

Credit Conditions Survey



November 2022

Disclaimer:

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



Bank of Zambia



Bank of Zambia

REGISTERED OFFICES

Head Office

Bank of Zambia, Bank Square, Cairo Road P. O. Box
30080, Lusaka, 10101, Zambia Tel: (+260) 211 399300
E-mail: info@boz.zm

Website: www.boz.zm

Regional Office

Bank of Zambia, Buteko Avenue, P. O. Box 71511, Ndola,
Zambia Tel: (+260) 212 399600
E-mail: info@boz.zm

Website: www.boz.zm

Table of Contents

Summary of Survey Findings.....	1
I. Background.....	2
II. Household Sector	2
Credit Conditions.....	2
Credit Demand.....	2
Cost of Credit	4
Tenure and Collateral for Household Loans	5
III. Small and Medium Enterprises Sector	5
Cost of SME Credit.....	6
Tenure and Collateral for SMEs	6
IV. Large Corporations Sector.....	7
Credit Demand.....	7
Cost of Credit	8
Tenure and Collateral Requirements	8
V Monetary Policy.....	8
Appendix	10
Survey Methodology - Data Analysis	10

Summary of Survey Findings

Credit conditions for households, small and medium enterprises (SMEs) as well as large corporations remained loose in the third quarter. This was underpinned by improvements in market liquidity conditions. Most banks expect credit conditions to remain loose in the fourth quarter on account of sustained high levels of liquidity. High demand for household loans, working capital and long-term financing was sustained. The need to meet personal obligations, general pick-up in economic activity following the approval of an IMF ECF in August and appreciation of the Kwacha against the US dollar contributed to increased demand. Rising operating costs following the increase in fuel prices supported the rise demand for working capital by SMEs and large corporations. The introduction of new loan products on the market for households, SMEs and large corporates also contributed to the increase in the demand for credit. Interest rates were reported to have been high as the Monetary Policy Rate was maintained at 9.0 percent. However, interest rates are expected to decline in the fourth quarter due to anticipated deceleration in inflation. Most commercial banks expect the Policy Rate to be maintained at 9.0 percent, with a possible downward revision to support economic growth. However, possible inflationary pressures are envisaged from the geopolitical tensions in Ukraine-Russia that may affect fuel and food prices.

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 September 30 and October 14, 2022 to assess credit conditions in the banking sector during the third quarter of 2022 and expectations for the fourth 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.

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.

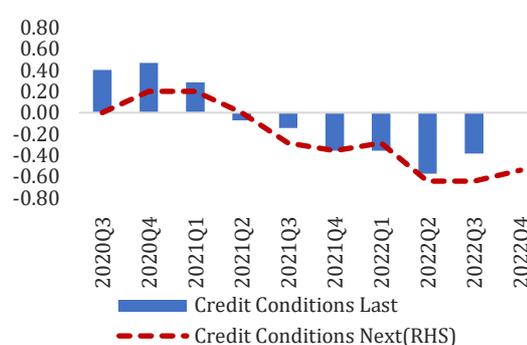
II. Household Sector

... household credit conditions remained loose

Credit Conditions

Credit conditions for households remained loose in the third quarter broadly in line with expectations (Chart 1). Improvement in market liquidity conditions largely kept credit conditions loose.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

Most banks expect credit conditions to remain loose in the fourth quarter as high market liquidity levels are likely to be maintained.

Credit Demand

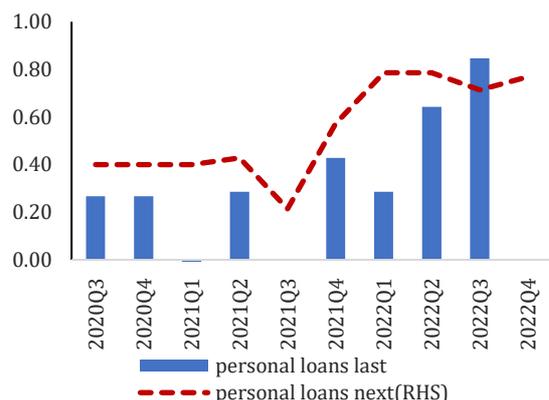
... high demand for household credit maintained

Demand for personal loans² was sustained in the third quarter as

² 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.

households sought to meet various obligations such as school fees (Chart 2). Renewal of memoranda of understanding for personal loans between banks and various institutions, aggressive marketing and change in lending strategy³ also contributed to high demand.

Chart 2: Demand for Personal Loans



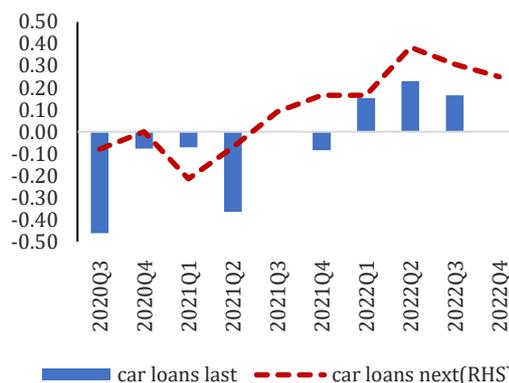
Source: Bank of Zambia

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

Household demand for loans is expected to remain high in the fourth quarter owing to the need to meet personal obligations.

Similarly, demand for car loans increased following the introduction of new motor vehicle loan products, aggressive marketing and appreciation of the Kwacha against the US dollar (Chart 3).

Chart 3: Demand for Car loans

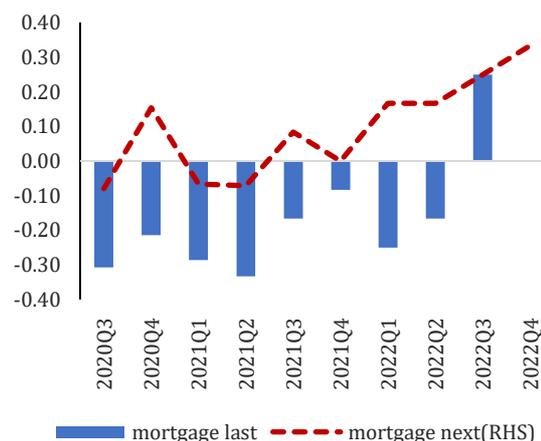


Source: Bank of Zambia

Most banks expect demand for car loans to increase further on account of positive economic outlook, anticipated further appreciation of the Kwacha against the US dollar and sustained borrowing from new loan schemes.

Demand for mortgage loans recovered in the third quarter after eight consecutive quarters of subdued demand (Chart 4). This was largely on account of the introduction of new mortgage products such as new home completion products.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

³ Preference for loans relative to Government securities.

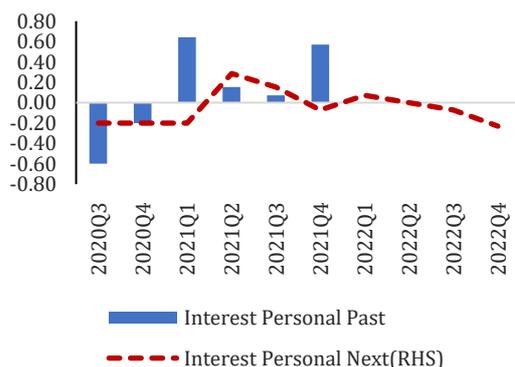
Most banks expect demand for mortgage loans to remain high in the fourth quarter as banks roll out new home loan mortgage schemes/products. In addition, the anticipated positive economic outlook and reduction in interest rates⁴ will further increase demand for mortgage loans.

Cost of Credit

... lending rates remain high

Lending interest rates for personal, car and mortgage loans remained high for the fifth consecutive quarter as the Monetary Policy Rate was maintained at 9.0 percent in August (Charts 5- 7).

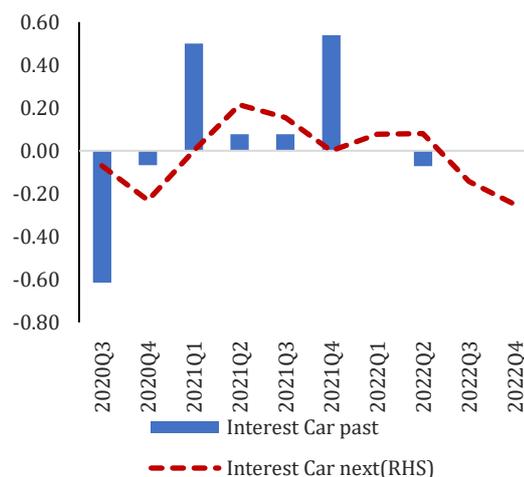
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

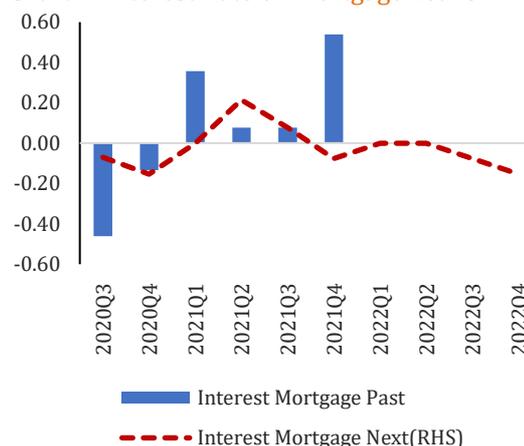
Chart 6: Interest Rate on Car Loans



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 for the three categories of household loans are projected to decline in the fourth quarter due to downward revisions in lending rates by some banks, particularly for personal and mortgage loans.

⁴ Only two banks (Standard Chartered bank and First National Bank) have reduced lending rates on personal loans and mortgage

Tenure and Collateral for Household Loans

...loan tenures and collateral requirements remained unchanged

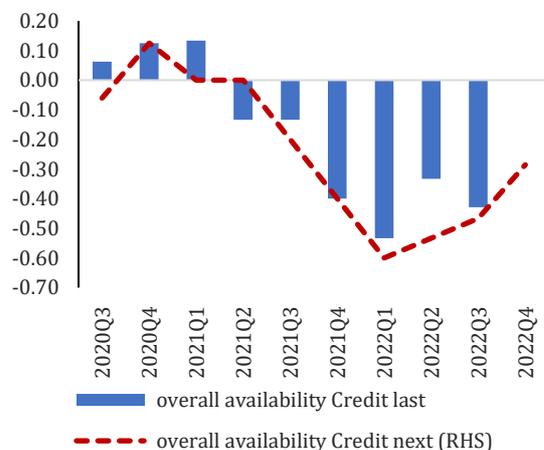
In line with policy agreements, tenure and collateral requirements for all categories of household loan facilities were not revised. One bank is expected to increase the tenure for loans⁵ in the fourth quarter.

III. Small and Medium Enterprises Sector

... credit conditions for SMEs remain loose

Credit conditions for SMEs improved further for the sixth consecutive quarter mostly due to the increase in market liquidity and launch of new SME loan schemes and products. (Chart 8).

Chart 8: SMEs Credit Conditions



Source: Bank of Zambia

Most commercial banks expect credit conditions for SMEs to remain loose in

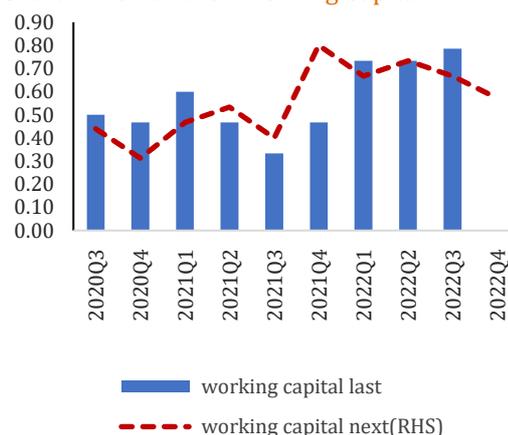
⁵ One bank indicated an increase in tenure to reduce the risk of default on large loans as households increased demand for loans due to the expected decline in interest rates. The bank also indicated an increase in collateral requirements on all household products due to

the fourth quarter, due to sustained high market liquidity levels and the pick-up in economic activity.

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

Demand for working capital was reported to have risen for SMEs in the third quarter in line with expectations (Chart 9). This was largely on account of the change in business strategy⁶ to support the SMEs through the introduction of new loan schemes following increased economic activity. In addition, SMEs required additional working capital to meet operating and production costs following the increase in diesel prices.

Chart 9: Demand for Working Capital



Source: Bank of Zambia

Most banks expect demand for working capital by SMEs to remain high in the fourth quarter as firms seek additional liquidity to sustain business operations. In addition, the pick-up in economic activity following the approval of an IMF Extended Credit Facility (ECF) in August

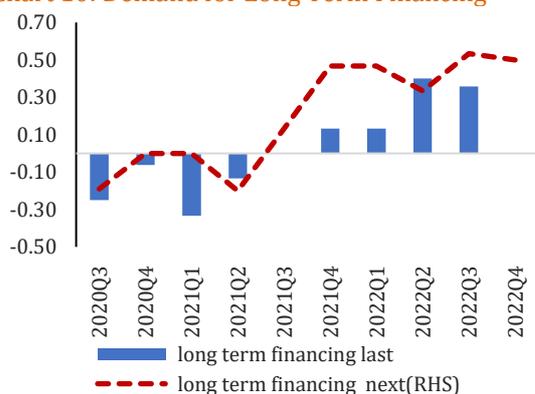
increased risk appetite owing to improved economic outlook.

⁶ Some banks launched loan products specifically for women to narrow the gender gap in accessing financial products.

is expected to boost demand for working capital to support production and meet various supply contracts. The newly launched SME loan products by banks and better economic prospects are also expected to increase demand.

High demand for long-term financing was sustained in the third quarter largely on account of better macroeconomic conditions (Charts 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

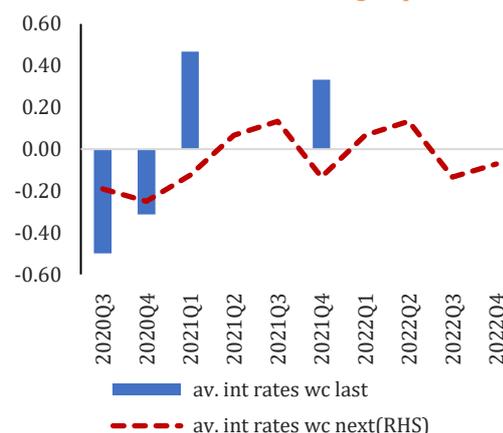
Demand for long-term financing is expected to be high in the following quarter, following the roll out of newly launched SME loan products and better economic prospects.

Cost of SME Credit

... lending rates remain high

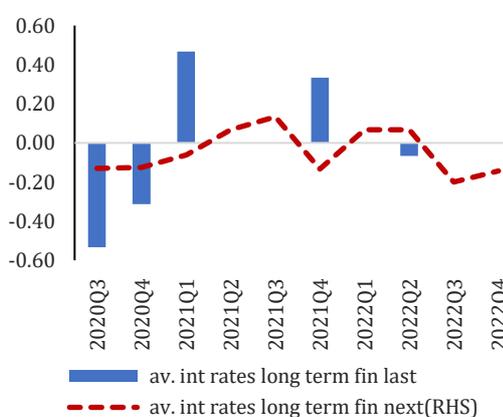
Lending rates for both working capital and long-term financing remained high in the third quarter in line with the Monetary Policy Rate (Charts 11 and 12). This was despite improvements in market liquidity conditions.

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most banks expect lending rates to reduce due to the deceleration in inflation and expected lower inflation in the medium-term.

Tenure and Collateral for SMEs

... no revisions made to tenure and collateral requirements

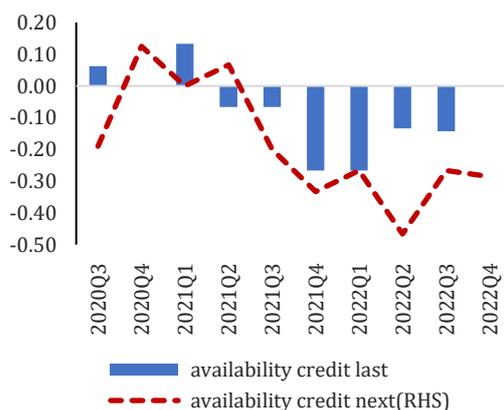
Loan tenures and collateral requirements were maintained in the third quarter in line with existing credit agreements. Most commercial banks expect this to be maintained in the fourth quarter.

IV. Large Corporations Sector

... credit conditions for corporations remain loose

Credit conditions for large corporations continued to be loose in the third quarter owing to the improvement in liquidity conditions and better macroeconomic environment following the approval of an IMF ECF in August (Chart 13). This resulted in increased borrowing by large corporations to expand existing projects and finance new ones. Most commercial banks expect loose conditions to be maintained in the fourth quarter.

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

Credit Demand

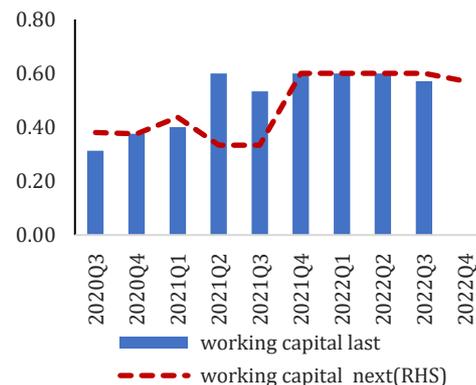
... high demand for working capital and long-term financing sustained

Demand for working capital by large corporates remained high in the third quarter due to a general pick-up in economic activity following the approval of an IMF ECF (Chart 14). Further, demand increased due to the strategy by banks to increase corporate credit to mainly to the agriculture⁷

⁷ Demand increased in the agriculture sector to enable large corporates prepare for the summer

mining, manufacturing as well as electricity, gas, water and energy sectors. The large corporates also imported raw materials to increase production and capital goods to expand existing projects to take advantage of the appreciation of the Kwacha against the US dollar.

Chart 14 Demand for Working Capital



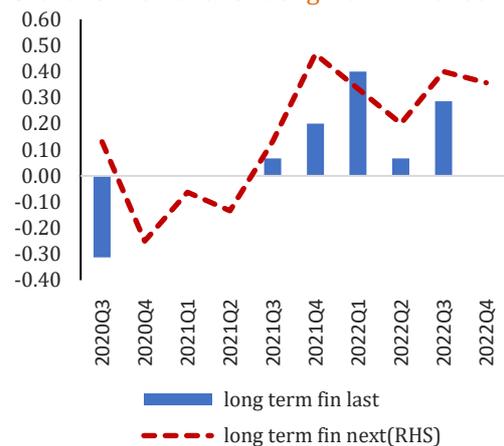
Source: Bank of Zambia

Most banks expect demand for working capital to remain high in the fourth quarter. This is mostly on account of pipeline projects that need to be financed and general positive economic outlook.

Demand for long-term financing was reported to have been high as some large corporates— borrowed to expand existing projects owing to better economic prospects (Chart 15). In addition, some banks continued providing long-term financing due to the pick-up in economic activity.

cropping season and purchase inputs in readiness for the farming season

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

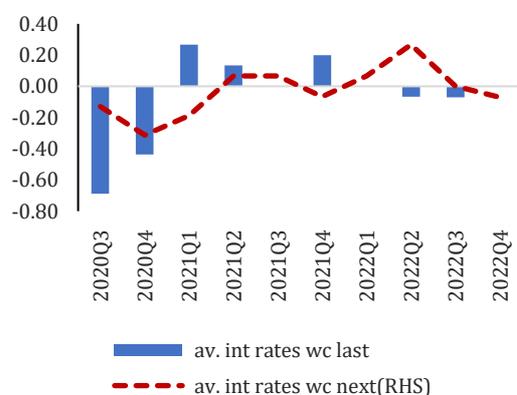
Most banks anticipate demand for long-term financing to increase further in the next three months as large corporates borrow to finance new projects in 2023, taking advantage of the better macroeconomic environment.

Cost of Credit

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

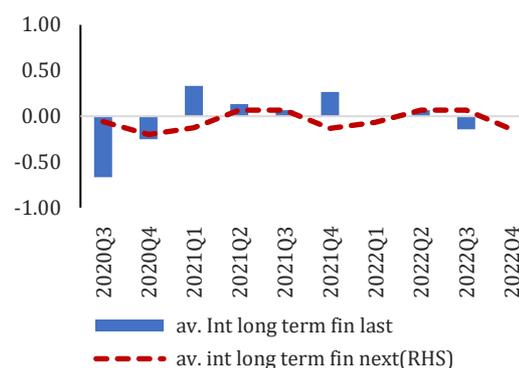
Lending rates for both working capital and long-term financing remained elevated in the third quarter (Charts 16 and 17).

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 reduce in the fourth quarter on account of the sharp deceleration in inflation and expected further decline in the medium-term.

Tenure and Collateral Requirements

... tenure and collateral requirements remain unchanged.

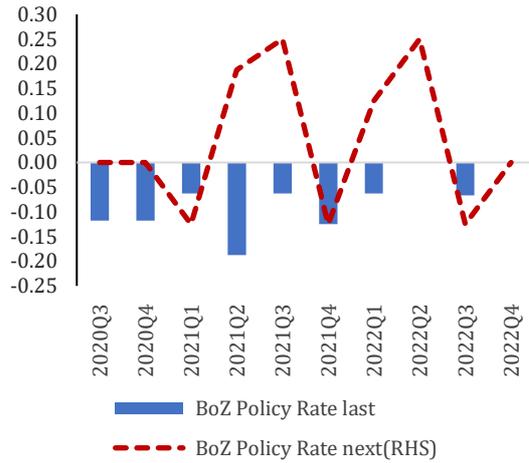
Loan tenure and collateral requirements for working capital and long-term financing were maintained in the third quarter in line with existing credit guidelines and agreements. Most banks do not expect changes in the fourth quarter.

V Monetary Policy

... Policy Rate was assessed to have been appropriate

Most commercial banks assessed the Monetary Policy Rate at 9.0 percent to have been appropriate due to improved macroeconomic fundamentals and the need to provide a balance between supporting economic growth and anchoring inflation expectations.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Commercial banks expect the Monetary Policy Rate to be maintained at 9.0 percent with a possible downward revision on account of the need to support economic growth through private sector development, projected further deceleration in inflation towards the 6 -8 percent target band in the medium-term and implementation of fiscal consolidation measures by Government following approval of the IMF ECF.

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.