Brazil Macro | September 2022

Credit

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BRIEF OVERVIEW

01

SUMMARY

- **Our projections for total outstanding loan growth are 6.5% YoY in 2022 and 1.8% YoY in 2023 (inflation-adjusted), accompanying the positive trends for economic activity in 1H22. However, just like the broad economy, we believe the pace of lending could begin to slow down in 2H22. Besides, a continued increase in household debt is a risk for loan growth and, especially for the delinquencies in the medium term.**

- For households, the non-earmarked segment decreased 0.2% MoM-sa, already showing a slight slowdown in new loans.

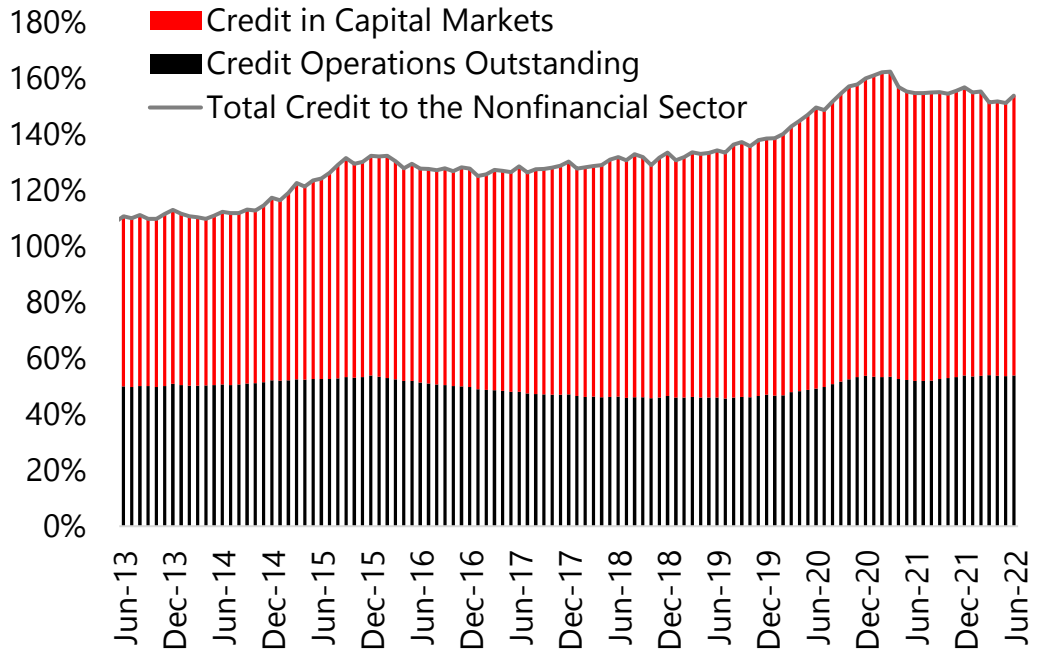
- For companies, there was a slight gain of 0.2% MoM-sa in June in the non-earmarked segment. The earmarked segment decreased, falling 7.4% MoM-sa.

- Considering total corporate financing YTD through June 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 28% smaller, with SFN concessions up 13.5%. As a result, total corporate financing was up 2% compared to the year-ago period.

Total Credit to Non-Financial Sector

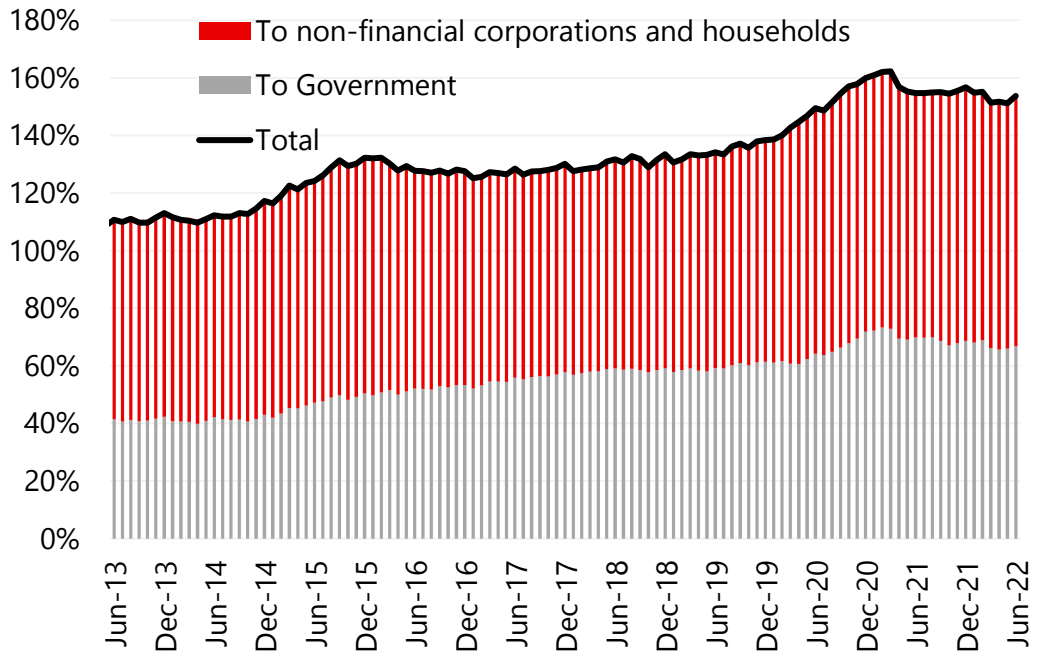
- In the last years, the Credit in the Capital markets has grown compared to the Credit Operations, which has been constant.
- Non-financial corporations and households have been the destination of these resources more than governments.

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



Sources: Brazilian Central Bank, Santander.

Total Credit - Destination (%GDP)

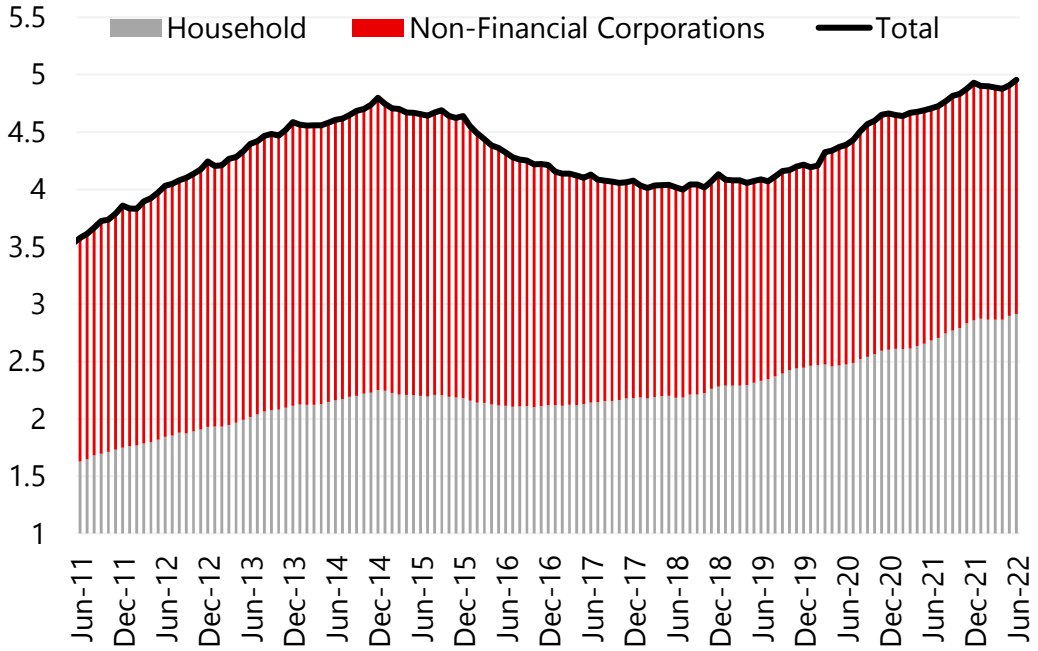


Sources: BIS, Santander.

Credit market remained strong

- Total outstanding loans posted real growth of 5.26% YoY in June 2022 to BRL4.9 trillion
- For households, loans were up 8.61% YoY; for non-financial corporations, they were up 0.81% YoY.

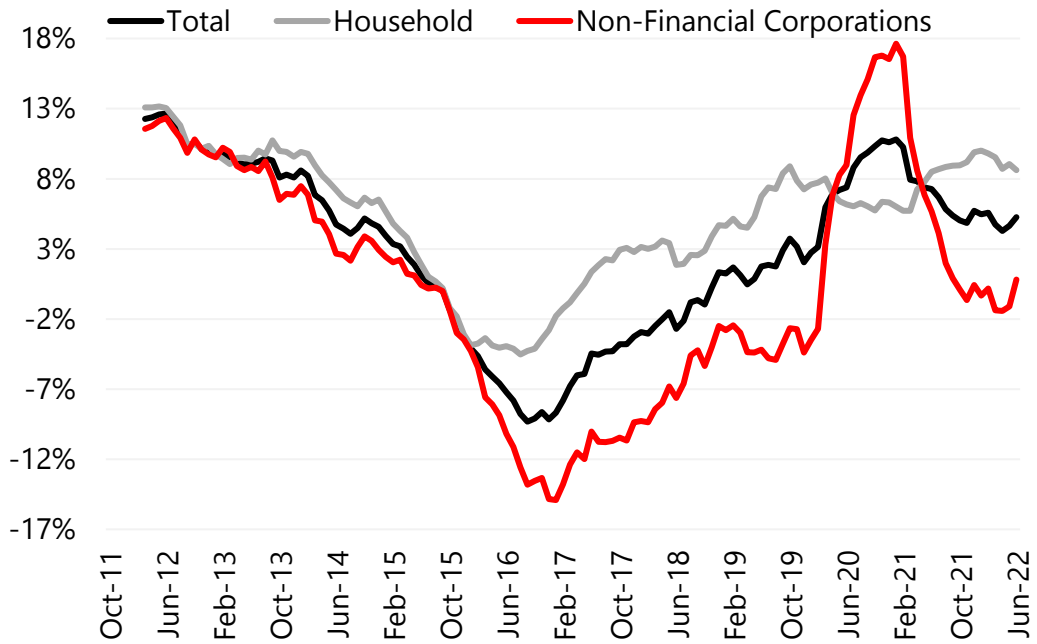
Total Outstanding Balance of Credit Operations



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.

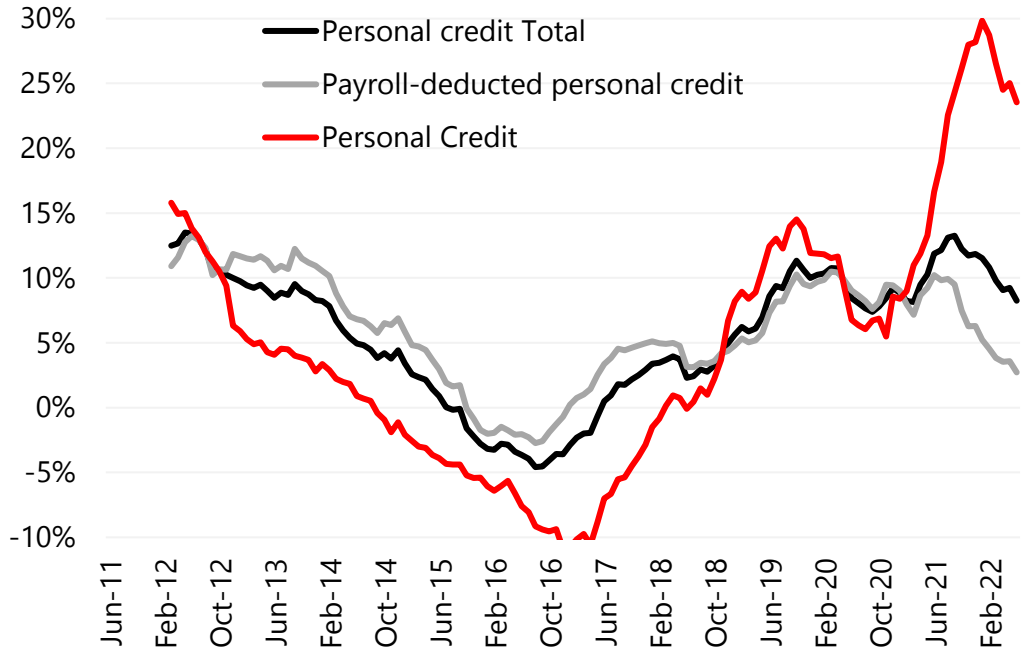
HOUSEHOLD

02

Outstanding Loans: household starting to slow down

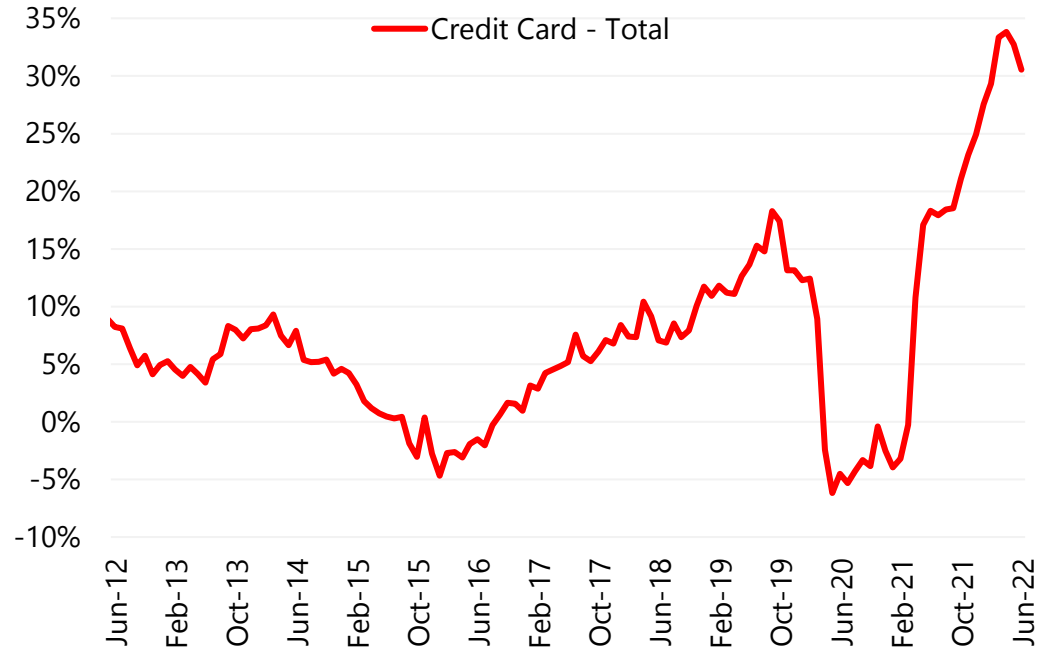
- In the Non-Earmarked segment, household credit portfolios presented real growth of 12.1% YoY
- Personal Credit starts to slow down with real growth of 8.25% YoY, the lowest figure since March 2021.
- Credit Card also starts to slow down, but with an annual variation (30.54% YoY, inflation-adjusted) well above the historical average.

Outstanding Loans - Personal Credit (% YoY)



Sources: Brazilian Central Bank, Santander.

Outstanding Loans – Credit Card (% YoY)

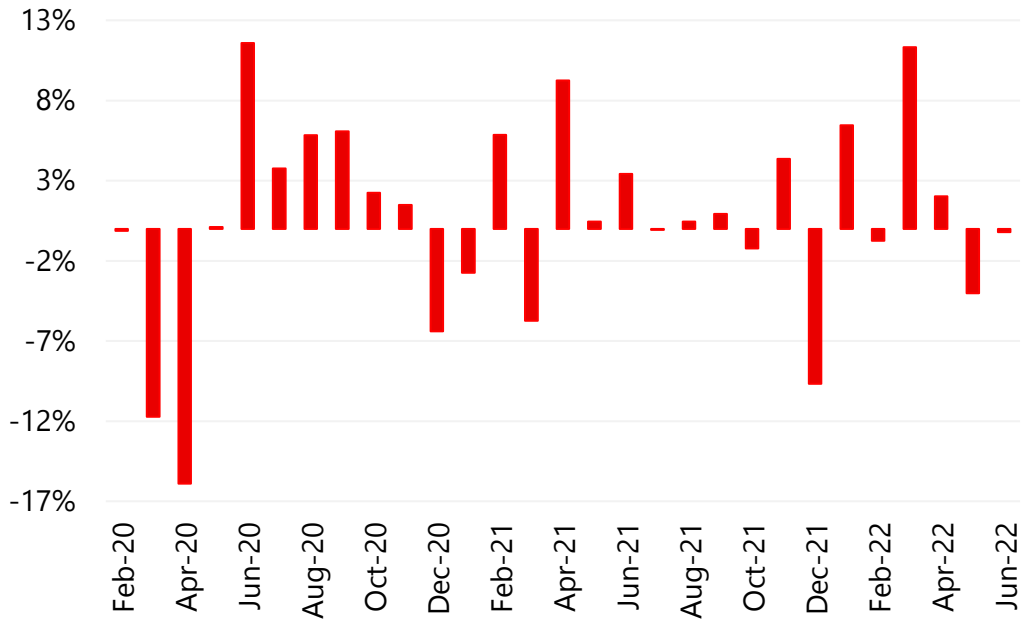


Sources: Brazilian Central Bank, Santander.

Non-Earmarked new loans posted a decline

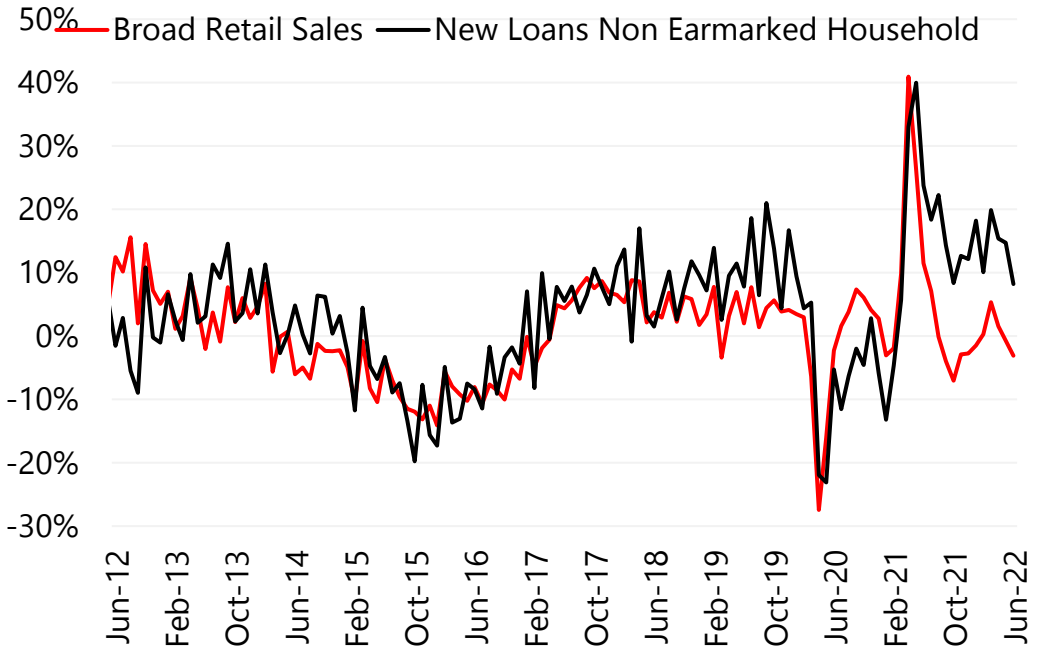
- For households, the non-earmarked segment posted a decrease of 0.2% MoM-sa.
- We highlight the fall in total personal credit (-4.7% MoM-sa), but credit cards presented a slight rise (0.7% MoM-sa).

Non-Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Broad Retail Sales YoY
New loans Household Non-Earmarked YoY

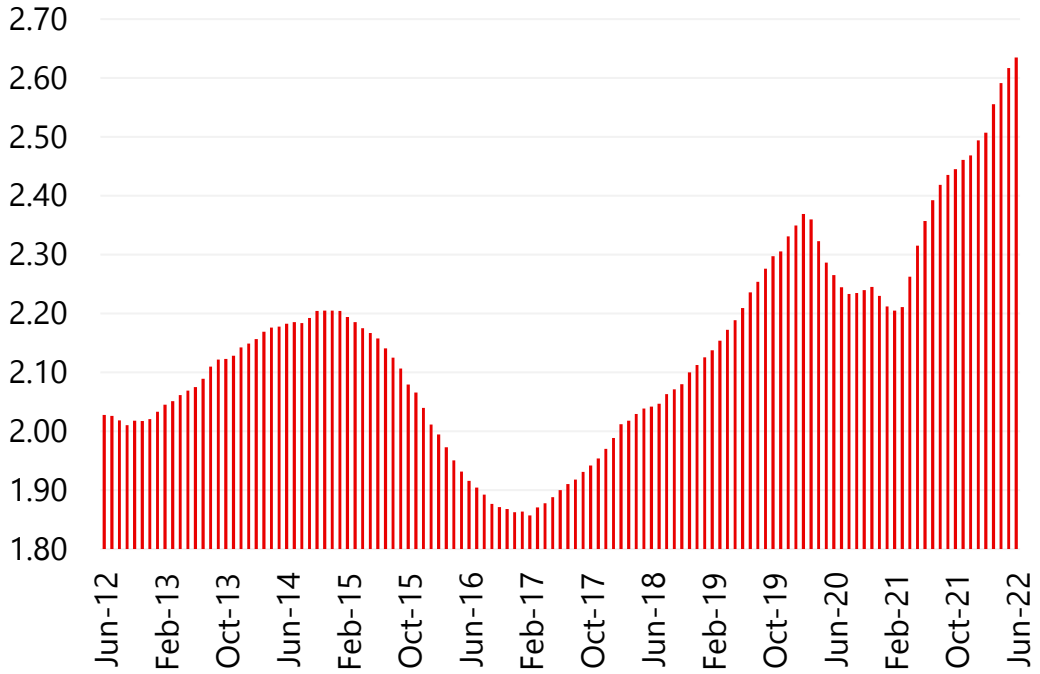


Sources: Brazilian Central Bank, Santander.

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

- The average of new loans (12 months acum.) YTD through June 2022 grew 11% compared to the year-ago period.
- The average interest rate for non-earmarked new loan increased 11.7 p.p from June 2021.

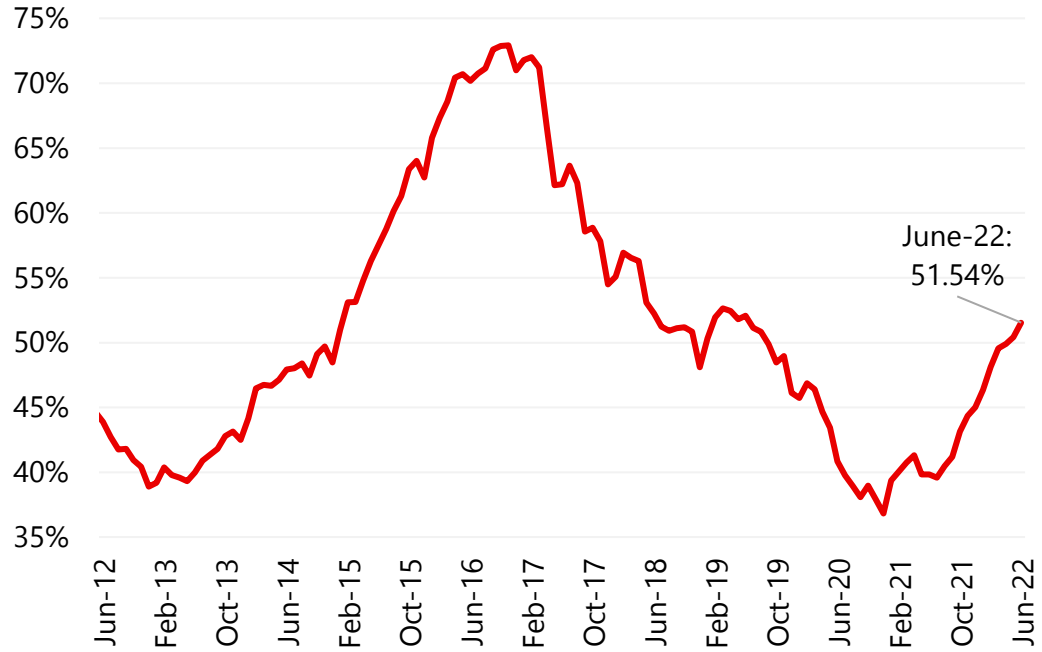
Non-Earmarked - New Loans* - 12 months acum.



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted and seasonally adjusted

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

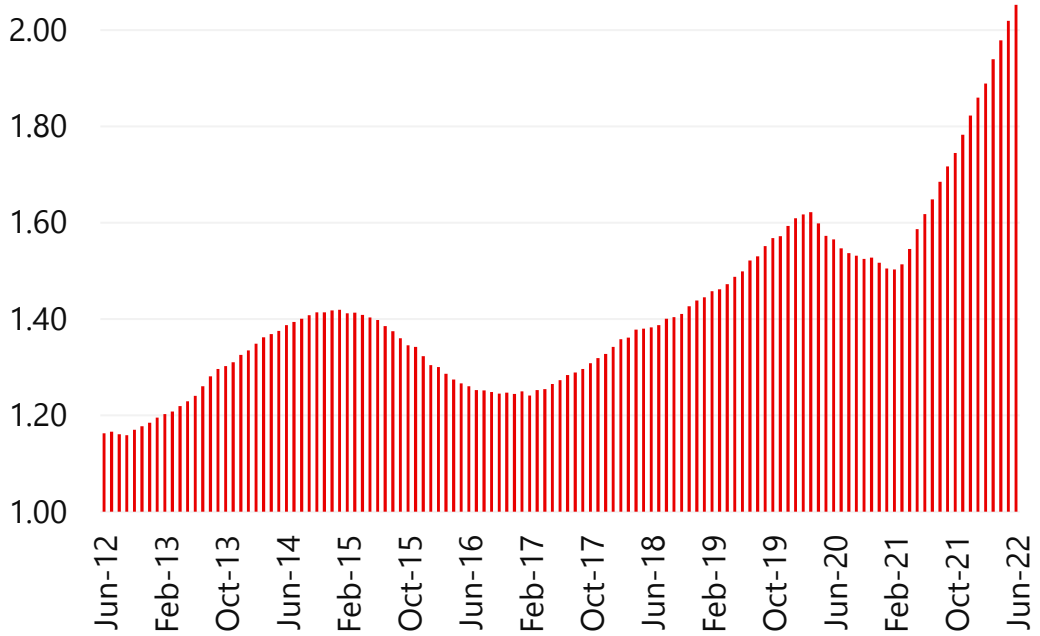


Sources: Brazilian Central Bank, Santander.

Credit Card: Continues to accelerate

- New Loans accumulated for 12 months keeps at historic highs.
- The average interest rate for Credit Card increased almost 17 p.p from June 2021.

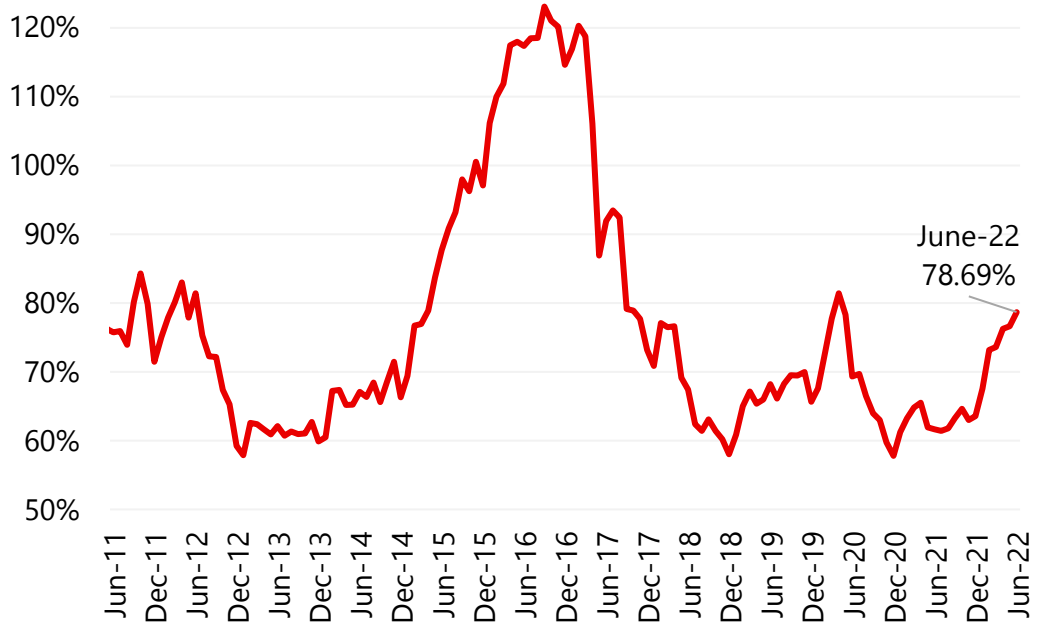
New Loans* – Credit Card Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

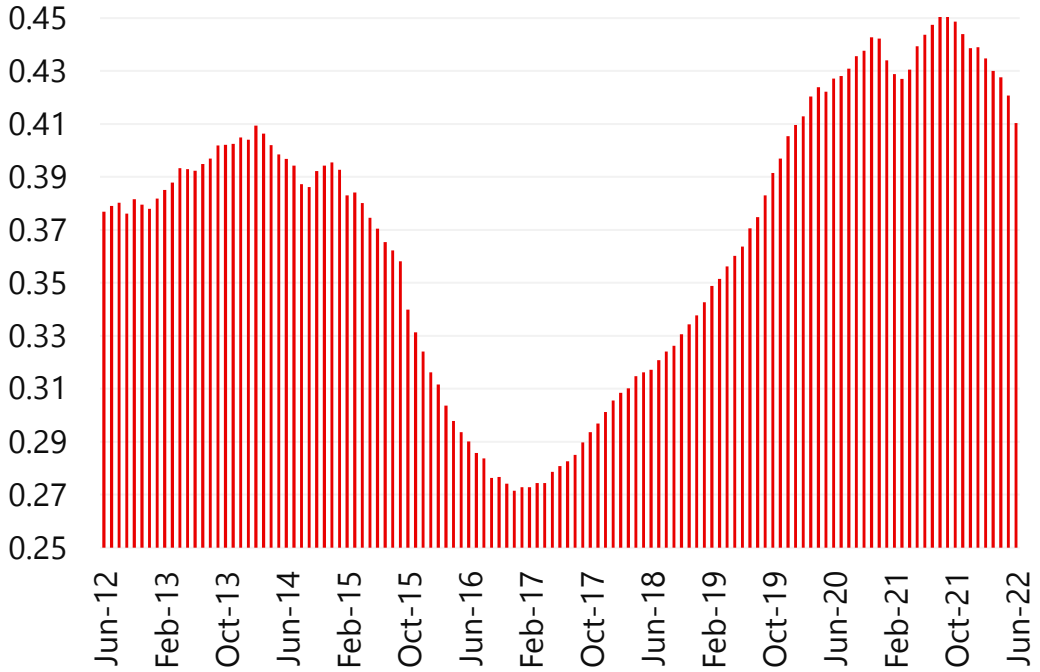


Sources: Brazilian Central Bank, Santander.

Personal Credit: keeps accelerating

- New Loans accumulated for 12 months keeps at historic highs.
- The average interest rate for Personal Credit increased 8.8 p.p from June 2021.

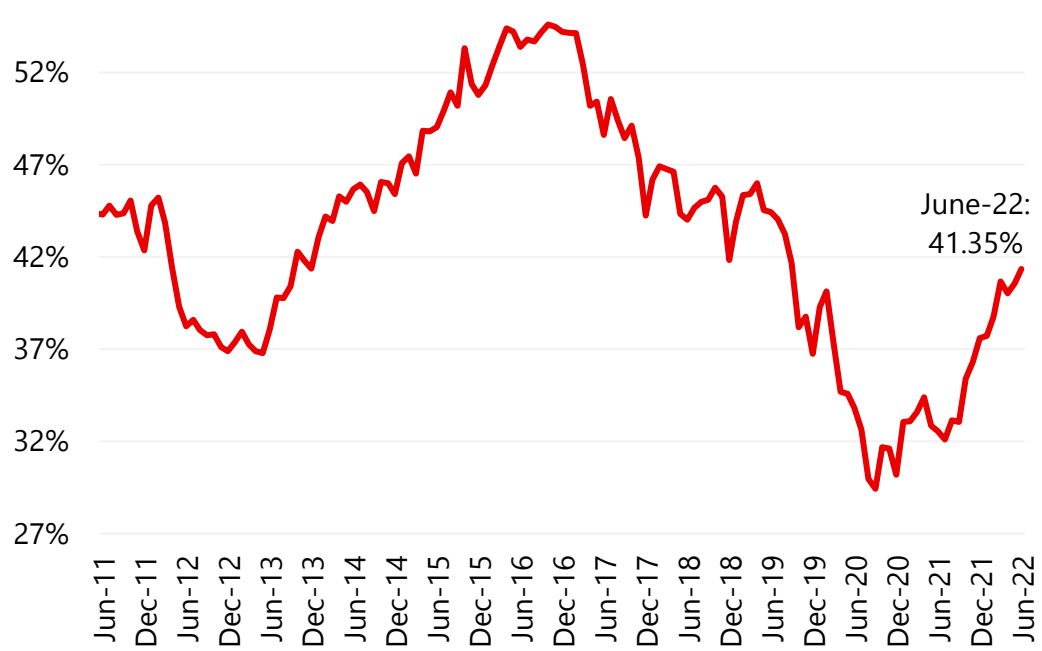
New Loans* – Personal Credit Total (12 months acum.)



Sources: Brazilian Central Bank, Santander.

* Millions, Inflation adjusted

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

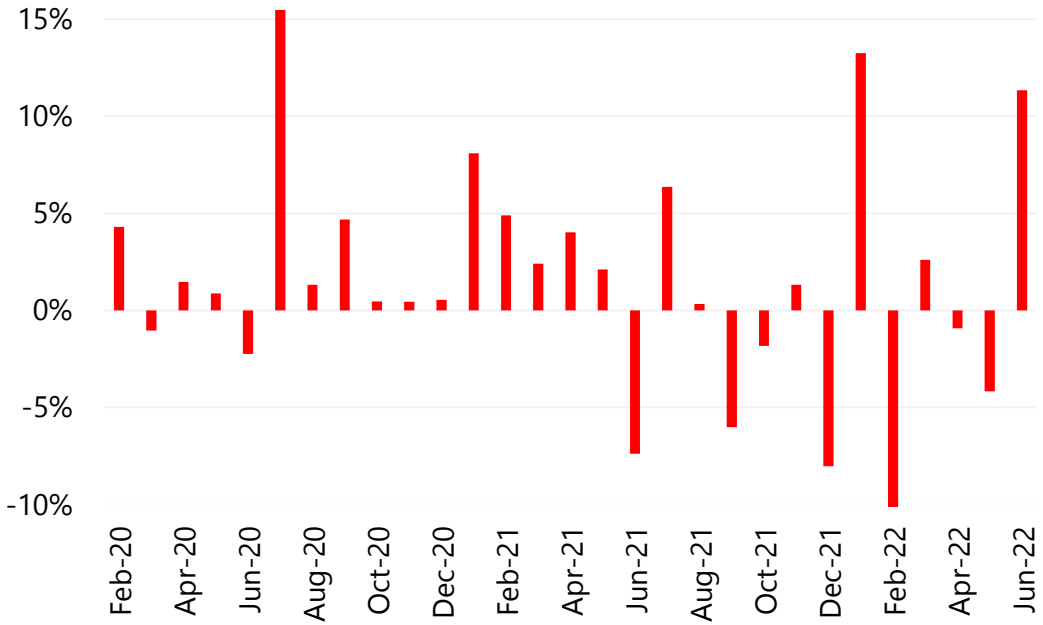


Sources: Brazilian Central Bank, Santander.

Earmarked new loans remains high

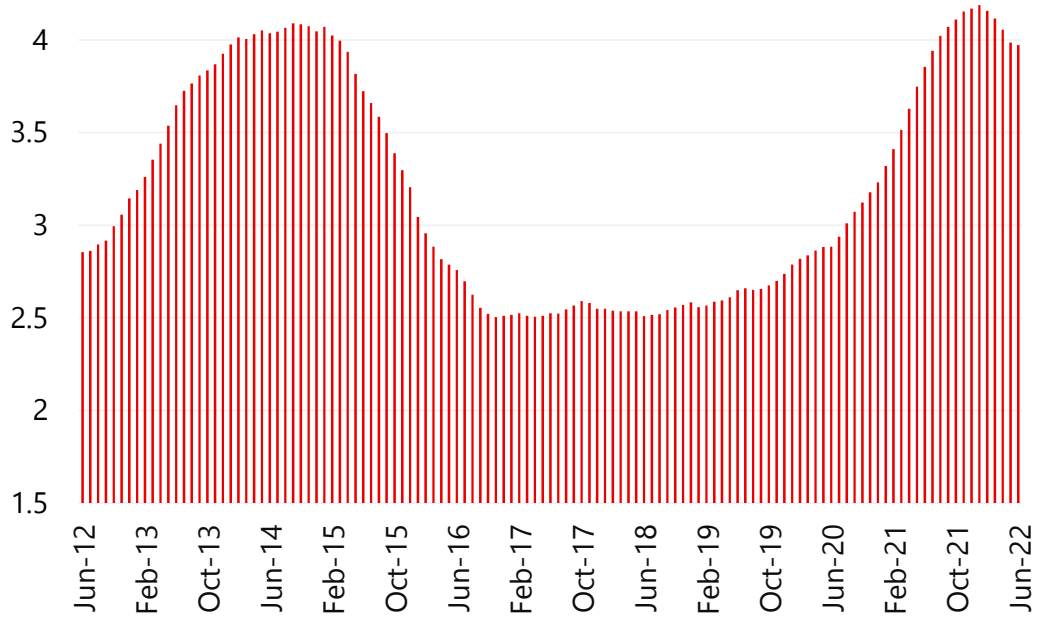
- In the earmarked segment, households posted an increase of 11.3% MoM-sa.
- New Loans accumulated for 12 months keeps at historic highs.

Earmarked - New Loans MoM



Sources: Brazilian Central Bank, Santander.

Earmarked - New Loans* - 12 months acum.

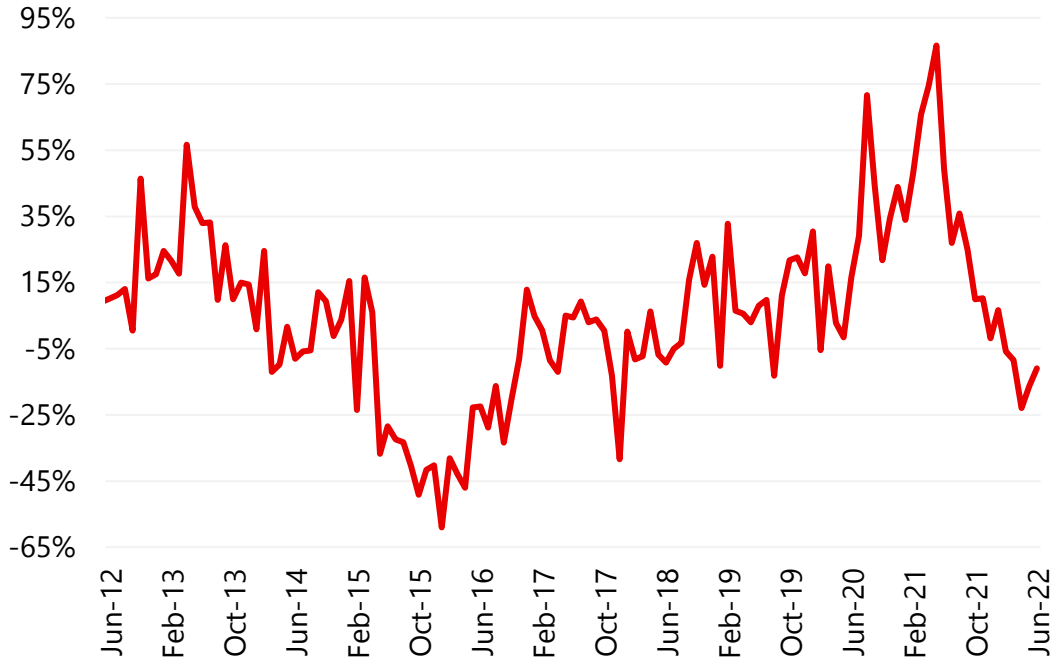


Sources: Brazilian Central Bank, Santander.
* Millions, Inflation adjusted and seasonally adjusted

Real Estate: warning sign

- After Real Estate Financing starting 2022 with a positive figure, the segmented presents a negative result for the fifth time in a row (-11% YoY), mainly because of higher interest rates and economic uncertainty.
- And it shows a tepid variation at the margin (3.6% MoM-sa).

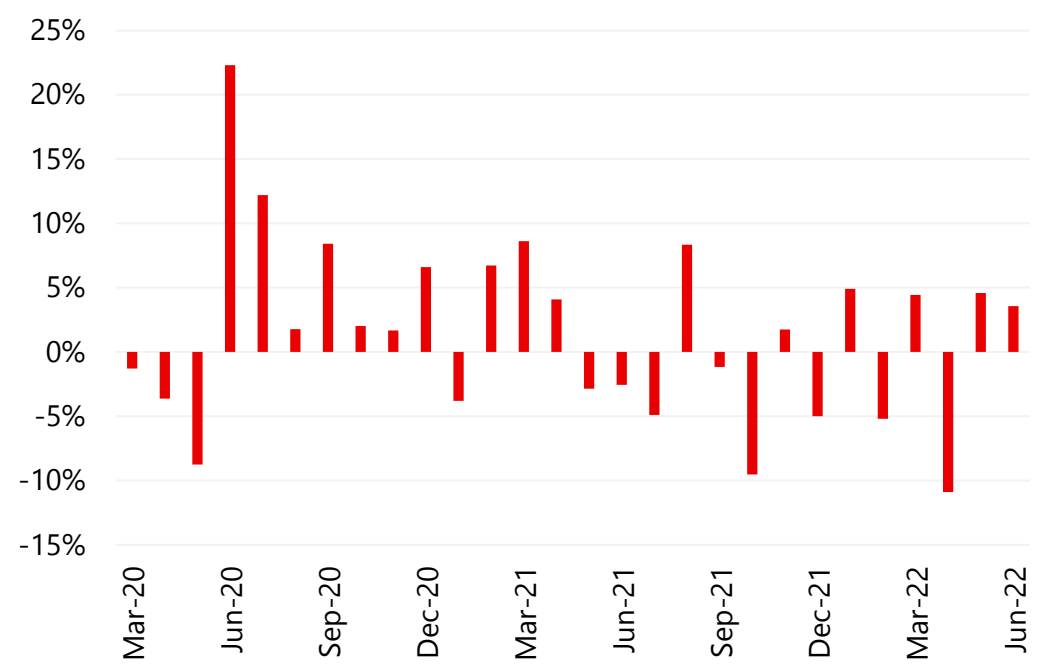
Real Estate Financing - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

Real Estate Financing - New Loans MoM

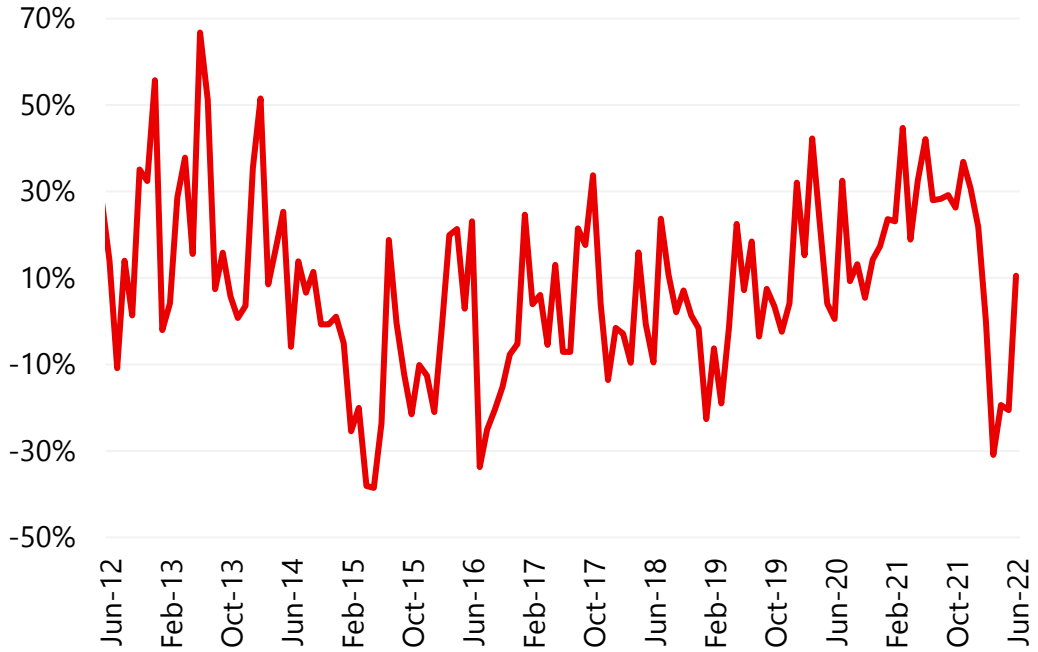


Sources: Brazilian Central Bank, Santander.

Rural Credit: shows positive figures, thanks to 2022-2023 Crop Plan

- Rural Credit presented the first positive figure (10.5% YoY), after three negative variations in a row,
- And it presented a strong positive variation (38.3% MoM-sa).

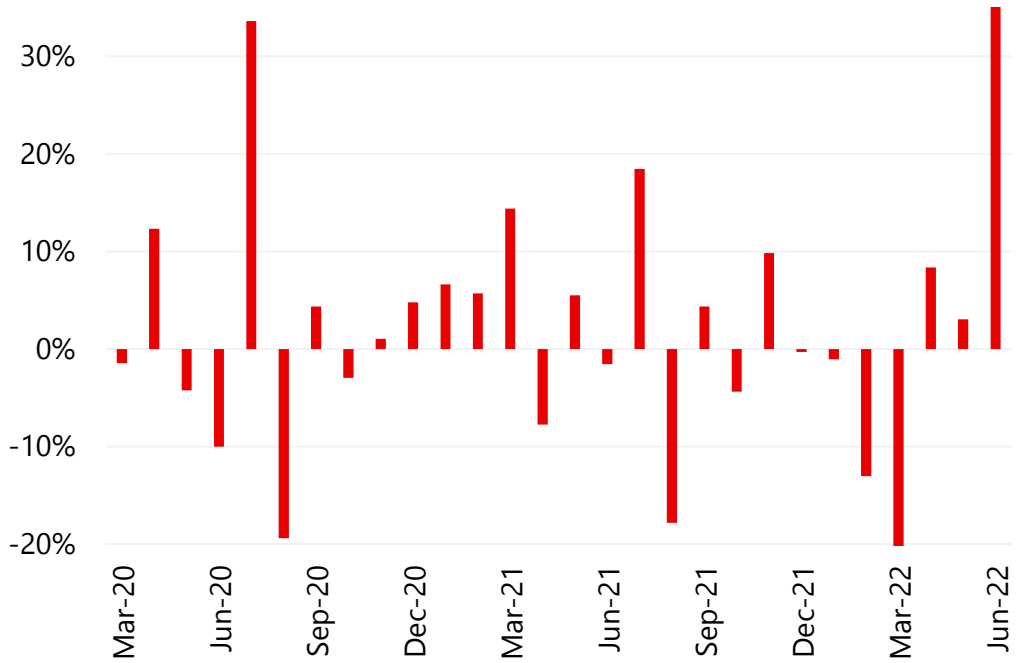
Rural Credit - New Loans YoY



Sources: Brazilian Central Bank, Santander.

* BRL thousands, inflation adj.

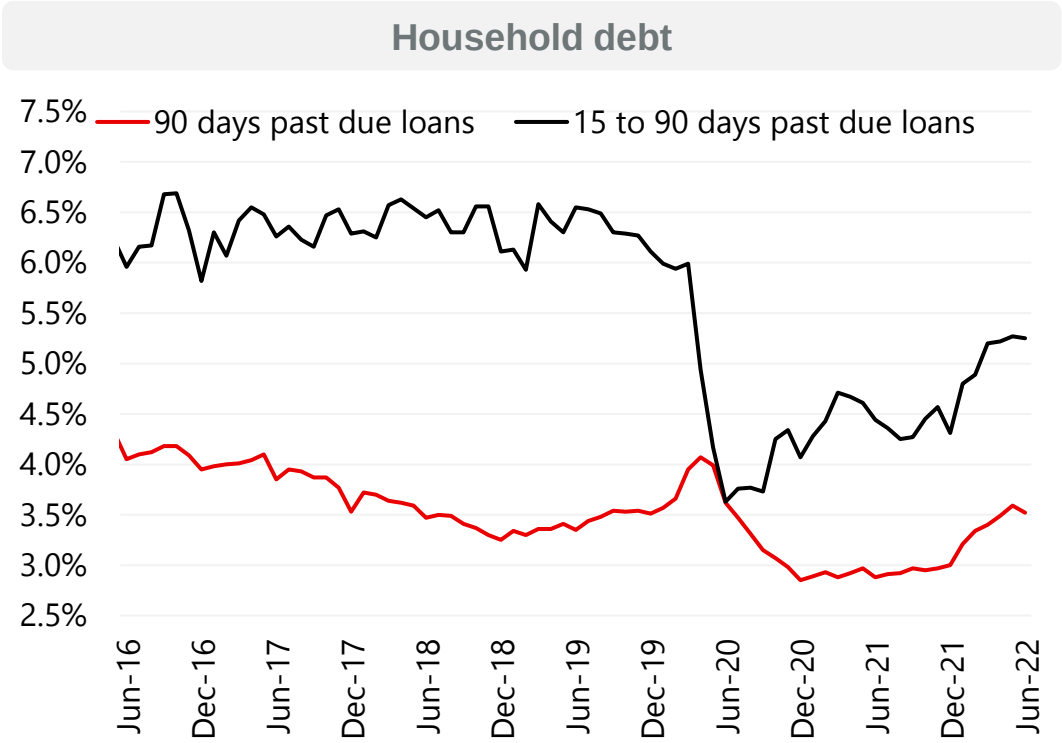
Rural Credit - New Loans MoM



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.

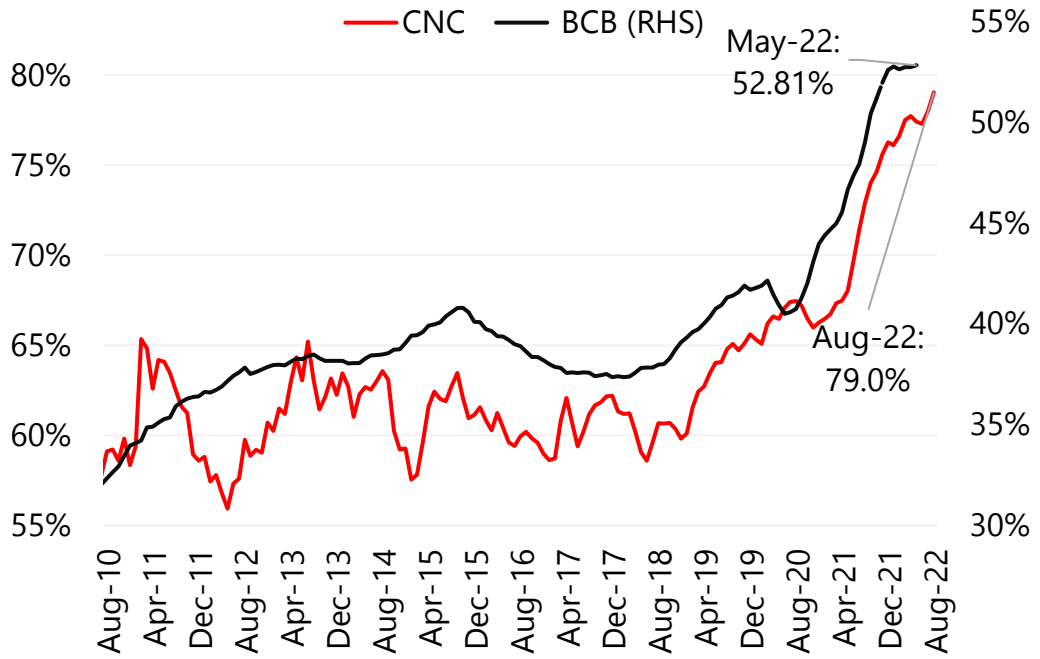


Sources: Brazilian Central Bank, Santander.

Families Indebtedness is the main (big) problem

- Household indebtedness keeps rising fast, and it reached a peak for the series at 52.8% in May 2022.
- The situation is getting worse due to the credit operations increasing and the household income stagnation.

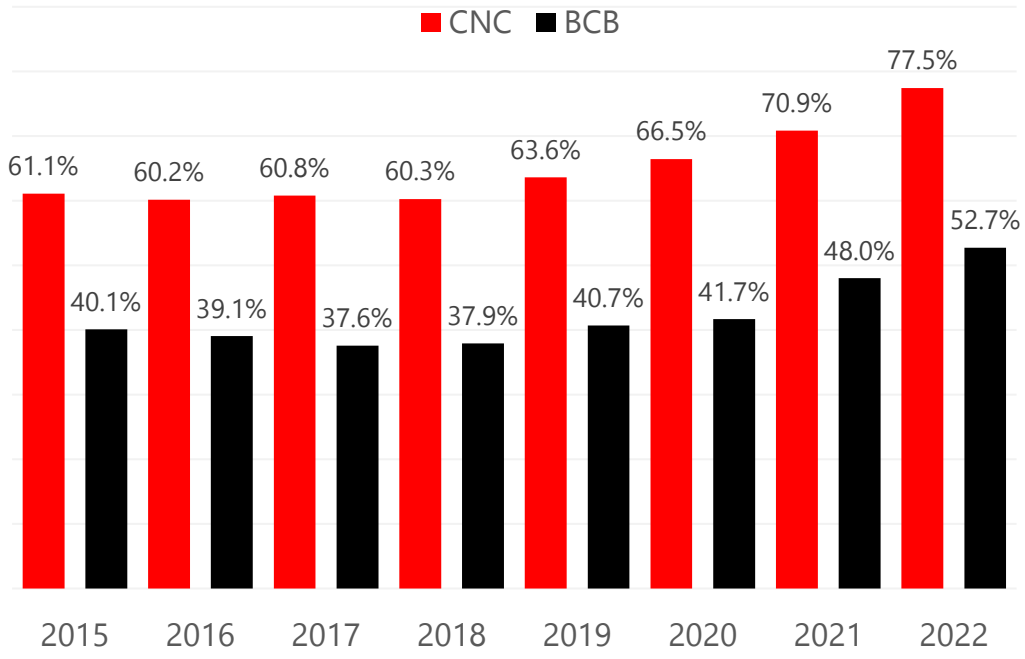
Extended household Indebtedness (%)



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).

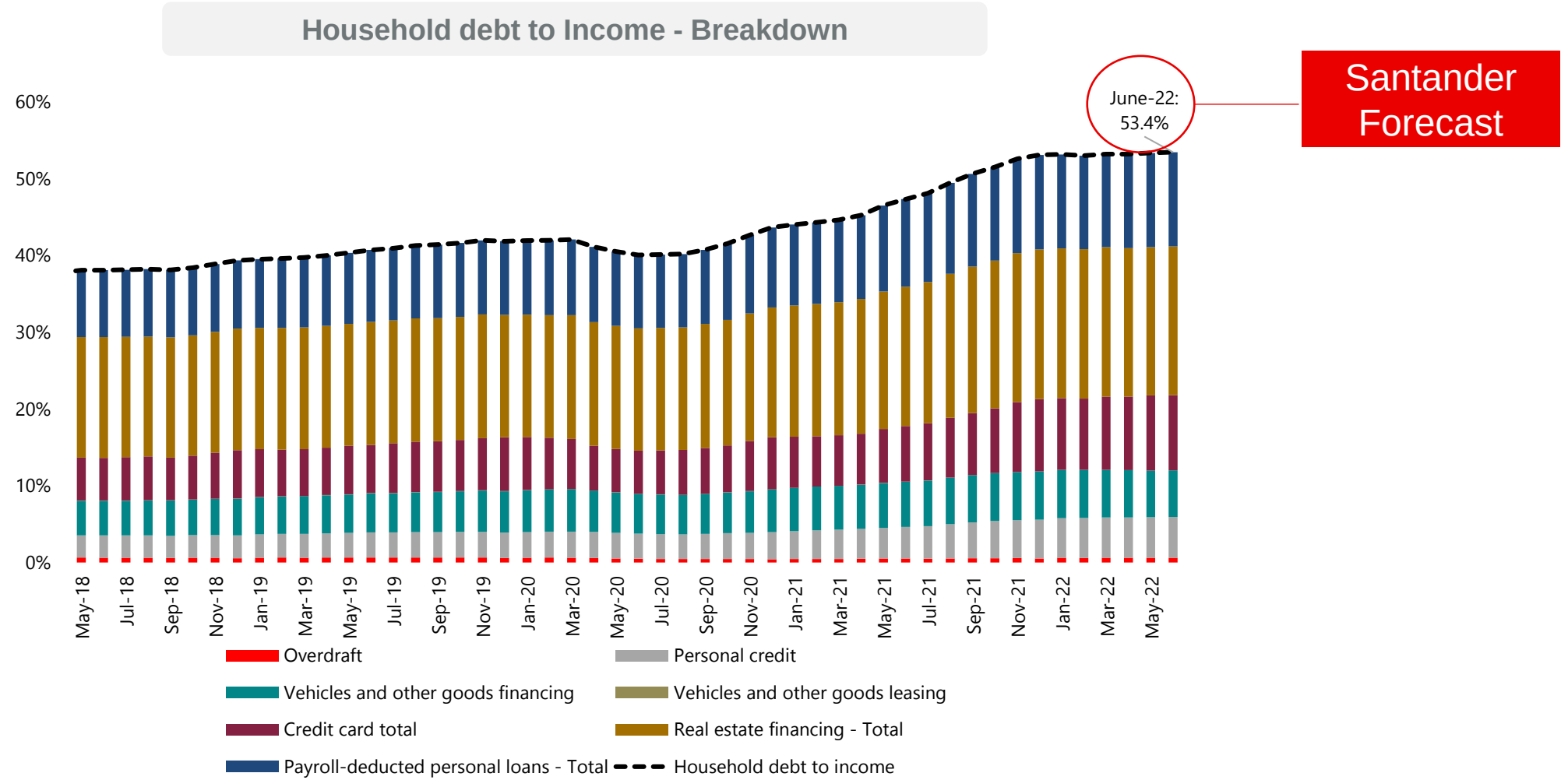
Extended household Indebtedness (annual avg %)



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.

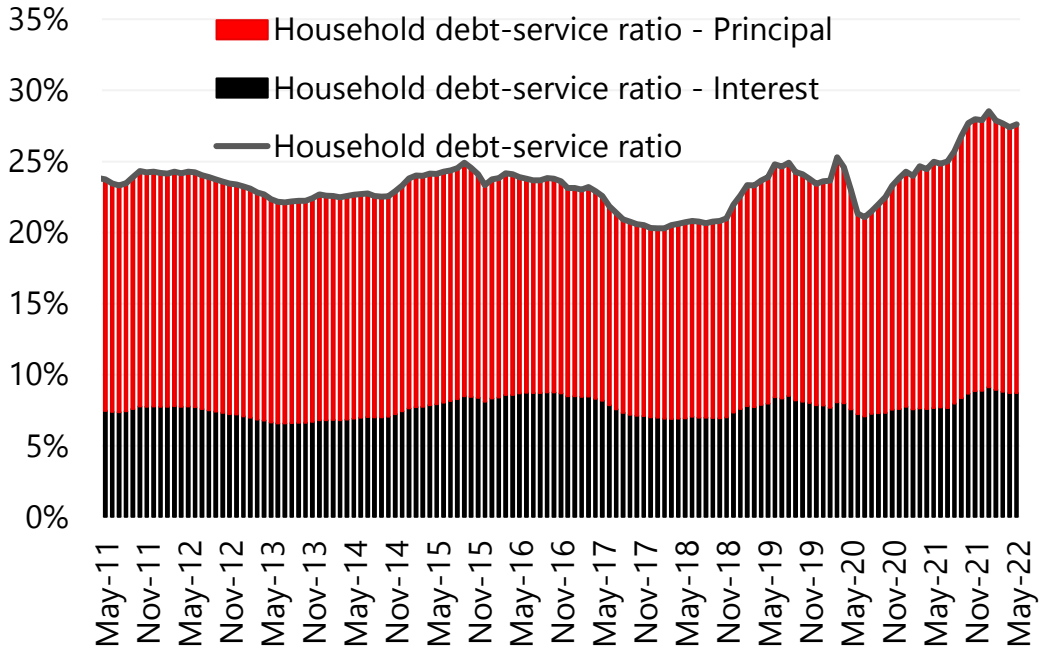


Sources: Brazilian Central Bank, Santander.

Families Indebtednes - Breakdown

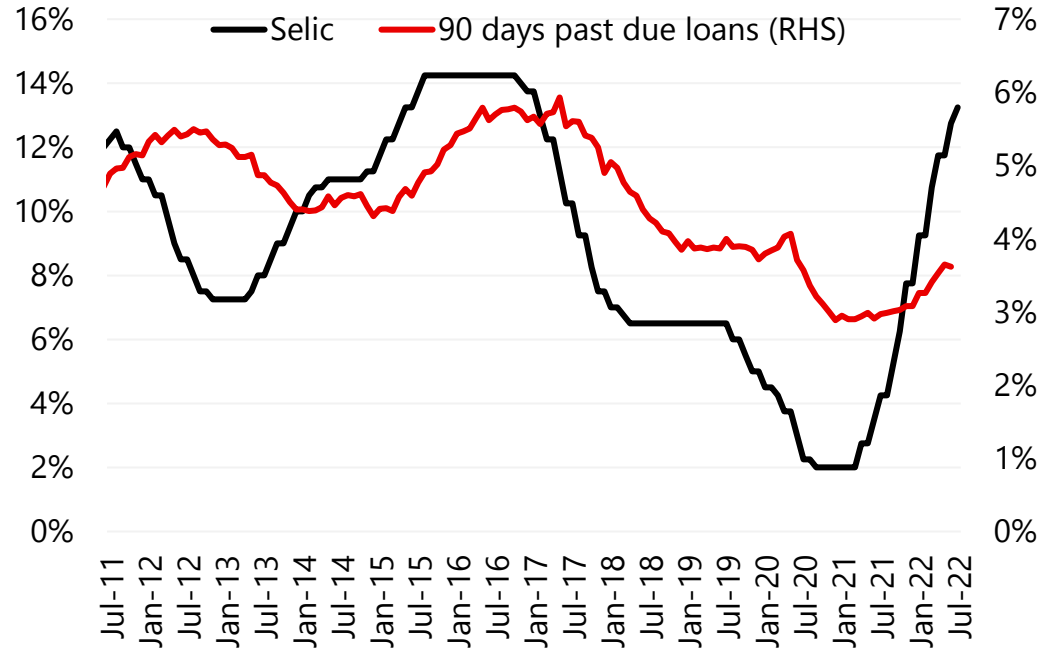
- Household debt service ratio is higher than pre-pandemic levels and keeps accelerating
- With the advance of Selic, arrears continues to rise as well

Household Debt Service Ratio - Breakdown



Sources: CNC, Santander.

Non-Earmarked Arrears vs Selic

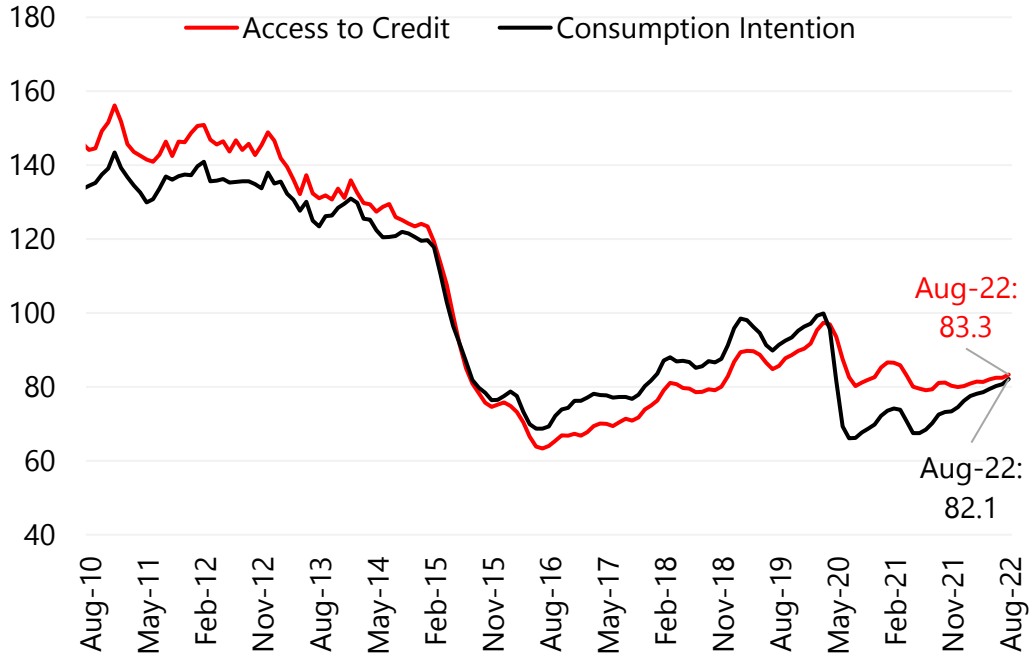


Sources: Serasa Experiean, Santander.

Families Indebtednes: higher than the pre-pandemic level

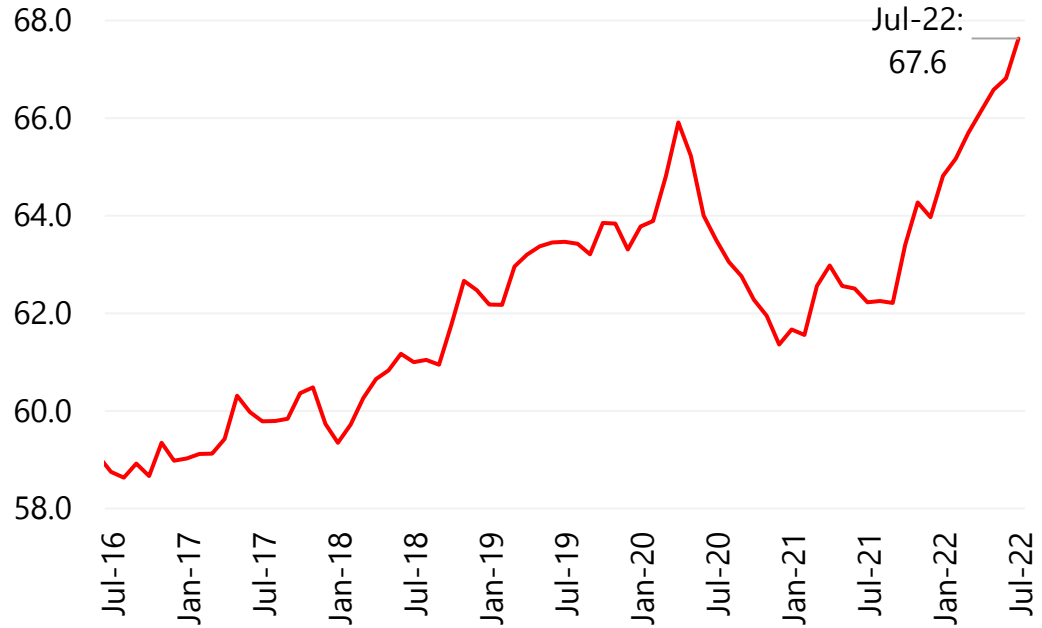
- Household consumption intentions keeping accelerating, despite inflation and higher interest rates. This can be attributed to income support measures and the positive evolution of the labor market.
- The number of delinquent consumers is at the peak of the series at 67.6 millions.

Household Consumption Intention



Sources: Serasa Experian, Santander.

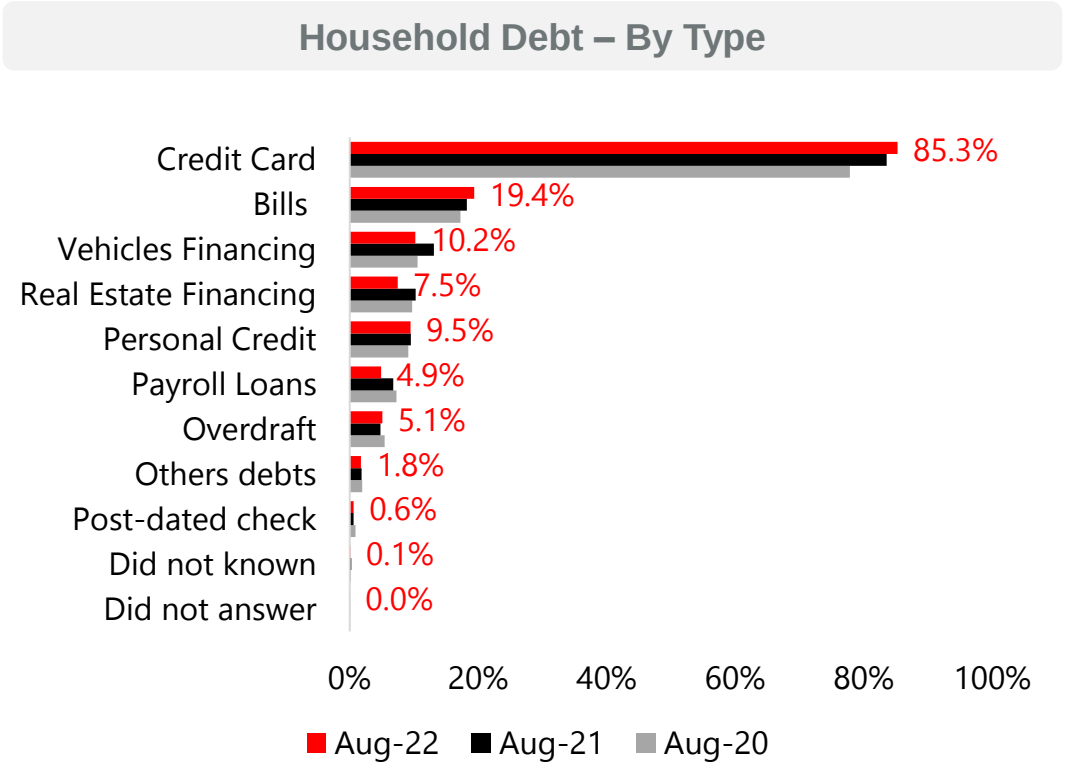
Household Defaulting - Millions



Sources: Serasa Experian, Santander.

Families Indebtednes – By Type

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



Sources: CNC, Santander.

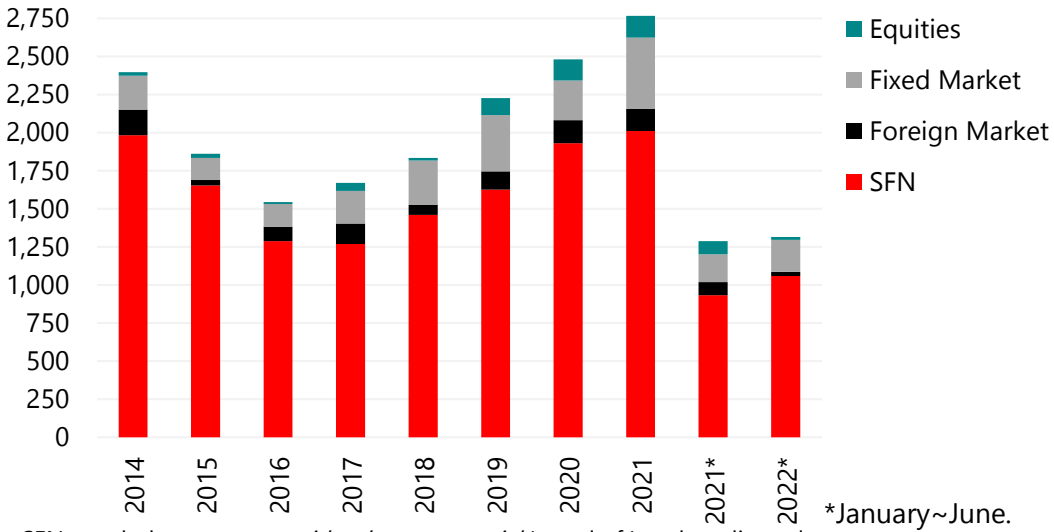
CORPORATE

03

Bank lending lower than year-ago period

- Considering total corporate financing YTD through June 2022 vs. the year-ago period, issuances in the capital markets were 28% smaller, with SFN concessions up 13.5%.
- As a result, total corporate financing is up 2% compared to the year-ago period.

Total Corporate Financing (BRL billion, Inflation Adjusted)



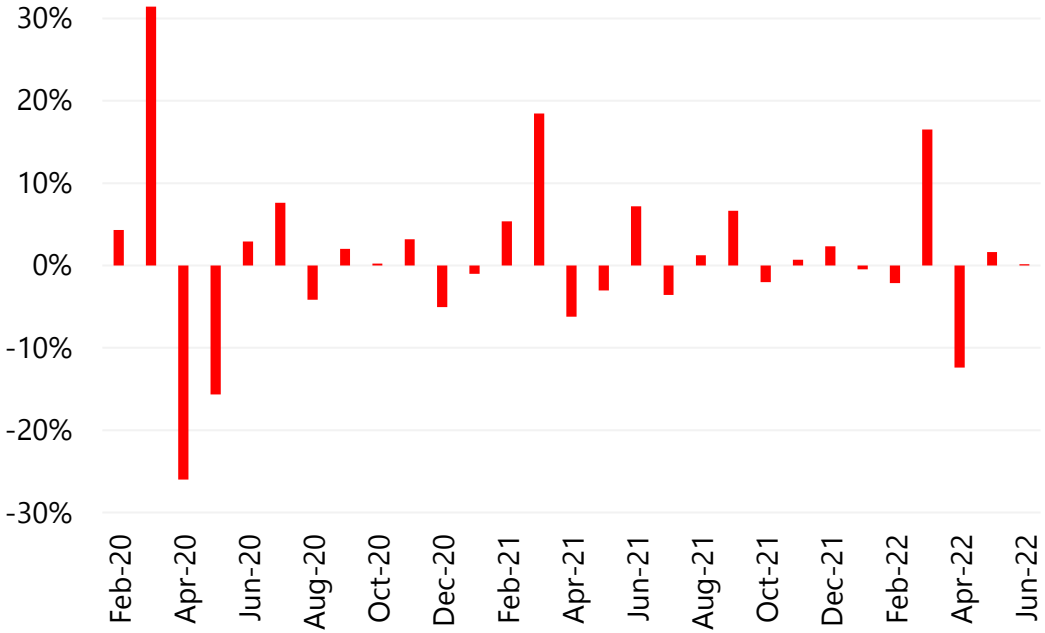
SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
Foreign Market - bonus, MTNs and securities.
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
Equity - IPO and follow-on.

Sources: BCB, Anbima, Santander.

The non-earmarked segmented

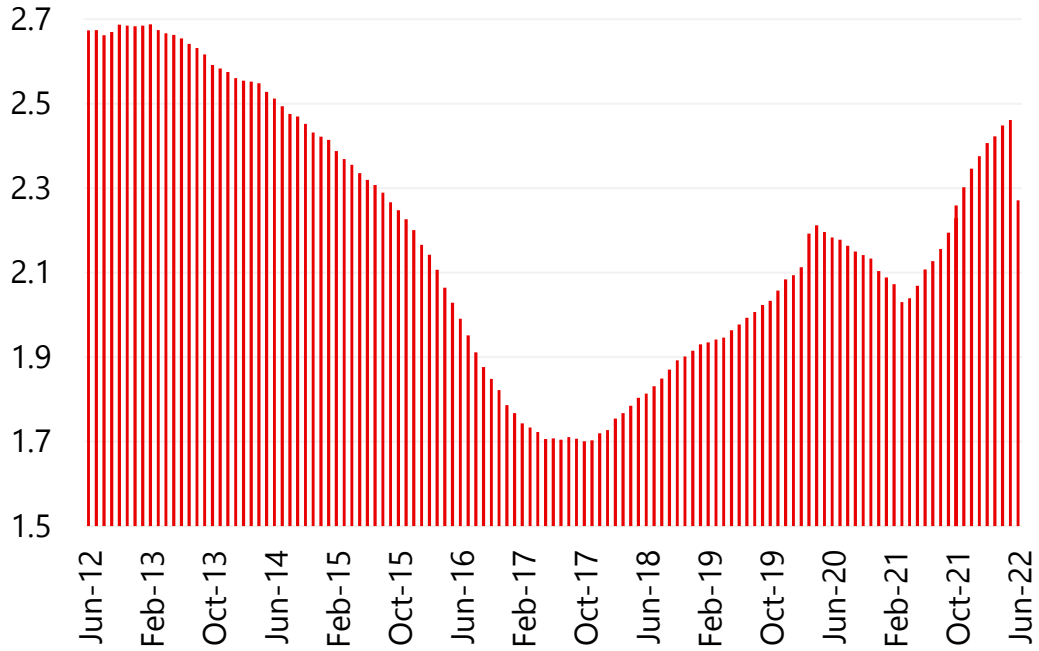
- For companies, there was a slight increase of 0.2% MoM-sa in June in the non-earmarked segment.

Non-Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

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

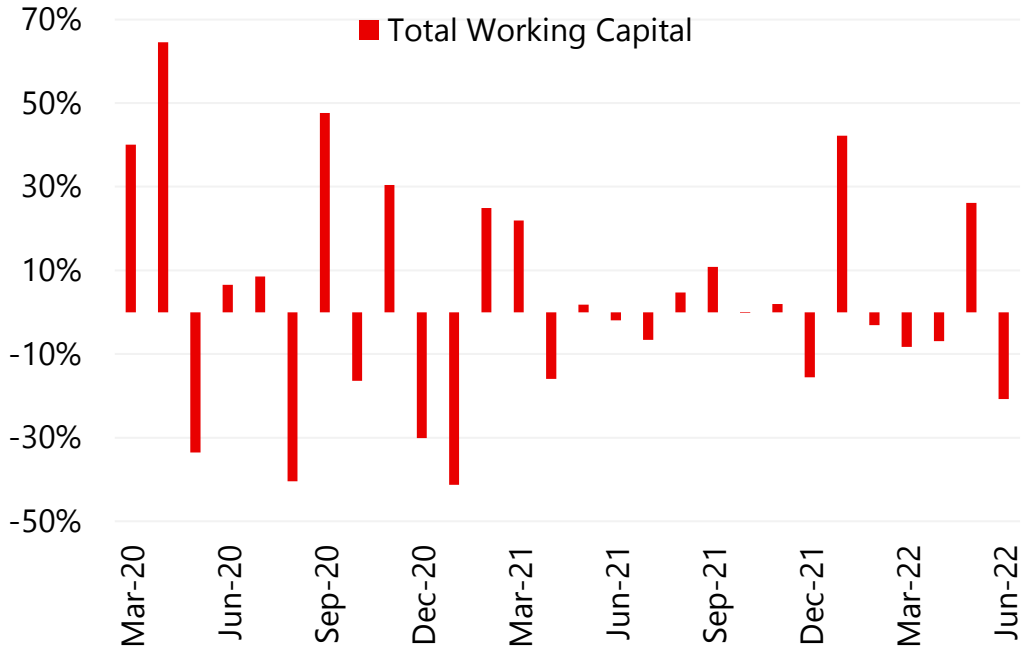


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Movement in Working Capital

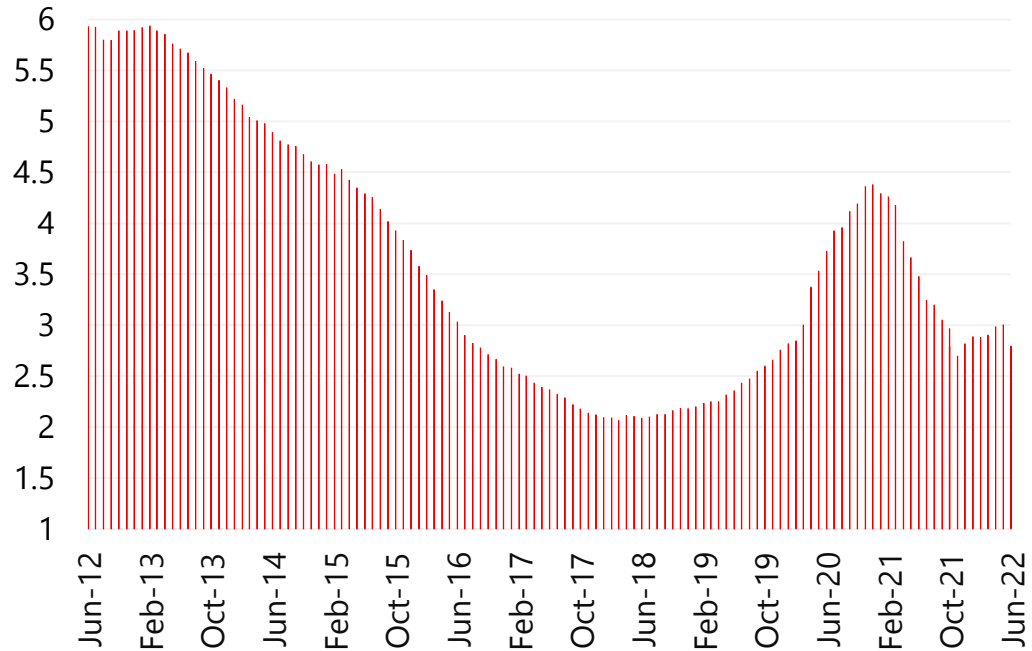
- In June, Working capital showed a negative variation (- 20.8% MoM-sa), after the rise of 26.1% MoM-sa in May.
- Working Capital presented a negative variation in the balance of loans for the twelfth time in a row, -1.9 YoY (inflation adjusted)

New Loans – Working Capital MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

New Loans – Working Capital (12 months acum.)

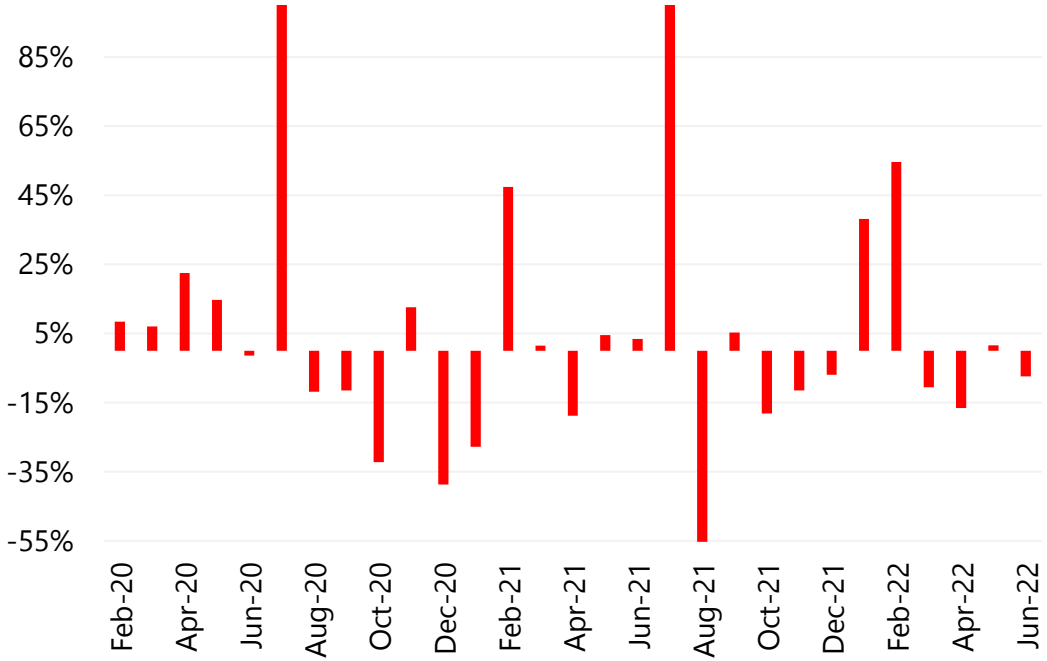


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A decrease in the earmarked segmented

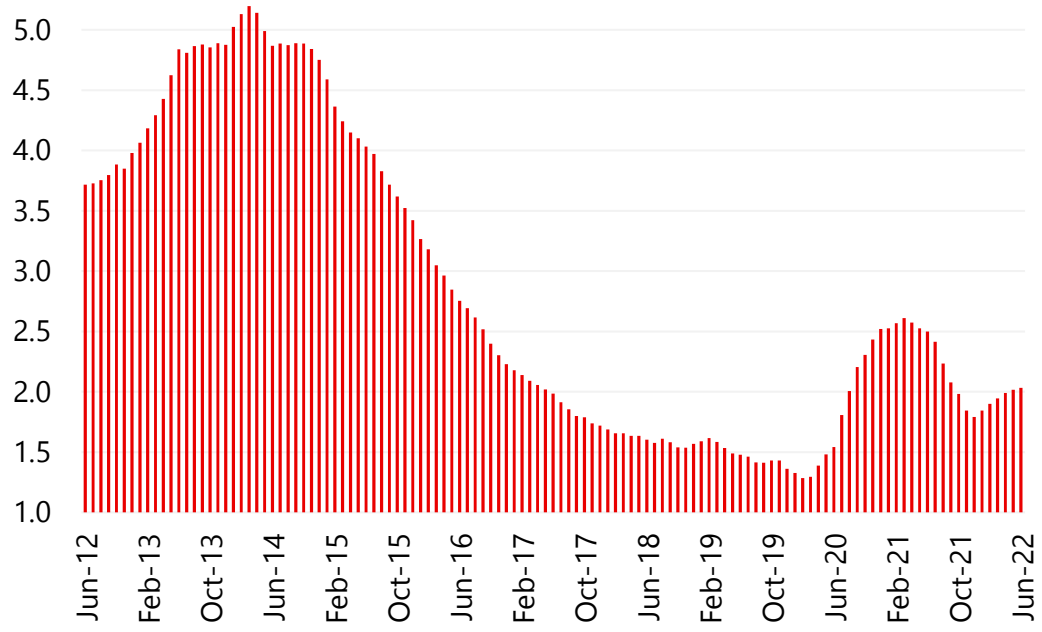
- The earmarked segment also decreased, falling 7.4% MoM-sa.
- As YoY, the balance of loans posted the tenth decrease in a row, -7.9% YoY (inflation adjusted).

Earmarked – New Loans MoM*



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

Earmarked - New Loans* - 12 months acum.

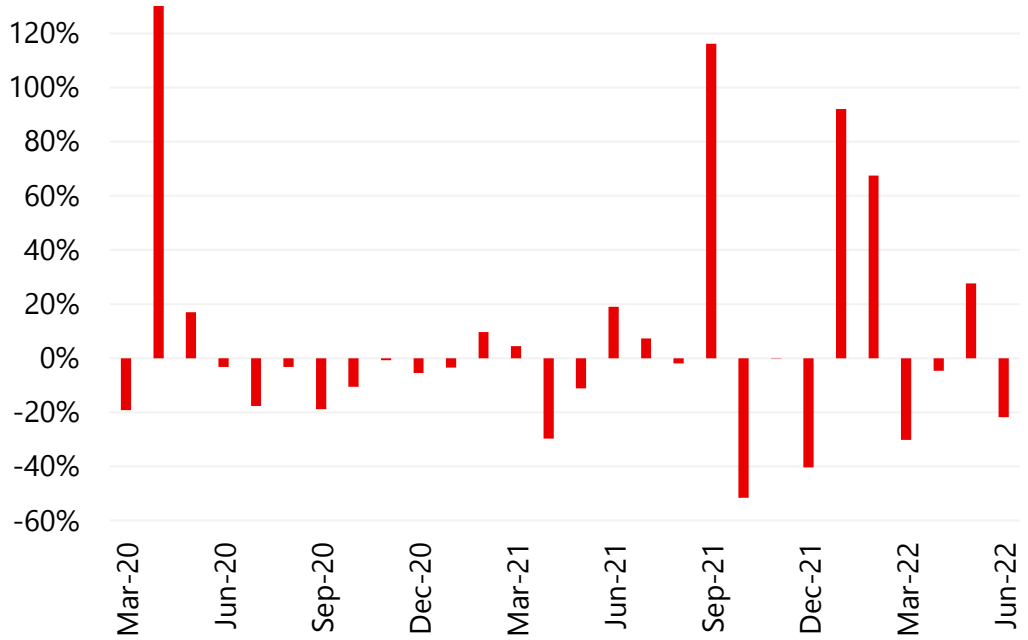


Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

BNDES Funds and Rural Credit stood out

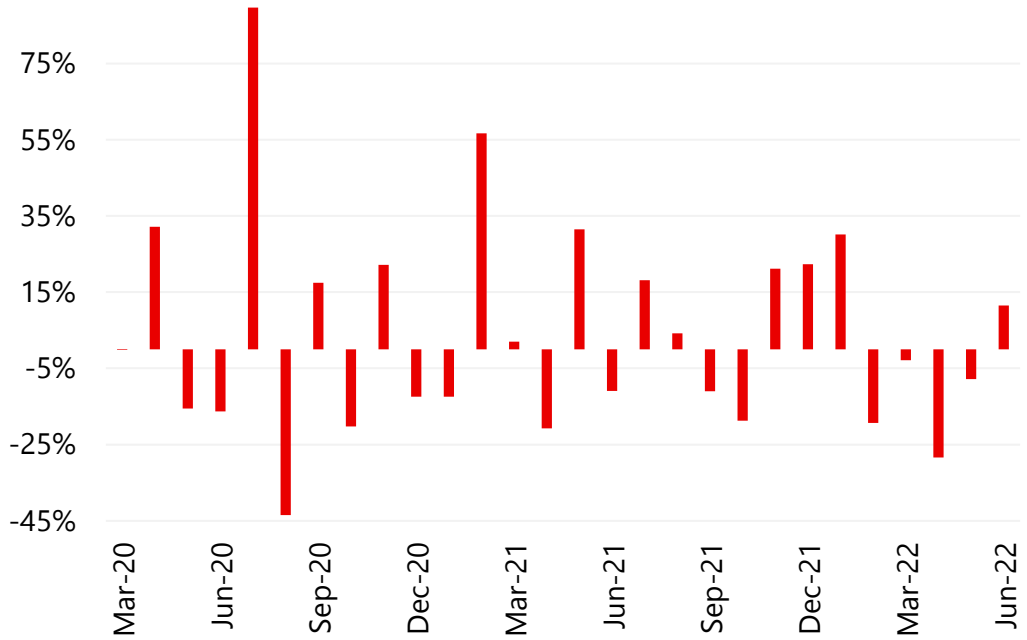
- In June, BNDES Funds showed a negative variation (- 21.8% MoM-sa), after the rise of 27.6% MoM-sa in May.
- Rural Credit showed a positive variation, 11.5% MoM-sa.

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



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

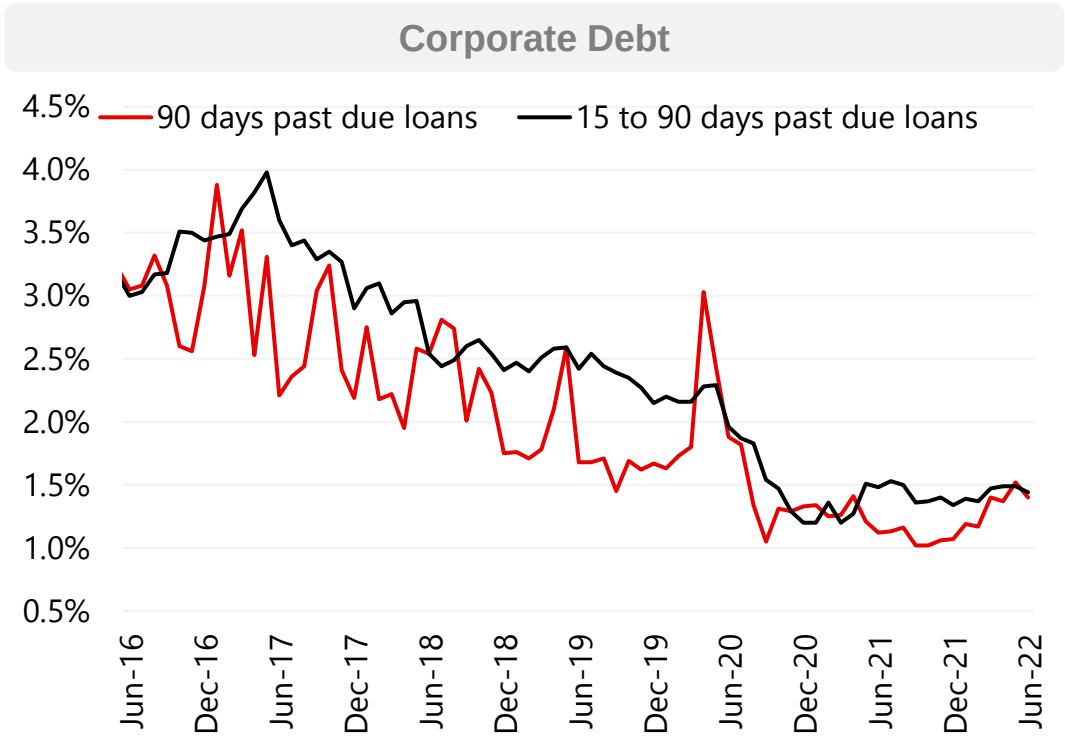
Rural Credit – New Loans* (% MoM-sa)



Sources: Brazilian Central Bank, Santander.
* Inflation Adjusted

A slight upward trajectory for arrears

- Eyeing arrears to anticipate warning signs

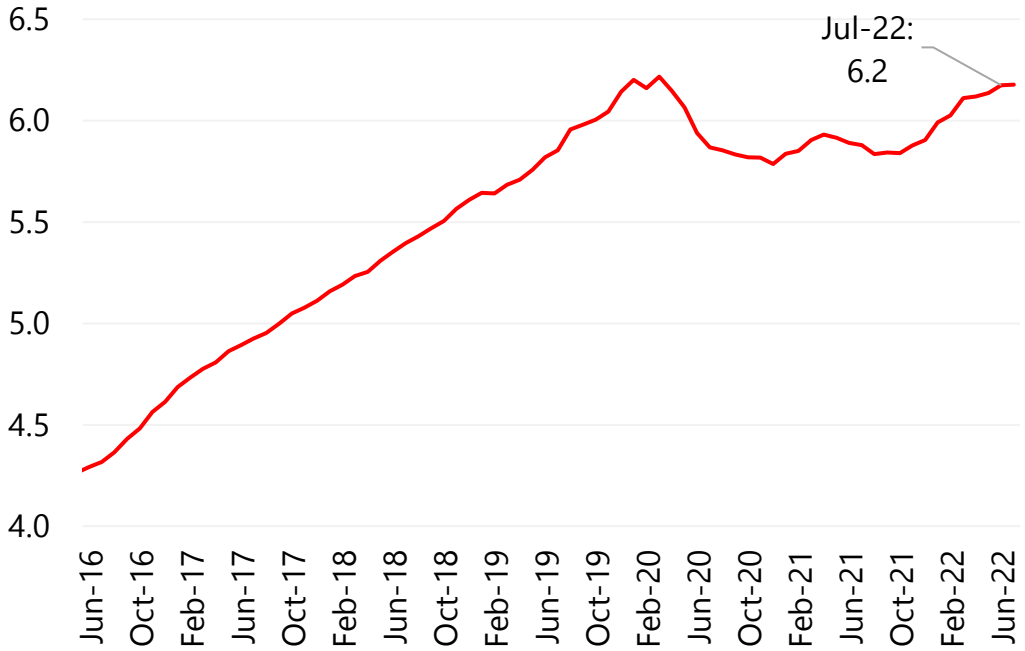


Sources: Brazilian Central Bank, Santander.

Corporates defaulting: starting the year worst

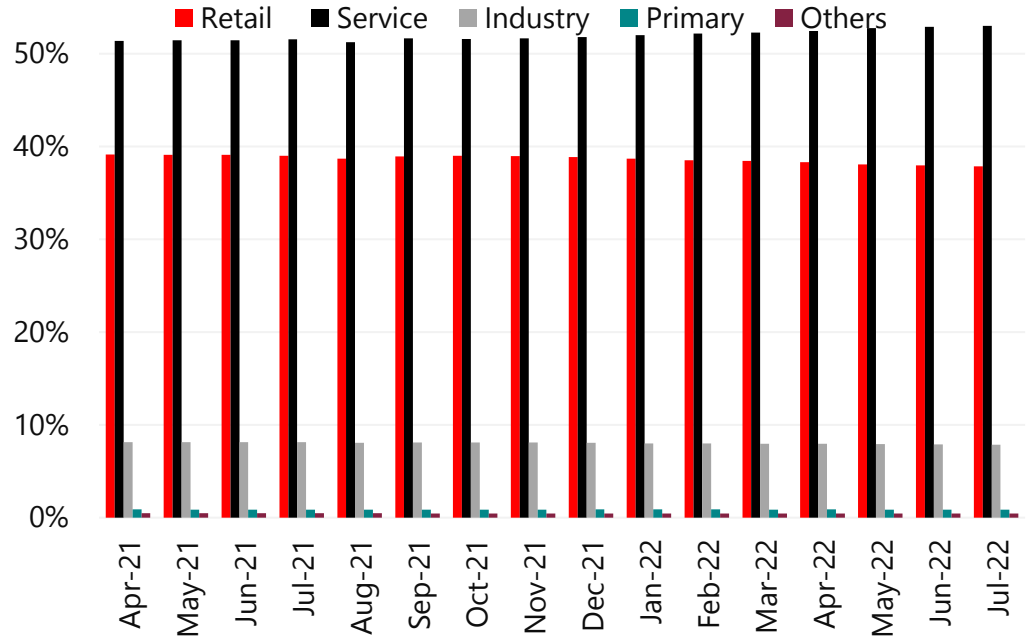
- The number of defaulting companies reached 6.2 million, (2021: around 5.8-5.9 million).
- Retail and Service sectors are the most sectors that have default

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*	*6.5*	*1.8*	*7.4*
Household	8.3	6.3	*9.9*	*8.3*	*3.5*	*7.7*
Non-fin. Corp.	-3.4	16.5	*0.4*	*4.0*	*-0.7*	*6.9*
Nonearmarked	10.3	10.4	*9.4*	*10.5*	*2.2*	*8.2*
Household	12.8	5.9	*11.7*	*12.3*	*3.5*	*8.6*
Non-fin. Corp.	7.3	15.9	*6.6*	*8.4*	*0.6*	*7.8*
Earmarked	5.4	10.9	*0.7*	*0.5*	*1.1*	*6.1*
Household	3.2	6.8	*7.7*	*3.1*	*3.5*	*6.5*
Non-fin. Corp.	-16.8	17.5	*-9.4*	*-4.2*	*-3.4*	*5.3*

Credit Conditions							
	2018	2019	2020	2021	2022e	2023e	2024e
Non-performing loans (Non-Earmarked)	3.9	3.7	2.9	*3.1*	*3.8*	*4.2*	*4.0*
Household	4.8	5.0	4.2	*4.4*	*5.5*	*5.7*	*5.4*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*1.8*	*2.3*	*2.2*
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**	***13.2***	***7.2***	***10.6***
Household	11.9	11.1	21.0	*15.1*	*9.0*	*10.9*
Non-fin. Corp.	-0.3	21.8	10.5	*10.5*	*4.6*	*10.1*
Nonearmarked	**13.9**	**15.4**	**20.4**	***17.5***	***7.7***	***11.4***
Household	16.5	10.7	23.0	*19.4*	*9.0*	*11.8*
Non-fin. Corp.	10.8	21.2	17.4	*15.2*	*6.0*	*10.9*
Earmarked	**-2.4**	**15.9**	**10.9**	***6.8***	***6.5***	***9.2***
Household	6.6	11.7	18.5	*9.6*	*8.9*	*9.6*
Non-fin. Corp.	-14.0	22.8	-0.3	*1.8*	*1.7*	*8.4*

Credit Conditions	2018	2019	2020	2021	2022e	2023e	2024e
Non-performing loans (Non-Earmarked)	**3.9**	**3.7**	**2.9**	***3.1***	***3.8***	***4.2***	***4.0***
Household	4.8	5.0	4.2	*4.4*	*5.5*	*5.7*	*5.4*
Non-fin. Corp.	2.7	2.1	1.5	*1.5*	*1.8*	*2.3*	*2.2*
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

Santander

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