

Credit Conditions Survey



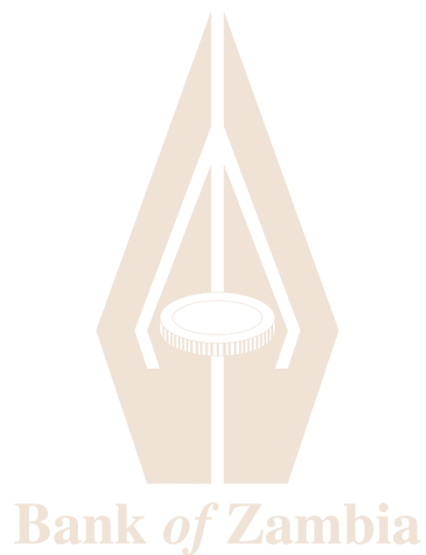
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Disclaimer:

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 are reported to have been tight for households, small and medium enterprises as well as large corporations in the first quarter of 2025. This was attributed to the 50-basis point increase in the Monetary Policy Rate (MPR) in February to address persistently high inflation. Credit conditions are expected to remain restrictive as a further increase in the MPR is anticipated in the third quarter. Meanwhile, strong demand for working capital persisted, driven by additional working capital requirements in the agriculture sector, post-festive season expenses, such as, school fees, need to mitigate the rising cost of living and continued investment in alternative sources of energy to mitigate the lingering effects of electricity load shedding on productivity.

I. Background

The quarterly Credit Conditions Survey conducted by the Bank of Zambia assesses changes in demand for credit by households, small and medium enterprises (SMEs) and large corporations from 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 March 25 to April 11 to assess credit conditions in the banking sector for the first quarter of 2025 and expectations for the second quarter. Fifteen (15) 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 respectively presented in Sections I, II, and III. The survey methodology is presented in the appendix.

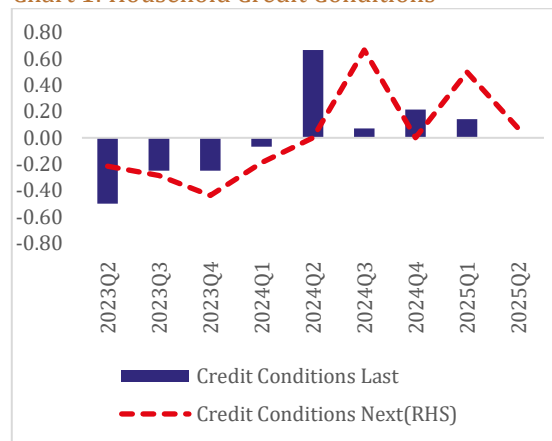
II Household Sector

Credit Conditions

... tight

Tight credit conditions were reported to have persisted in the first quarter of 2025 on account of constrained liquidity following a 50-basis point hike in the Monetary Policy Rate (MPR) to 14 percent (Chart 1). Credit conditions are expected to remain broadly tight in the second quarter.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

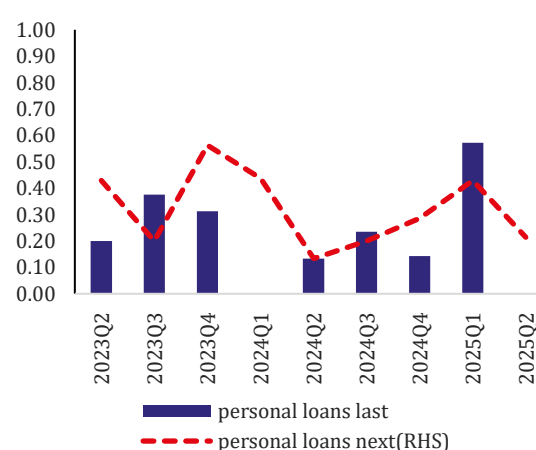
Note: Bars below zero mean loose, above zero tight and zero means unchanged.

Credit Demand

... remains high

The sustained demand for personal loans in the first quarter was largely driven by the need to supplement income for post-festive season expenses such as school fees, cushioning the impact of rising living costs and purchasing equipment for alternative energy sources. Commercial banks anticipate this trend to continue for some time (Chart 2).

Chart 2: Demand for Personal Loans

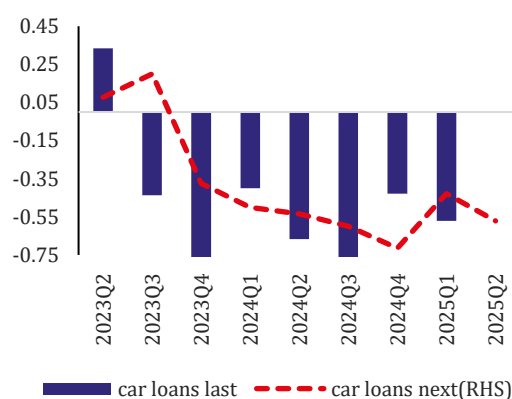


Source: Bank of Zambia

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

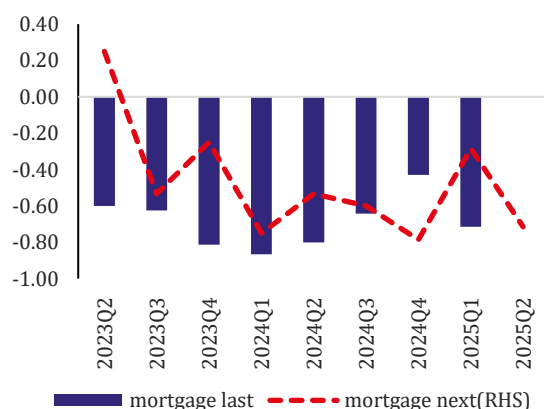
Demand for both car loans (Chart 3) and mortgages (Chart 4) continued to be subdued for the seventh consecutive quarter, largely affected by the depreciation of the Kwacha against the US dollar. Low demand for motor vehicles is expected to persist in the second quarter as the depreciation of the Kwacha against the US dollar is anticipated to weigh on affordability and also keep the cost of raw materials high to induce demand for mortgages.

Chart 3: Demand for Car loans



Source: Bank of Zambia

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

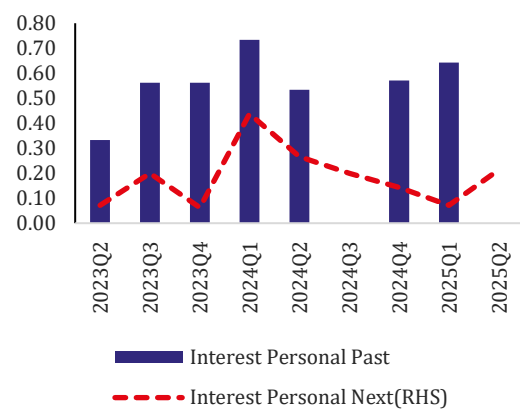
Cost of Credit

... rises further

Lending rates are reported to have been high in the first quarter in line with the

upward adjustment in the Policy Rate. (Charts 5-7).

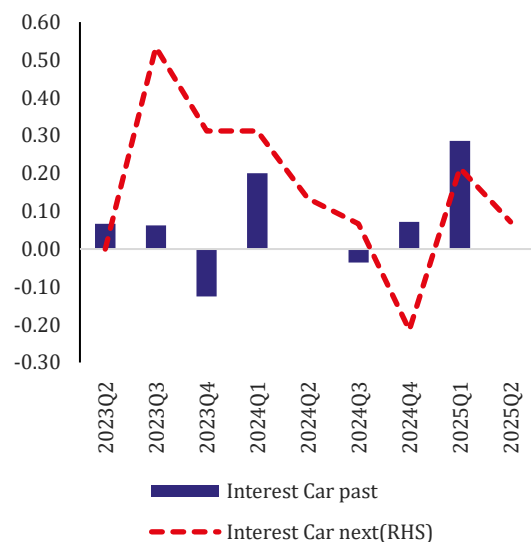
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

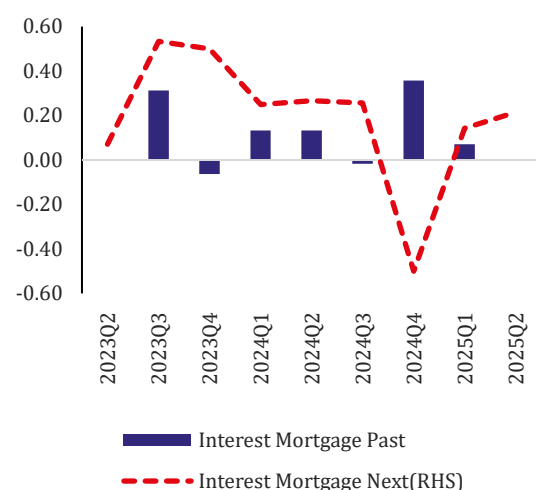
Chart 6: Interest Rate on Car Loans



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

In the second quarter, lending rates are expected to remain elevated as commercial banks anticipate an increase in the Monetary Policy Rate.

Tenure and Collateral for Household Loans

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

In line with existing policy agreements, loan tenures and collateral requirements for household loans remained unchanged in the first quarter and adjustments are not anticipated in the second quarter.

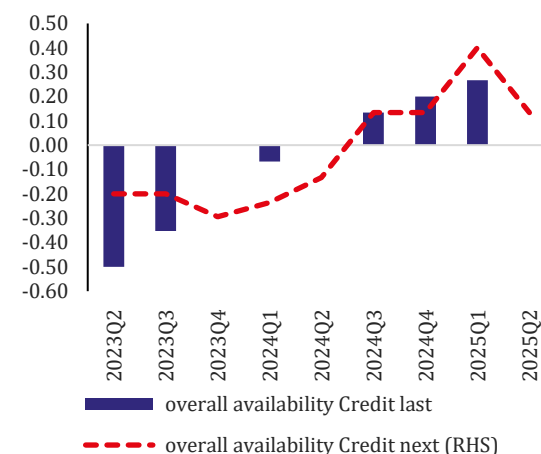
III Small and Medium Enterprises Sector

Credit Conditions

... still tight

Most commercial banks reported sustained tight credit conditions for SMEs primarily due to elevated default rates and constrained liquidity within the banking system (Chart 8).

Chart 8: SMEs Credit Conditions



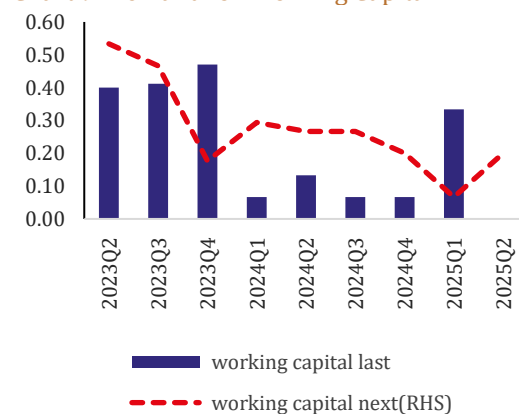
Source: Bank of Zambia

In the second quarter, credit conditions are expected to remain tight as commercial banks anticipate a further increase in the Monetary Policy Rate to address persistent high inflation.

... high demand for working capital persist but long-term financing trend reversed

Demand for working capital increased in the first quarter on the need to invest in alternative energy sources and secure additional financing to sustain business operations amid rising costs. Rising costs were largely attributed to elevated input expenses stemming from a weaker exchange rate.

Chart 9: Demand for Working Capital

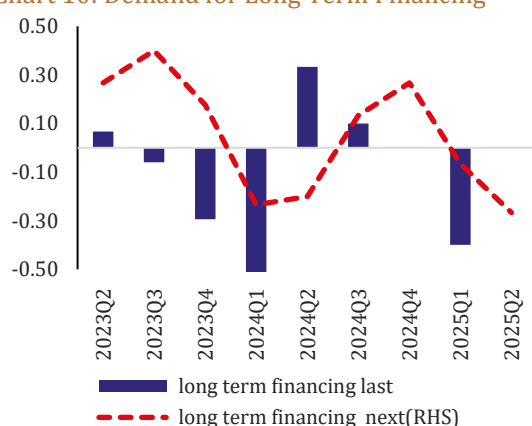


Source: Bank of Zambia

High demand for working capital is expected to be sustained as businesses seek to support operations amid rising operating expenses.

Nevertheless, demand for long-term financing declined during the quarter as firms were discouraged from borrowing due to increased costs following the upward adjustment in the Monetary Policy Rate. Some firms completed repayments on existing facilities and did not seek additional loans (Chart 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

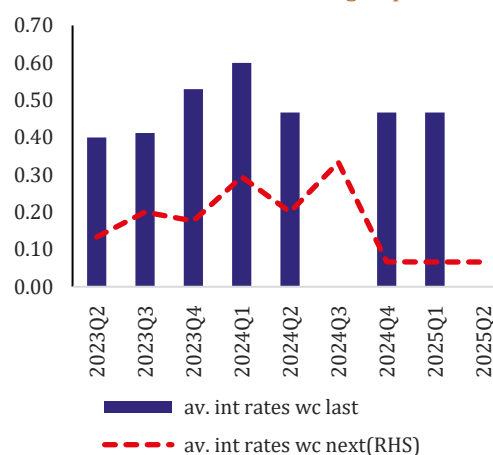
In the next quarter, banks anticipate low demand for long-term financing to be sustained due to the expected upward adjustment in the Policy Rate.

Cost of SME Credit

... increase sustained

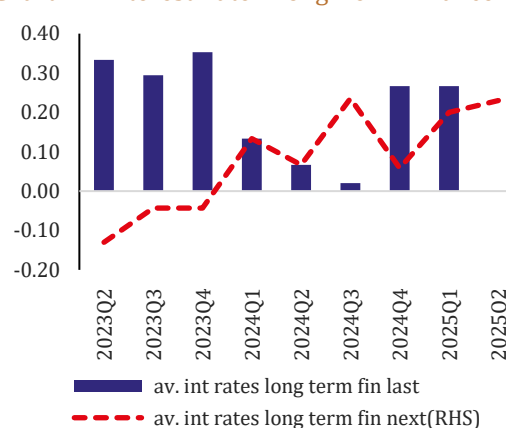
The upward trend in lending rates for both working capital and long-term financing persisted in the first quarter in line with the increase in the Policy Rate (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

In the second quarter, lending rates are expected to remain high as further tightening of monetary policy is likely in response to persistently high inflation.

Tenure and Collateral for SMEs

... no revisions to loan tenures and collateral requirements

Loan tenures and collateral requirements remained unchanged in line with current policy guidelines, and no adjustments are expected in the second quarter.

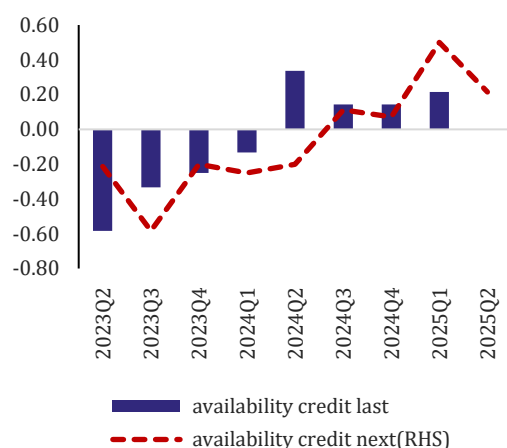
IV Large Corporations Sector

Credit Conditions

... still tight

Tighter credit conditions were reported for large corporations in the first quarter (Chart 13). Commercial banks expect these conditions to prevail in the second quarter as they expect the Monetary Policy Rate to rise to curb high inflation.

Chart 13: Credit Conditions Corporations



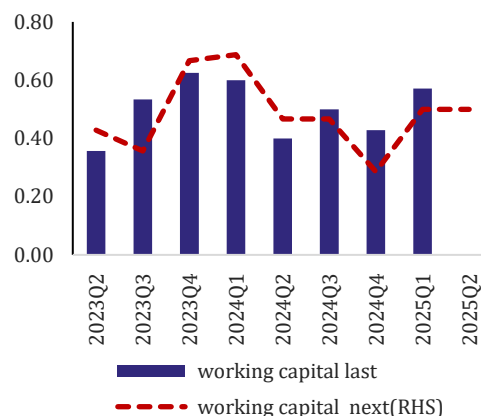
Source: Bank of Zambia

Credit Demand

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

In the first quarter, demand for working capital among large corporations remained robust as additional liquidity was sought to meet seasonal demand for working capital in the agriculture sector, procure alternative sources of energy and support business operations (Chart 14).

Chart 14: Demand for Working Capital

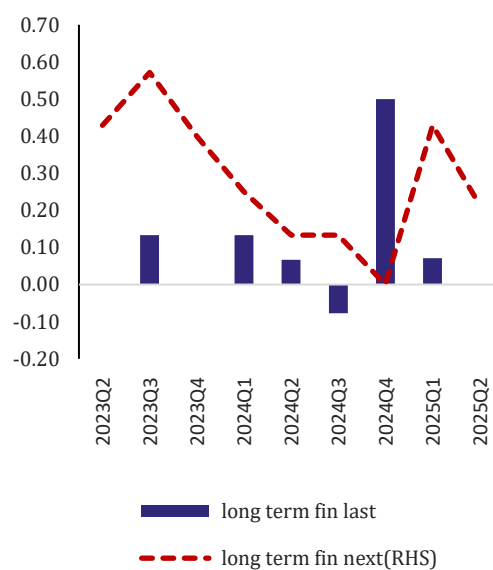


Source: Bank of Zambia

In the second quarter, commercial banks anticipate sustained high demand for working capital as more corporates seek to mitigate the impact of electricity load shedding on productivity and manage rising operating costs.

Similarly, strong demand for long-term financing was sustained in the first quarter as firms sought to support and maintain operations amid rising production costs as well as procure alternative sources of energy.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

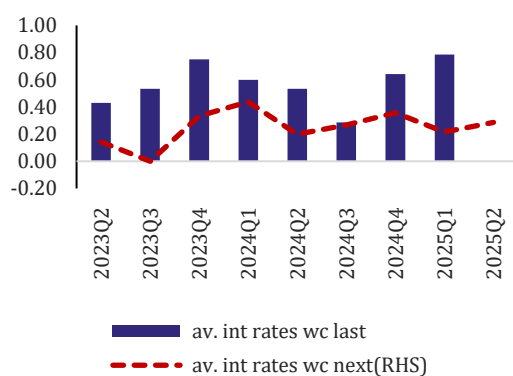
In the second, high demand for long-term financing is expected to continue as firms procure alternative energy sources to enhance operational resilience.

Cost of Credit

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

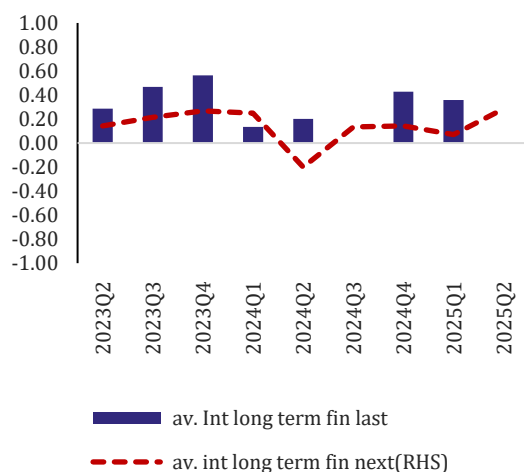
Lending rates for working capital and long-term financing rose in the first quarter on account of the 50-basis point hike in the Monetary Policy Rate in February (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long- Term Financing



Source: Bank of Zambia

Commercial banks expect high lending rates to persist in the second quarter as monetary policy is likely to be tightened further to address persistent high inflationary.

Tenure and Collateral Requirements

... no revisions to tenure and collateral requirements

Loan tenures and collateral requirements for both working capital and long-term financing remained unchanged. Nearly all the banks do not expect any adjustments to loan terms in the second quarter.

Appendix

Survey Methodology - Data Analysis

The analysis of data is based on Theil's net balance statistic (N) 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 or positive

D = down, negative or declined

S = same

NA = not applicable

The net balance statistic has the advantage of detecting directional changes in performance or expectations of survey respondents. This method indicates the predominance of an improvement/tightening or deterioration/loosening in a variable.