Credit Conditions Survey

February 2023

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

Table of Contents

Summary of Survey Findings

Loose credit conditions for households, small and medium enterprises (SMEs) as well as large corporations were sustained in the fourth quarter of 2022. This largely reflects ample liquidity in the money market. Most commercial banks expect credit conditions to remain favourable in the first quarter of 2023 on account of positive economic prospects and continued high level of market liquidity. Demand for household loans remained high largely to supplement household incomes in view of the high cost of living, aggressive marketing of new loan products, change in lending strategies and renewal of memoranda of understanding for personal loans. Similarly, demand for working capital and long-term financing by SMEs and large corporations rose as the firms sought additional financing to enable them meet high operating costs following the increase in fuel prices and installation of alternative sources of energy to overcome the electricity load management effected in January 2022. The roll out of new SME loan products further boosted demand for working capital to support production. Most commercial banks reported high interest rates as the Monetary Policy Rate was maintained at 9.0 percent in November 2022. The Monetary Policy Rate was reported to be appropriate at 9.0 percent on account of the general improvement in the economic landscape, anticipated further deceleration in inflation towards the 6-8 target range in the medium-term and the need to support economic growth through private sector development. Most banks expect the Policy Rate be adjusted upwards in order to curb anticipated inflationary pressures from tight global financial conditions that may affect the exchange rate, increases in fuel and food prices as well as anticipated hike in electricity tariffs.

I. 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, which serve as input into monetary policy decisions.

The survey covers households, small and medium enterprises (SMEs) as well as 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 27, 2022 and January 13, 2023 to assess credit conditions in the banking sector during the fourth quarter of 2022 and expectations for the first quarter of 2023. All the 16operating 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.
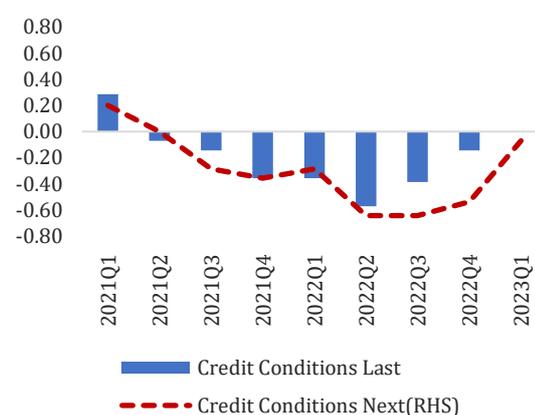
II. Household Sector

Credit Conditions

… remain loose

Credit conditions for households remained loose for the seventh consecutive quarter. This largely reflects ample liquidity in the money market following increased Government spending, particularly towards the end of the year (Chart 1).

Chart 1: Household Credit Conditions

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

Most commercial banks expect credit conditions for households to remain favourable in the first quarter of 2023 due to the anticipated positive economic outlook and high level of liquidity in the money market.

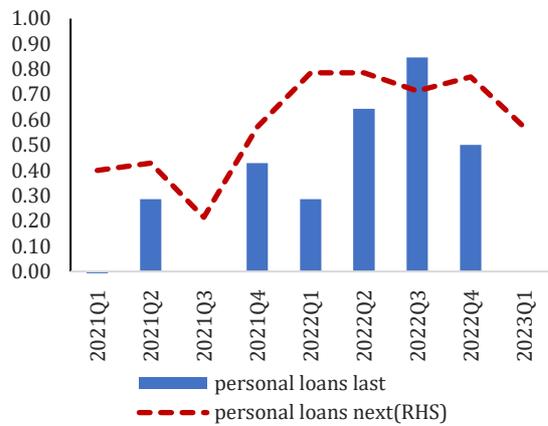### Credit Demand

… demand remains high

Demand for personal loans[1] remained high to supplement household incomes in light of the high cost of living (Chart 2). In addition, high demand was supported by continued aggressive marketing of new loan products, change in lending strategy[2] and renewal of the memoranda of understanding for

---

[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.

[2] Preference for loans relative to Government securities.

personal loans between banks and various institutions.

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.

Commercial banks expect demand for credit to be sustained in the following quarter as households continue to borrow to supplement incomes due to the continued high cost of living.

Demand for car loans rose, supported by banks' roll out of motor vehicle loan schemes launched in the third quarter of 2022 (Chart 3).

Chart 3: Demand for Car loans
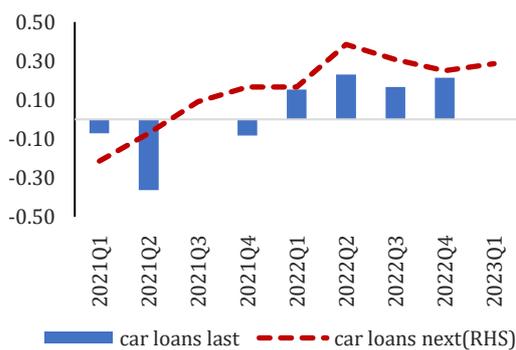
Source: Bank of Zambia

Most commercial banks expect high demand for car loans to be sustained mostly by the positive economic outlook and the banks' introduction as well as roll out of new loan schemes.

Similarly, demand for mortgage loans remained high as banks rolled out the home loan mortgage schemes/products launched in the third quarter (Chart 4). In addition, two banks introduced new home loan mortgage/products during the fourth quarter. The loans were mostly directed towards financing construction and purchase of homes.

Chart 4: Demand for Mortgage Loans
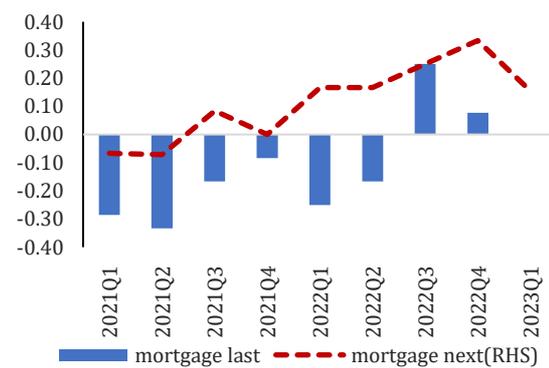
Source: Bank of Zambia

Most commercial banks expect demand for mortgage loans to be sustained in the first quarter of 2023 on account of anticipated positive economic prospects and sustained borrowing from the home completion schemes.
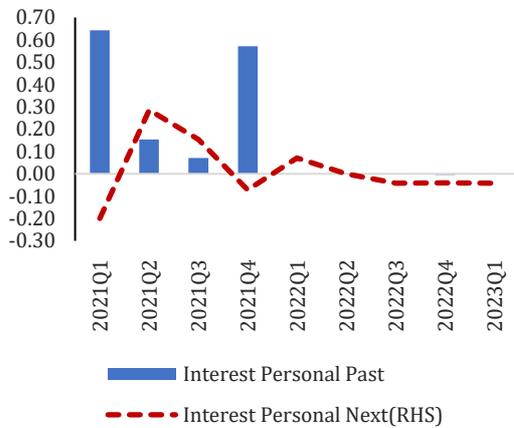
Cost of Credit

… high lending rates sustained

High lending interest rates for personal, car and mortgage loans were sustained as the Monetary Policy Rate was maintained at 9.0 percent in November 2022(Charts 5- 7). However, about

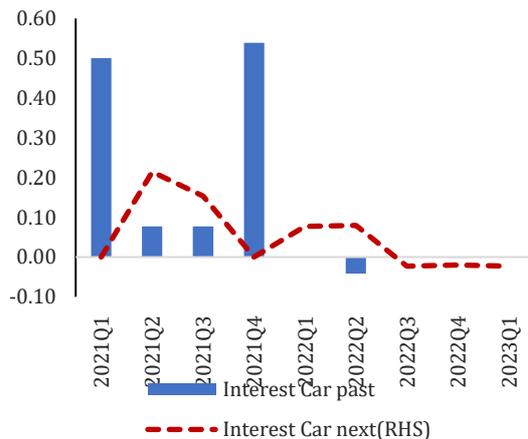three major commercial banks3 reduced lending rate on personal loans.[4]

Chart 5: Interest Rate on Personal Loans

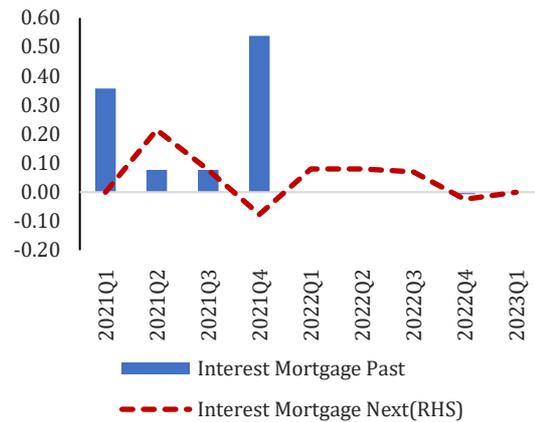Note: Bars below zero mean low interest rates, above zero high and zero (no bar) means unchanged.

Chart 6: Interest Rate on Car Loans

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

Chart 7: Interest Rate on Mortgage Loans

Most banks expect a marginal decline in lending rates for personal, car and mortgage loans due to high market liquidity levels.

Tenure and Collateral for Household Loans

… no changes made to loan tenure and collateral requirements

Most commercial banks did not revise the loan tenure and collateral requirements for the three categories of household loans in line with existing policy agreements. However, one bank increased the tenure for personal loans[5]. Most banks do not expect changes in the first quarter of 2023.

III. Small and Medium Enterprises Sector
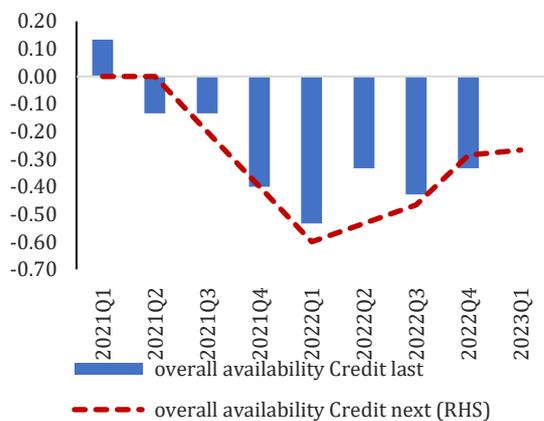
Credit Conditions

… loose credit conditions sustained

---

[3] Lending rates on personal loans reduced to an average of 25.0percent from 30.0 percent.

[4] It was due to improved economic fundamentals as well as a business strategy to offer more competitive rates to clients.

[5] Extended the maximum tenure for personal loans to five years from the previous maximum tenor of three years to reduce the risk of default on large loans. Demand for household loans increased due to reduction in lending rates to an average of 25.0 percent from 30.0 percent.

Credit conditions for SMEs remained loose on account of improved market liquidity during the quarter and banks roll out of new SME loan schemes/ products (Chart 8).

Chart 8: SMEs Credit Conditions

Source: Bank of Zambia

Most banks expect loose credit conditions for SME to continue in the first quarter of 2023 as banks roll out new SME loan schemes introduced in the fourth quarter. The positive economic outlook and high market liquidity levels are expected to further contribute to loose credit conditions.

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

High demand for working capital was sustained by SMEs who sought additional resources to enable them meet high operating costs following the increase in fuel prices (Chart 9). Further, most SMEs installed alternative sources of power generation in anticipation of the electricity load management. The roll out of new SME loan products[6], further boosted demand for working capital to support production.
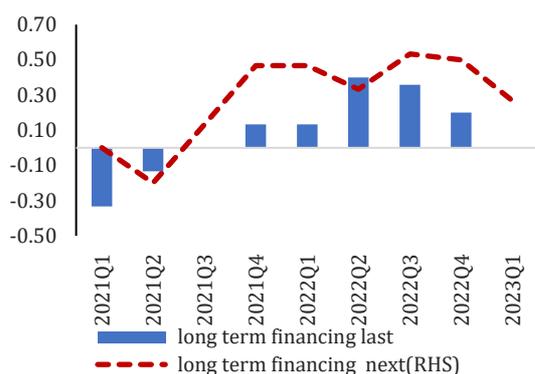
Chart 9: Demand for Working Capital
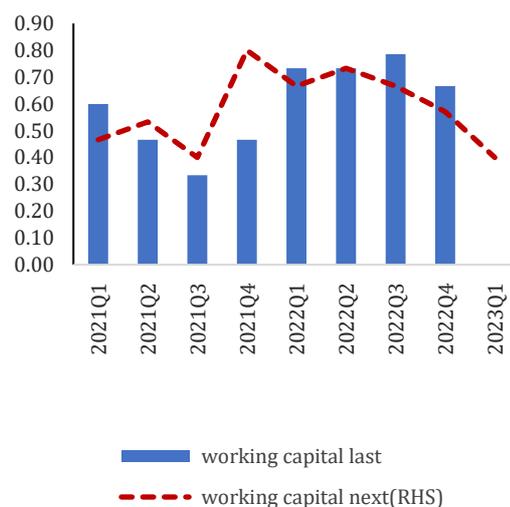
Source: Bank of Zambia

Most banks expect high demand for working capital to be maintained in the first quarter of 2023 on account of better economic prospects although load shedding may reduce economic activity if it continues beyond January 2023. Further, the need for additional liquidity to support business operations in view of high operating costs as firms switch to costly alternative sources of energy in view of load management. is expected to support high demand for working capital by SMEs. New SME loans are expected to be rolled out and further contribute to increased demand going forward.

High demand for long-term financing was reported by most commercial banks due to the general improvement in macroeconomic indicators which created a favourable environment for businesses to operate (Charts 10).

[6] Some banks launched loan products specifically for women to narrow the gender gap in accessing financial products.

**Chart 10: Demand for Long Term Financing**

Source: Bank of Zambia

High demand for long-term financing is expected to be maintained in the first quarter of 2023 as firms take advantage of better economic prospects and newly launched SME loan products[7] to finance existing and new projects. Further, Government's deliberate policy of involving SMEs in economic development through the Community Development Fund is also expected to boost demand.

Cost of SME Credit
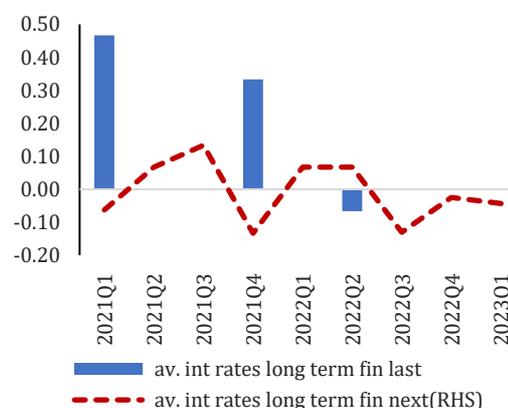
... high lending rates sustained

Lending rates for working capital and long-term financing were maintained (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital
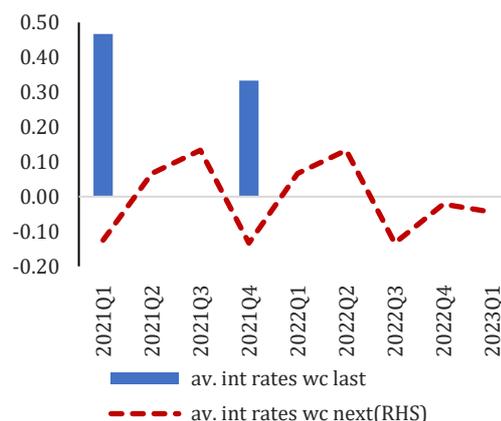
Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance

Source: Bank of Zambia

Most commercial banks expect lending rates to reduce marginally largely driven by sustained high market liquidity levels.

Tenure and Collateral for SMEs

... tenure and collateral requirements remain unchanged

Most commercial banks did not change loan tenures and collateral requirements in the fourth quarter in line with existing

---

[7] One bank launched a "Scored Lending Credit Tool" for SMEs long-term financing on a pilot basis. This unique approach for determining

whether SMEs qualify for loans does not involve financial statements or collateral scrutiny. Instead, Know Your Customer and turnover are used to make the assessment.

policy guidelines. No changes are expected in the first quarter of 2023.

IV.   Large Corporations Sector

Credit Conditions

… loose credit conditions maintained

Credit conditions for large corporations remained loose due to sustained high liquidity conditions and better macroeconomic landscape (Chart 13). Most commercial banks expect loose conditions to be maintained in the first quarter 2023 as favourable conditions are expected to prevail.

Chart 13: Credit Conditions Corporations
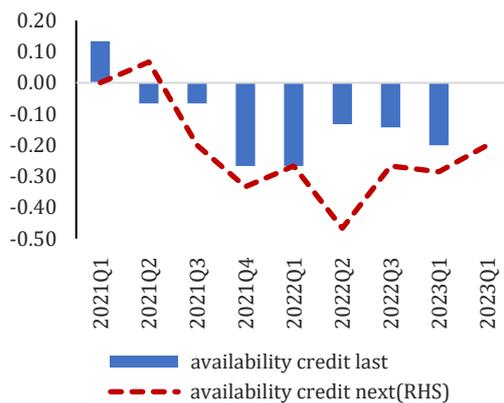
Source: Bank of Zambia

Credit Demand

… demand for working capital and long-term financing remained high

Most commercial banks reported sustained demand for working capital by large corporates to support business operations[8] (Chart 14). The depreciation of the Kwacha against the US dollar further created a need for additional short-term financing to

___

[8] Large corporates in the manufacturing sector increased stock levels towards the end of the quarter to avoid disruptions during the

bridge the gap especially for importing firms. The strategy by banks to increase corporate credit to the agriculture, manufacturing, telecommunications, mining as well as electricity and gas sectors also contributed to increased demand.

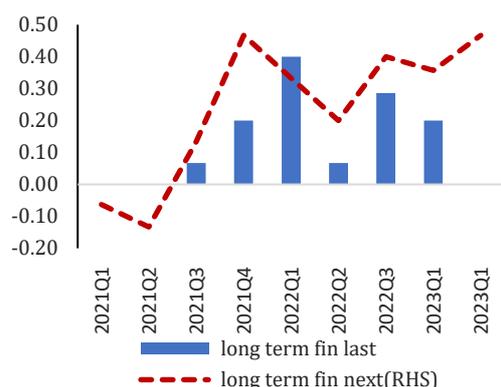Chart 14 Demand for Working Capital
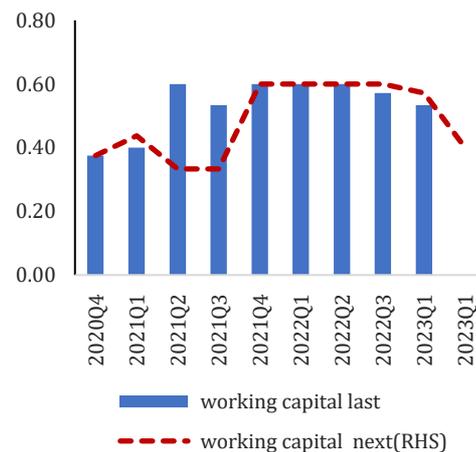
Source: Bank of Zambia

In the first quarter of 2023, most banks expect demand for working capital to remain relatively high in line with anticipated increased business activities and better economic prospects. The high cost of production following the installation of alternative sources of energy may necessitate further demand for working capital to avoid disruptions to production.

High demand for long-term financing was reported in the fourth quarter as corporates took advantage of the improved economic landscape and begun funding existing capital investments (Chart 15).

industrial break when most suppliers go on recess.

Chart 15: Demand for Long-Term Finance
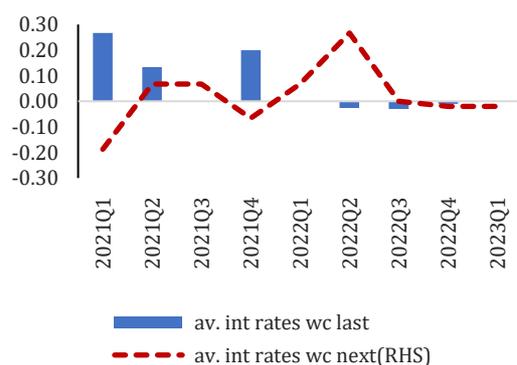

Source: Bank of Zambia

Demand for long-term financing is expected to maintain high momentum in the ensuing quarter in line with anticipated planned projects and pick-up in economic activity.

Cost of Credit

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

Most banks reported high[9] lending rates for both working capital and long-term financing in the fourth quarter (Charts 16 and 17).
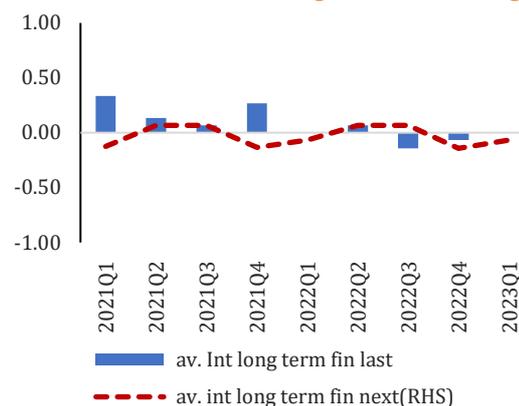
Chart 16: Interest Rate Working Capital

Source: Bank of Zambia

Chart 17: Interest Rate Long- Term Financing

Source: Bank of Zambia

Most banks expect interest rates to reduce in the first quarter of 2023 on account of sustained high market liquidity levels.

Tenure and Collateral Requirements

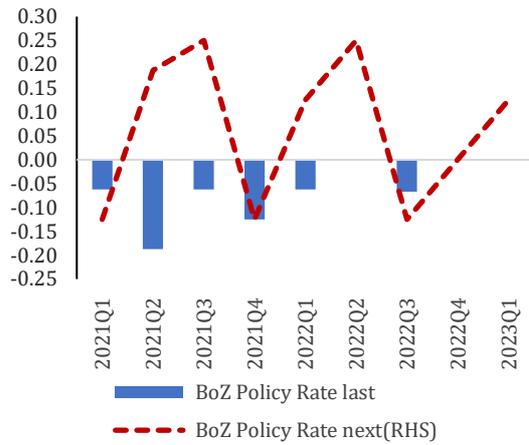### ... no revisions made to tenure and collateral requirements

There were no revisions made to loan tenure and collateral requirements for both working capital and long-term financing. This was in line with the existing policy agreements. No changes are expected in the first quarter of 2023.

V   Monetary Policy

... Policy Rate was assessed to have been appropriate

Most commercial banks assessed the Policy Rate to have been appropriate at 9.0 percent on account of the general improvement in the economic landscape, projected further decline in inflation towards the 6-8 percent target range in the medium-term and the need to support economic growth through private sector development.

---

[9] One bank reported high lending rates due to the elevated 6- month Treasury Bill benchmark yield rate used to evaluate the cost of funds.

Chart 18: Bank of Zambia Policy Rate

Most banks anticipate the Monetary Policy Rate to be adjusted upwards to curb inflationary pressures that may arise from the depreciation of the exchange rate on account of tightening global financial conditions, possible increases in fuel pump and food prices and anticipated hike in electricity tariffs.

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.