Credit Conditions Survey

August 2023

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

Bank of Zambia

REGISTERED OFFICES

Head Office

Bank of Zambia, Bank Square, Cairo Road P. O. Box 30080, Lusaka, 10101, Zambia Tel: (+260) 211 399300
E-mail: info@boz.zm

Website: www.boz.zm

Regional Office

Bank of Zambia, Buteko Avenue, P. O. Box 71511, Ndola, Zambia Tel: (+260) 212 399600
E-mail: info@boz.zm

Website: www.boz.zm

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Summary of Survey Findings

The August 2023 Credit Conditions Survey reveals favourable credit conditions for households, small and medium enterprises (SMEs) as well as large corporations largely attributed to sustained high liquidity conditions. Credit conditions are expected to remain favourable in the third quarter on account of improved liquidity conditions and better economic prospects. In the third quarter, the general improvement in macroeconomic fundamentals following reaching of an agreement on a comprehensive debt treatment with its Official Creditors under the G20 Common Framework is expected to boost investor confidence and result in increased economic activities in key sectors and necessitate the need for credit to finance planned projects. Nonetheless, the anticipated inflationary pressures may pose a challenge to credit related activities as the cost of borrowing is raised and subsequently reduce demand for credit. Lending rates increased due to the upward adjustment in the Policy Rate in the second quarter. The Monetary Policy Rate was considered appropriate to curb inflationary pressures. Elevated inflationary pressures induced by the exchange rate depreciation, climate change as well as increases in fuel pump and food prices are expected to sustain high lending rates.

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 July 17 and July 28, 2023 to assess credit conditions in the banking sector during the second quarter of 2023 and expectations for the third quarter. 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 II, III and IV, respectively. Section V covers the assessment of the monetary policy stance. The survey methodology is presented in the appendix.

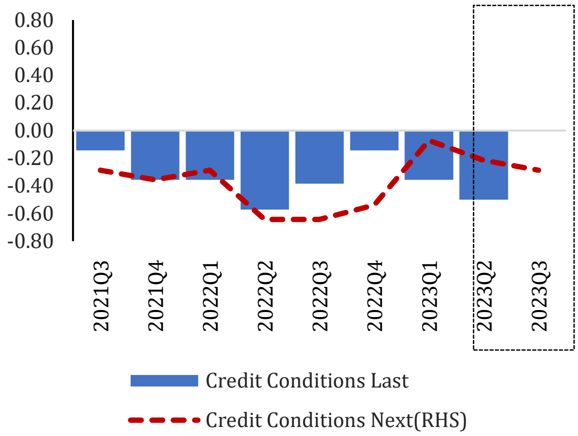
I. Household Sector

Credit Conditions

... remain loose

Most commercial banks reported favourable credit conditions for households largely on account of sustained ample liquidity 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.

Credit conditions for households are expected to remain favourable in the third quarter due to improved liquidity conditions in the money markets.

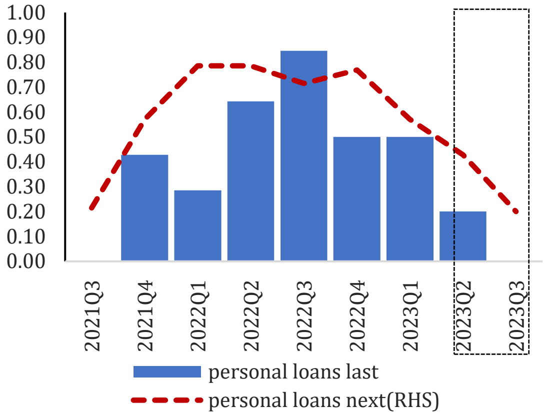
Credit Demand

... remains elevated

Demand for personal loans[1] increased in the second quarter, albeit lower than in the previous quarter largely due to aggressive marketing and general increase in economic activity as household demand for funds rose during the harvest period (Chart 2). Further, the need to meet personal obligations in view of higher 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 the number of applications and not value or loan amount.

Chart 2: Demand for Personal Loans



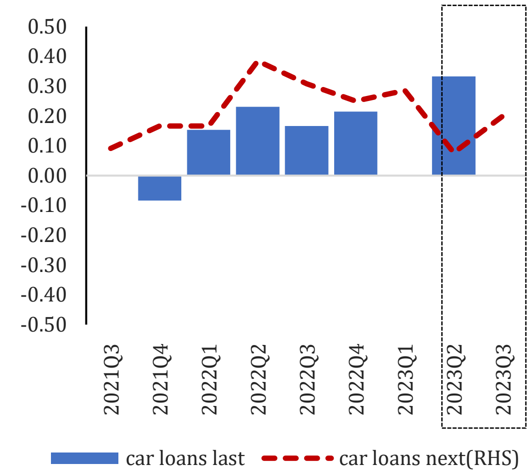
Source: Bank of Zambia

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

Demand for personal loans is expected to remain high in the next three months, supported by the need to supplement disposable income due to the high cost of living. Increased demand is also expected to be driven by fresh loan disbursements to recently recruited defence forces. The plan to recruit more health workers and teachers is expected to further boost demand for credit. Nonetheless, the continued NAPSA partial pension withdrawals may weigh on demand for personal loans.

Most commercial banks reported high demand for car loans mostly spurred by improved economic activity and marginal reduction in the price of motor vehicles as the Kwacha appreciated against the US dollar (Chart 3). Demand for car loans was also supported by the launch and roll out of Motor Vehicle Loan Schemes during the quarter.

Chart 3: Demand for Car loans



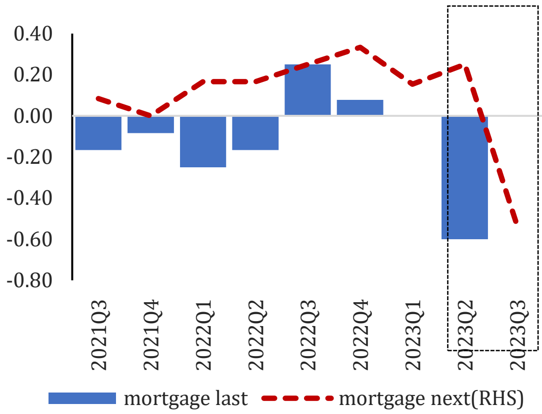
Source: Bank of Zambia

Better economic prospects and a general pick-up in economic activity are expected to sustain high demand for car loans in the next quarter. In addition, the launch[2] and roll out of new loan schemes is expected to further boost demand. However, high borrowing costs, depreciation of the exchange rate and increased use of personal loans to purchase motor vehicles is expected to weigh on demand for car loans.

Demand for mortgage loans was subdued in the second quarter mostly due to high interest rates (Chart 4). Further, preference to obtain personal rather than mortgage loans contributed to the low demand. For instance, some banks reported that the upward increase in the maximum limit on personal loans allowed customers to buy assets, such as land because it was considered cheaper to build than an outright purchase of a house.

[2] Some banks signed memorandum of understanding (MOU) for vehicle finance in various sectors. For instance, one bank signed an MOU with one mining company.

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

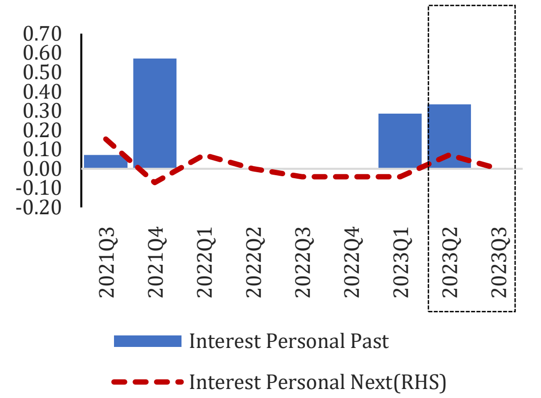
Most commercial banks expect demand for mortgage loans to remain subdued due to the high cost of credit and continued preference to use personal loans to construct houses. Going forward, banks expect a rebound in demand due to continued customer engagement and aggressive marketing.

Cost of Credit

... high lending rates sustained

Changes in interest rates have been broadly as expected as most banks reported high lending rates for personal, car and mortgage loans during the second quarter (Charts 5 - 7). The respondents attributed this to the upward adjustment in the Policy Rate to 9.50 percent in May from 9.25 percent in February.

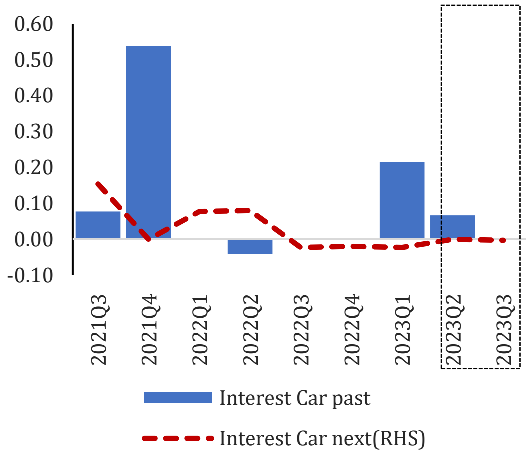
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

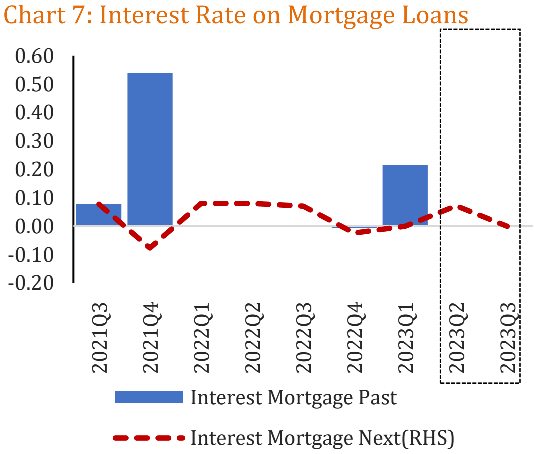
Chart 6: Interest Rate on Car Loans



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

High lending rates for personal, car and mortgage loans are expected to persist as inflation will remain elevated due to high energy and food prices arising from the protracted Ukraine-Russian war and continued depreciation of the exchange rate.

Tenure and Collateral for Household Loans

... loan tenure and collateral requirements largely unchanged

Most banks reported no changes to loan tenure and collateral requirements for the three categories of household loans in line with the existing policy agreements. In the third quarter, most banks do not expect revisions to loan tenure and collateral requirements. However, one bank expects an increase in loan tenure for car loans to encourage the use of loan facilities by the customers.

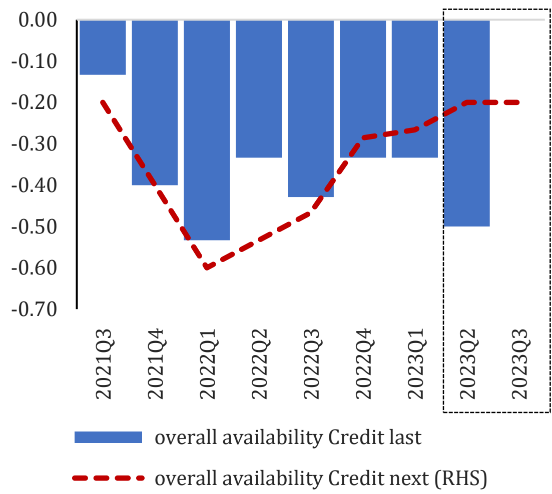
II. Small and Medium Enterprises Sector

Credit Conditions

... loose credit conditions maintained

Credit conditions for SMEs remained loose in the second quarter on the back of high liquidity levels in the money market (Chart 8).

Chart 8: SMEs Credit Conditions



Source: Bank of Zambia

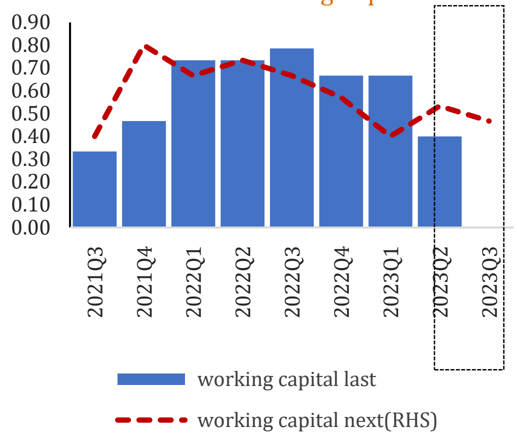
Most banks expect favourable credit conditions to be sustained in the third quarter as new products to further support Women Banking and SMEs will be introduced. In addition, sustained liquidity levels are expected to further contribute to loose credit conditions in the following quarter.

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

Most respondents reported high demand for working capital as firms borrowed to finance business operations due to high operating costs (Chart 9). In addition, firms in the agriculture sector sought additional liquidity to purchase inputs (maize) in readiness for the farming season while others sought liquidity to meet orders for trade-related transactions[3]. Delayed payments on contracts also contributed to high demand for credit. However, compared to the previous period, demand was lower due to high borrowing costs.

[3] Temporary overdraft was obtained to purchase meat processing materials and various commodities to meet high seasonal demand

Chart 9: Demand for Working Capital

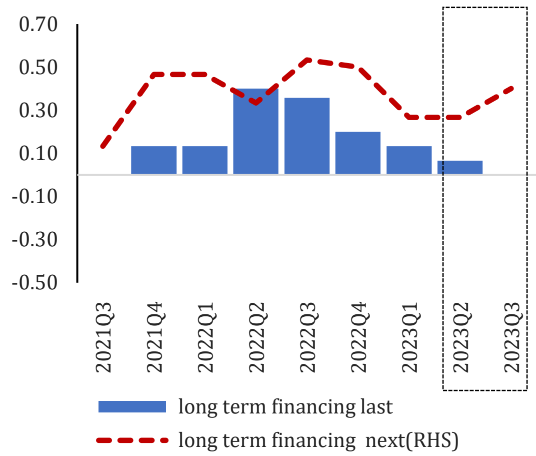


Source: Bank of Zambia

Most commercial banks expect high demand for working capital by SMEs to be sustained in the ensuing quarter due to positive economic prospects arising from the conclusion of the debt restructuring negotiations that has created a more favourable business environment. It is anticipated that the re-opening of mining firms on the Copperbelt will have a positive impact on economic activity. However, the fluctuation in fuel pump prices and continued depreciation of the Kwacha against the US dollar are expected to adversely impact SMEs as these may increase the cost of doing business.

High demand for long-term financing was sustained in the second quarter due to improved economic activity (Chart 10). Further, the need to expand existing projects and import oil products, particularly in the manufacturing sector, contributed to high demand. However, compared to the previous quarter, demand was lower as most SMEs did not meet the credit appraisal review criteria.

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

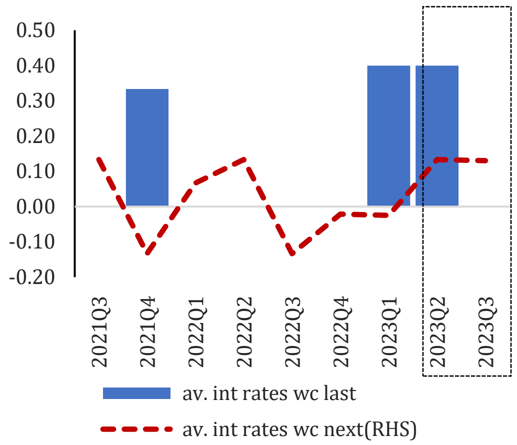
High demand for long-term financing is anticipated to be sustained in the next quarter due to better economic prospects following the conclusion of the external debt negotiations. The improvement in macroeconomic conditions is expected to stimulate demand for more long-term capital financing for existing and new projects in the mining, agriculture, manufacturing and telecommunication sectors. Commercial banks expect discussions on KCM and Mopani Mines to be concluded in the next quarter; this is expected to boost economic activity and demand for credit. Projects under the Constituency Development Fund (CDF) are also expected to bolster demand.

Cost of SME Credit

... remains high

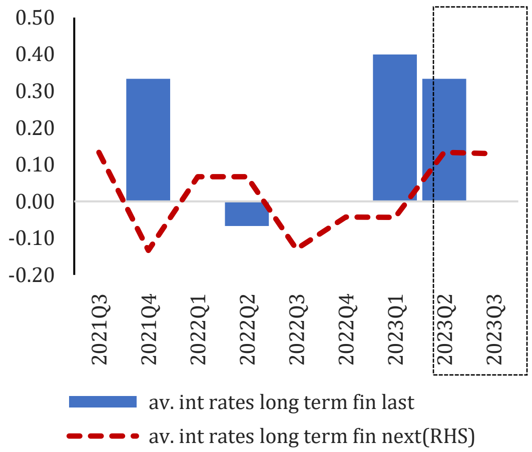
The respondents reported high lending rates for working capital and long-term financing in the second quarter. The upward adjustment in the Monetary Policy Rate in May mostly explains the outturn (Charts 11 and 12).

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 third quarter due to anticipated inflationary pressures arising from the depreciation of the exchange rate as well as food and energy prices stemming from the lingering effects of the Ukraine-Russia war.

Tenure and Collateral for SMEs

... no changes made to tenure and collateral requirements

Most banks reported no changes to loan tenure and collateral requirements as they continued to be guided by the existing policy guidelines and risk assessment criteria. No revisions are expected in the third quarter.

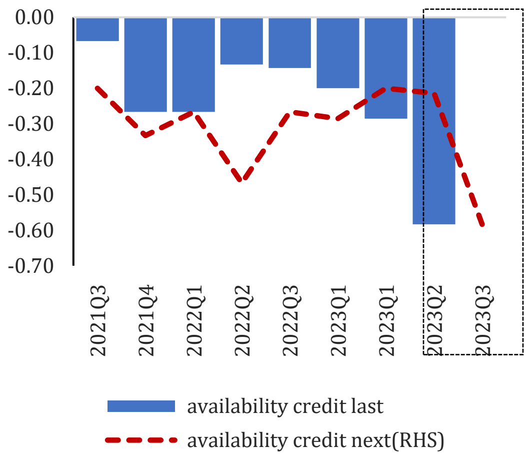
III. Large Corporations Sector

Credit Conditions

... remain loose

Most banks reported loose credit conditions mostly explained by continued favourable liquidity conditions in the money market (Chart 13). Loose credit conditions are expected to be sustained in the third quarter on account of ample liquidity and positive economic outlook following the conclusion of the debt restructuring negotiations.

Chart 13: Credit Conditions Corporations



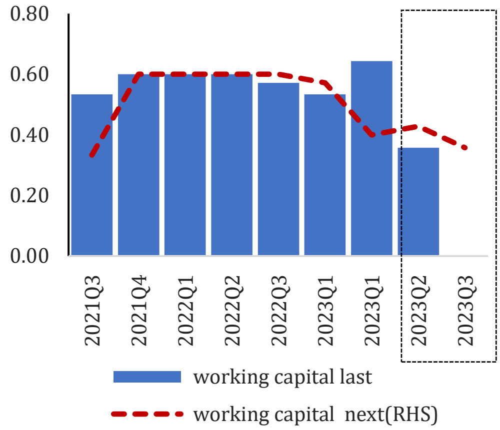
Source: Bank of Zambia

Credit Demand

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

Almost all the commercial banks reported high demand for working capital by large corporates as firms sought additional liquidity to finance business operations due to high production costs (Chart 14). Firms in the agriculture sector, in particular, sought additional liquidity purchase inputs (soya beans and maize) in readiness for the next farming season. Other notable increases in demand for working capital were in the telecommunications and energy sectors.

Chart 14 Demand for Working Capital

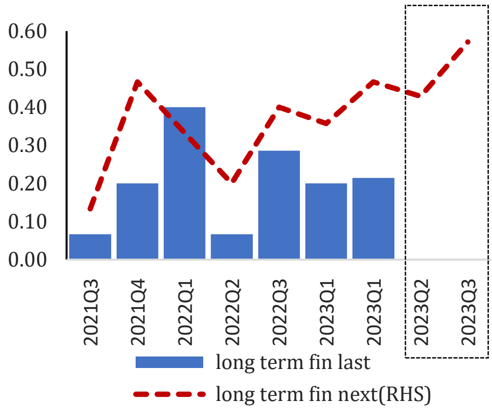


Source: Bank of Zambia

Demand for working capital by corporates is expected to remain high in the following quarter as most firms continue to seek liquidity to support business operations. The positive sentiments following the conclusion of the debt restructuring negotiations is expected to increase investor confidence and general improvement in macroeconomic fundamentals. This is anticipated to result in the opening up of economic activities in key sectors, including agriculture, electricity and manufacturing sectors and necessitate the need for credit to finance planned projects.

Most banks reported high demand for long-term financing in the second quarter on account of the pick-up in economic activity (Chart 15). Large corporates took advantage of a better economic environment to fund existing long-term projects in various sectors.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

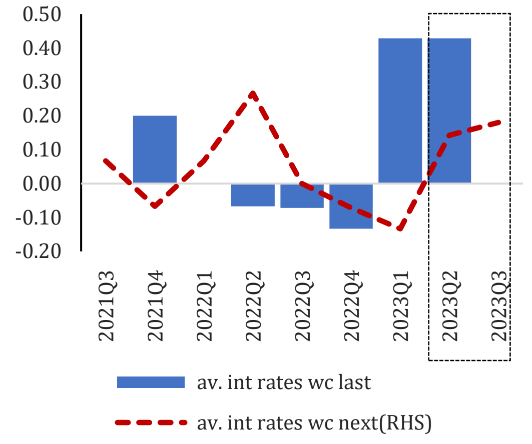
High demand for long-term financing is expected to be sustained as firms remain optimistic about a better macroeconomic environment following the conclusion of the debt restructuring negotiations and resumption of capital projects. However, most banks pointed out that anticipated inflationary pressures may stem from the continued depreciation of the Kwacha against the US dollar and fluctuating fuel prices. This is likely to pose a challenge to credit-related activities as the cost of borrowing is raised and subsequently reduce demand for credit.

Cost of Credit

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

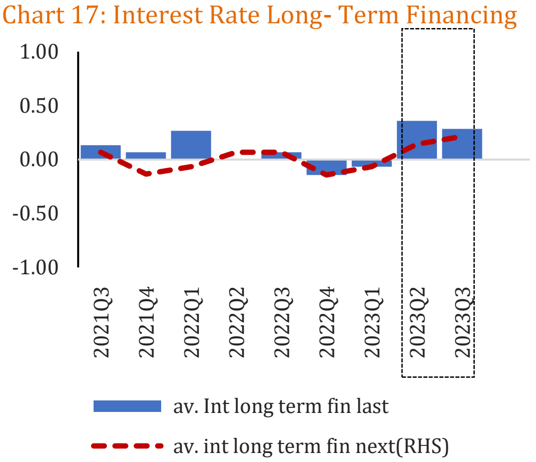
Most banks reported an increase in lending rates for working capital and long-term financing. This was largely due to the upward adjustment in the Monetary Policy Rate in May and increase in yield rates on Government bonds (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long- Term Financing



Source: Bank of Zambia

High lending rates are expected to persist in the third quarter largely on account of the anticipated increase in inflationary pressures due to exchange rate depreciation.

Tenure and Collateral Requirements

... no revisions made to tenure and collateral requirements

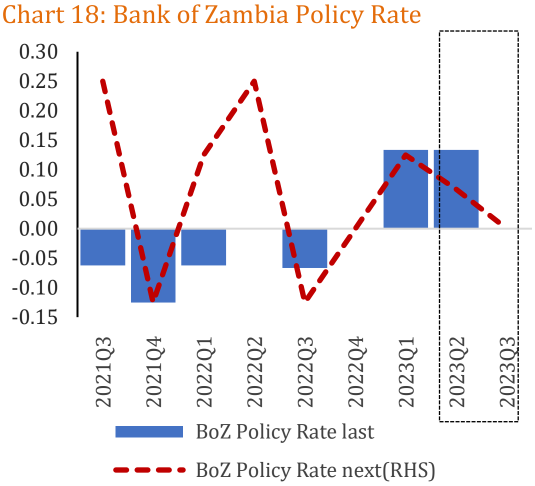
There were no revisions made to loan tenure and collateral requirements for working capital and long-term financing. This was in line with existing policy agreements. Most banks do not expect changes in the following quarter.

V Monetary Policy

... Monetary Policy Rate assessed to have been appropriate

All commercial banks assessed the Monetary Policy Rate to have been appropriate at 9.50 percent to address the anticipated increase in inflation taking into account and the expectation that it will remain above the target range of 6-8 percent over the forecast period as well as subdued economic growth.

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Almost all commercial banks expect the Monetary Policy Rate to be maintained at 9.50 percent in the third quarter to curb inflationary pressures largely induced by the exchange rate depreciation, climate change that may lead to food shortages as well as further increases in fuel pump and food prices caused by the protracted Russia-Ukraine war.

Most commercial banks expect the inflation rate to be in the range of 9.0 percent to 11.1 percent in the third quarter. They attribute this to surging commodity prices.

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.