HOUSEHOLD INDEBTEDNESS SURVEY REPORT

2023 | 2024

PURPOSE OF THE REPORT

This report summarises outcomes of a Household Indebtedness Survey conducted by the Bank of Botswana (Bank) for the year 2023/24. The Bank undertakes the survey to augment other official data sources for sound policy analysis and formulation. Borrowing by the household sector is a significant component of lending by commercial banks and other institutions; thus, a key aspect of monetary policy framework and transmission and important for economic activity. However, it is critical that lending and credit profile is in the context of appropriate risk management frameworks, legal and regulatory compliance, as well as policy setting and priorities. This is critical to, on the one hand achieve beneficial, sustainable and productive use of credit and financial inclusion and, on the other hand to safeguard soundness of financial institutions and, broadly, financial stability. As such, the Bank conducts the annual household indebtedness survey covering banks, micro-lenders and hire purchase stores to identify, assess and monitor credit developments in the household sector. The annual survey helps to determine the structure and characteristics of household borrowing, potential impact on economic activity, as well as risks and vulnerabilities of the financial system to household sector credit. The findings are used to inform financial sector policy development, as well as regulatory and macroprudential policy formulation and implementation to both support productive credit extension to spur sustainable economic growth and to safeguard financial stability in line with the mandate of the Bank. The Survey, therefore, helps to inform the development of institutional frameworks and regulations to facilitate disciplined and beneficial access to credit and mitigate the associated risks.

Moreover, the survey helps to identify potential data gaps in the market to inform remedial responses by the Bank, while also serving as a public awareness tool for households and also generally providing market information. The information enables households to appreciate opportunities for optimising the benefits and cost of credit products offered by financial institutions and to make informed financial decisions, especially relating to borrowing. The survey also informs credit and other service providers about household credit trends that influence business strategies, models and activities. At the same time, financial institutions and emergent enterprises may use the information obtained from the survey to identify potential areas for inclusive and innovative financial products and services. Overall, for policy makers, in the context of broader financial sector development and financial stability objectives, the information is relevant for balancing the economic opportunities and risks of household debt to ensure financial deepening and inclusion without endangering the financial system.

The survey uses information from nine commercial banks, fifteen micro-lenders and three large hire-purchase stores collected using an online questionnaire. The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank as well as the Quarterly Multi-Topic Survey conducted by Statistics Botswana. The Survey questions covered the demographic characteristics of household borrowers; credit application processes; characteristics of the credit or loan book; cost of credit; quality of the loan book; credit risk mitigation strategies; and the outlook for the demand for credit.

Furthermore, the survey covered the features of household debt, including the debt-to-income ratio, debt service capacity and alternative sources of funding in 2023/24. The debt service ratio is a key parameter for assessing the capacity of households to meet their debt obligations in a sustainable manner. These elements are also considered in the context of prevailing measures of market conditions, such as interest rates, instalment payments, expectations regarding future income and wealth, which affect household's borrowing decisions. 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 residential property, commercial real estate, equipment, vehicles, household durables and furniture, and the acquisition of consumer goods and services and other miscellaneous uses.

1. INTRODUCTION

1.1 A general expansion in borrowing by households is welfare enhancing and supportive of economic growth and development. It facilitates acquisition of high-value assets, such as property (land and housing) and other income-generating assets (for example, capital goods) and consumption which supports the production and provision of goods and services by various industries (more beneficial if it is by domestic firms). However, financial risks can emerge when increasingly high rates of household credit growth are either unsupported by a commensurate increase in income earning opportunities (as generated by high rates of inclusive economic growth), personal incomes or fail to generate sufficient returns or wealth. In turn, risks can be elevated when financing conditions become unfavourable, such as when interest rates or financing costs increase or when declining economic activity results in widespread loss of employment and income earning opportunities, thus, adversely affecting repayment capacity.

1.2 In the first half of 2023, central banks globally battled with balancing financial stability and price stability objectives amid heightened inflationary pressures at the beginning of 2023. At the same time, global economic conditions continued to be uncertain due to heightened geo-political tensions and resultant geo-economic fragmentation resulting from the Russia-Ukraine and Israel-Hamas wars, as well as trade restrictions involving China and the major economies. Higher policy interest rates by central banks contained inflation but had, in turn, led to an increase in the cost of living and eroded household real incomes and purchasing power due to increases in both prices and interest rates, with adverse consequences on debt serviceability. Inflationary pressures abated in the second half of 2023 with expectations for positive economic performance in 2024. In fact, price pressures receded considerably in the second half of 2023 as global inflation moderated to 6.8 percent in 2023, from 8.7 percent in 2022, on account of decline in commodity prices, among others. Therefore, the 2023/24 Survey was undertaken in the context of easing global financial conditions amid dissipating inflationary pressures and prospective resultant looser monetary policy stance.

1.3 The global optimism on the macroeconomic and financial stability outlook is, however, tampered by several potential near-term financial fragilities. These include weak fiscal positions due to fiscal deficits and resultant build-up of public (as well as private) debt in both advanced and emerging market economies; high refinancing costs resulting from high interest rates; and increasing interconnectedness of the financial sector involving fragile private credit markets. These factors have the potential to dampen business sentiments, leading to a negative outlook for employment which could interact with reduced real incomes, due to the prevailing higher interest rate environment, to reverse access to credit, and reshape the credit profile of households in the medium term.

1.4 In 2023, Botswana's macroeconomic environment was characterised by weaker economic performance, with real gross domestic product (GDP) growth rate of 2.7 percent, compared to 5.5 percent in 2022. The weaker growth was largely attributable to subdued performance of the mining sector due to the deterioration in global economic conditions and geopolitical events, which negatively impacted demand for diamond

jewellery and rough diamonds. Domestic inflation generally declined from September 2022, averaging 5.2 percent in 2023. Contributing to lower inflation were subdued demand; the dissipating impact of the increase in administered prices in 2022; downward adjustment of domestic fuel prices in 2023; and the decrease in foreign prices, particularly food and fuel, thus a decline in trading partner countries' inflation (imported inflation). Going forward, inflation is forecast to remain within the 3 – 6 percent objective range in the medium term and risks to the inflation outlook are assessed to be balanced. In consideration of weakening inflationary pressures, particularly on the demand side, the Bank started easing monetary policy at the end of 2023, involving a reduction of the Monetary Policy Rate (MoPR) by 25 basis points, in each instance, in December 2023 and June 2024, to 2.15 percent.

1.5 With effect from April 1, 2023, commercial banks were allowed to independently determine their own prime lending rates (PLRs). This move is expected to promote competition in the banking industry and improve monetary policy transmission. Transparency is however key in facilitating effectiveness of this dispensation. Accordingly, banks are required to publish their deposit and lending interest rates in their websites and at least two newspapers within the first week of every month. Commercial banks also report their PLRs to the Bank which, in turn, publishes the average market PLR. In December 2023, commercial banks decreased their PLRs by 25 basis points to 6.51 percent following the change in the MoPR by the same magnitude. It is expected that banks adjusted their PLRs accordingly following a MoPR cut of 25 basis points in June 2024. Consequently, the reduction in the policy rate should ameliorate debt-servicing constraints and spur credit expansion, following the adverse impact of the COVID-19 pandemic and the high inflation period – the twin shocks.

1.6 As at the end of December 2023, total household debt was estimated at P61 billion, comprising P54.1 billion (88.6 percent) commercial bank loans, P6.4 billion (10.5 percent) micro-lender loans and P526 million (0.9 percent) being hire purchase loans. Compared to the 2022 survey, total household loans grew by 4.6 percent from P58.3 billion. As a percentage of GDP, total household debt was 23.1 percent in December 2023, from 23.2 percent in December 2022.These rates are significantly lower relative to comparator countries, with latest data for South Africa (2023) and Mauritius (2022) showing ratios of 64.7 percent and 47.7 percent, respectively. Furthermore, the results of the Survey show that households had debt-to-income (DTI) and debt-service-to-income (DSTI) ratios of 53.5 and 70.5 percent, respectively.[1] This compares with DTI and DSTI of 58 percent and 60 percent, respectively, in the 2022/23 survey.

[1] In this survey, DTI is computed as debt divided by gross net income, where gross net income is defined as gross monthly income minus tax and pension deductions. The DSTI 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).

1.7 Consistent with the findings of past surveys, it is also found that men borrow more than women across all financial institutions[2]. This finding is consistent with the Quarterly Multi-Topic Survey (QMTS) for 2023 which found that there are more men (51.2 percent) in the labour force compared to women (48.8 percent). It also aligns to the fact that men have a higher employment to population ratio at 51 percent against the 41.7 percent for women, according to the 2023 QMTS. The survey further establishes that loans are dominated by persons aged 36 - 49 years. In terms of income, households earning between P15 001 and P25 000 account for most of the borrowing across commercial banks and micro-lenders. In light of the higher proportion of men in overall employment and, therefore, borrowing across lender institutions, it is necessary that the Bank and the Government, together with the private sector, continue to pursue policies and strategies that promote gender-balanced economic empowerment initiatives and financial inclusion opportunities to support a sustainable and inclusive economic growth model.

1.8 The results of the survey show that commercial banks, micro-lenders and hire purchase stores viewed the demand for credit as moderate in 2023. The Survey further establishes that both banks and micro-lenders are optimistic about credit demand in 2024, at the back of an expansive fiscal budget and the anticipated manifestation of various economic transformation strategies in the short-term.

1.9 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 was conducted through an online platform to collect primary data from commercial and statutory banks, micro-lenders and hire-purchase stores. The survey questions covered the demographic characteristics of household credit customers; credit application processes; characteristics of the loan book; credit risk strategies relating to household debt and aspects on the outlook for the demand for credit. The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank and the QMTS conducted by Statistics Botswana.

2.2 Overall, the Survey response rate was satisfactory; with all commercial banks, one statutory bank and the biggest 10 micro-lenders[3] responding. While the response rate of micro-lenders translated into 4 percent of the number of reporting micro-lenders, the 10 respondents constituted more than 95 percent of the total industry assets. For hire purchase stores, there were two respondents that represented group companies owning a wide range of stores in Botswana.

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[2] Borrowing, debt or loans refers to amount of loans in Pula value unless otherwise stated.

[3] Data provided by Non-Bank Financial Institutions Regulatory Authority (NBFIRA) indicates that there was a total of 248 reporting micro-lenders in 2023.

3. ANALYSIS OF RESULTS

This section summarises the survey results, covering demographic and credit profile of customers, driving factors of credit, lending practices as well as credit outlook for 2024.

(a) Demographic Characteristics of Household Borrowers

(i) Distribution of Loans by Gender and Age Groups

3.1 The Survey results show that the largest proportion of the loan portfolios is held by persons aged between 36 and 49 years across both banks and micro-lenders for both males and females. This age group forms 40.4 percent of total employment and has the highest employment to population ratio at 66.3 percent according to the 2023 QMTS (Figure 1.1a and 1.1b). The results also indicate that, on aggregate, the largest proportion of household loans are to customers aged above 31 years[4] and that males and females generally have a similar appetite for unsecured loans, credit card advances, mortgage loans and motor vehicle loans. The results further show that the micro-lenders portfolio is dominated by personal loans at 99.6 percent.

3.2 Consistent with the distribution of loans by age group, the QMTS of 2023 shows that the majority of employed individuals are aged 36 to 49, while those aged 50 to 65 have a lower employment ratio but relatively higher amount of loans compared to those aged 26 to 35 (Figure 1.2a and 1.2 b). This could be indicative of the relatively higher cumulative wealth by the older cohort, which improves their debt capacity and credit profile. Furthermore, the results show that both males and females aged 26 and 30 are underemployed, with an estimated average employment to population ratio of 59.1 percent even though they are presumably at their most productive potential ages. In turn, this age group has significantly lower loans with both banks and micro-lenders than all other age groups in the labour force[5]. Overall, the distribution of loans by income groups and employment to population ratios is generally similar for micro-lenders and banks.

[4] This is consistent with levels of employment across age groups, where those aged less than 30 years make up only 25 percent of the total employed population (QMTS, 2023).

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

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

The composition of household loans by gender and age groups is generally the same across banks and micro-lenders

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

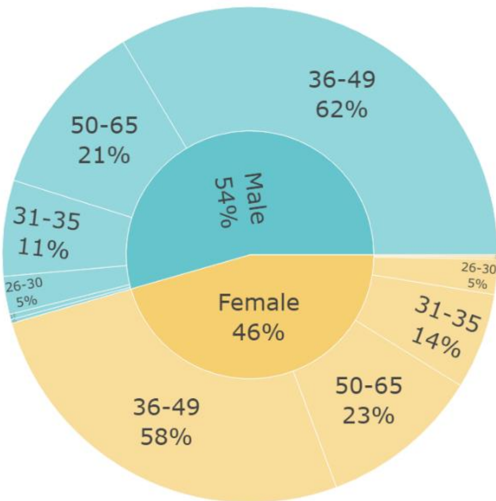


Figure 1.1b: Household Micro-lender Loans by Gender and Age Group

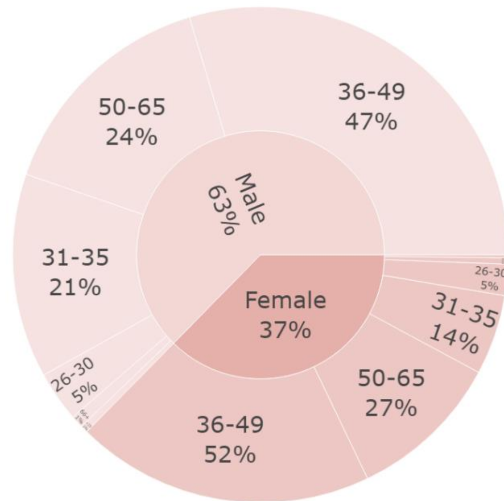


Figure1.1c: Household Bank Loan Accounts by Gender and Category

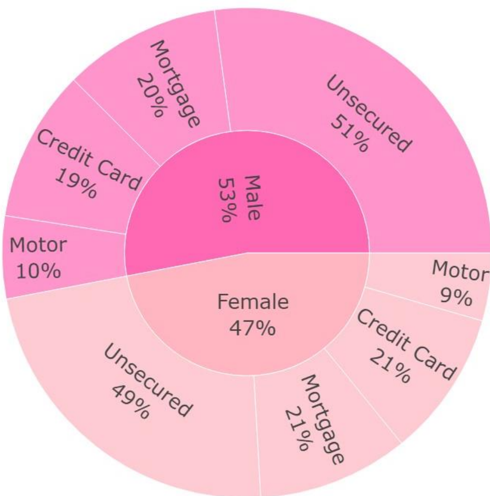
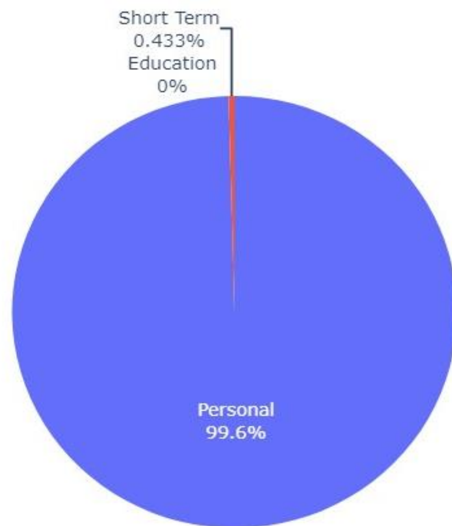


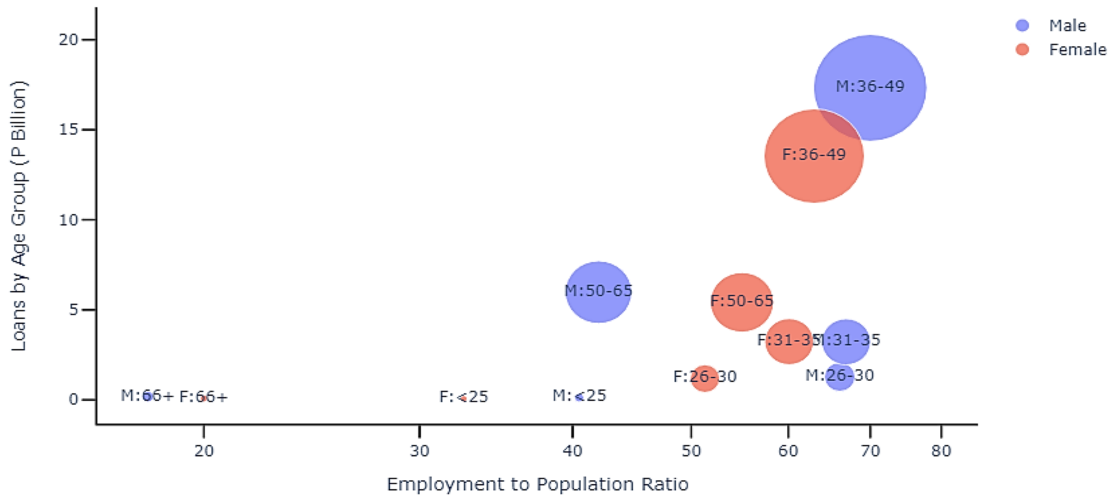
Figure 1.1d: Micro-lender Loans by Loan Category



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

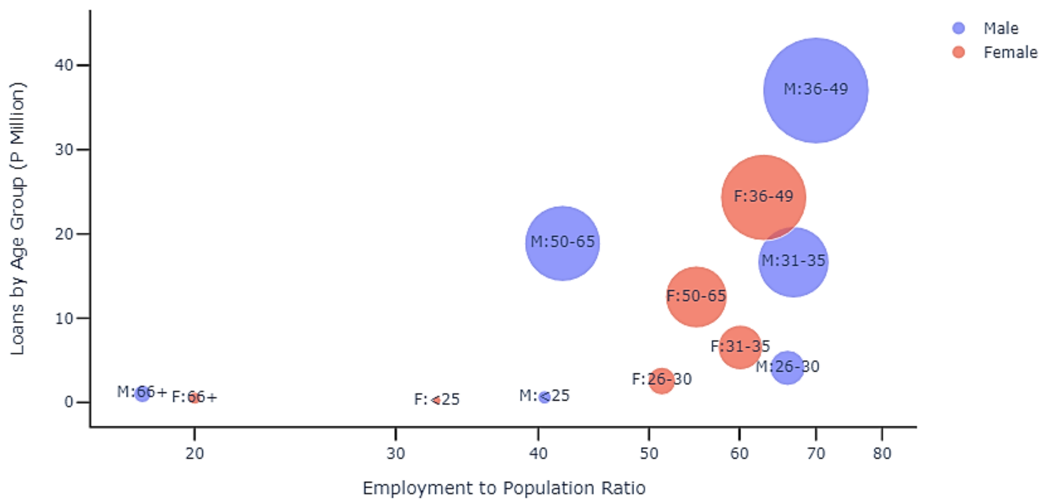
Most bank loans are taken by females and males aged 36 - 49 years who are also the most employed

Figure 1.2a: Employment Ratio, and Loans by Age Group and Gender (Banks)



Most microlender loans are taken by females and males aged 36 - 49 years who are amongst the most employed

Figure 1.2b: Employment Ratio, and Loans by Age Group and Gender (Micro-lenders)



3.3 Analysis of DTI ratios reported by the banks across age groups and gender category offer insights into financial behaviour of households and their alignment with established economic theory relating to consumption-saving behaviour. Younger individuals, typically under 25, exhibit the lowest DTI ratios, reflecting the life-cycle hypothesis, which posits that debt accumulation typically begins in early adulthood, coinciding with major life events like education and entering the workforce.

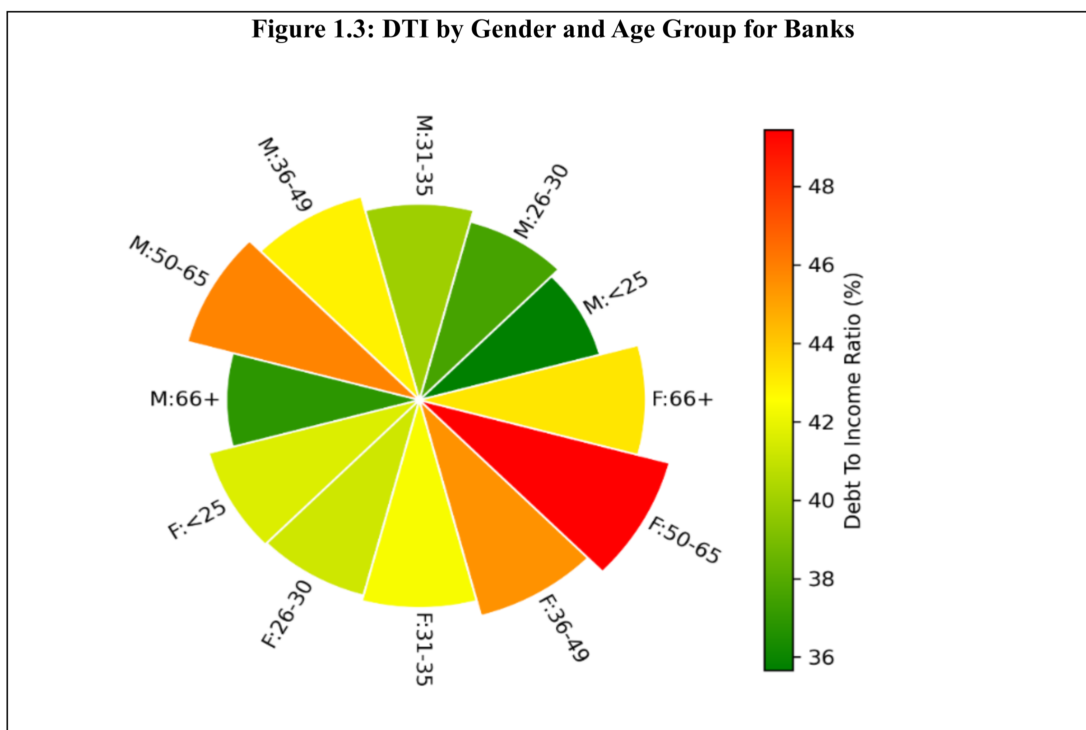
3.4 As individuals progress through their careers and family life (ages 26 to 49 years), the DTI ratio gradually increases, a trend consistent with the permanent income hypothesis; wherein individuals strategically leverage debt to smoothen lifetime consumption during periods of lower income and save during periods of higher income. The stage of kickstarting one's career and starting a family often involves significant financial commitments such as mortgages, motor vehicle loans, and childcare expenses.

3.5 The peak of the DTI is observed in the 50 - 65 age bracket, indicating that this demographic carries the heaviest debt burden (Figure 1.3). This could be attributed to the accumulation of debt over time, as well as ongoing financial obligations like tuition for children and preparation for retirement. While this may appear contradictory to the life-cycle hypothesis, it could be interpreted as individuals maximising their consumption and investment opportunities (supported by higher incomes and debt repayment capacity) before entering retirement, when income typically decreases (given loss of employment income and lower replacement in terms of pensions).

3.6 As individuals transition into retirement (66+), the DTI ratio generally declines, aligning with the life-cycle hypothesis's prediction that debt decreases as individuals approach the end of their working lives. This decline is attributable to paid-off mortgages, reduced expenses, and a focus on preserving incomes for post-retirement.

3.7 While the general trend holds across genders, a notable observation is that women in the 50 - 65 age group tend to have slightly higher DTI ratios than men of the same age. This discrepancy could be attributed to various factors, including potential gender wage gaps, due to career interruptions for caregiving, and differing financial priorities. Generally, the patterns in DTI ratios across age groups and gender categories are largely consistent with established economic theories and understanding these trends is crucial for product development as well as policy interventions that promote responsible borrowing, improve financial literacy, and ultimately foster a more stable and equitable financial landscape.

Figure 1.3: DTI by Gender and Age Group for Banks



(ii) *Distribution of Loans by Income Groups*

3.8 A breakdown of household borrowing by income groups shows that banks and micro-lenders lend mostly to clients with an average monthly income between P15 001 and P25 000, followed by those earning between P9 001 and P15 000. Overall, the distribution of loans by income groups for banks shows that access to credit is skewed towards higher income earners, while for micro-lenders it is towards those earning lower income (Figure 1.4a and 1.4b).

3.9 Furthermore, the survey reveals that mortgages and motor vehicle loans are mostly taken by higher income earners (earning P25 000 and more) (Figure 1.4d). Lower income earners are more concentrated in unsecured borrowing including credit cards and personal loans. Looking at the DTIs for each income category (Figure 1.4c), the data shows that customers earning between P3 000 and P15 000 have higher DTIs and, therefore, are more at risk of financial strain or credit default. At the same time, those earning less than P3 000 have lowest DTIs, largely reflecting restricted access to financing due to low-income status.

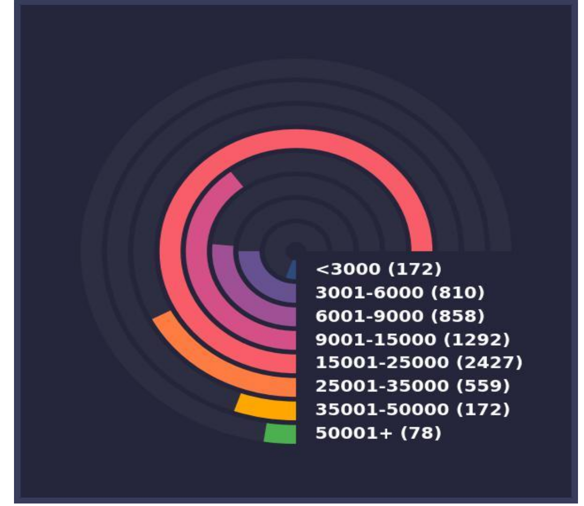
Distribution of Loans by Income Group

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

Figure 1.4a: Total Bank Loans by Income (P Billion)

Key: <3000-50001+ is income group
Numbers in brackets are loan amounts in P Billion

Figure 1.4b: Total Micro-lender Loans by Income Group (P Million)



Key: <3000-50001+ is income group
Numbers in brackets are loan amounts in P Million

Figure 1.4c: Bank DTIs by Income Group

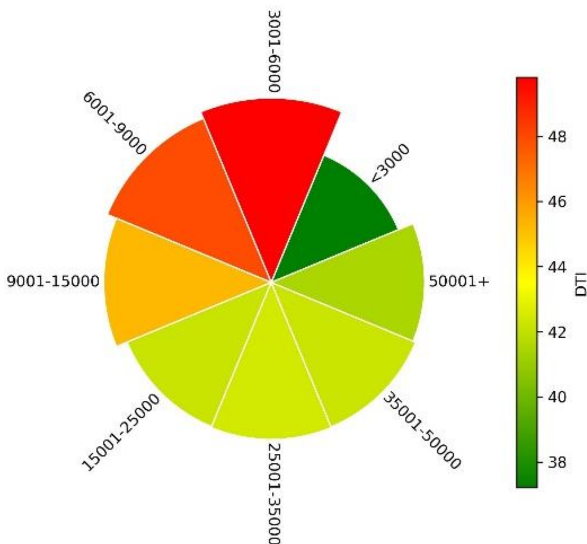


Figure 1.4d: Bank Loans by Category and Income Group

(iii) Distribution of Loans by Employment

3.10 Looking at the 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 1.5a and 1.5b). The tendency for commercial

banks to lend to customers with traceable and secure sources of income, primarily through scheme loans with deduction-from-source payment arrangements, is a risk management strategy indicative of higher risk-aversion in the banking sector. The survey finds that 51.5 percent of total household loans are scheme loans, and 67.5 percent have deduction from source arrangements. Furthermore, male government employees have the most loans with both banks and micro-lenders across all sectors of employment.

3.11 However, according to the last Formal Sector Employment Stats Brief produced by Statistics Botswana in 2018, there were more female (59.5 percent) employees than males (40.5 percent) in the public sector. Therefore, the higher amount of loans taken by male government employees is possibly attributable to two factors: the fact that most households are male-headed (56.6 percent of total population according to the Population and Housing Census of 2022) and that males are generally more risk-takers than females. Additionally, the 2023 QMTS shows that males are, on average, paid more (P8,688 per month) than females (P6,815 per month), leading to possible inequitable access to credit due to more pronounced income constraints for women because of the lower incomes. Furthermore, 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 demonstrates some diversity in private sector household loans, which somewhat alleviates potential credit risk.

3.12 Overall, there is diversity in lending by micro-lenders, while banks' lending is highly concentrated on government employees. This concentration exposes banks to fiscal challenges that could translate into restrained or loss off wages and resultant moderate real disposable incomes, reduced loan repayments capacity as well as limited access to credit (reduced customer base). However, the risk of sudden widespread public sector employment losses during periods of economic stress is considerably low judging from the absence of widespread employment losses by government employees in the past.

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 1.5a: Household Micro-lender Loans by Gender and Employment

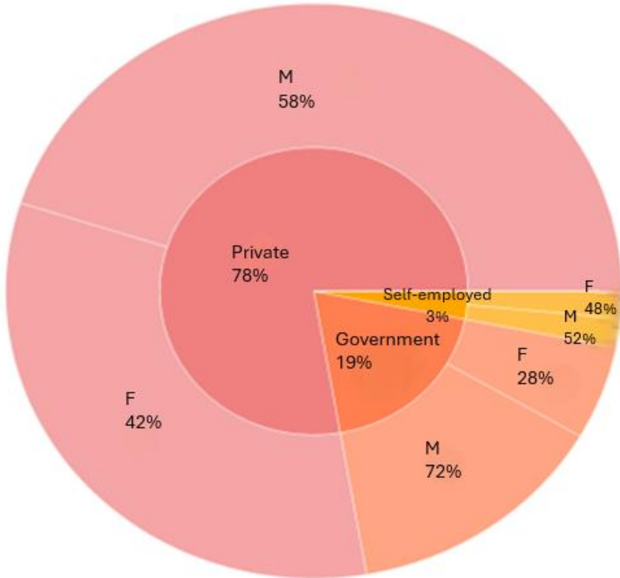
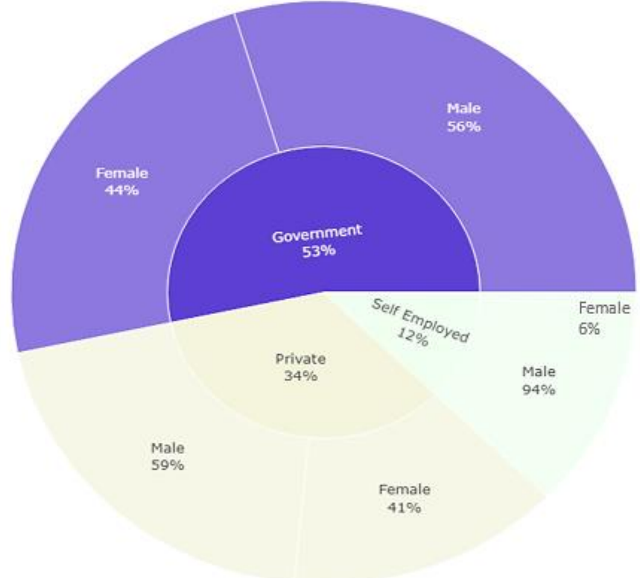


Figure 1.5b: Household Bank Loans by Gender and Employment



(b) Factors Driving Credit Growth

3.13 Relating to demand and supply factors affecting credit extension, banks indicated that funding costs, risk appetite and household income were the most prominent drivers of credit growth in 2023, followed by the state of the economy (Figure 1.6a). The same factors will significantly shape 2024 credit developments (Figure 1.6b).

Credit Supply Drivers

Funding costs, banks' risk appetite and household income are prominent drivers of credit growth

Figure 1.6a: Factors Driving Credit Growth in 2023

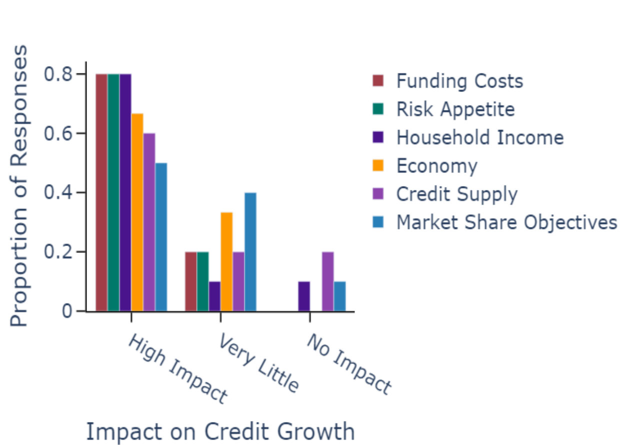
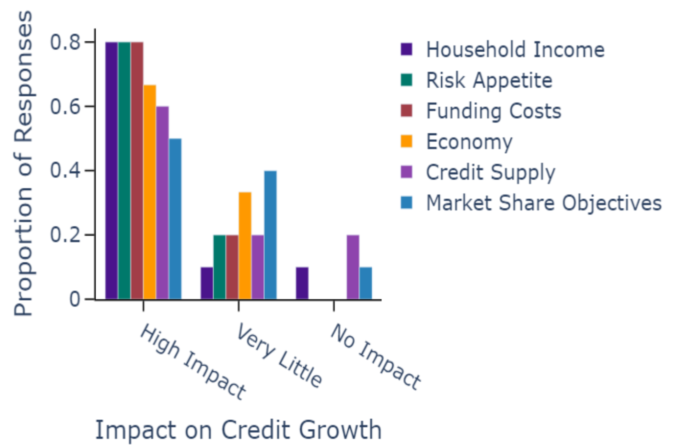


Figure 1.6b: Factors Driving Credit Outlook in 2024

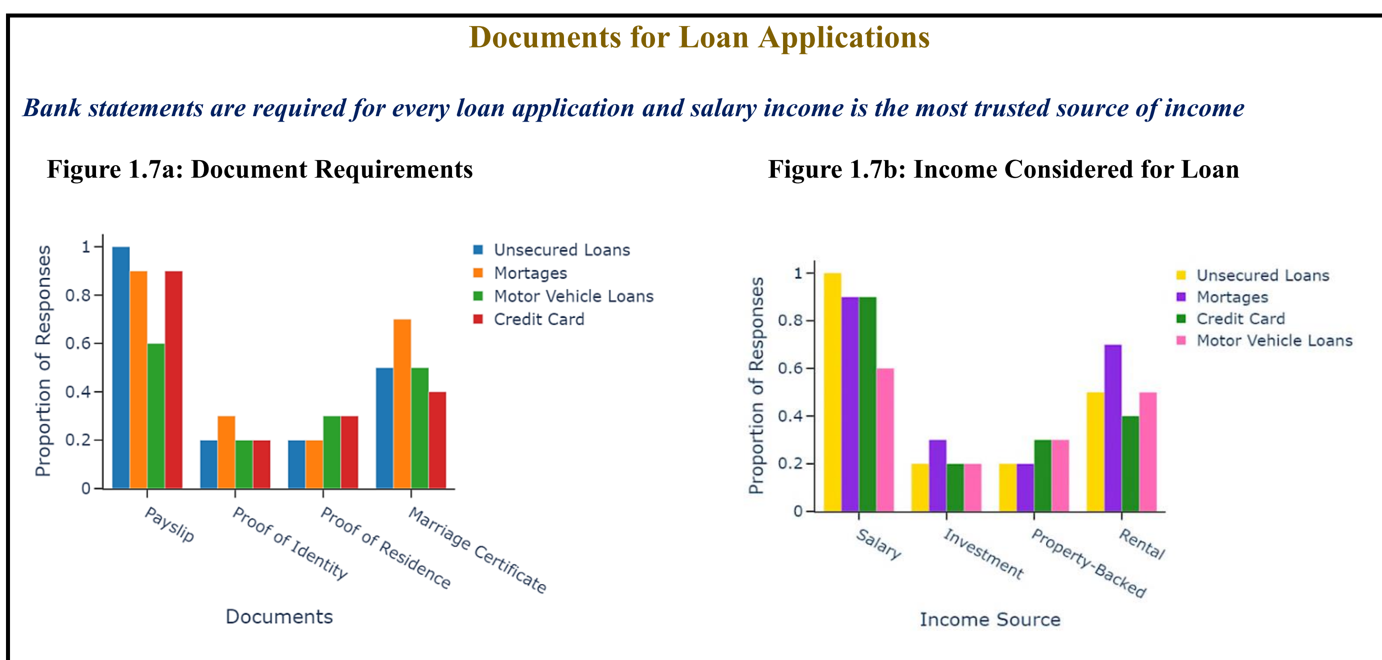


(c) Credit Application Process

(i) *Credit Application Documents*

3.14 At loan origination, all credit providers generally require bank statements, proof of residence, proof of identification, proof of income, marriage certificate and Form B (to determine whether the marriage is in community or out of community of property) and references (Figure 1.7a). The loan requirements are largely similar across 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]. References are not as prominent as the other requirements.

3.15 Furthermore, banks consider other sources of income in addition to or as an alternative to salary income such as rental, investment income and property presented as collateral (Figure 1.7b). 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. Less than half of the banks consider other, unspecified, sources of income when considering credit applications.



Documents for Loan Applications

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

Figure 1.7a: Document Requirements

Figure 1.7b: Income Considered for Loan

(ii) *Assessment of Credit Risk*

3.16 Banks use a variety of criteria and metrics to assess potential credit risks at loan origination. These include credit bureau checks, assessment of DTI and loan-to-value (LTV) ratios, review of financial statements (income and expenditure prospects of the borrower), industry and economy conditions (Figure 1.8a). Banks further consider credit scoring models and check credit as well as default records including bankruptcy

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

records and utility bills in arrears (Figure 1.8b). These robust credit risk assessment tools serve to minimise credit losses and, in turn, support productive lending to creditworthy households.

3.17 All credit providers submit consumer information to credit bureaus which support credit scoring. The credit scores generated by credit bureaus are accessible to all credit providers to establish the credit worthiness of borrowers. The regulation of credit information sharing addresses the risks posed by information asymmetry between credit providers and borrowers which can lead to credit mispricing and general misconduct that could distort efficient allocation of credit.

3.18 The survey further revealed that loan applications amounting to P491 million were rejected in 2023, with the largest proportion of the loans being mortgage loans, followed by personal loans (Figure 1.8c). Nevertheless, the overall household loan approval rate increased by 2.5 percentage points from 88 percent in 2022 to 90.5 percent in 2023 (Figure 1.8d). This increase in the approval rate is expected to contribute to the general increase in commercial bank credit growth, which is supportive of economic activity. Reasons advanced by the banks for rejection of the applications included mismanagement of personal banking accounts, over-indebtedness as measured by high DTI and DSTI ratios, rejection of assets presented as collateral and failure to meet minimum employment requirements (6 months of continuous employment with one entity).

Credit Risk Assessment by Banks

Banks perform extensive credit risk assessment at loan origination

Figure 1.8a: Loan Application Assessment

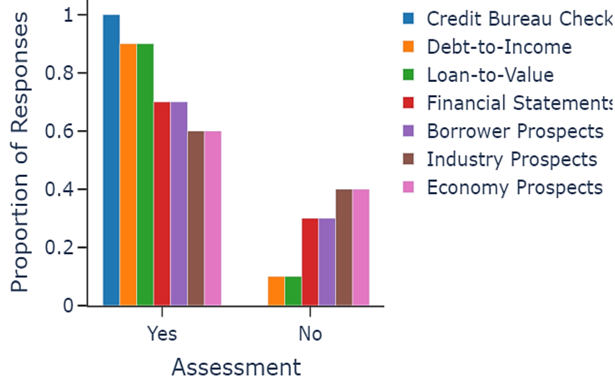
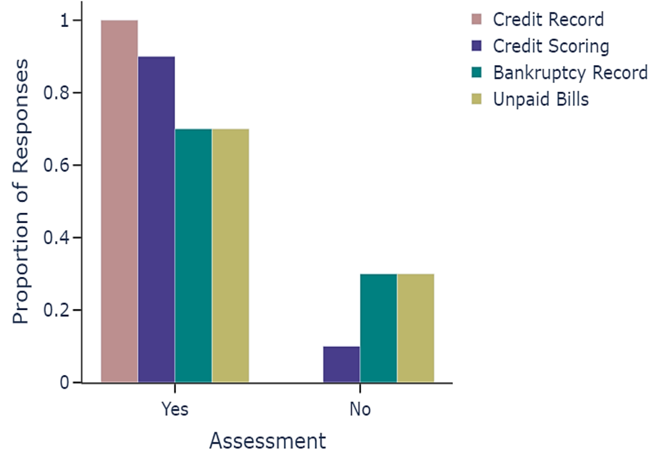


Figure 1.8b: Credit Risk Assessment



Household loan approval rate increased by 2.5 percentage points in 2023 compared to 2022

Figure 1.8c: Approved to Rejected Loans

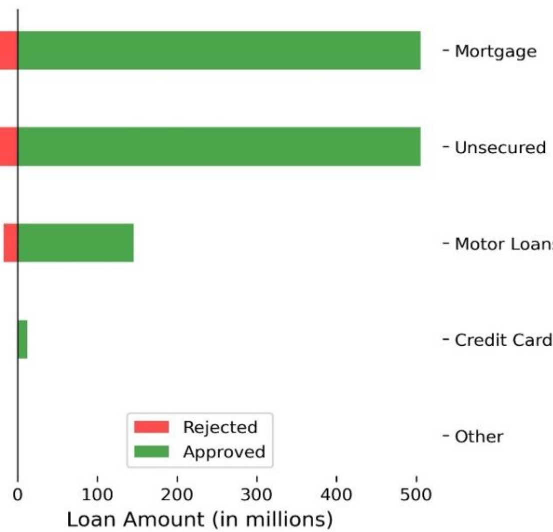


Figure 1.8d: Household Loan Approval Rate (Percent)

(d) Characteristics of the Loan Book

(i) Loan Quality, Leverage and Default Rates

3.19 Banks generally had low default rates in 2023, with an average default rate[7] of 1.68 percent (Figure 1.9a) and corresponding non-performing loans (NPLs) to total loans ratios average of 3.3 percent for the industry (with a range of 1.4 percent to 6 percent).

7 Default rate represents bad loans that the banks have written-off and have no hope of recouping.

Most banks assessed the default rates for 2023 to be moderate with slight improvements expected in 2024. The optimism surrounding household loan performance is due to anticipated increases in household income and increasing economic activity backed by the expansionary fiscal budget. The ongoing implementation of the Transitional National Development Plan and other government initiatives are also expected to add impetus to economic growth and transformation prospects.

3.20 Regarding debt servicing in 2023, households met credit obligations amounting to P4.2 billion, of which, 78.2 percent was payment of loan principal amounts, and the rest was payment of interest on the household loans (Figure 1.9d). The proportion of interest payments, at 21.8 percent, is consistent with interest rates associated with unsecured loans at the maximum rate of 20.5 percent in 2023. This is because unsecured loans dominate total household borrowing.

Household Debt Servicing

Default rates were low in 2023 and are expected to be moderate in 2024

Figure 1.9a: 2023 Average Default Rate

Figure 1.9b: Loan Commitments Per Customer

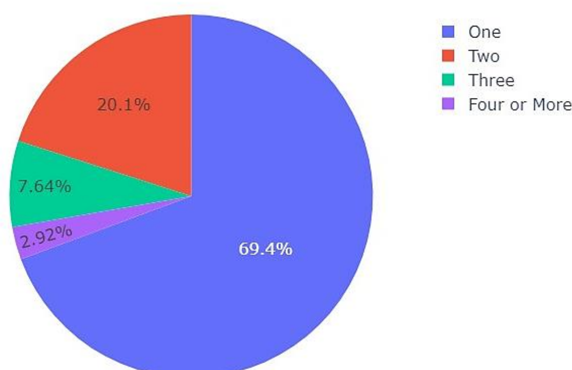


Figure 1.9c: Loan Payment Arrangements

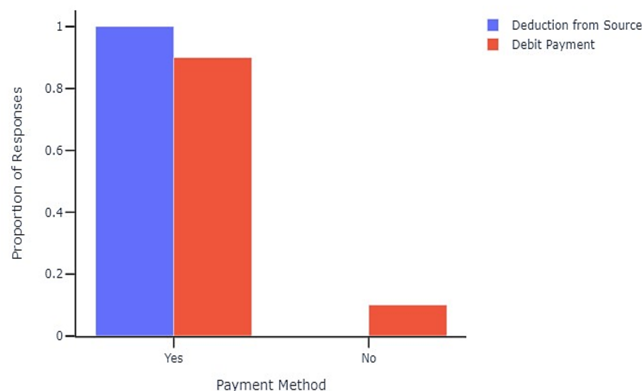
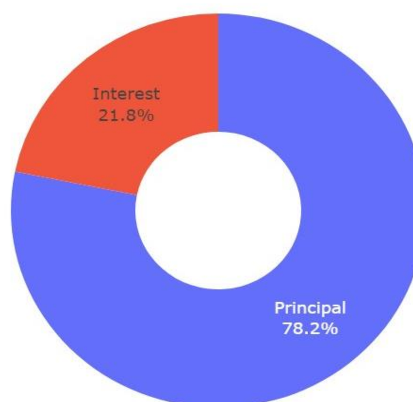


Figure 1.9d: Loan Repayments in 2023



Total Loan Repayments: P4.2 billion

3.21 Considering household leverage measures, the survey results reveals that the households' DTI averaged 53.5 percent while the DSTI ratio averaged 70.5 percent. Compared to the 2022/23 survey, the 2023/24 survey reveals that the proportion of households with more than one loan commitments has increased (Figure 1.9b), leading to a DSTI measure that is significantly different from the DTI for 2023/24. This is because other loan repayments are deducted from income in addition to tax and pension contributions for calculation of the DSTI against the DTI, when calculating available disposable income at loan origination.

3.22 In comparison to regional economies, South African households had a DTI of 62.6 percent in 2023, while Namibians had a DTI of 77.9 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. In December 2023, the credit-to-GDP gap, a credit risk build-up indicator produced by the FSC, showed that there was no threat to financial stability from credit growth, and that there was room for sustainable and productive credit extension to support economic growth[8]. As such, conditions did not warrant invocation of credit-related macroprudential tools. However, continuous monitoring of credit developments is necessary to ensure prompt and decisive response to any excessive and rapid build-up of unsustainable credit, at a sectoral or aggregate level.

3.23 The Survey further shows that mortgage loans in Gaborone and surrounding areas have higher leverage or debt burden for households, with an average maximum LTV of 97.5 percent, while other areas have an average maximum LTV of 88.1 percent in 2023. 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 (Figure 1.10). The most extreme LTV ratio recorded was 105 percent at one of the commercial banks. Higher LTVs for Gaborone and surrounding areas also indicative of the effect of location of valuations, which somehow reduces exposure upon default.

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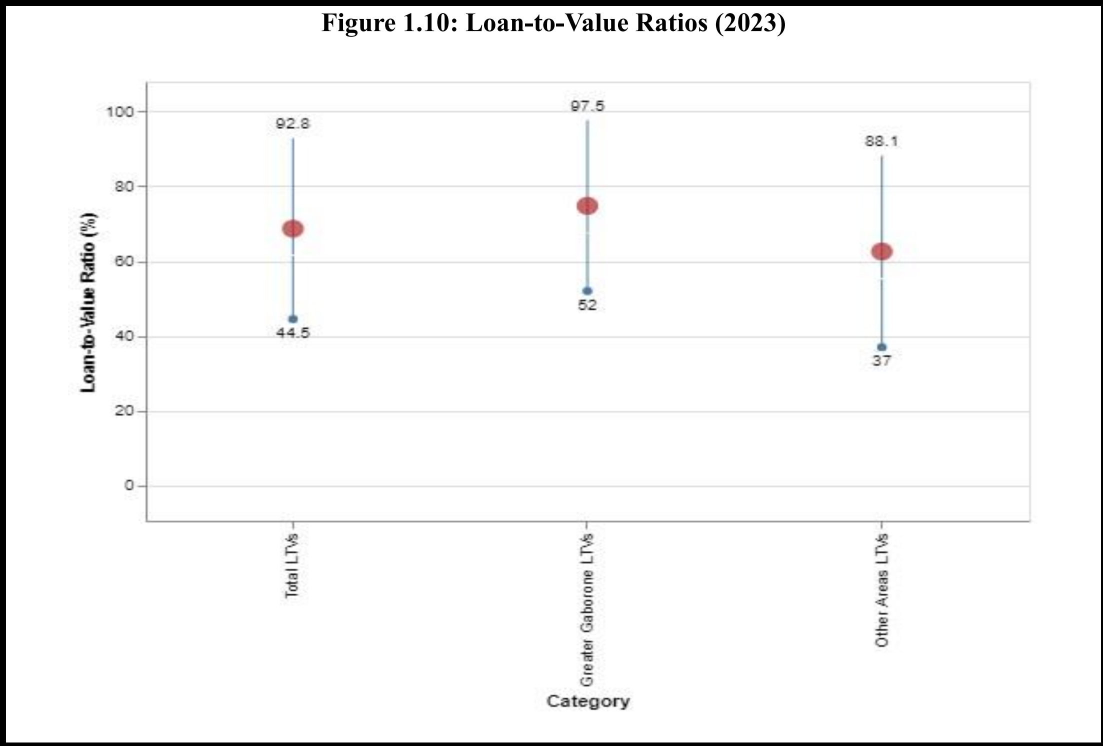
[8] May 2024 Financial Stability Report for Botswana: Accessible at https://www.bankofbotswana.bw/sites/default/files/publications/Financial%20Stability%20Report%20-%20May%202024.pdf

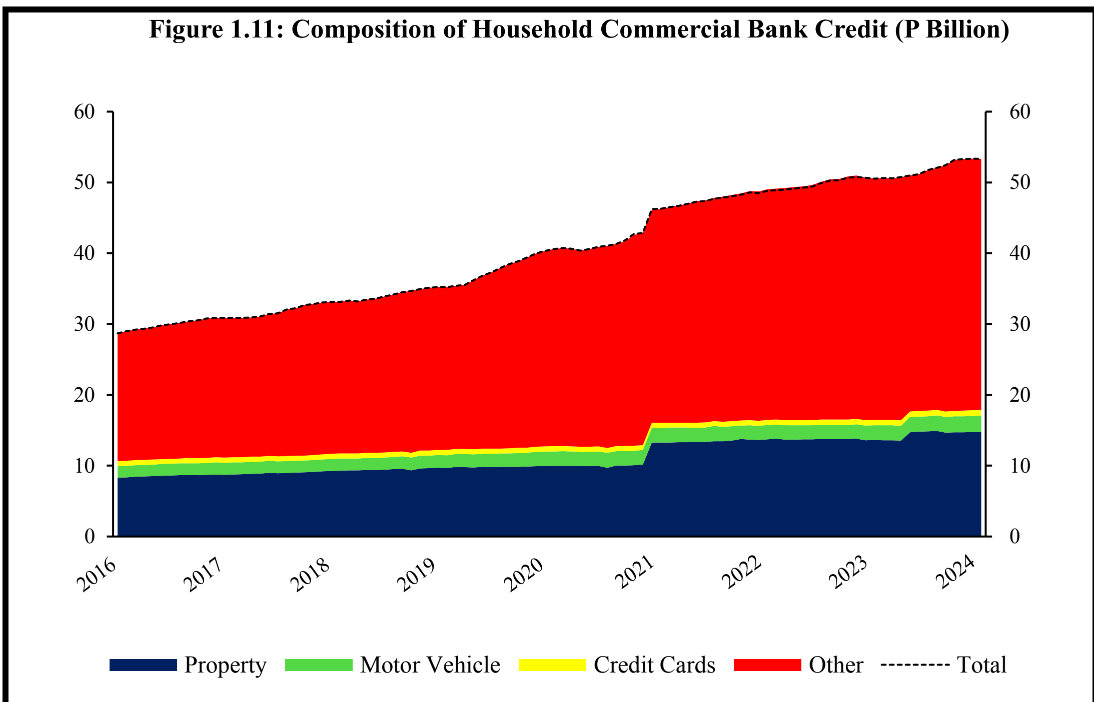
Figure 1.10: Loan-to-Value Ratios (2023)



(ii) *Uses of Household Loans*

3.24 Data obtained from statutory returns submitted by banks showed that household credit dominated total lending by commercial banks at 68 percent in December 2023. Personal or unsecured loans (other) made up 66.6 percent of total household loans, followed by mortgage financing (property) at 27.6 percent and motor vehicle loans at 4.3 percent (Figure 1.11). Credit cards had the lowest contribution at 1.5 percent.

Figure 1.11: Composition of Household Commercial Bank Credit (P Billion)



3.25 Information obtained from the survey indicates that 40 percent of unsecured loans is used on what households classify as other personal uses. These include motor vehicle maintenance, travel expenses, house renovations, marriage and funeral expenses, acquisition of residential plots and second-hand cars, as well as debt consolidation. Households use 30 percent of unsecured loans on household durables and consumer goods including furniture and other household items, while 20 percent is spent on farming projects and 10 percent is used to cover education and health expenses (Figure 1.12a).

3.26 For mortgage financing, banks indicated that 53.5 percent of the mortgages obtained in 2023 were used for new purchases and development projects, while the rest was used for refinancing existing property (Figure 1.12b). In line with wealth and welfare enhancement preferences, mortgage cash-out refinancing allows homeowners to tap into their home equity to stimulate consumption and alternative investments. However, cash-out refinancing can increase household debt levels and financial vulnerability, particularly if borrowers are unable to repay the larger loan, where additional funds did not generate sufficient returns and income opportunities commensurate with increased payment obligations. This risk is particularly pronounced during economic downturns.

3.27 The Retirement Funds Act, 2022 further introduced changes that allow households to use part of their pension to settle outstanding loans under specific conditions or channel the funds to medical health expenses. This provision aims to mitigate potential household debt stress in times of economic stress, but present potential challenges where cashouts are misappropriated. The provision has the potential to entice households to tap into their property equity to finance investments with the knowledge that they would be able to leverage their pension funds during periods of depressed income. Therefore, policymakers and mortgage financiers need to strike a balance between encouraging the positive economic effects of cash-out refinancing and mitigating potential risks. This could involve implementing targeted policies and undertaking public education initiatives to ensure responsible borrowing to protect consumers from financial distress and potential higher fiscal allocations for social support.

Household Loan Use

Households use unsecured loans for self-development, and mortgage financing for new purchases and redevelopments

Figure 1.12a: Household Use of Unsecured Loans

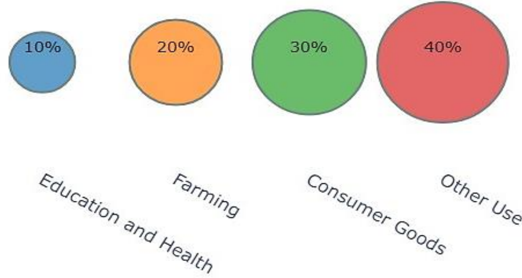
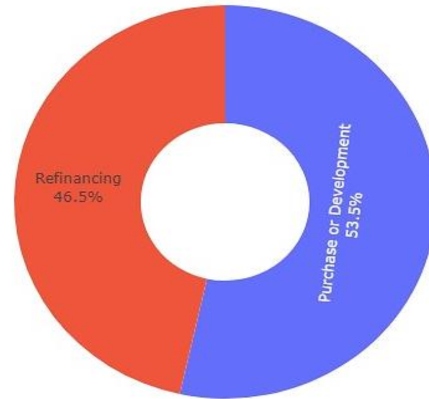


Figure 1.12b: Mortgage Financing Distribution

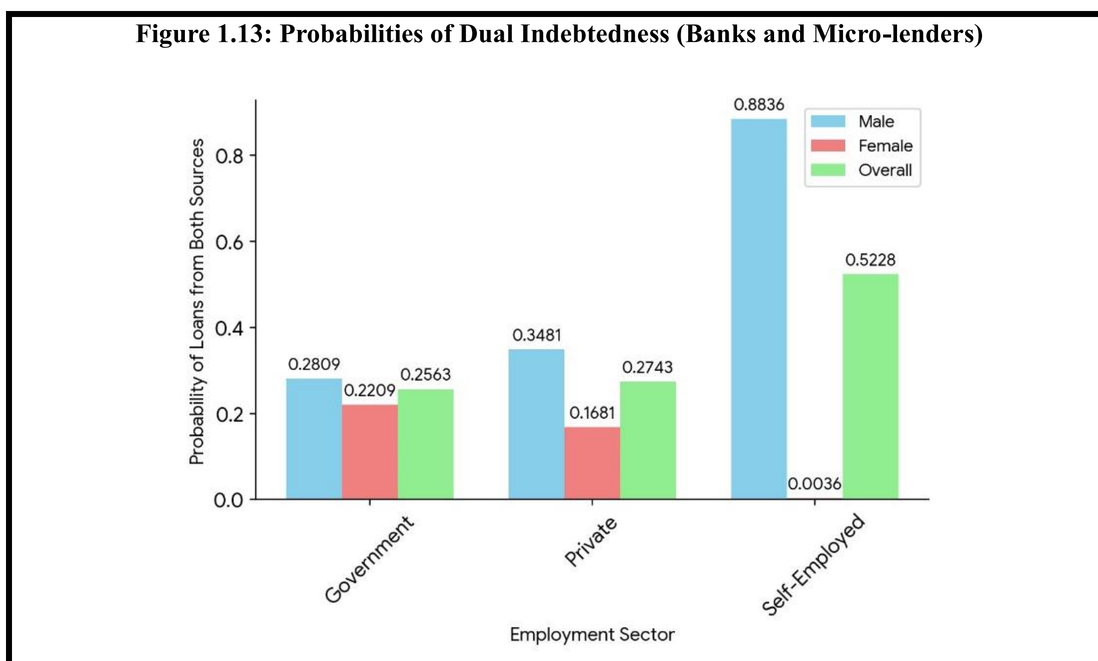


(iii) *Conditional Joint Probabilities of Indebtedness Across Banks and Micro-lenders*[9]

3.28 This section examines the conditional joint probabilities of individuals holding loans from both banks and microlenders, contingent on their employment sector and gender, by analysing survey data collected independently from both types of institutions. The Conditional joint probabilities, which reveal the likelihood of two events occurring together given a specific condition, attempt to assess the credit implications of joint indebtedness of households to banks and microlenders (Figure 1.13). The aim is to deduce the prevalence and patterns of joint indebtedness, highlighting potential disparities in access to credit, varying levels of financial vulnerability, and potential debt-related stress across different demographic groups.

[9] By looking at the percentage of borrowers who share certain characteristics, like age or income, for both microlenders and banks, we can estimate how likely it is for someone to be a customer of both. This is done by calculating "joint probabilities" – essentially, multiplying the proportions from each group together.

Figure 1.13: Probabilities of Dual Indebtedness (Banks and Micro-lenders)



3.29 The analysis of borrowing patterns across various employment sectors and gender reveals insights into financial behaviour and potential vulnerabilities, raising concerns about the potential for debt-related stress, particularly among men. Self-employed males stand out with the highest probability of having loans from both micro-lenders and banks. This might highlight their entrepreneurial drive given the nature of their employment but also raises concerns about their financial resilience in the face of economic shocks and the potential for heightened debt-related stress.

3.30 In the private sector, both males and females exhibit a relatively high probability of dual loan commitments, suggesting good access to credit but also a potential reliance on debt.

3.31 Government employees show a moderate probability of having loans from both sources, indicating a balanced financial situation with access to credit but not an over-reliance on it. However, the gender disparity persists, with males still having a higher probability of dual loans, suggesting potential differences in financial behaviour or stressors.

3.32 The consistent gender disparity in loan attainment, with males exhibiting higher probabilities across all sectors, underscores the need for policies and initiatives to address not only inequalities in access to financial resources and, possibly, entrepreneurial opportunities but also the potential for differential vulnerability to debt-related stress. Understanding and addressing these gender-specific factors could lead to more effective strategies for promoting the financial well-being and reducing the negative impact of debt on individuals and society.

3.33 Overall, the findings indicate that both males and females have access to credit from both banks and micro-lenders. However, the high prevalence of dual borrowing, particularly among self-employed males and the consistent gender disparity raises

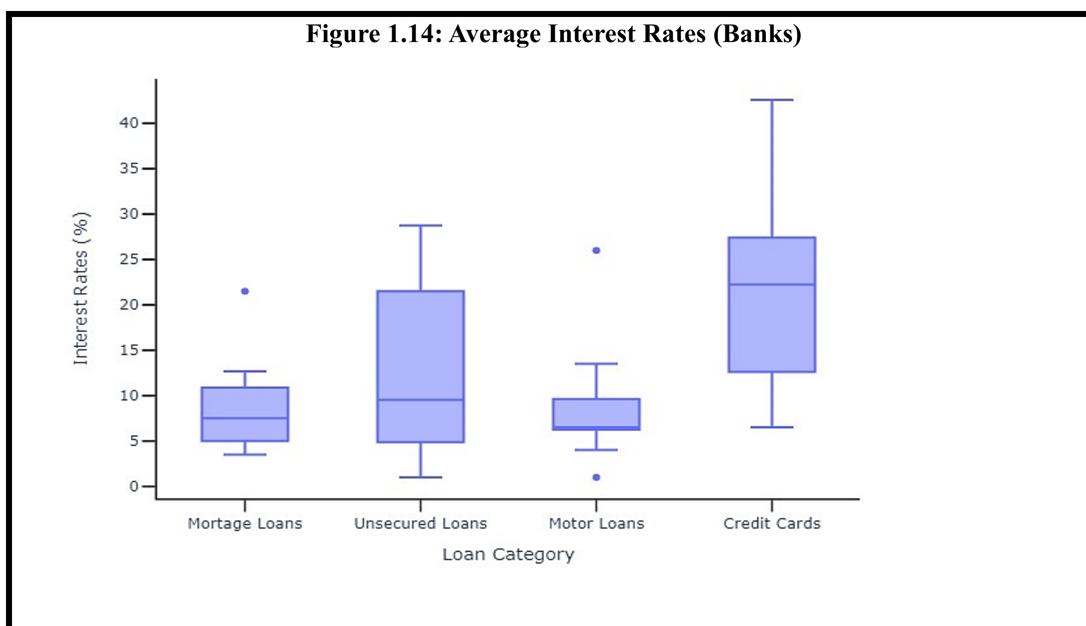
concerns about potential financial vulnerabilities and the need for a better understanding of interactions between debt-related stress among different demographic groups. To foster long-term financial stability and well-being, policymakers and financial institutions should focus on promoting responsible borrowing and lending practices, as well as addressing gender disparities in access to credit. Financial literacy and targeted support, such as financial counselling, to vulnerable groups could also ease debt-related stress and mismanagement.

(iv) *Cost of Household Credit*

3.34 The survey respondents provide varying interest rates for household loans and differentiated according to the type of loan offered. Interest rates charged on hire purchases increased from an average of 27 percent in 2022 to an average of 29 percent in 2023. In addition, hire purchase stores charged late payment fees, application and insurance fees, which tends to increase the cost of instalment credit. For micro-lenders, interest rates charged on household loans increased from 27 percent per annum in 2022 to an average of 33 percent in 2023.

3.35 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. 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 1.14). At the same time, the reported interest rates for mortgages and motor loans have lower maximum values at 10.5 percent (2022: 12.8 percent) and 11.3 percent (2022: 13.1 percent), respectively. On the other hand, lending rates for unsecured and credit card loans have wide distributions with the difference between the highest and lowest rates at 15.1 percent (2022: 26.3 percent) and 7.6 percent (2022: 35.8 percent), respectively. Overall, credit card loans are the most expensive, with a maximum lending rate of 24.6 (2022: 42.6 percent) percent followed by unsecured loans with a maximum of 20.5 (2022: 28.8 percent) percent. Generally, the cost of household borrowing from banks has declined in 2023 compared to 2022.

Figure 1.14: Average Interest Rates (Banks)



3.36 Banks also impose different types of charges, such as administration, arrangement, processing, documentation, insurance fees, collection, facility and valuation fees, which impacted the cost of credit. Some banks had early repayment penalty and credit reference or clearance fees, which were either proportionate to the loan amount (*ad valorem*) or fixed.

(e) Banks' Lending Strategic Focus

3.37 Lending strategies adopted by banks during 2023 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; targeting low-income earning customers through campaigns; and prudent lending through strict evaluation of potential borrowers. Continuing with this strategic focus in 2024 would support more credit extension to spur economic activity, in a safe and prudent manner.

(f) Demand for Credit in 2023 and 2024 Outlook

3.38 The results of the Survey show that 80 percent of banks and 50 percent of the surveyed micro-lenders found credit demand to be moderate in 2023, while 70 percent of banks and 60 percent of micro-lenders expect credit demand to be high in 2024 (Figure 1.15a to 1.15d). Overall, participating financial institutions anticipate that credit demand will increase in 2024, buoyed by improved economic growth prospects and anticipated increases in household income and government spending. Anticipated increases in household earnings are in the light of the government's announcement to adjust public sector wages upwards by 5 percent for the financial year 2024/25.

Credit Demand in 2023 and 2024 Outlook

Figure 1.15a: Credit Demand in 2023 (Banks)

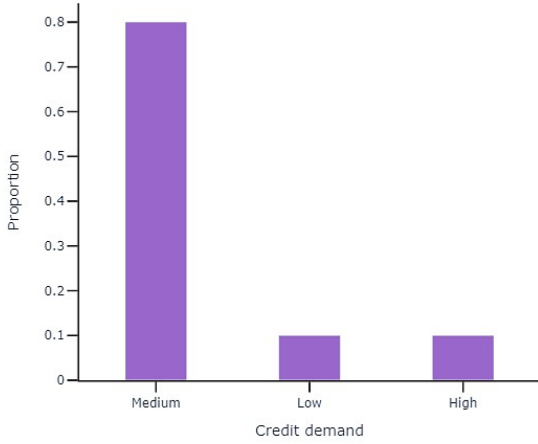
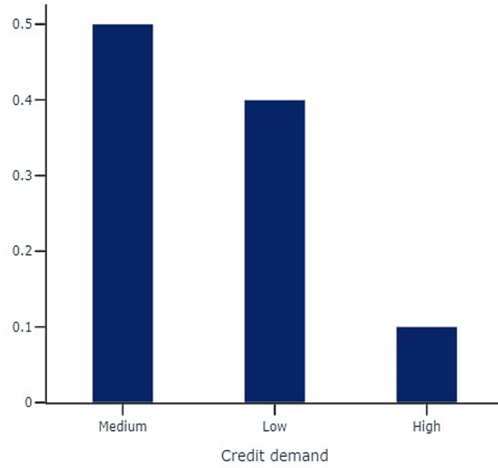


Figure 1.15b: Credit Demand in 2023 (Micro-lenders)



Credit demand is expected to improve in 2024

Figure 1.15c: Credit Outlook for 2024 (Banks)

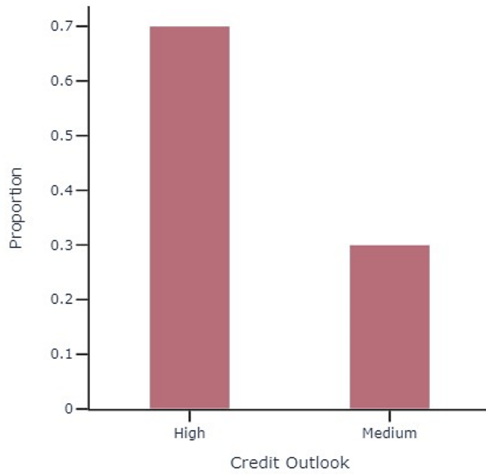
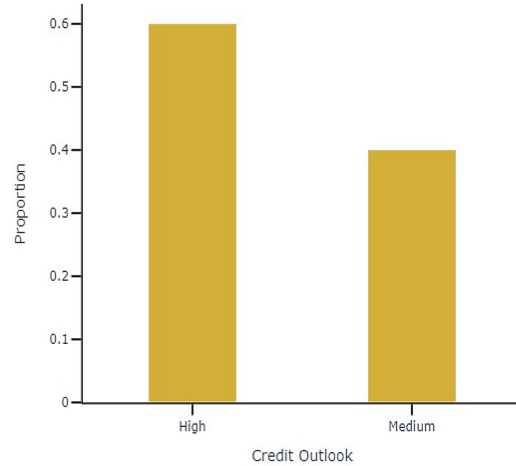


Figure 1.15d: Credit Outlook for 2024 (Micro-lenders)



(g) Credit Risk Mitigation

3.39 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 utilise personal guarantees and offer asset-backed financing products. These measures ensure that the banks are protected in case of default by the households, thus mitigating potential financial stability risks.

4. CONCLUSION

4.1 This Survey identified trends in household borrowing to inform policy decisions, design and implementation of appropriate macroprudential and regulatory responses. These measures aim to support productive lending to the household sector and safeguard financial stability. To understand the trends, the Bank surveyed commercial and statutory banks, micro-lenders, and hire purchase stores. The survey reveals that credit growth in 2023 was driven by funding costs, risk appetite and household income. These trends were expected to persist in 2024 on account of an anticipated improved economic outlook, however, due to the poor performance of the mining sector in the first half of 2024, economic growth for 2024 is likely to be lower than in 2023.

4.2 Related to demographic traits, household borrowing is influenced by age, gender, employment, and income, with a prime borrowing age bracket of 36 - 49. Coincidentally, this age group also shows significant employment engagement. The results further indicate that income levels play a critical role in borrowing behaviours, with higher income earners typically opting for secured loans, such as, mortgages, while lower income groups often resort to unsecured loans. Most borrowing activity is concentrated among those earning between P15 001 and P25 000 monthly. Government employees are the primary borrowers for banks, while micro-lenders focus more on private sector employees and the unemployed. Furthermore, banks continue to rely on scheme loans with deduction-from-source arrangements, which underpins credit risk mitigation and highlights the general importance of stable sources of income in accessing formal credit.

4.3 Overall, the Survey points to stable household debt, relatively low default rates and NPL ratios, as well as comparatively good average DTI and DSTI ratios. Moreover, credit risk mitigation strategies are robust, incorporating comprehensive creditworthiness checks and various insurance products. These measures are essential to managing risks associated with household lending, ensuring the stability and resilience of the financial sector in Botswana.