# Laying out the scenario for the credit market in 2022

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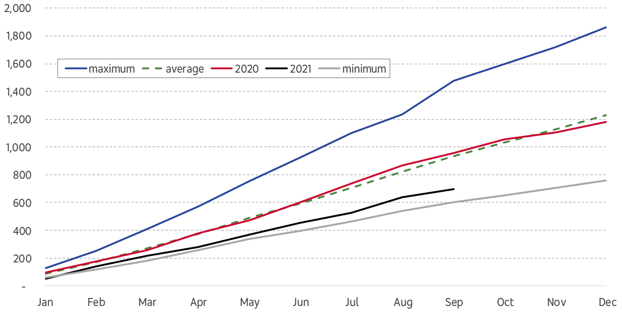
**The economic crisis driven by the pandemic has not turned into a private sector credit crisis.** Amidst uncertainties as to the magnitude of the impacts, companies sought to increase cash flow, cut costs, and optimize operations early on in the pandemic. The heated capital market, with the lowest Selic rate in history, favored the financing of large companies and the emergency programs, such as Peac-FGC and Pronampe, offered credit to micro, small, and medium-sized companies at the time when the impacts of the pandemic had the greatest effect on economic activity. As a result, the volume of judicial reorganization filings is near an all-time low (Chart 1) and listed companies show record levels of low indebtedness (Chart 2).

**Chart 1:** Companies under judicial reorganization
2012 to 2021, year-to-date




**Source:** Serasa, Bradesco

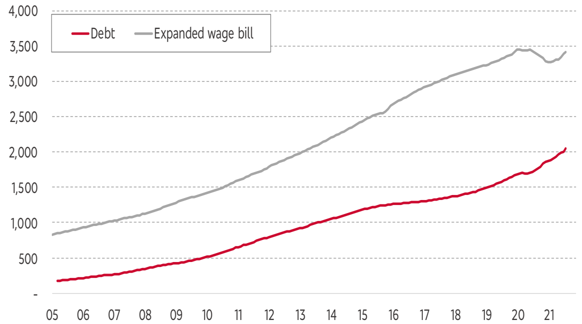
**Chart 2:** Net debt/EBITDA
Listed companies


**Source:** BCB, Bradesco

**The low indebtedness of the companies is preponderant at this point, in which interest rates are expected to be high in the coming months.** The lower level of indebtedness tends to produce smaller effects from the Selic hike on the balance sheet of large companies, which generally borrow at post-fixed rates. At the same time, the permanence of Pronampe and the general framework of the credit portfolio favorable to the banks' appetite should continue to support smaller companies as well. Thus, there are no signs of a sharp reversal of the low default picture for 2022. However, it is important to note that if there was an improvement in the private balance sheet, on the other hand, there was a worsening on the public side, which may have relevant implications for the credit market in the coming years.

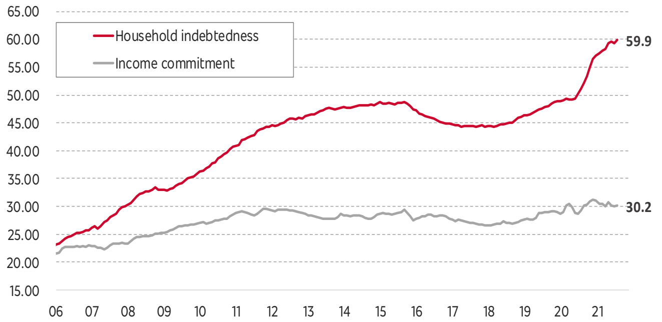
**On the household side, there are important considerations to be made regarding the level of indebtedness.** Since the beginning of the pandemic, there has, in fact, been an increase in the credit portfolio for individuals, whether for precautionary purposes or for the consumption of goods in general, including the purchase of real estate (Chart 3, red line). However, the behavior of the series used to measure the expanded wage bill (Chart 3, gray line) caught our attention. Household indebtedness in July was 59.2% of annual income (Chart 4), according to the data released by the Central Bank of Brazil in the latest Central Bank credit report, which considers IBGE Household Survey data. In our opinion, the methodological challenges faced by the IBGE during the pandemic may create downward distortions for the denominator of this metric.

**Chart 3:** Household indebtedness
Debt over wage bill accumulated in 12 months




**Source:** BCB, Bradesco

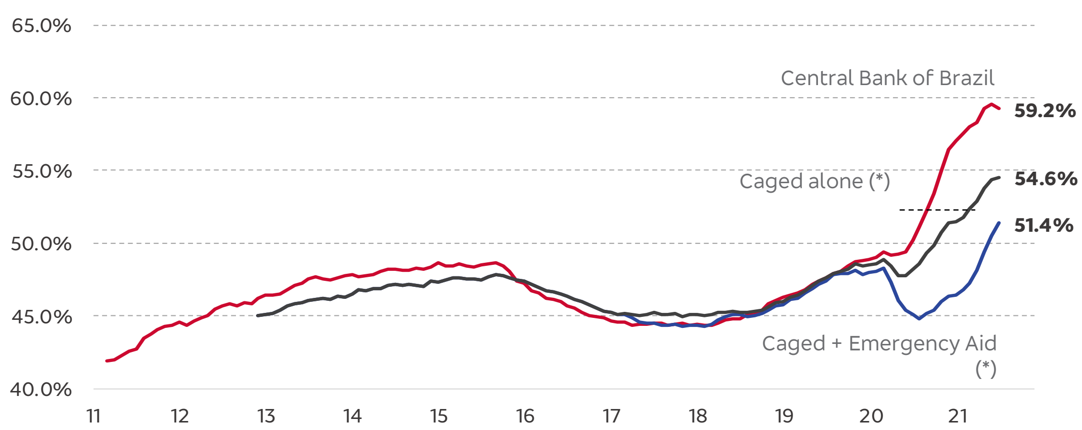
**Chart 4:** Indebtedness vs. income assignment
% of annual and monthly income, respectively (until Jul/21)




**Source:** BCB, Bradesco

**Thus, we simulated two counterfactual scenarios for the level of household debt** (Chart 5). In the first, in order to simulate the household wage bill, we replaced IBGE formal employment data in the private sector with formal jobs data from CAGED. In this case, the indebtedness level would be 54.6%, i.e. 4.6 percentage points lower than the Central Bank's series. In the second scenario, besides replacing the formal employment series, we considered the value of the Emergency Aid when calculating the wage bill. In this case, the household indebtedness level would be 51.4%, i.e. 7.8 percentage points lower than the official statistic. It is important to emphasize that, by default, the Central Bank's expanded wage bill statistics do not consider this type of resource in the composition of household income. However, given the broad scope of the program and the nature of the crisis, we believe it is appropriate to view indebtedness from this angle in order to better understand the low level of defaults, which has returned positive surprises throughout the year. Another aspect not captured in the statistics was the increase in household savings during the Covid crisis. Although we cannot measure it properly, it is certain that this savings contributed to counteract, from an equity point of view, the increase in indebtedness observed in the period, thus also minimizing the increase in defaults.

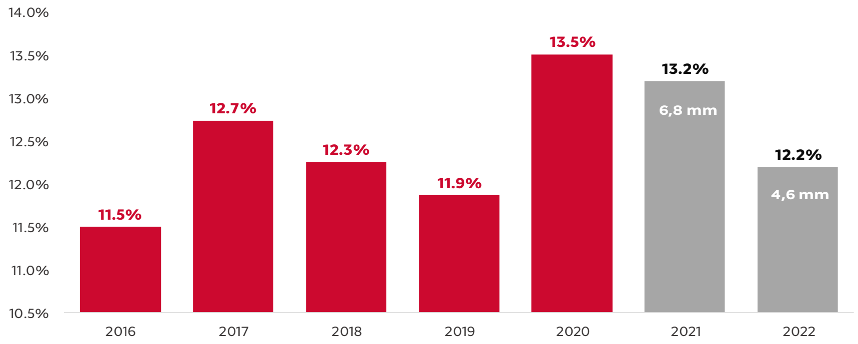
**Chart 5:** Counterfactual scenarios for household indebtedness




**Source:** IBGE, Ministry of Economy, BCB and Bradesco (*) in one of the cases we replaced the PNAD formal employment with Caged and in the other we added the value of the Emergency Aid when calculating the wage bill

**Therefore, we believe that indebtedness and default will not be major issues for 2022.** Even with lower economic growth and rising interest rates, we expect the creation of about 5 million jobs between this quarter and the end of 2022 (Chart 6), reflected in an increase in the wage bill and a drop in the unemployment rate. We forecast delinquency rates close to those observed prior to the pandemic.

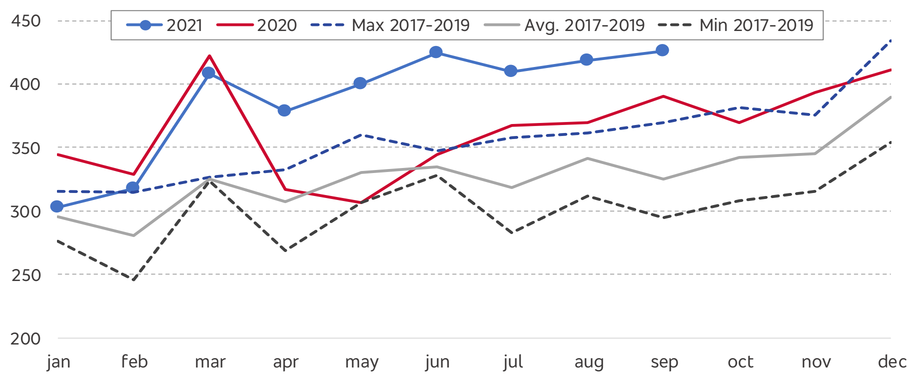
**Chart 6:** Unemployment rate
Average annual rate (in highlight: job openings in the year)




**Source:** IBGE, Bradesco

**Until September, we observed concessions at a much higher pace than observed between 2017 and 2019 (Chart 7).** In the opening by segment, the performance of loans to individuals stands out, driven by the non-consigned and real estate lines of credit. The growth of this portfolio in the coming year should gradually slow down, especially in the non-consigned credit lines, reflecting the rise in interest rates and the moderation of economic activity. In the case of auto financing, supply restrictions in the automotive sector should remain, at least until the end of the first half of next year, which should continue limiting the granting of credit for this purpose. We project a 9.1% growth of the non-earmarked credit portfolio for individuals in 2022, slowing down from a peak of 17.0%.

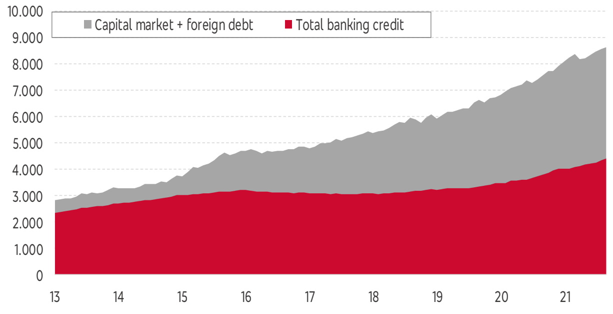
**Chart 7:** New loans – SFN Total
In constant BRL billion




**Source:** BCB, Bradesco

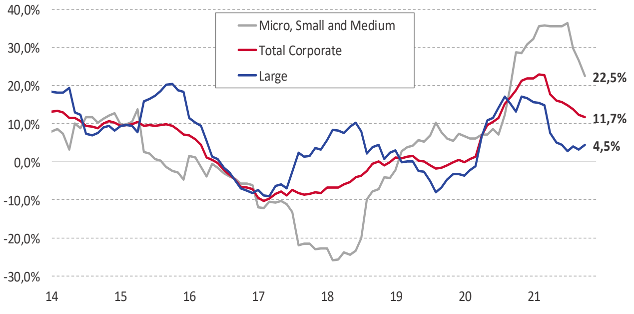
**The credit portfolio should continue to decelerate in the corporate segment, but at a slower pace than that observed in the individual portfolio.** Given the heated capital market (Chart 8), the interruption of part of the emergency programs and the large companies that are already capitalized, the corporate credit portfolio has been showing moderation in its expansion rate since the beginning of the year. In the opening by size, the performance of the lines aimed at micro, small, and medium-sized companies stands out (Chart 9), which largely reflects the emergency credit programs for this target audience. These trends should be maintained next year, but the cooling of the capital market may drive demand to migrate from large companies to bank credit. For the corporate portfolio with non-earmarked credit, we expect growth of 12.5% in 2021 and 8.0% in 2022.

**Chart 8:** Expanded total credit
Stock in billions of BRL




**Source:** BCB, Bradesco

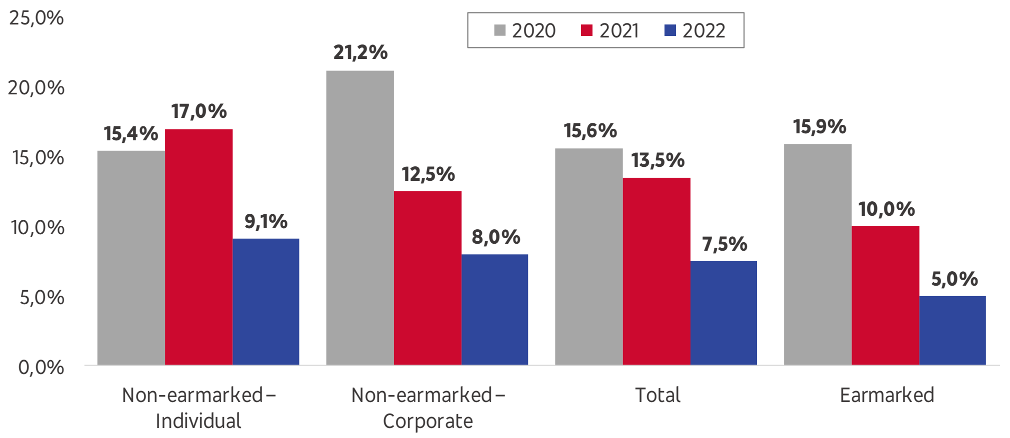
**Chart 9:** Credit for companies
By size




**Source:** BCB, Bradesco

**We project growth around 7.5% of the total SFN credit portfolio in 2022.** The expansion of credit should continue to support the recovery of economic activity in the coming months. The extensions on loans during the pandemic, the change in the borrower profile, low interest rates, and the emergency programs to maintain employment and income explain the growth of credit and the low default. For 2022, worsening household budgets and rising interest rates should produce delinquency rates closer to what was observed prior to the pandemic, but still at levels compatible with healthy credit portfolio growth. So even if there is a degree of moderation in the growth rate ahead, the level of concessions will remain high. In the case of corporations, record low debt levels suggest that there is room to expand investments if the level of domestic uncertainty decreases.

**Chart 10:** Credit forecasts




**Source:** BCB, Bradesco

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