

Credit Conditions Survey Fourth 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 improved for households, small and medium enterprises (SMEs) as well as large corporates in the fourth quarter of 2021 on account of sustained high market liquidity, continued drawdown on the Bank of Zambia Targeted Medium Term Refinancing Facility (TMTRF) and a better economic environment.

Demand for personal loans edged upwards as households sought to supplement declining real incomes amid high inflation. However, high lending rates and low disposable incomes continued to suppress demand for car and mortgage loans.

High demand for working capital by SMEs was sustained and long-term financing increased due to the general improvement in the economic environment. Particularly, demand for working capital was driven by the need to support business activity following the easing of COVID-19 restrictions. Similarly, demand for long-term financing improved as firms sought to recapitalise businesses and take advantage of the improved economic environment.

Strong demand for personal loans is expected to be sustained in the first quarter of 2022 as cost of living remains elevated and due to the need to supplement income to meet recurring obligations such as school fees. Similarly, mortgage loans are expected to increase on account of positive economic outlook. However, most commercial banks anticipate demand for car loans to remain low due to high interest rates and depressed disposable income.

Commercial banks envisage high demand for working capital by SMEs and large corporations to be sustained due to the positive economic outlook and firms seeking additional liquidity to sustain their business activity amid high production costs. Further, high demand for working capital is also premised on favourable Government policy on private sector development.

Interest rates were reported to have increased following the upward adjustment in the Monetary Policy Rate to 9.0 percent in November from 8.5 percent. Most commercial banks, however, anticipate interest rates to fall in the first quarter of 2022 in line with the drop in inflation and decline in yield rates on Government securities.

Most banks kept the tenure and collateral requirements for all loans in the three sectors the same in line with existing credit policy guidelines. This is expected to continue in the next quarter.

Commercial banks assessed the Policy Rate to have been appropriate at 9.0 percent in the fourth quarter of 2021 to anchor inflation expectations and support economic growth. They envisage the rate to be maintained in the next quarter to further 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 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 December 20, 2021 and January 7 2022 to assess credit conditions in the banking sector during the fourth quarter of 2021 and expectations for the first quarter of 2022. 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.

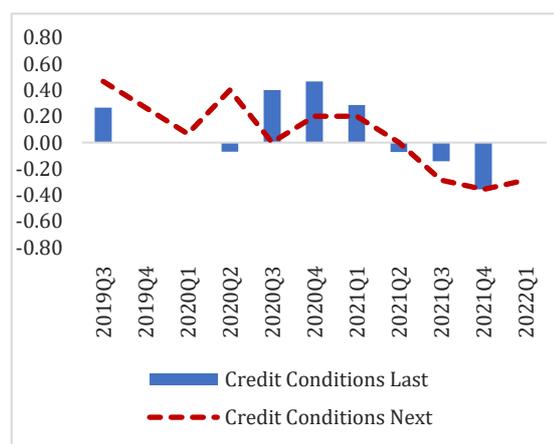
II. Household Sector

... credit conditions for households still loose

Credit Conditions

Credit conditions for households remained loose in the fourth quarter of 2021 as high market liquidity was sustained and economic prospects improved resulting in increased business activity (Chart 1). Enhanced drawdown from the BoZ Targeted Medium-Term Refinancing Facility (TMTRF) contributed to loose credit conditions. Commercial banks envisage credit conditions for households to remain loose in the first quarter of 2022.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

Credit Demand

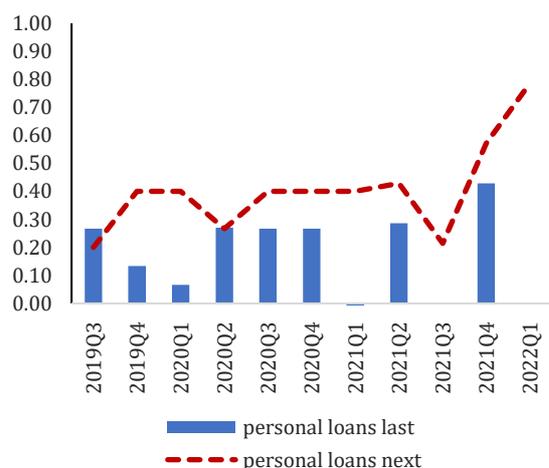
... demand for personal loans remained high, but subdued for motor vehicles and mortgages

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 in February 2021.

Demand for personal loans² went up as households continued to supplement declining real income amid high inflation (Chart 2). High demand is expected to be sustained in the next quarter largely due to the rising cost of living and the need to supplement incomes to meet recurring obligations such as school fees.

Chart 2: Demand for Personal Loans



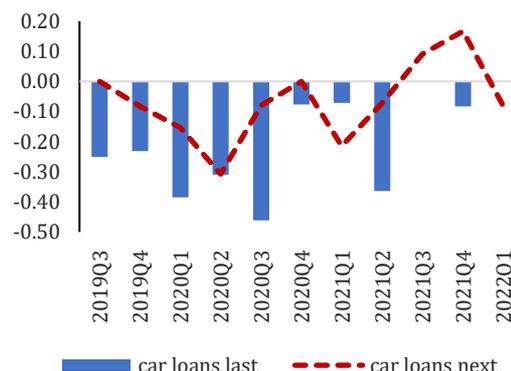
Source: Bank of Zambia

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

Demand for car loans, however, remained low (Chart 3). The high cost of vehicles and reduced appetite for luxury goods contributed to subdued demand. In addition, low disposable income owing to the effects of the COVID-19 pandemic impacted affordability of motor vehicles hence the low demand for car loans.

Most commercial banks expect demand for car loans to remain depressed in the first quarter of 2022 as constraining factors are likely to be sustained.

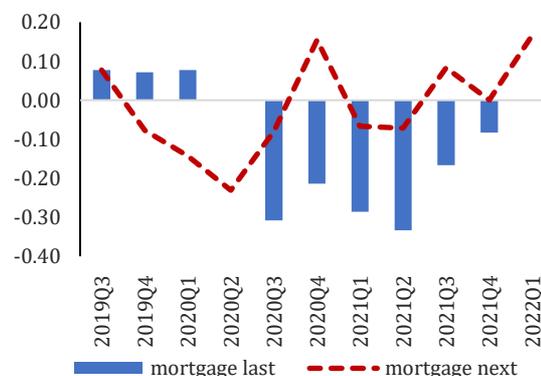
Chart 3: Demand for Car loans



Source: Bank of Zambia

Demand for mortgage loans remained low in the fourth quarter (Chart 4). Low average household income and high interest rates continued to adversely impact demand for mortgage loans. However, commercial banks expect demand for mortgage loans to increase in the next quarter as economic prospects improve.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

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

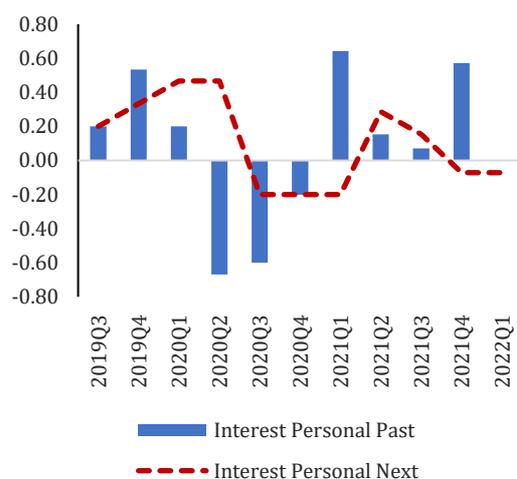
terms of the number of applications and not value or loan amount.

Cost of Credit

...lending rates remained high

Interest rates on personal, car and mortgage loans increased largely reflecting the upward adjustment in the Policy Rate to 9.0 percent in November from 8.5 percent (Charts 5, 6 and 7).

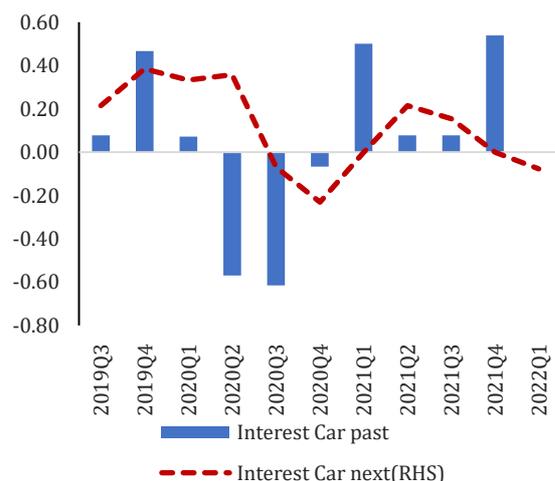
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

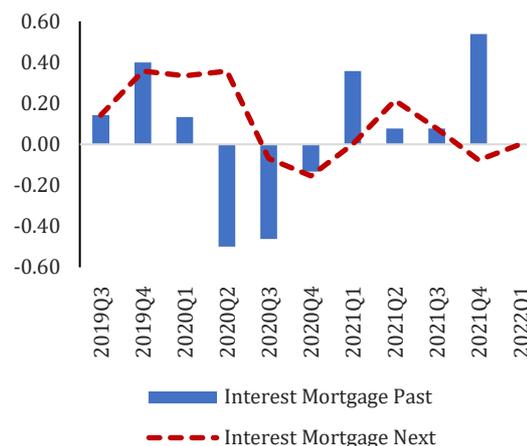
Chart 6: Interest Rate on Car Loans



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 all loans to reduce as market liquidity remains elevated and inflation declines.

Tenure and Collateral for Household Loans

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

Most commercial banks did not amend loan tenure on personal, car and mortgage loans as stipulated in the existing agreements. Collateral requirements on all loans also remained unchanged. Banks envisage no changes to loan tenure as well as collateral requirements in the following quarter in line with existing credit policy guidelines.

III. Small and Medium Enterprises Sector

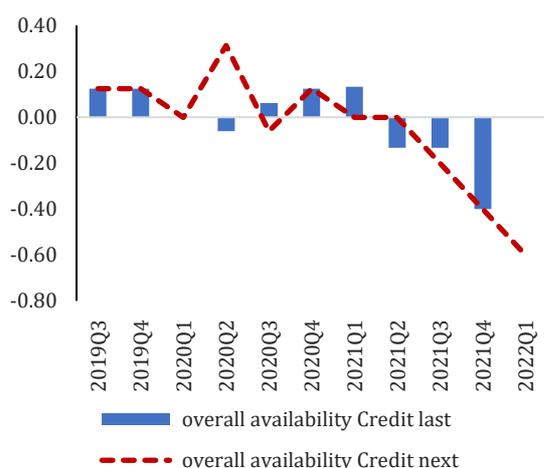
... credit conditions for SMEs improve further

Banks reported improved credit conditions for SMEs on account of elevated market liquidity, pick-up in business activity, low rates of default,

and increased disbursements from the TMTRF (Chart 8).

Commercial banks expect credit conditions for SMEs to loosen further in the ensuing quarter largely on account of improved economic prospects owing to the easing of COVID-19 restrictions as well low rate of default³.

Chart 8: SMEs Credit Conditions



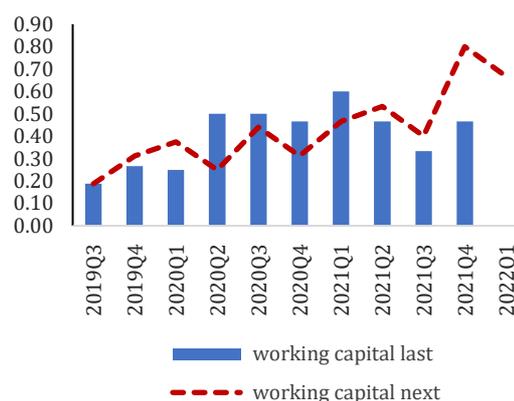
Source: Bank of Zambia

Credit Demand

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

Demand for working capital by SMEs increased in the fourth quarter (Chart 9). This was on account of the need to support business operations following the easing of COVID-19 restrictions and general pick-up in business activity.

Chart 9: Demand for Working Capital

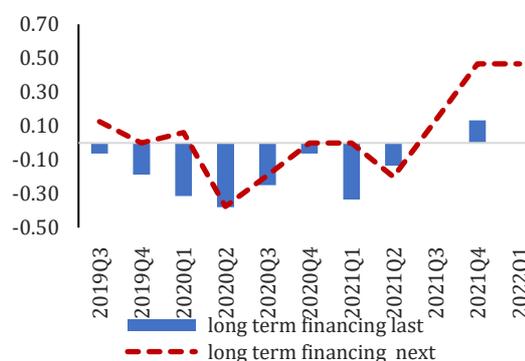


Source: Bank of Zambia

Most commercial banks expect demand for working capital by SMEs to remain high in the first quarter of 2022 as firms continue to seek liquidity to support business operations amid high production costs and positive economic outlook. In addition, favourable Government policy for Small and Medium Enterprise development may necessitate demand for working capital for business operations.

Demand for long-term financing also improved in the fourth quarter as firms sought to recapitalise and take advantage of improved economic environment (Charts 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

³ The announcement in the 2022 Budget Speech to focus of SMEs is expected to have positive impact on risk appetite.

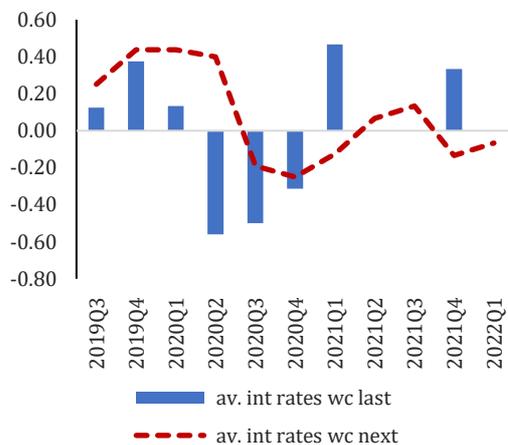
Banks expect demand for long-term financing to increase in the next quarter on account of improved economic outlook.

Cost of SME Credit

... lending rates remained high

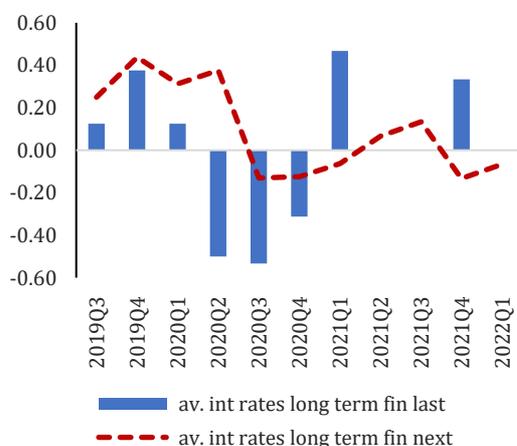
Banks reported high lending rates for both working capital and long-term financing in the fourth quarter largely due to the increase in the Monetary Policy Rate (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

However, banks expect lending rates to decline in the first quarter of 2022 due to the recent drop in inflation and continued fall in yield rates on Government securities.

Tenure and Collateral for SMEs

... tenure and collateral requirements remained unchanged

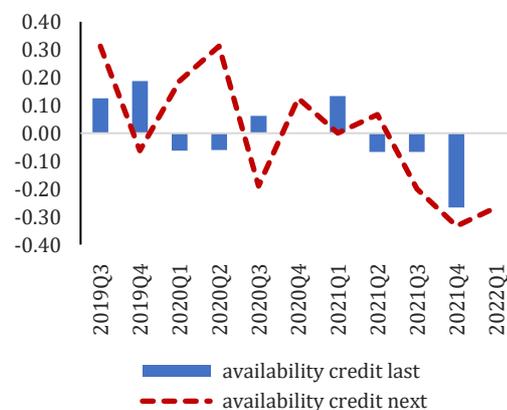
Banks kept loan tenure and collateral requirements for SMEs unchanged in line with existing credit policies. No changes are anticipated in the following quarter.

IV. Large Corporations Sector

... credit conditions for corporations loosened further

Most commercial banks reported a further loosening of credit conditions for large corporations largely due to improvement in economic outlook, enhanced drawdown on the TMTRF, and high market liquidity (Chart 13). Banks expect credit conditions for corporations to remain loose in the next quarter due to favourable economic outlook and ample market liquidity.

Chart 13: Credit Conditions Corporations



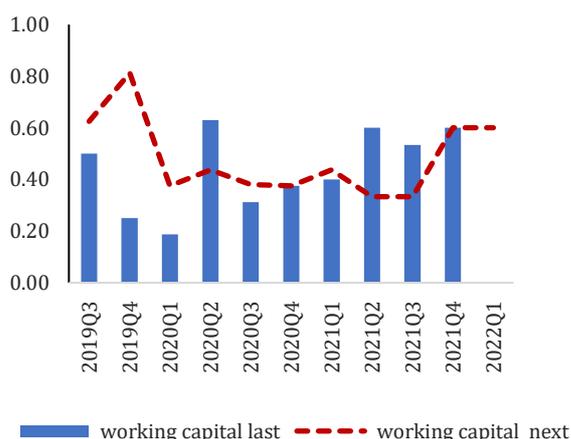
Source: Bank of Zambia

Credit Demand

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

Demand for working capital by large corporations remained high as they continued to seek capital to offset high operating costs and support business activity following the easing of COVID-19 restrictions (Chart 14). Commercial banks expect demand for working capital to remain high, driven by the positive economic outlook and favourable Government policy on private sector development.

Chart 14 Demand for Working Capital



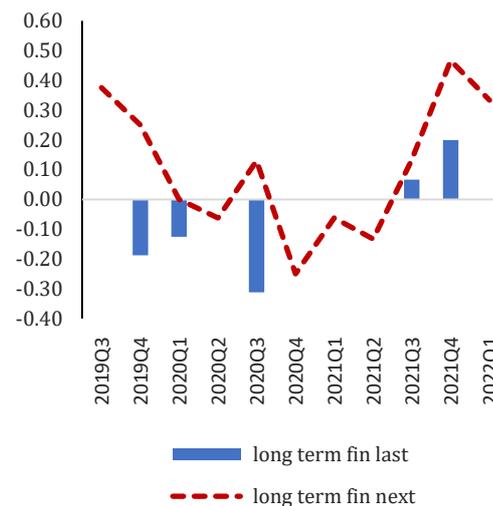
Source: Bank of Zambia

Most commercial banks reported a further increase in demand for long-term financing in the fourth quarter as corporates sought to expand their businesses to take advantage of the improved economic landscape (Chart 15).

Banks expect demand for long-term financing to remain high in the first quarter of 2022 in line with anticipated pipeline projects and positive economic outlook. Refinancing of long-term debt, taking advantage of better commercial

terms, was also reported by some banks as a reason for the anticipated high demand for long-term financing.

Chart 15: Demand for Long-term Finance



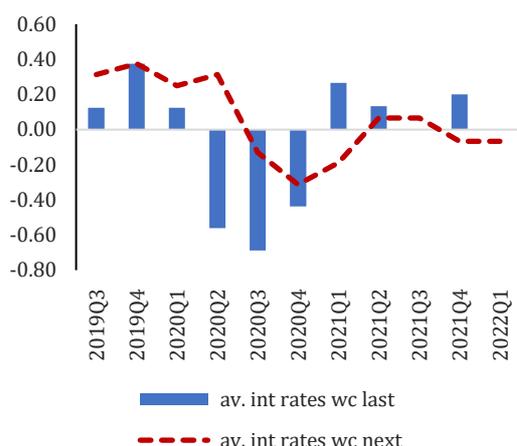
Source: Bank of Zambia

Cost of Credit

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

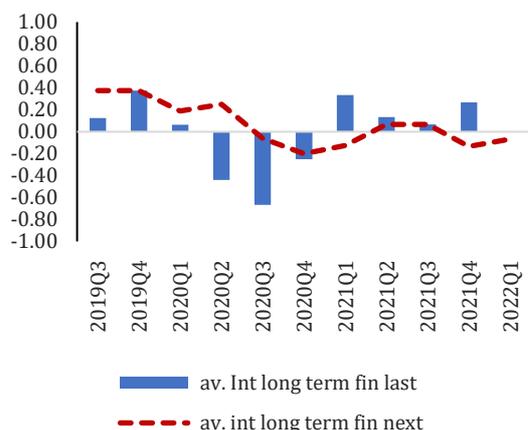
High lending rates for working capital and long-term credit were reported by most banks on account of the upward adjustment in the Policy Rate to 9.0 percent (Charts 16 and 17). However, most banks expect lending rates to decline in the first quarter of 2022 in line with the drop in inflation and reduction 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 unchanged

There was no revision to the tenure and collateral requirements for working capital and long-term financing in the fourth quarter. This was in line with the Banks' credit policies. Most banks do not expect any changes to the tenure and collateral requirements.

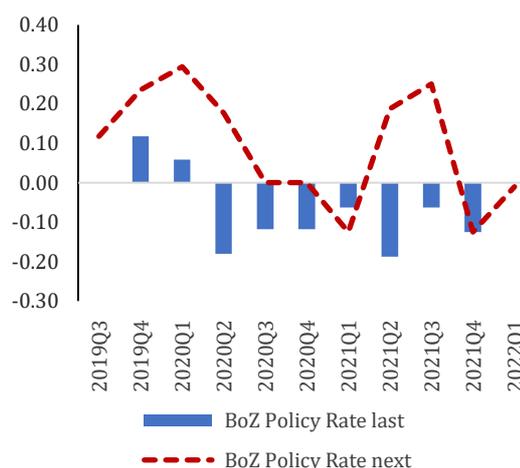
V. Monetary Policy

... Policy Rate was assessed to have been appropriate

Commercial banks assessed the Policy Rate at 9.0 percent to have been appropriate as the Bank of Zambia sought to provide a balance between anchoring inflation expectations and supporting economic growth (Chart 18).

Most banks envisage the Monetary Policy Rate to be maintained in the next quarter as major macroeconomic fundamentals improve and the need to further 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.