

Banks - Brazil

Closing the year on a positive tone; key highlights from BCB's 4Q23 data

Industry Overview

Key takeaways from 4Q23 BCB data

The Brazilian Central Bank reported credit figures for 4Q. The data continued to reflect a conservative lending approach, but with signs of potential improvement in 1H24. Loan growth remained weak, but A/Q improved, and credit origination accelerated, suggesting positive trends for the credit business. Banks posted mixed trends on 4Q23 earnings published so far. Itau's earnings reflected a more conservative approach, with portfolio deceleration (Brazil), with improvement on cost of risk and NPLs. Santander's suggested some increase in lending appetite, with acceleration on loan growth, but some deterioration on NPL and cost of risk. NIMs improved on both banks.

#1- Deceleration, but with a light at the end of the year

Total loan portfolio decelerated to 7.9% YoY in 4Q (8.8% in 3Q), impacted by weaker loans to individuals (from 10.1% vs 11.7% in 3Q); the corporate book grew at the same pace seen in 3Q (4.5%). Importantly, this growth was more resilient by the end of the quarter, as industry maintained the same growth pace in November and December.

#2- Credit origination has accelerated

Seasonally adjusted credit origination increased 12% YoY, accelerating from 6% in 3Q (4% in 2Q and flattish in 1Q). The acceleration was driven by corporate and consumer loans, particularly lines with higher spreads, such as credit cards and auto. Exhibit 1, 2, 3.

#3- Foreign and public sector banks were more resilient

The more resilient expansion of the loan book by the end of the quarter was driven by acceleration of foreign owned banks (7.3% YoY vs 5.9% in 3Q). Public sector banks decelerated (9.5% vs 10.5% in 3Q) but showed some resilience in December. Private national bank continued to decelerate (6.5% vs 8.0% in 3Q). Exhibit 7.

#4- Debt service and NPLs improved

Debt service (percentage of income expensed on debt payment) contracted for the sixth consecutive month (24.4% vs peak of 26.1% in May). NPL ratio improved 10bp QoQ for the second consecutive quarter, particularly on consumer loans. On corporate loans, SMEs' NPL ratios have been stable, but contracted on large accounts. All in, we expect that improving A/Q trends should drive banks to resume riskier origination, boosting NII. Exhibits 4, 5, 11.

#5- Spreads are trending down

Spreads on new loans have contracted since the beginning of the easing cycle. Consumer spreads averaged 9.2% in 4Q (vs 9.6% in 3Q), while corporate spreads averaged 25.4% (vs 27.0% in 3Q). Exhibit 6.

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A/Q – Asset quality
BCB – Brazilian Central Bank
NIM – net interest margin
NPL – non-performing loans
SME – small and medium-sized enterprise

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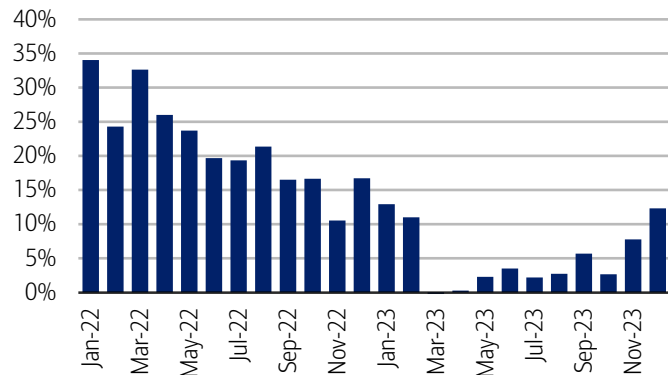
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December data

Exhibit 1: Seasonally adjusted credit origination (growth, % chg YoY)

Credit origination growth has accelerated sequentially

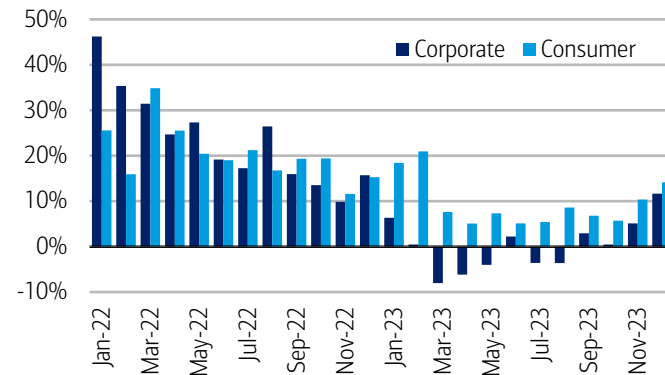


Source: BCB, BofA Global Research

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Exhibit 2: Seasonally adjusted credit origination (growth, % chg YoY)

Acceleration on both corporate and consumer loans

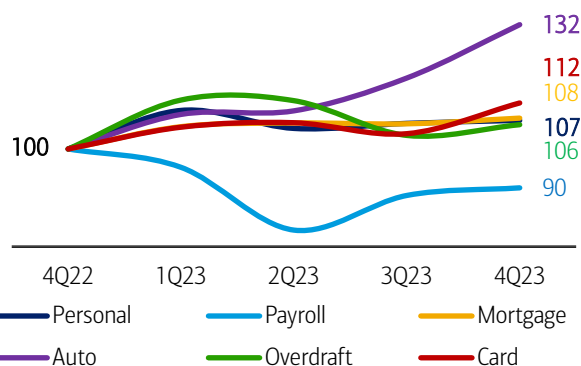


Source: BCB, BofA Global Research

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Exhibit 3: Consumer credit origination (indexed, 4Q22=100)

Auto and credit cards have accelerated the most

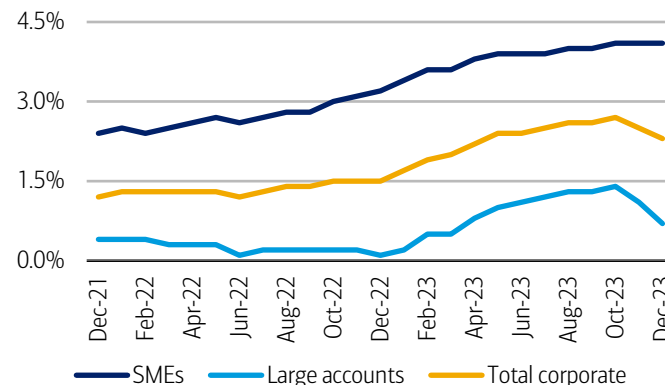


Source: BCB, BofA Global Research

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Exhibit 4: Corporate NPL ratio by company size (%)

Large accounts have led the improvement on companies' NPL

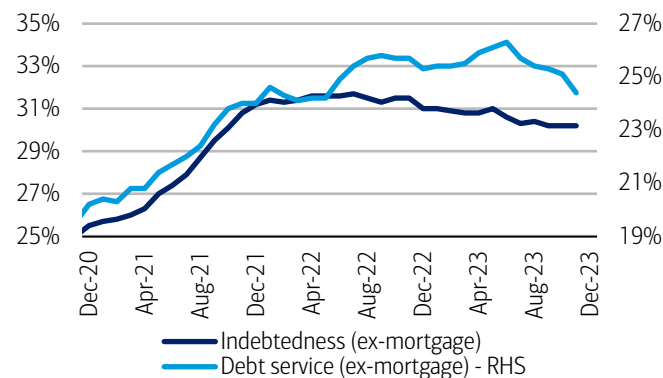


Source: BCB, BofA Global Research

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Exhibit 5: Indebtedness and debt service (%)

Debt service has been contracting since peak in May

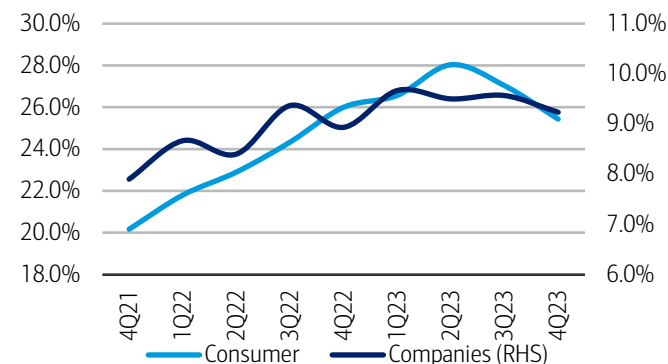


Source: BCB, BofA Global Research

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Exhibit 6: Average spreads

Spreads have contracted in the easing cycle



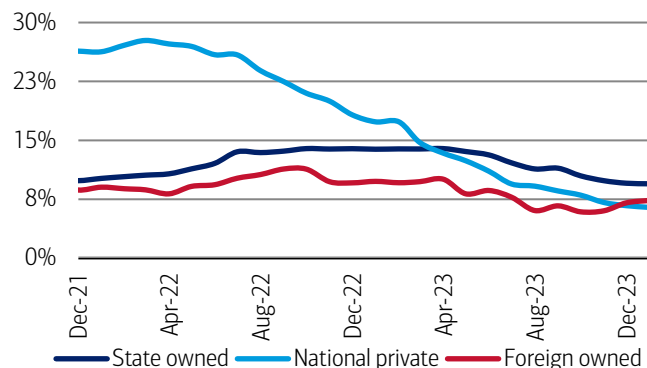
Source: BCB, BofA Global Research

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Monthly trends

Exhibit 7: Public and private-sector banks credit growth

Public banks expanded 9% YoY (+10% in November), while national private banks decelerated to 6% (vs 7% in November)

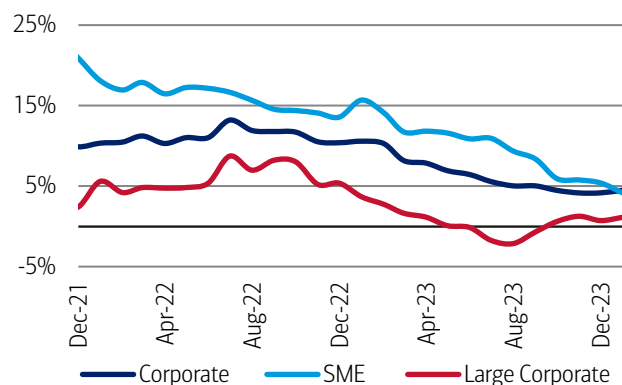


Source: BofA Global Research, Brazilian Central Bank

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Exhibit 9: Corporate credit growth

Large corporate expanded 1% YoY (+1% in November), SME expanded 4% (+5% in November)

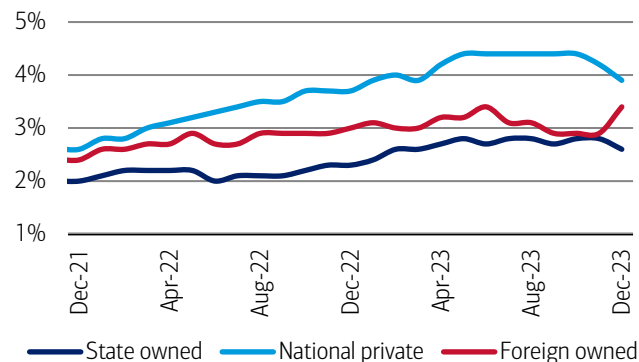


Source: BofA Global Research, Brazilian Central Bank

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Exhibit 11: NPL ratio by control

National private NPL improved 30bps while state owned NPL improved 20bps and foreign owned deteriorated 50bps MoM

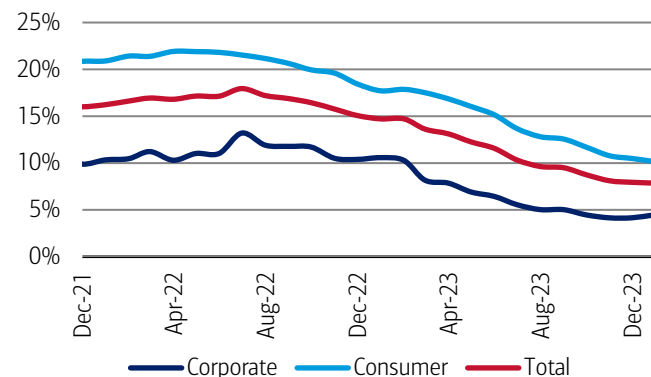


Source: BofA Global Research, Brazilian Central Bank

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Exhibit 8: Credit growth

Consumer credit expanded to 10% (vs 10% in November), while corporate credit expanded 4% (+4% in November)

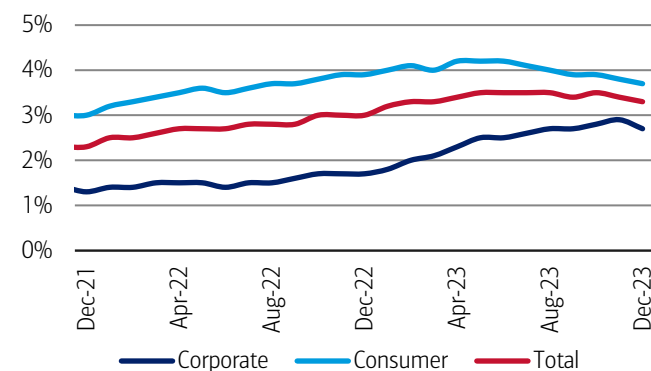


Source: BofA Global Research, Brazilian Central Bank

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Exhibit 10: NPL ratio by segment

Consumer NPL improved 10bp MoM to 3.7% and corporate NPL improved 20bps to 2.7%

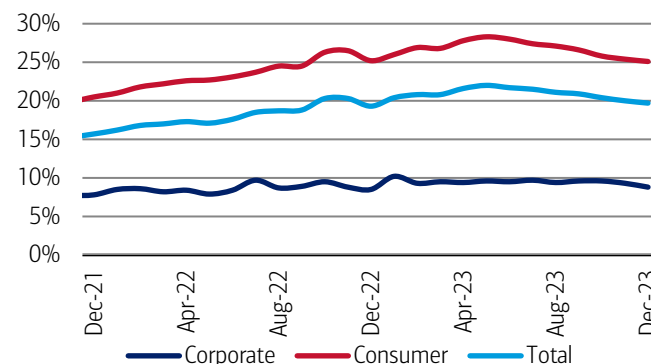


Source: BofA Global Research, Brazilian Central Bank

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Exhibit 12: Average spreads

Consumer spreads decreased 30bp MoM (to 25.1%), while corporate spreads decreased 50bps (to 8.8%)



Source: BofA Global Research, Brazilian Central Bank

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Exhibit 13: Brazilian Credit data main figures

The total credit portfolio expanded 8% YoY

	-12m	-6m	-3m	-1m	Current	Trailing Growth (%)			
	Dec-22	Jun-23	Sep-23	Nov-23	Dec-23	YoY	-6m	-3m	MoM
Credit Penetration (% of GDP)	54.2%	52.0%	52.6%	52.8%	53.2%	-100bp	120bp	60bp	40bp
Total Credit (Incl. Mandatory) (R\$bn)	5,361	5,476	5,615	5,701	5,783	7.9%	5.6%	3.0%	1.4%
Total Credit (Excl. Mandatory) (R\$bn)	3,210	3,253	3,288	3,316	3,377	5.2%	3.8%	2.7%	1.8%
Retail Credit (R\$bn)*	3,191	3,315	3,416	3,491	3,515	10.1%	6.0%	2.9%	0.7%
Overdraft	29	33	34	34	31	9.8%	-4.1%	-8.0%	-7.8%
Unsecured direct lending	250	257	261	267	264	5.5%	2.5%	1.0%	-1.1%
Payroll	588	610	620	625	626	6.5%	2.7%	1.1%	0.2%
Auto financing	258	269	278	283	289	11.9%	7.6%	4.0%	2.2%
Other durable goods financing	24	24	24	24	24	-1.3%	1.5%	1.5%	0.8%
Credit card	495	505	509	535	538	8.7%	6.6%	5.7%	0.6%
Mortgages	930	982	1,011	1,029	1,039	11.7%	5.8%	2.7%	0.9%
Agricultural	408	423	458	472	478	17.3%	12.9%	4.3%	1.3%
Credit renegotiation	80	86	87	85	86	8.4%	1.0%	-0.6%	1.1%
Corporate Credit (R\$bn)*	2,170	2,161	2,199	2,210	2,268	4.5%	4.9%	3.1%	2.6%
BNDES Credit (R\$bn)	457	451	460	468	472	3.4%	4.7%	2.5%	0.8%
Credit Spreads Annual	19.3%	21.7%	20.9%	20.0%	19.7%	40bp	-200bp	-120bp	-30bp
Retail	25.2%	28.0%	26.6%	25.8%	25.1%	-10bp	-290bp	-150bp	-70bp
Corporate	8.5%	9.5%	9.6%	9.3%	8.8%	30bp	-70bp	-80bp	-50bp
Past Due Loan Ratio (%)**	4.2%	4.9%	4.8%	4.8%	4.7%	50bp	-20bp	-10bp	-10bp
Retail NPL**	5.9%	6.3%	5.9%	5.8%	5.6%	-30bp	-70bp	-30bp	-20bp
Overdraft	13.4%	13.0%	11.9%	15.6%	13.5%	10bp	50bp	160bp	-210bp
Unsecured direct lending	7.8%	7.6%	6.8%	6.3%	6.2%	-160bp	-140bp	-60bp	-10bp
Payroll	2.2%	2.3%	2.2%	2.3%	2.3%	10bp	0bp	10bp	0bp
Auto financing	5.4%	5.5%	5.3%	5.4%	5.2%	-20bp	-30bp	-10bp	-20bp
Other durable goods financing	7.1%	7.9%	7.9%	7.7%	7.8%	70bp	-10bp	-10bp	10bp
Credit card	45.1%	49.0%	49.2%	53.1%	53.9%	880bp	490bp	470bp	80bp
Mortgages	1.5%	1.8%	1.8%	1.6%	1.5%	0bp	-30bp	-30bp	-10bp
Agricultural	0.8%	0.8%	1.0%	1.1%	1.1%	30bp	30bp	10bp	0bp
Corporate NPL**	2.1%	3.0%	3.4%	3.6%	3.5%	140bp	50bp	10bp	-10bp

*Includes BNDES

**NPL ratios are for the free market portfolio only

Source: Brazil Central Bank

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