



Brazil Macro | September 2021

Credit

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BRIEF OVERVIEW

01

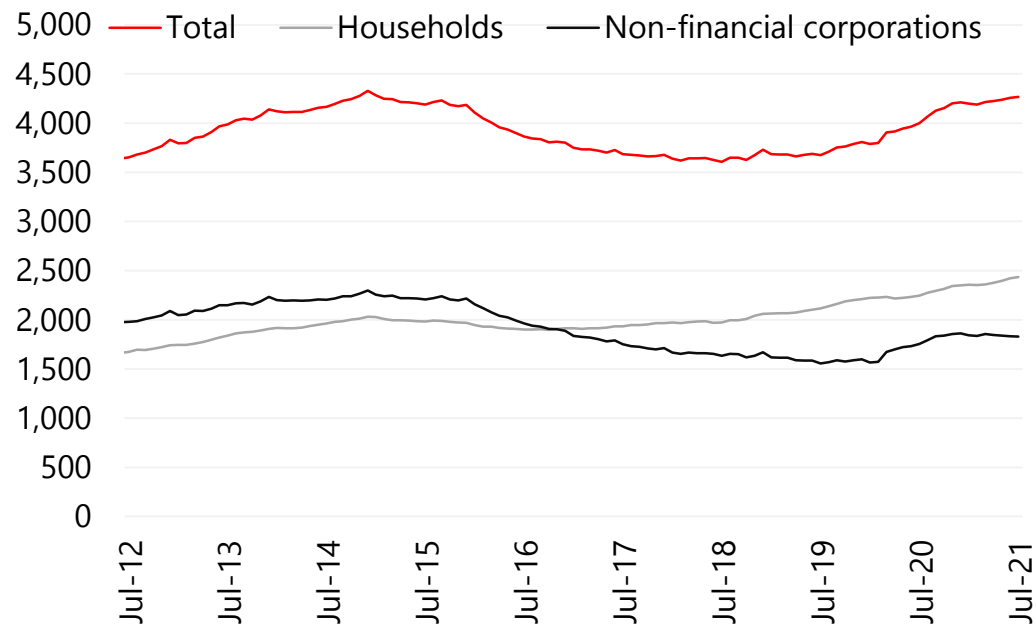
SUMMARY

- **We are revising our projections for total outstanding loan growth from 12.5% to 13.6% in 2021 and from 9.7% to 9.3% 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 a decrease of 0.6% MoM-sa in July. In the earmarked segment, real estate financing remains high (27% YoY), reflecting favorable financial conditions, though decelerating at the margin.
- For companies, there was a fall of -2.5% MoM-sa in July in the non-earmarked segment, driven by discount of trade bills drop (-21%). In the earmarked segment, there was a strong increase of 146.2% MoM-sa (Others shows an increase of 647%).
- Considering total corporate financing so far this year, through July 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.

Credit market still strong

- Total outstanding loans posted inflation-adjusted growth of 6.6% YoY to BRL4.3 trillion
- The growth rate of total outstanding loans declined from 16.3% to 16.2%

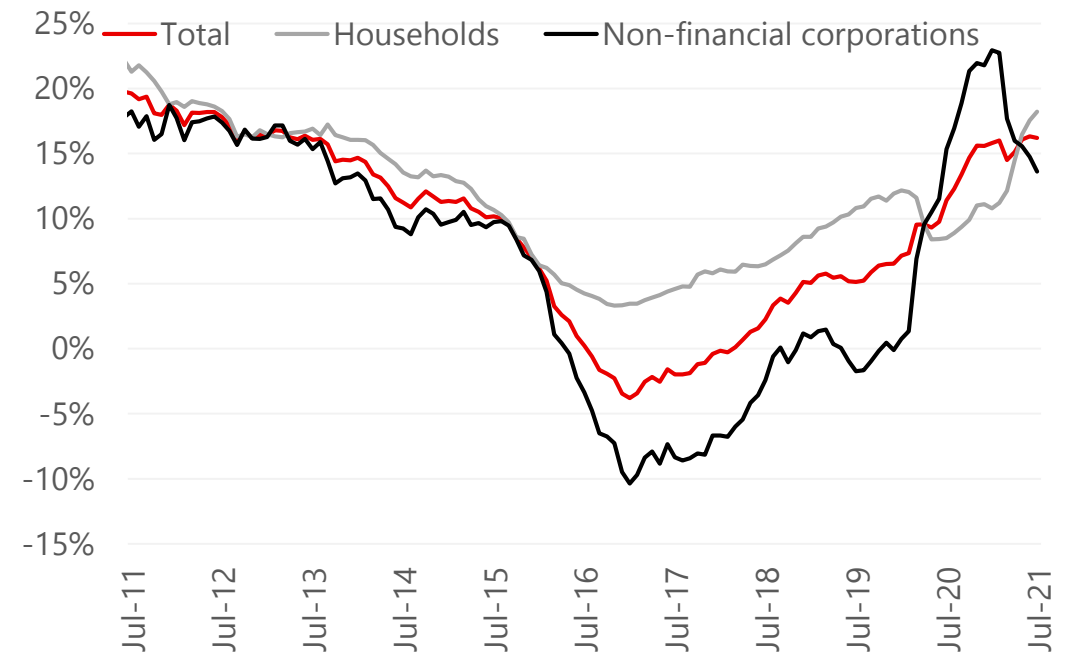
Total Outstanding Balance of Credit Operations



Sources: Brazilian Central Bank, Santander.

* BRL billion, inf. adj, seasonally adj.

Total Outstanding Balance of Credit – Growth Rate (%)



Sources: Brazilian Central Bank, Santander.

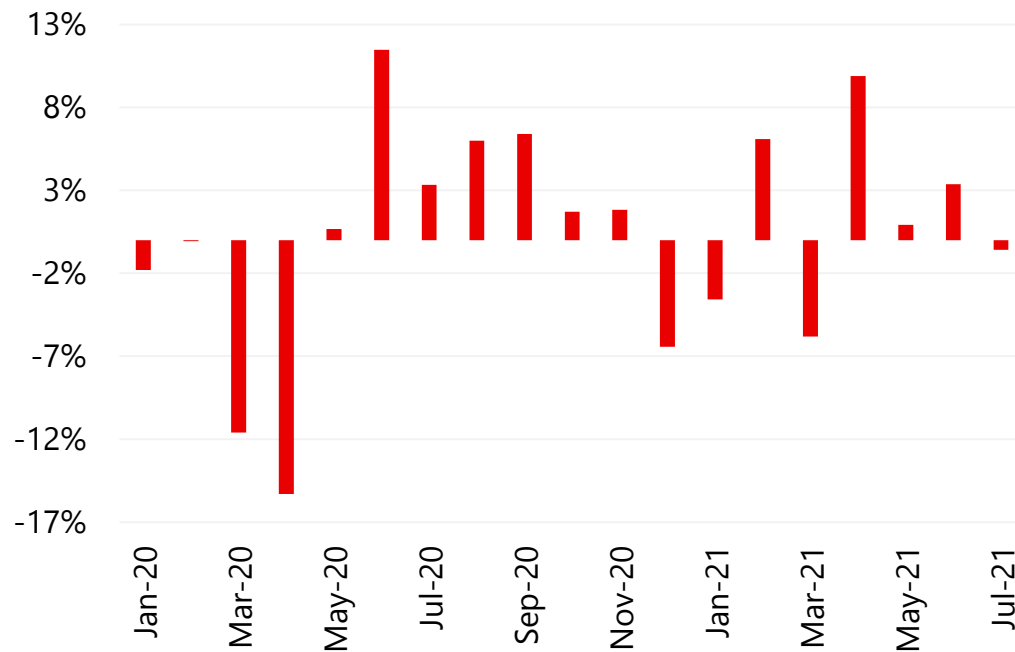
HOUSEHOLD

02

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

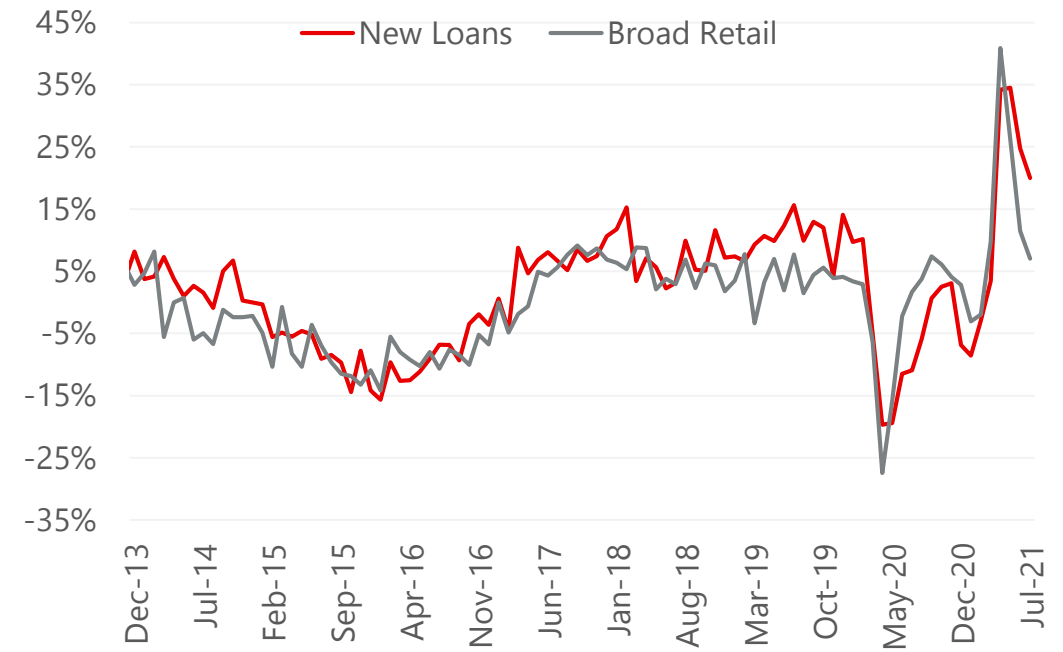
- For households, the non-earmarked segment posted a small decrease of 0.6% MoM-sa, compared to last month increase (3.4% MoM-sa).
- This result is mainly driven by credit card and vehicle purchases.

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY
New loans Household Non-Earmarked YoY

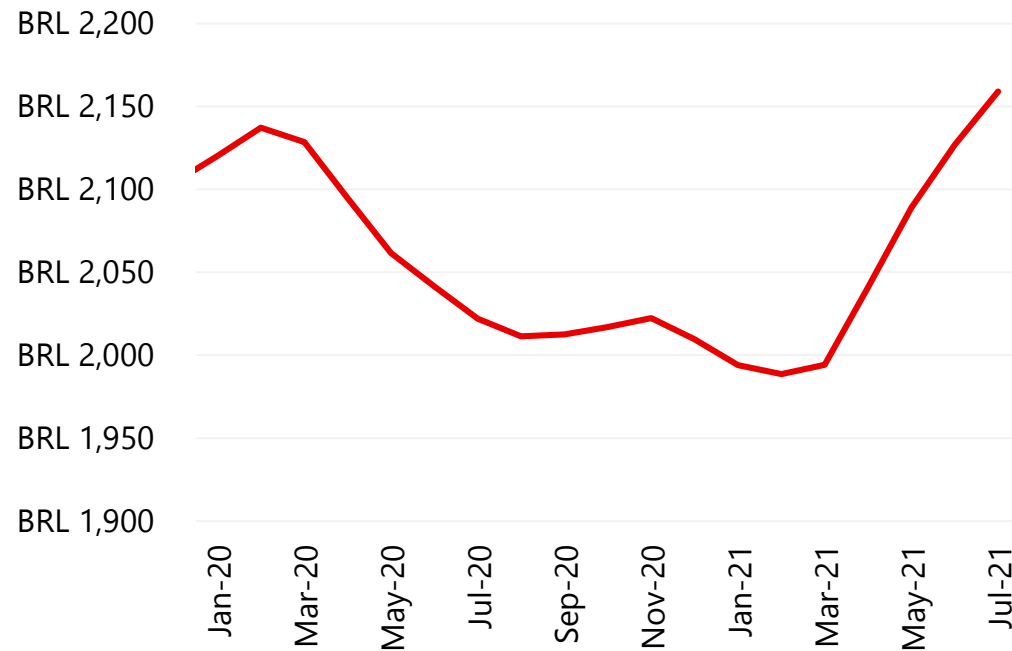


Sources: Brazilian Central Bank, Santander.

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

- The average of new loans grew 19.2% in the first half of this year, compared to the same period in 2020.
- Interest rates are lower than pre-pandemic levels.

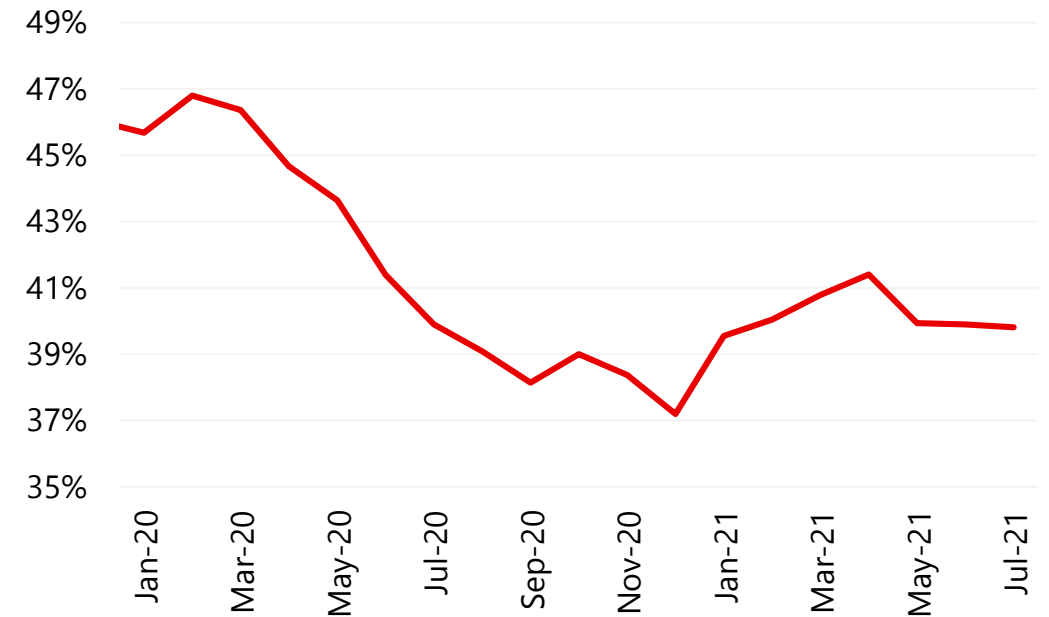
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Thousands, Inflation adjusted and seasonally adjusted

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

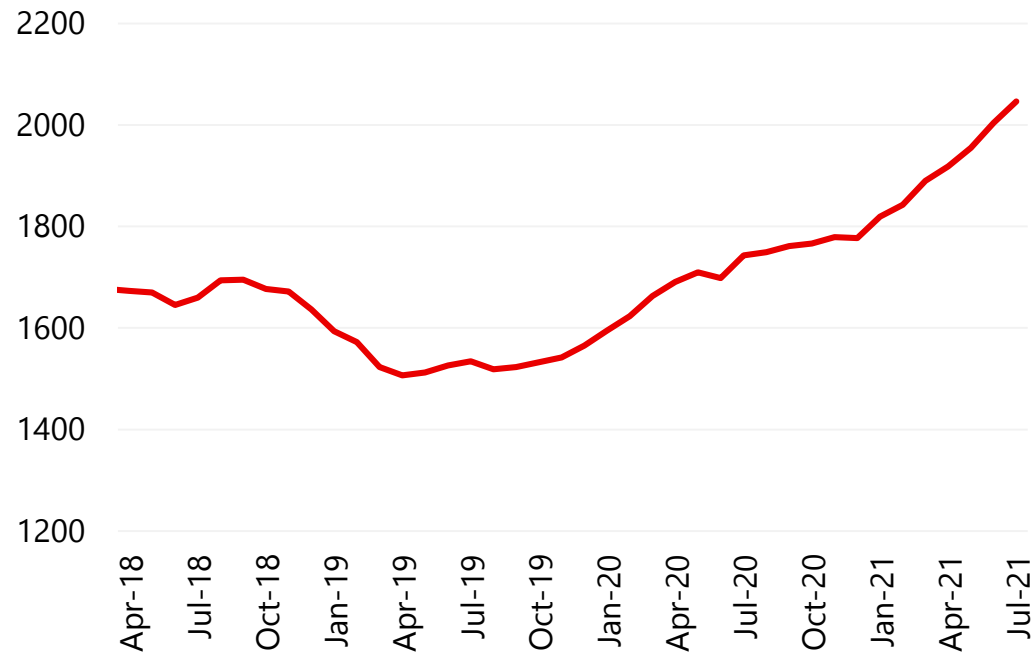


Sources: Brazilian Central Bank, Santander.

Earmarked segment: Heated demand for Real Estate and Rural credits

- Real Estate Financing remains high (27% YoY), reflecting favorable financial conditions, though decelerating at the margin.
- Rural Credit stood out, as new loans YTD are 38% above the same period last year.

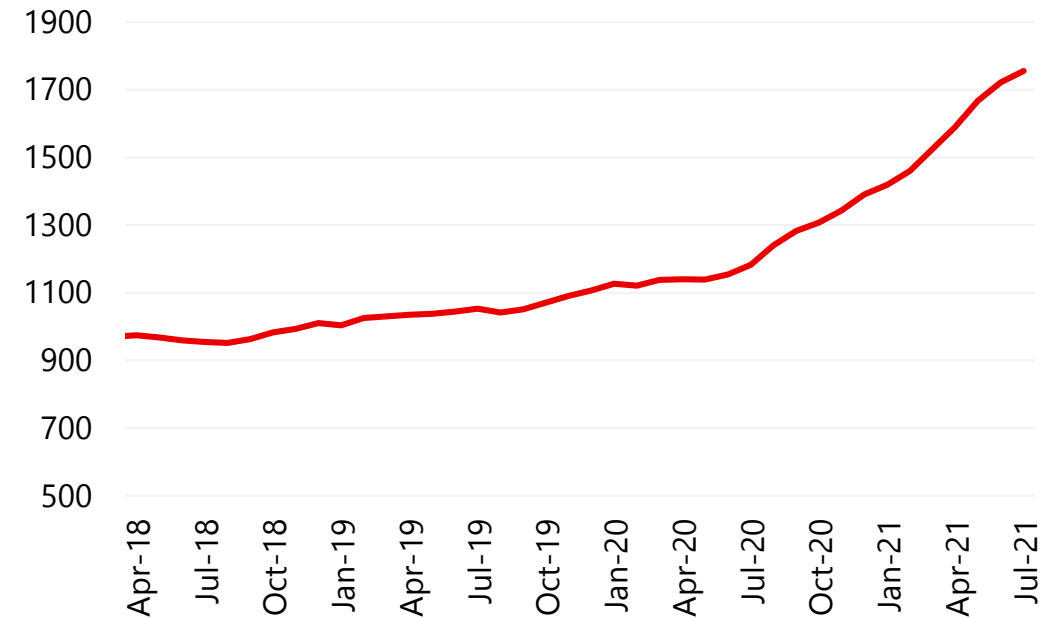
New Operations – Earmaked - Real Estate Financing* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* BRL hundreds, inf. adj.

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



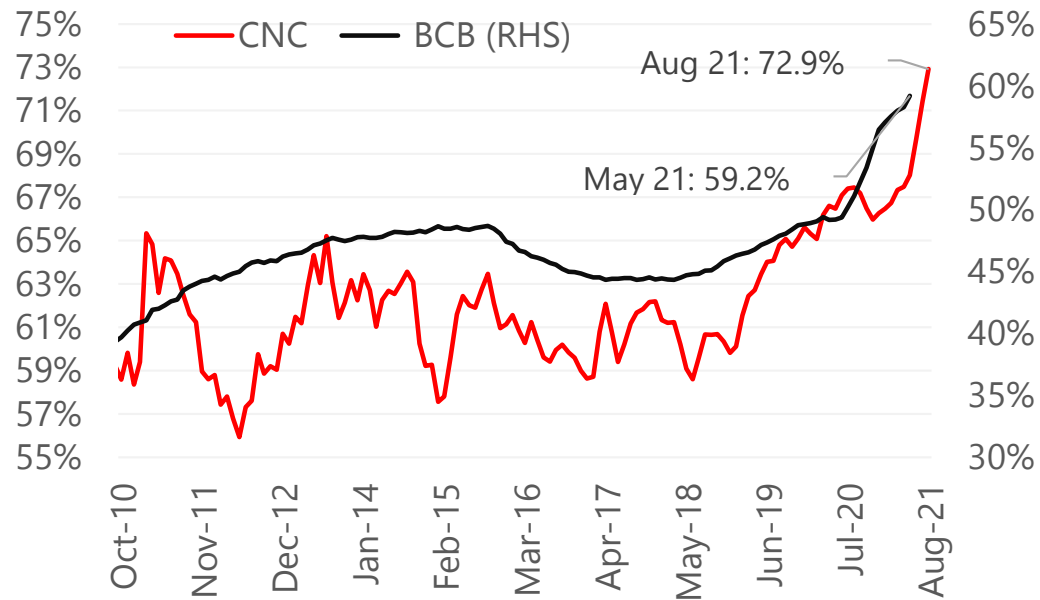
Sources: Brazilian Central Bank, Santander.

* BRL hundreds, inflation. adj, seasonally adj.

Families Indebtedness is the main (big) problem

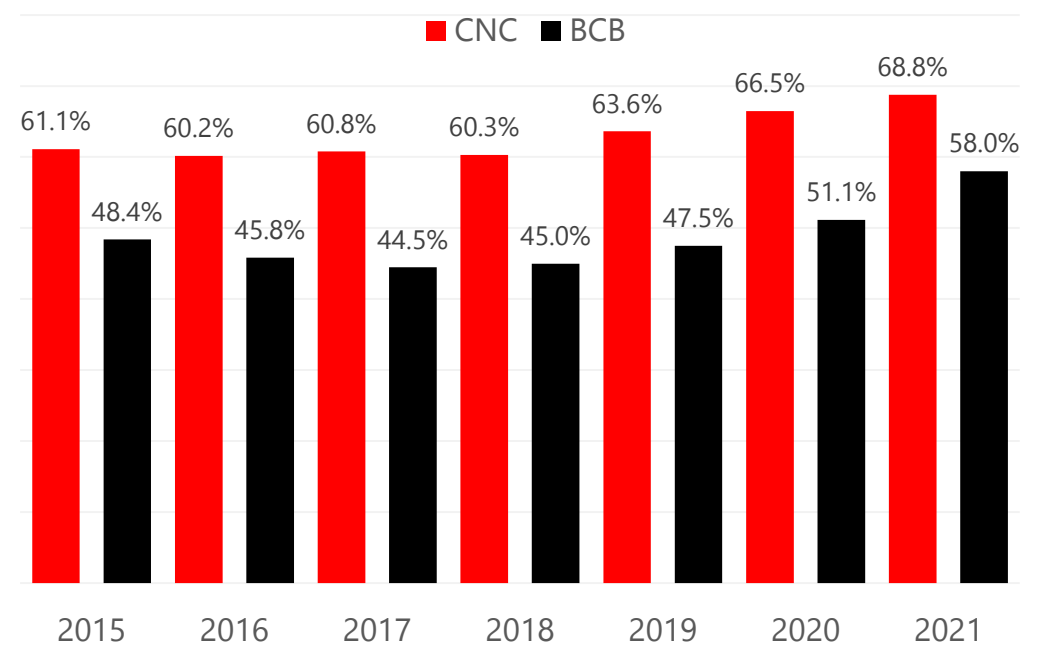
- Household indebtedness keep rising fast since the pandemic onset. The situation is getting worse due to the credit operations increasing and the household income stagnation.

Extended household Indebtedness (%)



Sources: Brazilian Central Bank, CNC, Santander.

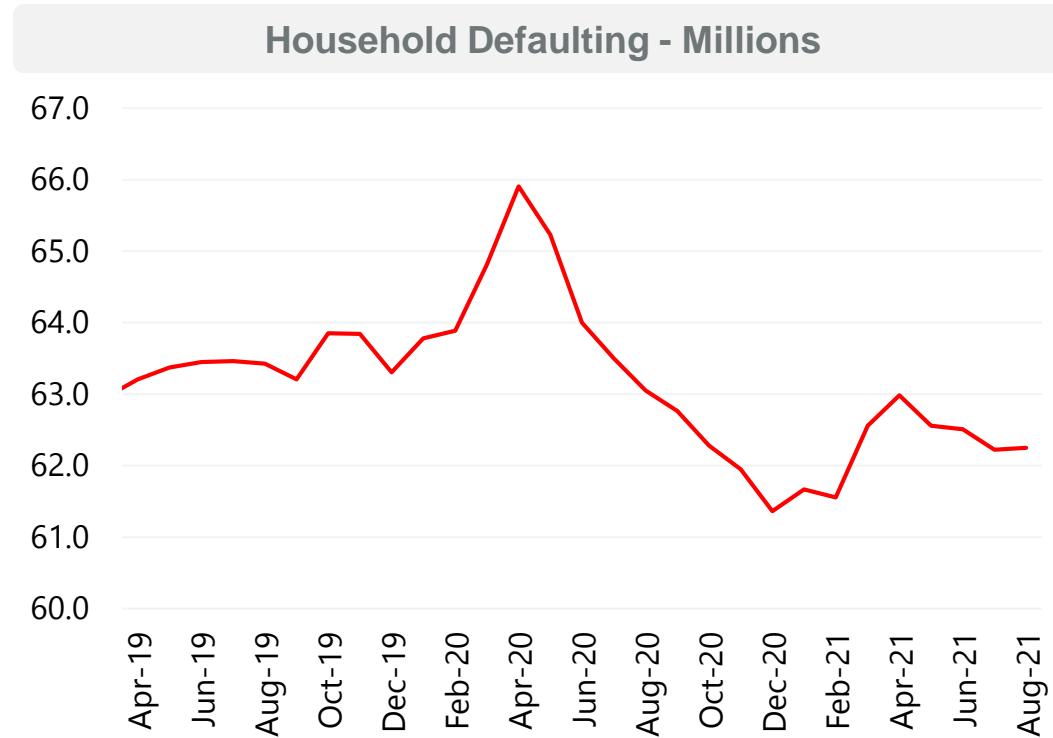
Extended household Indebtedness (annual avg %)



Sources: Brazilian Central Bank, CNC, Santander.

Families Indebtednes: pre-pandemic level

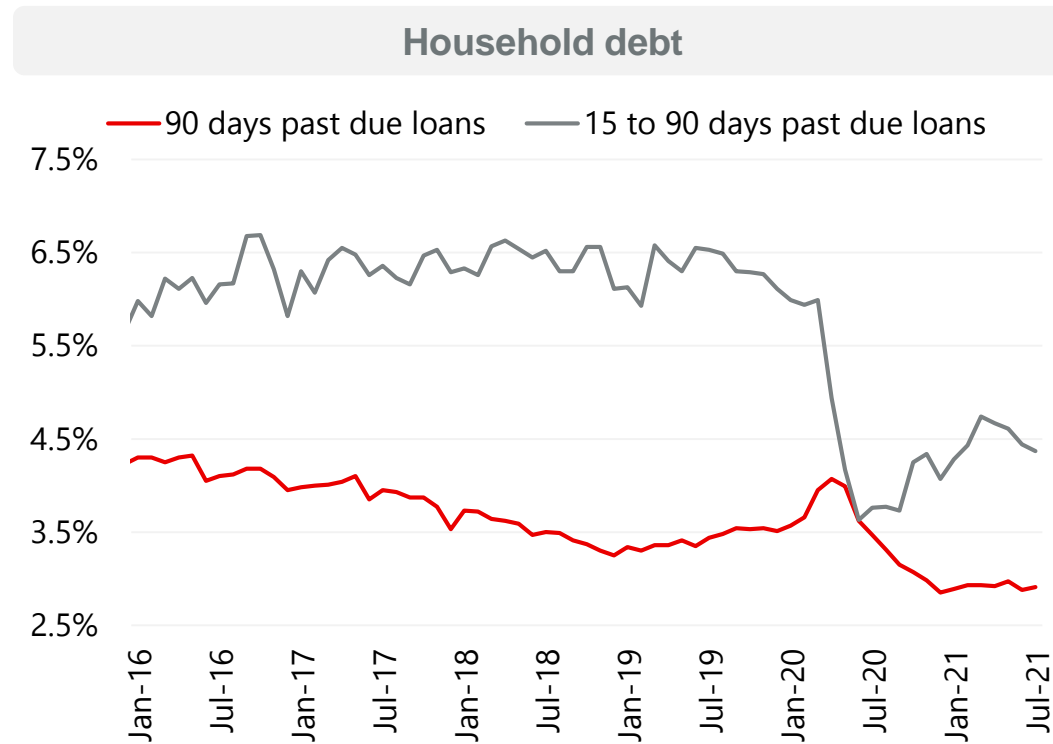
- The number of delinquent consumers is at the pre-pandemic level.



Sources: Serasa Experian, Santander.

Families Indebtednes: An upward trajectory for arrears

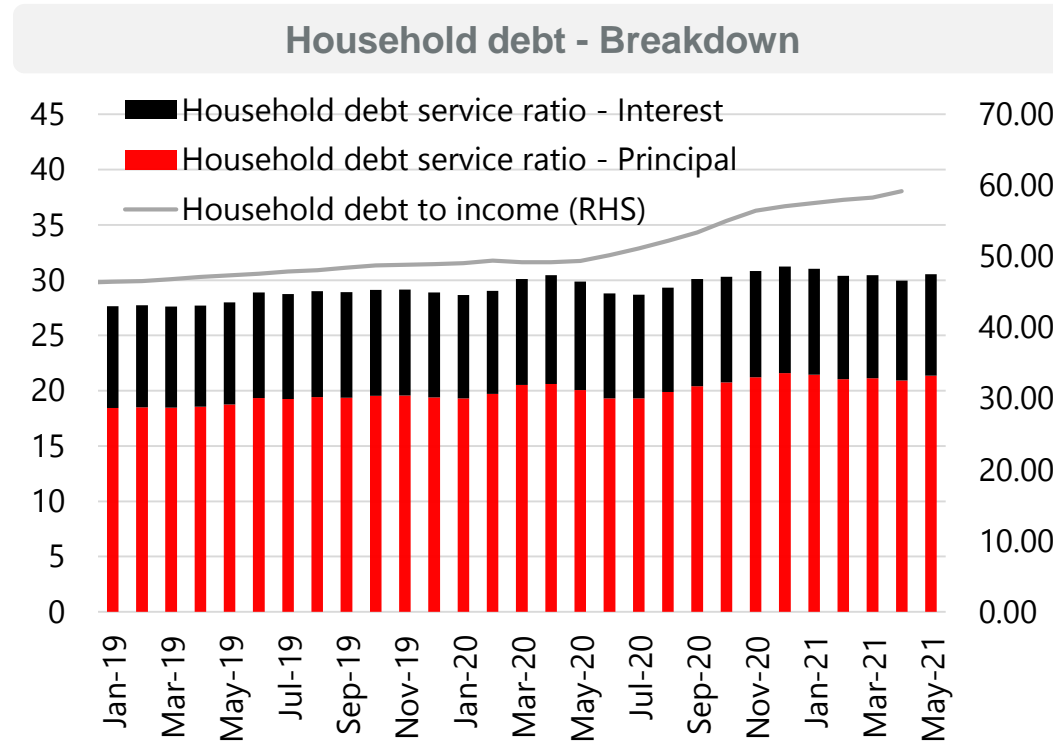
- The arrears is starting to give warning signs.
- However, the delinquent loans is still low.



Sources: Brazilian Central Bank, Santander.

Families Indebtednes - Breakdown

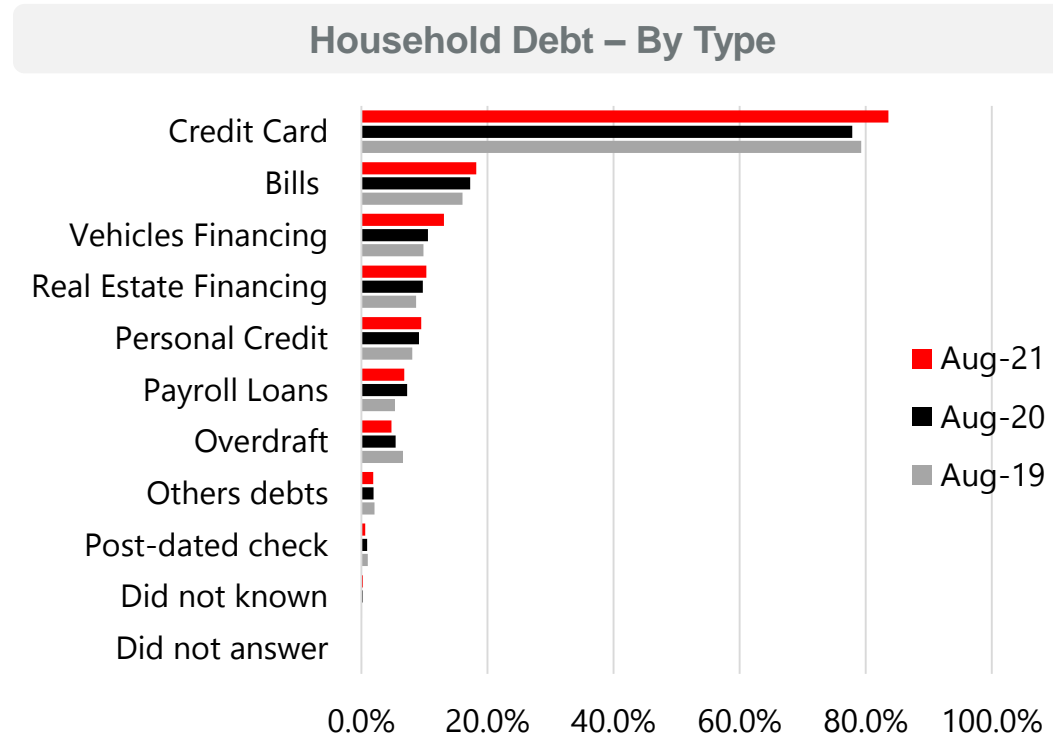
- Household debt to income ratio is at its peak, 59.2%, since the beginning of the series in Jan/10.
- Household debt service ratio is higher than pre-pandemic levels



Sources: Brazilian Central Bank, Santander.

Families Indebtednes – By Type

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

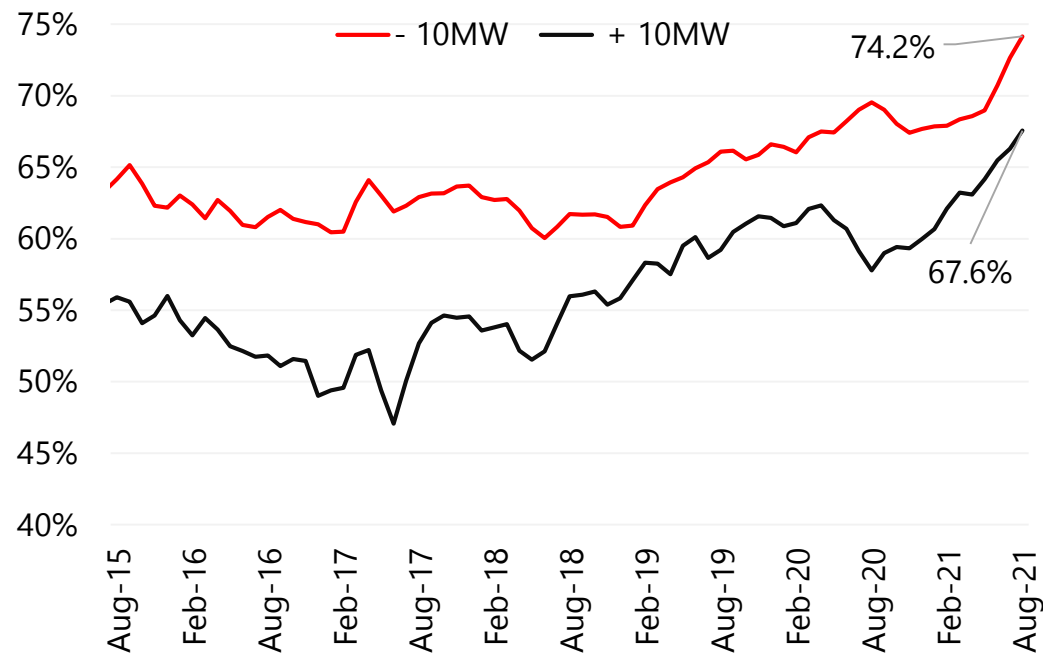


Sources: CNC, Santander.

Families Indebtednes – by Income

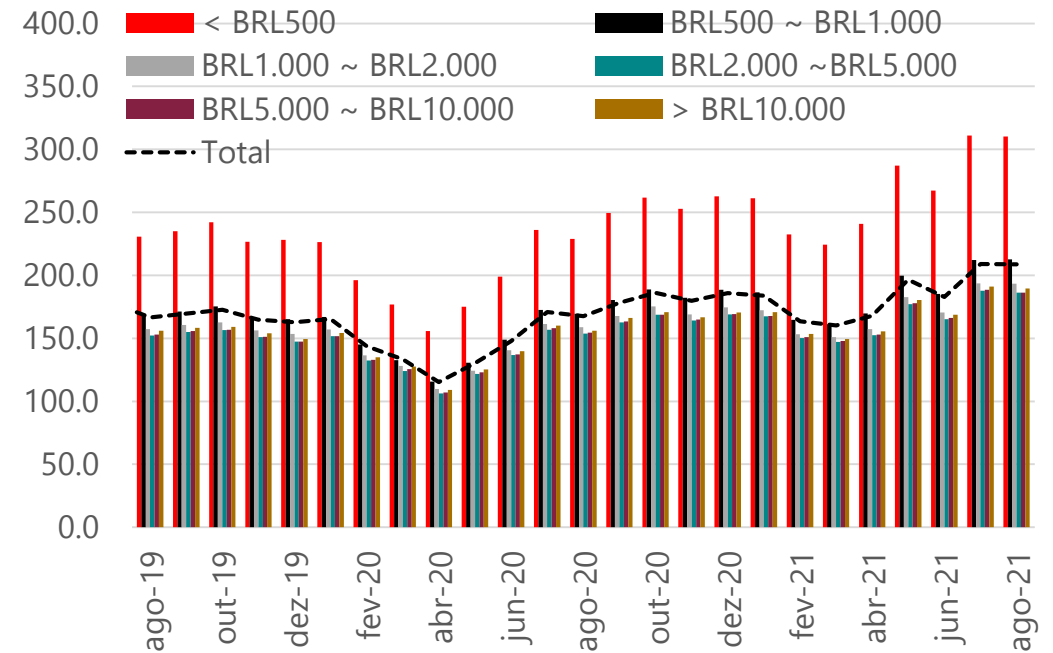
- Naturally, the poorest families have suffered the most.
- They are the ones who have the most debt and also who demand the most credit.

Family's indebtedness – By Income



Sources: CNC, Santander.

Household demand for Credit – By Monthly Income Class

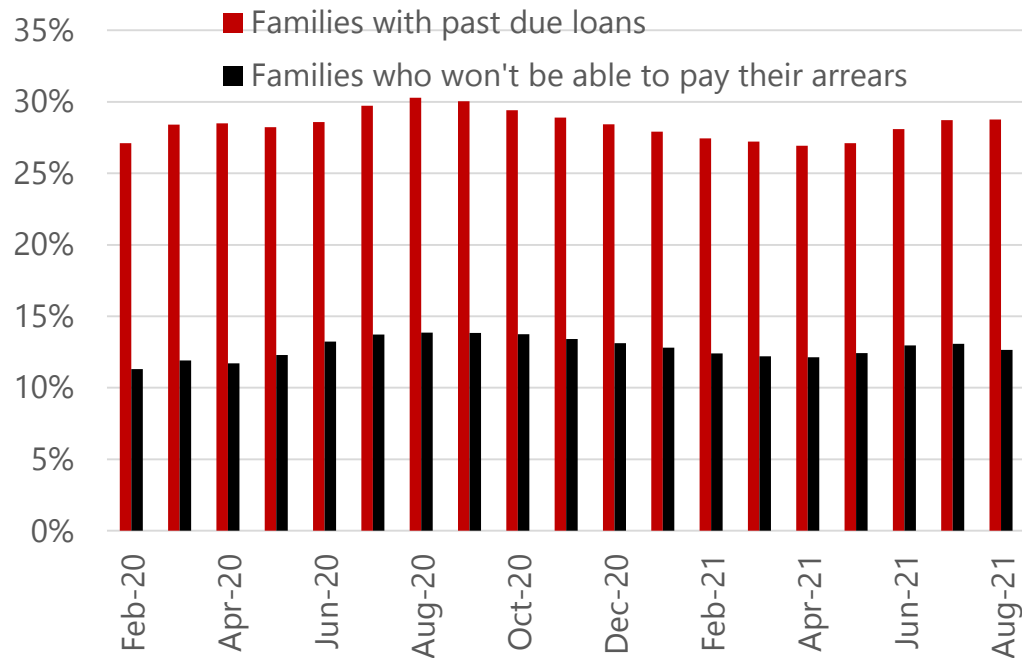


Sources: Serasa Experiean, Santander.

Families Indebtednes – by Income

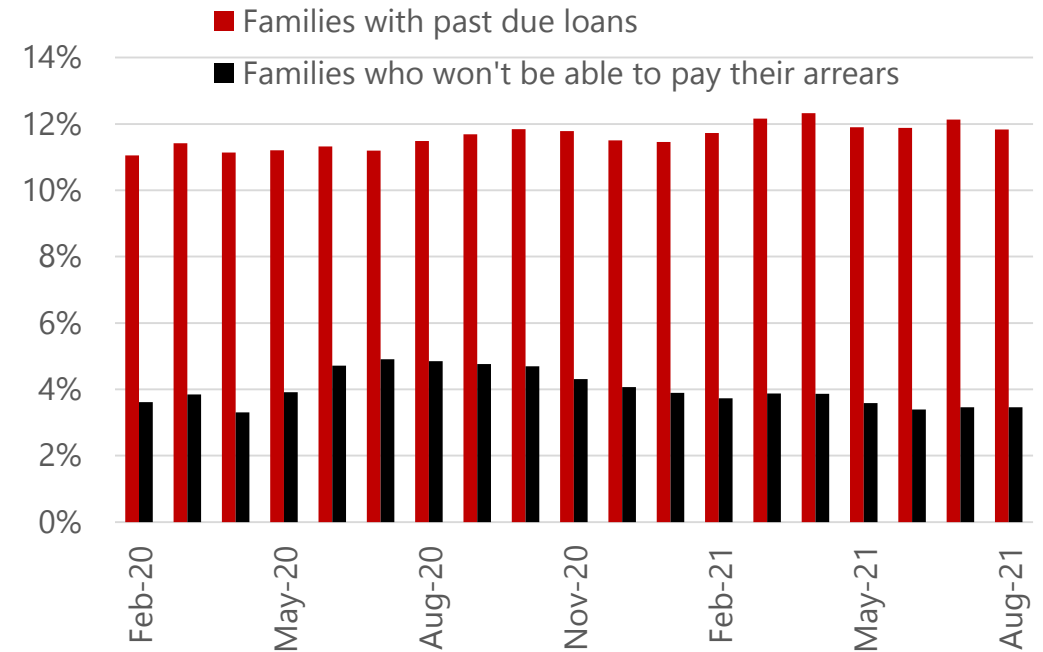
- In families who earns less than 10 minimal wage, delinquency had a negative trend in the last 12 months, although it increased between April and July.

Families who earn less than 10 minimal wage



Sources: CNC, Santander.

Families who earn more than 10 minimal wage

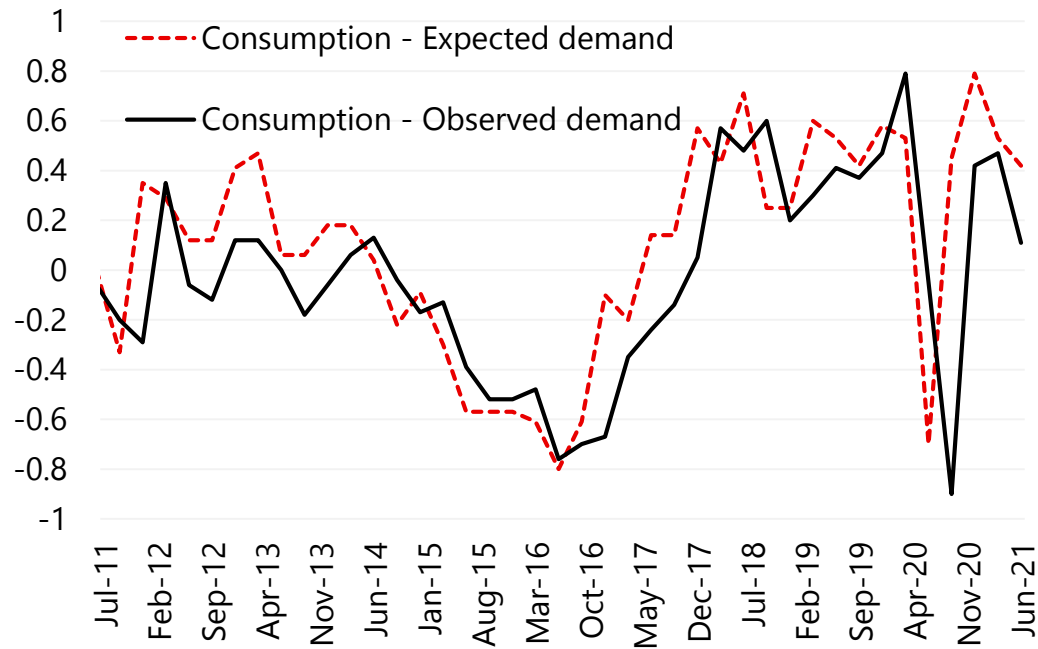


Sources: CNC, Santander.

Credit Survey

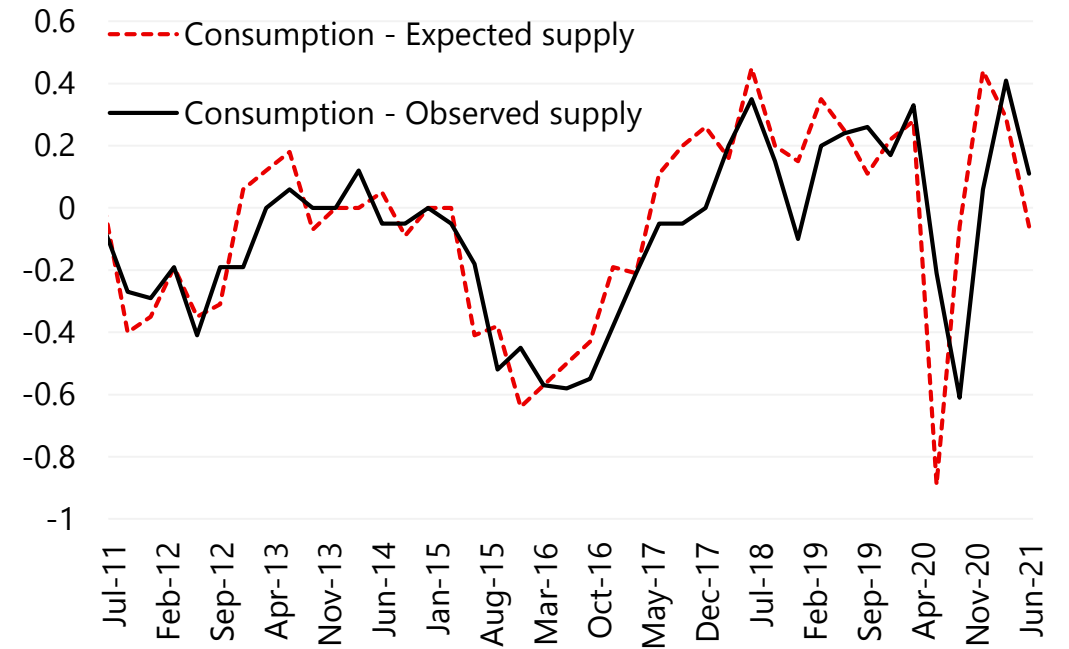
- Based on a quarterly survey, demand indicators expected for the following quarter are well in line with indicators observed

Quarterly Credit Conditions Survey – Demand Indicators



Sources: Brazilian Central Bank, Santander.

Quarterly Credit Consumer Survey – Supply Indicator



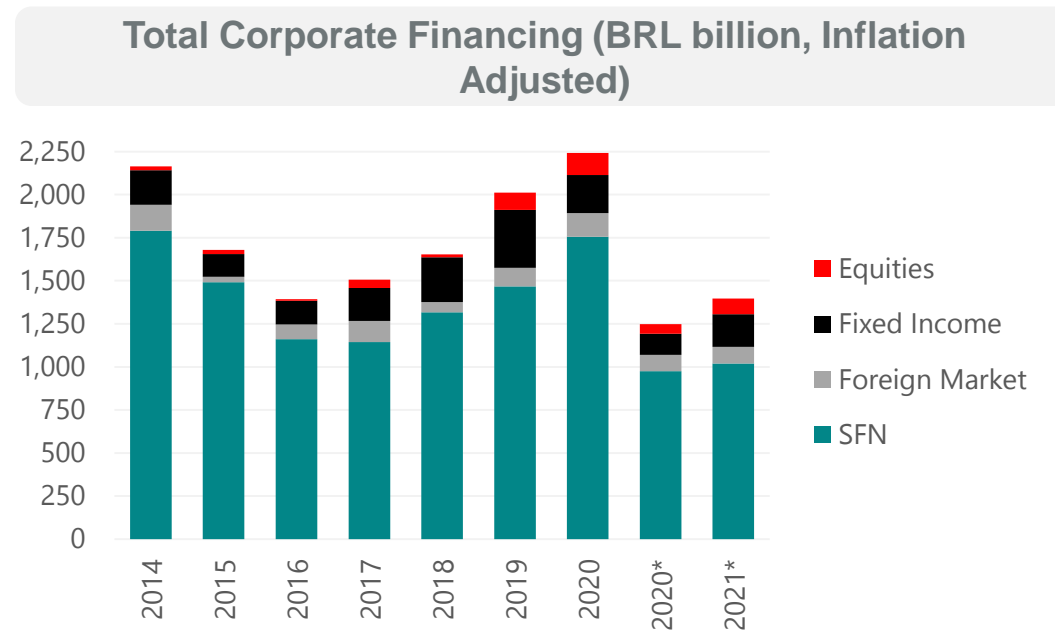
Sources: Brazilian Central Bank, Santander.

CORPORATE

03

Bank lending above year-ago period

- Considering total corporate financing so far this year, through July 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.



*January to July.

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.

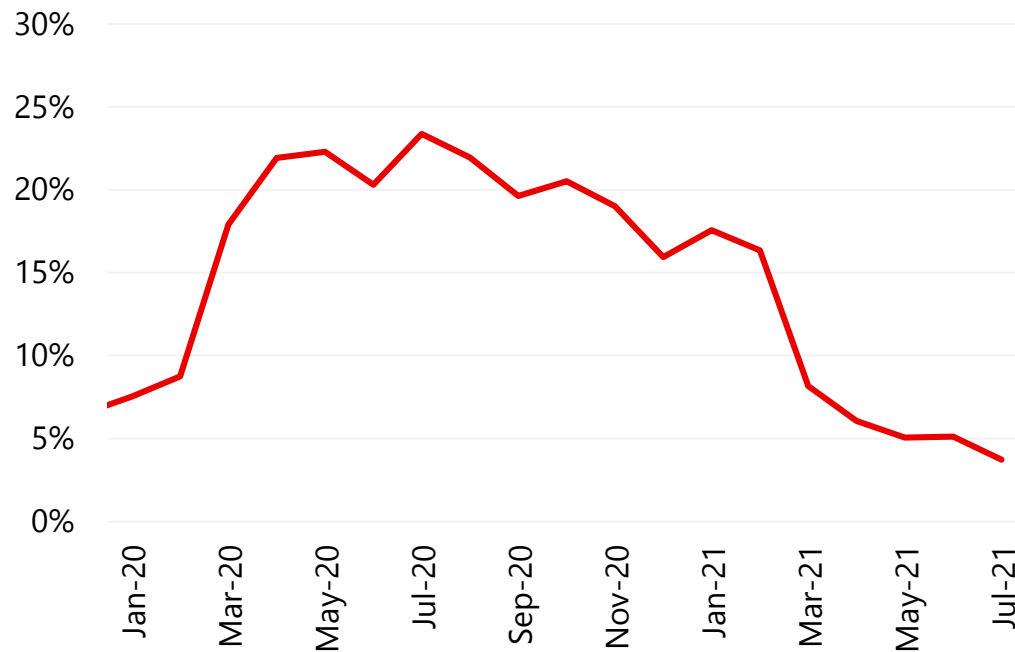
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

First negative variation in Working Capital

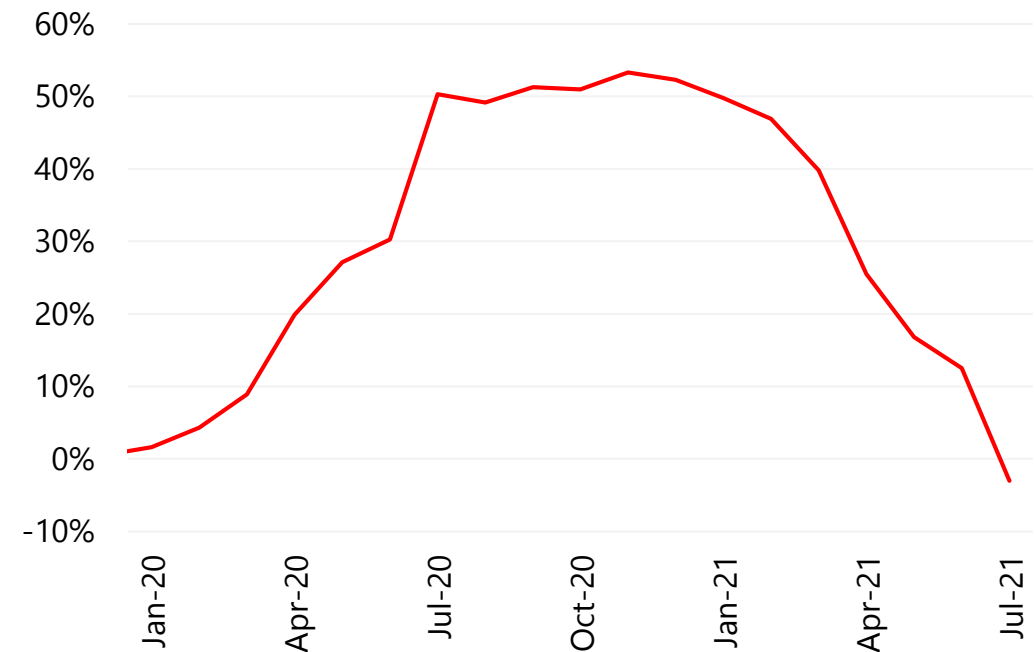
- For companies, growth in balance of non-earmarked loans was lower than previous years' average levels (3.7% YoY)
- Working Capital presented the first negative variation in months (-3.0% YoY, inflation adjusted)

Non-Earmarked – Outstanding Balance %YoY



Sources: Brazilian Central Bank, Santander.

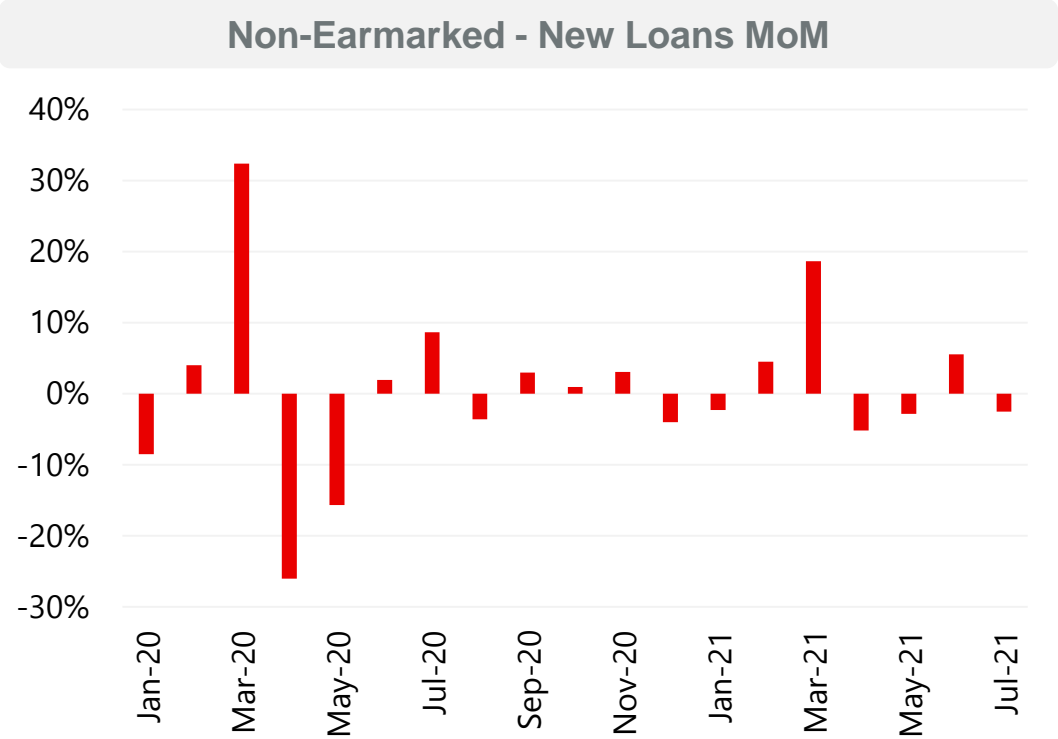
Outstanding Balance – Working Capital* YoY



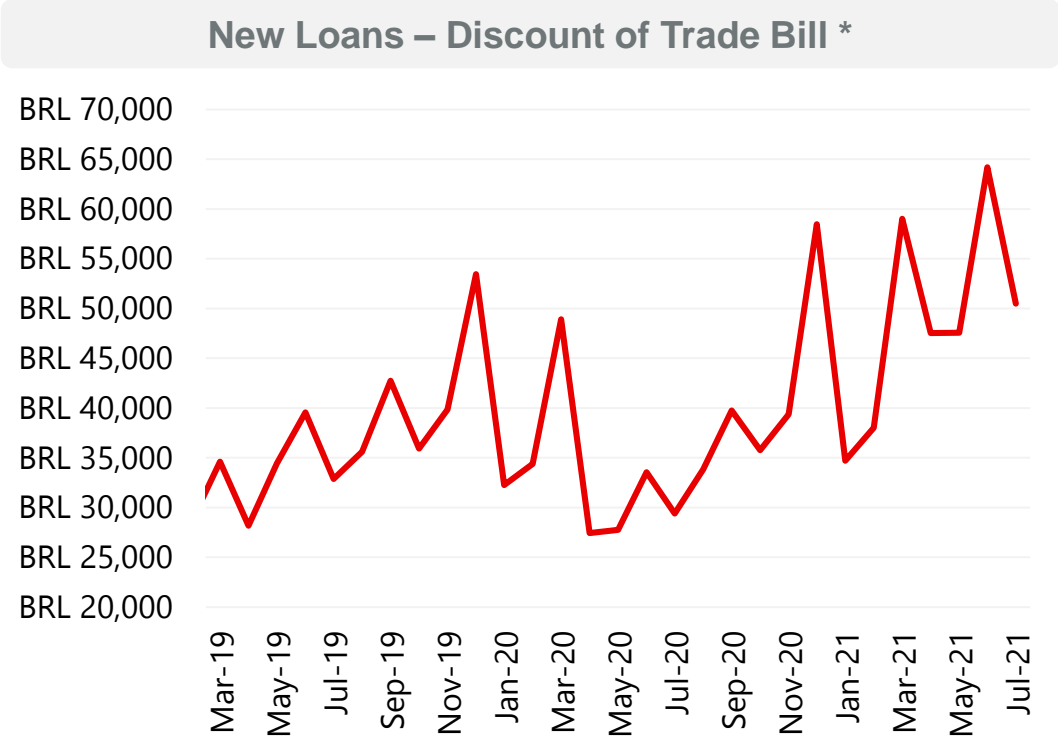
Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Small fall in the non-earmarked segment

- For companies, there was a fall of 2.5% MoM-sa in July in the non-earmarked segment, driven by discount of trade bill drop (-21%).



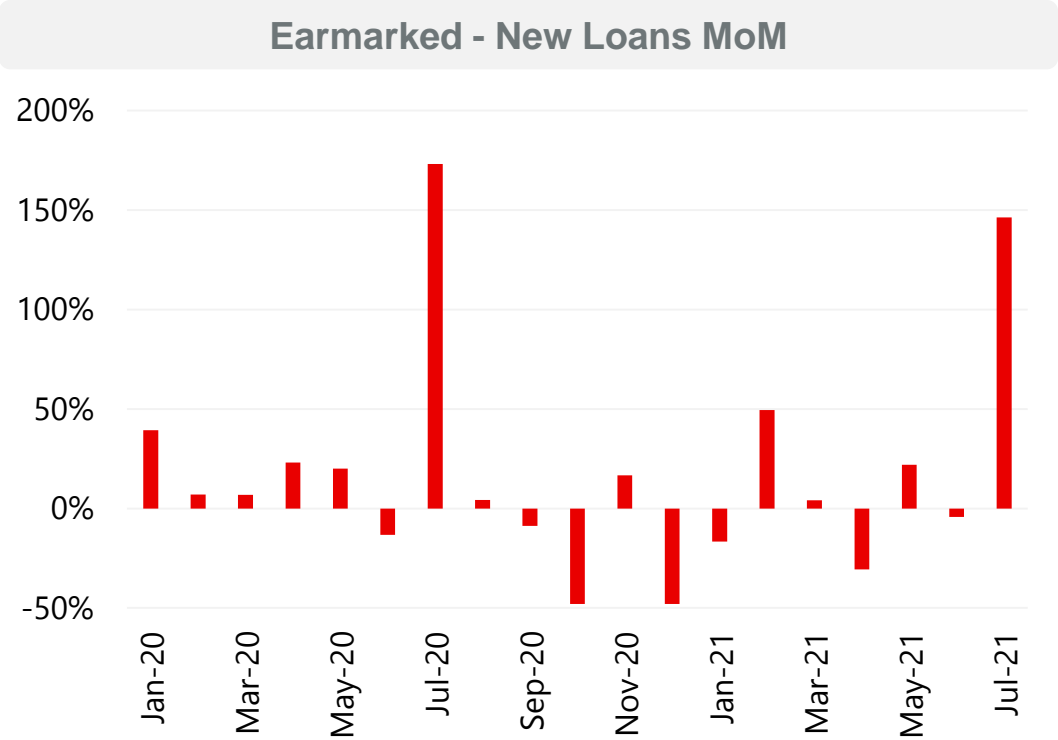
Sources: Brazilian Central Bank, Santander.



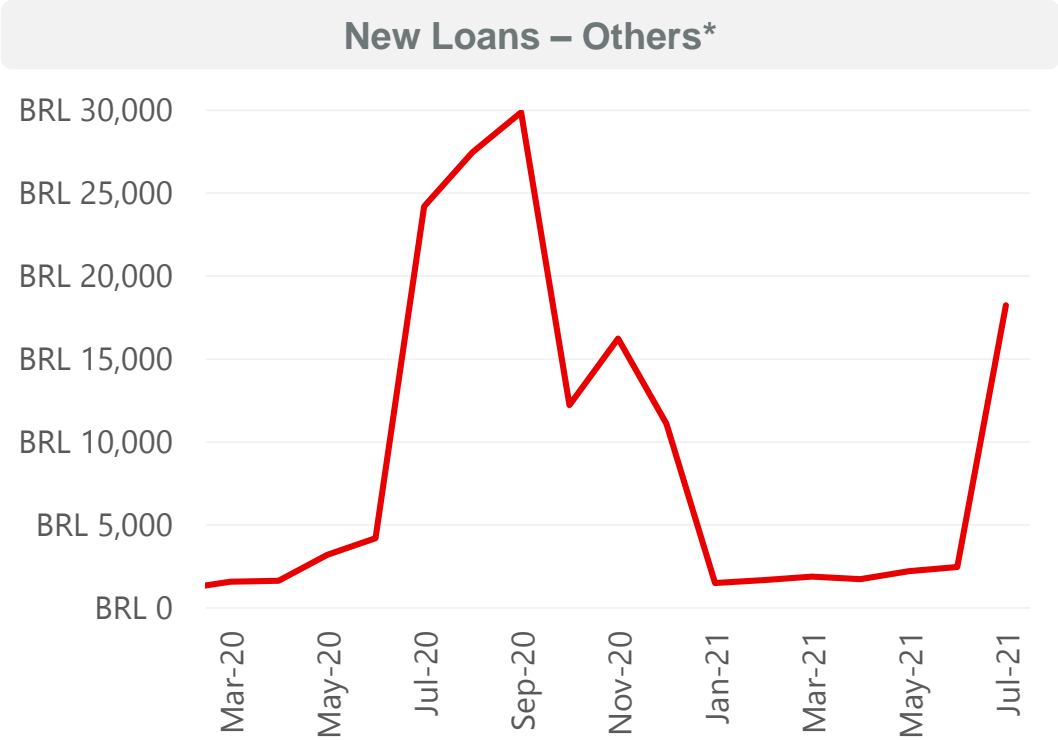
Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A strong increase in the earmarked

- In the Earmarked segment, there was an increase of 146.2% MoM-sa, driven by “others” new loans (+647%)
- *Pronampe* (National Program to Support Micro and Small Business) is classified as “others”



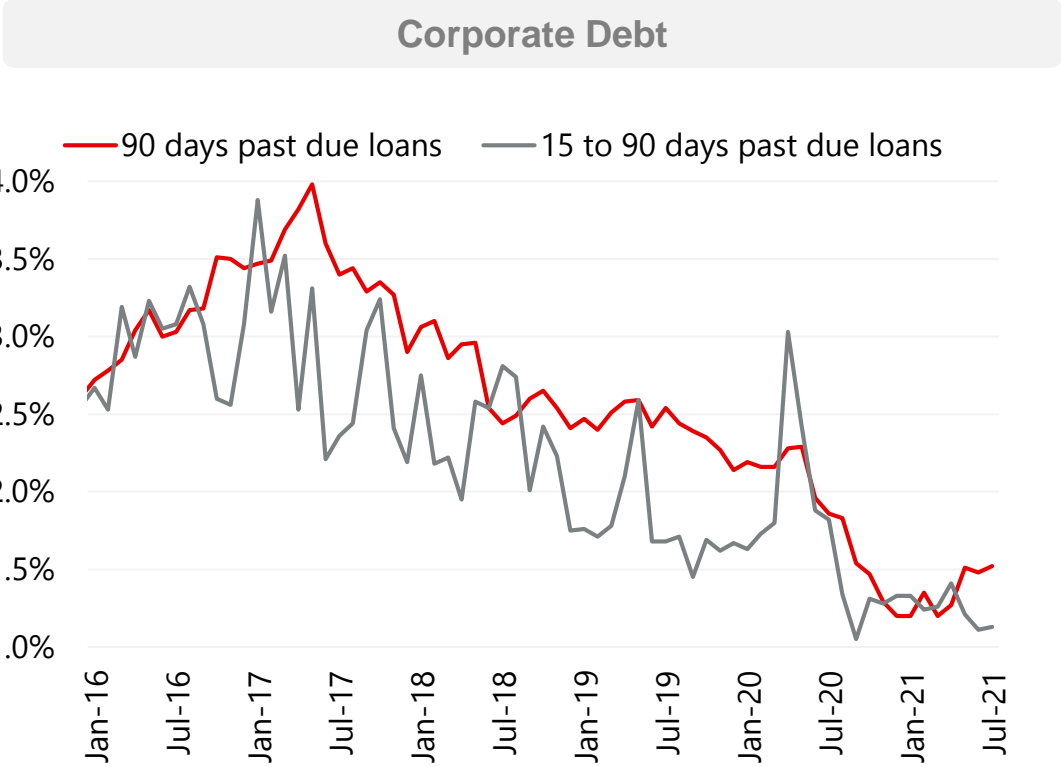
Sources: Brazilian Central Bank, Santander.



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

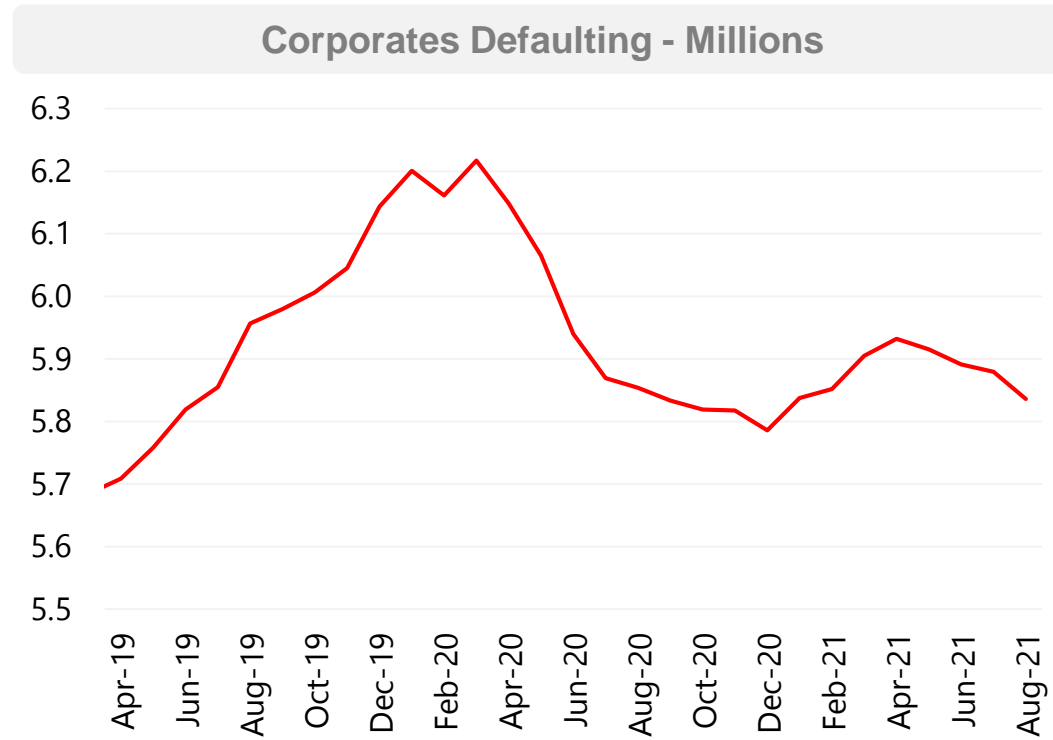
An upward trajectory for arrears

- The arrears may be starting to give warning signs.



Corporates defaulting

- The number of defaulting companies has stabilized since the peak at the beginning of the pandemic

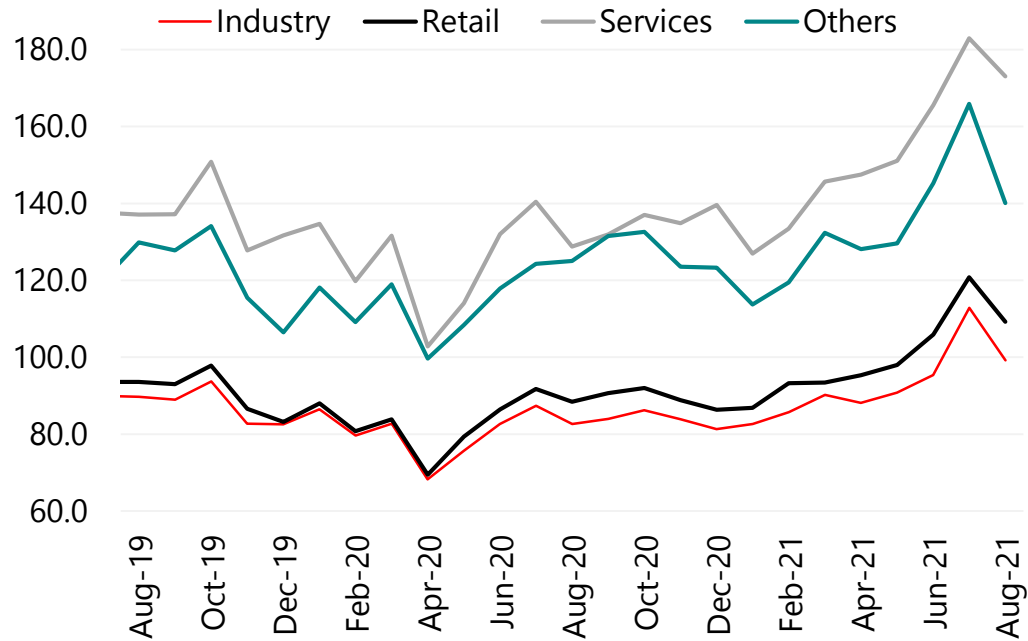


Sources: Brazilian Central Bank, Santander.

Services demand for Credit

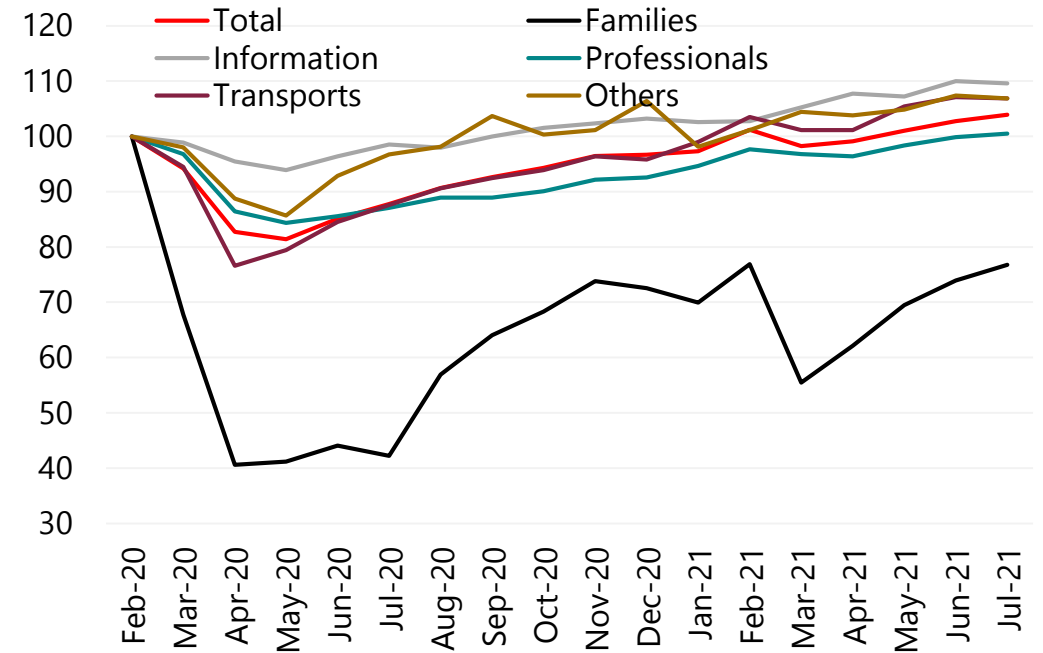
- Services sector suffered the most with the pandemic. Also, it was the sector that demanded the most credit.
- All sectors show a lower demand for credit at the margin.

Corporate demand for Credit – by Sector



Sources: Serasa Experian, Santander.

Services Breakdown (sa, Feb/20=100)

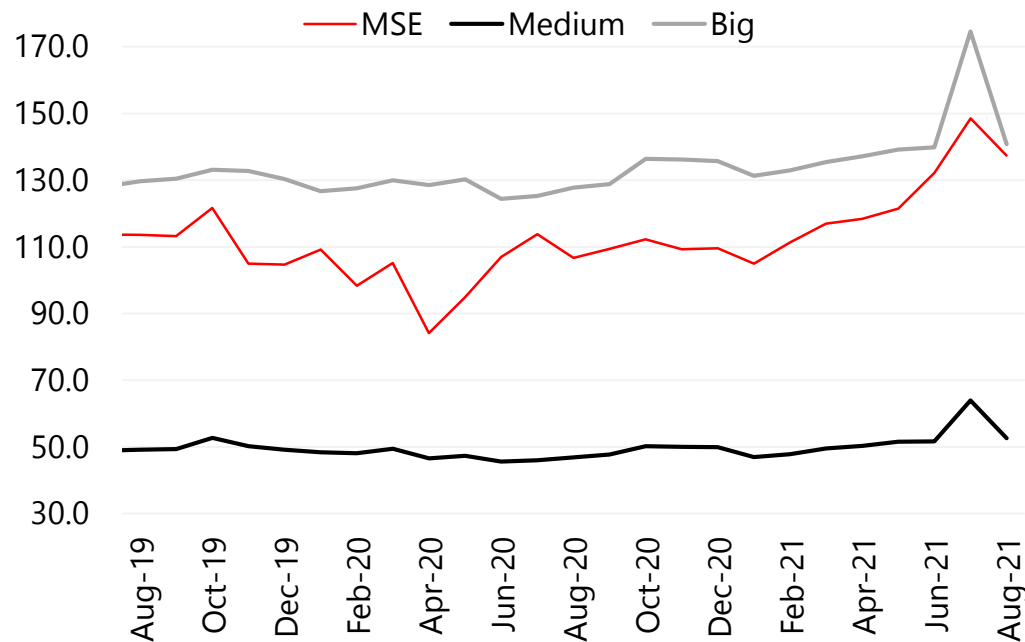


Sources: IBGE, Santander.

Corporate demand for Credit

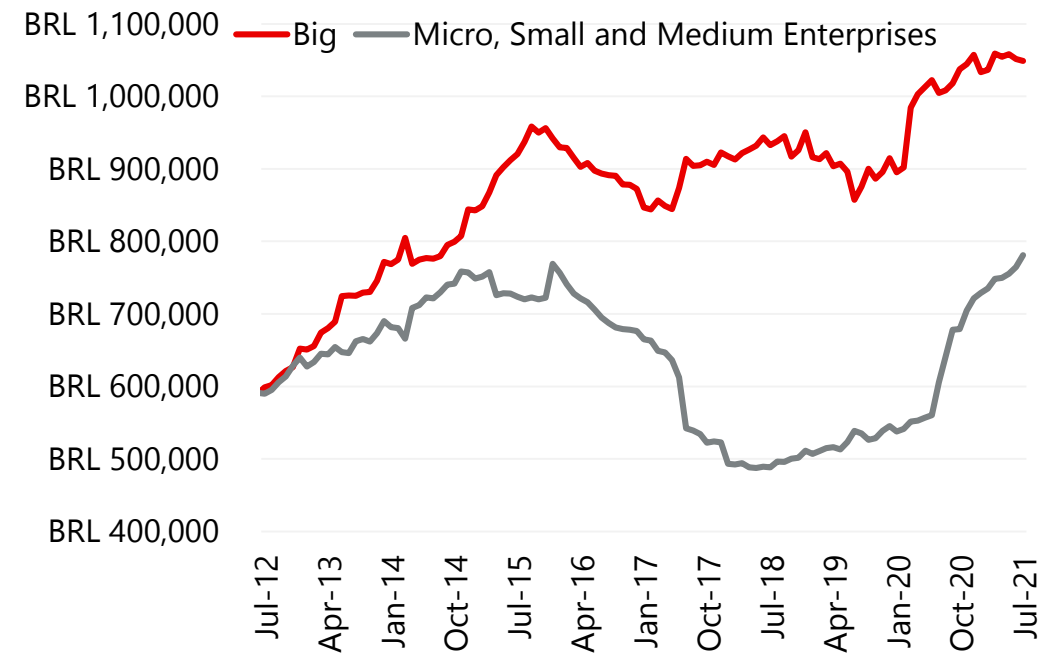
- Big and Micro and Small Companies are who demand credit the most. And, Corporate demand for credit show a lower figure at the margin
- Big Company Credit Outstanding is in all-time high.

Corporate demand for Credit – by Company Size



Sources: Serasa Experian, Santander.

Credit Outstanding – By Company Size

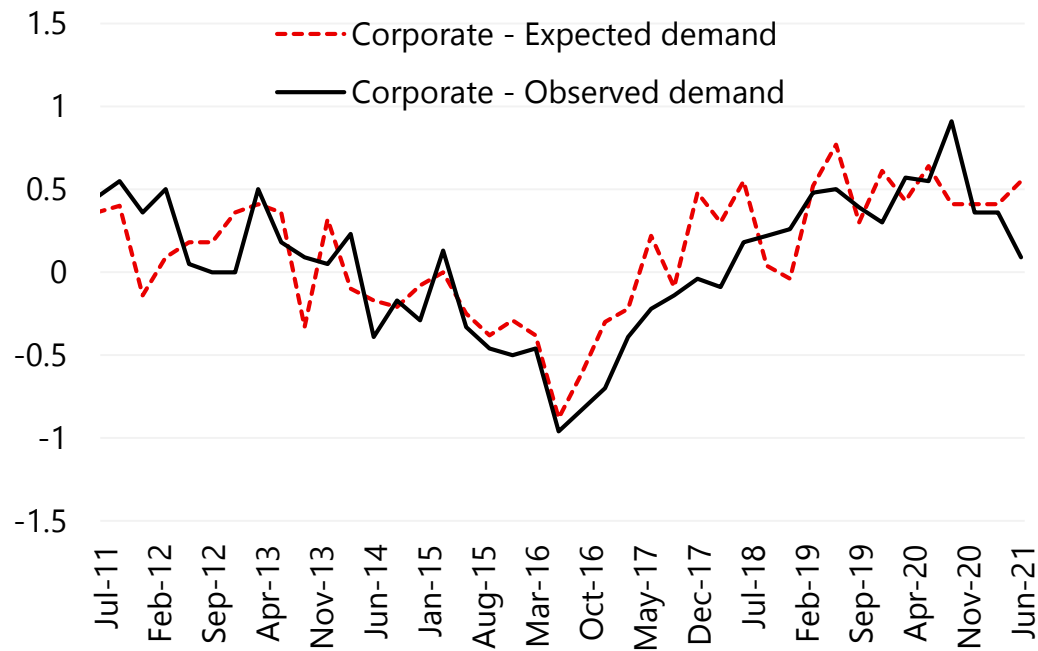


Sources: Brazilian Central Bank, Santander.

Credit Survey

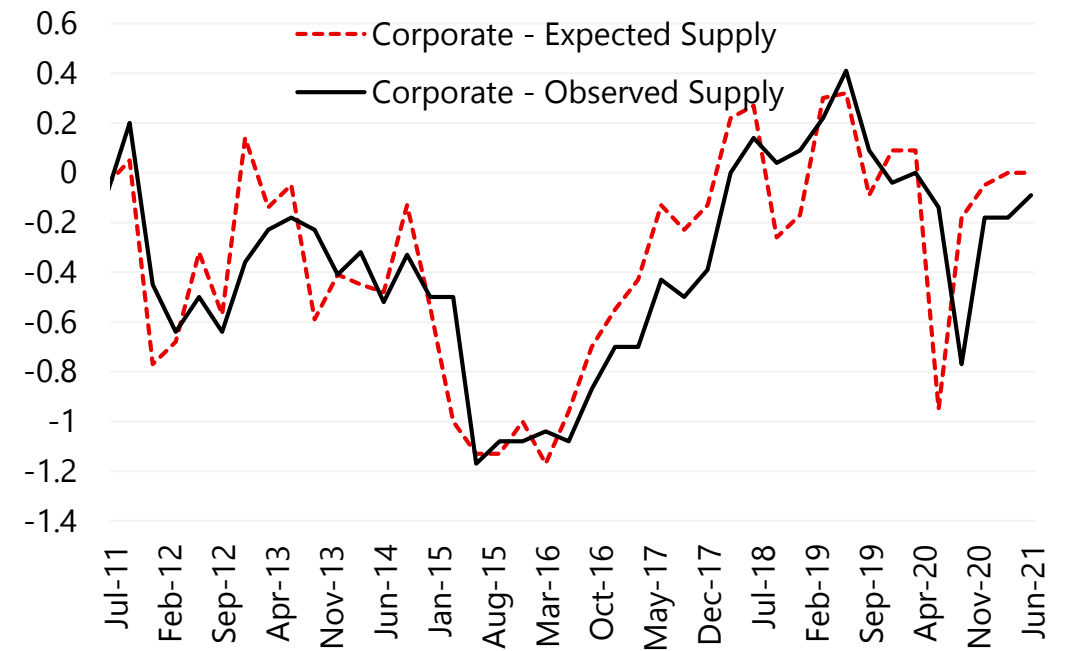
- For Corporate, expected demand for the following quarter is above what is observed.

Quarterly Credit Conditions Survey – Demand Indicators



Sources: Brazilian Central Bank, Santander.

Quarterly Credit Consumer Survey – Supply Indicator

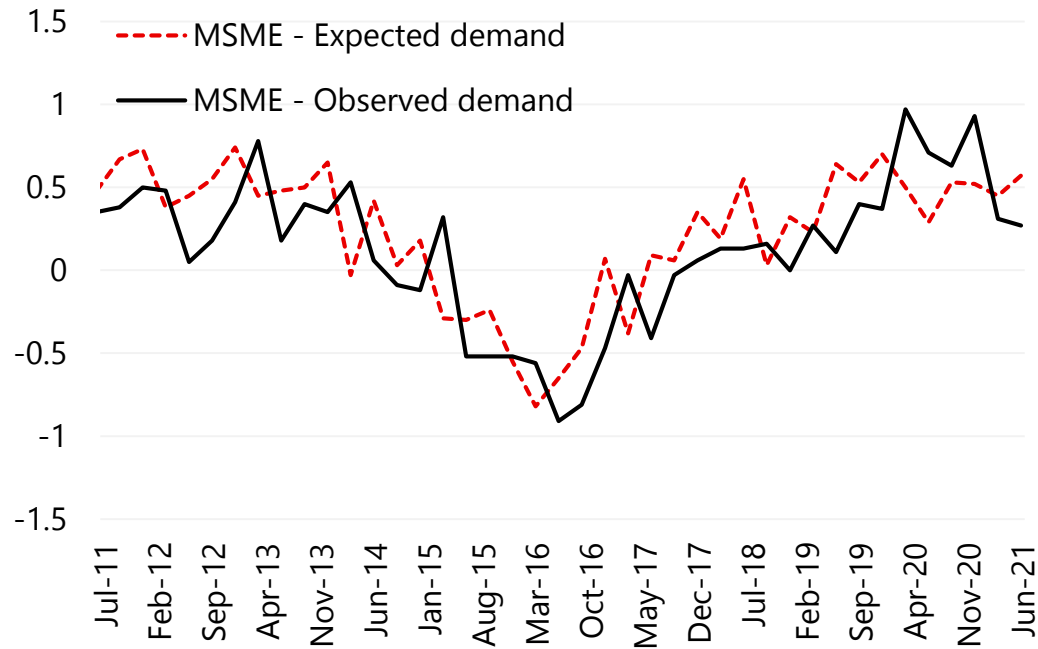


Sources: Brazilian Central Bank, Santander.

Credit Survey

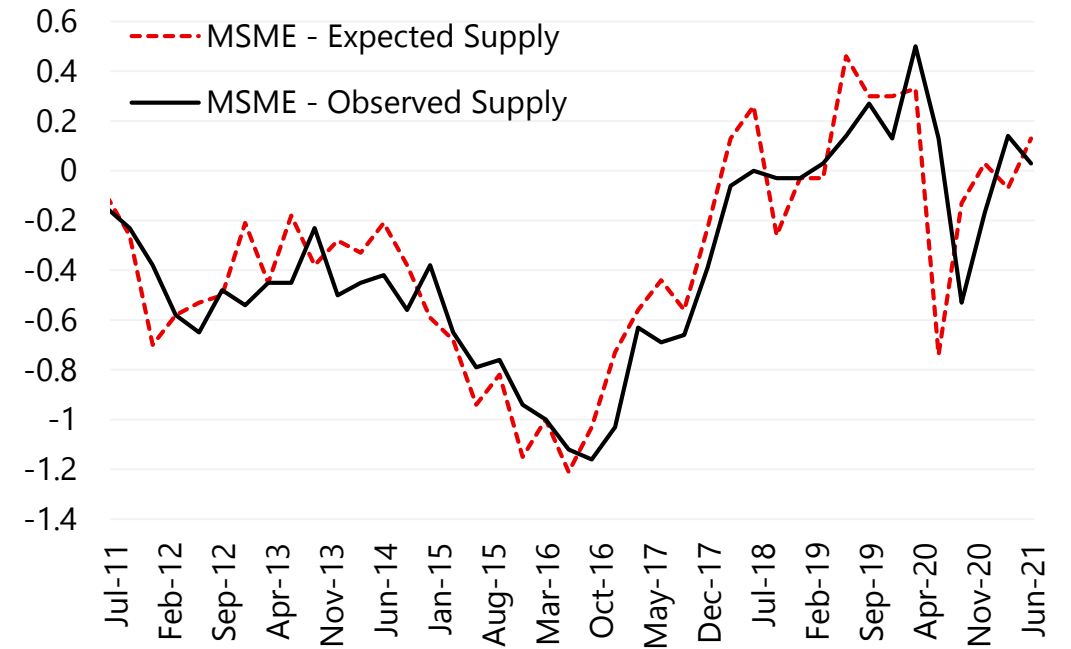
- For Micro, Small and Medium Enterprise, expected demand for the following quarter is above what is observed.

Quarterly Credit Conditions Survey – Demand Indicators



Sources: Brazilian Central Bank, Santander.

Quarterly Credit Consumer Survey – Supply Indicator



Sources: Brazilian Central Bank, Santander.

Bank Lending Forecasts

Credit Outstanding (%YoY)						
	2018	2019	2020	2021e	2022e	2023e
Total	5.1	6.5	15.6	13.6	9.3	9.2
Household	8.6	11.9	11.2	14.5	10.5	11.2
Non-fin. Corp.	1.2	-0.1	21.8	12.5	7.5	6.2
Nonearmarked	10.9	14.0	15.4	10.6	9.6	9.7
Household	11.6	16.5	10.8	10.0	9.5	9.8
Non-fin. Corp.	10.1	11.0	21.2	11.4	9.6	9.6
Earmarked	-0.9	-2.4	15.9	10.5	1.7	6.6
Household	5.4	6.6	11.7	9.7	8.6	11.1
Non-fin. Corp.	-8.1	-14.0	22.8	5.1	-8.6	-1.5
Credit Conditions						
	2018	2019	2020	2021e	2022e	2023e
Delinquencies	2.9	2.9	2.1	3.2	2.9	2.9
Household	4.8	5.0	4.2	5.1	4.9	4.8
Non-fin. Corp.	2.7	2.1	1.5	3.4	3.1	3.1
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.

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



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