



Slow Credit with Accelerating Default Rates

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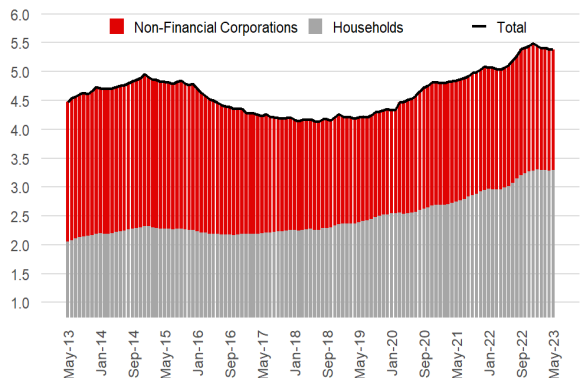
- Total outstanding loans in the National Financial System (SFN) posted inflation-adjusted growth of 6.2% YoY for May (-0.6 p.p. vs. April 2023), to R\$5.4 trillion, still reflecting the slowdown in activity and more restrictive financial conditions.
- In the non-earmarked segment, household credit portfolios decelerated at the margin, at 8.6% YoY, -1.0 p.p. from April 2023. For corporations, in the non-earmarked segment, the real growth rate presented a variation of -2.0% YoY.
- In the earmarked segment, loans to households decreased at the margin in May's growth rate to 12.3% YoY, down 0.8 p.p. from April 2023. For corporations, in the earmarked segment, balance loans posted growth of 5.2 % YoY (adjusted for inflation), up 1.0 p.p. from April 2023.
- Considering total corporate financing YTD through May 2023 (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were -45.2% lower, with SFN concessions also down -9.8%. As a result, total corporate financing is -19.3% lower than the year-ago period. Both the SFN and the capital markets are seeing a deceleration of credit on the back of high interest rates, higher perceived risk in the credit market and the expected slowing of economic activity this year.
- The seasonally adjusted default rate (% of 90-day past-due loans) rose, reaching 6.3% for households and marking the fifth month with a default rate higher than 6% (the last time the default rate was higher than 6% was in January 2017), and for corporates showed growth, reaching 3%.
- Household debt-to-income remained unchanged at the margin, reaching 48.5% in April, still high but dropping 1.2 p.p. from February 2022. In addition, the debt service ratio reached 27.9% in April.

Outstanding Loans

Total outstanding loans in the National Financial System (SFN) posted inflation-adjusted growth of 6.2% YoY for May (-0.6 p.p. vs. April 2023), to R\$5.4 trillion, still reflecting the slowdown in activity and more restrictive financial conditions. Loans to households remained high, leading overall loans to rise 10.2% YoY, -0.9 p.p. lower than the growth registered in April 2023; for non-financial corporations, loans rose 0.4% YoY, also -0.2 p.p. lower than in April 2023. Also, **credit-to-GDP reached 52.4%**, -0.1 p.p. from April 2023.

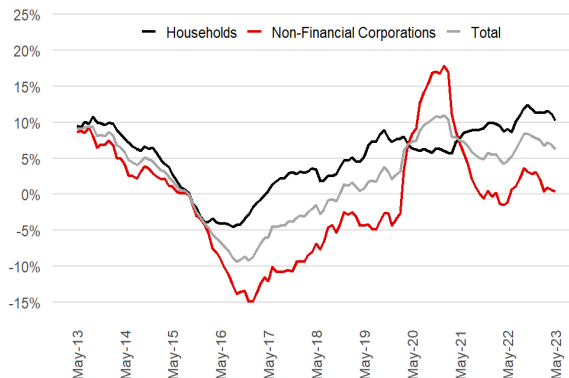


Figure 1. Total Outstanding Balance of Credit Operations (inflation adjusted, BRL billion)



Sources: Brazilian Central Bank, Santander.

Figure 2. Total Outstanding Balance of Credit Operations – Growth Rate (inflation adjusted) (%)



Sources: Brazilian Central Bank, Santander.

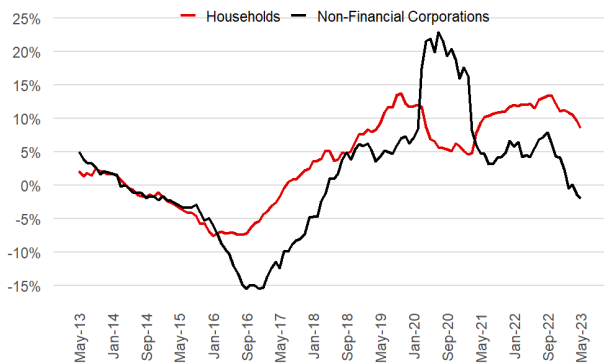
In the non-earmarked segment, household credit portfolios decelerated at the margin, at 8.6% YoY, -1 p.p. from April 2023. **Total personal real credit grew 7.6% YoY, and credit cards decelerated at the margin, down 11.6% YoY, inflation adjusted, -2.2 p.p. from April 2023, in line with the accommodation of consumption after the year-end events and highly adverse economic conditions.**

For corporations, in the non-earmarked segment, the real growth rate presented a variation of -2% YoY, -0.5 p.p. from April 2023, with **total working capital presenting a negative variation of -8.4% YoY (inflation adjusted), and the discount of trade bill falling 11.1% YoY (inflation adjusted), the fourth consecutive negative variation since September 2020.**

In the earmarked segment, loans to households decreased at the margin in May's growth rate to 12.3% YoY, down 0.8 p.p. from April 2023. **Real estate financing grew 8% YoY, inflation adjusted. Rural credit grew 24.9% YoY, adjusted for inflation.**

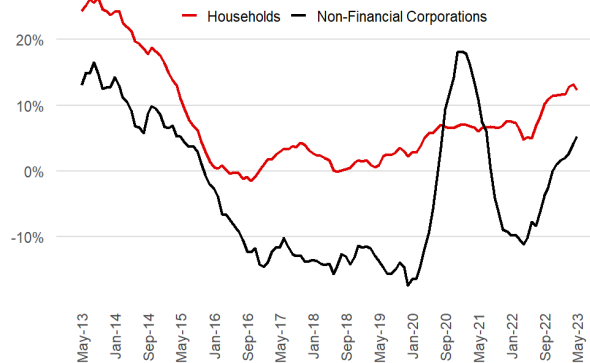
For corporations, in the earmarked segment, balance loans posted growth of 5.2 % YoY (adjusted for inflation), up 1.0 p.p. from April 2023, and in line with the reissuance of public programs and signs of greater dynamism in lines with BNDES resources.

Figure 3. Outstanding Balance – Non-Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.

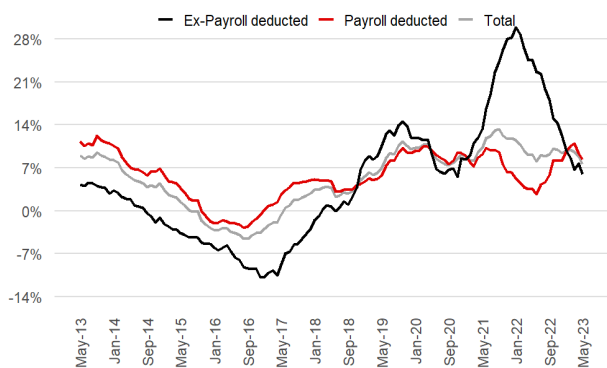
Figure 4. Outstanding Balance – Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.

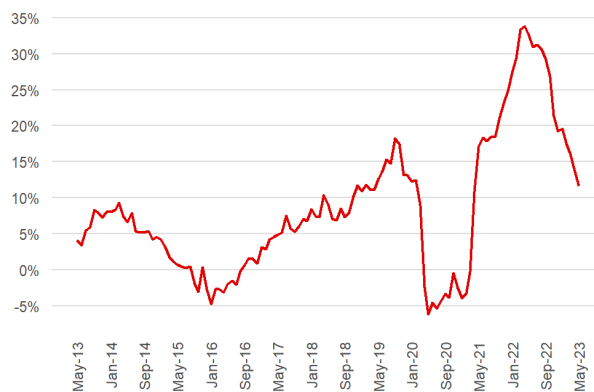


Figure 5. Outstanding Balance Households – Personal Credit – Non-Earmarked (inflation adjusted) (% YoY)



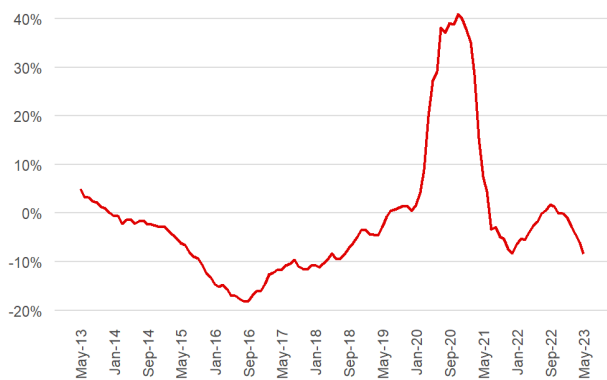
Sources: Brazilian Central Bank, Santander.

Figure 6. Outstanding Balance Households – Credit Card – Non-Earmarked (inflation adjusted) (% YoY)



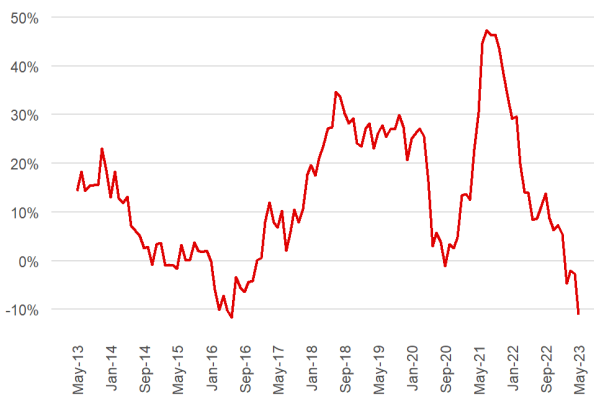
Sources: Brazilian Central Bank, Santander.

Figure 7. Outstanding Balance Corporates – Working Capital – Non-Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 8. Outstanding Balance Corporates – Discount of Trade Bills – Non-Earmarked (inflation adj.) (% YoY)



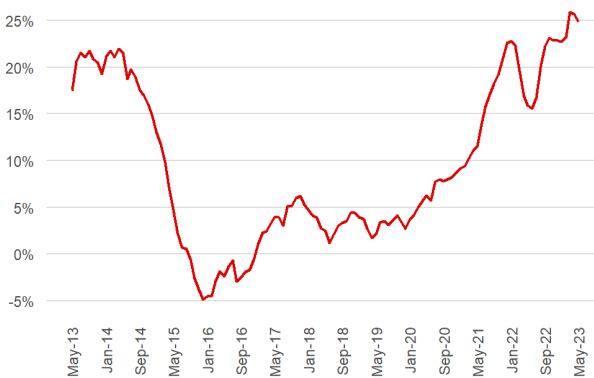
Sources: Brazilian Central Bank, Santander.

Figure 9. Outstanding Balance Households – Real Estate Financing – Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 10. Outstanding Balance Households – Total Rural Credit – Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.



Figure 11. Outstanding Balance Corporates – BNDES Funds – Earmarked (inflation adj.) (% YoY)

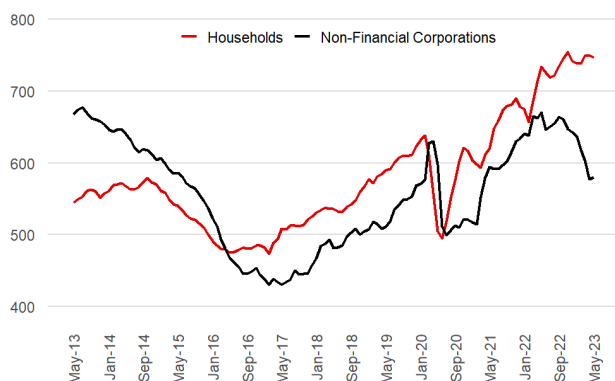


Sources: Brazilian Central Bank, Santander.

New Loans

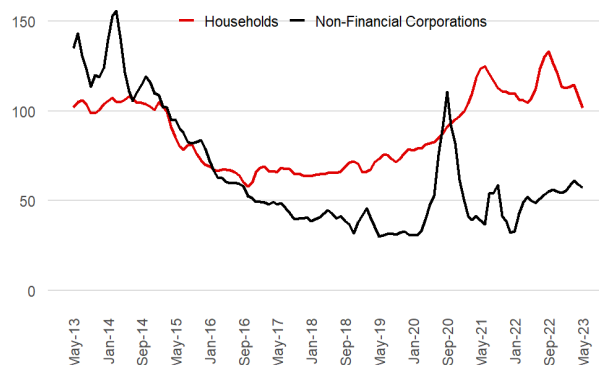
New loans adjusted for inflation and seasonality (Brazil Central Bank methodology) rose 1.2% MoM-sa in May. For households, the **non-earmarked segment decreased 1.0% MoM, after April’s rise of 0.5% MoM-sa. In the earmarked segment, loans to households decreased 4.7% MoM-sa in May.**

Figure 12. New Operations – Non-Earmarked (inflation and seasonally adjusted, BRL billions, mm3m)



Sources: Brazilian Central Bank, Santander.

Figure 13. New Operations – Earmarked (inflation and seasonally adjusted, BRL thousands, m3mm)



Sources: Brazilian Central Bank, Santander.

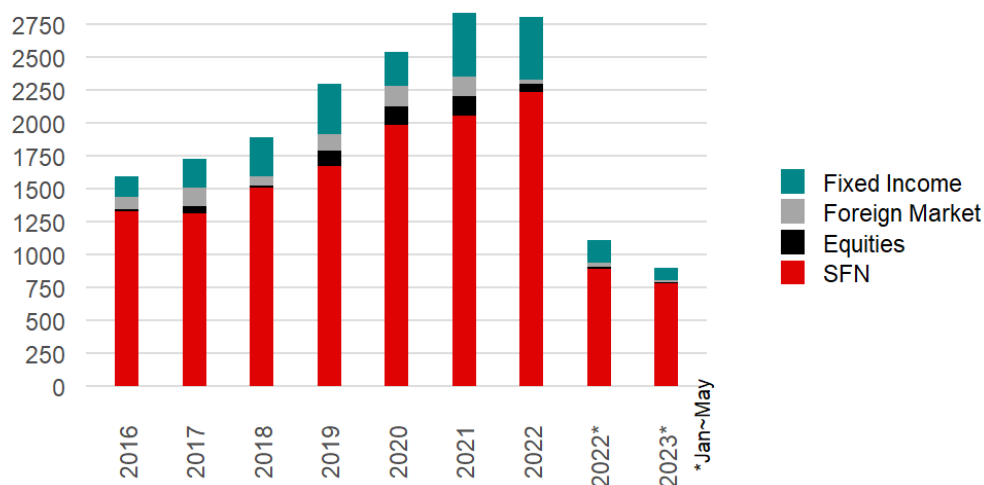
For companies, there **was a rebound of 6.1% MoM-sa in May in the non-earmarked segment, after April’s large fall of 12.1% MoM-sa.** However, we highlight that total working capital showed a negative variation (-9.2% MoM-sa), in contrast with the rise (7.3% MoM-sa), in April. **The earmarked segment posted an increase of 0.4% MoM-sa.**



Total Credit

Considering total corporate financing YTD through May 2023 (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were -45.2% lower, with SFN concessions also down 9.8%. **As a result, total corporate financing is -19.3% lower than the year-ago period. Both the SFN and the capital markets are seeing a deceleration of credit on the back of high interest rates, higher perceived risk in the credit market and the expected slowing of economic activity this year.**

Figure 14. Total Corporate Financing (inflation adjusted, BRL billions)



SFN - exclude 'conta garantia', 'cheque especial', (overdraft) and credit card.
 Foreign market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs, and FIDCs.
 Equity - IPO and follow-on.

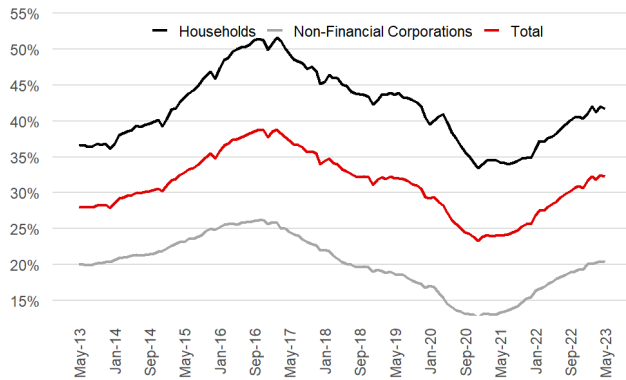
Sources: Brazilian Central Bank, Anbima, Santander.

Credit Conditions

Lastly, the Credit Cost Indicator (ICC) for non-earmarked loans to households decreased, reaching 41.7% p.a. in May, down 0.3 p.p. from April 2023, and the indicator for corporations remained flat to 20.4% p.a., thus at 0.0 p.p. from April 2023. The average interest rate for non-earmarked new loans rose to 59.9% p.a. for households, up 0.3 p.p. from April 2023, while remaining flat at 23.8% p.a. for corporations, thus at 0.0 p.p. from April 2023. The spread on non-earmarked new loans rose to 47.7% for households (+ 0.7 p.p. from April 2023) and rose to 11.9% for corporations (+0.2 p.p. from April 2023).

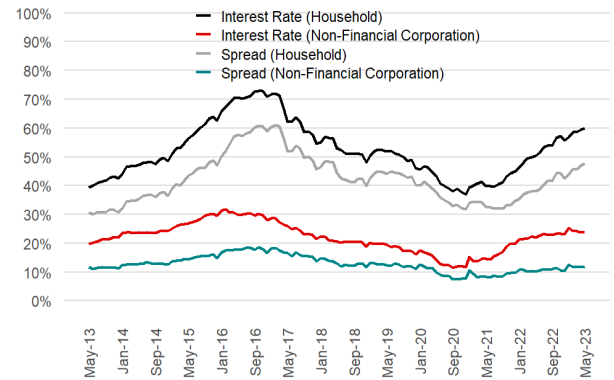


Figure 15. Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.

Figure 16. Average Interest Rate and Spread – Non-Earmarked (% p.a.)



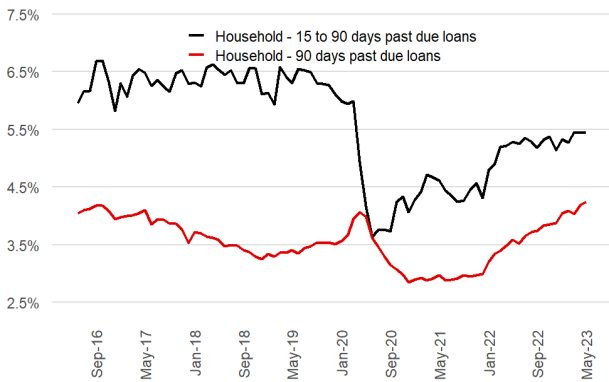
Sources: Brazilian Central Bank, Santander.

Household Debt

Still regarding non-earmarked loans, in April, the seasonally adjusted default rate (% of 90-day past-due loans) rose, reaching 6.3% for households and marking the fifth month with a default rate higher than 6% (the last time the default rate was higher than 6% was in January 2017), and for corporates also showed growth, reaching 3.0%.

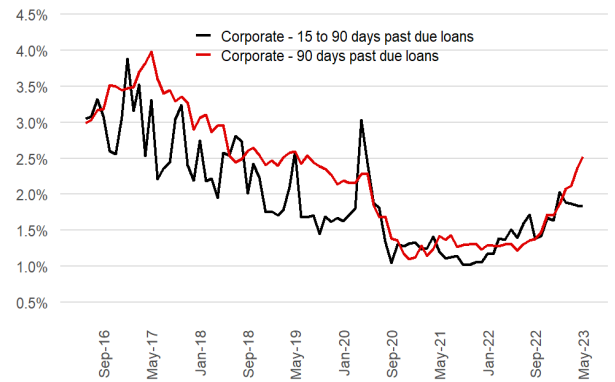
Importantly, household debt-to-income remained unchanged at the margin, reaching 48.5% in April, still high but down 1.2 p.p. from February 2022. Excluding real estate financing, household debt-to-income was 30.8%, remained unchanged, thus -0.8 p.p. from the year-ago period. In addition, the debt service ratio reached 27.9% in April; excluding real estate financing, the debt service ratio was 25.8%.

Figure 17. Loans Due – Households (% , s.a.)



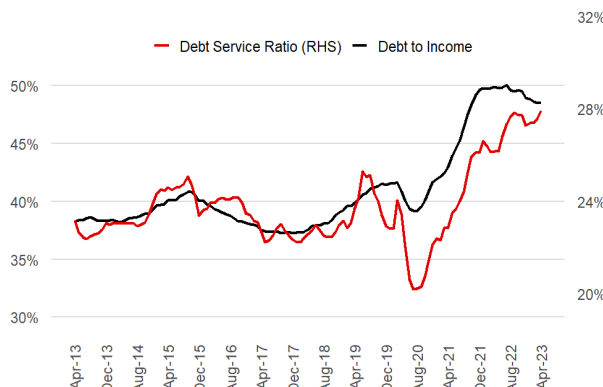
Sources: Brazilian Central Bank, Santander.

Figure 18. Loans Due – Corporate (% , s.a.)



Sources: Brazilian Central Bank, Santander.

Figure 19. Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.



Figure 20. Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Households	10,6%	9,6%	8,6%	12,8%	13,2%	12,3%	11,6%	11,2%	10,2%
Non-Financial Corporations	0,1%	-1,3%	-2,0%	2,7%	4,2%	5,2%	1,0%	0,6%	0,4%
Total	5,8%	4,7%	3,8%	9,2%	10,0%	9,8%	7,2%	6,8%	6,2%

New Operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Households	-0,7%	0,5%	-1,0%	-3,9%	-9,6%	-4,7%	-1,6%	-1,0%	10,2%
Non-Financial Corporations	9,0%	-12,1%	6,1%	-4,6%	-6,2%	0,4%	-3,1%	-0,7%	0,4%
Total	-2,6%	-0,4%	1,7%	-1,5%	-8,7%	-2,8%	-1,5%	-1,7%	1,2%

Interest Rate (% pa)	Nonearmarked			Earmarked			Total		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Households	58,6%	59,6%	59,9%	11,4%	11,5%	12,1%	37,1%	37,7%	10,2%
Non-Financial Corporations	24,1%	23,8%	23,8%	14,1%	14,3%	13,4%	21,5%	21,3%	0,4%
Total	44,5%	45,1%	45,4%	12,1%	12,1%	12,4%	31,8%	32,1%	32,5%

Spreads (p.p.)	Nonearmarked			Earmarked			Total		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Households	45,5	47,0	47,7	4,9	5,4	5,4	27,0	28,0	10,2
Non-Financial Corporations	11,7	11,7	12,0	4,0	4,1	4,1	9,7	9,7	0,4
Total	31,7	32,7	33,4	4,7	5,1	5,1	21,1	21,8	22,3

Past Due Loans (%)	Nonearmarked			Earmarked			Total		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Households	6,05	6,20	6,28	1,52	1,66	1,69	4,03	4,19	10,22
Non-Financial Corporations	2,45	2,81	3,04	1,52	1,56	1,58	2,12	2,37	0,43
Total	4,51	4,76	4,91	1,52	1,63	1,65	3,29	3,48	3,58

	Mar-23	Apr-23	May-23
Total Outstanding / GDP	52,9%	52,5%	52,4%
Total Outstanding under public control	43,0%	43,1%	43,1%
Total Outstanding under public control	57,0%	56,9%	56,9%

Sources: Brazilian Central Bank, Santander.



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