Brazil Macro | October 2022

Credit

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

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BRIEF OVERVIEW

01

SUMMARY

- **We are updating our estimates for the nominal pace of annual growth in outstanding loans. Our total loan-growth estimate rose to 13.7% from 13.2% for 2022; and decreased to 5.8% from 7.2% for 2023, mainly on the back of an expected slowing of economic activity next year. Our scenario accounts for total non-earmarked defaulting rates of 4.1% for 2022 and 4.5% for 2023, as compared to 2.9% for 2020 and 3.1% for 2021. That increase in NPLs is to be particularly steeper in the segment of households and small caps.**

- For new loans to households, the non-earmarked segment decreased 0.4% MoM-sa, from July's rise of 1.6% MoM-sa..

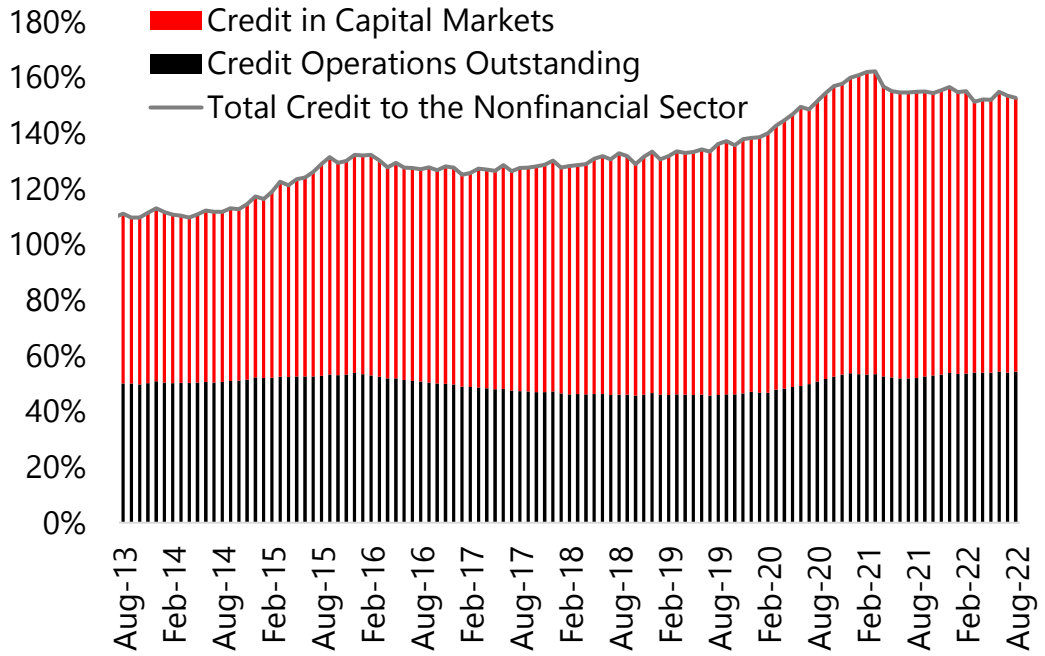
- For companies, there was an increase of 2.8% MoM-sa in August in the non-earmarked segment. The earmarked segment presented a strong increase of 14.6% MoM-sa.

- Considering total corporate financing YTD through August 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 20.4% smaller, with SFN concessions up 12.3%. As a result, total corporate financing was up 3.6% compared to the year-ago period.

Total Credit to Non-Financial Sector

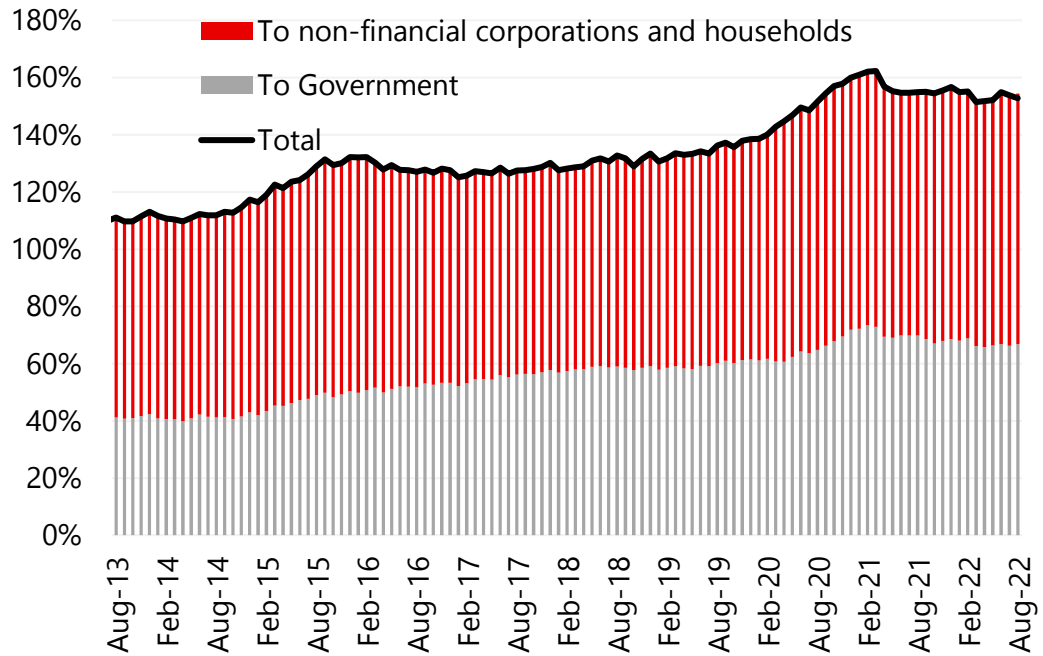
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination (%GDP)

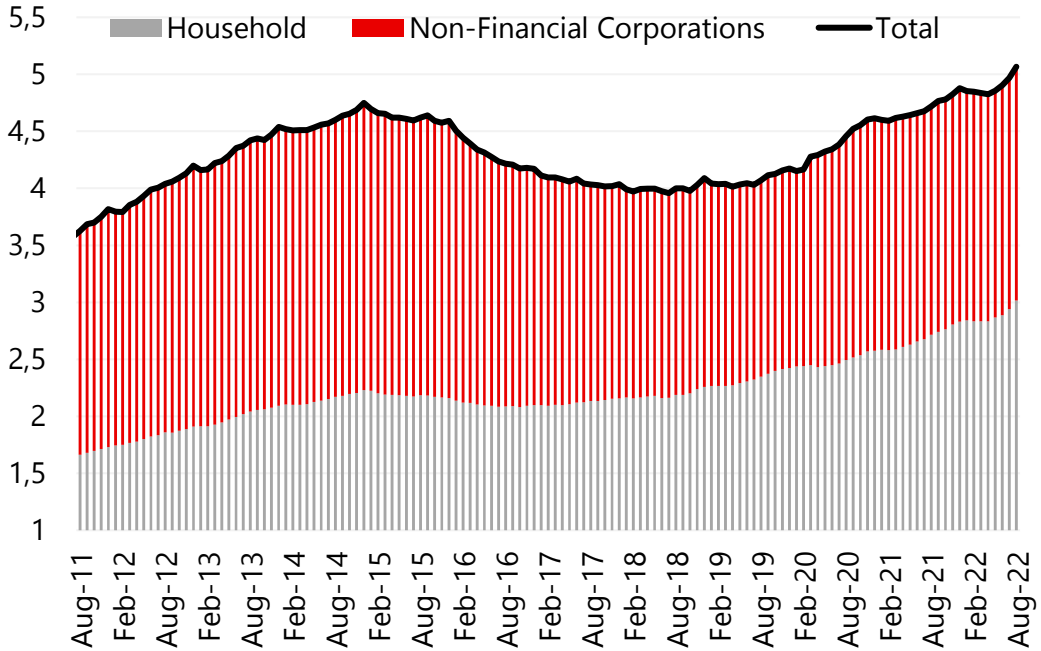


Sources: BIS, Santander.

Credit market remained strong

- Total outstanding loans posted real growth of 7.4% YoY in August 2022 to BRL5.1 trillion
- For households, loans were up 11% YoY; for non-financial corporations, they were up 2.5% YoY.

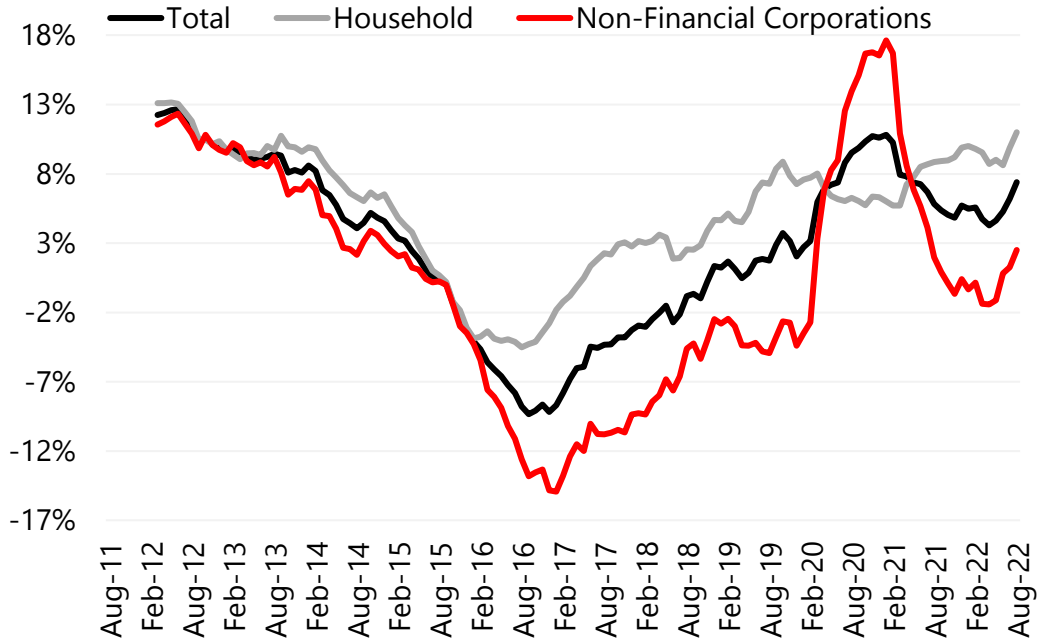
Total Outstanding Balance of Credit Operations



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.

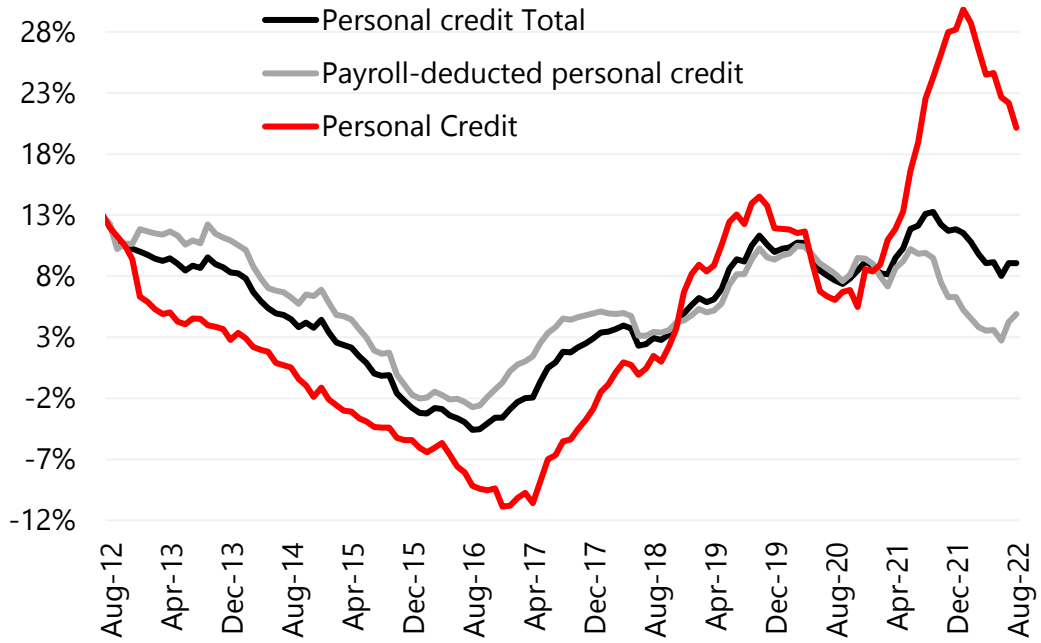
HOUSEHOLD

02

Outstanding Loans: household continue to accelerate

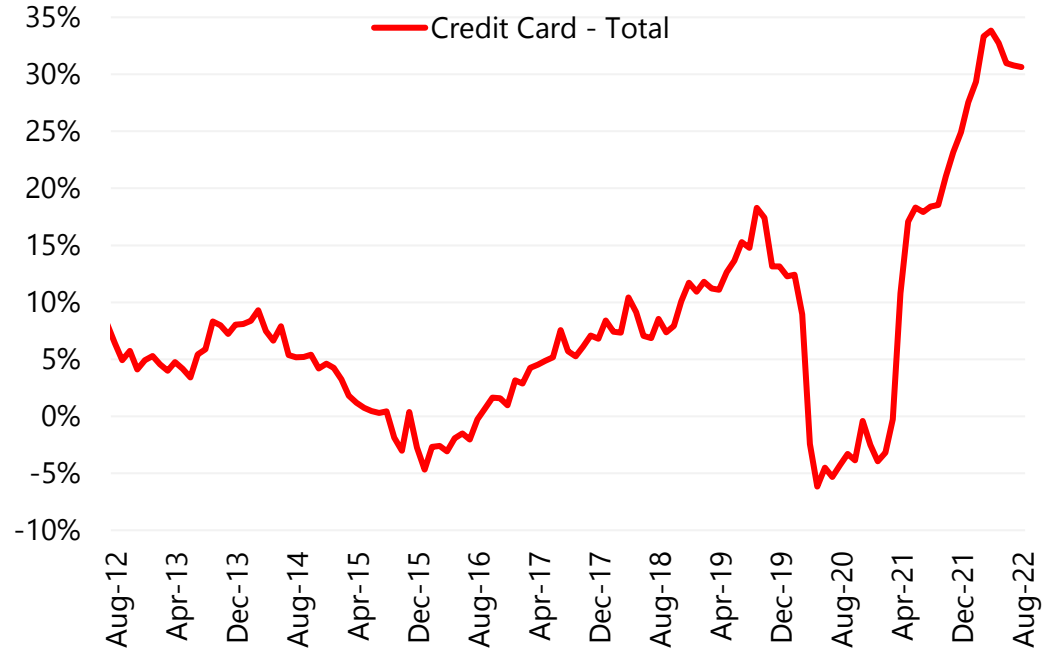
- In the Non-Earmarked, household credit portfolios delivered real growth of 13.2% YoY, the greatest number since October 2019
- Personal Credit had a real growth of 9.1% YoY.
- And Credit Card continue to accelerate, up 30.6% YoY, inflation-adjusted, which is in line with the rise in consumption.

Outstanding Loans - Personal Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

Outstanding Loans – Credit Card (% YoY)

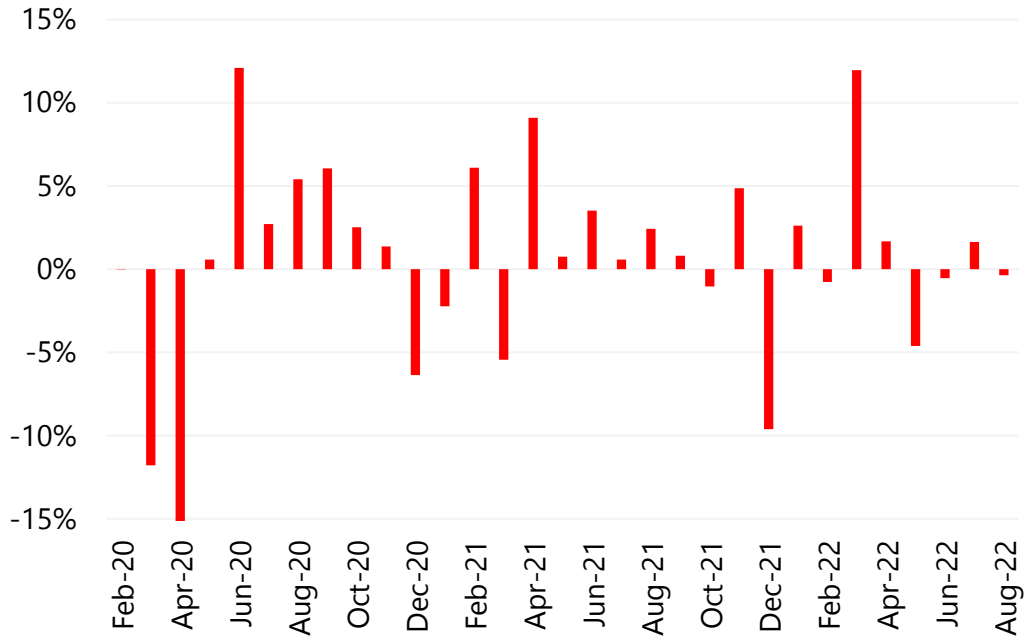


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans: posted a decline

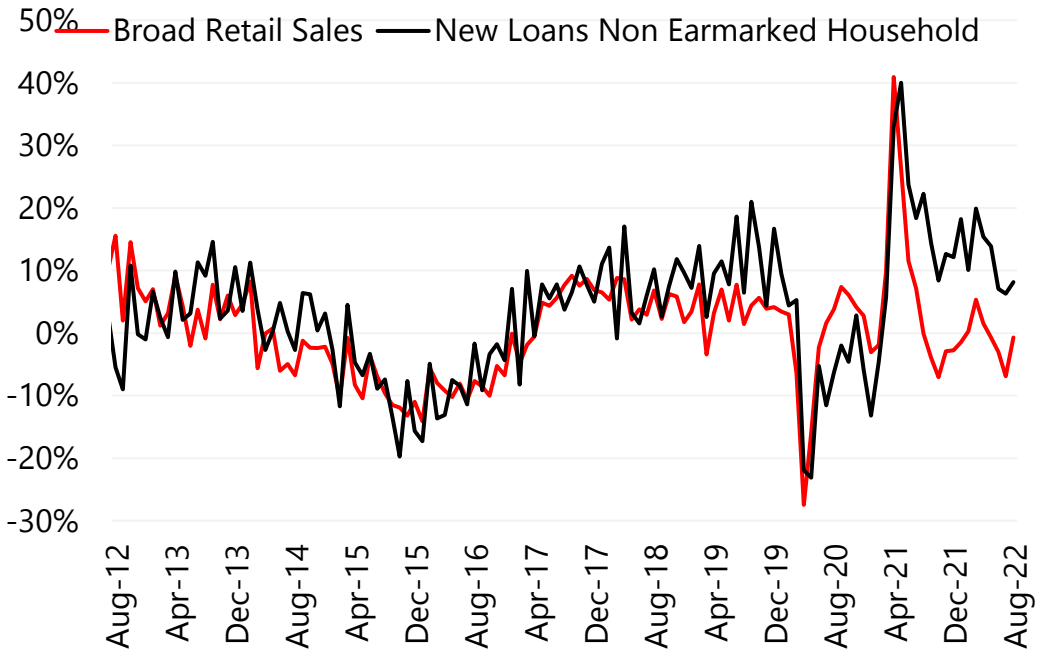
- For households, the non-earmarked segment posted a decrease of 0.4% MoM-sa, from July's rise of 1.6% MoM-sa.
- We highlight the rise in total personal credit (4% MoM-sa) and credit cards's rise (2.8% MoM-sa).

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY
New loans Household Non-Earmarked YoY

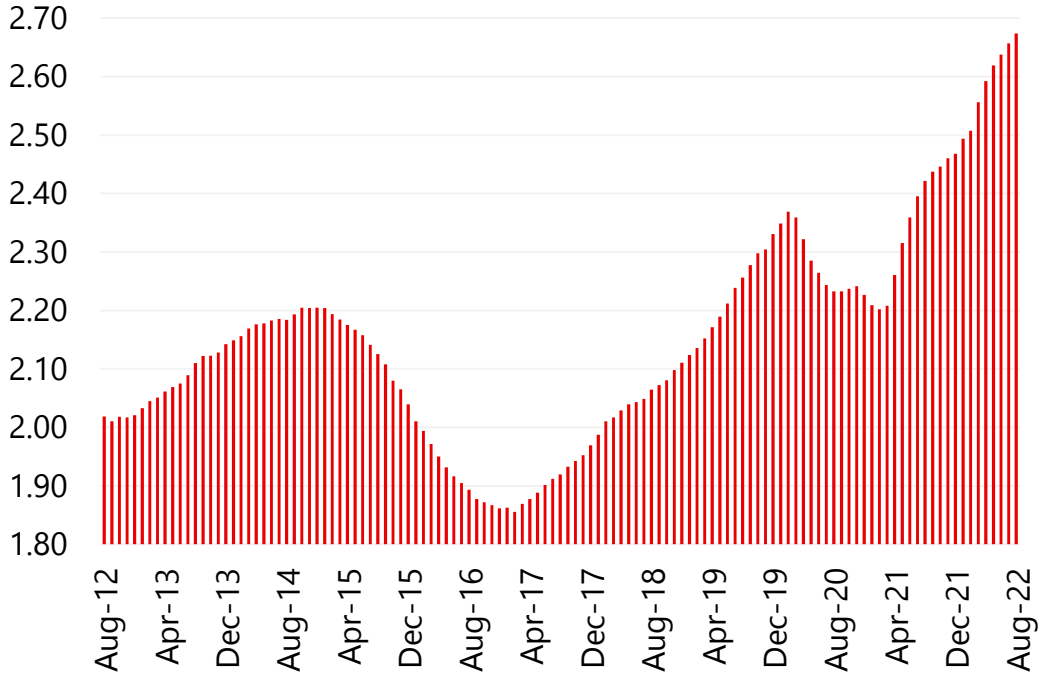


Sources: Brazilian Central Bank, Santander.

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

- New loans (12 months acum.) YTD through August 2022 grew 10% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased 13.45 p.p from August 2021.

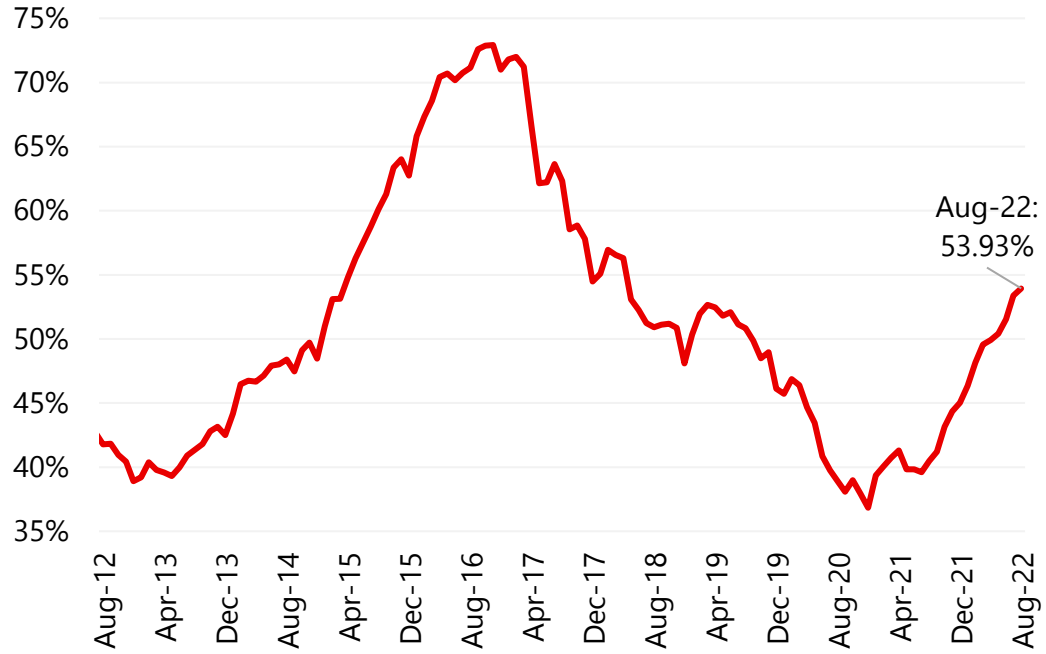
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

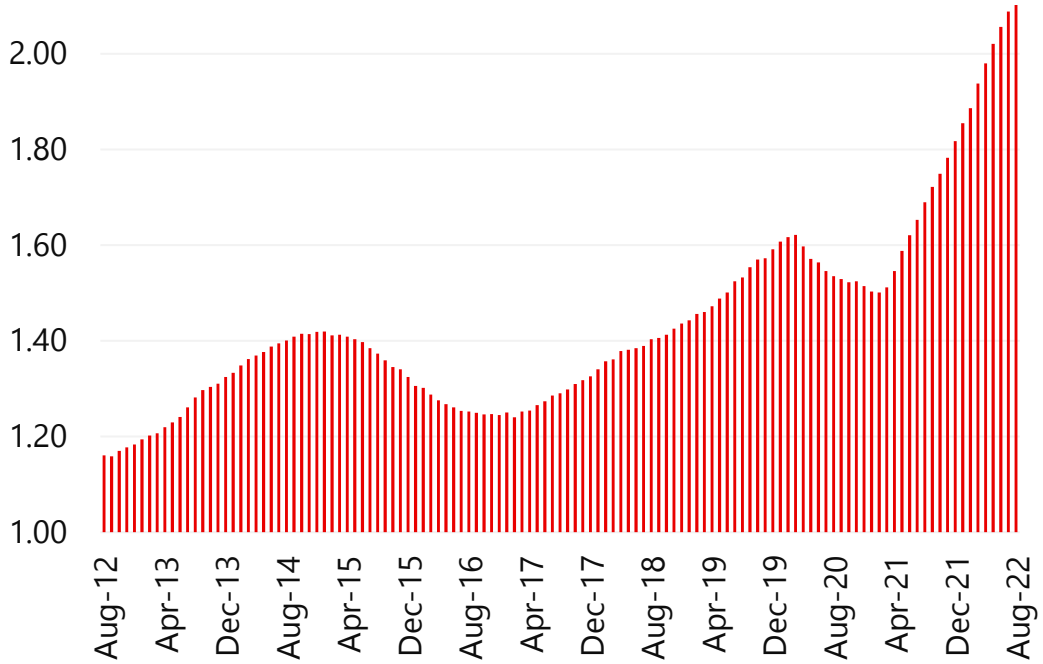


Sources: Brazilian Central Bank, Santander.

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 25 p.p from August 2021.

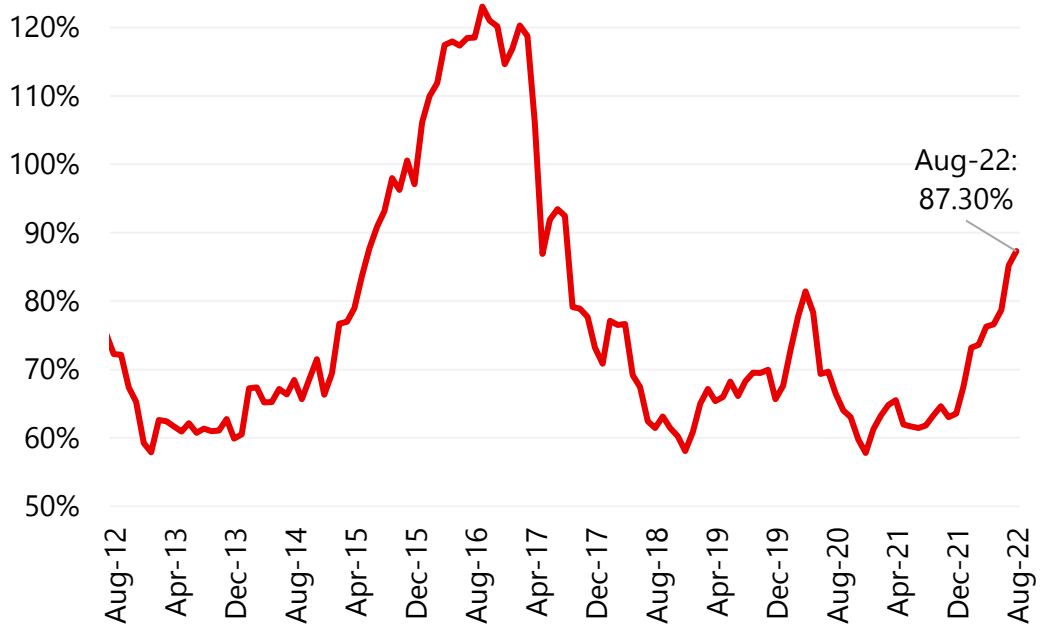
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

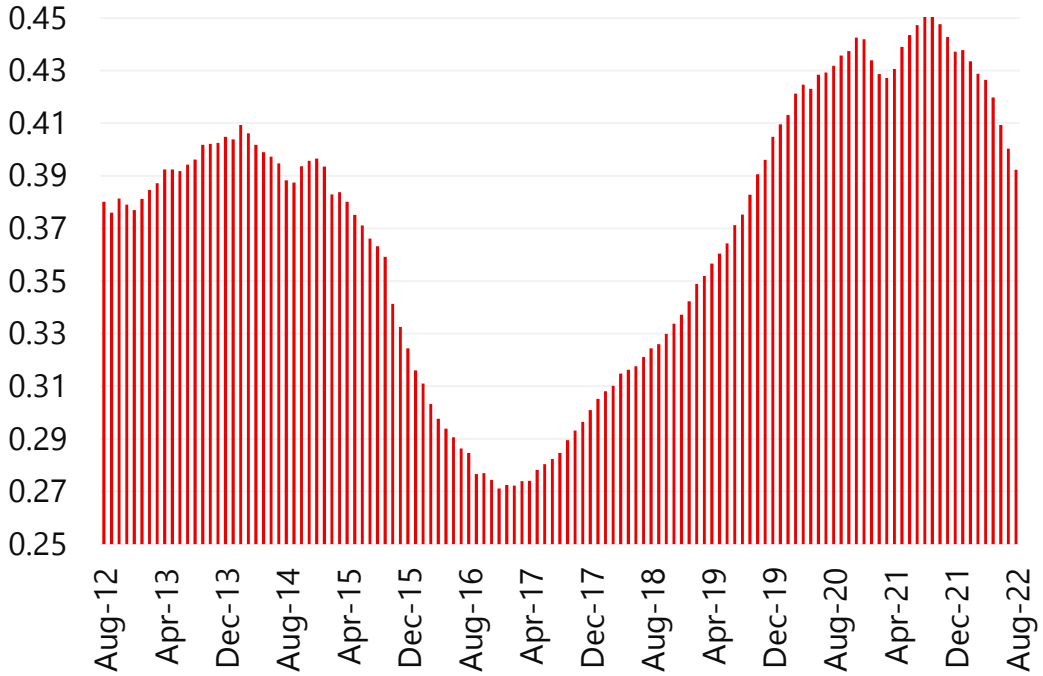


Sources: Brazilian Central Bank, Santander.

Personal Credit: starts to slow down

- New Loans (accumulated for 12 months YTD through August 2022 fall 13% compared to the year-ago period..
- The average interest rate for Personal Credit increased 7.8 p.p from August 2021.

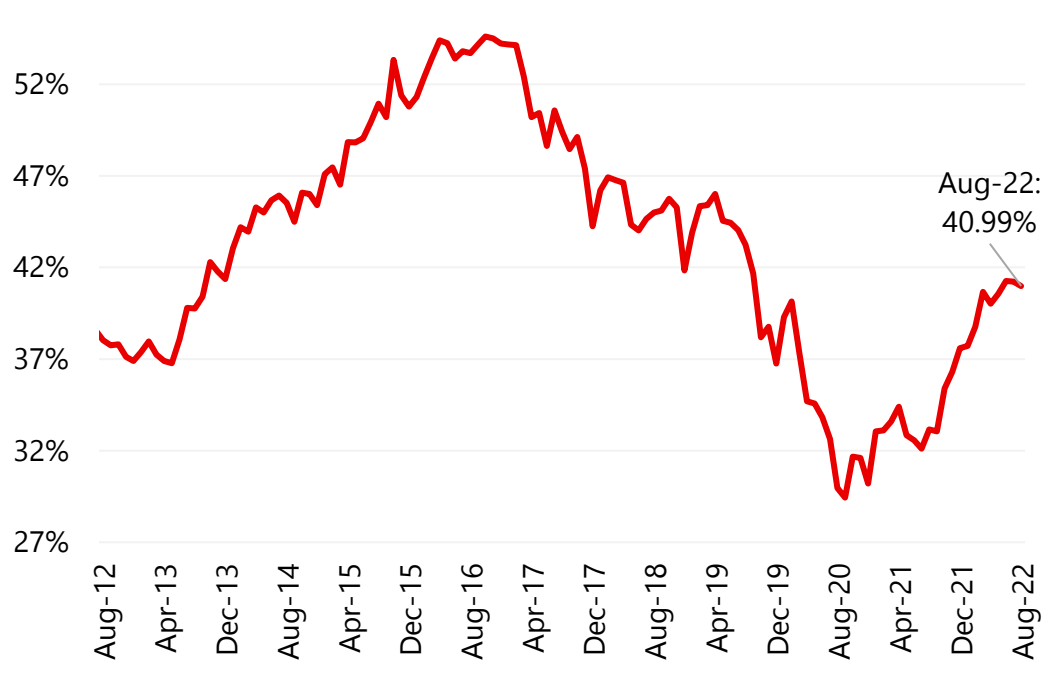
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

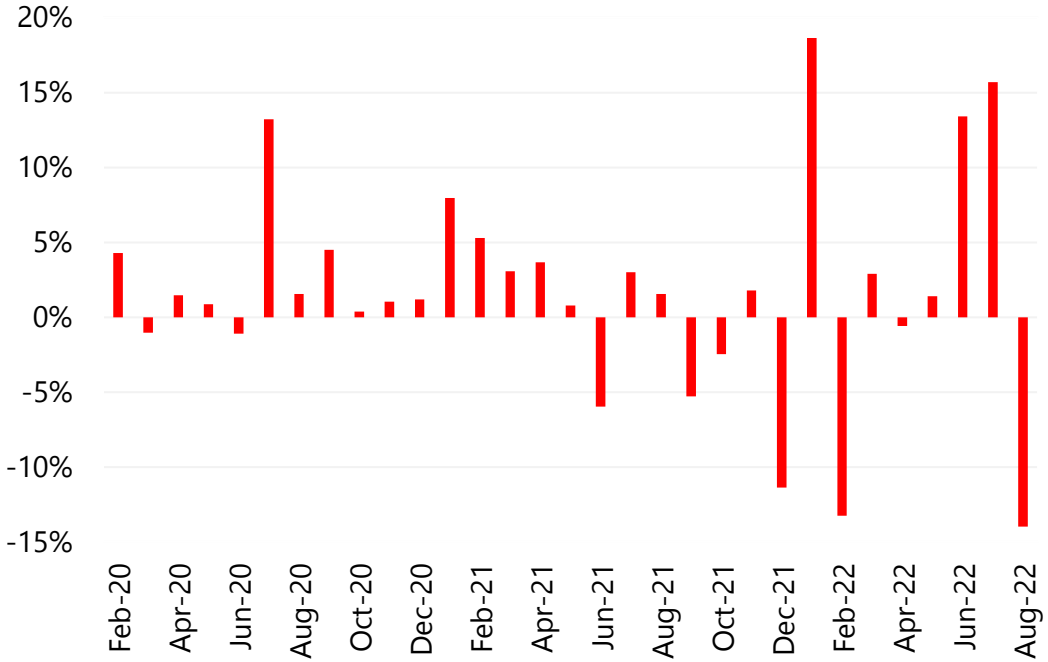


Sources: Brazilian Central Bank, Santander.

Earmarked new loans drop after July's rise

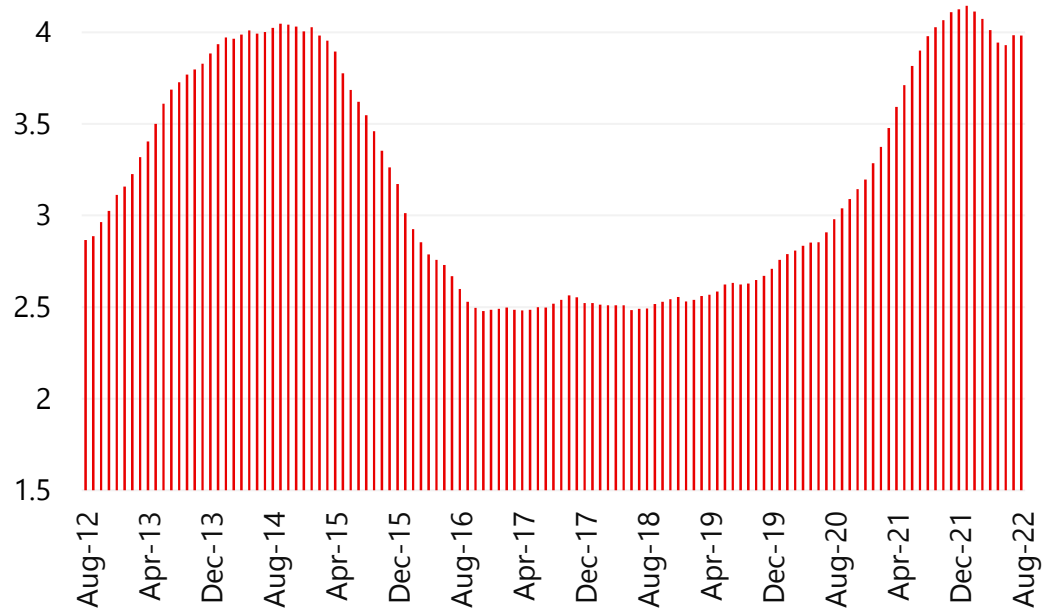
- In the earmarked segment, households decreased a strong 14% MoM-sa, from July's rise of 15.7% MoM-sa.
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* - 12 months acum.

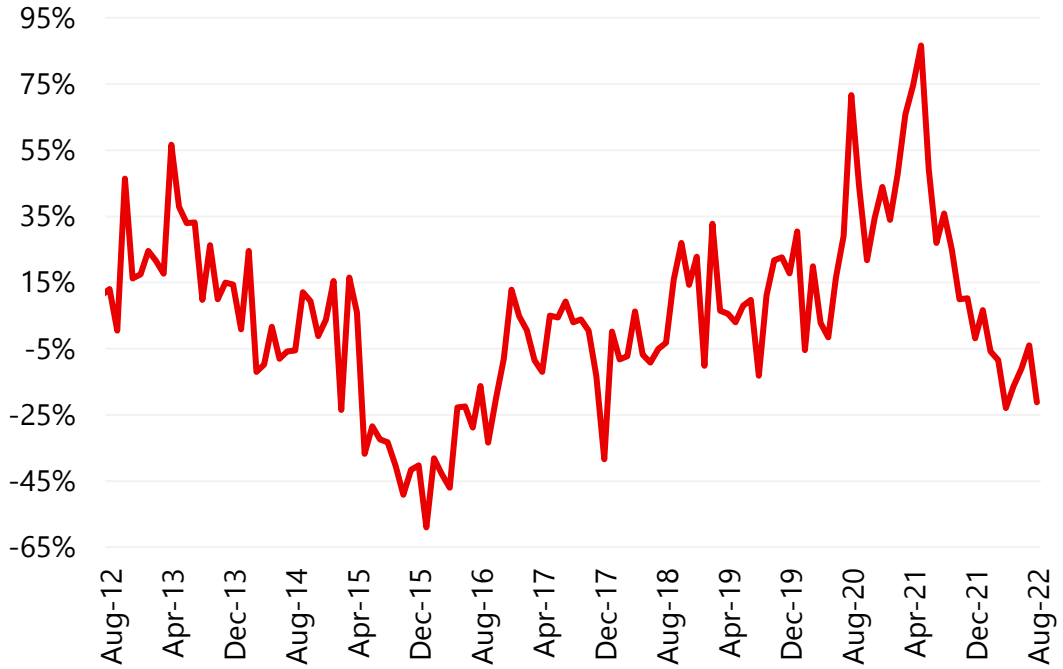


Sources: Brazilian Central Bank, Santander.
* Millions, Inflation adjusted and seasonally adjusted

Real Estate: warning sign

- After Real Estate Financing starting 2022 with a positive figure, the segmented presents a negative result for the seventh time in a row (-21% YoY), mainly because of higher interest rates and economic uncertainty.
- And it shows a negative variation at the margin (8.3% MoM-sa).

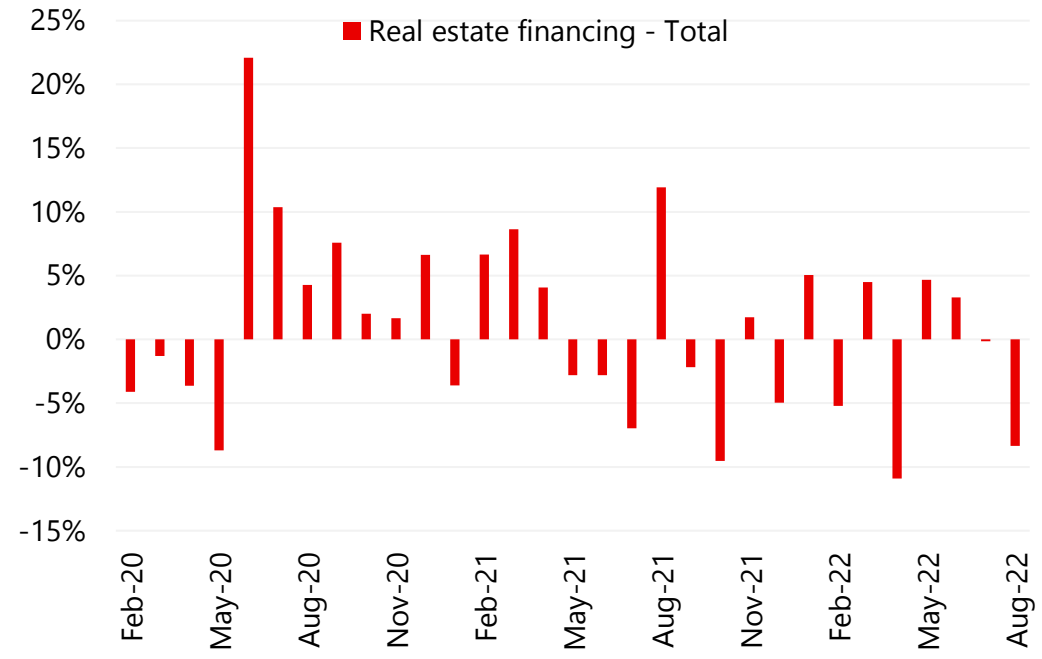
Real Estate Financing - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans MoM

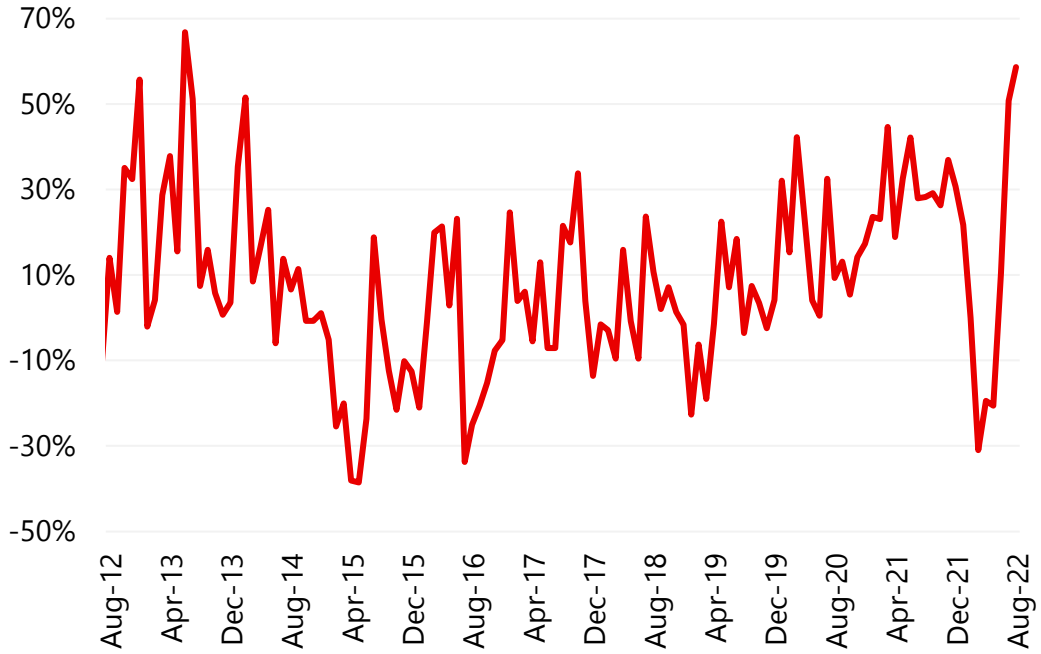


Sources: Brazilian Central Bank, Santander.

Rural Credit: shows strong figures

- Rural credit showed a strong annual variation of almost 60% YoY
- And it presented a tepid variation of -3% MoM-sa from July's strong rise of (38% MoM-sa), in line with the 2022-2023 Crop Plan.

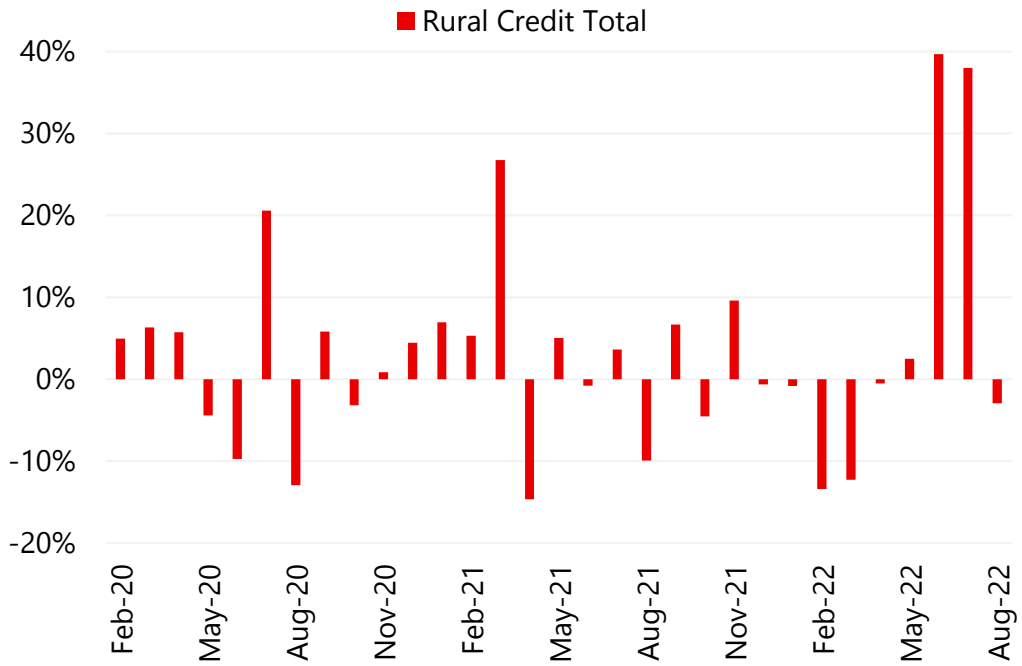
Rural Credit - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

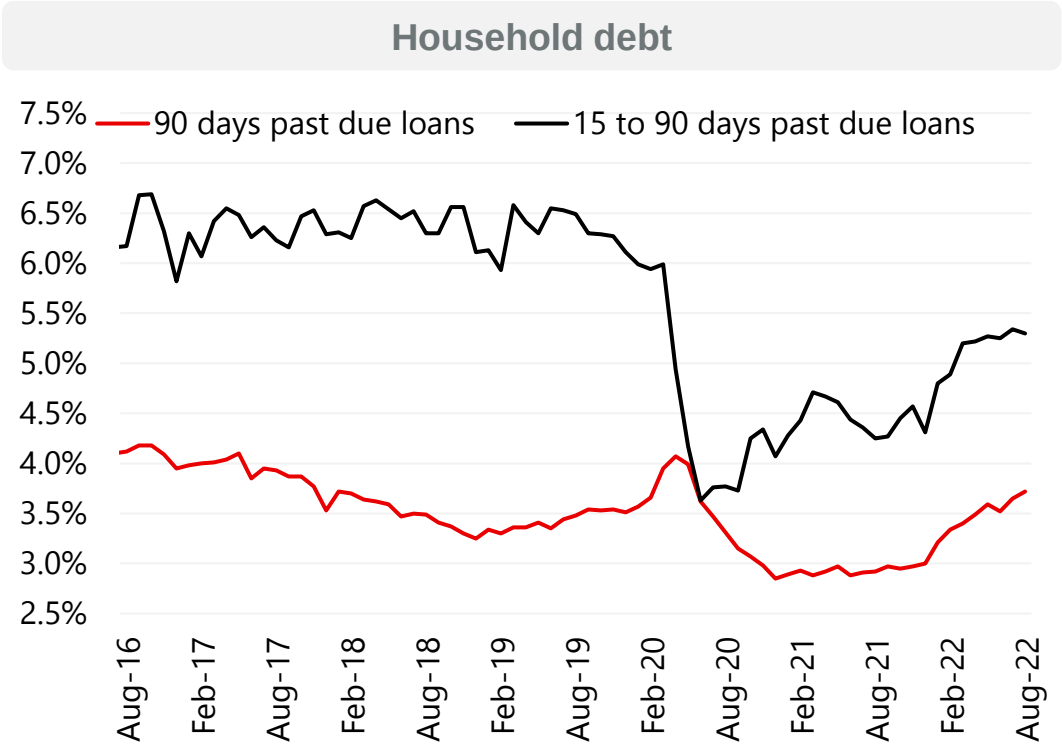
Rural Credit - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Families Indebtednes: An upward trajectory for arreas

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

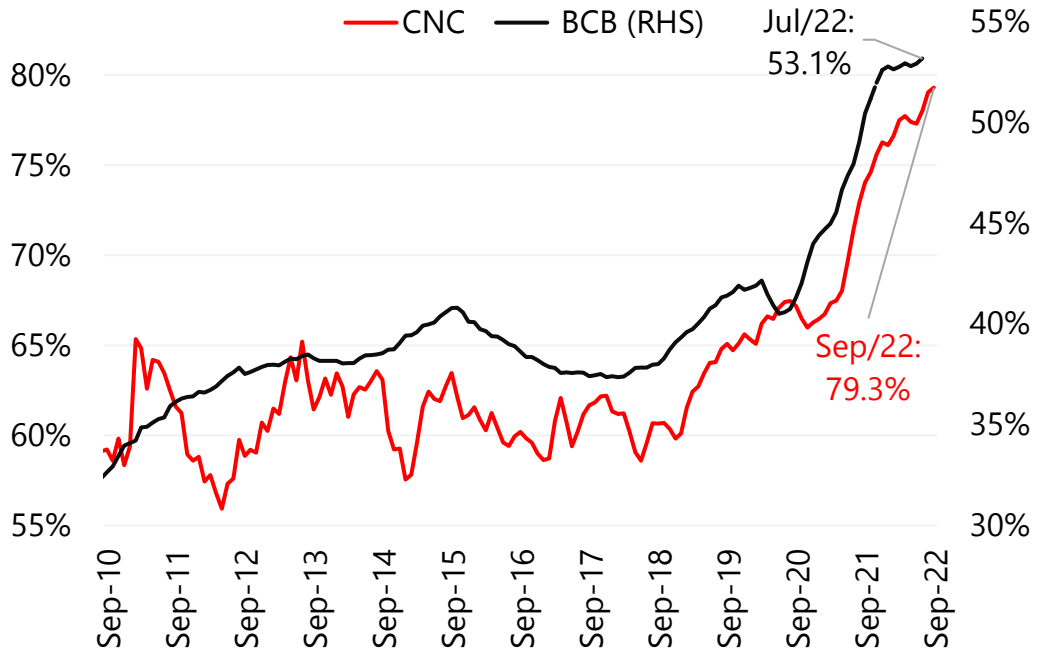


Sources: Brazilian Central Bank, Santander.

Families Indebtedness is the main (big) problem

- Household indebtedness keeps rising fast, and it reached a peak for the series at 53.1% in July 2022.
- The situation is getting worse due to the credit operations increasing and the household income stagnation.

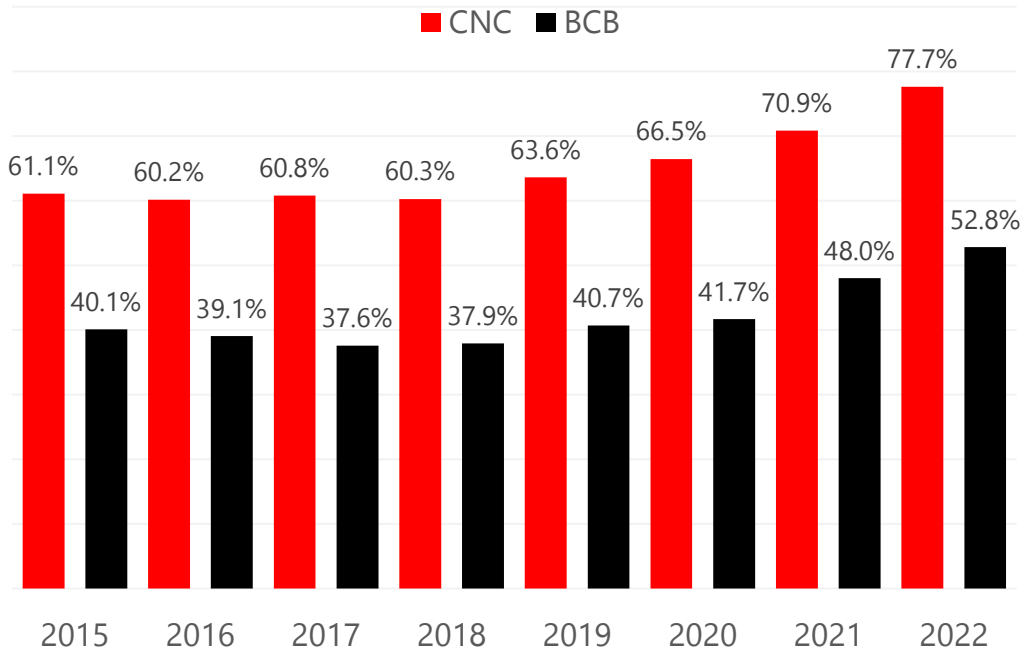
Extended household Indebtedness (%)



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).

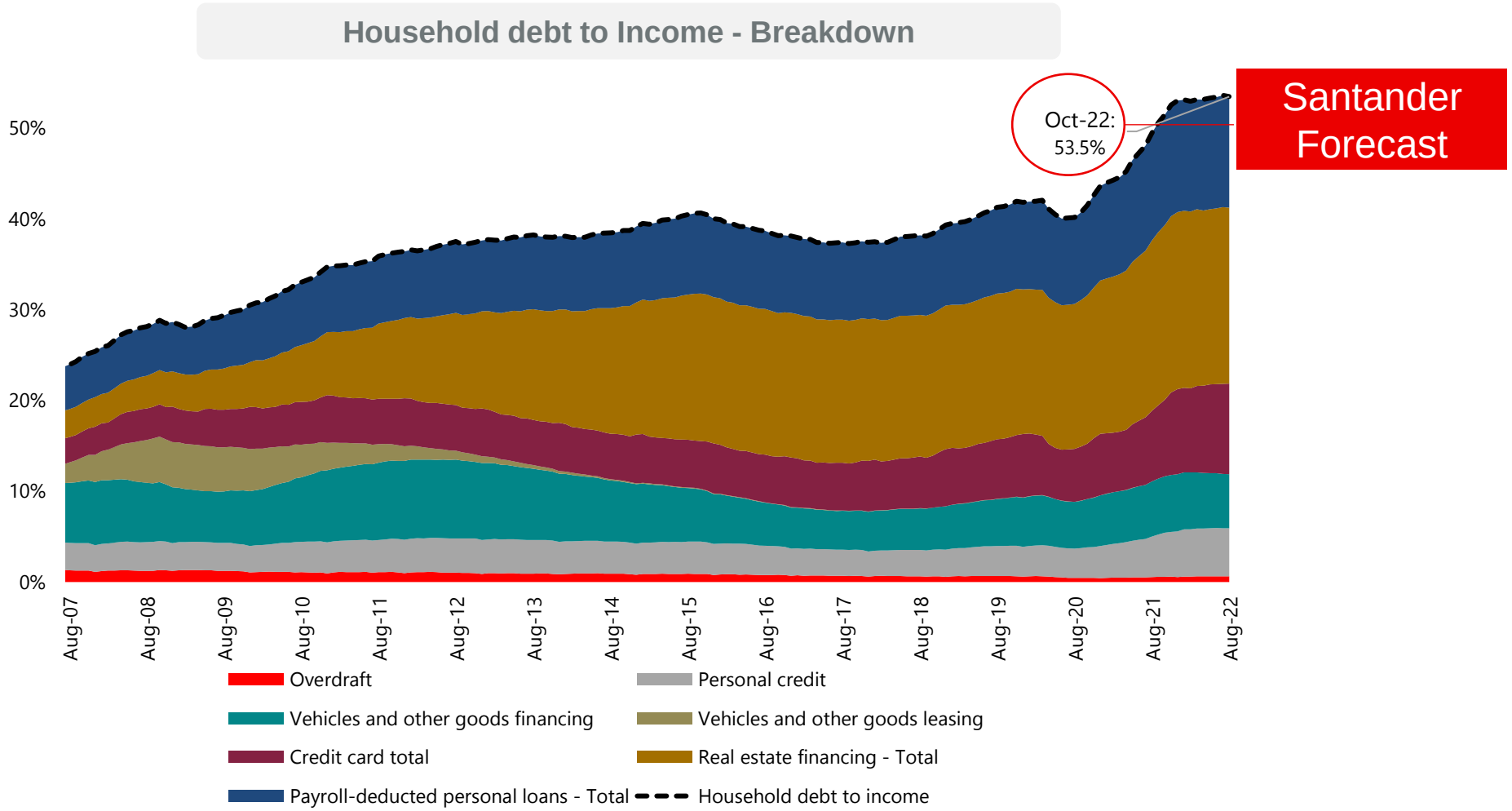
Extended household Indebtedness (annual avg %)



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.

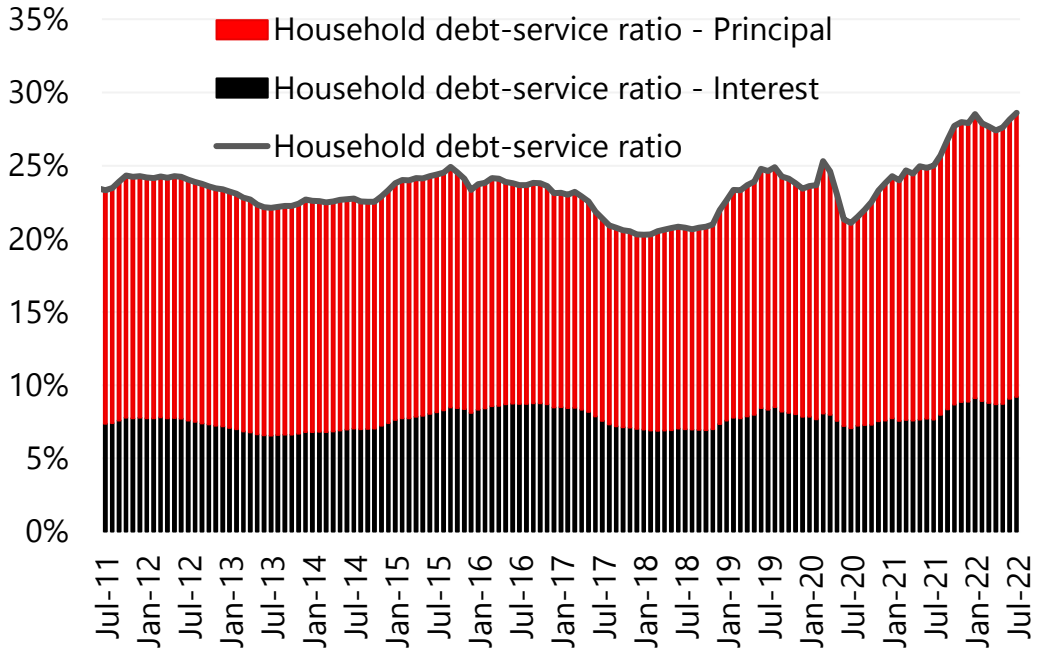


Sources: Brazilian Central Bank, Santander.

Families Indebtednes - Breakdown

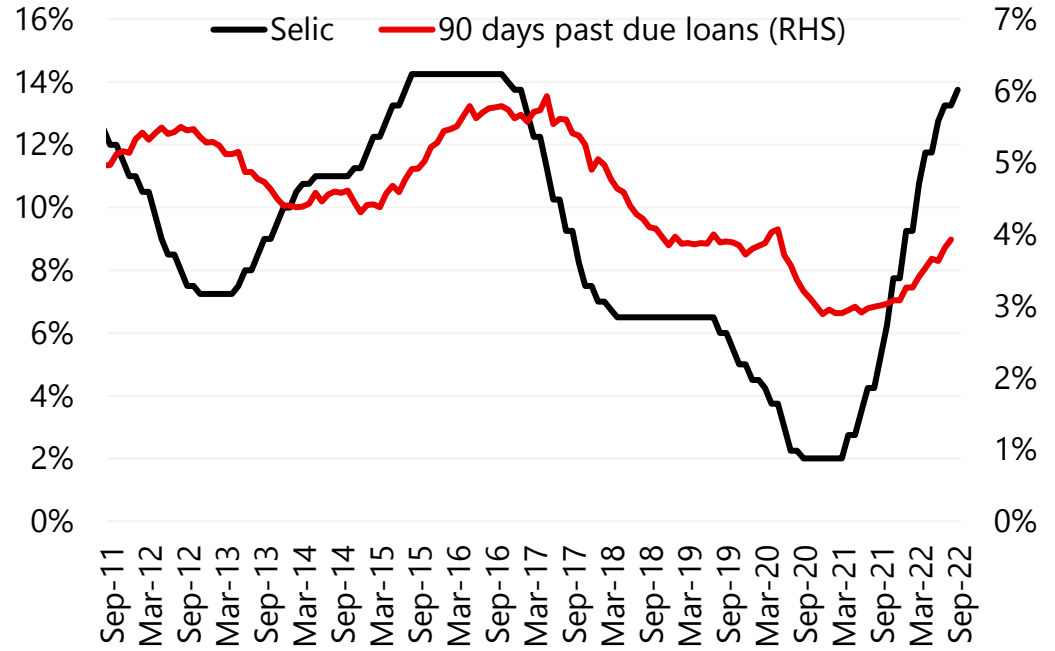
- Household debt service ratio is higher than pre-pandemic levels and keeps accelerating
- With the advance of Selic, arrears continues to rise as well

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

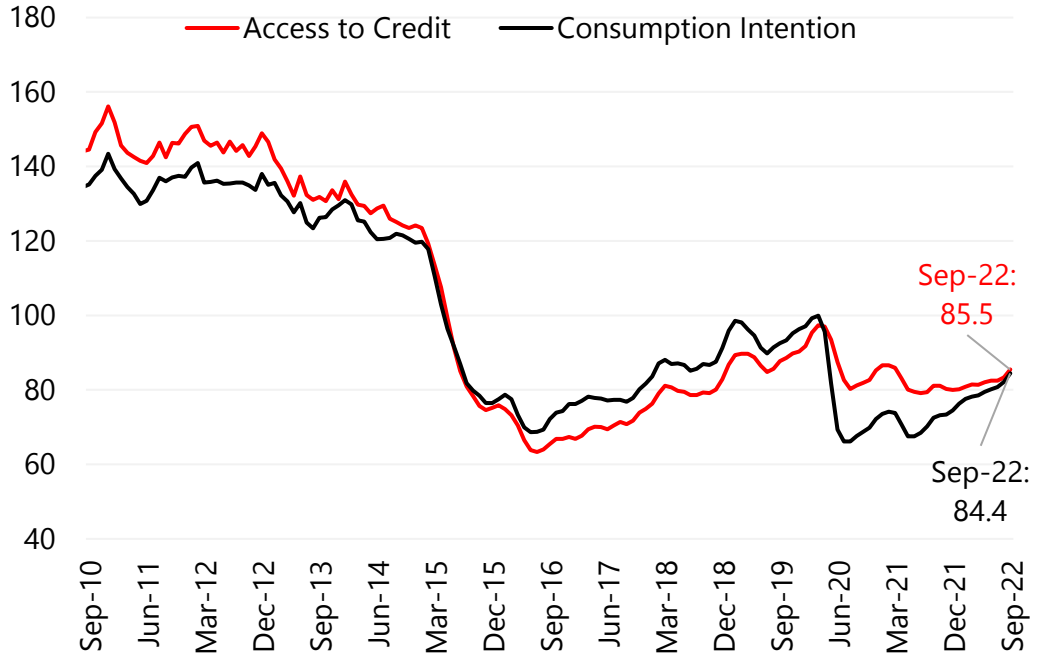


Sources: Serasa Experiean, Santander.

Families Indebtednes: higher than the pre-pandemic level

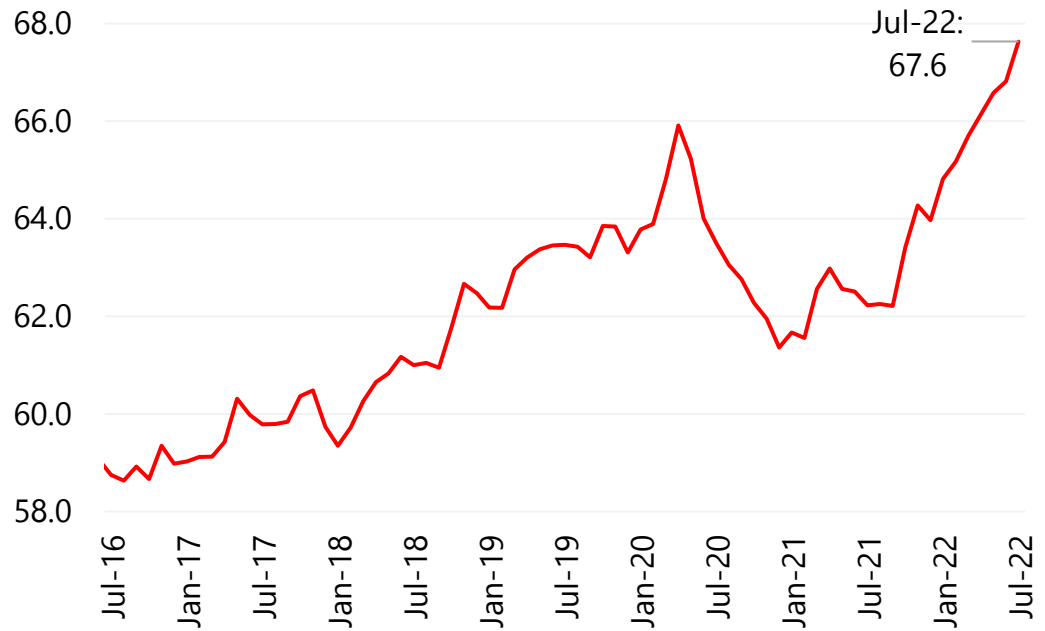
- Household consumption intentions keeping accelerating, despite inflation and higher interest rates. This can be attributed to income support measures and the positive evolution of the labor market.
- The number of delinquent consumers is at the peak of the series at 67.6 millions.

Household Consumption Intention



Sources: Serasa Experian, Santander.

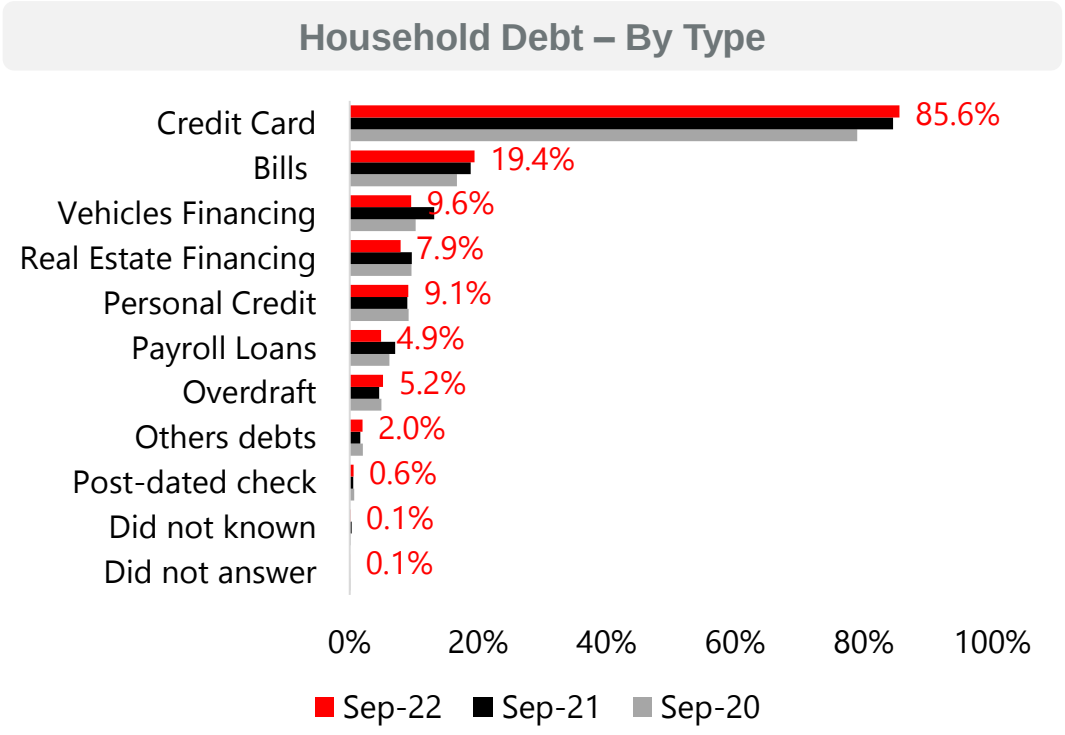
Household Defaulting - Millions



Sources: Serasa Experian, Santander.

Families Indebtednes – By Type

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



Sources: CNC, Santander.

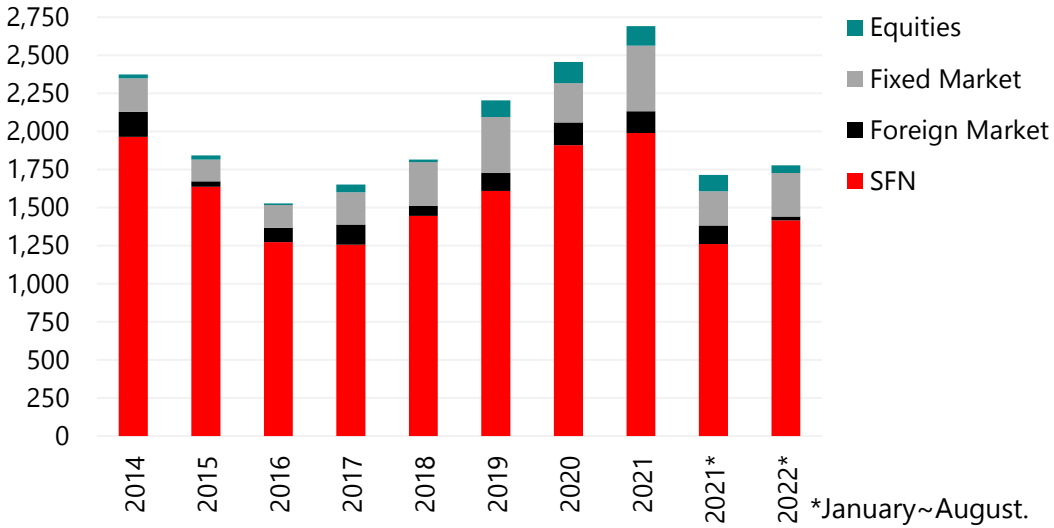
CORPORATE

03

Bank lending tepid compared year-ago period

- Considering total corporate financing YTD through August 2022 vs. the year-ago period, issuances in the capital markets were 20.4% smaller, with SFN concessions up 12.3%.
- As a result, total corporate financing is up 3.6% compared to the year-ago period.

Total Corporate Financing (BRL billion, Inflation Adjusted)



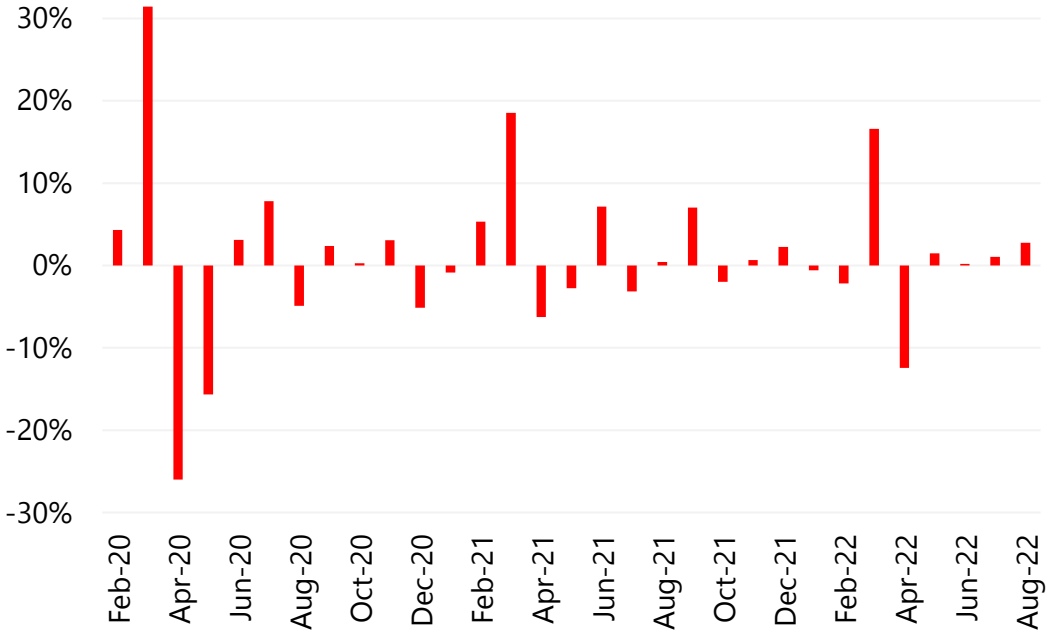
SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
Foreign Market - bonus, MTNs and securities.
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

The non-earmarked segmented

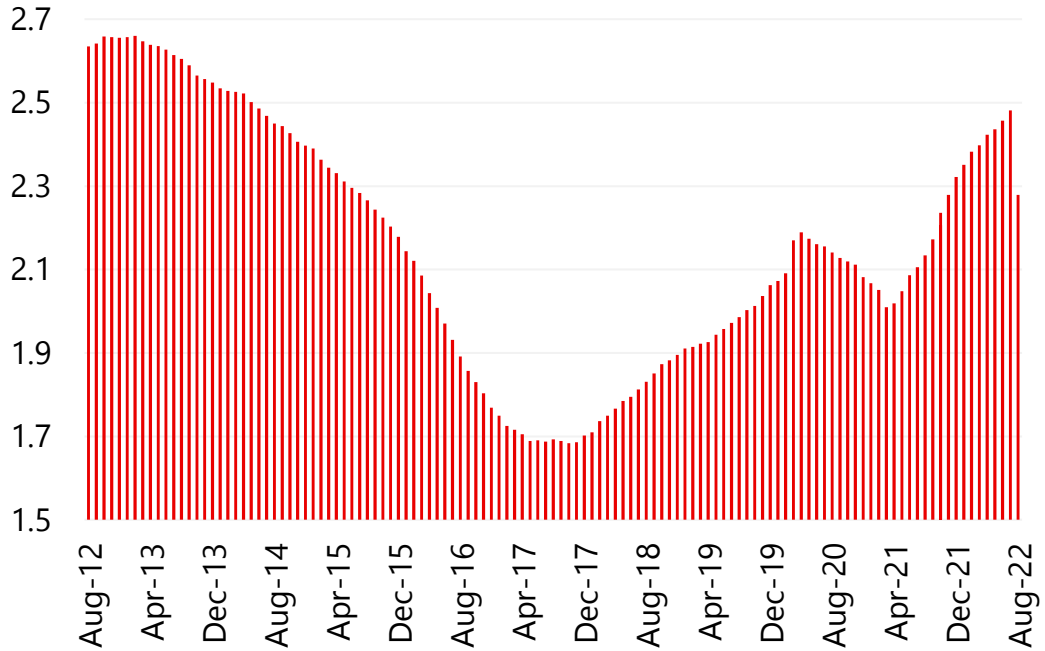
- For companies, there was an increase of 2.8% MoM-sa in August in the non-earmarked segment.

Non-Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

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

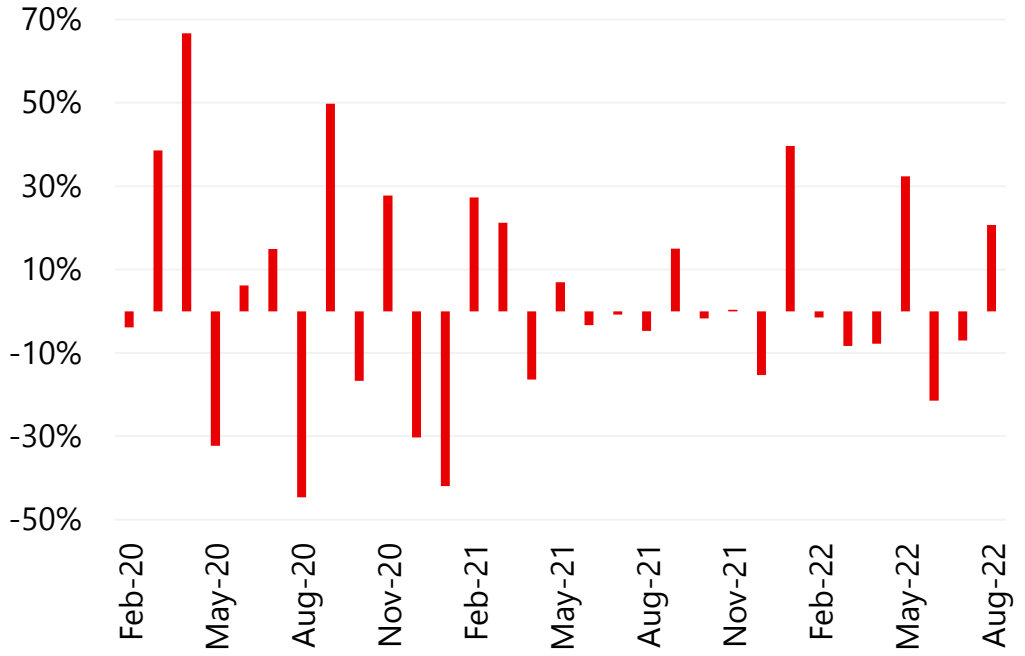


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Movement in Working Capital

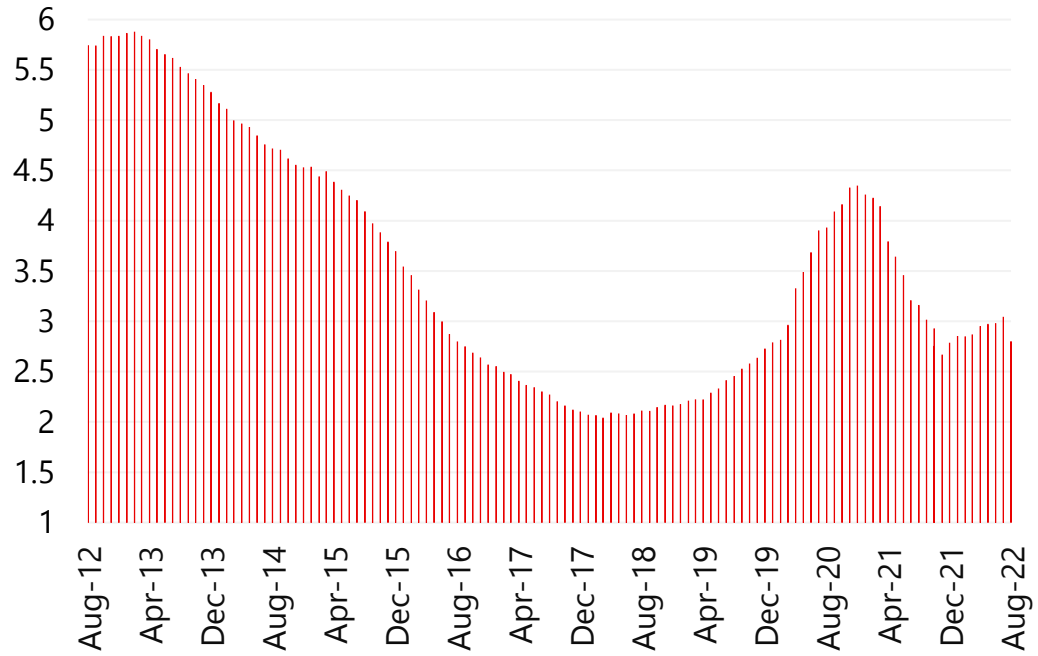
- In August, Working capital showed a positive variation (20.7% MoM-sa).
- Working Capital presented a a tepid positive variation for the first time after the thirteenth time in a row, 0.9% YoY

New Loans – Working Capital MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

New Loans – Working Capital (12 months acum.)

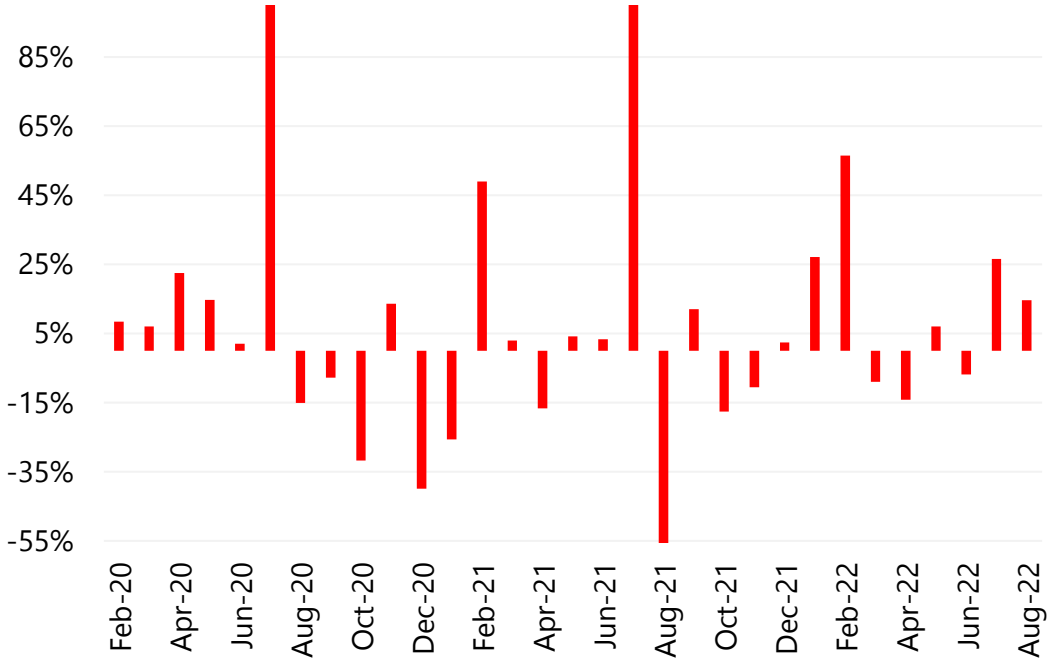


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A strong increase in the earmarked segmented

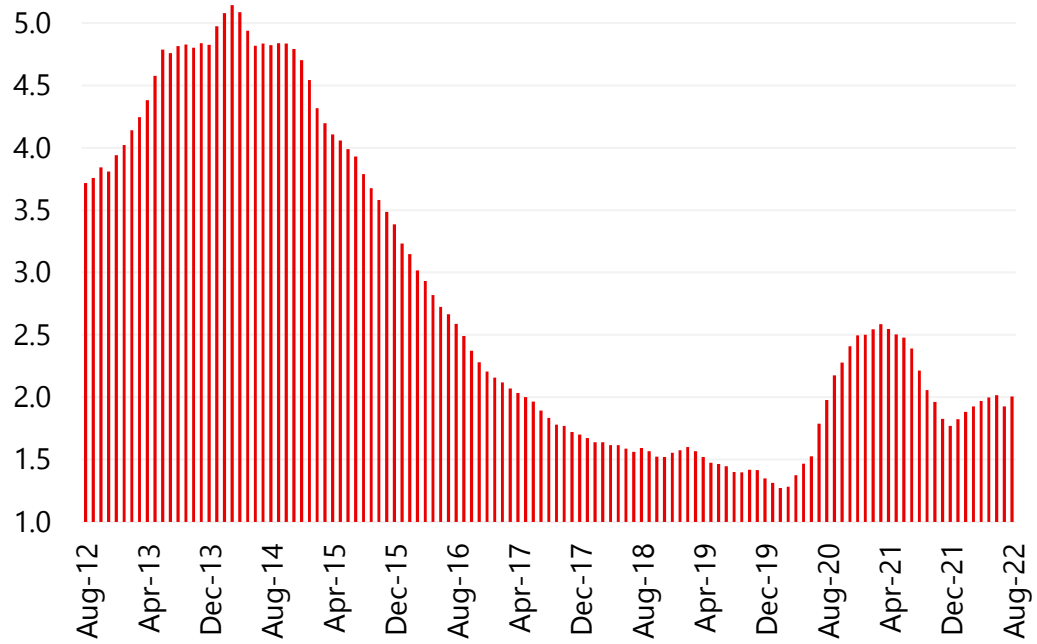
- The earmarked segment posted a strong increase of 14.6% MoM-sa.
- As YoY, the balance of loans posted the twelfth decrease in a row, -5.8% YoY (inflation adjusted).

Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Earmarked - New Loans* - 12 months acum.

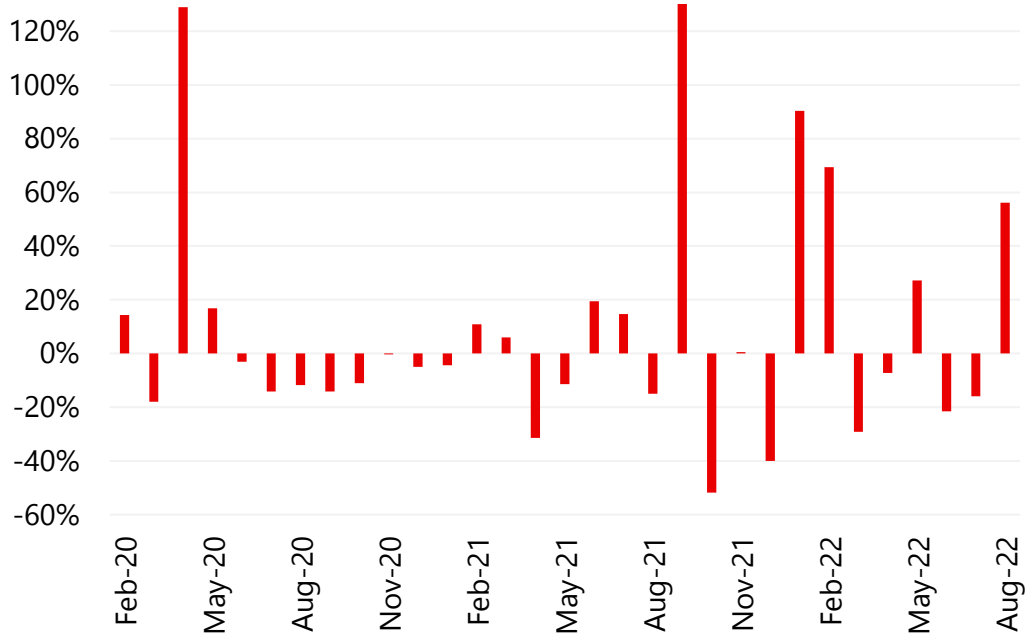


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

BNDES Funds and Rural Credit stood out

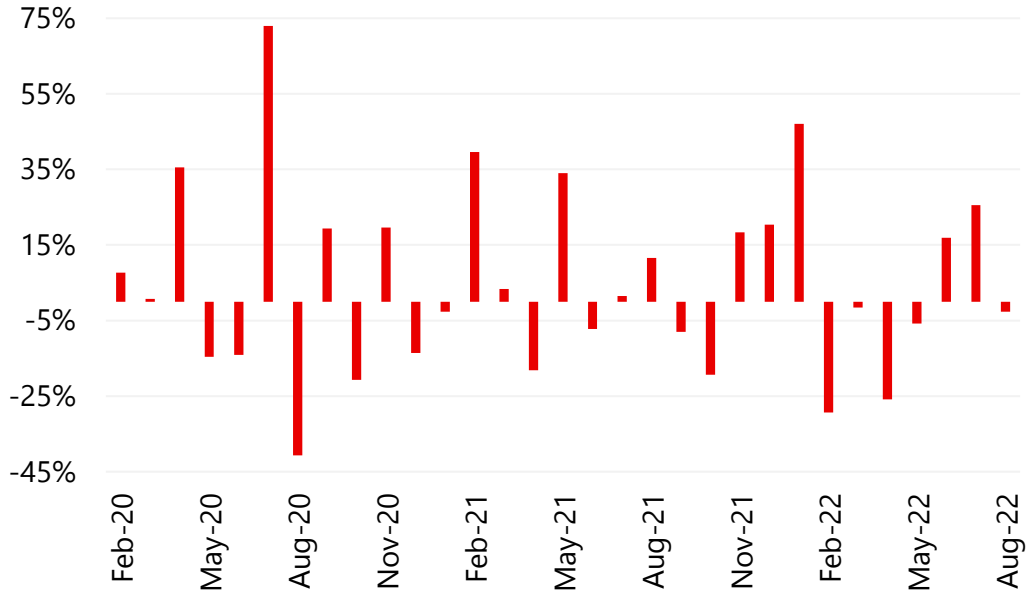
- In August, BNDES Funds showed a strong positive variation (56% MoM-sa).
- Rural Credit showed a tepid negative variation, -2.7% MoM-sa.

BNDES Funds - New Loans* (% MoM-sa)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

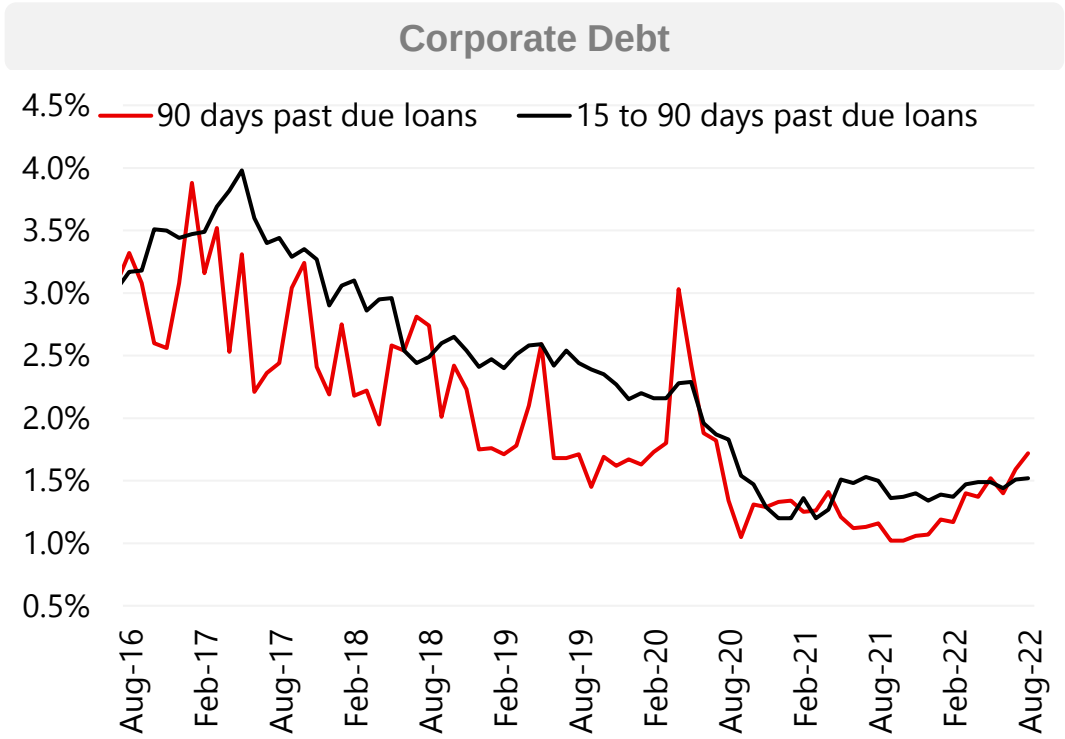
Rural Credit – New Loans* (% MoM-sa)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- Eyeing arrears to anticipate warning signs

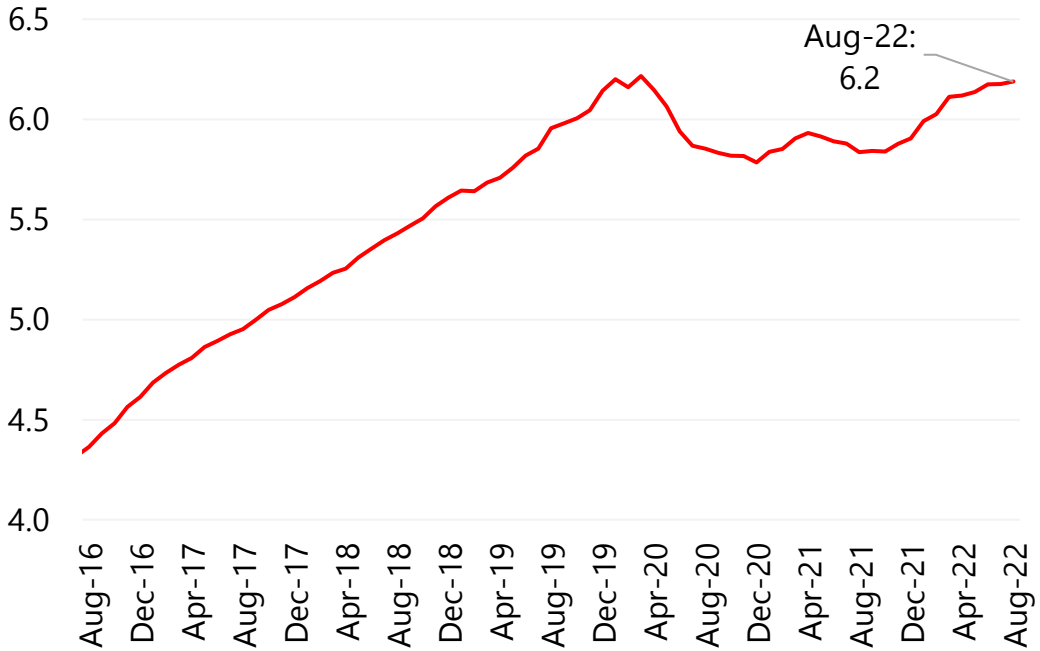


Sources: Brazilian Central Bank, Santander.

Corporates defaulting: still not a big problem

- The number of defaulting companies reached 6.2 million, (2021: around 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 Real Outstanding Loans & Delinquency

Real Credit Outstanding (%YoY)						
	2019	2020	2021	2022e	2023e	2024e
Total	3,1	10,6	*5,7*	*7,7*	*0,7*	*7,4*
Household	8,3	6,3	*9,9*	*10,6*	*1,9*	*7,7*
Non-fin. Corp.	-3,4	16,5	*0,4*	*3,8*	*-0,9*	*6,9*
Nonearmarked	10,3	10,4	*9,4*	*10,4*	*0,2*	*8,2*
Household	12,8	5,9	*11,8*	*13,1*	*2,4*	*8,6*
Non-fin. Corp.	7,3	15,9	*6,7*	*7,2*	*-2,6*	*7,8*
Earmarked	5,4	10,9	*0,7*	*3,8*	*1,7*	*6,1*
Household	3,2	6,8	*7,7*	*7,4*	*1,2*	*6,5*
Non-fin. Corp.	-16,8	17,5	*-9,4*	*-2,5*	*2,6*	*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*	*4,5*	*4,2*
Household	4,8	5,0	4,2	*4,4*	*5,7*	*6,0*	*5,6*
Non-fin. Corp.	2,7	2,1	1,5	*1,5*	*1,9*	*2,5*	*2,4*
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 Nominal Outstanding Loans & Delinquency

Nominal Credit Outstanding (%YoY)	2019	2020	2021	2022e	2023e	2024e
Total	**6,4**	**15,6**	**16,3**	***13,7***	***5,8***	***10,6***
Household	11,9	11,1	21,0	*16,7*	*7,0*	*10,9*
Non-fin. Corp.	-0,3	21,8	10,5	*9,5*	*4,0*	*10,1*
Nonearmarked	**13,9**	**15,4**	**20,4**	***16,5***	***5,2***	***11,4***
Household	16,5	10,7	23,0	*19,3*	*7,5*	*11,8*
Non-fin. Corp.	10,8	21,2	17,4	*13,1*	*2,3*	*10,9*
Earmarked	**-2,4**	**15,9**	**10,9**	***9,5***	***6,8***	***9,2***
Household	6,6	11,7	18,5	*13,3*	*6,3*	*9,6*
Non-fin. Corp.	-14,0	22,8	-0,3	*2,8*	*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***	***4,5***	***4,2***
Household	4,8	5,0	4,2	*4,4*	*5,7*	*6,0*	*5,6*
Non-fin. Corp.	2,7	2,1	1,5	*1,5*	*1,9*	*2,5*	*2,4*
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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