FRAME BY FRAME: BRAZILIAN CREDIT DATA FOR MARCH 2021

The Brazilian Central bank releases private sector credit information monthly. For the month of March (released on April 29), loan growth decelerated as expected, though partially because of a higher base of comparison in 2020. At the same time, asset quality solidified, and should remain relatively steady at least through the middle of the year. Margins continue to be a sore point for the short term, with weak originations and poorer funding quality offsetting the increase in rates on new loans.

The highlights were:

- Loan growth turns downwards. Yoy growth in loans slowed 160 bp mom to 14.5%, largely on the back of slower growth in non-directed loans to company (as a result of a higher base in 2020). Originations are still pointing towards deceleration, though a sharper leg down (driven by SME loan growth deceleration) is more likely only mid-year.
- NPL ratios steady. NPL ratios improved 10 bp mom to 2.2%, as there was relief from NPLs in mortgages and other directed loans. Apart from that, levels were flat for the third consecutive month. NPL growth trends point towards some resilience – at least until mid-year.
- Trend for margins. The only mom increase in rates was for non-directed loans to individuals, and there mostly driven by mix. The set-up for margins remains poor: despite slightly higher rates, banks are originating fewer loans, slowing the repricing of the book. At the same time, decelerating growth in demand deposits points to weaker funding.

	Value	Growth		
March 2021	(R$ bn)	Yoy	Δ mom	Δ qoq
Loans/credit				
Total non-financial sector	12,483	16.9%	-86 bp	+55 bp
Total non-financial private sector	6,877	12.1%	-313 bp	-266 bp
Financial system loans	**4,105**	**14.5%**	**-156 bp**	**-110 bp**
Non-directed	2,380	12.8%	-281 bp	-255 bp
Non-directed individuals	1,256	11.1%	+88 bp	+44 bp
Non-directed companies	1,124	14.8%	-766 bp	-638 bp
Directed	1,725	16.9%	+23 bp	+98 bp
Asset quality and coverage				
90-day NPL ratio	**2.2%**		**-10 bp**	**+220 bp**
Non-directed	2.9%		-1 bp	+3 bp
Non-directed individuals	4.1%		0 bp	-10 bp
Non-directed companies	1.6%		0 bp	+20 bp
Directed	1.1%		-26 bp	+7 bp
Provisions to loans	6.2%		-5 bp	-17 bp
90-day NPL coverage ratio	287%		+893 bp	-1,958 bp
LTM new loan originations				
Total	4,118	0.8%	-226 bp	-446 bp
Non-directed	3,586	-4.3%	-257 bp	-526 bp
Non-directed individuals	1,861	-4.1%	+35 bp	-211 bp
Non-directed companies	1,725	-4.6%	-582 bp	-876 bp
Directed	532	58.1%	+172 bp	+573 bp
Rates on newly originated loans				
Overall	**20.0%**		**+20 bp**	**+160 bp**
Non-directed	28.2%		+34 bp	+298 bp
Non-directed individuals	41.0%		+90 bp	+380 bp
Non-directed companies	13.8%		0 bp	+220 bp
Directed	4.3%		-25 bp	-19 bp
Penetration				
Debt service ratio (DSR) as of Jan-21	30.9%		-30 bp	-30 bp
Loans to GDP	53.9%		+10 bp	+60 bp

Source: Brazilian Central bank.

Carlos G Macedo
Cortex Consultoria
carlosgmacedo@cortexconsultoria.com

FRAME 1. Loan growth: The start of the downcycle

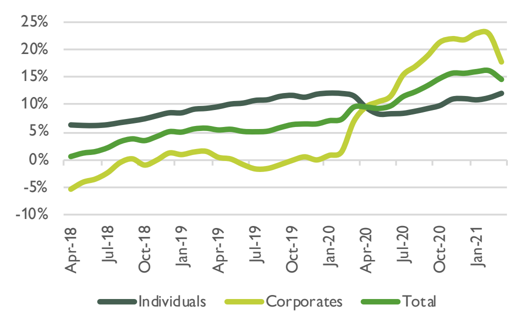
Cyclical trends: First dip of the cycle

- Yoy growth slowed, as expected, as a result of weaker growth in loans to companies (-510 bp mom to 17.8%) as the sharp increase in borrowing from last March (as companies tapped into exiting credit lines at the onset of the COVID pandemic) rolled off the base.
- Much of the deceleration took place in non-directed loans to companies, in particular large corporate borrowers (-1,280 bp mom). Yoy growth for loans to SMEs remained at a high level, driven by pandemic relief efforts.
- In loans to individuals, yoy growth accelerated, driven largely by non-interest credit card loans (essentially installments on purchases) and personal loans, both riskier categories.

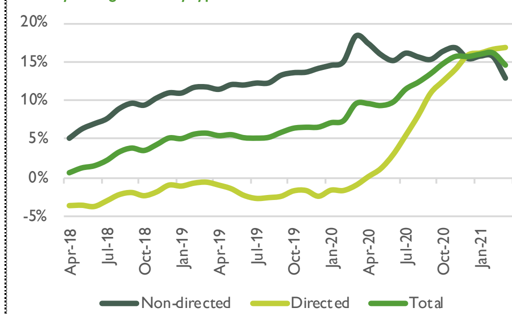
Structural trends: Off peak levels

- The database clearly suggested that March would be a step down in overall growth. The next one should come July, when the abrupt increase in loans to SMEs starts to roll of the annual comparison. The acceleration in loans to consumers is interesting both because of the soft backdrop and the nature of the loans, which by being riskier could highlight new trends.

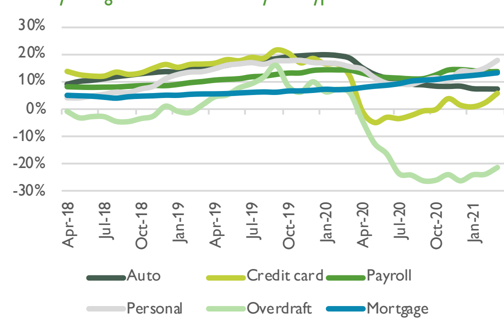
1.1. Yoy loan growth - by borrower type



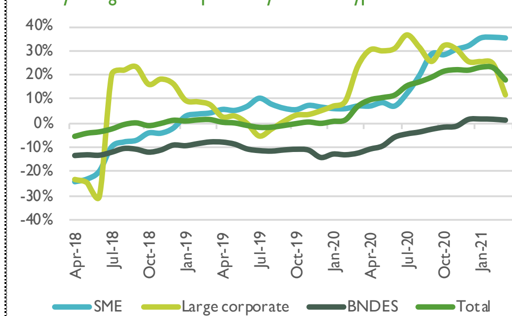
1.2. Yoy loan growth - by type of loan



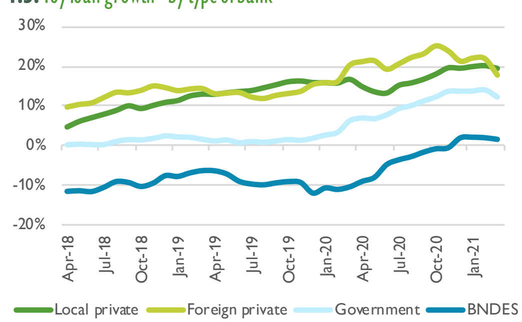
1.3. Yoy loan growth - individuals - by loan type



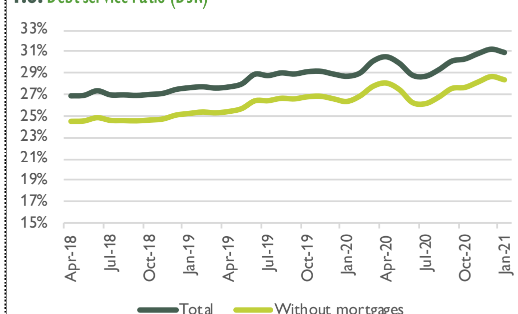
1.4. Yoy loan growth - companies - by borrower type



1.5. Yoy loan growth - by type of bank



1.6. Debt service ratio (DSR)



Source: Brazilian Central bank.

FRAME 2. Asset quality: Still steady, but further improvement unlikely

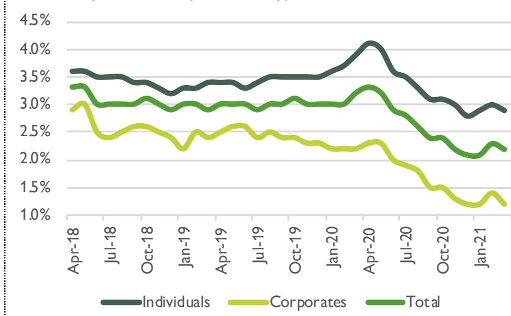
Cyclical trends: Still room to improve?

- The 90-day NPL ratio improved 10 bp mom, on the back of directed lending, for which the NPL ratio normalized (-30 bp mom) after a mortgage-driven uptick in February. NPL ratios on directed loans (both individual and companies) have been flat for three straight months, a suggestion that this could be the trough of the cycle.
- Yoy contraction in 90-day NPLs accelerated decisively, driven largely by mortgages and other directed loan categories. For directed loans, the yoy contraction also increased, but by a much smaller degree.

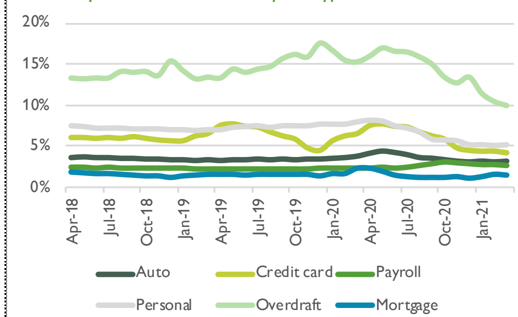
Structural forces: Pressure to come slowly

- Growth in 90-day NPLs will likely start to accelerate in June/July, as the renegotiations that benefitted come off the base and underlying trends weaken. Combined with the expected deceleration in loan growth, NPL ratios should start to increase – albeit slowly. This could change if banks go back to renegotiating poorly performing loans like they did in 2020, which would push the NPLs further down the road.

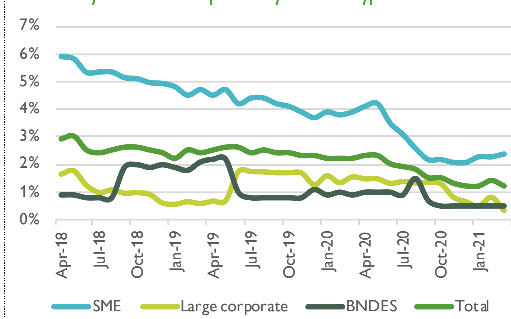
2.1. 90-day NPL ratio - by borrower type



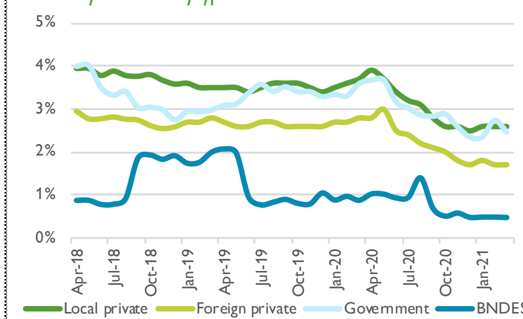
2.2. 90-day NPL ratio - individuals - by loan type



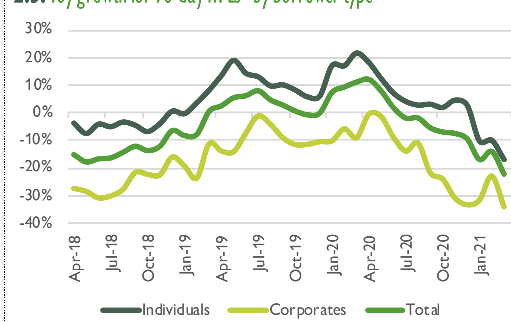
2.3. 90-day NPL ratio - companies - by borrower type



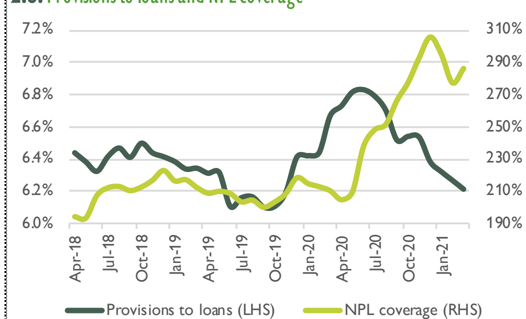
2.4. 90-day NPL ratio - by type of bank



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

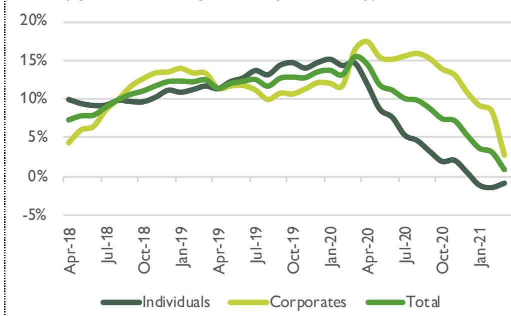
Cyclical trends: Consumer originations up

- Yoy growth for LTM new loans originations slowed 230 bp mom, driven by weaker origination in non-directed loans. There was a slight upwards shift in loans to consumers, where LTM new loan originations increased sequentially on the back of auto loans (and mortgages on the directed side).
- Rates on new loans increased slightly mom in March, reflecting the increase in benchmark and future rates and solidifying the shift from the downwards trend started in January. Most of the increase came from consumer loans, on the back of higher credit card loan rates and mix.
- Yoy growth for total deposits slowed 540 bp mom to 21.1%, much as a result of lower growth in demand deposits (-1,270 bp mom). Given 2020's base, this trend is likely to accelerate in coming months.

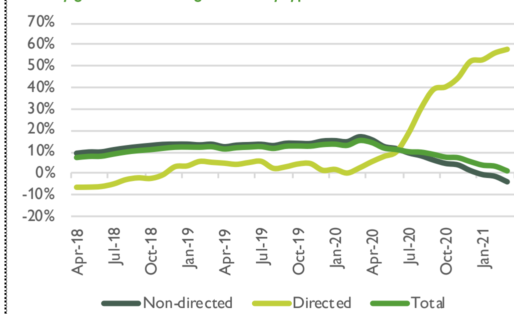
Structural forces: Rates and origination

- Rates increased only slightly once mix is accounted for, more than offset by a weakening in funding. Declining originations should delay the impact of higher rates on margins, but effect of weaker funding is immediate.

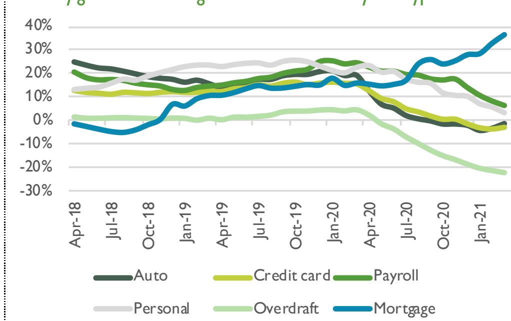
3.1. Yoy growth of LTM origination - by borrower type



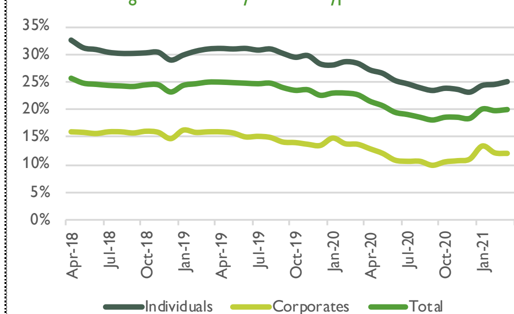
3.2. Yoy growth of LTM origination - by type of loan



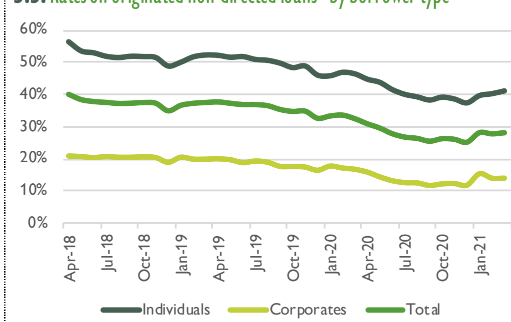
3.3. Yoy growth of LTM origination - individuals - by loan type



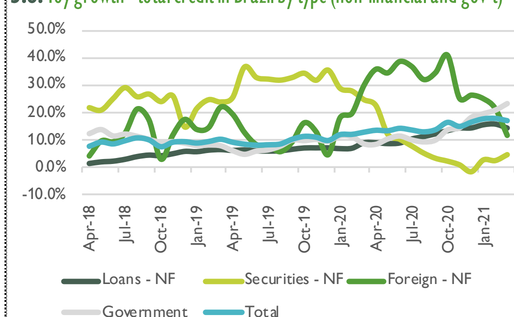
3.4. Rates on originated loans - by borrower type



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.