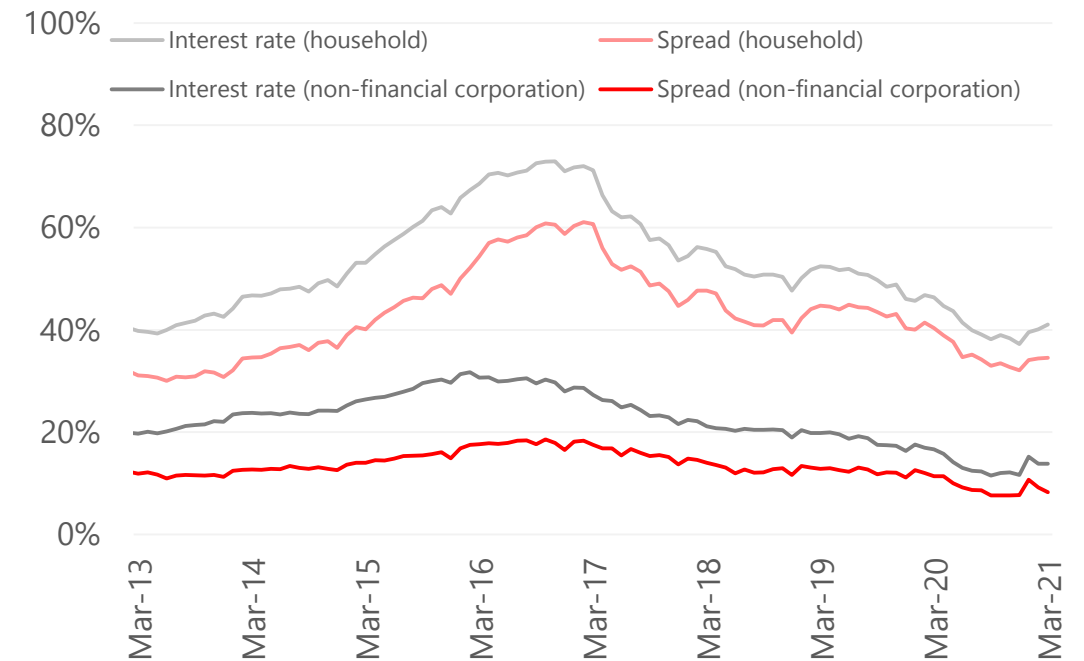
- We are still of the view that delinquencies are likely to slowly increase in the coming months due to the pending end of loan payment deferrals and of the government's emergency aid.

90+ days past due loans – Nonearmarked (% , sa)



Sources: BCB, Santander.

Average interest rate and spread – Nonearmarked (% , pa)



Sources: BCB, Santander.

Bank Lending Forecasts

Portfolio Growth (% YoY)					
	2018	2019	2020	2021e	2022e
Total Balance	5.1%	6.5%	15.5%	7.4%	9.0%
Households	8.6%	11.9%	10.9%	7.6%	8.5%
Non-financial corp.	1.2%	-0.1%	21.8%	7.1%	9.6%
Non earmarked	10.9%	14.1%	15.2%	9.9%	10.5%
Households	11.6%	16.6%	10.4%	9.0%	10.1%
Non-financial corp.	10.1%	11.1%	21.1%	11.0%	11.0%
Earmarked	-0.9%	-2.4%	15.9%	4.0%	6.8%
Households	5.4%	6.6%	11.6%	6.0%	6.6%
Non-financial corp.	-8.1%	-14%	23.0%	1.0%	7.0%

Sources: BCB, Santander

Brazil Macroeconomic Research Team

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