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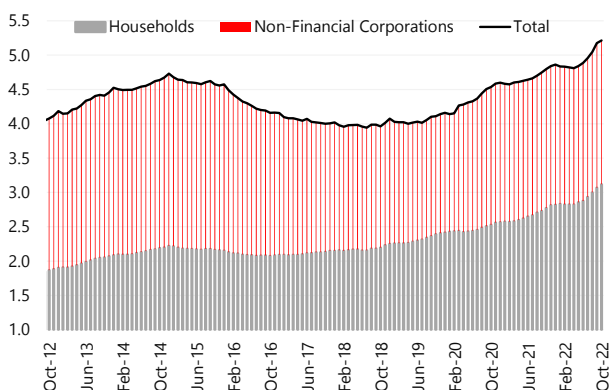
October Credit Data: Starting to Slow Down

- Today the Brazil Central Bank (BCB) released October credit data, which showed real growth of 8.7% YoY in credit to households and companies, indicating, in our view, that credit could be near a peak.
- For households, the non-earmarked segment increased 0.5% MoM-sa. We highlight the strong increase in total personal credit (8.4% MoM-sa) and the decline in credit cards (-1.7% MoM-sa).
- For companies, there was a decrease of 5.7% MoM-sa in October in the non-earmarked segment, with total working capital showing a negative variation (-10.2% MoM-sa). The earmarked segment posted an increase of 8.7% MoM-sa.
- Finally, both the debt-to-income and debt-service ratio series presented a revision in the series; household debt-to-income for September was still high, at 49.9%, while the debt-service ratio was at 28.7%. Considering the data, we see a risk for delinquencies as the economy recovers.

Outstanding Loans

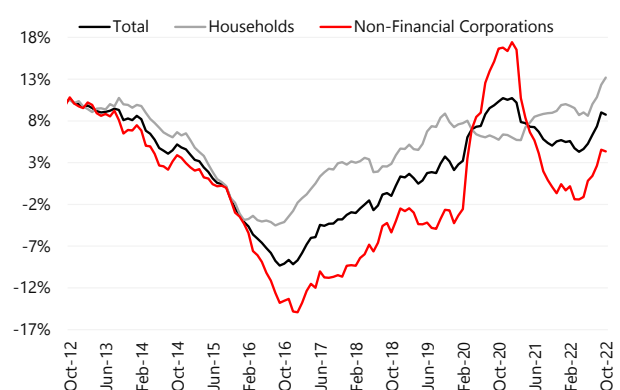
Total outstanding loans in the National Financial System (SFN) in October posted inflation-adjusted growth of 8.7% YoY, to R\$5.2 trillion. Loans to households continued to accelerate and led loans overall, rising 12.4% YoY, the greatest increase so far this year; for non-financial corporations, loans rose 3.6% YoY. Also, **credit-to-GDP reached 54.9%**.

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 posted the same growth rate in October as in September, at 13.6% YoY. **Total personal real credit grew 9.8% YoY, while credit cards slowed at the margin but still increased rapidly, +27.6% YoY, inflation adjusted, which is the smallest growth so far**

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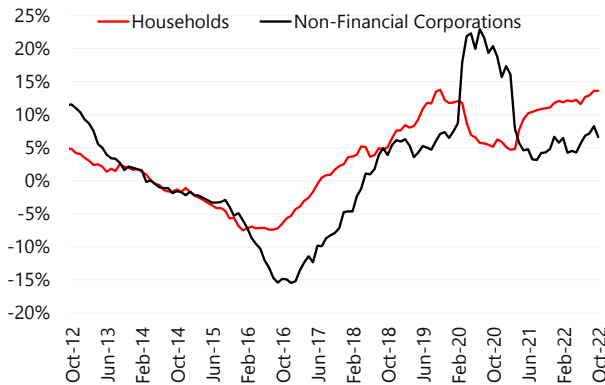
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this year. For corporations, real growth in the balance of non-earmarked loans was 6.6% YoY, with **total working capital presenting a positive variation of 1.7% YoY (inflation adjusted), and Others rising 9.8% YoY (inflation adjusted).**

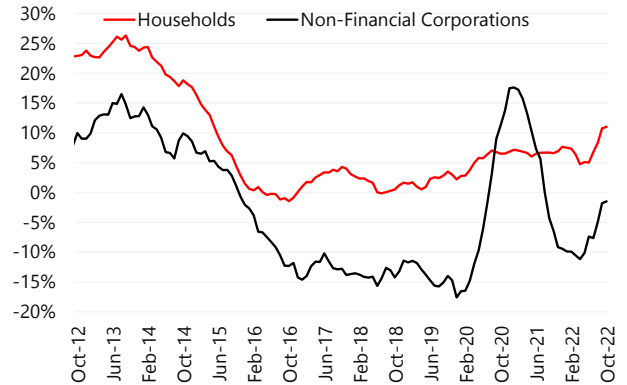
In the earmarked segment, loans to households grew 11% YoY, with **microcredit also showing strong growth of 23.5% YoY, inflation adjusted,** the largest increase so far this year. **Rural credit grew 23.7% YoY, inflation adjusted,** thanks to the 2022-23 Crop Plan. Loans to corporations posted the 14th decrease in a row, -1.5% YoY (inflation adjusted).

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



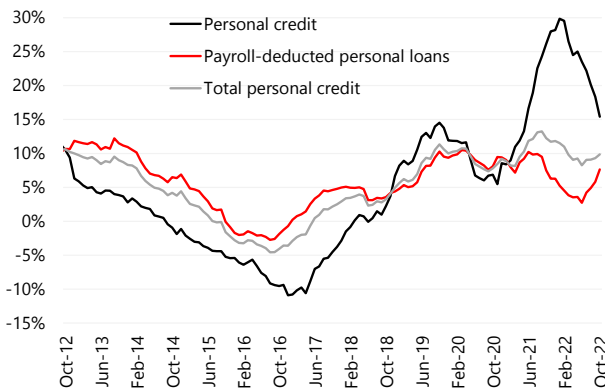
Sources: Brazilian Central Bank, Santander.

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



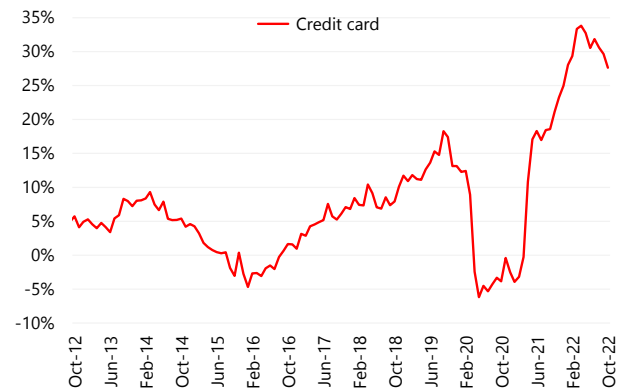
Sources: Brazilian Central Bank, Santander.

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



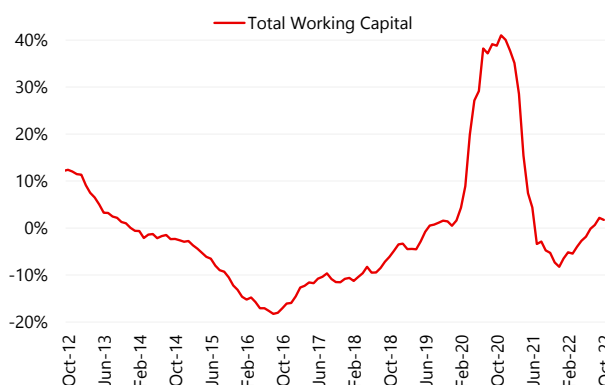
Sources: Brazilian Central Bank, Santander.

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



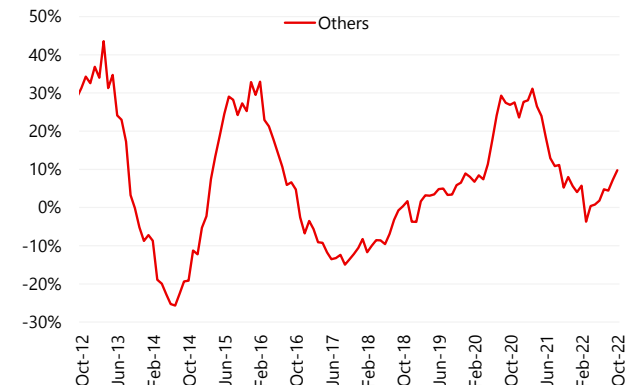
Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

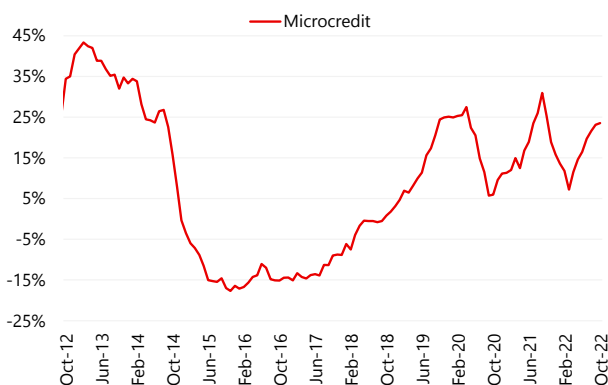
Figure 8. Outstanding Balance Corporates – Others – Non-Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

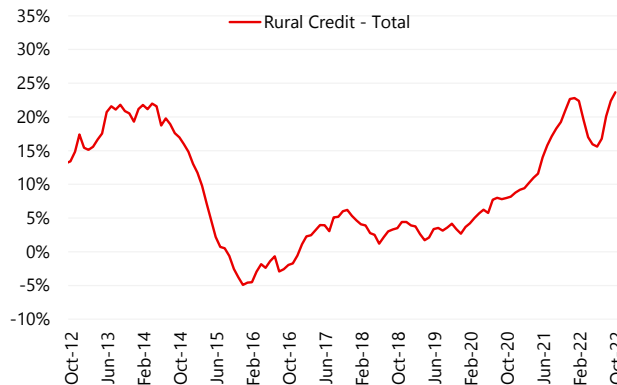


Figure 9. Outstanding Balance Households – Microcredit – Earmarked (inflation adj.) (% YoY)



Sources: Brazilian Central Bank, Santander.

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

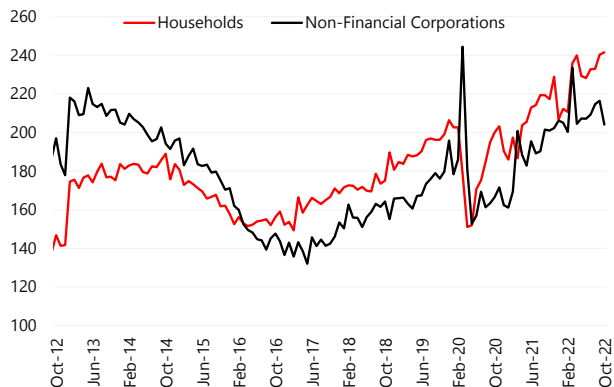


New Loans

New loans adjusted for inflation and seasonality (Brazil Central Bank methodology) rose 0.6% in October. For households, the **non-earmarked segment increased 0.5% MoM-sa**. We highlight the strong increase in total personal credit (8.4% MoM-sa) and the decline in credit cards (-1.7% MoM-sa).

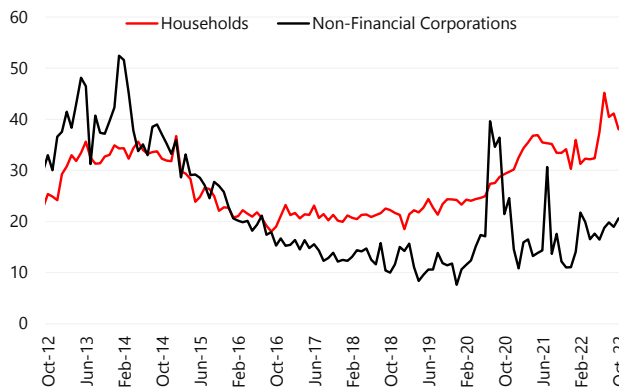
In the **earmarked segment, loans to households decreased 7.5% MoM-sa**. However, real estate financing rose (9.6% MoM-sa). Rural credit showed a variation of 17.3% MoM-sa.

Figure 11. New Operations – Non-Earmarked (inflation and seasonally adjusted, BRL billions)



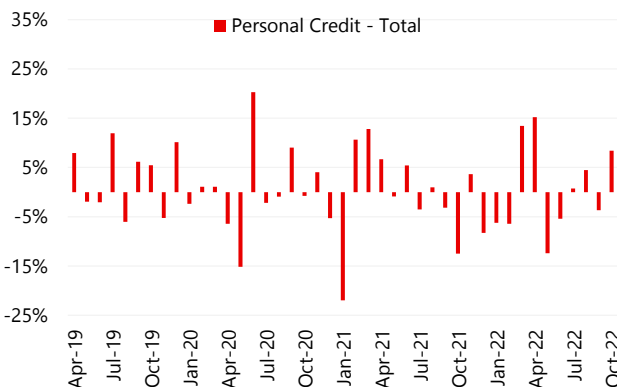
Sources: Brazilian Central Bank, Santander.

Figure 12. New Operations – Earmarked (inflation and seasonally adjusted, BRL thousands)



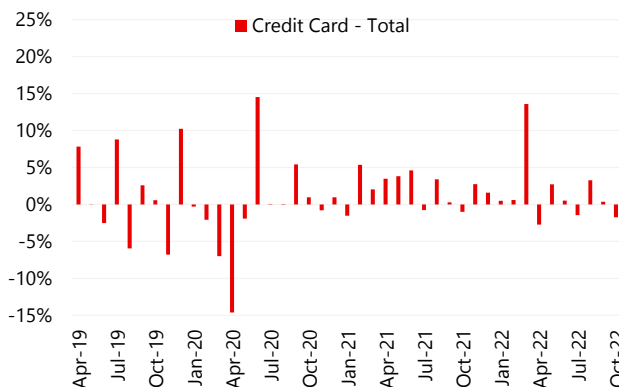
Sources: Brazilian Central Bank, Santander.

Figure 13. New Operations – Non-Earmarked – Personal Credit Total (% MoM)



Sources: Brazilian Central Bank, Santander.

Figure 14. New Operations – Non-Earmarked – Credit Card Total (% MoM)

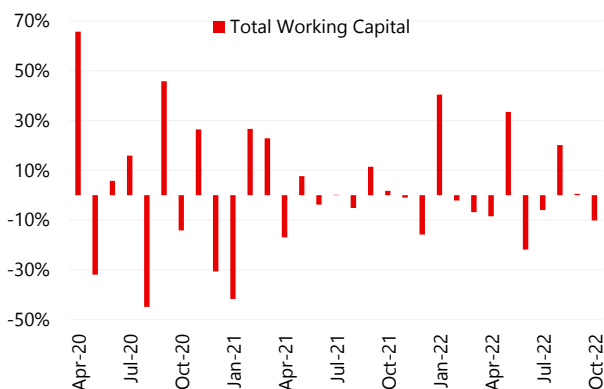


Sources: Brazilian Central Bank, Santander.



For companies, there was a decrease of 5.7% MoM-sa in October in the non-earmarked segment, with total working capital showing a negative variation (-10.2% MoM-sa). The earmarked segment posted an increase of 8.7% MoM-sa.

Figure 15. New Operations – Non-Earmarked – Working Capital (% MoM)

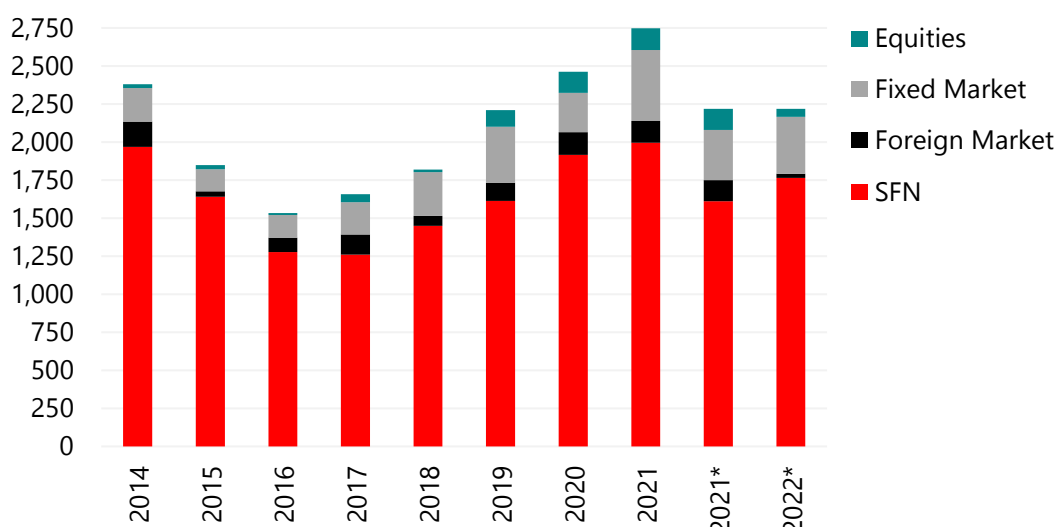


Sources: Brazilian Central Bank, Santander.

Total Credit

Considering total corporate financing YTD through October 2022 (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 25.3% smaller, while SFN concessions were up 11.5%. As a result, total corporate financing was at the same level as in the year-ago period.

Figure 16. Total Corporate Financing (inflation adjusted, BRL billions)



SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.

Foreign Market - bonus, MTNs and securities.

Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.

Equity - IPO and follow-on.

*January~October.

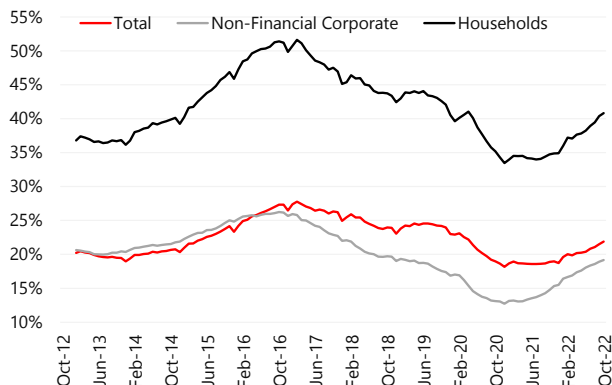
Sources: Brazilian Central Bank, Anbima, Santander.



Credit Conditions

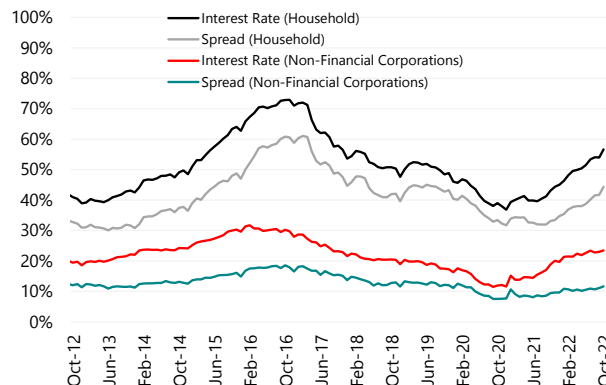
Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans to households continued to rise, reaching 40.8% p.a. in October, the highest indicator since November 2019, with the indicator for corporations rising as well, to 19.2% p.a., the highest indicator since February 2019. The average interest rate for non-earmarked new loans was 56.6% p.a. for households, the highest rate since October 2017, and 23.5% p.a. for corporations, the highest rate since August 2017. The spread on non-earmarked new loans was 44.4% for households (+2.7 p.p. from September 2022) and 11.7% for corporations (+0.5 p.p. from September 2022).

Figure 17. Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.

Figure 18. Average Interest Rate and Spread – Non-Earmarked (% p.a.)

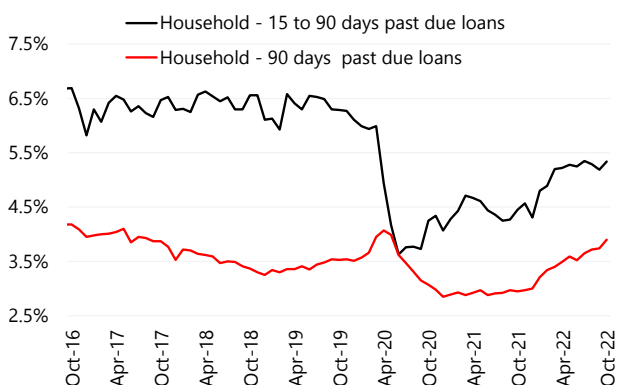


Sources: Brazilian Central Bank, Santander.

Household Debt

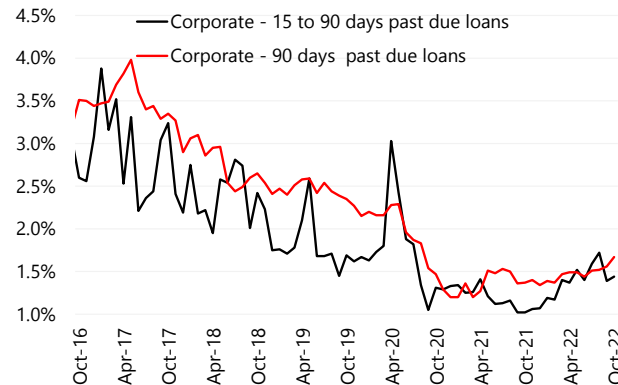
Still regarding non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) continued to rise, reaching 5.9% for households and 2.0% for corporates, both the highest figure for the year. **Importantly, household debt-to-income showed a revision in the series, reaching 49.9% in September 2022, still a high level; excluding real estate financing, household debt-to-income was 31.7%. In addition, the debt service ratio, which also showed a revision in the series, reached a peak for the series of 28.7% in September; excluding real estate financing, the debt service ratio was 26.7%. We see these figures as a risk for delinquencies as the economy recovers.**

Figure 19. Loans Due – Households (% , s.a.)



Sources: Brazilian Central Bank, Santander.

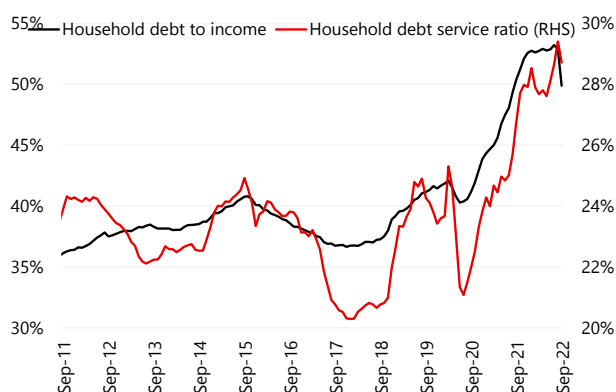
Figure 20. Loans Due – Corporate (% , s.a.)



Sources: Brazilian Central Bank, Santander.



Figure 21. Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.

Figure 22. Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Households	13.1%	13.6%	13.6%	8.3%	10.2%	11.0%	11.0%	12.0%	12.5%
Non-financial corporations	7.2%	7.9%	6.6%	-5.0%	-2.7%	-1.5%	2.7%	4.0%	3.7%
Total	10.4%	10.9%	10.4%	3.3%	5.3%	6.4%	7.4%	8.6%	8.7%

New operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Households	0.1%	3.2%	0.5%	-10.4%	1.7%	-7.5%	-1.0%	2.3%	-0.4%
Non-financial corporations	2.6%	0.8%	-5.7%	5.7%	-4.4%	8.7%	1.8%	0.6%	0.1%
Total	0.0%	1.1%	0.0%	-6.5%	2.4%	0.2%	1.8%	0.9%	0.6%

Interest rate (% p.a.)	Nonearmarked			Earmarked			Total		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Households	54.0%	54%	56.6%	10.6%	10.7%	10.8%	34.5%	34.4%	35.9%
Non-financial corporations	22.8%	23.0%	23.5%	9.1%	9.4%	9.8%	18.9%	19.1%	19.5%
Total	40.6%	40.7%	42.4%	10.2%	10.4%	10.6%	28.8%	28.8%	29.9%

Spreads (p.p)	Nonearmarked			Earmarked			Total		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Households	41.5	41.7	44.4	3.6	4.0	4.2	24.5	24.6	26.2
Non-financial corporations	10.7	11.1	11.7	3.7	3.8	4.0	8.7	9.0	9.4
Total	28.3	28.6	30.4	3.6	3.9	4.2	18.7	18.9	20.1

Past Due Loans (%)	Nonearmarked			Earmarked			Total		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Households	5.62	5.80	5.91	1.29	1.27	1.33	3.72	3.81	3.90
Non-financial corporations	1.82	1.89	2.03	0.95	0.94	0.98	1.52	1.57	1.67
Total	3.93	4.06	4.21	1.17	1.15	1.21	2.83	2.90	3.00

	Aug-22	Sep-22	Oct-22
Total Outstanding / GDP	54.3%	54.8%	54.9%
Total Outstanding under public control	42.5%	42.6%	42.6%
Total Outstanding under private control	57.5%	57.4%	57.4%

Sources: Brazilian Central Bank, Santander.



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