

September Credit Data: Earmarked Household Credit Came in Strong

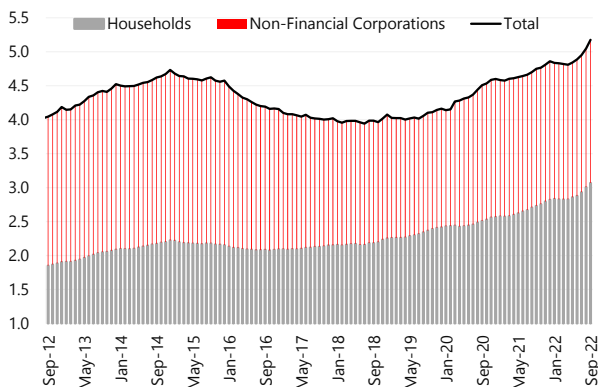
Fabiana Moreira*
fabiana.de.oliveira@santander.com.br
55113553-6120

- Today, the Brazil Central Bank (BCB) released September credit data, which showed overall real growth in credit to households and companies of 9% YoY, indicating that credit is possibly near a peak.
- For households, the non-earmarked segment increased 3.8% MoM-sa. We highlight the fall in total personal credit (-4.4% MoM-sa) and credit cards' tepid decline (-0.3% MoM-sa).
- For companies, there was an increase of 1.1% MoM-sa in September in the non-earmarked segment, with total working capital showing a slight positive variation (0.6% MoM-sa). The earmarked segment posted a substantial decrease of 28% MoM-sa, compared with August's rise of 14.6%, while Others fell 55% MoM-sa, vs. August's rise of 96%, in line with payments to corporates by government programs such as PRONAMPE.
- Finally, debt-to-income for August continued to be high (52.9%), albeit slowing at the margin, and the debt-service ratio was at 29.4%. Considering the data, we see a risk for delinquencies as the economy recovers.
- All in all, the trends in credit have not changed significantly up to September, with solid real credit growth and rising household indebtedness and delinquency rates.

Outstanding Loans

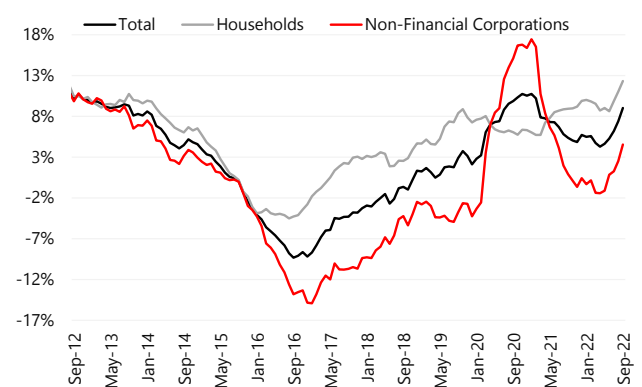
Total outstanding loans in the National Financial System (SFN) in September posted inflation-adjusted growth of 9% YoY, to R\$5.2 trillion. Once again, loans to households kept accelerating and led loans overall, rising 12.3% YoY, the greatest increase so far this year; for non-financial corporations, loans rose 4.5% YoY. Also, **credit-to-GDP reached 55%, again hitting the highest level in the historical series.**

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.

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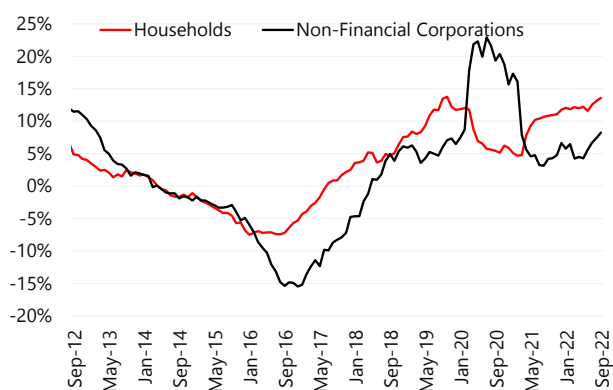
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In September, in the non-earmarked segment, household credit portfolios continued to expand, delivering real growth of 13.6% YoY (the largest increase since October 2019), with **total personal real credit growing 9.32% YoY and credit cards slowing at the margin, but still increasing rapidly at +29.65% YoY, inflation adjusted, which is in line with the increase in economic activity.** For corporations, real growth in the balance of non-earmarked loans was 8.2% YoY (the largest increase since February 2021), with **total working capital presenting a positive variation after the tepid figure of 2.2% YoY (inflation adjusted) in August, and Others rising 7.2% YoY (inflation adjusted).**

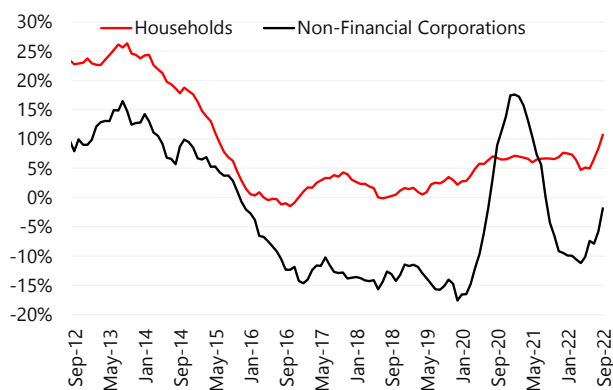
In the earmarked segment, loans to households grew 10.8% YoY (the largest increase since May 2015), with **microcredit also showing strong growth of 23.1% YoY, inflation adjusted, the largest increase so far this year. Rural credit grew 22.4% YoY, inflation adjusted, thanks to the 2022-23 Crop Plan.** Loans to corporations posted the 13th decrease in a row, -1.8% YoY (inflation adjusted).

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



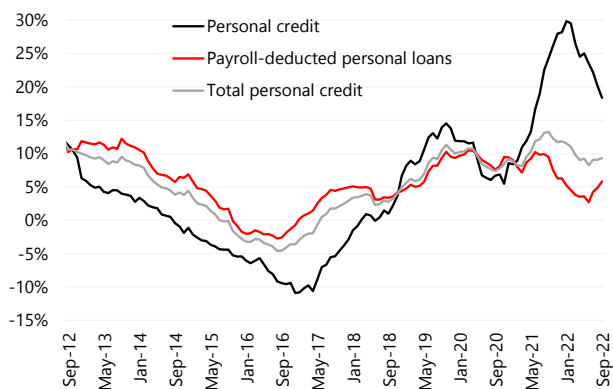
Sources: Brazilian Central Bank, Santander.

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



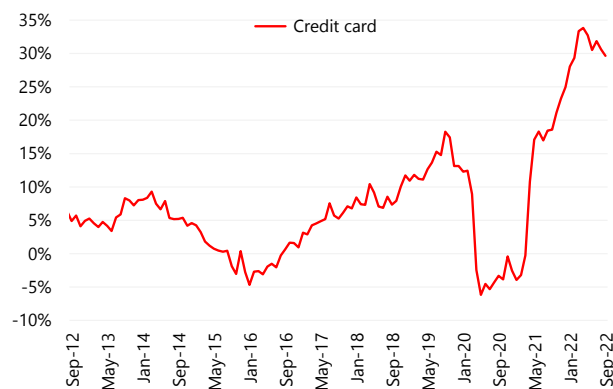
Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

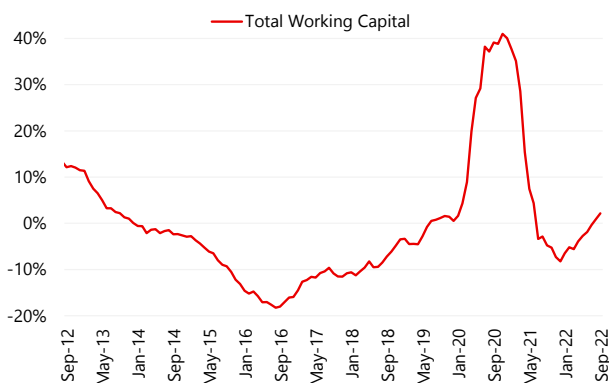
Figure 6. Outstanding Balance Households – Credit Card – Non-Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.

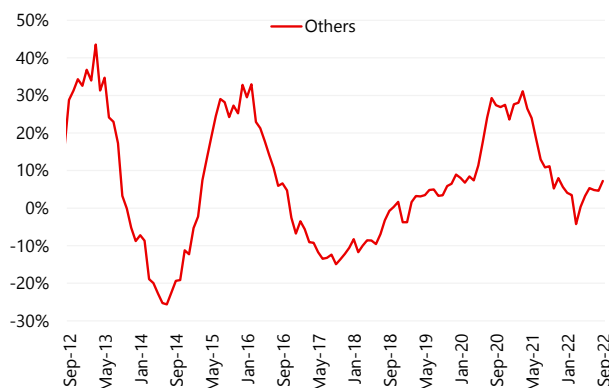


Figure 7. Outstanding Balance Corporates – Working Capital – Non-Earmarked (inflation adj.) (% YoY)



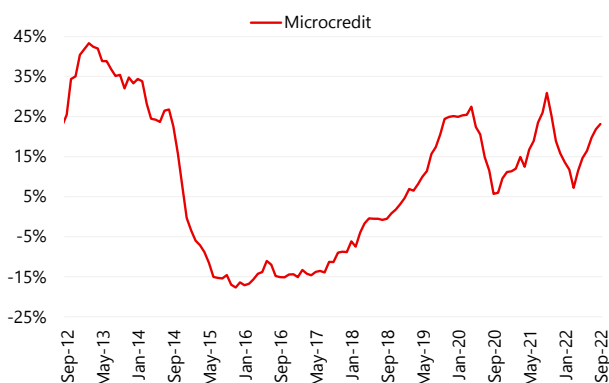
Sources: Brazilian Central Bank, Santander.

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



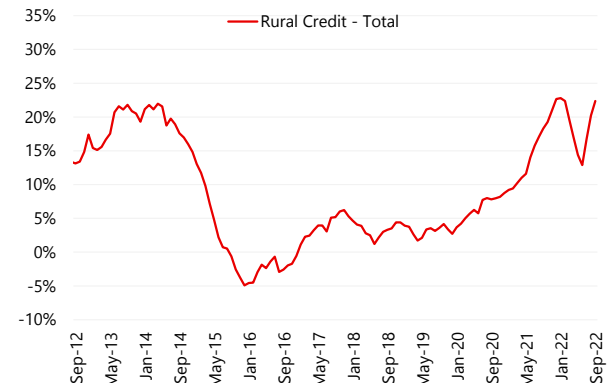
Sources: Brazilian Central Bank, Santander.

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)



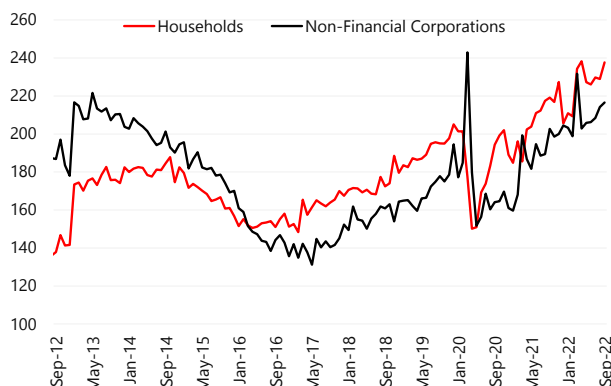
New Loans

New loans adjusted for inflation and seasonality (Brazil Central Bank methodology) rose 0.5% in September. For households, the **non-earmarked segment increased 3.8% MoM-sa**. We highlight the fall in total personal credit (-4.4% MoM-sa) and credit cards' tepid decline (-0.3% MoM-sa).

In the earmarked segment, loans to households increased a strong 14.7% MoM-sa. Real estate financing rose (5.6% MoM-sa), in line with *Caixa Econômica Federal's* release of R\$19.3 billion in credit through the federal government's *Casa Verde Amarela* (Green Yellow House, in English) program in 3Q22. Rural credit showed a slight variation of -4% MoM-sa.

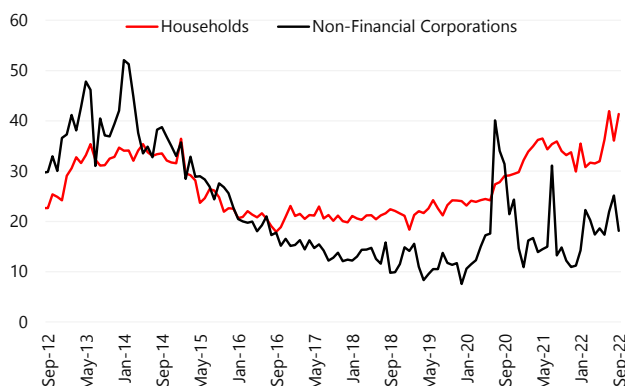


Figure 11. New Operations – Non-Earmarked (inflation and seasonally adjusted, BRL billions)



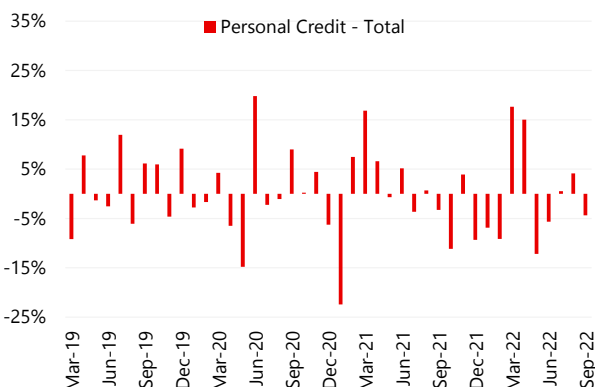
Sources: Brazilian Central Bank, Santander.

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



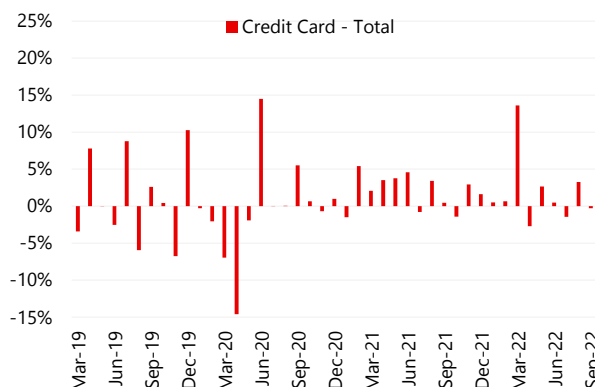
Sources: Brazilian Central Bank, Santander.

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



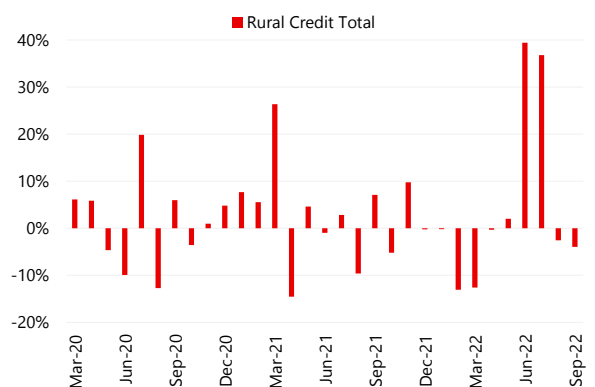
Sources: Brazilian Central Bank, Santander.

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



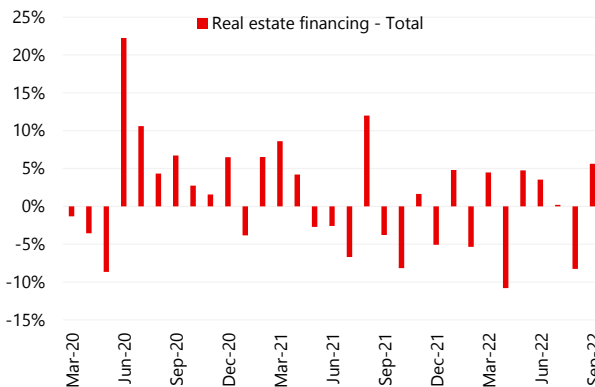
Sources: Brazilian Central Bank, Santander.

Figure 15. New Operations – Earmarked – Rural Credit to Households (% MoM)



Sources: Brazilian Central Bank, Santander.

Figure 16. New Operations – Earmarked – Real Estate Financing Total to Households (% MoM)

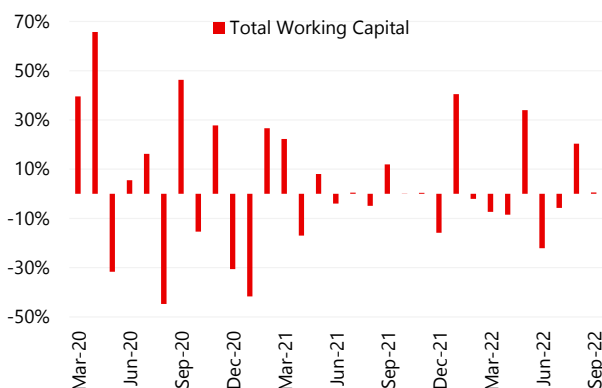


Sources: Brazilian Central Bank, Santander.

For companies, there was an increase of 1.1% MoM-sa in September in the non-earmarked segment, with total working capital showing a tepid positive variation (0.6% MoM-sa). The earmarked segment posted a substantial decrease of 28% MoM-sa, compared with August’s rise of 14.6%, while Others fell 55% MoM-sa, vs. August’s rise of 96%, reflecting payments to corporates by government programs such as PRONAMPE.

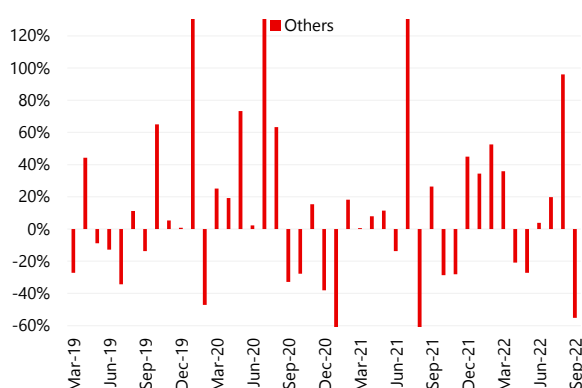


Figure 17. New Operations – Non-Earmarked – Working Capital (% MoM)



Sources: Brazilian Central Bank, Santander.

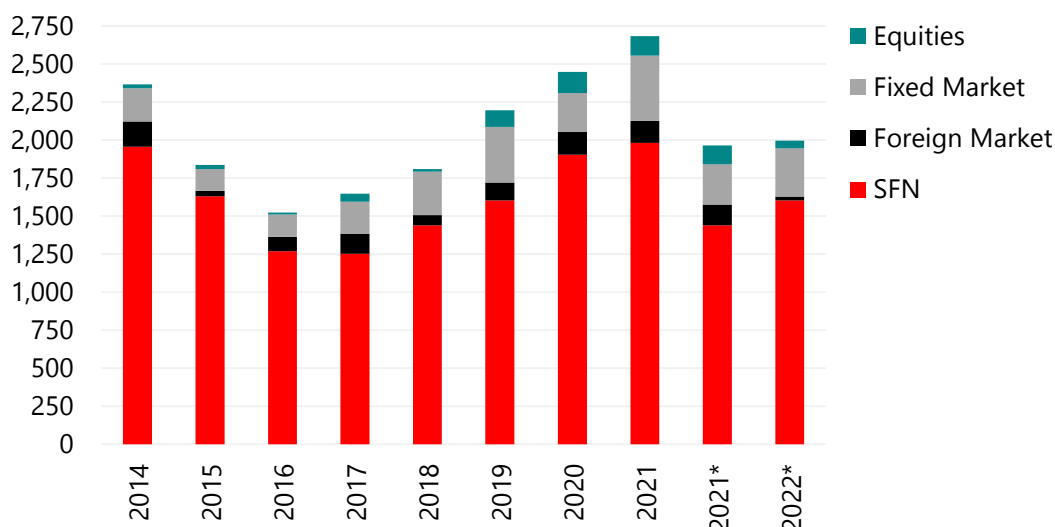
Figure 18. New Operations – Earmarked – Others (% MoM)



Total Credit

Considering total corporate financing YTD through September 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 25.2% smaller, with SFN concessions up 11.4%. **As a result, total corporate financing was up 1.6% compared to the year-ago period.**

Figure 19. 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~September.

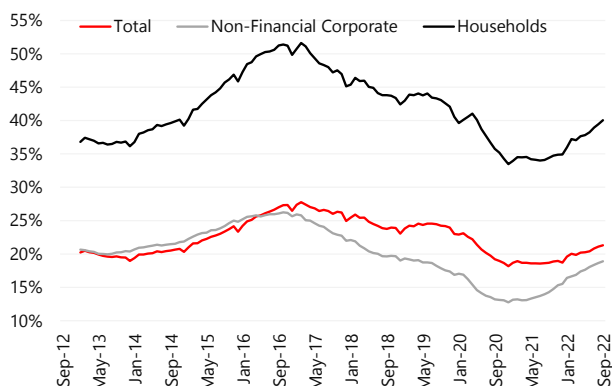
Sources: Brazilian Central Bank, Anbima, Santander.

Credit Conditions

Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans to households continued to rise, reaching 40.1% p.a. in September, the highest indicator since May 2020, with the indicator for corporations rising as well, to 18.9% p.a., the highest indicator since April 2019. The average interest rate for non-earmarked new loans was 53.7% p.a. for households, the highest rate since April 2018, and 22.9% p.a. for corporations, the highest rate since November 2017. The spread on non-earmarked new loans was 41.4% for households (-0.1 p.p. from August 2022) and 11% for corporations (+0.3 p.p. from August 2022).

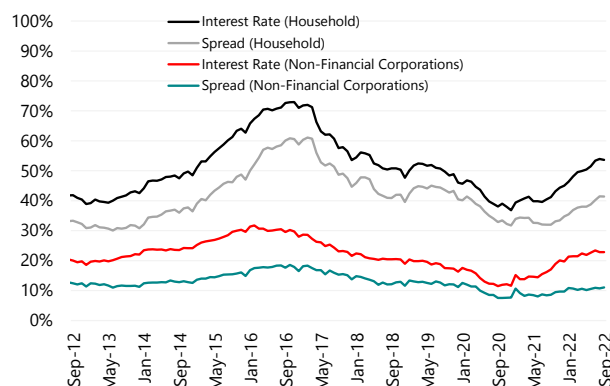


Figure 20. Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)



Sources: Brazilian Central Bank, Santander.

Figure 21. Average Interest Rate and Spread – Non-Earmarked (% p.a.)



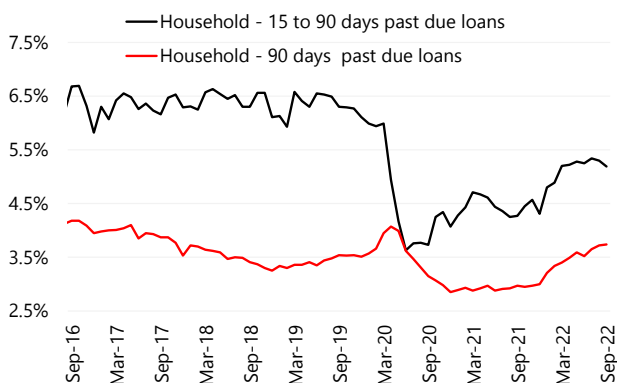
Sources: Brazilian Central Bank, Santander.

Household Debt

Still regarding non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) continued to rise, reaching 5.7% for households and 1.9% for corporates (for the first time since July 2020). **Importantly, household debt-to-income decelerated at the margin, reaching 52.9% in August 2022, still a high level; excluding real estate financing, household debt-to-income was 33.5%. In addition, the debt service ratio reached a peak for the series of 29.4% in August; excluding real estate financing, the debt service ratio was 27.2%. We see these figures as a risk for delinquencies as the economy recovers.**

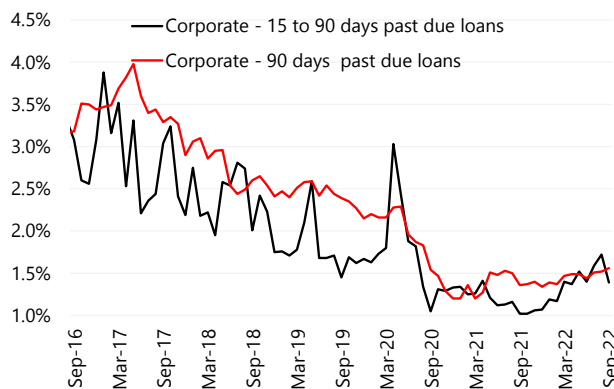
For details on Santander’s credit outlook, please refer to our last chartbook¹.

Figure 22. Loans Due – Households (% , s.a.)



Sources: Brazilian Central Bank, Santander.

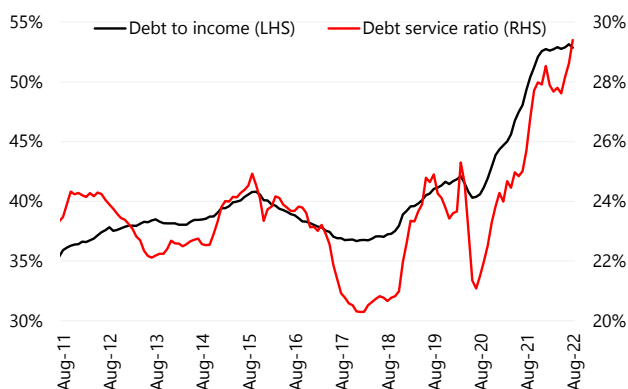
Figure 23. Loans Due – Corporate (% , s.a.)



Sources: Brazilian Central Bank, Santander.



Figure 24. Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.

Figure 25. Indicators

| Outstanding inf. adj. (YoY) | Nonearmarked | | | Earmarked | | | Total | | |
|-----------------------------------|--------------|--------|--------|-----------|--------|--------|--------|--------|--------|
| | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 |
| Households | 12.5% | 13.2% | 13.6% | 6.6% | 8.4% | 10.8% | 9.9% | 11.0% | 12.3% |
| Non-financial corporations | 6.7% | 7.4% | 8.2% | -7.9% | -5.8% | -1.8% | 1.3% | 2.5% | 4.6% |
| Total | 9.9% | 10.5% | 11.1% | 1.1% | 3.0% | 6.0% | 6.2% | 7.4% | 9.0% |

| New operations inf. adj. (MoM-sa) | Nonearmarked | | | Earmarked | | | Total | | |
|-----------------------------------|--------------|--------|--------|-----------|--------|--------|--------|--------|--------|
| | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 |
| Households | 1.6% | -0.4% | 3.8% | 15.7% | -14.0% | 14.7% | 3.8% | -2.3% | 4.9% |
| Non-financial corporations | 1.1% | 2.8% | 1.1% | 26.5% | 14.6% | -28.0% | 3.9% | 2.7% | -2.7% |
| Total | 3.1% | 0.1% | 0.9% | 20.4% | -4.7% | 0.0% | 3.8% | 2.1% | 0.5% |

| Interest rate (% p.a.) | Nonearmarked | | | Earmarked | | | Total | | |
|-----------------------------------|--------------|--------|--------|-----------|--------|--------|--------|--------|--------|
| | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 |
| Households | 53.4% | 54% | 53.7% | 10.6% | 10.6% | 10.7% | 34.2% | 34.4% | 34.1% |
| Non-financial corporations | 23.4% | 22.8% | 22.9% | 15.4% | 9.1% | 9.4% | 21.2% | 18.9% | 19.0% |
| Total | 40.4% | 40.6% | 40.4% | 11.9% | 10.2% | 10.4% | 29.4% | 28.7% | 28.6% |

| Spreads (p.p) | Nonearmarked | | | Earmarked | | | Total | | |
|-----------------------------------|--------------|--------|--------|-----------|--------|--------|--------|--------|--------|
| | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 |
| Households | 40.2 | 41.5 | 41.4 | 3.4 | 3.6 | 4.0 | 23.7 | 24.4 | 24.4 |
| Non-financial corporations | 10.9 | 10.7 | 11.0 | 6.5 | 3.7 | 3.8 | 9.7 | 8.7 | 8.9 |
| Total | 27.5 | 28.2 | 28.3 | 4.2 | 3.6 | 3.9 | 18.5 | 18.6 | 18.7 |

| Past Due Loans (%) | Nonearmarked | | | Earmarked | | | Total | | |
|-----------------------------------|--------------|--------|--------|-----------|--------|--------|--------|--------|--------|
| | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 |
| Households | 5.47 | 5.62 | 5.70 | 1.29 | 1.29 | 1.26 | 3.65 | 3.72 | 3.74 |
| Non-financial corporations | 1.76 | 1.81 | 1.89 | 1.05 | 0.96 | 0.94 | 1.51 | 1.52 | 1.56 |
| Total | 3.81 | 3.93 | 4.00 | 1.21 | 1.17 | 1.15 | 2.78 | 2.83 | 2.85 |

| | Jul-22 | Aug-22 | Sep-22 |
|--|--------|--------|--------|
| Total Outstanding / GDP | 54.0% | 54.3% | 55.0% |
| Total Outstanding under public control | 42.6% | 42.6% | 42.5% |
| Total Outstanding under private control | 57.4% | 57.4% | 57.5% |

Sources: Brazilian Central Bank, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

| | | | |
|----------------------|-------------------------------|---|----------------|
| Ana Paula Vescovi* | Chief Economist | anavescovi@santander.com.br | 5511-3553-8567 |
| Mauricio Oreng* | Head of Macro Research | mauricio.oreng@santander.com.br | 5511-3553-5404 |
| Jankiel Santos* | Economist – External Sector | jankiel.santos@santander.com.br | 5511-3012-5726 |
| Ítalo Franca* | Economist – Fiscal Policy | italo.franca@santander.com.br | 5511-3553-5235 |
| Daniel Karp Vasquez* | Economist – Inflation | daniel.karp@santander.com.br | 5511-3553-9828 |
| Tomas Urani* | Economist – Global Economics | tomas.urani@santander.com.br | 5511-3553-9520 |
| Lucas Maynard* | Economist – Economic Activity | lucas.maynard.da.silva@santander.com.br | 5511-3553-7495 |
| Felipe Kotinda* | Economist – Commodities | felipe.kotinda@santander.com.br | 5511-3553-8071 |
| Gabriel Couto* | Economist – Special Projects | gabriel.couto@santander.com.br | 5511-3553-8487 |
| Fabiana Moreira* | Economist – Credit | fabiana.de.oliveira@santander.com.br | 5511-3553-6120 |
| Gilmar Lima* | Economist – Modeling | gilmar.lima@santander.com.br | 5511-3553-6327 |

Global Macro Research

| | | | |
|---------------------|---------------------------------------|-----------------------------|-----------------|
| Maciej Reluga* | Head Macro, Rates & FX Strategy – CEE | maciej.reluga@santander.pl | 48-22-534-1888 |
| Rodrigo Park * | Economist – Argentina | rpark@santander.com.ar | 54-11-4341-1272 |
| Ana Paula Vescovi* | Economist – Brazil | anavescovi@santander.com.br | 5511-3553-8567 |
| Juan Pablo Cabrera* | Economist – Chile | jcabrera@santander.cl | 562-2320-3778 |
| Guillermo Aboumrad* | Economist – Mexico | gjaboumrad@santander.com.mx | 5255-5257-8170 |
| Piotr Bielski* | Economist – Poland | piotr.bielski@santander.pl | 48-22-534-1888 |
| Mike Moran | Head of Macro Research, US | mike.moran@santander.us | 212-350-3500 |

Fixed Income Research

| | | | |
|---------------------|---|---------------------------------|----------------|
| Juan Arranz* | Chief Rates & FX Strategist – Argentina | jarranz@santanderrio.com.ar | 5411-4341-1065 |
| Mauricio Oreng* | Senior Economist/Strategist – Brazil | mauricio.oreng@santander.com.br | 5511-3553-5404 |
| Juan Pablo Cabrera* | Chief Rates & FX Strategist – Chile | jcabrera@santander.cl | 562-2320-3778 |

Equity Research

| | | | |
|--------------------------|-------------------------------|---------------------------------|----------------|
| Miguel Machado* | Head Equity Research Americas | mmachado@santander.com.mx | 5255 5269 2228 |
| Alan Alanis* | Head, Mexico | aalanis@santander.com.mx | 5552-5269-2103 |
| Andres Soto | Head, Andean | asoto@santander.us | 212-407-0976 |
| Walter Chiarvesio* | Head, Argentina | wchiarvesio@santanderrio.com.ar | 5411-4341-1564 |
| Mariana Cahen Margulies* | Head, Brazil | mmargulies@santander.com.br | 5511-3553-1684 |

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