

Credit Conditions Survey



May 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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Summary of Survey Findings

The May 2024 Credit Conditions Survey indicates relatively tight credit conditions across households, small and medium enterprises (SMEs) and large corporations attributed to the increase in the statutory reserve ratio and cash management measures by Government. Commercial banks expect credit conditions to remain tight in the second quarter. High demand for working capital was sustained among SMEs and large corporations driven by the need to finance business operations in view of rising operating costs due to a weaker exchange rate and higher fuel prices. This trend is expected to continue in the second quarter. Lending rates remained high, consistent with the 150-basis point increase in the Monetary Policy Rate to 12.5 percent in February. Commercial banks deemed this adjustment appropriate to curb rising inflation. Most banks anticipate high lending rates to be maintained in the second quarter on account of a further tightening in monetary policy to address persistently rising inflation occasioned by exchange rate depreciation.

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 conditions by the banking sector. The survey results serve as input into monetary policy decisions.

This survey was conducted during March 25 to April 5, 2024 to assess credit conditions in the banking sector during the first quarter of 2024 and expectations for the second quarter 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 II, III and IV, respectively. Section IV covers the assessment of the monetary policy stance. The survey methodology is presented in the appendix.

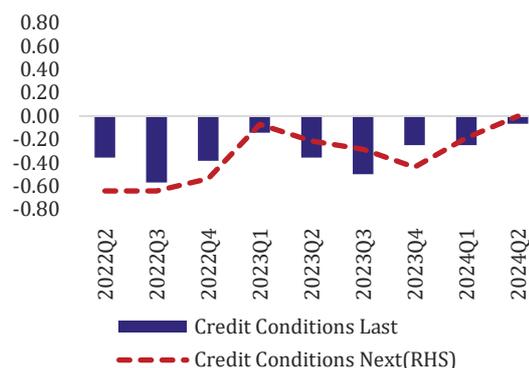
II Household Sector

Credit Conditions

... tighten

Most commercial banks reported unfavourable credit conditions in the first quarter of 2024 (Chart 1). This mostly reflects relatively tight liquidity in the money market, particularly in the second half of the quarter. This followed the increase in the statutory reserve ratio (SRR) in February by 900 basis points to 26.0 percent.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

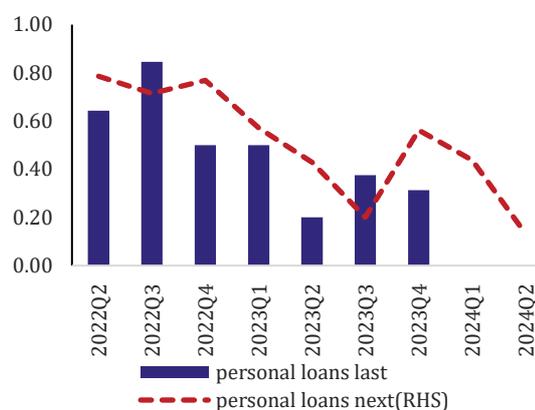
Most commercial banks anticipate credit conditions to remain tight in the second quarter as they expect similar conditions to prevail.

Credit Demand

... remains high

High demand for personal loans was sustained in the first quarter (Chart 2). The continued need to supplement disposable income to meet personal commitments (school fees and other personal expenses) and to mitigate the effects of the rising cost of living underpins high demand for credit.

Chart 2: Demand for Personal Loans



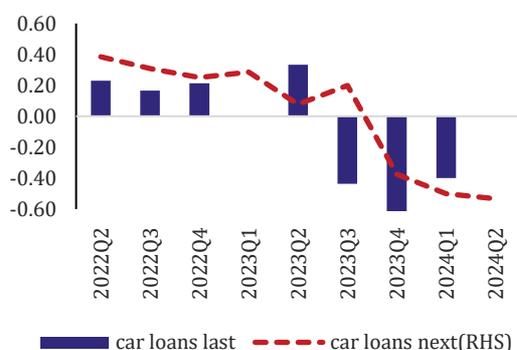
Source: Bank of Zambia

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

In the second quarter, most commercial banks expect high demand for personal loans to be maintained to supplement incomes to meet personal obligations. The recent recruitment of public workers in the Ministries of Defence and Health is also expected to support demand.

For the third consecutive quarter, demand for car loans remained weak. The sustained rising borrowing costs and high cost of motor vehicles and high maintenance costs due to a weak Kwacha dampened demand for car loans (Chart 3).

Chart 3: Demand for Car loans

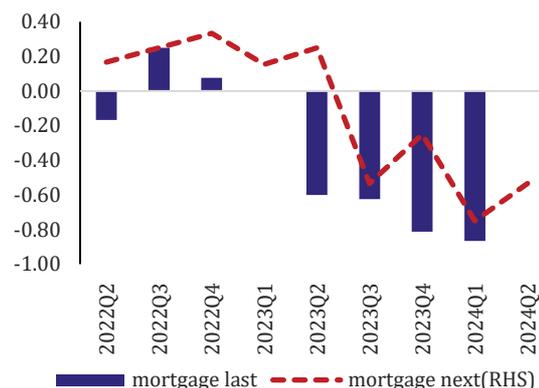


Source: Bank of Zambia

Respondents to the Survey expect subdued demand for car loans to be sustained in the second quarter mostly due to the anticipated further depreciation of the exchange rate and high lending rates.

Similarly, demand for mortgages remained subdued for the fourth consecutive quarter (Chart 4). High lending rates, coupled with unfavourable terms on mortgages such as shorter loan tenors and 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

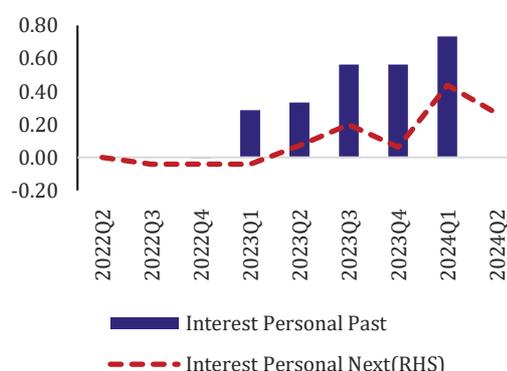
In the second quarter, demand for mortgages is expected to be constrained by high lending rates and a further depreciation of the exchange rate.

Cost of Credit

... remains high

During the first quarter, elevated lending rates prevailed for personal, car and mortgage loans in line with expectations in the last quarter of 2023 (Charts 5-7). The respondents attributed the increase in lending rates to the 150-basis point hike in the Monetary Policy Rate in February to 12.5 percent.

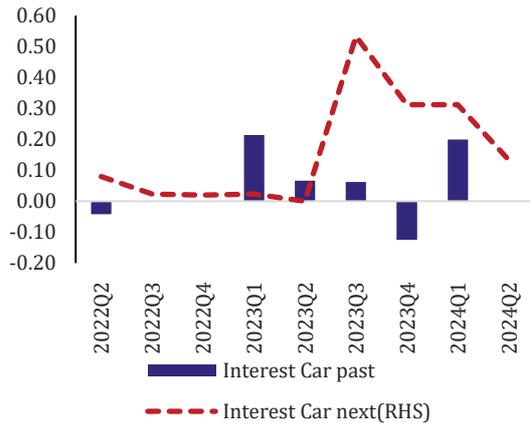
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

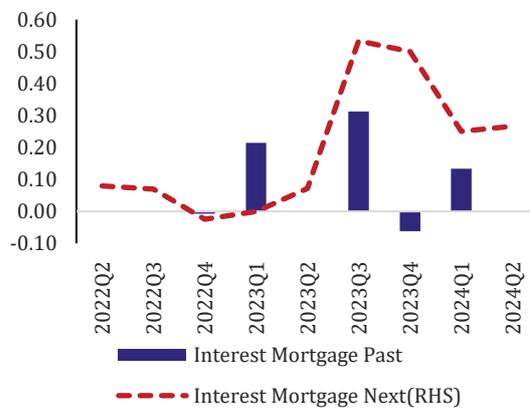
Chart 6: Interest Rate on Car Loans



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 to remain elevated in the second quarter due to the further tightening of monetary policy to address rising inflation.

Tenure and Collateral for Household Loans

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

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

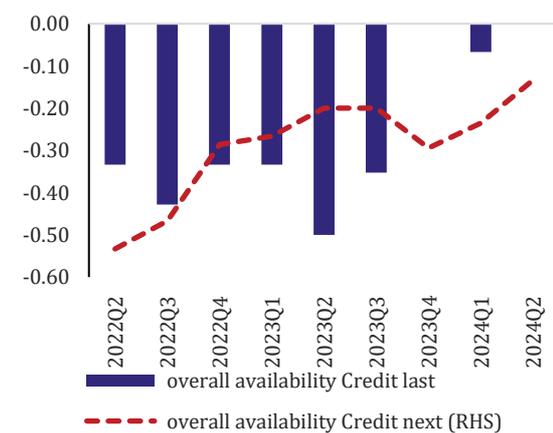
III Small and Medium Enterprises Sector

Credit Conditions

... tighten

During the first quarter, most commercial banks reported relatively tight credit conditions for SMEs, particularly in the latter part of the quarter (Chart 8). This was primarily due to the increase in the SRR and the new cash management measures by Government¹.

Chart 8: SMEs Credit Conditions



Source: Bank of Zambia

¹ Measures include the withdrawal of Government deposits from commercial banks (https://www.parliament.gov.zm/sites/default/files/images/publication_docs/Ministerial%20Statement%20State%20of%20the%20Economy.pdf).

Most banks anticipate credit conditions to remain unfavourable in the second quarter due to tight liquidity conditions occasioned by cash management measures by Government.

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

The high demand for working capital was sustained in the first quarter, albeit lower than reported in the fourth quarter of 2023. Firms require additional financing to support business operations amid rising operating costs occasioned by rising inflation and high input costs induced by a weak exchange rate.

Chart 9: Demand for Working Capital

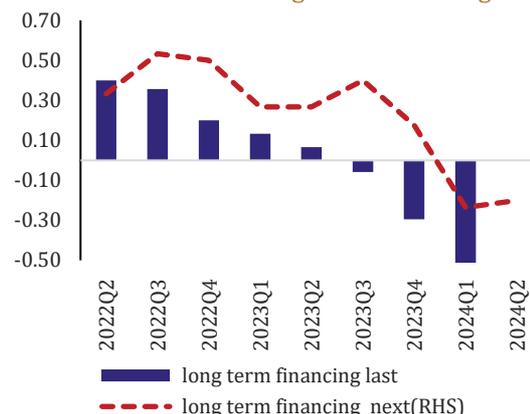


Source: Bank of Zambia

Respondents to the Survey anticipate high demand for working capital to be sustained in the second quarter to support business operations due to high operating expenses occasioned by a further depreciation of the Kwacha and high fuel prices.

However, demand for long-term financing remained subdued for the third consecutive quarter. This was primarily due to a weak exchange rate and rising borrowing costs underpinned by the hike in the Policy Rate in February (Chart 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

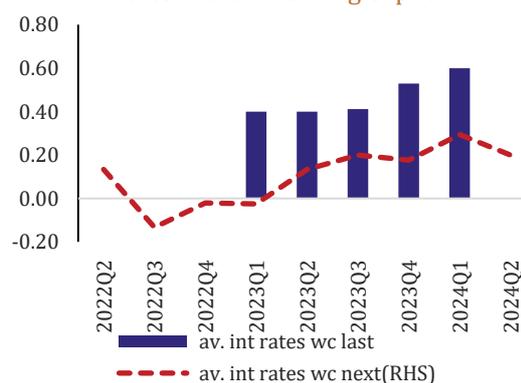
Most commercial banks expect demand for long-term financing to remain weak due to anticipated increase in lending rates as the monetary policy is further tightened to curb rising inflation.

Cost of SME Credit

... remains elevated

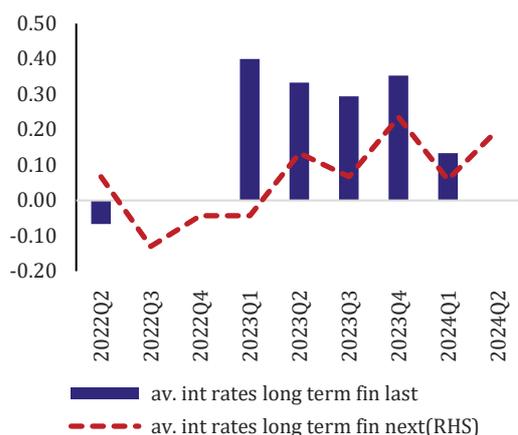
High lending rates for both working capital and long-term financing were sustained in the first quarter. This was partly due to the upward adjustment in the Policy Rate in February (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most banks anticipate high lending rates to prevail in the second quarter as monetary policy is tightened further in view of rising inflation.

Tenure and Collateral for SMEs

... no revision to loan tenures and collateral requirements

Most commercial banks-maintained loan tenures and collateral requirements consistent with the prevailing policy guidelines. No changes are expected in the second quarter.

IV Large Corporations Sector

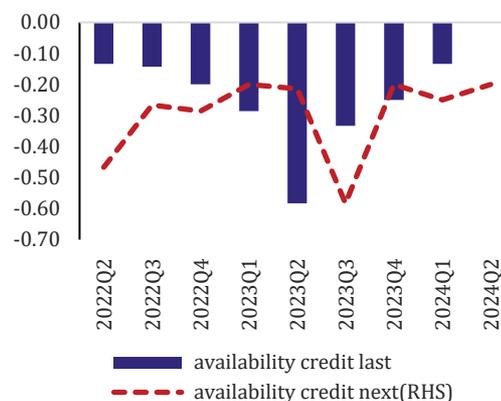
Credit Conditions

... relatively tight

Commercial banks reported relatively tight credit conditions in the first quarter particularly in the latter half of the quarter (Chart 13). Most banks expect credit conditions to remain unfavourable in the second quarter largely due to tight liquidity conditions occasioned by the cash management measures undertaken by Government. However, firms remain optimistic about the economic outlook in the near term

based on the conclusion of the debt restructuring agreement with Eurobond holders and resolution of the challenges in the mining sector that are expected to boost economic activity.

Chart 13: Credit Conditions Corporations



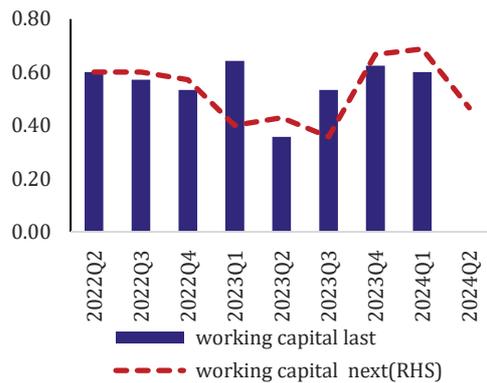
Source: Bank of Zambia

Credit Demand

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

In the first quarter, demand for working capital by large corporations remained robust (Chart 14). Most corporates sought additional liquidity to support business operations in view of rising operating costs induced by higher fuel prices and the sustained depreciation of the currency, which inflated prices of imported raw materials. Elevated demand for working capital was particularly observed in the manufacturing, agriculture as well as wholesale and trade sectors. Firms in the manufacturing and agriculture sought additional financing to import new equipment and raw materials to resume production of goods following the industrial break.

Chart 14: Demand for Working Capital

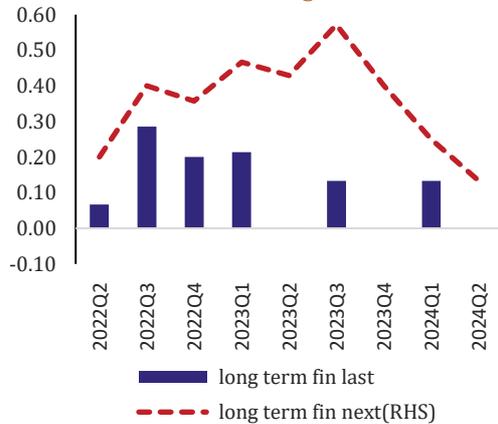


Source: Bank of Zambia

Most commercial banks expect high demand for working capital to persist to meet rising operating costs as the Kwacha depreciates further and inflationary pressures are sustained.

Similarly, high demand for long-term financing was sustained primarily driven by the continued need to finance new projects, expand existing ones and acquire assets.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

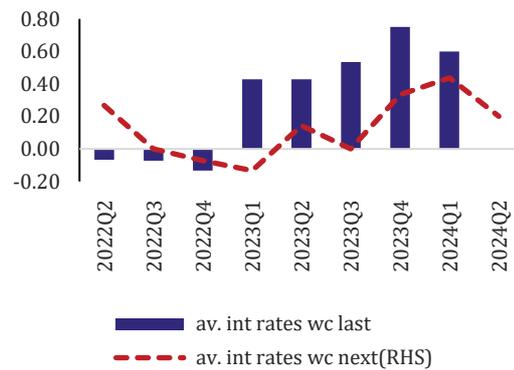
Most banks expect high demand for long-term financing to be sustained as economic activity picks up following the conclusion of the debt restructuring agreement with Eurobond holders and resolution of challenges in the mining sector.

Cost of Credit

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

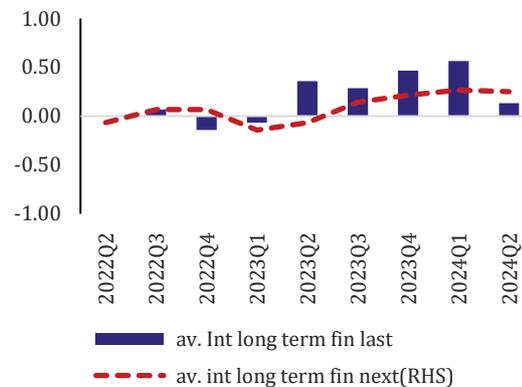
Most banks reported an increase in lending rates for working capital and long-term financing in the first quarter. This was partly attributed to the upward adjustment in the Monetary Policy Rate in February (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long-Term Financing



Source: Bank of Zambia

Respondents to the Survey expect high lending rates to prevail in the second quarter mostly on account of a weaker exchange rate and further tightening of the monetary policy to curb inflationary pressures.

Tenure and Collateral Requirements

... no revisions to tenure and collateral requirements

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 banks do not anticipate changes in the second quarter.

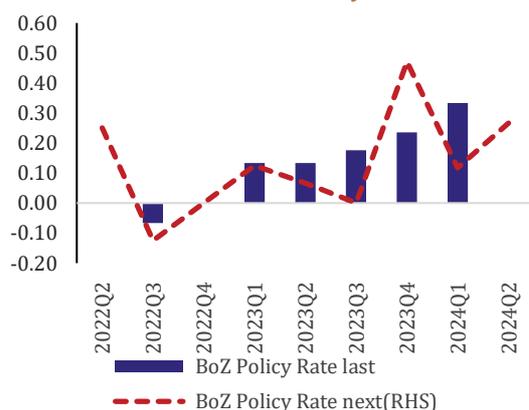
banks expect the MPR and inflation in the second quarter to be in the range of 12.5-13.5 percent and 10-16 percent, respectively.

V Monetary Policy stance

... Monetary Policy Rate assessed to have been appropriate

Nearly all the commercial banks deemed the 150 basis points increase in the Policy Rate to 12.5 percent in February to have been appropriate in addressing rising inflation. Nevertheless, they indicated that while an upward adjustment in the Policy Rate would promote price and financial system stability, it may constrain economic growth as lending rates may increase further and contribute to higher operating costs.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

A further tightening of monetary policy is expected in the second quarter to curb persistent inflationary pressures. Most

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.