Credit Conditions Survey
First Quarter 2021

May 2021

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

Households, small and medium enterprises (SMEs) as well as large corporations continued to experience tight credit conditions in the first quarter of 2021. This mainly reflects reduced demand for credit on account of weakened balance sheets induced by low economic activity and worsened by the adverse effects the of COVID-19 pandemic. This is in addition to amplified default risk coupled with relatively tight liquidity. Demand for personal loans fell in the last three months following a reduction in some expenses such as school fees. Demand for car loans remained subdued as most households could not afford higher purchase prices induced by the sustained depreciation of the Kwacha. High property prices in the real estate market and high interest rates continued to account for depressed demand for mortgage loans. SMEs demand for long-term financing was reported to have deteriorated. This was largely due to postponement of major capital expenditure amidst low business activity worsened by uncertain economic prospects. To sustain their business operations following eased COVID-19 restrictions, both SMEs and large corporations increased demand for working capital.

The majority of banks expect demand for car loans, mortgages and capital projects to remain weak in the second quarter. This is largely attributed to reduced risk appetite by banks owing to the depreciating trend of the Kwacha, relatively high property prices and election year uncertainty. Conversely, demand for working capital by both SMEs and large corporations is expected to remain elevated as most businesses will require liquidity support to boost operations. Demand for personal loans is expected to strengthen as households will seek to supplement incomes to cope with tuitions fees and rising cost of living.

Commercial banks assessed the Policy Rate to have been low in the first quarter of 2021 and expect it to be increased in the second quarter as the Bank of Zambia seeks to curb rising inflationary pressures.

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, 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 March 22, 2021 and April 16, 2021 to assess credit conditions in the banking sector during the first quarter of 2021 and expectations for the second quarter of 2021. All the 16[1] operating commercial banks responded to the Survey.

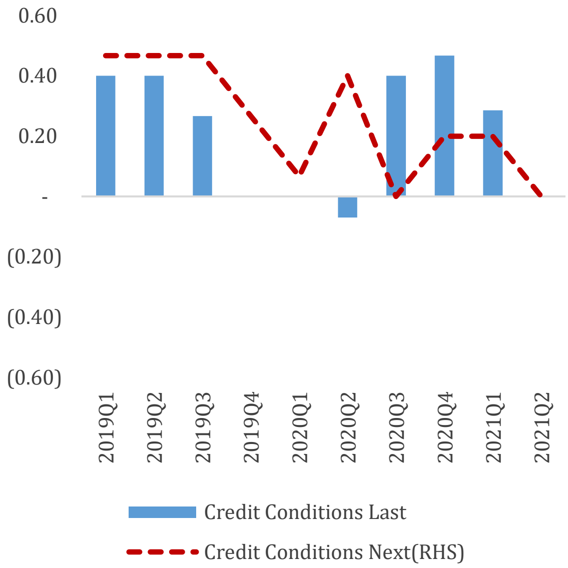
Household Sector

... household credit conditions tightened

Credit Conditions

Credit conditions for households tightened slightly in the first quarter of 2021 relative to the previous quarter mainly in line with expectations. This was largely attributed to weakened balance sheets induced by low economic activity and worsened by the adverse effects the of Covid-19 pandemic. Most banks do not anticipate changes to household credit conditions in the second quarter of 2021 (Chart 1).

Chart 1: Household Credit Conditions



Source: Bank of Zambia

Credit Demand

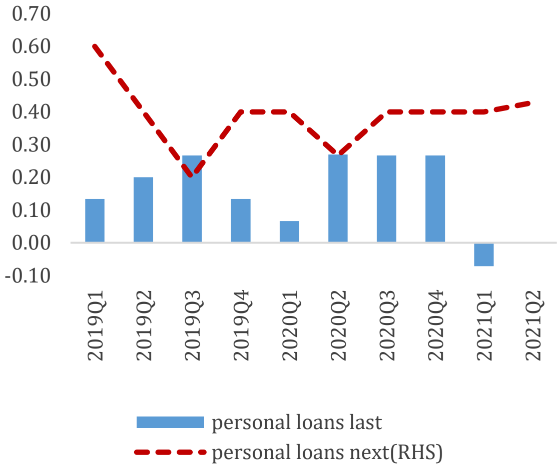
... credit demand for household declined

Contrary to expectations, demand for personal loans[2] fell (Chart 2). The increase in interest rates and reduction in tuitions fees and related expenses largely accounted for the decline in demand. Banks expect demand for personal loans to pick up in the next quarter as households seek to augment their incomes amidst rising cost of living.

[1] The total number of commercial banks surveyed reduced to 16 from 17 following the merger of Cavmont and Access banks.

[2] 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.

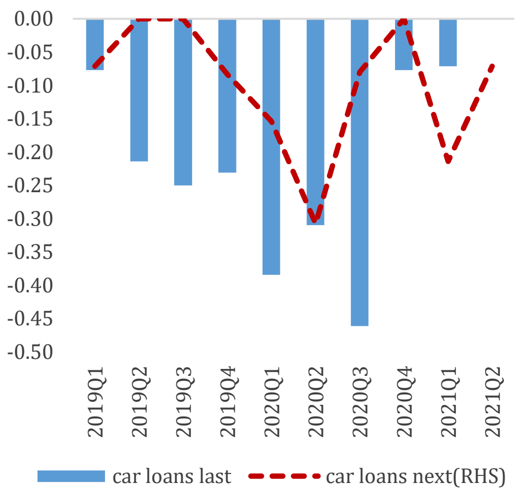
Chart 2: Demand for Personal Loans



Source: Bank of Zambia

Demand for car loans remained weak for the ninth consecutive quarter (Chart 3). A weaker Kwacha, which has pushed up prices of motor vehicles, remained the key factor accounting for subdued demand. High interest rates also weighed down on the demand for car loans. Demand is expected to remain weak in the second quarter.

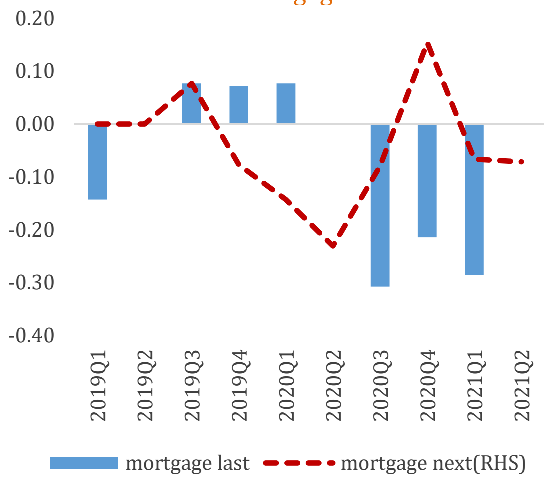
Chart 3: Demand for Car loans



Source: Bank of Zambia

Demand for mortgage loans deteriorated further broadly in line with expectations (Chart 4). This was mainly attributed to sustained high property prices and the rise in interest rates. Weak demand prospects are expected in the second quarter.

Chart 4: Demand for Mortgage Loans



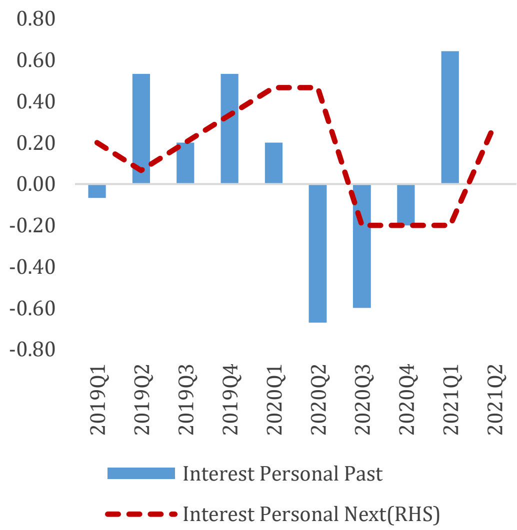
Source: Bank of Zambia

Cost of Credit

... lending rates increased

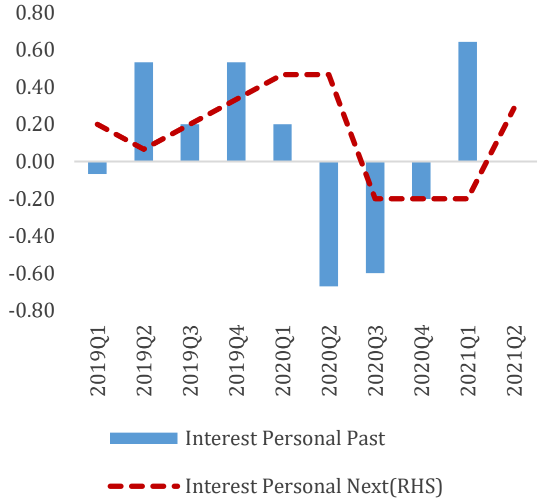
Most banks reported a rise in interest rates on personal, car and mortgage loans (Charts 5, 6 and 7). This was attributed to the 50 basis points upward adjustment in the Policy Rate to 8.5% in February.

Chart 5: Interest Rate on Personal Loans



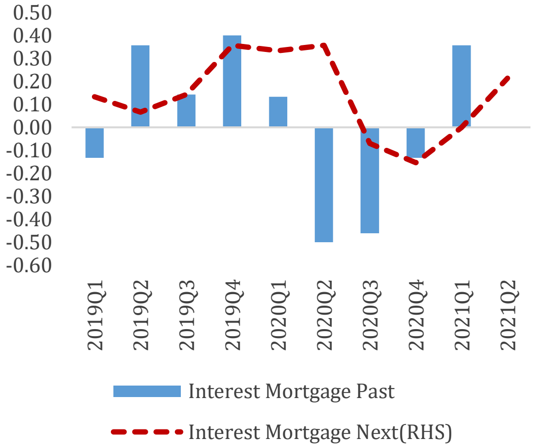
Source: Bank of Zambia

Chart 6: Interest Rate on Car Loans



Source: Bank of Zambia

Chart 7: Interest Rate on Mortgage Loans



Source: Bank of Zambia

Most banks expect lending rates for personal, car and mortgage loans to increase in the second quarter. This is due to the anticipated further hike in the Policy Rate given the prevailing high inflation.

Tenure and Collateral for Household Loans

... loan tenures increased while collateral requirements were unchanged

Banks continued to increase tenures for personal loans to cushion clients from the adverse effects of the COVID-19 pandemic and weak economic activity. However, tenures for car and mortgage loans remained unchanged. In the ensuing quarter, banks expect tenures on the three loan types to remain the same as credit policies of most banks are rarely revised.

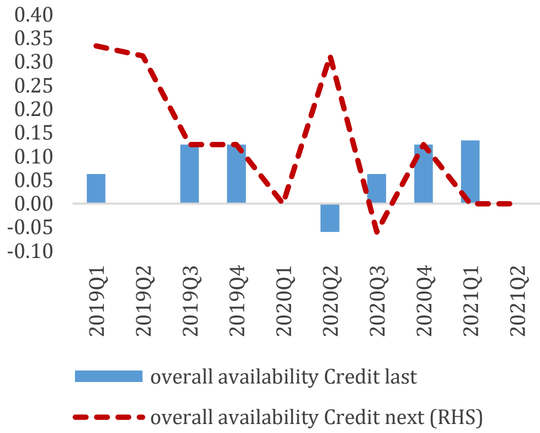
Collateral requirements for personal, car and mortgage loans remained unchanged and commercial banks do not expect any major changes to collateral requirements in the coming quarter.

Small and Medium Scale Enterprises Sector

... credit conditions to SMEs remained tight

Rising inflation, weaker Kwacha and liquidity shortages were reported as the main reasons for tighter credit conditions for SMEs as commercial banks sort to minimise default risk (Chart 8). The majority of banks do not expect changes in credit availability to SMEs in the second quarter.

Chart 8: SMEs Credit Conditions



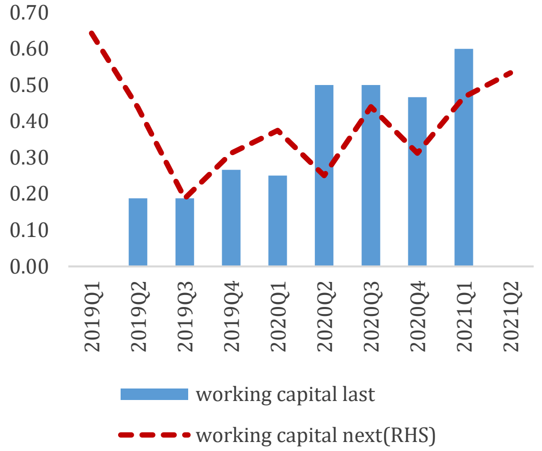
Source: Bank of Zambia

Credit Demand

... demand for working capital rose but that for long-term financing declined

A rise in demand for working capital by SMEs was reported for the eighth consecutive quarter consistent with expectations (Chart 9). The increase was attributed to the poor performance of the Kwacha against the US dollar resulting in higher production costs[3] and ultimately increased working capital requirements for most SMEs.

Chart 9: Demand for Working Capital

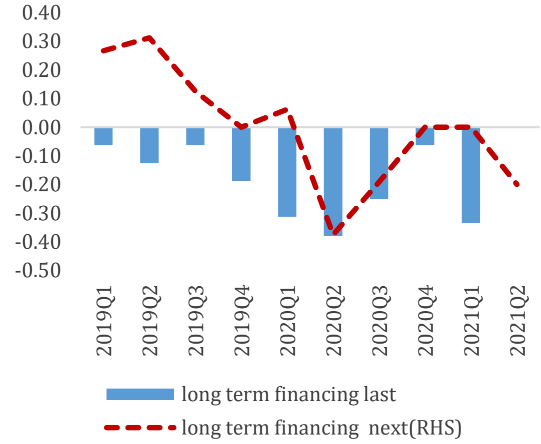


Source: Bank of Zambia

Banks expect demand for working capital by SMEs to remain high in the subsequent quarter. This is on account of the need for liquidity to stimulate and keep businesses afloat in anticipation of a pickup in economic activity.

On the contrary, demand for long-term financing weakened further contrary to expectations that it would remain unchanged (Charts 10). Depressed economic activity attributed to the COVID-19 pandemic largely explain the deterioration in demand for long-term financing. This is in addition to uncertainty[4] that prompted the majority of SMEs to put major planned capital expenditure on hold.

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

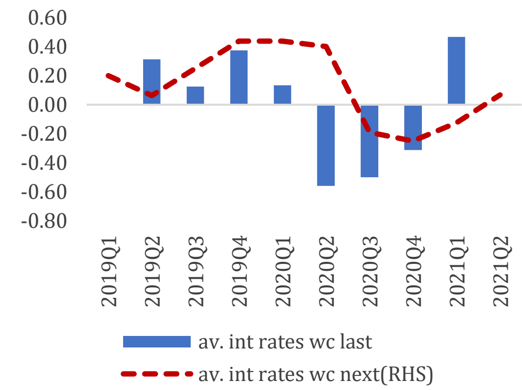
In the next quarter, most commercial banks anticipate demand for long-term financing to remain depressed amidst uncertainty and weak economic outlook.

Cost of SME Credit

... lending rates increased

Following the upward adjustment in the Policy Rate, lending rates for both working capital and long-term financing rose (Charts 11 and 12). The relatively tight liquidity conditions that prevailed in the first quarter of 2021 also contributed to the rise in lending rates.

Chart 11: Interest Rate - Working Capital

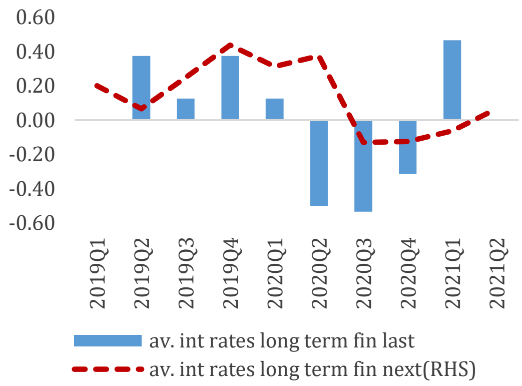


Source: Bank of Zambia

[3] Some SMEs have a considerable amount of imported raw materials in their production process.

[4] This is related to the COVID-19 pandemic and General Elections in August.

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

In the coming quarter, commercial banks expect lending rates to rise further on account of a tight monetary policy stance as the Bank seeks to bring inflation back to target in the medium-term.

Tenure and Collateral for SMEs

... tenure and collateral requirements remained unchanged

The tenure for both working capital and long-term financing for SMEs remained unchanged as most banks maintained lending requirements in line with existing credit policies. In the next quarter, banks do not expect any changes to tenures for both categories of financing.

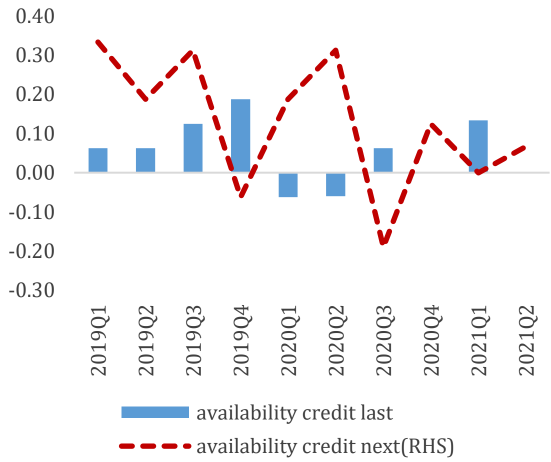
Collateral requirements for both working capital and long-term financing equally remained unchanged as banks rarely revise these requirements. The majority of commercial banks anticipate collateral requirements to remain the same in the second quarter.

Large Corporations Sector

... credit conditions for corporations tightened

Credit to large corporations was reported to have been tight mostly on account of the challenging economic landscape that has adversely affected their balance sheets(Chart 13). In the next quarter, banks expect tight credit conditions to persist due to low economic activity and possible increase in defaults on account of reduced business activities induced by the COVID-19 pandemic.

Chart 13: Credit Conditions Corporations



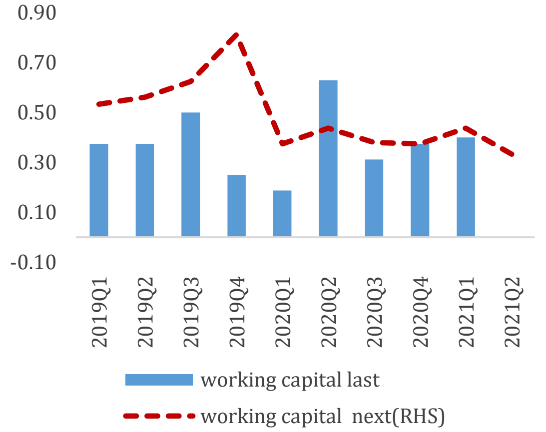
Source: Bank of Zambia

Credit Demand

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

Demand for working capital by large corporations strengthened further. Banks attributed this to strong demand to increased utilisation of facilities as some companies required liquidity support to cover gaps in expected receivables created by delayed payments of salaries and for goods and services (Chart 14).

Chart 14 Demand for Working Capital

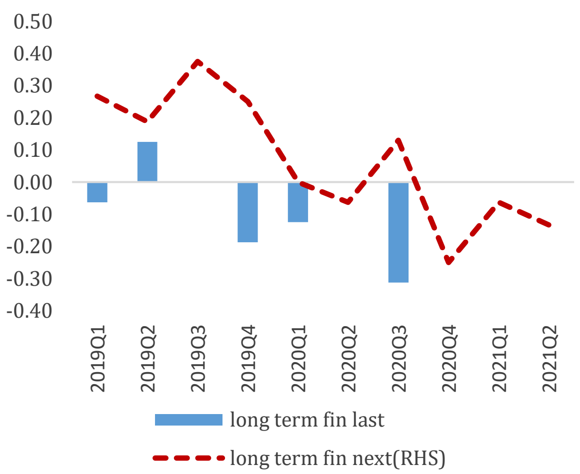


Source: Bank of Zambia

The majority of banks expect demand for working capital to remain high. This is in part attributed to the persistent depreciation of the Kwacha that continues to increase the cost of funding imported raw materials.

Banks reported no change in demand for long-term financing for the second consecutive quarter contrary to expectations of a decline in demand (Chart 15). Banks expect demand for long-term financing to remain low in the next three months. This is mainly on account of low appetite for long-term financing on account of weak growth prospects and uncertainty surrounding the outcome of the General Elections.

Chart 15: Demand for Long-term Finance



Source: Bank of Zambia

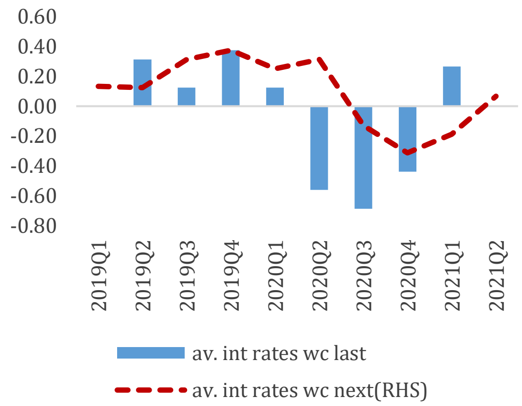
Cost of Credit

... lending rates for working capital and long-term financing increased

Lending rates for both working capital and long-term financing increased (Chart 16 and 17). This was largely in line with increase in the 6-month Treasury bill yield rate and the upward adjustment in the Policy Rate.

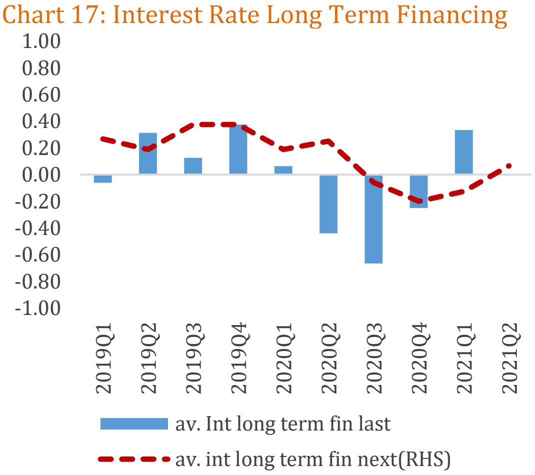
Banks expect interest rates on all corporate loans to rise further due to the anticipated continued tightening of monetary policy to rein in inflation.

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

Tenures for working capital and long-term financing remained unchanged. In the second quarter, most banks do not expect any changes to tenures on the two corporate loans.

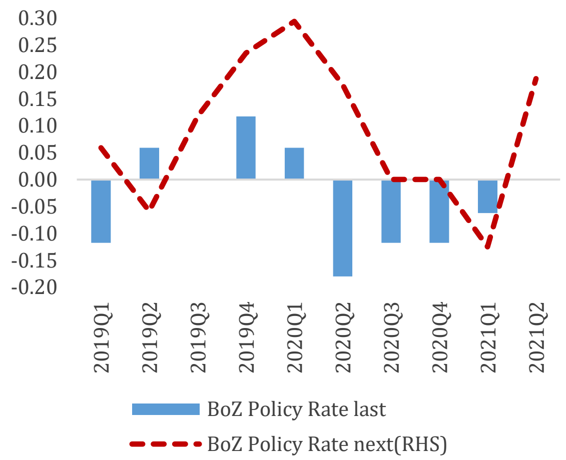
With regard to collateral requirements, banks reported no changes for both working capital and long-term financing. Banks expect collateral requirements to remain the same in the ensuing quarter.

Monetary Policy

... policy rate assessed to have been low

Most banks indicated that the Policy Rate at 8.5% was low in the first quarter of 2021. In view of this, the Policy Rate is expected to be raised as the Bank continues to fight mounting inflationary pressures (Chart 18).

Chart 18: Bank of Zambia Policy Rate



Source: Bank of Zambia

Appendix

Chart 1: Factors Affecting Credit: Households[5]

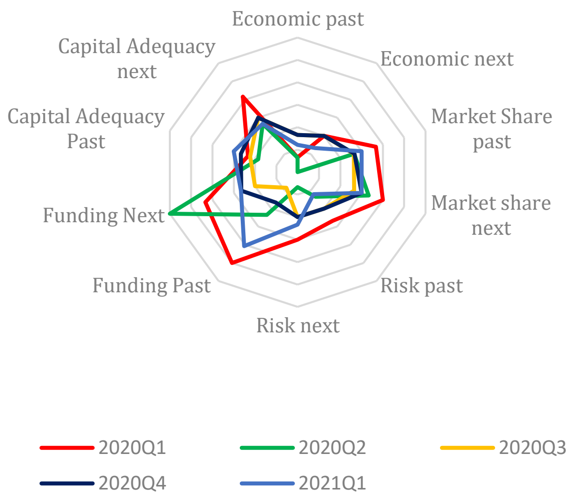


Chart 2: Factors Affecting Credit: SMEs

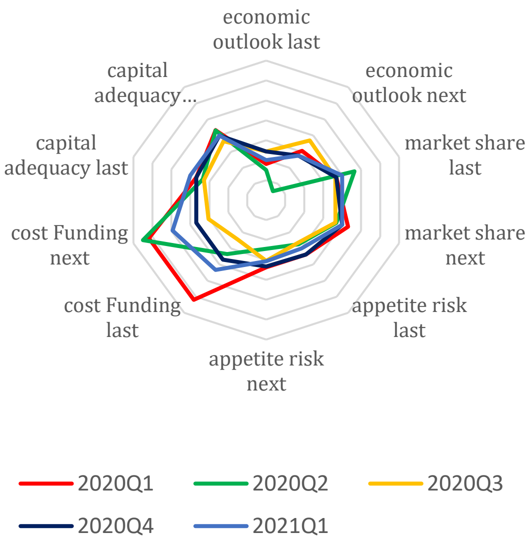
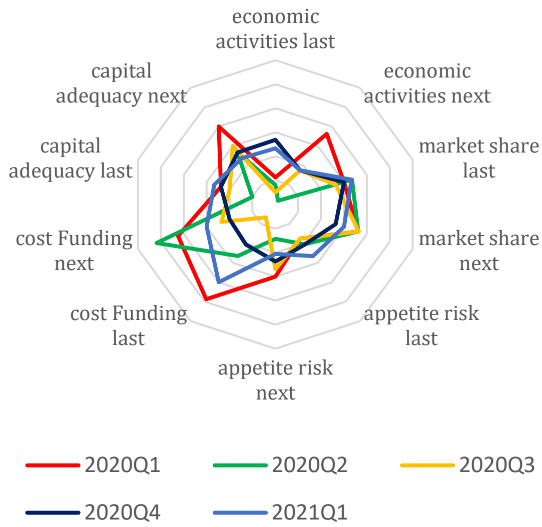


Chart 3: Factors Affecting Credit: Corporations



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.

[5] 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.