Credit Conditions Survey

May 2023

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

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Table of Contents

Summary of Survey Findings....................1
I. Household Sector....................2
II. Small and Medium Enterprises Sector....................5
III. Large Corporations Sector....................7
V Monetary Policy....................9
Appendix....................11

Summary of Survey Findings

Credit conditions for households, small and medium enterprises (SMEs) as well as large corporations remained favourable in the first quarter of 2023. This largely reflects sustained loose liquidity in the money market. Most commercial banks expect credit conditions to remain favourable in the second quarter of 2023 on account of ample levels of market liquidity. Demand for household loans was sustained largely to supplement incomes in view of the high cost of living and renewal of memoranda of understanding for personal loans. Similarly, demand for working capital and long-term financing by SMEs and large corporations rose as banks rolled out favourable lending conditions to encourage borrowing and firms sought additional financing to support their operations in view of high operating costs. Most commercial banks reported high interest rates in line with the increase in the Monetary Policy Rate to 9.25 percent in February from 9.0 percent. The Monetary Policy Rate was reported to be appropriate at 9.25 percent to curb the anticipated inflationary pressures during the forecast horizon. Most banks expect the Policy Rate to be maintained at 9.25 percent to address inflationary pressures that may arise from possible increases in fuel pump and food prices, increase in electricity tariffs and sustained depreciation of the exchange rate .

Background

The quarterly Credit Conditions Survey conducted by the Bank of Zambia assesses changes in the demand for and supply of credit by the banking sector, which serve as input into monetary policy decisions.

The survey covers households, small and medium enterprises (SMEs) as well as large corporations. Sectoral changes in credit conditions and the terms under which the different sectors access credit are also reported.

This survey was conducted between March 23, 2023 and April 7, 2023 to assess credit conditions in the banking sector during the first quarter of 2023 and expectations for the second quarter. All the 16 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 II, III and IV, respectively. Section V covers the assessment of the monetary policy stance. The survey methodology is presented in the appendix.

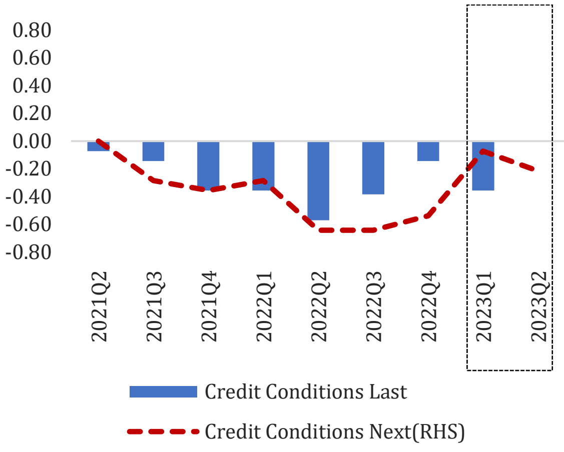
I. Household Sector

Credit Conditions

... remain loose

Credit conditions for households remained favourable mostly due to sustained loose liquidity conditions in the money, market particularly in the first two months of the quarter (Chart 1).

Chart 1: Household Credit Conditions



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

Most commercial banks expect credit conditions for households to remain favourable in the second quarter mostly on account of high level of liquidity in the money market and anticipated positive economic outlook.

Credit Demand

... remains high

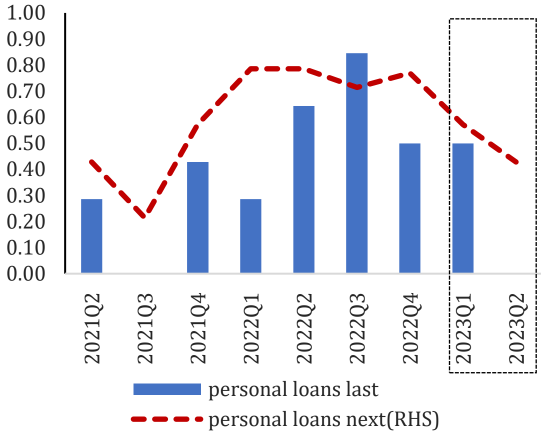
High demand for personal loans[1] was driven by the need to meet personal obligations such as school fees in view of increased cost of living (Chart 2). Further, demand was bolstered by the renewal of the memoranda of understanding for personal loans between banks and various institutions, a change in lending strategy[2], aggressive

[1] Demand for personal loans refers to the number of commercial banks that report willingness of clients to acquire personal loans measured in terms of the number of applications and not value or loan amount.

[2] Preference for loans relative to Government securities.

marketing and general increase in economic activity.

Chart 2: Demand for Personal Loans



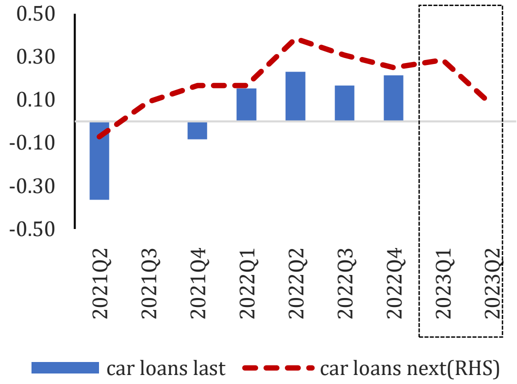
Source: Bank of Zambia

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

In the second quarter, most banks expect high demand for household loans to be sustained as households borrow to supplement disposable incomes due to the high-cost-of-living. Further, the positive economic outlook, changes to risk criteria on personal loans[3] supporting more loans and advances for household is expected to support demand.

Demand for car loans increased, mostly boosted by the banks' introduction/rollout of new Motor Vehicle Loan schemes during the first quarter of 2023(Chart 3). Further, the strategy to increase household loans and advances by some banks contributed to higher demand for car loans.

Chart 3: Demand for Car loans



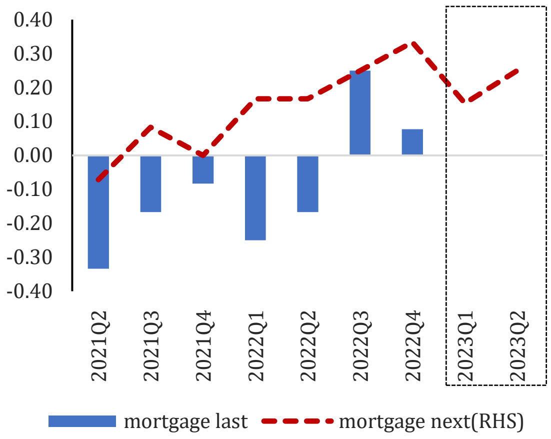
Source: Bank of Zambia

Most commercial banks expect high demand for car loans to continue due to a positive economic outlook as well as the introduction and roll out of new loan schemes. However, some banks reported that demand for car loans may be affected by high borrowing costs and sustained depreciation of the exchange rate.

High demand for mortgage loans was sustained due to the roll-out of new home loans to the market (Chart 4).

[3] One big bank increased the maximum loan disbursement and tenors to K600,000 and 72 months from K450,000 and 60 months respectively.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

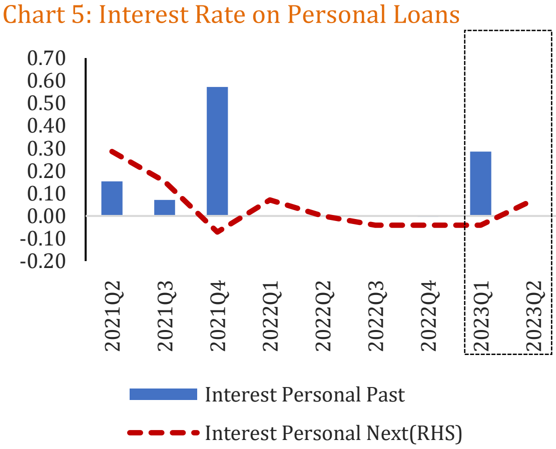
Most commercial banks expect demand for mortgage loans to continue due to the positive economic outlook.

Cost of Credit

… high lending rates maintained

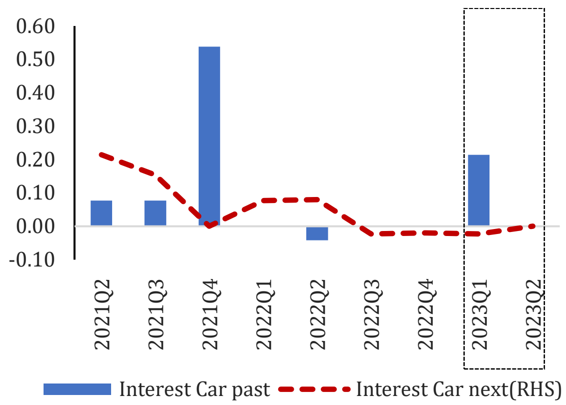
Most commercial banks reported high lending rates for personal, car and mortgage loans during the first quarter (Charts 5 - 7). The increase in the Monetary Policy Rate to 9.25 percent in February 2023 from 9.0 percent and upward adjustment in the statutory reserve ratio largely explain high lending rates in the quarter.

Chart 5: Interest Rate on Personal Loans



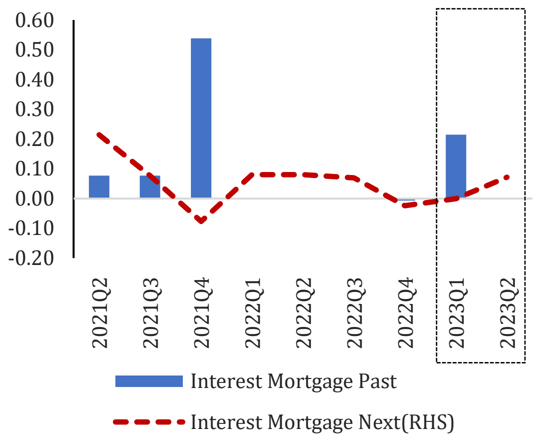
Source: Bank of Zambia
Note: Bars below zero mean low interest rates, above zero high and zero (no bar) means unchanged.

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 commercial banks expect high lending rates for personal, car and mortgage loans to prevail in the near future as inflation is expected to remain elevated due sustained depreciation of the exchange rate of the amid uncertainties surrounding the debt restructuring discussions.

Tenure and Collateral for Household Loans

... no revisions made to loan tenure and collateral requirements

There were no revisions to loan tenure and collateral requirements for the three categories of household loans in line with the existing policy agreements. In the second quarter, only one bank is expected to increase the tenure for car loans as its lending framework has been revised to encourage use of the facility by customers.

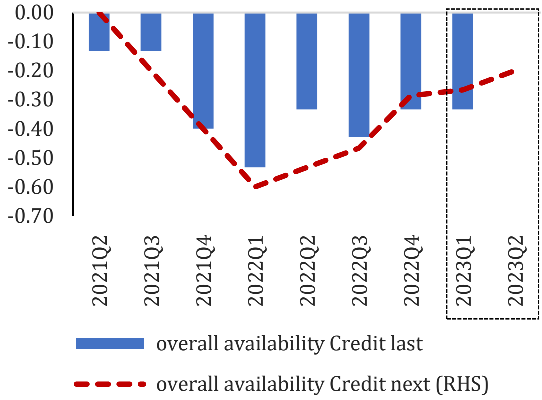
II. Small and Medium Enterprises Sector

Credit Conditions

... loose credit conditions sustained

Credit conditions for SMEs remained favourable due to high liquidity levels in the money market and the introduction/ rollout of new SME loan products[4] (Chart 8).

Chart 8: SMEs Credit Conditions



Source: Bank of Zambia

Most banks expect favourable credit conditions for SME to continue in the second quarter of 2023 as banks roll out new Women Banking and SME Loan Schemes. Ample market liquidity and positive economic prospects are expected to further contribute to favourable credit conditions.

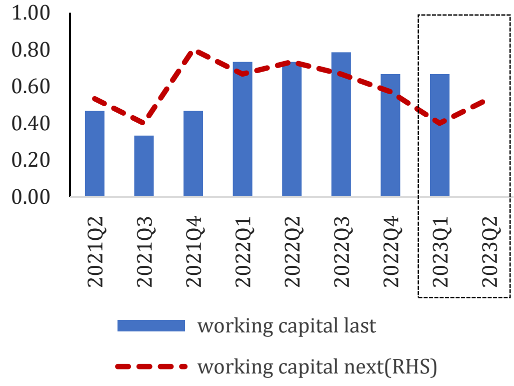
... high demand for working capital and long-term financing sustained

High demand for working capital was sustained mainly due to the roll-out of favourable lending conditions[5] by some banks to encourage borrowing and launch/rollout of new SME loan products (Chart 9). Further, firms sought additional liquidity to finance business operations in view of high operating costs (increases in fuel prices) and to bridge the financing gap caused by delayed contract payments. The deliberate policy by Government to support SMEs and the general pick-up in economic activity in the earlier part of the first quarter also supported demand.

[4] Some banks introduced special products to support Women Banking.

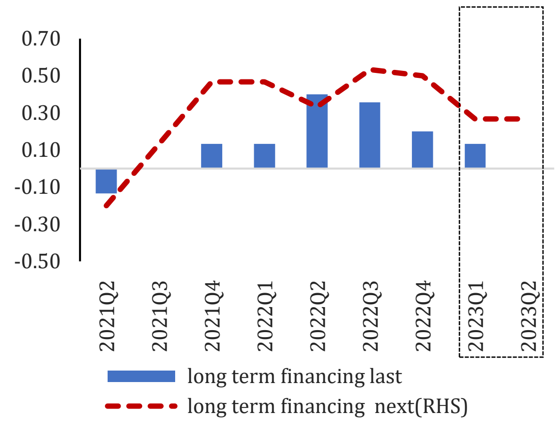
[5] One bank rolled out the "Scored Lending Credit Tool" introduced in June 2022. This tool for determining whether SMEs qualify for loans does not involve financial statements or collateral scrutiny. Instead, Know Your Customer and turnover are used for credit assessment.

Chart 9: Demand for Working Capital



Source: Bank of Zambia

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

Demand for working capital by SMEs is expected to remain high in the second quarter of 2023 due to the positive economic outlook premised on the conclusion of external debt restructuring discussions with the Official Creditor Committee under the G20 Common Framework and other private creditors coupled with the favourable liquidity levels in the money market. In addition, the rollout of new SME products for women and the need for additional financing to support business in view of high operating costs is expected to boost demand for SME working capital.

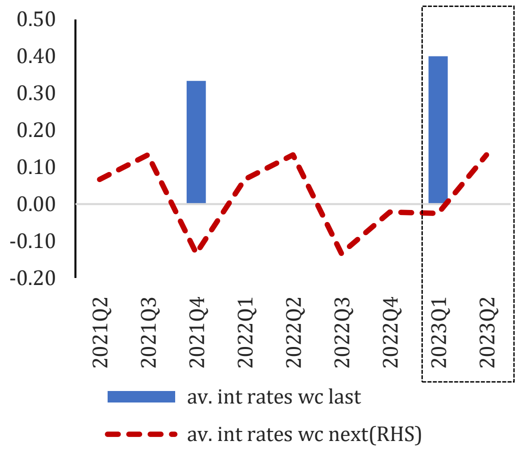
High demand for long-term financing was sustained due to improved economic landscape (Chart 10). However, compared to the previous quarter, demand was lower as most SMEs did not meet the credit appraisal review criteria.

Demand for long-term financing is expected to remain high in the second quarter of 2023 as firms take advantage of the various incentives being offered by some commercial banks including the "Scored Lending Credit Tool" for SMEs long-term financing. Further, positive economic outlook and projects under the Constituency Development Fund (CDF) are expected to boost demand.

Cost of SME Credit
... remains high

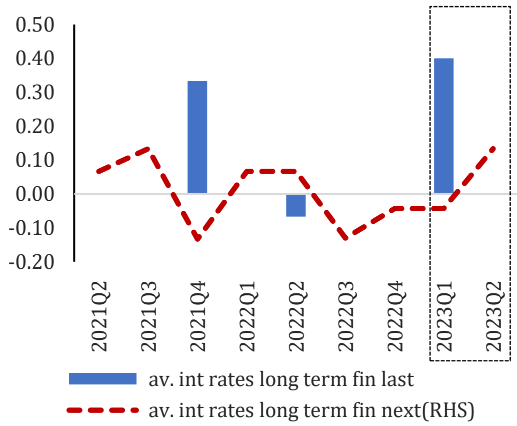
Lending rates for working capital and long-term financing remained high in the first quarter of 2023 in line with increase in yield rates on Government bonds and the Monetary Policy Rate in February 2023 (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most banks envisage high lending rates going forward due to an anticipated inflationary pressure arising from the sustained depreciation of the exchange rate due to uncertainties surrounding the debt restructuring discussions.

Tenure and Collateral for SMEs

... no revisions made to tenure and collateral requirements

No revisions were made to loan tenure and collateral requirements. This was in line with existing policy guidelines. Most banks do not expect to make changes in the second quarter.

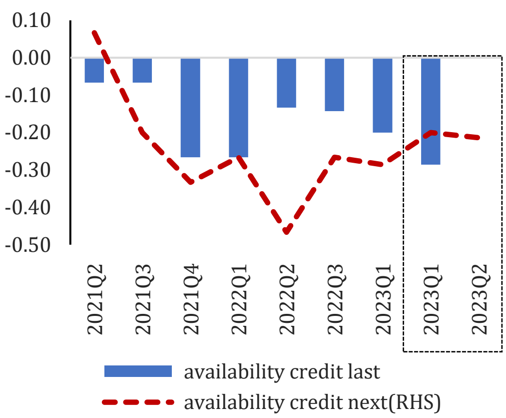
III. Large Corporations Sector

Credit Conditions

... remain loose

Most commercial banks reported loose credit conditions for large corporations. This largely reflects ample liquidity in the money market, particularly in the earlier part of the quarter (Chart 13). In the second quarter of 2023, credit conditions are anticipated to remain loose due to favourable liquidity conditions and better economic prospects.

Chart 13: Credit Conditions Corporations



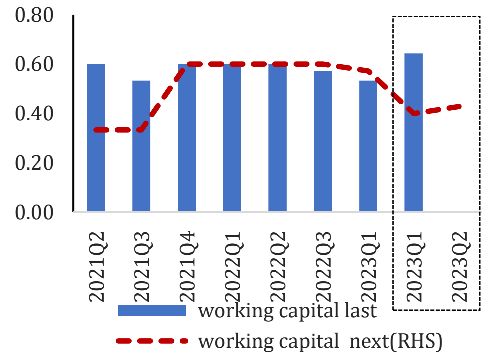
Source: Bank of Zambia

Credit Demand

... for working capital and long-term financing remain high

High demand for working capital was sustained by large corporates to support business operations owing to high production costs arising from increases in fuel prices and loadshedding, particularly in January (Chart 14). Installation of alternative sources of energy, mostly fuel operated generators, necessitated further demand for working capital to avoid disruptions to production as the new financial year commenced. The depreciation of the Kwacha against the US dollar also necessitated the need for additional liquidity to bridge the financing gap, particularly for importing firms that import raw materials for production.

Chart 14 Demand for Working Capital

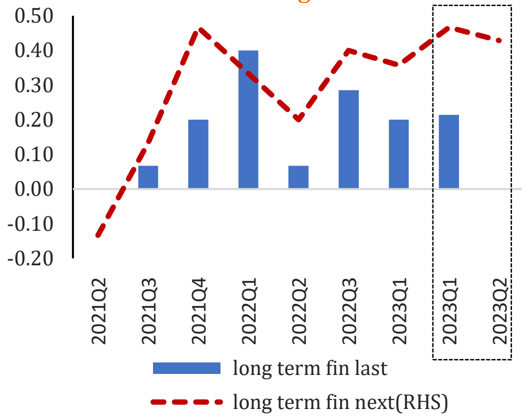


Source: Bank of Zambia

Most commercial banks expect demand for working capital to remain relatively high due to a better economic outlook and further increase in business activity as external debt restructuring discussions are expected to be concluded in the second quarter.

High demand for long-term financing was reported for the first quarter of 2023 as corporates begun funding existing projects, taking advantage of the better economic landscape (Chart 15). Notable increases were observed in the agriculture, manufacturing as well as electricity and gas sectors.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

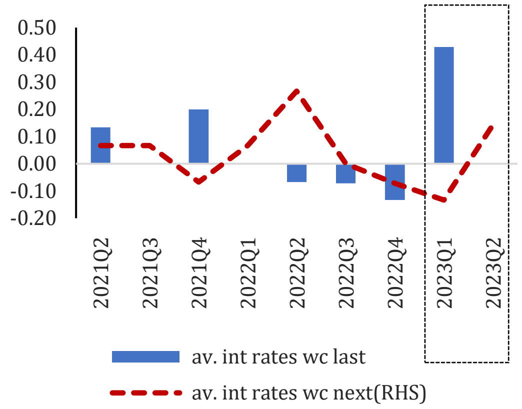
High demand for long-term financing is expected in line with anticipated planned projects and better economic prospects in the second quarter.

Cost of Credit

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

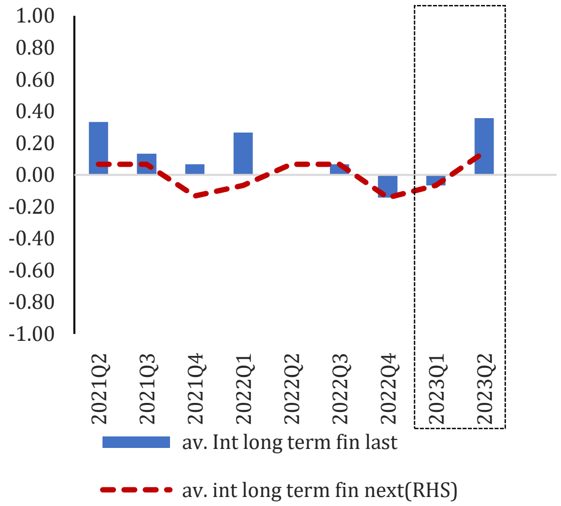
High lending rates for working capital and long-term financing were reported by most banks (Charts 16 and 17). The upward adjustment in the Monetary Policy Rate in February and increased yield rates on Government bonds contributed to an increase in lending rates in the first quarter.

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long- Term Financing



Source: Bank of Zambia

Most commercial banks expect lending rates to remain high in the second quarter of 2023 in line with anticipated increase in inflation due to the sustained depreciation of the Kwacha due to uncertainties in the market surrounding the external debt restructuring discussions and high cost- of-living which may increase demand.

Tenure and Collateral Requirements

... no changes made to tenure and collateral requirements

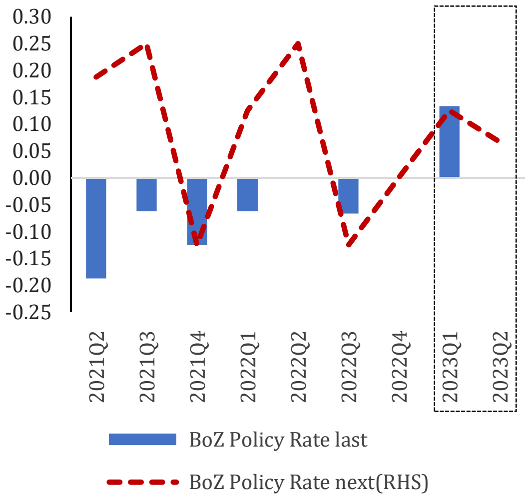
Almost all the commercial banks reported no changes to loan tenure and collateral requirements for working capital and long-term financing. This was in line with the existing policy agreements. Most banks do not anticipate changes in the second quarter of 2023.

V Monetary Policy

... Policy Rate assessed to have been appropriate

Most banks assessed the Monetary Policy Rate to have been appropriate at 9.25 percent to curb the anticipated inflationary pressures during the forecast horizon.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Most commercial banks expect the Monetary Policy Rate to be maintained at 9.25 percent to curb inflationary pressures that may arise from possible increases in fuel pump and food prices caused by the escalation of the Russia-Ukraine war and anticipated increase in electricity tariffs.

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.