

# Bank of Zambia Credit Conditions Survey First Quarter 2022



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**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.....	1
I. Background.....	2
II. Household Sector .....	2
Credit Conditions.....	2
Credit Demand.....	2
Cost of Credit .....	3
Tenure and Collateral for Household Loans .....	4
III. Small and Medium Enterprises Sector .....	4
Credit Demand.....	5
Cost of SME Credit.....	6
Tenure and Collateral for SMEs .....	6
IV. Large Corporations Sector.....	6
Credit Demand.....	7
Cost of Credit .....	7
Tenure and Collateral Requirements .....	8
V. Assessment of Monetary Policy Stance .....	8
Appendix.....	9
Survey Methodology - Data Analysis .....	9

## Summary of Survey Findings

*Credit conditions for households, small and medium enterprises (SMEs) as well as large corporates continued to be loose in the first quarter of 2022. High money market liquidity on account of more drawdown from the Bank of Zambia Targeted Medium Term Refinancing Facility (TMTRF) largely accounted for the loose credit conditions.*

*Demand for personal loans increased as households sought liquidity to pay for tuition fees following the re-opening of schools. Demand for car loans also edged upwards mostly due the introduction of new motor vehicle scheme for corporates. However, rising property prices, high lending rates and low disposable incomes continued to suppress demand for mortgage loans. In addition, the weakening of the Kwacha and subsequent high cost of imported building materials impacted demand for mortgage loans.*

*Demand for working capital by both SMEs and large corporations was reported to have been high in the first quarter. This was largely driven by increased need for working capital to cover escalating production costs arising from a weaker Kwacha and increase in energy prices. Banks reported that large corporates had appetite to borrow for long-term projects due to positive economic prospects.*

*In the next quarter, demand for personal loans is expected to remain high in view of the need by households to supplement incomes in the wake of the high cost of living. Demand for car and mortgage loans is also expected to increase due to positive economic prospects. Banks expect demand for working capital by SMEs and large corporations to remain*

*high in the second of quarter as SMEs seek liquidity to boost and keep their businesses afloat amid high operating costs. In addition, high demand for working capital is premised on positive economic outlook.*

*Tenure and collateral requirements for all loans across sectors remained unchanged in line with existing credit policy guidelines. Banks envisage no revisions in the second quarter.*

*Interest rates were reported to have remained high mostly in line with the Monetary Policy Rate which was **maintained at 9.0 percent in the first quarter**. Commercial banks assessed the Policy Rate of 9.0 percent to have been appropriate in the first quarter as the Bank of Zambia sought to steer inflation towards single digit by the end of 2022. Most commercial banks, however, anticipate interest rates to increase in the second quarter of 2022 as the Monetary Policy Rate is revised in view of rising inflationary pressures from energy 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 an input into monetary policy decisions.

The survey covers households, 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 March 28, 2022 and April 8, 2022 to assess credit conditions in the banking sector during the first quarter of 2022 and expectations for the second quarter of 2022. 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 on the assessment of the monetary policy stance. The survey methodology is presented in the appendix.

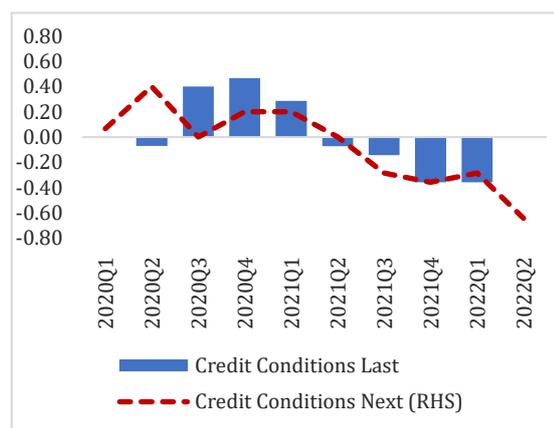
## II. Household Sector

*... credit conditions for households still loose*

### Credit Conditions

Credit conditions for households remained loose in the first quarter of 2022 (Chart 1).

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

More disbursements from the BoZ Targeted Medium-Term Refinancing Facility (TMTRF) <sup>1</sup> contributed to loose credit conditions. Commercial banks expect credit conditions for households to remain loose in the second quarter.

### Credit Demand

*... household credit demand mixed*

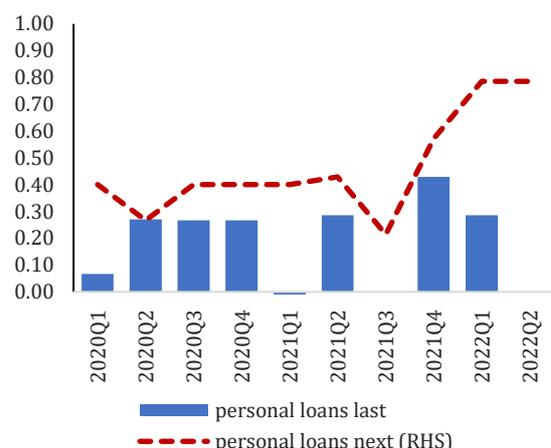
High demand for personal loans<sup>2</sup> was sustained by the need to supplement incomes to meet recurring obligations such as school fees (Chart 2). This demand is expected to be maintained in the next quarter in light of the high cost of living.

<sup>1</sup> Disbursements increased by K0.3 billion to K9.6 billion in March 2022.

<sup>2</sup> 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.

Chart 2: Demand for Personal Loans

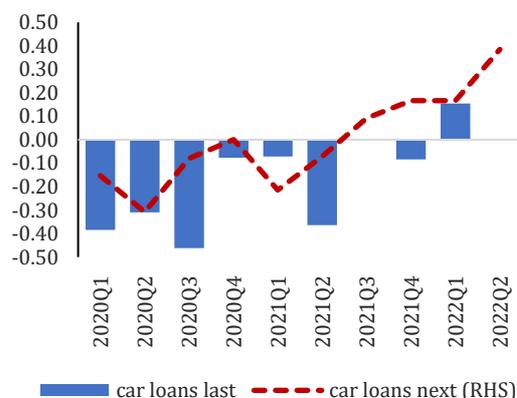


Source: Bank of Zambia

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

Demand for car loans also rose, following the introduction of a new motor vehicle scheme by two large banks (Chart 3).

Chart 3: Demand for Car loans



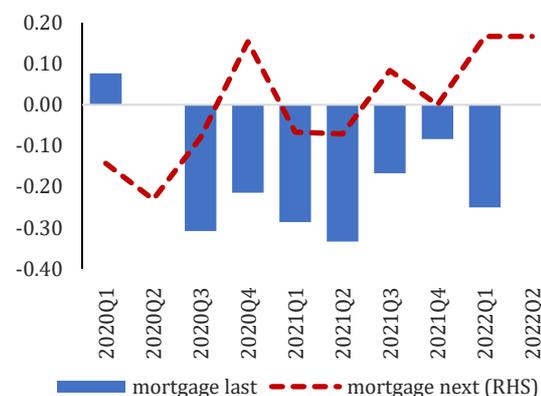
Source: Bank of Zambia

Most commercial banks expect demand for car loans to remain high on account of new motor vehicle loan products introduced on the market in view of better macroeconomic prospects<sup>3</sup>.

<sup>3</sup> Expectation of an IMF Programme to be concluded end-June, pick-up in economic activity owing to crop marketing season, and rolling out of the Community Development Fund (CDF) to positively impact on businesses.

However, demand for mortgage loans remained subdued in the first quarter as disposable incomes remained low while property prices are elevated amplified by borrowing costs (Chart 4).

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

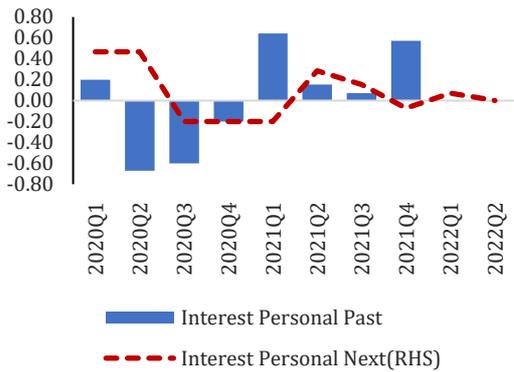
Most commercial banks, however, expect demand for mortgage loans to pick-up in the second quarter due to positive economic prospects and the introduction of new mortgage products.

### Cost of Credit

*... lending rates remain high*

Interest rates on personal, car and mortgage loans remained high in the first quarter. This partly reflects the upward adjustment in the Policy Rate in November 2021 (Charts 5- 7).

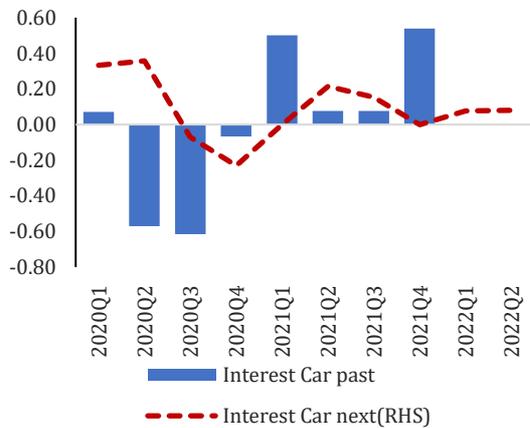
**Chart 5: Interest Rate on Personal Loans**



Source: Bank of Zambia

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

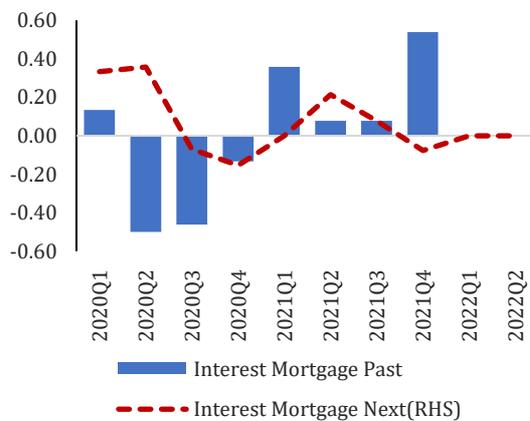
**Chart 6: Interest Rate on Car Loans**



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

Most banks expect lending rates for personal, car and mortgage loans to remain high in the second quarter on anticipated rise in the Monetary Policy Rate to mitigate inflationary pressures.

### Tenure and Collateral for Household Loans

*... no revisions made to loan tenures and collateral requirements*

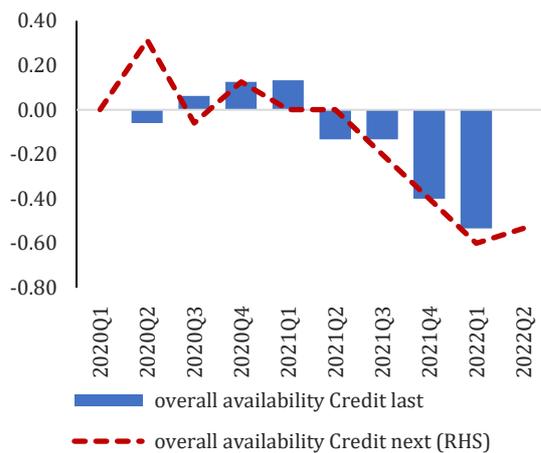
Most commercial banks did not change the terms and conditions as well as collateral requirements on loan tenure for personal, car and mortgage loans. Banks do not envisage changes to loan tenure and collateral requirements in the following quarter in line with existing credit policy guidelines.

### III. Small and Medium Enterprises Sector

*... credit conditions for SMEs improve further*

Most commercial banks reported improved credit conditions for SMEs based on sustained high market liquidity, especially at the beginning of the quarter, and enhanced drawdown on the TMTRF (Chart 8).

Chart 8: SMEs Credit Conditions



Source: Bank of Zambia

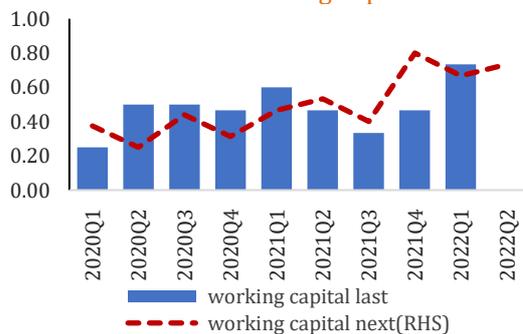
Most banks expect credit conditions for SMEs to be favourable in the second quarter as the money market remains liquid, firms are optimistic about Government securing an IMF Programme, and the economic outlook is positive.

### Credit Demand

... demand for working capital and long-term financing increased

Banks reported a further increase in the demand for working capital for the third consecutive quarter (Chart 9).

Chart 9: Demand for Working Capital



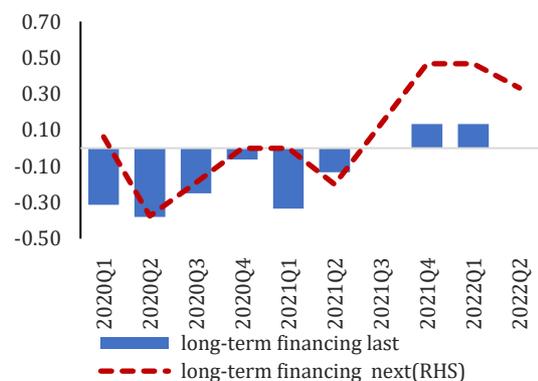
Source: Bank of Zambia

The depreciation of the Kwacha and the subsequent high cost of imported raw materials was cited as one of the reasons that led to the increase in the demand for working capital. SMEs needed more resources to meet rising operating costs. Further, the rising production costs following an increase in fuel pump prices led SMEs to seek additional working capital to support business operations.

Most commercial banks expect demand for working capital to remain strong in the second quarter as firms continue to seek liquidity to sustain business operations amid high production costs. In addition, the positive economic outlook may necessitate demand for more working capital for expansion<sup>4</sup>.

High demand for long-term financing was sustained due to improved economic prospects (Charts 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

Banks expect demand for long-term financing to increase in the next quarter as SMEs actualise their business plans on account of improved economic outlook as well as firms taking advantage of new

<sup>4</sup> Expectation of an IMF Programme to be concluded by end-June, pick-up in economic activity owing to crop marketing season, and

funding of the Constituency Development Fund (CDF) to positively impact on businesses.

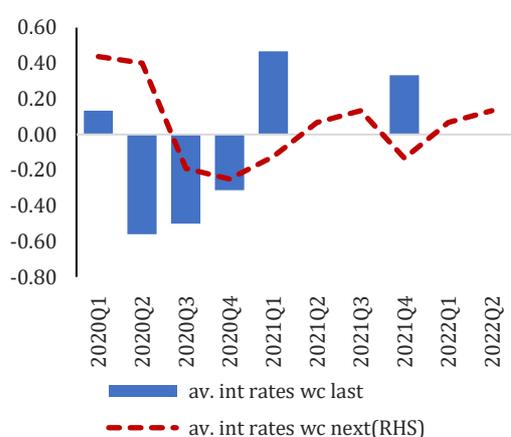
Government policy on small and medium enterprise development.

### Cost of SME Credit

... lending rates remained high

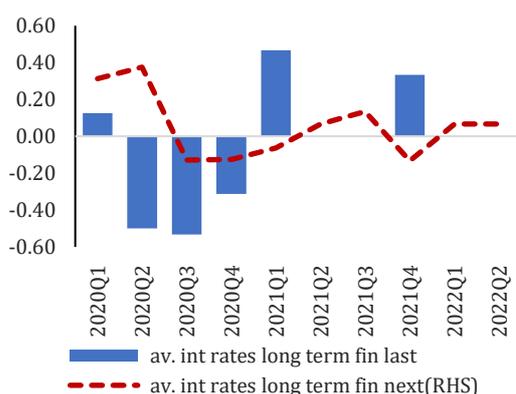
Lending rates for both working capital and long-term financing remained elevated in line with the Monetary Policy Rate that was maintained at 9.0 percent (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Banks expect a rise in lending rates on account of the Bank of Zambia tightening monetary policy further due to high inflationary pressures.

### Tenure and Collateral for SMEs

... tenure and collateral requirements largely unchanged

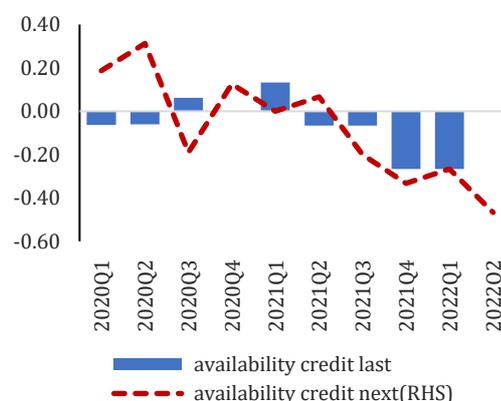
There were no revisions to loan tenure and collateral requirements for SMEs in the first quarter in line with existing credit agreements. No changes are anticipated in the next quarter.

### IV. Large Corporations Sector

... credit conditions for corporations loosened further

Most commercial banks reported loose credit conditions for large corporations as high market liquidity conditions were sustained, augmented by increased drawdown on the TMTRF (Chart 13).

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

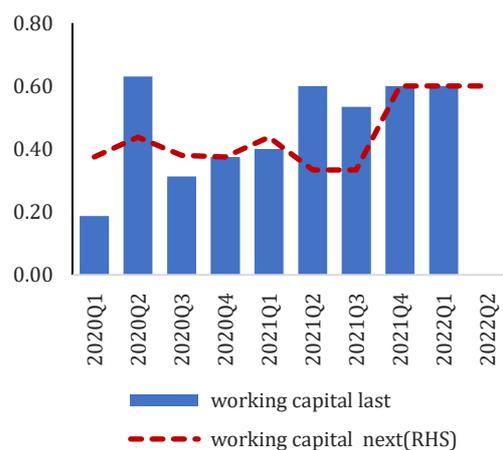
In the subsequent quarter, commercial banks expect loose credit conditions to prevail as money markets remain liquid, firms' are optimistic about Government securing an IMF Programme, favourable economic outlook is favourable, and a pipeline of bankable projects from several large corporations builds up.

## Credit Demand

*... demand for working capital remained elevated and long-term financing increased further*

High demand for working capital by large corporations was sustained in the first quarter (Chart 14).

Chart 14 Demand for Working Capital



Source: Bank of Zambia

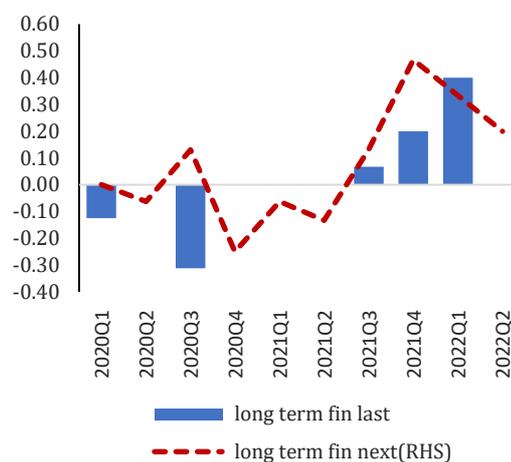
Banks attributed this to increased utilisation of facilities to cover liquidity gaps resulting from rising production costs following the increase in fuel pump prices. This was in addition to increased demand by corporates that participated in the Farmer Input Support Program (FISP) related transactions.

Commercial banks expect demand for working capital to remain high in the second quarter as firms will require more liquidity to meet rising operating costs mostly for imports owing to the depreciation of the Kwacha. In addition, positive economic prospects<sup>5</sup> and favourable Government policy on private sector development is expected to contribute to demand for working capital.

<sup>5</sup> Expectation of an IMF Programme by end-June.

Banks continued to report high demand for long-term financing for the third consecutive quarter as corporates began to invest in capital projects to take advantage of the improved economic environment.

Chart 15: Demand for Long-term Finance



Source: Bank of Zambia

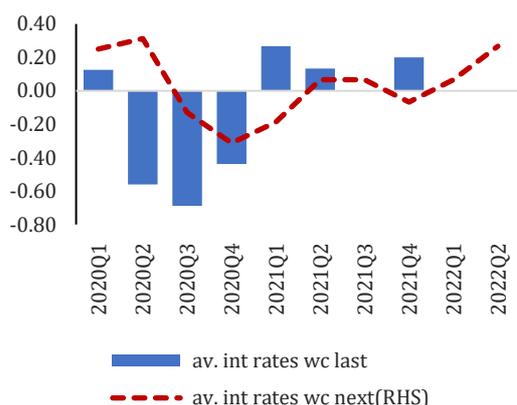
Most commercial banks expect high demand for long-term financing to be sustained in the second quarter in line with anticipated pipeline projects and the pick-up in economic activity (Chart 15).

## Cost of Credit

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

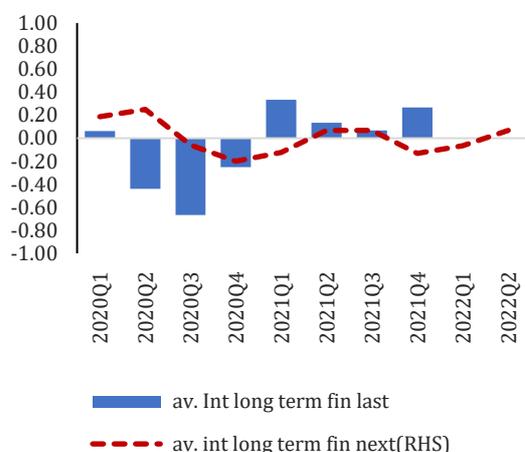
Lending rates for both working capital and long-term financing remained high in the first quarter of 2022 (Charts 16 and 17).

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 on all corporate loans to increase further in line with the anticipated tightening of monetary policy to curb inflationary pressures arising from the increase in energy prices due to the on-going Russia-Ukraine war that has pushed up crude oil prices.

### Tenure and Collateral Requirements

*... tenure and collateral requirements remained unchanged*

Most banks kept the loan tenure and collateral requirements for working capital and long-term financing unchanged in line with prevailing credit

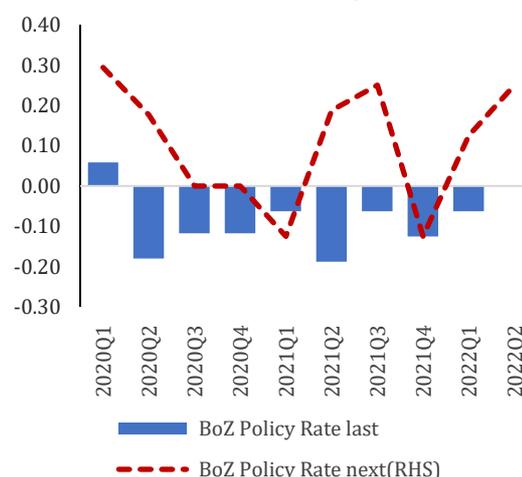
policies. Most banks do not expect any changes in the second quarter.

### V. Assessment of Monetary Policy Stance

*... Policy Rate was assessed to have been appropriate*

Most commercial banks assessed the Policy Rate at 9.0 percent to have been appropriate in the first quarter due to the drop in inflation, improvement in macroeconomic fundamentals and the need to provide a balance between anchoring inflation expectations and supporting economic growth.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

The Monetary Policy Rate is expected to be raised in May in view of the projected above target inflation over the medium-term due to possible increases in fuel pump prices and 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.