

Credit Conditions Survey Second Quarter 2022



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Disclaimer:

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



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Summary of Survey Findings

Credit conditions for households, small and medium enterprises (SMEs) as well as large corporates remained loose for the fourth conservative quarter, largely attributed to more disbursements under the Bank of Zambia (BoZ) Targeted Medium-Term Refinancing Facility (TMTRF).

Demand for personal loans remained high as borrowing to supplement household incomes in light of high cost of living was sustained. Renewal of the memoranda of understanding for personal loans by banks and various institutions also contributed to increased demand in the second quarter.

Demand for car loans also increased further, primarily due to the new motor vehicle loan schemes and products for corporates introduced by two major banks at the beginning of the year. However, low demand for mortgage loans continued in the second quarter due to high lending rates and diminishing household disposable incomes.

In the second quarter, demand for working capital by SMEs and large corporates remained high due to increased need for working capital. This was due to rising production costs in view of high energy prices, which led SMEs and corporates to seek additional working capital to sustain business operations. In addition, increased economic activity and the launch of new loan products boosted demand for working capital.

Most commercial banks expect demand for personal loans to be sustained in the third quarter in order to supplement household incomes amid high cost of living. Similarly, high demand for car loans is expected to continue as borrowing under the new loan schemes is sustained and economic prospects remain positive. Most banks expect demand for mortgage loans to recover following the introduction of new home/mortgage products and anticipated better macroeconomic prospects.

Further, banks expect high demand for working capital by SMEs and large corporates to continue in the third quarter due to better economic prospects and the need for liquidity to support businesses operations in view of high production costs. Optimism about the approval of an IMF Programme in September is expected to boost economic activity and lead to increased demand for working capital.

There were no revisions to loan tenure and collateral requirements for all loans across all sectors in the second quarter in line with existing credit policy agreements. Most banks do not expect changes in the third quarter.

Interest rates are reported to have been high as the Monetary Policy Rate was maintained at 9.0 percent in May. Most commercial banks assessed the Policy Rate of 9.0 percent to have been appropriate in the second quarter on account of the need to support economic growth and continued deceleration in inflation.

In the third quarter, most banks expect interest rates to remain high following the recent rise in yield rates on Government securities, potential impact of rising domestic borrowing requirements by Government to finance the budget deficit, possible more increases in fuel pump and food prices on account of the Ukraine-Russia conflict as well as anticipated hike in electricity tariffs. This may necessitate the Bank of Zambia to raise the Monetary Policy Rate to curb inflationary pressures.

I. Background

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

The survey covers households, small and medium enterprises (SMEs) and 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 June 23 and July 8, 2022 to assess credit conditions in the banking sector during the second quarter of 2022 and expectations for the third quarter of 2022. All the 16¹ 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.

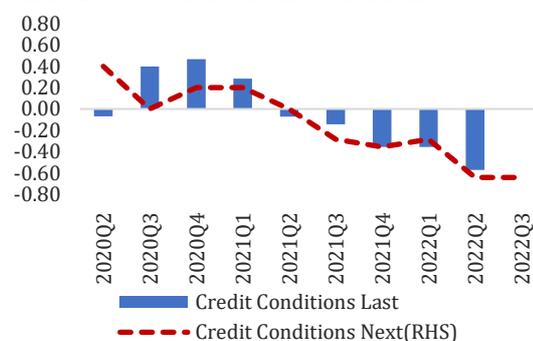
II. Household Sector

... credit conditions for households remain loose

Credit Conditions

Credit conditions for households remained loose for the fourth consecutive quarter, largely attributed to more disbursements under the Bank of Zambia (BoZ) Targeted Medium-Term Refinancing Facility (TMTRF)² (Chart 1).

Chart 1: Household Credit Conditions



Source: Bank of Zambia

Note: Bars below zero mean loose, above zero tight and zero means unchanged.

Commercial banks expect credit conditions for households to remain favourable in the third quarter due to the anticipated positive economic outlook.

Credit Demand

... demand for household credit mixed

Demand for personal loans³ remained high as borrowing to supplement

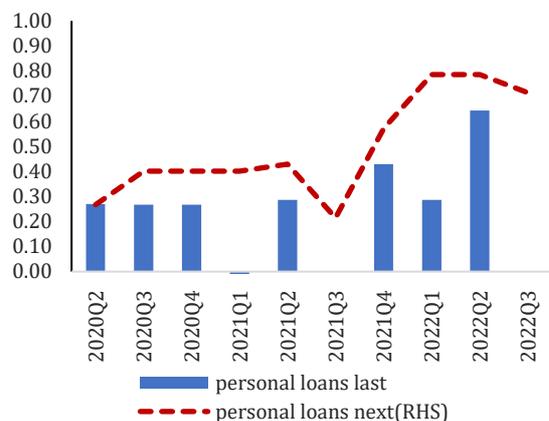
¹ The total number of commercial banks surveyed reduced to 16 from 17 following the merger of Cavmont Capital Holdings Zambia and Access bank Zambia Limited in February 2021.

² Disbursements increased by K0.2 billion to K9.8 billion in the second quarter.

³ 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.

household incomes in light of high cost of living was sustained. Demand was also supported by the renewal of the memoranda of understanding for personal loans between banks and various institutions (Chart 2).

Chart 2: Demand for Personal Loans



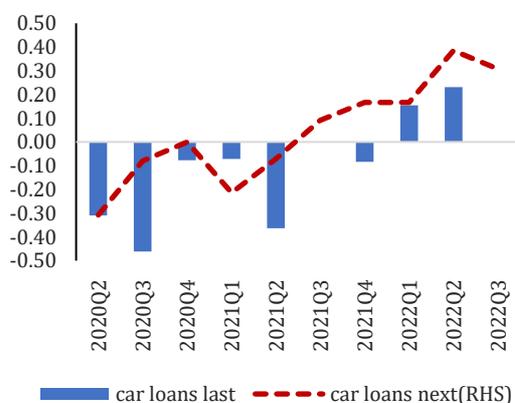
Source: Bank of Zambia

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

Commercial banks expect demand for credit to be sustained in the next quarter as households continue to borrow to supplement incomes due to the continued high cost of living.

Demand for car loans also rose further largely on account of new motor vehicle loan schemes and products introduced by two major banks (Chart 3).

Chart 3: Demand for Car loans

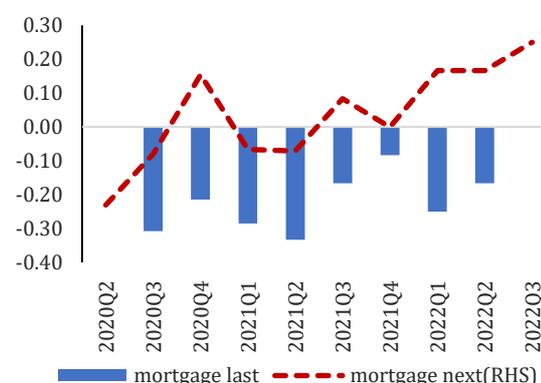


Source: Bank of Zambia

Most commercial banks expect demand for car loans to be supported by continued borrowing under the new loan schemes and positive economic outlook.

However, low demand for mortgage loans continued in the second quarter due to high interest rates and diminishing household disposable incomes (Chart 4).

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

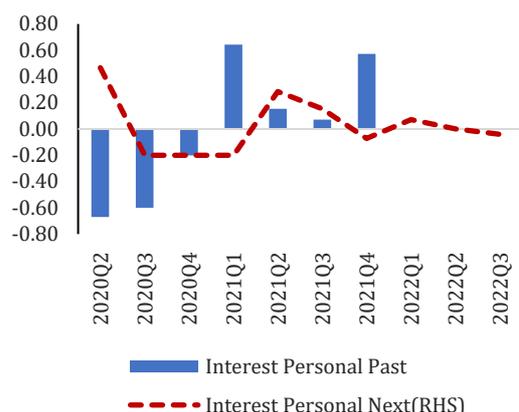
However, most banks expect demand for mortgage loans to recover in the next quarter premised on the introduction of new home/mortgage products on the market by some banks and anticipated better macroeconomic prospects.

Cost of Credit

... high lending rates sustained

Lending interest rates for personal, car and mortgage loans were sustained as the Monetary Policy Rate was maintained at 9.0 percent in May (Charts 5- 7).

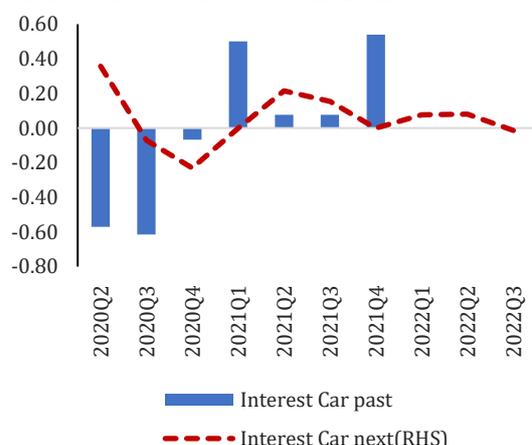
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

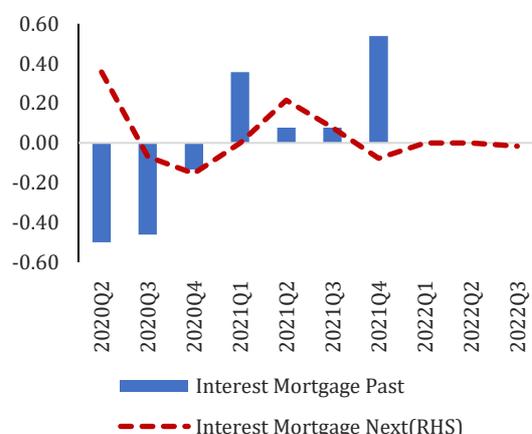
Chart 6: Interest Rate on Car Loans



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

Lending rates are expected to remain high in the third quarter following the recent rise in yield rates on Government securities.

Tenure and Collateral for Household Loans

... no changes made to loan tenures and collateral requirements

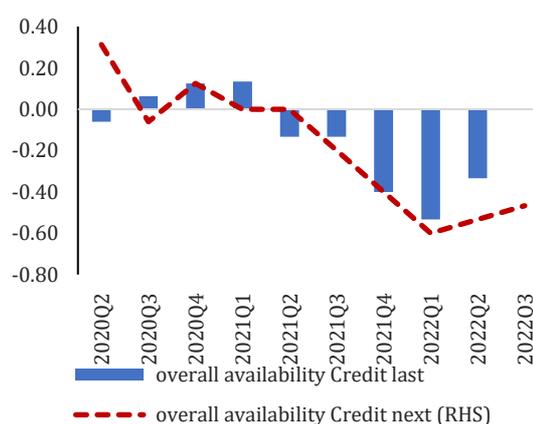
No revisions were made to the loan tenure and collateral requirements for personal, car and mortgage loans in line with existing credit policy agreements. Most banks do not expect changes in the third quarter.

III. Small and Medium Enterprises Sector

... loose credit conditions for SMEs sustained

Credit conditions for SMEs improved further on account of more drawdown on the TMTRF (Chart 8).

Chart 8: SMEs Credit Conditions



Source: Bank of Zambia

Most banks expect loose credit conditions to prevail for SMEs in the third quarter as economic activity picks up, new micro, small and medium enterprise (MSME) loan schemes are

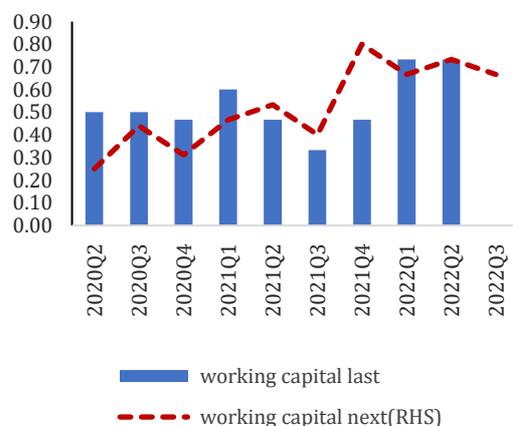
introduced by some banks and an IMF Economic Programme is approved.

Credit Demand

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

Demand for working capital remained high in the second quarter due to increased need for working capital for the tenth consecutive quarter (Chart 9). Rising production costs in view of high energy prices led SMEs to seek additional working capital to sustain business operations. In addition, the increase in economic activity boosted demand for working capital to support production. Further, some banks launched new SME loan products, which also boosted demand for working capital.

Chart 9: Demand for Working Capital



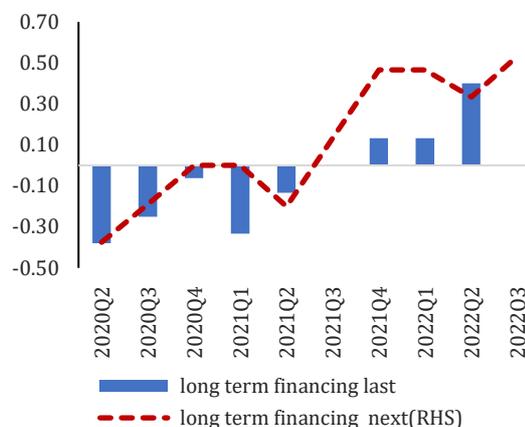
Source: Bank of Zambia

Most banks expect high demand for working capital to be maintained in the third quarter on better economic prospects and need the for liquidity to support business operations in view of high production costs.

⁴ Large corporate—Zambeef, Zambia Breweries and Zambia Sugar—have publicly shared plans

Most commercial banks reported high demand for long-term financing due to improving macroeconomic conditions (Charts 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

Demand for long-term financing is expected to be maintained in the third quarter as firms take advantage of favourable economic prospects and newly launched MSME loan schemes to finance existing and new projects⁴. Further, Government's deliberate policy of involving SMEs in economic development through the Community Development Fund may necessitate increased demand for long-term financing.

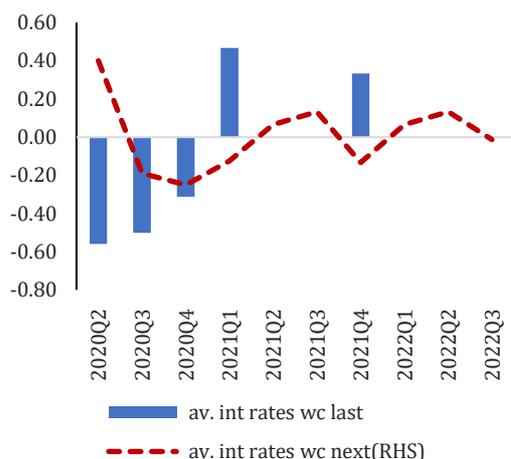
Cost of SME Credit

... high lending rates sustained

Lending rates for both working capital and long-term financing were maintained in line with the Monetary Policy Rate (Charts 11 and 12).

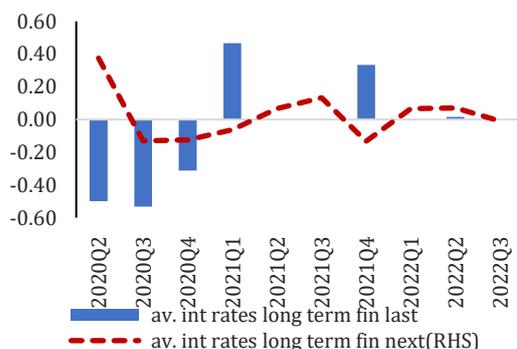
for capacity expansion. In addition, higher demand will come from the agriculture sector as farmers prepare for the next season.

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Banks expect a further rise in lending rates due to the potential impact of rising domestic borrowing requirements by Government to finance the budget deficit and inflationary pressures that may necessitate the Bank of Zambia to raise the Monetary Policy Rate.

Tenure and Collateral for SMEs

... tenure and collateral requirements remain unchanged

Most commercial banks did not change loan tenures and collateral requirements in the second quarter in line with existing credit guidelines.

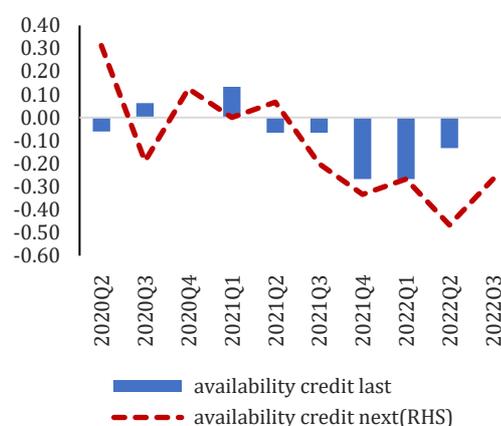
These requirements are expected to be maintained in the third quarter.

IV. Large Corporations Sector

... loose credit conditions for corporations maintained

Credit conditions for large corporations remained loose due to more disbursements under the TMTRF (Chart 13).

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

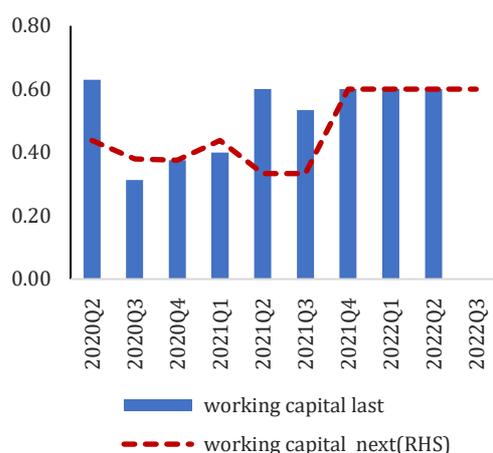
Most banks expect conditions to improve on better economic prospects

Credit Demand

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

Most commercial banks reported sustained high demand for working capital by large corporates in the second quarter to support business operations (Chart 14).

Chart 14 Demand for Working Capital



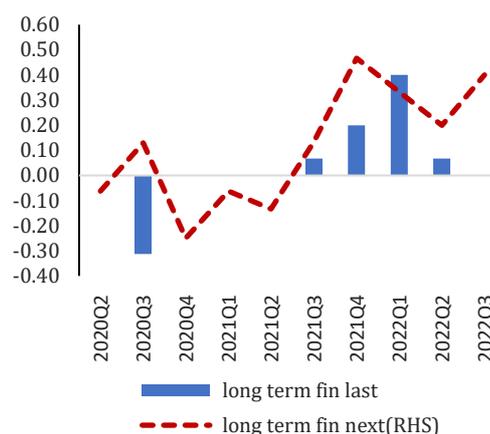
Source: Bank of Zambia

In addition, a pick-up in economic activity contributed to increased demand for working capital.

In the third quarter, most banks expect demand for working capital to remain elevated in line with anticipated increased business activities. Further, better economic prospects and optimism about the approval of an IMF Economic Programme in September is expected to boost economic activity and lead to more demand for working capital.

High demand for long-term financing was reported in the second quarter as corporates took advantage of the improved economic landscape and begun funding some capital investments. In addition, a pick-up in economic activity, particularly in the mining sector, also contributed to increased demand for long-term financing (Chart 15).

Chart 15: Demand for Long-term Finance



Source: Bank of Zambia

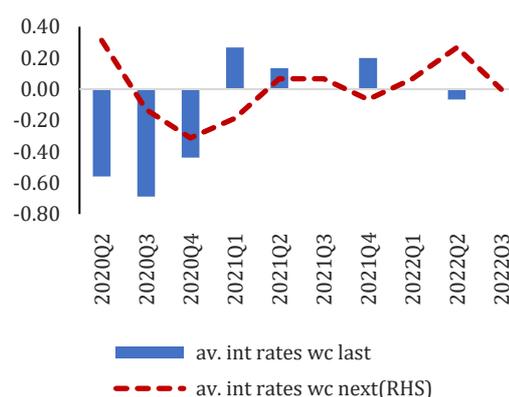
High demand for long-term financing is expected to continue in the ensuing quarter as economic activity picks up.

Cost of Credit

... lending rates for working capital and long-term financing remained elevated

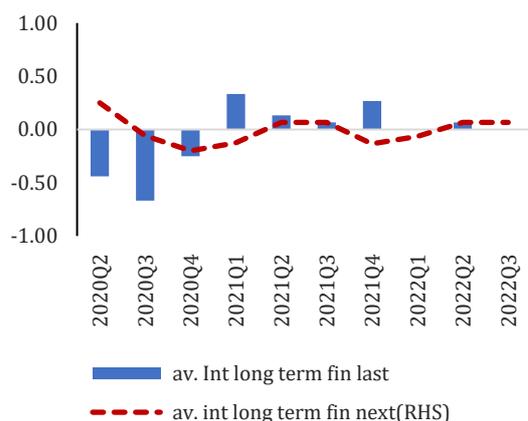
Most commercial banks reported high lending rates for both working capital and long-term financing in the second quarter (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long Term Financing



Source: Bank of Zambia

Most banks expect interest rates to increase further in the third quarter in line with tightening global financial conditions and inflationary pressures that may arise from increases in energy prices on account of the on-going Russia-Ukraine conflict. This may necessitate the Bank of Zambia to raise the Monetary Policy Rate.

Tenure and Collateral Requirements

...no revisions made to tenure and collateral requirements

There were no revisions made to loan tenures and collateral requirements for working capital and long-term financing in the second quarter. This was in line with the existing credit guidelines and agreements. No changes are expected in the third quarter.

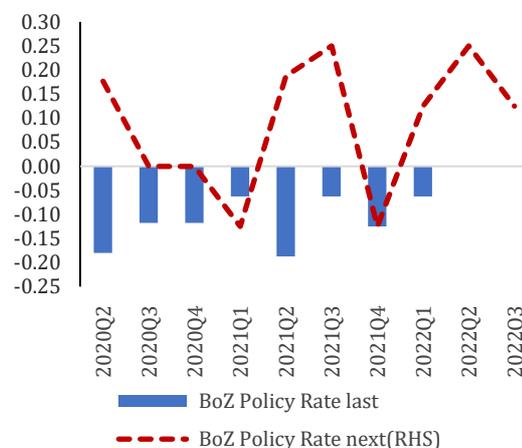
V Monetary Policy

... Policy Rate was assessed to have been appropriate

Most commercial banks assessed the Policy Rate to have been appropriate at 9.0 percent on account of continued

deceleration in inflation and the need to support economic growth.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Most banks anticipate the Monetary Policy Rate to be raised to curb inflationary pressures that may arise from possible increases in fuel pump and food prices on account of the Ukraine-Russia conflict and anticipated hike 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:

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

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.