

Credit Conditions Survey



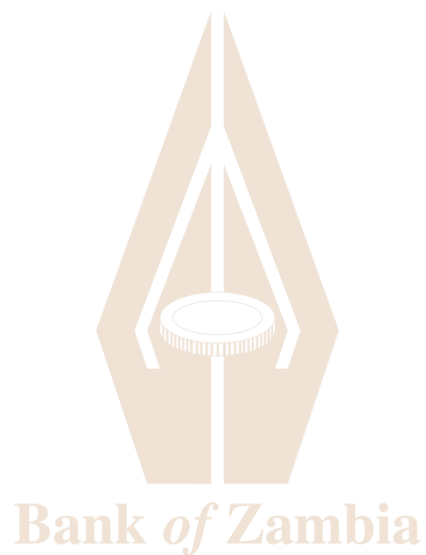
February 2025

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

The February 2025 Credit Conditions Survey points to tight credit conditions for households, small and medium enterprises and large corporations in the fourth quarter of 2024. This is broadly in line with the 50-basis point hike in the Monetary Policy Rate (MPR) in November to curb inflationary pressures. Credit conditions are expected to remain tight as respondents expect the MPR to be raised again in the first quarter of 2025 to rein in persistently rising inflation. The need to support production and business operations due to prolonged electricity load shedding sustained strong demand for working capital. High demand for credit is anticipated to continue in the first quarter of 2025 to meet demand for farming inputs and support invest in alternative sources of energy.

I. 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 from commercial banks. It also assesses credit supply conditions by the banking sector. The survey results serve as input into monetary policy decisions.

This survey was conducted during December 26, 2024 to January 10, 2025 to assess credit conditions in the banking sector during the fourth quarter of 2024 and expectations for the first quarter of 2025. Fifteen (15) 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 respectively presented in Sections I, II, and III. The survey methodology is presented in the appendix.

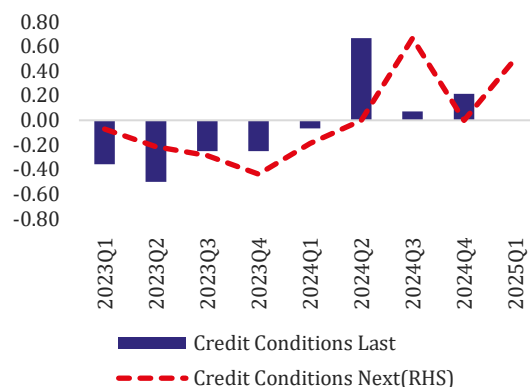
II Household Sector

Credit Conditions

... tight

Most commercial banks reported tighter credit conditions in the fourth quarter compared to the third quarter owing to constrained liquidity following a 50-basis point hike in the Monetary Policy Rate (MPR) to 14 percent (Chart 1). Credit conditions are expected to remain broadly tight in the first quarter of 2025.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

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

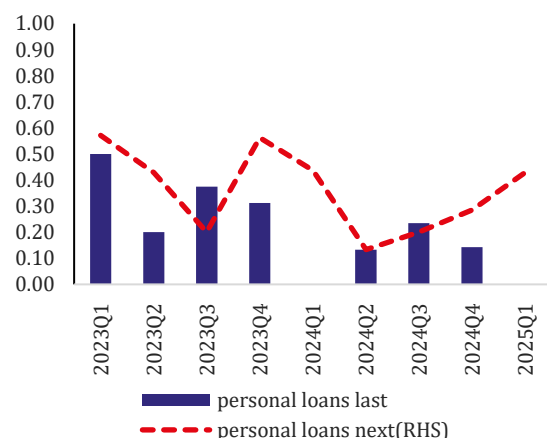
Credit Demand

... sustained

The need to supplement income to cover festive season expenses, manage the rise in the cost of living, procure farming inputs and procure equipment for alternative energy continued to drive demand for personal loans in the fourth quarter (Chart 2). Commercial banks expect this demand to persist in the first quarter of 2025.

The need to procure more farming inputs following favourable rainfall and to mitigate the rising cost of living is expected to sustain demand for personal loans in the first quarter of 2025. In addition, the need to cover post festive season expenses, such as school fees, is likely to contribute to demand for personal loans.

Chart 2: Demand for Personal Loans

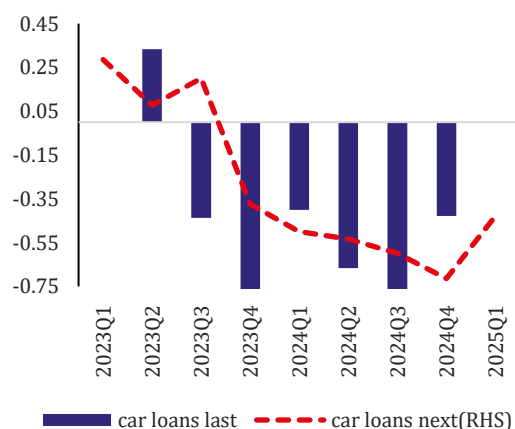


Source: Bank of Zambia

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

Demand for car loans remained low for the sixth consecutive quarter. This was primarily due to elevated prices of motor vehicles on account of the sustained depreciation of the Kwacha against the US dollar (Chart 3). Demand for car loans is expected to remain weak in the first quarter of 2025 due to the depreciation of the Kwacha against the US dollar.

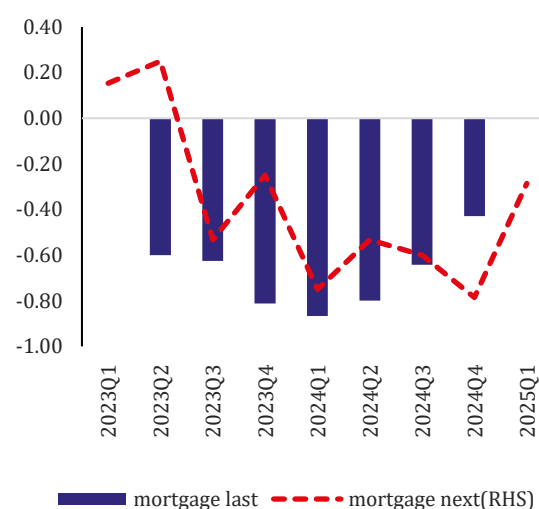
Chart 3: Demand for Car loans



Source: Bank of Zambia

In the fourth quarter of 2024, the high cost of raw materials occasioned by a weaker exchange rate and preference for short-term credit continued to weigh on demand for mortgages for the sixth consecutive quarter (Chart 4).

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

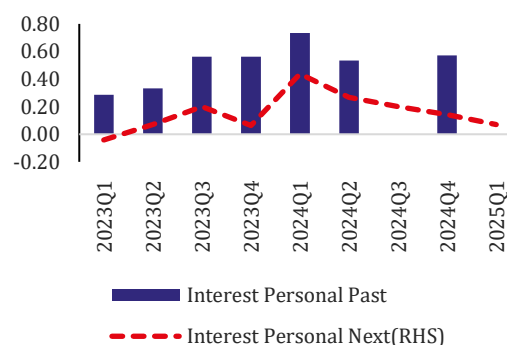
Demand for mortgages is expected to remain low in the first quarter of this year as the persistence in the depreciation of the exchange rate is expected to keep prices of raw material high.

Cost of Credit

... rises

The respondents reported higher lending rates in the fourth quarter in line with the hike in the Policy Rate (Charts 5-7).

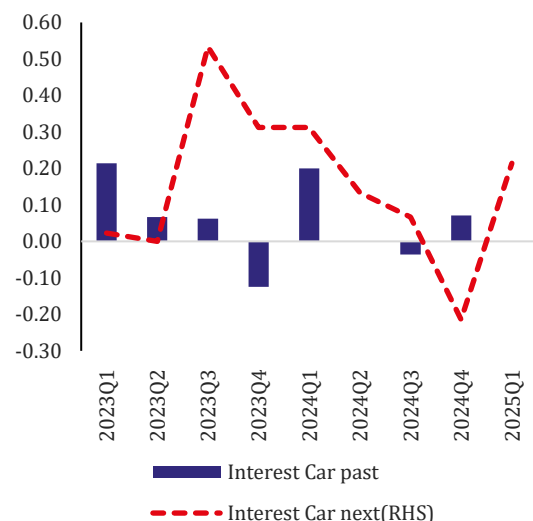
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

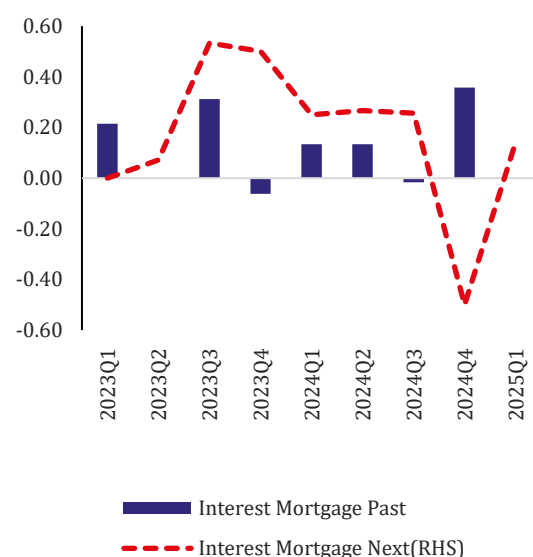
Chart 6: Interest Rate on Car Loans



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

Lending rates are expected to remain elevated in the first quarter of 2025 in line the anticipated increase in the Policy Rate to curb rising inflation.

Tenure and Collateral for Household Loans

... no revision made to loan tenure and collateral requirements

Consistent with existing policy agreements, loan tenures and collateral requirements for household loans remained unchanged and no changes are expected in the first quarter of 2025.

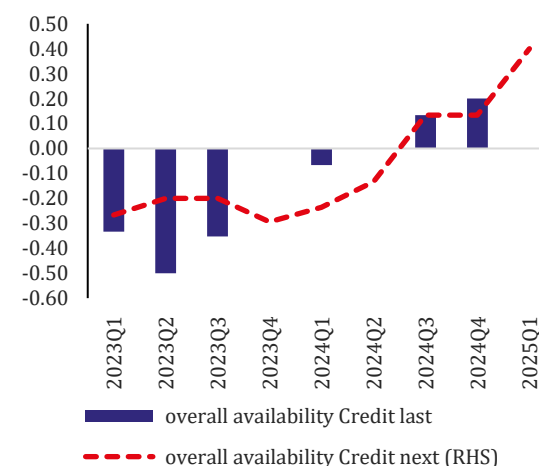
III Small and Medium Enterprises Sector

Credit Conditions

... tighter

Most commercial banks reported tight credit conditions for SMEs due to constrained liquidity in the banking system (Chart 8).

Chart 8: SMEs Credit Conditions



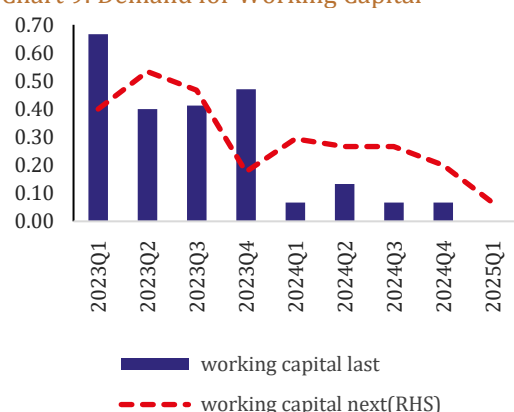
Source: Bank of Zambia

Commercial banks anticipate credit conditions to remain tight in the first quarter of 2025 as the Monetary Policy Rate is expected to be raised in response to rising inflation.

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

The need to support production and business operations due to prolonged electricity load shedding continued to drive strong demand for working capital. This was in addition to rising costs due to persistent inflation and higher input costs because of a weaker exchange rate.

Chart 9: Demand for Working Capital

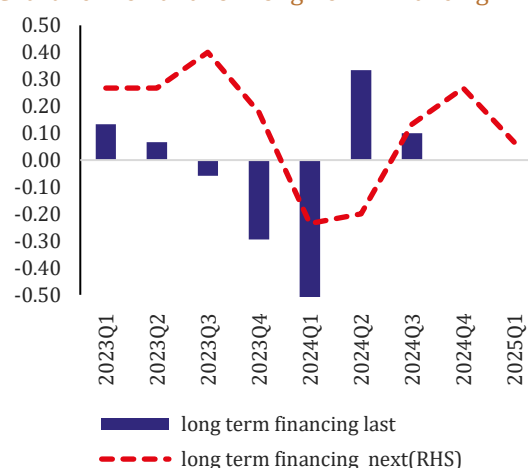


Source: Bank of Zambia

High demand for working capital is expected to be sustained in the first quarter of 2025 to support business operations, driven by higher operating expenses linked to the depreciation of the Kwacha and increased cost of farming inputs.

Similarly, demand for long-term financing increased during the quarter as firms invested in alternative sources of energy to mitigate sustained electricity shortages and higher operating costs occasioned by the depreciation of the exchange rate (Chart 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

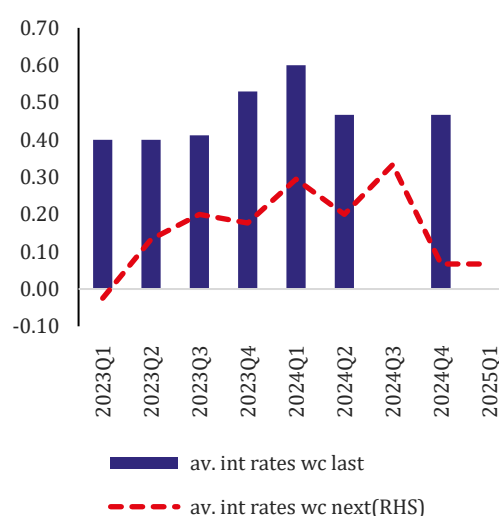
In the next quarter, banks anticipate demand for long-term financing to be sustained due to rising operating costs.

Cost of SME Credit

... increases

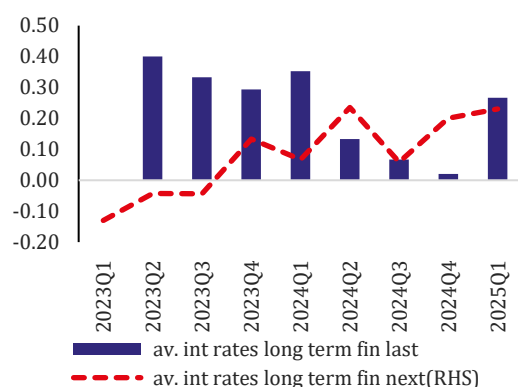
Lending rates for both working capital and long-term financing increased in the fourth quarter in line with the Policy Rate (Charts 11 and 12).

Chart 11: Interest Rate - Working Capital



Source: Bank of Zambia

Chart 12: Interest Rate - Long-Term Finance



Source: Bank of Zambia

Most banks expect high lending rates to prevail in the first quarter of 2025 as monetary policy is likely to be tightened further to address persistently high inflation.

Tenure and Collateral for SMEs

... no revisions to loan tenures and collateral requirements

There were no changes made to the loan tenures and collateral requirements in line with the current policy guidelines. No changes are expected in the first quarter of 2025.

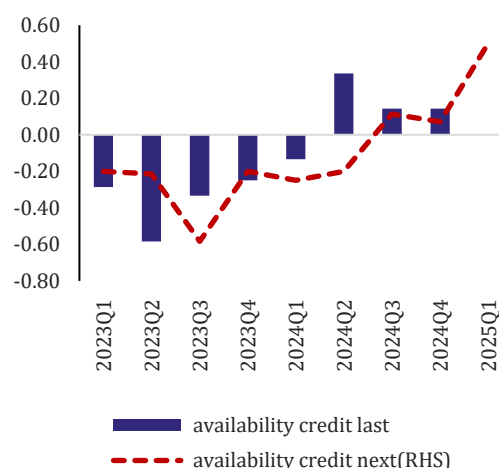
IV Large Corporations Sector

Credit Conditions

... tighter

Commercial banks reported tight credit conditions for large corporations in the fourth quarter (Chart 13). Broadly, they expect credit conditions to remain tight in the first quarter of 2025 owing to the need to curb inflationary pressures.

Chart 13: Credit Conditions Corporations



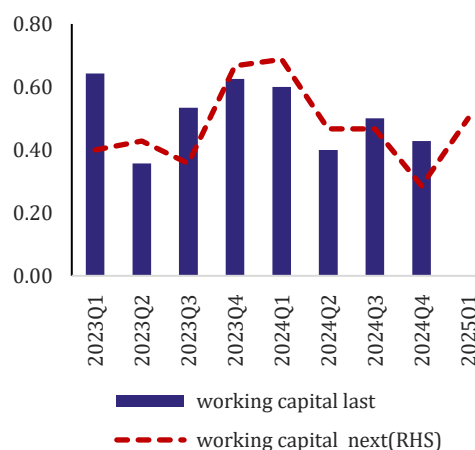
Source: Bank of Zambia

Credit Demand

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

In the fourth quarter of 2024, demand for working capital among large corporations remained robust as additional liquidity was sought largely on account of increased festive season demand and to support business operations (Chart 14).

Chart 14: Demand for Working Capital



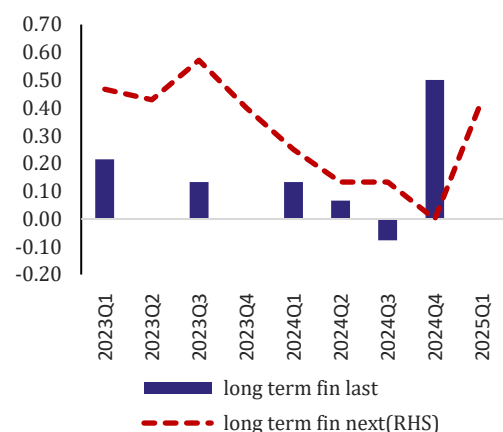
Source: Bank of Zambia

In the first quarter of 2025, commercial banks expect demand for working capital to remain high to cover rising operating costs occasioned by the

depreciation of the exchange rate and higher fuel costs.

Likewise, strong demand for long-term financing was sustained in the fourth quarter to support and sustain operations amid rising production costs.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

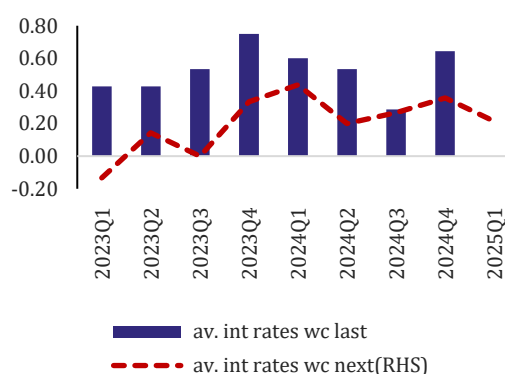
High demand for long-term financing is expected to prevail in the first quarter of 2025 as firms continue to invest in alternative energy sources and seek to finance new expansion projects.

Cost of Credit

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

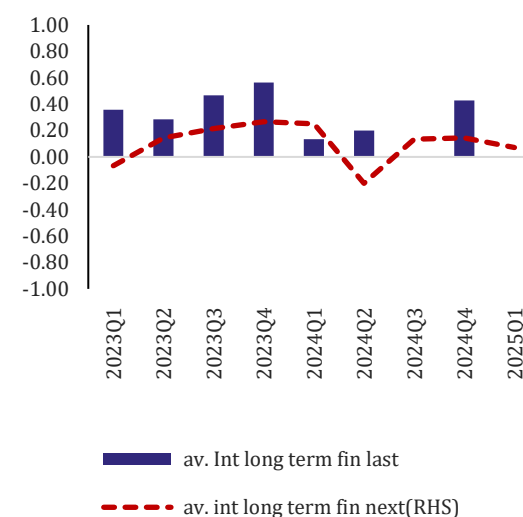
In the fourth quarter, banks reported higher lending rates for working capital and long-term financing, reflecting the 50-basis point increase in the Policy Rate in November (Charts 16 and 17).

Chart 16: Interest Rate Working Capital



Source: Bank of Zambia

Chart 17: Interest Rate Long-Term Financing



Source: Bank of Zambia

Commercial banks expect high lending rates to persist in the first quarter of 2025 due to the anticipated tightening of monetary policy to curb persistent inflationary pressures.

Tenure and Collateral Requirements

... no revisions to tenure and collateral requirements

No changes were made to loan tenures and collateral requirements for working capital and long-term financing. Almost all the banks do not anticipate changes to loan terms in the first quarter of 2025.

Appendix

Survey Methodology - Data Analysis

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.