

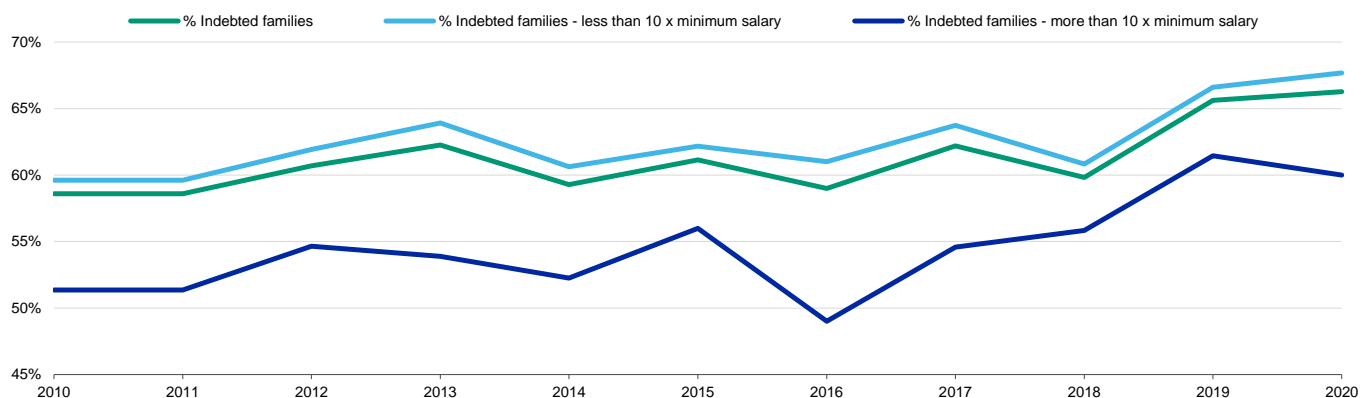
Brazil's consumer indebtedness rises to record levels in 2020, a credit negative for banks

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On 6 January, Brazil's Confederação Nacional do Comércio de Bens, Serviços e Turismo (CNC), the confederation of commerce, released survey results showing that consumer indebtedness reached record levels in 2020. The rise in household debt is credit negative for banks with significant unsecured consumer lending exposure, such as [Banco do Brasil S.A.](#) (Ba2/(P)Ba2 stable, ba2¹), [Banco Bradesco S.A.](#) (Ba2 stable, ba2), [Itau Unibanco S.A.](#) (Ba2 stable, ba2), Banco Santander (Brasil) S.A. (Ba1 stable, ba2) and [Caixa Econômica Federal](#) (Ba2, stable, ba3). Together, these banks accounted for around 75% of total consumer lending in Brazil as of September 2020.

The results of CNC's survey showed that 66.3% of all Brazilian families had debt outstanding as of December 2020, the highest level on record since 2010. The increase was driven by low-income households, defined by those who earn up to 10x the minimum wage, 67.7% of which had debt. For households earning more than 10x the minimum wage, 60% had debt as of July, which was above historical levels (see exhibit).

Brazilian households' indebtedness in 2020 hit a record level



Source: Confederação Nacional do Comércio de Bens, Serviços e Turismo

Total consumer loans grew 9.2% in the 12 months that ended in November 2020, or 14.1% of total loans in Brazil. Part of this expansion was related to banks' loan deferrals. With the end of loan deferral programs and other government aid packages in December, asset quality will deteriorate from the current low consumer problem loans ratio of 4.3% reported in November 2020. According to central bank data, during coronavirus, Brazilian banks have already renegotiated around 20% of their loan exposures and a lot of the grace periods extended to customers will expire in early 2021, which will likely exacerbate consumer debt burdens. The unemployment rate was also at a record high of 14.6% as of November 2020, and the industry confidence is still very low, indicating very limited appetite for investments in the next months.

Amid the pandemic-driven recession last year, between March and September, banks built a conservative reserve buffer, which will mitigate increased credit losses. In November, the industry's loan loss provisions equated to 6.3% of total loans. The low interest rate environment will likely lead more households to renegotiate loan terms this year.

The CNC survey showed that the percentage of households unable to pay off their debt rose in 2020 to 11.2% from 10.0% a year before. The increase was again driven by lower-income households that earn up to 10x the minimum wage, whose percentage was 13.1% in 2020, up from 11.8%. In terms of debt service, 23% of lower-income households paid more than 50% of their monthly income for debt service in 2020, up from 21% a year ago.

For indebted households in the survey, the largest category of debt exposure is credit card debt according to the survey, comprising 79.4%, followed by overdrafts that were 5.5%. Both categories are unsecured consumer loan classes, leaving banks particularly susceptible to a deterioration in borrower repayment capacity.

Endnotes

¹ The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment

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