Brazil Macro | September 2023

Credit

Henrique Danyi
henrique.danyi@santander.com.br

INDEX

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

BRIEF OVERVIEW

01

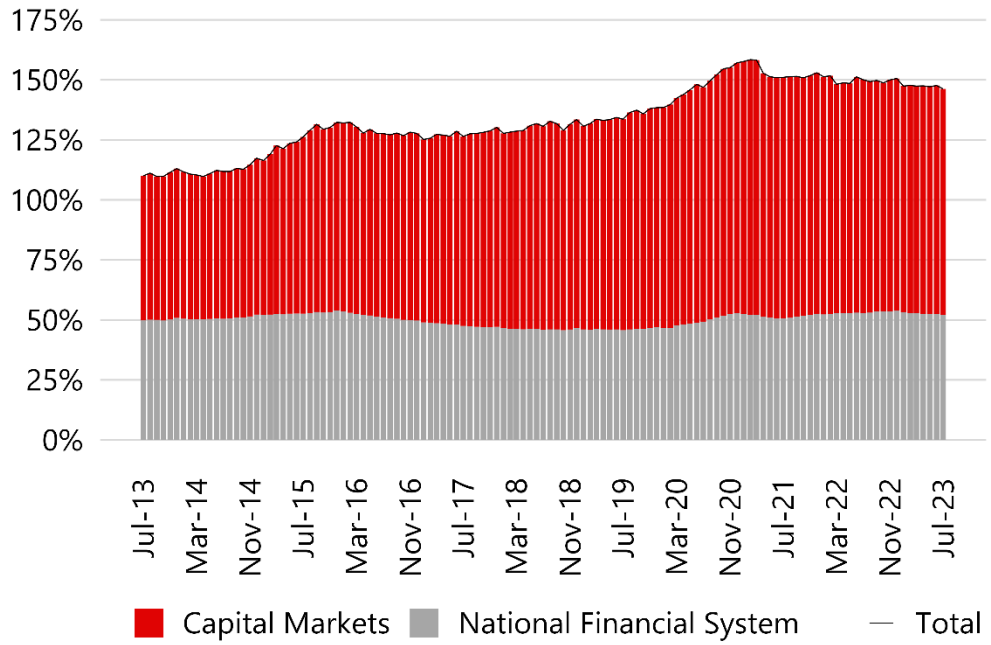
SUMMARY

- **This chartbook brings details on Credit outlook, contemplated in our latest Scenario Review, released on September 15 – "Adjustments to Reflect Past Surprises; Same Trends Continuing Ahead" - available in: https://bit.ly/std-sce-review-Sep23**
- As of July, we have seen weak results in 2023 bank lending data. Total new loans are down 1.4% YTD, owing to non-earmarked corporate (-9.5% YTD) and earmarked household (-5.7%) loans, and partially offset by non-earmarked household (5.7% YTD) and earmarked corporate (+18% YTD) loans. This is in line with our reading of the effects of a restrictive monetary policy combined with high consumer debt amid slowing economic activity and record levels of non-performing loans (NPLs).
- In this scenario review, we are not changing our credit market projections. However, we are including downside risks for the growth of non-earmarked credit to households and upside risks for NPLs in the same category.
- We also highlight a recent change in the dynamics of outstanding credit: since January 2023, public banks' outstanding loans have risen faster than the loans of private banks. This divergence makes projecting credit growth more difficult.

Total Credit to Non-Financial Sector

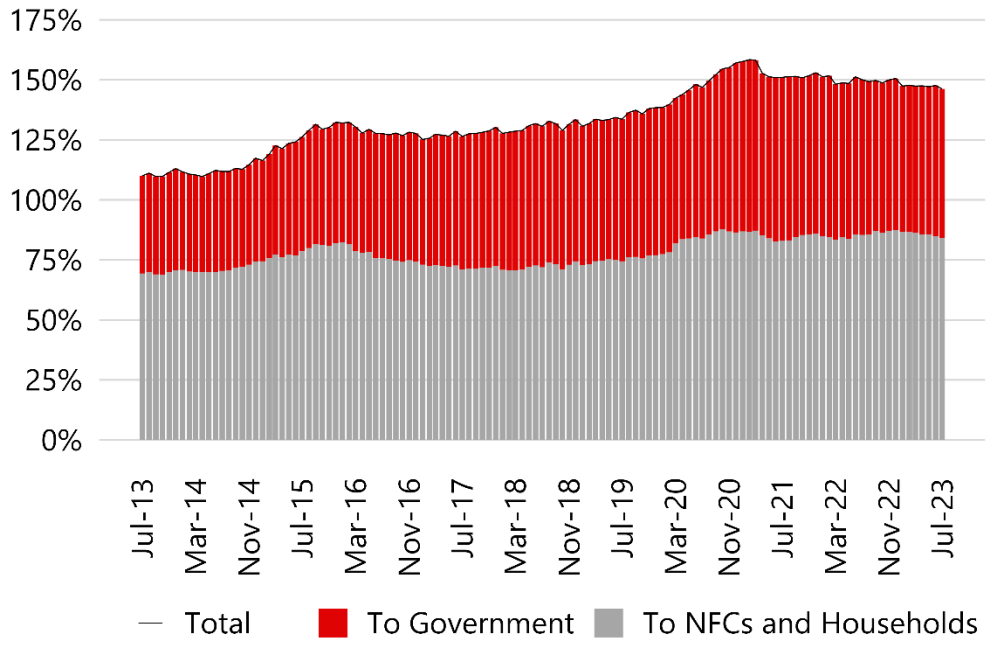
- In the last 10 years, credit in the Capital Markets grew compared to credit operations in the Financial System.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination (% GDP)

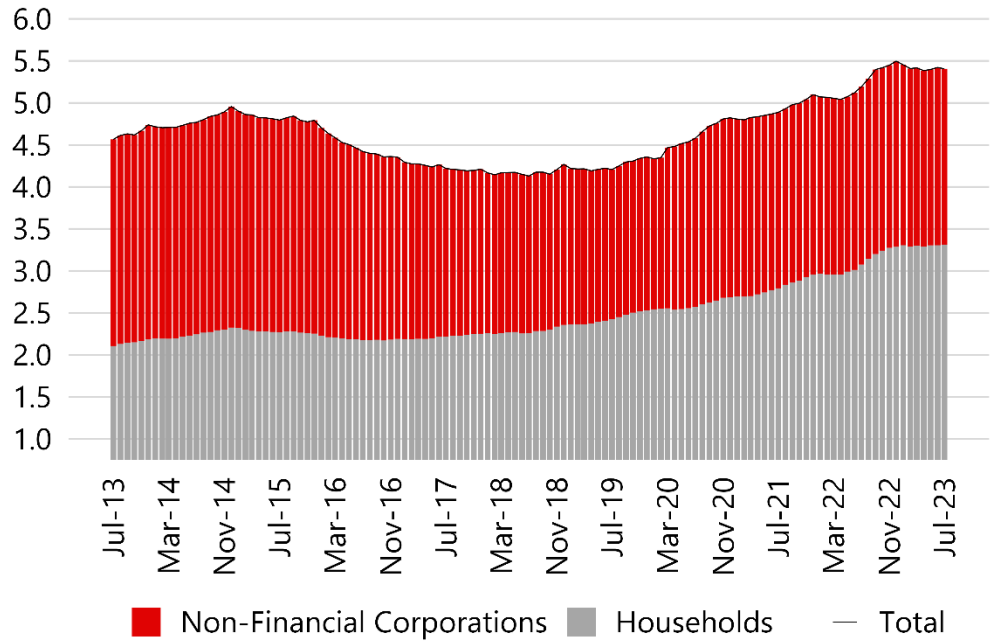


Sources: BIS, Santander.

First half marked by sluggishness (particularly for companies)

- Total outstanding loans posted inflation-adjusted growth of 4.1% YoY for June, reflecting the slowdown in the activity and more restrictive financial conditions. This figure was carried by credit to households (7.8% YoY) and partially offset by non-financial corporations (-1.3% YoY).

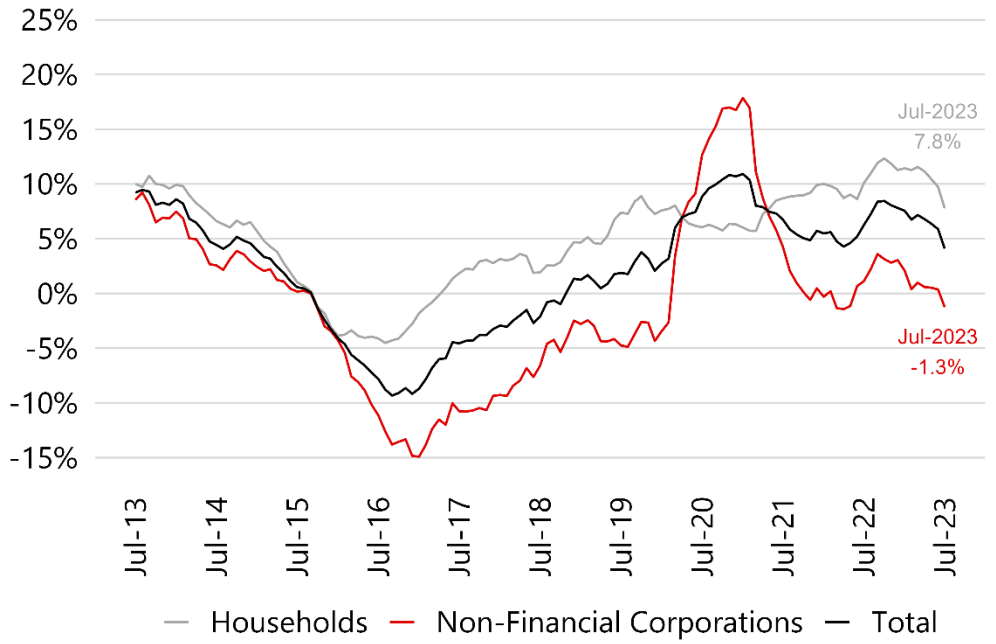
Total Outstanding Balance of Credit Operations*



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.

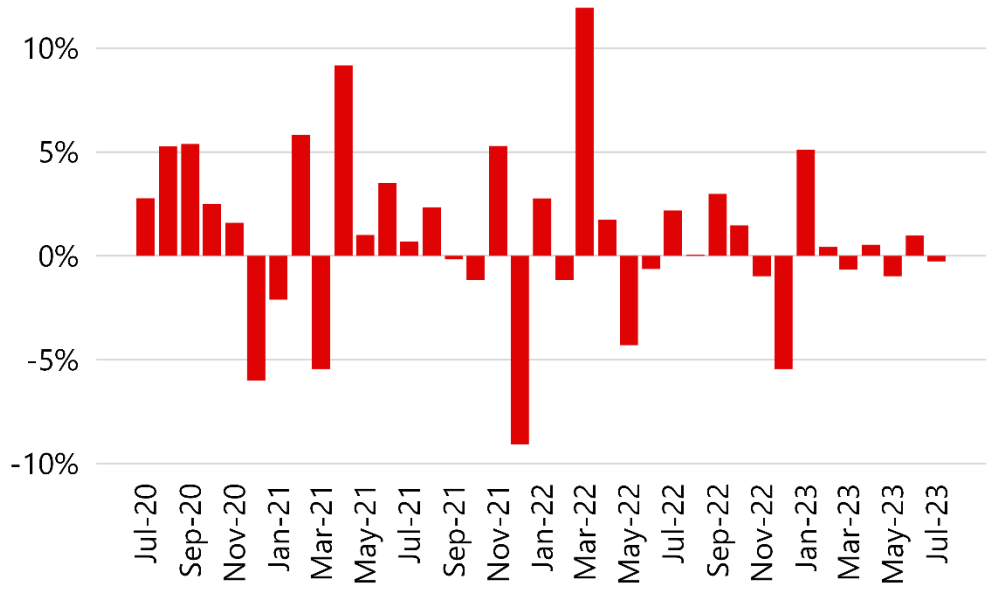
HOUSEHOLD

02

Non-Earmarked new loans: overall flat

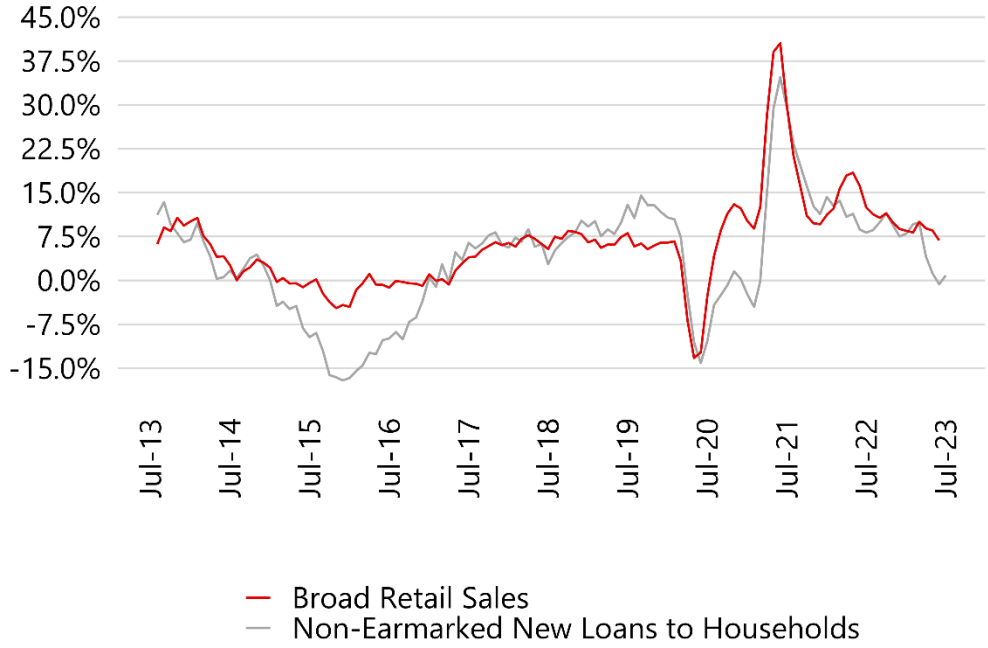
- For households, the non-earmarked segment increased 0.4% MoM-sa, in June (vs 0.3% in the previous month). Concessions in the segment are up 5.4% YTD compared to the same period in 2022.
- As highlights, we see Credit Cards (-0.7% MoM-sa in July vs 2.0% in June) and Personal Credit (5.0% MoM-sa vs -4.5%).

Non-Earmarked - New Loans (% MoM)



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales (% YoY, 3mma) and
New loans Household Non-Earmarked (% YoY, 3mma)

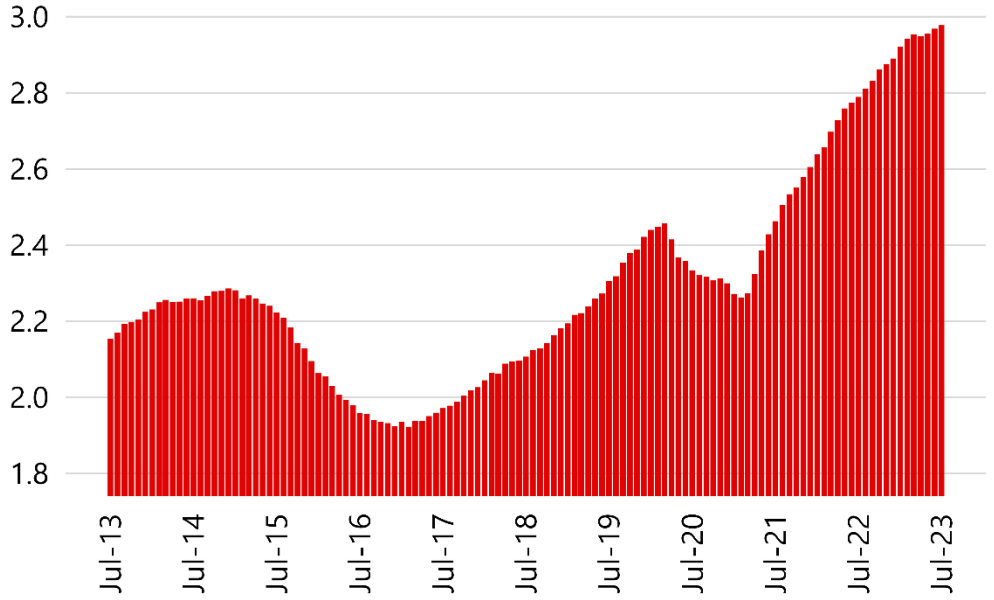


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans to families still high despite high interest rates and NPLs

- New loans (12 months acum.) in July grew 6.8% vs the year-ago period, -0.2 p.p. than in June, still pointing towards deceleration.
- The average interest rate for non-earmarked new loans in July was 58.5% (vs. 59.1% in June). Despite the marginal decrease, it is still a 6.4 p.p. increase from June 2022, sitting at the highest levels since August 2017.

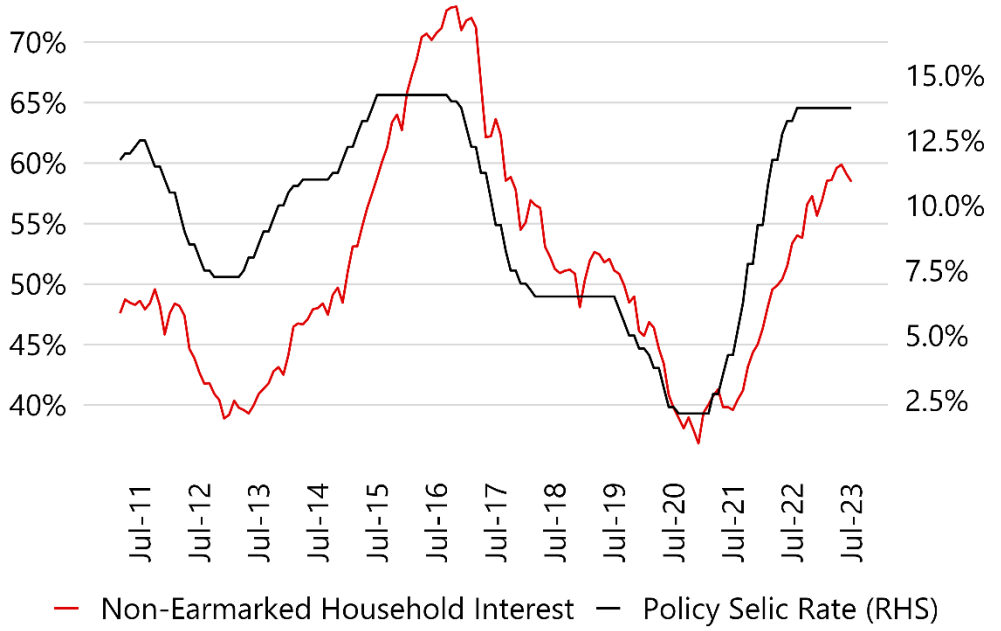
Non-Earmarked - New Loans* (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

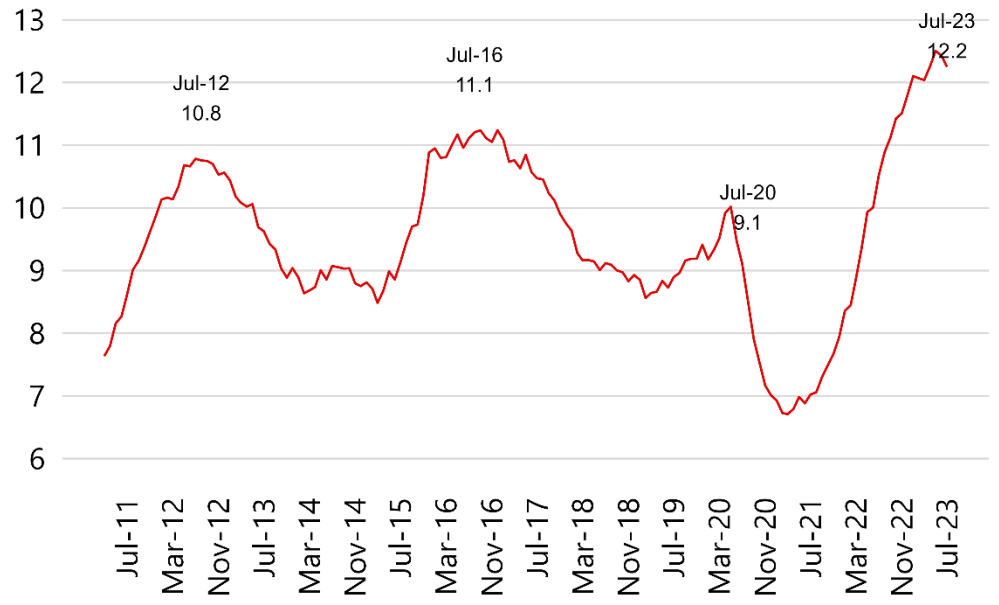


Sources: Brazilian Central Bank, Santander.

Not enough reliefs in risk indicators for households' operations

- NPLs remain high, with marginal reliefs only in the last 2 data points;
- Looking at the breakdown, the NPLs' rates for all high-cost loans to households have been rising steadily (with highlight to Revolving Credit Card operations);
- For low-cost, NPLs have been overall stable.

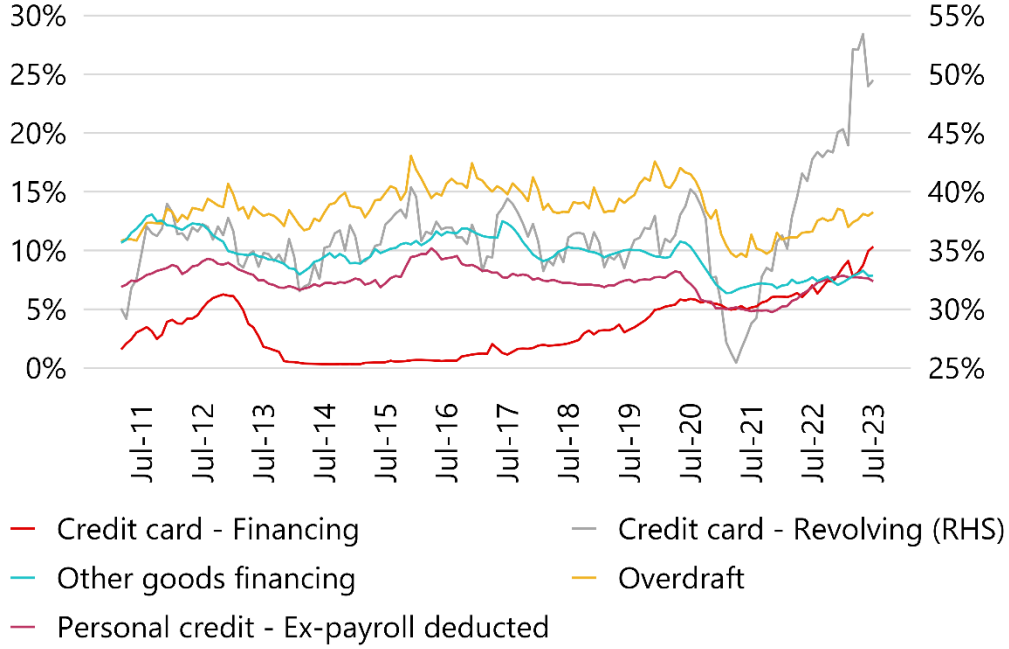
Core* Households' Non-earmarked NPLs (%)



Sources: BCB and Santander

* Personal credit, Credit card overdraft and financing, Overdraft, Vehicles, Renegotiation, Other

High-Cost Households' Non-earmarked NPLs (%)

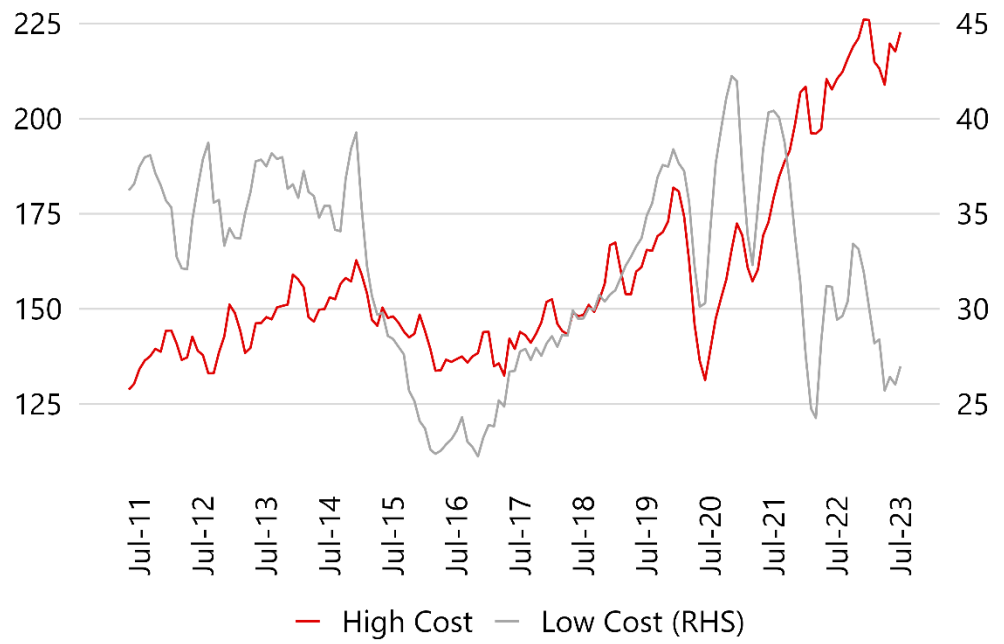


Sources: BCB and Santander

Caution to growing to risky operations

- Non-earmarked lending to households is being carried by high-cost (high risk) operations.
- The dynamics of NPLs *vis-a-vis* credit operations indicate that risk tends to remain high in the coming months.
- Lagged effects of monetary policy are a point of caution. Why haven't they come? Next section.

High- vs Low-Cost Households' Non-earmarked Lending (inflation-adjusted, 3mma)

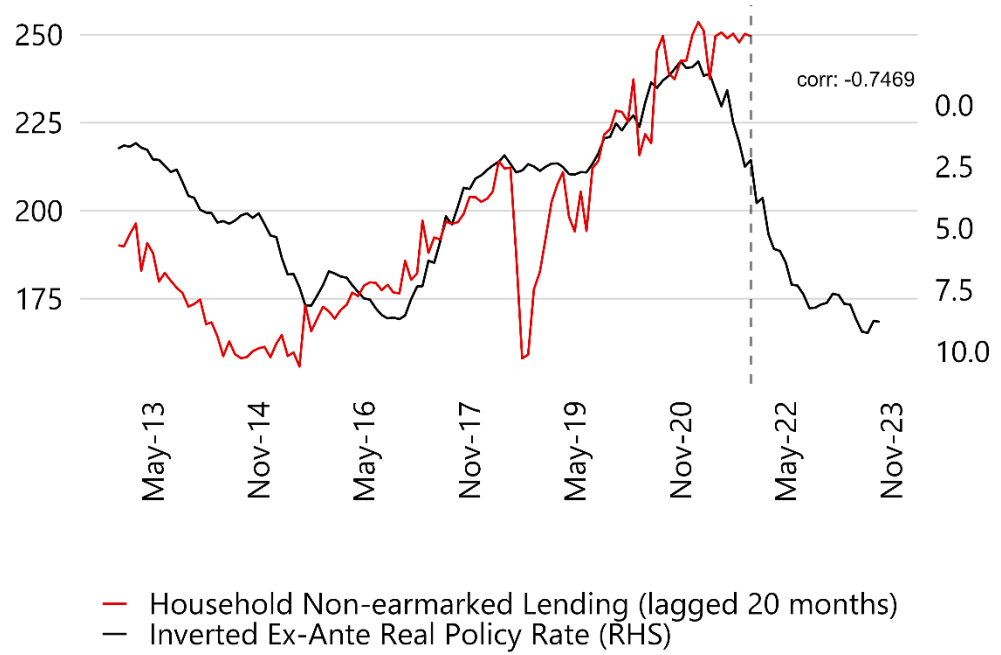


Sources: BCB and Santander

* High Cost: Credit card Financing and Revolving, Other goods financing, Overdraft, Personal Credit Excluding Payroll Deducted

* Low Cost: Personal credit - Payroll deducted, Vehicles financing, Leasing, Discount of checks

Household Non-earmarked Lending (inflation-adjusted) and Ex-ante Real Selic Rate (%)

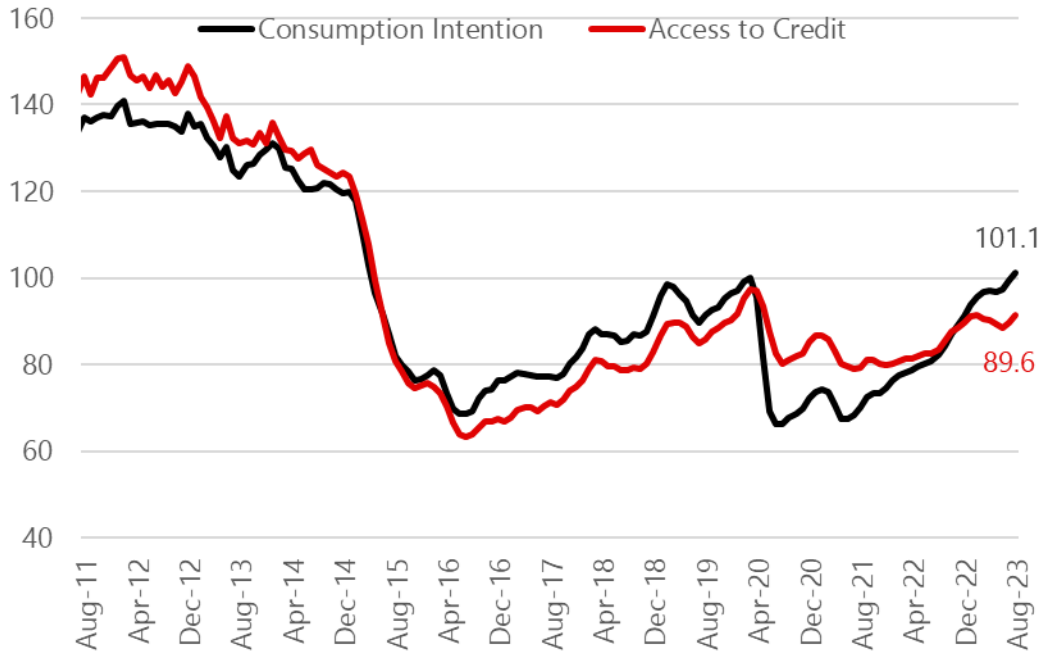


Sources: BCB and Santander

Household Consumption and Credit

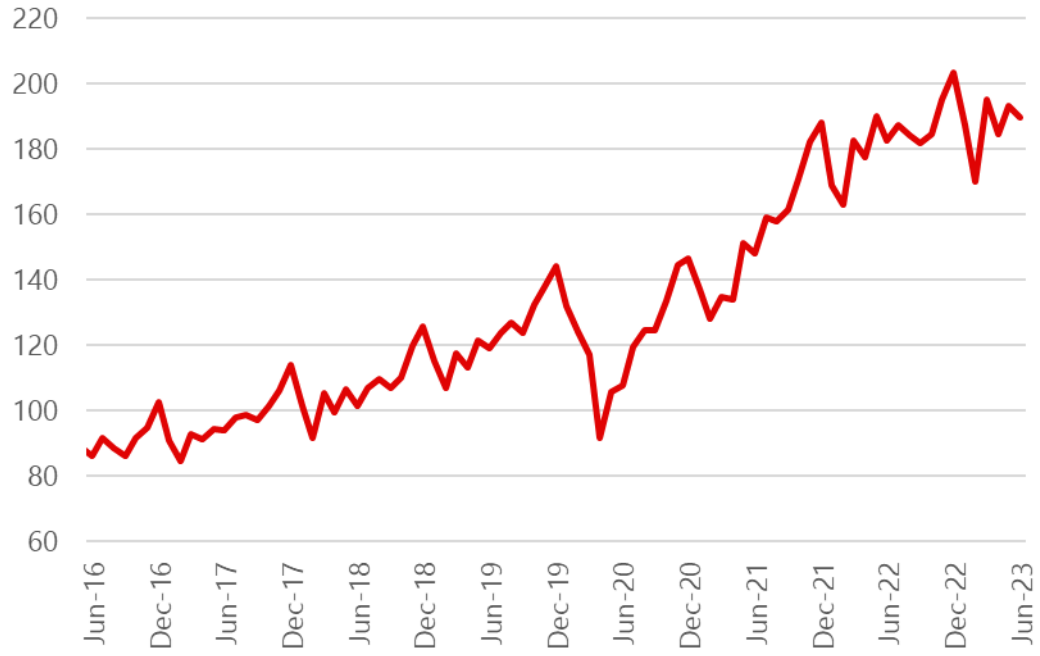
- Household consumption intention keeps rising, despite inflation and higher interest rates. This can be attributed to income support measures and the positive evolution of the labor market. Consumption has relied on personal credit, such as credit cards.

Household Consumption Intention



Sources: CNC, Santander.

Credit Cards Expenditures*



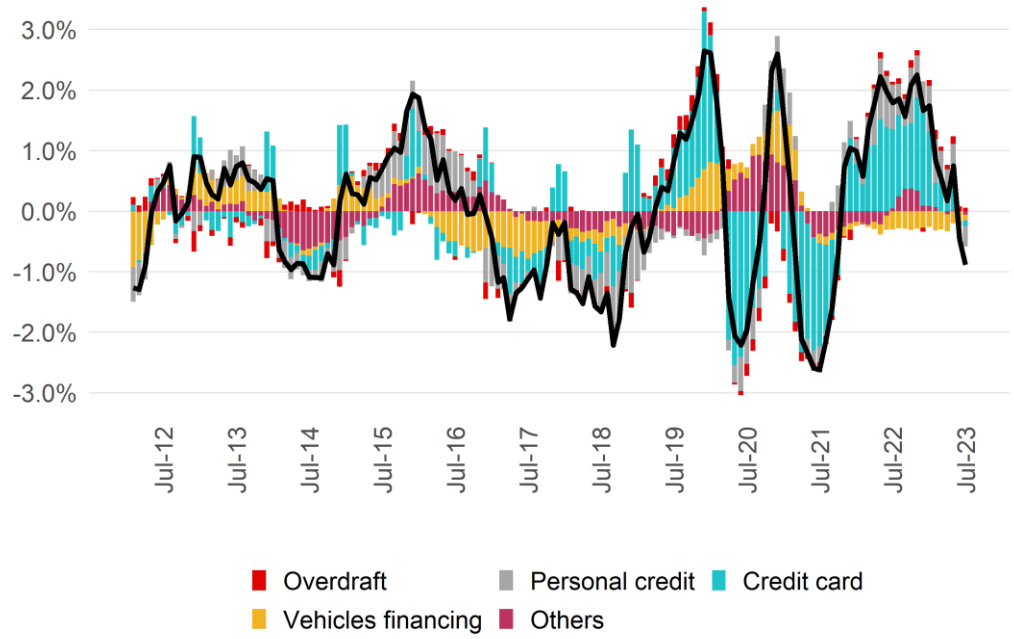
Sources: Abnec, Santander.

* BRL billion, inflation adj.

Non-Earmaked Households' Credit Gaps

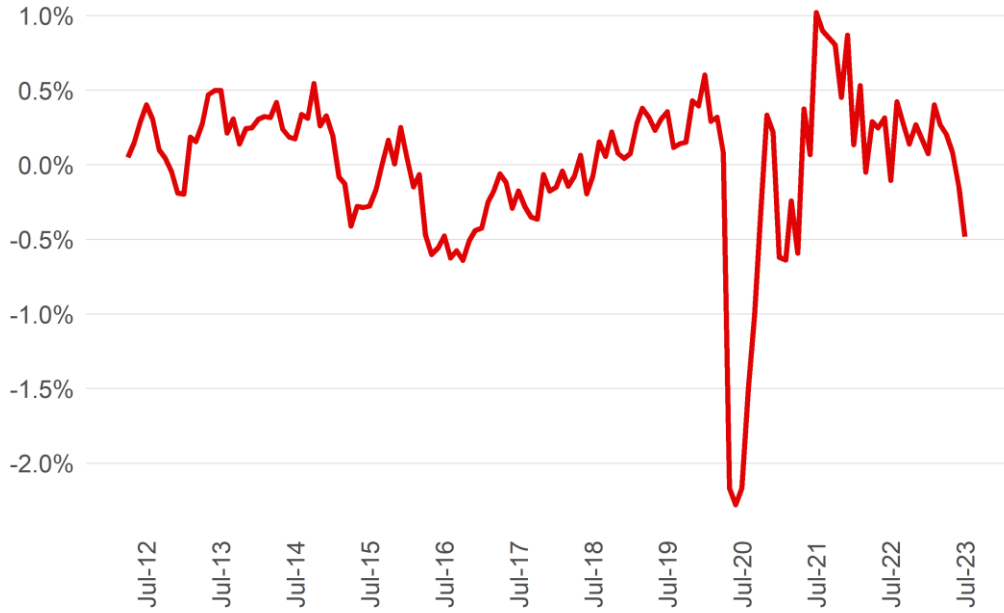
- Considering both outstanding and new loans, households have only just recently started to feel contractionary effects of monetary policy and are nowhere near historical lows.

Household Non-earmarked Outstanding Credit-to-GDP Gap (% of Potential)



Sources: BCB and Santander

Household Non-earmarked Lending Gap (% of Potential)

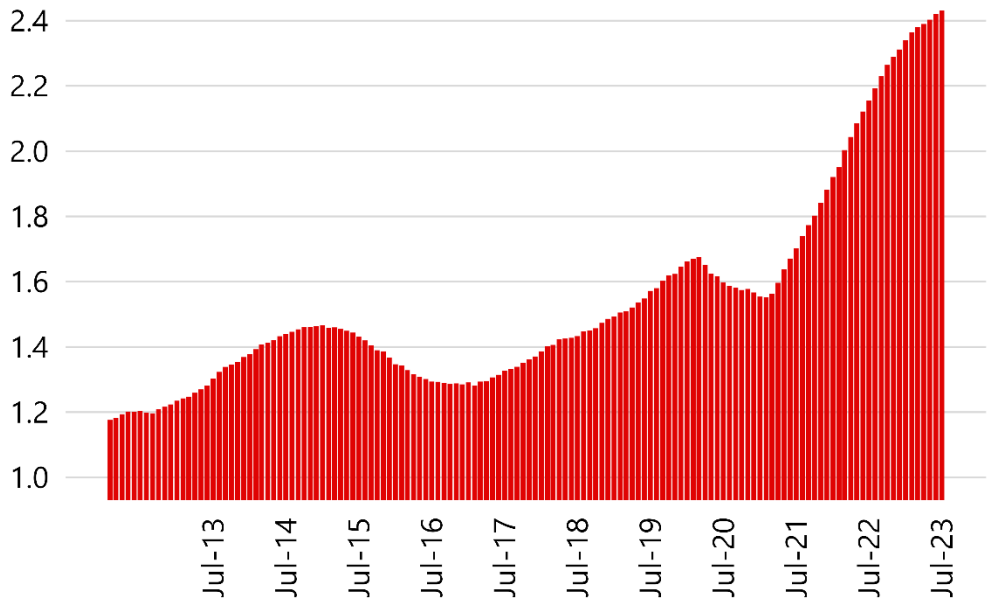


Sources: BCB and Santander

Speaking of Credit Cards: High but decelerating

- New Loans (12 months accum.) kept at historic highs, now at 12.8% YoY (-1.3 p.p. lower than in June).
- In the non-earmarked balance, credit cards fell slightly at the margin, up 8.8% YoY, inflation adjusted, -2 p.p. from May, slowing but still high, in line with the accommodation of consumption and the highly adverse economic conditions.

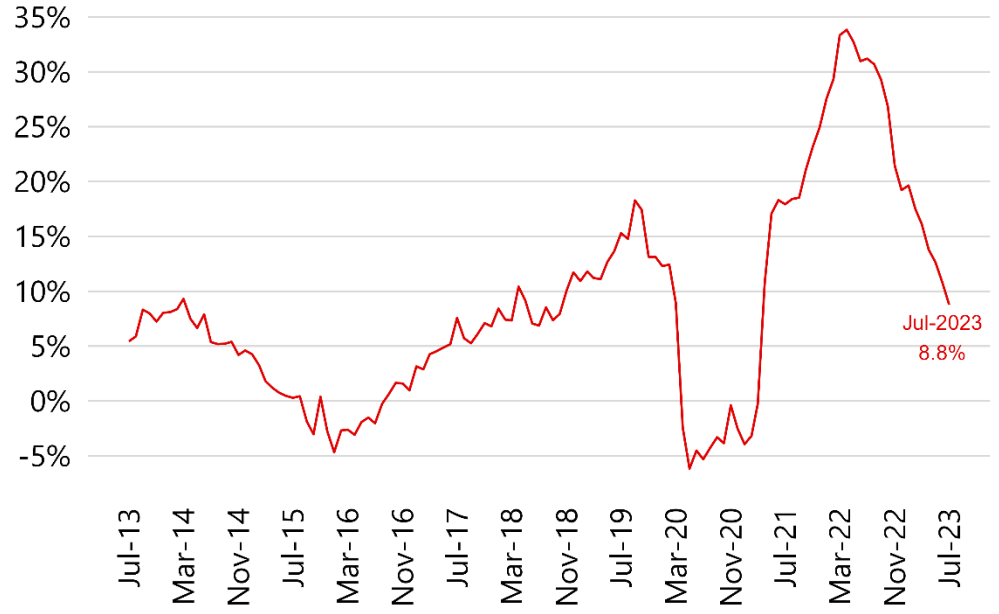
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

Outstanding Balance* – Credit Card Total (% YoY)

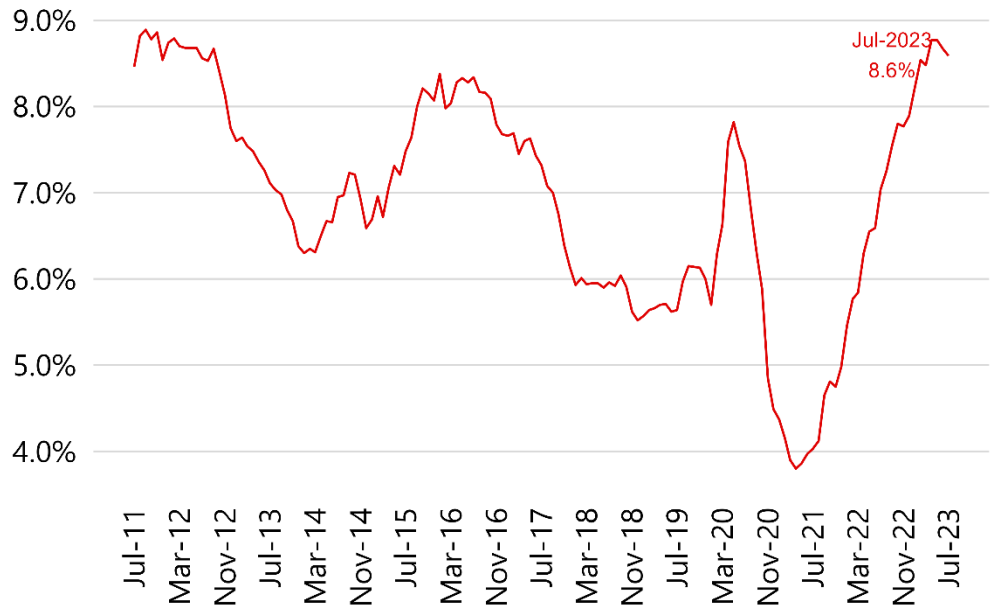


Sources: Brazilian Central Bank, Santander.
* Inflation adjusted

Credit Card: still a high delinquency

- Credit card delinquency stands at a historically high level and with only a marginal relief in the latest figure.
- The average interest rate for Credit cards increased by 17.5 p.p. since June 2022, with also a marginal relief in the 2 latest figures.

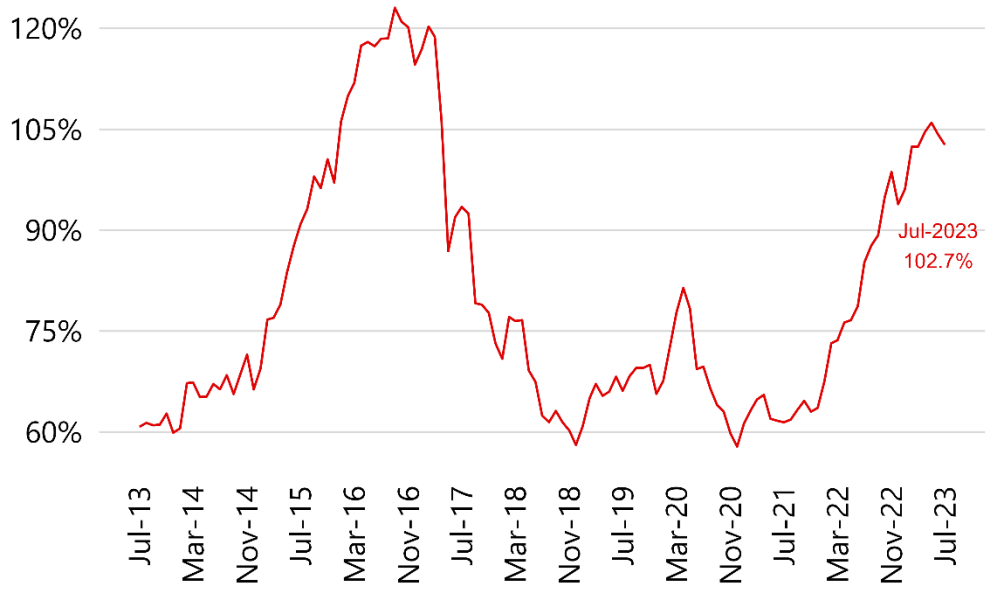
Delinquency (%) – Credit Card Total



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

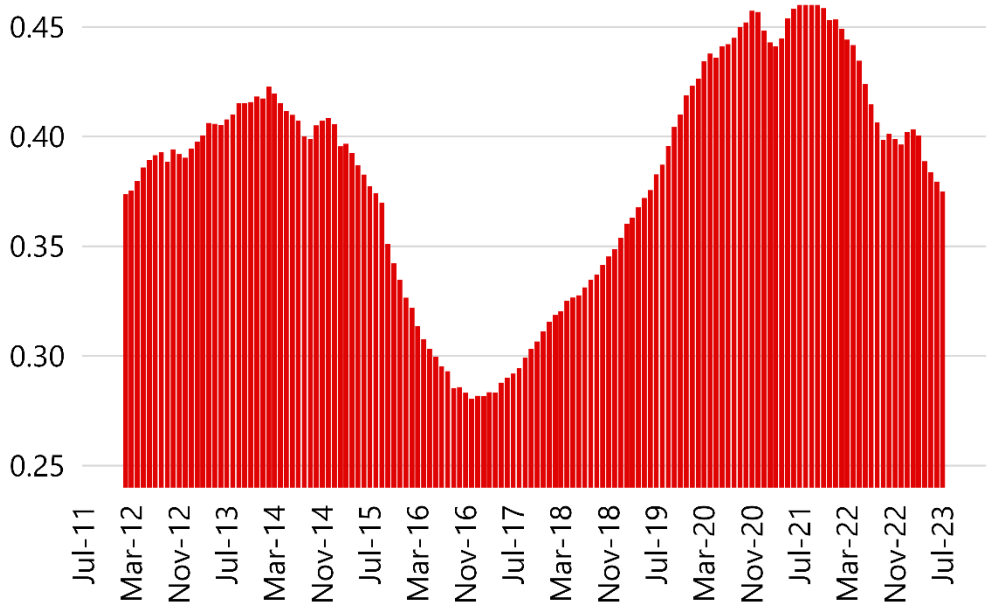


Sources: Brazilian Central Bank, Santander.

Personal Credit: also decelerating

- New Loans (accumulated for 12 months) fell 9.6% compared to the year-ago period (compared to -10.5% in June)..
- YTD total personal real credit concessions fell 9.5%, 5.1 p.p from June 2023.

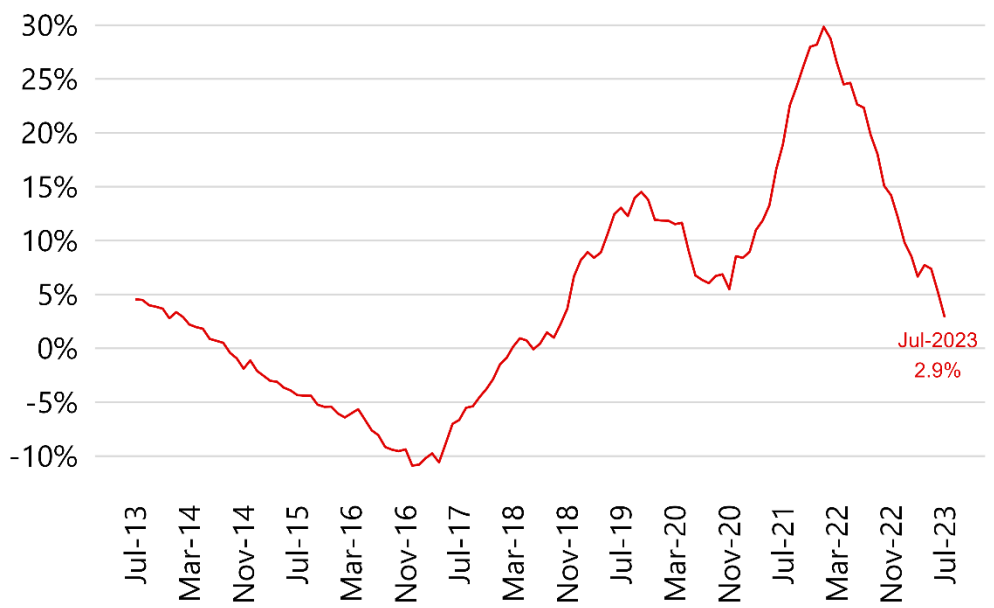
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

Outstanding Balance* – Personal Credit** (% YoY)



Sources: Brazilian Central Bank, Santander.
* Inflation adjusted
** Personal Credit (Ex-Payroll)

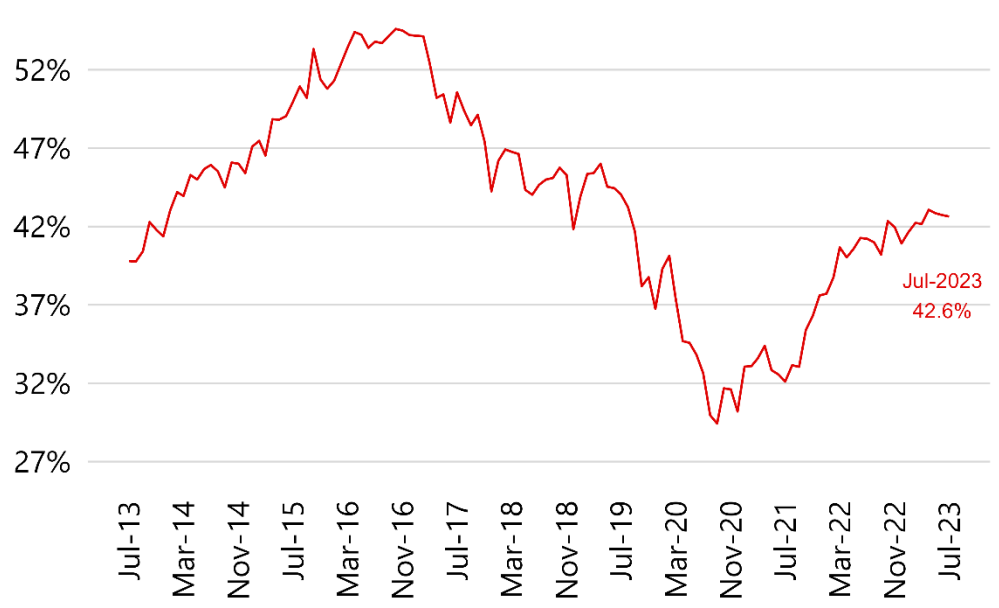
Personal Credit: first sign of NPLs slowing down

- Personal credit (ex-payroll) delinquency shows a downward trend at the margin, but still very small.
- The average interest rate for Personal Credit (ex-payroll) is up 6.2 p.p from July 2022.

Delinquency (%) – Personal Credit (Ex-Payroll)

Sources: Brazilian Central Bank, Santander.

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

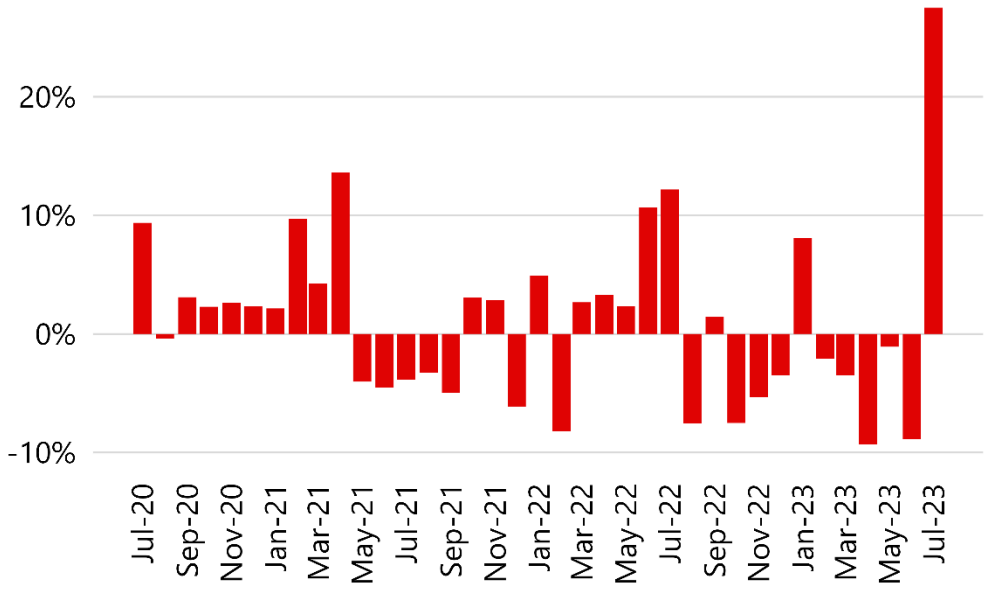


Sources: Brazilian Central Bank, Santander.

Earmarked Segment

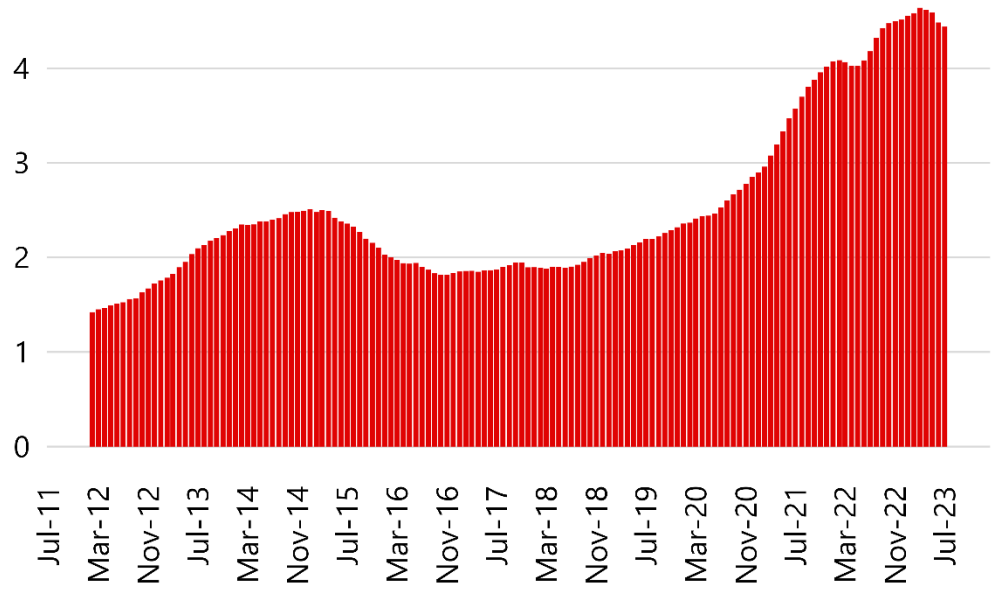
- In the earmarked segment, loans to households increased 20.6% MoM-sa in July after 5 months of significant falls. YTD, it stands 7.1% lower than last year.
- New Loans accumulated for 12 months are already showing the above effects, despite still being at historic highs.

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: also falling

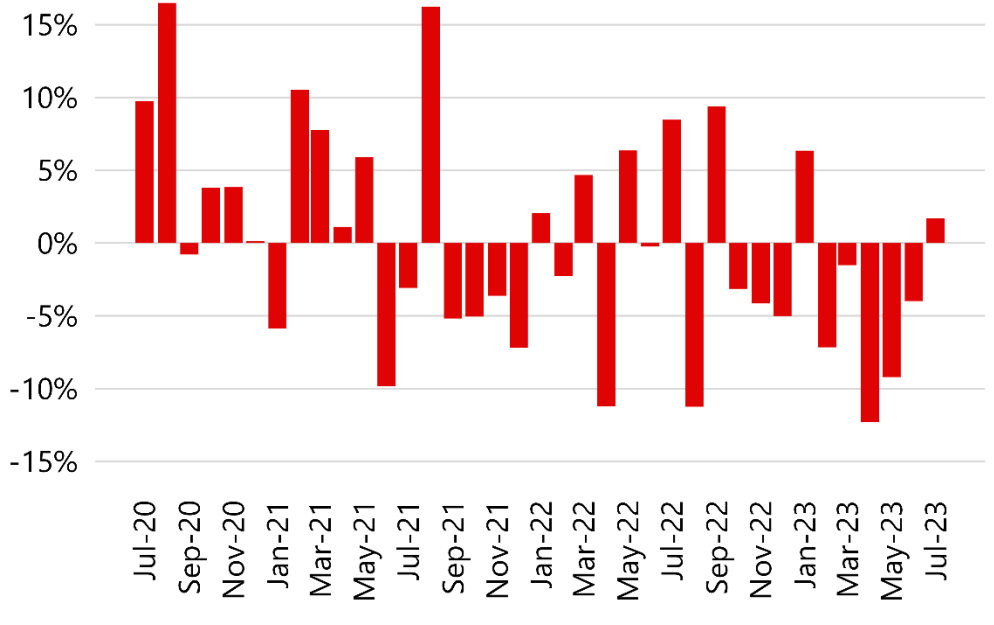
- Real Estate outstanding balance rose 6.1% YoY in June (-2 p.p. from Junel), reflecting recent signs of deceleration.
- New Loans YTD are now 20.3% lower than the same period a year ago (-2.9 p.p from June).

Outstanding Balance* – Real Estate Financing (% YoY)

Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans (% MoM)

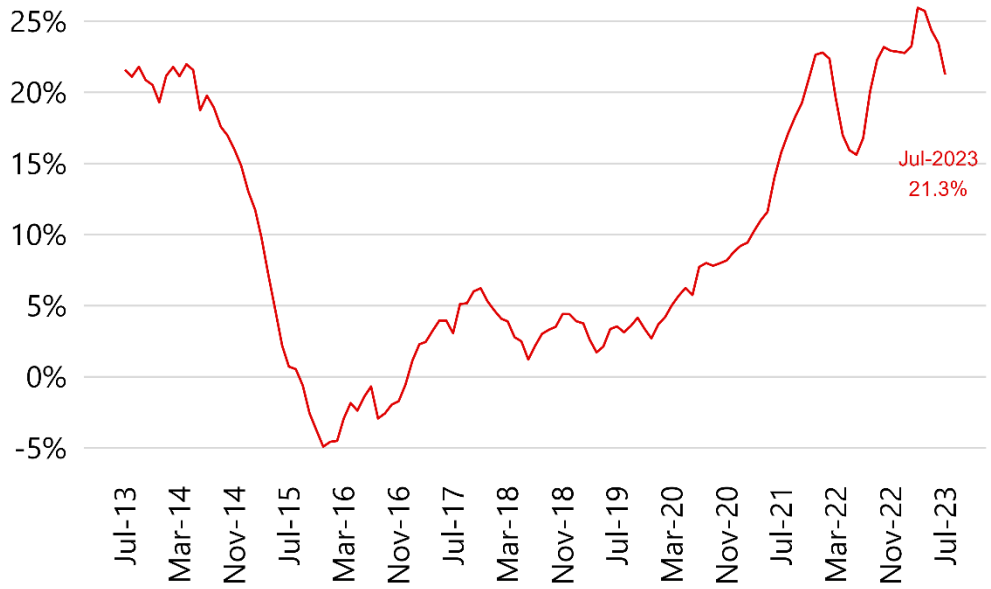


Sources: Brazilian Central Bank, Santander.

Rural Credit

- The outstanding balance of Rural Credit is still rising, but at a slower pace, 21.3% YoY indicating a decrease of 2.2 p.p. from June. YTD Loans are up 4.5%.
- The sector calls for attention as the Agricultural Plan approved ~BRL 71.6 billion for households to be directed in 2023/2024.

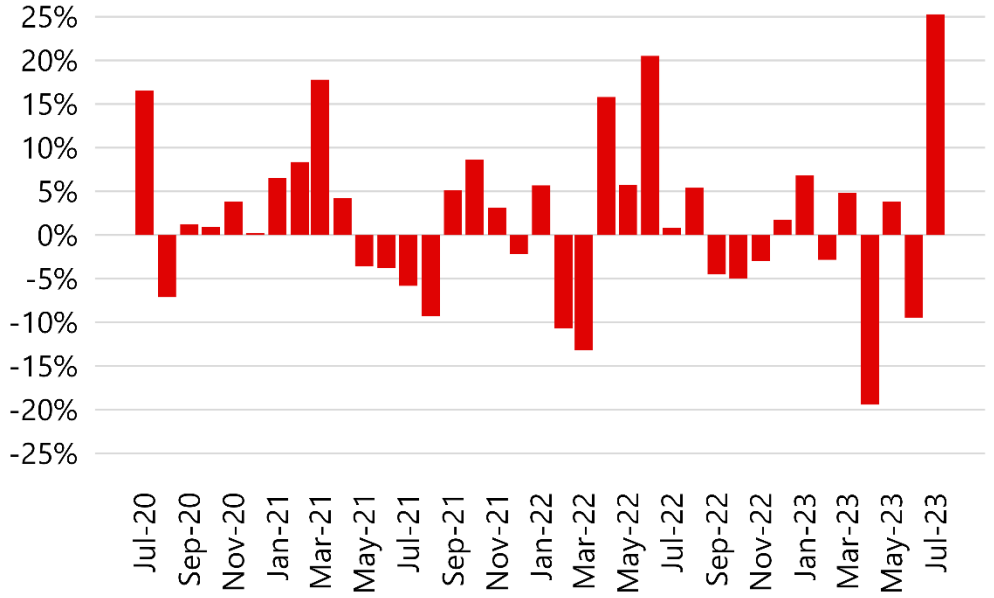
Outstanding Balance* – Rural Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

New Loans - Rural Credit (% MoM)

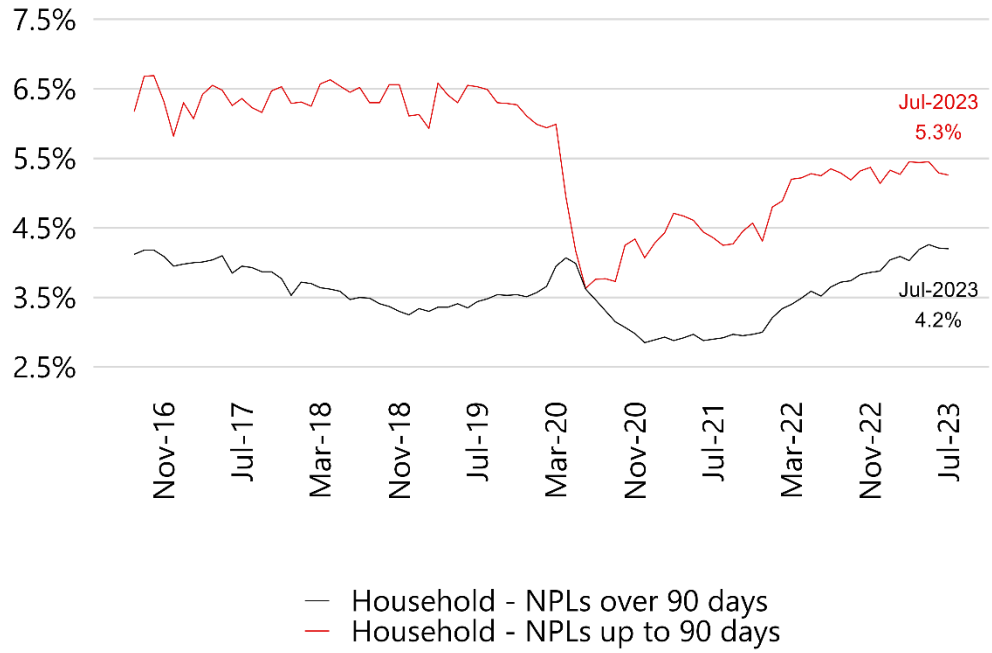


Sources: Brazilian Central Bank, Santander.

Household Indebtedness: Breakdown

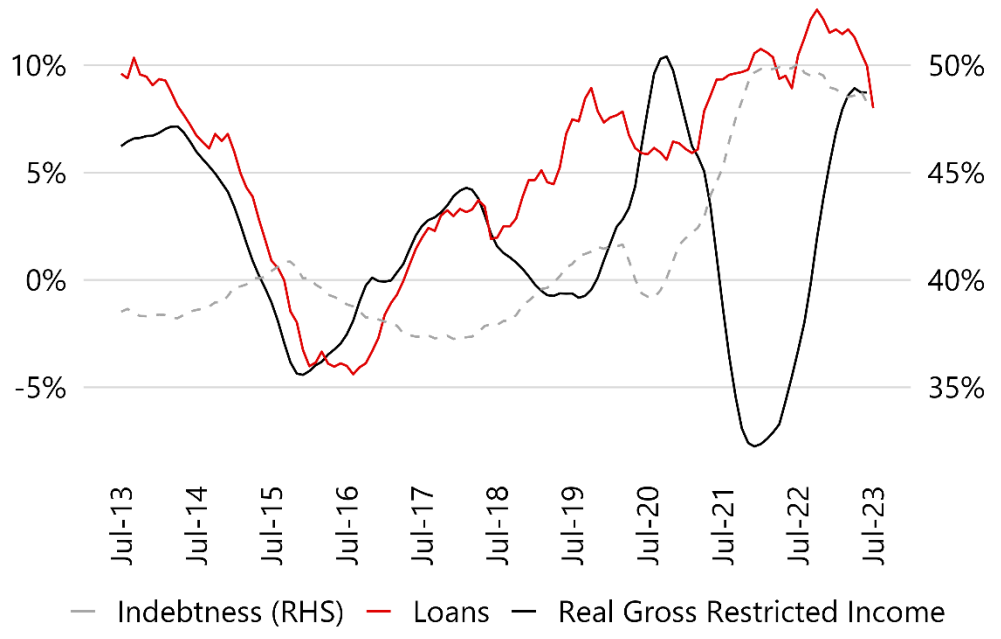
- The arrears are giving warning signs. And the delinquent loans are starting to rise.
- Core Household NPL considers only the most "problematic" categories. It sits now at the highest level since the beginning of the series.

Household – Past Due Loans



Sources: Brazilian Central Bank, Santander.

Household Indebtness (%)

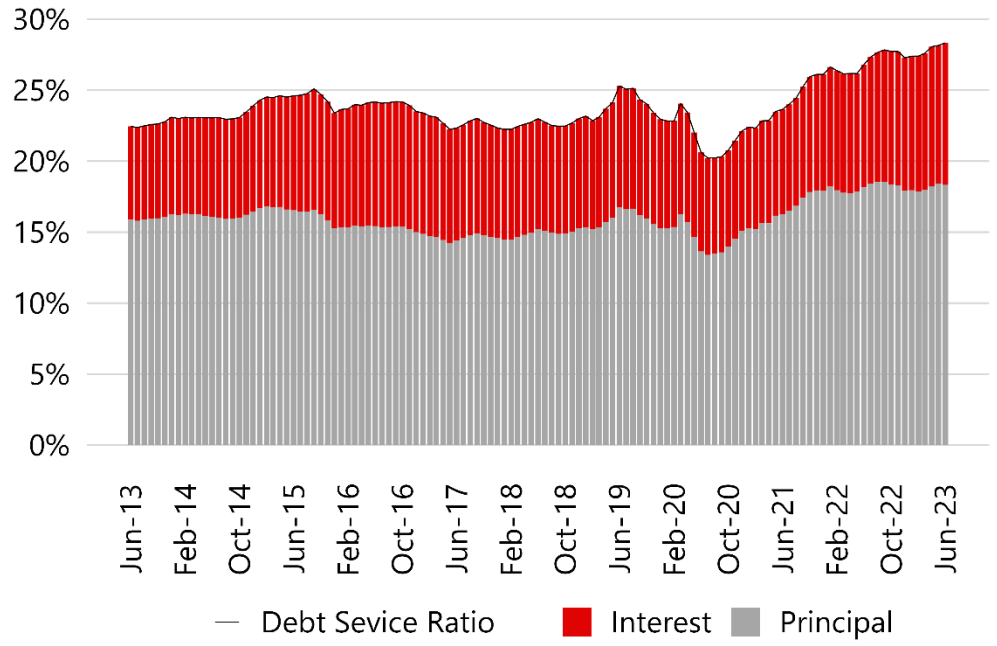


Sources: Brazilian Central Bank, Santander.

Household Indebtedness: Breakdown

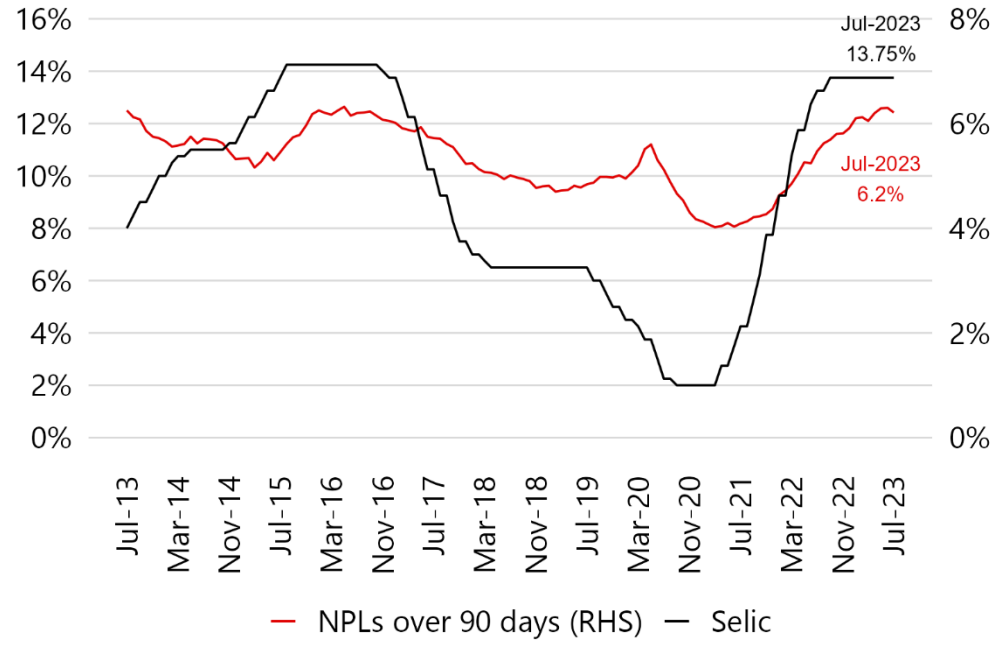
- The household debt service ratio is higher than pre-pandemic levels.
- With the high Selic, arrears continues to rise as well.

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

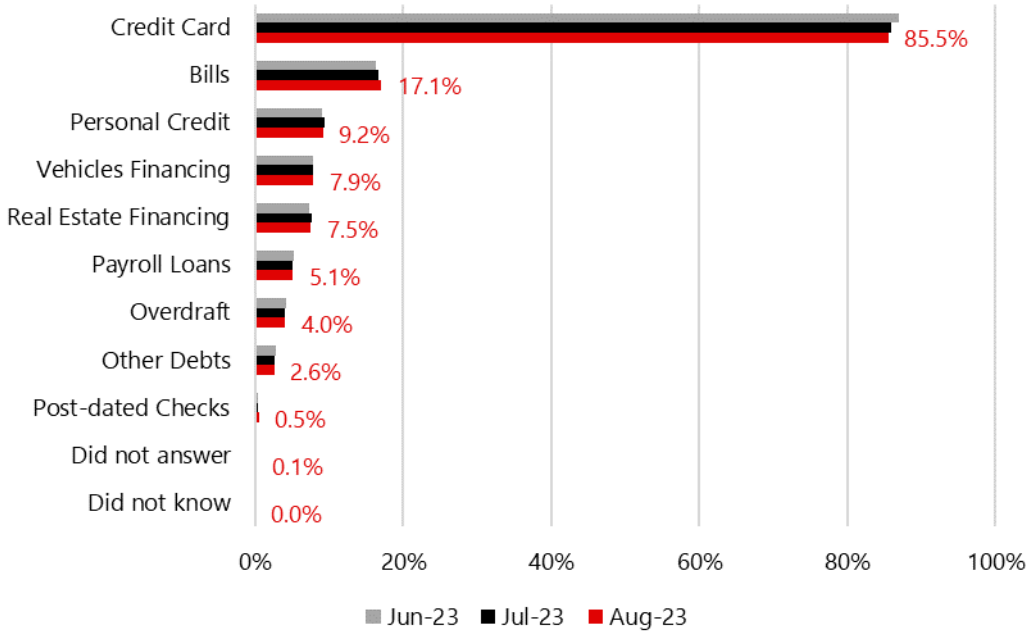


Sources: Brazilian Central Bank, Santander.

Household Indebtedness: by type

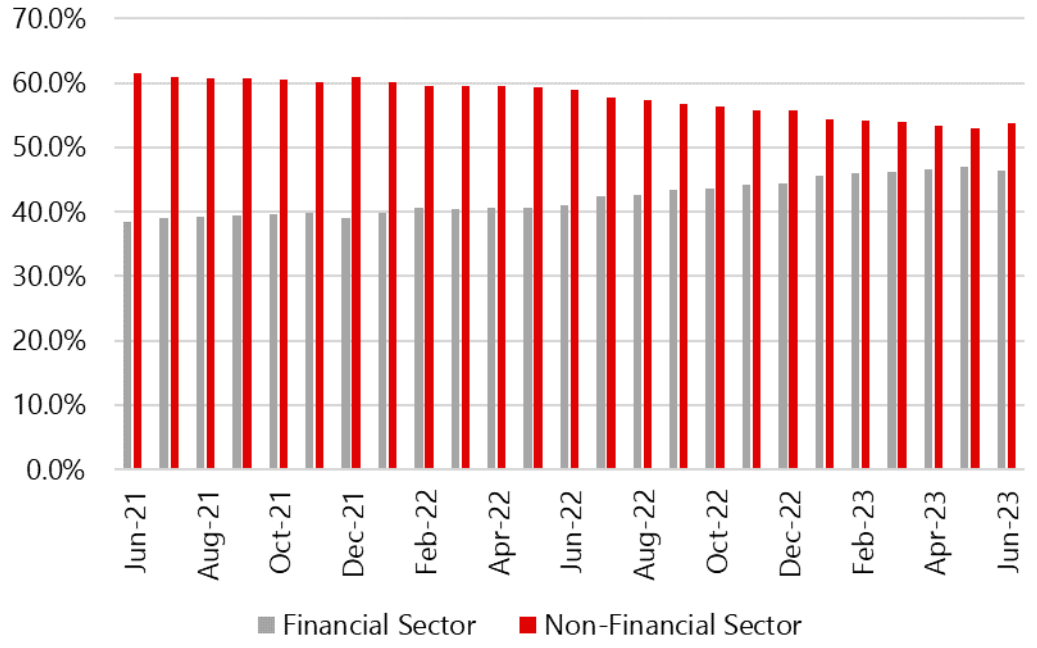
- Composition is overall unchanged, with credit cards leading with 87% of families having this type of debt.
- Most debts are in the non-financial sector, but the financial sector has been catching up.

Household Debt – By Type



Sources: CNC, Santander.

Household Debt – By Sector

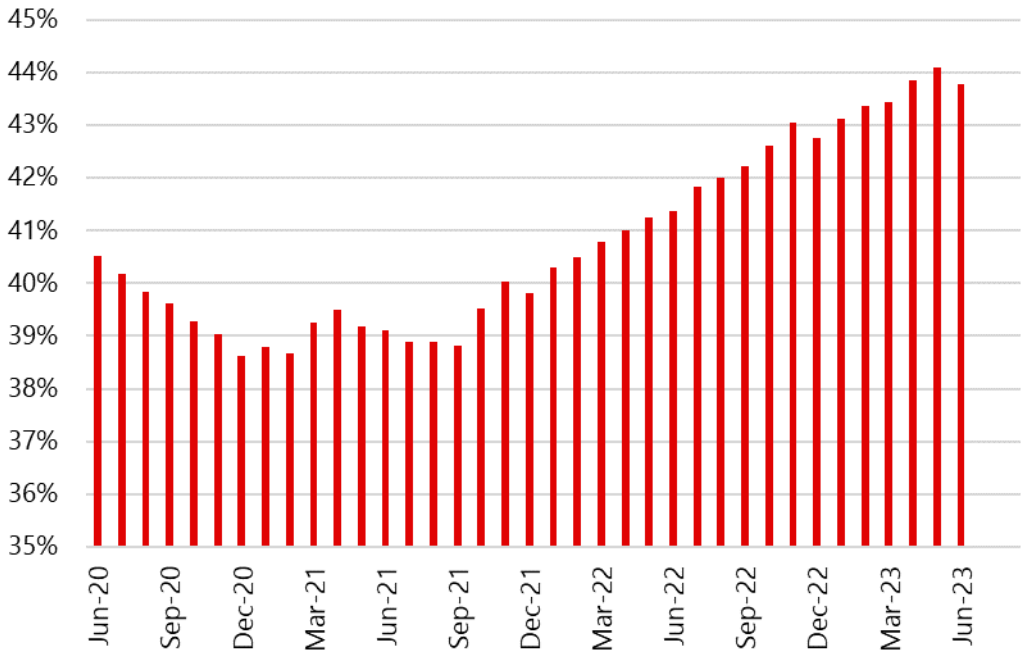


Sources: Serasa Experian, Santander.

Household Indebtedness: a new peak

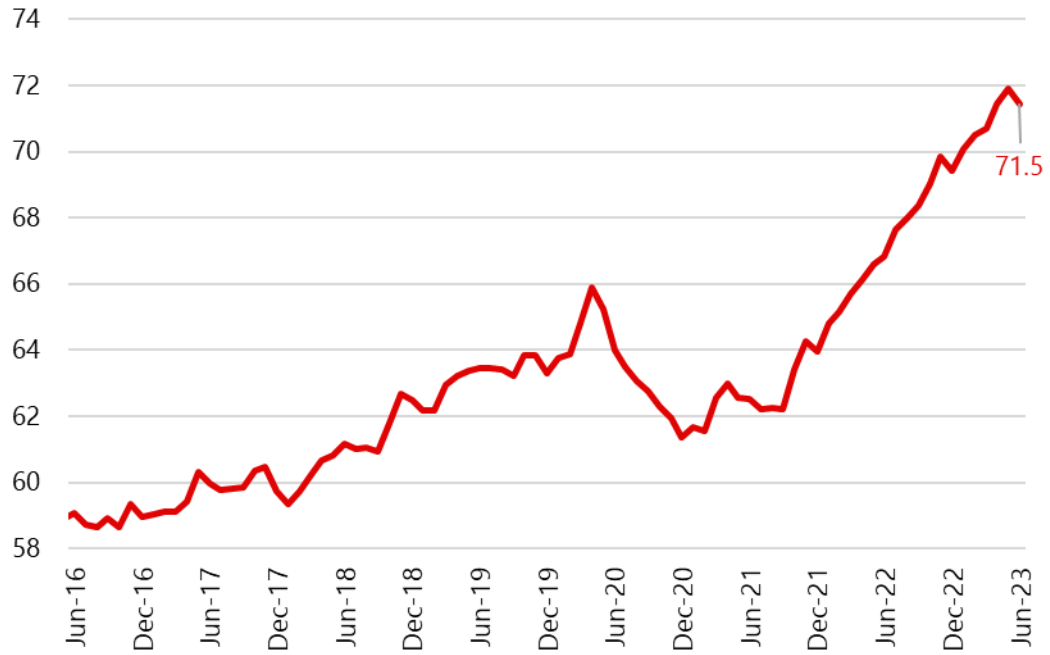
- In June 2023, 43.8% of the adult population was in debt, a first (and small) relief in the series. This adds up to more than 70 million people.

Defaulting Population (% of the Adult Population)



Source: Serasa Experian, Santander.

Household Defaulting*



Source: Serasa Experian, Santander.

* Millions

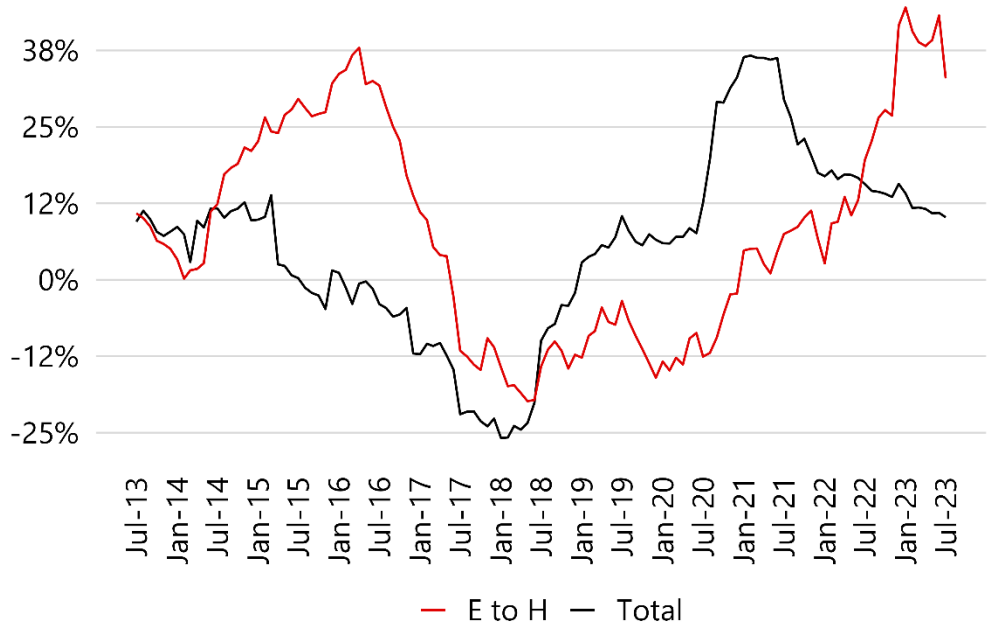
CORPORATE

03

Riskier portfolios (E to H) - Company credit

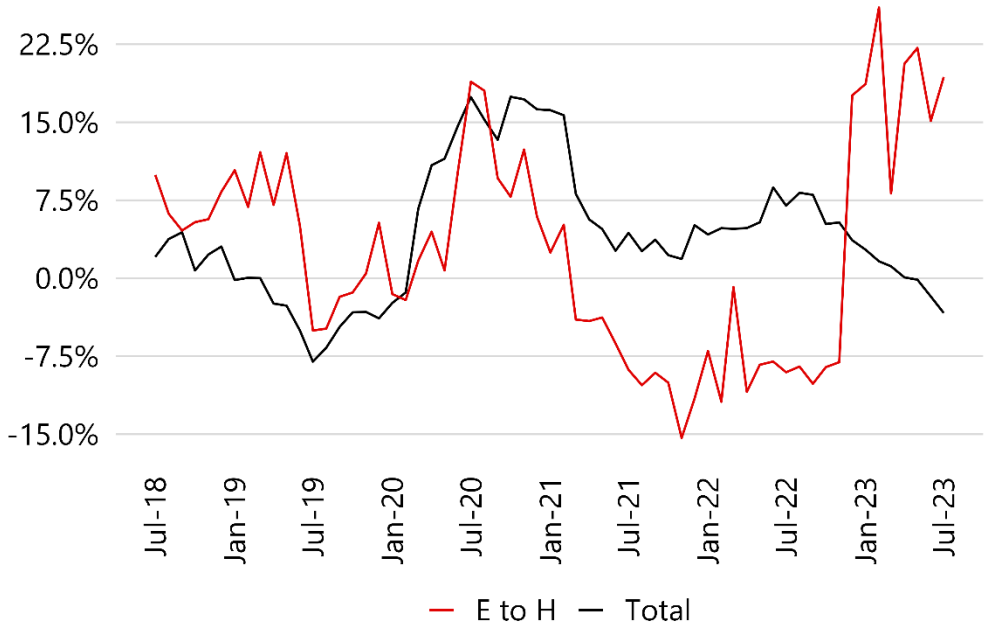
- The Risk portfolio has grown faster than the total portfolio for SMEs.
- For large companies, the atypical event at the end of 2022 caused the sharp increase observed; but there are no structural problems for this group of companies.

Total Portfolio vs Risk Portfolio – SMEs (% YoY)



Fontes:: SFN, Santander.

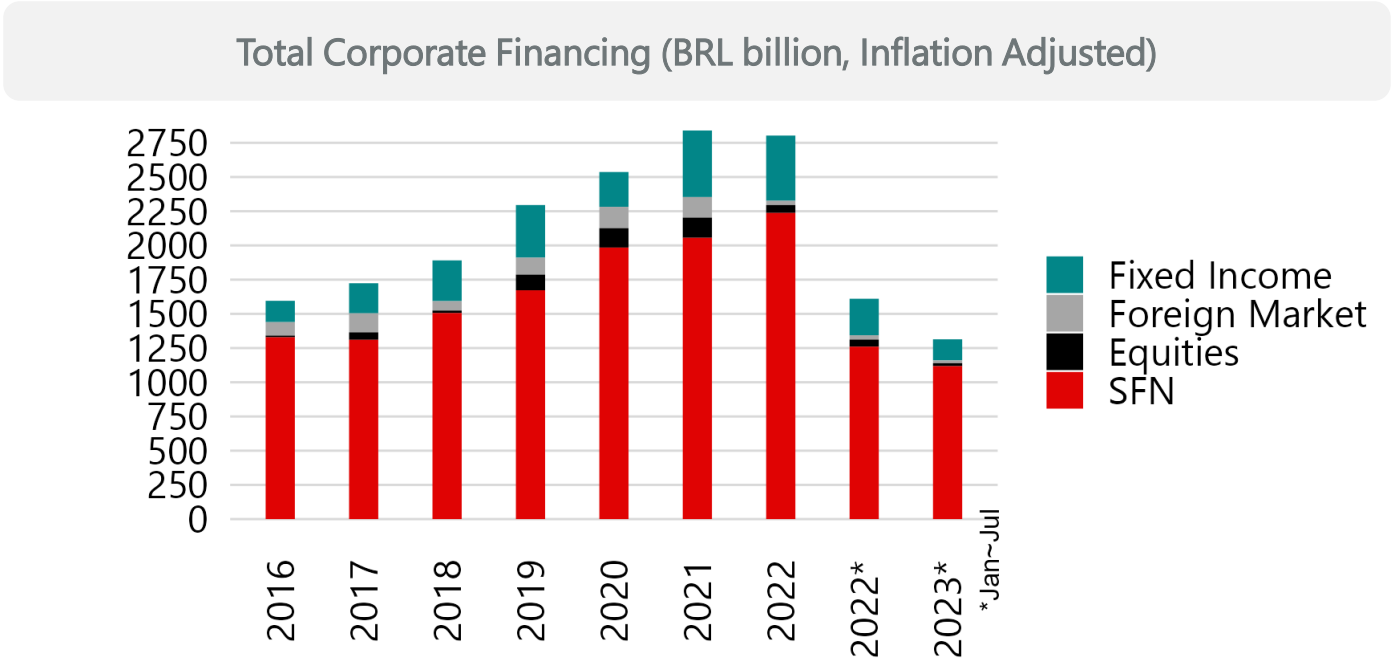
Total Portfolio vs Risk Portfolio – Large (% YoY)



Fontes:: SFN, Santander.

Bank lending smaller compared year-ago period

- In the capital markets, issuances are 42.8% lower YTD through June. Loans in the National Financial System (SFN in the Portuguese acronym) are down 8%.
- As a result, total corporate financing was 18.3% lower than the year-ago period.



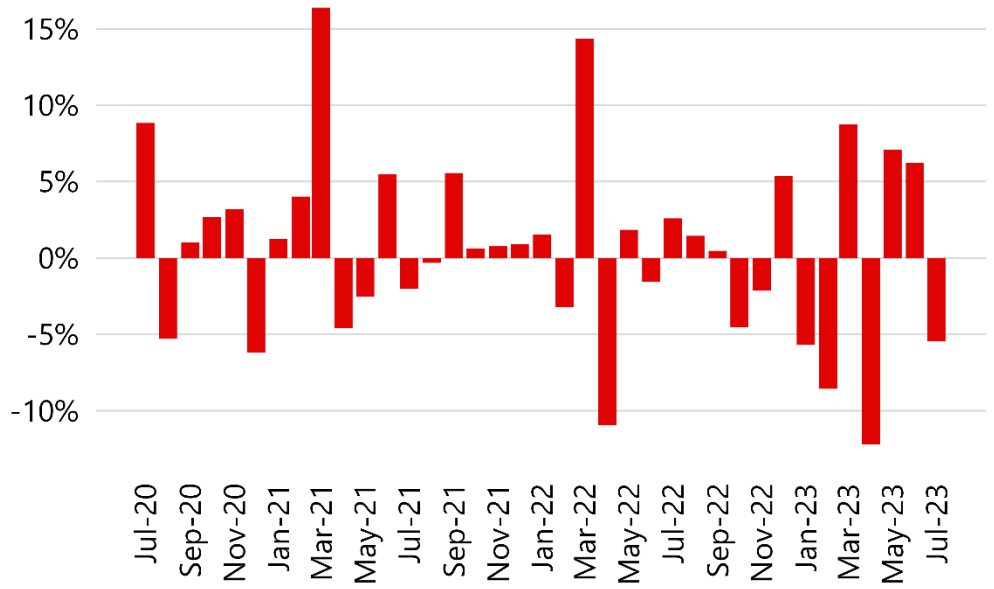
SFN - exclude 'conta garantia', overdraft, and credit card.
Foreign market - bonus, MTNs and securities.
Fixed Income - Debentures, comercial papers, LFs, CRAs, CRIs, and FIDCs.
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

The non-earmarked segment

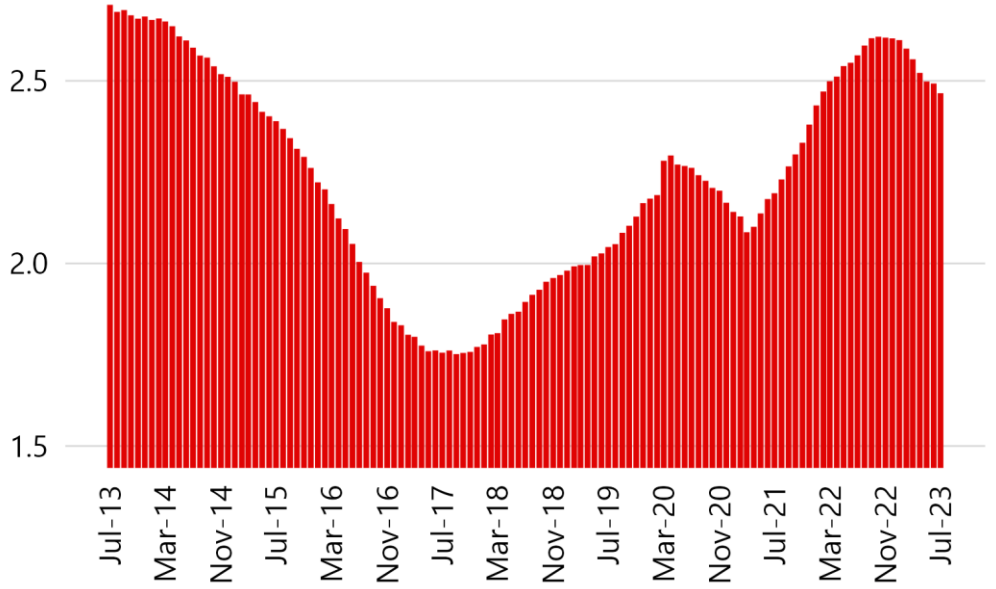
- For companies, there was a fall of 5.5% MoM-sa in July in the non-earmarked segment. Compared to a year ago, YTD concessions for this segment stand at -10% in real terms.

Non-Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

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

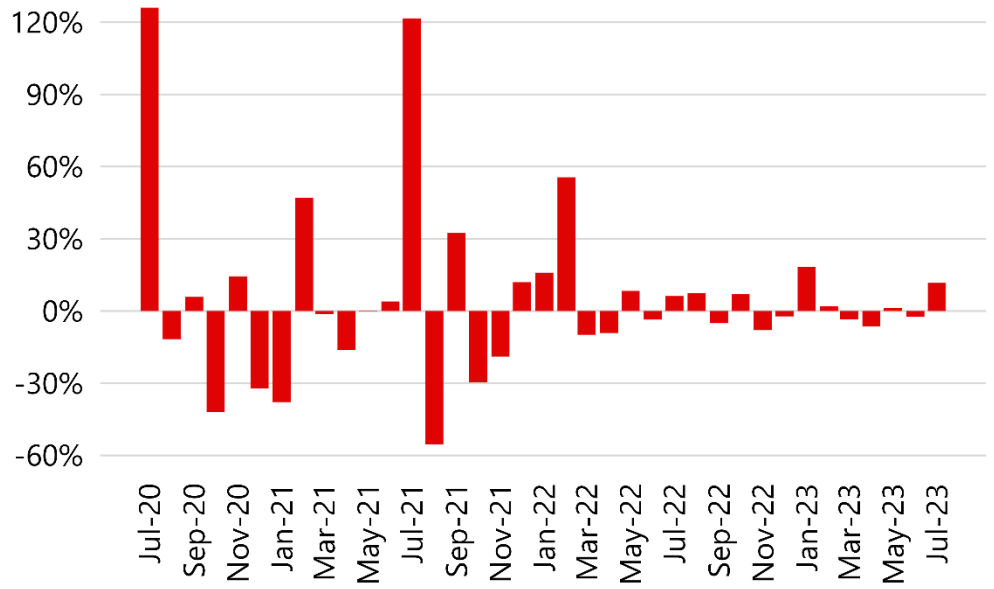


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

The Earmarked segment

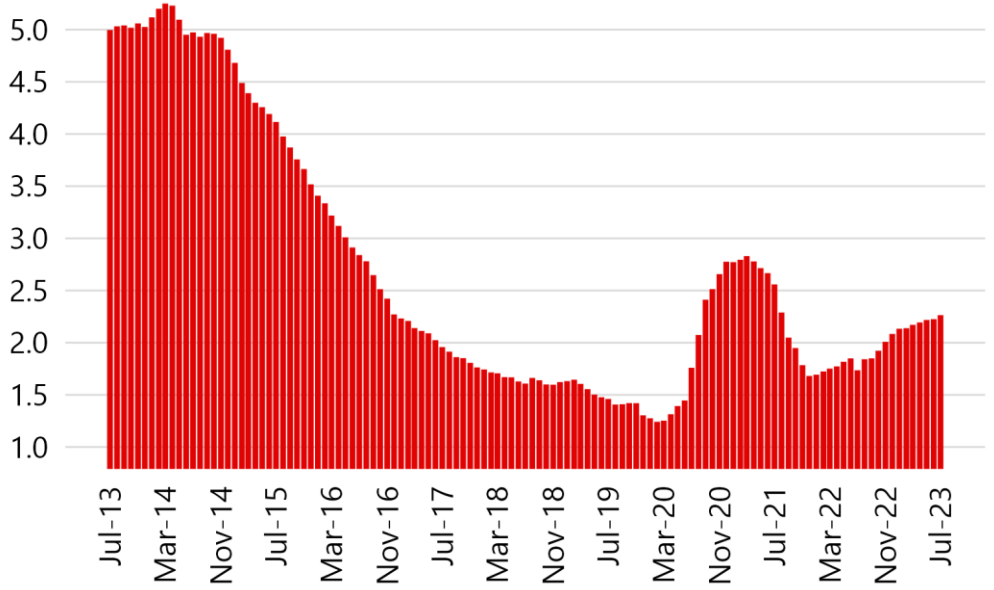
- For companies, the earmarked segment has been overall flat, with an increase of 11.7% MoM-sa in June (compared to June's fall of 2.3% MoM-sa). YTD NFC loans are 18.5% higher than the same period in 2022.
- Rural credit calls for attention as the Agricultural Plan approved ~BRL 364.2 billion for households to be directed in 2023/2024.

Earmarked – New Loans* (% MoM)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

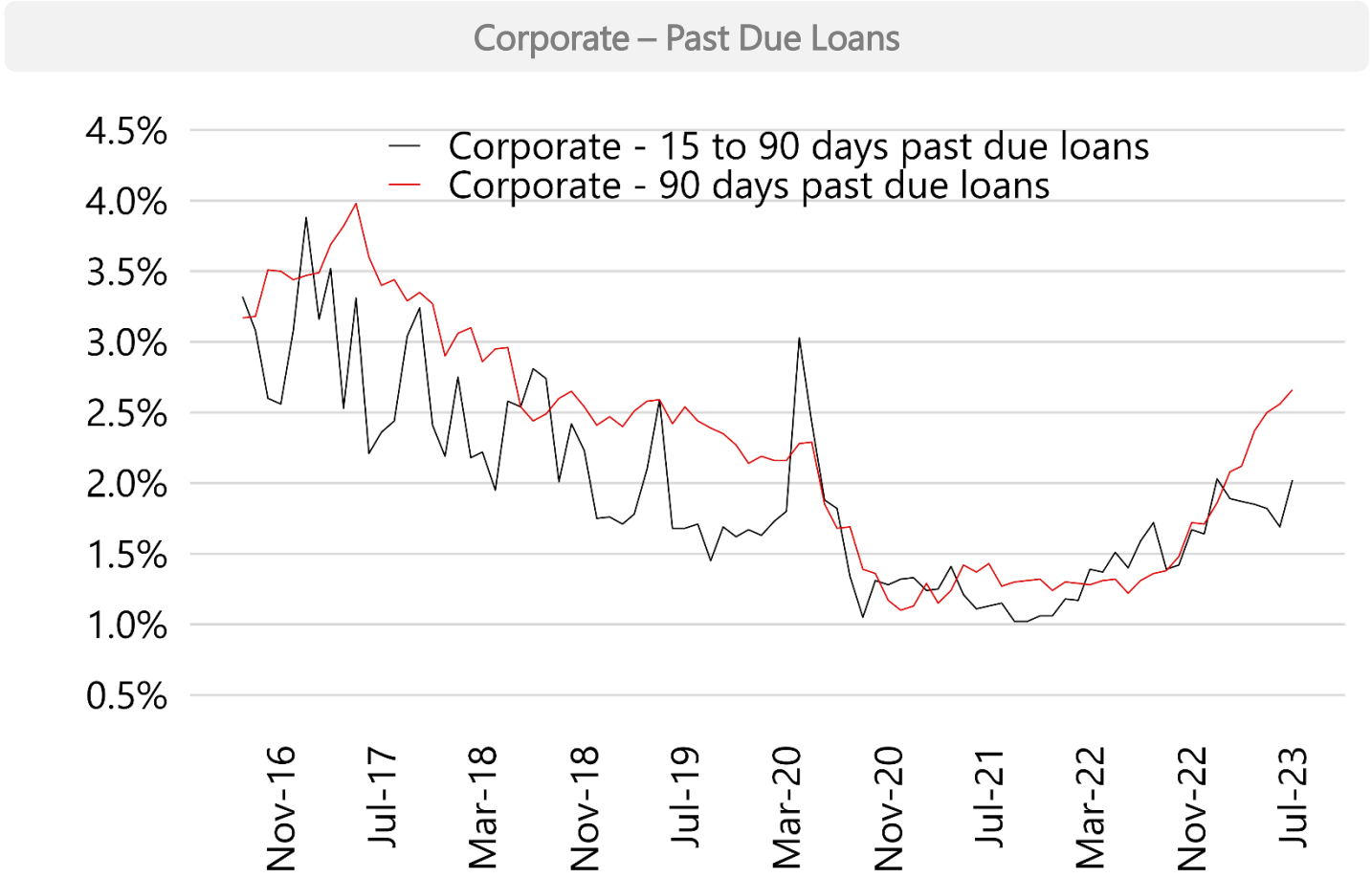
Earmarked - New Loans* (12 months acum.)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A cooling trajectory for arrears

- Eyeing arrears to anticipate cooling signs in NPLs

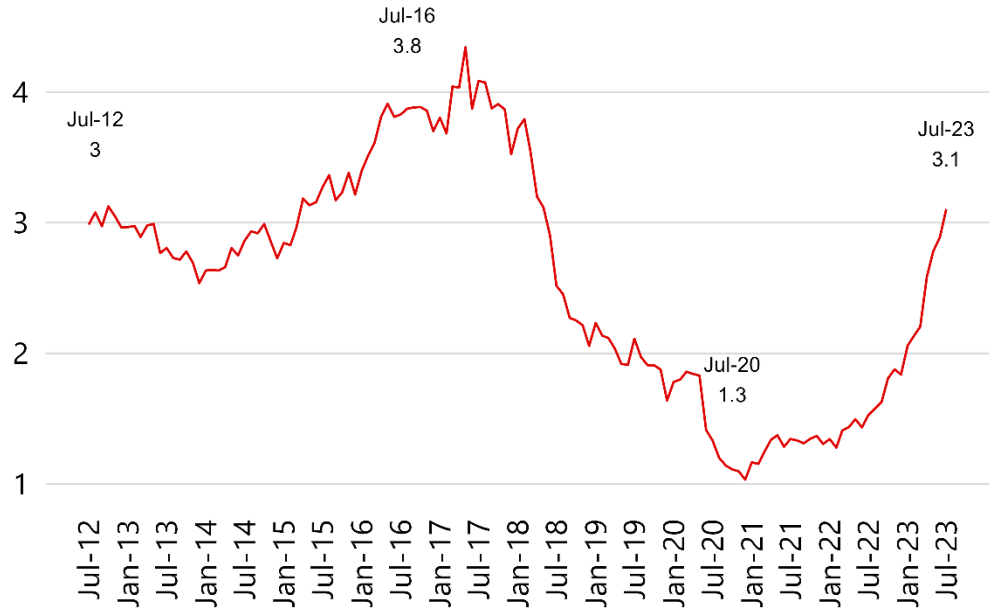


Sources: Brazilian Central Bank, Santander.

Corporate Data: shows some concern

- For Corporate, NPL has been rising rapidly in 2023 and calls for attention.
- Core Corporate NPLs' main components (Discount of Credit Card Bills and Working Capital Ex-Revolving) greatly accelerated YTD.
- Risk level figures partly accompanied, showing a small jump since last year but still standing at pre-2020 levels.

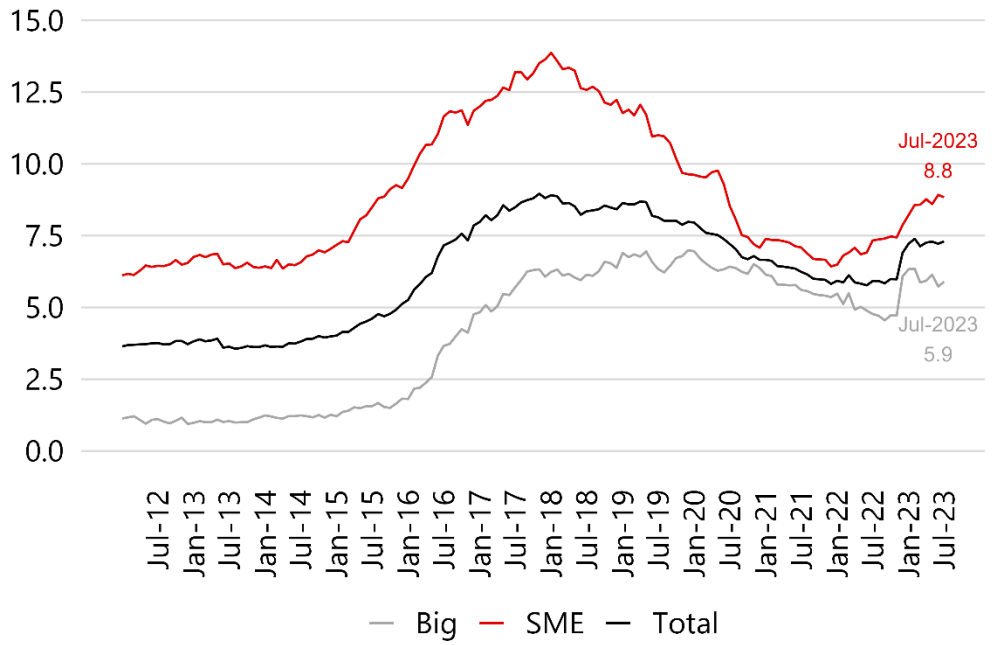
Core* Corporate NPL



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

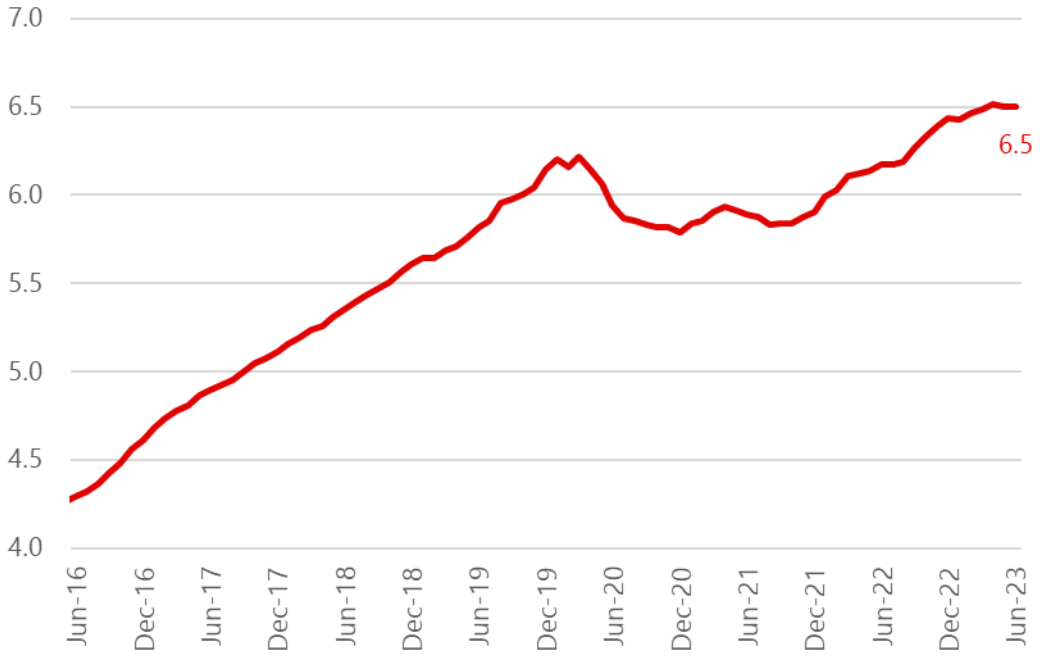


Sources: BCB, Santander.

Corporates defaulting: still not a big problem

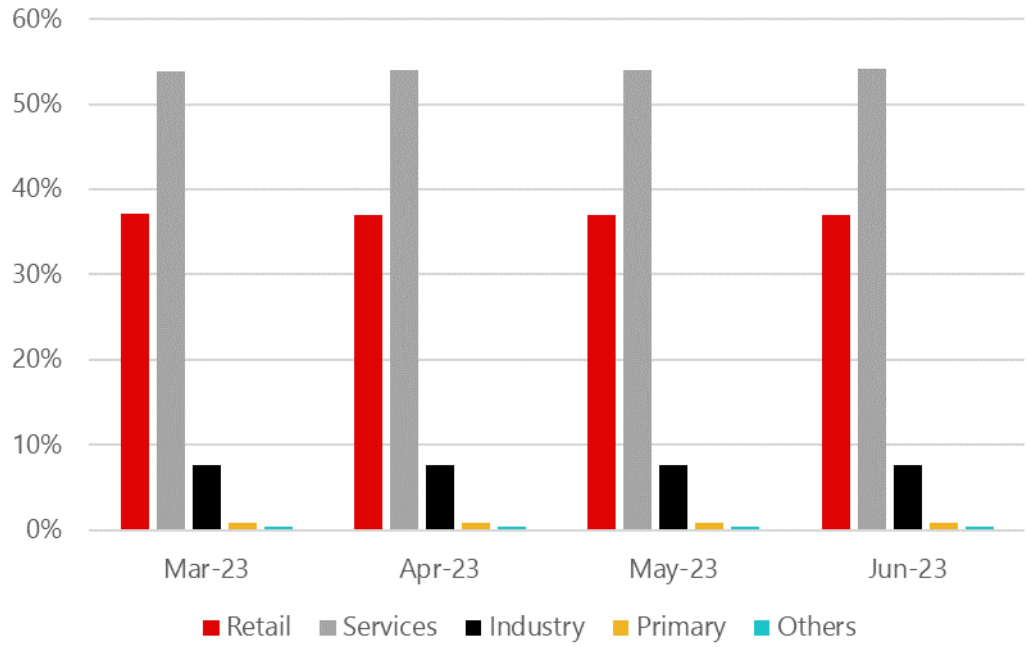
- The number of defaulting companies reached 6.5 million in June (vs 6.2 million in June 2022).
- Retail and Service sectors are the main responsible for the figure.

Corporate Defaulting - Million



Sources: Serasa Experian, Santander.

Total Default – By Sector

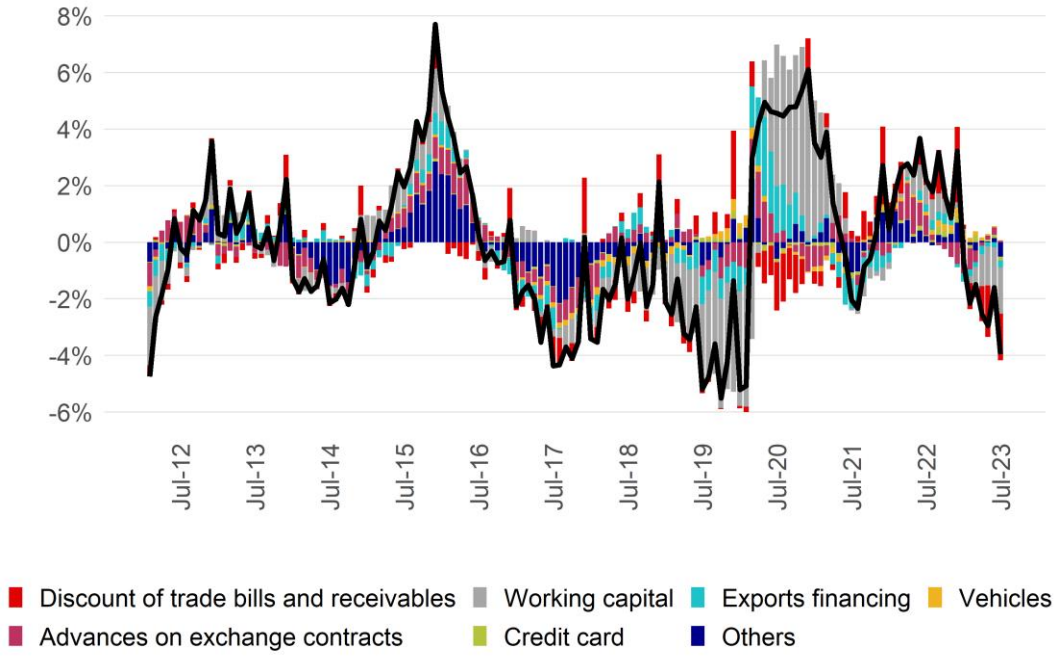


Sources: Serasa Experian, Santander.

Non-earmarked Non-Financial Corporations' Credit Gaps

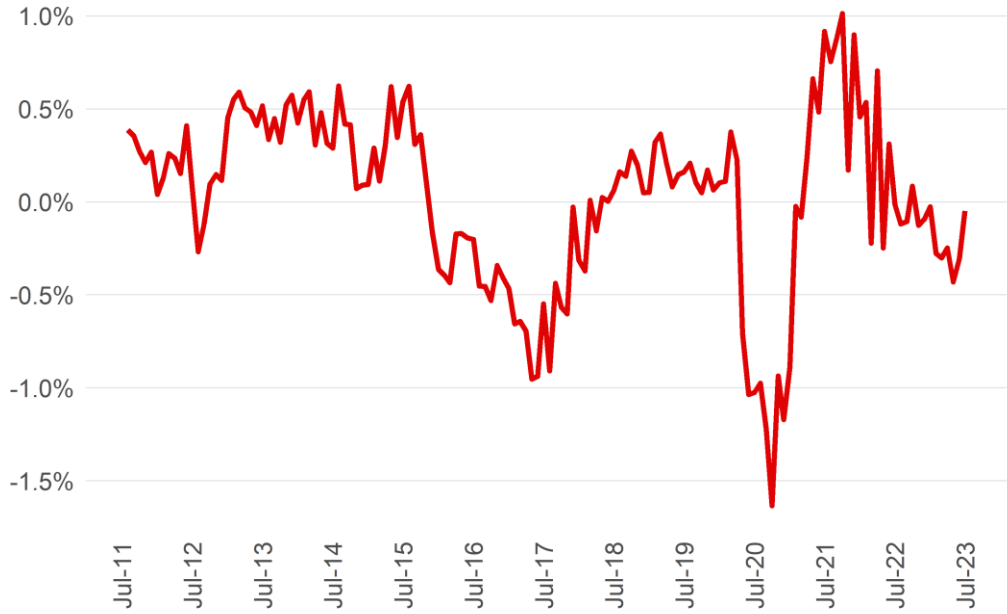
- Non-financial corporations were much more responsive to Monetary Policy.

Non-Financial Corporations Non-earmarked Outstanding Credit-to-GDP Gap (% of Potential)



Sources: BCB and Santander

Non-Financial Corporations Non-earmarked Lending Gap (% of Potential)



Sources: BCB and Santander

Forecasts

04

Next months: New Credit Enhancing Policy (*Desenrola Brasil*)

Policy Design:

Objective: Ease conditions for debt repayment.

Track 2: Started July 17

- **Postponing of Debts <R$ 100**
- **Restructuring for individuals with income < R$ 20k**

Conditions set through direct negotiation (Due dates extended at least 12 months)

Expected to affect ~30 million people

Tax credits as incentive (estimated at R$50-60 bn)

Bank Debt only (excluding Rural, Real Estate, real-asset-backed, funding and third-party debt)

Track 1: Starting September

- **Restructuring of Debt < R$ 5k for individuals with income <2x MWs or registered in CadÚnico**

Conditions to be defined in auction to promote competition

Backed by FGO (capped at R$8 bn)

Expected to affect ~40 million people

Rural, Real Estate, real-asset-backed, funding and third-party debts are not valid for the program

Effects:

NPLs

2023: ⇩
2024: —
2025: ⇧

By construction, as some defaulting debts are restructured, NPLs are expected to be reduced in 2023. The number should be little affected by the program throughout 2024 but might experience some rebound in 2025, as high-risk individuals start defaulting in their restructured debt.

Concessions

2023: ⇧
2024: ⇩
2025: —

The program should provide significant relief for consumption credit in the current environment (specially for credit card). Still, the credit score of those benefited by the program will most likely remain poor, as the market might anticipate an increase in risk and moral hazard for the following periods. This can result in slower concessions in 2025.

Credit: Our forecasts for outstanding loans & credit conditions

Nominal Credit Outstanding (%YoY)								
	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Total	**6.4**	**15.6**	**16.5**	**14.0**	**6.5**	**8.5**	**9.2**	**9.1**
Household	11.9	11.1	21.0	17.7	8.0	8.3	9.3	9.8
Non-fin. Corp	(0.3)	21.8	10.9	9.0	4.3	8.7	9.0	8.1
Nonearmarked	**13.9**	**15.4**	**20.4**	**14.1**	**6.3**	**10.9**	**10.9**	**10.5**
Household	16.5	10.7	23.0	17.5	8.6	11.0	11.3	11.2
Non-fin. Corp	10.8	21.2	17.4	10.1	3.5	10.9	10.2	9.6
Earmarked	**(2.4)**	**15.9**	**11.2**	**14.0**	**6.9**	**4.9**	**6.6**	**6.9**
Household	6.6	11.7	18.5	18.0	7.4	4.9	6.6	7.8
Non-fin. Corp	(14.0)	22.8	0.5	6.9	5.8	4.7	6.5	5.2
Private Banks	**15.5**	**20.0**	**21.7**	**14.2**	**4.9**	**7.5**	**9.8**	**9.8**
Public Banks	**(2.2)**	**10.6**	**10.2**	**13.9**	**7.8**	**9.3**	**8.5**	**7.8**

Credit Conditions								
	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Non-performing loans (nonearmarked)	**3.7**	**2.9**	**3.1**	**4.2**	**4.9**	**4.3**	**4.0**	**4.0**
Household	5.0	4.2	4.4	5.9	**6.2**	**5.7**	**5.4**	**5.3**
Non-fin. Corp	2.1	1.5	1.5	2.1	**3.1**	**2.5**	**2.2**	**2.2**
Household Indebtedness	**41.5**	**41.6**	**49.7**	**49.0**	**47.8**	**44.7**	**44.6**	**44.8**
Household debt service ratio	**23.0**	**22.1**	**26.1**	**27.3**	**26.3**	**26.4**	**26.1**	**25.9**

Sources: Santander.

Forecasts

Macroeconomic Variables		Previous		Current
GDP (%)	2023E	1.9	↑	2.5
	2024E	1.0	→	1.0
	2025E	1.5	→	1.5
IPCA (%)	2023E	4.9	↓	4.7
	2024E	3.9	↓	3.8
	2025E	4.5	→	4.5
Selic Rate (% end of period)	2023E	11.75	→	11.75
	2024E	10.00	↓	9.50
	2025E	7.50	→	7.50
FX Rate - USDBRL (end of period)	2023E	5.20	↓	5.10
	2024E	5.35	↓	5.25
	2025E	5.40	↓	5.30
Current Account Balance (% of GDP)	2023E	-2.5	→	-2.5
	2024E	-2.7	→	-2.7
	2025E	-2.7	→	-2.7
Primary Fiscal Balance (% of GDP)	2023E	-1.0	→	-1.0
	2024E	-0.9	→	-0.9
	2025E	-0.7	→	-0.7
Gross Public Debt (% of GDP)	2023E	77.0	↓	76.5
	2024E	81.1	↓	80.5
	2025E	83.9	↓	83.2

Note: Our previous forecasts date from August 4, 2023 (Scenario Update: "Better Growth Outlook in 2024 Given a Less Contractionary Monetary Policy" – Available on: https://tinyurl.com/Std-scenreview-aug23).

The forecasts refers to our latest Scenario Review

"Adjustments to Reflect Past Surprises; Same Trends Continuing Ahead"
(sent on September 15, 2023)

For the full report click on the link:

https://tinyurl.com/Std-scenreview-sep23

Santander Brazil's Global Macro Assumptions – Summary

Global Macro Scenario												
	2018	2019	2020	2021	2022	2023E		2024E		2025E		
Global GDP (%)	3.5	2.8	-3.5	5.9	3.4	2.4	→	2.2	→	2.8	→	
China GDP (%)	6.7	6.0	2.3	8.1	3.0	5.2	↓	5.1	→	5.0	→	
US GDP (%)	3.0	2.2	-3.5	5.7	2.1	2.1	↑	0.1	↑	1.8	→	
US Inflation (Core PCE, %)	2.1	1.6	1.5	4.9	5.0	4.0	↑	2.5	→	2.0	→	
US Interest Rate (FFR, %)	2.50	1.75	0.25	0.25	4.50	5.50	→	4.00	→	2.50	→	
US Interest Rate (UST10y, %)	2.7	1.9	0.8	1.8	3.9	4.0	↑	3.5	↑	3.0	→	
Dollar Index - DXY	96	96	90	96	104	103	↑	100	→	100	→	
Commodity Prices - CRB	409	401	444	571	558	528	→	474	→	445	→	

*Core PCE is referred to the y/y variation for Q4.

Source: Santander

The forecasts refers to our latest Scenario Review

"Adjustments to Reflect Past Surprises; Same Trends Continuing Ahead"
(sent on September 15, 2023)

For the full report click on the link:

https://tinyurl.com/Std-scenreview-sep23

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

Santander

Brazil Macroeconomic Research Team

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

Adriano Valladao
Economist – Inflation
adriano.ribeiro@santander.com.br
+55 (11) 3553-9828

Ana Júlia Carvalho
Economist – Special Projects
fana.carvalho.silva@santander.com.br
+55 (11) 3553-8071

Daniel Karp Vasquez
Economist - Inflation
daniel.karp@santander.com.br
+55 (11) 3553-9828

Felipe Kotinda
Economist - Commodities
felipe.kotinda@santander.com.br
+55 (11) 3553-8071

Gabriel Couto
Economist – Activity
gabriel.couto@santander.com.br
+55 (11) 3553-8487

Gilmar Lima
Economist – Modeling
gilmar.lima@santander.com.br
+55 (11) 3553-6327

Henrique Danyi
Economist - Credit
henrique.danyi@santander.com.br+55 (11) 3553-8071

Ítalo Franca
Economist – Fiscal Policy
italo.franca@santander.com.br
+55 (11) 3553-5235

Jankiel Santos
Economist – External Sector
jankiel.santos@santander.com.br
+55 (11) 3012-5726

Patrícia Bonilha
Business Manager
pacardoso@santander.com.br
++55 (11) 3553-5235

Tomas Urani
Economist – Global Economics
tomas.urani@santander.com.br
+55 (11) 3553-9520

Disclaimer

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: Henrique Danyi*.

*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.