Credit Conditions Survey

August 2024

Disclaimer:
The opinions and expectations presented herein are for the respondents and not of the Bank of Zambia

Bank of Zambia

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Table of Contents

Summary of Survey Findings

The August 2024 Credit Conditions Survey indicates tighter credit conditions for households, small and medium enterprises (SMEs), and large corporations, attributed to the increase in the Monetary Policy Rate in May and Government fiscal consolidation measures. Commercial banks expect credit conditions to remain tight in the next quarter as further monetary policy tightening is anticipated to address persistent inflationary pressures. High demand for working capital was sustained among SMEs and large corporations, driven by the need to acquire alternative energy equipment due to persistent load shedding and a weak exchange rate. This trend is expected to continue in the third quarter. Lending rates remained high in the second quarter, consistent with the 100-basis point increase in the Monetary Policy Rate to 13.5 percent in May. Most banks anticipate high lending rates to be maintained in the third quarter due to further tightening of monetary policy to address persistently rising inflation and further depreciation of the exchange rate.

I. Background

The quarterly Credit Conditions Survey conducted by the Bank of Zambia assesses changes in demand for credit by households, small and medium enterprises (SMEs) and large corporations from commercial banks. It also assesses credit supply by the banking sector. The Survey results serve as input into monetary policy decisions.

This Survey was conducted during June 27 to July 5, 2024 to assess credit conditions in the banking sector during the second quarter of 2024 and expectations for the third quarter of 2024. Fifteen (15) operating commercial banks responded to the survey.

The rest of the Report is arranged as follows. An assessment of credit conditions for households, SMEs and large corporations is presented in Sections I, II, and III. The Survey methodology is presented in the appendix.

II Household Sector

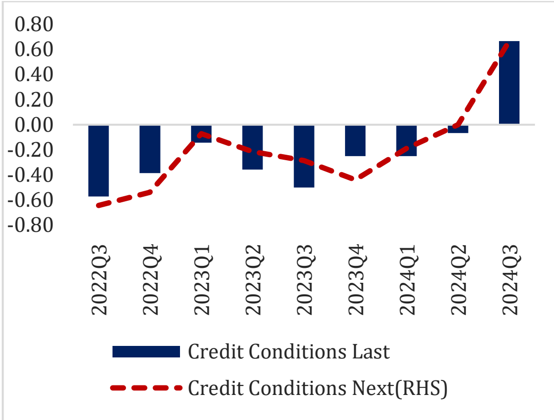
Credit Conditions

... remain tight

Most commercial banks reported tighter money market liquidity conditions in the second quarter of 2024 (Chart 1). This followed the 100 basis points increase in the Monetary Policy Rate to 13.5 percent in May.

Credit conditions are expected to remain tight in the third quarter.

Chart 1: Household Credit Conditions



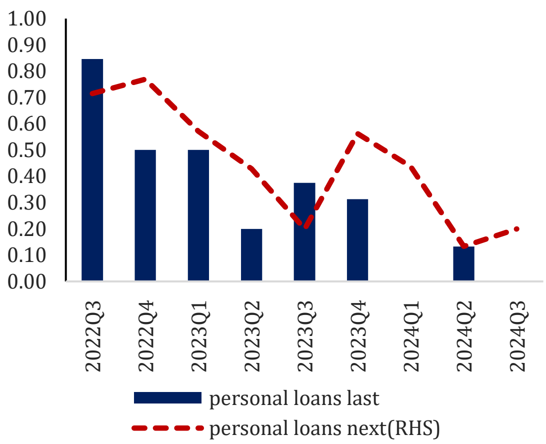
Source: Bank of Zambia
Note: Bars below zero mean loose, above zero tight and zero means unchanged.

Credit Demand

... remains high

High demand for personal loans was sustained in the second quarter (Chart 2). This was underpinned by the need to meet personal commitments, mitigate the effects of rising cost of living and the need to purchase alternative energy equipment.

Chart 2: Demand for Personal Loans

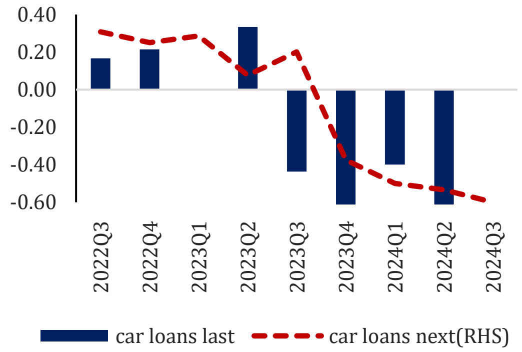


Source: Bank of Zambia
Note: Bars below zero mean low demand, above zero high and zero (no bar) means unchanged.

In the third quarter, most commercial banks expect high demand for personal loans to be sustained , driven by the need to supplement incomes to meet personal obligations amid an anticipated high cost of living.

Demand for car loans remained weak for the fourth consecutive quarter attributed to high borrowing costs and the high cost of motor vehicles induced by the persistent depreciation of the exchange rate (Chart 3).

Chart 3: Demand for Car loans

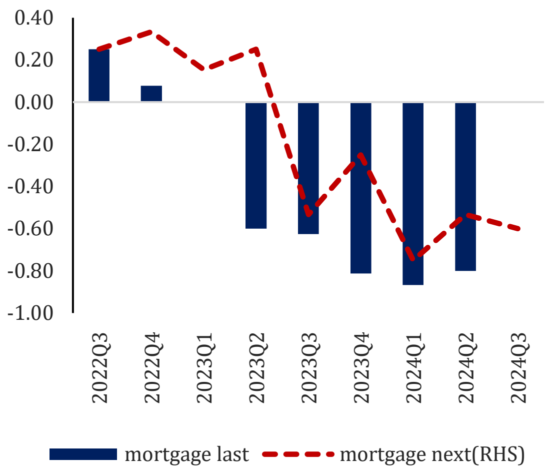


Source: Bank of Zambia

Respondents expect subdued demand for car loans to continue in the third quarter, primarily due to the anticipated further depreciation of the exchange rate and high lending rates.

Similarly, demand for mortgages remained subdued for the fifth consecutive quarter (Chart 4). High lending rates and the high cost of raw materials, due to the depreciation of the exchange rate, continued to weigh on demand.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

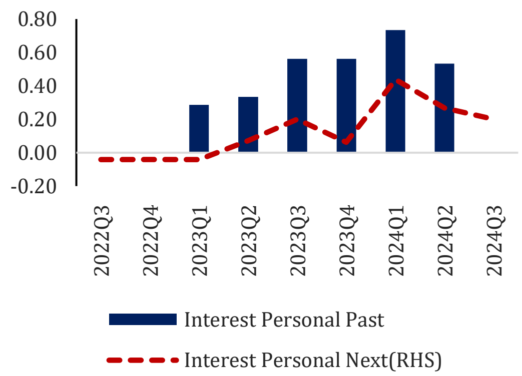
In the third quarter, demand for mortgages is expected to be dampened by high lending rates and anticipated persistent depreciation of the exchange rate.

Cost of Credit

... increased

During the second quarter, elevated lending rates were sustained for personal, car, and mortgage loans (Charts 5-7). Respondents attributed the rise in lending rates to the increase in the Monetary Policy Rate in May.

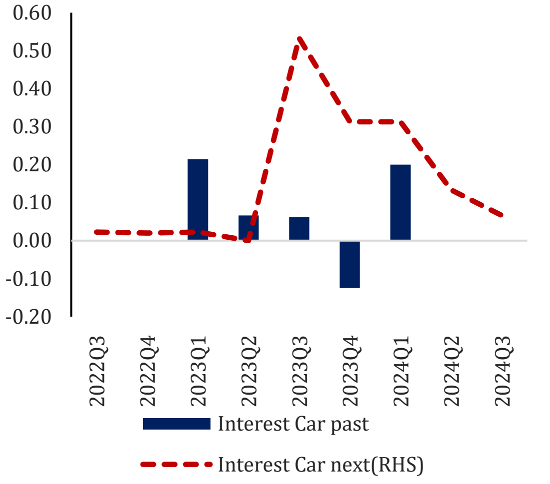
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

Note: Bars below zero mean low interest rates, above zero high and zero (no bar) means unchanged.

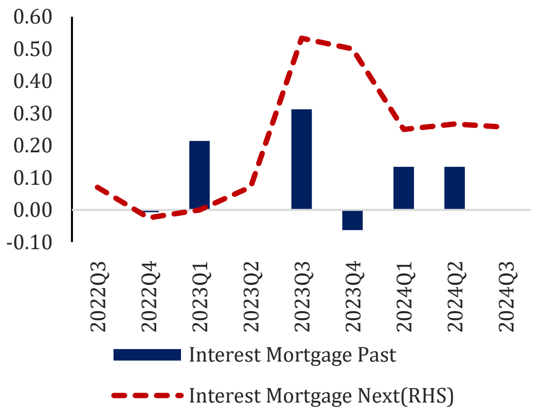
Chart 6: Interest Rate on Car Loans



Source: Bank of Zambia

Note: Bars below zero mean low demand, above zero high and zero (no bar) means unchanged.

Chart 7: Interest Rate on Mortgage Loans



Source: Bank of Zambia

Most banks expect that lending rates to remain elevated in the third quarter due to a tighter monetary policy stance to address persistently rising inflation.

Tenure and Collateral for Household Loans

... no change

Loan tenures and collateral requirements for household loans were maintained in accordance with existing policy agreements, with no anticipated changes in the second quarter.

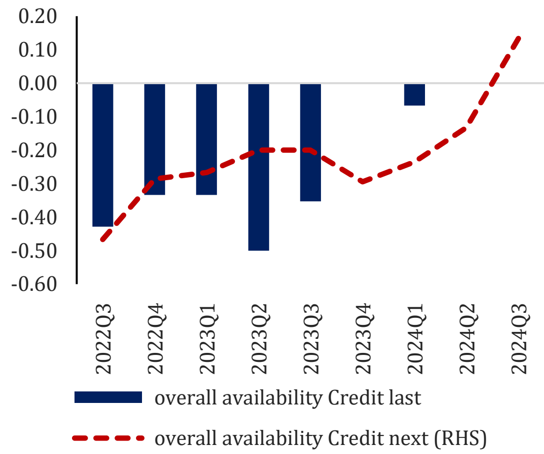
III Small and Medium Enterprises Sector

Credit Conditions

... tighten

During the second quarter, most banks reported tighter credit conditions for SMEs (Chart 8). This was primarily due to the increase in the Monetary Policy Rate and Government fiscal consolidation measures.

Chart 8: SMEs Credit Conditions



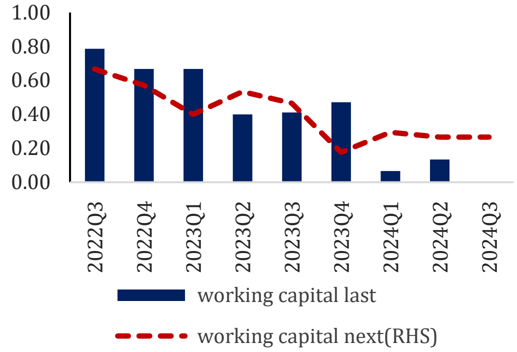
Source: Bank of Zambia

Commercial banks anticipate credit conditions to remain tight in the third quarter as they expect a further increase in the Monetary Policy Rate in August.

... sustained high demand for working capital and long-term financing

High demand for working capital was sustained in the second quarter. Firms required additional financing to support business operations amid rising operating costs occasioned by persistent inflation and high input costs caused by the sustained depreciation of the exchange rate.

Chart 9: Demand for Working Capital

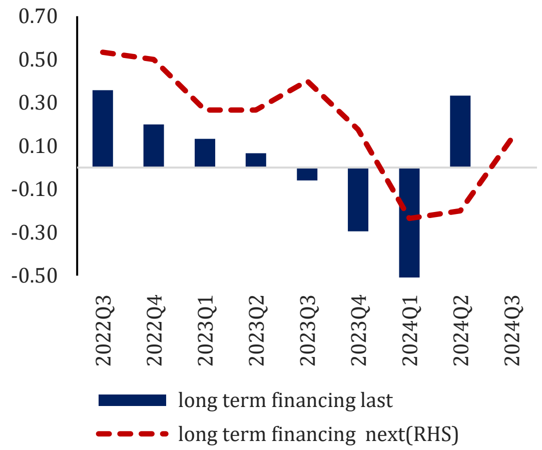


Source: Bank of Zambia

Survey respondents anticipate high demand for working capital in the third quarter to mitigate the high cost of business operations due to rising inflation and further depreciation of the exchange rate .

Similarly, demand for long-term financing increased during the quarter as firms sought alternative energy equipment in view of sustained and extended load shedding (Chart 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

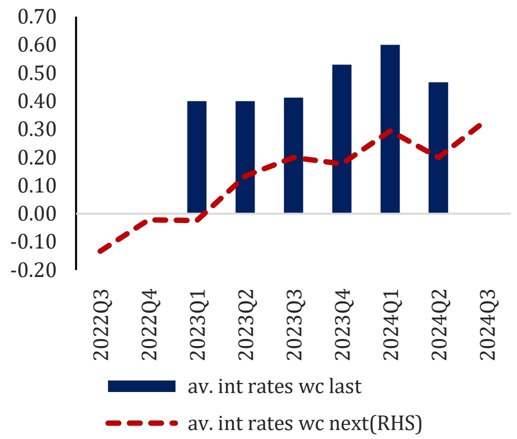
Most banks expect demand for long-term financing to improve due to increased operating costs and the need for alternative energy equipment.

Cost of SME Credit

... remains elevated

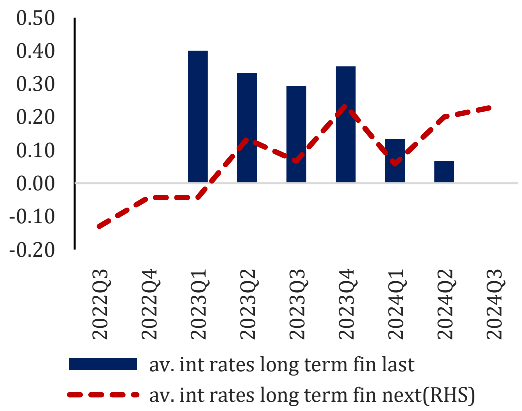
High lending rates for both working capital and long-term financing were sustained in the second quarter, partly due to the upward adjustment in the Policy Rate in May (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most banks expect high lending rates to prevail in the third quarter as monetary policy is tightened further in response to rising inflation.

Tenure and Collateral for SMEs

... no change

Most commercial banks maintained loan tenures and collateral requirements consistent with prevailing policy guidelines, with no changes expected in the third quarter.

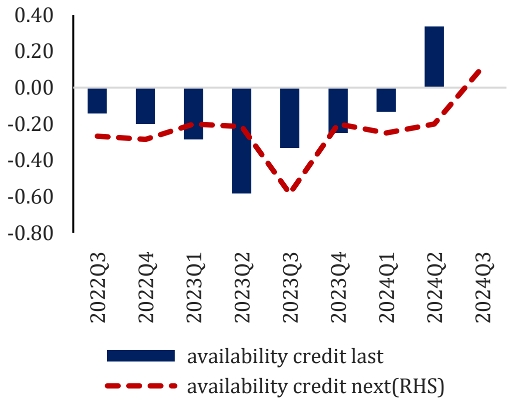
IV Large Corporations Sector

Credit Conditions

... tight

Commercial banks reported tight credit conditions in the second quarter (Chart 13). Most of them expect credit conditions to remain tight in the third quarter due to the anticipated increase in the Monetary Policy Rate in August.

Chart 13: Credit Conditions Corporations



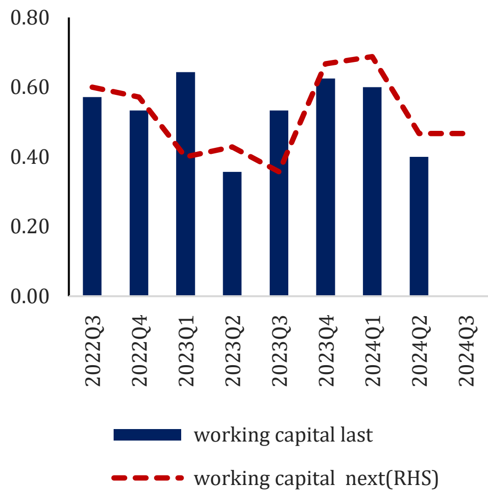
Source: Bank of Zambia

Credit Demand

... sustained for working capital and long-term financing

In the second quarter, demand for working capital by large corporations remained robust (Chart 14). Most corporates sought additional liquidity to support business operations amid rising operating costs due to load shedding and the need for alternative energy equipment. Elevated demand for working capital was particularly observed in the manufacturing and communication sectors.

Chart 14: Demand for Working Capital

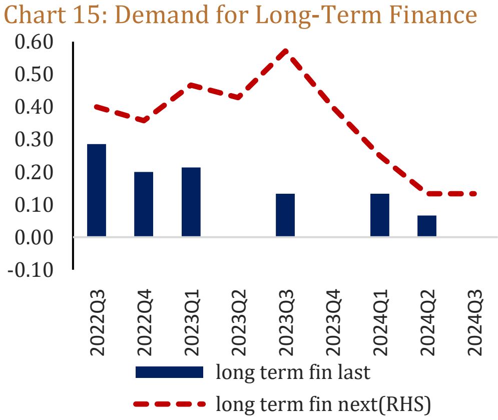


Source: Bank of Zambia

Most commercial banks expect high demand for working capital to persist in the third quarter to meet rising operating costs, as the Kwacha depreciates further, and to acquire alternative energy equipment.

Similarly, high demand for long-term financing was sustained, mainly driven by the continued need to finance new projects, alternative energy equipment and support business operations due to higher costs.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

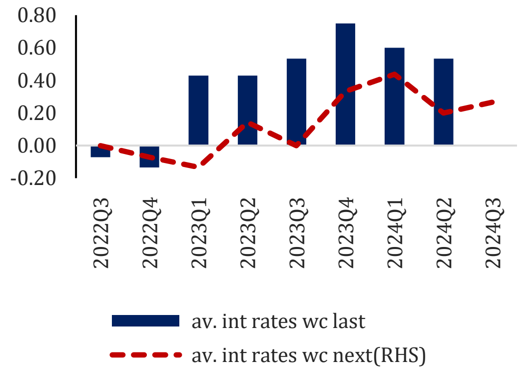
Most banks expect high demand for long-term financing to be sustained as corporates seek alternative energy equipment and finance new expansion projects.

Cost of Credit

... high lending rates for working capital and long-term financing maintained

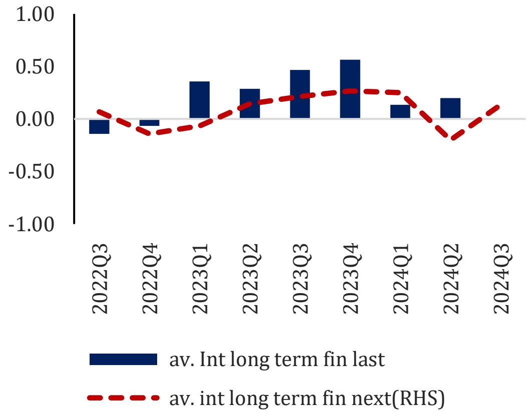
Most banks reported increases in lending rates for working capital and long-term financing in the second quarter. This was largely attributed to the upward adjustment in the Monetary Policy Rate in May (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long- Term Financing



Source: Bank of Zambia

Survey respondents expect high lending rates to prevail in the third quarter, mostly due to the anticipated further tightening of monetary policy to curb rising inflation.

Tenure and Collateral Requirements

... no changes

No changes were made to loan tenures and collateral requirements for working capital and long-term financing as they were guided by existing policy agreements. Almost all the banks do not anticipate changes in the third quarter.

Appendix

Survey Methodology - Data Analysis

The analysis of data is based on Theil's Net Balance Statistic where qualitative responses are converted into quantitative measures using the following formula:

$$\mathrm{N} = \frac{U - D}{U + D + S - NA} * 100$$

where

U = Number of respondents indicating up, increased, tightened, positive
D = down, negative, declined
S = same
NA = Not applicable

The Net Balance Statistic has the advantage of detecting directional changes in performance or expectations of respondents in surveys. The method indicates the predominance of an improvement/tightening or deterioration/loosening in a variable.