

Credit Conditions Survey Fourth Quarter 2020



February 2021

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 remained tight for households, SMEs and large corporations in the fourth quarter of 2020. This largely reflected tighter lending criteria occasioned by weak economic conditions as the adverse effects of the COVID-19 pandemic raged on. Demand for car loans declined for the eighth successive quarter as the Kwacha maintained a depreciating trend and pushed up prices of imported motor vehicles. In addition, demand for mortgage loans fell on the back of high property and building materials prices amidst falling incomes partly caused by the COVID-19 pandemic. By and large, demand for long-term financing was reported to have deteriorated largely attributed to uncertainty and weak business activity that led to postponements of major capital plans. To sustain their business operations, both SMEs and large corporations increased demand for working capital. In addition, demand for personal loans to meet tuition fees and related educational expenses rose as schools re-opened following the relaxation of COVID-19 restrictions.

Most banks expected demand for car loans, mortgages and capital projects to remain weak in the first quarter of 2021. This was largely attributed to rising risk averseness by banks in light of the second wave of COVID-19 and its impact on business activities. Subdued economic activity and uncertainty surrounding the second wave of the COVID-19 pandemic were expected to limit demand for long-term finance as capital projects are put on hold. However, demand for working capital by both SMEs and large corporations was expected to remain high as most businesses require liquidity support to boost operations. In addition, banks expected demand for personal loans to strengthen as households sought to supplement incomes due to the high cost of living.

Commercial banks assessed the Policy Rate to have been low in the fourth quarter of 2020 and expected it be sustained at 8 percent in the first quarter of 2021 as the Bank of Zambia sought to support growth and mitigate the adverse effects of the COVID-19 pandemic.

Background

The quarterly Credit Conditions Survey conducted by the Bank of Zambia is aimed at collecting qualitative information on the demand, supply and terms of loans in the banking sector. This information is an essential input in monetary policy decisions as it is used in the assessment of the changes in the demand and supply of credit and implications for economic activity as well as inflation.

The Survey covers households, small and medium enterprises (SMEs) as well as large corporations. Sectoral changes in credit conditions and changes in the terms under which the different sectors access credit are also identified.

This Survey was conducted between December 21, 2020 and January 15, 2021 to assess credit conditions in the banking sector during the fourth quarter of 2020 and expectations for the first quarter of 2021. All the 17 operating commercial banks responded to the Survey.

Household Sector

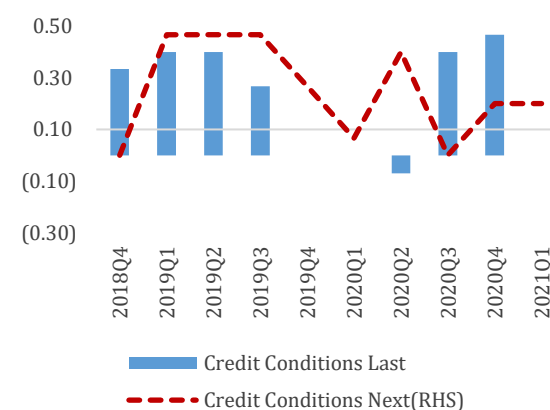
Household credit conditions tightened further ...

Credit Conditions

1. Credit conditions for households tightened further in quarter four of 2020 largely in line with expectations. This was mainly due to sustained strict lending conditions by most banks in an effort to curtail elevated default risk. In the next quarter, most banks expect credit conditions to remain tight on

account of low economic activity and possible increase in defaults due to reduced business activities in light of the second wave of the COVID-19 pandemic (Chart 1).

Chart 1: Household Credit Conditions



Source: Bank of Zambia

Credit Demand

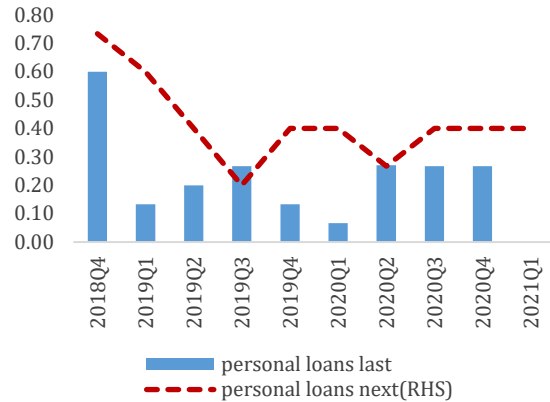
Household credit demand mixed ...

2. Demand for personal loans¹ continued to be high in the quarter under review in line with expectations (Chart 2). The re-opening of schools led to a surge in demand to meet tuitions fees and related expenses. In the following quarter, banks expect demand for personal loans to remain high as households seek to augment their declining incomes amidst rising cost of living.

¹ Demand for personal loans refers to the number of commercial banks that report willingness from clients

to acquire personal loans measured in terms of the number of applications and not value or loan amount.

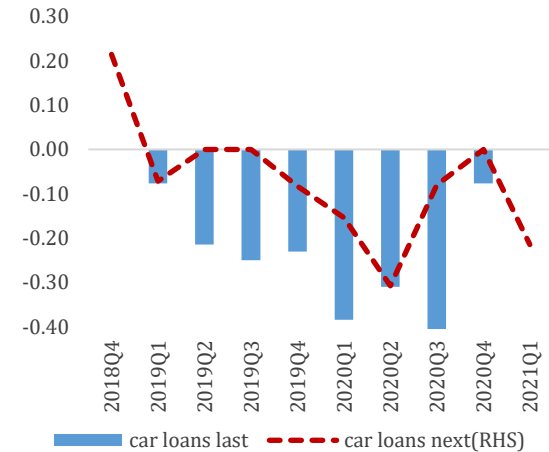
Chart 2: Demand for Personal Loans



Source: Bank of Zambia

3. As anticipated, demand for car loans fell for the eighth consecutive quarter (Chart 3). The weak Kwacha was the main driver of subdued demand as prices for both new and used motor vehicles substantially increased.

Chart 3: Demand for Car loans



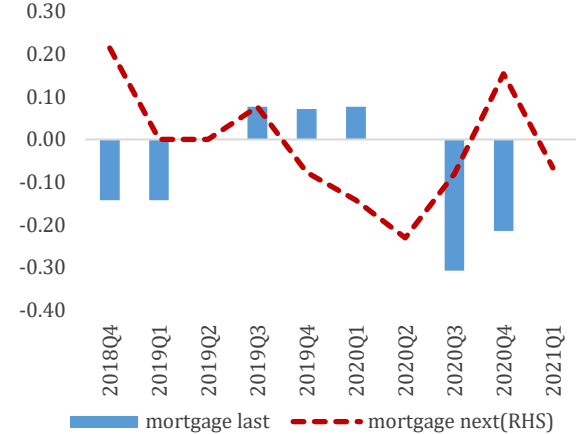
Source: Bank of Zambia

4. In the coming quarter, banks expect demand for motor vehicles to continue weakening owing to depressed economic outlook and expected further depreciation of the Kwacha.

5. Demand for mortgage loans declined in the quarter under review and was at variance with banks' expectations of an improvement (Chart 4). This was largely due to much higher than anticipated property prices. This was in addition to the depreciation of the Kwacha, which was cited to have

pushed up the cost of imported building materials. In quarter one of 2021, banks expect demand for mortgage loans to remain subdued on account sustained increase in prices of properties and building materials.

Chart 4: Demand for Mortgage Loans



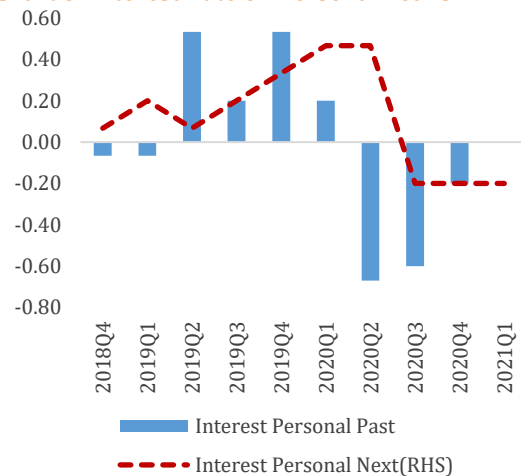
Source: Bank of Zambia

Cost of Credit

Lending rates declined ...

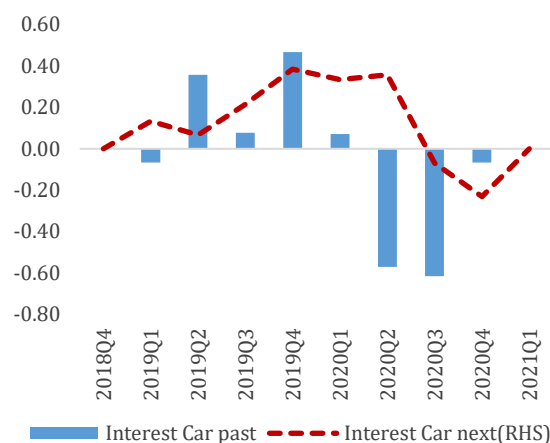
6. Most banks reported a decline in interest rates on personal, car and mortgage loans (Charts 5, 6 and 7). This was largely due to the stimulus packages by Government and the Bank of Zambia as well as relatively low Policy Rate of 8%.

Chart 5: Interest Rate on Personal Loans



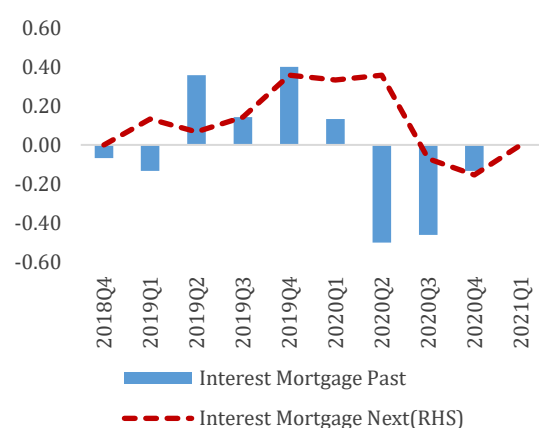
Source: Bank of Zambia

Chart 6: Interest Rate on Car Loans



Source: Bank of Zambia

Chart 7: Interest Rate on Mortgage Loans



Source: Bank of Zambia

7. Most banks expect lending rates for personal loans to fall while those for car and mortgage loans are expected to be maintained in the first quarter of 2021. This is partly on account of the current low Policy Rate, which the markets expects to remain the same, and continued access to the less expensive funds under the Targeted Medium-Term Refinancing Facility (TMTRF).

Tenure and Collateral for Household Loans

Loan tenures increased while collateral requirements were unchanged ...

8. Banks reported an increase in tenures for all the three categories of loans as most banks cushioned their clients from the effects of depressed economic activity. In the next quarter, banks expect tenures on the three loan types to be extended due to anticipated high number of loan rescheduling requests on account of the unfavourable economic environment and uncertainty regarding the evolution of the second wave of COVID-19.

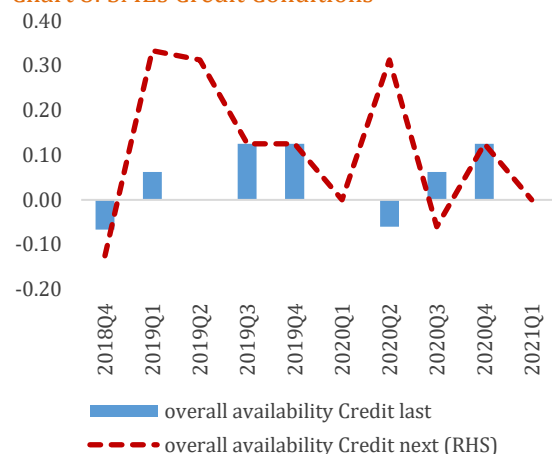
9. Collateral requirements for personal, car and mortgage loans remained unchanged. Commercial banks expect collateral requirements to remain the same in the coming quarter.

Small and Medium Scale Enterprises Sector

Credit conditions to SMEs tightened ...

10. Most banks reported tight credit conditions for SMEs largely due to weak macroeconomic conditions that prompted them to adopt strict criteria in reviewing credit applications (Chart 8). Commercial banks expect tight credit conditions for SMEs to continue in the first quarter of 2021 mainly on account of tight lending requirements driven by the rising default risk.

Chart 8: SMEs Credit Conditions



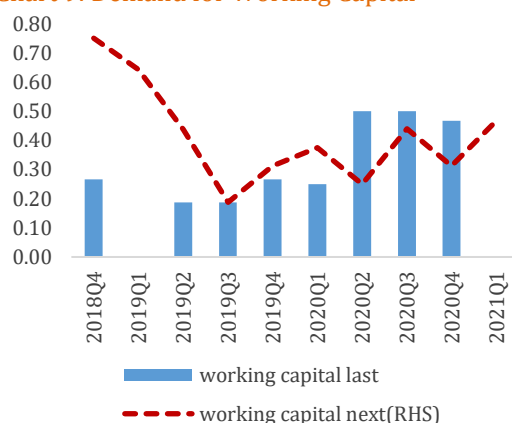
Source: Bank of Zambia

Credit Demand

Demand for working capital rose while that for long-term financing declined ...

11. Banks reported a rise in demand for working capital by SMEs for the seventh consecutive quarter consistent with expectations (Chart 9).

Chart 9: Demand for Working Capital



Source: Bank of Zambia

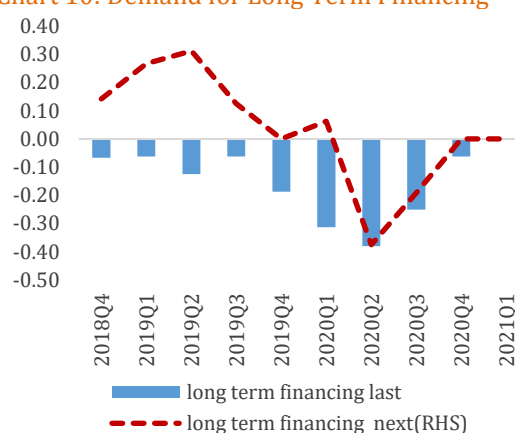
12. The rise in demand was due to tight liquidity that led SMEs to seek working capital to support business operations following the partial relaxation of COVID-19 restrictions.

13. Banks expect demand for working capital by SMEs to remain high in the first quarter of 2021 as most of them seek liquidity to stimulate and

keep their businesses running in light of rising operating costs.

14. Conversely, demand for long-term financing remained weak in the fourth quarter, contrary to banks' expectations that it would remain unchanged (Charts 10). The weak demand was mainly due to subdued economic activity and uncertainty about the medium-term economic prospects that curtailed appetite to borrow for long-term projects.

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

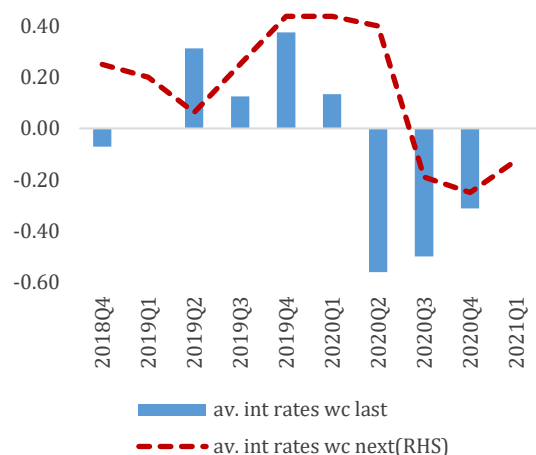
15. In the next quarter, most commercial banks anticipate demand for long-term financing to remain weak as doubts about growth prospects intensify amidst uncertainty about the second wave of the COVID-19 pandemic and weak economic outlook.

Cost of SME Credit

Lending rates declined further ...

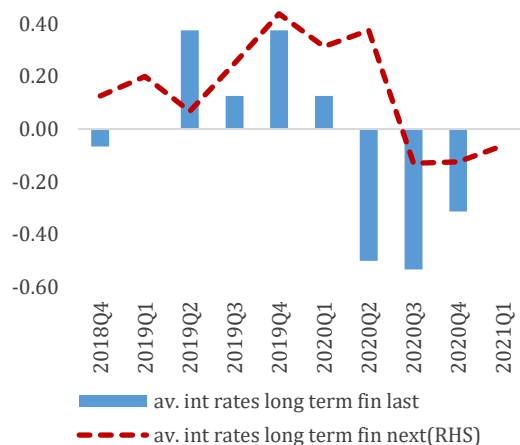
16. Lending rates for both working capital and long-term financing were reported to have fallen for the third consecutive quarter (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

17. The decline in lending rates was mainly attributed to the banks access to funds under the Bank of Zambia’s TMTRF that impacted on the interest rates passed on to SMEs. In the following quarter, commercial banks expect lending rates to remain relatively low as they anticipate the BoZ to maintain an accommodative monetary policy stance in an effort to stimulate economic activity.

Tenure and Collateral for SMEs

Tenure and collateral requirements remained unchanged...

18. The tenure for both working capital and long-term financing for SMEs remained relatively long as most banks maintained their existing conditions. In the first quarter of 2021, banks expect to maintain relatively long tenures for both categories of financing.

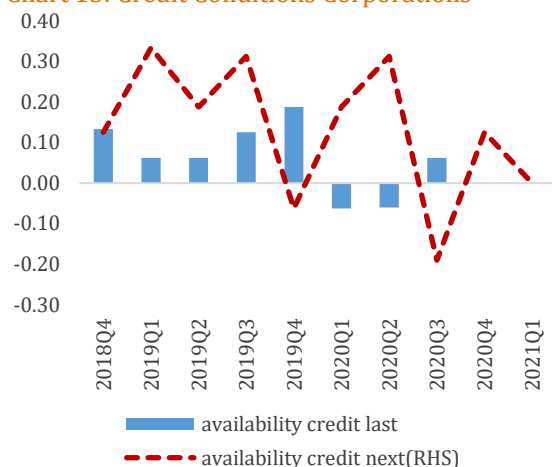
19. Collateral requirements for both working capital and long-term financing equally remained unchanged as banks rarely revise these requirements. The majority of commercial banks anticipate collateral requirements to remain the same in first quarter of 2021.

Large Corporations Sector

Credit conditions for corporations unchanged ...

20. Credit to large corporations remained tight in the fourth quarter of 2020 (Chart 13). Most commercial banks expect tight credit conditions to be sustained in the next quarter as credit risk screening intensifies owing to the uncertainty arising from the COVID-19 pandemic and its impact on business activities.

Chart 13: Credit Conditions Corporations



Source: Bank of Zambia

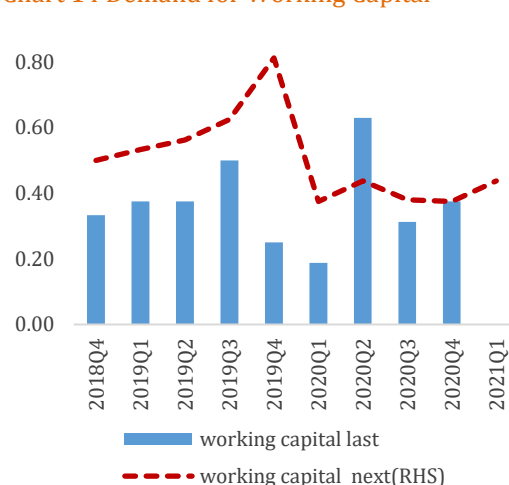
Credit Demand

Demand for working capital rose, but that for long-term financing was unchanged ...

21. The majority of commercial banks reported increased demand for working capital by large corporations in the fourth quarter of 2021 compared to the previous quarter (Chart 14).

22. The rise in demand was due to the need for working capital amidst low cash flows on account of reduced sales partly induced by low economic activity and the COVID-19 pandemic. This was in addition to increased demand from corporates that participated in the Farmer Input Support Program (FISP) related transactions.

Chart 14 Demand for Working Capital



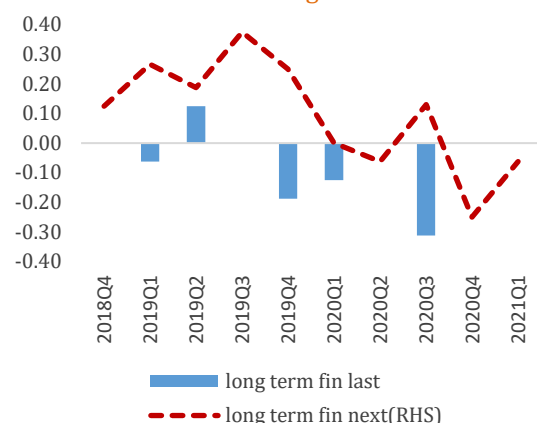
Source: Bank of Zambia

23. More banks anticipate demand for working capital to remain high in the first quarter of 2021 as firms will need additional liquidity to meet rising operating costs mostly for imports owing to expected depreciation of the Kwacha.

24. Banks reported no change in demand for long-term financing in quarter four of 2020 contrary to expectations of a fall in demand (Chart 15)

25. In the next three months, banks expect demand for long-term financing to remain subdued. This is due to the projected low economic growth prospects and uncertainty surrounding the evolution of the second wave of the COVID-19 pandemic and its negative effect on business activities.

Chart 15: Demand for Long-term Finance



Source: Bank of Zambia

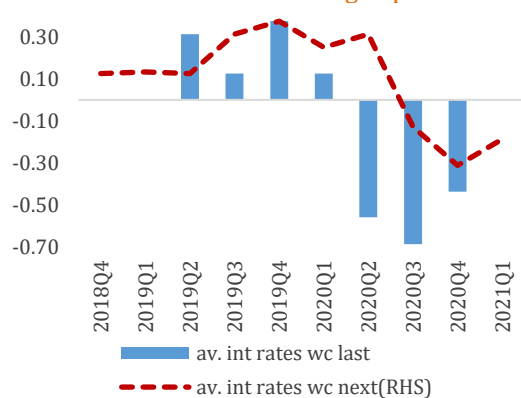
Cost of Credit

Lending rates for working capital and long-term financing declined...

26. Lending rates for both working capital and long-term financing decreased further (Chart 16 and 17). This was partly due to the prevailing accommodative monetary policy stance by Bank of Zambia and access to the Bank's TMTRF that supported the reduction in lending rates.

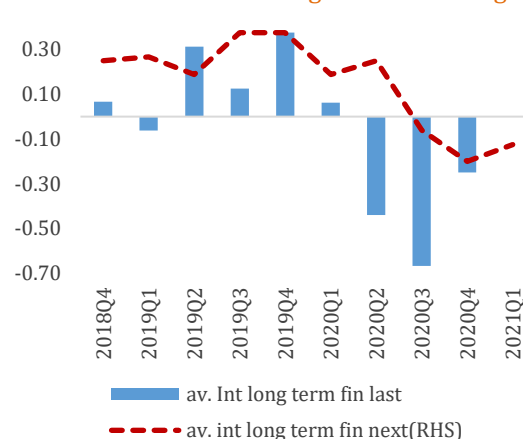
27. In the next quarter, banks expect interest rates on all corporate loans to remain low as BoZ seeks to boost economic activity via cheaper credit. Further, disbursements from the TMTRF will aid the decline in lending rates.

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long Term Financing



Source: Bank of Zambia

Tenure and Collateral Requirements

Tenure and collateral requirements mixed ...

28. Tenure for working capital was unchanged while that for long-term financing was revised upwards in the fourth quarter, broadly in line with expectations. Most banks made changes to the tenure for long-term financing in an effort to cushion their blue chip corporate clients against prevailing adverse economic conditions. Banks expect tenures on the two corporate loans to be revised upwards in the ensuing quarter as most of their major clients request for rescheduling of loan repayment in the wake of a tough economic outlook.

29. In the fourth quarter of 2020, banks reported no changes to collateral requirements for working capital and more banks expect these requirements to be sustained in the next quarter.

30. Conversely, banks reported collateral requirements for long-term financing to have tightened on account of the high credit default risk associated with reduced economic activity. In the first quarter of 2021, banks anticipate

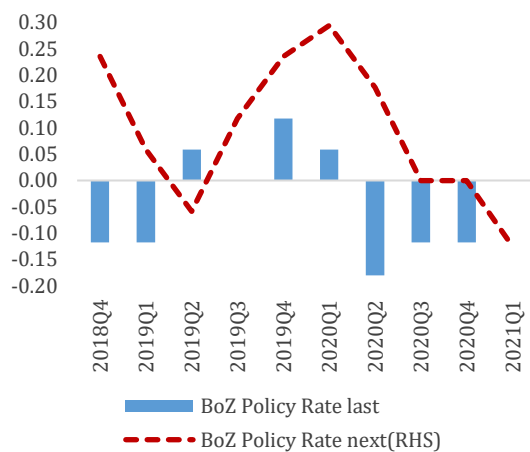
collateral requirements for long-term financing to remain tight amidst economic uncertainty.

Monetary Policy

Policy Rate expected to remain low ...

31. Commercial banks assessed the Policy Rate of 8.0% to have been low during the fourth quarter as the Bank of Zambia sought to stimulate economic activity. The majority of commercial banks expect the Policy Rate to be sustained at 8% in the first quarter of 2021 on account of BoZ's desire to support growth (Chart 18).

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Appendix

Chart 1: Factors Affecting Credit: Households²

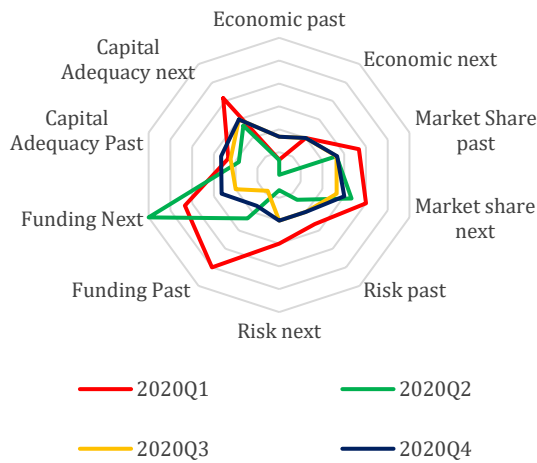


Chart 3: Factors Affecting Credit: Corporations

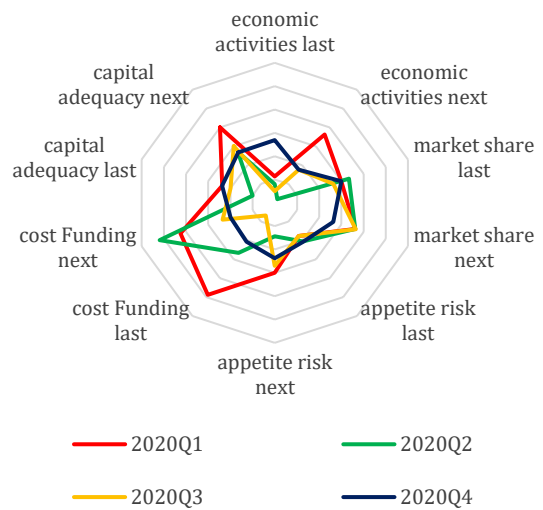
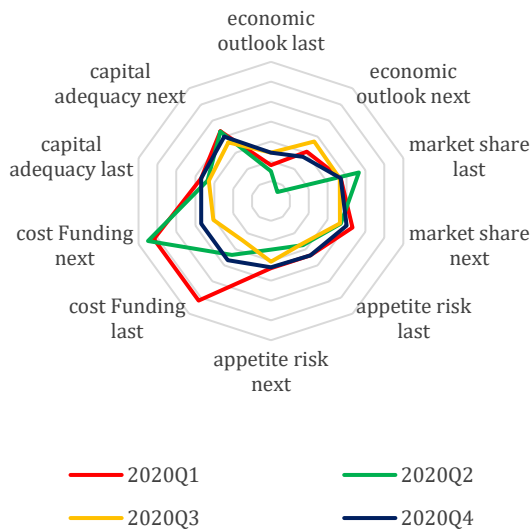


Chart 2: Factors Affecting Credit: SMEs



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.

² In the cobweb, a movement away from the center indicates an improvement except for funding cost where a movement towards the center indicates an improvement.

