

NPL&REO in Brazil 2023

SPRING UPDATE

The NPL market in Brazil has finally unlocked its potential, with record default levels estimated to have spurred record NPL sales activity in 2022. The bleak outlook for the economy bodes well for another buoyant year for the sale of this type of assets, which could grow again to reach €13.5 billion by 2023.

Economy

Brazilian GDP grew 2.9% in 2022, slowing down compared to the 5.0% growth in 2021 and mainly reflecting the good performance of the economy in the first half of the year, when it still benefited from the post-Covid reopening effect. At the end of the year, the economy lost steam, with GDP falling 0.2% in Q4, a loss of momentum that also reflects the pressure of interest rates, since the basic interest rate (Selic) has been at 13.75% since last August, a sharp increase from the minimum of 2.0% observed in March 2021. Added to this is the scenario of economic slowdown on a global scale and inflation, which despite having eased, remains high, reaching 5.8% in 2022 (vs. 10.0% in 2021).

With regard to 2023, forecasts point that inflation will remain at identical levels (5.9%), with a new slowdown only appearing in 2024 (4.0%). GDP is expected to grow marginally this year (+0.8%), with an estimated recovery to 1.5% in 2024. The pressure of interest rates continues to be evident, with the Selic rate estimated at 12.75% in 2023.

GDP GROWTH 2023 (FORECAST)
(SOURCE: BANCO CENTRAL DO BRASIL
- FOCUS REPORT)

0.8%

HOUSING SALES (2022)
(SOURCE: CBIC)

304,400

Property Market

The selling price of houses in Brazil increased by 6.2% in 2022 (FipeZAP+ Index), surpassing average consumer inflation, which stood at 5.8%. This is the largest annual price increase since 2014 (6.7%). The average price of housing in the country in 2022 was €1,486/sqm, with values of € 1,820/sqm in São Paulo and €1,760/sqm in Rio de Janeiro.

Residential sales, on the other hand, reduced slightly in 2022 (-3.2%), to 304,400 units (CBIC data), losing steam throughout the year, which started with around 80,100 units sold in Q1 quarter, to 75,900 in Q2 and averaging 74,200 by quarter in Q3 and Q4. The annual decrease, albeit slight, reverses the strong growth path of the past five years, with annual sales increases almost always around 20% since 2017.

Notwithstanding the drop in the number of homes sold, the amount transacted increased, reflecting the increase in prices. Thus, in 2022, €25,7 billion were transacted, 9.6% more than in 2021.

The final supply reduced to the same extent as sales, with the 283,300 units for sale in the country showing a 3.4% drop compared to the end of 2012. Additionally, the number of new launches reduced more sharply (-8.6% to 295,500 units), this drop being pointed out as one of the factors that slowed sales. However, the dual circumstance of rising house prices and families' loss of purchasing power, in a context of inflation and high interest rates, will also have influenced the slowdown in demand.

GROWTH OF HOUSING PRICES (2022)
(SOURCE: FIPEZAP+)

6.2%

HOUSING SALES PRICE (2022)
(SOURCE: FIPEZAP+)

€1,486/sqm

NPL Stock and Ratio

The stock of NPL in the National Financial System (Brazilian Central Bank data) should reach about €28.6 billion at the end of 2022, a sharp increase of 49% compared to the estimated volume at the end of 2021, which amounted to €19.2 billion, and which already showed an increase of 26% compared to 2020. Of this amount, approximately 21% (€5.9bn) is allocated to the corporate segment, while the household sector accounts for another 77%, with an estimated value of approximately €22.0bn. The stock in both segments increased compared to 2021, but the growth pace was stronger for households (+51% vs. +35% for companies).

In addition, it should be accounted the default in credit granted by the non-financial system. Data from Serasa show that by the end of 2022, more than 69 million Brazilian consumers were in default, with a NPL volume of €55.7 billion. These figures represent increases of 9% in the number of consumers and 24% in the amount owed compared to the end of 2021.

According to Prime Yield's calculations, and although there is no official data for total NPL in stock in Brazil, adding the NPL recorded in the Financial System and in the non-financial companies, it is estimated that there were at least €84.3 billion in defaulted credit in Brazil in 2022, which is 31% above the €64.2 billion recorded a year earlier.

In terms of ratio, 3.0% of the amount of credit recorded in the national financial system was in default in December 2022, more than the 2.3% ratio recorded a year earlier, but still below pre-pandemic levels. Default is higher in household (3.9% ratio), while in companies this indicator stood at 1.5%.

Potential NPL Deals

After years of not unlocking its potential, the sale of NPL portfolios in Brazil will have skyrocketed in 2022, with €10.7 billion - €11.6 billion in transactions. This is an unprecedented mark and revises upwards the initial projections made by Prime Yield, when estimates pointed to between €6.8 billion-€7.8 billion traded, which would already be a new market maximum.

The acceleration of the sale of NPL portfolios in 2022 resulted from the sharp increase in non-performing loans in the country, both those accounted for in the national financial system and those granted by non-financial companies, including in retail. According to data collected by Prime Yield, the volume of NPL in the country increased by almost 50% in 2022 compared to the previous year, reflecting worsening economic conditions in a context where both companies and households have contracted significantly more debt in the last two years. With the pandemic, a lot of resources were released in the economy and several emergency economic aids, stimulating increasing debt for consumption and investment. Since then, however, macroeconomic conditions have changed radically, with both inflationary pressure and a rise in interest rates, with the Selic rate rising from 2.0% at the start of 2021 to almost 14.0% today. In this new context, not only is there a loss of purchasing power, but the payment of the debt service has become much more expensive, leading to historic levels of default in Brazil.

Thus, the volume of NPL available for acquisition has increased considerably over 2022, at the same time as there are now more entities wanting to dispose NPL portfolios, including, besides the Banks, retailers, or service providers. In addition, on the demand side, there are also more international investors interested in buying bad debt in Brazil, while the market has become more sophisticated with the increasing entry of servicers and credit recovery operators. The combination of a growing stock of NPL, an increase in the number of entities that want to be active in the sale of portfolios and the arrival of more investors and servicers in the market, have boosted the sale of this type of assets in Brazil. Activity in 2023 could range from €12.5 billion to €13.5 billion, growing by up to 15% from 2022, in a period in which Brazil stands out from European maturing markets, where the trend is for NPL sales to lose momentum.

NPL RATIO (DEC 2022)
(SOURCE: BANCO CENTRAL DO BRASIL)

3.0%

NPL STOCK (2022)
(SOURCE: ESTIMATES PRIME YIELD
BASED ON BANCO CENTRAL DO BRASIL
AND SERASA DATA)

€84.3bn

BRAZILIAN CONSUMERS
WITH DEFAULTED CREDIT (DEC 2022)
(SOURCE: SERASA)

69.4mln

NPL SALES 2023
(ESTIMATED BY PRIME YIELD)

€12.5bn-€13.5bn

About Prime Yield part of Gloval NPL&REO Services

Established in 2005 and since 2018 a part of Gloval, a leading property services group that provides integrated valuation, engineering and consulting services, Prime Yield delivers valuation, research and advisory/consultancy services and has been focusing on the NPL&REO market, specializing in Europe and Latin America. The company has an NPL&REO specialized business area, supported by Prime AVM&Analytics, an advanced technological solution that allows NPL's investors and sellers to have property valuations in a fast, simple and reliable way both for single assets and entire portfolios. Prime Yield is regulated by RICS and REV-TEGoVA, also holding a certification in Quality and Environmental Management (NP EN ISO 9001 and NP EN ISO 14001).

Visit us at <https://nplreo.prime-yield.com>

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