

## Online betting: Estimated size and impact on consumer spending

- ▶ The growth of online gaming and betting in Brazil has fueled debates about the current size and possible impact of this sector on the performance of the retail sector and on the economy as a whole.
- ▶ We used two methods to estimate the current size of the Brazilian online betting and gaming market. Based on the balance of payments, we estimate net spending on betting at BRL 24 billion per year. Based on the betting sector's marketing expenses, we estimate its annual revenue between BRL 8 billion and BRL 20 billion reais, with a median value of BRL 12 billion.
- ▶ We found no relevant impact of the growth of online betting over the retail sector, as our models based on macroeconomic variables showed no increase in the average error in the recent period.

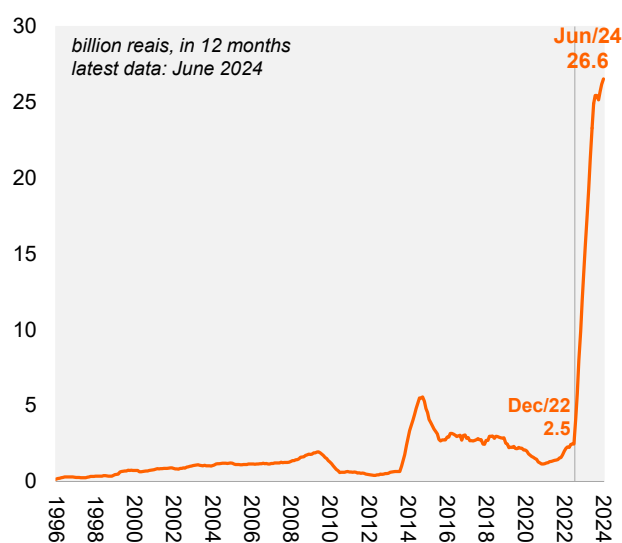
### 1. Estimated spending on online betting and gaming based on the balance of payments

**Given the regulatory stage of the online betting and gaming sector, we used the balance of payments to estimate its size.** Although online betting and gaming activities became legal in 2018, its regulation was only approved in December 2023 and is now in the implementation phase. Starting in January 2025, companies will need authorization from the Ministry of Finance to operate in Brazil. Thus, in the prevailing model right now, companies operating in the country are regulated and headquartered outside Brazil. Therefore, the balance of payments is a valuable source of information for estimating spending on betting. Importantly, because of the market's initial stage and incipient regulation, we cannot rule out the existence of expenses not accurately captured by balance of payments statistics—either through funds retained within Brazil or through activities of companies that are not regulated in any country and operate outside legal frameworks.

**Methodology changes by the Brazilian Central Bank made it possible to estimate the size of the online gaming and betting sector.** In January 2023, the Central Bank changed its data recording system<sup>1</sup> to account for transactions in the gaming and betting sector. Since then, the service fees paid to the company responsible for the game or bet are allocated to the account comprising "Recreational, historical and cultural heritage-related, and other personal services" and the prizes paid and received by the winners are allocated in "Other transfers" under Secondary Income. After this change, the values of both accounts rose sharply, as shown in the graphs below.

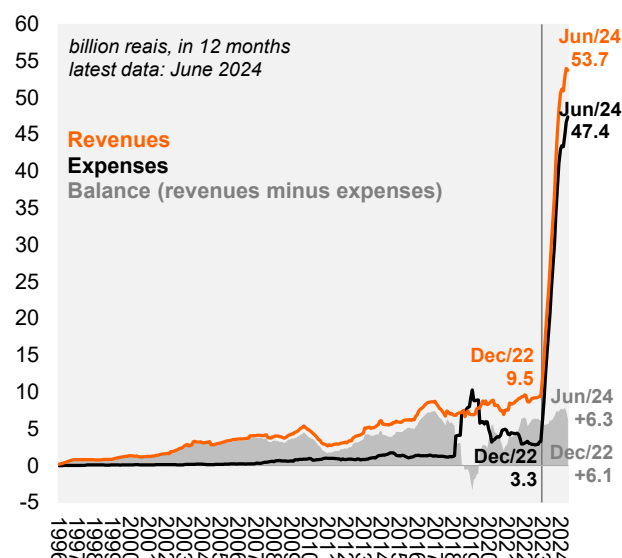
<sup>1</sup> [https://www.bcb.gov.br/content/estatisticas/hist\\_estatisticassetorexterno/202304\\_Texto\\_de\\_estatisticas\\_do\\_setor\\_externo.pdf](https://www.bcb.gov.br/content/estatisticas/hist_estatisticassetorexterno/202304_Texto_de_estatisticas_do_setor_externo.pdf)

### Balance of Payments: Expenditure on "Personal, cultural, and recreational services"



Source: BCB, Itaú

### Balance of Payments: Secondary income - Other transfers



Source: BCB, Itaú

**We estimate that players pay BRL 24.1 billion in service fees.** The account that now includes fees jumped from BRL 2.5 billion, before the methodology changed, to BRL 26.6 billion in the 12 months through June 2024 (1<sup>st</sup> graph). The BRL 24.1 billion gap probably reflects the inclusion in this item of service fees related to gaming and betting.

**Additionally, winnings paid out to players showed a net inflow of BRL 0.2 billion.** The account where winnings are recorded moved from a net inflow of BRL 6.1 billion before the methodology change (BRL 9.5 in inflows and BRL 3.3 billion in outflows) to a net inflow of BRL 6.3 billion (BRL 53.7 billion in inflows and BRL 47.7 billion in outflows). Thus, there has been a significant increase in both outflows (amount wagered) and inflows (amount received by players who win). The difference between the accounts before and after the methodological change probably reflects the inclusion under this heading of prizes paid and received in gaming and betting.

**The sum of fees (outflows) and winnings (net inflows) is BRL 23.9 billion in the 12 months up to June.** This figure is equivalent to 0.2% of Brazilian GDP, 0.3% of total consumption, and 1.9% of the wage bill.

**It's important to note that our calculation includes both the amounts wagered and the amounts received by players when they win bets.** If we disregard the amounts received by players when they win, it will lead to an exaggerated estimate of consumer spending on betting. To illustrate, we estimate that total spending excluding the amounts received by winning players is R\$68.2 billion, which is substantially higher than our estimate for net spending, of R\$23.9 billion (accumulated over the twelve months to June).

Estimates of the online betting and gaming sector in Brazil		% of GDP	% of household consumption	% of wage bill	
accumulated in 12 months (billions of reais)					
a=c-b	Service fees paid to online betting or gaming companies, 12m to June/24	24.1	0.22%	0.34%	1.95%
b	Expenditure on "Personal, cultural, and recreational services", 12m to Dec/22	2.5	0.02%	0.04%	0.20%
c	Expenditure on "Personal, cultural, and recreational services", 12m to June/24	26.6	0.24%	0.38%	2.15%
d=h-e	Net prizes paid out to players, 12m to June/24	0.2	0.00%	0.00%	0.01%
e=f-g	Balance of secondary income - Other current transfers, 12m to Dec/22	6.1	0.06%	0.09%	0.50%
f	Income of secondary income - Other current transfers, 12m to Dec/22	9.5	0.09%	0.13%	0.77%
g	Expenses of secondary income - Other current transfers, 12m to Dec/22	3.3	0.03%	0.05%	0.27%
h=i-j	Balance of secondary income - Other current transfers, 12m to June/24	6.3	0.06%	0.09%	0.51%
i	Secondary income account income - Other current transfers, 12m to June/24	53.7	0.49%	0.77%	4.35%
j	Expenses of secondary income - Other current transfers, 12m to June/24	47.4	0.43%	0.68%	3.84%
k=a+(j-g)	Total spending on bets (fees paid + amount gambled, excluding winnings), 12m to June/24	68.2	0.62%	0.97%	5.53%
l=a-d	Net spending on bets (fees paid + amount gambled - winnings), 12m to June/24	23.9	0.22%	0.34%	1.94%

## 2. Estimated revenue of the online betting and gaming sector based on marketing expenses

Another method for estimating spending on online games is based on the marketing expenses of companies in the sector. If we find how much these companies spend on marketing, and the share that these expenses represent of their total revenue, we can estimate the total revenue of the sector <sup>2</sup>.

We estimate the sector's total spending on marketing between BRL 5.8 billion and BRL 8.8 billion. In May 2023, the newspaper O Estado de S. Paulo estimated that betting companies were spending BRL 3.5 billion in soccer-related marketing (sponsoring teams, competitions, and TV broadcasts)<sup>3</sup>. We assume that these expenses represent 40% to 60% of total marketing spending, as companies also spend on online ads, TV, radio, influencers, etc.

Based on international examples, we adopted the hypothesis that companies operating in Brazil spend between 45% and 75% of their revenues on marketing. We checked financial statements of publicly held international betting companies between 2021 and 1Q24<sup>4</sup>. In the United Kingdom—a more mature market where betting has been regulated for a longer time (since 2005)—marketing spending represents around 20% of gross revenue. In the United States, where the betting market is still expanding (it has been regulated by most states since 2018), companies are spending even more on marketing, close to 30% of their revenue. The Brazilian market started later than the US, as the national regulation was only approved in December 2023. There are no balance sheet figures available yet, but a good proxy is to assume that companies in Brazil are spending what US firms were spending a few years ago. In 2021, for example, marketing spending in the US ranged from 48% to 75% of revenues.

% of revenue spent on marketing					
	1Q24	2023	2022	2021	Average
<b>UK</b>					
<i>Flutter</i>	19.3%	21.7%	22.7%	22.8%	21.6%
<i>888</i>	-	20.4%	32.5%	46.6%	33.2%
<b>US</b>					
<i>FanDuels</i>	29.9%	26.4%	37.7%	48.5%	35.6%
<i>DraftKings</i>	29.0%	32.8%	52.9%	75.7%	47.6%

We estimate the sector's revenues between BRL 8 billion and BRL 20 billion, with a median value of BRL 12 billion. The uncertainty arises from the limited transparency that has characterized the sector to date. The table below combines different assumptions for the percentage of revenue spent on marketing (from 45% to 75%), and different assumptions for total annual marketing spending (BRL 5.8 to BRL 8.8 billion).

Estimated gross revenue for betting companies				
		Annual marketing expenditure (billions of reais)		
		5.8	7.3	8.8
% of revenue spent on marketing	45%	13.0	16.2	19.6
	60%	9.7	12.2	14.7
	75%	7.8	9.7	11.7

<sup>2</sup> Importantly, the sector's revenue in the short term does not exactly match net spending by consumers (the difference between deposits and withdrawals) because a share of the deposits remains in the players' accounts or in open bets, and is not converted into revenue for the company until the bets are closed, when the company then deducts its margin.

<sup>3</sup> <https://www.estadao.com.br/esportes/futebol/como-os-sites-de-apostas-se-tornaram-o-maior-financiador-do-futebol-brasileiro/#:~:text=Empresas%20of%20sector%20injectam%20about,transmiss%C3%B5es%20e%20at%C3%A9%20torcidas%20organizados&text=As%20casas%20de%20apostas%20t%C3%AAm,fonte%20de%20receita%20da%20modalidade>.

<sup>4</sup> The financial statements of the following publicly traded international betting companies were checked: Flutter (owner of the FanDuel, Sisal and BetFair brands), 888 (owner of William Hills and 888), and DraftKings.

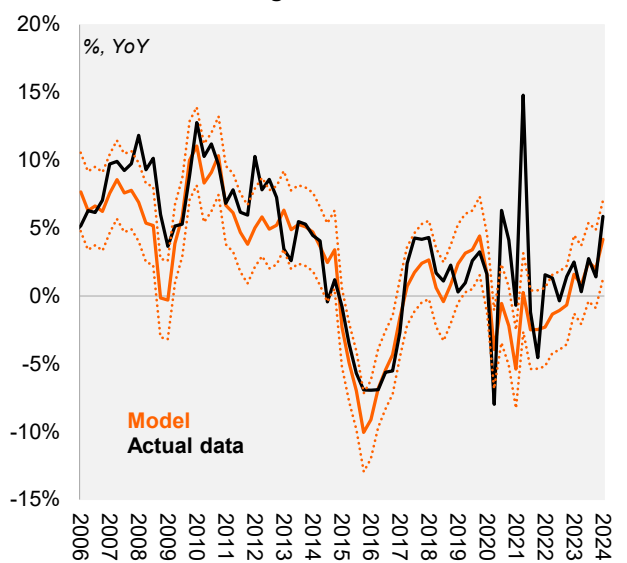
### 3. Is the betting sector having a relevant impact on consumer spending?

**Is online betting growing at the expense of the retail sector?** The performance of the retail sector this year has been the subject of heated debates. One explanation offered by those who believe that the sector is underperforming is that consumers are spending more and more on online bets and less on goods.

**Our models do not back this hypothesis.** Retail sales have been performing as expected. Our macro model for retail sales is based on four variables: income, credit, consumer confidence and savings<sup>5</sup>. We found no increase in the forecast error based on macro variables, according to the graphs below.

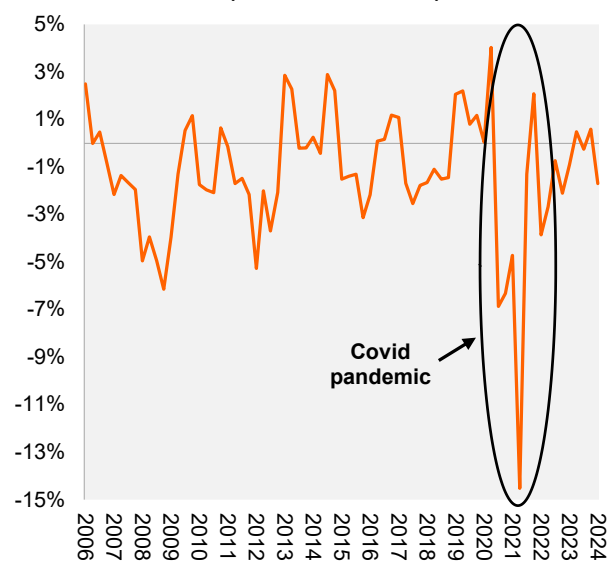
**Note that consumption, captured by GDP, is larger than the retail sector represented in the stock market.** This discrepancy may explain the apparent decoupling between income and revenues in the retail sector. In other words, this proxy is not appropriate.

Core retail sales: average of models



Source: IBGE, BCB, FGV, Itaú

Model mean error: (model - observed)



Source: Itaú

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<sup>5</sup>We used the average of the two models below. In both, we considered core sales in the Monthly Retail Survey (PMC) as a measure of retail.

**Model 1 (R2= 0.75):**  $\text{Log Core retail} = -0.11 + 0.07 \text{ Log Consumer credit} + 0.51 \text{ Log Gross national disposable income by households} - 0.05 \text{ Log Savings} + 0.03 \text{ Log Consumer confidence}$

**Model 2 (R2= 0.95):**  $\text{DLog Core retail} = 0.08 + 0.14 \text{ DLog Consumer credit} + 0.40 \text{ DLog Gross national disposable income by households} - 0.04 \text{ DLog Savings} + 0.01 \text{ DLog Consumer confidence}$

Sources: (i) Core retail: Monthly Retail Survey, IBGE, (ii) Consumer credit: new consumer loans to purchase vehicles, personal payroll and non-payroll loans, accumulated in 12 months, released by Central Bank, (iii) Gross national disposable income by households, published by the Central Bank, (iv) Savings: based on IBGE's economic accounts, (v) Consumer confidence, published by FGV.

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