

Credit Conditions Survey



February 2024

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 February 2023 Credit Conditions Survey indicates favourable credit conditions for households, small and medium enterprises and large corporations due to sustained high money market liquidity. The firms expect loose credit conditions to persist in the first quarter of 2024 as high money market liquidity is likely to prevail. High demand for working capital was sustained as SMEs and large corporates continued to seek additional funds to finance business operations due to high operating costs stemming from the continued depreciation of the Kwacha against the US dollar and rising fuel prices. The respondents expect high demand for credit to be sustained as similar conditions are expected to prevail in the first quarter of 2024. Lending rates were reported to be high consistent with the 100-basis point increase in the Bank of Zambia Policy Rate to 11.0 percent in November. The commercial banks considered the Policy Rate to be appropriate to curb rising inflation. Most banks expect high lending rates to be sustained in the first quarter of 2024 as further tightening of monetary policy to curb rising inflation is inevitable. The sustained depreciation of the Kwacha against the US dollar is cited as a key driver of the further rise in inflation.

Background

The quarterly Credit Conditions Survey conducted by the Bank of Zambia assesses changes in the demand for credit by households, small and medium enterprises (SMEs) as well as large corporations by 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 January 3-12, 2024 to assess credit conditions in the banking sector during the fourth quarter of 2023 and expectations for the first quarter 2024. 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

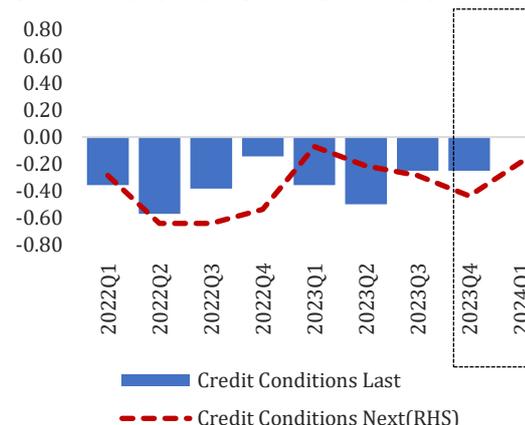
Credit Conditions

... loose conditions maintained

Commercial banks reported favourable credit conditions for households due to sustained high liquidity in the money market (Chart 1).

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 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 persist in the first quarter of 2024 as high money market liquidity is likely to prevail.

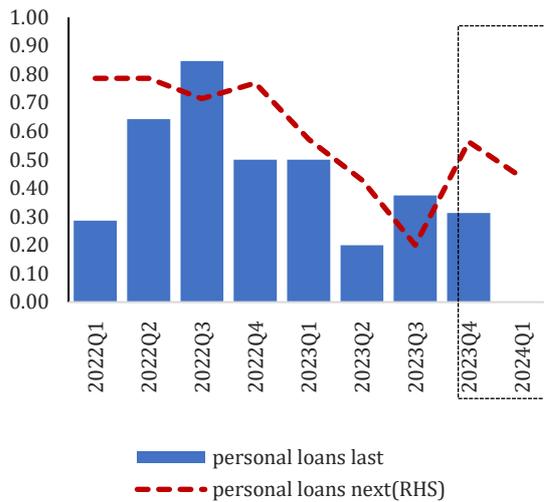
Credit Demand

... high demand sustained

Demand for personal loans¹ remained high in the fourth quarter due to the festive demand for goods and services (Chart 2). The need to cushion the effects of the rising cost of living and the roll out of more salary-backed loans following the signing of additional Memoranda of Understanding (MoUs)² with some Government ministries and mining companies supported demand.

² Increased demand for personal loans by recruited civil servants in the Ministries of Education and Health in 2023 necessitated the signing of fresh MoUs. One bank reported an increase in the lending cap to K550, 000 from K450,000.

Chart 2: Demand for Personal Loans



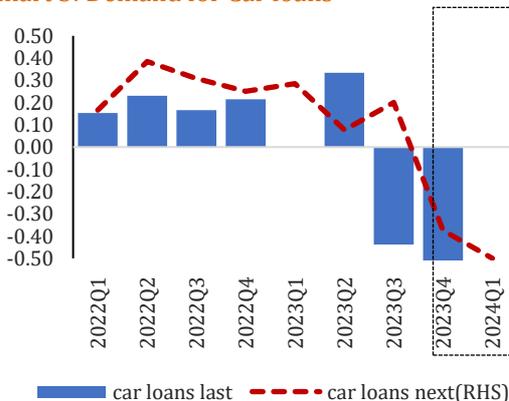
Source: Bank of Zambia

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

Most commercial banks expect high demand for personal loans to be sustained in the first quarter of 2024 to supplement disposable income and meet personal commitments, including school fees.

In contrast, demand for car loans remained subdued, dampened by the sustained depreciation of the Kwacha against the US dollar, which pushed up prices of motor vehicles maintenance costs, low household incomes, and high lending rates (Chart 3).

Chart 3: Demand for Car loans



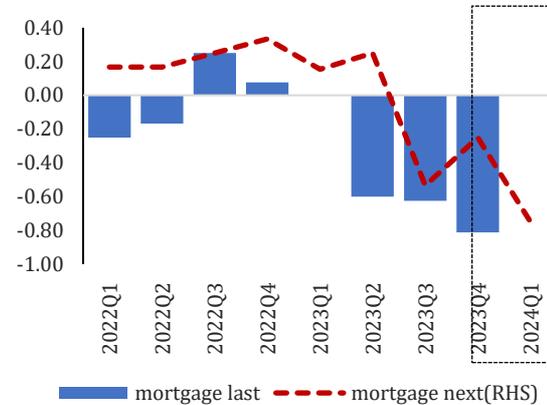
Source: Bank of Zambia

Demand for car loans is likely to remain weak in the first quarter of 2024 on expectation of further depreciation of

the Kwacha against the US dollar, as well as high borrowing and maintenance costs (rise in retail fuel prices).

Similarly, demand for mortgages continued to be subdued in the fourth quarter as households prefer relatively cheaper personal loans for construction activities than mortgages (Chart 4). High construction costs (cost of raw materials due to the depreciation of the Kwacha) also weighed on household demand for mortgages. In addition, demand was affected by shorter loan tenors.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

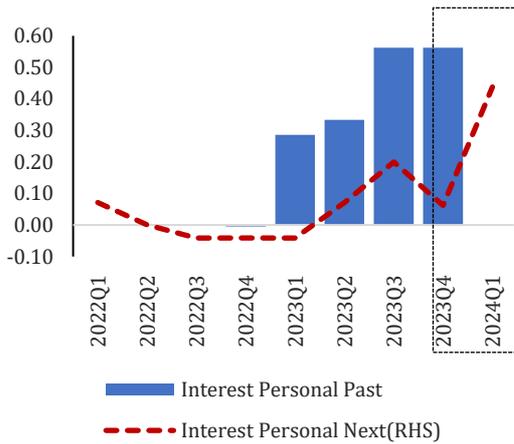
High lending rates and depreciation of the Kwacha against the US dollar are expected to further weigh on demand for mortgages in the first quarter.

Cost of Credit

... high lending rates maintained

Most commercial banks reported high lending rates for personal, car and mortgage loans during the fourth quarter in line with expectations in the third quarter (Charts 5 - 7). The 100 basis point increase in the Policy Rate to 11.0 percent in November mostly explains high borrowing costs.

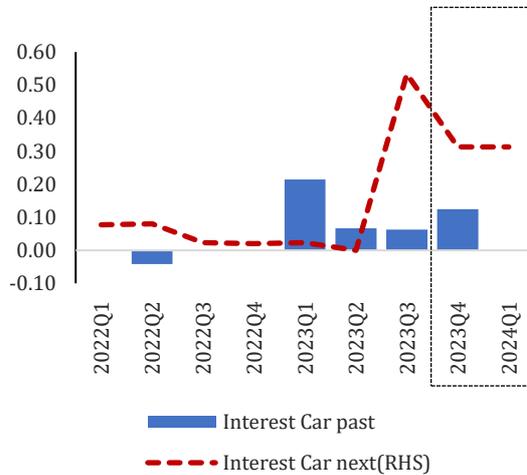
Chart 5: Interest Rate on Personal Loans



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

Respondents to the survey expect lending rates to remain high in the first quarter of 2024 as further tightening of monetary policy to curb rising inflation is

inevitable. The sustained depreciation of the Kwacha against the US dollar is cited as a key driver of the further rise in inflation.

Tenure and Collateral for Household Loans

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

Most commercial banks did not change loan tenure and collateral requirements for household loans guided by existing policy agreements. They do not anticipate changes in the first quarter of 2024.

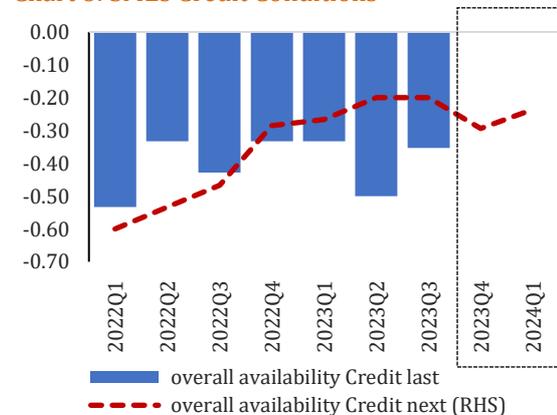
II Small and Medium Enterprises Sector

Credit Conditions

... loose credit conditions sustained

Most commercial banks reported loose credit conditions for SMEs in the fourth quarter mostly due to high liquidity levels in the money market (Chart 8). The roll out of new products for Women Banking and SMEs contributed to favourable credit conditions in the quarter.

Chart 8: SMEs Credit Conditions



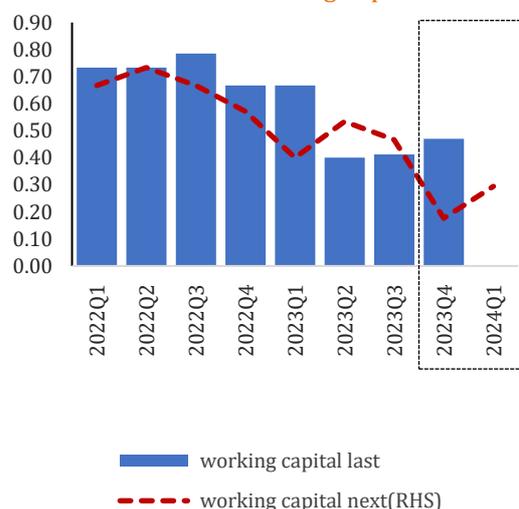
Source: Bank of Zambia

Most banks expect sustained high liquidity in the money market to support favourable credit conditions for SMEs in the first quarter of 2024.

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

High demand for working capital was sustained as SMEs continued to seek additional funds to finance business operations as operating costs rose further (Chart 9). The elevated operating costs were attributed to high inflation and increased cost of raw materials driven by the depreciation of the Kwacha against the US dollar. Further, the introduction of favourable lending facilities, such as the scored lending product³, supported credit demand by SME. The need to finance purchase orders and contracts as well as procurement of agricultural inputs also necessitated demand for additional funds.

Chart 9: Demand for Working Capital



Source: Bank of Zambia

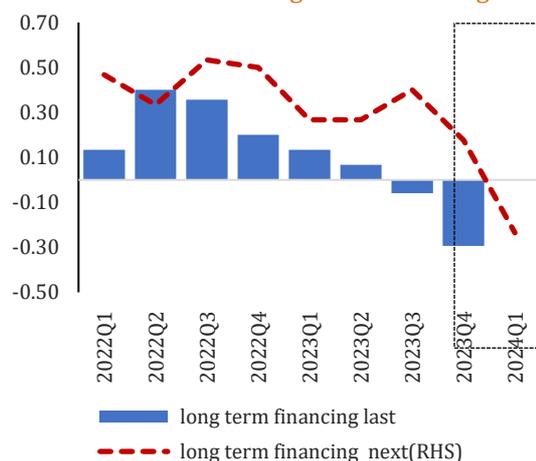
Most commercial banks expect high demand for working capital by SMEs to

³ One bank introduced a scored lending product in 2023, which has less stringent requirements (no collateral) for obtaining loans.

be sustained in the first quarter 2024. This is on account of the need to finance business operations due to high operating costs stemming from the continued depreciation of the Kwacha against the US dollar and rising fuel prices.

In contrast, demand for long-term financing remained weak in the fourth quarter mostly on account of high borrowing costs following the upward adjustment in the Policy Rate coupled with subdued economic activity attributed to high inflation and depreciation of the Kwacha against the US dollar (Chart 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

Most banks expect demand for long-term financing to remain subdued due to deteriorating economic fundamentals such as inflation that may push up lending rates.

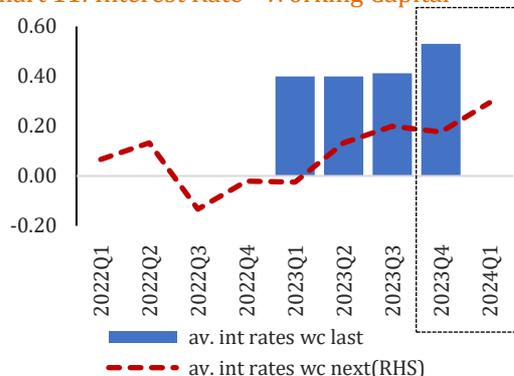
Cost of SME Credit

... remains high

Lending rates for working capital and long-term financing were reported to

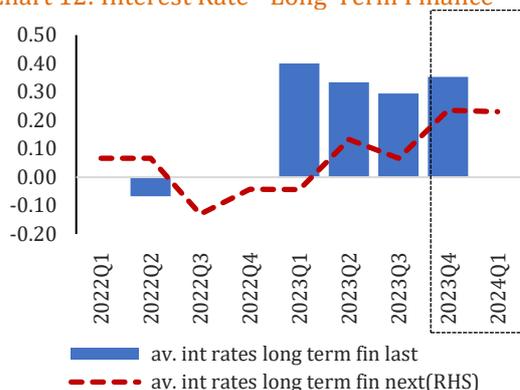
have remained elevated in the fourth quarter in line with the upward adjustment in the Policy Rate in November (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most commercial banks expect high lending rates to prevail in the first quarter of 2024 due to the anticipated further tightening of monetary policy to curb rising inflation.

Tenure and Collateral for SMEs

... no changes to loan tenure and collateral requirements

Most commercial banks did not make changes to loan tenure and collateral requirements. This was in line with existing policy guidelines and risk assessment. They do not anticipate revisions in the first quarter of 2024.

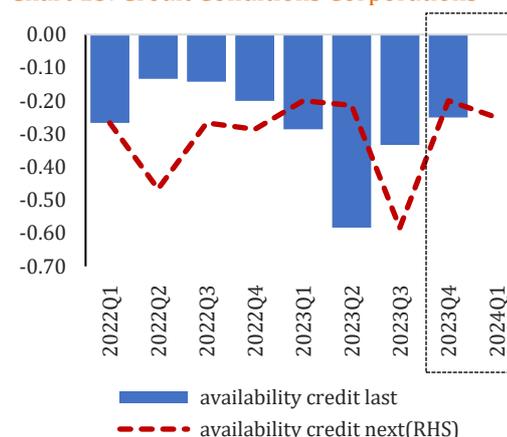
III Large Corporations Sector

Credit Conditions

... loose conditions maintained

Loose credit conditions were sustained in the fourth quarter mostly due to high money market liquidity (Chart 13). Most banks anticipate favourable credit conditions for large corporations to continue as high liquidity conditions are expected to persist. Further, banks expect a pick-up in economic activity on account of the projected recovery in the mining sector following reports of Government signing new ownership agreements with Konkola Copper Mines Plc and Mopani Copper Mine Plc.

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

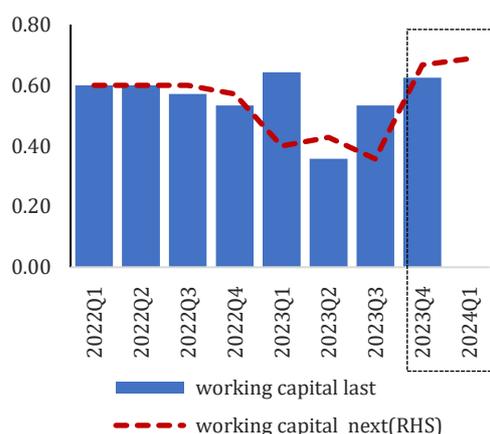
Credit Demand

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

Demand for working capital by large corporations is reported to have risen further in the fourth quarter (Chart 14). As expected, 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 supported demand. In addition, some corporates sought more liquidity to finance rising operating costs driven by higher fuel prices and the continued depreciation of the Kwacha against the US dollar, which raised the cost of imported raw materials. Increased demand for working capital was noted in the manufacturing, agriculture, transport as well as wholesale and trade sectors. For instance, firms in the wholesale and trade sector, mostly oil marketing companies, increased their working capital requirements for the importation of fuel due to the depreciation of the Kwacha.

Chart 14: Demand for Working Capital



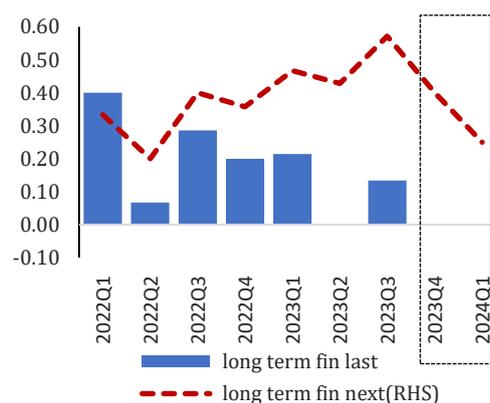
Source: Bank of Zambia

Most commercial banks anticipate high demand for working capital by large corporations to be sustained to manage increasing operating costs mostly driven by the depreciation of the Kwacha and increase in fuel prices. Investment incentives announced in the 2024 Budget Speech are also expected to support high demand for credit in the first quarter of 2024.

Most commercial banks reported high demand for long-term financing in the fourth quarter despite high borrowing costs (Chart 15). Notable increases were in the manufacturing, agriculture,

energy as well as wholesale and retail sectors. For instance, firms in the manufacturing sector continued to borrow to finance new and/or expansion of new and existing projects as well as asset acquisition. Others borrowed to procure raw materials which had become costly due to the depreciation of the Kwacha against the US dollar.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

Most banks expect demand for long-term financing to remain strong premised on positive macroeconomic prospects in the near term. This is supported by the optimism surrounding the conclusion of the external debt restructuring negotiations, recovery in the mining and agriculture sectors. In addition, commercial banks expect large corporations to continue borrowing to finance new and existing projects mostly in the manufacturing, mining, agriculture as well as wholesale and retail sectors.

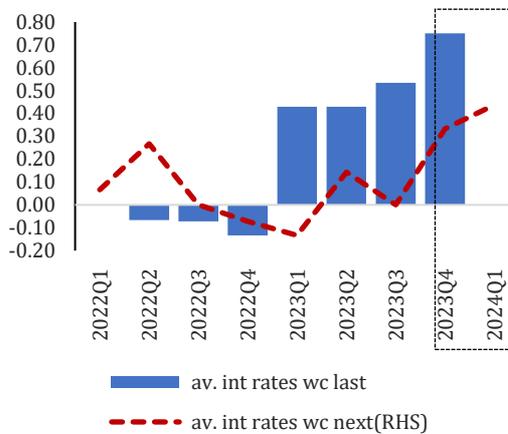
Cost of Credit

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

Lending rates for working capital and long-term financing increased further in the fourth quarter in line with the

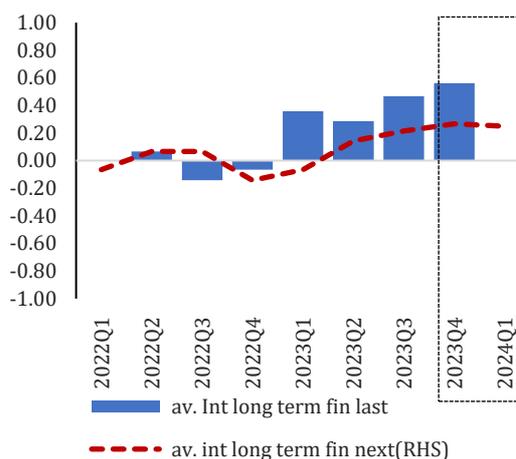
upward adjustment in the Policy Rate in November (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long-Term Financing



Source: Bank of Zambia

Most banks expect lending rates to remain high in the first quarter of 2024 due to the rise in the cost of doing business stemming from sustained inflationary pressures. This is mostly on account of the continued depreciation of the Kwacha against the US dollar. Commercial banks expect the Bank of Zambia to hike the Policy Rate to curb rising inflation. A further increase in the Policy Rate will contribute to high borrowing costs and affect credit related activities.

Tenure and Collateral Requirements

... no changes to tenure and collateral requirements

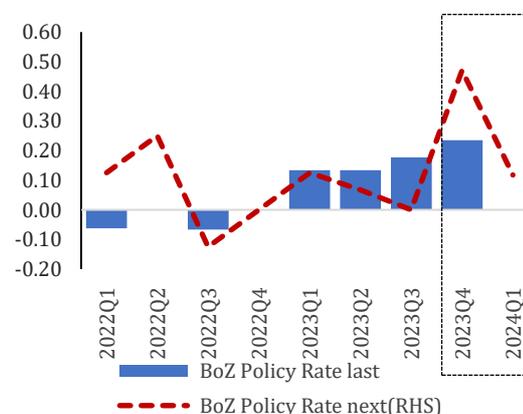
There were no reported changes to loan tenure and collateral requirements for working capital and long-term financing as they were guided by the existing policy agreements. All the banks do not expect revisions to loan tenure and collateral requirements in the first quarter of 2024.

IV Monetary Policy

... Monetary Policy Rate assessed to have been appropriate

Almost all the commercial banks judged the upward adjustment in the Policy Rate by 100 basis points to 11.0 percent in November to have been appropriate to curb rising inflation. They noted that Policy Rate adjustment will provide price and financial system stability albeit constraining economic growth as high lending rates increase and raise the cost of doing business. Further, banks indicated that despite the Policy Rate being adjusted upwards four times in 2023, the magnitude remained moderate given mounting inflationary pressures.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Most commercial banks expect further tightening of monetary policy in the first quarter of 2024 to mitigate inflationary pressures from increases in fuel and food prices caused by the protracted Russia-Ukraine war and continued exchange rate depreciation. They expect the Policy Rate and inflation to be in the range of 11-12 percent and 11-18 percent, respectively in the first quarter of 2024.

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.