

Credit Conditions Survey



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Disclaimer:

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



Bank of Zambia



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Credit Conditions Survey

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Summary

In the third quarter, demand for credit by households as well as small and medium enterprises (SMEs) is reported to have increased despite interest rates remaining elevated in line with the restrictive monetary policy stance. Demand for credit was mostly necessitated by the need to mitigate the high cost of living and operating costs occasioned by the persistent electricity load management. Festive season spending in the fourth quarter is expected to raise demand for credit. However, high borrowing costs dampened demand for credit by large corporations. With liquidity in the banking system improving, commercial banks were willing to supply credit to match demand by households and large corporations with the exception of SMEs who are deemed risky due to high default rates.

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 as reported by commercial banks. It also assesses credit supply conditions in the banking sector based on the views of commercial banks. The survey results serve as input into monetary policy decisions.

This survey was conducted during September 27 to October 14 to assess credit conditions in the banking sector during the third quarter and expectations for the fourth quarter. Fourteen (14) operating commercial banks responded to the survey.

Credit Conditions for Households

Demand for credit by households is reported to have remained elevated in the third quarter as the Policy Rate (one of the key references for the pricing of loans) was maintained at 14.5 percent (Figure 1). The Policy Rate was judged to be relatively high. Due to the high cost of living and festive season spending, households are likely to demand more personal loans in the next quarter. Commercial banks expect interest rates on personal loans to remain the same in the fourth quarter as changes to the monetary policy stance are not anticipated (Figure 2 and Figure 3).

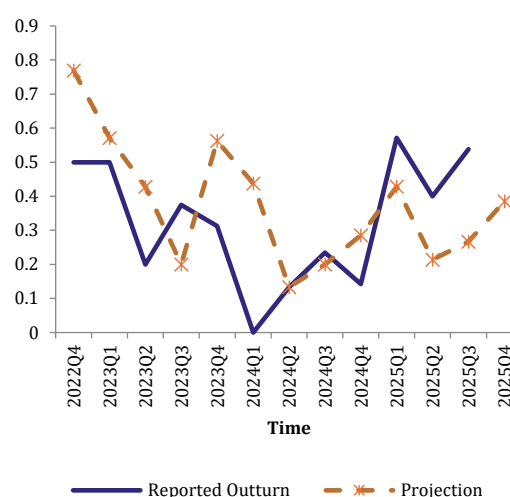
Similarly, households demand for car loans remained strong in the third quarter following the appreciation of the exchange rate (Figure 4). This was further supported by interest rates remaining unchanged (Figure 5). High demand for car loans is likely to be

sustained in the near-term as the exchange rate is expected to remain favourable (Figure 6).

Demand conditions for mortgages were subdued as elevated interest rates persisted (Figure 7 and Figure 8). There are indications of further easing of demand for mortgages as high borrowing costs are expected to be sustained (Figure 9).

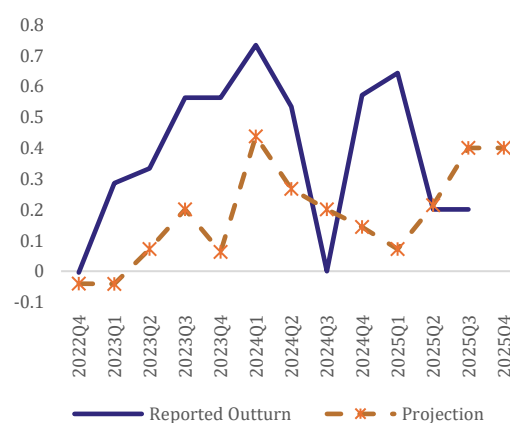
On the supply side, conditions were favourable owing to improved liquidity in the banking system (Figure 10). Favourable supply conditions are anticipated in the fourth quarter (Figure 10 and Figure 11).

Figure 1: Demand for Personal Loans



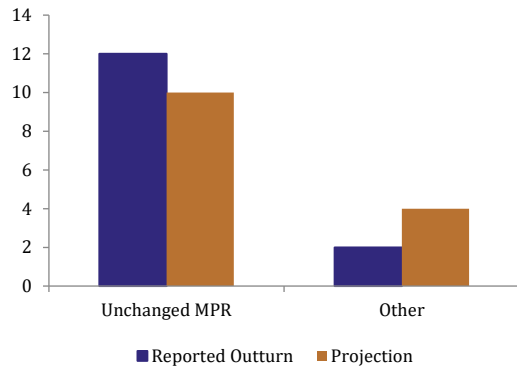
Source: Bank of Zambia

Figure 2: Interest rate on Personal Loans for Households



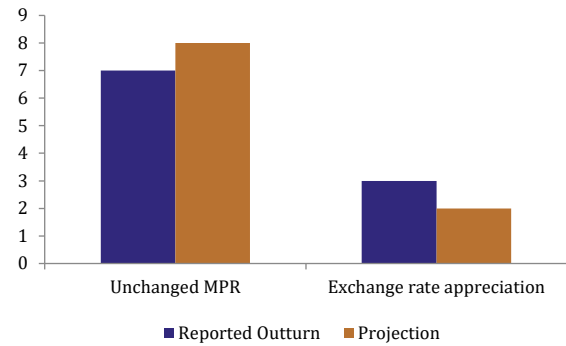
Source: Bank of Zambia

Figure 3: Reasons for Unchanged Interest Rate



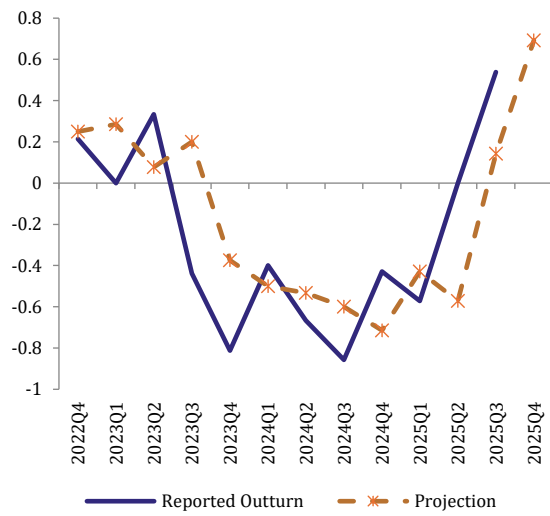
Source: Bank of Zambia

Figure 6: Reasons for Unchanged Car Loan Interest Rate



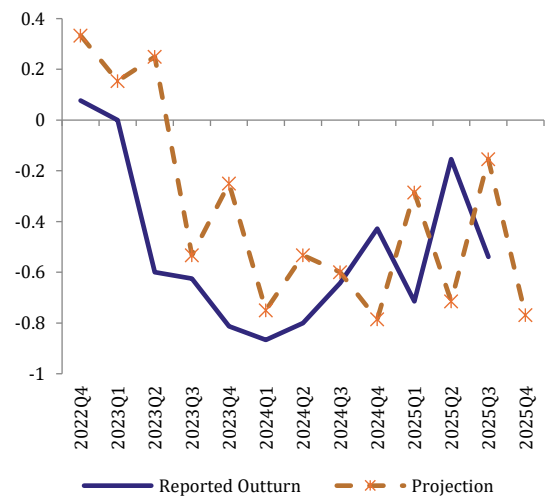
Source: Bank of Zambia

Figure 4 : Demad for Car Loans



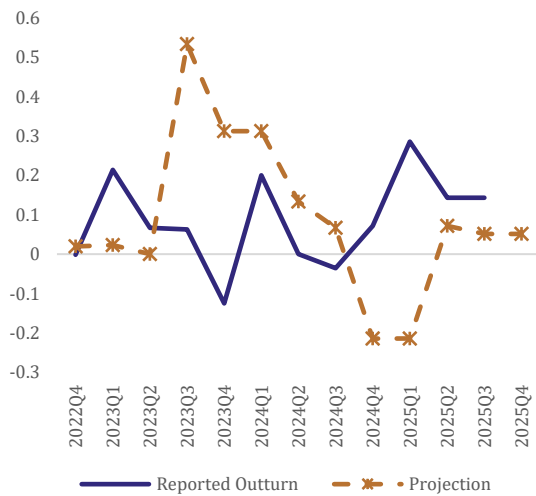
Source: Bank of Zambia

Figure 7: Demand for Mortgage



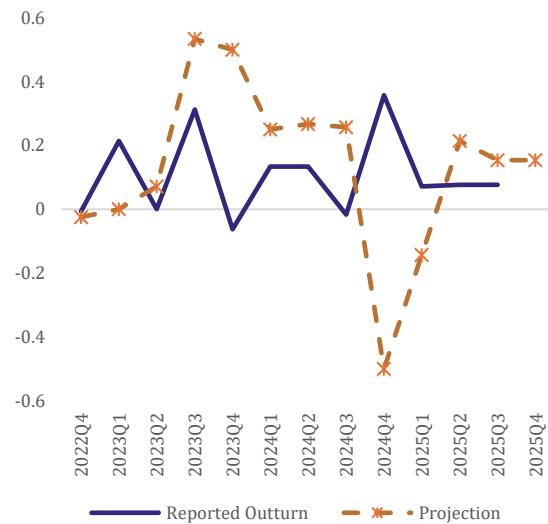
Source: Bank of Zambia

Figure 5: Interest Rates on Car Loans for Households



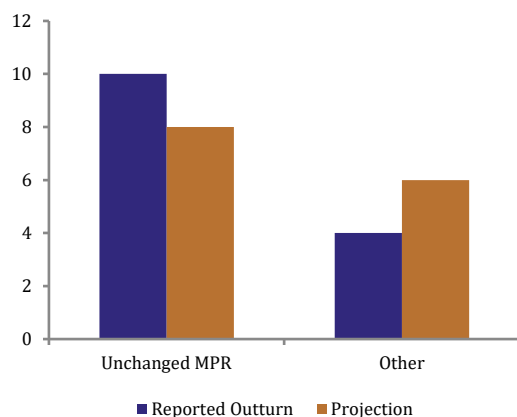
Source: Bank of Zambia

Figure 8: Mortgage rates for Households



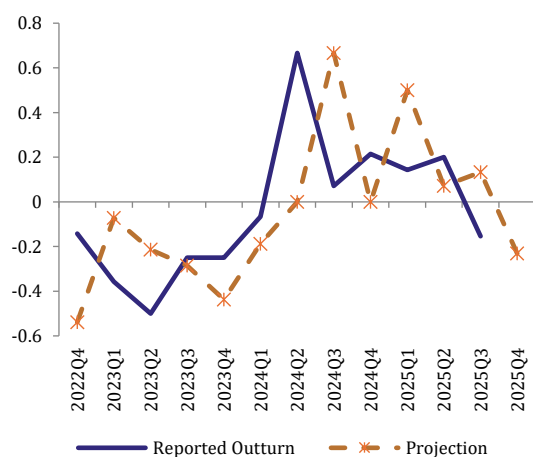
Source: Bank of Zambia

Figure 9: Reasons for Unchanged Mortgage Rate



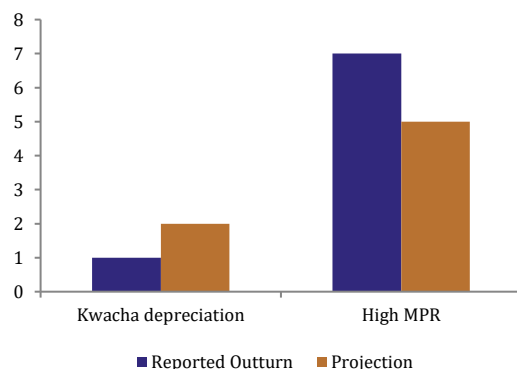
Source: Bank of Zambia

Figure 10: Credit availability for Households



Source: Bank of Zambia

Figure 11: Key Reasons for Change in Household Credit Conditions



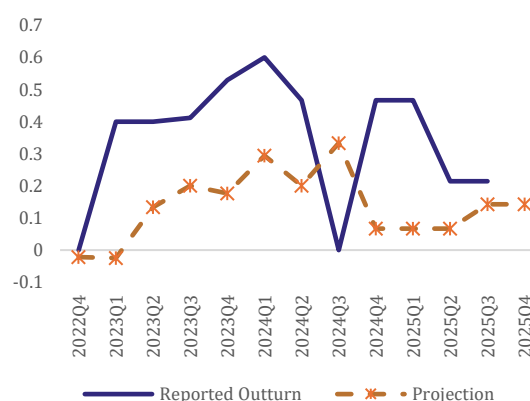
Source: Bank of Zambia

Credit Conditions for Small and Medium Enterprises

Despite interest rates remaining elevated, demand for working capital was strong in the third quarter to mitigate the impact of the sustained load management and high operating costs (Figure 12). Demand is expected to remain high in the near-term to meet increasing working capital needs and inventory restocking for the festive season (Figure 13 and Figure 14). Similarly, demand for long-term financing increased in the third quarter and is expected to remain high in the fourth quarter to manage high operating costs, expand operations, and investment in alternative energy sources to mitigate the impact of sustained load management (Figure 15, Figure 16 and Figure 17).

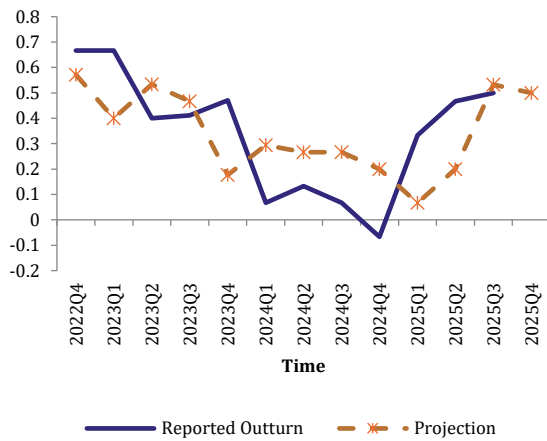
Commercial banks expect credit supply to SMEs to remain constrained in the fourth quarter due to the high default risk (Figure 18 and Figure 19).

Figure 12: Interest on Working Capital for SMEs



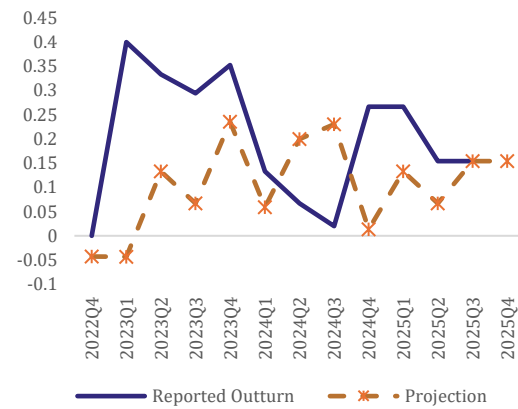
Source: Bank of Zambia

Figure 13: SME Demand for Working Capital



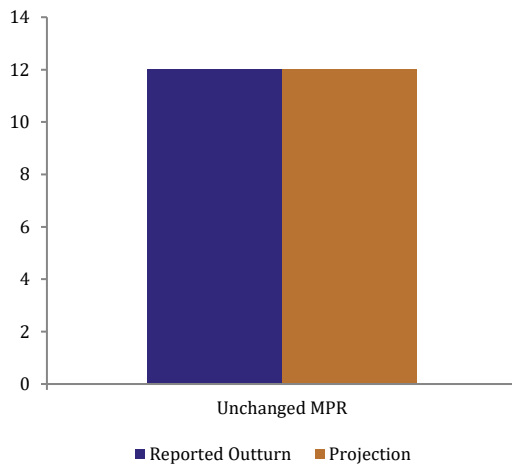
Source: Bank of Zambia

Figure 16: Interest on Long-term Financing for SMEs



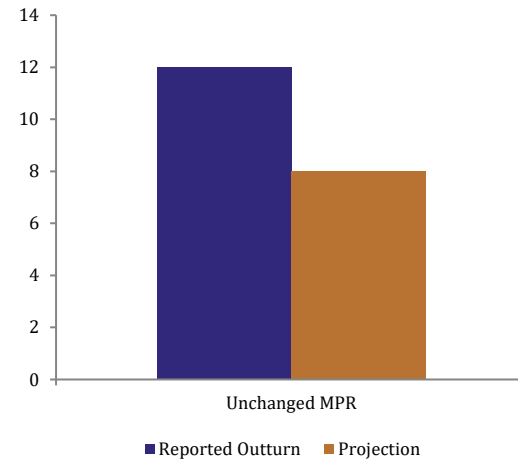
Source: Bank of Zambia

Figure 14 : Reasons for unchanged SME Interest Rate on Working Capital



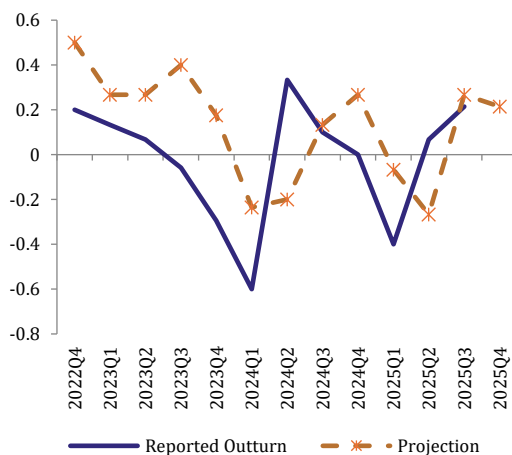
Source: Bank of Zambia

Figure 17: Reasons for unchanged SME Interest Rate on Long-term Financing



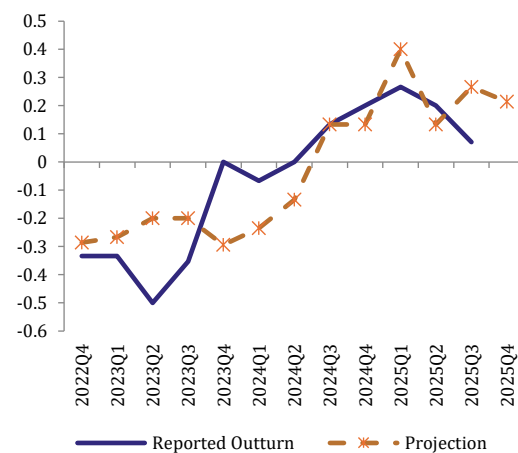
Source: Bank of Zambia

Figure 15 : Demand for Long-term Financing



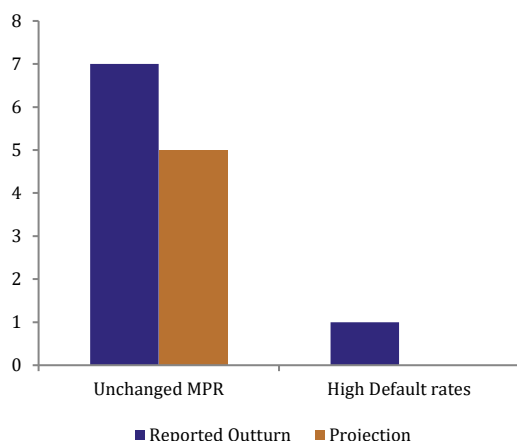
Source: Bank of Zambia

Figure 18 : Credit Availability fo SMEs



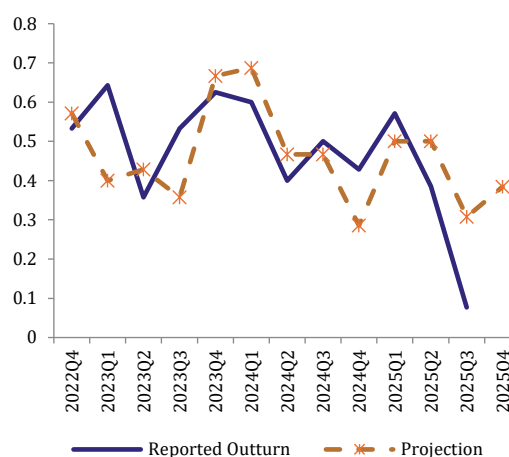
Source: Bank of Zambia

Figure 19 : Key Reasons for Change in SME Credit Conditions



Source: Bank of Zambia

Figure 20 : Demand for Working Capital



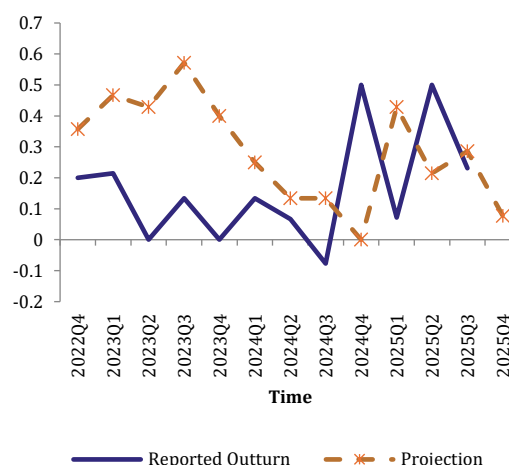
Source: Bank of Zambia

Credit Conditions for Large Corporations Sector

While interest rates for working capital and long-term financing were broadly unchanged, large corporations are reported to have reduced demand in the third due to high borrowing costs fuelled by a relatively elevated Policy Rate (Figure 20, Figure 21, Figure 22 and Figure 23).

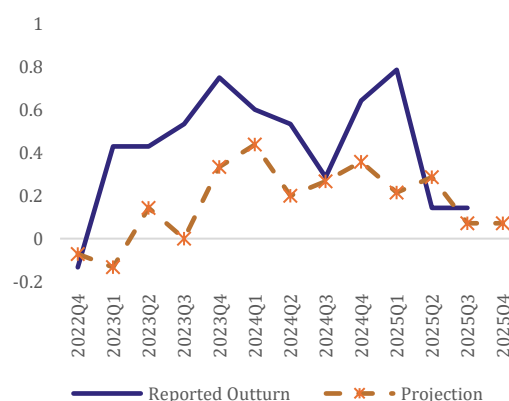
Commercial banks reported improvement in the supply of credit to large corporations due to better liquidity conditions (Figure 24 and Figure 25). Supply conditions are expected to improve but remain relatively tight in the fourth quarter in line with the restrictive monetary policy stance (Figure 24 and Figure 25).

Figure 21 : Demand for Long-term Financing



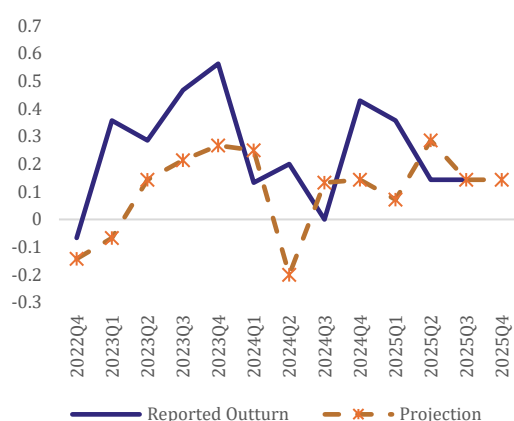
Source: Bank of Zambia

Figure 22: Interest on Working Capital



Source: Bank of Zambia

Figure 23: Interest on Long-term Financing

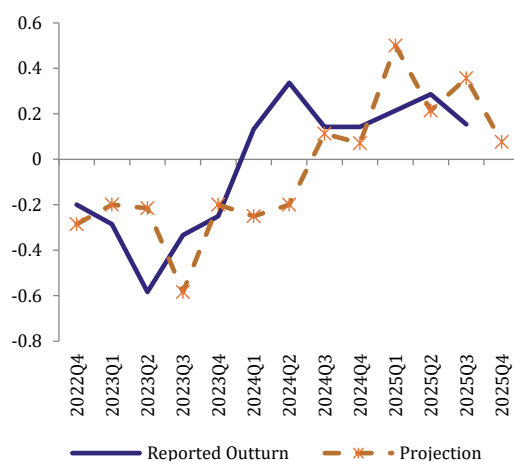


Source: Bank of Zambia

Tenure and Collateral Requirements

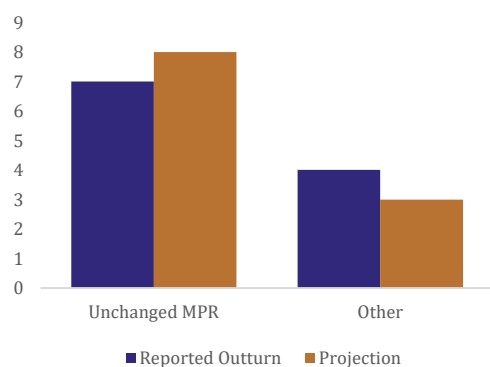
There were no revisions to tenure and collateral requirements on all the financing facilities offered by banks. Commercial banks do not expect changes to these requirements in the fourth quarter.

Figure 24: Availability of Credit



Source: Bank of Zambia

Figure 25: Key Reasons for Change in Large Corporations Credit Conditions



Source: Bank of Zambia

Methodology

The Bank of Zambia has been conducting a quarterly credit conditions survey since 2020. The survey is conducted through an online platform, and the respondents include senior managers of the banking sector. The purpose of the survey is to obtain information from respondents on current and future trends in lending. In particular, the survey includes questions about demand for loans and changes in interest rates and terms of lending to households, small and medium enterprises large corporations, as well as questions about the factors causing these changes.

The questionnaire consists of only qualitative questions and does not require quantitative evaluation by respondents. In order to convert the information into quantitative units, 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. Based on the analysis of the survey results, a report is prepared, which is published quarterly. In addition to the final results of the survey, this report includes official statistical information on lending trends.

The expectations presented in this report reflect only the assessment of the respondents of the credit conditions survey on the future trend of lending and do not represent the expectations of the representatives of the Bank of Zambia.