

Credit Growth: Non-Disrupted Households vs Slow Non-Financial Corporations

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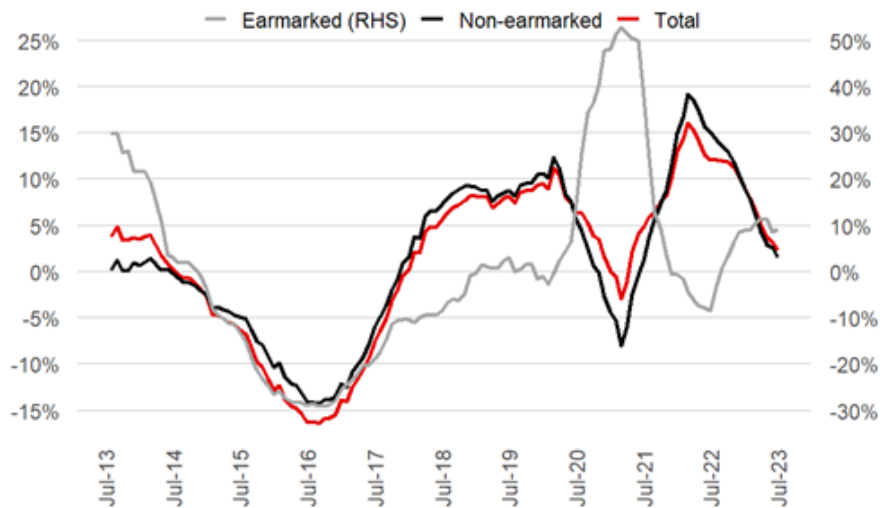
- New loans in the National Financial System (SFN) adjusted for inflation and seasonality (Brazil Central Bank methodology) increased 0.5% MoM-sa in July (vs 0.9% MoM-sa in June). Currently, concessions have decreased 1.4% YTD compared to the same period a year ago, reflecting monetary policy's restrictive stance, combined with high consumer debt amid slowing economic activity and record-high non-performing loans (NPLs).
- In the non-earmarked segment, concessions to households fell 0.3% MoM-sa in July (coming from 1% MoM-sa in June). For nonfinancial corporations, new loans fell 5.5% MoM-sa in July (coming from 6.2% MoM-sa in June).
- Meanwhile, in the earmarked segment, concessions for households increased 27.5% MoM-sa in July (coming from -8.9% MoM-sa in June). Corporate concessions in the segment rose 11.7% MoM-sa in July (coming from -2.3% MoM-sa in June).
- Total outstanding loans in the SFN posted inflation-adjusted growth of 4.1% YoY for July (-1.8 p.p vs. June), to R\$5.4 trillion, also in line with the slowdown in activity and more restrictive financial conditions.
- Considering total corporate financing YTD through July (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 42.8% lower, with SFN corporate concessions also down 8%. As a result, total corporate financing is 18.3% lower than the year-ago period. Both the SFN and the capital markets have seen decelerating credit on the back of high interest rates, higher perceived risk in the credit market and slowing economic activity this year.
- The seasonally adjusted default rate (% of 90-day past-due loans) for non-earmarked loans to households dropped to 6.2% in July, (-0.1 from the previous month) and marking the fourth month with a default rate higher than 6% (the last time the default rate was higher than 6% was in January 2017). The corporate non-earmarked default rate deteriorated +0.2 p.p. from previous month, reaching 3.3%.
- Household debt-to-income remained unchanged at the margin, reaching 48.3% in June (coming from May's 48.8%), still high but a drop of 1.5 p.p. from February 2022. In addition, the debt service ratio reached 28.3% in June (-1.1 p.p. from the previous month).



New Loans

New loans in the National Financial System (SFN) adjusted for inflation and seasonality (Brazil Central Bank methodology) increased 0.5% MoM-sa in July (vs 0.9% MoM-sa in June). Currently, concessions have decreased 1.4% YTD compared to the same period a year ago, reflecting monetary policy’s restrictive stance, combined with high consumer debt amid slowing economic activity and record-high non-performing loans (NPLs). July’s result was driven by the non-earmarked segment’s shrinking 0.5% MoM-sa and the earmarked segment’s increase of 13.6% MoM-sa (vs 1.6% and -5% MoM-sa in June, respectively).

Figure 1. New Operations (12-month sum, % YoY)

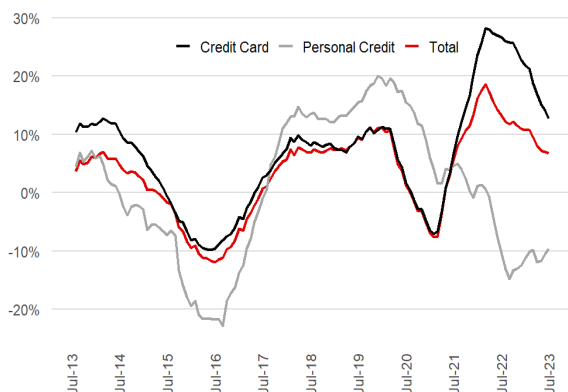


Sources: Brazilian Central Bank, Santander.

In the non-earmarked segment, concessions to households fell 0.3% MoM-sa in July (coming from 1% MoM-sa in June), bringing the figure to +5.7% YTD compared to the same period a year ago (-0.1 p.p. from June). Notably, total credit card new operations amounted to -0.7% MoM-sa (vs 1.9% in June), while total personal credit moved 5% MoM-sa (vs -4.4% in June). These lines have respectively observed +9.9% and -8.7% YTD growth (-0.2 and -0.9 p.p. from June).

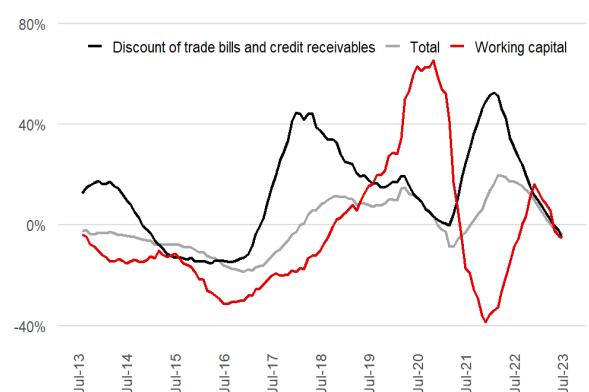
Still in the non-earmarked segment, new loans for nonfinancial corporations fell 5.5% MoM-sa in July (coming from 6.2% MoM-sa in June), now -9.5% YTD lower (+1.5 p.p. from June). The real growth of 5.6% MoM-sa (vs 17.8% MoM-sa in June) in total working capital concessions is worth noting. The figure is in stark contrast to its YTD results, now at -18.2% (+1.2 p.p. from June).

Figure 2. Non-earmarked New Operations to Households (12-month sum, % YoY)



Sources: Brazilian Central Bank, Santander.

Figure 3. Non-earmarked New Operations to Non-financial Corporations (12-month sum, % YoY)



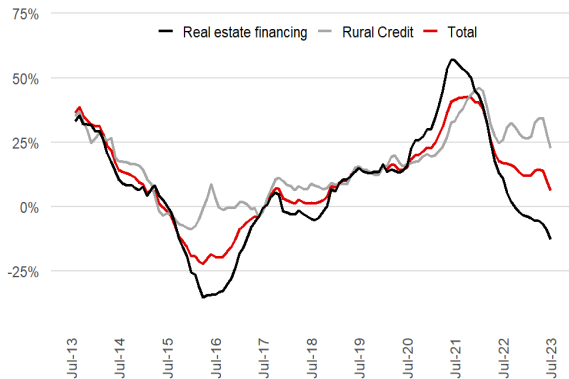
Sources: Brazilian Central Bank, Santander.



Meanwhile, in the earmarked segment, concessions for households increased 27.5% MoM-sa in July (coming from -8.9% MoM-sa in June), bringing the figure to -5.7% YTD compared to the same period a year ago (-6.4 p.p. from June). The two major components of the segment, real estate and rural credit, have respectively grown in inflation adjusted terms 1.7% and 25.3% MoM-sa (vs -4% and -9.5% MoM-sa in June) and now sit at -17% and +6% YTD (-3.1 and -13.1 p.p. from June).

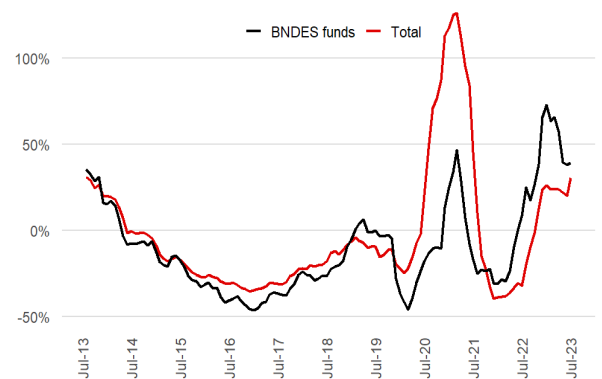
Finally, corporate concessions rose 11.7% MoM-sa in the earmarked segment in July (coming from -2.3% MoM-sa in June), resulting in a 18% higher YTD result from last year (-3.6 p.p. from June).

Figure 4. Earmarked New Operations to Households (12-month sum, % YoY)



Sources: Brazilian Central Bank, Santander.

Figure 5. Earmarked New Operations to Non-financial Corporations (12-month sum, % YoY)

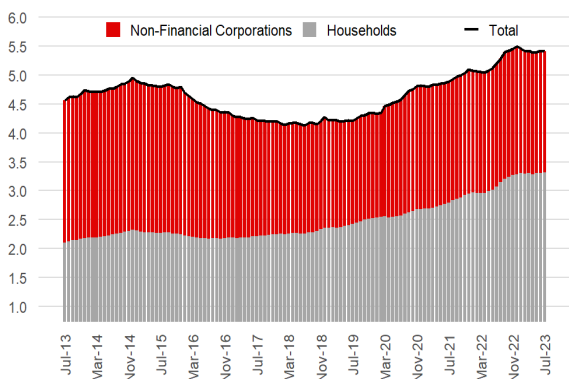


Sources: Brazilian Central Bank, Santander.

Outstanding Loans

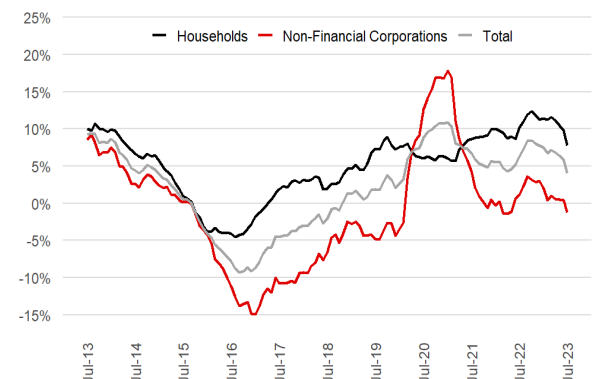
Total outstanding loans in the SFN posted inflation-adjusted growth of 4.1% YoY for July (-1.8 p.p vs. June), to R\$5.4 trillion, also in line with the slowdown in activity and more restrictive financial conditions. Loans to households remained high, leading overall loans to rise 7.8% YoY, -2 p.p. lower than the number registered in June; for non-financial corporations, loans fell 1.3% YoY, also -1.6 p.p. lower than in June. Also, credit-to-GDP reached 52.1%, -0.4 p.p from June.

Figure 6. Total Outstanding Balance of Credit Operations (inflation adjusted, BRL billion)



Sources: Brazilian Central Bank, Santander.

Figure 7. Total Outstanding Balance of Credit Operations – Growth Rate (inflation adjusted) (%)



Sources: Brazilian Central Bank, Santander.



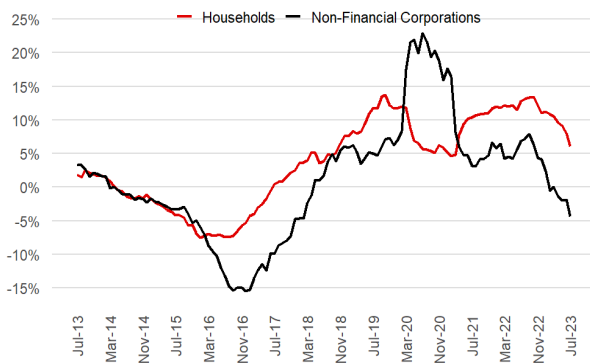
In the non-earmarked segment, household credit portfolios decelerated at the margin, to 6.1% YoY, -1.9 p.p. from June. **Total personal real credit grew 4.8% YoY (-2 p.p. vs June), and credit cards decelerated at the margin, now at 8.8% YoY, inflation adjusted, -2 p.p from June, in line with the accommodation 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 -4.4% YoY, with **total working capital presenting a negative variation of -10.4% YoY (inflation adjusted), the lowest number since October 2018, and the discount of trade bill falling -9.4% YoY (inflation adjusted).**

On the other hand, in the earmarked segment, loans to households decreased at the margin, with July's growth rate at 9.9% YoY, down -2.0 p.p. from June. **Real estate financing grew 6.1% YoY, inflation adjusted. Rural credit grew 21.3% YoY, adjusted for inflation.**

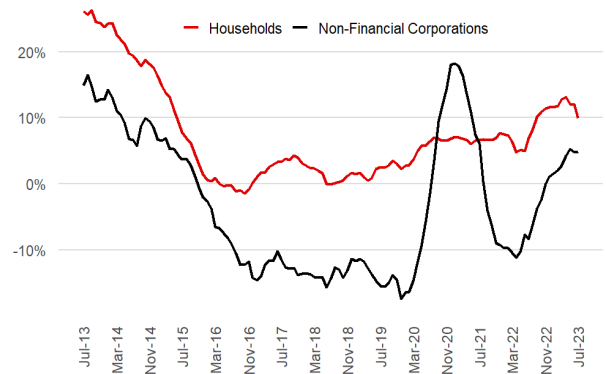
For corporations, in the earmarked segment, balance loans posted growth of 4.8 % YoY (adjusted for inflation), same result from June 2023, and still in line with the reissuance of public programs and signs of greater dynamism in lines with BNDES resources.

Figure 8. Outstanding Balance – Non-Earmarked (inflation adjusted) (% YoY)



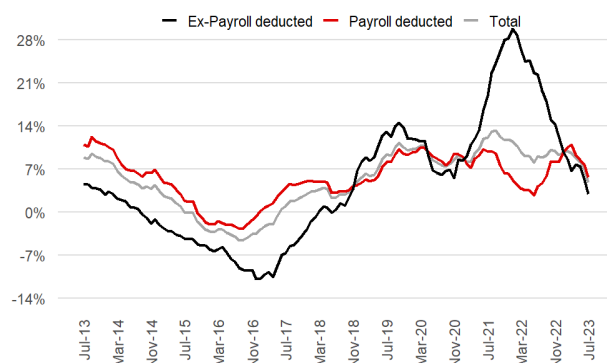
Sources: Brazilian Central Bank, Santander.

Figure 9. Outstanding Balance – Earmarked (inflation adjusted) (% YoY)



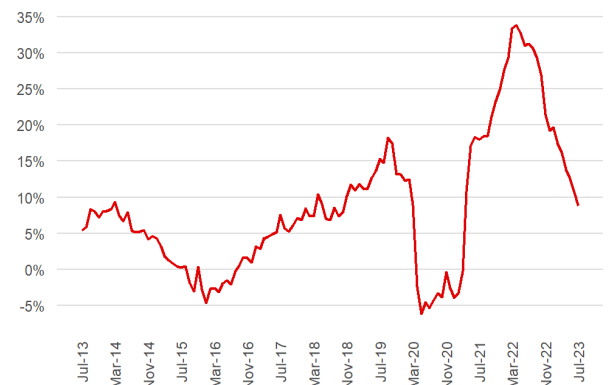
Sources: Brazilian Central Bank, Santander.

Figure 10. Outstanding Balance Households – Personal Credit – Non-Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.

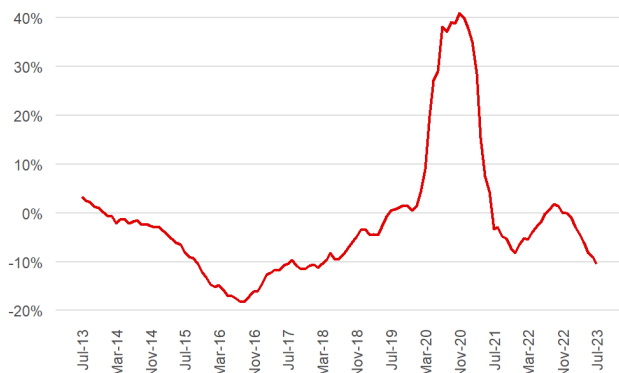
Figure 11. Outstanding Balance Households – Credit Card – Non-Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.



Figure 12. Outstanding Balance Corporates – Working Capital – Non-Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 13. Outstanding Balance Corporates – Discount of Trade Bills – Non-Earmarked (inflation adj.) (% YoY)



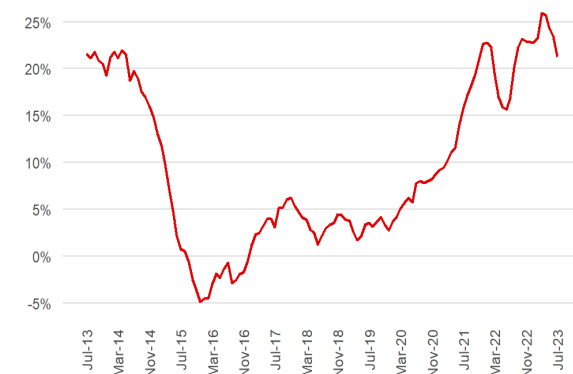
Sources: Brazilian Central Bank, Santander.

Figure 14. Outstanding Balance Households – Real Estate Financing – Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 15. Outstanding Balance Households – Total Rural Credit – Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

Figure 16. Outstanding Balance Corporates – BNDES Funds – Earmarked (inflation adj.) (% YoY)



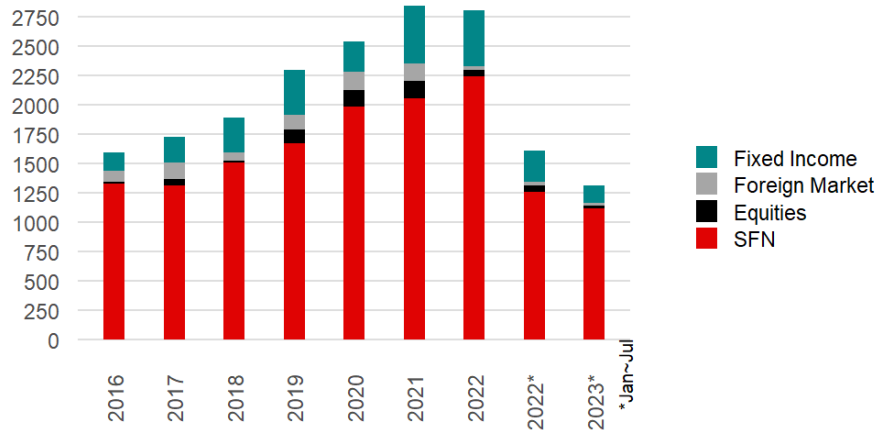
Sources: Brazilian Central Bank, Santander.



Total Credit

Considering total corporate financing YTD through July (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were -42.8% lower, with SFN corporate concessions also down -8%. **As a result, total corporate financing is -18.3% lower than the year-ago period. Both the SFN and the capital markets have seen a deceleration of credit on the back of high interest rates, higher perceived risk in the credit market and slowing economic activity this year.**

Figure 17. Total Corporate Financing (inflation adjusted, BRL billions)



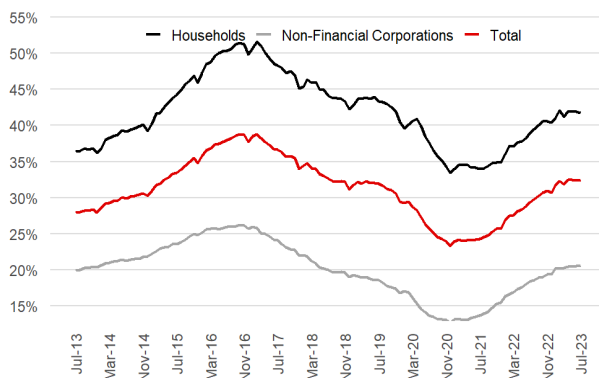
SFN - exclude 'conta garantia', 'cheque especial', (overdraft) and credit card.
 Foreign market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs, and FIDCs.
 Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Credit Conditions

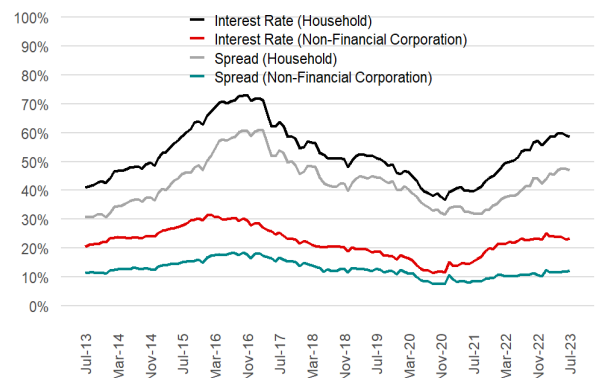
The Credit Cost Indicator (ICC) for non-earmarked loans to households decreased, reaching 41.7% p.a. in July, -0.2 p.p. from June, and the indicator for corporations increased to 20.6% p.a., up 0.1 p.p. from June. The average interest rate for non-earmarked new loans dropped to 58.5% p.a. for households, thus at -0.6 p.p. from June, while rising to 23.3% p.a. for corporations, up 0.3 p.p. from June. The spread on non-earmarked new loans dropped to 47.1% for households (-0.4 p.p. from June) and rose at 12.3% for corporations (0.5 p.p. from June).

Figure 18. Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.

Figure 19. Average Interest Rate and Spread – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.

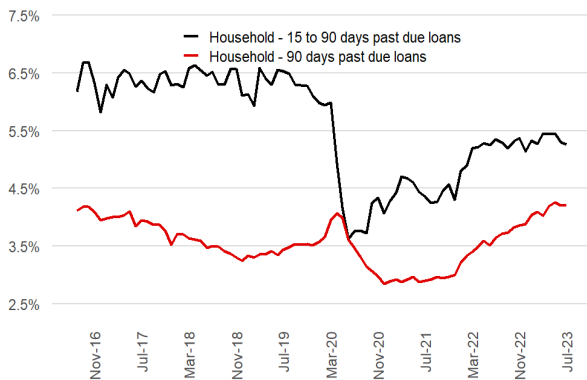
Household Debt



Still regarding non-earmarked loans, in July, the seasonally adjusted default rate (% of 90-day past-due loans) dropped to 6.2% for households (-0.1 from the previous month) and marked the seventh month with a default rate higher than 6% (the last time the default rate was higher than 6% was in January 2017). The corporate non-earmarked default rate deteriorated +0.2 p.p. from previous month, reaching 3.3%.

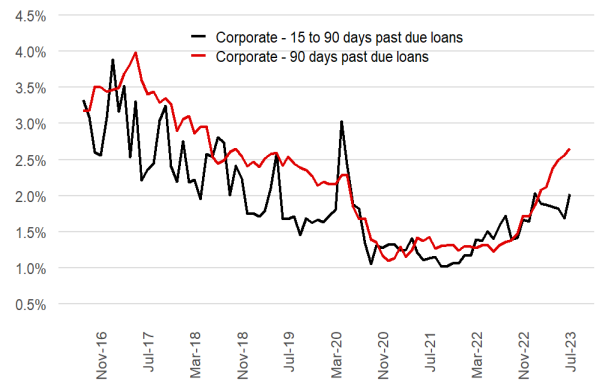
Importantly, household debt-to-income remained unchanged at the margin, reaching 48.3% in June (coming from May's 48.8%), still high but a drop of 1.5 p.p. from February 2022. Excluding real estate financing, household debt-to-income was 30.5%, down -0.5 p.p. from the previous month and down 1.1 p.p. from the year-ago period. In addition, the debt service ratio reached 28.3% in June (-1.1 p.p. from the previous month); excluding real estate financing, the debt service ratio was 26.2% (-1.1 p.p. from the previous month).

Figure 20. Loans Due – Households (% , s.a.)



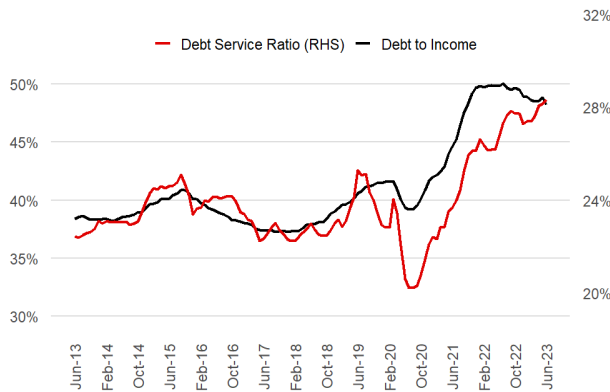
Sources: Brazilian Central Bank, Santander.

Figure 21. Loans Due – Corporate (% , s.a.)



Sources: Brazilian Central Bank, Santander.

Figure 22. Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.



Figure 20. Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Households	9.2%	8.0%	6.1%	12.1%	12.0%	9.9%	10.5%	9.7%	7.8%
Non-Financial Corporations	-1.9%	-1.9%	-4.4%	5.3%	4.8%	4.8%	0.5%	0.4%	-1.3%
Total	4.2%	3.6%	1.4%	9.7%	9.4%	8.1%	6.4%	5.9%	4.1%

New Operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Households	-1.0%	1.0%	-0.3%	-1.1%	-8.9%	27.5%	-1.2%	-0.4%	7.8%
Non-Financial Corporations	7.1%	6.2%	-5.5%	1.3%	-2.3%	11.7%	4.4%	3.3%	-1.3%
Total	1.9%	1.6%	-0.5%	-2.1%	-5.0%	13.6%	1.6%	0.9%	0.5%

Interest Rate (% pa)	Nonearmarked			Earmarked			Total		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Households	59.9%	59.1%	58.5%	12.1%	12.0%	12.0%	38.2%	37.6%	7.8%
Non-Financial Corporations	23.8%	23.0%	23.3%	13.3%	11.9%	10.3%	21.0%	20.0%	-1.3%
Total	45.4%	44.6%	44.3%	12.4%	12.0%	11.6%	32.5%	31.7%	31.4%

Spreads (p.p.)	Nonearmarked			Earmarked			Total		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Households	47.7	47.4	47.1	5.5	5.4	5.2	28.5	28.3	7.8
Non-Financial Corporations	11.9	11.8	12.3	4.0	4.1	3.8	9.8	9.7	-1.3
Total	33.3	33.1	33.1	5.1	5.1	4.9	22.3	22.1	21.9

Past Due Loans (%)	Nonearmarked			Earmarked			Total		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
Households	6.29	6.30	6.21	1.69	1.59	1.68	4.26	4.21	7.77
Non-Financial Corporations	3.02	3.09	3.28	1.58	1.58	1.57	2.50	2.56	-1.26
Total	4.91	4.93	4.98	1.65	1.59	1.65	3.58	3.56	3.60

	May-23	Jun-23	Jul-23
Total Outstanding / GDP	52.5%	52.5%	52.1%
Total Outstanding under public control	43.1%	43.3%	43.5%
Total Outstanding under public control	56.9%	56.7%	56.5%

Sources: Brazilian Central Bank, Santander.



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