



# FINANCE IN AFRICA

Unlocking investment in an era  
of digital transformation and climate transition



## Chapter 3

# Banking sector trends in sub-Saharan Africa

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European  
Investment Bank

**Finance in Africa**

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European Investment Bank  
98 - 100, boulevard Konrad Adenauer  
L-2950 Luxembourg

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# Chapter 3

## **Banking sector trends in sub-Saharan Africa**



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## Chapter 3

### Banking sector trends in sub-Saharan Africa

**Current economic conditions are the main concern among banks this year**, cited by 77% of the banks surveyed in the ninth annual EIB Banking in Africa survey, followed by asset quality, cited by 53% of banks. Funding issues also persist, with about one-third of banks citing lack of capital and the cost or availability of funding as a problem. Although credit provision to the private sector in Africa has grown over the last three years, it is broadly similar to the rate of inflation, meaning private credit as a share of gross domestic product (GDP) is relatively static over the period.

**Banks in sub-Saharan Africa have seen profits grow in recent years, driven by the high interest rate environment.** The textbook explanation for this is that interest rates on loans re-price faster than interest rates on deposits, but this is not the reason in this case. The median spread between loans and deposits has narrowed in the last three years. However, banks have changed their asset mix and grown their bond portfolios, predominantly government bonds, much more quickly than their loan portfolio. In addition, the spread between yields on government bonds and interest rates on bank deposits has widened. Therefore, interest income remained the key driver of profitability for banks, but it was interest from government bond holdings. This source of revenue may not prove very enduring because drops in inflation will eventually lead to lower interest rates.

**There are mixed signals for non-performing loans.** Balance sheet data from various countries in sub-Saharan Africa show that the median non-performing loan ratio decreased substantially between 2017 and 2023. The survey data paint a similar picture, with the share of banks reporting significant non-performing loan ratios on their small and medium-sized enterprise (SME) loan books decreasing over the last couple of years. Nonetheless, concerns about non-performing loans have been a fixture of the survey in recent years and the proportion of banks citing non-performing loans as a worry has increased from last year. Given the churn in the survey sample, this might just be a random variation, but it could also be the first sign that banks are worried that high interest rates and high inflation might stop the downward trend in non-performing loans, particularly given the scale of the concerns about the economic environment.

**The survey revealed that 94% of banks had provided direct loans to small and medium-sized enterprises in the past 12 months, while 65% of banks had provided loans to large corporates.** However, large firms benefit from more advantageous terms on loans: 59% of loans to small and medium-sized enterprises had a repayment period of two years or less compared with just 34% of loans to large corporates. Small firms often face greater obstacles than large firms when accessing bank credit. The most binding constraints for small and medium-sized enterprises in obtaining loans are lack of acceptable collateral and poor credit history. For large corporates, lack of funding is the greatest obstacle to bank lending.

**Banks in sub-Saharan Africa are increasing their focus on gender balance in lending.** The share of banks with a gender strategy was 72%, with another 17% planning to introduce one, which is broadly in line with findings from the 2023 survey. This means that nine out of ten banks could soon have a gender strategy in place. In addition, two-thirds of banks have financial services or products specifically targeting women. There is evidence that loan size differs between genders: 59% of banks reported no difference in the size of loans to women and men, but 38% of banks stated that loans to female-led businesses are smaller than those to male-led firms. However, banks continue to report better loan performance among female-led firms, with nearly 70% of banks observing lower rates of non-performing loans for these businesses. This again highlights the advantage of lending to women.

The European Investment Bank (EIB) conducted its ninth annual **Banking in Africa** survey with the support of **Making Finance Work for Africa**. The EIB surveyed 51 banks in sub-Saharan Africa in February and March 2024.<sup>1</sup> The survey results provide valuable insights into the financial sector in the region. The number of participating banks increased from 33 in 2023, making the survey more representative. However, the banks responding to the survey differ from year to year. Therefore, although comparisons are made in this chapter with the results from previous versions of the survey, some caution is needed in interpreting trends over time.

This chapter explores the effect that the tightening of global financial conditions is having on banks and the impact of operating in a higher interest rate environment. It analyses whether banks are sufficiently equipped for supporting the private sector, especially small and medium firms, in an environment that remains challenging. Following the approach adopted last year, banking trends at the regional level for different parts of sub-Saharan Africa are analysed separately in Chapter 4. The EIB Banking in Africa survey results described in this chapter are supplemented with data on bank balance sheets at the national level from up to 27 African countries.<sup>2</sup> Combining these data provides a more detailed picture of recent trends.

## Banking sector concerns and profitability

**Current economic conditions are the main concern among banks in the 2024 survey.** Banks have been asked to report the major factors affecting them for several years, but the list of options was expanded in 2024 to include economic conditions and cybersecurity concerns. The inclusion of economic conditions as an option has made a big difference to the results, being the most frequently cited issue, at 77% of banks. The next biggest issue is asset quality, cited by 53% of banks.

**Asset quality was the predominant concern of the banking sector immediately after the COVID-19 pandemic but has been replaced by funding issues in the last couple of years.** The latest trends in asset quality are covered in detail later in this chapter. Funding issues are still a concern for many banks, with about one-third of banks citing lack of capital, the cost or availability of foreign currency funding and the cost or availability of local currency funding as issues in 2024. However, this proportion is lower than that of last year, which is partly due to the prominence attached to economic conditions but may also reflect a slight easing in funding constraints since the beginning of 2024.

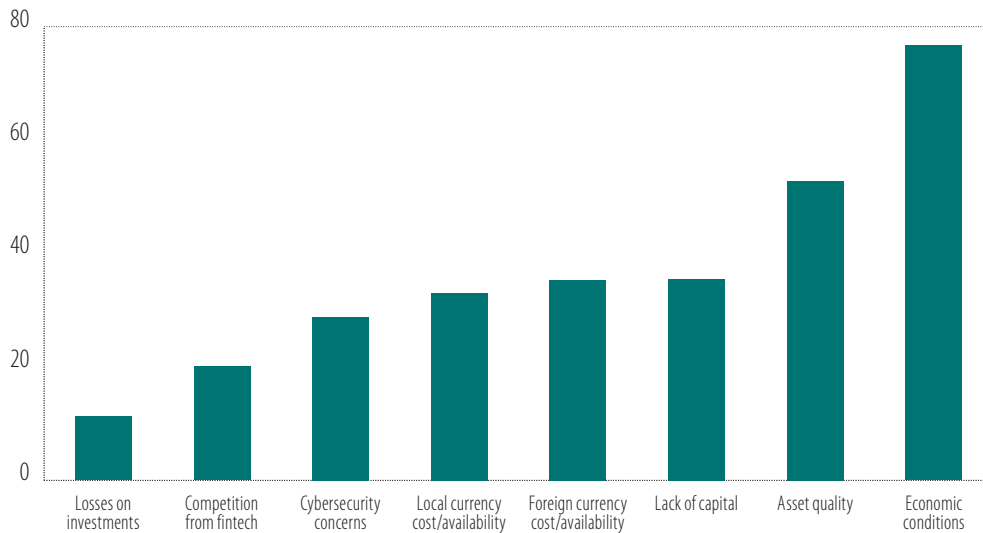
**Banks' concern over economic conditions reflects the importance of economic growth for the profit performance of banks.** A growing economy creates more demand for bank lending to the private sector. In addition, a healthy economy means that borrowers in the retail and commercial sectors are less likely to default on loans. These factors translate into higher profits for banks. Figure 2 shows the evolution of bank profits – calculated as the median return on equity across 26 countries in sub-Saharan Africa – compared to GDP growth in sub-Saharan Africa. In the early part of the last decade, when GDP growth was consistently high, median bank profitability was also high. As GDP growth slowed and eventually crashed due to the COVID-19 pandemic, bank profitability followed a similar trend. Subsequently, there was a concurrent recovery after the pandemic. Banks therefore remain dependent on economic conditions to support their profitability. However, bank profits outperformed what would be expected by GDP growth alone in 2023 and the reasons for this are explored in this chapter.

<sup>1</sup> The survey was conducted in sub-Saharan Africa but includes North African banks with a pan-African presence.

<sup>2</sup> The set of 27 countries is based on the availability of data in the *IMF Financial Soundness Indicators*. However, interest rate data come either from the *IMF International Financial Statistics* or from national sources, such as central banks.



**Figure 1**  
**The main factors affecting the banking sector in sub-Saharan Africa in the next 12 months**  
 (% of responding banks)



Source: EIB Banking in Africa survey, 2024.  
 Note: The figure indicates the percentage of responding banks that listed each of the factors as among their top three concerns.

**Figure 2**  
**Bank profits and gross domestic product growth in sub-Saharan Africa (in %)**



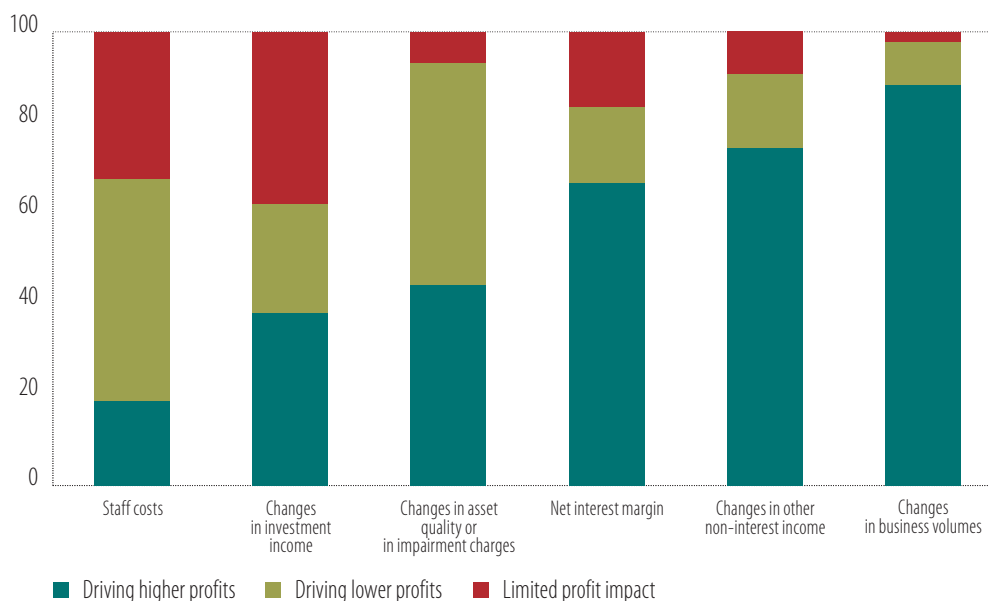
Source: IMF World Economic Outlook database and IMF Financial Soundness Indicators database.

**Our survey points to continued buoyancy in bank profits.** Nearly 80% of the banks surveyed expect profits in the next 12 months to be higher than those in the last 12 months, a period that was characterised by relatively high profits. The factor most cited in the 2024 survey as supporting profits, at 88% of banks, is changes in business volumes, meaning that most banks expect to see their activities expand (Figure 3). Changes in non-interest income, such as commissions and fees, is the second profit-driving factor, cited by three-quarters of banks. Interest margin is also a profit driver, as cited by 67% of banks, but has decreased

from 80% last year. This reduction may indicate that current interest rates are at the peak of the cycle in some countries. Like last year, asset quality and impairment charges have had a mixed effect on bank profits, being a profit driver for 44% of banks but a drag on profits for 49% of banks. Staff costs are the other main factor hindering profits, cited by 49% of banks.

**Figure 3**

**Factors affecting profits of banks in sub-Saharan Africa (% of responding banks)**



Source: EIB Banking in Africa survey, 2024.

## Credit growth

**The provision of credit to the private sector in sub-Saharan Africa has grown over the last three years, supporting bank profitability.** Based on a GDP-weighted sample covering most countries, lending grew at 16% in 2021, accelerating to 17% in 2022 and 23% in 2023. This expansion in bank lending is a source of increasing income for the banking sector. The acceleration in credit growth between 2022 and 2023 is partly driven by Nigeria, where credit growth increased to 45% in 2023 from 20% in 2022. From an economic perspective, the rate of credit growth was broadly similar to the rate of inflation in many countries, meaning private credit as a share of GDP is relatively static over the period. This echoes the point made in Chapter 2, which showed that while credit as a share of GDP grew in other developing regions over the 15 years between 2007 and 2022, this ratio declined in Africa.

**In many African countries, the availability of credit underpins economic growth.** Although a relationship between GDP growth and lending can exist, it is often necessary to focus on an economic indicator that is more sensitive to financing conditions than GDP, such as investment. Furthermore, for credit, exploring the flows rather than the stock is necessary for showing a relationship to economic growth. One such indicator is the credit impulse, which is calculated as the change in the rate of loan growth over the last 12 months.<sup>3</sup> The credit impulse indicates whether the growth rate of lending is accelerating or decelerating and can be more closely linked to the evolution of economic activity than simply the rate of lending growth. Figure 4 depicts the credit impulse and GDP growth for Kenya, showing that

<sup>3</sup> The growth rate of lending here is the year-on-year growth rate. By taking the change in this growth rate over the last 12 months, it is effectively the second derivative of loans, at the annual frequency.

economic growth exhibits a similar trend to the lagged credit impulse for most of the sample and there is synchronicity between the two. Appendix 1 charts credit impulse and a measure of economic activity – typically investment – for other African countries. Again, a relationship between these indicators is evident, although it sometimes broke down during the COVID-19 pandemic.<sup>4</sup> The typical relationship between credit impulse and economic activity shows that maintaining credit flows to the private sector underpins economic growth, particularly investment. Therefore, boosting credit growth to deepen the share of credit as a percentage of GDP could contribute to higher investment, higher GDP and – in line with the relationship shown in Figure 2 – further support for bank profitability. This idea is supported by academic literature. For example, Ozili et al. (2023) and Akpansung and Babalola (2012) reported a positive relationship between credit supply and economic growth in Nigeria, and Asante et al. (2023) found a similar result across sub-Saharan Africa.

**Figure 4**  
Credit impulse and gross domestic product growth for Kenya (in %)



Source: IHS Markit and Central Bank of Kenya.  
 Note: GDP is the year-on-year growth rate, two-quarter moving average, whereas impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter.

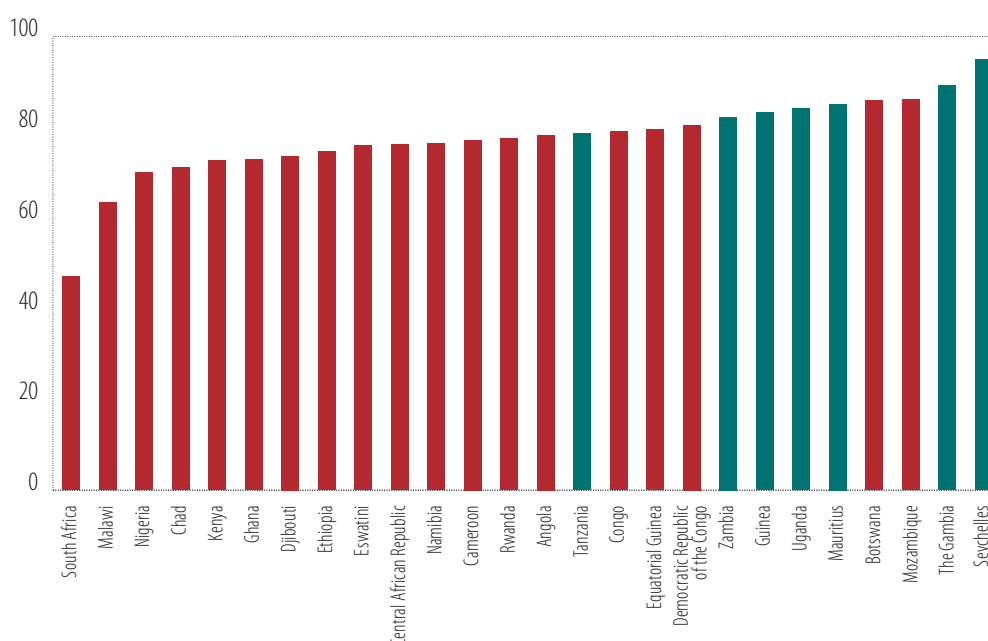
## Banking in a high interest rate environment

With central banks raising rates to combat inflation, commercial banks in sub-Saharan Africa have typically been operating in a high interest rate environment in recent years. A high interest rate environment translates into higher net interest margins for banks, meaning a higher spread between the interest rates charged by banks in their lending operations versus the interest rates banks themselves pay to obtain funding. This presupposes that lending rates increase more than deposit rates when the policy rate is changed, at least until all liabilities are fully re-priced, but this is not a given. In practice, the evolution of net interest income earned by banks will also depend on the structure of banks’ assets and liabilities – namely who they lend to and from whom they borrow. Accordingly, understanding the structure of the assets and liabilities is important.

<sup>4</sup> Credit impulse, as the change in a growth rate, is an inherently volatile variable and does not always match GDP or investment growth. However, the fact that it does so relatively consistently across various countries is evidence in favour of its importance.

**Banks in sub-Saharan Africa are predominantly deposit funded.** The share of deposit liabilities in total liabilities ranges from 47% in South Africa to 95% in Seychelles. The average and the median shares of deposit funding for the countries shown in Figure 5 are both 77% of total liabilities. This high proportion of deposit funding means that the funding base is relatively stable owing to the lack of reliance on wholesale funding, and the cost of deposits predominantly determines the cost of funding for banks. Accordingly, domestic economic conditions, such as domestic policy rates and inflation, affect the cost of funding for African banks because they influence the interest rates set on deposits.

**Figure 5**  
The share of deposits in banks' total liabilities (in %)

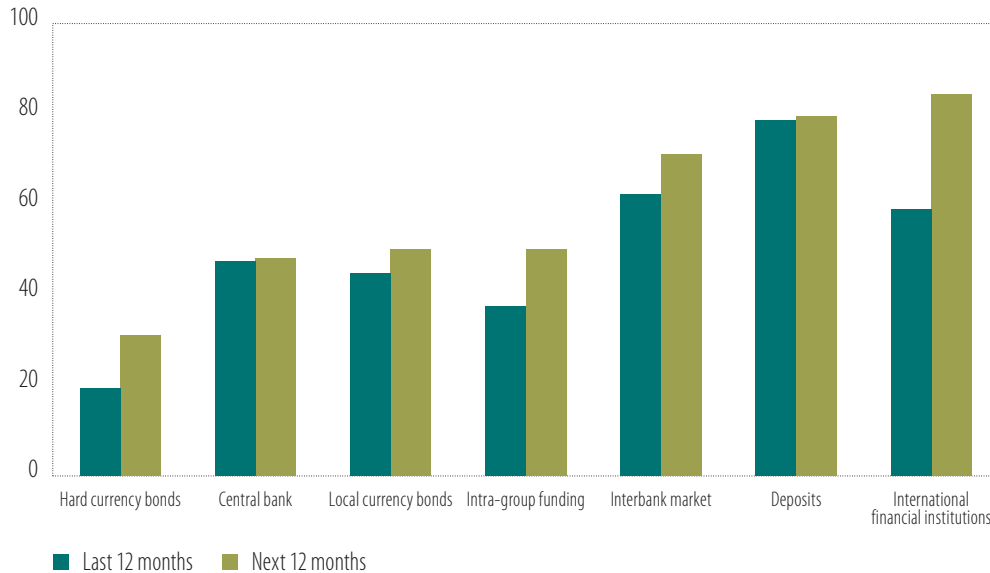


Source: *IMF Financial Soundness Indicators*.

Note: *Total liabilities do not include capital, as the focus is mainly on interest-bearing liabilities. Green bars indicate countries where foreign currency liabilities are more than one-third of total liabilities. The figure covers the second quarter of 2022, except for Seychelles, where it is the fourth quarter of 2021.*

**Despite the dominance of deposits, banks rely on various funding sources.** In the last 12 months, banks raised funds most frequently through deposits (79% of banks), followed by the interbank market (62%) and international financial institutions (59%), such as the EIB (Figure 6). Only 19% of banks report issuing hard currency bonds over the previous 12 months, likely reflecting tough conditions on international markets, but this is an increase from 5% last year. Over the next 12 months, 98% of banks expect to increase their overall funding. The relative importance of different funding sources is not changing significantly over time and is expected to remain stable for the next 12 months. The biggest difference is for international financial institutions, with 84% of banks expecting to use this funding source compared with 59% last year. This increase is driven by banks in Southern Africa, where only 43% of banks used funding from international financial institutions in the last 12 months but 92% are planning to use this source in the next 12 months. While hard currency bonds are likely to remain the least used source of funding, almost one-third of banks would like to issue hard currency bonds, which is an increase on the last 12 months. The large increase in demand for funding from international financial institutions may be based on an expectation that this approach offers a better way to access hard currency funding compared with directly issuing bonds. However, although deposits are cited less frequently than international financial institutions as a funding source for the next 12 months, the chart in Figure 6 only captures how often a source of funding will be used and not the volumes involved. Thus, deposits will remain the most important source of funding, as seen in Figure 5, and the cost of deposits will continue exerting the greatest effect on the overall cost of funding for banks.

**Figure 6**  
Funding sources for sub-Saharan African banks (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

**Deposit pricing tends to differ in advanced countries compared with higher inflation regions such as Africa.** In advanced, high-rated countries, the central bank policy rate is the risk-free rate and every other interest rate in the economy tends to be priced at a mark-up to the central bank rate, considering factors such as risk and liquidity. However, in high-inflation environments, the policy rate is often elevated to reduce inflationary pressure. This means that deposit rates for commercial banks can be markedly lower than the policy rate. Indeed, banks in some countries would be unable to run a profitable business if their cost of funding was higher than the central bank policy rate. Instead, banks set interest rates on deposits at a level that they hope will attract enough funds from the public to suit their lending ambitions. Figure 7 shows central bank policy rates and commercial bank deposit rates for various countries in sub-Saharan Africa. Among some of the more highly rated nations, such as Botswana or Mauritius, there is little difference between the policy rate and the deposit rate, but there are many countries where the interest rate offered by commercial banks to depositors is considerably below the policy rate. Therefore, evaluating how commercial banks have been affected by the significant increase in inflation and policy rates over recent years is necessary.

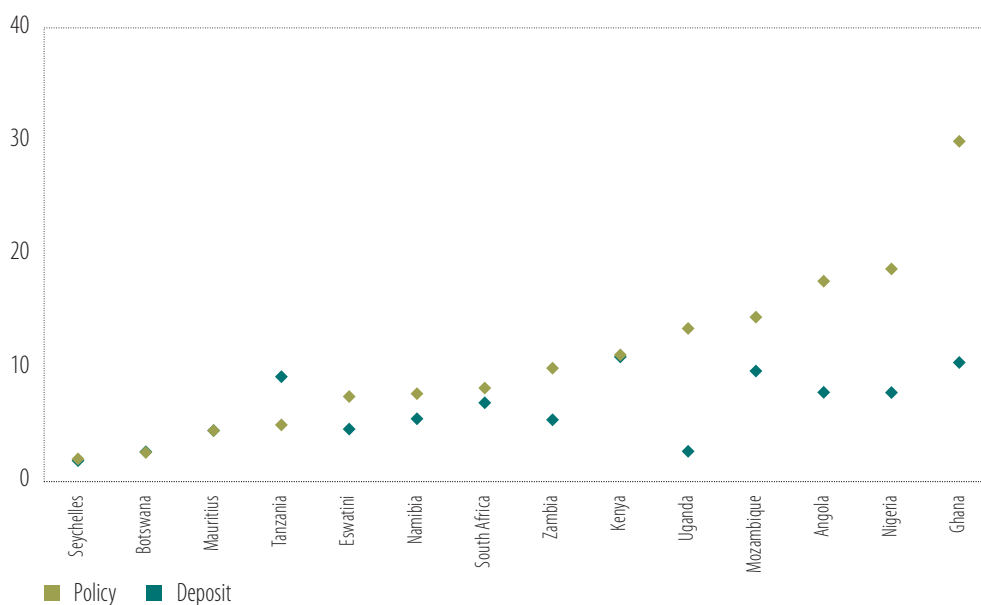
**Although policy rates have increased, there is considerable heterogeneity at the country level.** The typical pattern is that policy rates were reduced immediately after the COVID-19 pandemic to support domestic economic activity but were subsequently increased as inflation surged. There are some exceptions, such as Tanzania, where policy rates fell after the pandemic without any subsequent increase by the end of 2023. For most countries, policy rates were higher in 2023 compared with pre-pandemic levels. The difference between the maximum and minimum policy rate in the post-pandemic period, until the fourth quarter of 2023, averaged 439 basis points, with a median of 400 basis points. Three countries in the sample saw a trough-to-peak increase in policy rates of at least 1 000 basis points – Malawi (1 200 basis points), Ghana (1 650 basis points) and the Democratic Republic of the Congo (1 750 basis points).<sup>5</sup>

**Despite the higher interest rate environment since the war in Ukraine, the data suggest a lower spread between commercial banks' deposit rates and lending rates to the private sector.** In addition, there are again marked differences between countries. For example, Figure 8 shows a selection of countries, mostly

<sup>5</sup> This is over the period until the first quarter of 2024.

in Southern Africa, where the spread between deposit and lending rates widened from 2020 onwards. In some countries, such as Ghana and Mozambique, these lending spreads were large in absolute terms, at 2 325 basis points and 1 435 basis points, respectively, by the fourth quarter of 2023. However, there were also numerous countries with declining spreads, as shown in Figure 9. The median spread for all countries over time declined to 635 basis points by the fourth quarter of 2023, from 881 basis points in the fourth quarter of 2020 (Figure 9). This 246-basis point tightening in the median spread shows that although central banks increased policy rates across sub-Saharan Africa, the increases in lending rates were typically smaller than the increases in deposit rates.

**Figure 7**  
Central bank policy rates and commercial bank deposit rates for selected countries in sub-Saharan Africa (in %, fourth quarter 2023)



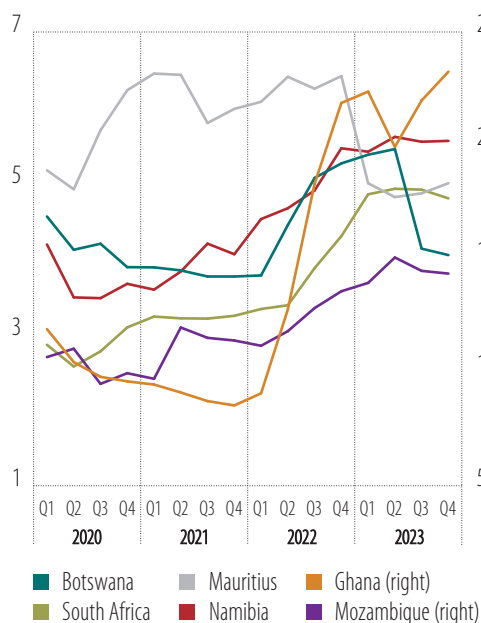
Source: IMF Financial Soundness Indicators and national central banks.

**The span of the data is insufficient for determining whether spread tightening is typical following a sharp increase in policy rates.** Policy rate increases can sometimes be in response to excess inflationary pressure arising from strong economic performance. In this situation, banks might consider more aggressive increases to lending rates on the basis that the economy is strong. However, the recent increase in policy rates was driven mainly by inflation in food and energy prices resulting from supply shocks linked to the COVID-19 pandemic and Russia's invasion of Ukraine. Thus, strong economic growth did not cause the high inflation and consequent policy tightening. Indeed, most economies were slowing from the post-pandemic economic bounce when households and businesses faced the higher inflation and input costs, respectively. With household and business budgets under strain, banks were likely concerned that increasing their lending rates in line with policy rates could increase non-performing loan ratios. The idea that there is not full pass-through from central banks' rates to lending or deposit rates is supported by academic literature. For example, Jibrilla and Balami (2022) found an incomplete pass-through from the central bank policy rate to lending and deposit rates in Nigeria, and Chiumia and Palamuleni (2020) found that the pass-through of policy rate changes to retail rates was incomplete in Malawi.

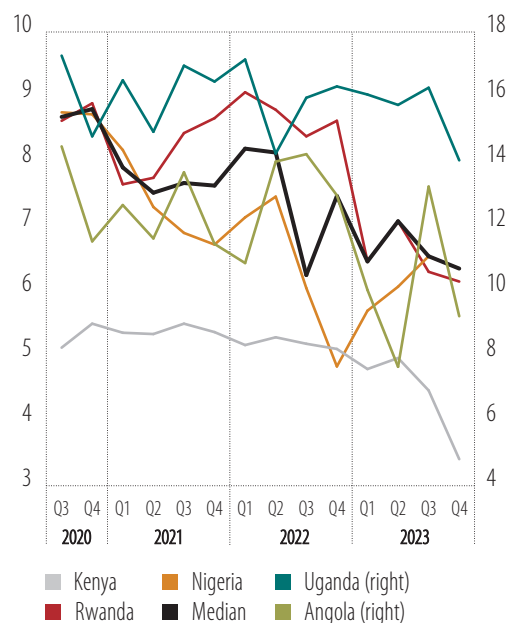
**Despite some narrowing in interest rate spreads on loans, bank profitability has improved in recent years.** This was seen for return on equity (Figure 2) and return on assets. Return on assets increased for 16 of 24 countries between the fourth quarter of 2019 and the fourth quarter of 2022. The median increase in the profit ratio for these 16 countries was 14% but there were ten countries with a profitability increase of more than 25% in this period and seven of these had increases above 50%. In contrast, only two countries saw their profit ratio contract by more than 25%. Thus, there was a clear improvement in

bank profitability, with banks in some countries seeing substantial improvements, reflecting the results in the survey. However, a question remained about what was driving this profit performance if interest rate spreads on loans to the private sector were narrowing.

**Figure 8**  
Sub-Saharan African countries with higher lending spreads in the fourth quarter of 2023 (percentage points)



**Figure 9**  
Sub-Saharan African countries with lower lending spreads in the fourth quarter of 2023 (percentage points)



Source: IMF International Financial Statistics and national central banks.  
Note: The median spread in Figure 9 is the median of all countries, including those in Figure 8 that have rising spreads.

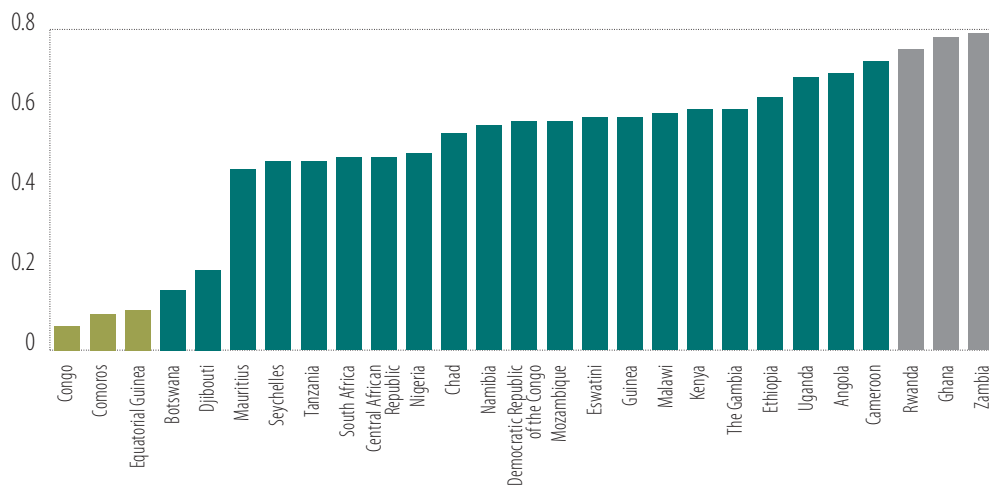
**Interest income remains a key driver of bank profitability in Africa.** As shown in Figure 10, net interest income and profitability are highly correlated at the country level, with only a few countries exhibiting a weak relationship. Across the 27 countries with available data, the average correlation between net interest income and profitability is 0.49 and only six countries have a correlation below 0.45. Looking at the three countries with the lowest correlations between interest income and profitability, the cost efficiency of the banking sector seems to be a factor. Figure 11 shows the ratio of non-interest expenses to gross revenue. A higher ratio means that the banking system is less efficient, with non-interest expenses consuming a higher share of revenue. The three countries with the lowest correlations between interest income and profitability – Equatorial Guinea, Comoros and Congo (Figure 10) – have some of the highest operating expenses (Figure 11). Conversely, the countries with a high correlation between interest income and profits in Figure 10 (grey bars) are among the more cost-efficient countries in Figure 11 (grey bars). Therefore, the data suggest that net interest income is a key driver of profit, and where this link breaks down, it is often due to high operating costs. Furthermore, this relationship appears to be unaffected by the COVID-19 pandemic, despite tightening spreads on private sector lending after the pandemic.

**While private lending spreads were tightening in recent years, interest rate spreads on government lending were widening.** As fewer countries have available data on the spread between the interest rates paid on government bills and/or bonds and commercial bank deposit rates, the sample of countries for this analysis shrinks to 16.<sup>6</sup> The median spread for these countries is shown in Figure 13. Following

6 For government debt, the yield on Treasury bills (T-bills) is used where possible, as many African governments have higher issuance at the short end of the yield curve.

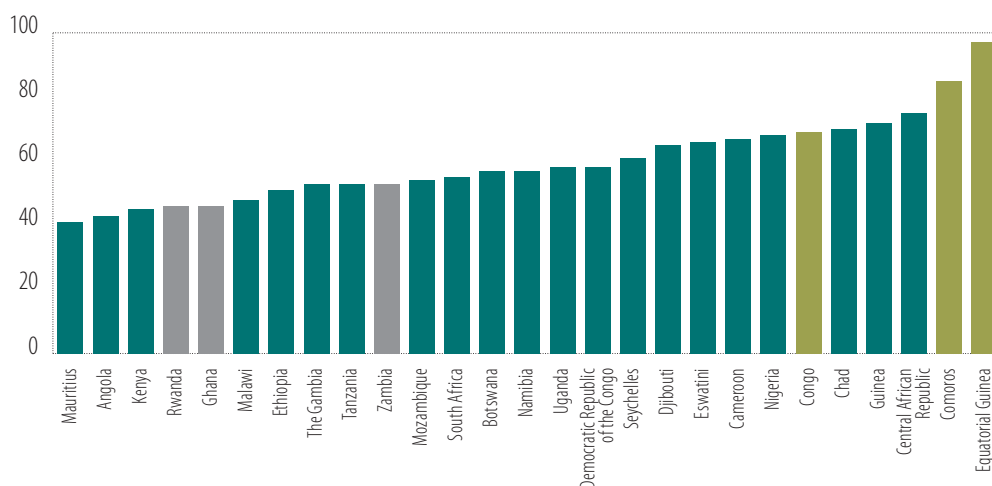
a peak in the first quarter of 2017, these spreads had been narrowing until the first quarter of 2022, which coincides with the start of the Ukraine war. However, as financing conditions deteriorated amid an increase in global risk aversion in 2022, the spread between the interest rates on government debt and the deposit rates of banks rapidly increased. The median spread increased from 58 basis points in the first quarter of 2022 to 294 basis points in the first quarter of 2023. This increase in interest margins for government debt contributes to the higher profitability of banks. Indeed, the countries with a high correlation between profitability and net interest income in the sample tend to have a higher share of bonds among bank assets.

**Figure 10**  
Correlation between profits and interest income



Source: *IMF Financial Soundness Indicators*.  
Note: Profitability is measured using return on assets.

**Figure 11**  
Ratio of non-interest expenses to gross income (in %)

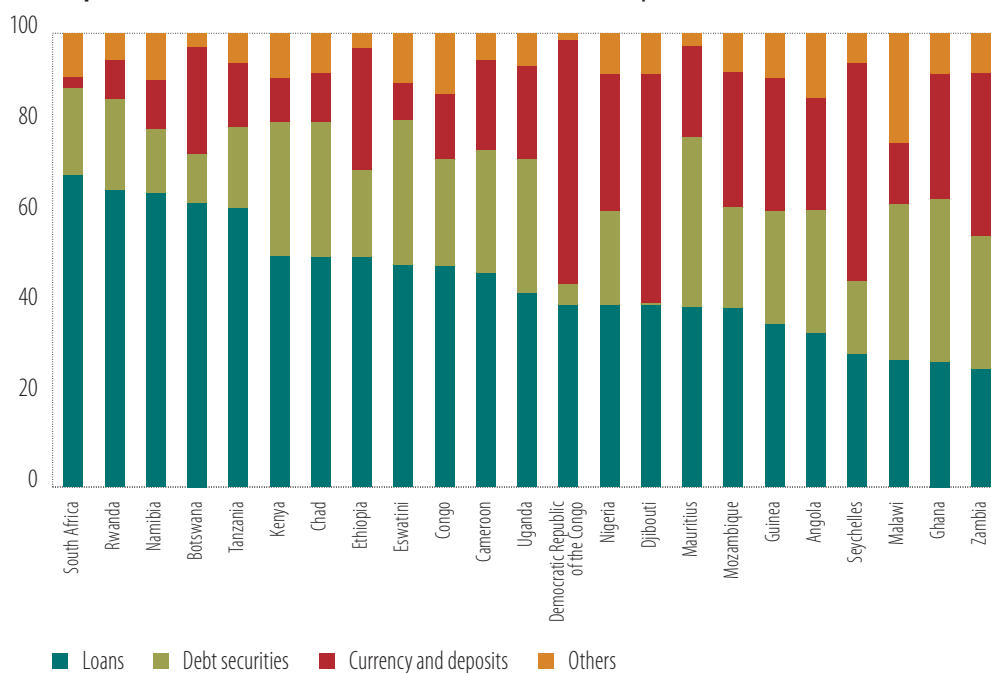


Source: *IMF Financial Soundness Indicators*.



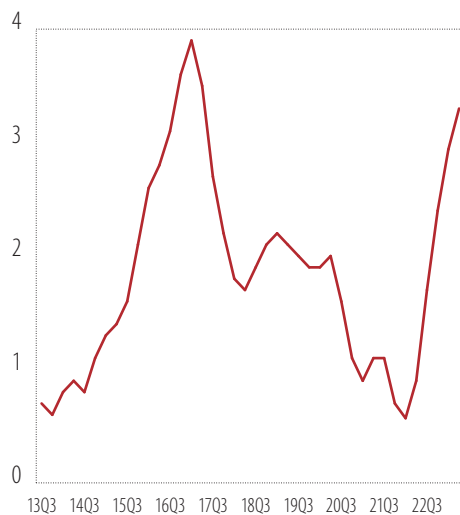
**Beyond spreads, changes in business volumes and the composition of bank assets have affected profitability, as reflected in the survey.** Over the last decade, banks have shifted towards increased public sector lending, typically through purchases of government paper, as shown in Chapter 1. Private loans remained the largest asset category for most banks (Figure 12), but bond holdings more than doubled in a decade. In the first quarter of 2012, the median share of debt securities in bank assets was 12%, and by the fourth quarter of 2022, this had grown to 27%. Among 24 countries, one-third of banks have bond holdings of more than 30% of bank assets. Figure 14 shows that the growth rate of bond holdings averaged 17% between 2013 and 2022, whereas the average growth rate of loans over the same period was 10%. The dark green line on the figure depicts the median growth in bank interest income over time. A slowdown in the growth of interest income between 2016 and 2019 seems to be mainly attributable to a preceding slowdown in loan growth. However, the recovery in interest income growth from 2021 seems to be linked to accelerated growth in bond purchases during the pandemic period, with the growth rate of bond holdings peaking at 29% in the first quarter of 2021. This indicates that banks were growing their bond portfolio during the pandemic while also enjoying a widening interest rate spread on bonds relative to the cost of deposits. Accordingly, interest income remained a key driver of bank profitability after the pandemic, even as spreads on traditional lending to the private sector declined.

**Figure 12**  
**Asset composition of bank balance sheets (in %, second quarter of 2022 or latest available)**

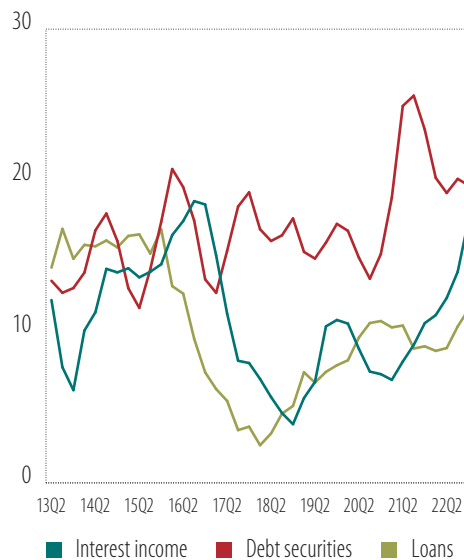


Source: IMF Financial Soundness Indicators.

**Figure 13**  
Spread between interest rate on government bills and/or bonds and deposit rates of commercial banks (in %)



**Figure 14**  
Interest income, public debt holdings and private loan volumes for banks in sub-Saharan Africa (annual growth rates, median, in %)



Source: *IMF Financial Soundness Indicators and IMF International Financial Statistics.*

Note: *In Figure 13, the growth rates are three-quarter moving averages of annual growth rates to smooth out volatility.*

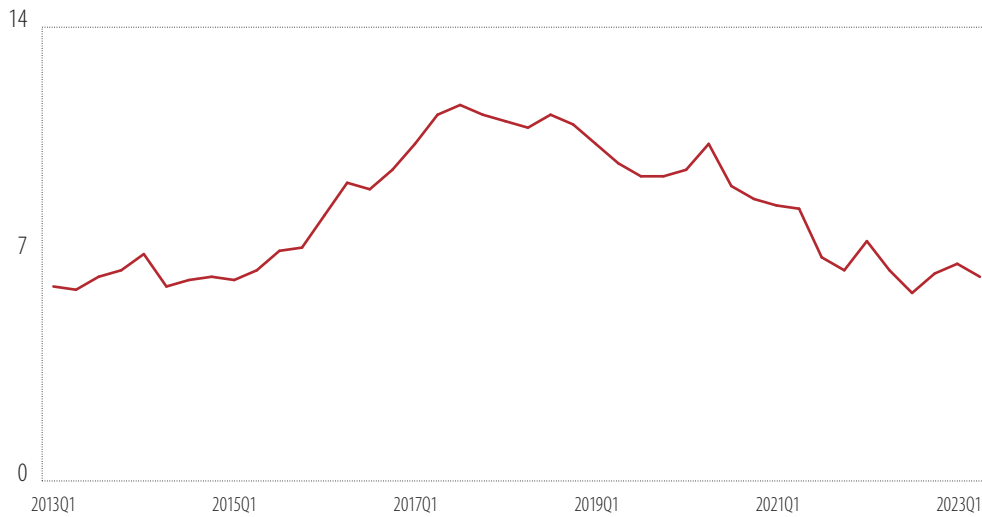
## Banking sector asset quality

**The relatively benign evolution of non-performing loans is another factor that has benefited banks.** As shown in Figure 15, the median non-performing loan ratio has been declining since late 2017. The COVID-19 pandemic has had little impact on this trend, except perhaps a small spike in the third quarter of 2020. Figure 16 shows that non-performing loans and profitability are negatively correlated for most countries in sub-Saharan Africa, meaning profits are higher when non-performing loans are lower. However, statistically this relationship does not hold for all countries. The link between profitability and non-performing loans tends to be weak, or even reversed, in countries where non-performing loan rates are low or stable (including Seychelles, Tonga and Malawi) and where countries have large exposures to bonds rather than loans (including the Democratic Republic of the Congo, Mauritius and Djibouti).

**The survey also provides evidence of declining non-performing loans despite banks appearing more worried about asset quality than in previous years.** Figure 17 shows that one-third of banks have no more than 5% of their loan book for small and medium-sized enterprises classified as non-performing, with another 40% of banks having less than 10% of their loan book under this classification. This trend has been improving over time, as the share of banks with more than 10% of their loan book for small and medium-sized enterprises classified as non-performing fell from 37% in 2022 to 32% in 2023 and 27% in 2024 (Figure 18). However, as shown earlier in the chapter, the share of banks concerned about non-performing loans has increased from last year: 53% of banks cited non-performing loans as a worry in 2024 compared with 47% in 2023. This change is not large, particularly given the variability in the sample of banks surveyed from year to year, but may be notable for two reasons. First, the new options available to banks for this question in the survey reduced the share of banks citing other concerns but the share of banks citing asset quality as a concern still increased. Second, in conjunction with the worries expressed

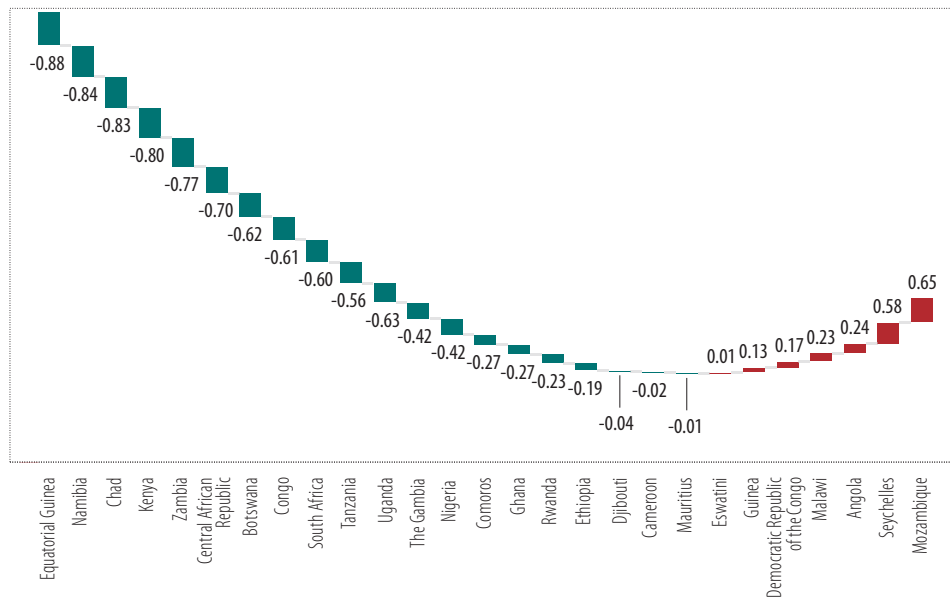
about economic conditions, the increase in concern about non-performing loans may hint at early signs that banks, at least in some countries, are worried that the combination of higher inflation and higher interest rates is going to reverse the downward trend in non-performing loans.

**Figure 15**  
Median non-performing loan ratio (in %)



Source: IMF Financial Soundness Indicators and EIB staff calculations.

**Figure 16**  
Correlation between non-performing loans and profitability by country (in %)

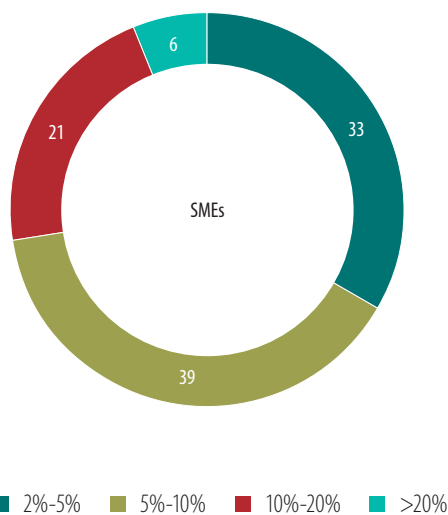


Source: IMF Financial Soundness Indicators and EIB staff calculations.

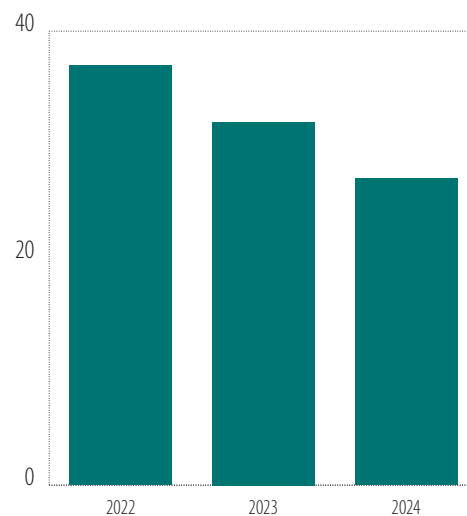
**Continued tightening of credit standards could indicate some unease about asset quality.** Credit standards are the terms, conditions and interest rates applied by banks when approving new loans or extending existing loans. In the past 12 months, just over 60% of banks tightened their credit standards to some degree (slightly or considerably), whereas just over 20% eased standards, leading to a net tightening

of 40% (Figure 19). This is a marked increase in net tightening from the 13% reported by banks in 2023. However, the survey last year did indicate that a higher share of banks were expecting to tighten credit standards, and the results this year confirm that banks followed through on these plans. For the next 12 months, a net tightening by 46% of banks is expected, suggesting further squeezing of credit conditions. This projected increase is mainly driven by a drop to just 11% in the share of banks planning to loosen credit standards, with all 11% planning a slight (rather than considerable) easing in lending standards.

**Figure 17**  
Non-performing loans for small and medium firms (% of responding banks)



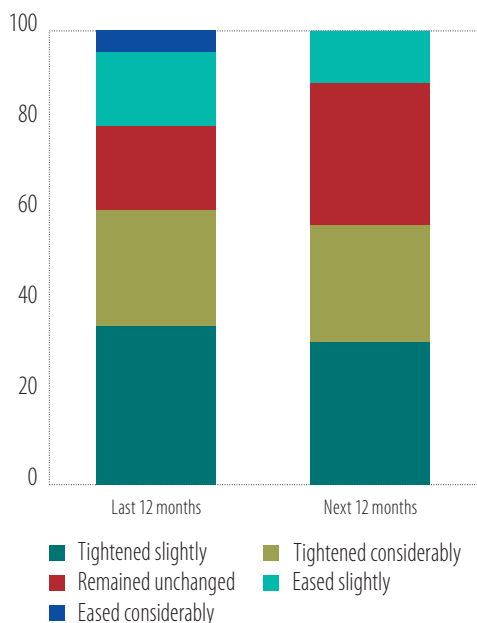
**Figure 18**  
Share of banks with more than 10% of their loan book for small and medium businesses categorised as non-performing (in %)



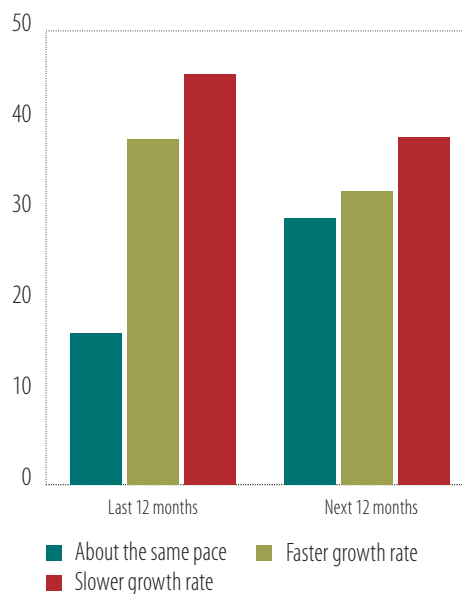
Source: EIB Banking in Africa survey, 2024.

**Loan growth may slow in the next year owing to the difficult conditions banks face.** Banks were asked how loan growth over the last 12 months compared with that of the previous 12 months. In response, 45% of banks said they experienced slower loan growth over the last year, while 38% experienced a higher growth rate and the remaining 17% said loan growth was about the same (Figure 20). Last year, only 10% of banks said they expected slower loan growth and half expected accelerated growth, meaning that actual loan growth rates fell short of expectations for a considerable proportion of banks over the last year. Looking ahead, 38% of banks expect slower loan growth in the next 12 months and only 32% expect a higher loan growth rate. This increase in the share of banks expecting slower loan growth may reflect the current challenging conditions, including higher interest rates, pockets of high inflation in some countries, enduring issues in the cost and availability of funding and persisting concerns about asset quality. Development banks play a crucial role in such times, as they can provide a countercyclical boost to loan supply and private sector development.

**Figure 19**  
**Changes in credit standards**  
 (% of responding banks)



**Figure 20**  
**Actual and expected loan growth**  
 (% of responding banks)

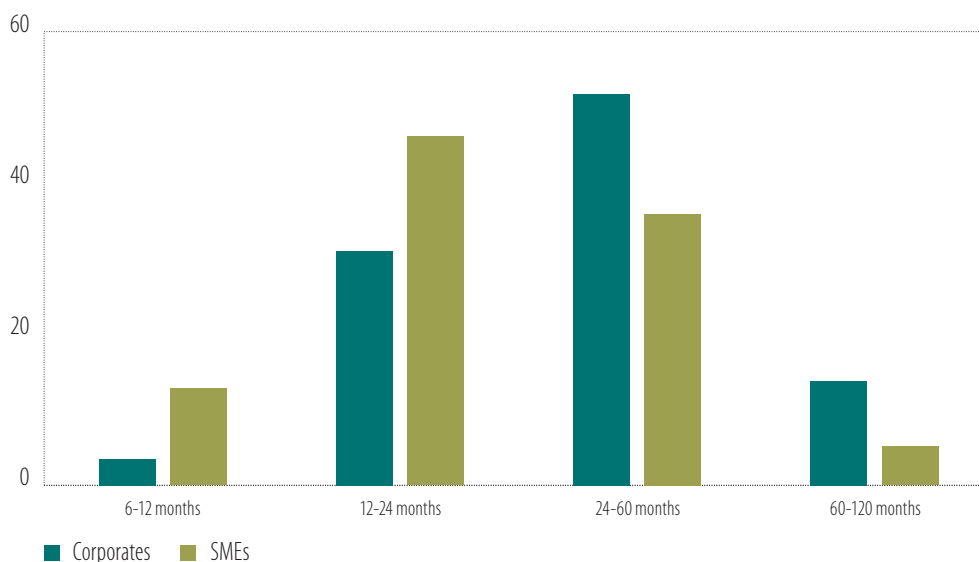


Source: EIB Banking in Africa survey, 2024.

## Banking for small vs. large firms

**Banks in the survey reported more activity with small and medium-sized enterprises than with large corporates, but loans to corporates benefit from more advantageous terms.** In line with the higher share of small and medium-sized enterprises in the economy, banks were more likely to lend money to these businesses than to large firms. In our survey, 94% of banks had provided direct loans to small and medium-sized enterprises in the past 12 months, compared with 65% of banks that provided loans to large corporates. However, this finding also reflects the position of some microfinance institutions, which make up about 13% of survey respondents. In 2023, the survey included a question on the share of bank assets accounted for by corporate, small and medium-sized enterprise, retail and government lending and revealed the highest value of loans was for corporate borrowers. Therefore, although small and medium-sized enterprises might account for a larger number of loans, the data from last year suggest that large firms still occupy a larger share of the bank loan book. Large firms also benefit from longer repayment periods on loans. Figure 21 shows that 59% of loans to small and medium-sized enterprises had a term of two years or less compared with 34% of loans to corporates. The inability of small and medium-sized enterprises to access long-term funding can restrict the growth of these businesses. EIB loans to financial intermediaries in Africa often target small and medium-sized enterprises as the final beneficiaries. Our loans require recipient banks to confer a financial advantage to their final beneficiary and this can include maturity extension for small and medium-sized enterprises.

**Figure 21**  
**Loans by repayment period for corporates and small and medium firms (% of responding banks)**

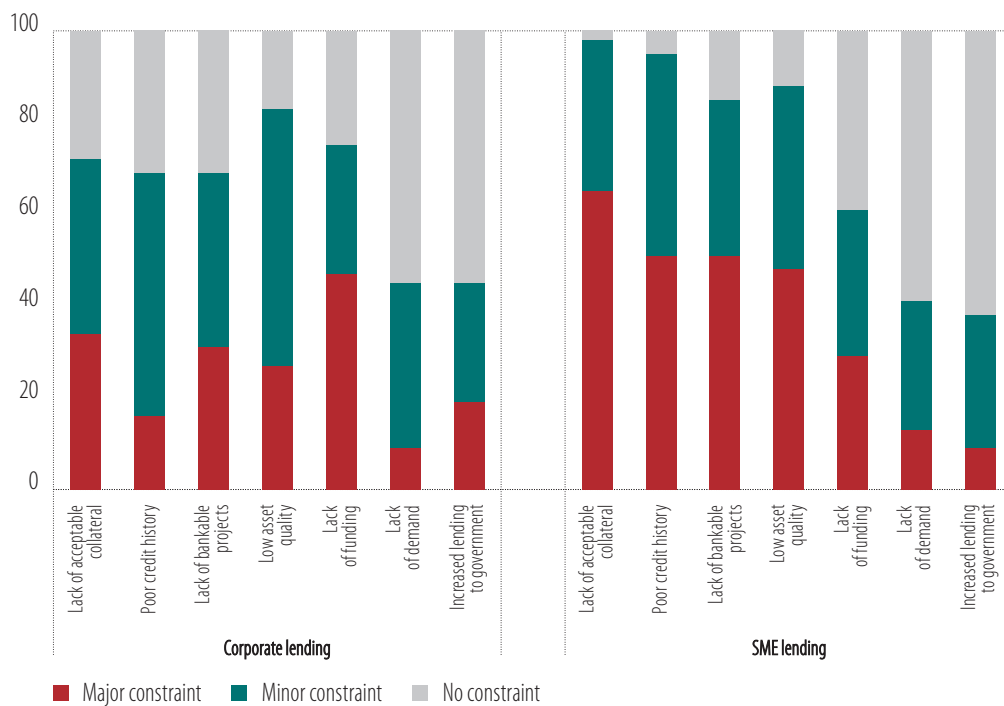


Source: EIB Banking in Africa survey, 2024.

**Small firms often face more obstacles than large firms when accessing bank credit.** The survey asked banks for their main constraints on lending to large corporates and small and medium-sized enterprises. The results show that such constraints are more binding for small firms than for large firms. As with previous editions of the survey, the greatest barriers for small and medium-sized enterprises in obtaining loans are lack of acceptable collateral and poor credit history – reported to be a major constraint for 65% and 51% of banks, respectively (Figure 22). For corporate lending, these issues are much less pronounced, cited as major constraints by 34% and 16% of banks, respectively. Lack of bankable projects and low asset quality are also problems and qualify as major constraints for 51% and 48% of banks, respectively, when lending to small and medium-sized enterprises. Banks report that lack of demand and increased lending to government are rarely major constraints for lending to either small and medium-sized enterprises or large corporates. The only issue that is more problematic for corporates than for small and medium firms is lack of funding, with 47% of banks listing this as a major constraint for large firms compared to 29% for small and medium-sized enterprises. Thus, although funding has dropped in the ranking of the major concerns facing banks compared with last year (Figure 1), it is still a key factor constraining lending to the corporate sector.

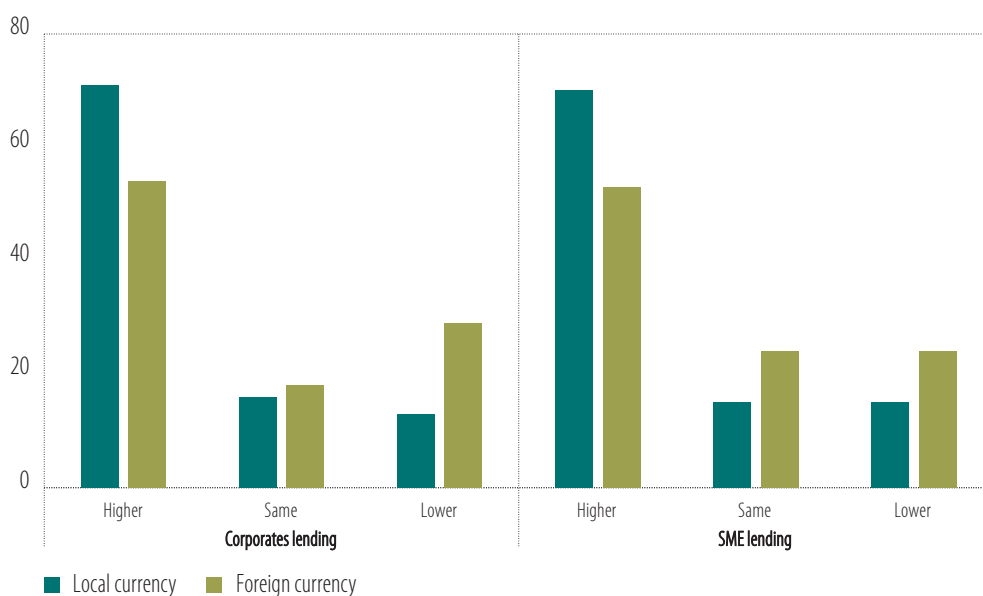
**Banks expect growth in loan demand from large corporates and small and medium-sized enterprises, particularly for local currency lending.** For this part of the survey, the responses about corporates and small and medium-sized enterprises are very similar. Approximately 70% of banks expect increases in local currency loan demand from both sets of firms (Figure 23), whereas just over 50% of banks expect increases in foreign currency loan demand. Only 10-15% of banks expect a decrease in local currency loan demand, but this rises to 25-30% of banks for foreign currency loan demand from corporates and small and medium-sized enterprises. The relatively high proportion of banks expecting an increase in loan demand contrasts with banks' expectations about loan growth. Thus, while demand for loans is likely to grow, it may be unmet unless funding conditions improve.

**Figure 22**  
**Factors constraining lending to corporates and small and medium firms (% of responding banks)**



Source: EIB Banking in Africa survey, 2024.

**Figure 23**  
**Loan demand in the next 12 months compared with the last 12 months for corporates and small and medium businesses**



Source: EIB Banking in Africa survey, 2024.

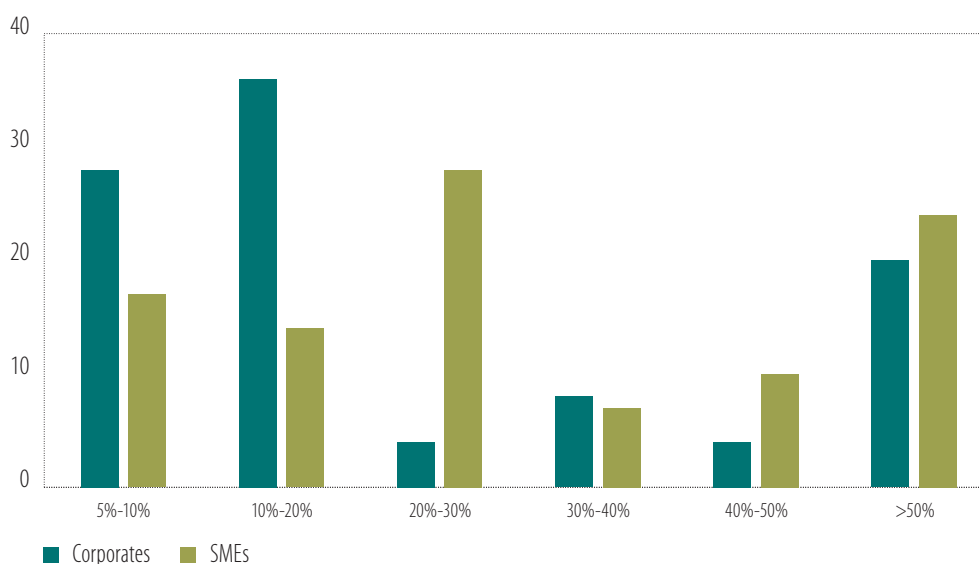
## Gender finance

**Banks in sub-Saharan Africa are increasing their focus on gender balance in lending.** The proportion of banks with a gender strategy was 72% in our survey, with another 17% planning to introduce one, meaning nine out of ten banks in the region could soon have a gender strategy in place. In addition, two-thirds of banks have financial services or products specifically targeting women and a further 44% of banks offer preferential terms when lending to women, such as less stringent collateral requirements or lower interest rates. In this sense, banks are enhancing the amount of intermediation to female borrowers. Based on the results of the 2023 survey, the main driver for banks in pursuing increased female participation in finance was achieving desirable social outcomes, followed by improving the bank's own financial performance.

**Nonetheless, considerable gender gaps persist in female employment, female firm ownership/ leadership and gender finance.** Last year's *Finance in Africa* report (EIB, 2023) contained a chapter dedicated to gender issues and showed that the share of female-led firms was 33% in sub-Saharan Africa. However, the report also found that well-managed enterprises are more likely to be led by women. Female-led firms usually invest in innovation, export goods and services, and offer employee training. The 2024 survey asked banks to state their share of loans going to female-led firms, split by corporates and small and medium-sized enterprises. For corporates, the proportion of lending to female-led firms is low, with 64% of banks giving less than 20% of their loans to such companies (Figure 24). The situation is better for small and medium-sized enterprises, with 28% of banks disclosing that they gave 20-30% of loans to such firms and 41% of banks stating that they gave more than 30%. Thus, for small and medium-sized enterprises, the share of lending is broadly representative of the share of female-led firms in the economy. This pattern of loan distribution is not surprising given that the proportion of female-led firms is higher in industries typically characterised by a smaller firm size.

**Figure 24**

Share of loans to female-led firms by type of firm (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

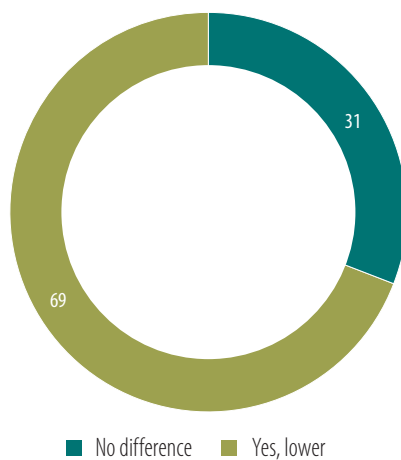
**Women also experience other challenges when accessing finance.** The survey asked banks whether they perceived women to be more dependent on bank lending compared to male borrowers. Although 40% of banks see no difference, 60% of banks say women are more dependent on bank finance compared to men. Obtaining finance from sources other than banks can be difficult for women, due to reasons like lack of collateral, which is also linked to cultural barriers and land and property ownership. However, there is little evidence that banks treat female borrowers differently to male borrowers: 49% of banks observe



no difference in the rate of rejection on loans to female applicants and only 5% of banks observe a higher rate of rejection on loans to women. This mirrors data from World Bank [enterprise surveys](#), which show that issues relating to access to finance are similar in magnitude for female- and male-led firms, even though female-led firms are better managed. Moreover, the area where women face the greatest issues in terms of accessing finance is in creating new firms, where obstacles are greater.

**There is evidence that loan size differs between genders.** While 59% of banks reported no difference in the size of loans to women compared with those to men, 38% of banks stated that loans to female-led businesses were smaller than loans to male-led firms. Possible explanations for this difference are that women have access to less collateral and women-led enterprises are more concentrated among small and medium-sized enterprises than larger corporates. However, banks continue to report better loan performance among female-led firms, with nearly 70% of banks observing lower rates of non-performing loans among such businesses (Figure 25). In previous editions of the survey, this rate was about 40-50%. This observation highlights why lending to female-led firms can improve financial performance for banks. The superior asset quality of female-led firms is even more impressive given that these firms are concentrated in sectors dominated by small and medium-sized enterprises, which have structurally higher non-performing loan ratios than larger firms. Thus, increased lending to female-led firms is likely to improve economic outcomes and generate higher profits for banks, in addition to achieving desirable social outcomes.

**Figure 25**  
**Is the rate of non-performing loans among female-led firms different from the average (% of responding banks)?**



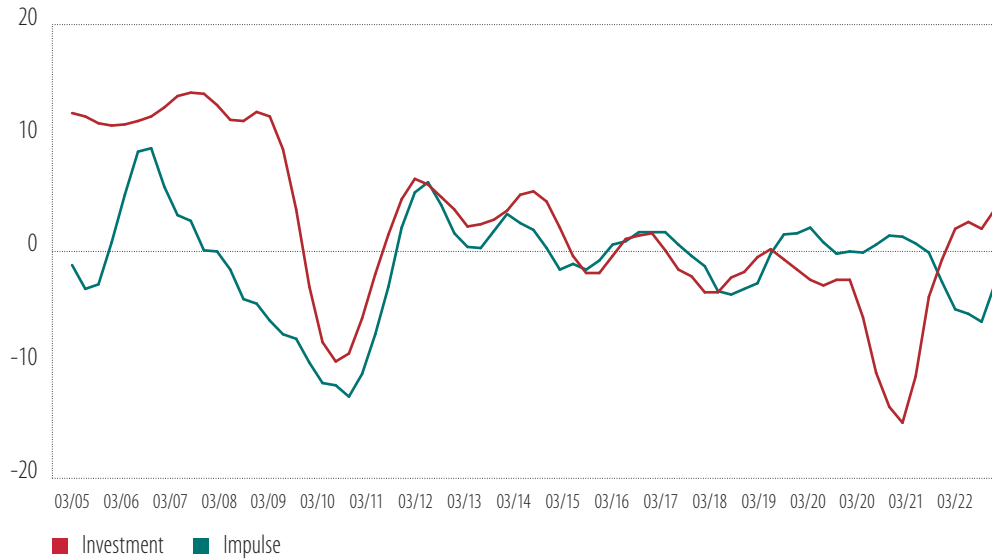
Source: EIB Banking in Africa survey, 2024.

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## Appendix 1

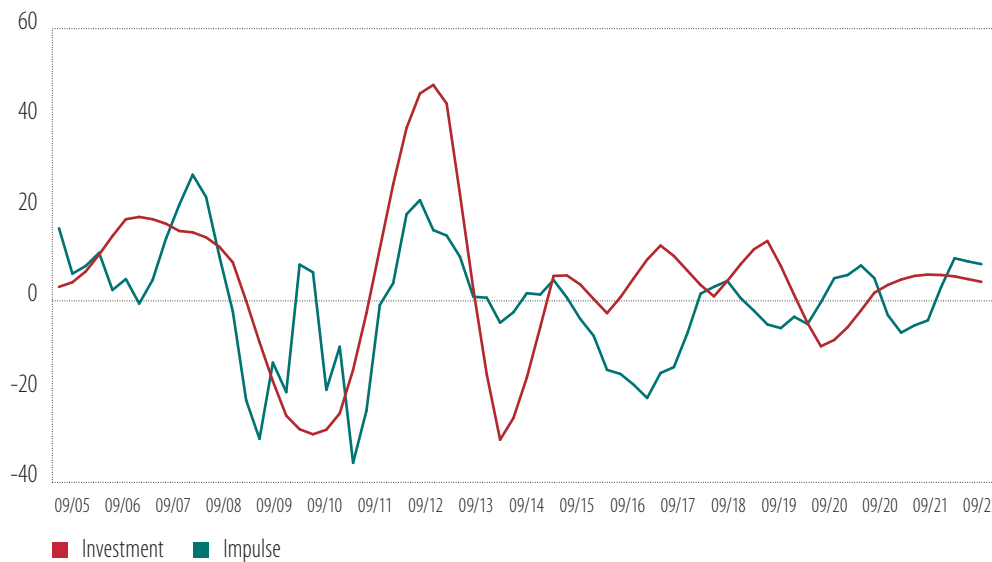
**Figure A.1**  
Credit impulse and investment growth in South Africa (in %)



Source: IHS Markit.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

**Figure A.2**  
Credit impulse and investment growth in Ghana (in %)



Source: IHS Markit; Central Bank of Ghana.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

**Figure A.3**  
Credit impulse and investment growth in Egypt (in %)



Source: IHS Markit; Central Bank of Egypt.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

**Figure A.4**  
Credit impulse and investment growth in Morocco (in %)



Source: IHS Markit; Bank Al-Maghrib.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

**Figure A.5**  
**Credit impulse and investment growth in Senegal (in %)**



*Source: National Statistics Office and Central Bank of West African States.*  
*Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Tertiary sector GDP refers to the growth rate of the tertiary sector of the economy, with a two-quarter moving average. The tertiary sector is chosen as it has segments accessing a considerable share of bank credit.*

# FINANCE IN AFRICA

Unlocking investment in an era  
of digital transformation and climate transition

## Chapter 3

# Banking sector trends in sub-Saharan Africa



European  
Investment Bank