FRAME BY FRAME: BRAZILIAN CREDIT DATA FOR DECEMBER 2020

The Brazilian Central bank releases private sector credit information monthly. For the month of December (released on January 28), loan growth showed more clear signs of decelerating, following the trend in originations. Asset quality was once again solid, but there were also some early signs of normalization. Compounded with continued low rates on new loans (and higher funding costs), it could spell for a still pedestrian 2021.

The highlights were:

- Loan growth decelerating. Yoy growth in loans decelerated 10 bp mom to 15.5%, with a sharper deceleration in non-directed loans, in particular to companies. This was mirrored again by weaker trends in new loan originations, for which the weakness is accelerating, in particular outside mortgages. pandemic relief. It appears that the trend for strong growth has started to shift, though it will become more visible as of March.
- NPL ratios at another all-time low but weakening at the margin. At 2.1%, the 90-day NPL ratio again reached a database low for the fourth time in 2020. At the margin, however, there are initial signs of weakness: normalizing NPL ratios for renegotiated loans to individuals and slower decline in NPLs for working capital loans.
- Pressure on NIM to continue. Overall rates on new loans declined 30 bp mom, with pressure across the board. At the same time, yoy growth in low-cost deposits continued to slow, signaling that funding could also pressure NIM.

	Value	Growth		
December 2020	(R$ bn)	Yoy	Δ mom	Δ qoq
Loans/credit				
Total non-financial sector	12,009	16.9%	+158 bp	+281 bp
Total non-financial private sector	6,638	15.8%	-24 bp	-153 bp
Financial system loans	**4,018**	**15.5%**	**-10 bp**	**+215 bp**
Non-directed	2,320	15.2%	-155 bp	+4 bp
Non-directed individuals	1,229	10.4%	-52 bp	+178 bp
Non-directed companies	1,091	21.1%	-302 bp	-224 bp
Directed	1,698	15.9%	+183 bp	+492 bp
Asset quality and coverage				
90-day NPL ratio	**2.1%**		**-10 bp**	**+210 bp**
Non-directed	2.9%		-10 bp	-35 bp
Non-directed individuals	4.2%		-10 bp	-50 bp
Non-directed companies	1.4%		-10 bp	-20 bp
Directed	1.0%		-16 bp	-40 bp
Provisions to loans	6.3%		-9 bp	-22 bp
90-day NPL coverage ratio	304%		+1,573 bp	+3,546 bp
LTM new loan originations				
Total	4,124	5.2%	-196 bp	-357 bp
Non-directed	3,632	1.2%	-269 bp	-491 bp
Non-directed individuals	1,855	-2.1%	-201 bp	-344 bp
Non-directed companies	1,777	4.8%	-348 bp	-661 bp
Directed	492	48.8%	+726 bp	+1,193 bp
Rates on newly originated loans				
Overall	**18.4%**		**-30 bp**	**+30 bp**
Non-directed	25.1%		-91 bp	-37 bp
Non-directed individuals	37.0%		-120 bp	-110 bp
Non-directed companies	11.7%		-50 bp	+20 bp
Directed	4.5%		+2 bp	-30 bp
Penetration				
Debt service ratio (DSR) as of Oct-20	21.7%		+40 bp	+30 bp
Loans to GDP	53.4%		+90 bp	+260 bp

Source: Brazilian Central bank.

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FRAME 1. Loan growth: The turning of the upwards trend?

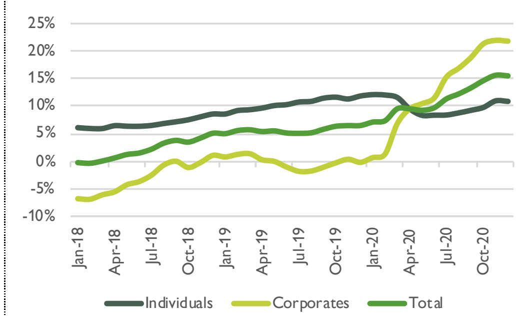
Cyclical trends: Stronger signs of turning

- December showed more consistent signs that loan growth is slowing. Making up the slight deceleration in overall yoy growth was a sharper deceleration in yoy growth for non-directed loans (-140 bp mom), driven both by slower loans to companies and individuals.
- In loans to individuals, yoy growth in credit card loan slowed 250 bp mom, likely as some purchases were front-loaded to November, but this was offset by still consistent yoy growth in directed lending, especially mortgage and rural.
- In loans to companies, yoy growth in working capital loans decelerated mom for only the second time in the last 12 months but was offset by still strong growth in SME/pandemic relief loans (though on the margin growth is also slowing in that category).

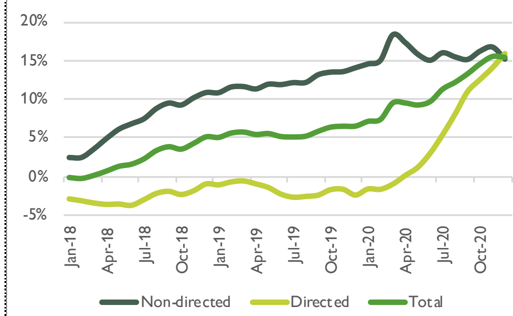
Structural trends: Expect deceleration

- It appears now that trends have shifted and going forward there will be more and more signs of broad-based deceleration in loan growth. This should become clearer after March, when the effect of companies tapping into open credit lines as the pandemic hit wears off.

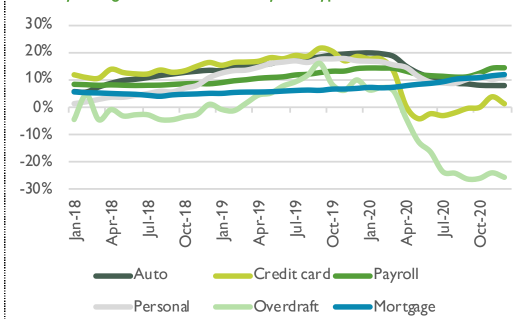
1.1. Yoy loan growth - by borrower type



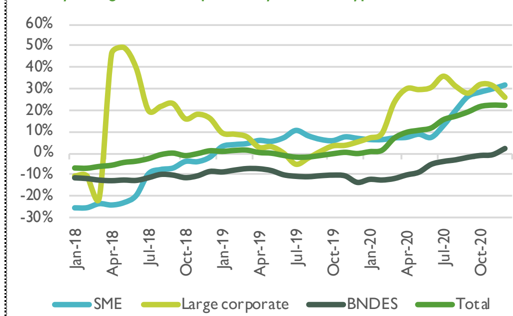
1.2. Yoy loan growth - by type of loan



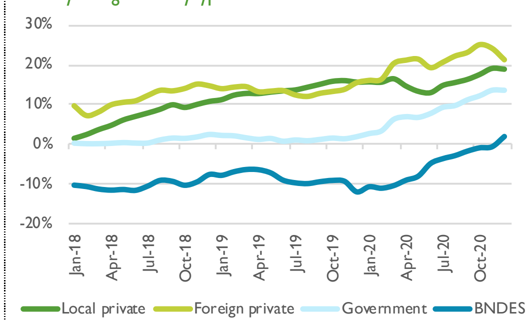
1.3. Yoy loan growth - individuals - by loan type



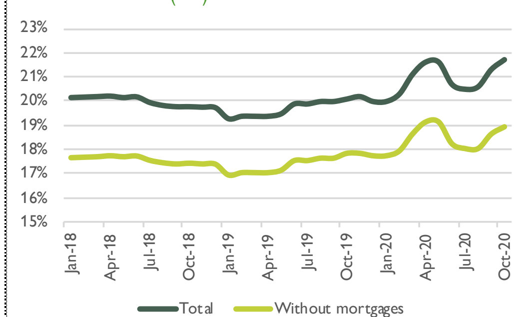
1.4. Yoy loan growth - companies - by borrower type



1.5. Yoy loan growth - by type of bank



1.6. Debt service ratio (DSR)



Source: Brazilian Central bank.

FRAME 2. Asset quality: Better, but with initial signs of normalization

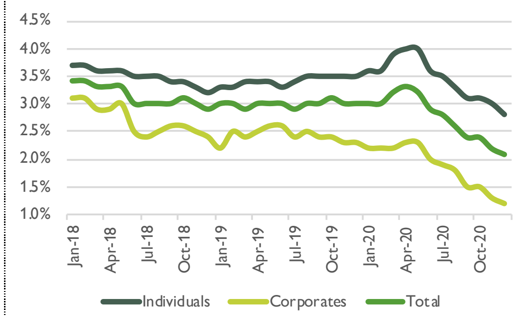
Cyclical trends: Still better sequentially

- The 90-day NPL ratio improved 10 bp mom to 2.1%, yet another all-time low on the database. Improvement was broad-based, with NPL ratios for almost all loan categories declining mom. One key category that bucked that trend was individual loan renegotiation, for which the NPL ratio increased 150 bp mom to 9.5% (though still some ways short of historical 14-15% levels).
- The yoy decline in NPLs expanded 310 bp mom to 17.4%, the second largest yoy decline on the database. Trends here were slightly more mixed, with yoy decline in NPLs for working capital loans decreasing mom and yoy growth in NPLs in individual loan renegotiation accelerating 1,120 bp mom to 7.8%.

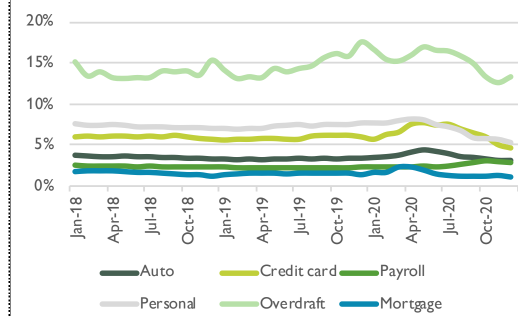
Structural forces: Early negative signs

- More than negative signs, what is starting is a return to the mean, especially for pandemic related lending. This is true for NPL ratios for working capital loans but even more so for renegotiated loans to individuals, which should return to pre-pandemic levels. Declining growth in deposits also points in the same direction: less available funds for individuals to pay down loans.

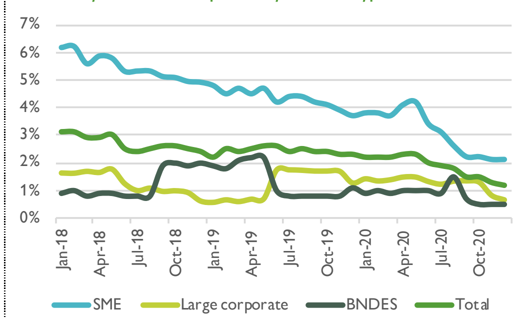
2.1. 90-day NPL ratio - by borrower type



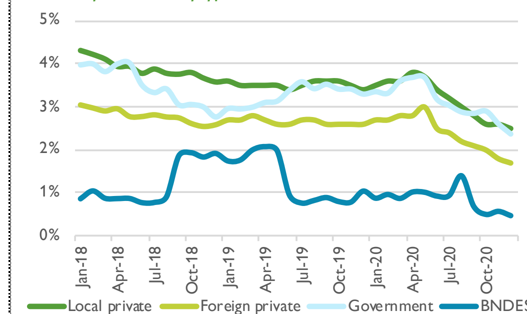
2.2. 90-day NPL ratio - individuals - by loan type



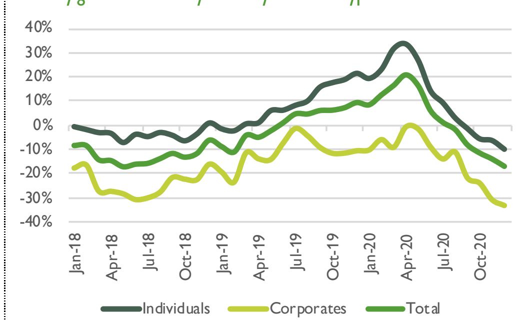
2.3. 90-day NPL ratio - companies - by borrower type



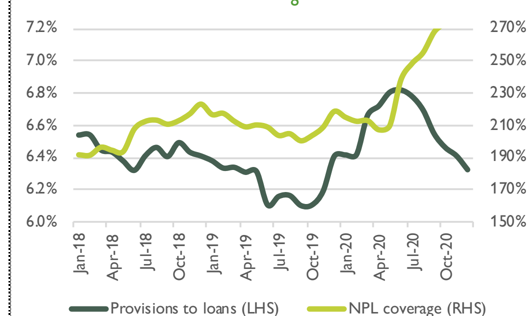
2.4. 90-day NPL ratio - by type of bank



2.5. Yoy growth for 90-day NPLs - by borrower type



2.6. Provisions to loans and NPL coverage



Source: Brazilian Central bank.

FRAME 3. Origination and rates of new loans: Cyclical vs. structural trends

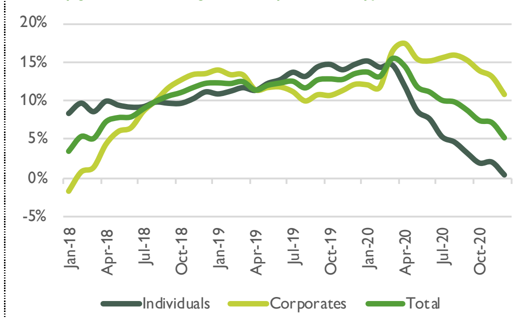
Cyclical trends: Originations weakening

- Yoy growth for LTM new loans originated slowed 190 bp mom, with non-directed growth slowing 260 bp mom to 1.2% yoy. Even though mortgages (spurred by low rates) and pandemic relief loans are helping, the trend across categories is for yoy growth in orginations to turn negative, especially after March, further indicating slower overall loan growth.
- Rates on new loans declined 30 bp mom to 18.4%, driven largely by relatively uniform lower rates on non-directed loans (-90 bp mom). From a NIM perspective, this may be compounded by slowing growth in low-cost deposits.
- NPL coverage for banks reached another all-time high at 303.5%, though mostly driven by the lower denominator, as provision levels declined mom for private sector banks.

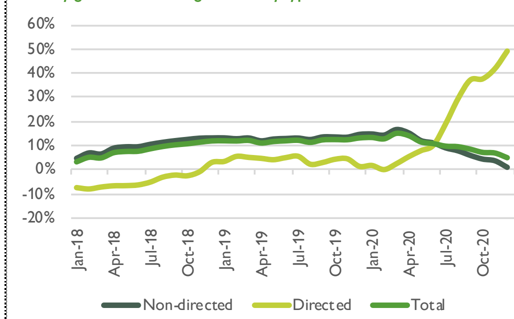
Structural forces: Weaker growth, NIM

- The deceleration in originations will inevitably lead to pressure on loan growth. Some relief could be expected from a higher policy rate, but this could be offset by slower growth in low-cost deposits, limiting growth in NII.

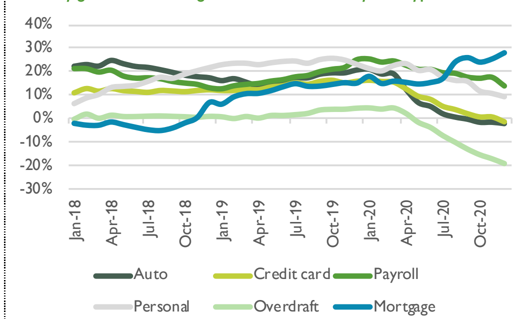
3.1. Yoy growth of LTM origination - by borrower type



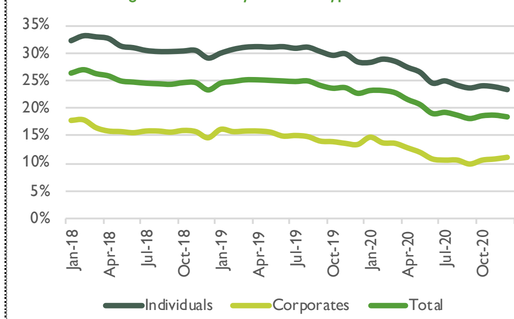
3.2. Yoy growth of LTM origination - by type of loan



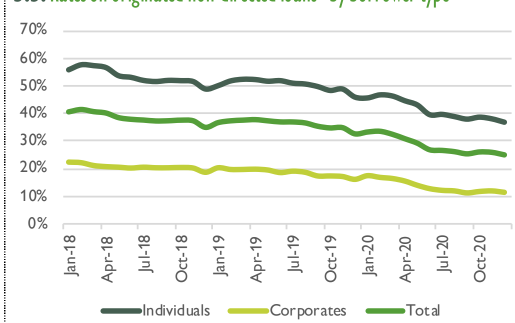
3.3. Yoy growth of LTM origination - individuals - by loan type



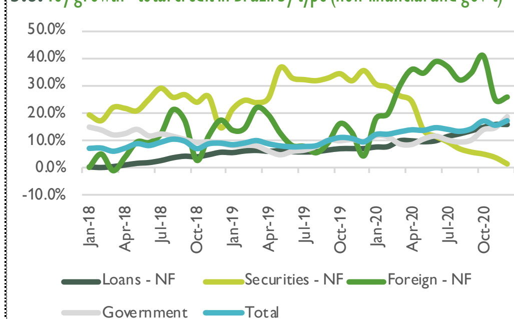
3.4. Rates on originated loans - by borrower type



3.5. Rates on originated non-directed loans - by borrower type



3.6. Yoy growth - total credit in Brazil by type (non-financial and gov't)



Source: Brazilian Central bank.