FINANCE IN AFRICA

Unlocking investment in an era
of digital transformation and climate transition

European
Investment Bank

Chapter 4

Regional banking performance

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Chapter 4

Regional banking performance

This chapter provides an overview of banking sector performance in the main regions of Africa. The analysis is based on economic, financial and bank-level data, including via the ninth edition of the European Investment Bank (EIB) Banking in Africa survey, carried out between February and March 2024. Banking sectors across the continent show continuing resilience, with high levels of profitability, capital ratios often well above regulatory minimums and lower non-performing loan ratios in most regions in 2023 compared with 2022. Credit markets remain shallow, with credit as a share of gross domestic product (GDP) at 37% in North Africa and 36% in sub-Saharan Africa, although the latter is inflated by South Africa. Overall, credit growth was brisk in 2023 and faster than in 2022, typically due to high rates of credit growth in some of the larger economies such as the Democratic Republic of the Congo (61%), Nigeria (45%), Ethiopia (36%) and Egypt (26%). However, credit growth slowed in more than half of the economies in Africa.

Credit remains shallow across the regions, except for in Southern Africa. The share of credit to the private sector as a percentage of GDP is 11% in Central Africa, 17% in West Africa, 21% in East Africa and 37% in North Africa (Table 1) but jumps to 65% in Southern Africa because South Africa and Mauritius have large and more developed financial sectors. However, when South Africa is excluded, credit as a share of GDP drops to 20% in Southern Africa, which is more in line with the other regions of sub-Saharan Africa.

The banking sector's soundness varies considerably across the continent. The ratio of non-performing loans to gross loans ranges from 6% in Southern Africa to 13% in Central Africa. Non-performing loans have fallen in most regions over the last year, allaying fears about delayed asset quality issues arising from the COVID-19 pandemic. Capital to risk-weighted asset ratios range from 22% in Southern Africa to 11% in Central Africa. The increasing share of government debt on bank balance sheets, which typically attracts a zero-risk weighting, is inflating capital ratios and likely giving an overly optimistic view of solvency in some countries.

Profitability has generally been buoyant across the African regions, with return on equity varying from 32% in West Africa (data are available for only a few countries) to 15% in North Africa. The latest edition of our survey finds that, as seen in 2023, the high interest rate environment and the growth in business volumes for bonds and loans are supporting profitability.

Based on results from our Banking in Africa survey, banks in Southern Africa were least likely to tighten credit conditions over the past 12 months, but are most likely to tighten them over the next 12 months. Last year, a net 14% of banks in Southern Africa tightened credit standards, compared with 44% in East Africa and 66% in West Africa. For the next 12 months, the situation is expected to deteriorate, with a net tightening planned by 57% of banks in Southern Africa, compared with 47% in East Africa and just 17% in West Africa. This planned tightening in Southern Africa might not be explained solely by banking factors, as the region has the lowest average non-performing loan ratio in Africa and the highest capital adequacy ratio (also known as the ratio of capital to risk-weighted assets). Instead, the planned tightening might partly be linked to heightened anxiety about economic conditions compared with banks in other regions of Africa.

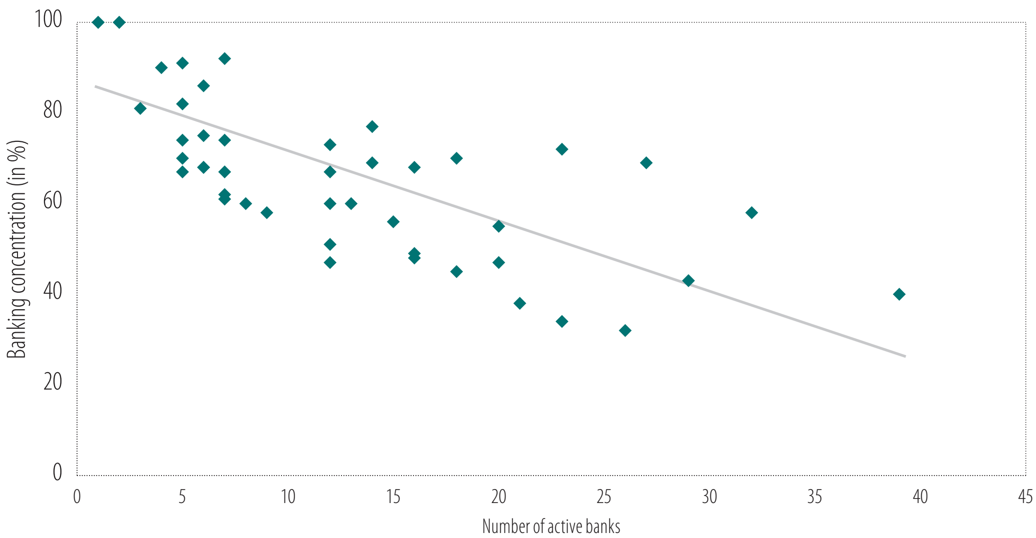
The main factors constraining credit to small and medium-sized enterprises are poor credit history and lack of collateral, whereas lack of funding and asset quality are more prevalent for lending to larger corporates. East Africa is the only region where asset quality is one of the two main concerns for lending to small and medium-sized enterprises, probably due to the large share of Kenyan banks in the sample. For large corporates, loans are more frequently constrained by a lack of funding from banks, likely linked to the larger size of corporate loans.

A review of the pension industry in Southern Africa shows that between 2017 and 2021, pension fund assets grew steadily, led by South Africa, Namibia and Botswana. The consistent asset growth achieved by pension funds in these countries results from a good track record of returns on the investments. However, many pension funds require most of their funds to be invested locally, which is favourable to local financing but limits investment opportunities and hinders diversification. Pension funds in the region also primarily invest in traditional assets, such as equity, bonds and cash, further limiting portfolio diversification and risk management.

Competition remains weak in many regions. Key descriptive indicators are provided in Table 1 and are based on data from the International Monetary Fund (IMF), the World Bank and Moody's Analytics BankFocus. In 2023, 757 banks were operating in Africa: 228 in West Africa, 195 in Southern Africa, 140 in East Africa, 46 in Central Africa and 148 in North Africa.[1] Banking sector concentration, which is defined as the share of assets held by the three largest banks, tends to be high in Africa, ranging from 44% in West Africa to 69% in Central Africa (the average for emerging and developing economies is close to 60%). Across Africa, banking sector concentration is mainly linked to the number of banks, with more banks associated with lower concentration (Figure 1). In contrast, there is no meaningful relationship between banking sector concentration and credit depth.

Figure 1

Banking sector concentration vs. number of banks (dots represent individual countries)



Source: Bureau van Dijk and EIB staff calculations.
Note: R^2=0.5115 (R^2 conveys how much of the variation in banking concentration is explained by the number of active banks).

1 Data from Moody's Analytics BankFocus. As the analysis focuses on bank lending to private sector firms, the following types of institutions were excluded: central banks, development institutions, microfinance institutions, mortgage banks, savings banks, investment banks, private banking/asset management companies, finance companies, non-banking credit institutions, securities firms, clearing institutions and investment and trust corporations.

Table 1
Key banking sector indicators, African sub-regions

	Number of banks	Banking concentration (top three banks)	Credit to the private sector (% of GDP)	Annual credit growth (%)	Loan to deposits (%)	Non-performing loans (% of total loans)	Capital to risk-weighted assets (%)	Return on equity (%)
Southern Africa	195	66.46	64.90	7.13	78.66	6.44	22.09	19.66
West Africa	228	44.32	16.69	28.51	60.27	8.86	12.01	31.68
East Africa	140	56.01	20.89	22.86	73.62	7.29	15.96	22.89
North Africa	148	66.55	37.32	15.97	50.20	9.66	18.17	15.14
Central Africa	46	69.00	11.19	29.35	69.20	13.01	10.52	24.58
Africa	**757**	**60.47**	**36.00**	**20.77**	**66.39**	**9.05**	**15.75**	**22.53**

Source: IMF Financial Soundness Indicators; World Bank DataBank data for sub-Saharan Africa; Moody's Analytics BankFocus data (combines content from Bureau van Dijk and Moody's Investors Service with expertise from Moody's Analytics).[2]
Note: Simple averages, with the exception of credit to the private sector as a percentage of GDP, which is GDP weighted, using data from the World Bank.

Based on our survey of sub-Saharan banks, profit expectations are mostly upbeat across regions, with Southern Africa having the highest share of banks (93%) expecting higher profits in the next 12 months. Although the share of survey responses for Central Africa is too low to provide reliable numbers, only 25% of banks in the region had expectations for higher profitability. Across all regions, changes in business volumes are the main factor driving increasing profits, followed by fee income and interest margins.

Economic conditions are the primary concern for banks in most areas of Africa, especially Southern Africa, where this concern is cited by 88% of banks, compared with 77% for sub-Saharan Africa. West Africa is the only region where economic conditions are not the primary concern (70% of banks), surpassed by concerns about asset quality (71%). Asset quality is also an issue for 64% of banks in East Africa, ahead of the sub-Saharan African average (53%). Another issue disproportionately affecting West Africa is lack of funding, at 44%, which is above the average for sub-Saharan Africa (35%). Cybersecurity concerns affect 29% of banks in sub-Saharan Africa. This ranges from 8% in West Africa to 48% in Southern Africa. With Nigeria as the continent's fintech hub, banks in West Africa might be more digitally advanced than other regions and have fewer cybersecurity concerns. Finally, banks in East Africa (45%) are more concerned about local currency funding costs and availability compared with the average (33%).

This chapter analyses the performance of each region in turn, reviewing market structure, balance sheet metrics and results from the 2024 EIB Banking in Africa survey. The survey only covers sub-Saharan Africa and the response rate for the survey was low for Central Africa. Therefore, the sections on North and Central Africa in this report do not include any regional survey results.

Banking in North Africa

Although North Africa has a comparatively large number of banks, banking concentration is relatively high. North Africa is not covered by the EIB Banking in Africa survey, therefore the analysis in this section relies on data from International Monetary Fund Financial Soundness Indicators, the World Bank DataBank and Moody's Analytics BankFocus (see Table A1 in the Appendix for a summary of the data). The Egyptian

2 Moody's Analytics BankFocus (for subscribers).

banking sector has seen gradual consolidation, with the number of banks at 36 currently, down from 57 in 2004. Banking concentration is relatively high, as the three largest banks account for about 69% of total assets. State-owned banks control a substantial share of system assets. With total assets of about 130% of GDP, the Moroccan banking sector consists of 24 banks, including 19 conventional banks (three of which have Islamic windows, that is, a section offering financial products that are compliant with Islamic or Sharia law) and five Islamic banks. The structure of the Moroccan banking system is characterised by its high concentration, with the three largest banks accounting for about 62% of total banking sector assets. The share of public banks has been declining over the past two decades to 22% of total assets in 2023, from around 40% in 2002. With the entry of Banque Nationale de l'Habitat, the Algerian banking system comprises 28 banks and financial institutions, of which 12 offer products and services relating to Islamic finance. In 2022, Tunisia had 45 licensed banks and financial institutions, up from 44 in the previous year, following the licensing of two payment institutions and the liquidation of one bank. Activity in the Tunisian banking sector remains dominated by domestic banks, which account for 93% of total assets.

Credit provision to the private sector differs considerably across North African economies (Figure 2). Morocco boasts one of the deepest and most sophisticated banking systems in Africa, with private sector credit accounting for 88% of GDP. Large Moroccan banks have expanded their activities across North Africa and sub-Saharan Africa and are present in about 45 countries. Cross-border exposure for the three largest banks accounts for about 27% of their assets. At 62% of GDP, Tunisia also has a high share of private sector credit. Across the region, Tunisia has the highest ratio of loans to deposits, with credit at 106% of deposits in 2022, up from 104% in the previous year. Nevertheless, all banks remained below the regulatory ceiling of 120%, thanks to their efforts to mobilise deposits. At 31% of GDP, Egypt has a markedly lower volume of private sector credit compared with Morocco and Tunisia. Egyptian banks hold a significant share of their assets in Treasury bills. The high share of claims on the government reflects the high level of public debt, which is held mainly by the domestic banking system. At the end of financial year 2022/23, banks' claims on the public sector stood at 58% of GDP. In Algeria, the share of private sector credit amounts to only 21% of GDP. This reflects the state's substantial involvement in the economy as the credit attributed to the economy by public banks increased more (5% annually in 2022) relative to that provisioned by private banks (2% annually in 2022), with public banks distributing 43% of total credit in the economy, vs. 57% by private banks.

In some economies, nominal credit growth did not translate into positive real credit growth, due to elevated inflation rates. Algeria and Tunisia registered negative credit growth in real terms. Inflation rates of 9% in both countries exceeded credit growth of 5% in Algeria and 4% in Tunisia (Figure 2). In contrast, in Egypt, private sector credit grew by 26%, while average consumer prices increased by 24%. In Morocco, consumer prices and private sector credit both grew by 6%.

Bank capital ratios in North Africa comfortably exceed regulatory requirements. In Algeria, the total capital ratio and the Tier 1 capital ratio[3] were 21.5% and 17.7%, respectively, at the end of 2022, which are stable compared with the previous year (21.6% and 17.7%, respectively) and exceed the regulatory minimum. In Morocco, aggregate capital adequacy ratios were 15.8% for the total capital ratio and 12.9% for the Tier 1 capital ratio as of the second quarter of 2023. Both ratios exceed the regulatory minimum of 12% and 9%, respectively, by a comfortable margin. In 2023, Morocco introduced capital surcharges for the three systemically important banks – those whose failure might trigger a financial crisis. Their minimum Tier 1 capital ratio will increase to 11% by 2025. The International Monetary Fund considers systemic risks to the financial system limited and does not see significant solvency risks or recapitalisation needs.

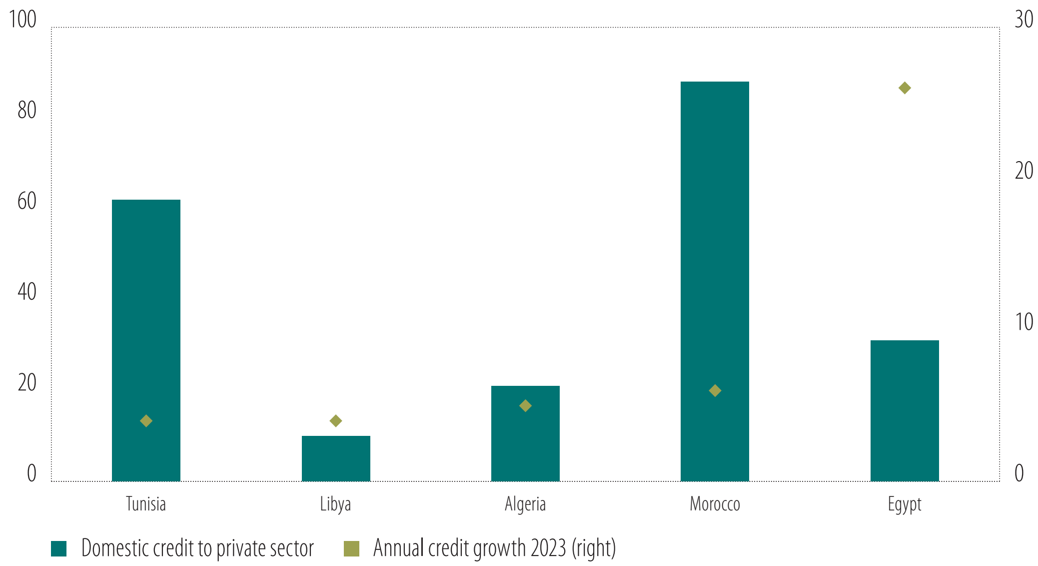
In Egypt and Tunisia, exposure to governments with weak creditworthiness raises concerns about capital adequacy. Ostensibly, Egyptian banks exhibit capital adequacy metrics that comfortably exceed the regulatory minimum of 10%. Bank capital mainly consists of high-quality Tier 1 capital. However, bank capital appears low when adjusting risk weights to reflect the risk of government securities. According to Moody's, the Central Bank of Egypt applies a 0% risk weight on banks' holdings of Egyptian government

3 This is the ratio of the bank's Tier 1 capital – comprising equity capital and disclosed reserves – to its risk-weighted assets.

securities. Adjusting the risk weights to mimic the credit risk of Caa1-rated government securities yields a ratio of tangible common equity to risk-weighted assets of 7.6%. Similar considerations apply to Tunisia, which has a lower sovereign risk rating than Egypt. In 2022, risk-weighted assets increased at a slower pace than net equity. As a result, capital adequacy of the overall Tunisian banking system increased to 14% of risk-weighted assets in 2022 from 13.3% in 2021, and the Tier 1 capital ratio increased to 10.9% in 2022 from 10.3% in 2021.

Figure 2

Credit to the private sector (left axis: % of GDP; right axis: in %)



Source: *World Bank and BankFocus.*

Figure 3

Solvency, profitability and asset quality indicators, North Africa (in %)

Source: *IMF, World Bank and BankFocus.*
Note: *2023 or latest available data.*

Asset quality varies widely across North African economies. Algeria has the highest ratio of non-performing loans to gross loans by a considerable margin (Figure 3). This reflects the high concentration of state-owned enterprises in banks' loan portfolios and supervision practices that discourage banks from writing off loans – which results in legacy non-performing loans lingering on balance sheets, causing a higher overall non-performing loan ratio. The non-performing loan ratio increased marginally in 2022 to 19.9%, from 19.6% at the end of 2021. At the same time, loan loss provisions increased to 50% at the end of 2022, from 48.7% in 2021. In Tunisia, the quality of the loan book improved over the same period, with non-performing loans dropping to 12.6% of the total loans in 2022, from 13.1% in 2021, due to write-offs. Provisioning decreased slightly to 55.1% of non-performing loans in 2022, from 57.2% in 2021. In Morocco, the ratio of non-performing loans remained stable at 8.6% in 2023. However, private sector companies recorded slightly higher loan delinquency rates, as some enterprises faced difficulties in repaying the subsidised loans extended during the COVID-19 pandemic. Egypt has the lowest rate of non-performing loans in North Africa – 3.3% at the end of the third quarter of 2023, according to the central bank. Non-performing loans in Egypt have declined steadily in recent years, including during the COVID-19 pandemic, due to government support measures, improved risk management and central bank arbitration.

The North African banking sectors display solid profitability metrics. During 2022, the Algerian banking sector continued reaping the results of various measures taken by the Bank of Algeria to contain the effects of the health crisis combined with the results linked to the resumption of economic activity. Consequently, the return on equity was 13.5% in 2022 (Figure 3), up from 11.6% in 2020. In Tunisia, accelerating economic activity, higher interest rates and improved risk profiling of loans supported the profitability of the banking system, with return on equity increasing to 10.8% in 2022, from 9.1% in 2021. Similarly, higher interest rates supported bank profitability in Morocco, which also benefited from low-cost funding through current and savings accounts. As a result, return on equity for Morocco improved to 11.8% in the first half of 2023, from 10.9% the previous year. Although Egypt experienced foreign currency shortages and weakening economic activity, the return on equity of Egyptian banks increased to 17.7% at the end of the third quarter of 2023, up from 16.1% in the previous year.

A strong connection between governments and banks is an important systemic risk in North Africa. In Tunisia, the bank-sovereign nexus has intensified over the years, with claims on the government accounting for 13% of system assets in November 2023, up from 8% a decade earlier. Likewise, the Egyptian authorities rely heavily on the domestic banking system to meet their refinancing needs. After the Egyptian revolution of 2011, banks' claims on the public sector peaked at 61% of GDP in the financial year 2015/16, resulting in a strong bank-sovereign nexus. Exposure to government securities still accounts for several times the value of bank equity today, leaving banks vulnerable to a decline in the creditworthiness of the government.

Banking in West Africa

Banking sector competition is weak among the small and fragile West African economies. The banking sector in West Africa comprises 228 banks, most of them located in the West African Economic and Monetary Union[4] (see Table A2 in the Appendix and Figures 4 and 5 for data of key banking indicators in individual countries in West Africa). The largest countries in the region feature more competitive banking sectors, with the top three banks holding less than 50% of banking assets in Ghana (32%), Senegal (34%), Côte d'Ivoire (38%) and Nigeria (43%). Smaller, more fragile economies have highly concentrated banking systems with low levels of intermediation, signalling weaker competition and more expensive lending.

The banking sector in Nigeria – the region's largest economy – is dominated by domestic lenders, and financial intermediation is low. The stock of domestic credit is just 14% of GDP. Credit to the private

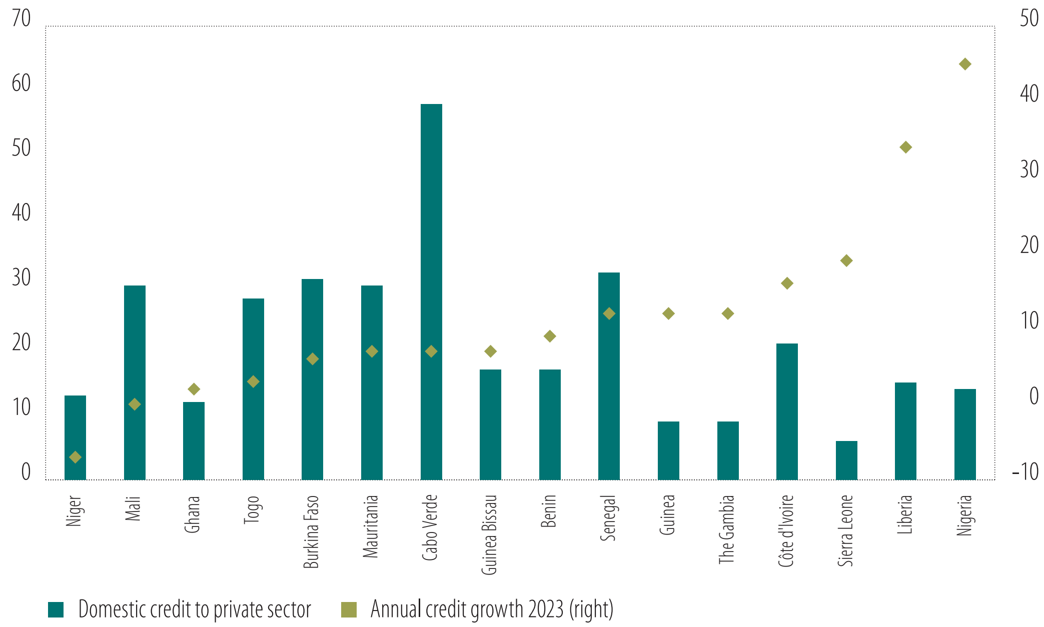
4 The West African Economic and Monetary Union includes Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo, with an average GDP per capita of $1 710 ($4 674 in purchasing power parity) in 2023.

sector grew by 19% in 2022, matching the rate of inflation, meaning real credit growth was close to zero. In 2023, however, private sector credit grew by 45% following a sharp acceleration in the second half of 2023, together with rapid growth in the money supply. As of March 2024, private sector credit was growing at 66% year over year, despite fresh monetary tightening. This growth has contributed to the upward trend in inflation.

The Central Bank of Nigeria announced higher capital requirements for banks that must be satisfied by the first quarter of 2026 (Central Bank of Nigeria, 2024a). The sector's capital adequacy ratio fell to 11.2% in the second quarter of 2023, from 15.1% in 2020. This drop was driven by growth in risk-weighted assets, partly linked to currency devaluation, and growing loan loss provisions. The central bank also observes that the ability of banks to withstand losses is diminishing (Central Bank of Nigeria, 2024b). These factors have led to new capital requirements, which are likely to increase equity issuance and merger and acquisition activity in the sector. Nigerian banks have seen their non-performing loan ratio increase slightly to 4.4% in the final quarter of 2023, following a decline to 4% in 2022 from 6% in 2020. Nigeria's non-performing loan ratio is currently one of the lowest in the region, partly due to tight lending standards by banks.

Figure 4

Credit depth and credit growth, West Africa (left axis: % of GDP; right axis: in %)



Source: *World Bank and BankFocus.*

Like Nigeria, credit depth is shallow in Ghana (12% of GDP), but credit growth has decelerated rather than accelerated. Credit growth was brisk in 2022, growing at more than 30% year over year in December 2022. However, this growth partly reflected exchange rate effects on foreign currency debt. Following the sovereign default in December 2022, credit growth slowed to an average of 1.9% for 2023, even reaching a low of -9.5% year over year in October 2023. In April 2024, the central bank introduced a new cash reserve ratio for boosting credit growth to the economy, with higher reserve requirements for banks with lower loan-to-deposit ratios. The lowest reserve ratio applies to banks with a loan-to-deposit ratio above 55%, but most banks have ratios below 40% and seven banks are close to 20%. Fitch (2024) reports that if banks remain risk averse and prefer not to lend to the real economy, then the new rules might simply drain profitability in the sector.

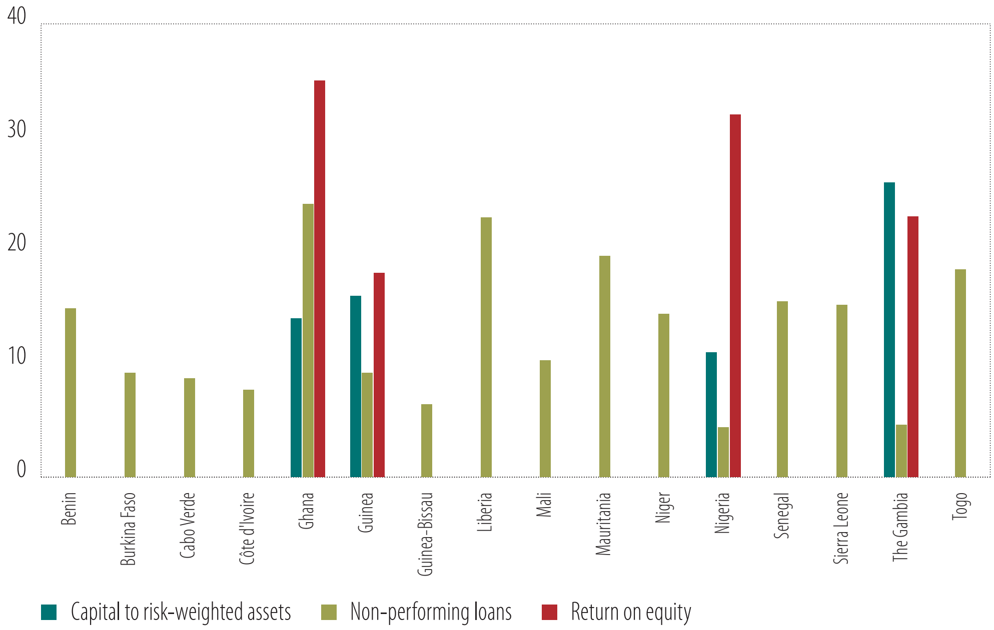
The Central Bank of Ghana had to increase interest rates to combat inflation, which peaked above 50% year over year. Bank of Ghana data show that commercial bank lending rates increased to 34% in

December 2023, from 20% in January 2022. This indicates a high tendency for changes in the policy rate to be reflected in banks' commercial lending rates. However, lending rates declined in the first half of 2024. High interest rates and high inflation have led to a surge in the rate of non-performing loans, which were already high at 15% in December 2022 when the country went into sovereign default. The rate of non-performing loans has now increased to 24%, as of June 2024. The capital adequacy ratio declined to 14.3% in June 2024, from 19.6% in December 2021, due to a combination of mark-to-market losses on investments linked to the domestic debt exchange and an expansion of risk-weighted assets. The actual capital adequacy of banks may be weaker than conveyed by the official numbers, as Bank of Ghana gave banks four years, from 2022 to 2025, to introduce impairment charges from the domestic debt exchange on capital. Recognising the weakened capital position of banks, Bank of Ghana also reduced the minimum capital adequacy ratio to 10% from 13% on 31 December 2022.

For West African Economic and Monetary Union banks, loan book quality is improving, and provisions are decreasing, resulting in better profitability. Credit grew faster than deposits for West African Economic and Monetary Union banks, with credit at 82.2% of deposits in mid-2023, up from 76.3% in 2021. Retail and wholesale trade, restaurants and hotels absorbed the largest share of credit (28.4%), followed by other services (22.4%) and manufacturing (11.7%), while agriculture absorbed only 4.1% of total credit. Overall, the quality of banks' loan portfolios kept improving, with the non-performing loan ratio falling to 8.7% in mid-2023 from 10.3% in 2021. The provision coverage of non-performing loans dropped to 64.5% in mid-2023, from 68% in 2022, sustaining the return on assets of the banking system to 1.5% in 2022, unchanged relative to the previous year. The profitability of West African Economic and Monetary Union banks was further aided by rising interest rates that improved the banks' interest rate margins.

Figure 5

Solvency, profitability and asset quality indicators, West Africa (in %)



Source: IMF, World Bank and BankFocus.

West African Economic and Monetary Union banks are mostly well capitalised, except in Guinea-Bissau and Togo. The capital adequacy ratio for West African Economic and Monetary Union banks improved to 13.2% of risk-weighted assets in mid-2023, from 12.4% in 2021, which is above the 11.5% regulatory threshold. Across the West African Economic and Monetary Union, 114 credit institutions complied with the solvency standard at the end of December 2022. These supervised institutions account for 91.3%

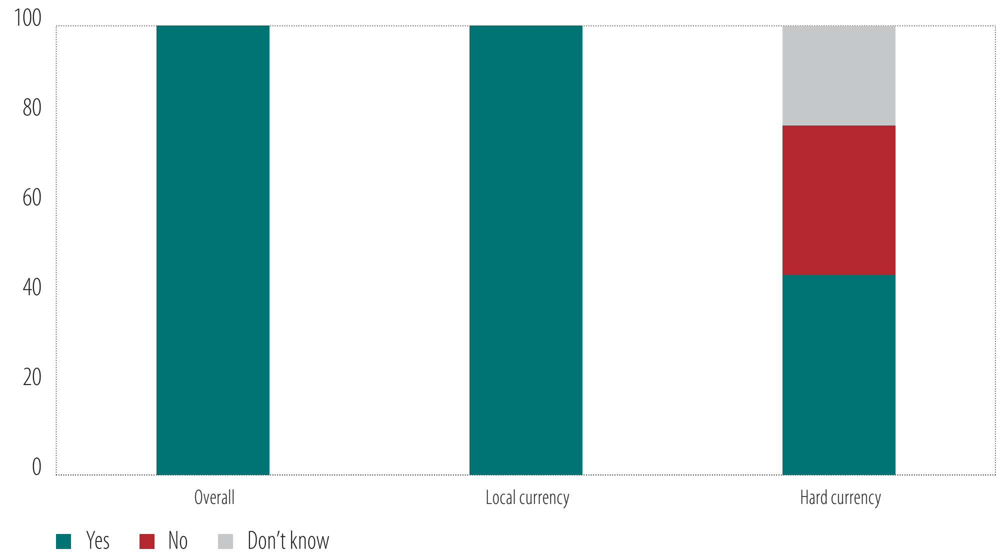
of banking assets and 95.2% of exposures in the union. Nevertheless, there are considerable disparities across countries in the West African Economic and Monetary Union. For example, in Guinea-Bissau only two of six banks abide by capital solvency standards, and in Togo only 11 of 17 banks are in line with regulatory capital requirements. The authorities' recent stress tests confirm banks' vulnerabilities to credit, liquidity and sovereign shocks.

The dependency between West African Economic and Monetary Union banks and governments is still strong. Banks' sovereign exposures stood at about 34% of domestic assets in 2023, up from 27% at the end of 2019. The highest increases were observed in Burkina Faso, Niger and Senegal. The International Monetary Fund's Financial Sector Stability Assessment report based on the Financial Sector Assessment Program with the West African Economic and Monetary Union recommended the use of capital surcharge requirements under Basel Pillar 2 to address these risks. These surcharges would help manage concentration and interest rate risks in the West African Economic and Monetary Union region. All systemically important banks have produced preventative restructuring plans, which were used as a basis for adopting resolution plans for 20 systemic banks in 2023, with the West African Economic and Monetary Union Banking Commission expecting to adopt resolution plans for the remaining 12 systemic banks by mid-2025. Legislative measures required for the full implementation of the resolution framework are considered in the new 2023 banking law.[5]

West African banks responding to the EIB Banking in Africa 2024 survey expect to expand their activity in the next 12 months, especially for local currency lending (Figure 6). All surveyed banks are planning to expand their operations and funding in the next 12 months, which is a higher response than in previous waves of the survey (77% in 2023, 92% in 2022 and 80% in 2021). This result might reflect an expectation among the survey participants that central banks will soon ease their policy stance as inflationary pressures abate. Funding ambitions are more modest in hard currency in the next 12 months (44% of banks) following marked local currency depreciation vs. the US dollar.[6]

Figure 6

Over the next year, do you expect to increase your overall funding? (% of responding banks)



Source: *EIB Banking in Africa survey, 2024.*
Note: *Local and foreign currency data are the results for banks answering "yes" in the "overall" category.*

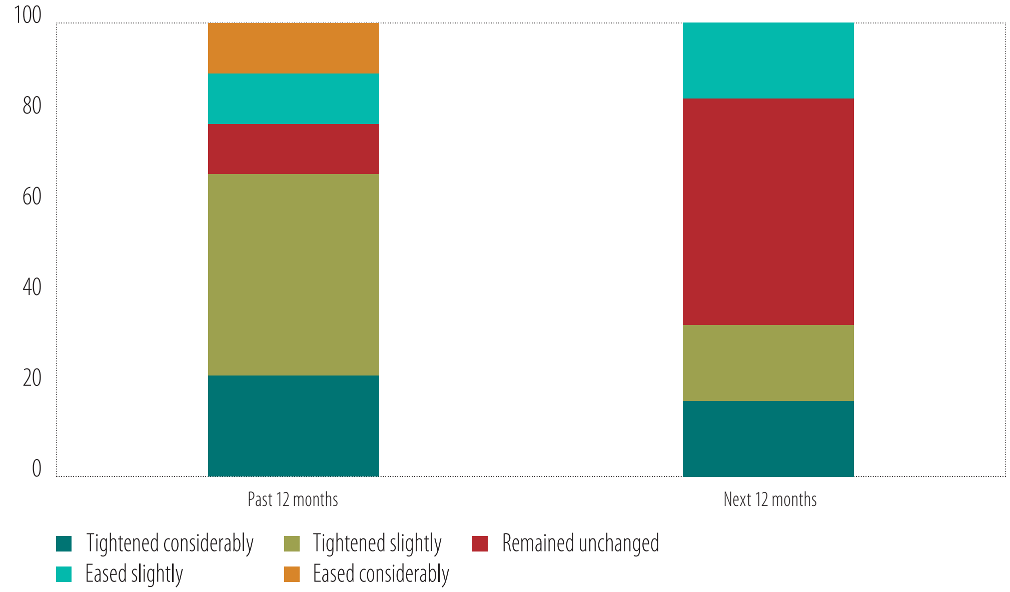
5 See the *Communiqué de presse de la session ordinaire du Conseil des Ministres de l'Union* for the decision by the West African Economic and Monetary Union finance ministers adopting the new banking law. The text of the law will not be available until all West African Economic and Monetary Union parliaments ratify it.

6 The average depreciation of African currencies vs. the US dollar was 14.5% in 2023. However, the depreciation rate was higher for currencies in West Africa, where the average depreciation relative to the US dollar was 17.5% in 2023, led by Nigeria (49.5%), Liberia (18.5%), Sierra Leone (17.2%) and Ghana (15.6%).

Credit standards tightened more than expected over the past 12 months and further tightening is anticipated. In the 2023 survey, most banks in West Africa expected their credit standards to remain unchanged in the following 12 months (58%), while one in three banks anticipated further tightening. The one-third of banks planning a tightening last year appeared to be expecting further central bank rate increases. However, 66% of the banks surveyed in 2024 reported that they had tightened their credit standards in the past year, considerably more than originally planned. Many banks in the region could not absorb higher interest rates and passed some of the cost to end-clients, which weighed on the region's credit growth. Going forward, half of the West African banks surveyed in 2024 anticipate that credit standards will remain unchanged, while one-third of the banks anticipate a further tightening in lending standards (Figure 7). Thus, further tightening is planned, but at a slower rate than last year.

Figure 7

How credit standards have changed/will change (% of responding banks)

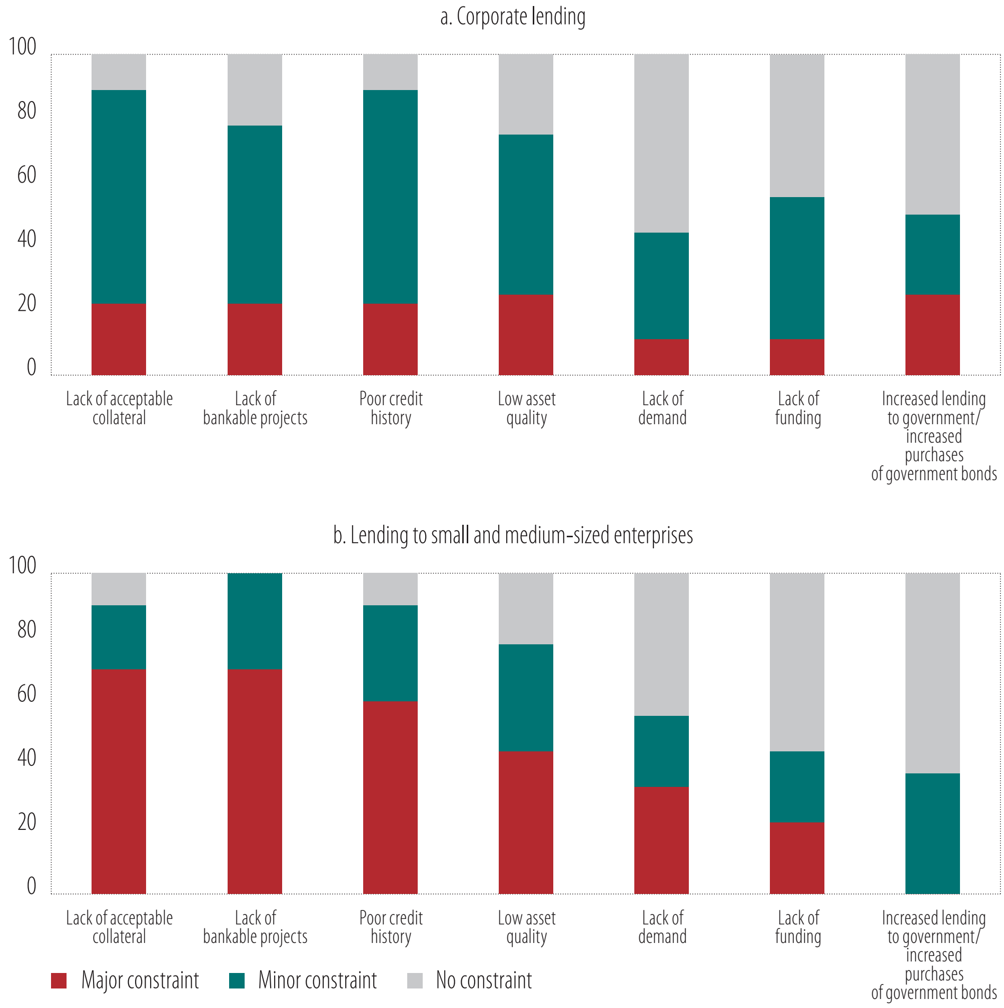


Source: EIB Banking in Africa survey, 2024.

Poor credit history and a lack of acceptable collateral are still key factors constraining corporate lending in West Africa (Figure 8). Many responding banks consider these two factors major constraints for small and medium-sized enterprises but minor constraints for large firms. Lack of bankable projects was reported to be equally problematic in the region and low asset quality was the fourth most-cited barrier to lending – although the rate of non-performing loans varies considerably among West African countries, so this issue is very country-specific. Although lending to government is not seen by banks as a major constraint to lending to small and medium-sized enterprises, a quarter of banks consider it a major constraint to lending to larger corporates. Therefore, crowding out seems to be affecting high-value loans rather than low-value loans.

Figure 8

Factors constraining credit supply, West Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Banking in East Africa

East Africa has a total of 140 banks (Table A3 in the Appendix), with a bank concentration of 56%, as measured by the weighted average of the share of assets held by the three largest banks. Burundi, Djibouti, Ethiopia, Tanzania and Rwanda have a high bank concentration (over 60%), denoting weak competition, low financial intermediation and high lending rates. In contrast, Kenya and Uganda have the lowest bank concentrations, at 40% and 47%, respectively, suggesting that competition in the region tends to be higher in countries with larger numbers of banks and greater credit depth.

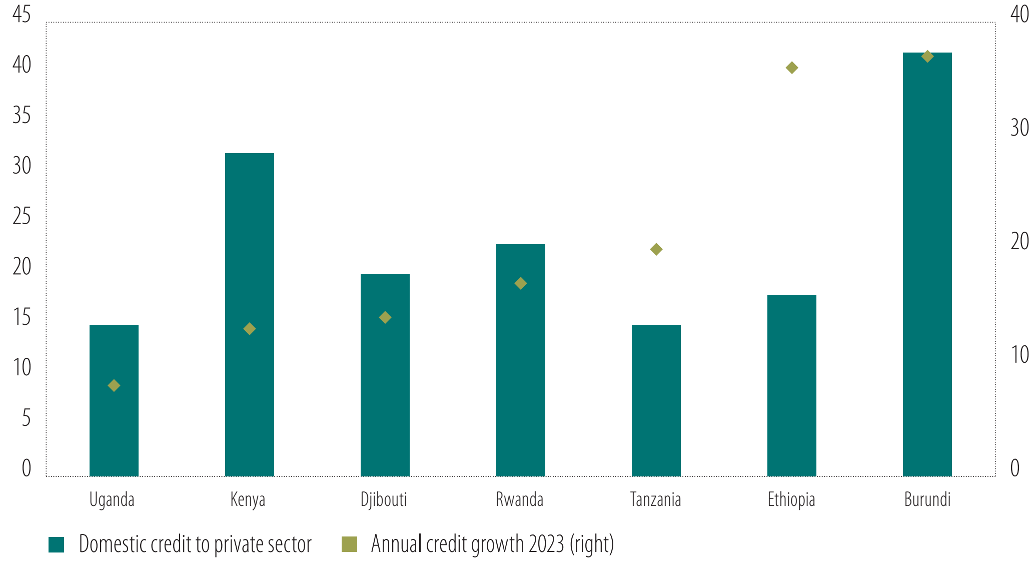
Credit markets typically remain shallow, although some countries are seeing considerable credit growth (Figure 9). In 2023, credit to the private sector in East Africa was 21% of GDP, with Burundi and Kenya having the highest shares at 42% and 32%, respectively, followed by Rwanda (23%) and Djibouti (20%). Conversely, Ethiopia, Uganda and Tanzania have the lowest ratios of credit to GDP at 18%, 15% and 15%, respectively, despite each having numerous banks. Kenya remains the most advanced financial market in East Africa. According to 2022 Global Findex data,[7] it leads the region in financial inclusion, with 79% of the adult population having an account at a bank or other type of financial institution or using a mobile money service. Kenya is followed by Uganda (66%), Tanzania (52%) and Ethiopia (46%). For the whole of sub-Saharan Africa, financial inclusion stands at 55%.

Credit growth rates accelerated in East Africa in 2023 compared with 2022. Factors contributing to this growth include better financial infrastructure, greater investor confidence and government policies aimed at promoting entrepreneurship and investment. While countries like Kenya, Tanzania and Uganda have witnessed rising credit availability for businesses, challenges persist in ensuring that credit reaches small and medium-sized enterprises and in addressing high interest rates. Although credit growth has been robust, loan-to-deposit ratios remain below 100% in almost all countries, with a weighted regional average of 74%, indicating limited risks of excessive lending.

At the country level, Burundi recorded the highest nominal annual credit growth at 37%, driven by an improving business climate. Ethiopia followed closely with 36%, rebounding due to intensified economic recovery measures following the end of the Tigray War in November 2022, although the inflation rate was 30% in 2023. Uganda experienced the lowest credit growth at 8%, due to excessive government borrowing that crowded out private sector credit, as discussed in Chapter 1 under the severity of crowding out. The surge in domestic sovereign borrowing in Uganda resulted from the World Bank freezing financing for new projects after the country passed a controversial anti-LGBTQ law in May 2023.

Figure 9

Credit depth and credit growth, East Africa (left axis: % of GDP; right axis: in %)



Source: World Bank and BankFocus.

The banking sector in East Africa remained resilient and stable, despite experiencing persistent global inflation, higher borrowing costs and exchange rate depreciation. The soundness and stability of the financial sector were maintained through adequate capital and liquidity levels (Figure 10), which remained above the minimum requirements. However, increased liquidity pressure caused the weighted average capital adequacy ratio for the region to decline to 16% in 2023, from 19% in 2022, with Rwanda and Uganda recording the highest capital ratios, of over 20% of risk-weighted assets.

7 Available in the Global Findex database.

Profitability was broadly unchanged compared with the previous year, with an average return on equity of 23% and a low non-performing loan ratio. Despite the challenging economic environment, the share of non-performing loans to total assets was 6.5% or less in all countries except Kenya, because of tight, prudent measures that ensured asset quality. However, banks showed a preference for lending to the government rather than the private sector, intensifying the bank-sovereign nexus, which could lead to a deterioration in asset quality in the event of sovereign defaults and financial stability risks due to maturity mismatches, asset concentration and illiquidity. Enhancing supervisory standards and policy measures should mitigate these risks and maintain financial sector stability.

Figure 10

Solvency, profitability and asset quality indicators, East Africa (in %)

Source: IMF, World Bank and BankFocus.

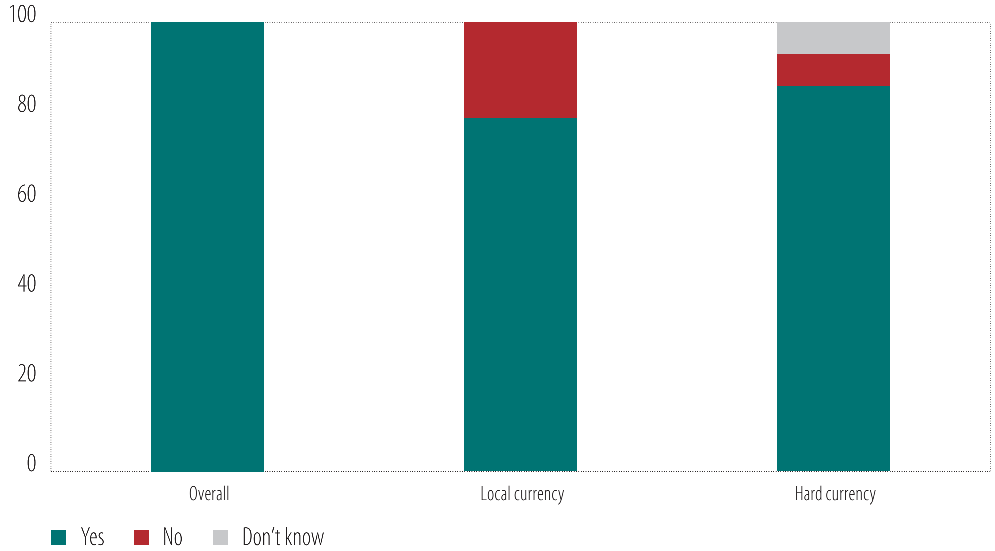
All East African banks that responded to the 2024 EIB Banking in Africa survey anticipate increasing their overall funding (Figure 11), which is an increase from 2023, when 90% expected to increase their overall funding. The expansion of funding is expected in local currency (79%) and foreign currency (86%), indicating enhanced financial deepening and higher liquidity needs given that some countries are facing high debt levels. The share of banks expecting to increase hard currency funding in East Africa is considerably higher than in other regions of Africa.

Banks in East Africa tightened their credit standards over the past year and expect further tightening in the next year (Figure 12). The proportion of banks that indicated a tightening of their credit standards over the last 12 months (63%) is much higher than the proportion that indicated an easing of credit conditions (19%), implying a net tightening by 44% of banks. Similarly, over the next 12 months, banks will continue tightening credit standards, with a net tightening of 47% expected. There are several potential reasons behind this planned tightening, including scare funding, asset quality concerns in some countries and a continued preference for lending to the government.[8]

8 Regional economic outlook: Sub-Saharan Africa 2024 (IMF, 2024).

Figure 11

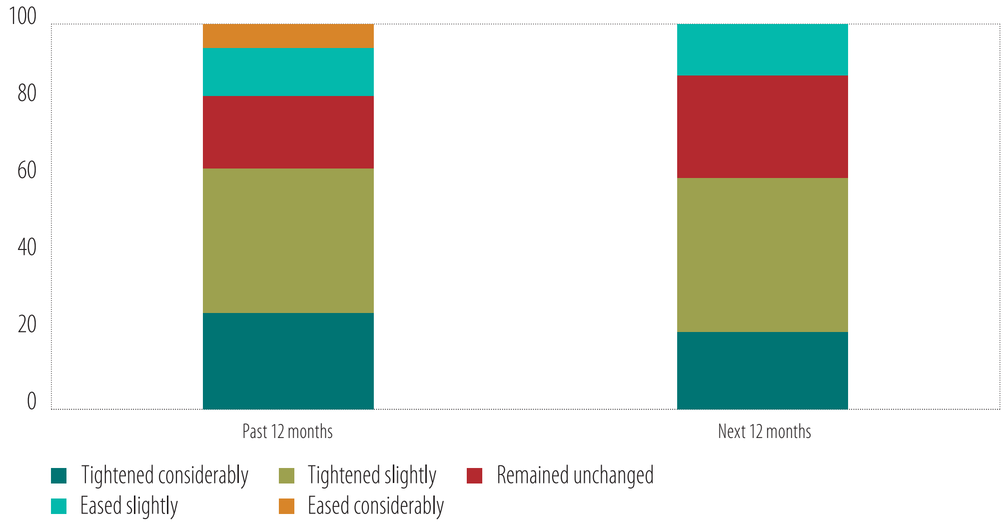
Over the next year, do you expect to increase your overall funding? (% of responding banks)



Source: *EIB Banking in Africa survey, 2024.*
Note: *Local and foreign currency data are the results for banks answering "yes" in the "overall" category.*

Figure 12

How credit standards have changed/will change (% of responding banks)

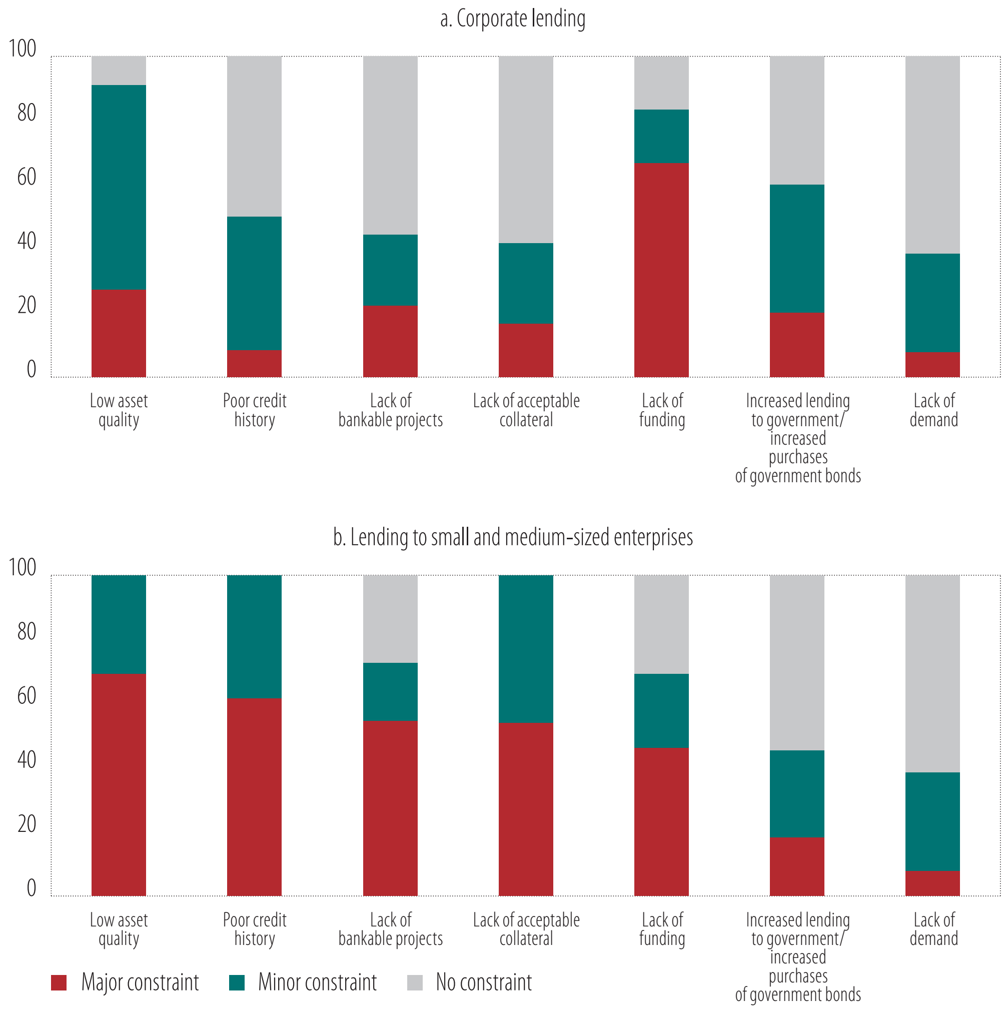


Source: *EIB Banking in Africa survey, 2024.*

The main factor constraining credit supply to corporates in East Africa is a lack of funding, while various factors, including low asset quality and poor credit history, impede lending to small and medium-sized enterprises (Figure 13). The constraining factors are in both supply and demand, suggesting that credit supply might improve as the financial conditions ease and geopolitical risks that disrupt supply chains fade. However, it also suggests that structural policy measures might be needed to fully unlock credit supply to companies, and particularly to small and medium businesses. This need is likely to be even stronger in the current economic recovery period when there is weaker external demand amid high borrowing costs.

Figure 13

Factors constraining credit supply, East Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

A detailed analysis of banking sector performance in Kenya – largely informed by the 2024 EIB Banking in Africa survey – is presented in Box 1. Seven banks from Kenya responded to our survey in 2024, which is the largest response rate for any country.

Box 1

Banking developments in Kenya and EIB survey responses

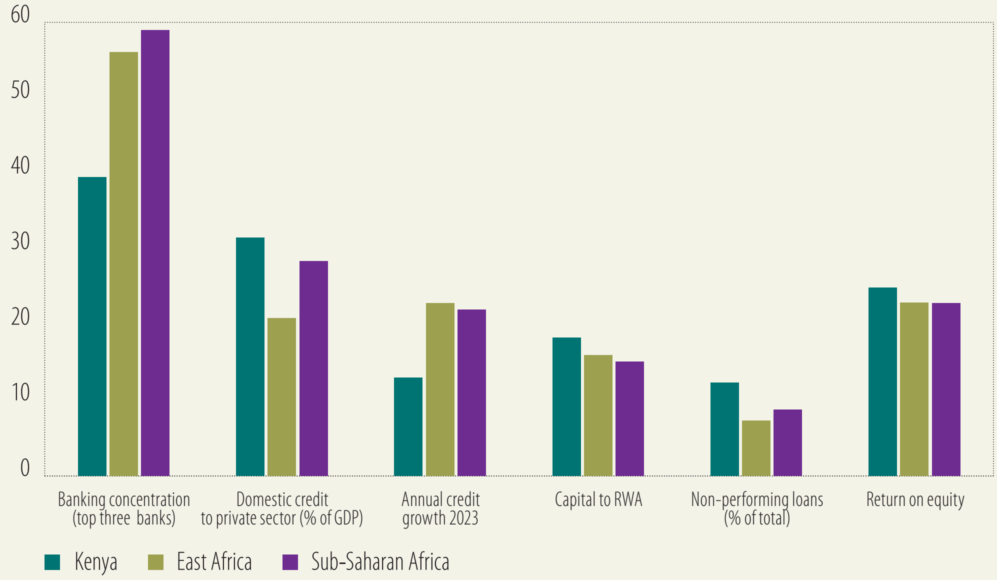
Kenya has the most developed and competitive financial sector in East Africa. Domestic credit to the private sector is 32% of GDP in Kenya, which is above the average of 21% in East Africa and just below the 36% average in sub-Saharan Africa (Figure 14). Although the Kenyan stock market was ranked as the world's worst performer in 2023 when the All-Share stock index plunged by 43%, a swift reversal means it is now ranked as the best-performing market, with the index surging by 49%.[9] Kenya has the

9 Kenya Stocks: BlackRock Says World's Best Performer Offers Value - Bloomberg.

lowest banking sector concentration at 40%, compared with 56% and 59% for East Africa and sub-Saharan Africa, respectively, pointing to higher competitiveness. In terms of profitability, the Kenyan banking sector remains one of the most profitable, with a return on equity of 25% compared with 23% for East Africa and sub-Saharan Africa. However, asset quality remains a concern in Kenya, with the non-performing loan ratio at 13%, compared with 7% and 9% for East Africa and sub-Saharan Africa, respectively.

Figure 14

Key banking sector indicators (in %)



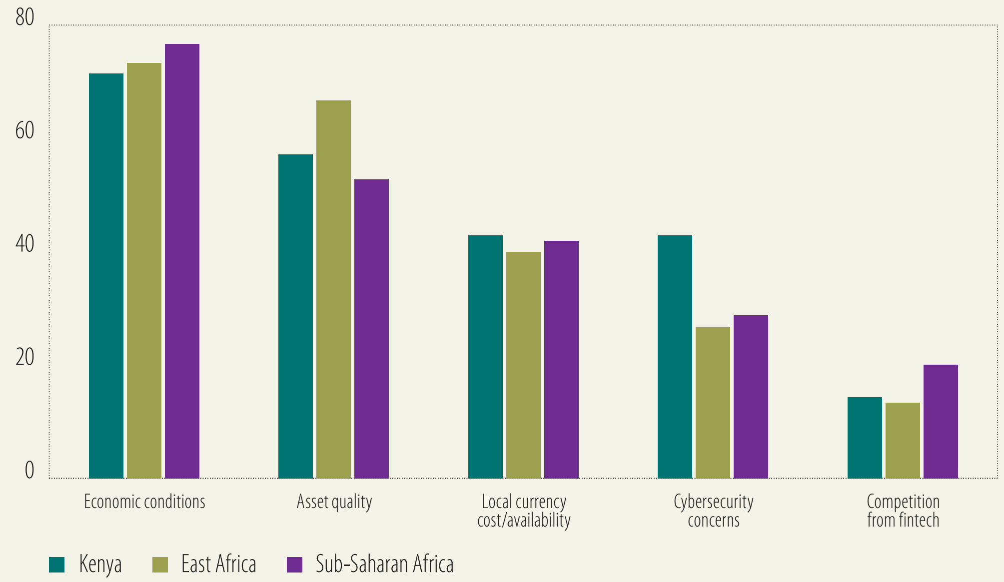
Source: IMF, World Bank and BankFocus.

According to the 2024 EIB Banking in Africa survey, economic conditions and asset quality are the main concerns for banks in Kenya. Recent global shocks coupled with persistent high inflation have left economies struggling with increased interest rates. Accordingly, 71% of Kenyan banks cite economic conditions as their main concern (Figure 15). Although asset quality is weaker in Kenya compared with other regions, it is a concern for 57% of banks in Kenya, a proportion that is marginally above the sub-Saharan African average but below the 67% of banks in East Africa that are concerned about this factor. The biggest difference in factors affecting banks is the 43% of banks in Kenya concerned about cybersecurity, compared with less than 30% of banks for East Africa and sub-Saharan Africa. This result might reflect the high penetration of digital finance in Kenya.

Kenyan banks are tightening lending standards considerably more than other banks in East Africa or sub-Saharan Africa (Figure 16). In the past 12 months, a net 86% of banks in Kenya tightened their credit standards, which is more than double the rate observed for East Africa or sub-Saharan Africa. This disparity is expected to persist, with a net 83% of Kenyan banks expecting to further tighten credit standards in the next 12 months, well above the 46-47% of banks planning such tightening in East Africa and sub-Saharan Africa. Although Kenyan banks do not report being more worried about asset quality than other banks in sub-Saharan Africa, lending standards are being tightened more aggressively, presumably to stabilise asset quality.

Figure 15

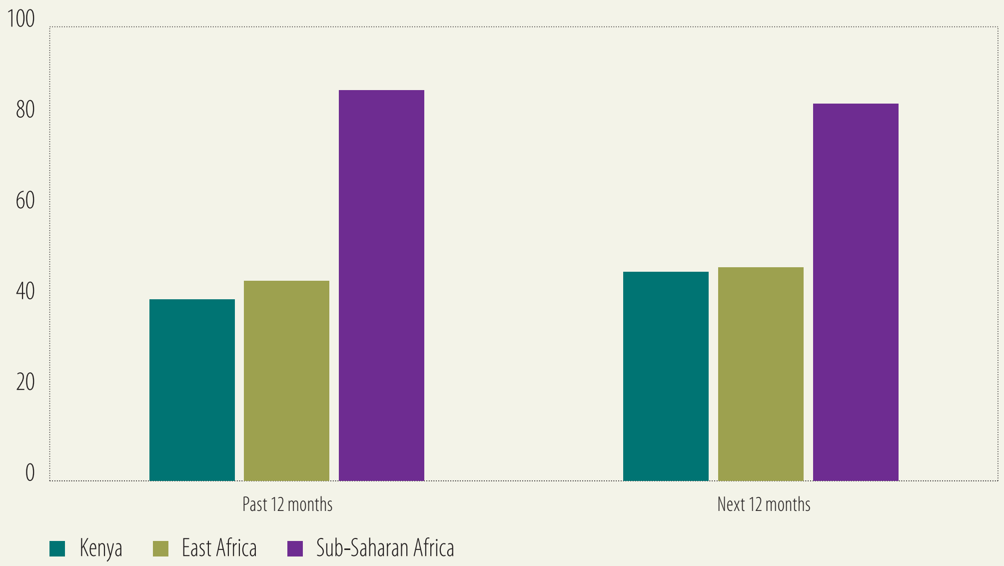
Over the next year, what will be the biggest factors affecting your business?
(% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Figure 16

Net tightening in credit standards by region (% of responding banks)

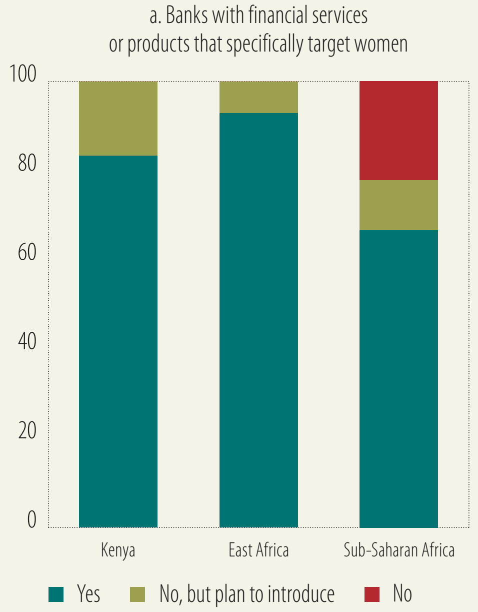


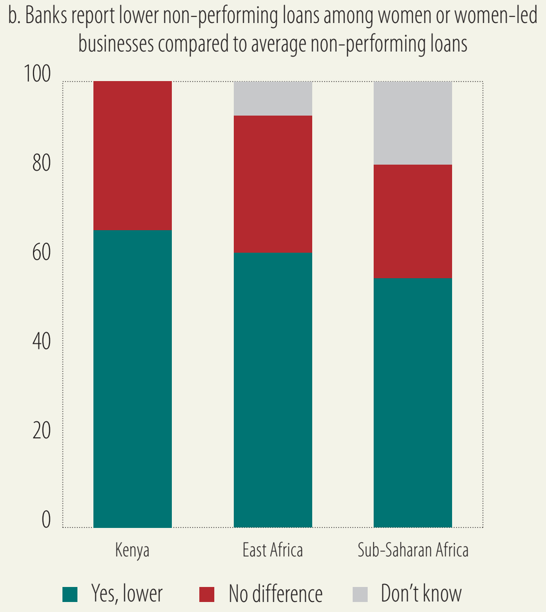
Source: IMF Financial Soundness Indicators and EIB staff calculations.

Over 83% of the banks surveyed in Kenya have a gender strategy, while 17% are planning to introduce one, reflecting the banks' commitment to gender financing (Figure 17a). These results are slightly below the East African average but ahead of the sub-Saharan African average, making East Africa the leading region in promoting gender strategies and female financing – a situation that might be influenced by greater financial inclusion in the region, driven by mobile phone money services. Banks in Kenya are also more likely to report superior asset quality when lending to women compared with other regions. In Kenya, 67% of the banks report fewer non-performing loans when lending to women-led businesses, compared with 56% of the banks in sub-Saharan Africa (Figure 17b).

Figure 17

Gender inclusion (in %)

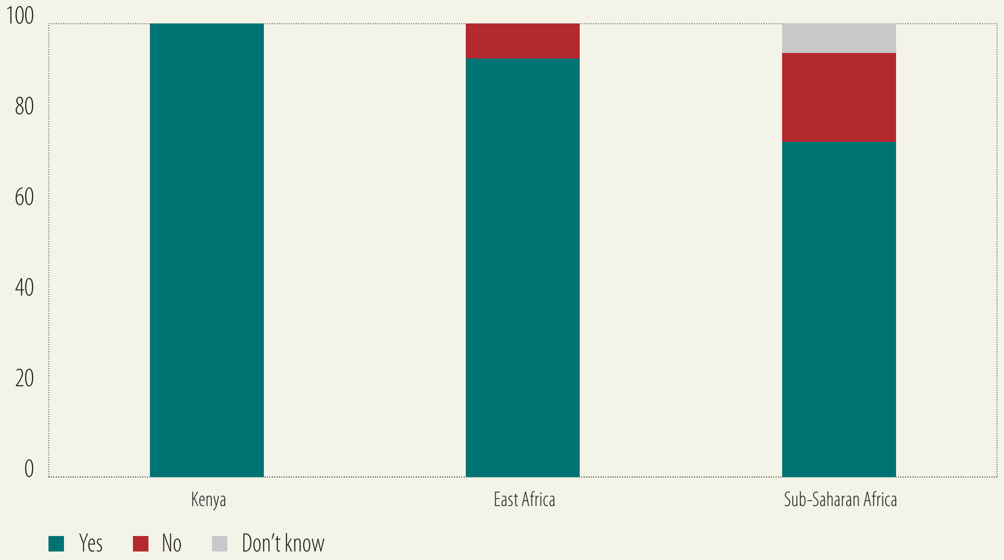




Source: *EIB Banking in Africa survey, 2024.*

Figure 18

Climate change strategic objectives



Source: *EIB Banking in Africa survey, 2024.*

All Kenyan banks have a climate change strategy in place, making the country a leader on the continent (Figure 18). Kenyan banks are at the forefront of African financial sectors in responding to climate-related risks – in mitigation and adaptation. In addition, Kenyan banks are increasing their efforts to provide green products. This situation is in line with a Central Bank of Kenya policy that requires Kenyan commercial banks to report initiatives for promoting climate-related risk management. The EIB has been providing climate-related technical assistance to the Central Bank of Kenya, helping in the development of a Green Taxonomy.[10]

Banking in Southern Africa

In Southern Africa, levels of financial intermediation vary substantially. Domestic credit to the private sector as a percentage of GDP is over 90% in South Africa, the continent's most developed financial sector, and above 70% in Mauritius, an international financial centre (Figure 19). In contrast, Angola and Malawi have extremely shallow credit markets, worth less than 10% of GDP. Overall, credit depth for Southern Africa is 65% of GDP, dropping to 20% of GDP when South Africa is excluded. Zambia and Zimbabwe have relatively shallow credit markets but have some of the more competitive banking sectors, measured by the share of assets of the three largest banks.[11] The level of competition, which we are proxying by asset concentration, is mostly related to the number of banks in a country rather than the size of the banking sector relative to GDP. In contrast, South Africa has the largest number of banks but the top three still account for 72% of assets (Table A4). It could be the case that for some of the most competitive markets, only the most efficient banks can survive, leading to a high concentration. However, the EIB Banking Industry Risk model, outlined in the 2023 Finance in Africa report (EIB, 2023), finds that, on average, banking sector risk is lower when concentration is weaker.

Typically, credit growth was faster among the countries with more shallow markets, which is encouraging. Credit growth varies in Southern Africa (Figure 19, circles), but the eight countries with the fastest growth rates all have bank credit below 30% of GDP, and below 20% for most of those countries. However, nominal credit growth in 2023 was below 10% in many countries and typically either close to or below the rate of inflation, meaning that only a handful of countries saw credit grow substantially in real terms. Credit growth was particularly fast in Zambia, at 31% annually, largely driven by credit extension to large businesses and households rather than small and medium-sized enterprises, although small and medium-sized agricultural enterprises enjoyed rapid credit growth.

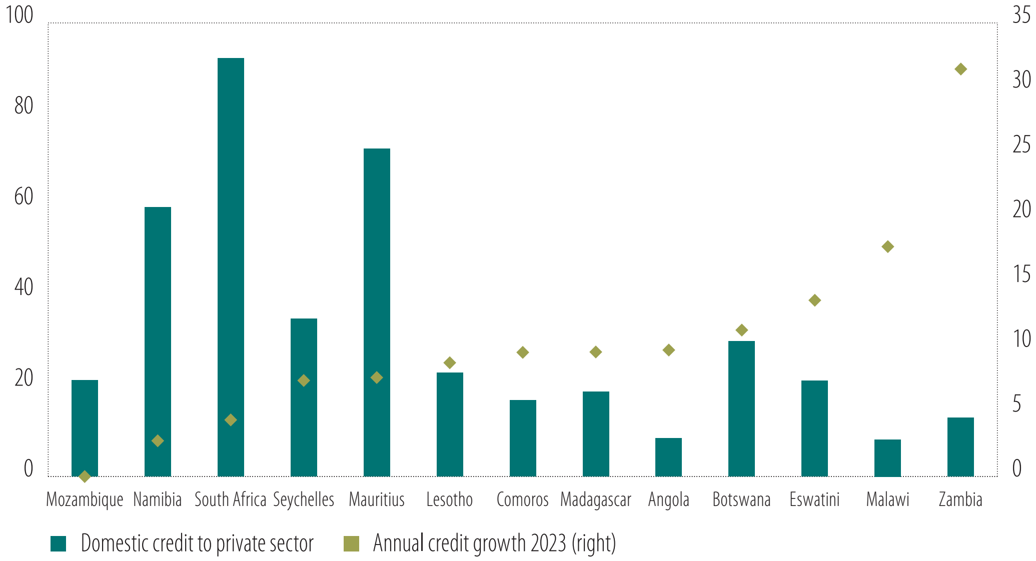
Despite the difficult macroeconomic environment, bank performance generally remained robust in Southern Africa. Data on profitability are available until the second quarter of 2023 for nine of the countries in the region and eight of these countries saw their profits grow by an average of about 20% in the first half of 2023 compared with the first half of 2022. As described in Chapter 3, higher profits were often driven by banks' bond portfolios, although interest income from loans was also involved. Malawi, Madagascar and Zambia have the highest overall levels of profitability, with a return on equity of 42%, 35% and 34%, respectively. The share of bonds in total assets for the banks in these countries is 34% in Malawi, 40% in Mauritius and 29% in Zambia, according to the latest data available for each country. Capitalisation is generally sound and above regulatory minimums (Figure 20). The average capital to risk-weighted asset ratio across countries of Southern Africa in the second quarter of 2023 is just above 20%, broadly unchanged from a year ago. However, the relatively high capital ratios in the region are flattered by the large holdings of government bonds, which typically have a zero-risk weight, and therefore do not contribute to risk assets.

10 The draft Kenyan Green Finance Taxonomy is now available on the Central Bank of Kenya website.

11 This metric is below 50% for these two countries, with a lower asset share for the top three banks conveying more competitive dynamics.

Figure 19

Credit depth and credit growth, Southern Africa (left axis: % of GDP; right axis: in %)



Source: *World Bank and BankFocus.*

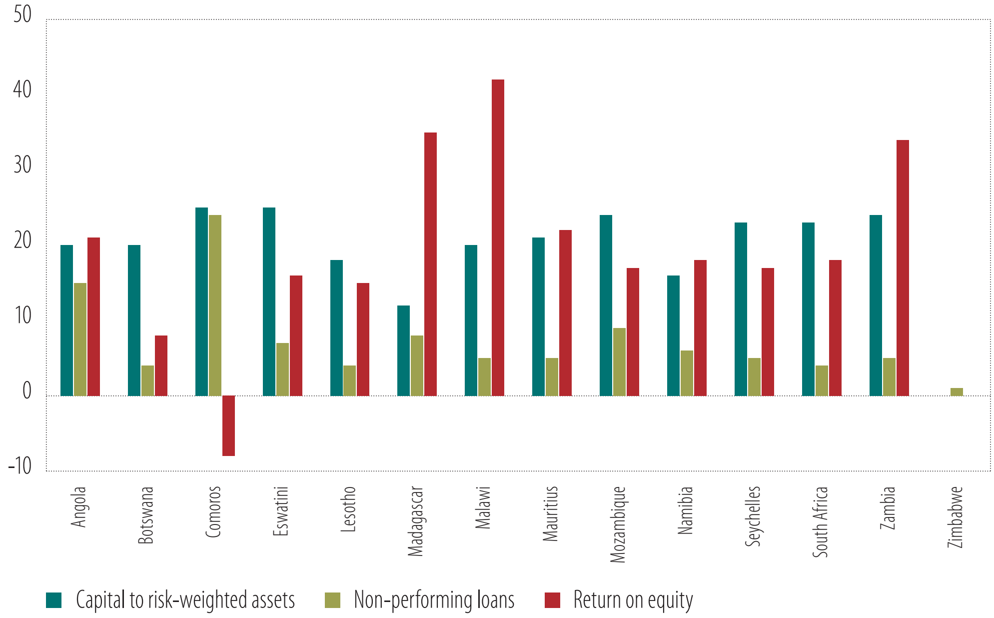
In South Africa, which has the largest banking system in the region, nominal credit growth was 8-10% year over year for most of 2022 and 2023. Lending rates increased to 11.8% by the end of 2023, from a low of 7% in the third quarter of 2021. Banks have a preference for holding sovereign debt, with the growth of sovereign debt holdings outpacing that of loan growth. Sovereign debt holdings made up around 18% of the assets in the South African banking sector in 2023, compared with 13% before the onset of the COVID-19 pandemic in 2019. The central bank (South Africa Reserve Bank, 2023) notes that small banks have higher holdings of sovereign debt in relative terms, at around 37% of assets, which is particularly concerning given that the capital buffers and asset quality of small banks are much weaker than those of larger banks.

Banks in the region are mainly deposit funded, with deposits accounting for more than three-quarters of liabilities in most countries. South Africa is the exception, with deposits accounting for just 47% of liabilities. Thus, banks in South Africa remain dependent on institutional deposits, reflecting the low savings rate of South African households and the country's well developed asset management industry. Institutional deposits are shorter term, less diversified, more expensive and more confidence-sensitive than household deposits.

Banks in Southern Africa anticipate increasing their funding in the next year, but accelerated loan growth is unlikely. Nearly all banks in Southern Africa in the survey (93%) expect to increase their funding, particularly for the local currency (75%, Figure 21), while just over half of banks are expecting to raise funds in hard currency. However, banks in Southern Africa have the weakest expectations for credit growth for the year ahead, with only 17% of banks expecting an increase in their rate of loan growth, and another half expecting an unchanged rate of loan growth. The share of banks expecting higher loan growth is the lowest among all regions in sub-Saharan Africa. Thus, the large share increasing their funding is unlikely to translate into an acceleration in loan growth.

Figure 20

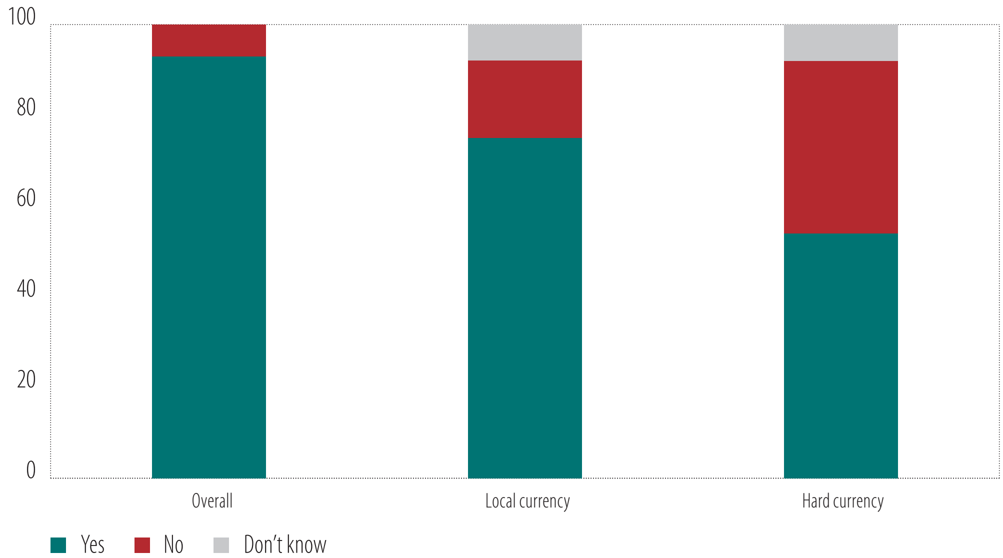
Solvency, profitability and asset quality indicators, Southern Africa (in %)



Source: *IMF, World Bank and BankFocus.*

Figure 21

Over the next year, do you expect to increase your overall funding? (% of responding banks)

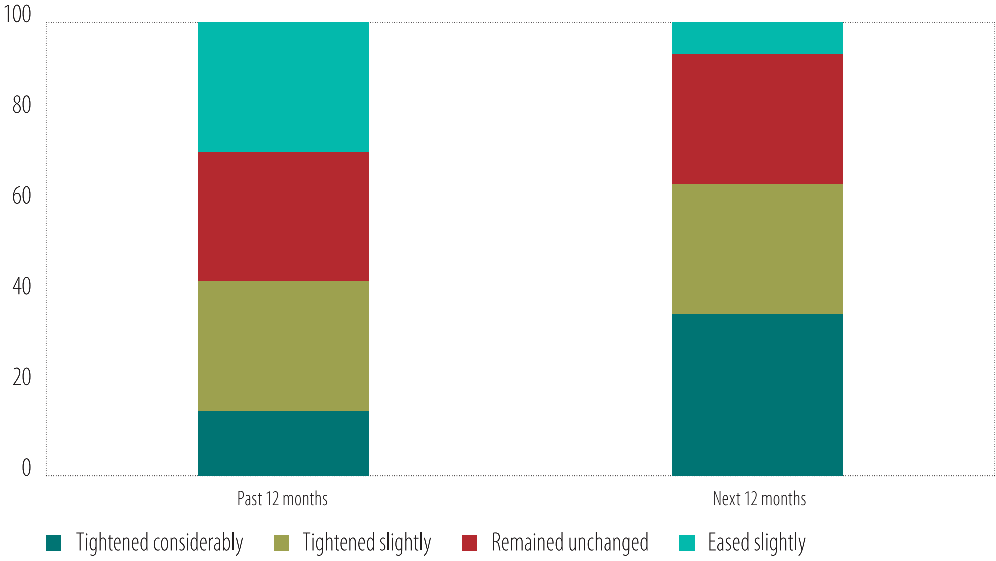


Source: *EIB Banking in Africa survey, 2024.*
Note: *Local and foreign currency data are the results for banks answering "yes" in the "overall" category.*

Credit standards tightened in Southern Africa in the last 12 months and are expected to tighten further over the next 12 months. Last year, Southern Africa was the only region with a balance between the number of banks expecting to tighten lending standards and those expecting to ease them. Ultimately, there was a net tightening by 14% of banks in the region over the last year (Figure 22). This was considerably less severe than the 40% net tightening observed for sub-Saharan Africa as a whole. For the next 12 months, the situation is expected to deteriorate in Southern Africa, with 57% of banks planning a net tightening, which is more than the 46% in sub-Saharan Africa. Southern Africa has the highest share of banks concerned about economic conditions. Moreover, as seen in Chapter 3, Southern Africa had a relatively high concentration of countries where credit spreads on lending to the private sector recently increased. The data on credit standard expectations suggest that this situation could continue for some time. Higher interest rates may also affect loan demand, as only 44% of banks in Southern Africa expect higher loan demand in local currency in the next 12 months, compared with 70% in sub-Saharan Africa. This observation again points to subdued credit growth in the region.

Figure 22

How credit standards have changed/will change (% of responding banks)

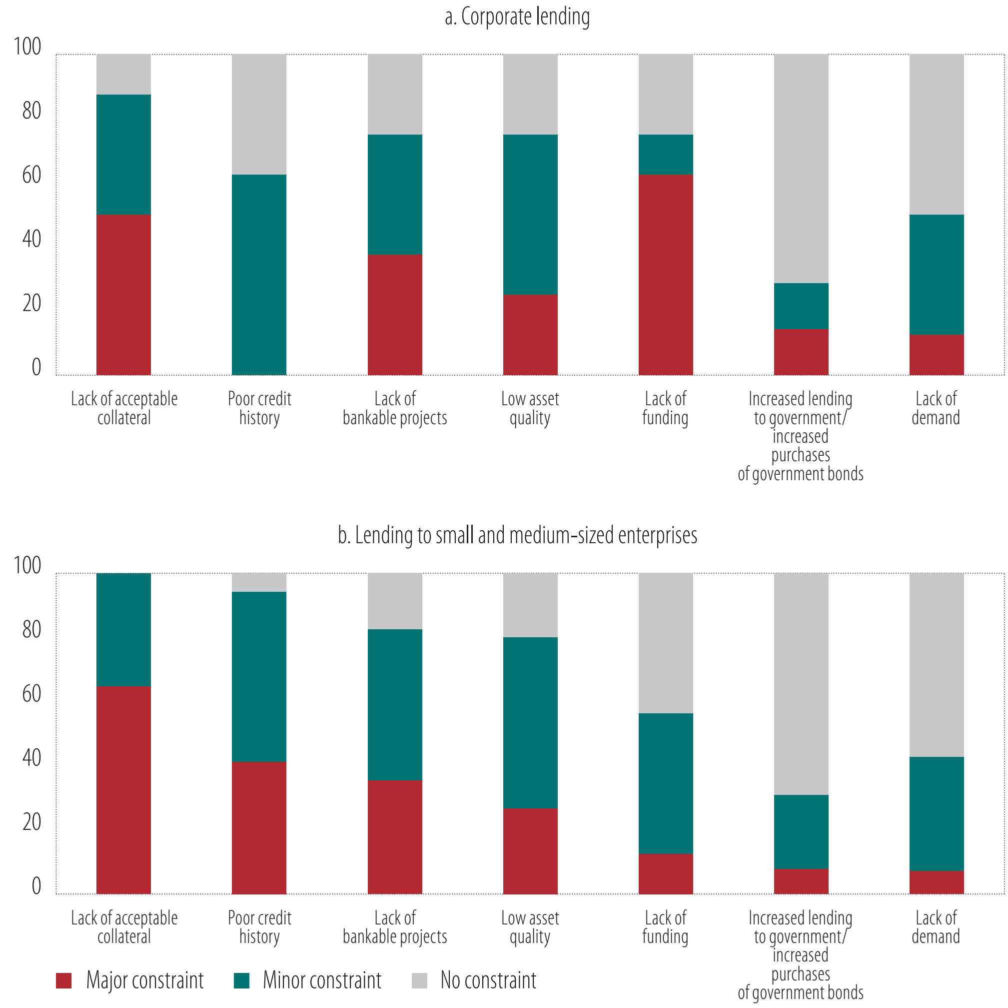


Source: EIB Banking in Africa survey, 2024.

Structural factors – particularly lack of collateral and poor credit history – remain the key constraints to lending by commercial banks in Southern Africa. Lack of collateral is a major constraint for two-thirds of banks when lending to small and medium-sized enterprises, and for half of banks when lending to larger corporates. Over 40% of banks say poor or incomplete credit history disproportionately affects lending to small and medium-sized enterprises, whereas no banks consider it an important issue when lending to large firms. Almost two-thirds of banks cite a lack of funding as a major issue in lending to large firms, but rarely a major concern in lending to small and medium-sized enterprises. This finding might reflect the larger loan sizes for large firms. Finally, although banks in the region have seen their bond portfolios expand in recent years, they do not consider this a major constraint for lending to small or large firms.

Figure 23

Factors constraining credit supply, Southern Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Box 2, written by Grakolet Arnold Gourène from Making Finance Work for Africa (a partnership supporting the development of African financial sectors), provides an overview of pension funds in Southern Africa. The box draws on the financial sector profile of Southern Africa contained in Making Finance Work for Africa (2024).

Box 2

Pension funds in Southern Africa

Pension funds provide people with a decent retirement income and offer a long-term source of capital for investment. The dynamism or investment activity of pension funds varies considerably in Southern Africa. The early establishment of pension systems in countries such as Namibia, Botswana, South Africa and Eswatini, as well as their membership of the Common Monetary Area and the Southern African Customs Union, has enabled funds to build up substantial assets compared with other countries in the region due to the increased investment opportunities offered by the South African market (Table 2).

Table 2

Evolution of pension fund assets in Southern Africa ($ million)

	2017	2018	2019	2020	2021	2022
Angola	901.2	791.7	848.3	951.1	1 115.3	1 688.7
Botswana	8 309.8	7 522.8	8 768.4	9 748.0	10 231.1	9 230.9
Lesotho						164.5
Malawi	727.1	944.4	1 154.0	1 319.5		
Mauritius	632.9	188.8	1 516.5	1 426.9	1 435.3	1 366.6
Mozambique	107.8	155.1	178.0	158.4	224.0	
Namibia	10 863.6	10 212.8	10 660.1	10 699.5	11 818.7	10 641.2
South Africa	196 587.4	175 589.8	187 413.1	171 499.7	202 774.0	119 423.3
Zambia	788.6	727.5	662.4	525.2	744.7	772.4
Zimbabwe			983.0	1 347.9	2 015.4	1 104.7

Source: OECD.

Between 2017 and 2021, pension fund assets in the region grew steadily, led by South Africa, Namibia and Botswana. However, in 2022, most pension funds in the region saw their assets decline due to high levels of unemployment and inflation in the region. South Africa, Namibia and Botswana account for a substantial proportion of Africa's total pension assets.[12] However, pension fund penetration, as measured by the ratio of pension fund assets to GDP, remains low in most countries in Southern Africa. For example, in 2022, pension fund assets in Angola, Zambia and Zimbabwe were only 1.5%, 2.9% and 5.9% of GDP, respectively, whereas those for Namibia, Botswana and South Africa were 89.4%, 50.1% and 30.6% of GDP, respectively (Table 3).

Table 3

Pension fund assets (% of gross domestic product)

	2017	2018	2019	2020	2021	2022
Angola	0.74	0.95	1.33	1.89	1.31	1.52
Botswana	49.21	46.48	51.86	61.49	57.74	50.11
Lesotho	-	-	-	-	-	6.67
Malawi	8.15	9.58	10.37	11.57	12.83	14.08
Mauritius	4.48	1.29	10.84	12.57	13.06	10.63
Mozambique	0.76	1.07	1.14	1.21	1.38	-
Namibia	78.47	81.40	83.08	89.80	103.33	89.36
South Africa	47.68	47.20	46.82	45.32	52.08	30.57
Zambia	3.18	3.15	3.11	3.35	2.80	2.89
Zimbabwe	-	-	7.77	8.00	6.88	5.87

Source: OECD.

12 Africa's pension fund assets.

The high penetration rates achieved by Namibia, Botswana and South Africa are linked to a good track record of returns on the pension funds of government institutions, based on a diversified investment strategy combined with a sound asset allocation process. Pension funds in these countries benefit from more developed local financial markets than their counterparts, particularly for South Africa and Botswana. Smaller countries can also buy assets in these more developed markets. For example, in 2022, 45.8% of the assets managed by investment managers in Namibia were invested outside Namibia, including around 30% in South African securities. In Eswatini, by March 2023, 30% of investment funds were invested in South African-listed equities and property.

However, many pension funds require most of their funds to be invested locally. Investment in domestic equities is promoted through higher allowable investment limits. For example, in South Africa and Namibia, investment limits in domestic equities are 55% and 75%, respectively. A regulation in Namibia mandates pension funds to invest at least 45% of assets domestically, making pension funds the largest investors in the domestic market. In addition, investments in private equity and debt instruments can only be made locally. In Botswana, domestic investment limits for pensions have been raised to 50% of their total assets for a period of five years from 2023, using a phased approach,[13] although offshore equities still represented 56% of assets in March 2023. In Namibia and Eswatini, local investments represented 49.7% and 44% of total pension assets, respectively, at the end of 2022. These local investment mandates, although favourable to local financing, limit investment opportunities for pension funds and hinder diversification.

Table 4

Three largest asset classes for pension funds by country (share of assets)

Eswatini local (March 2023)	%	**Mauritius** (June 2021)	%	**Namibia** (2022)	%
Equity	57	Equity and investment fund shares	55	Equity	46
Bonds	34	Bonds	21	Bonds	35
Property	6	Currency and deposits	12	Money markets	8
South Africa (March 2023)	%	**Zambia** (2022)	%	**Botswana** (March 2023)	%
Equity in Africa	54	Government bonds	36	Equity	72
Domestic bonds	33	Equity	23	Fixed income	10
Other equity	7	Other investment	14	Cash and money markets	10

Source: National central banks and pension fund authorities.

Pension funds in Southern Africa also invest in traditional assets, further limiting portfolio diversification and risk management. Pension funds in Zambia allocate 35% of their assets to government bonds (Table 4). Around 70% of investment in bonds in South Africa is in those issued by the government. Alternative assets[14] represent a very small proportion of assets under management in the region. By March 2023, only 2% of the investment portfolio in South Africa was allocated to alternative assets. In Namibia and Botswana, 1.4% and 7.3% of the investment portfolio, respectively, was directed towards unlisted investments.[15] The low levels of investment in alternative assets could be due to an inability to assess the associated risks and a lack of local products or investable assets that could match the long-term liability structures of pension funds.[16]

13 Changes to pension funds on/offshore investments.

14 Alternative assets are assets outside the traditional asset classes of equities, bonds and cash, and can include private equity, hedge funds and commodities. Real estate is an alternative asset in some, but not all, countries.

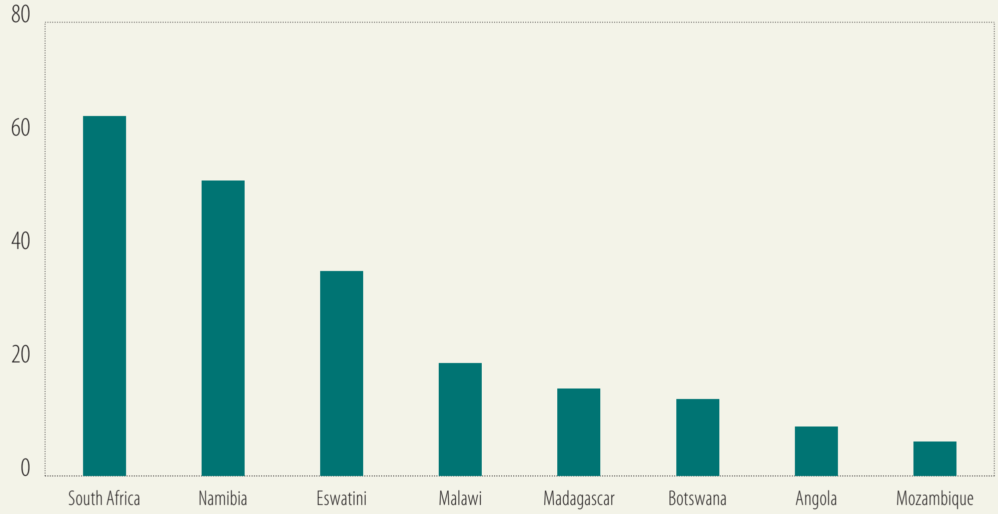
15 Unlisted investments include private equity, property investment, property syndicates and unlisted funds.

16 Gauging the appetite of African Institutional Investors for New Asset Classes.

Finally, there is room for improvement in the share of the population covered by pension funds. South Africa and Namibia have 63% and 52% of their population, respectively, covered by social security, but coverage drops for the other countries in the region. In Botswana, for example, only 14% of the population is covered by social security, even though pension fund assets represent 50% of the country's GDP. This situation may be explained by the country's middle-income status and the varying income levels of its people. However, it also shows the untapped potential of pension funds. If populations employed in the informal sector – the most numerous in the region – shifted to formal employment, it would enable the mobilisation of even more resources.

Figure 24

Social protection coverage in 2022 (in %)



Source: *International Labour Organization.*
Note: *These figures represent the proportion of the population covered by at least one social protection benefit.*

Banking in Central Africa

Central Africa has the lowest income in Africa, as reflected by its having the lowest number of banks and the highest banking concentration in Africa. Central Africa is the poorest region in sub-Saharan Africa for GDP per capita, accounting for 14% of the total population of sub-Saharan Africa but only about 9% of its total GDP (International Monetary Fund, 2024).[17] Democratic Republic of the Congo – the largest economy in the region – is the fourth poorest country in sub-Saharan Africa according to GDP per capita, while the Central African Republic is the third poorest country. Only 46 banks (down from 48 in the 2023 survey) report data publicly (Table A5 in the Appendix). Economic size within the region is strongly concentrated, with Central Africa's three largest economies – the Democratic Republic of the Congo, Cameroon and Gabon – contributing 75% of the region's GDP. These countries also account for nearly 90% of the region's total banking assets in 2023. The high levels of banking concentration in Central Africa continue weighing on financial sector competition and efficiency. At 47%, Cameroon again reports the lowest level of banking concentration in Central Africa, followed by Congo (67%), Chad (70%)

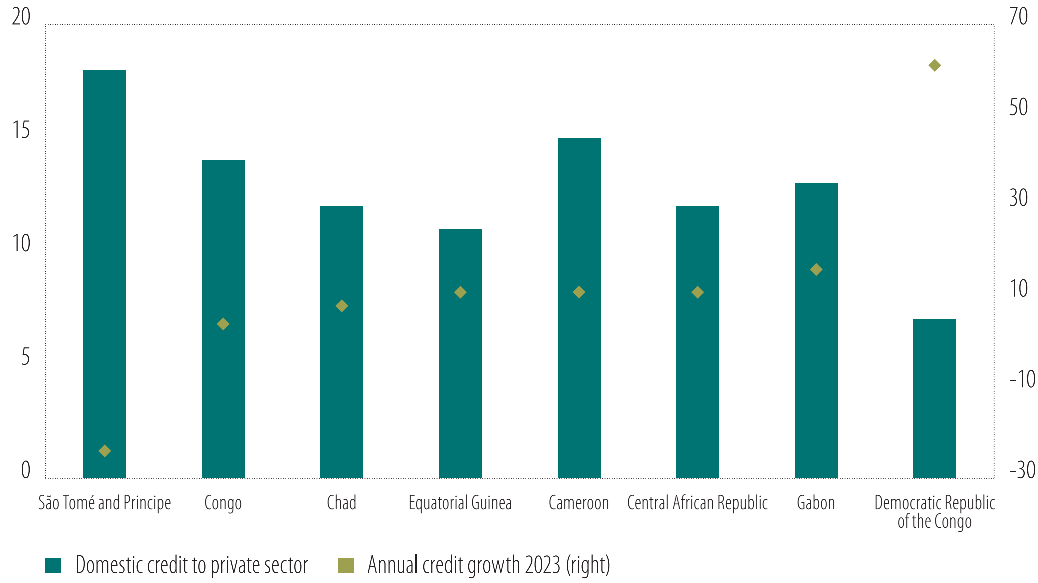
17 International Monetary Fund (2024). World Economic Outlook Database, April 2024.

and the Democratic Republic of the Congo (73%). In the region's smallest economies (São Tomé and Príncipe, Central African Republic and Equatorial Guinea), not all banks report their assets publicly. For these countries, the data provided from Moody's Analytics BankFocus therefore show a banking concentration of 100%.

Credit market depth in Central Africa remains low compared with the rest of sub-Saharan Africa and varies strongly within the region (Figure 25). Credit to the private sector is still subdued in Central Africa, at only 11% of GDP in 2023, compared with an average of 36% for sub-Saharan Africa as a whole. São Tomé and Príncipe has the highest share of credit to the private sector, at 18% of GDP, compared with just 7% of GDP in the Democratic Republic of the Congo and 11% in Equatorial Guinea. Annual credit growth in Central Africa surged to 29% in 2023 from 14% in the previous year. This credit growth was mainly driven by the Democratic Republic of the Congo, where the growth rate more than doubled to 61% in 2023 compared to 2022. Credit growth also accelerated in Gabon (16%) and in Cameroon and the Central African Republic (both 11%). Furthermore, credit growth was positive in Equatorial Guinea (11%) but weakened in Chad (8%) and the Republic of the Congo (4%), and turned negative in São Tomé and Príncipe (-24%). Shallow credit markets in the region continue reflecting an interplay of several factors, including information asymmetries, poor credit history, regulatory and reporting shortcomings, crowding out through the public sector, and weak competitiveness and high levels of fragility in some countries. In the Democratic Republic of the Congo, the high dollarisation of the banking sector (around 90% of credits and deposits in the fourth quarter of 2023) continues to expose the banking sector to fluctuations in the exchange rate (which depreciated against the US dollar by around 20% over the last year), effectively resulting in a transfer of currency risk from banks to domestic borrowers.

Figure 25

Credit depth and credit growth, Central Africa (left axis: % of GDP; right axis: in %)



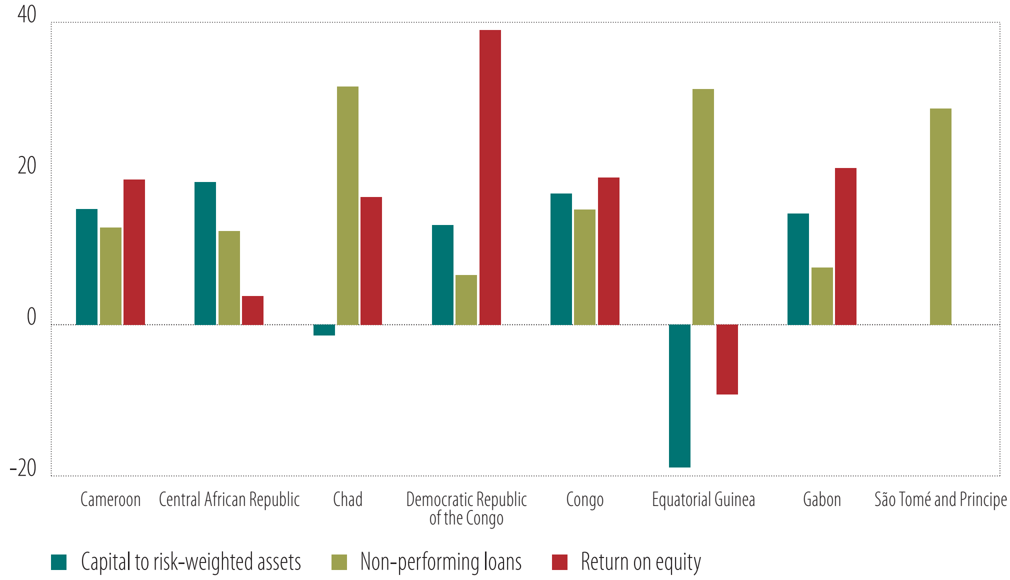
Source: *World Bank and BankFocus.*

Central Africa is the region of sub-Saharan Africa with the highest rate of non-performing loans, but profitability has increased. Asset quality of Central Africa's banking sector improved slightly but remained worse than in all other regions, with an average non-performing loan ratio of 13% in 2023, down by 2 percentage points from 2022. There are marked differences among banking sector indicators in the region, with the non-performing loan ratio ranging from 7% in the Democratic Republic of the Congo and 8% in Gabon to 29% in São Tomé and Príncipe, 31% in Equatorial Guinea and 32% in Chad. In Equatorial Guinea, this represents a pronounced decline of 24 percentage points compared with the previous year, even though progress in clearing the high levels of public sector domestic arrears (which have driven the high non-performing loan ratio) is slow, according to the International Monetary Fund (2024). The non-performing loan ratio declined or remained unchanged in 2023 for all countries in the region, except Chad, which registered an increase of 4 percentage points in the non-performing loan ratio compared with the previous year.

Profitability of banks in Central Africa, measured by return on equity, increased to 25% in 2023, up by 7 percentage points from 2022 (Figure 26), second only to West Africa. The improvements in profitability were mainly driven by the Democratic Republic of the Congo, where return on equity surged by 14 percentage points to 39%, supported by the high interest rate environment. Return on equity was also strengthened in Gabon (21%, +2 percentage points), Cameroon (19%, +3 percentage points) and the Republic of the Congo (19%, +8 percentage points). Elsewhere in the region, return on equity declined slightly in Chad (17%, -1 percentage point), and markedly so in the Central African Republic (4%, -12 percentage points) and Equatorial Guinea, where return on equity turned negative (-9%, -11 percentage points).

Capital adequacy also differs substantially across Central Africa. For the Central African Economic and Monetary Community (comprising Gabon, Cameroon, the Central African Republic, Chad, the Republic of the Congo, and Equatorial Guinea), the capital adequacy ratio (capital to risk-weighted assets) declined marginally to 14% in June 2023, from almost 14.6% in the previous year, according to the International Monetary Fund (2023), but remained well above the minimum requirement of 10.5%. However, the capital adequacy ratio ranged from lows of -19% in Equatorial Guinea and -1% in Chad to 17% in the Republic of the Congo and 19% in the Central African Republic. In Equatorial Guinea, the ratio of capital to risk-weighted assets was again negative, reflecting ongoing restructuring and recapitalisation needs in the banking sector. Beyond the Central African Economic and Monetary Community, the capital adequacy ratio was 13% in the Democratic Republic of the Congo in 2023, an increase of about 1 percentage point compared with the previous year.

Figure 26
Solvency, profitability and asset quality indicators, Central Africa (in %)



Source: IMF, World Bank and BankFocus.

A strong bank-sovereign nexus continues to contribute to financial stability concerns in the Central African Economic and Monetary Community. The exposure to Central African Economic and Monetary Community governments on banks' balance sheets remained very high, at about 30% in June 2023, and was above 50% for some banks, according to the International Monetary Fund (2023). In addition, high levels of domestic arrears (estimated at around 5% of GDP in 2022)[18] continue to weigh on asset quality and the profitability of Central Africa's banking sector, weakening financial stability. In 2022, levels of domestic arrears ranged from 1.2% of GDP in the Central African Republic and 2.2% in Cameroon to 13.6% in the Republic of the Congo.

18 Bank of Canada & Bank of England Sovereign Default Database (accessed in June 2024). Excluding Equatorial Guinea and São Tomé and Príncipe due to lack of data/data quality.

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Appendix: Tables

Table A1

Key banking sector indicators, North Africa

	Number of banks**	Total assets ($ thousand)**	Banking concentration (top three banks)	Credit to the private sector (% of GDP)+	Annual credit growth (%)+	Loan to deposits+	Financial soundness indicators: latest available	Non-performing loans (% of total loans)±	Capital to risk-weighted assets (%)±	Return on equity (%)±
Algeria	28	128 370 000	0.70	21.10	5.14	48.48	2022	19.90	21.50	13.50
Egypt	36	418 993 429	0.69	30.85	26.24	36.73	2023	3.30	18.60	17.70
Libya	15	23 375 850		10.13	3.71					
Morocco	24	166 590 000	0.62	88.03	6.31	70.09	2022	8.60	15.80	11.80
Tunisia	45	52 368 285	0.45	62.11	3.57	106.00	2022	12.60	14.00	10.80
North Africa*	**148**	**789 697 564**	**0.67**	**37.32**	**15.97**	**50.20**		**9.66**	**18.17**	**15.14**

Source: ***Moody's Analytics BankFocus, +World Bank and ±IMF financial soundness indicators.*

Note: **GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.*

Table A2

Key banking sector indicators, West Africa

	Number of banks**	Total assets ($ thousand)**	Banking concentration (top three banks)	Credit to the private sector (% of GDP)+	Annual credit growth (%)+	Loan to deposits+	Financial soundness indicators: latest available	Non-performing loans (% of total loans)±	Capital to risk-weighted assets (%)±	Return on equity (%)±
Benin	9	6 569 671	0.60	17.10	9.00	62.48		14.90		
Burkina Faso	11	13 714 322	0.67	31.32	5.89	72.29		9.20		
Cabo Verde	9	3 169 029	0.67	58.07	6.93	64.45		8.70		
Côte d'Ivoire	22	34 436 212	0.38	21.12	16.21	71.99		7.70		
Ghana	35	22 540 621	0.32	12.26	1.90	42.88	Q2 2024	24.13	14.27	35.25
Guinea	9	475 560	0.58	9.22	11.60	50.03	Q2 2022	9.21	16.48	17.71
Guinea-Bissau	1	182 111	1.00	16.60	6.97	78.35		6.40		
Liberia	7	1 160 417	0.74	14.79	34.30	77.19		22.90		
Mali	12	9 397 546	0.51	29.63	0.33	93.16		10.30		
Mauritania	15	2 621 450	0.56	29.60	6.67	103.23		19.50		
Niger	7	3 139 475	0.62	12.56	-6.52	97.19		14.40		
Nigeria	33	104 480 000	0.43	14.09	45.35	56.01	Q2 2023	4.40	11.23	31.73
Senegal	23	17 061 909	0.34	32.30	11.51	82.60	Q4 2022	15.50		
Sierra Leone	7	4 157 812	0.61	6.15	19.12	28.84		15.20		
The Gambia	6	369 891	0.68	8.92	11.74	18.13	Q3 2023	4.56	25.66	23.39
Togo	17	5 556 962	0.92	27.55	3.47	65.39		18.30		
West Africa*	**228**	**226 411 538**	**0.44**	**16.69**	**28.51**	**60.27**		**8.86**	**12.01**	**31.70**

Source: ***Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.*
Note: **GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.*

Table A3

Key banking sector indicators, East Africa

	Number of banks**	Total assets ($ thousand)**	Banking concentration (top three banks)	Credit to the private sector (% of GDP)+	Annual credit growth (%)+	Loan to deposits+	Financial soundness indicators: latest available	Non-performing loans (% of total loans)±	Capital to risk-weighted assets (%)±	Return on equity (%)±
Burundi	6	1 634 648	0.75	42.23	36.65	61.30	Q2 2018	4.10	24.00	24.00
Djibouti	5	570 826	0.82	20.10	13.52	25.82	Q3 2023	4.31	15.99	10.42
Ethiopia	17	46 986 678	0.68	17.71	36.18	59.90	Q3 2022	5.41	16.00	25.86
Kenya	44	49 714	0.40	31.54	12.99	86.07	Q3 2023	12.34	18.25	24.89
Rwanda	12	7 064 415	0.60	22.85	16.88	102.00	Q2 2023	3.26	20.45	20.51
Tanzania	33	16 205 223	0.58	15.17	19.53	81.20	Q2 2023	6.43	18.97	15.19
Uganda	23	9 964 975	0.47	14.79	8.15	71.45	Q4 2022	5.14	21.67	14.62
East Africa*	**140**	**132 141 476**	**0.56**	**20.89**	**22.86**	**73.62**		**7.29**	**15.96**	**22.89**

Source: ***Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.*

Note: **GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.*

Table A4

Key banking sector indicators, Southern Africa

	Number of banks**	Total assets ($ thousand)**	Banking concentration (top three banks)	Credit to the private sector (% of GDP)+	Annual credit growth (%)+	Loan to deposits+	Financial soundness indicators: latest available	Non-performing loans (% of total loans)±	Capital to risk-weighted assets (%)±	Return on equity (%)±
Angola	25	29 518 237	0.48	8.44	9.76	37.19	Q2 2022	15.00	20.49	21.44
Botswana	10	9 501 412	0.46	29.84	11.30	77.97	Q3 2023	3.75	19.86	7.84
Comoros	1	46 024	1.00	16.79	9.58	57.73	Q4 2020	23.66	25.17	-7.82
Eswatini	5	794 354	0.81	21.15	13.60	71.17	Q3 2023	6.65	24.92	16.39
Lesotho	4	1 304 810	0.90	22.84	8.78	58.22	Q3 2023	4.31	17.70	14.51
Madagascar	8	3 782 108	0.74	18.67	9.61	86.94	Q4 2023	7.60	12.40	34.88
Malawi	9	3 053 368	0.68	8.16	17.74	52.16	Q4 2023	5.10	20.07	41.71
Mauritius	23	52 295 637	0.55	72.30	7.64	61.99	Q3 2023	4.92	21.39	21.63
Mozambique	18	10 944 729	0.69	21.26	0.00	44.19	Q3 2023	8.97	24.05	17.27
Namibia	9	7 843 923	0.77	59.39	2.76	84.11	Q2 2023	5.52	16.44	17.86
Seychelles	5	2 272 679	0.91	34.75	7.41	34.67	Q4 2021	5.45	22.69	16.87
South Africa	44	384 590 000	0.72	92.23	4.37	95.62	Q3 2022	4.45	23.06	17.69
Zambia	22	8 572 118	0.49	12.98	31.44	38.23	Q3 2023	4.98	24.13	33.69
Zimbabwe	12	3 890 590	0.48	8.79	914.07	47.24	2022	0.60		
Southern Africa*	**195**	**518 363 965**	**0.66**	**64.90**	**7.13**	**78.66**		**6.44**	**22.09**	**19.66**

Source: ***Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.*
Note: **GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.*

Table A5

Key banking sector indicators, Central Africa

	Number of banks**	Total assets ($ thousand)**	Banking concentration (top three banks)	Credit to the private sector (% of GDP)+	Annual credit growth (%)+	Loan to deposits+	Financial soundness indicators: latest available	Non-performing loans (% of total loans)±	Capital to risk-weighted assets (%)±	Return on equity (%)±
Cameroon	12	4 795 698	0.47	14.68	11.20	83.63	Q4 2023	12.89	15.28	19.21
Central African Republic	2	312 624	1.00	11.92	11.30	82.37	Q2 2022	12.40	18.90	3.78
Chad	5	1 313 867	0.70	11.92	8.08	93.97	Q4 2023	31.51	-1.39	16.88
Democratic Republic of the Congo	13	10 486 981	0.73	7.22	61.40	34.64	Q4 2023	6.56	13.18	38.96
Equatorial Guinea	2	816 423	1.00	10.55	11.02	156.53	Q4 2023	31.15	-18.7	-9.22
Gabon	6	321 289	0.86	13.38	16.42	71.51	Q2 2022	7.58	13.87	20.70
Congo	5	480 589	0.67	13.90	4.44	83.59	Q4 2023	15.22	17.38	19.45
São Tomé and Príncipe	1	130 514	1.00	17.69	-24.46	64.64	Q1 2022	28.60	35.60	3.40
Central Africa*	**46**	**17 031 493**	**0.69**	**11.19**	**29.35**	**69.20**		**13.01**	**10.52**	**24.58**

Source: **Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.

Note: *GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.*

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