

First Relief in Non-Earmarked Household Delinquencies from *Desenrola* Track 2

Henrique Danyi*
henrique.danyi@santander.com.br
+5511 3553 7350

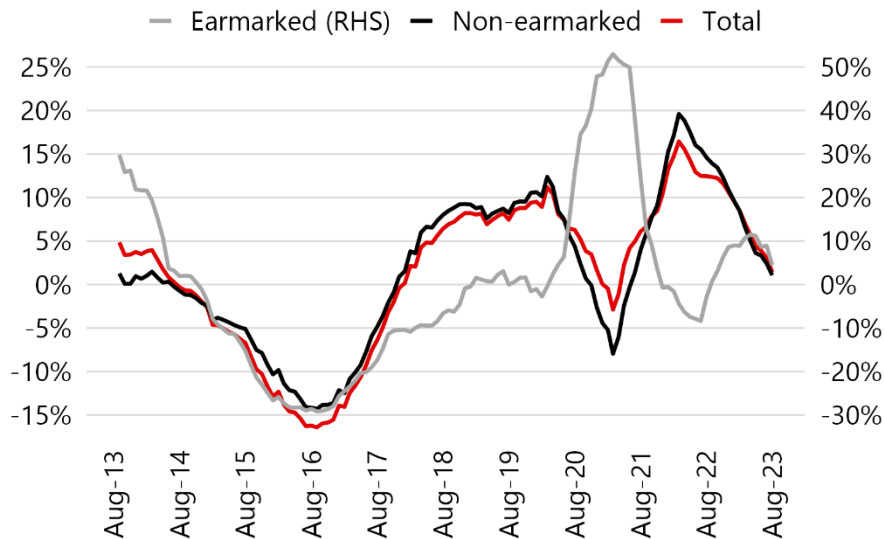
- New loans in the National Financial System (SFN), adjusted for inflation and seasonality (Brazil Central Bank methodology), posted an increase of 0.2% MoM-sa in August (vs. 0.9% MoM-sa in July). Currently, concessions have decreased 0.5% YTD compared to the same period a year ago, reflecting the restrictive stance of monetary policy combined with high consumer indebtedness amid a slowing economic activity and record levels of non-performing loans (NPLs).
- In the non-earmarked segment, concessions to households increased 0.4% MoM-sa in August (from 0.4% MoM-sa in July). For nonfinancial corporations, new loans fell -0.2% MoM-sa in August (from -4.9% MoM-sa in July).
- Meanwhile, in the earmarked segment, concessions for households fell -5.9% MoM-sa in August (from 25.4% MoM-sa in July). Corporate concessions in the segment fell -1.6% MoM-sa in the earmarked segment in August (from 11.2% MoM-sa in July).
- Total outstanding loans in the SFN posted inflation-adjusted growth of 4.1% YoY for August (-1 ppt vs. July), also in line with the slowdown in activity and more restrictive financial conditions.
- Considering total corporate financing YTD through August (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were -39.2% lower, with SFN corporate concessions also down -6%. As a result, total corporate financing is -15.5% 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 the slowing of economic activity this year.
- Desenrola's policy commenced the track 2 events in August, meaning that it should be exerting first signs of additional relief in the latest figures. Indeed, regarding non-earmarked loans, in August, the default rate (% of 90-day past-due loans) dropped to 6.1% for households (-0.1 from the previous month). Nonetheless, the figure marks the eighth consecutive month with a default rate higher than 6% (the last time the default rate was higher than 6% was in January 2017). We believe greater relief is to follow in the next months, especially after the start of Desenrola's track 1. The policy should accelerate the reduction in NPL rates that have already been decreasing given monetary policy effects, in our view. The corporate non-earmarked default rate deteriorated +0.1 ppt from previous month, reaching 3.3%.
- Household debt-to-income remained unchanged at the margin, reaching 47.8% in July (from June's 48.2%), still high but a drop of -2 ppts from February 2022. In addition, the debt service ratio reached 26.1% in July (-1.5 ppt from the previous month).



New Loans

New loans in the SFN, adjusted for inflation and seasonality (Brazil Central Bank methodology), posted an increase of 0.2% MoM-sa in August (vs. 0.9% MoM-sa in July). Currently, concessions have decreased 0.5% YTD compared to the same period a year ago, reflecting the restrictive stance of monetary policy combined with high consumer indebtedness amid a slowing economic activity and record levels of non-performing loans (NPLs). August's result was driven by a combination of a shrinking of -1% MoM-sa in the non-earmarked segment and an increase of 0.2% MoM-sa in the earmarked segment (vs. 0.1% and 13% MoM-sa in July, respectively).

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

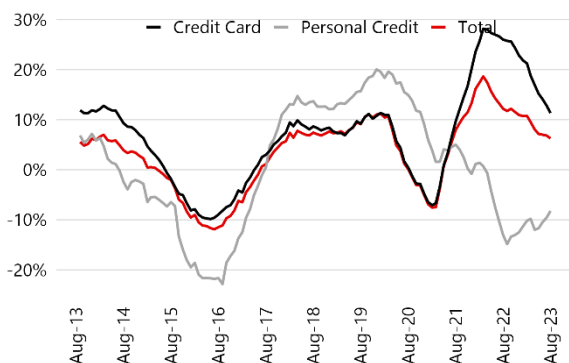


Sources: Brazilian Central Bank, Santander.

In the non-earmarked segment, concessions to households increased 0.4% MoM-sa in August (coming from 0.4% MoM-sa in July). This brings the figure to +5.7% YTD compared to the same period a year ago (-0.1 ppt from July). Notably, total credit card new operations amounted to 0.5% MoM-sa (vs. -0.3% in July) while total personal credit moved 5.8% MoM-sa (vs. 5.8% in July). These lines have respectively observed +10% and -8.8% YTD growth (-0.2 and -1 ppt from July).

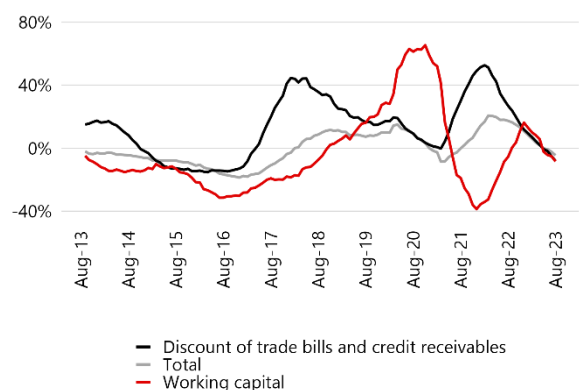
Still in the non-earmarked segment, new loans for nonfinancial corporations fell -0.2% MoM-sa in August (from -4.9% MoM-sa in July), now -7.4% YTD lower (+1.4 ppt from July). The real growth of -0.5% MoM-sa (vs. 8.1% MoM-sa in July) in total working capital concessions is worth of notice. The figure is in line with its YTD results, now at -18.2% (+1.2 ppt from July).

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)



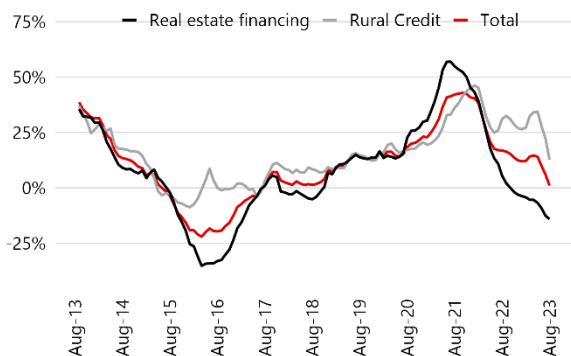
Sources: Brazilian Central Bank, Santander.



Meanwhile, in the earmarked segment, concessions for households fell **-5.9% MoM-sa in August (coming from 25.4% MoM-sa in July)**. This brings the figure to -5.7% YTD compared to the same period a year ago (-6.4 pts from July). The two major figures for the segment, real estate and rural credit, have respectively grown in inflation adjusted terms -10.1% and 2.7% MoM-sa (vs. 0.7% and 18.4% MoM-sa in July) and now sit at -17% and +6% YTD (-3.1 and -13.1 pts from July).

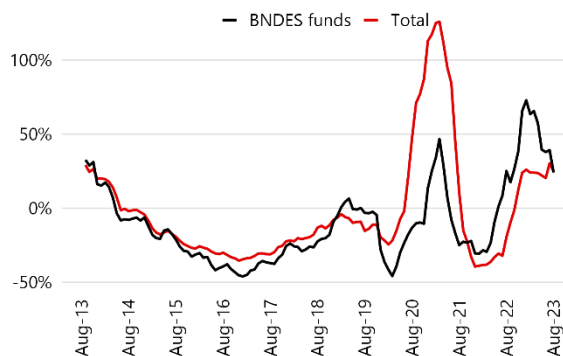
Finally, **corporate concessions fell -1.6% MoM-sa in the earmarked segment in August** (from 11.2% MoM-sa in July), resulting in a 18% higher YTD result from last year (-3.6 pts from July).

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)

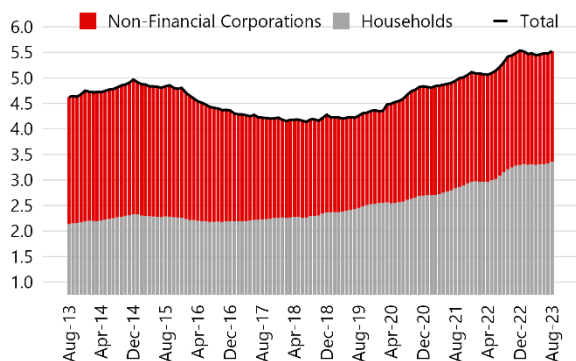


Sources: Brazilian Central Bank, Santander.

Outstanding Loans

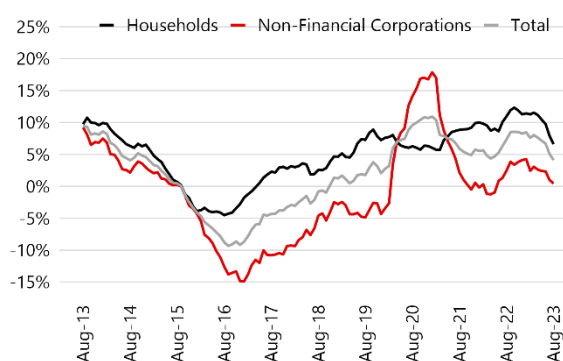
Total outstanding loans in the SFN posted inflation-adjusted growth of 4.1% YoY for August (-1 ppt vs. July), to R\$5.5 trillion, also in line with the slowdown in activity and more restrictive financial conditions. Loans to households remained high but are showing signs of deceleration, leading overall loans to rise 6.6% YoY, -1.3 ppt lower than the number registered in July; for non-financial corporations, loans rose 0.4% YoY, -0.5 ppt lower than in July. Also, **credit-to-GDP reached 52.9%, 0.3 ppt from July**.

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 5.3% YoY, -1 ppt from July. **Total personal real credit grew 4.7% YoY (-0.2 ppt vs. July), and credit cards decelerated at the margin, now at 6.9% YoY, inflation adjusted, -2.5 pts from July, in line with the accommodation of consumption after the year-end events and highly adverse economic conditions.**

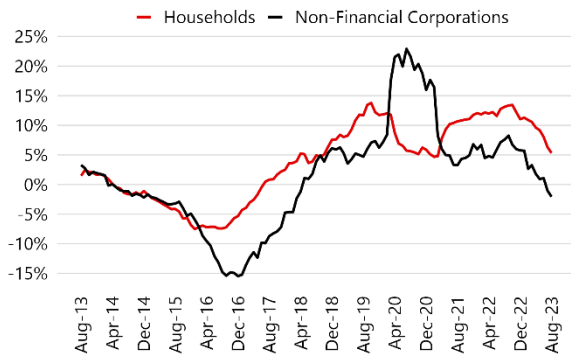


For corporations, in the non-earmarked segment, the real growth rate presented a variation of -2.1% YoY, with **total working capital presenting a negative variation of -10.8% YoY (inflation adjusted), the lowest number since February 2018, and the discount of trade bill falling -13.9% YoY (inflation adjusted).**

On the other hand, in the earmarked segment, loans to households decreased at the margin, with August's growth rate at 8.3% YoY, down -1.7 ppt from July. **Real estate financing grew 5.2% YoY, inflation adjusted. Rural credit grew 17.4% YoY, adjusted for inflation.**

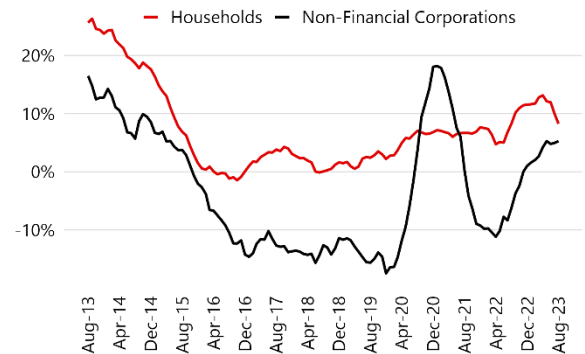
For corporations, in the earmarked segment, balance loans posted growth of 5.3 % YoY (adjusted for inflation), down -1.7 ppt from July.

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



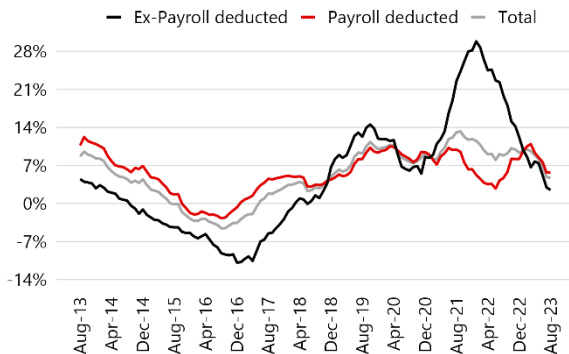
Sources: Brazilian Central Bank, Santander.

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.

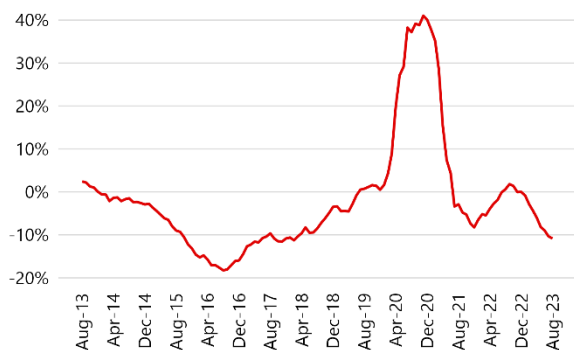
Figure 11. Outstanding Balance Households – Credit Card – Non-Earmarked (inflation adjusted) (% YoY)



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)



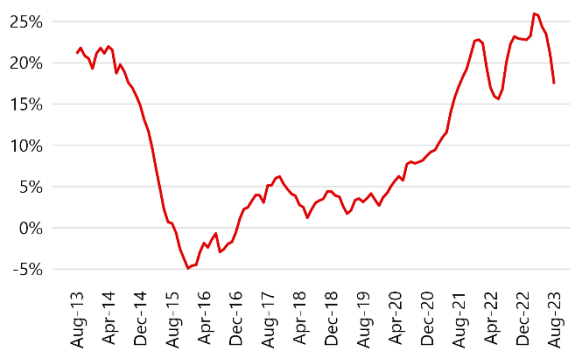
Sources: Brazilian Central Bank, Santander.

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)



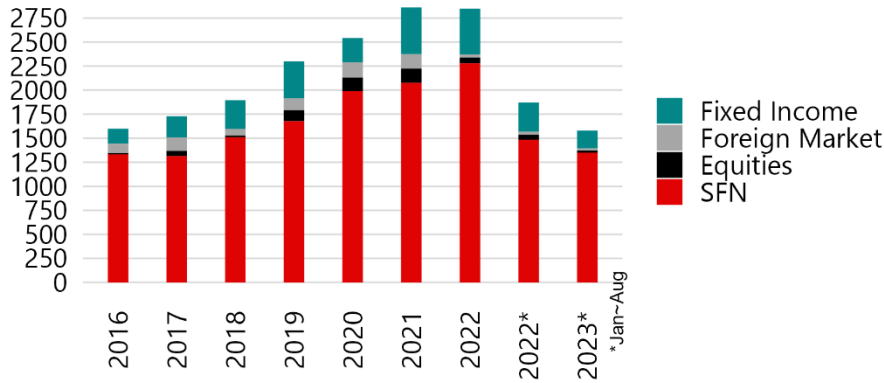
Sources: Brazilian Central Bank, Santander.



Total Credit

Considering total corporate financing YTD through August (new loans in the SFN, debt, and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were -39.2% lower, with SFN corporate concessions also down -6%. **As a result, total corporate financing is -15.5% 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 the slowing of economic activity this year.**

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



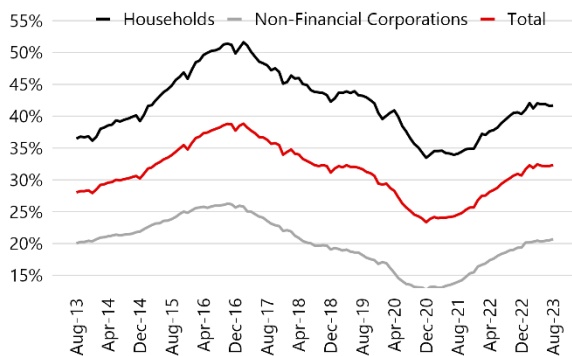
SFN - exclude 'conta garantia', overdraft and credit card.
 Foreign market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs, and FIDCs.
 Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Credit Conditions

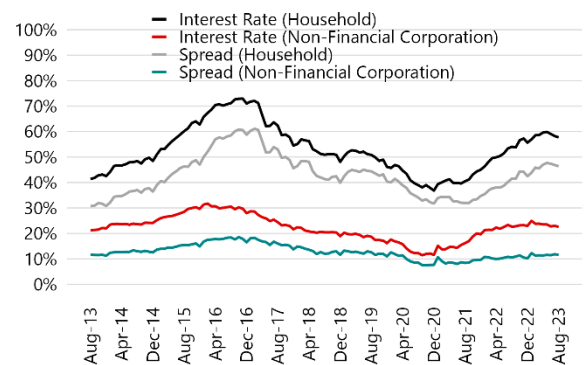
The Credit Cost Indicator (ICC) for non-earmarked loans to households remained flat (+0 ppt from July) at 41.7% p.a. in August, and the indicator for corporations increased to 20.7% p.a., up 0.2 ppt from July. The average interest rate for non-earmarked new loans dropped to 57.7% p.a. for households, thus at -0.5 ppt from July, while falling to 22.6% p.a. for corporations, down -0.4 ppt from July. The spread on non-earmarked new loans dropped to 46.4% for households (-0.5 ppt from July) and dropped at 11.6% for corporations (-0.2 ppt from July).

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

Desenrola's policy started its track 2 events in August, meaning that it should be exerting first signs of additional relief in the latest figures. Indeed, regarding non-earmarked loans, in August, the default rate (% of 90-day past-due loans) **dropped** to 6.1% for households (-0.1 from the previous month). Nonetheless, the figure marks the eighth consecutive month with a default rate higher than 6% (the last time the default rate was higher than 6% was in January 2017). We believe greater relief is to follow in the next months, especially after the start of *Desenrola's* track 1. **The policy should accelerate the reduction in NPL rates that have already been decreasing given monetary policy effects.** The corporate non-earmarked default rate deteriorated +0.1 ppt from previous month, reaching 3.3%.

Importantly, household debt-to-income remained unchanged at the margin, reaching 47.8% in July (coming from June's 48.2%), still high but a drop of -2 ppts from February 2022. Excluding real estate financing, household debt-to-income was 30.2%, down -0.3 ppt from the previous month and down -1.5 ppt from the year-ago period. In addition, the debt service ratio reached 26.1% in July (-1.5 ppt from the previous month); excluding real estate financing, the debt service ratio was 25.5% (-1.5 ppt from the previous month).

Figure 20. Loans Due – Households (%)

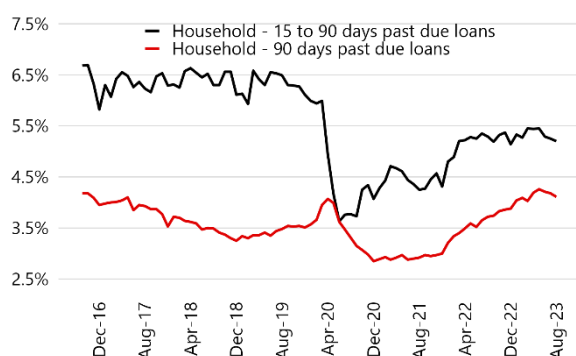
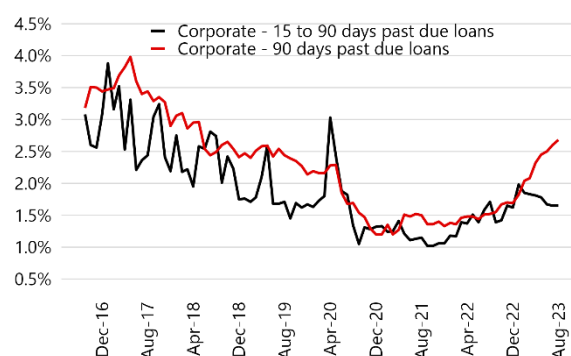


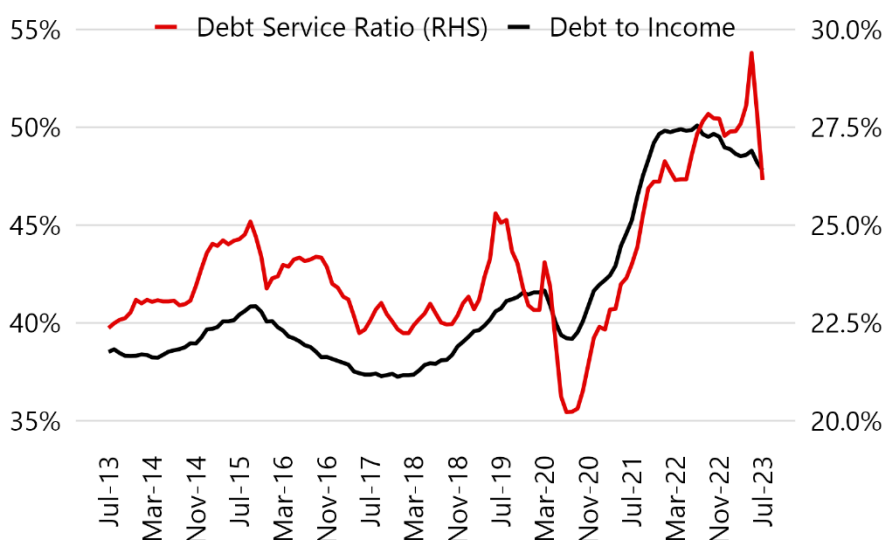
Figure 21. Loans Due – Corporate (%)



Sources: Brazilian Central Bank, Santander.

Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Anbima, Santander.



Figure 23. Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Households	8.0%	6.3%	5.3%	12.0%	10.0%	8.3%	9.7%	7.9%	6.6%
Non-Financial Corporations	1.1%	-1.0%	-2.1%	4.8%	5.0%	5.3%	2.3%	1.0%	0.4%
Total	4.9%	3.0%	2.0%	9.4%	8.2%	7.2%	6.7%	5.1%	4.1%

New Opearations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Households	1.0%	0.4%	0.4%	-8.8%	25.4%	-5.9%	-0.4%	2.8%	0.0%
Non-Financial Corporations	5.7%	-4.9%	-0.2%	-2.2%	11.2%	-1.6%	3.8%	-3.5%	0.2%
Total	1.6%	0.1%	-1.0%	-3.7%	13.0%	0.2%	0.9%	0.9%	0.2%

Interest Rate (% pa)	Nonearmarked			Earmarked			Total		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Households	59.1%	58.3%	57.7%	12.0%	12.0%	11.5%	37.6%	37.1%	36.5%
Non-Financial Corporations	22.8%	23.0%	22.6%	11.9%	10.3%	10.7%	19.9%	19.6%	19.3%
Total	44.2%	43.8%	43.5%	12.0%	11.6%	11.3%	31.6%	31.1%	30.7%

Spreads (p.p.)	Nonearmarked			Earmarked			Total		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Households	47.4	46.9	46.4	5.4	5.2	5.0	28.2	27.8	27.4
Non-Financial Corporations	11.5	11.9	11.6	4.1	3.7	3.7	9.5	9.7	9.4
Total	32.7	32.5	32.3	5.1	4.8	4.7	21.9	21.6	21.3

Past Due Loans (%)	Nonearmarked			Earmarked			Total		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Households	6.30	6.18	6.06	1.59	1.68	1.68	4.21	4.18	4.11
Non-Financial Corporations	2.98	3.17	3.31	1.58	1.57	1.55	2.50	2.60	2.68
Total	4.86	4.88	4.89	1.59	1.64	1.63	3.53	3.56	3.55

	Jun-23	Jul-23	Aug-23
Total Outstanding / GDP	52.9%	52.6%	52.9%
Total Outstanding under public control	42.9%	43.0%	43.1%
Total Outstanding under public control	57.1%	57.0%	56.9%

Sources: Brazilian Central Bank, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Adriano Valladao Ribeiro*	Economist – Inflation	adriano.ribeiro@santander.com.br	5511-3553-7495
Ana Julia Carvalho*	Economist – Special Projects	ana.carvalho.silva@santander.com.br	5511-3553-8071
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Activity	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Henrique Danyi Correia*	Economist – Credit / Monetary Policy	henrique.danyi@santander.com.br	5511-3553-7350
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520

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
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
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This research report (“report”) has been prepared by Santander US Capital Markets LLC (is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. “Santander”) on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This report must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. (“Santander Investment Bolsa”) and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. Santander US Capital Markets LLC, Santander London and Santander Investment Bolsa are members of Grupo Santander. ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Henrique Danyi*. Employed by a non-US affiliate of Santander US Capital Markets LLC and is not registered/qualified as a research analyst under FINRA rules and is not an associated person of the member firm and therefore is not subject to FINRA Rule 2241 or FINRA Rule 2242 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The information contained within this report has been compiled from sources believed to be reliable. Although all reasonable care has been taken to ensure the information contained within these reports is not untrue or misleading, we make no representation that such information is accurate or complete and it should not be relied upon as such. All opinions and estimates included within this report constitute our judgment as of the date of the report and are subject to change without notice. Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with Santander US Capital Markets LLC, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States. Hong Kong (HK): This report is distributed in Hong Kong by Banco Santander, S.A. (a public limited liability company incorporated in Spain) which has a branch in Hong Kong. Banco Santander, S.A., Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. This report is not intended for distribution to any persons other than professional investors. Banco Santander, S.A. or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.. Singapore (SG): This report is distributed in Singapore by Banco



Santander, S.A. which has a branch in Singapore. It is not intended for distribution to any persons other than institutional investors, accredited investors and expert investors (each as defined in the Securities and Futures Act 2001 of Singapore). Recipients of this report should contact Banco Santander, S.A., Singapore Branch at researchsingapore@gruposantander.com for matters arising from, or in connection with, this report. Mainland China (CN): This report is being distributed in Mainland China by Banco Santander, S.A. which has two branches in Mainland China, being Shanghai Branch and Beijing Branch ("Santander China"). Santander China is regulated by China Banking and Insurance Regulatory Commission. Banco Santander, S.A., Shanghai Branch is licensed for foreign currency business, RMB business and derivative business. Banco Santander, S.A., Beijing Branch is licensed with foreign currency business. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.© 2023 by Santander US Capital Markets LLC All Rights Reserved.

