



Brazil Macro | November 2021

Credit

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

INDEX

1. Brief Overview

2. Household

3. Corporate

BRIEF OVERVIEW

01

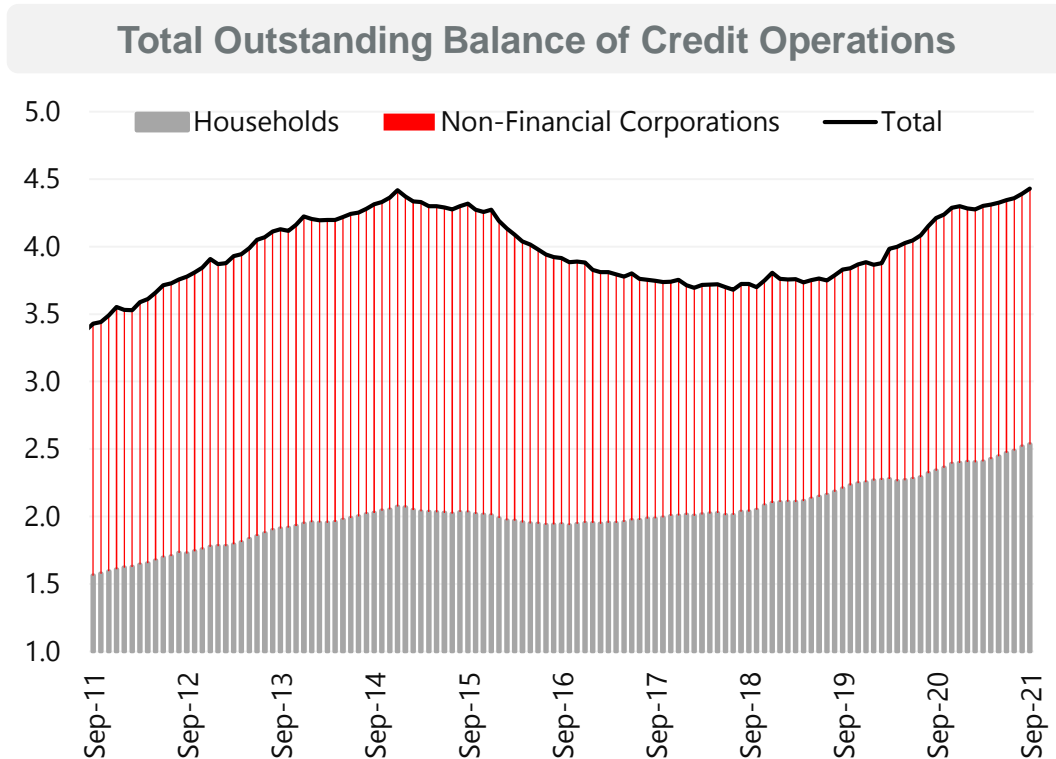
SUMMARY

- **We are revising our projections for total outstanding loan growth from 13.6% to 9.7% in 2021 and from 9.3% to 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 in the medium term.**
- For households, the non-earmarked segment posted an increase of 0.5% MoM-sa in September. In the earmarked segment, rural credit and real estate financing decreased (-9.1 and -6.4%, respectively).
- For companies, there was an increase of 5.1% MoM-sa in September in the non-earmarked segment. The earmarked segment registered a significant increase of 7.2% MoM-sa after the last month fall (-48.6%). This result is mainly driven by Others (+122.8%).
- Considering total corporate financing so far this year, through September vs. the year-ago period, issuances in the capital markets are 58.5% higher, while (SFN) concessions are now up 4.5%. As a result, total corporate financing is up 12% compared to the year-ago period.

For details on Santander's economic forecast for Brazil, please refer to our last scenario review: "Losing the Anchor" – November 05, 2021 – Available on: <https://bit.ly/Std-scenreview-redux-nov21>

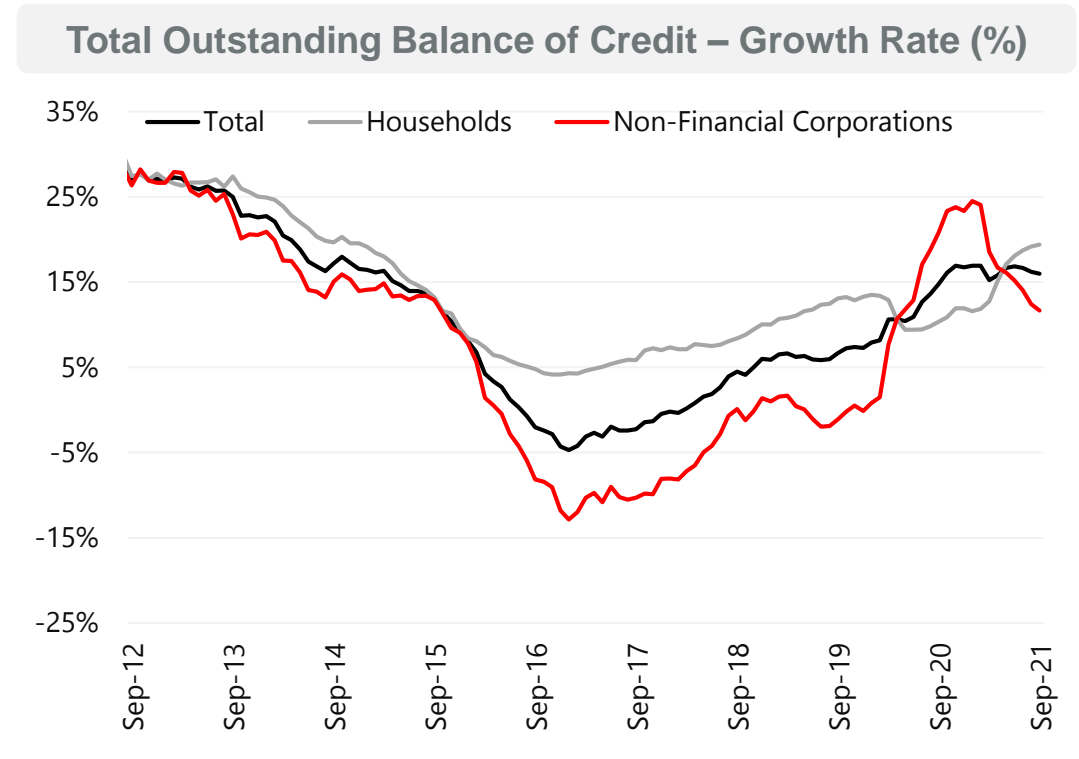
Credit market still strong

- Total outstanding loans posted inflation-adjusted growth of 5.2% YoY to BRL4.4 trillion
- The growth rate of total outstanding loans declined from 16.2% to 16%



Sources: Brazilian Central Bank, Santander.

* BRL billion, inf. adj, seasonally adj.



Sources: Brazilian Central Bank, Santander.

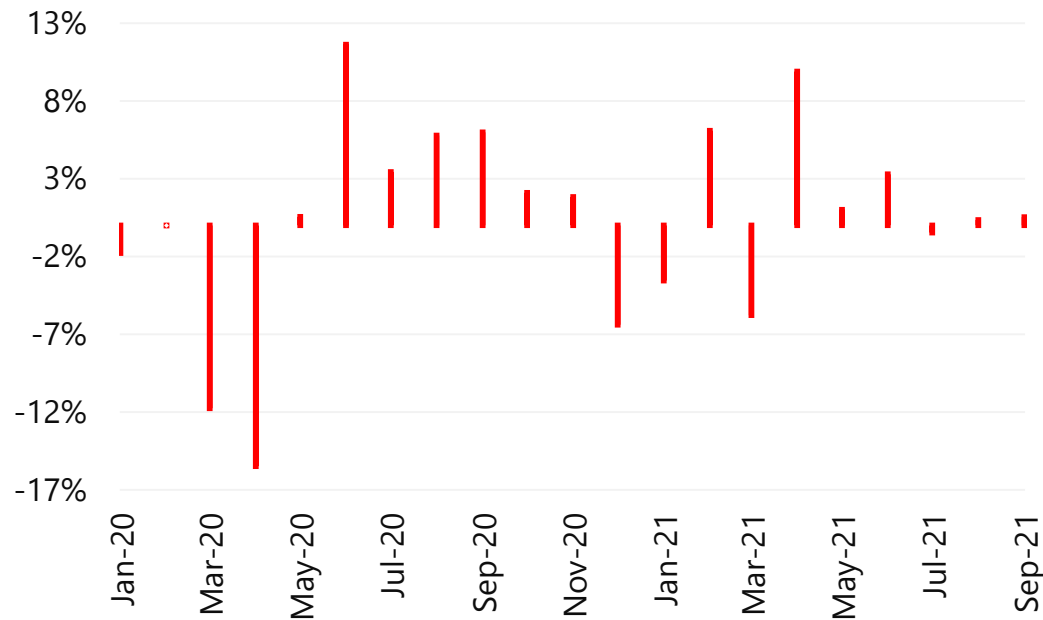
HOUSEHOLD

02

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

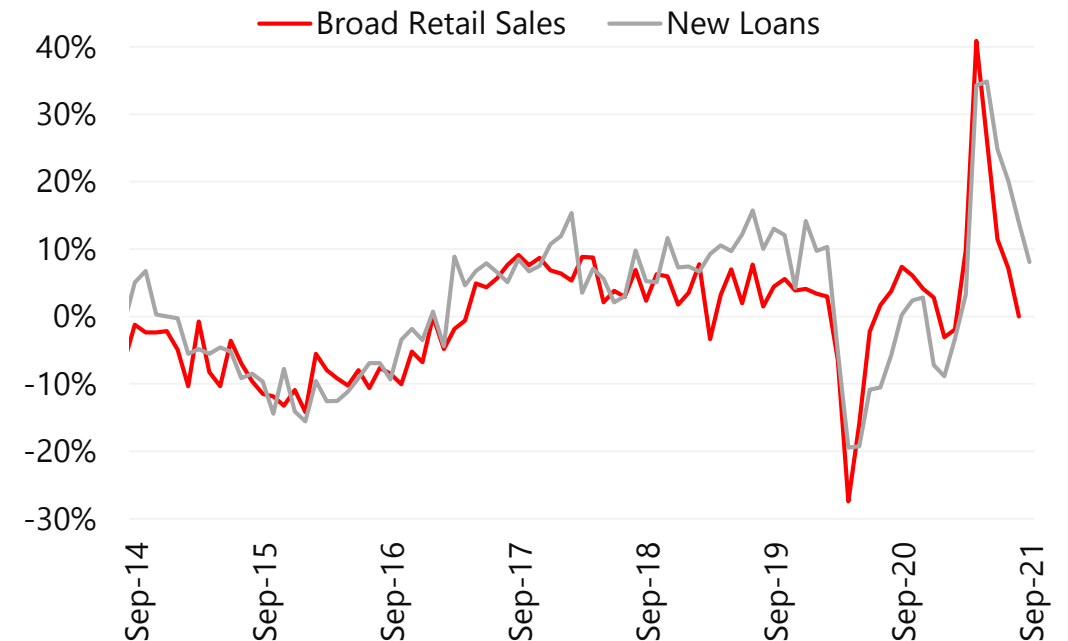
- For households, the non-earmarked segment posted a small increase of 0.5% MoM-sa.
- This result is mainly driven by credit card and vehicle purchases.

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY New loans Household Non-Earmarked YoY

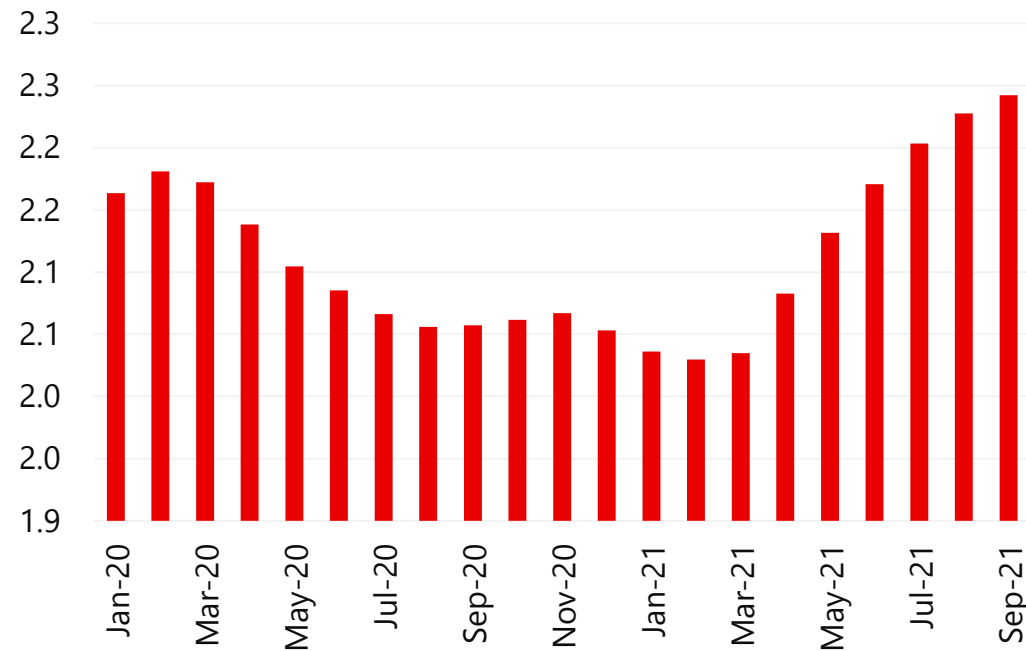


Sources: Brazilian Central Bank, Santander.

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

- The average of new loans grew 12.7% until September-21, compared to the same period in 2020.
- Interest rate are lower than pre-pandemic levels.

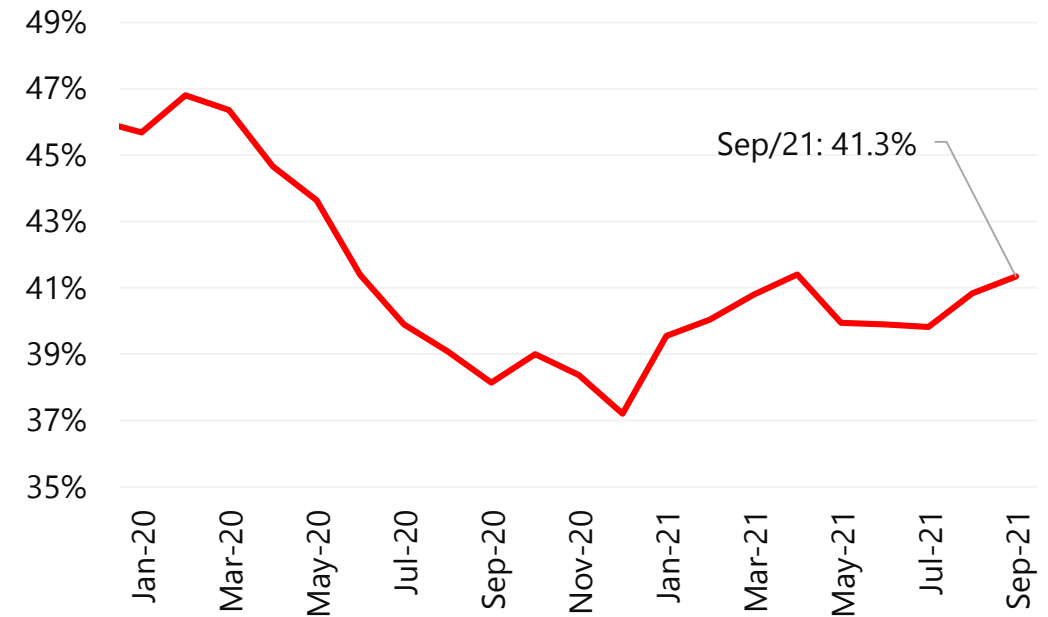
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

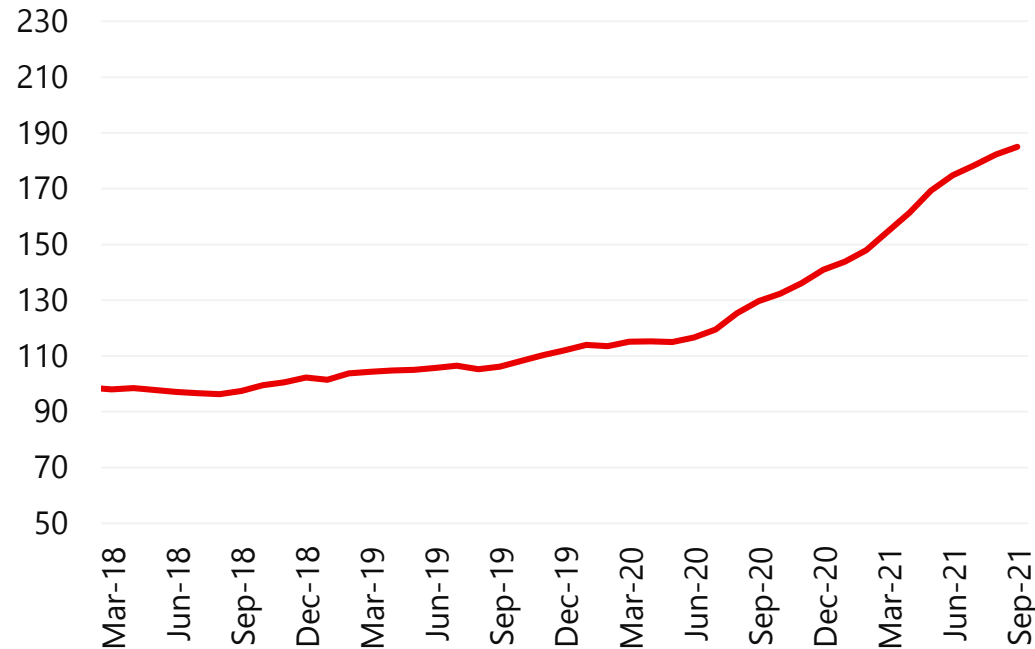


Sources: Brazilian Central Bank, Santander.

Earmarked segment: Heated demand for Real Estate and Rural credits

- Real Estate Financing remains high (25% YoY), reflecting favorable financial conditions, though decelerating at the margin.
- Rural Credit stood out, as 12 months accumulated YoY is 43%.

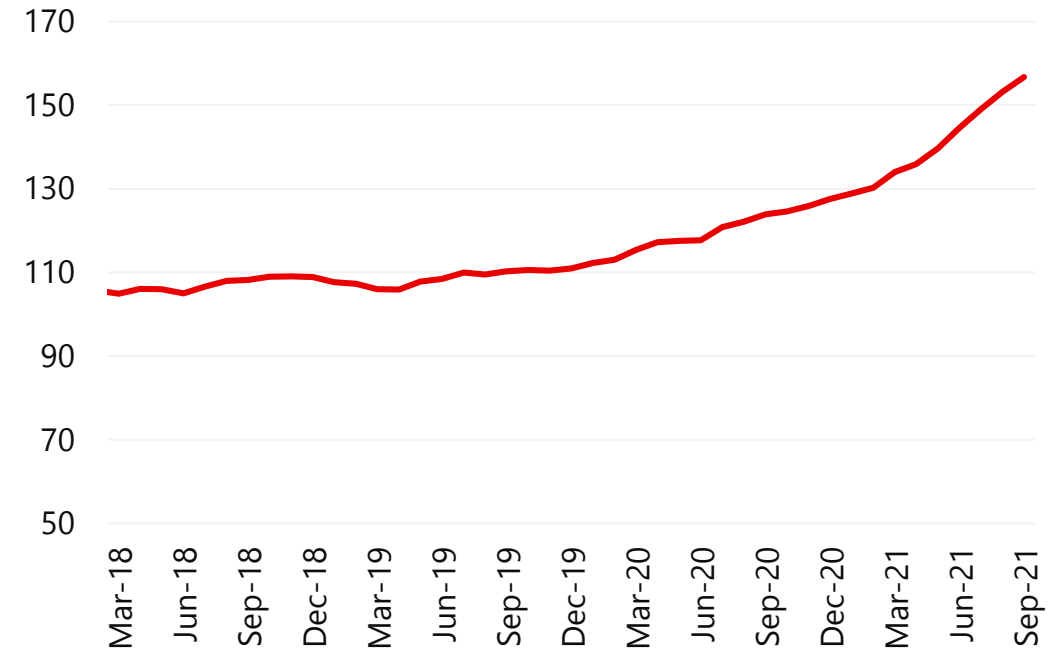
New Operations – Earmaked - Real Estate Financing* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

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



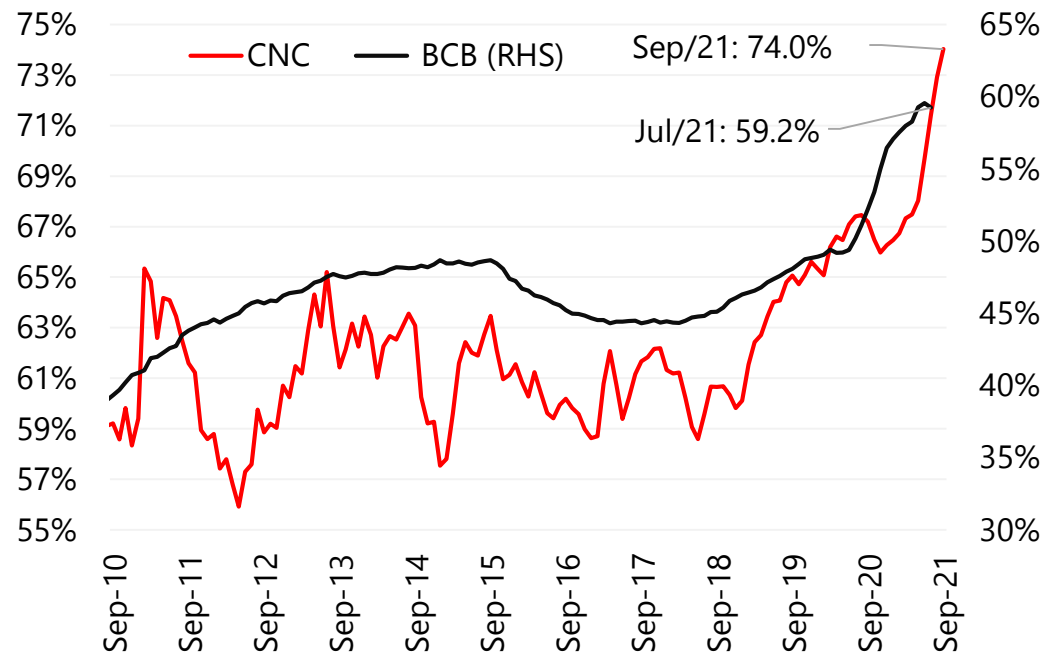
Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation. adj.

Families Indebtedness is the main (big) problem

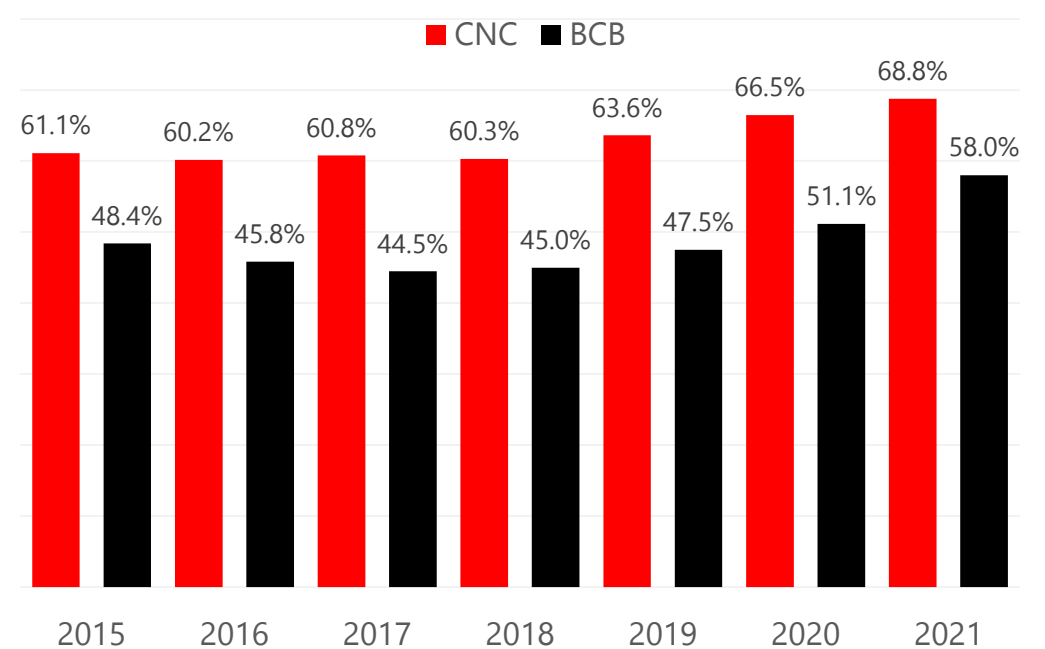
- Household indebtedness keep rising fast since the pandemic onset. The situation is getting worse due to the credit operations increasing and the household income stagnation.

Extended household Indebtedness (%)



Sources: Brazilian Central Bank, CNC, Santander.

Extended household Indebtedness (annual avg %)

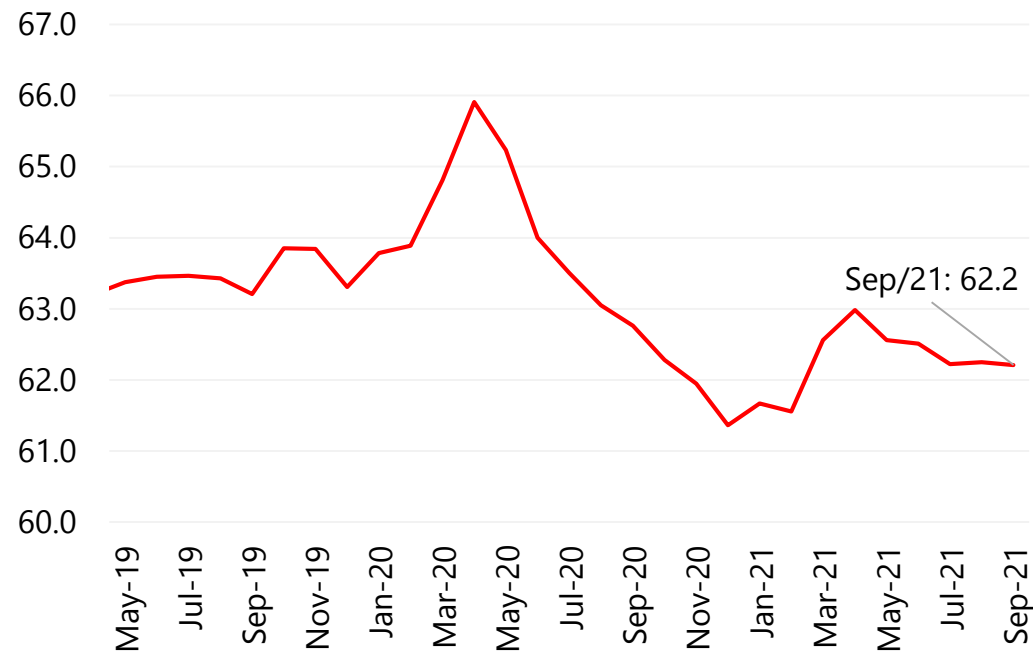


Sources: Brazilian Central Bank, CNC, Santander.

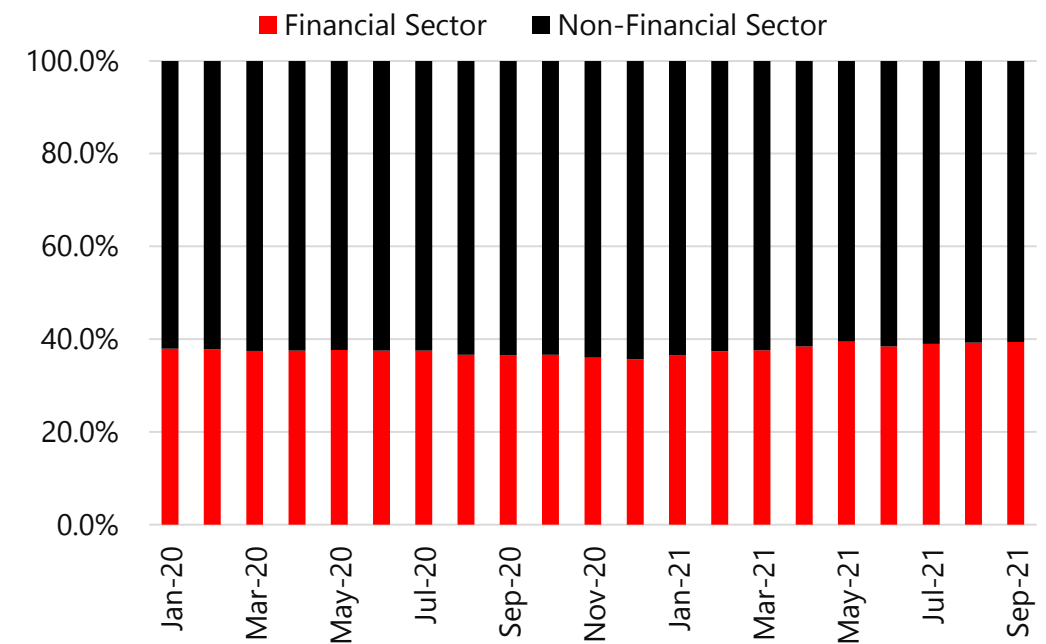
Families Indebtednes: better than the pre-pandemic level

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

Household Defaulting - Millions



Total Default – By Sector

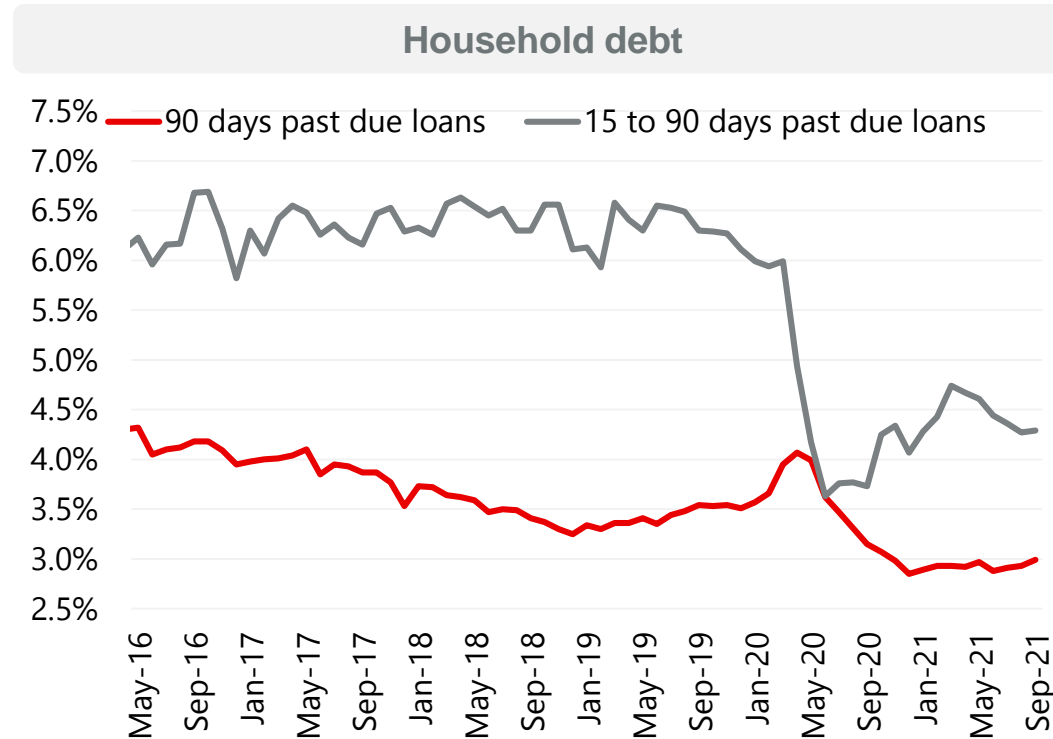


Sources: Serasa Experian, Santander.

Sources: Serasa Experian, Santander.

Families Indebtednes: An upward trajectory for arrears

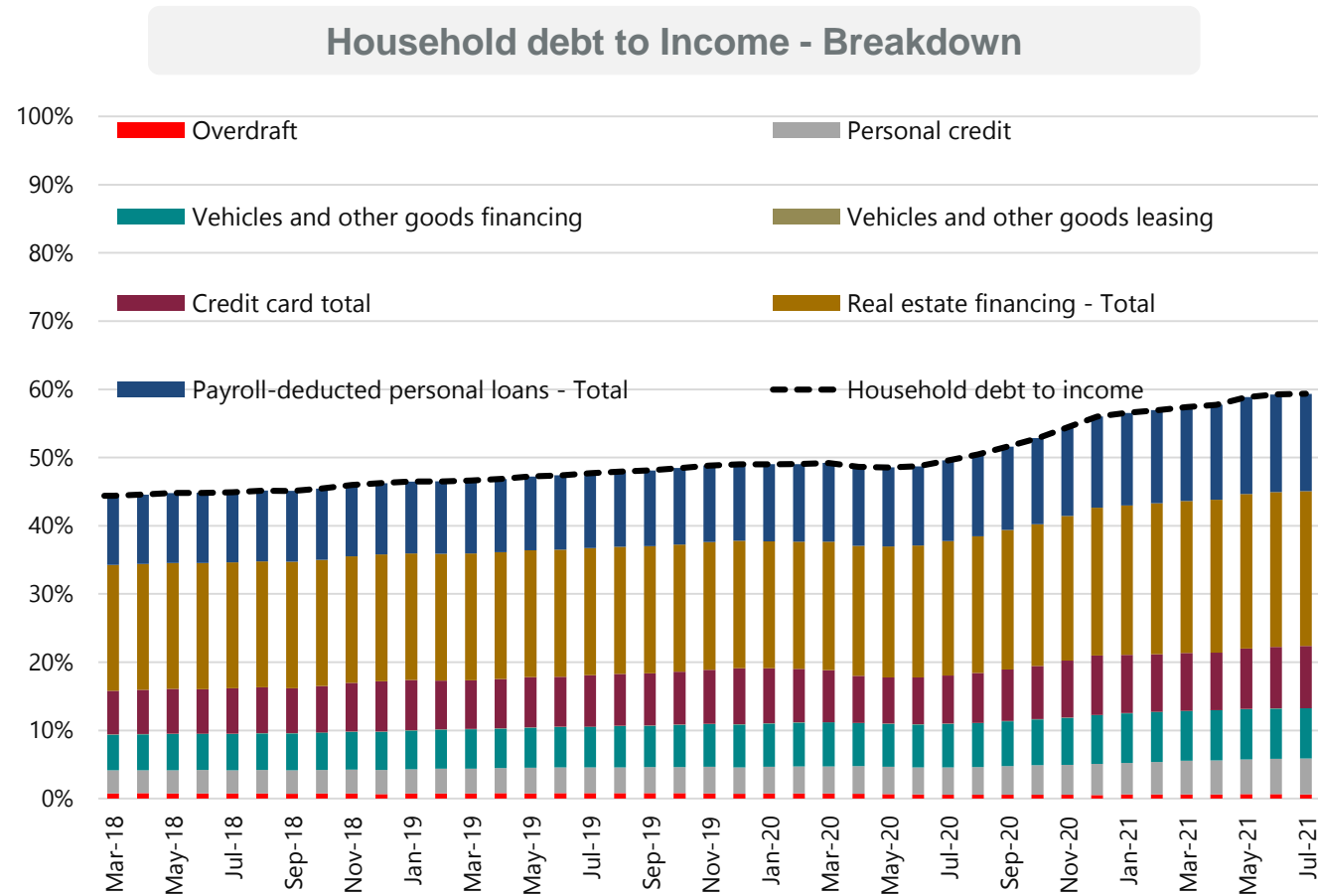
- The arrears is starting to give warning signs.
- However, the delinquent loans is still low.



Sources: Brazilian Central Bank, Santander.

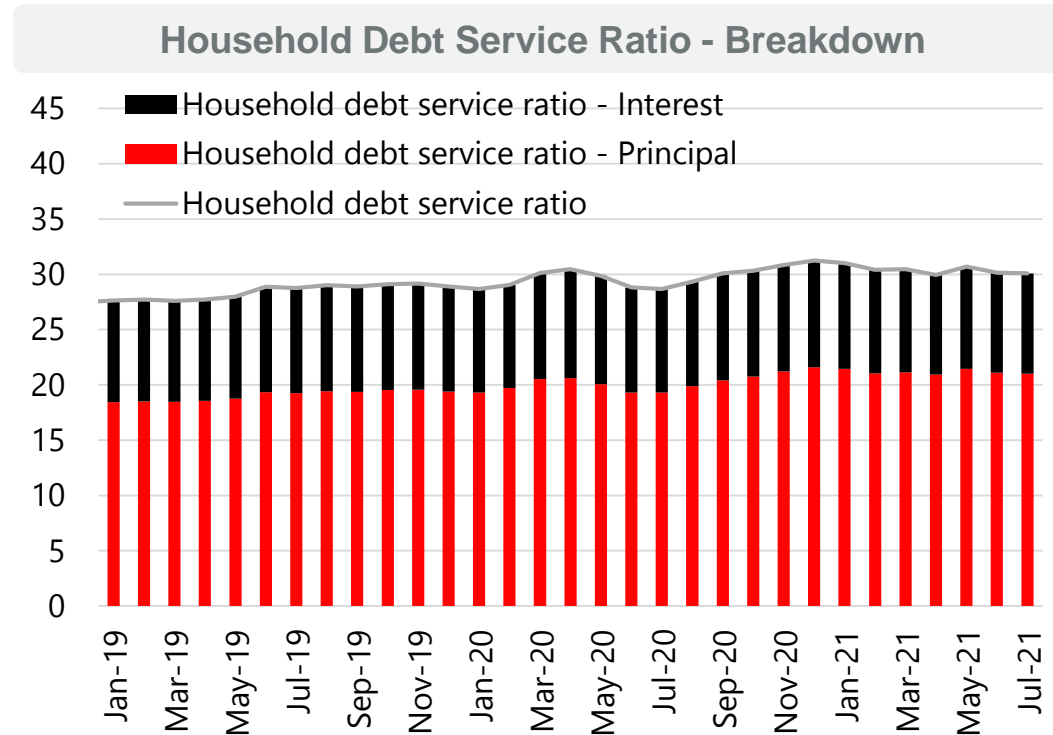
Families Indebtednes - Breakdown

- 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

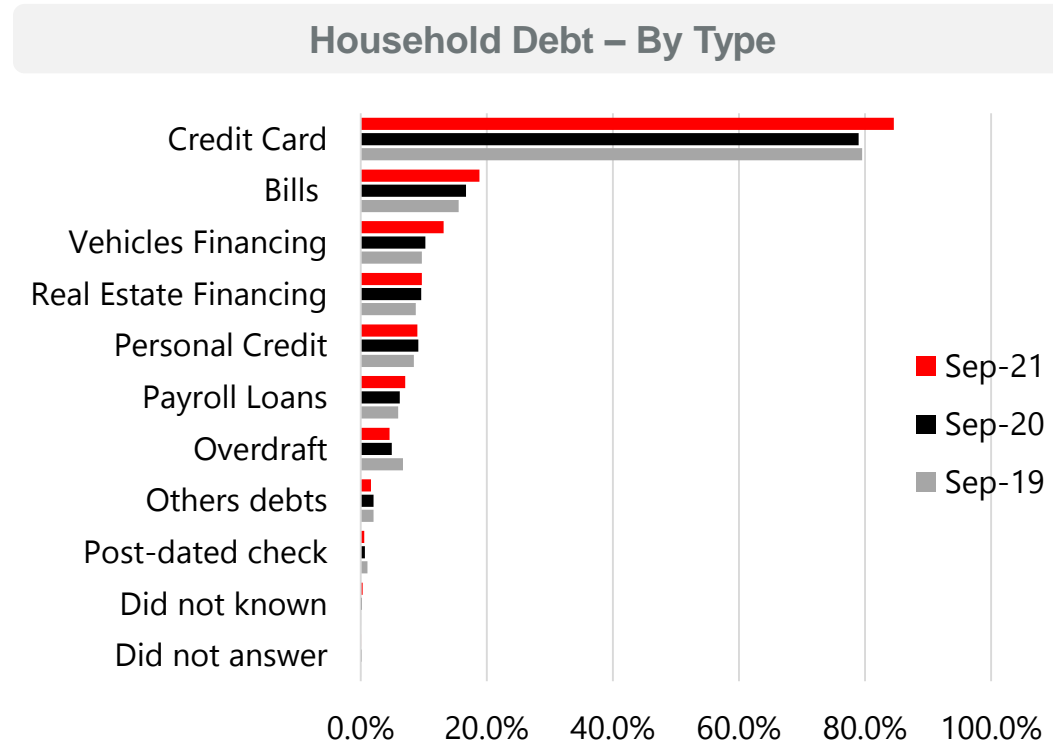
- Household debt to income ratio reached its peak in June/21 at 59.55%, since the beginning of the series in Jan/10.
- Household debt service ratio is higher than pre-pandemic levels



Sources: Brazilian Central Bank, Santander.

Families Indebtednes – By Type

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

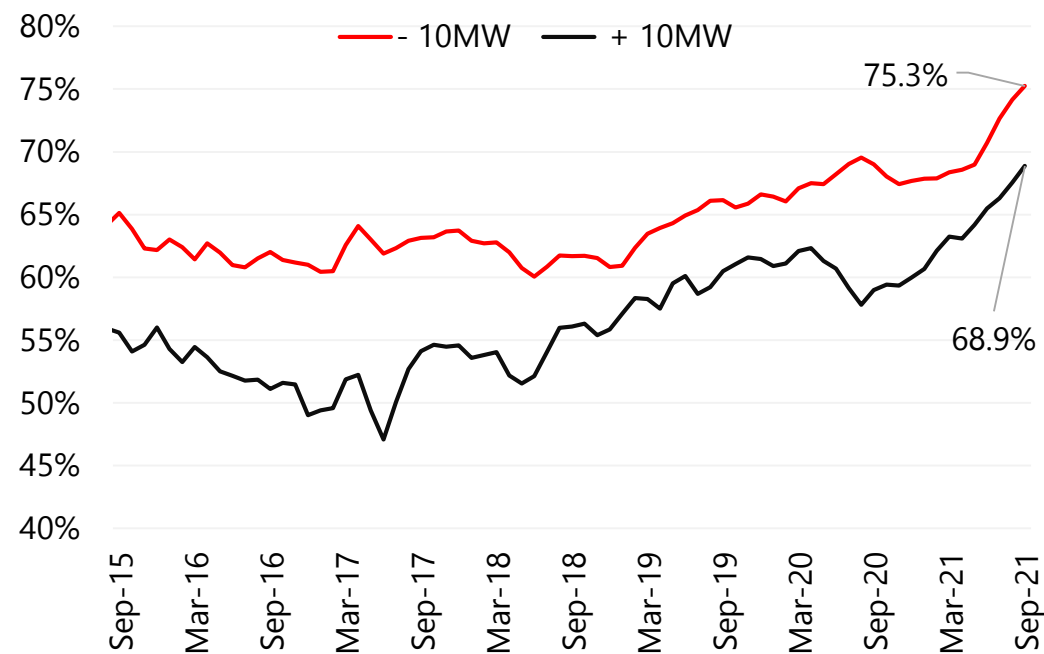


Sources: CNC, Santander.

Families Indebtednes – by Income

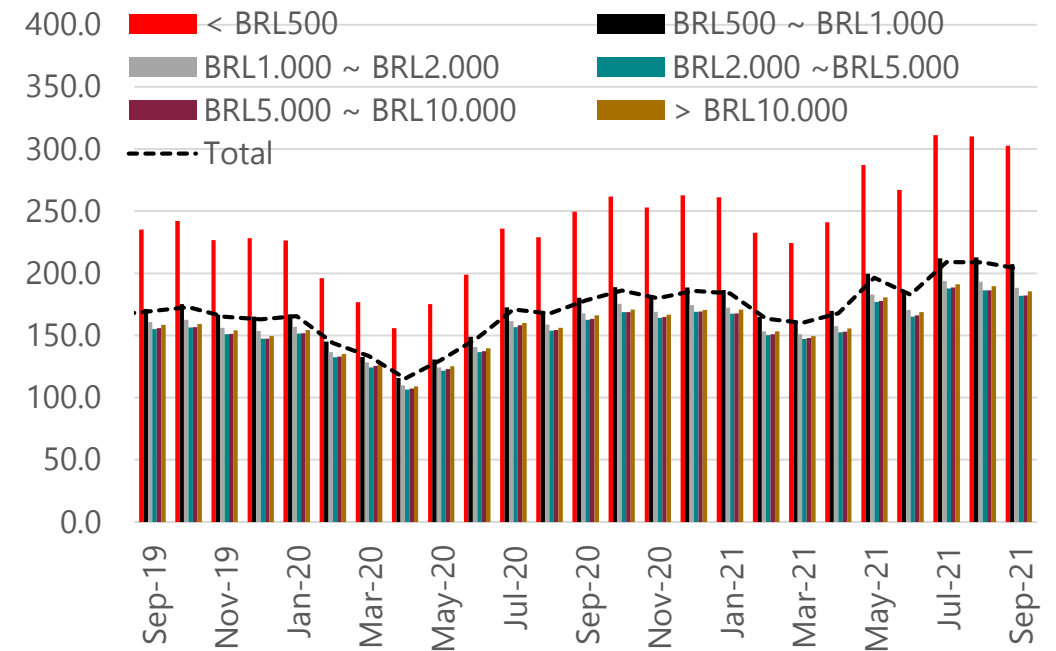
- Naturally, the poorest families have suffered the most.
- They are the ones who have the most debt and also who demand the most credit.

Family's indebtedness – By Income



Sources: CNC, Santander.

Household demand for Credit – By Monthly Income Class

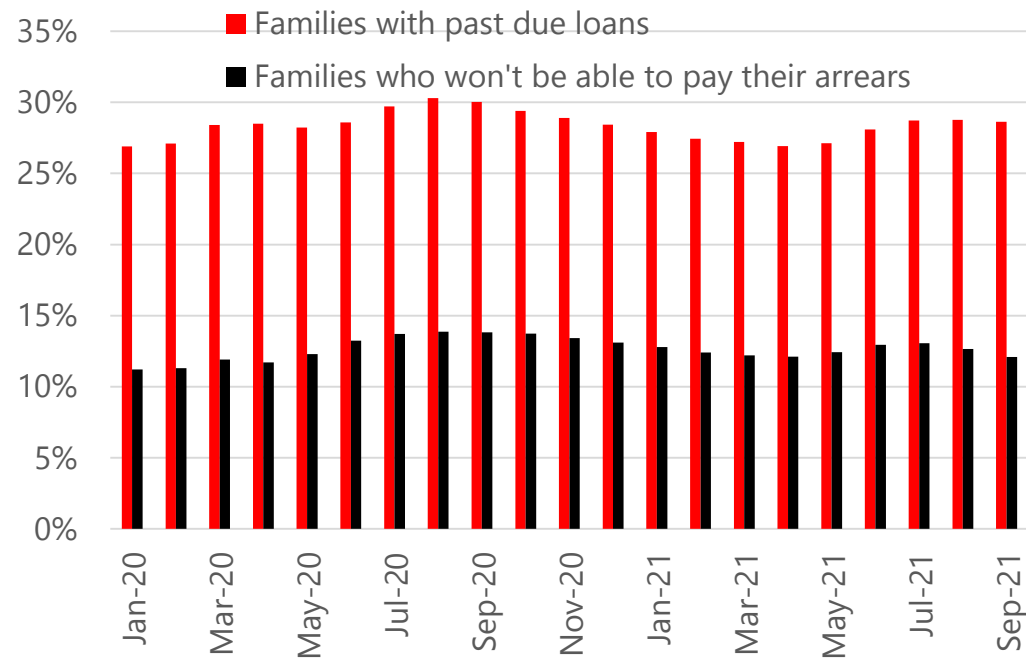


Sources: Serasa Experiean, Santander.

Families Indebtednes – by Income

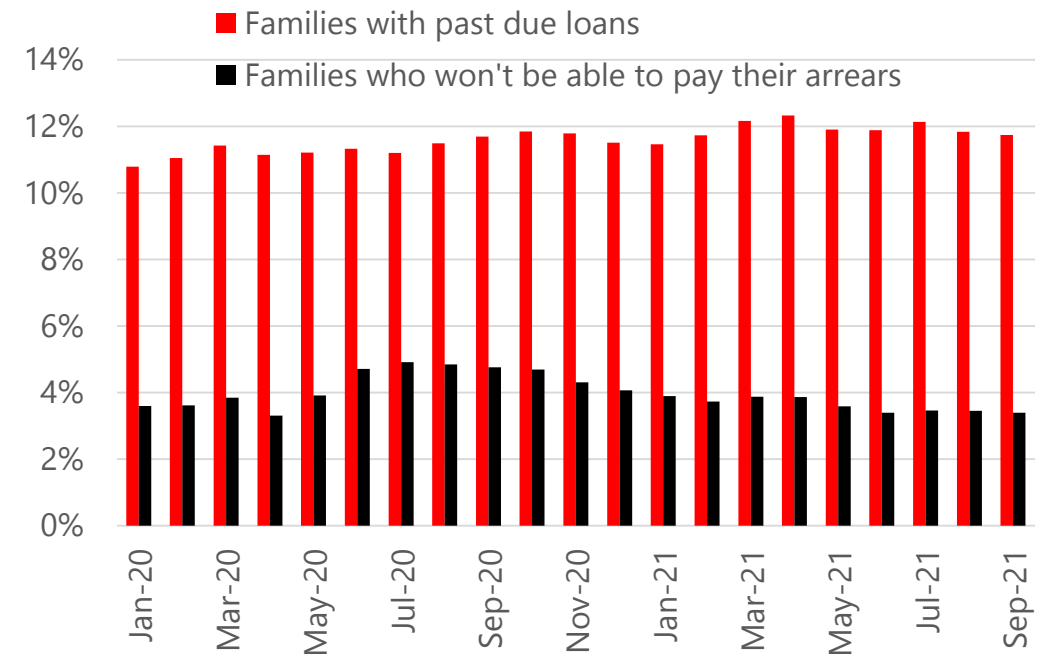
- For both types of families, delinquency has remained at the same level (with a variation of 2 p.p).

Families who earn less than 10 minimal wage



Sources: CNC, Santander.

Families who earn more than 10 minimal wage

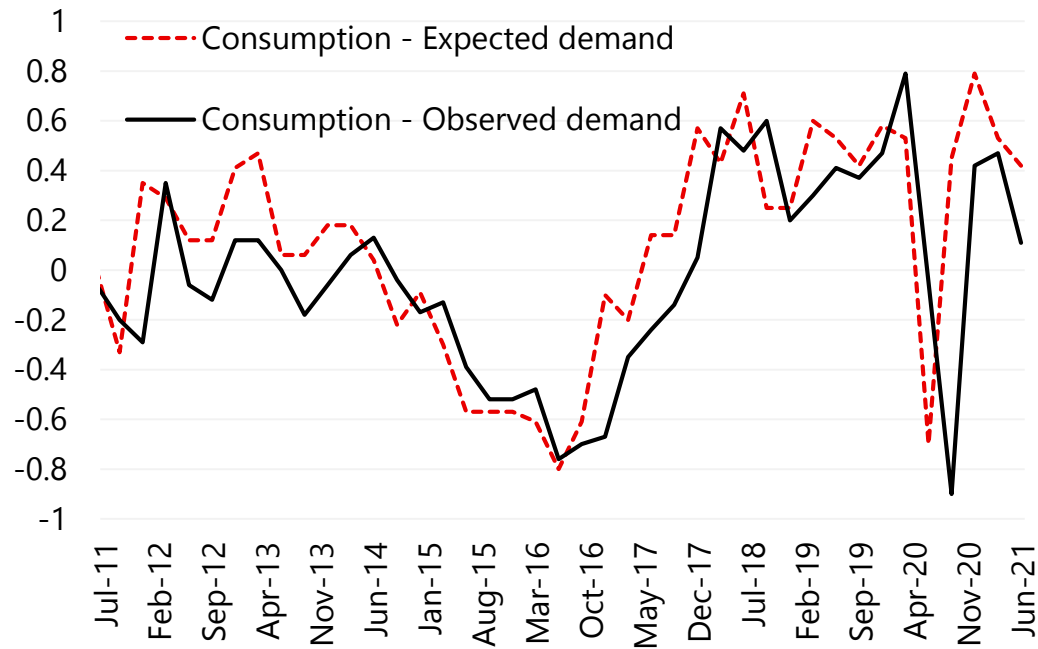


Sources: CNC, Santander.

Credit Survey

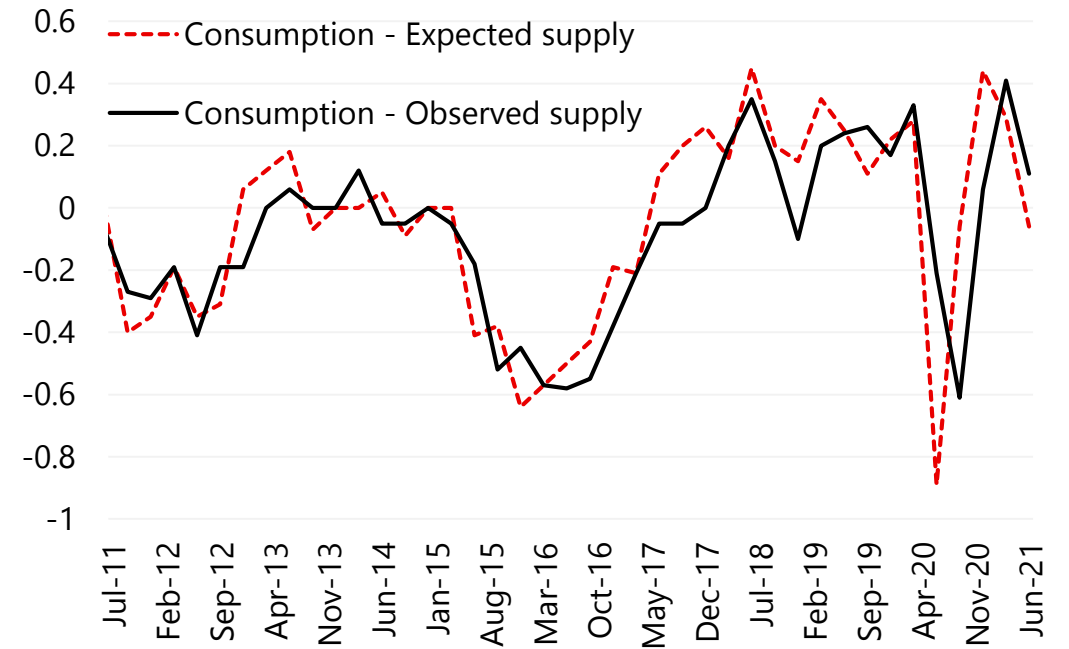
- Based on a quarterly survey, demand indicators expected for the following quarter are well in line with indicators observed

Quarterly Credit Conditions Survey – Demand Indicators



Sources: Brazilian Central Bank, Santander.

Quarterly Credit Consumer Survey – Supply Indicator



Sources: Brazilian Central Bank, Santander.

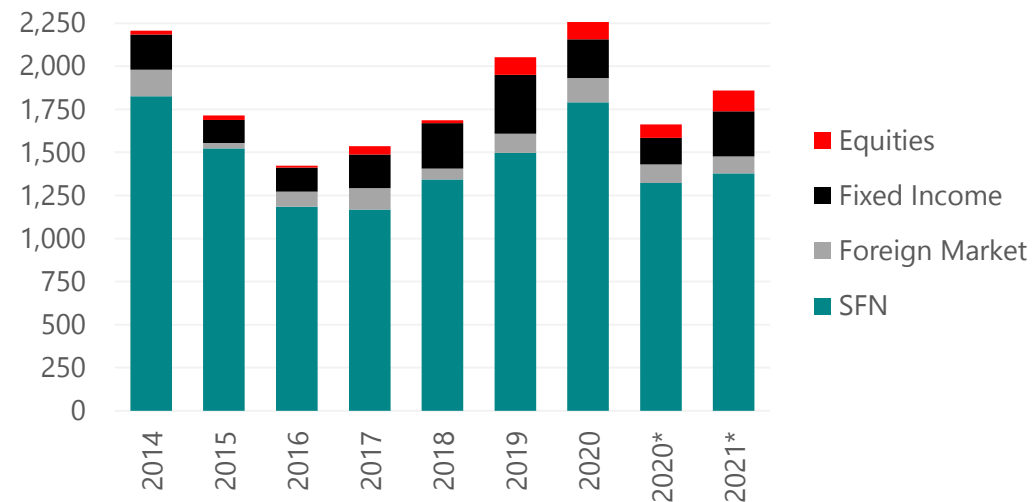
CORPORATE

03

Bank lending above year-ago period

- Considering total corporate financing so far this year, through September vs. the year-ago period, issuances in the capital markets are 65.64% higher, while SFN concessions are now up 4.25%.
- As a result, total corporate financing is up 11.86% compared to the year-ago period.

Total Corporate Financing (BRL billion, Inflation Adjusted)



*January to September.

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.

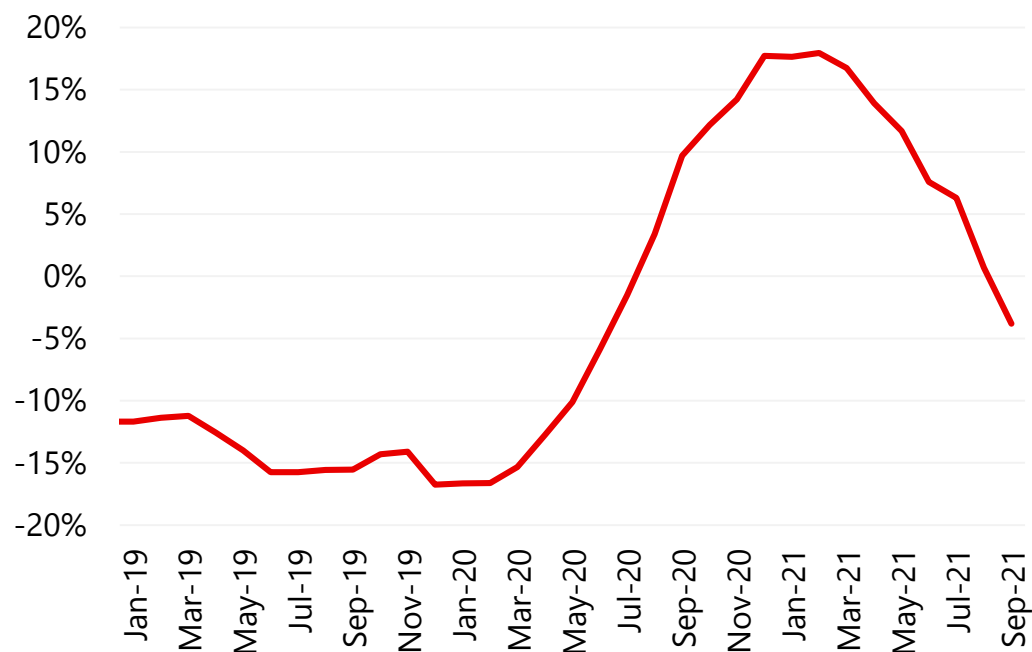
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

First negative variation in Working Capital

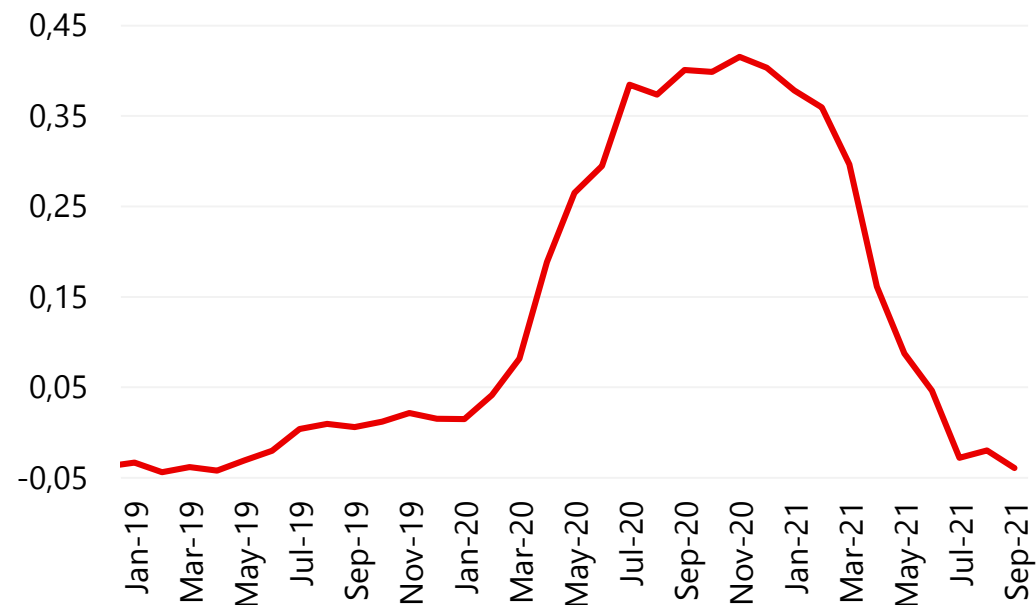
- For companies, growth in balance of non-earmarked loans was lower since the beginning of the year (-3.8% YoY)
- Working Capital presented the third negative variations (-0.4% YoY).

Non-Earmarked – Outstanding Balance* %YoY



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Outstanding Balance – Working Capital* YoY

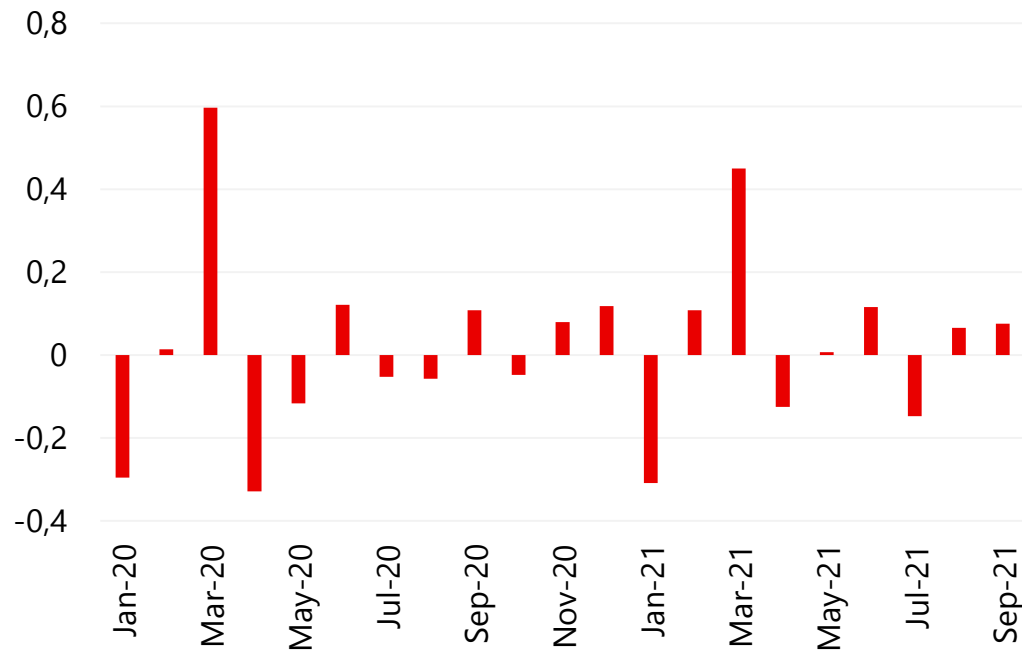


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Increase in the non-earmarked segment

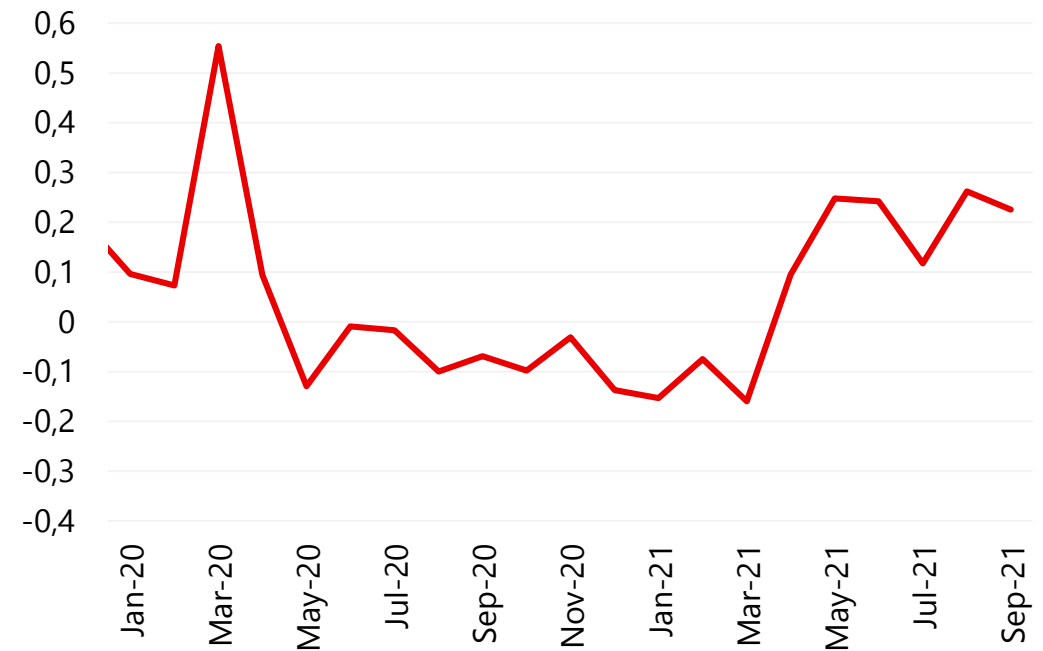
- For companies, there was an increase of 5.1% MoM-sa in September.

Non-Earmarked - New Loans* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Non-Earmarked - New Loans* YoY

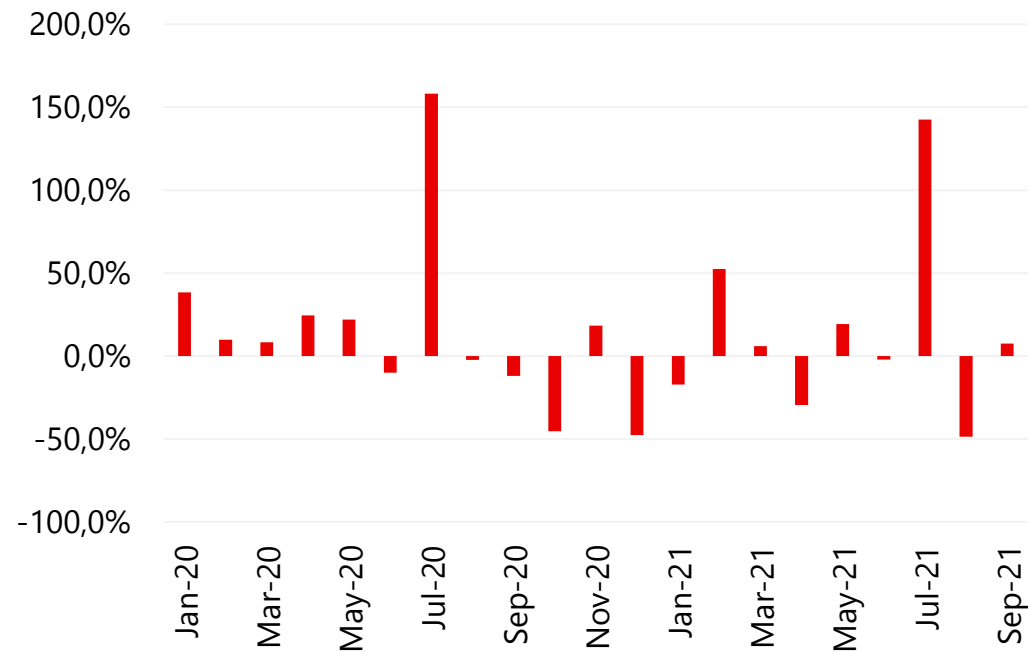


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

An increase in the earmarked segment

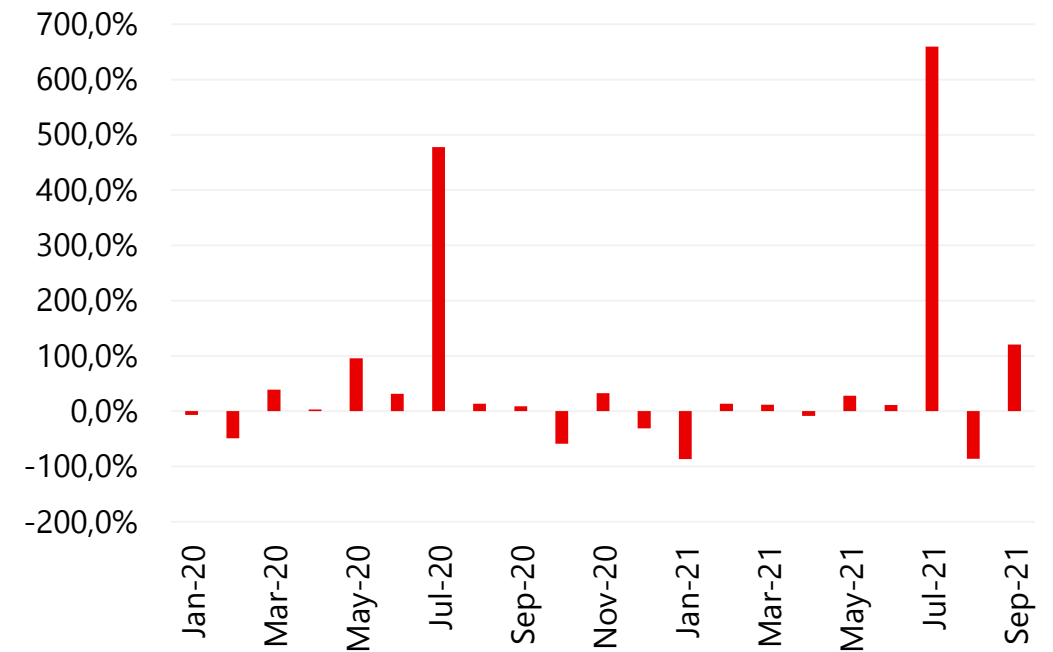
- The earmarked segment registered a significant increase of 7.2% MoM-sa after the last month fall (-48.6%).
- This result is mainly driven by Others (+122.8%).

Earmarked - New Loans* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

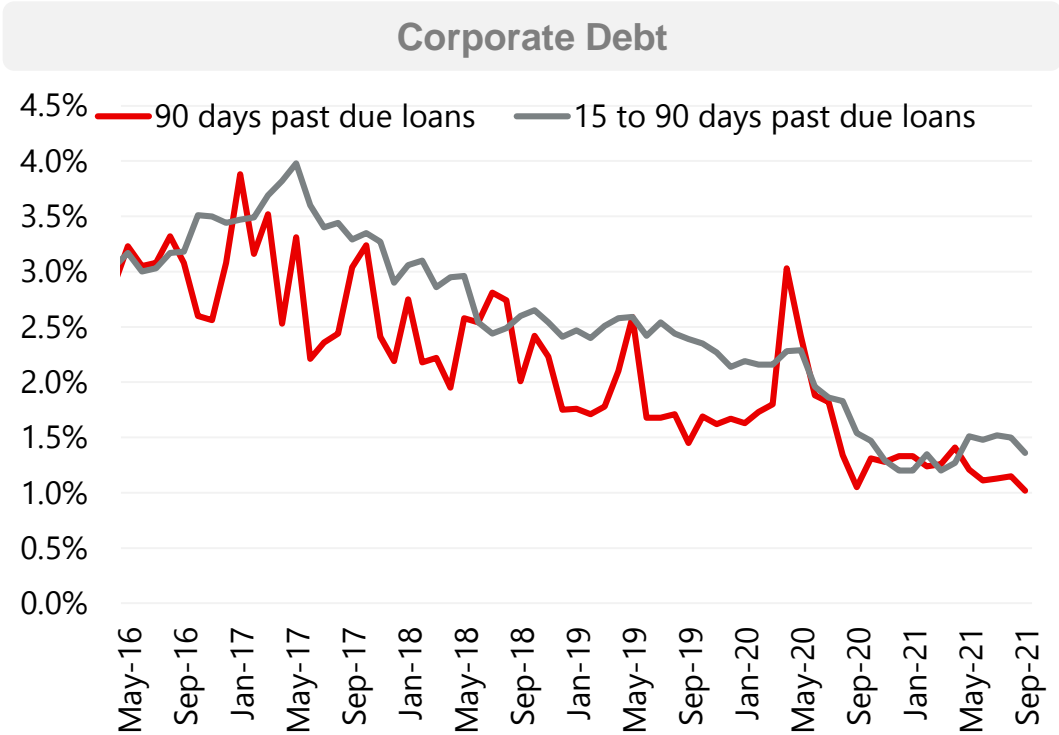
New Loans – Others* MoM



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- o Eyeing arrears to anticipate warning signs

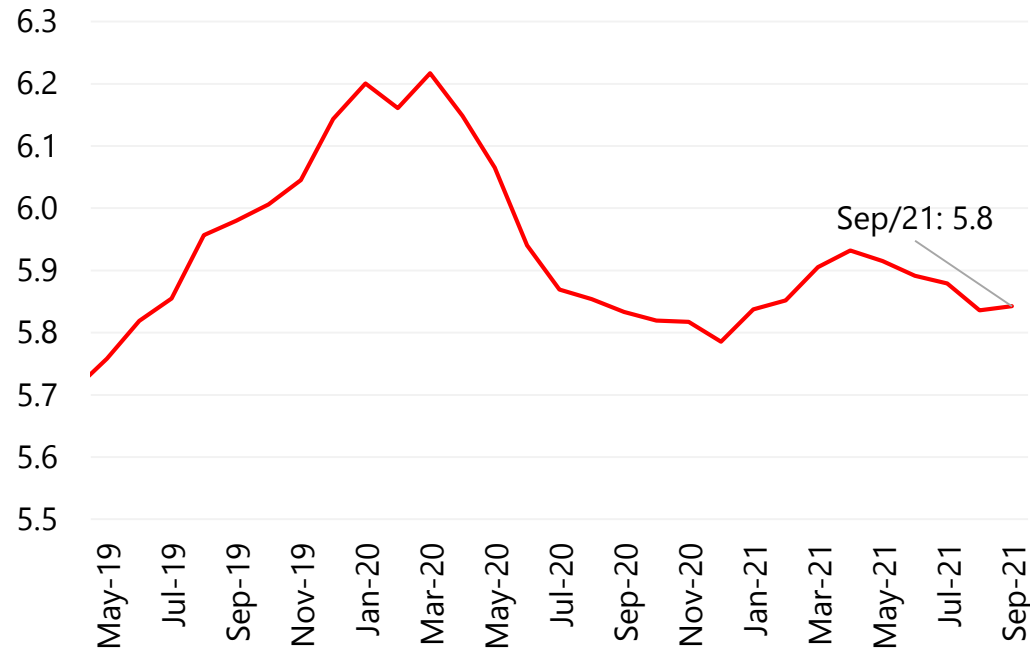


Sources: Brazilian Central Bank, Santander.

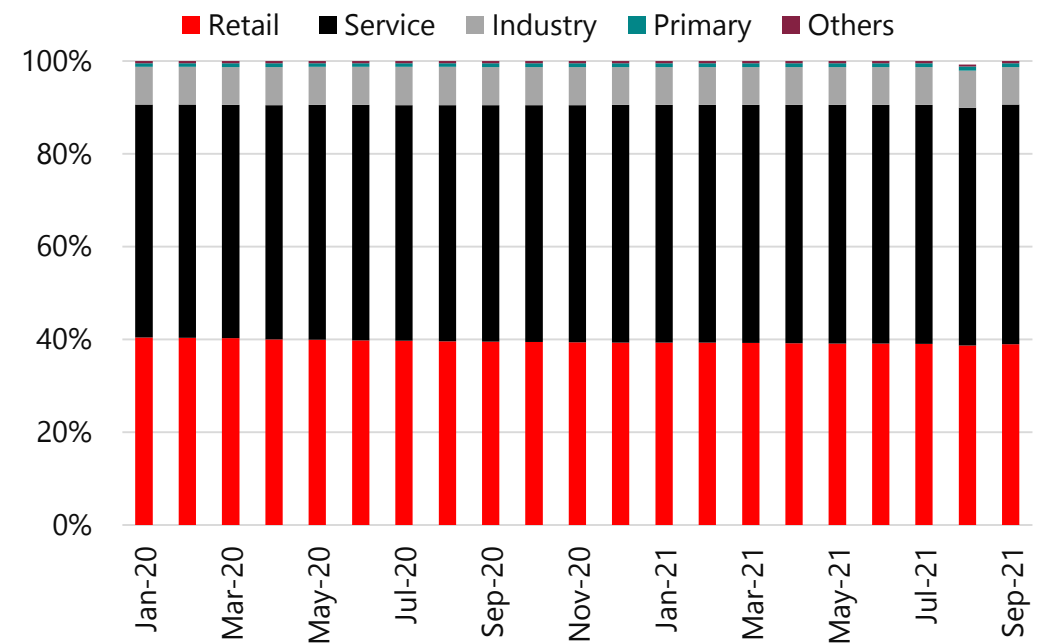
Corporates defaulting

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

Corporate Defaulting - Millions



Total Default – By Sector



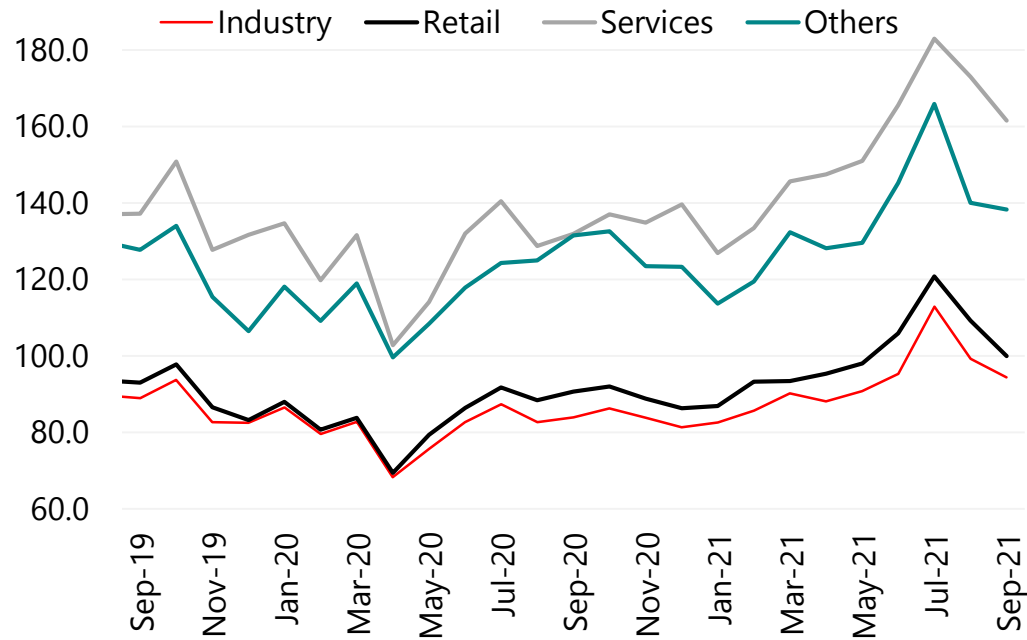
Sources: Serasa Experian, Santander.

Sources: Serasa Experian, Santander.

Services demand for Credit

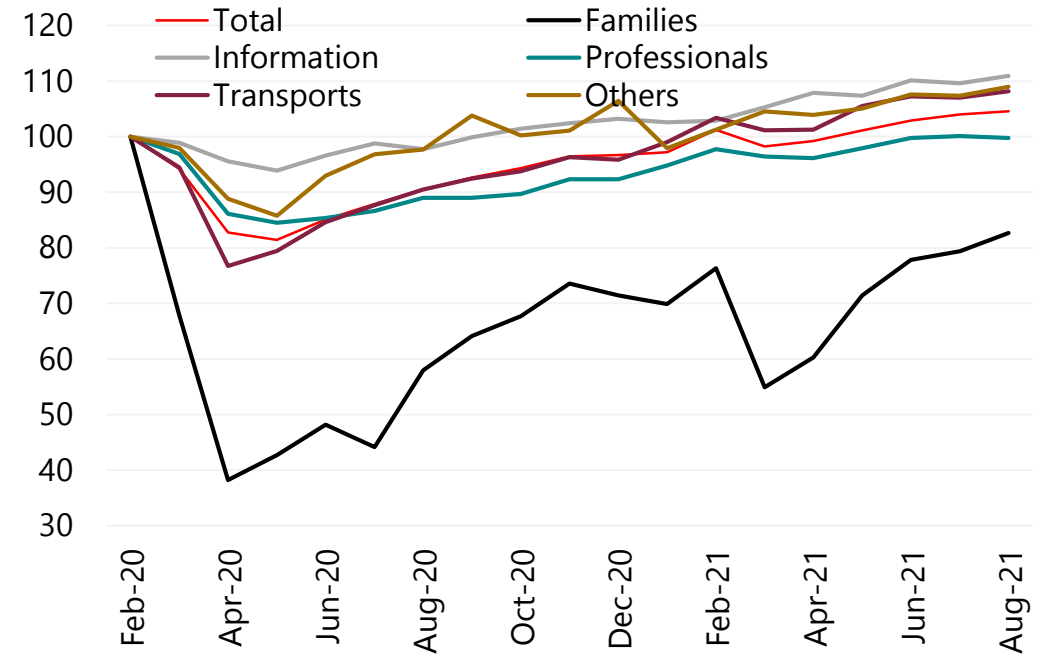
- After being the sector that suffered the most, and consequently, the one that demanded the most credit – the Service sector showed a recent improvement (as a lower credit demand).
- This is, probably, due to the economy reopening.

Corporate demand for Credit – by Sector



Sources: Serasa Experian, Santander.

Services Breakdown (sa, Feb/20=100)

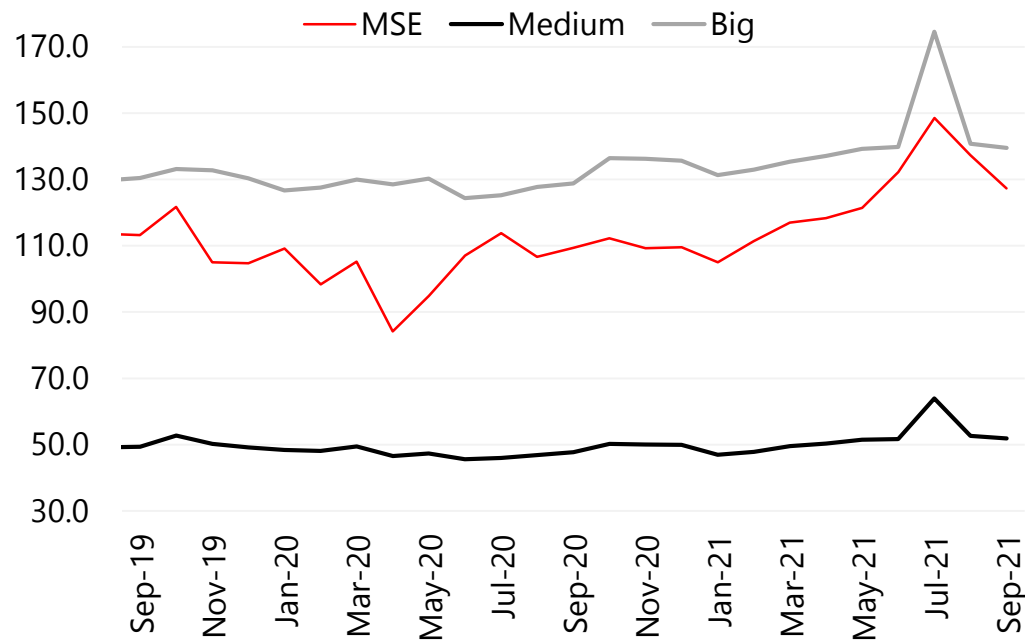


Sources: IBGE, Santander.

Corporate demand for Credit

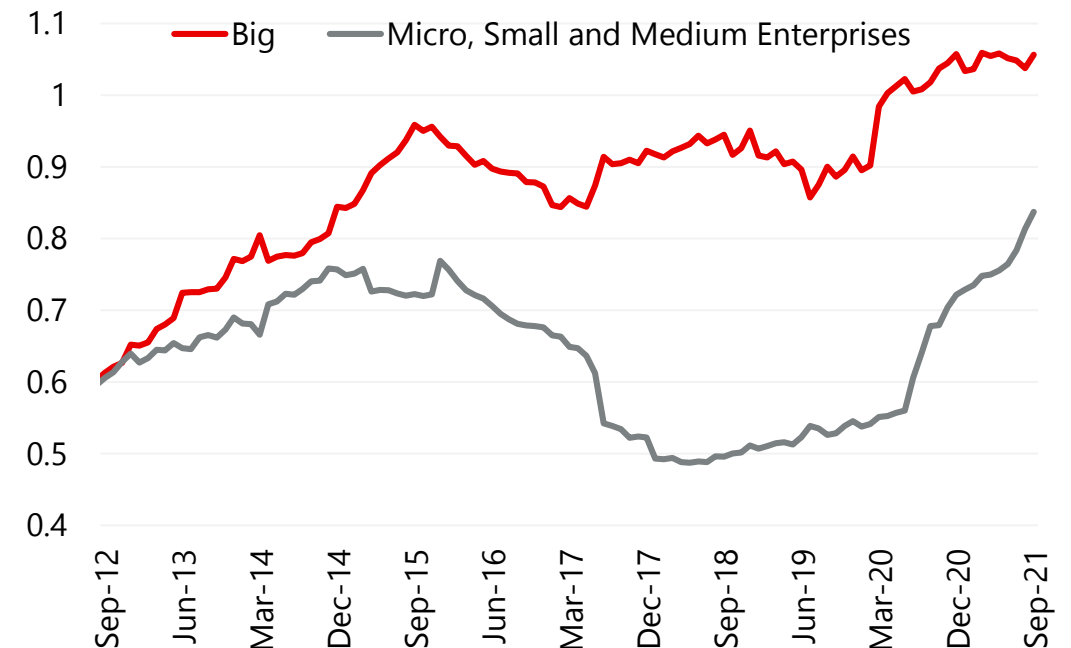
- Big and Micro and Small Companies are who demand credit the most. And, Corporate demand for credit show a lower figure at the margin
- Big Company Credit Outstanding is in all-time high.

Corporate demand for Credit – by Company Size



Sources: Serasa Experian, Santander.

Credit Outstanding – By Company Size*



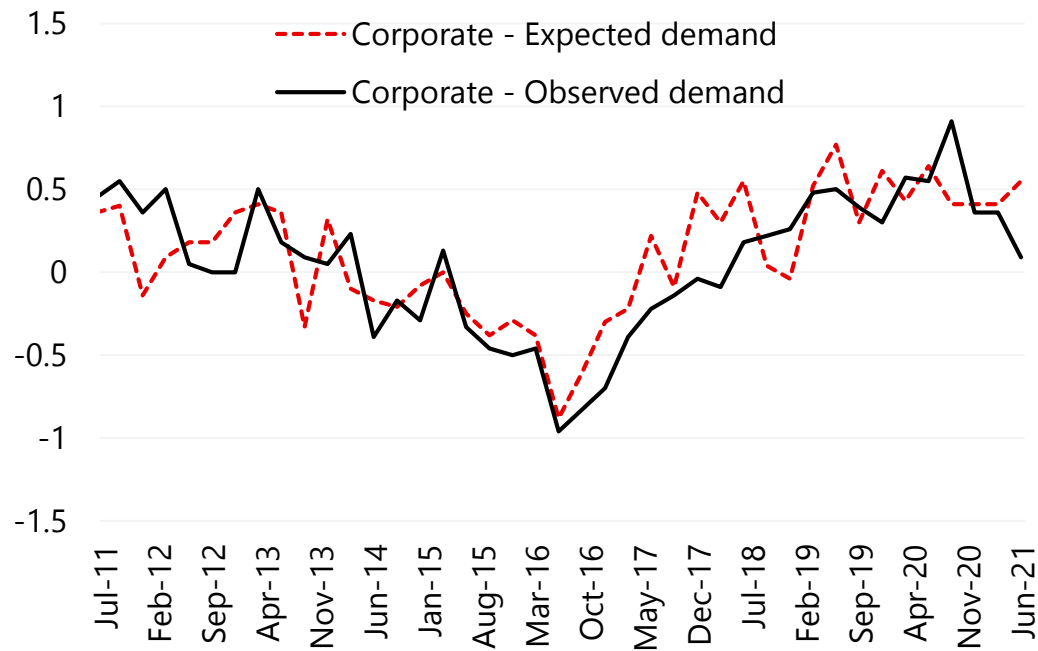
Sources: Brazilian Central Bank, Santander.

* BRL million.

Credit Survey

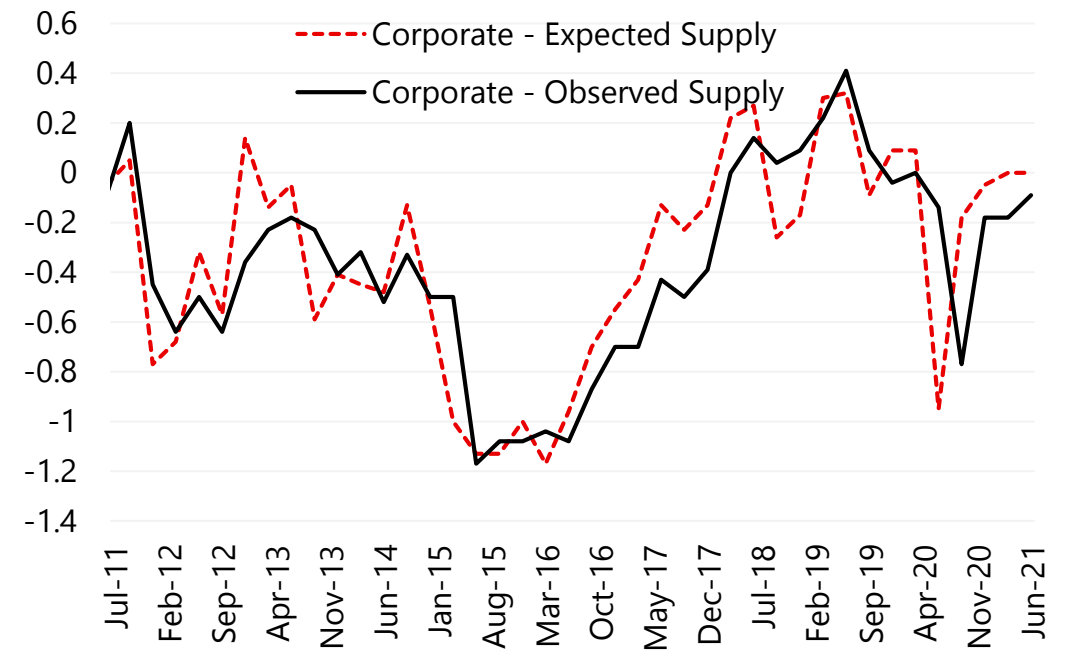
- For Corporate, expected demand for the following quarter is above what is observed.

Quarterly Credit Conditions Survey – Demand Indicators



Sources: Brazilian Central Bank, Santander.

Quarterly Credit Consumer Survey – Supply Indicator

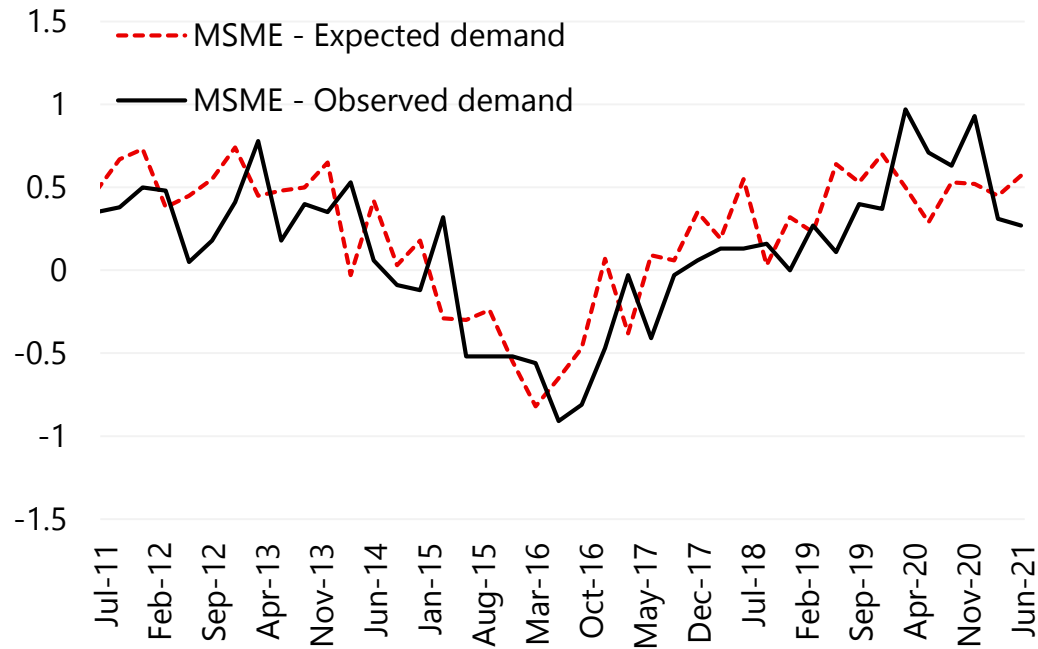


Sources: Brazilian Central Bank, Santander.

Credit Survey

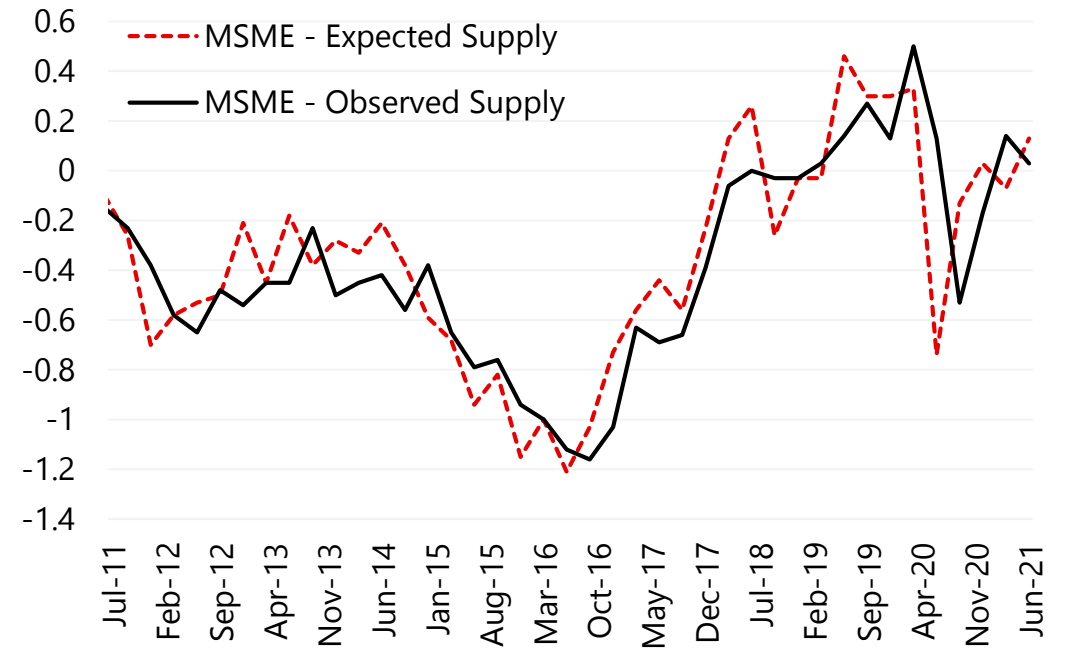
- For Micro, Small and Medium Enterprise, expected demand for the following quarter is above what is observed.

Quarterly Credit Conditions Survey – Demand Indicators



Sources: Brazilian Central Bank, Santander.

Quarterly Credit Consumer Survey – Supply Indicator



Sources: Brazilian Central Bank, Santander.

Credit Forecasts: Nominal

Credit Outstanding (%YoY)						
	2018	2019	2020	2021e	2022e	2023e
Total	5.1	6.5	15.6	9.7	6.3	4.3
Household	8.6	11.9	11.2	14.5	7.6	7.5
Non-fin. Corp.	1.2	-0.1	21.8	3.7	4.6	0.1
Nonearmarked	10.9	14.0	15.4	10.6	6.5	4.5
Household	11.6	16.5	10.8	10.0	6.5	4.6
Non-fin. Corp.	10.1	11.0	21.2	11.4	6.6	4.5
Earmarked	-0.9	-2.4	15.9	2.5	1.1	3.1
Household	5.4	6.6	11.7	2.7	5.9	5.2
Non-fin. Corp.	-8.1	-14.0	22.8	2.1	-5.9	-0.7

Credit Conditions						
	2018	2019	2020	2021e	2022e	2023e
Delinquencies	2.9	2.9	2.1	3.1	3.3	3.5
Household	4.8	5.0	4.2	4.8	5.3	5.7
Non-fin. Corp.	2.7	2.1	1.5	2.1	2.1	2.7
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	0.7	1.7	0.7
Household	4.7	7.3	6.4	5.0	3.0	3.8
Non-fin. Corp.	-2.5	-4.2	16.6	-4.8	0.1	-3.3
Non earmarked	6.9	9.3	10.4	1.5	1.9	0.9
Household	7.6	11.7	6.0	0.9	1.9	1.0
Non-fin. Corp.	6.1	6.5	16.0	2.2	2.0	0.9
Earmarked	-4.5	-6.4	10.9	-6.0	-3.2	-0.5
Household	1.6	2.2	6.8	-5.8	1.3	1.6
Non-fin. Corp.	-11.4	-17.6	17.5	-6.3	-9.9	-4.1
Delinquencies	2.9	2.9	2.1	3.1	3.3	3.5
Household	4.8	5.0	4.2	4.8	5.3	5.7
Non-fin. Corp.	2.7	2.1	1.5	2.1	2.1	2.7

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



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

IMPORTANT DISCLOSURES

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: **Felipe Kotinda***.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.