

# Credit Conditions Survey



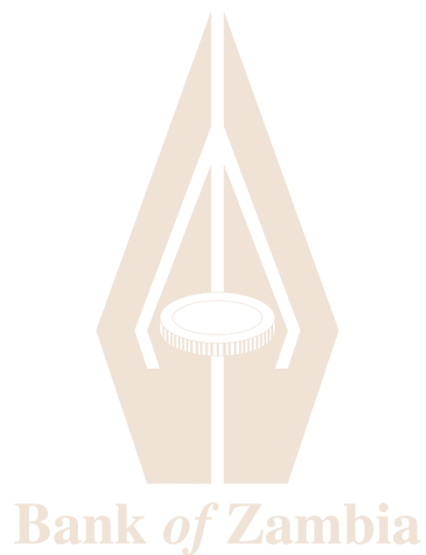
November 2024

**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 November 2024 Credit Conditions Survey indicates relatively loose credit conditions for households and large corporations banking system liquidity improved. However, credit to small and medium enterprises (SMEs) was constrained due to high default rates. Broadly, credit conditions are expected to remain relatively loose for households and large corporations in the fourth quarter on account of improved liquidity in the market. Demand for working capital remained high, driven by the need to procure alternative sources of energy as electricity shortages persisted and a weaker exchange rate. Lending rates were stable in the third quarter as the Policy Rate was maintained at 13.5 percent in August. Most banks expect lending rates to be high in the third quarter due to anticipated monetary policy tightening to curb sustained inflationary pressures and manage exchange rate depreciation.*

## 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 September 27 to October 11, 2024 to assess credit conditions in the banking sector during the third quarter of 2024 and expectations for the fourth quarter of 2024. 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.

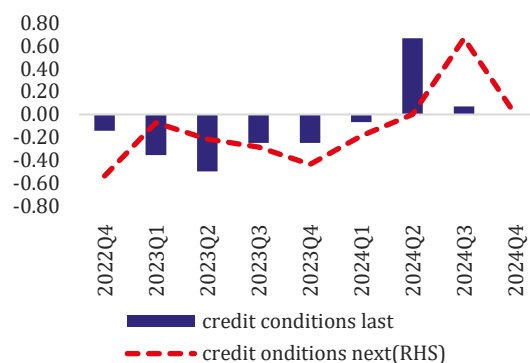
## II Household Sector

### Credit Conditions

*... remains high*

Most commercial banks reported relatively loose credit conditions in the third quarter following improvements in banking system cash (Chart 1). Credit conditions are expected to remain favourable in the fourth quarter.

Chart 1: Household Credit Conditions



Source: Bank of Zambia

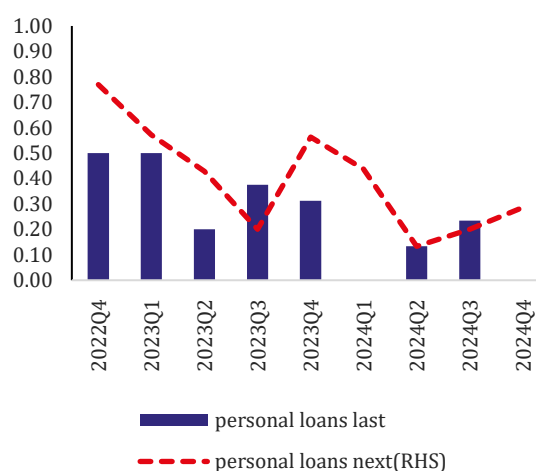
Note: Bars below zero mean loose, above zero tight and zero means unchanged.

### Credit Demand

*... remains high*

Demand for personal loans remained strong in the third quarter (Chart 2). The need to supplement income to meet personal expenses, mitigate persistently rising cost of living and procure alternative sources of energy supported demand.

Chart 2: Demand for Personal Loans



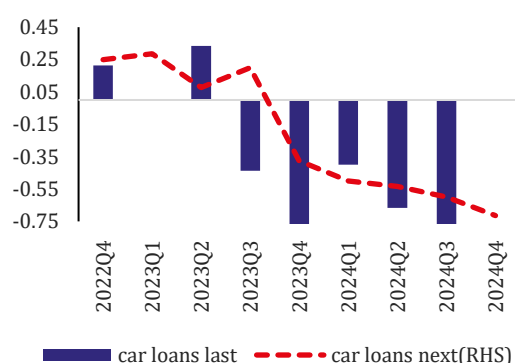
Source: Bank of Zambia

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

In the fourth quarter, strong demand for personal loans is expected to persist due to increased seasonal spending during the festive period and the need to supplement incomes to mitigate the high cost of living.

For the fifth consecutive quarter, demand for car loans remained low in the third quarter. This was mainly attributed to elevated prices of motor vehicles owing to the depreciation of Kwacha against major currencies (Chart 3). Respondents anticipate demand for car loans to remain low in the fourth quarter due to the persistent depreciation of the exchange rate.

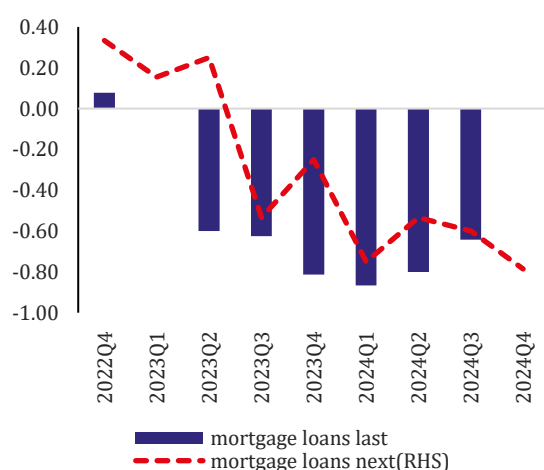
Chart 3: Demand for Car loans



Source: Bank of Zambia

Demand for mortgages also remained low during the third quarter due to the high cost of raw materials occasioned by a weaker exchange rate (Chart 4).

Chart 4: Demand for Mortgage Loans



Source: Bank of Zambia

Demand for mortgages is expected to remain low in the fourth quarter as the exchange rate is anticipated to

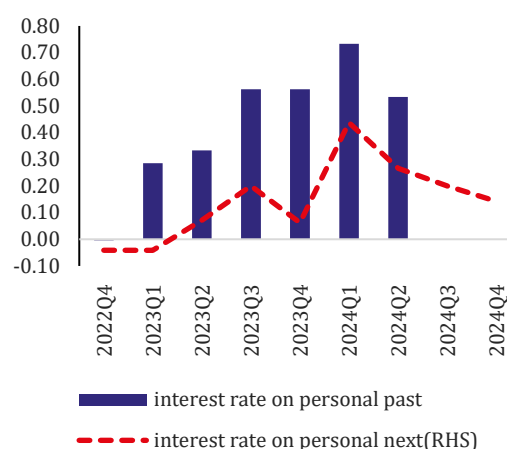
depreciate further and sustain high prices of raw materials.

## Cost of Credit

... unchanged

Lending rates are reported to have remained unchanged in the third quarter as the Policy Rate was maintained at 13.5 percent (Charts 5-7).

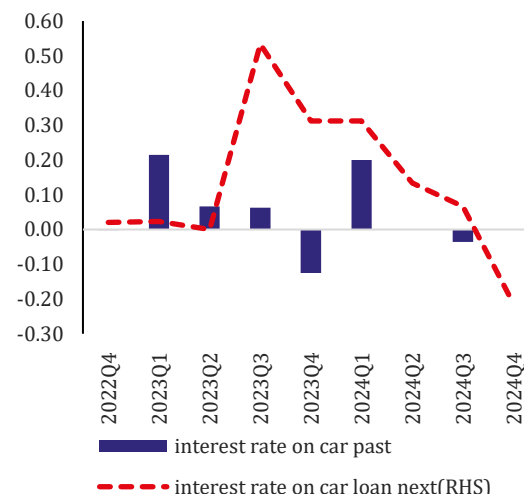
Chart 5: Interest Rate on Personal Loans



Source: Bank of Zambia

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

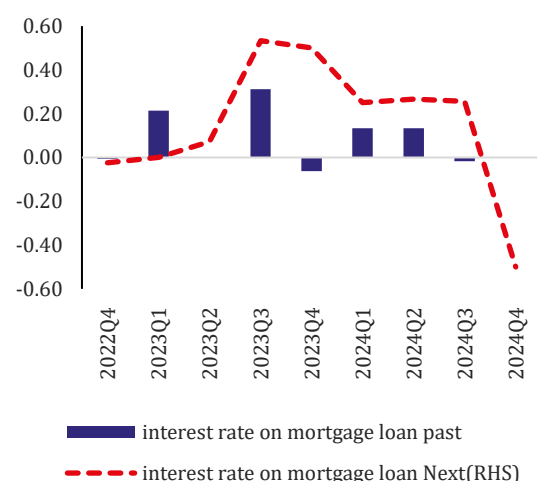
Chart 6: Interest Rate on Car Loans



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

In the fourth quarter, banks expect interest rates on personal loans to remain elevated in line with the Policy Rate. However, interest rates on mortgages and car loans may decline owing to reduced demand.

### Tenure and Collateral for Household Loans

*... no changes made to loan tenure and collateral requirements*

Loan tenures and collateral requirements for household loans were maintained in line with existing policy agreements with no changes anticipated in the fourth quarter.

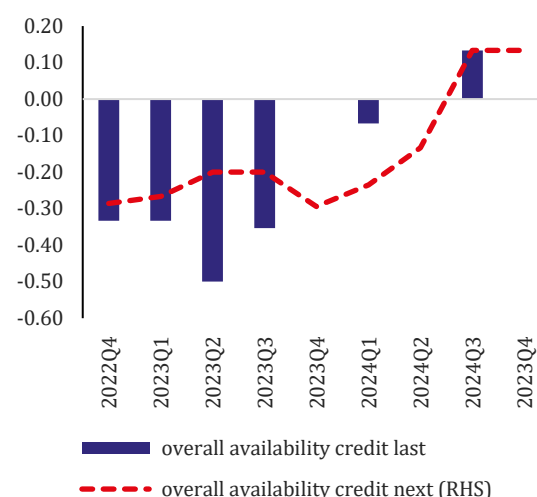
### III Small and Medium Enterprises Sector

#### Credit Conditions

*... tighten*

Most commercial banks reported tight credit conditions for SMEs as credit was diverted to households and large corporations owing to their high default rate (Chart 8).

Chart 8: SMEs Credit Conditions



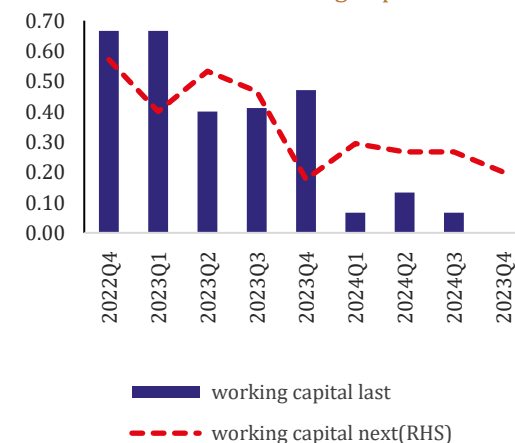
Source: Bank of Zambia

Commercial banks expect credit conditions to remain tight for SMEs in the fourth quarter as the Monetary Policy Rate is anticipated to rise.

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

Demand for working capital remained strong mostly driven by the need to procure alternative sources of energy and additional financing to support business operations amid rising costs on account of persistent inflation and elevated input costs due to a weaker exchange rate.

Chart 9: Demand for Working Capital



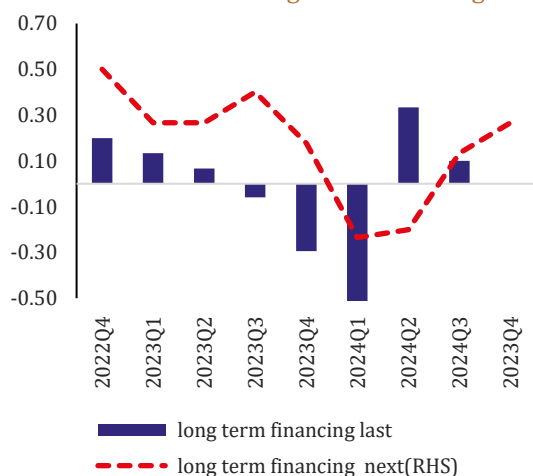
Source: Bank of Zambia



High demand for working capital is expected to be sustained in the fourth quarter to support business operations during the festive season and higher operating expenses associated with the depreciation of the Kwacha.

Likewise, demand for long-term financing increased during the quarter as businesses procured alternative sources of energy to mitigate sustained electricity shortages (Chart 10).

Chart 10: Demand for Long Term Financing



Source: Bank of Zambia

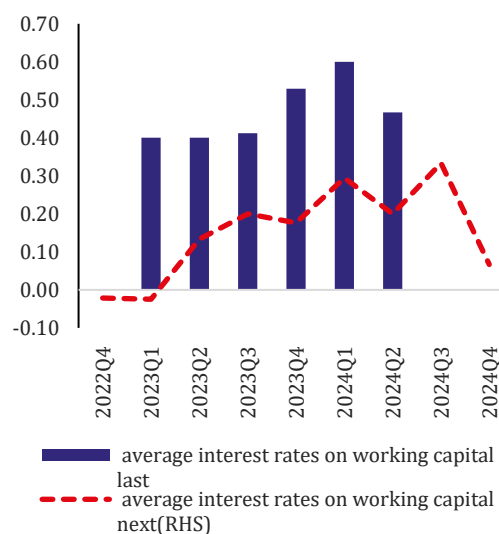
In the fourth quarter, banks expect high demand for long-term financing to be sustained due to rising operating costs.

## Cost of Credit

*... unchanged*

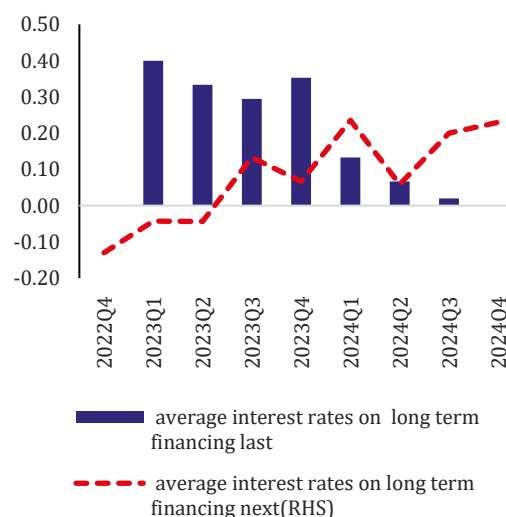
Lending rates for both working capital and long-term financing remained unchanged in the third quarter in line with the Policy Rate (Charts 11 and 12).

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 fourth quarter as monetary policy is expected to be tightened to contain persistently rising inflation.

## Tenure and Collateral for SMEs

*... no changes to loan tenures and collateral requirements*

No changes were made to loan tenures and collateral requirements consistent with prevailing policy guidelines. In the



fourth quarter, no changes are anticipated.

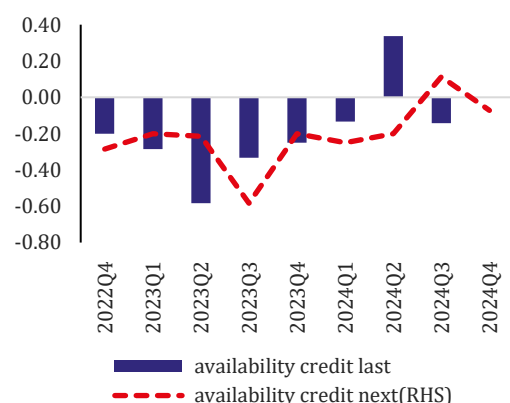
## IV Large Corporations Sector

### Credit Conditions

*... relatively loose*

Commercial banks reported relatively loose credit conditions for large corporations in the third quarter (Chart 13). Broadly, they expect credit conditions to remain relatively loose in the fourth quarter owing to improved liquidity in the market.

Chart 13: Credit Conditions Corporations



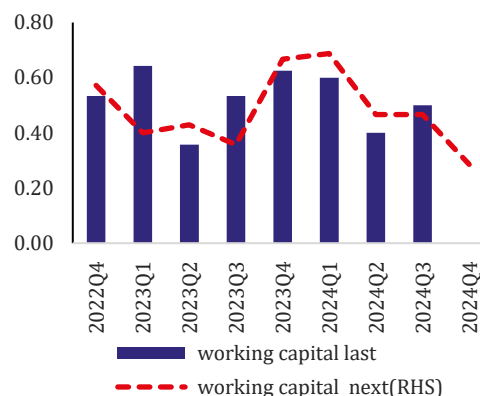
Source: Bank of Zambia

### Credit Demand

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

In the third quarter, demand for working capital by large corporations remained strong, with many seeking additional liquidity to procure alternative sources of energy as electricity shortages deepen (Chart 14).

Chart 14: Demand for Working Capital

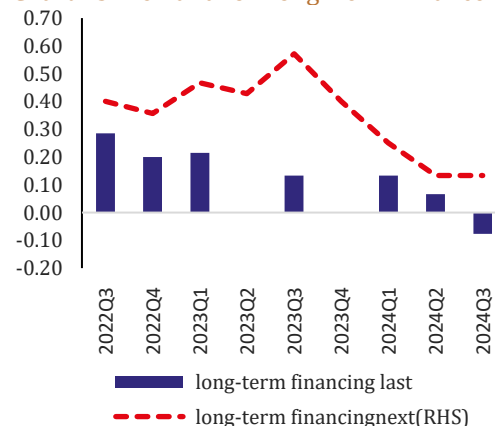


Source: Bank of Zambia

Commercial banks expect high demand for working capital to be sustained in the fourth quarter to meet high festive seasonal demand amid rising operating costs as the depreciation of the exchange rate persists .

Similarly, strong demand for long-term financing persisted in the third quarter to fund new projects, procure alternative sources of energy and support business operations amid rising costs.

Chart 15: Demand for Long-Term Finance



Source: Bank of Zambia

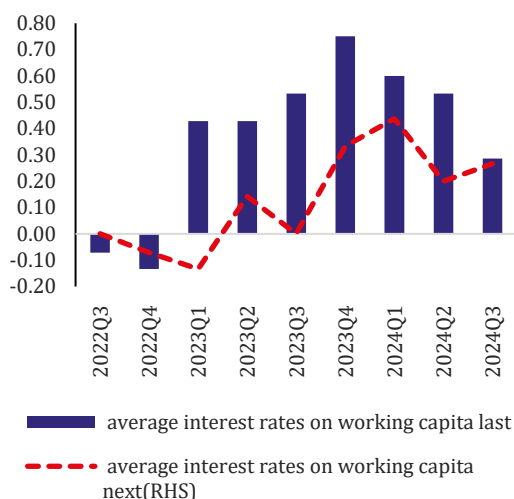
High demand for long-term financing is expected to be sustained in the fourth quarter as corporates utilise relatively more expensive alternative sources of energy and also finance new expansion projects.

## Cost of Credit

*... high lending rates for working capital and long-term financing persisted*

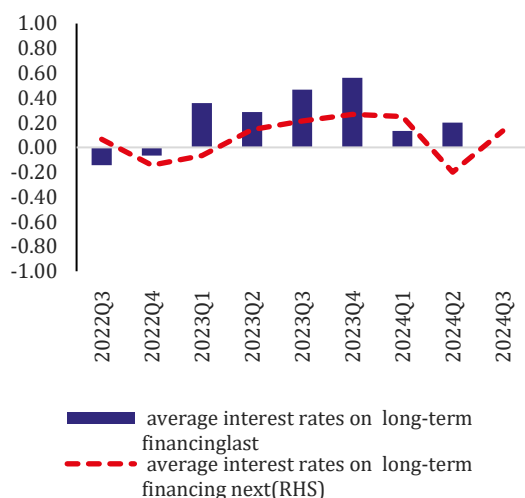
In the third quarter, banks reported elevated lending rates for working capital and long-term financing in line with the Police Rate (Charts 16 and 17). They expect high lending rates to be sustained in the fourth quarter on account of the anticipated tightening of monetary policy to curb persistent inflationary pressures.

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

*... 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 fourth quarter.

## 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.