HOUSEHOLD INDEBTEDNESS SURVEY REPORT

2022/23

BANK OF BOTSWANA

PURPOSE OF THE REPORT

This report summarises outcomes of a household indebtedness survey (the Survey) conducted by the Bank of Botswana (Bank) for the year 2022. The Bank undertakes surveys to augment official data sources for sound policy analysis and formulation. It is observed that commercial bank lending is highly concentrated in the household sector, and particularly on unsecured loans. This concentration has the potential to undermine financial and economic stability in the case of wide-spread employment losses. With a view to enhance understanding of household borrowing across the full spectrum of the financial system, the Bank conducts annual household indebtedness surveys covering banks, micro-lenders and hire purchase stores. The findings of the annual surveys help determine the structure and characteristics of household borrowing and to understand the extent of vulnerability of the financial system to household sector credit exposure. In turn, the findings potentially inform policy formulation, macroprudential policy action, as well as institutional frameworks and regulations to facilitate disciplined and beneficial access to credit and mitigate the risks associated with any rapid or excessive household credit growth or levels. Moreover, the survey helps to identify potential gaps in the market and thus inform product development as well as fill the enduring need for productive credit.

The report is further intended to contribute to the determination and implementation of macroprudential policies and tools, in general, to safeguard financial stability in line with the mandate of the Bank and support productive credit extension to spur sustainable economic growth. Furthermore, the survey results are also intended to serve as a public awareness tool for households to understand credit market trends, appreciate opportunities for optimising the benefits and cost of access to credit and to make informed decisions about their borrowing patterns and profile, based on a menu of credit products offered by financial institutions. This ultimately ensures informed financial management for households. At the same time, the survey is meant to be an information vehicle for credit providers to understand general trends in the household credit market in Botswana to inform business strategies and models, activities and identify potential areas of innovative financial products and services for financial inclusion and deepening of the credit markets. Overall, in the context of the broader objectives of financial inclusion and economic development, policy makers need to carefully balance the benefits and risks of household debt over various time horizons and economic cycles.

The analysis makes use of information gathered from nine commercial banks, fifteen micro-lenders and three large hire-purchase stores using an online survey. The Survey questions covered aspects on the outlook for the demand for credit; demographic characteristics of household borrowers; credit application processes; characteristics of the credit or loan book; cost of credit; quality of the loan book; as well as credit risk mitigation strategies.

Furthermore, the Survey covered the features of household debt, including debt-to-income ratios, debt service capacity and alternative sources of funding in 2022. The debt service ratio is a key parameter for assessing the capacity of households to meet their debt obligations in a sustainable manner. For purposes of this survey, household debt refers to a loan or credit acquired, or debt incurred for, among others, the purchase of assets such as owner-occupied residential property, commercial real estate, equipment, vehicles, intermediate and consumer services, and consumables. Households also incur debt for other miscellaneous uses, but interest rates, instalment payments, expectations regarding future income, and wealth affect their borrowing decisions.

The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank; and the Quarterly Multi-topic Household Survey conducted by Statistics Botswana.

1. Introduction

1.1. A general expansion in debt by households is supportive of economic growth and development, mainly through consumption spending and acquisition of high-value assets, such as property (land and housing) and other income-generating assets (for example, capital goods and private equity investing). However, there can be an increase in financial risks when increasingly higher rates of household credit growth are either unsupported by a commensurate increase in personal incomes or fail to generate sufficient wealth. Risks are especially elevated when financing conditions become unfavourable such as when interest rates or financing costs increase or when declining economic activity results in reduced employment and income earning opportunities; thus, adversely affecting the borrowers' ability to continue to sustainably meet repayment obligations.

1.2. The 2022 Survey was undertaken in the context of tightening financial conditions amid price pressures resulting from the consequences of the Russia-Ukraine war and global fragmentation on account of heightened geopolitical tensions, disrupting global payment systems and value chains. Central banks have been battling with balancing financial stability and price stability objectives amid heightened inflationary pressures and continued erosion of households' purchasing power due to both increase in prices and rising interest rates. Increasing policy rates by central banks globally, to contain inflation has, in turn, led to an increase in the cost of living and eroded household real incomes, with potentially adverse consequences on debt serviceability. Persistent inflation along with increased global uncertainty could also weaken economic growth prospects. This has the potential to dampen business sentiments with a negative outlook for employment, in turn. Overall, reduced real incomes could hinder access to, and affordability of credit as well as shape the credit profile of households in the medium term.

1.3. In general, in 2022 the domestic macroeconomic environment was characterised by relatively strong economic performance with real Gross Domestic Product (GDP) growth rate of 5.8 percent for 2022 compared to a growth of 11.4 percent in 2021. Inflation remained above the Bank's medium-term objective range in 2022, averaging 12.2 percent in 2022. Contributing to high inflation were the upward adjustments in administered prices and associated second-round effects; modest recovery in domestic demand resulting from the easing of containment measures due to deployment of effective COVID-19 vaccines; and the increase in foreign prices, particularly food and fuel prices, due to supply disruptions caused by the Russia-Ukraine war; as well as the resultant elevated inflation expectations. The Bank tightened the monetary policy stance during 2022 in view of projections of inflation likely to remain above the 3 – 6 percent objective range in the medium term, and the associated indications of entrenched expectations for higher levels of inflation. The Monetary Policy Rate (MoPR) was, therefore, increased by a cumulative 151 basis points to 2.65 percent in 2022 to anchor expectations for the desired low levels of inflation.

1.4. As at the end of December 2022, estimated total household debt was P58.3 billion, comprising P46.5 billion (79.8 percent) commercial bank loans, P11.7 billion (20.1 percent) micro-lender loans and P67.5 million (0.1 percent) being hire purchase loans. The total household loans have declined by 0.34 percent from the P58.5 billion recorded in December 2021. As a percentage of GDP, total household debt was 23.2 percent; a significant decline from the 29.9 percent reported in 2021. Furthermore, the results of the Survey show that households had debt-to-income and debt-service-to-income ratios of 58 and 60 percent, respectively.[1]

1.5. Consistent with the findings of past surveys, this survey also finds that most of the borrowing by households is by men and that persons aged between 30 and 49 years are relatively more indebted than other age groups.[2] At the same time, households earning between P9 000 and P25 000 account for most of the borrowing across commercial banks and micro-lenders. The Quarterly Multi-Topic Survey (QMTS) for December 2022 found that a higher proportion of men (48.1 percent) in the labour force, were employed compared to women, at 41.3 percent. This partially explains why a higher proportion of loans advanced are to men than to women. Nevertheless, it is necessary that the Bank and the Government, together with the private sector, continue to pursue policies and strategies that promote gender-balanced financial inclusion opportunities to support a sustainable and inclusive economic growth model.

1.6. The results of the survey show that commercial banks, micro-lenders and hire purchase stores viewed the demand for credit as moderate in 2022. The Survey further establishes that both banks and micro-lenders are optimistic about credit demand in 2023, at the back of anticipated household income growth and positive economic growth prospects.

1.7. The remainder of the Survey report is organised into three sections. Section 2 describes the methodology used in conducting the Survey while Section 3 discusses the findings of the Survey. Section 4 concludes the report.

2. Methodology

2.1. The Survey employed an online platform or questionnaire to collect the primary data from nine commercial and, fifteen micro-lenders and two big hire-purchase stores. The Survey questions covered aspects on the outlook for the demand for credit; demographic characteristics of households; credit application processes; characteristics of the loan book; and credit risk strategies relating to household debt. The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank of Botswana (the Bank) and the QMTS conducted by Statistics Botswana.

2.2. Overall, the Survey response rate was satisfactory; all commercial banks and the biggest fifteen micro-lenders[3] responded. With only fifteen micro-lenders responding, the response rate in terms of the number of reporting micro-lenders was significantly low at only 15.5 percent. However, it is important to note that the fifteen micro-lenders constitute more than 95 percent of total micro-lending and the remainder are small

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[1] In this survey, debt-to-income is computed as debt divided by gross net income where gross net income is defined as gross monthly income minus tax and pension deductions. Debt-service-to-income ratio is defined as debt divided by monthly disposable income where disposable income is computed as gross net income minus other loan service commitments (or other recurring monthly payments).

[2] For the entirety of this report, borrowing or loans refer to borrowing or loans by Pula value.

[3] The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) annual report for 2022 indicates that there was a total of 97 reporting micro-lenders.

players who do not significantly influence the market. For hire purchase stores, the two respondents were representatives of group companies owning a wide range of stores in Botswana, but we were not able to ascertain how many stores they own in total. Statutory Banks did not respond to the survey. It is important that this is remedied given that statutory banks are an important channel for implementing government development and inclusion programmes that require continuous evaluation for impact.

3. Analysis of Results

3.1. This section summarises the outcomes of the responses from the participants; however, more detailed information provided is for banks due to their dominance in total household lending.

(a) Demographic Characteristics of Household Borrowers

3.2. The Survey results show that a bigger proportion of the loan portfolio for banks by value is held by males aged between 36 and 49 years, while females aged less than 25 years have a larger share of indebtedness to micro-lenders (Figure 1.1a and 1.1b). The results further indicate that, on aggregate over half of the loans are to customers aged above 31 years[4]. Looking at the distribution of loan accounts, the data shows that males and females generally have a similar taste for unsecured loans and credit card advances. At the same time, females are more inclined to obtaining mortgage loans while males have stronger taste for motor vehicle purchasing loans.

3.3. For micro-lenders, the obtained data shows that personal loans dominate micro-lenders portfolio at 96.7 percent of total micro-lender lending.

[4] This is consistent with the levels of employment across age groups, where those aged less than 30 years make up 24.3 percent of total employed population, according to the Quarterly Multi-Topic Survey for the fourth quarter of 2022.

Distribution of Loans by Gender by Age Group, and by Income Groups

The composition of household loans by gender and age group is markedly different for banks and micro-lenders

Figure 1.1a: Household Bank Loans by Gender and Age Group

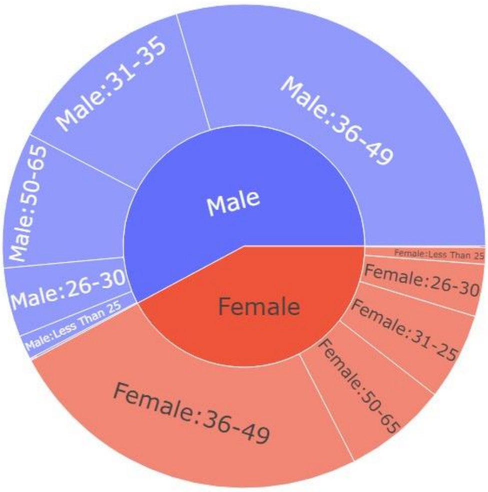


Figure 1.1b: Household Microlender Loans by Gender and Age Group

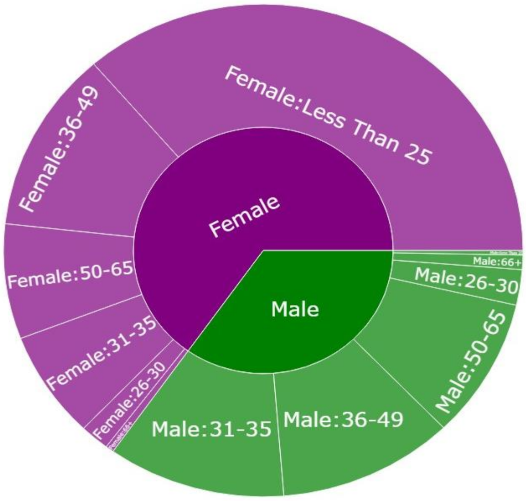


Figure1.1c: Household Bank Loan Accounts by Gender and Category

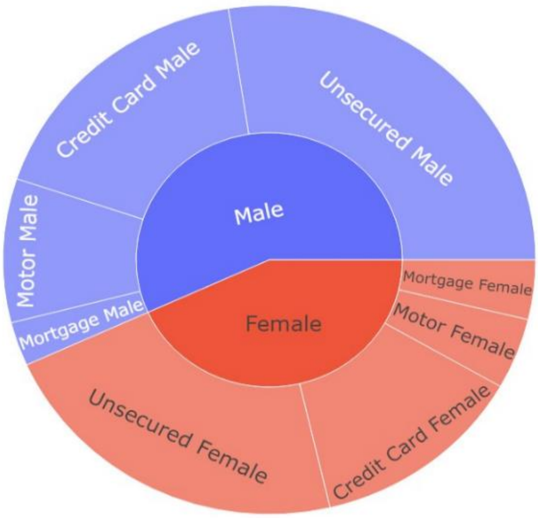
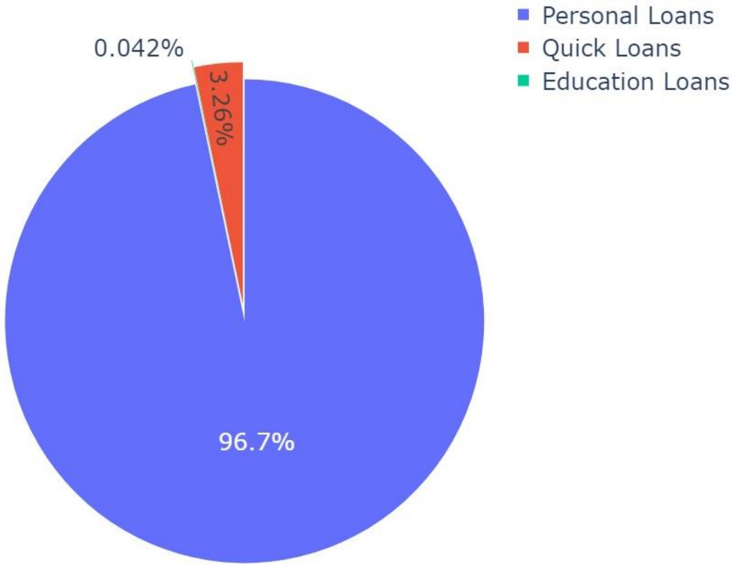


Figure 1.1d: Microlender Loans by Loan Category



3.4. A breakdown of household borrowing by income groups shows that banks and micro-lenders lend mostly to clients with average monthly earnings between P9 001 and P15 000, followed by those earning between P15 001 and P25 000 (Figure 1.2a and b). Overall, the distribution of loans by income groups for banks shows that access to credit is skewed towards higher income earners. On the other hand, the distribution of loans by income groups for micro-lenders is skewed towards those earning lower income.

Distribution of Loans by Income Group

Bank loans are more concentrated on higher income earners while micro-lender loans are more on the low income bands

Figure 1.2a: Total Bank Loans by Income Group

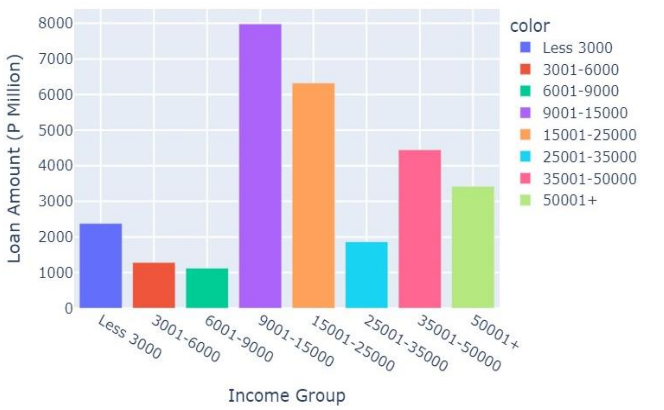
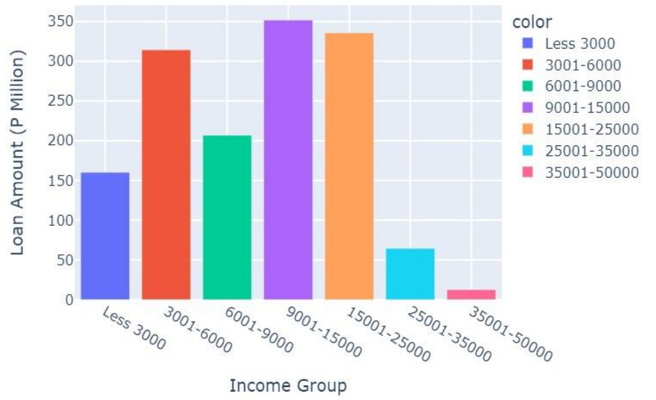


Figure 1.2b: Total Micro-lender Loans by Income Group



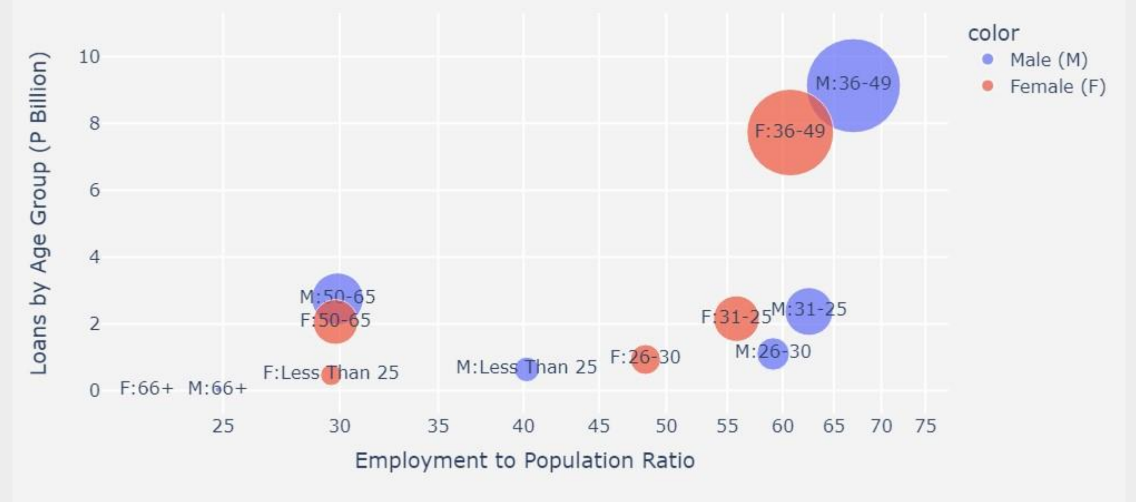
3.5. Consistent with the distribution of loans by age group, the QMTS of December 2022 shows that the majority of employed people are aged between 31 to 49 years. At the same time, those aged between 50 to 65 years have a lower employment ratio, but relatively higher amount of loans compared to those aged less than 25 years (Figure 1.3a). Perhaps the older cohort has accumulated wealth that improves their debt capacity and borrowing ability. Furthermore, the results show that both males and females aged between 26 and 30 years are underemployed with an employment to population ratio of 55 percent. In turn, this age group has significantly lower loans with banks than other age groups in the labour force[5]. However, micro-lenders mostly lend to females aged less than 25 years old (Figure 1.3b). This dynamic could reflect potential financial exclusion of young females, who are unemployed but actively participating in the economy, but constrained by lending criteria of commercial banks that require assured sources of income for repayment. However, a possible downside is that young females are taking on micro-lender loans to augment their incomes/consumption with the potential to start a life-long vicious cycle of indebtedness.

[5] Statistics Botswana defines the labour force as people aged above 15 years old and are seeking employment and are capable of working.

Distribution of Loans by Gender and Age Group vs. Employment Ratio

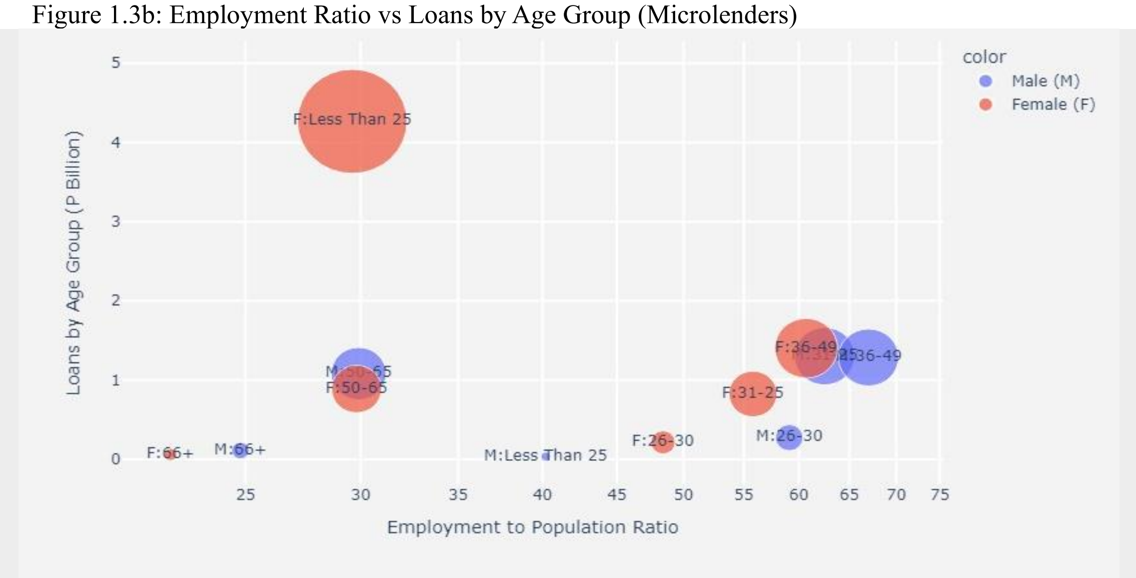
Females and males aged 36 - 49 years have the most loans from banks and are the most employed

Figure 1.3a: Employment Ratio vs Loans by Age Group (Banks)



Females aged less than 25 years old have the most loans with micro-lenders but have the lowest employment ratio

Figure 1.3b: Employment Ratio vs Loans by Age Group (Microlenders)



3.6. Looking at distribution of loans by employment, Banks have the highest amount of loans with government employees, while micro-lenders lend mostly to private sector employees and the unemployed (Figures 1.4a and 1.4b). This is indicative of some level of risk-aversion in the banking sector as banks lean more towards safer loans to government employees, most of which are scheme loans and have deduction from source payment arrangements. Furthermore, information obtained from banks show that private sector employees have the highest number of loan accounts even though they have a significantly smaller proportion of loans by value compared to government employees. This shows that private sector employee bank loans are spread across many customers and the diversity tends to alleviate potential credit losses in case of widespread private sector stress.

3.7. The Survey finds that of all total household loans, an average of 57 percent are scheme loans, and 63 percent have deduction from source arrangements. Overall, commercial banks outcompete micro-lenders for lending to public sector employees. Furthermore, female government employees have most loans with banks. However, it is expected that micro-lenders target the micro-finance sector supporting small and medium businesses, and thus, lend to unemployed and private sector customers. Overall, there is diversity in lending by micro-lenders, while banks' lending is concentrated on government employees. Therefore, even though the public service is considered safest in the labour market, this concentration exposes banks to potential fiscal and external vulnerabilities emanating from shocks to global demand for Botswana's exports in times of stress. However, this risk is considerably low judging from the absence of widespread employment losses by government employees in the past, amidst the adverse and severe shocks faced by the economy. Notwithstanding, fiscal challenges could entail restrained wage increases that in time could moderate real disposable incomes that could affect loan repayments and access to credit.

Distribution of Loans by Gender and by Employment

Micro-lenders lend mostly to private sector employees and the unemployed, while banks lend more to government employees

Figure 1.4a: Household Microlender Loans by Gender and Employment (Micro-lenders)

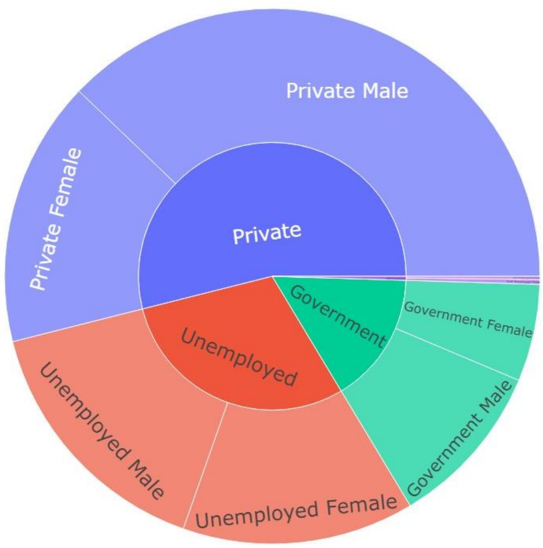
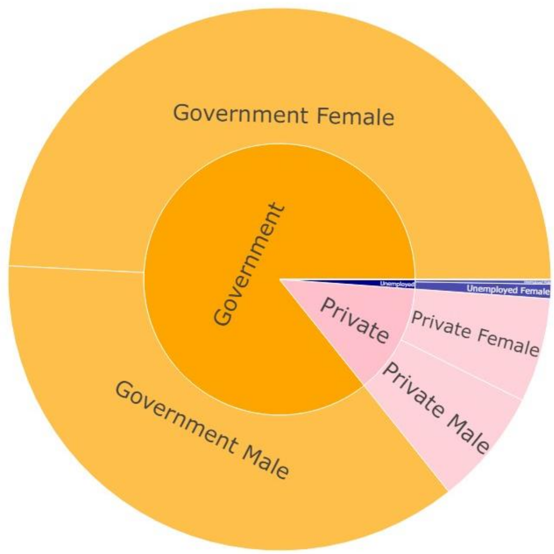


Figure 1.4b: Household Bank Loans by Gender and Employment (Banks)



(b) Factors Driving Credit Growth

3.8. Banks were asked to state the potential demand and supply factors affecting credit extension. All the banks indicated that the state of the economy and funding costs were the most prominent drivers of credit growth, followed by growth in household income and the risk appetite of the banks (Figure 1.5a). Other factors driving credit extension in 2022 were credit supply and market share objectives of the banks, involving a desire to increase the proportion of household loans in their portfolios. For 2023, banks stated that the anticipated increase in household income and an increase in their risk appetite are expected to drive credit growth, supported by a healthy economy (Figure 1.5b). Funding costs will also be important for the banks' intermediation objectives.

Credit Growth Drivers

Funding costs, household income and economic prospects are prominent drivers of credit growth

Figure 1.5a: Factors Driving Credit Growth in 2022

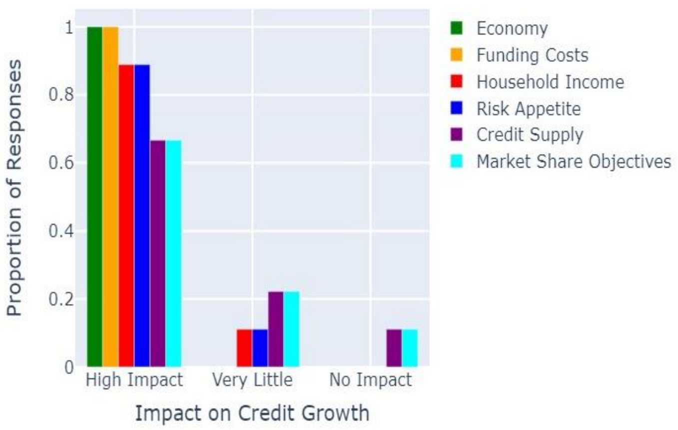
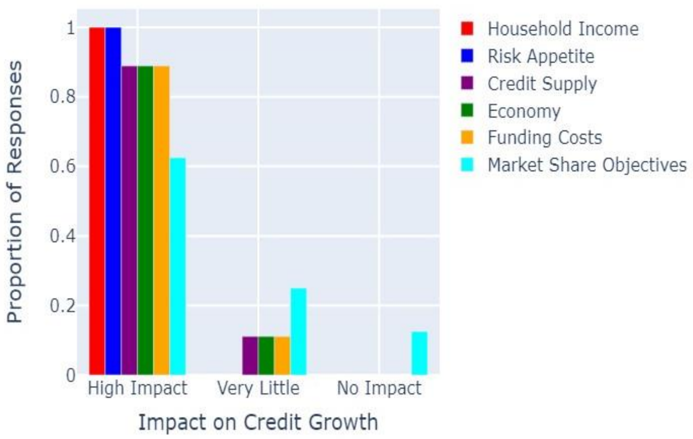


Figure 1.5b: Factors Driving Credit Outlook in 2023



(c) Credit Application Process

(i) Documents Required During Application for Credit

3.9. At loan origination, all credit providers generally require bank statements, proof of residence, proof of identification, payslip, marriage certificate (and Form B, to determine the type of marriage) and references (Figure 1.6a). The loan requirements are largely similar across the financial institutions, and for different types of loans. Proof of sources of income and bank statements requirements feature more prominently across different loan categories followed, by proof of identity and residence, and marriage certificate[6]. Requirement for references is not as prominent as the other requirements.

3.10. Furthermore, banks consider other sources of income in addition to or as an alternative to salary income. Eight out of nine banks stated that they consider salary income for mortgages, unsecured loans and credit card applications, while seven banks consider salary income for motor loans. Looking at other sources of income, banks consider rental and investment income, as well as property presented as collateral (Figure 1.6b). In general, less than half of the banks consider other, unspecified, sources of income when considering credit applications.

6 Note that banks do not require proof of identity for customers who already fully meet the Know Your Customer compliance requirements.

Documents for Loan Applications

Bank statements are required for every loan application and salary income is the most considered source of income

Figure 1.6a: Document Requirements

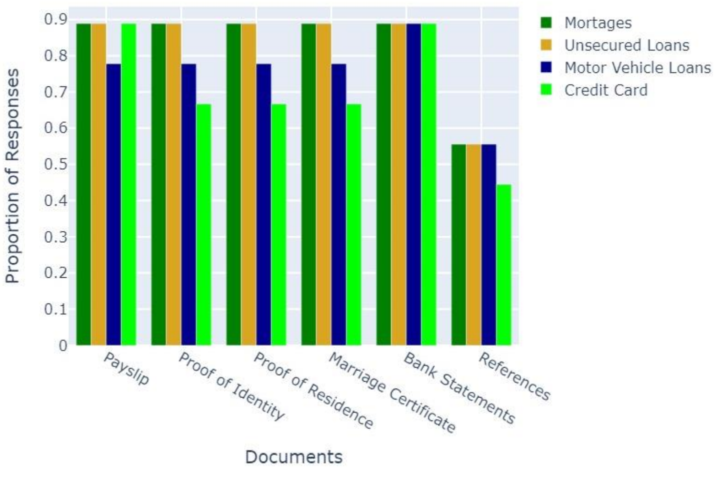
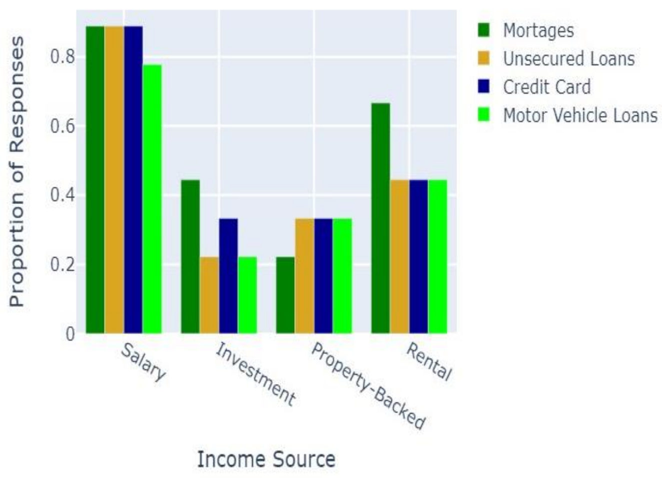


Figure 1.6b: Income Considered for Loan



(ii) Assessment of Credit Risk

3.11. Banks use a variety of criteria and metrics to assess potential credit risks at loan origination. These include credit bureau checks, debt-to-income and loan-to-value (LTV) ratios, financial statements and income and expenditure prospects of the borrower, the industry and the economy (Figure 1.7a). Banks further use credit scoring models and check credit and default records including bankruptcy records and utility bills in arrears (Figure 1.7b). Evidently, banks employ robust credit risk assessment tools to minimise credit losses and support productive lending to creditworthy households.

3.12. The Survey revealed that majority of applications for loans classified as other were rejected in 2022 and that classification of loans had more loan rejections than applications, possibly reflecting spillovers from 2021 (Table 1). At the same time, the number of motor vehicle loans rejected were also more than the loans applied for by customers [7]. This, however, is adjudged to have been due to spillovers from 2021 as there were motor vehicle loans approved amounting to P677 million in 2022. The reasons for rejection of the applications included mismanagement of personal banking accounts, over-indebtedness as indicated by high debt-to-income and debt-service-to-income ratios, rejection of assets presented as collateral and failure to meet minimum employment requirements (6 months of continuous employment with one entity). In total, 12 percent of total loan applications were rejected in 2022, the majority of which were credit card and other unclassified loan applications. On the other hand, mortgage loans had the highest approval rate at 92 percent followed by unsecured personal loans and credit card applications at 82 percent and 81 percent, consecutively.

[7] The review of loan applications is a rigorous process that can sometimes lead to loans applied for in one year being rejected the following year. This is particularly relevant for loans that involve revaluation of assets and other associated considerations.

Credit Risk Assessment by Banks

Banks perform extensive credit risk assessment at loan origination

Figure 1.7a: Loan Application Assessment

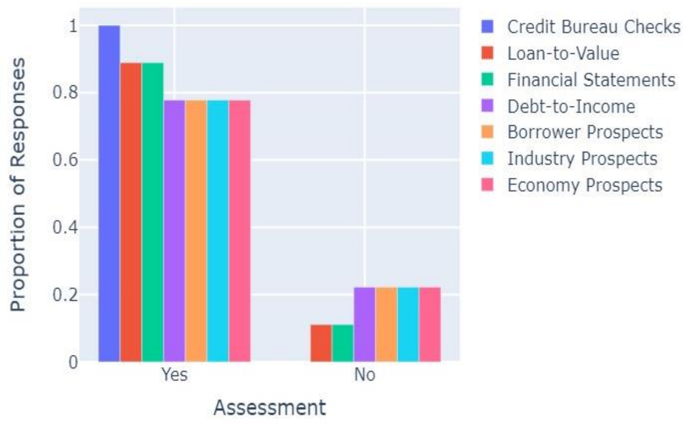


Figure 1.7b: Credit Risk Assessment

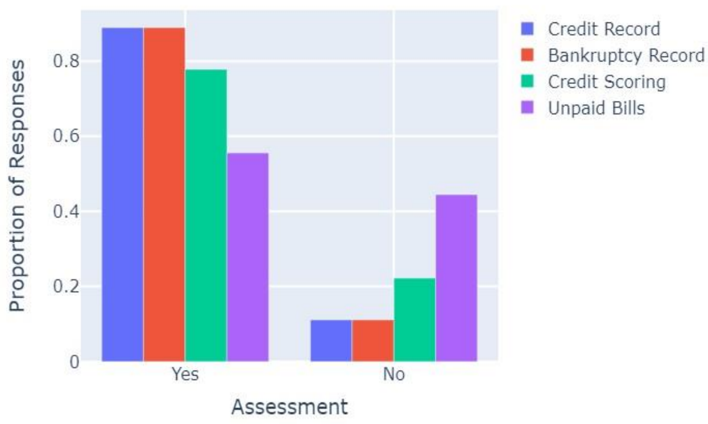


Figure 1.7c: Approved to Rejected Loans

Table 1: Total Loan Applications and Rejections

	2021		**2022**	
	Total	**Rejected**	**Total**	**Rejected**
Mortgage	4 232	288	1 817	154
Vehicle	3 589	143	1 217	1 231
Personal	82 688	12 838	72 360	12 828
Credit Cards	11 725	1 419	6 651	1 267
Other	3 140	560	276	749
Aggregate	105 374	15 248	41 596	9 726

3.13. The Survey shows that mortgage loans in Gaborone and surrounding areas are more attractive for banks, with average of maximum LTVs at of 97.5 percent, while other areas have maximum LTVs with an average of 88 percent in 2022. On a product basis, banks' total mortgage loan portfolios have their maximums' average LTV at 92.8 percent and a lowest ratio of 44.5 percent in the same period (Table 2). The most extreme LTV ratio was recorded at 105 percent.

Table 2: Loan-to-Value Ratios (in Percent)

	Total LTVs	*Greater Gaborone[8] LTVs*	*Other Areas[9] LTVs*
Minimum	44.5	52	37
Maximum	92.8	97.5	88.1

(d) Characteristics of the Loan Book

(i) Quality of the Loan Book

3.14. Banks generally had low default rates in 2022, with the non-performing loans (NPLs) to total loans ratios ranging from 1 percent to 7.3 percent. Most of the banks assessed the default rates for 2022 to be medium (Figure 1.8a and 1.8b) with slight improvements expected in 2023. The optimism surrounding household loan performance is due to anticipated increases in household income and increasing economic activity due to new government projects. The implementation of the Transitional National Development Plan is also expected to add impetus to these growth and economic transformation prospects.

Default Rates

Default rates were moderate in 2022 and they are expected to remain moderate in 2023

Figure 1.8a: Default Rates By Commercial Bank in 2022

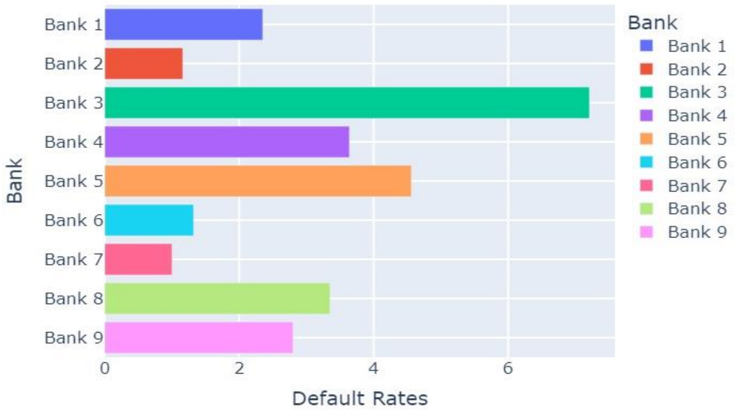
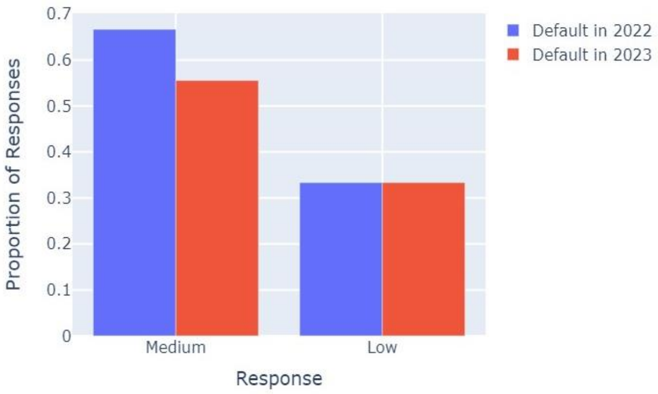


Figure 1.8b: Default Rate in 2022 and 2023 Outlook



3.15. Statutory data obtained from banks in December 2022 showed that household credit dominated total lending by commercial banks at 65.3 percent in December 2022. In the household loans sector segment, personal or unsecured loans made up 73.5 percent of total household loans. In terms of asset quality, household loans had a moderate NPLs

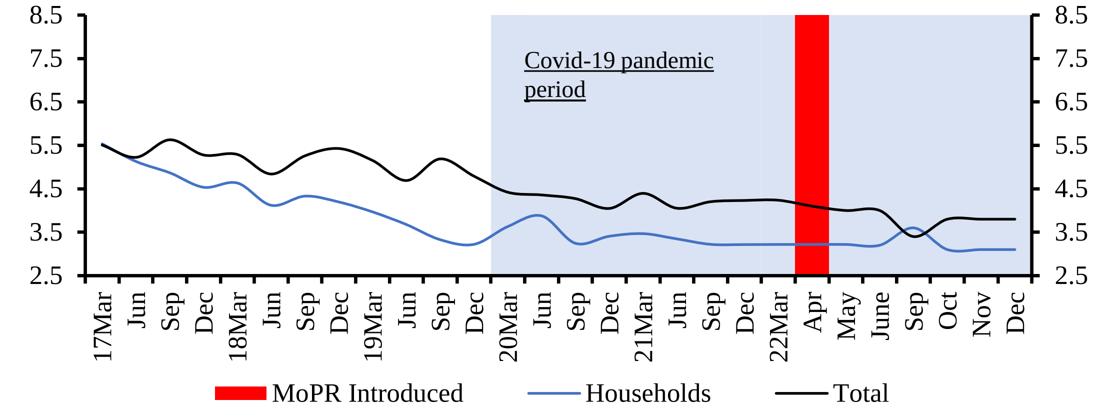
8 Greater Gaborone includes Gaborone City, Tlokweng, Gabane and Mogoditshane Villages.

9 "Other areas" refers to areas not in Greater Gaborone; the rest of the country.

ratio of 3.1 percent in December 2022 (see Figure 1.9)[10]. Figure 1.9 also shows that the total NPL ratio has closely followed the household NPL ratio over the last five years. This is explained by the dominance of household borrowing in banks' portfolios.

3.16. The data further shows that there was no upward surge in loan losses due to the COVID-19 pandemic as the household NPL ratio continued to trend downwards. This trend attests to the efficacy of a combination of relief measures implemented by the Bank, the government and financial institutions to cushion households from the adverse impact of the pandemic including reducing interest rates, income reliefs, loan moratoria and, to some extent, sound underwriting standards by the industry.

Figure 1.9: Household and Total NPL Ratio (Percent)



(ii) Servicing of Debt by Households

3.17. All surveyed financial institutions, except hire purchase stores, indicated that they have deduction from source loan repayments while all banks have debit payment arrangements with households. The survey also requested the banks to indicate if they have electronic fund transfer or cash deposits loan payment arrangements. 60 percent of the banks confirmed that they have electronic transfer payments arrangements while only 20 percent have cash deposit loan payment agreements. The results further show that 63 percent of total household bank loans have deduction from source arrangements, while micro-lenders did not indicate the proportion of deduction from source loans. Figure 1.10a shows the kind of payment arrangements available at the banks. Figure 1.10b further reveals that household loans are generally not concentrated, with most household borrowers having only one loan commitment.

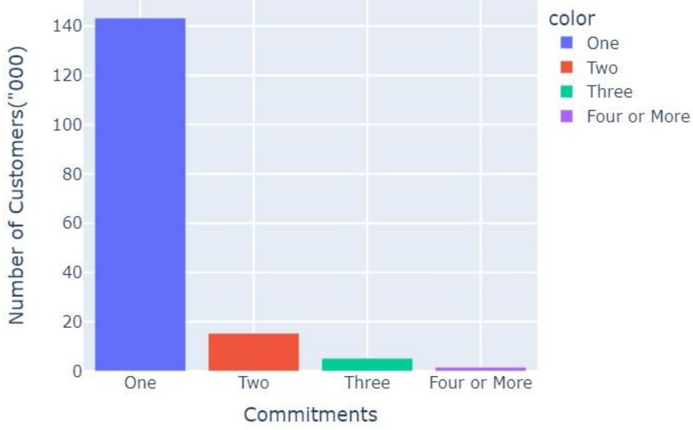
10 The chart also shows the introduction of the Monetary Policy Rate (MoPR) as the Bank of Botswana's monetary policy anchor rate in April 2022.

Loan Repayment Arrangements

Banks accept a variety of loan repayment arrangements and most customers have only one loan commitment

Figure 1.10a: Loan Repayment Methods

Figure 1.10b: Loan Commitments Per Customer



3.18. Data reveals that the household's debt-to-income (DTI) averaged 58 percent while the household's debt-service-to-income (DSTI) ratio averaged 60 percent, both with floors at zero percent. The shallow range of the two measures suggest that there are similarities in the components of income that are considered in the computation of gross net income and disposable income. This is also consistent with the finding that most households have one loan commitment such that only tax and pension contributions payments are deducted in the calculation of both the gross net income and disposable income at loan origination.

3.19. Most countries use the DTI as the primary measure of household indebtedness and the results of the Survey show that households in Botswana are less indebted compared to other countries. For example, South African households had a DTI of 62.8 percent in 2022 while Namibians had a DTI of 69.5 percent. Furthermore, most jurisdictions consider DTIs and DSTIs to be astute macroprudential tools. In application, the Financial Stability Council (FSC) can lower the DSTI and DTI limits when household credit is adjudged to be a threat to financial stability or increase it to induce productive and sustainable credit extension. As at the end of December 2022, the credit-to-GDP gap, a credit risk build-up indicator produced by the FSC, showed that there was no significant threat to financial stability from credit growth, and that there was room for sustainable and productive credit extension to support economic growth[11]. As such, there was no need to adjust credit related macroprudential tools, however, continuous monitoring is necessary to ensure prompt and decisive response to any excessive and rapid build-up of unsustainable credit, overall or sectoral.

(iii) Cost of Credit to Households

3.20. Interest rates charged on hire purchases reduced from an average of 29 percent in 2021 to an average of 27 percent in 2022. In addition, hire purchase stores charged late payment fees, application and insurance fees, which tends to increase the cost of

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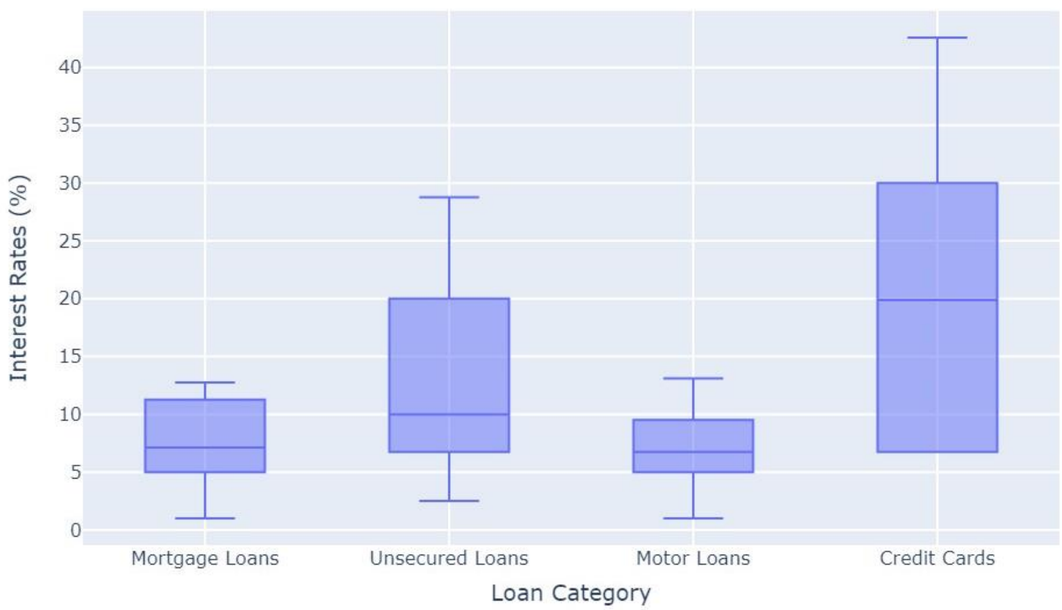
11 See May 2023 Botswana Financial Stability Report: https://www.bankofbotswana.bw/sites/default/files/publications/Financial%20Stability%20Report%20May%202023.pdf

instalment credit. For micro-lenders, interest rates charged on household loans reduced from 29 percent per annum in 2021 to an average of 27 percent in 2022.

3.21. Banks were asked to provide information on interest rates charged for different categories of loans i.e., mortgages, motor vehicle loans, unsecured loans, and credit card loans. Data shows that interest rates for mortgage and motor vehicle loans have narrow distributions with reported rates crowded around the mean and median of the values (see Figure 1.11). At the same time, the reported interest rates for mortgages and motor loans have lower maximum values at 12.8 percent and 13.1 percent, respectively. On the other hand, lending rates for unsecured and credit card loans have wide distributions with a range of 26.3 percent to 35.8 percent, respectively. Overall, credit card loans are the most expensive, with a maximum lending rate of 42.6 percent followed by unsecured loans with a maximum of 28.8 percent.

Figure 1.11: Average Interest Rates



3.22. Banks also imposed different types of charges, such as administration, arrangement, processing, documentation, insurance fees, collection, facility and valuation fees on loans extended or considered. Some banks had early repayment penalty and credit reference or clearance fees. These fees were either proportionate to the loan amount (ad valorem) or fixed.

(e) Banks' Lending Strategic Focus

3.23. Lending strategies adopted by banks during 2022 were mainly geared towards growing the loan book and retaining existing customers; enhancing access to lending products through digitalisation and its related low tariffs; lending through scheme arrangements; and targeting low-income earning customers through campaigns; and prudent lending through strict evaluation of potential borrowers.

(f) Demand for Credit in 2022 and 2023 Outlook

3.24. The results of the Survey show that 62 percent of banks and 67 percent of micro-lenders found credit demand to be moderate in 2022, while 62 percent of banks and 53 percent of micro-lenders expect credit demand to be high in 2023 (Figure 1.12a to 1.12d). Overall, participating financial institutions anticipate that credit demand will increase in 2023, buoyed by improved economic growth prospects and anticipated increase in household income. Anticipated increases in household earnings are in the light of the government's commitment to adjust public sector wages upwards by a cumulative 10 percentage points over the financial years 2022/23 and 2023/24.

Credit Demand in 2022 and 2023 Outlook

Credit demand is expected to improve in 2023

Figure 1.12a: Credit Demand in 2022 (Banks)

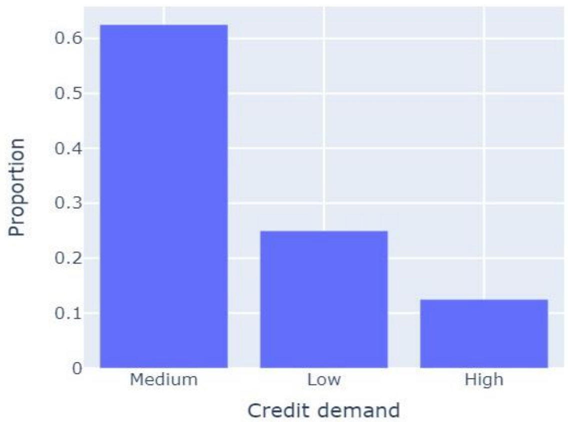


Figure 1.12b: Credit Demand in 2022 (Micro-lenders)

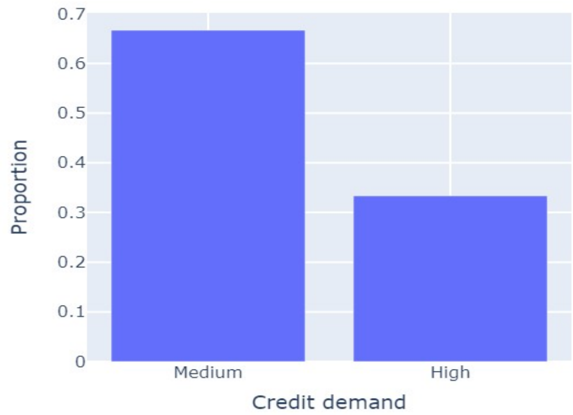


Figure 1.12c: Credit Outlook for 2023 (Banks)

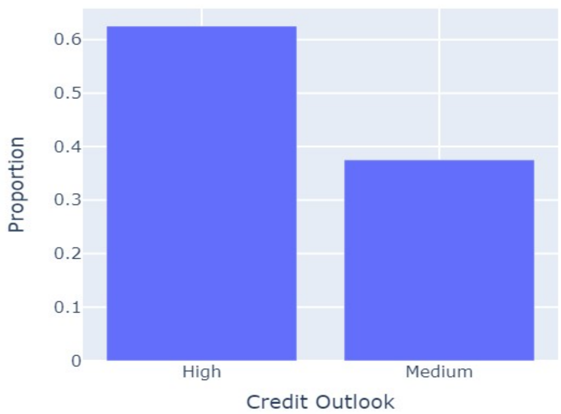


Figure 1.12d: Credit Outlook for 2023 (Micro-lenders)

(g) Credit Risk Mitigation

3.25. The surveyed financial institutions indicated that they have a variety of credit risk mitigation tools to safeguard their balance sheets against potential loan losses resulting from death, loss of employment and loan delinquencies. At loan origination, the institutions conduct extensive credit worthiness checks and use a variety of insurance products to guard against credit losses including credit life policies, mortgage protection and retrenchment insurance. Banks also use personal guarantees and have asset-backed financing products.

4. CONCLUSION

4.1. This Survey identifies trends in household borrowing to inform policy decisions and design and implementation of appropriate macroprudential responses to support productive lending to the household sector. To understand and identify these trends, the Bank surveyed commercial banks, micro-lenders, and hire purchase stores. In addition, the survey collected information on aggregate loan trends from credit bureaus. The Survey shows that banks dominate lending to households at 79.8 percent followed by micro-lenders at 20.1 percent of total household loans. The results further shows that males aged 36 to 49 years have the most loans from banks, while females aged less than 25 years are the prominent customers for micro-lenders.

4.2. Looking at household borrowing by employment, the Survey reveals that banks lend mostly to government employees, while micro-lenders lend mostly to private sector employees and the unemployed. In general, levels of indebtedness are consistent with the level of employment across age groups, except for females who are aged less than 25 years who have highest loans from micro-lenders while, at the same time, having the lowest employment ratio. Furthermore, banks lend mostly to government employees who are considered safer borrowers, with deduction from source arrangements and scheme loans. It is apparent that government employees are taking scheme loans to mitigate high costs of unsecured lending through collective bargaining power. The survey shows that credit card loans are the most expensive followed by unsecured loans which form the bulk of total household borrowing.

4.3. To mitigate credit risks, banks undertake rigorous credit risk assessments at loan origination, including assessing relevant documentation and sources of income. This has resulted in a significant number of loans rejected over the 12 months in 2022, while mortgages, especially for the Greater Gaborone area, are most attractive to banks.

4.4. In general, the domestic macroeconomic environment is expected to remain conducive for financial stability and to support productive borrowing by households in 2023. Credit providers, in general, anticipate that credit demand will increase in 2023, on account of an improving economic outlook.