

Credit Conditions Survey Second Quarter 2021



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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 were reported to have been loose for households, small and medium enterprises (SMEs) as well as large corporations in second quarter of 2021. Improvements in money market liquidity coupled with increased drawdown on the Bank of Zambia (BoZ) Targeted Medium Term Refinancing Facility (TMTRF) largely accounted for this.

Demand for personal loans rose as real incomes for households continued to be eroded by rising inflation. However, demand for car loans remained weak as most households deemed motor vehicles as luxury goods and unaffordable with their focus shifting to necessities during depressed economic conditions. High property prices in the real estate market amplified by high interest rates continued to dampen demand for mortgage loans.

Weak economic activity, attributed to the third wave of the COVID-19 pandemic and uncertain economic prospects, contributed to generally weak demand for long-term financing by both SMEs and large corporations. Banks reported increased demand for working capital from both SMEs and large corporations due to the high cost of imported raw materials.

Most of the banks anticipate demand for mortgage loans and capital projects to pick up in the next quarter as economic growth prospects improve post August General Elections. Demand for working capital by both SMEs and large corporations is expected to remain high as the cost of raw materials persistently rises. In an effort to supplement incomes amidst increased cost of living, banks expect demand for personal loans by households to remain high as they seek to deal with recurring expenses (i.e. tuition fees) in the wake of falling real incomes.

Interest rates on loans for households, SMEs and large corporations were reported to have remained unchanged as the Policy Rate was maintained at 8.5 percent. However, banks expect interest rates to rise in the next quarter if inflation continues to increase. Most banks reported no changes in tenures and collateral requirements for all loans in the three sectors and this is expected to continue in the next quarter as these are rarely revised.

Commercial banks assessed the Policy Rate to have been low in the second quarter and an upward adjustment is expected in the third quarter due to the sustained high inflation.

I. Background

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

The survey covers households, SMEs and large corporations. Sectoral changes in credit conditions and changes in the terms under which the different sectors access credit are also identified.

This survey was conducted between June 21, 2021 and July 16, 2021 to assess credit conditions in the banking sector during the second quarter of 2021 and expectations for the third quarter of 2021. 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 reports on the assessment of the monetary policy stance. The survey methodology is presented in the appendix.

II. Household Sector

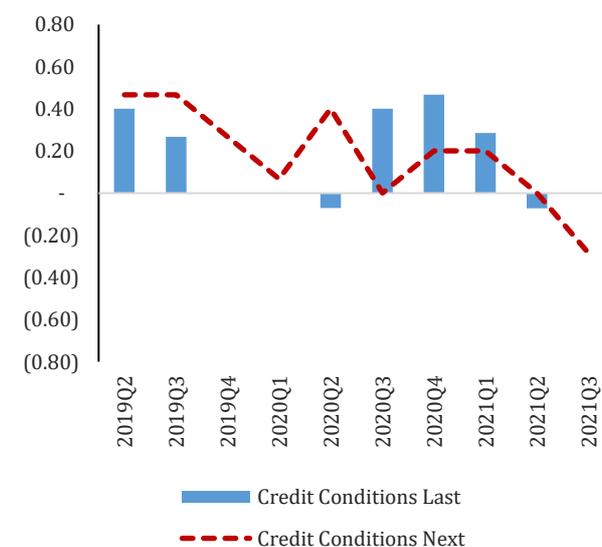
... household credit conditions loosened

Credit Conditions

Contrary to expectations, credit conditions for households were reported to have been loose in Q2 2021 (Chart 1).

Improvements in money market liquidity coupled with increased draw down from the BoZ Targeted Medium Term Refinancing Facility (TMTRF) largely accounted for the loose credit conditions. The majority of commercial banks expect credit conditions for household to remain loose in Q3 2021 (Chart 1).

Chart 1: Household Credit Conditions



Source: Bank of Zambia

¹ The total number of commercial banks surveyed reduced to 16 from 17 following the

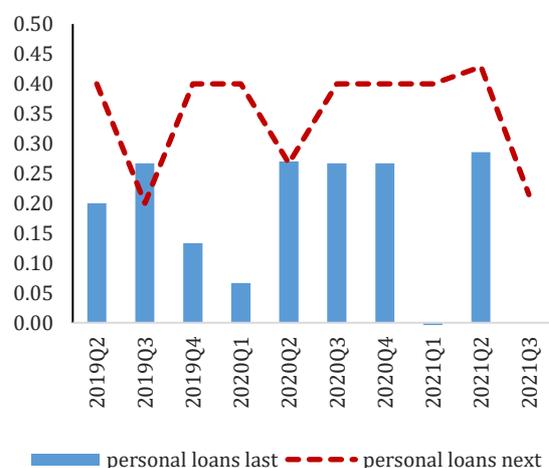
merger of Cavmont Capital Holdings Zambia and Access bank Zambia Limited.

Credit Demand

... credit demand for household loans was mixed

Demand for personal loans² is reported to have picked up strongly in Q2 2021 broadly in line with expectations (Chart 2). The increase was underpinned by the need by households to supplement falling real income in view of rising inflation. This trend is expected to continue in the next quarter in light of the rising cost of living.

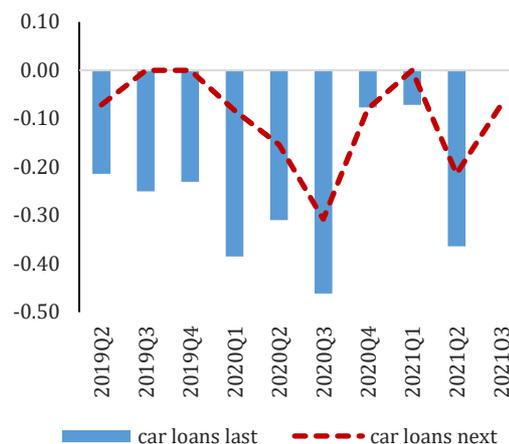
Chart 2: Demand for Personal Loans



Source: Bank of Zambia

However, demand for car loans remained weak mostly driven by high prices and households' shift towards necessities during depressed economic conditions (Chart 3). This trend is likely to continue in the next quarter as the prevailing conditions are expected to persist.

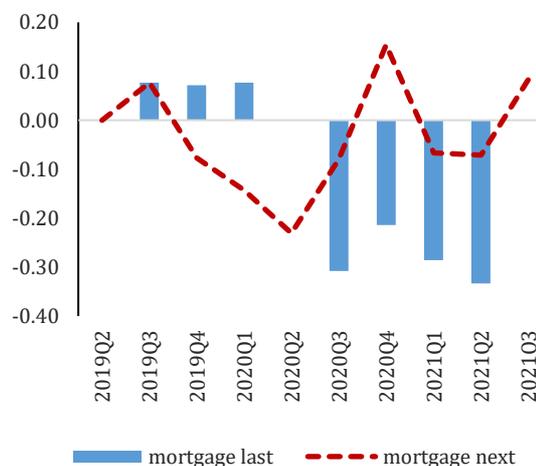
Chart 3: Demand for Car loans



Source: Bank of Zambia

Demand for mortgage loans declined further broadly in line with expectations (Chart 4). This was mainly on account of high property prices amplified by elevated borrowing costs. Slight improvement in demand is expected in the third quarter as economic activity picks up post August General Elections.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

² Demand for personal loans refers to the number of commercial banks reporting willingness of clients to acquire personal loans measured in

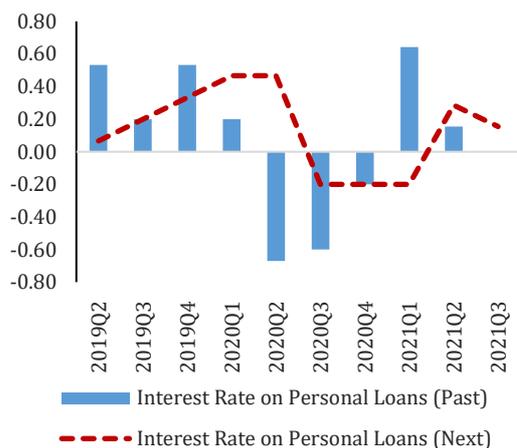
terms of the number of applications and not value or loan amount.

Cost of Credit

... lending rates remained high

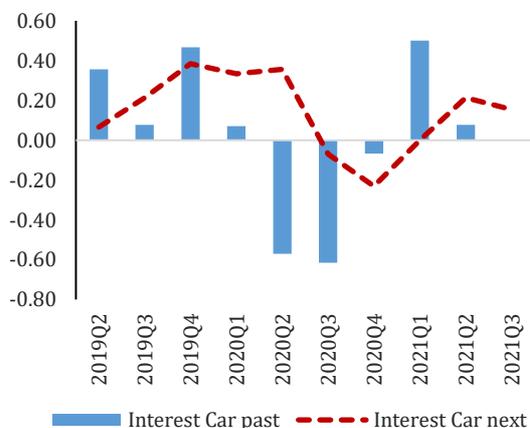
Most commercial banks reported interest rates on personal, car and mortgage loans to have remained high (Charts 5, 6 and 7).

Chart 5: Interest Rate on Personal Loans



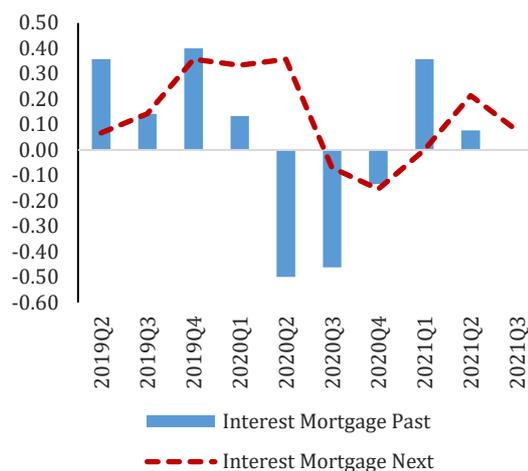
Source: Bank of Zambia

Chart 6: Interest Rate on Car Loans



Source: Bank of Zambia

Chart 7: Interest Rate on Mortgage Loans



Source: Bank of Zambia

Lending rates for personal, car and mortgage loans are expected to increase in the coming quarter as the Policy Rate is likely to be raised.

Tenure and Collateral for Household Loans

... loan tenures and collateral requirements remained unchanged

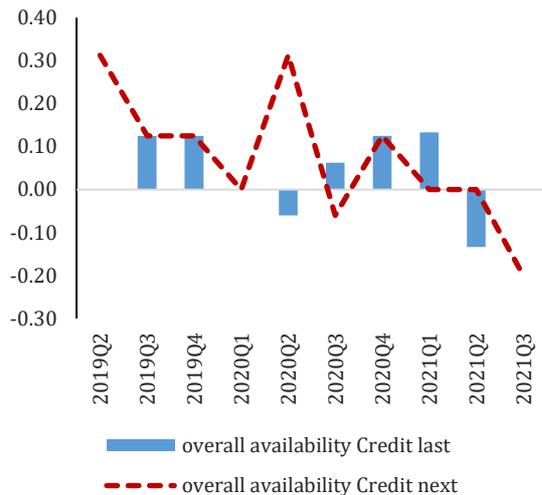
Banks maintained tenures and collateral requirements for all personal loans, and this is expected to prevail in the next quarter.

III. Small and Medium Enterprises Sector

... credit conditions to SMEs improved

Banks reported improved credit conditions for SMEs, driven by increased market liquidity and enhanced drawdown on the BoZ TMRTF (Chart 8). Most banks expect credit availability to SMEs to improve in Q3 2021 as business activity begins to pick up on account of the relaxation of COVID-19 restrictions.

Chart 8: SMEs Credit Conditions



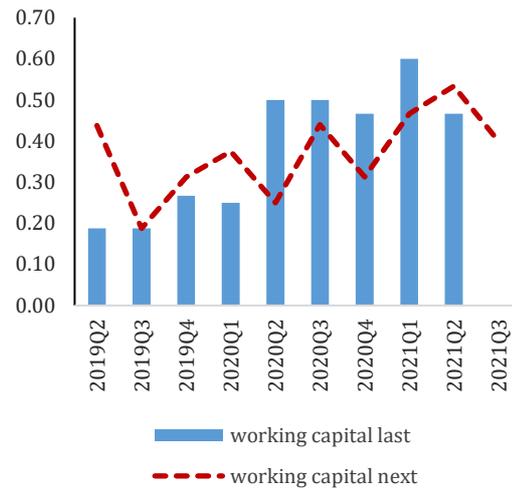
Source: Bank of Zambia

Credit Demand

... demand for working capital rose, while that for long-term financing declined

A further surge in demand for working capital by SMEs was reported for the ninth consecutive quarter in line with expectations (Chart 9). The rise was mainly attributed to the high cost of imported raw materials³ and the need to offset disruptions in cash flows caused by the adverse impact of the third wave of the COVID-19 pandemic on businesses.

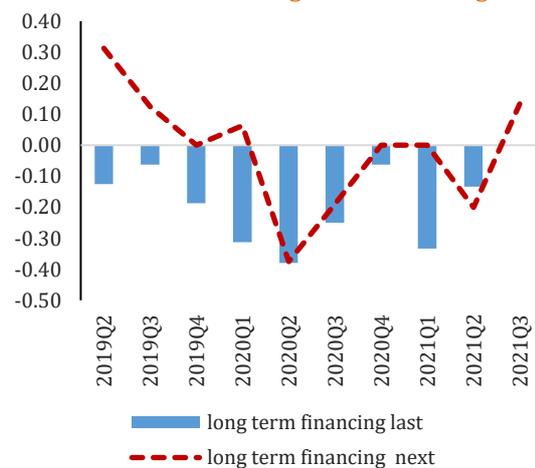
Chart 9: Demand for Working Capital



Source: Bank of Zambia

Banks expect demand for working capital to remain strong in the next quarter. This is largely premised on the need for businesses to keep operations afloat due to the high costs of raw materials and the aftermath of the third wave of the COVID-19 pandemic. However, demand for long-term financing declined further in line with expectations (Charts 10). This was mainly due to weak economic activity attributed to the third wave of the COVID-19 pandemic and uncertain economic prospects⁴.

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

³ Some SMEs have a sizable amount of imported raw materials in their production and business processes.

⁴ This continues to be related to the COVID-19 pandemic and General Elections in August.

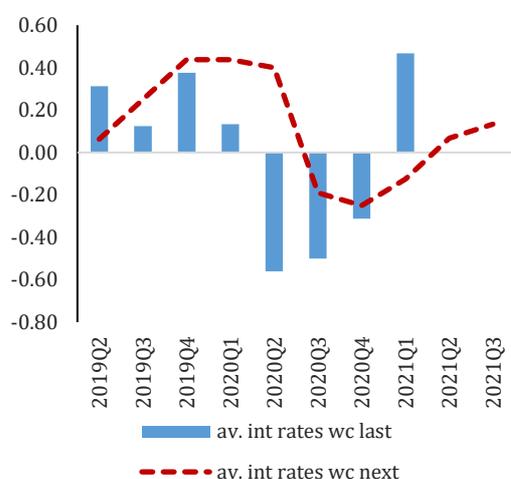
Demand for long-term financing is expected to improve in the next quarter as economic activity picks up.

Cost of SME Credit

... lending rates stayed the same

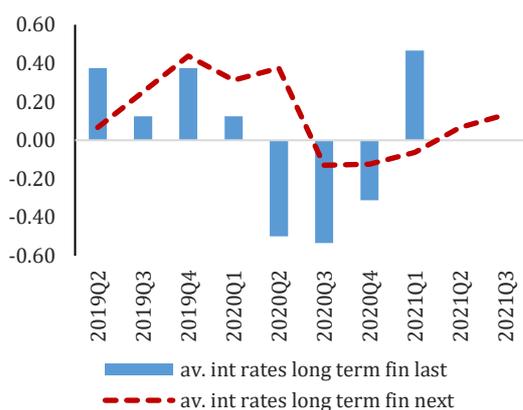
Lending rates for both working capital and long-term financing were reported unchanged in the quarter under review (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

In the subsequent quarter, commercial banks expect a rise in lending rates on account of high inflationary pressures that will necessitate the Bank of Zambia

to tighten the monetary policy stance (Chart 12).

Tenure and Collateral for SMEs

... tenure and collateral requirements unchanged

The tenures and collateral requirements for both working capital and long-term financing remained unchanged as most banks maintained lending requirements. Banks expect tenures and collateral requirements for both categories of financing to remain unchanged in the next quarter in line with existing credit policies.

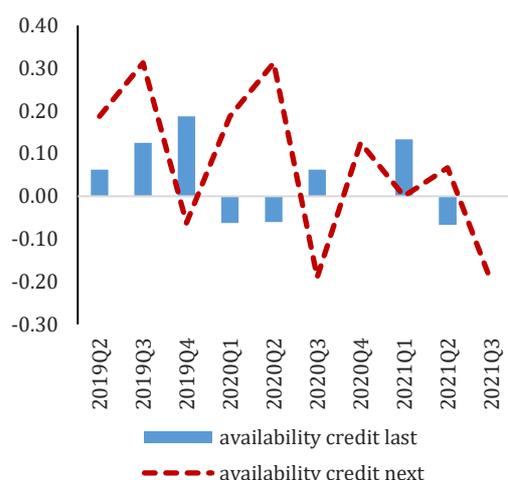
IV. Large Corporations Sector

... credit conditions for corporations were reported loose

Credit to large corporations was reported to have increased as market liquidity conditions improved, augmented by increased drawdown from the BoZ TMTRF (Chart 13).

In the subsequent quarter, banks expect loose credit conditions to prevail as money markets remain liquid, firms' optimism about the general election in August and a pipeline of bankable projects from several large corporations.

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

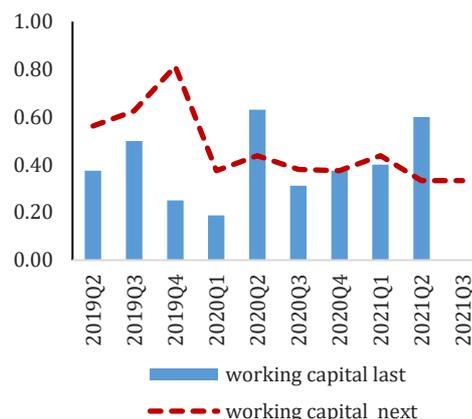
Credit Demand

... demand for working capital rose, while that for long-term financing was unchanged

Demand for working capital by large corporations remained strong. Banks attributed this to increased utilisation of facilities to cover liquidity gaps created by reduced cash flows partly induced by the third wave of COVID-19 pandemic and rising production costs (Chart 14).

In the next quarter, the majority of banks expect demand for working capital to remain high due to the persistent high cost of raw materials.

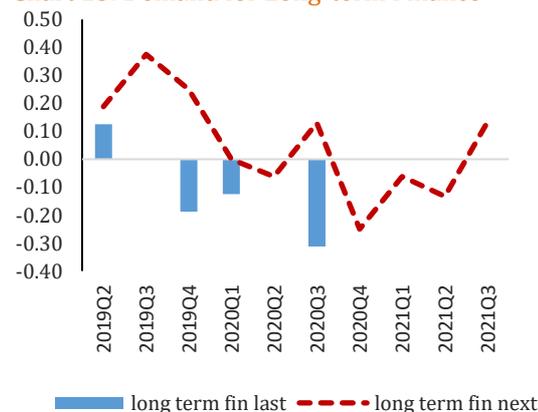
Chart 14 Demand for Working Capital



Source: Bank of Zambia

Banks continued to report the same level of demand for long-term financing for the third consecutive quarter (Chart 15). Banks expect demand for long-term financing to improve in the coming three months as economic activity picks up.

Chart 15: Demand for Long-term Finance



Source: Bank of Zambia

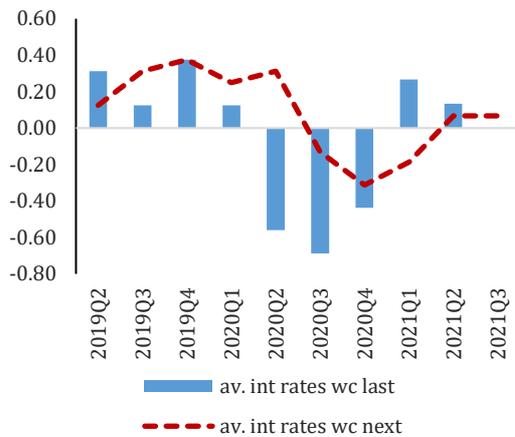
Cost of Credit

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

Lending rates for both working capital and long-term financing remained high (Chart 16 and 17). However, banks expect interest rates on all corporate loans to increase further in anticipation of the possible tightening of monetary

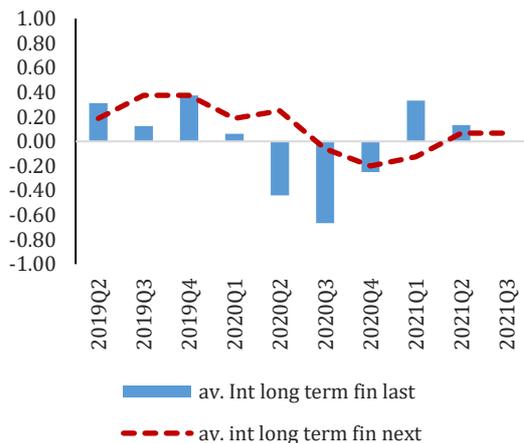
policy to curb sustained inflationary pressures.

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long Term Financing



Source: Bank of Zambia

Tenure and Collateral Requirements

... tenure and collateral requirements remained unchanged

Tenures for working capital and long-term financing remained unchanged and expect no variations in the next three months.

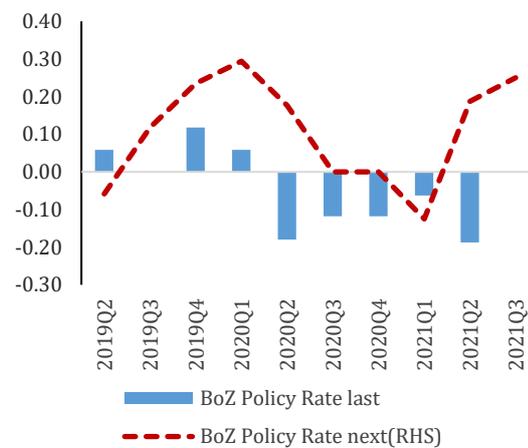
Similarly, there were no expectations to modify the collateral requirements in Q3 2021 compared to what was prevailing in Q2 2021.

V. Monetary Policy

... policy rate assessed to have been low

The Policy Rate, at 8.5% was reported to have been low, making it five consecutive quarters of low Policy Rate assessment. In view of this, the majority of banks expect the Policy Rate to be raised in the next quarter in view of the prevailing high inflation (Chart 18).

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

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.