FRAME BY FRAME: BRAZILIAN CREDIT DATA FOR JANUARY 2022

The Brazilian Central bank releases private sector credit information monthly. For the month of January (released on February 24, 2022), yoy growth accelerated 20 bp mom to 16.4%, driven by stronger growth in consumer loans. At the same time, the NPL ratio weakened (+20 bp mom) for the first time in seven months, indicating the NPL cycle has effectively started – with no clear view of an end, especially as new loan originations (especially for consumer loans) remain strong.

The highlights were:

- Consumer driving loan growth. Yoy loan growth accelerated in nominal terms (-20 bp mom in real terms) largely because of growth in credit card, personal and overdraft loans, going well beyond the typical early year seasonality. There could be even more coming, since new loan origination levels remain high for these loans, despite an unfavorable macro outlook.
- The NPL cycle begins. The long expected NPL cycle appears to have finally begun and should at the very least lead NPL ratios to normalize (currently at 2.5%, historically at 3.0%). However, given the still high levels of new loan originations, it is possible that this cycle ends up pushing NPL levels above historical averages and affecting bank performance for much of the next 18-24 months.
- Rates continue to rise. Rates on new loans continued to increase, driven both by mix and underlying financial conditions.

	Value	Growth		
January 2022	(R$ bn)	Yoy	Δ mom	Δ qoq
Loans/credit				
Total non-financial sector	13,594	12.4%	-143 bp	-92 bp
Total non-financial private sector	7,612	14.2%	-206 bp	+132 bp
Financial system loans	**4,670**	**16.4%**	**+14 bp**	**+19 bp**
Non-directed	2,783	20.4%	+27 bp	+123 bp
Non-directed individuals	1,530	23.8%	+89 bp	+109 bp
Non-directed companies	1,253	16.5%	-48 bp	+129 bp
Directed	1,888	10.9%	+0 bp	-124 bp
Asset quality and coverage				
90-day NPL ratio	**2.5%**		**+20 bp**	**+20 bp**
Non-directed	3.2%		+18 bp	+23 bp
Non-directed individuals	4.6%		+20 bp	+40 bp
Non-directed companies	1.6%		+10 bp	0 bp
Directed	1.3%		+7 bp	+1 bp
Provisions to loans	5.8%		+2 bp	-2 bp
90-day NPL coverage ratio	234%		-1,517 bp	-2,179 bp
LTM new loan originations				
Total	4,965	21.1%	+335 bp	+656 bp
Non-directed	4,415	22.9%	+378 bp	+872 bp
Non-directed individuals	2,273	23.4%	+309 bp	+614 bp
Non-directed companies	2,142	22.4%	+449 bp	+1,140 bp
Directed	550	8.2%	+53 bp	-899 bp
Rates on newly originated loans				
Overall	**25.3%**		**+100 bp**	**+230 bp**
Non-directed	35.0%		+161 bp	+291 bp
Non-directed individuals	46.3%		+130 bp	+310 bp
Non-directed companies	21.3%		+160 bp	+240 bp
Directed	6.3%		+35 bp	+112 bp
Penetration				
Debt service ratio (DSR) as of Nov-21	27.9%		-6 bp	-6 bp
Loans to GDP	53.8%		+50 bp	+130 bp

Source: Brazilian Central bank.

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FRAME 1. Loan growth: Consumer in the driver's seat

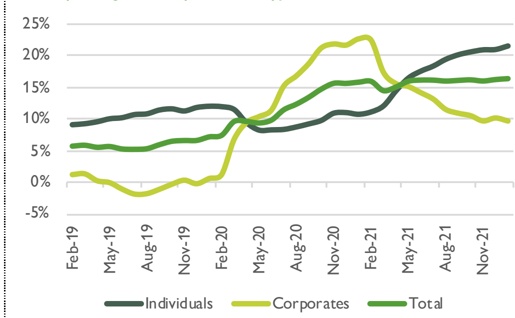
Cyclical trends: Consumer peaking?

- Yoy growth accelerated 20 bp mom to 16.4% (-20 bp mom to 5.4% in real terms). The acceleration was once again driven by non-directed loans, which are now growing at the fastest rate since 2009.
- In non-directed loans, consumer loans once again drove acceleration, with mixed trends – credit card, personal and overdraft loans accelerated, while auto and payroll decelerated.
- In loans to companies, growth decelerated for both large corporate and SME borrowers. Loans once again are contracting on a real basis.

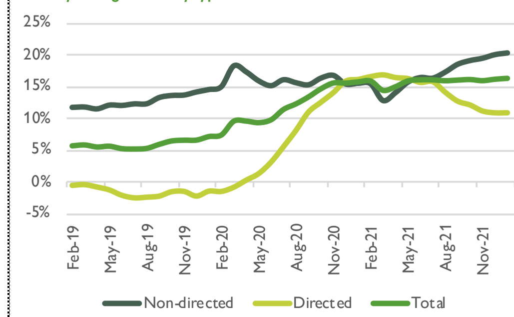
Structural trends: The last drop of gas

- January is a month fraught with seasonality, typically pushing consumers to borrow from more expensive lines to pay for the holiday and early summer excesses. However, trends observed this January show even more of this tendency, indicating that on a seasonally adjusted basis, the consumer is getting stretched and dipping into increasingly more costly ways to sustain spending. With the weakening backdrop, it would not be surprising to see banks start to pull back quickly in the next few months.

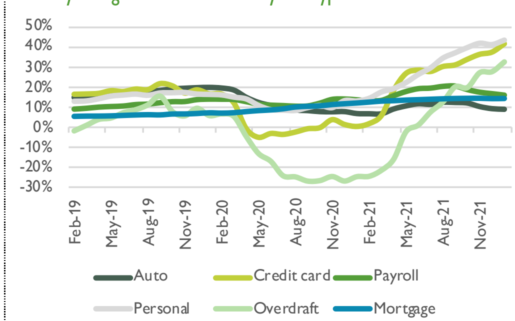
1.1. Yoy loan growth - by borrower type



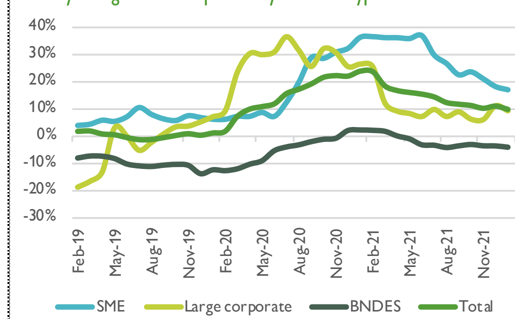
1.2. Yoy loan growth - by type of loan



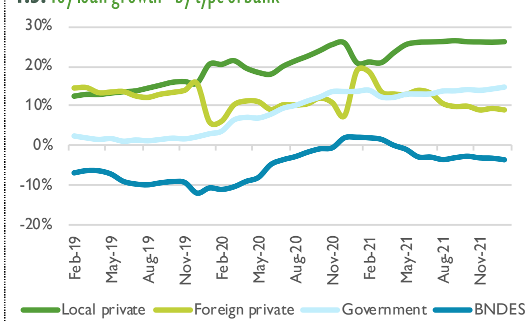
1.3. Yoy loan growth - individuals - by loan type



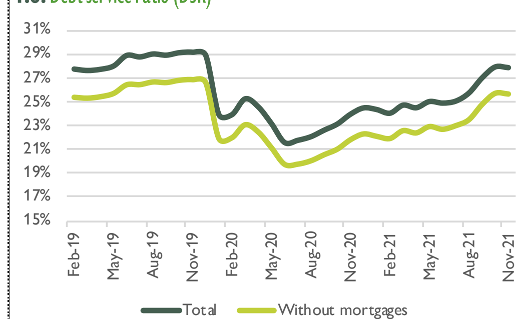
1.4. Yoy loan growth - companies - by borrower type



1.5. Yoy loan growth - by type of bank



1.6. Debt service ratio (DSR)



Source: Brazilian Central bank.

FRAME 2. Asset quality: And so, the cycle begins

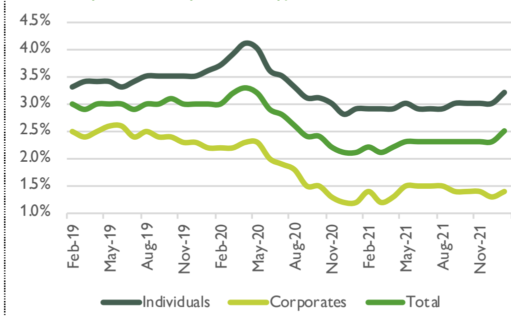
Cyclical trends: The start of the cycle

- The 90-day NPL ratio weakened 20 bp mom to 2.5%, the first change in seven months. Upwards pressure on the NPL ratio was broad-based, coming from consumer (+20 bp mom) and corporate (+10 bp mom) borrowers.
- NPLs are now expanding at 32.3% yoy, the second highest pace in the last 10 years. Consumer NPLs are expanding even faster (38.9% yoy), with credit card NPLs expanding at an alarming 73.3% yoy.

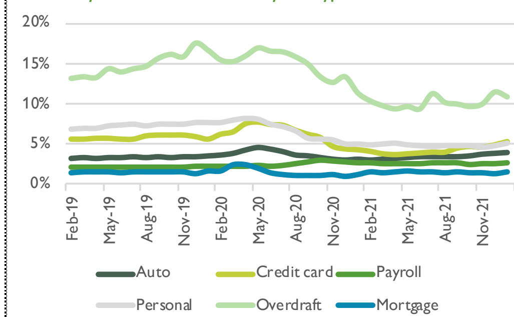
Structural forces: When will it end?

- The NPL cycle is now clearly underway, with NPL growth reaching unprecedented levels as consumers increasingly migrate to more expensive lines. This is especially concerning because the debt service ratio (which can be translated to the capacity of the consumer to pay its loans based on income) has not yet peaked. This suggests that much of the consumer borrowing that is bringing this cycle was supported by now-ended pandemic relief payments. High coverage ratios protect the banks, but it would not surprise to see NPLs more than normalizing through year-end 2022.

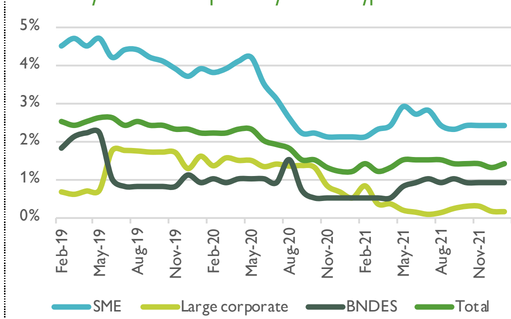
2.1. 90-day NPL ratio - by borrower type



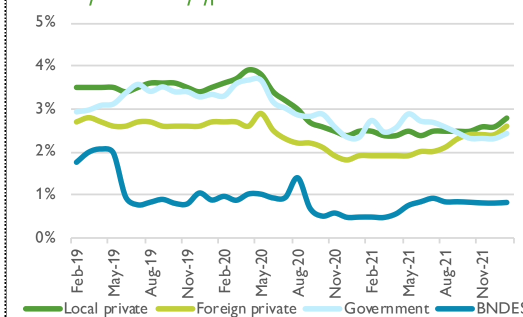
2.2. 90-day NPL ratio - individuals - by loan type



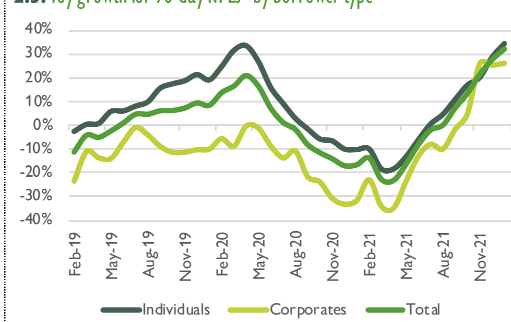
2.3. 90-day NPL ratio - companies - by borrower type



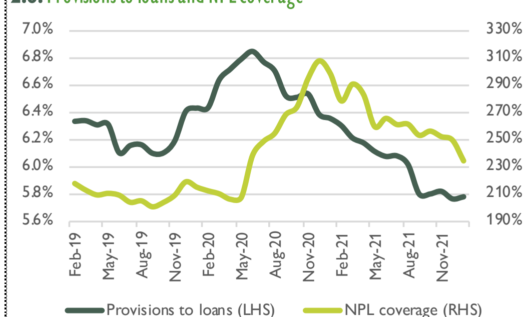
2.4. 90-day NPL ratio - by type of bank



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

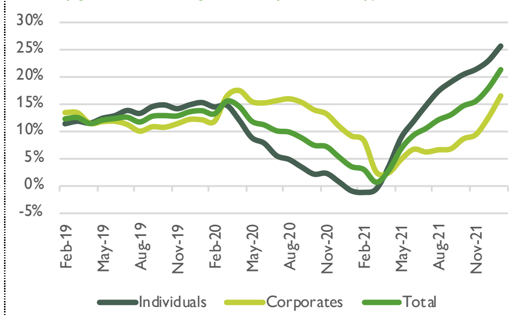
Cyclical trends: Origination still up

- Yoy growth for LTM new loans originations accelerated 340 bp mom to 21.1%, with expansion across the board headlined by high-rate consumer loans.
- Rates on new loans were up 100 bp mom to 25.3%. While rates were up across the board, mix of loans originated (heavy on consumer) helped to push average rates further up.
- Yoy growth for total deposits accelerated 110 bp mom to 9.8%, driven by a sharp acceleration in demand deposits (+370 bp mom).

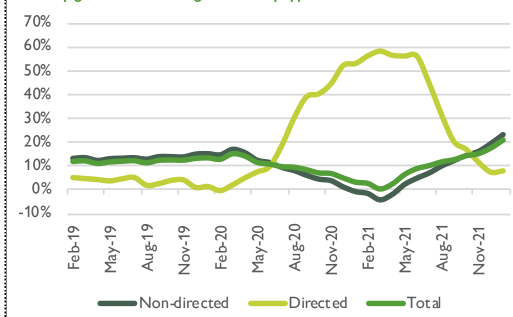
Structural forces: Origination concern

- With the NPL cycle underway, it is disquieting that banks continue to push for new loans at a strong pace. It is even more troubling that much of this acceleration is coming in loans that typically are most risky (credit card, personal and overdraft). Part of this is the seasonal usage of open credit lines, but, regardless, it comes through as exuberance ahead of a period of economic uncertainty (though almost certainly weaker). This could ultimately lengthen and deepen the NPL cycle that has already started.

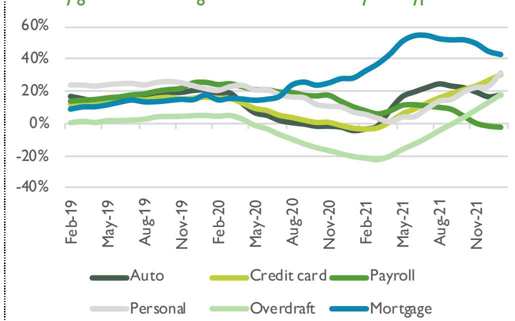
3.1. Yoy growth of LTM origination - by borrower type



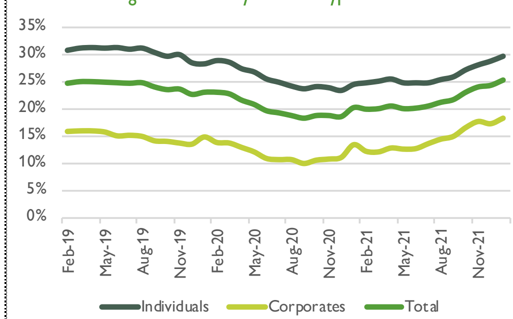
3.2. Yoy growth of LTM origination - by type of loan



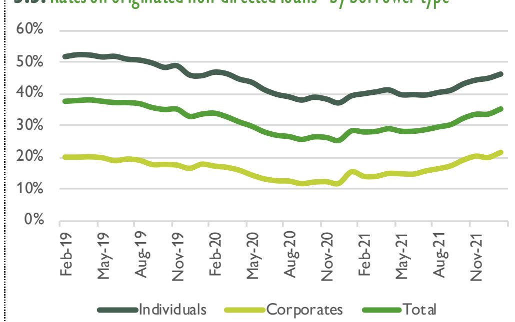
3.3. Yoy growth of LTM origination - individuals - by loan type



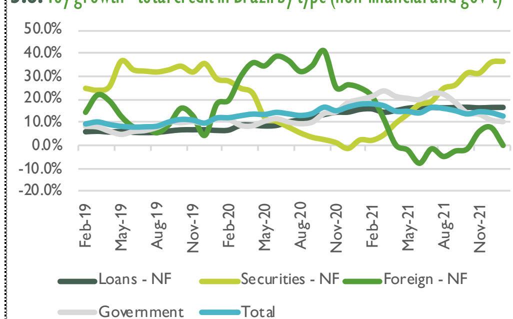
3.4. Rates on originated loans - by borrower type



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.