

Credit Conditions Survey Third Quarter 2021



November 2021

Disclaimer:

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



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| Credit Conditions Survey Report, Third Quarter 2021

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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 corporates in the third quarter of 2021. This was mainly attributed to improved market liquidity and enhanced drawdown on the Bank of Zambia Targeted Medium Term Refinancing Facility (TMTRF).

Demand for personal loans remained high as real incomes for households continued to be eroded by rising inflation. In contrast, demand for car and mortgage loans remained subdued. The high cost of motor vehicles continued to affect demand for car loans while high interest rates as well as depressed disposable incomes impacted demand for mortgage loans.

Demand for working capital by SMEs remained strong while that for long-term financing remained weak. High demand for working capital by SMEs was underpinned by the need to support their business operations following the easing of COVID-19 restrictions towards the end of the quarter.

Most banks expect high demand for personal loans to be sustained in the next quarter largely on account of the need to continue supplementing household income to meet certain recurring costs such as school fees in view of the high cost of living and an anticipated increase in TMTRF disbursements. Demand for car loans is also expected to increase largely due to the reduction in the cost of motor vehicles following the appreciation of the Kwacha against the US dollar and stronger macroeconomic outlook after the General Elections in August. In contrast, banks expect demand for mortgage loans to remain subdued due to high interest rates.

Demand for working capital by SMEs and large corporations is expected to remain high as most firms need additional liquidity to sustain their business operations as the economy improves. This is also premised on improved economic prospects as well as favourable policies for private sector development.

Interest rates for households, SMEs and large corporations were reported high due to rising inflation. Most commercial banks, however, expect interest rates to fall in the next quarter in line with the decline in inflation and the sharp decline in yield rates on Government securities.

Most banks kept the tenures and collateral requirements for all loans in the three sectors the same in line with existing credit agreements and this is expected to continue in the fourth quarter.

Commercial banks assessed the Policy Rate to have been low relative to inflation in the third quarter. They envisage the rate to be maintained at 8.5 percent in the fourth quarter to support private sector growth.

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, 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 23, 2021 and October 8, 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.

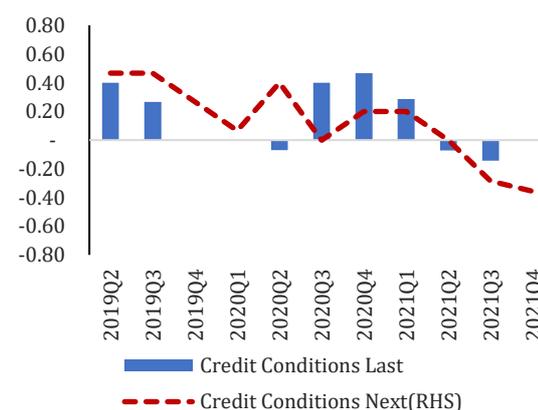
II. Household Sector

... household credit conditions still loose

Credit Conditions

Credit conditions for households were loose in the third quarter of 2021 in line with market expectations. (Chart 1). This was largely on account of improved market liquidity conditions and increased drawdown from the BoZ Targeted Medium Term Refinancing Facility (TMTRF). Most commercial banks expect credit conditions for households to remain loose as similar conditions are expected in the next quarter.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

Credit Demand

... demand for household loans remained high but low for motor vehicles and mortgages

Demand for personal loans² remained high due to the continued need by

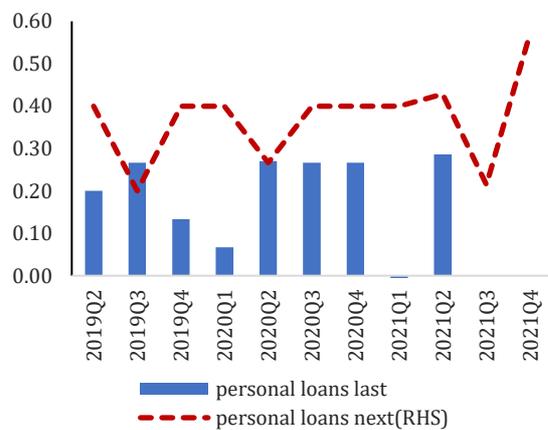
¹ The total number of commercial banks surveyed reduced to 16 from 17 following the merger of Cavmont Capital Holdings Zambia and Access bank Zambia Limited.

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

households to supplement declining real income in view of rising inflation (Chart 2).

Banks expect demand for personal loans to edge upwards in the next quarter as households seek to supplement their income to pay for recurrent expenditure such as school fees amid the high cost of living. In addition, disbursements from the TMRTF are expected to increase in the fourth quarter because of anticipated increase in economic activity following the easing of COVID-19 restrictions.

Chart 2: Demand for Personal Loans



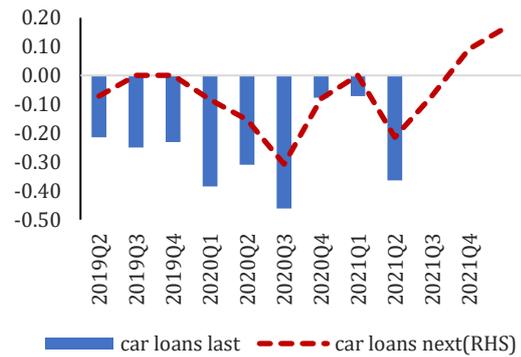
Source: Bank of Zambia

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

In contrast, demand for car loans remained low (Chart 3). The high cost of vehicles continued to affect demand for credit

Demand is likely to rise in the fourth quarter owing to the reduced cost of vehicles following the appreciation of the Kwacha and a stronger macroeconomic outlook following the August General Elections.

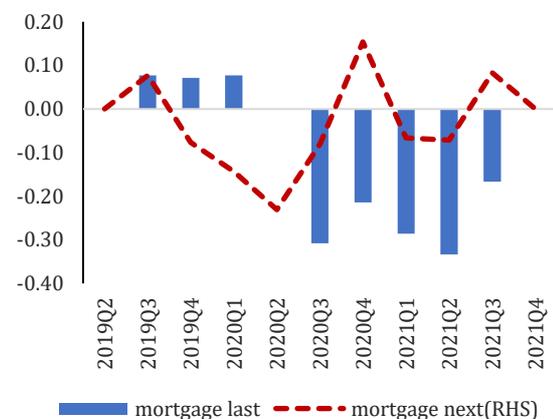
Chart 3: Demand for Car loans



Source: Bank of Zambia

Demand for mortgage loans remained subdued due to low disposable income and high interest rates (Chart 4). Banks expect demand for mortgage loans to remain subdued in the next quarter due to high interest rates and low average household incomes that impact affordability.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

Cost of Credit

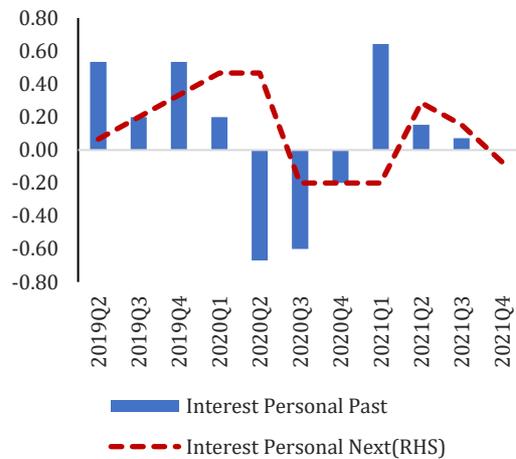
...lending rates remained high

Interest rates on personal, car and mortgage loans remained high in the

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

third quarter partly due to rising inflation (Charts 5, 6 and 7).

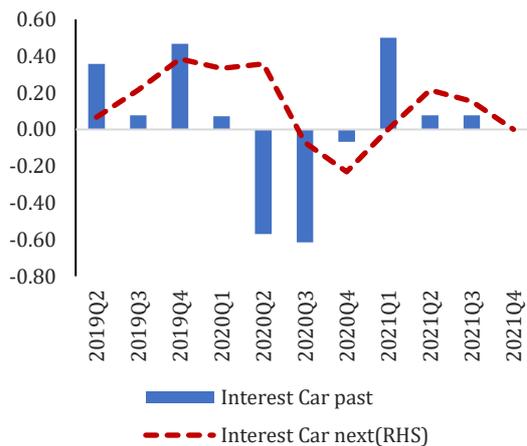
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

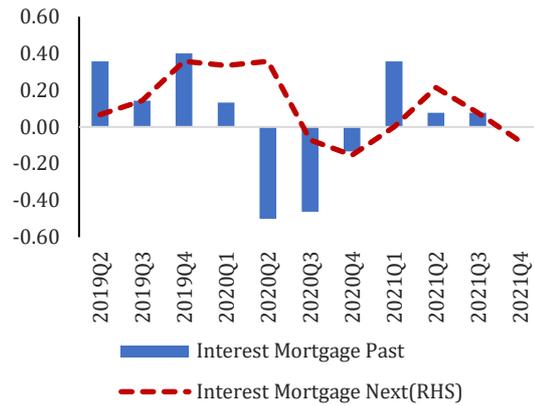
Chart 6: Interest Rate on Car Loans



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 car and mortgage loans to remain high. In contrast, lending rates for personal loans are expected to decline partly due to availability of less expensive funds under the Targeted Medium-Term Refinancing Facility (TMTRF).

Tenure and Collateral for Household Loans

... loan tenures and collateral requirements remained unchanged

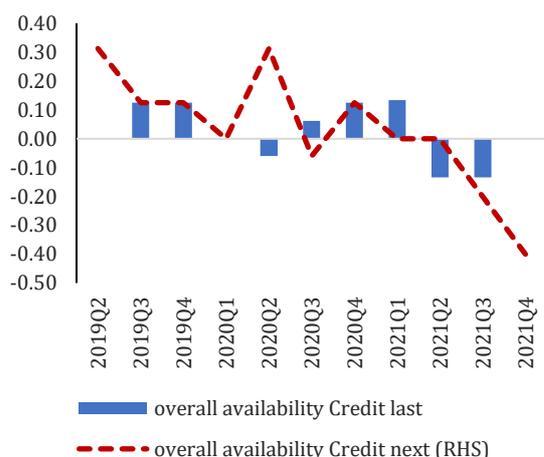
Banks kept all loan tenures and collateral conditions the same, and this is expected to continue in the next quarter.

III. Small and Medium Enterprises Sector

... credit conditions to SMEs remained loose

Banks reported loose credit conditions for SMEs as market liquidity improved and disbursements from the TMTRF increased (Chart 8). Most banks expect improved credit conditions largely due to the pick-up in business activity following the easing of COVID-19 restrictions.

Chart 8: SMEs Credit Conditions



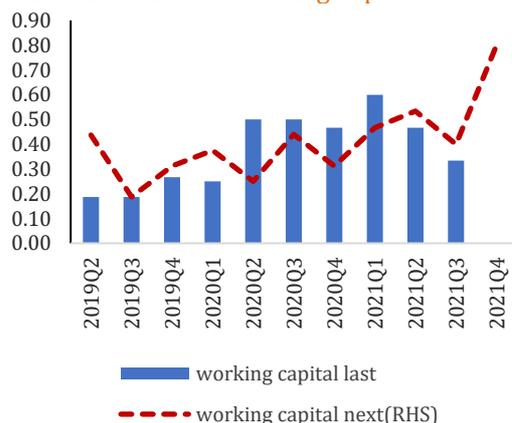
Source: Bank of Zambia

Credit Demand

... demand for working capital remained high but low for long-term financing

Demand for working capital by SMEs remained strong in line with banks' expectations (Chart 9). This was on account of the need to support business operations following the easing of COVID-19 restrictions.

Chart 9: Demand for Working Capital



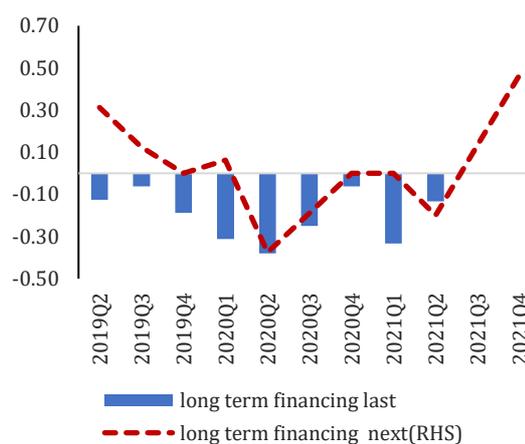
Source: Bank of Zambia

Banks expect demand for working capital by SMEs to remain high in the fourth quarter as firms continue to seek liquidity to support their businesses and

take advantage of increasing economic activity.

Demand for long-term financing remained weak largely due to uncertain economic prospects related to the August General Elections as well as the third wave of COVID-19 pandemic (Charts 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

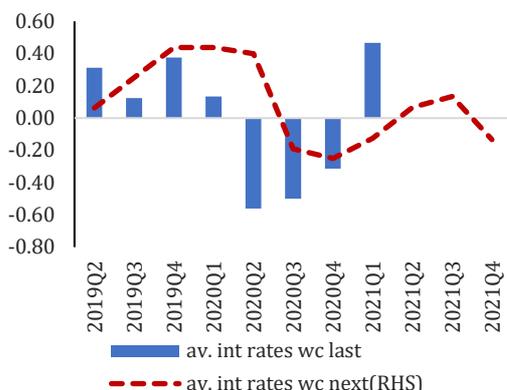
However, demand for long-term financing is envisaged to increase in the next quarter mainly on account of a more favourable macroeconomic outlook and the pick-up in economic activity following relaxation of COVID 19 restrictions.

Cost of SME Credit

... lending rates remained high

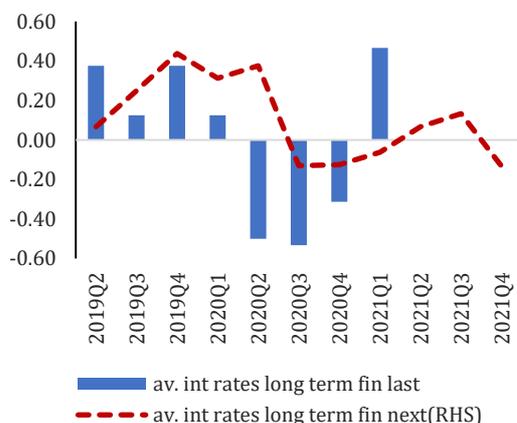
Lending rates for both working capital and long-term financing were reported high in the third quarter largely due to rising inflation (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Commercial banks, however, expect a fall in lending rates in line with the decline in inflation and recent sharp drop in the yield rates on Government securities (Chart 12).

Tenure and Collateral for SMEs

... tenure and collateral requirements remained the same

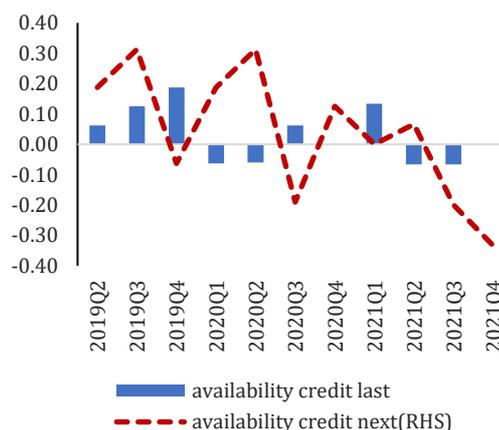
Working capital and long-term loan tenures and collateral requirements for SMEs remained unchanged in line with existing credit policies. Banks do not foresee any modifications to tenures or collateral requirements for both types of financing in the coming quarter.

IV. Large Corporations Sector

... credit conditions reported loose for corporations

Most banks reported increased credit by large corporations largely reflecting enhanced drawdown on the TMTRF coupled with increased market liquidity (Chart 13). Banks expect loose credit conditions to continue in the fourth quarter on account of sustained market liquidity, positive economic outlook following the August General Elections as well as expected pipeline projects.

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

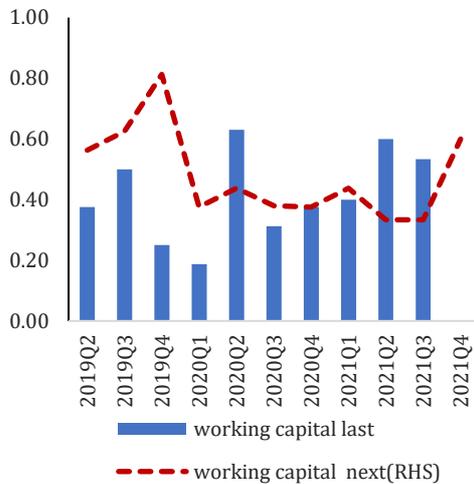
Credit Demand

... demand for working capital remained strong; long-term financing increased

High demand for working capital by large corporations was sustained in the third quarter as corporates sought to offset high operating costs and support business operations as economic activities increased following the relaxation of COVID-19 restrictions (Chart 14). Most banks expect demand for working capital to remain high due

to the anticipated economic recovery and favourable Government policy.

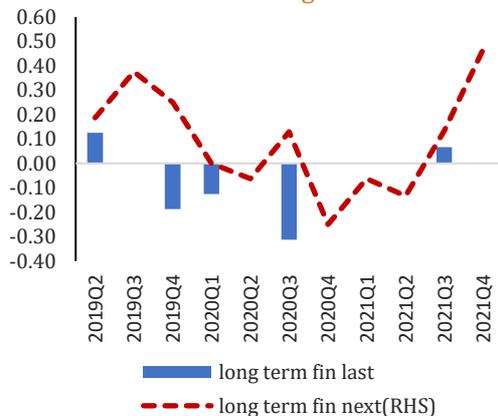
Chart 14 Demand for Working Capital



Source: Bank of Zambia

Banks reported an increase in demand for long-term financing in the third quarter, particularly in the manufacturing, agriculture and telecommunication sectors (Chart 15). In the subsequent quarter, banks envisage stronger demand than previously largely on account of a positive economic outlook and corporates investing in long-term projects.

Chart 15: Demand for Long-term Finance



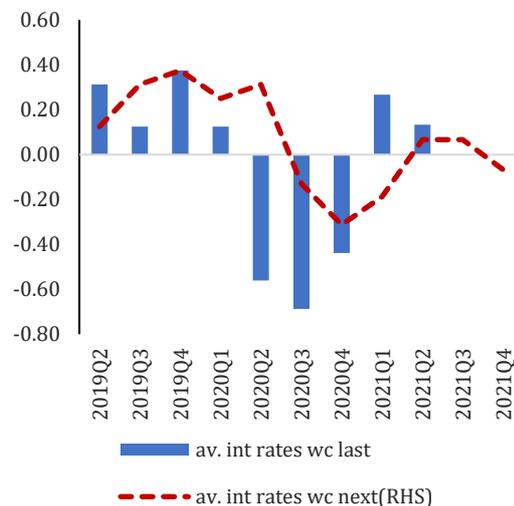
Source: Bank of Zambia

Cost of Credit

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

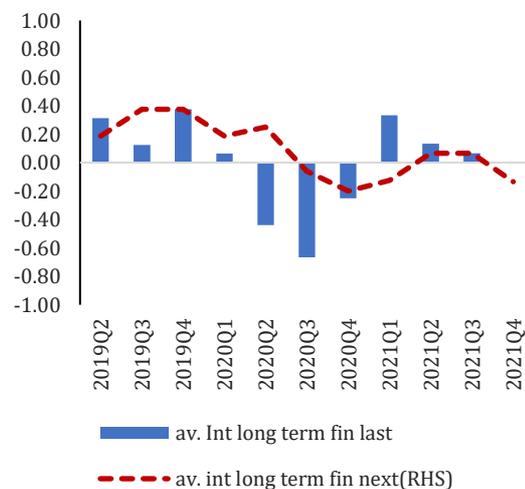
Lending rates for working capital and long-term credit remained high due to high inflation (Charts 16 and 17). Commercial banks, however, expect lending rates to fall in the next quarter in line with the reduction in inflation and the sharp drop in yield rates on Government securities.

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 the same

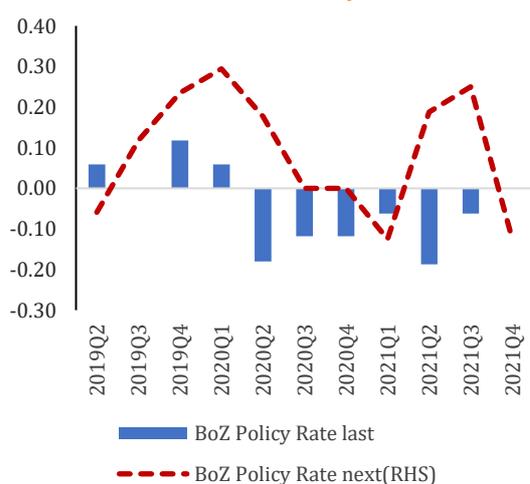
Tenures and collateral requirements for working capital and long-term financing were not modified in the third quarter in line with existing agreements. Most banks expect these to remain unchanged in the following quarter in line with existing lending policies.

V. Monetary Policy

... policy rate was assessed to have been low

Commercial banks assessed the Policy Rate at 8.5 percent to have been low during the third quarter as the Bank of Zambia sought to stimulate economic activity (Chart 18). Most banks expect the Policy Rate to be maintained at 8.5 percent in the fourth quarter to support private sector growth.

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.