African banks increasingly worried about funding costs, survey shows

By Marc Jones and Rachel Savage

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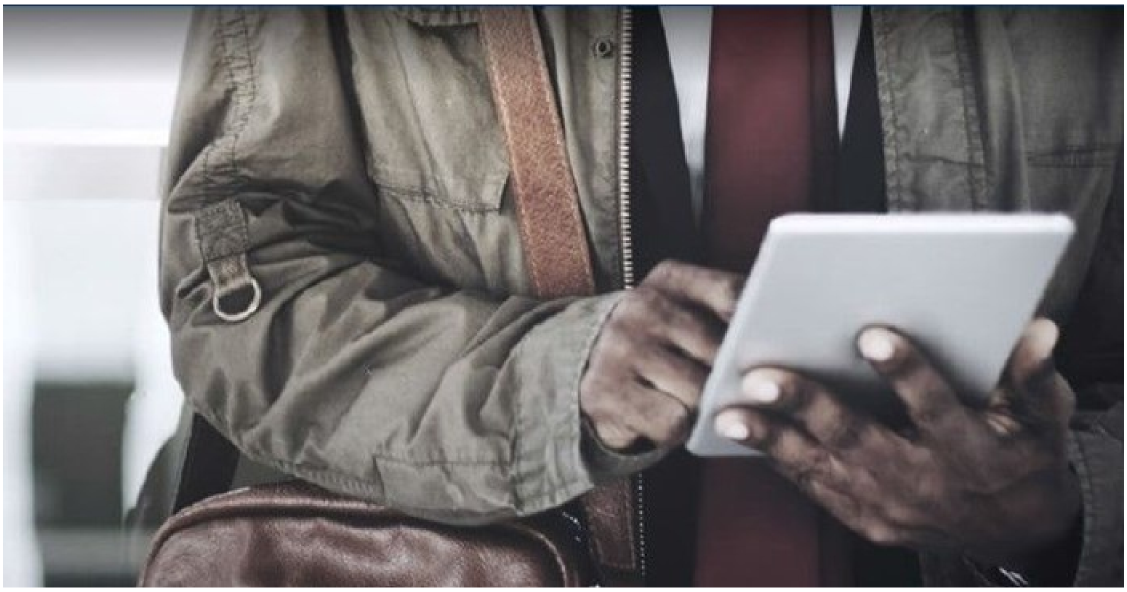
Sub-Saharan African banks are increasingly worried about funding costs, an annual survey published on Wednesday 19 October found, as soaring interest rates both on the continent and globally make financing more expensive.



Source: African Bank.

The cost of local currency funding was now the top worry for sub-Saharan Africa's banks, according to a survey by the European Investment Bank (EIB) of 70 institutions that account for 30% of the African continent's assets.

Central banks from Nigeria to Kenya, Ghana and South Africa have aggressively raised interest rates in a bid to tame inflation and give some support to currencies that have been hammered by the US dollar this year.

"The main concerns for banks are the cost of local-currency funding, competition from the non-banking sector and deteriorating asset quality," the EIB's report said.

Banks were surveyed between April and June, meaning that the impact of the war in Ukraine had already begun to shape perceptions.

The most significant deterioration in asset quality was reported in small and medium enterprise (SME) loan books whereas loans given to larger firms were holding up better so far.

The percentage of banks with a significant share of non-performing corporate loans (NPLs) is close to 21% overall but 37% of banks have a significant share of NPLs in their SME loan books.

Headline NPL figures do not tell the whole story either as there are now significant amounts of loans under moratoriums or restructuring which do not necessarily get counted in NPL figures.

More than one-third of banks have more than 10% of their loan book for small and medium firms under moratoriums. Two-fifths of banks have more than 10% of their SME book restructured although for many of those it is more than 20%.

Central Africa, which includes countries like Cameroon, Central African Republic, Chad, Democratic Republic of Congo, and Gabon, the region with the greatest existing issues with non-performing loans at 19% of gross loans, is roughly 10 percentage points higher than the other regions, each of which have NPL ratios of 8 to 9%.

Central Africa (13%) and West Africa (16%) also have lower capital to risk-weighted asset ratios than East Africa (19%) or Southern Africa (19%), meaning they have less capacity to absorb any new problems related to asset quality.

"The concerns regarding non-performing loans cited by a large share of responding banks could mean that they expect NPL ratios to increase, even before this is reflected in official data," the report said.