

Credit Conditions Survey



November 2023

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

The November 2023 Credit Conditions Survey indicates loose credit conditions for households, small and medium enterprises and large corporations. This was mostly due to ample liquidity in the money market. Credit conditions are anticipated to continue being favorable in the fourth quarter due to positive macroeconomic outlook and high liquidity levels. Following the agreement reached with its official creditors on a comprehensive debt treatment under the G20 Common Framework, investor confidence has been boosted, economic activities increased in some sectors and demand for credit expanded to finance operations and new projects. Most commercial banks reported high lending rates consistent with the upward adjustment in the Bank of Zambia Policy Rate in August. The respondents considered the Policy Rate appropriate to address inflationary pressures. Going forward, high lending rates are expected to be sustained due to the expected Policy Rate hike to curb rising inflationary pressures.

Background

The quarterly Credit Conditions Survey conducted by the Bank of Zambia assesses changes in the demand for and supply of credit by the banking sector by households, small and medium enterprises (SMEs) as well as large corporations. The survey results serve as input into monetary policy decisions.

This survey was conducted between September 28 and October 6, 2023 to assess credit conditions in the banking sector during the third quarter of 2023 and expectations for the fourth quarter 2023. 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 I, II and III, respectively. Section IV covers the assessment of the monetary policy stance. The survey methodology is presented in the appendix.

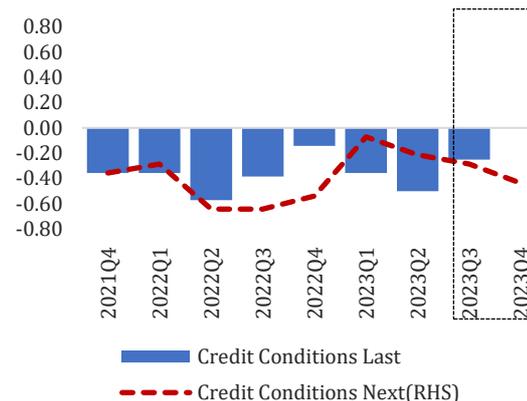
I Household Sector

Credit Conditions

... loose conditions sustained

Commercial banks reported favourable credit conditions for households. This was mostly attributed to sustained high liquidity levels in the money market (Chart 1).

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

Loose credit conditions are expected to be sustained in the fourth quarter as high liquidity levels in the money market are maintained. The roll out of loan schemes under new memoranda of understanding (MoU) with some Government agencies is expected to contribute to favourable conditions.

Credit Demand

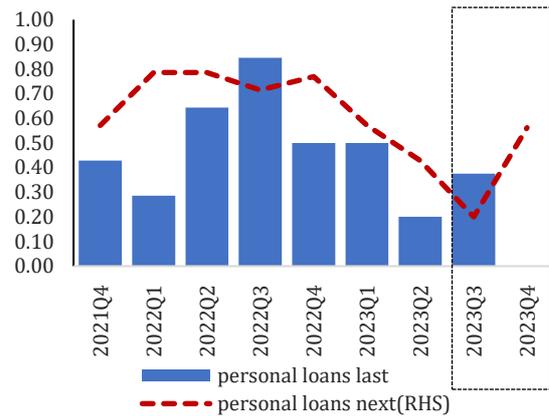
... high demand sustained

The increase in demand for personal loans¹ was broadly as expected and higher than in the second quarter (Chart 2). The continued need to supplement disposable income and meet personal commitments in view of the rising cost of living boosted demand.

¹ Demand for personal loans refers to the number of commercial banks that report willingness of clients to acquire personal loans measured in

terms of applications and not value or loan amount.

Chart 2: Demand for Personal Loans



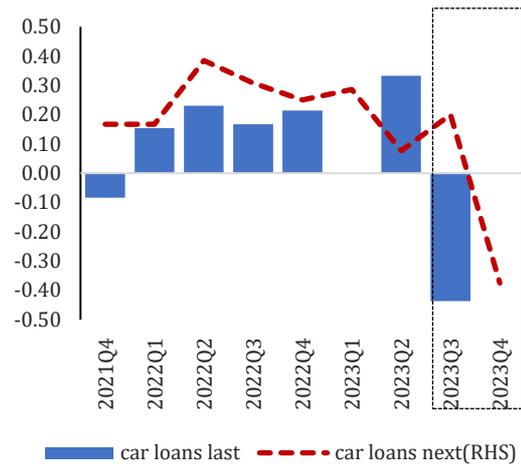
Source: Bank of Zambia

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

Demand for personal loans is expected to remain strong in the fourth quarter. This is premised on the conclusion of MoUs² and roll out of salary-backed loans with various Government agencies, such as the Public Service Management Division. Demand is expected to be sustained as households seek to augment their incomes to mitigate the rising cost of living driven by higher inflation, food and transportation costs (continuous increase in fuel pump prices). Seasonal festive demand for goods and services are expected to boost the need for additional funds.

However, commercial banks reported subdued demand for car loans (Chart 3). This was in contrast to the second quarter expectation that demand would continue to be high. Low disposable incomes, rising borrowing costs and the depreciation of the Kwacha against the US dollar that affected prices of motor vehicles on the market contributed to subdued demand.

Chart 3: Demand for Car loans



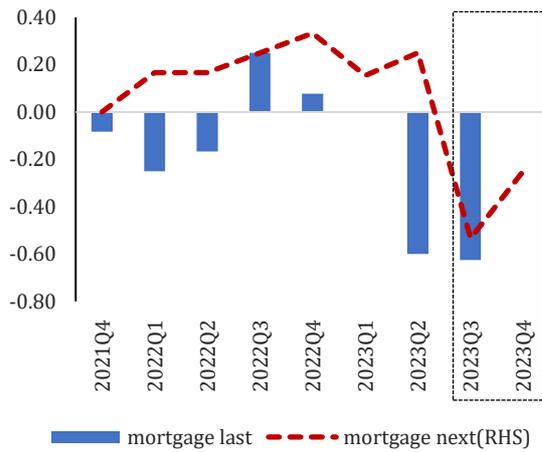
Source: Bank of Zambia

Weak demand for car loans is expected to be sustained in the following quarter due to the high cost of credit and higher prices of motor vehicles largely attributed to the continued depreciation of the Kwacha against the US dollar.

Demand for mortgages continued to be subdued in the third quarter on account of sustained high interest rates, unfavourable loan tenors, coupled with low disposable incomes (Chart 4). The preference by customers to obtain personal rather than mortgages for construction also continued to weigh on demand. Commercial banks indicated that customers preferred personal loans mainly due to perceived affordability as mortgages were deemed expensive.

² Credit demand to households is expected to increase as the maximum lending cap is anticipated to be increased.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

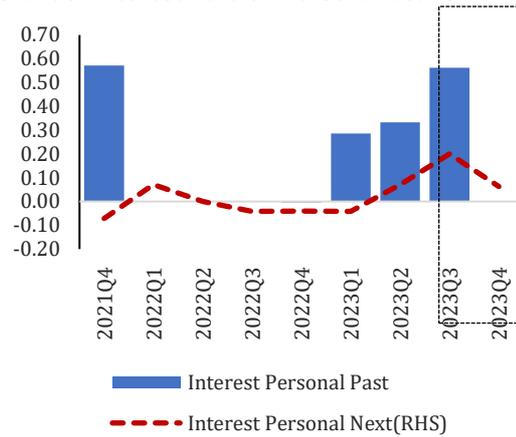
High borrowing costs are expected to continue to depress demand for mortgages. Notwithstanding the foregoing, continued customer engagement and marketing of home loan schemes launched by some banks is expected to entice households to obtain mortgages.

Cost of Credit

... high lending rates maintained

Most banks reported high lending rates for personal, car and mortgage loans during the third quarter in line with expectations (Charts 5 - 7). The upward adjustment in the Policy Rate to 10.0 percent in August from 9.5 percent in May mostly accounted for high lending rates.

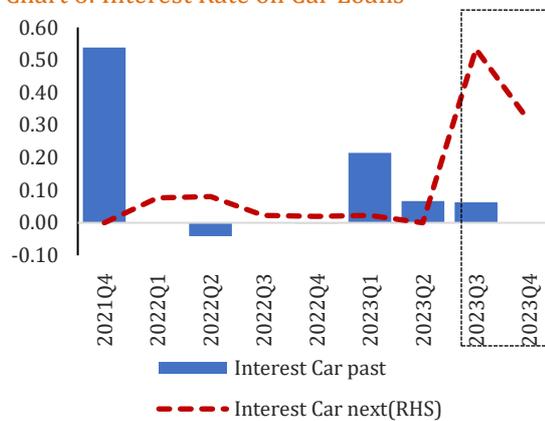
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

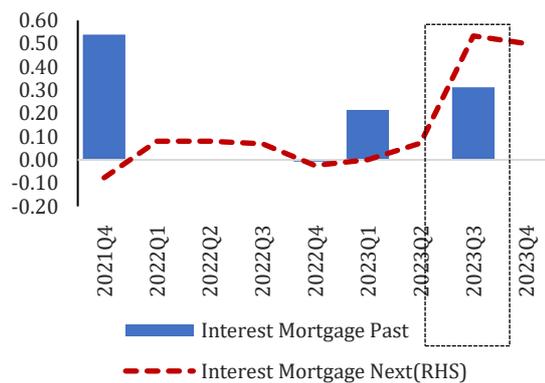
Chart 6: Interest Rate on Car Loans



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 respondents expect high lending rates to be sustained as inflationary pressures persist. In view of the foregoing, banks expect the Bank of Zambia to raise the Policy Rate further to curb rising inflationary pressures. This is expected to increase borrowing costs going forward.

Tenure and Collateral for Household Loans

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

Loan tenure and collateral requirements for household loans were maintained in line with existing policy agreements. No changes are expected in the fourth quarter.

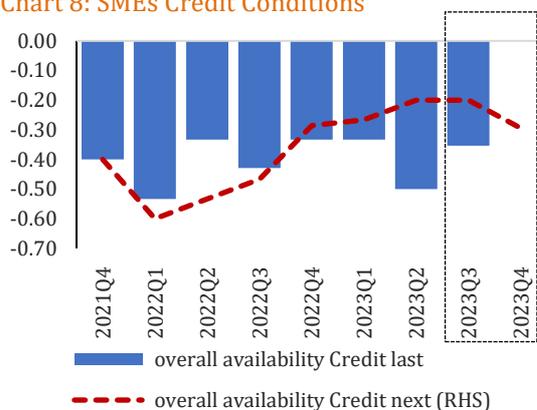
II Small and Medium Enterprises Sector

Credit Conditions

... loose credit conditions sustained

Loose credit conditions were sustained in the third quarter mostly due to high liquidity levels in the money market (Chart 8).

Chart 8: SMEs Credit Conditions



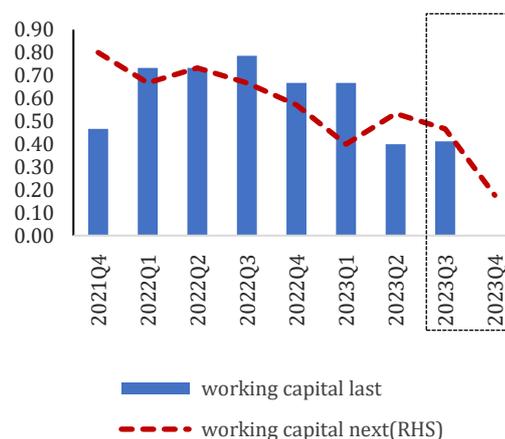
Source: Bank of Zambia

Most banks expect similar conditions to persist in the fourth quarter. They expect the roll out of new products for Women Banking and SMEs as well high liquidity levels to contribute to favourable credit conditions in the fourth quarter.

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

High demand for working capital was reported by most respondents as firms sought additional liquidity to facilitate business operations due to the rising operating costs (Chart 9). Further, loan facilities guaranteed by Zambia Credit Guarantee Scheme bolstered demand.

Chart 9: Demand for Working Capital



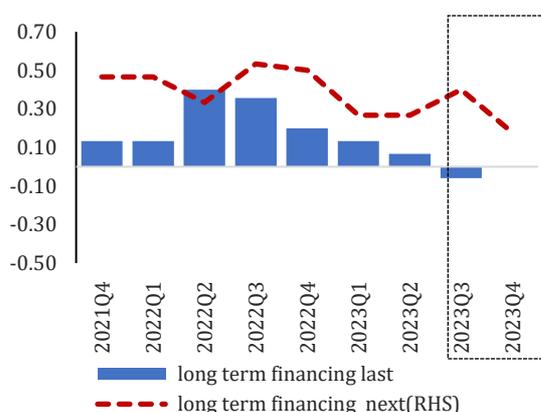
Source: Bank of Zambia

Most banks expect high demand for working capital by SMEs to be maintained in the fourth quarter largely due to positive economic prospects. In addition, SMEs are expected to demand additional liquidity to finance business operations due to high operating costs driven by increasing fuel pump prices coupled with the continued depreciation of the Kwacha against the US dollar. Further, the procurement of agricultural inputs in readiness for the next farming season is anticipated to

boost demand for additional funds. However, demand is expected to be lower compared to the previous period due to higher borrowing costs as banks anticipate an upward adjustment in the Policy Rate to curb inflationary pressures.

Demand for long-term financing was subdued due to high operating costs reflected in high fuel prices, inflation and low economic activity (Chart 10). Demand was lower than the previous quarter as most SMEs did not meet credit appraisal review requirements.

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

Most banks expect demand for long-term financing to pick up in the next quarter due to the positive macroeconomic outlook following reaching of an agreement on a comprehensive debt treatment by Government with its official creditors under the G20 Common Framework. Improved investor confidence and economic activity in manufacturing, mining and energy sectors is expected to stimulate demand for credit to expand and/or finance new projects. Further, Government policy of involving SMEs in economic development through loans guaranteed by the Zambia Credit Guarantee Scheme and an increase in property investments

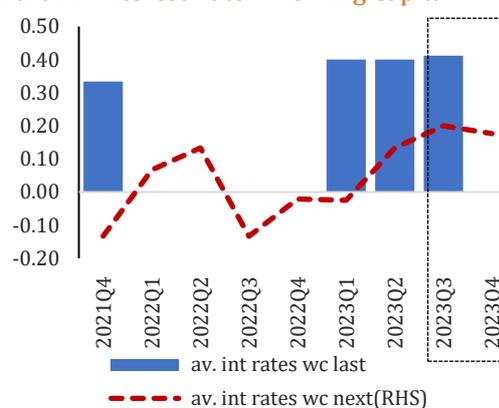
is expected to bolster demand for long-term financing.

Cost of SME Credit

... remains elevated

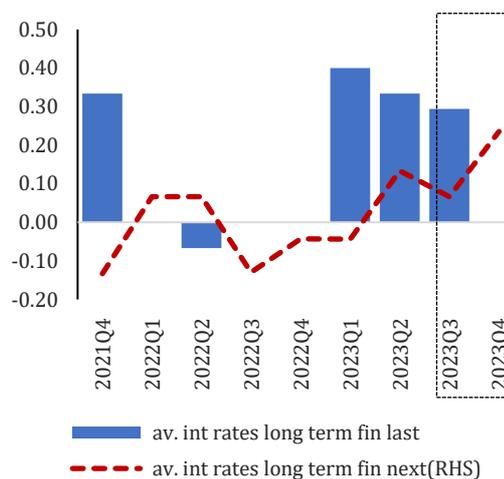
Most commercial banks reported high lending rates for working capital and long-term financing in the third quarter (Charts 11 and 12). This was mainly attributed to an upward adjustment in the Policy Rate in August.

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most respondents anticipate lending rates to remain elevated during the fourth quarter due to the expected

upward adjustment in the Policy Rate to curb inflationary pressures.

Tenure and Collateral for SMEs

... no amendments to loan tenure and collateral requirements

Most banks reported no amendments to loan tenure and collateral requirements in line with existing policy guidelines and risk assessment criteria. No revisions are expected in the fourth quarter.

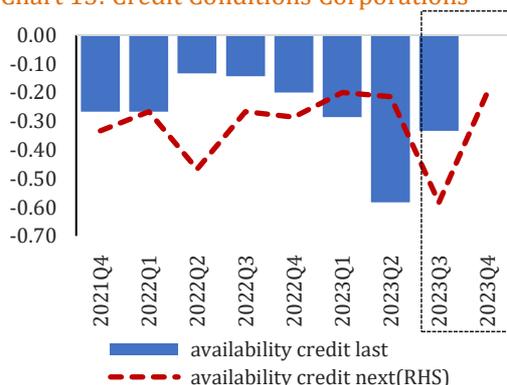
III Large Corporations Sector

Credit Conditions

... loose conditions maintained

Most respondents reported loose credit conditions mostly on account of ample liquidity in the money market (Chart 13). Going forward, banks expect favourable credit conditions to be sustained due to the positive economic outlook and pick-up in economic activity following the conclusion of the external debt restructuring negotiations with official creditors.

Chart 13: Credit Conditions Corporations



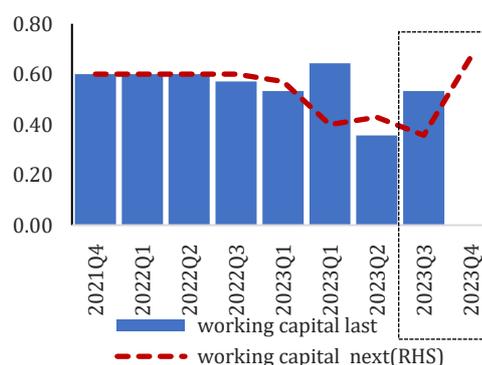
Source: Bank of Zambia

Credit Demand

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

Most banks reported higher demand for working capital by large corporations compared to the previous quarter (Chart 14). The continued depreciation of the Kwacha against the US dollar and increasing fuel prices necessitated the need for additional financing to support business operations. Notable increases in demand were observed in the manufacturing, telecommunications, energy and agriculture sectors. Firms in the agriculture sector in particular sought additional liquidity to purchase inputs (soya beans) in readiness for the next farming season.

Chart 14: Demand for Working Capital



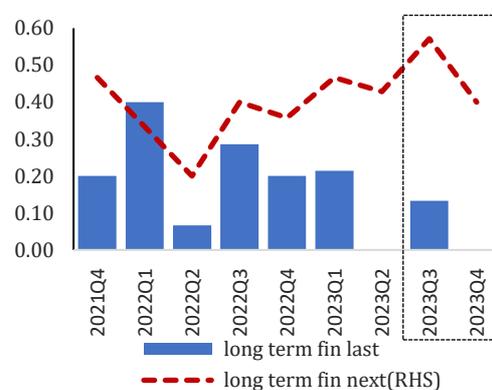
Source: Bank of Zambia

Most banks expect demand for working capital by large corporations to remain high in the fourth quarter due to better economic prospects reflected in improved market sentiments following the conclusion of the external debt restructuring negotiations and investment incentives announced in the 2024 Budget Speech. The procurement of goods for sale during the festive period in the wholesale and retail sector and purchase of inputs in the agriculture sector in preparation for the farming

season is also expected to support demand in the fourth quarter.

In line with expectations in the second quarter, demand for long-term financing was reported to be high in the third quarter (Chart 15). Firms, mostly in the manufacturing and mining sectors, sought funds for business expansion and asset acquisition. Nonetheless, compared to the same period last year demand was reported to be lower as most firms obtained more working capital than long-term financing to support business operations.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

High demand for long-term financing is expected to be sustained as firms remain optimistic about positive macroeconomic prospects. Commercial banks expect large corporations to continue borrowing to expand existing projects as well as finance new capital projects, notably in the manufacturing, mining and energy sectors.

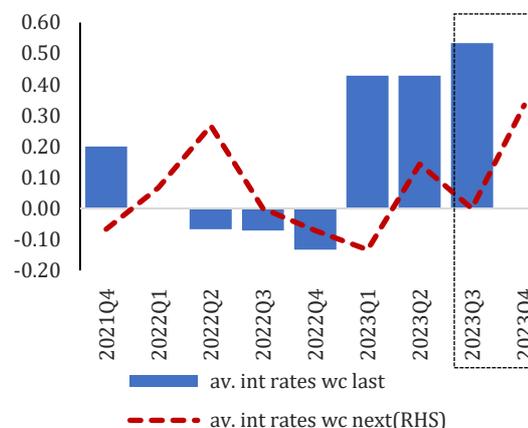
Cost of Credit

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

High lending rates for working capital and long-term financing prevailed in the third quarter (Charts 16 and 17). The

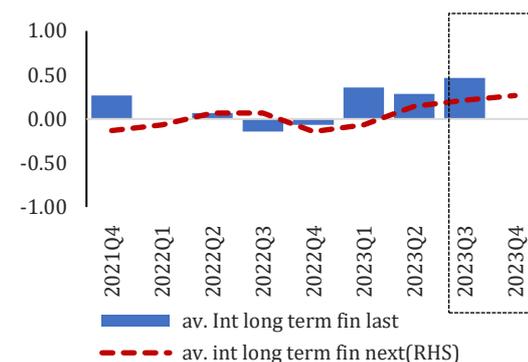
upward adjustment in the Monetary Policy Rate in August mostly explains the increase in lending rates.

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long-Term Financing



Source: Bank of Zambia

Most banks expect high lending rates to persist in the fourth quarter due to sustained inflationary pressures linked to the continued depreciation of the Kwacha against the US dollar. A further increase in inflation may lead to the increase in the cost of borrowing and subsequently reduce demand for credit.

Tenure and Collateral Requirements

... no changes to tenure and collateral requirements

No changes were made to loan tenure and collateral requirements for working

capital and long-term financing as they were in line with existing policy guidelines. All the banks do not expect revisions in the fourth quarter.

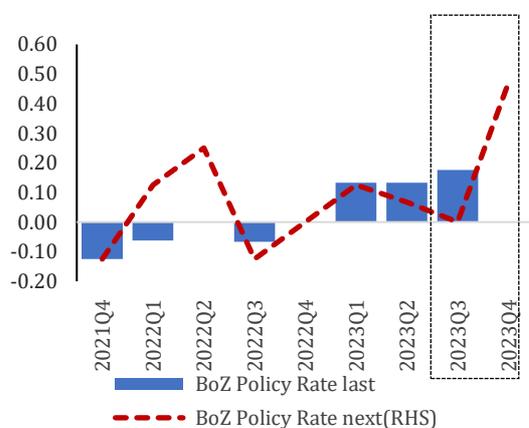
the banks expect inflation to be 9.5 - 15.0 percent range in the fourth quarter.

IV Monetary Policy

... Monetary Policy Rate assessed to have been appropriate

Almost all the banks assessed the Policy Rate upward adjustment of the Policy Rate by 50 basis points to 10.0 percent to have been appropriate due to rising inflationary pressures and projection that inflation would remain above the target range of 6.0-8.0 percent over the forecast horizon. However, commercial banks noted that although the Policy Rate was raised, the magnitude was marginal considering mounting inflationary pressures in the third quarter.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Most commercial banks expect the Policy Rate to increase by 50-100 basis points in the fourth quarter to address elevated inflationary pressures stemming from increases in fuel pump and food prices caused by the protracted Russia-Ukraine war and exchange rate depreciation. Almost all

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.