Brazil Macro | March 2023

Credit

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INDEX

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

BRIEF OVERVIEW

01

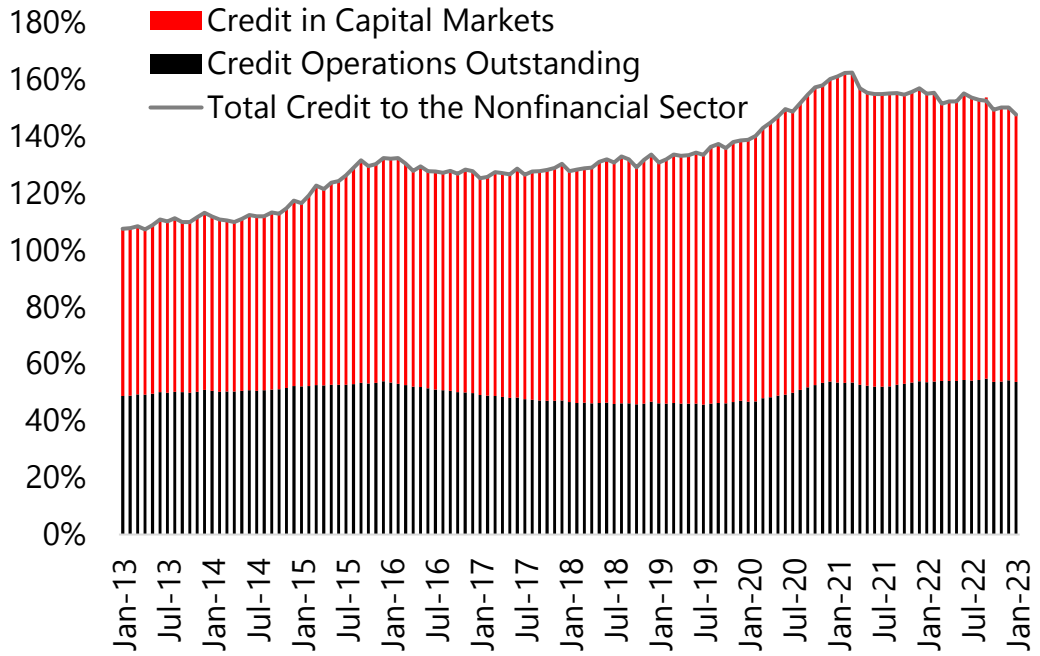
SUMMARY

- **This chartbook brings details on our credit outlook, contemplated in our latest Scenario Update, released on February 9 - *'More Persistent Inflation, Higher Interest Rate'* - available in: https://bit.ly/Std-scenupdate-feb23**
- Accompanying the positive trends in economic activity, the credit market has seen solid growth for the past couple of years. 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.
- However, NPLs have shown growth as well, then, we expected a slowing of the broad economy this year. So, our total nominal loan growth estimate is 5.4% for 2023.
- Yet we remain worried about the outlook (and risks) for NPLs this year, given the still-high inflation, slowing real activity, and high consumer leverage..

Total Credit to Non-Financial Sector

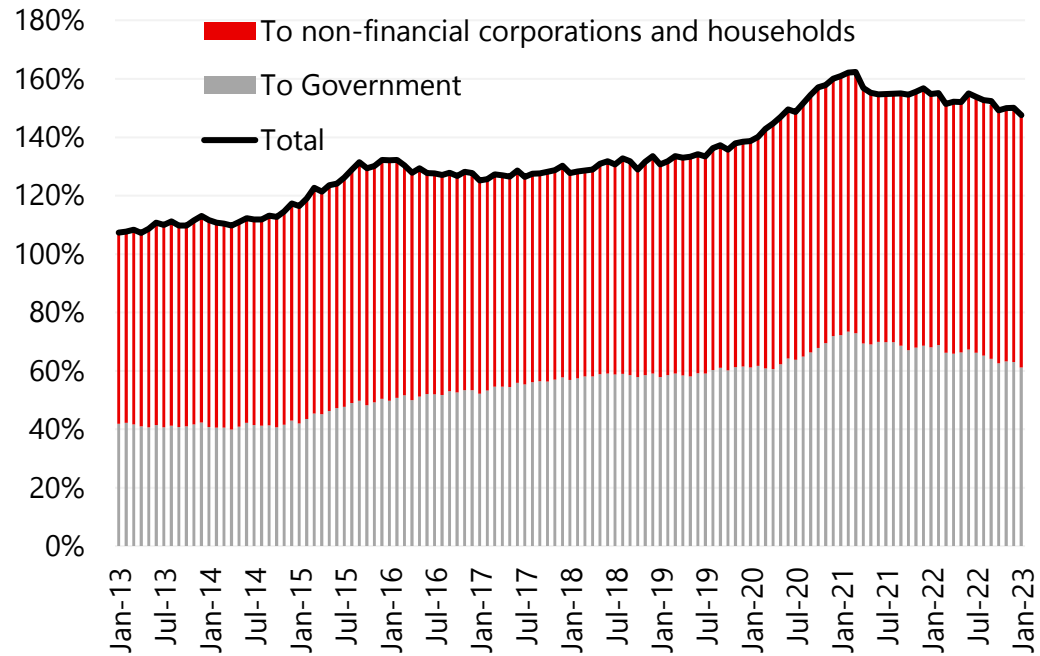
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination (% GDP)

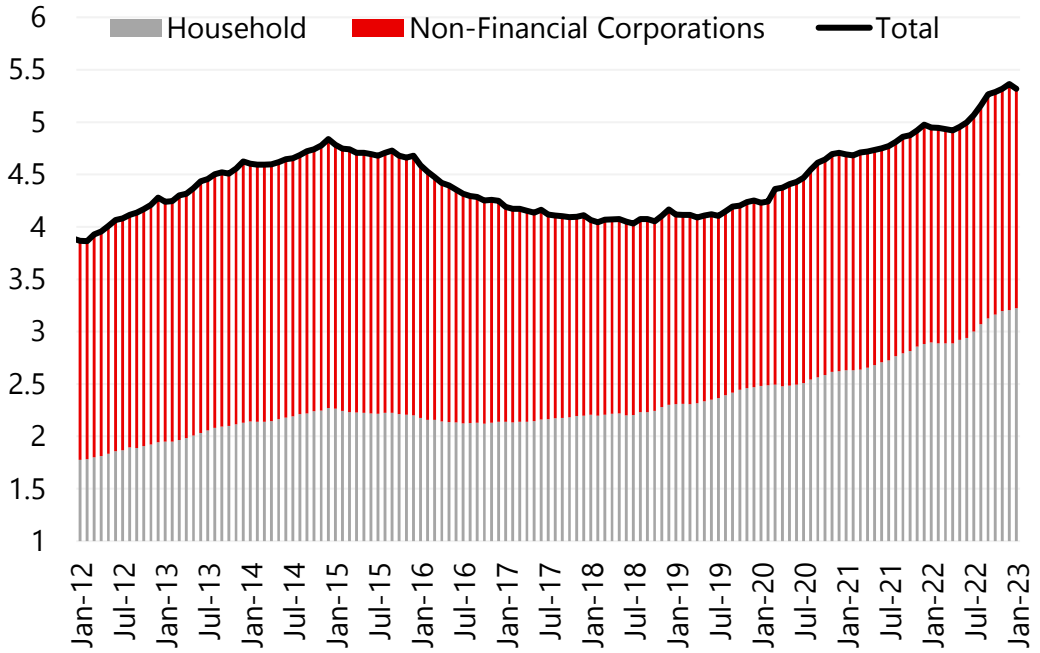


Sources: BIS, Santander.

Credit market remained strong

- Total outstanding loans in January posted inflation-adjusted growth of 7.6% YoY, to R$5.3 trillion
- For households, loans were up 11.3% YoY; for non-financial corporations, they were up 3.2% YoY.

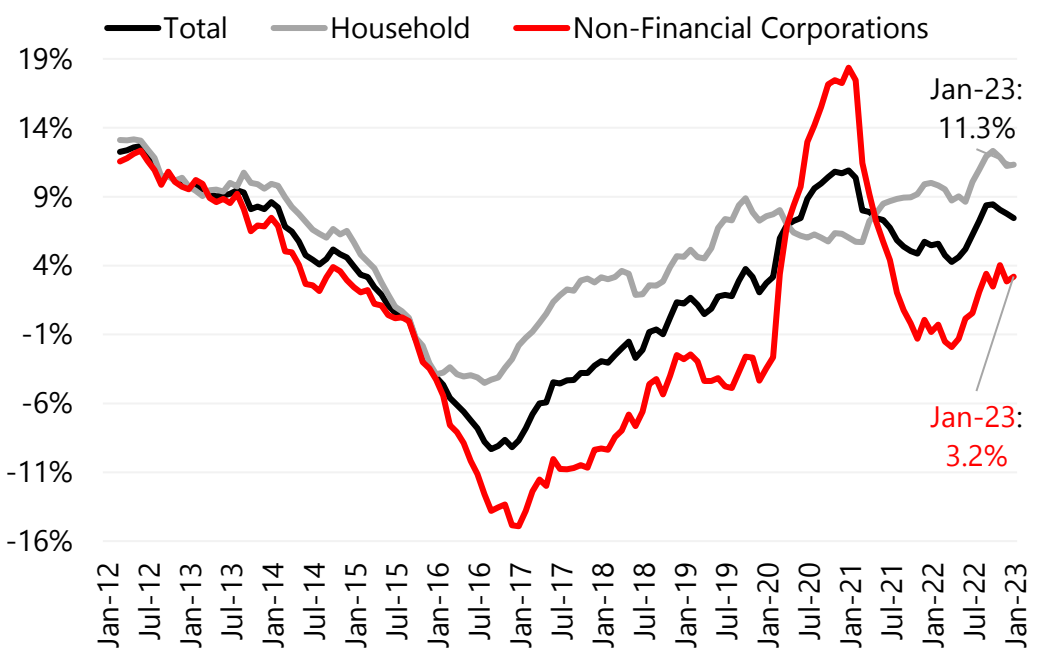
Total Outstanding Balance of Credit Operations*



Sources: Brazilian Central Bank, Santander.

* BRL billion, inf. adj, seasonally adj.

Total Outstanding Balance of Credit* – Growth Rate (%)

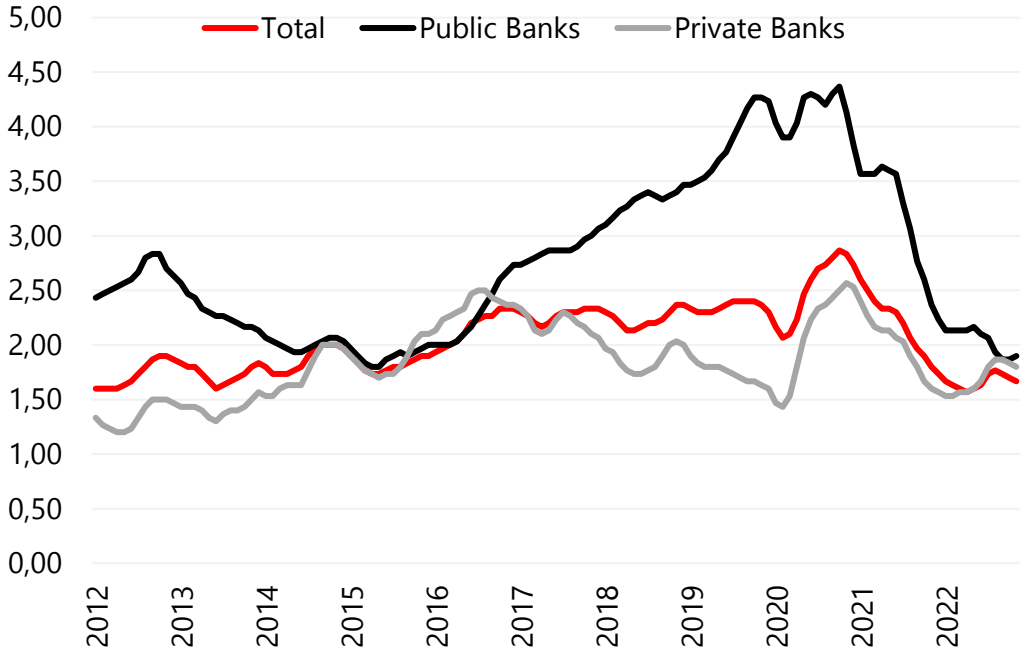


Sources: Brazilian Central Bank, Santander.
* Inflation adjusted.

The Bank System

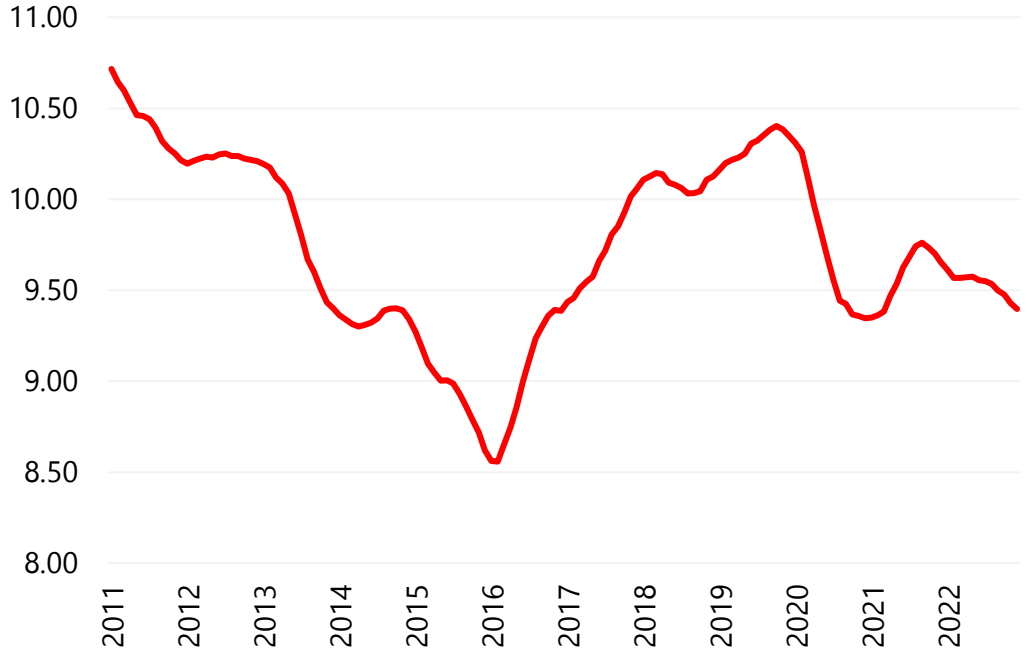
- As stated by the Financial Stability Committee (*Comef,* in Portuguese) in the last minutes of the committee, "the banking system remains with comfortable liquidity to maintain financial stability and regular functioning of the intermediation system".

Bank liquidity index - mm3m



Fontes:: SFN, Santander.

Equities over assets - mm3m



Fontes:: SFN, Santander.

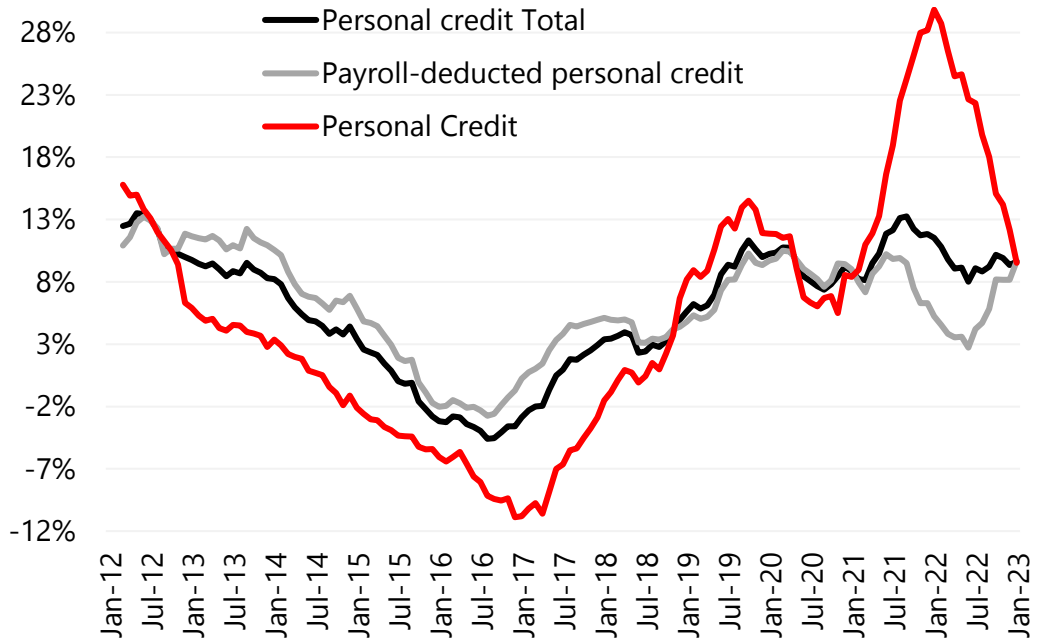
HOUSEHOLD

02

Outstanding Loans: households kept growth rate at the margin

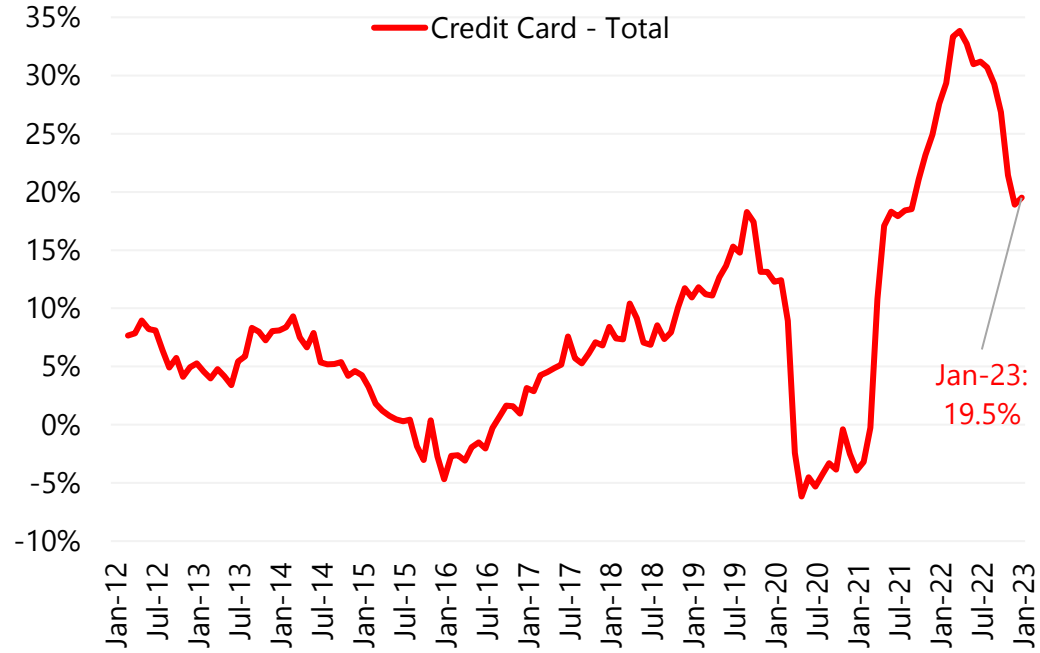
- In the non-earmarked segment, household credit portfolios maintained the growth rate, in January, at 11.1% YoY. Total personal real credit grew 9.62% YoY, and credit cards rose slightly at the margin, up 19.51% YoY, inflation-adjusted, after decelerating since April 2022.

Outstanding Loans - Personal Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

Outstanding Loans – Credit Card (% YoY)

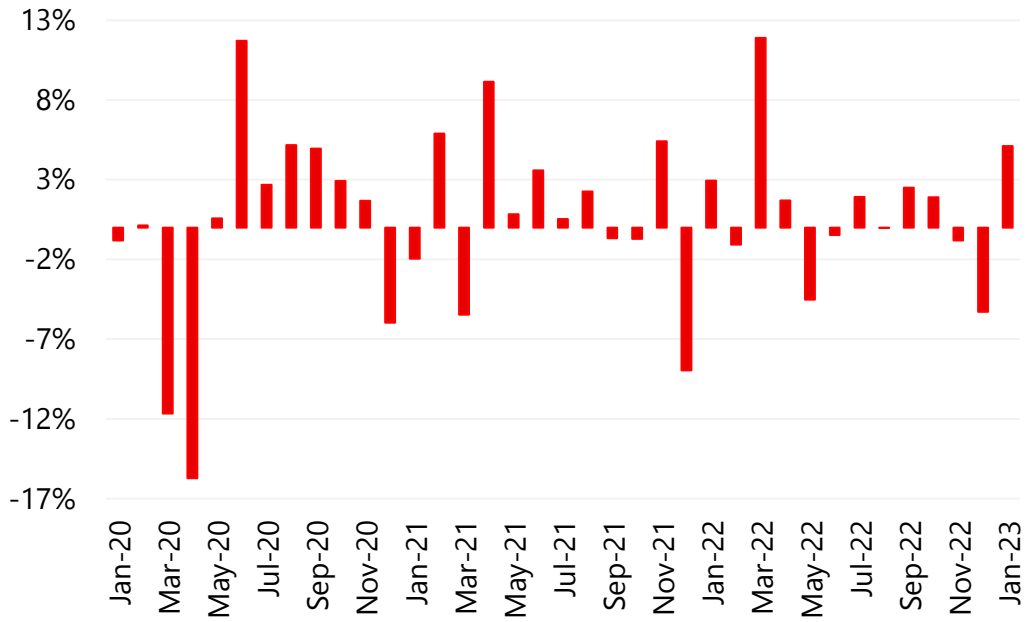


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans: posted an increase in January

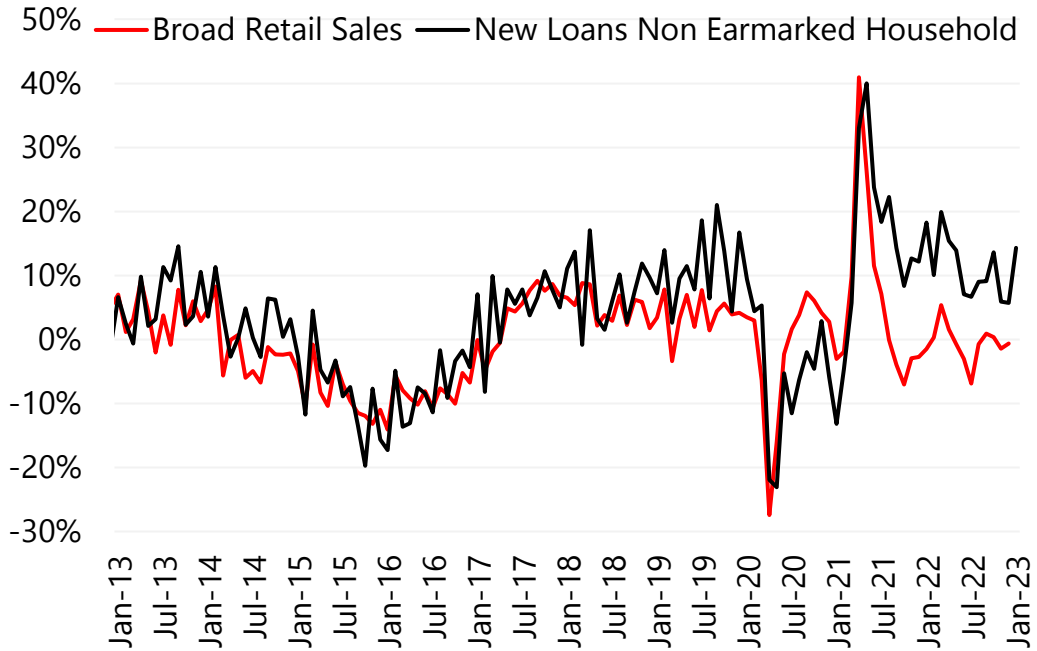
- For households, the non-earmarked segment increased 5.1% MoM-sa, in January.
- We highlight the strong increase in total personal credit (23% MoM-sa) and in credit cards (5.1% MoM-sa), after a slight drop (-1.3% MoM-sa) in December 2022.

Non-Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

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

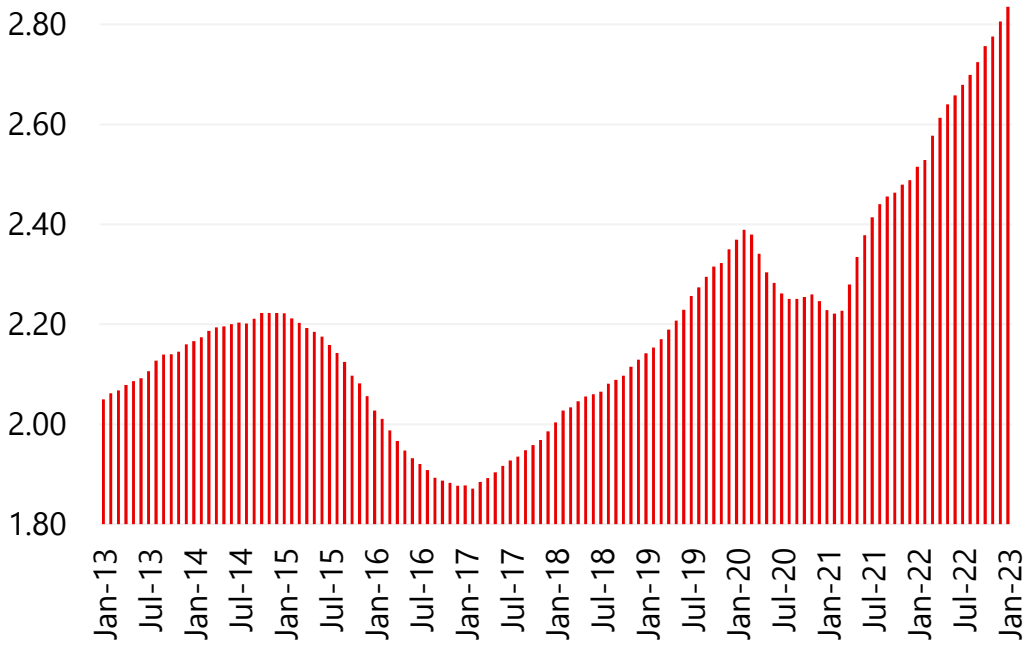


Sources: Brazilian Central Bank, Santander.

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

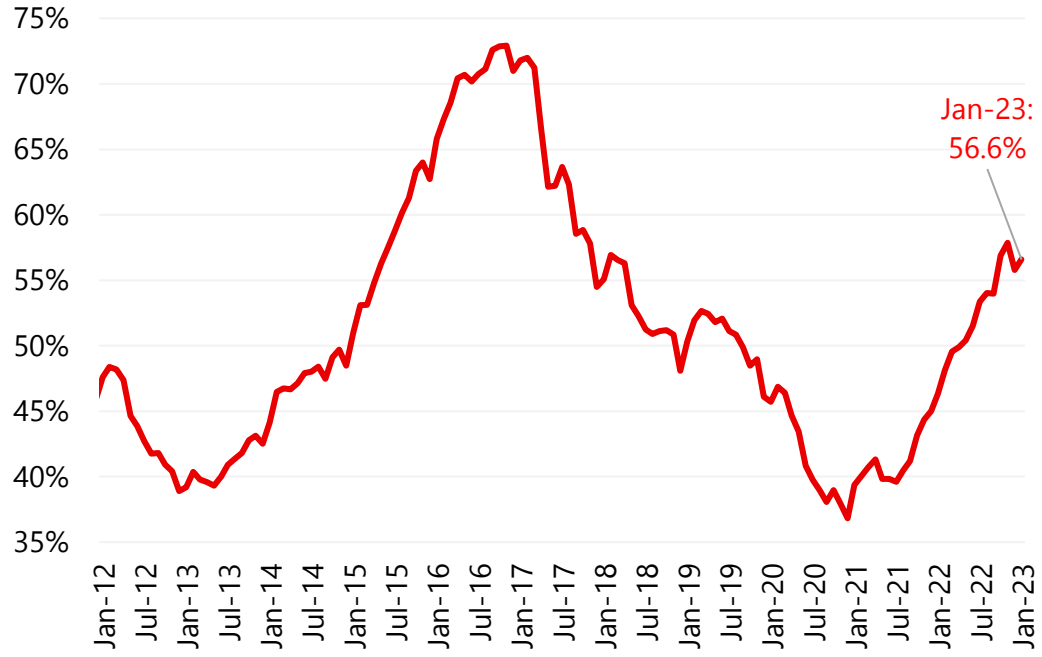
- New loans (12 months acum.) in January grew 12.7% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased more than 10 p.p from January 2022.

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



* Millions, Inflation adjusted and seasonally adjusted

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

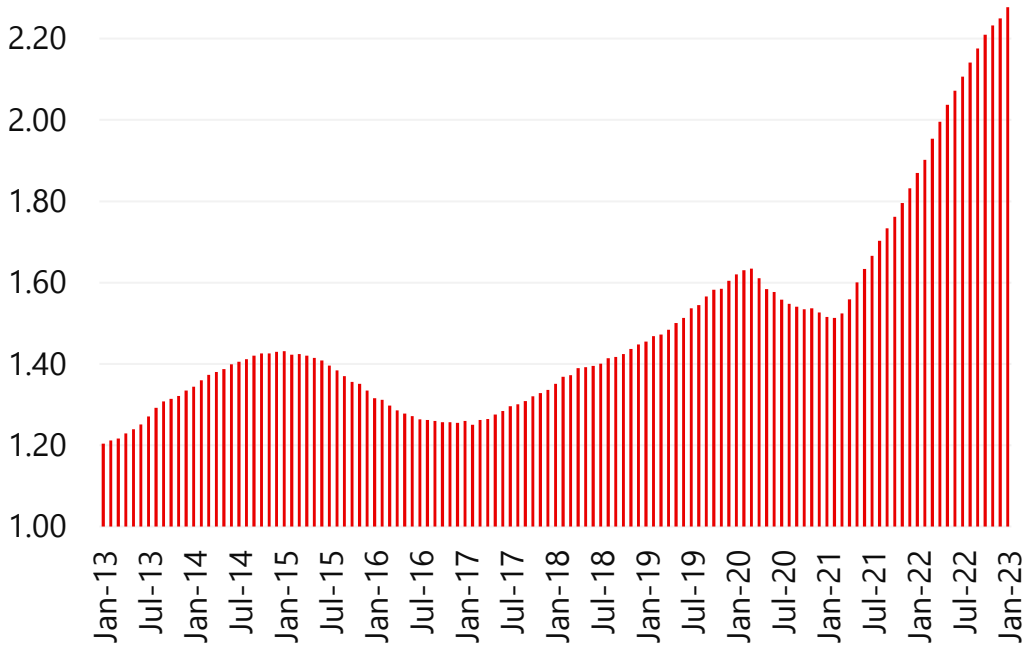


Sources: Brazilian Central Bank, Santander.

Credit Card: interest rate showed deceleration at the margin

- New Loans accumulated for 12 months keeps at historic highs, and it grew 21.8% compared to the year-ago period.
- The average interest rate for Credit Card increased more than 27 p.p since January 2022 but showed a deceleration at the margin

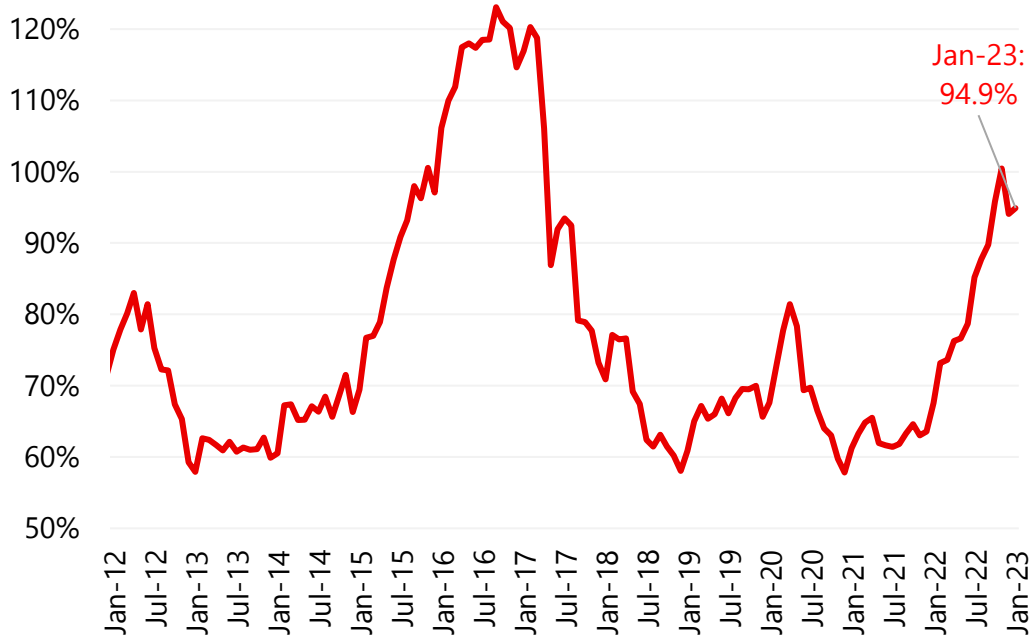
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

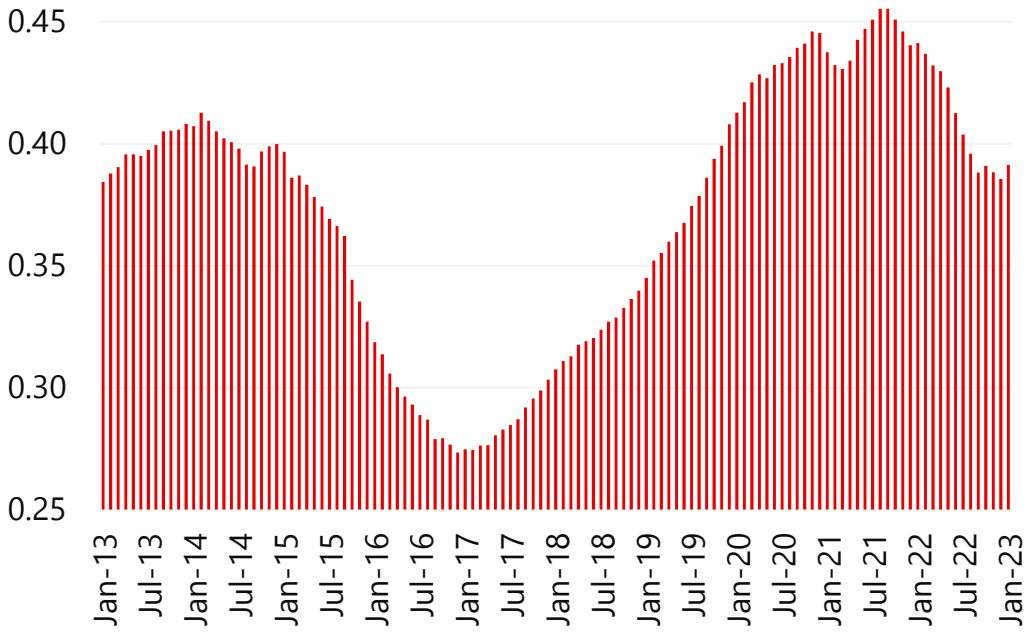


Sources: Brazilian Central Bank, Santander.

Personal Credit: starts to slow down

- New Loans (accumulated for 12 months) fall 11% compared to the year-ago period..
- The average interest rate for Personal Credit increased 4 p.p from January 2022.

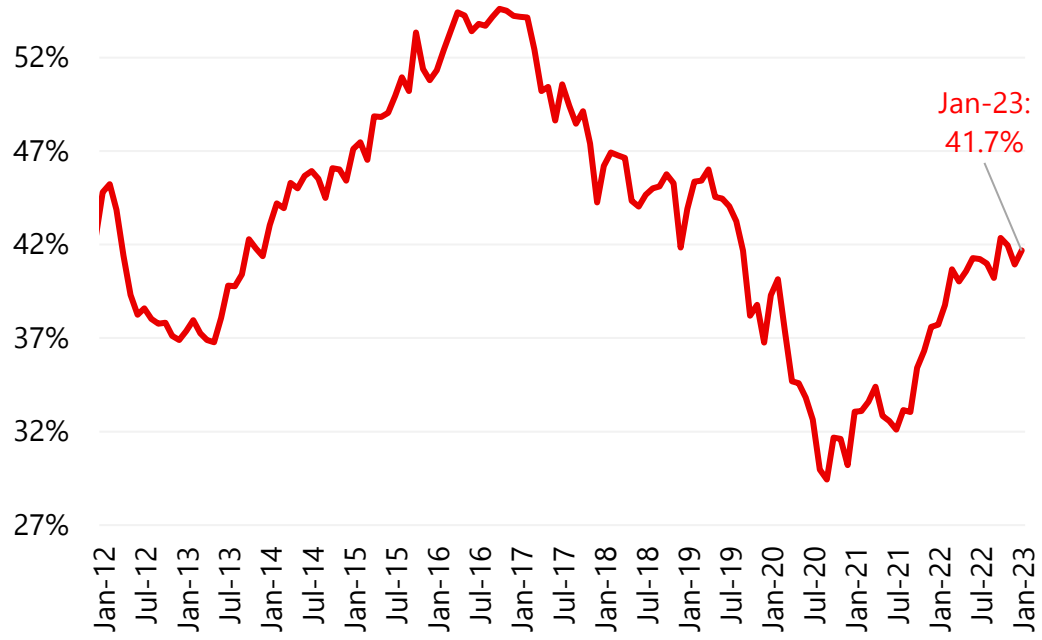
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

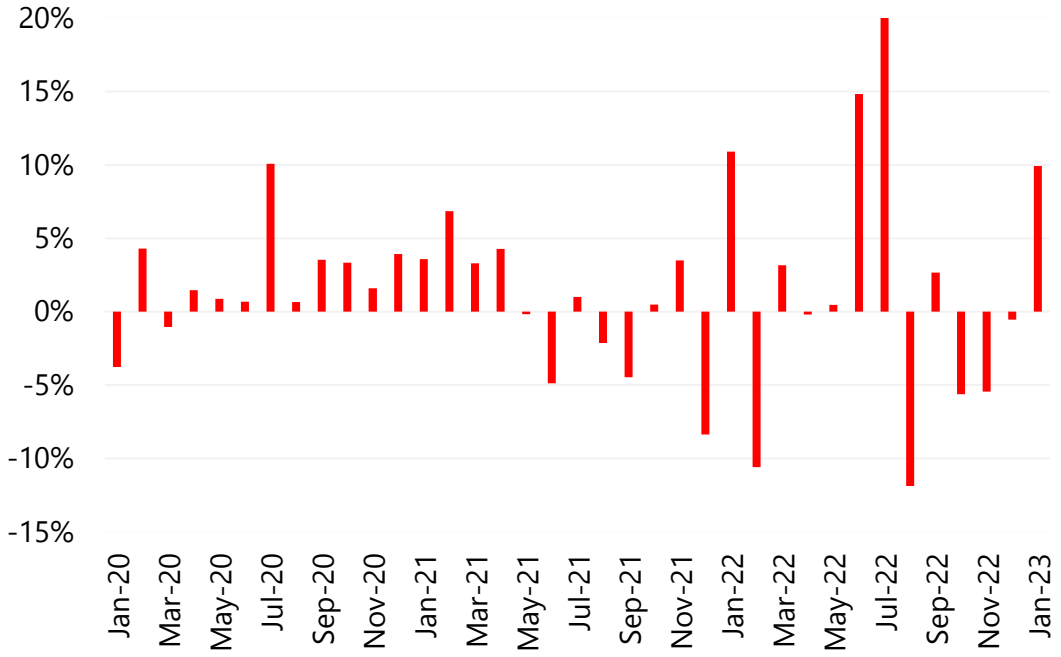


Sources: Brazilian Central Bank, Santander.

Earmarked Segment

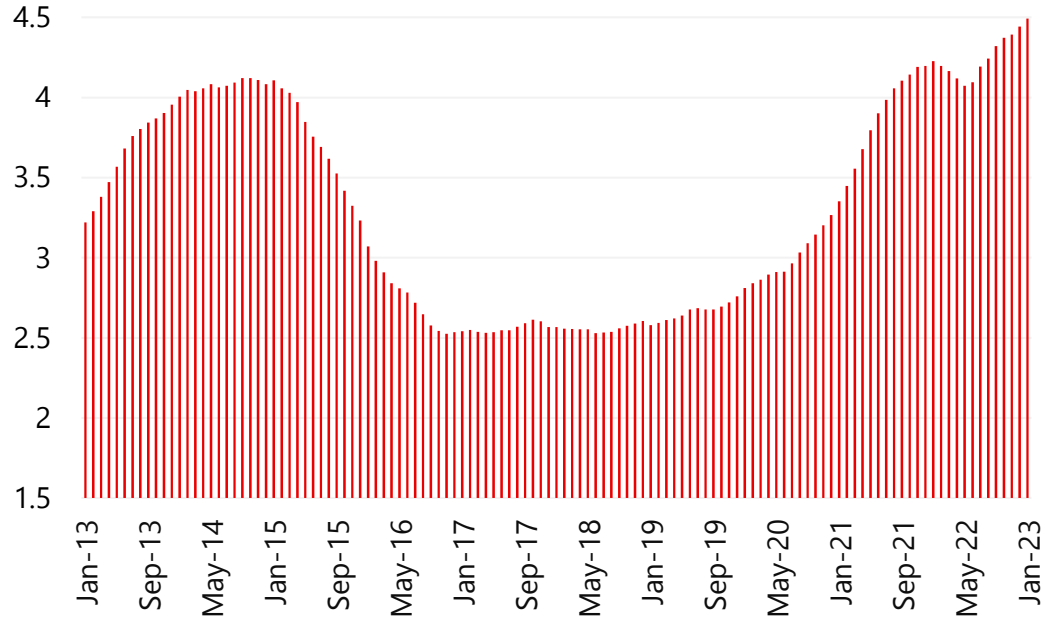
- In the earmarked segment, loans to households increased 9.9% MoM-sa, in January.
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* (12 months acum.)

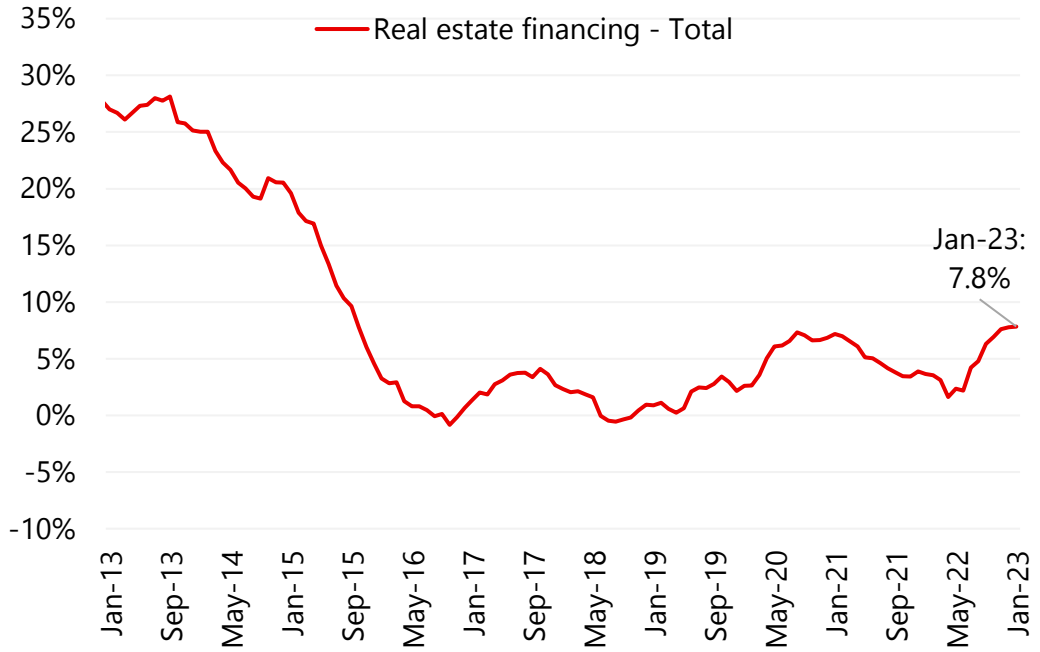


Sources: Brazilian Central Bank, Santander.
* Millions, Inflation adjusted and seasonally adjusted

Real Estate

- The outstanding of Real estate financing rose 7.8% YoY in January
- New loans presented a tepid fall of 3.3% MoM-sa.

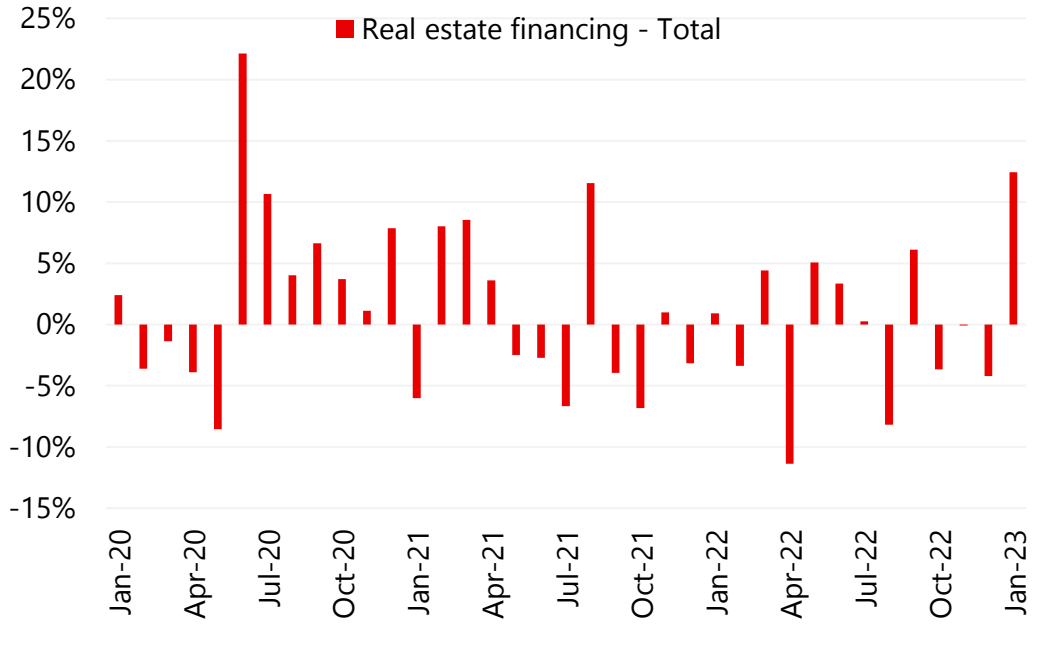
Real Estate Financing - Outstanding Balance (% YoY)



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans (% MoM)

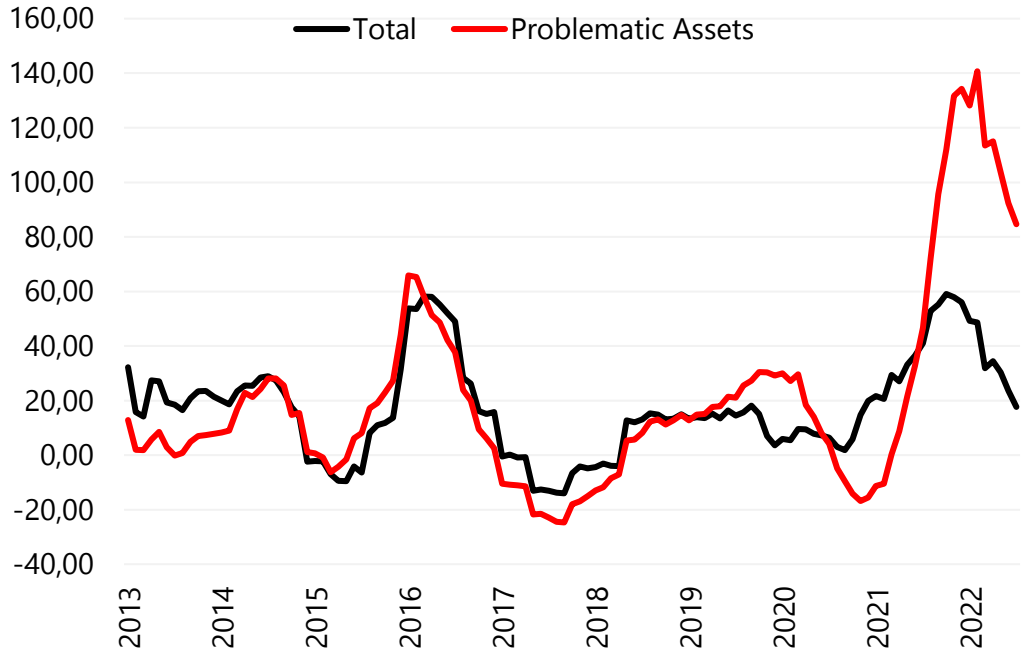


Sources: Brazilian Central Bank, Santander.

Problematic assets – Non-Earmarked household credit

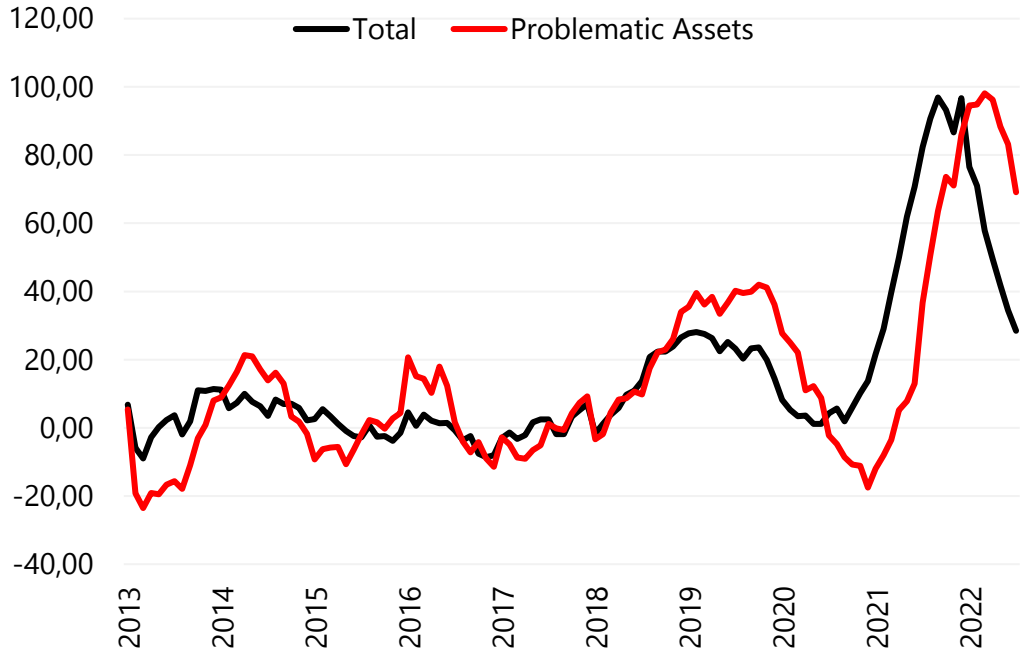
- The problematic assets (delinquency + renegotiations) of credit card operations grew in large disarray with the credit portfolio of the modality, but there is a clear reversal of this trend.

Total Portfolio vs Problem Assets Portfolio – Credit Card (% YoY)



Fontes:: SFN, Santander.

Total Portfolio vs Problem Assets Portfolio – Personal Credit (% YoY)

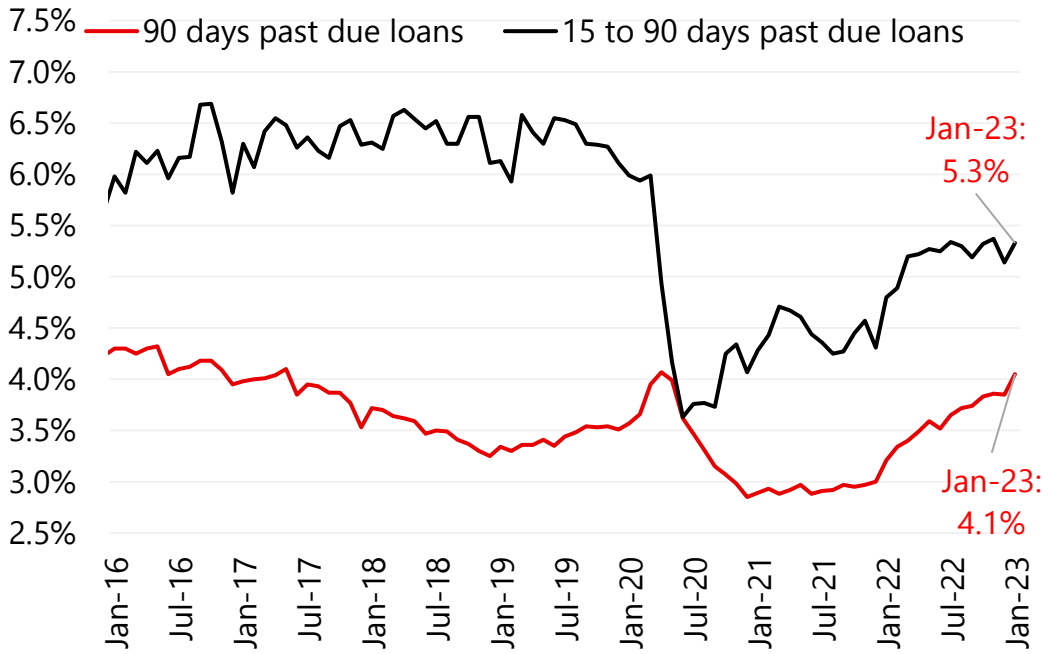


Fontes:: SFN, Santander.

Families Indebtednes - Breakdown

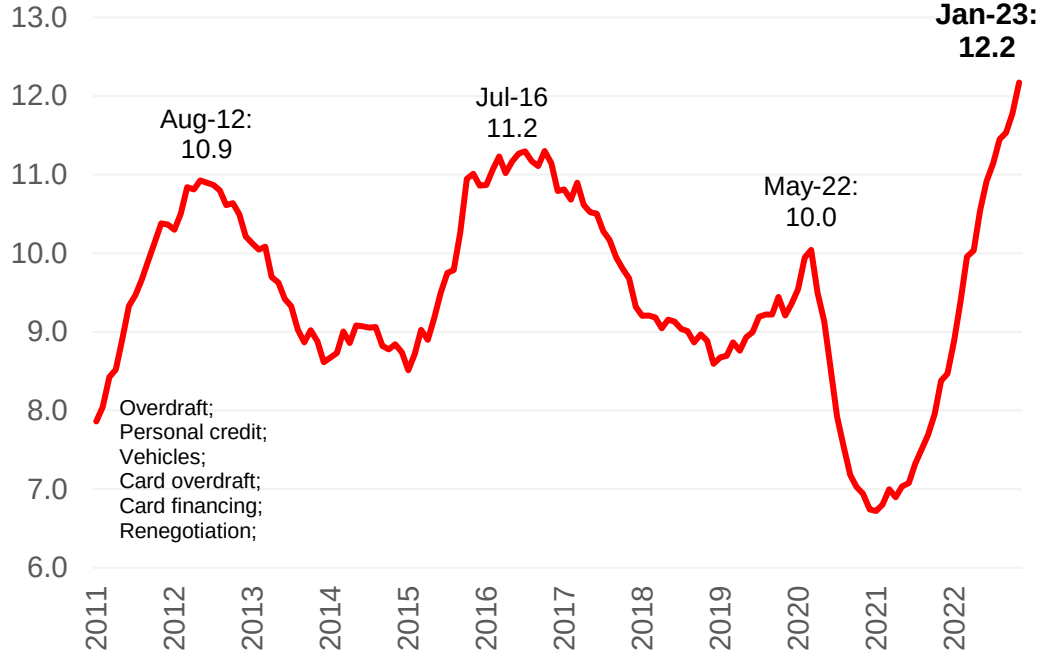
- The arrears are giving warning signs. And the delinquent loans are starting to rise. The Core Household NPL indicator considers only the most "problematic" categories, that is, those that represent the non-earmarked delinquency of families. So, we see that NPL is higher than at the peak of the 2016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

Household debt



Sources: Brazilian Central Bank, Santander.

Core* Household NPL



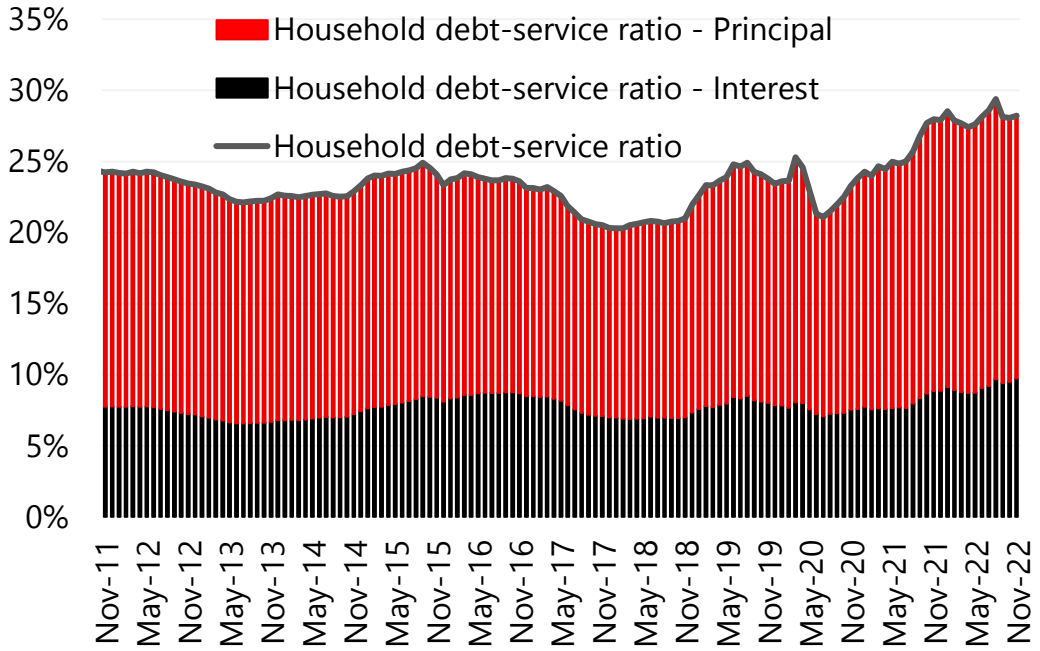
Sources: BCB, Santander.

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

Families Indebtednes - Breakdown

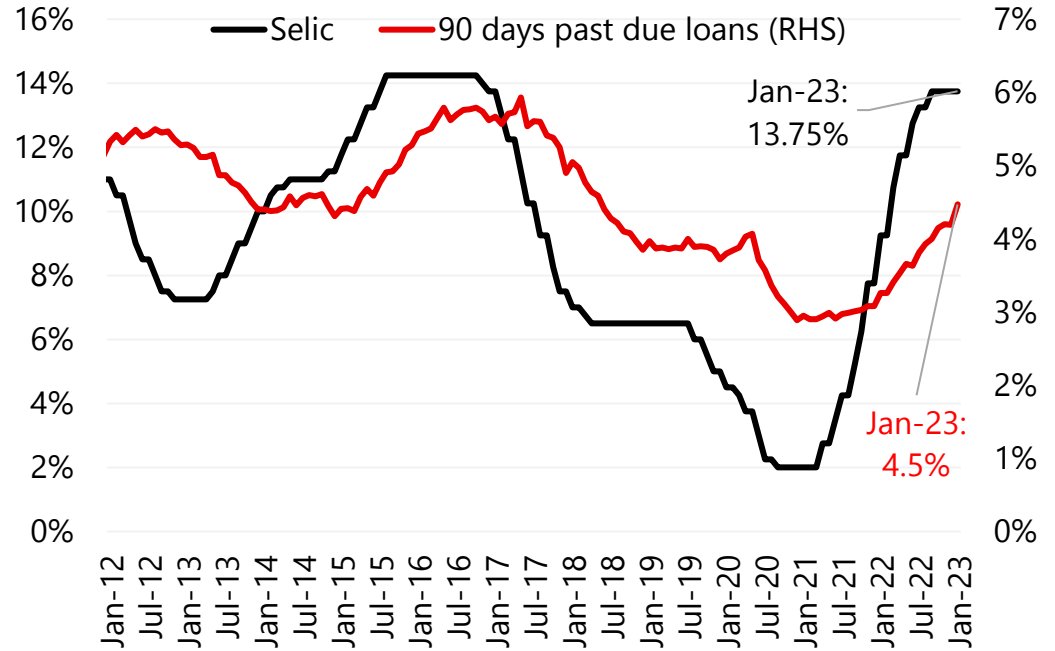
- Household debt service ratio is higher than pre-pandemic levels and keeps accelerating
- With the advance of Selic, arrears continues to rise as well

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

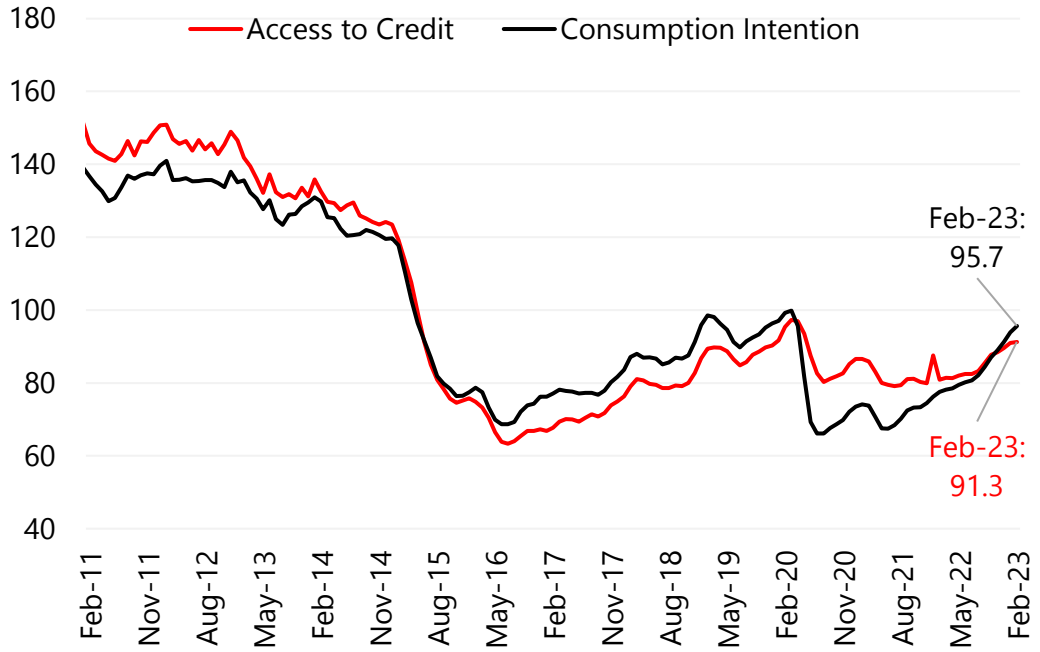


Sources: Serasa Experiean, Santander.

Household Consumption and Credit

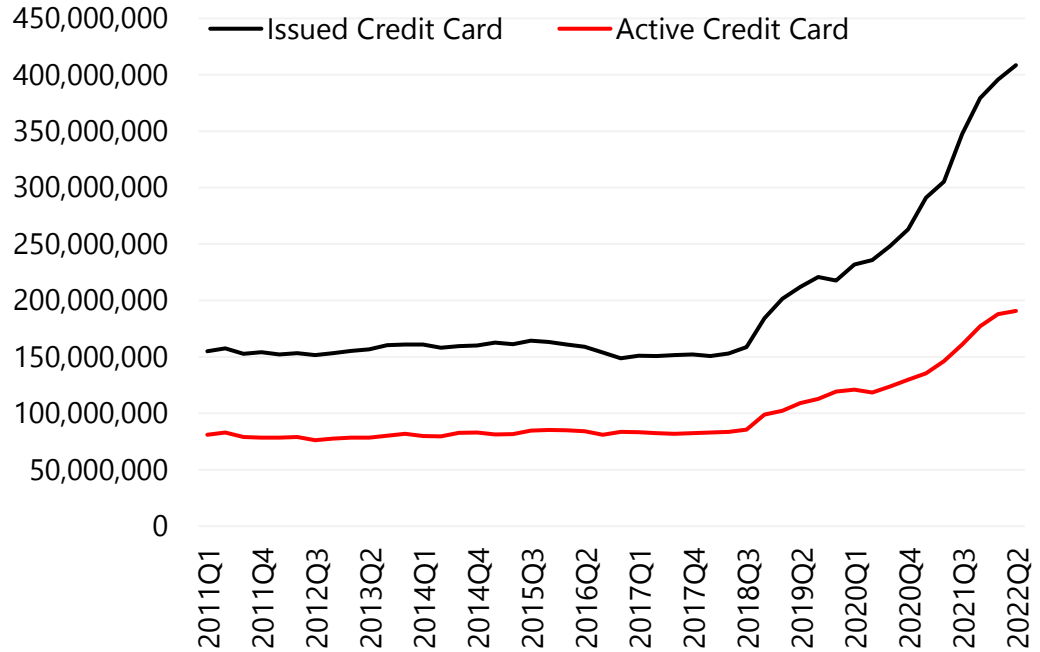
- Household consumption intentions keeping accelerating, despite inflation and higher interest rates. This can be attributed to income support measures and the positive evolution of the labor market.
- Consumption has relied on personal credit, such as credit cards

Household Consumption Intention



Sources: CNC, Santander.

Credit Cards - Volume

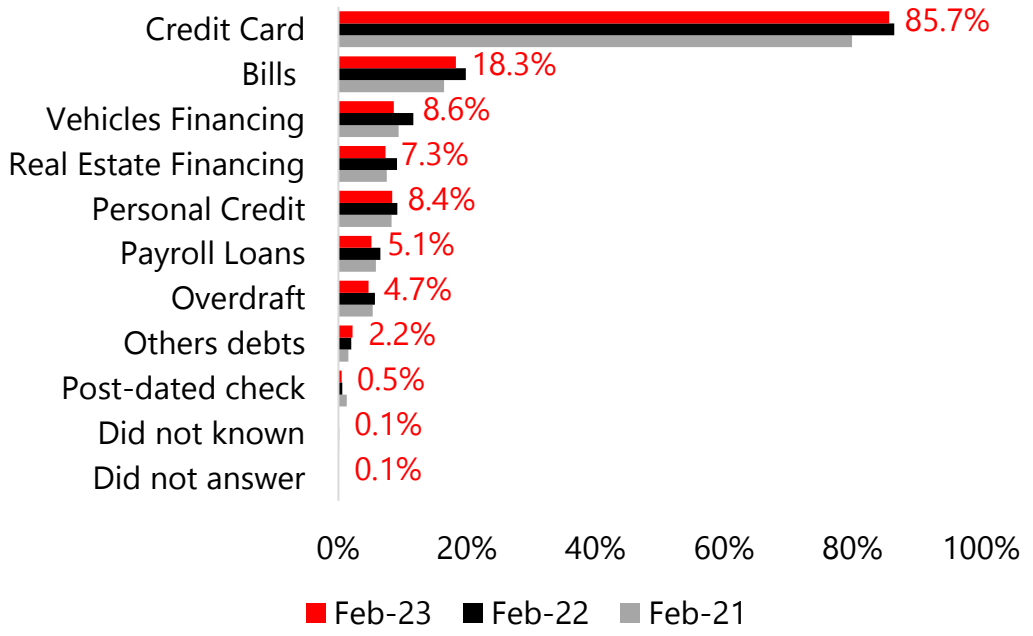


Sources: Serasa Experian, Santander.

Families Indebtednes – By Type

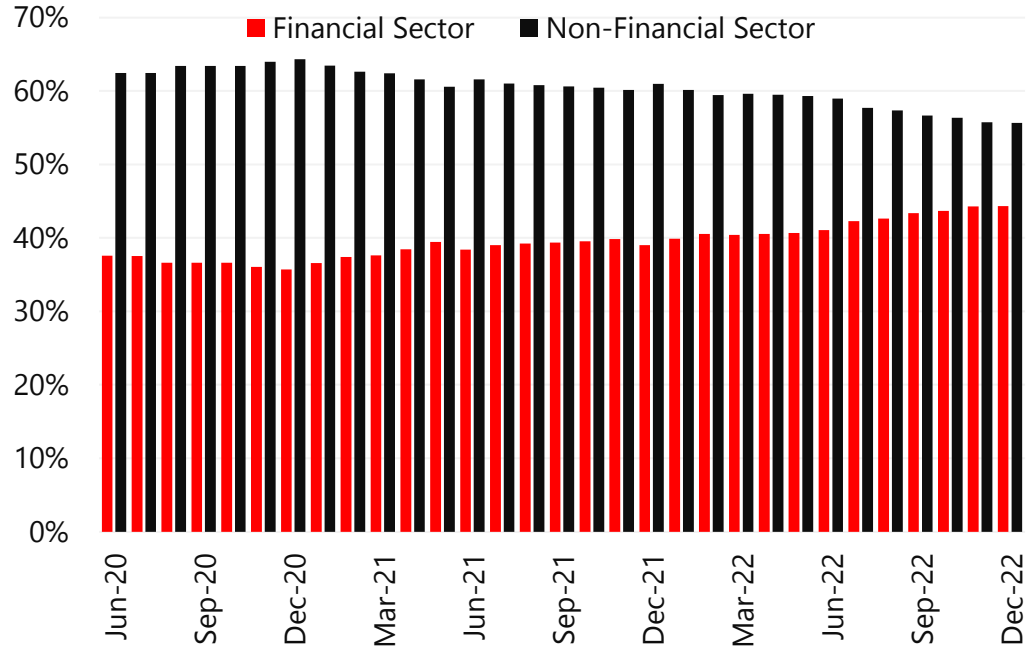
- There was a deceleration in Credit cards as a type of debt, but still, more than 85% of families have this type of debt.
- And most of the debts are in the non-financial sector, but debt in the financial sector is also rising.

Household Debt – By Type



Sources: CNC, Santander.

Household Debt – By Sector

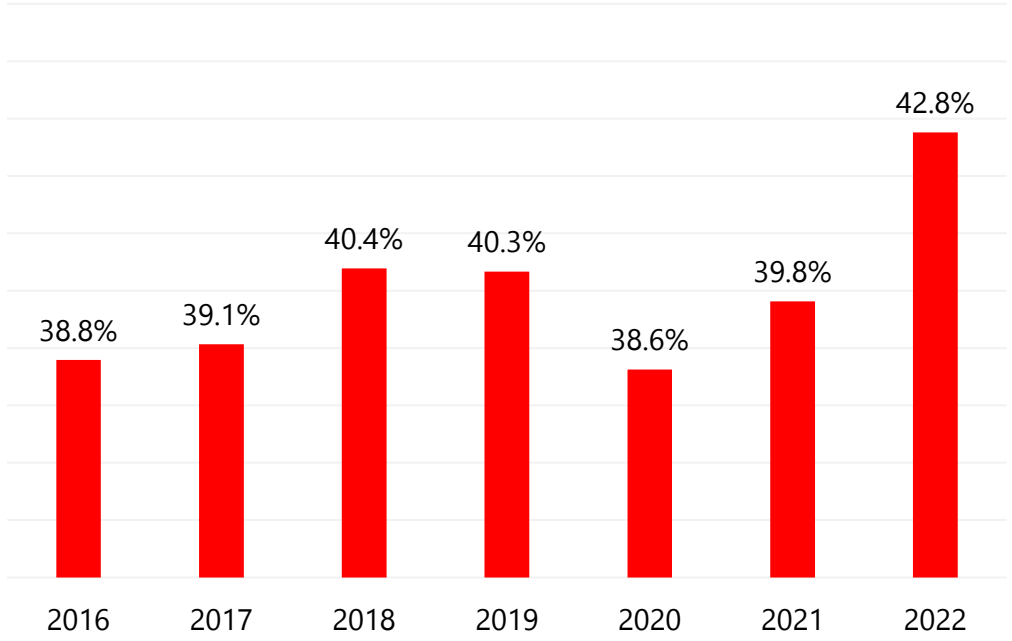


Sources: Serasa Experian, Santander.

Families Indebtednes

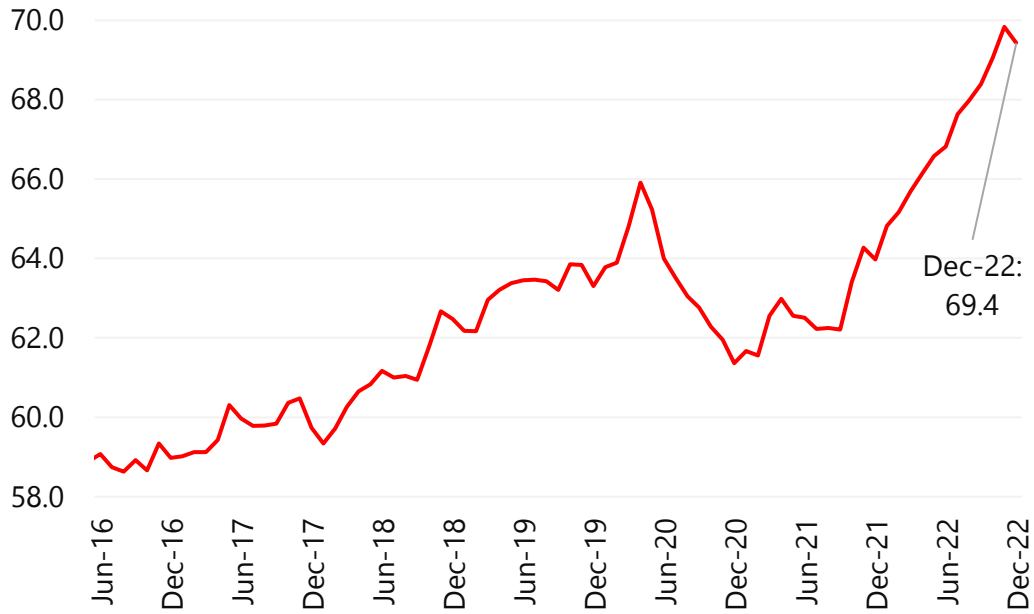
- So, almost 43% of the adult population is in debt (almost 70 million people)

Defaulting Population (% of the Adult Population)



Source: Serasa Experian, Santander.

Household Defaulting*



Source: Serasa Experian, Santander.

* Millions

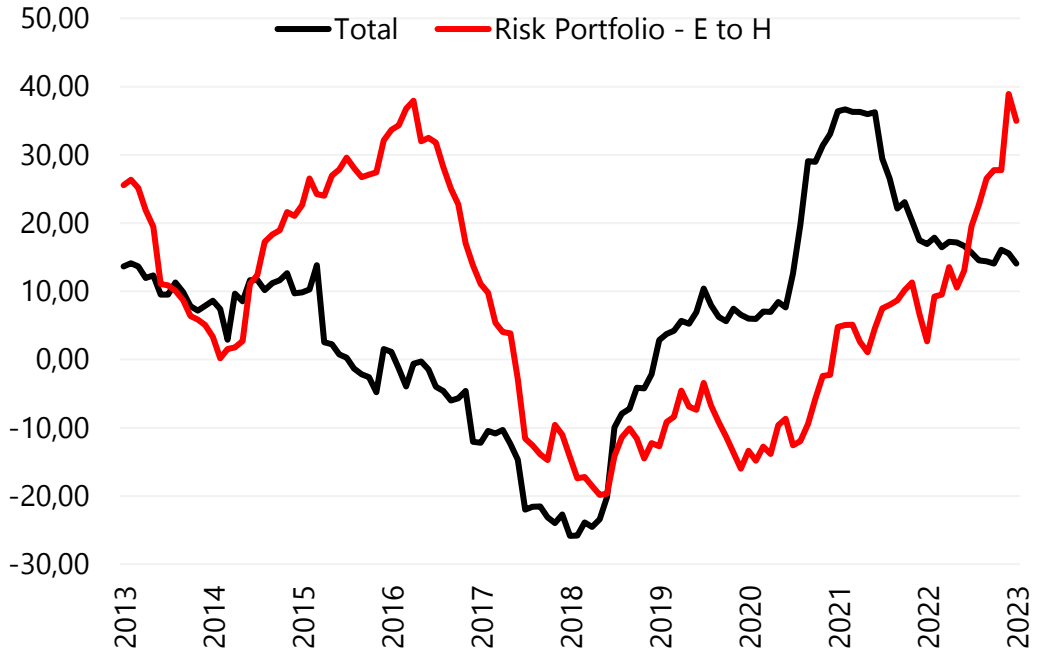
CORPORATE

03

Riskier portfolios (E to H) - Company credit

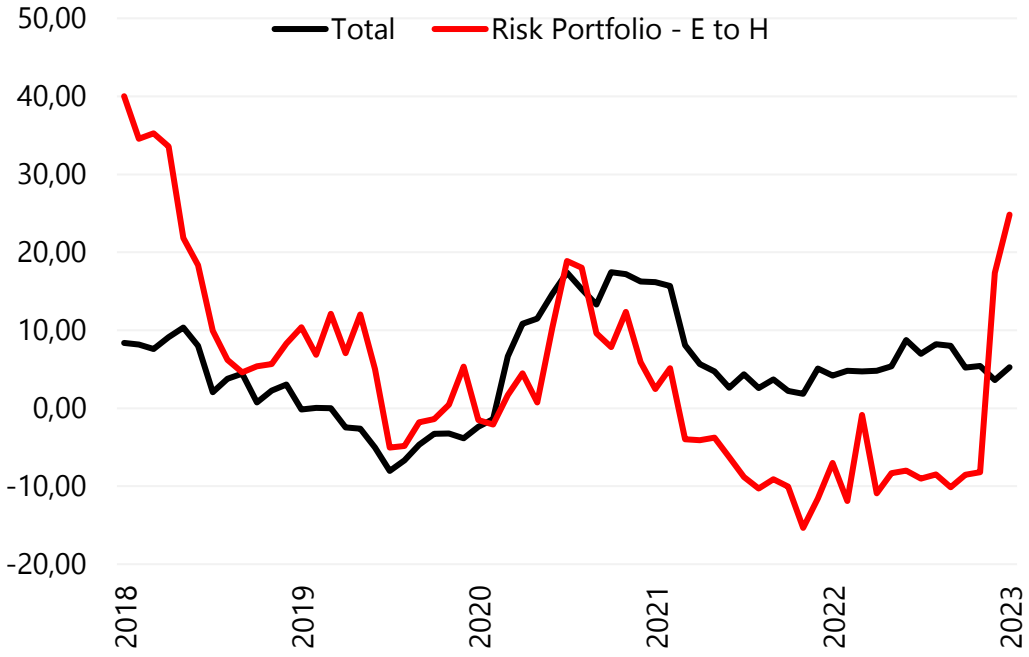
- The Risk portfolio has grown faster than the total portfolio for micro and small companies.
- For large companies, the atypical event at the end of 2022 caused the sharp increase observed; but there are no structure problems for this group of companies..

Total Portfolio vs Risk Portfolio – SMEs (% YoY)



Fontes:: SFN, Santander.

Total Portfolio vs Risk Portfolio – Large (% YoY)

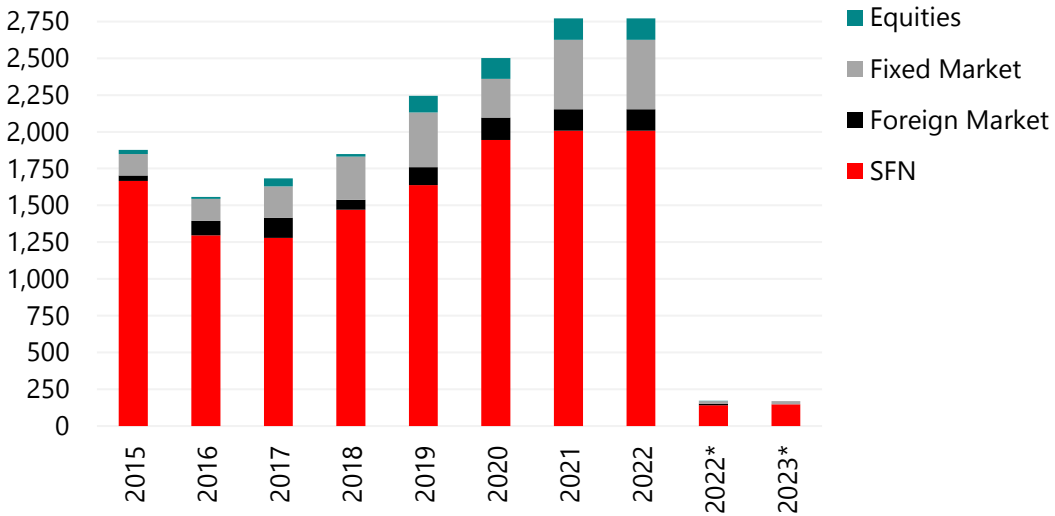


Fontes:: SFN, Santander.

Bank lending smaller compared year-ago period

- Considering total corporate financing YTD through January 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 22.7% smaller, while SFN concessions were up 4.8%.
- 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 and FIDCs.
Equity - IPO and follow-on.

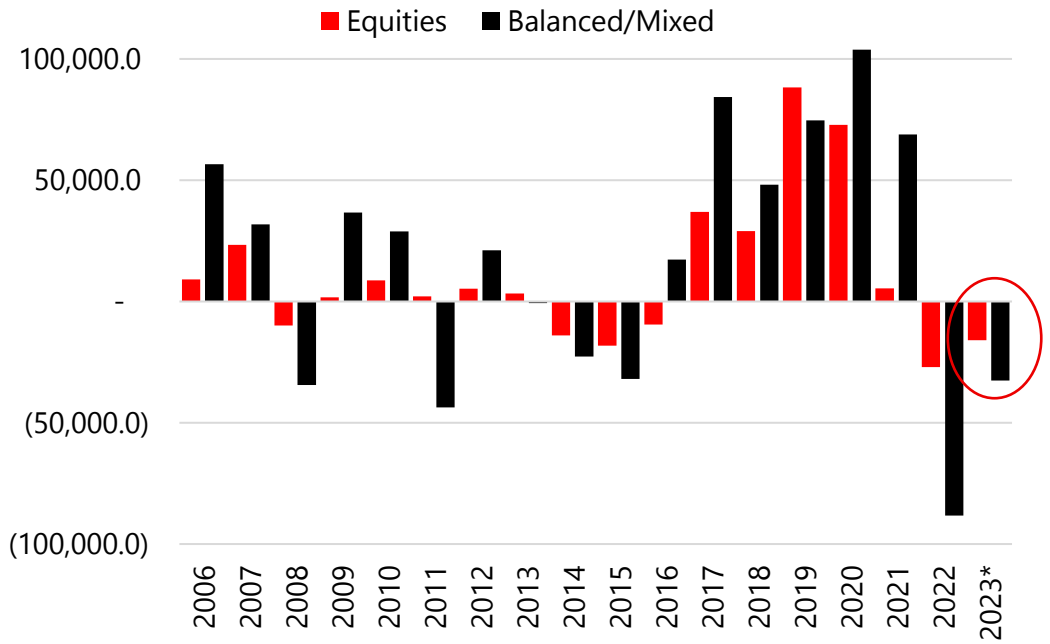
*January

Sources: BCB, Anbima, Santander.

Net Inflows of Investment Funds

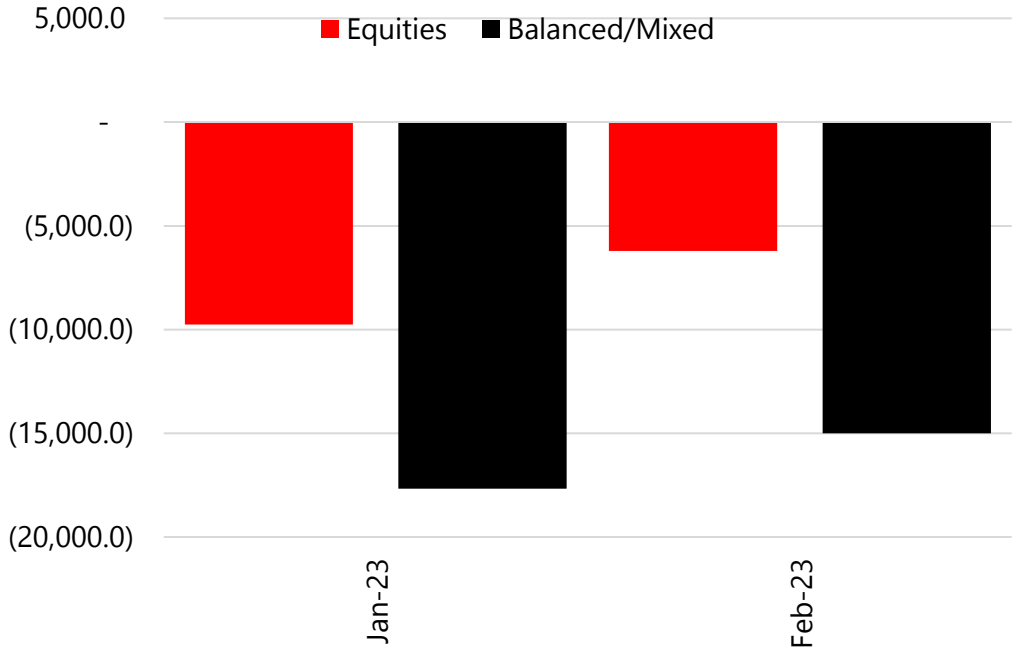
- With the expectation that interest rates will remain high for some time, the attractiveness of fixed-income funds should remain

Net Inflows (BRL millions)



Fontes:: Anbima, Santander.

Net Inflows - Zoom (BRL millions)

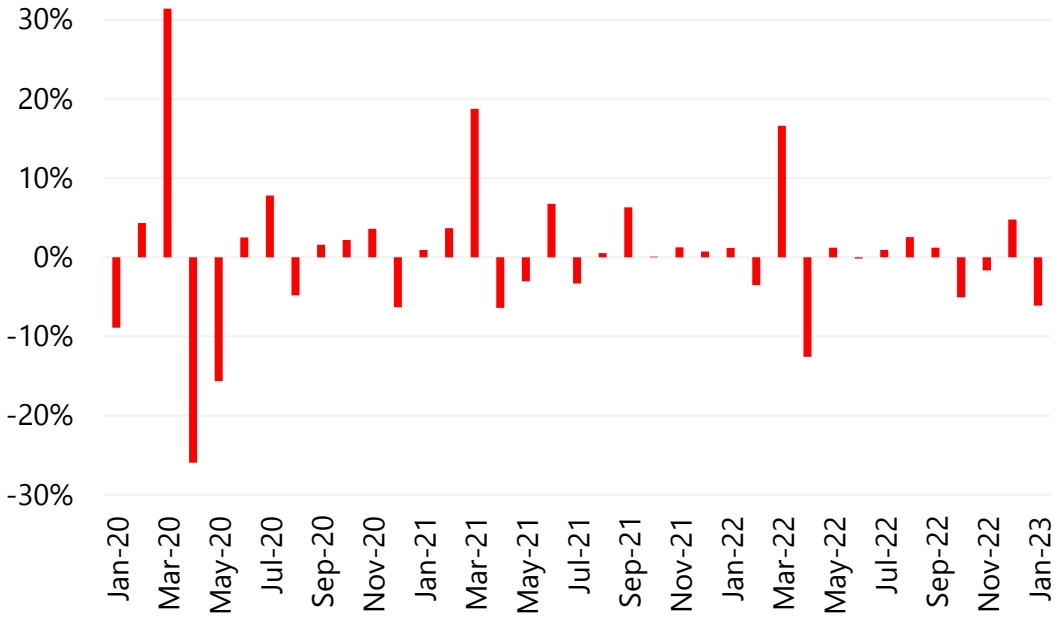


Fontes: Anbima, Santander.

The non-earmarked segmented

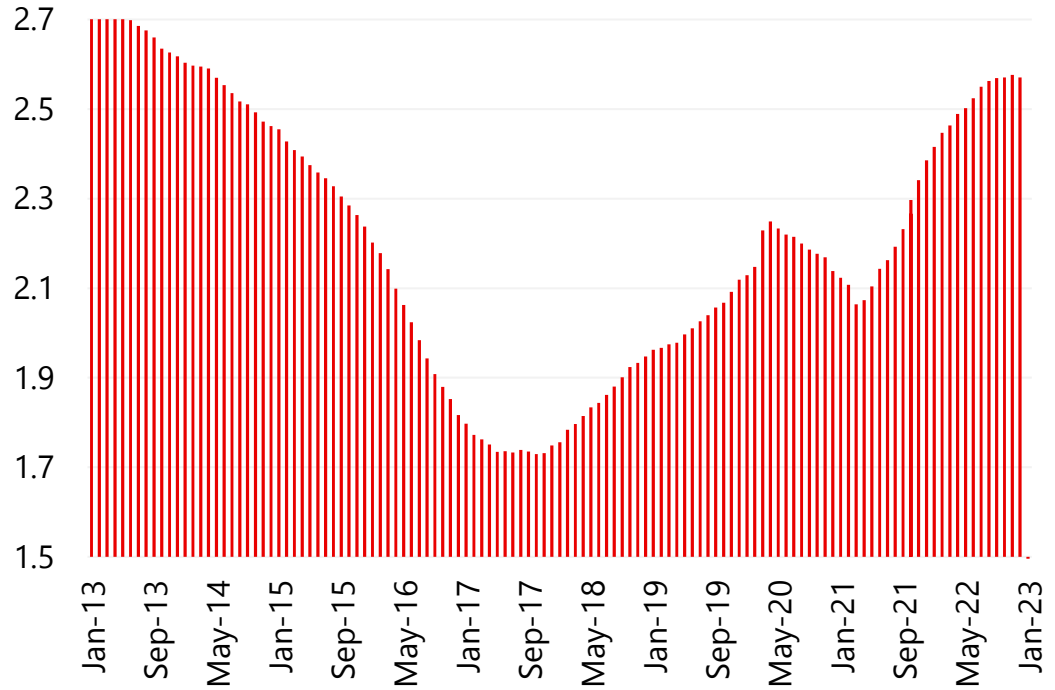
- For companies, there was a decrease of 6.1% MoM-sa in January in the non-earmarked segment.

Non-Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

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

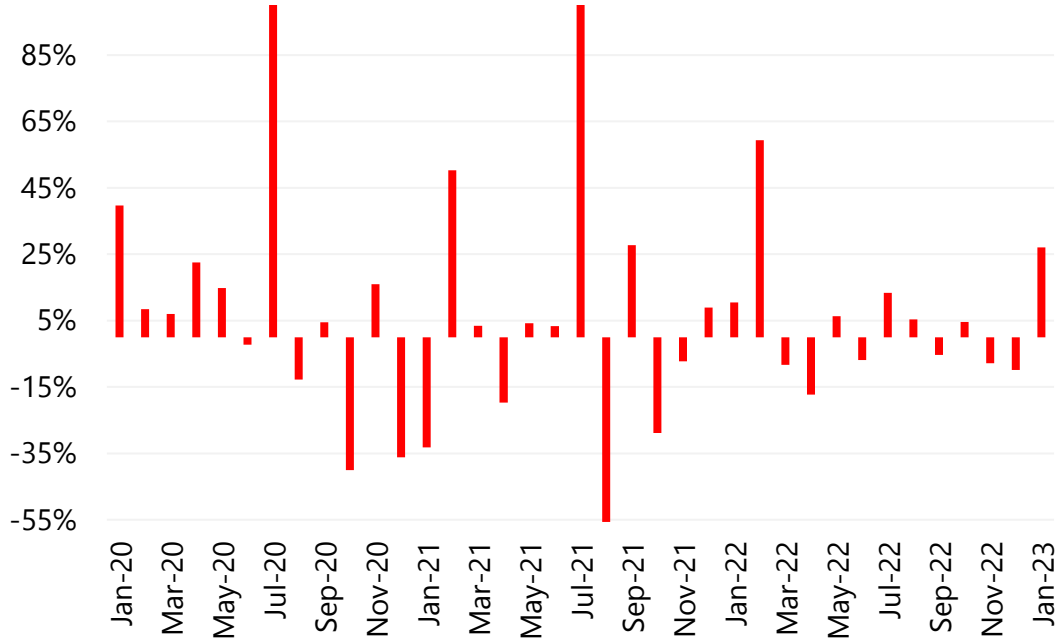


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Mixed signs in the earmarked segmented

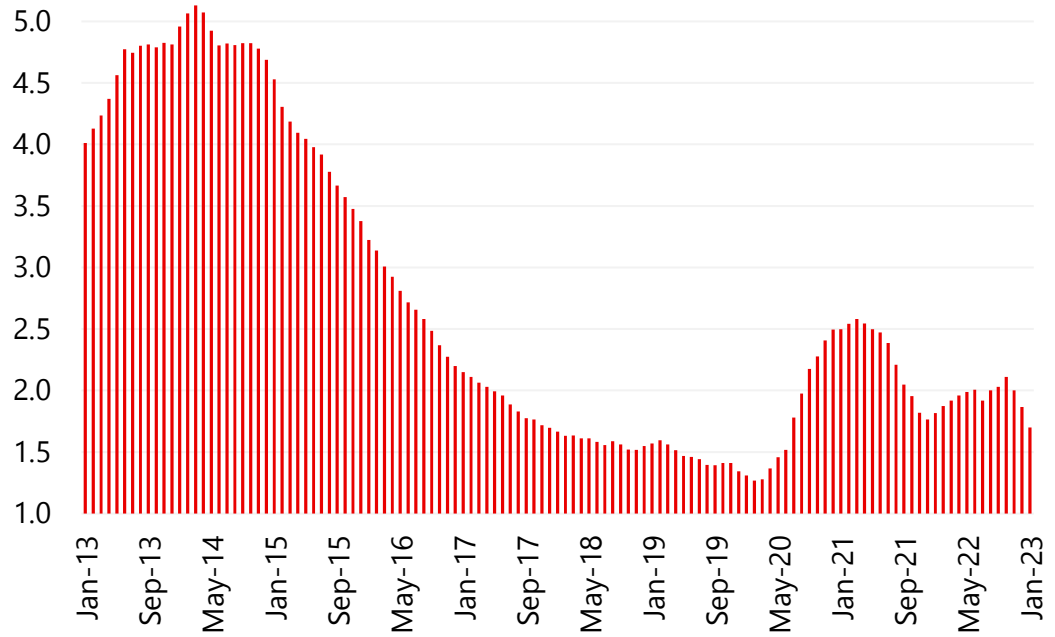
- The earmarked segment posted a strong increase of 27% MoM-sa.
- As YoY, the balance of loans posted the 14th decrease in a row, -1.5% YoY (inflation adjusted).

Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

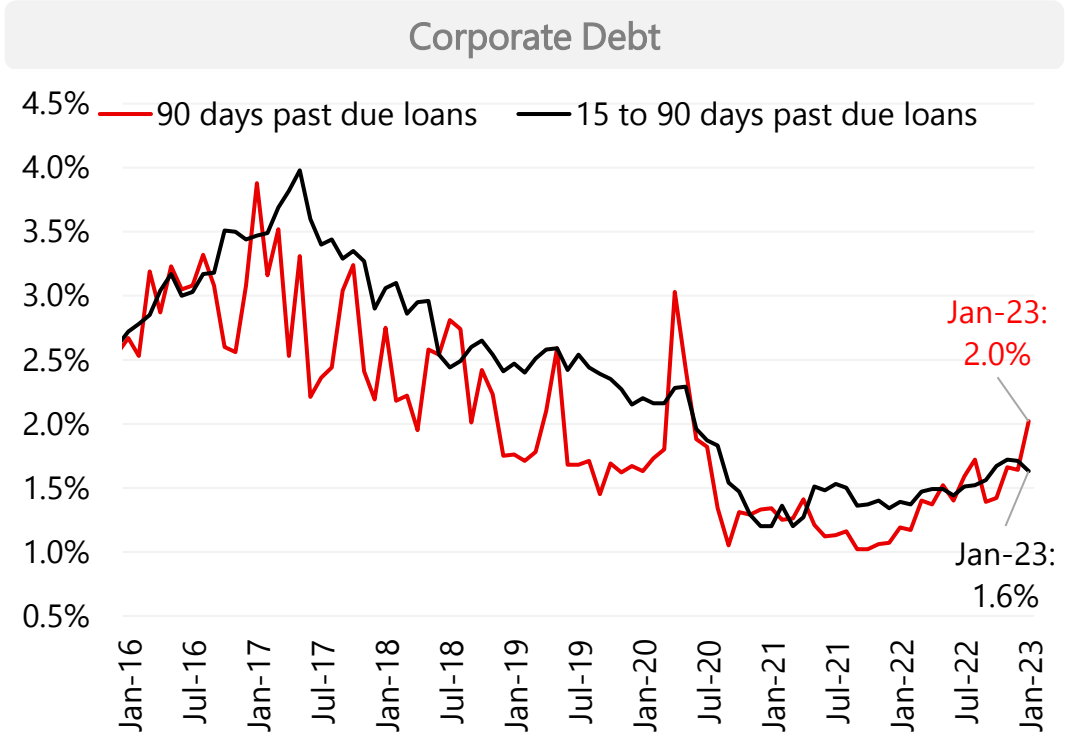
Earmarked - New Loans* (12 months acum.)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- Eyeing arrears to anticipate warning signs

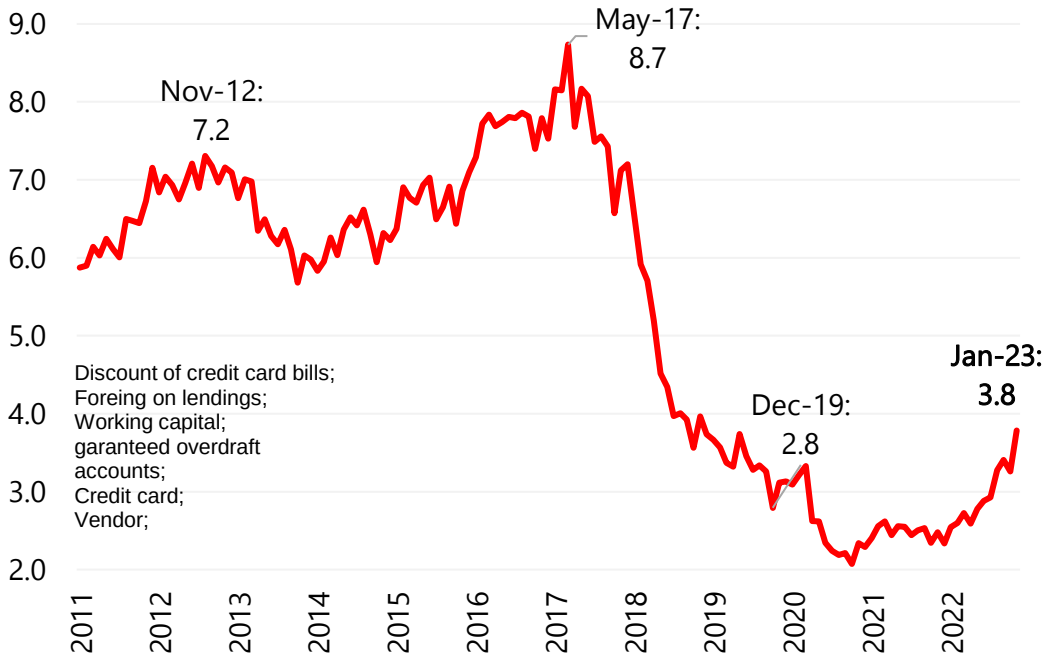


Sources: Brazilian Central Bank, Santander.

Corporate Data with no Warning Signs

- For Corporate, NPL is at a low level of series.
- As for risk level, it is also at a low level of series, both Big and Small companies.

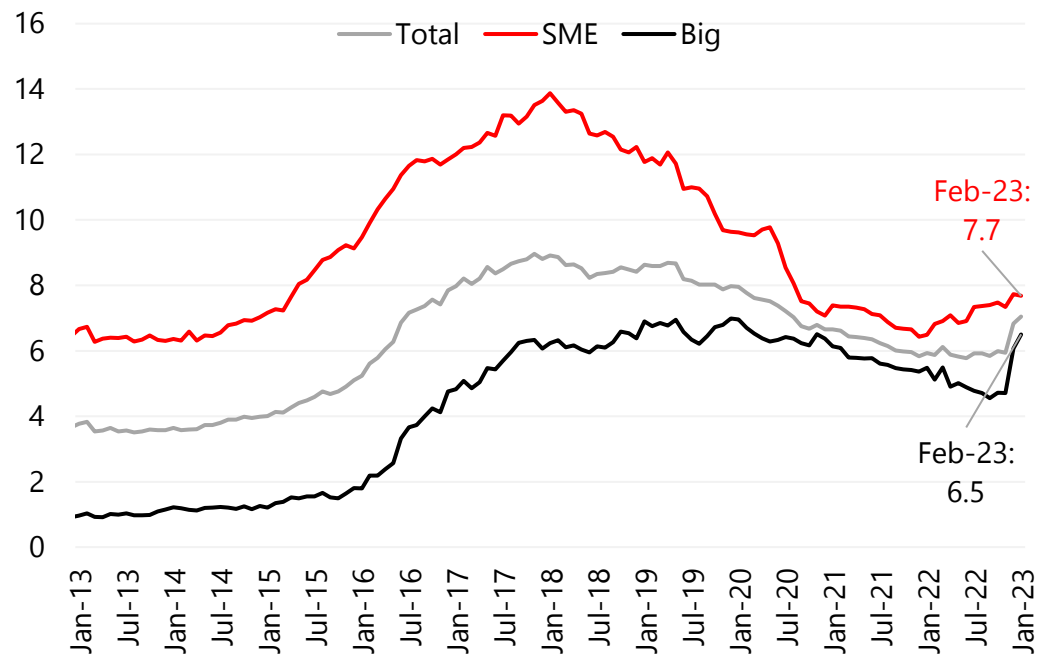
Core* Corporate NPL



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

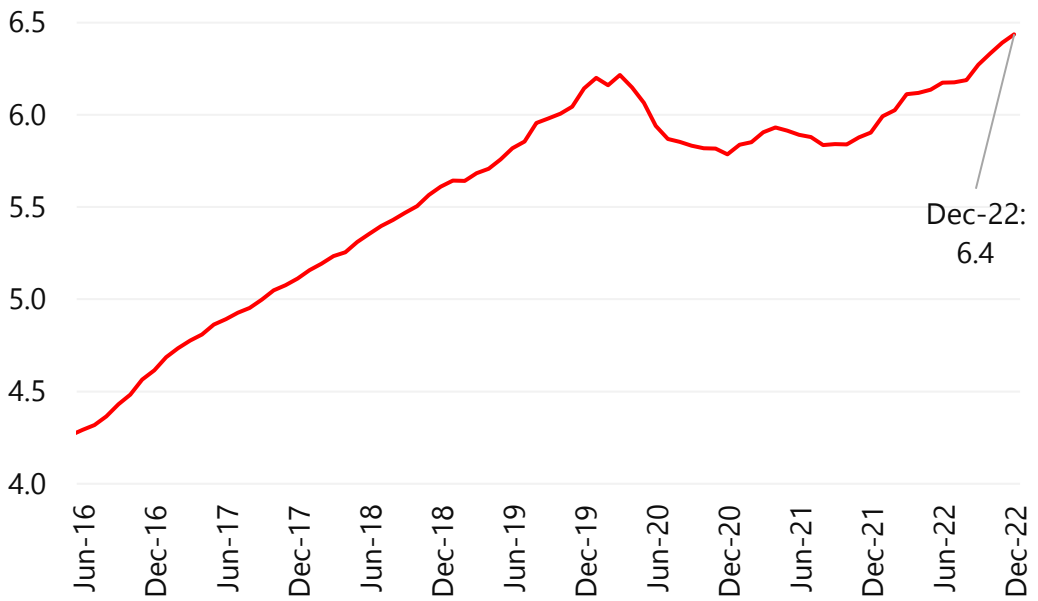


Sources: BCB, Santander.

Corporates defaulting: still not a big problem

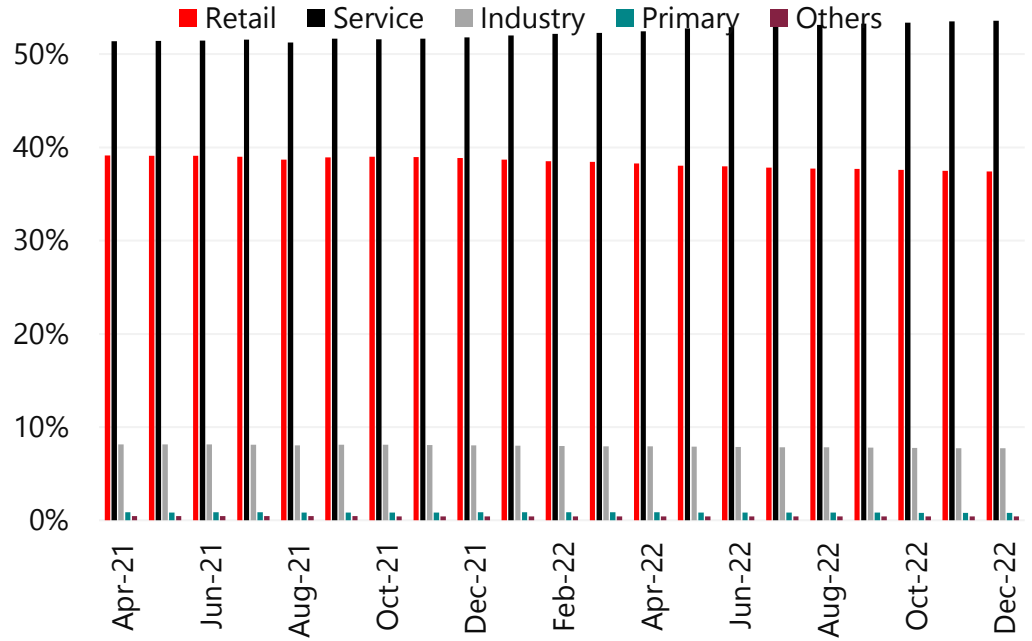
- The number of defaulting companies reached 6.4 million in December, which is the peak of the series, (2021: 5.8-5.9 million).
- Retail and Service sectors are the most sectors that have a default

Corporate Defaulting - Million



Sources: Serasa Experian, Santander.

Total Default – By Sector



Sources: Serasa Experian, Santander.

Forecasts

04

Credit: Our forecasts for outstanding loans & delinquency

Nominal Credit Outstanding (%YoY)	2019	2020	2021	2022	2023e	2024e
Total	**6.4%**	**15.6%**	**16.3%**	**14.0%**	**5.4%**	**10.5%**
Household	11.9%	11.1%	21.0%	17.7%	8.0%	10.8%
Non-fin. Corp.	-0.3%	21.8%	10.5%	9.0%	1.8%	10.0%
Nonearmarked	**13.9%**	**15.4%**	**20.4%**	**14.1%**	**4.5%**	**11.4%**
Household	16.5%	10.7%	23.0%	17.4%	8.3%	11.7%
Non-fin. Corp.	10.8%	21.2%	17.4%	10.1%	-0.3%	10.9%
Earmarked	**-2.4%**	**15.9%**	**10.9%**	**14.0%**	**6.8%**	**9.2%**
Household	6.6%	11.7%	18.5%	18.0%	7.6%	9.6%
Non-fin. Corp.	-14.0%	22.8%	-0.3%	6.9%	5.3%	8.4%

Credit Conditions	2018	2019	2020	2021	2022	2023e	2024e
Non-performing loans (Non-Earmarked)	**3.9**	**3.7**	**2.9**	***3.1***	***4.2***	***4.9***	***4.6***
Household	4.8	5.0	4.2	*4.4*	*5.9*	*6.3*	*5.9*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*2.1*	*2.9*	*2.8*
Household Indebtedness	**39.0**	**41.5**	**41.6**	***49.7***	***49.5***	***53.9***	***55.3***
Household debt service ratio	**23.0**	**23.0**	**22.1**	***26.1***	***27.7***	***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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