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Finance in Africa 2023

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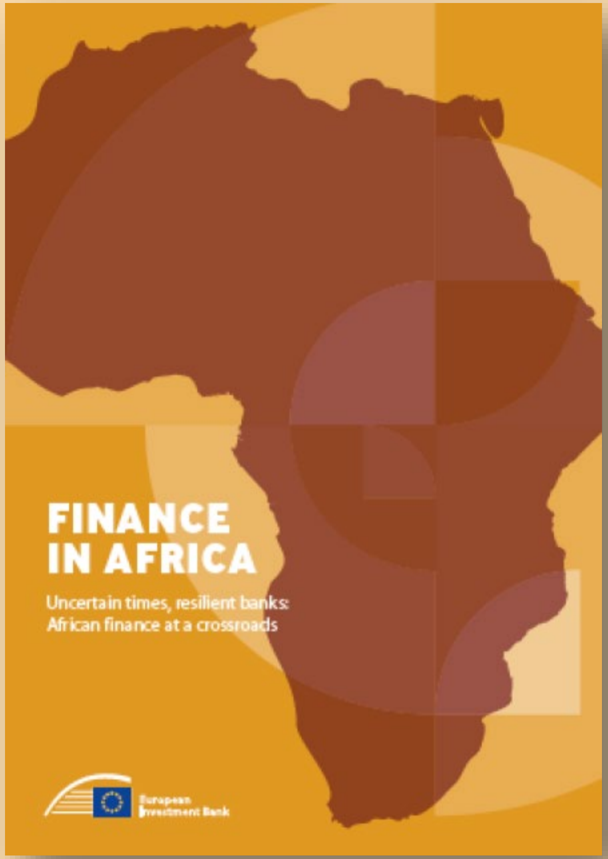
Uncertain times, resilient banks: African finance at a crossroads

Finance in Africa 2023

- Eight in series, with coverage of banking, digitalization, climate finance and gender lending
- Draws on a survey of 33 banks in Sub-Saharan Africa
- Survey carried out between March and April 2023



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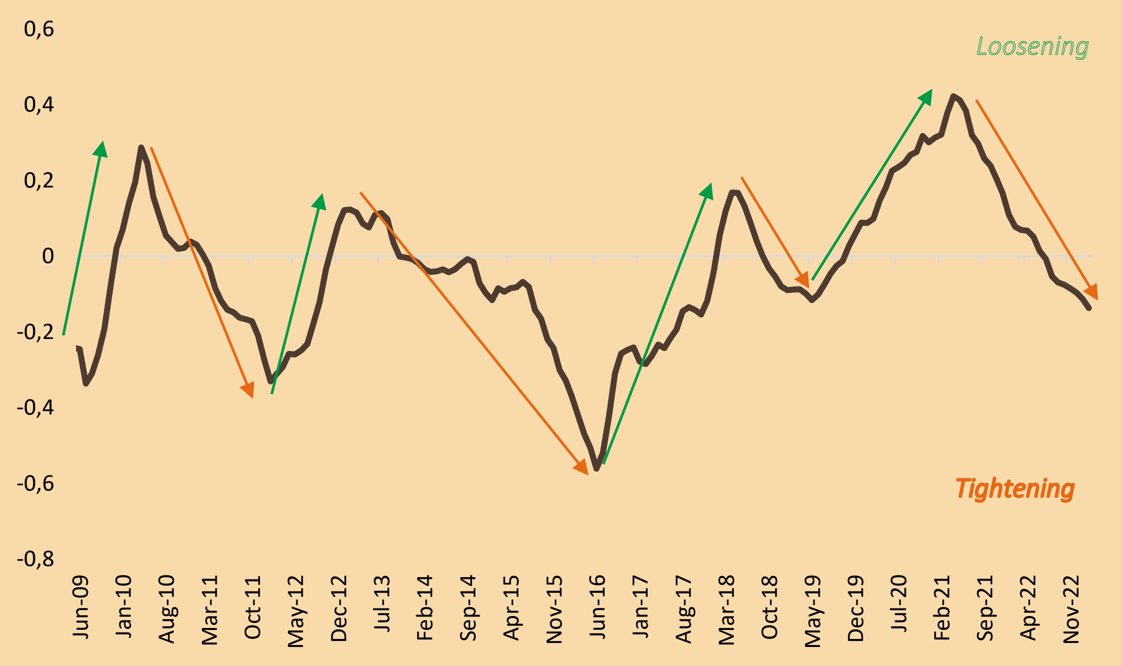
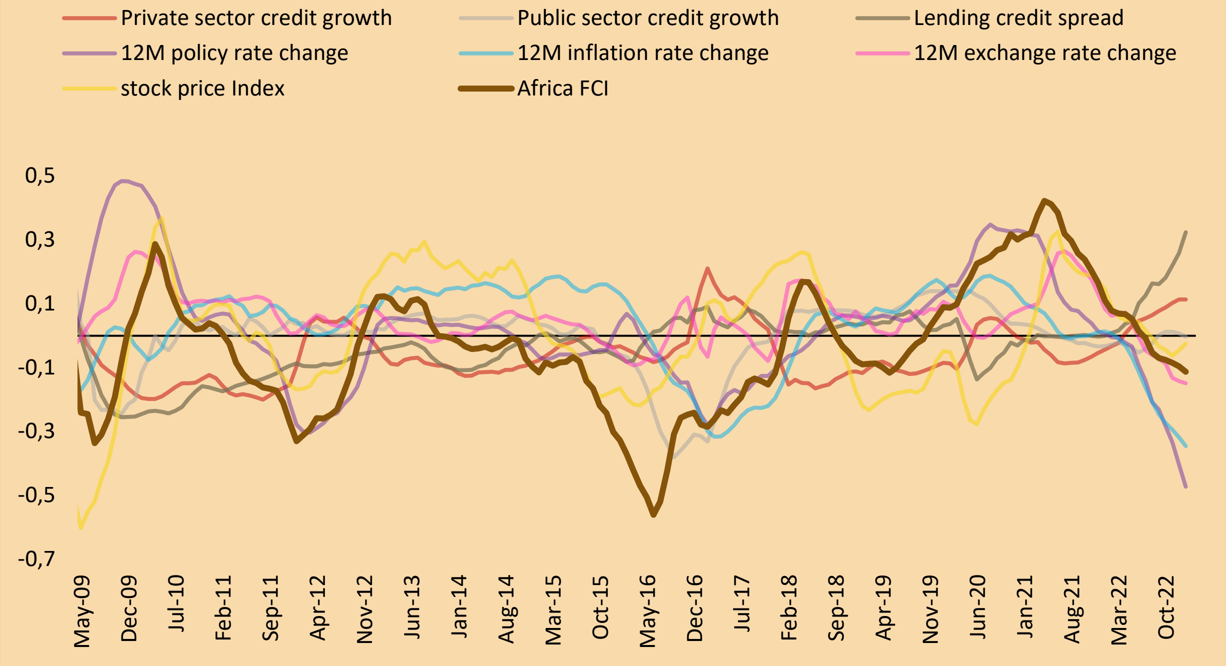
Conditions in financial markets and banking sectors

A financial conditions index for Africa



African FCI and its drivers



- **African financial conditions index** created by combining country indices for Nigeria, South Africa, Egypt and Kenya

- **After the pandemic**, policy rates lowered and stock markets resilient
- **From mid-2021**, inflation and policy rates increased with weaker exchange rates

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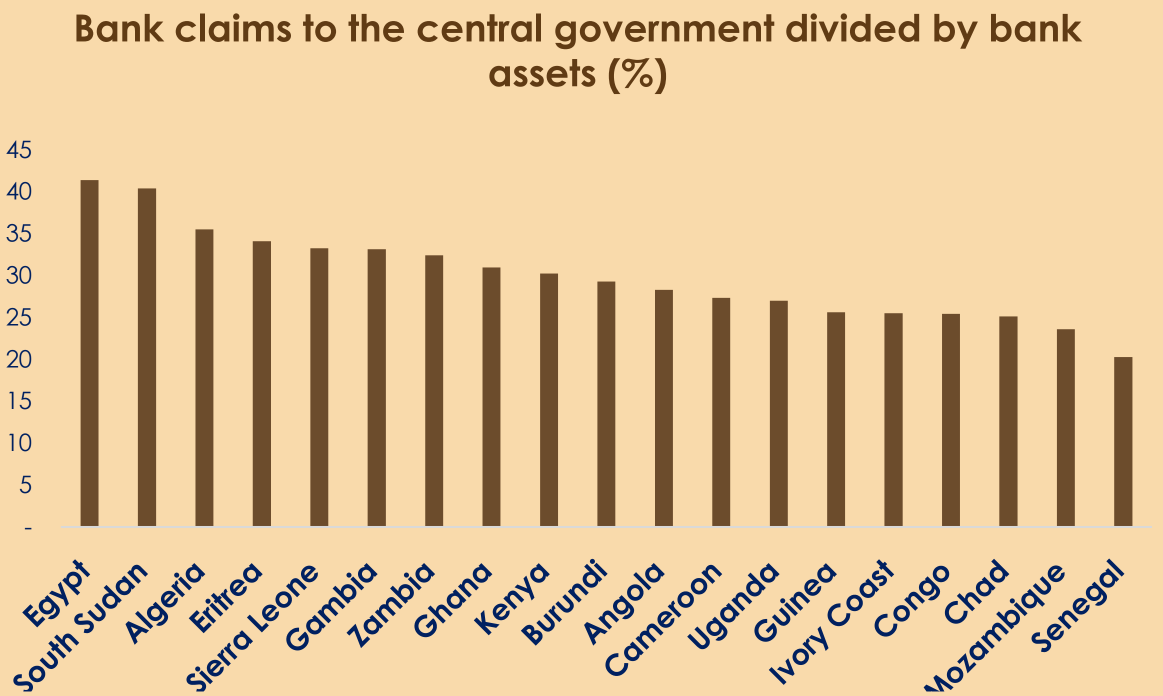
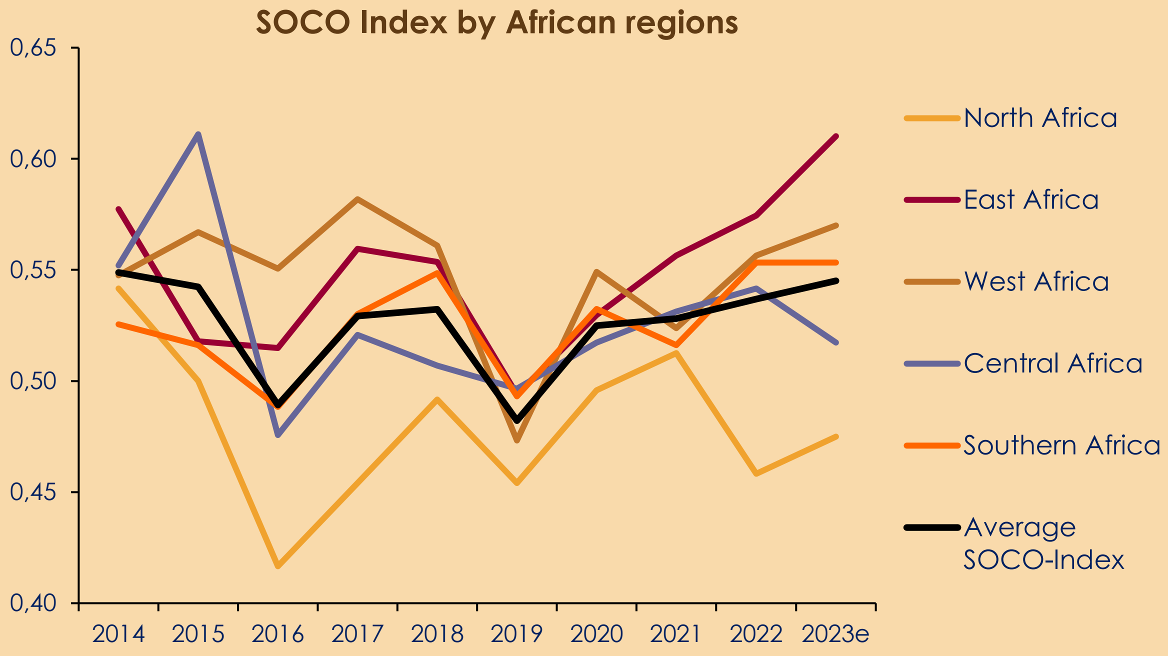
Public debt and private sector credit in Africa: the problem of crowding out





- Many countries have high share of public debt on bank balance sheets
- Moreover, sovereign debt is often more risky in these countries

- Crowding out index is highest in East Africa and lowest in North Africa

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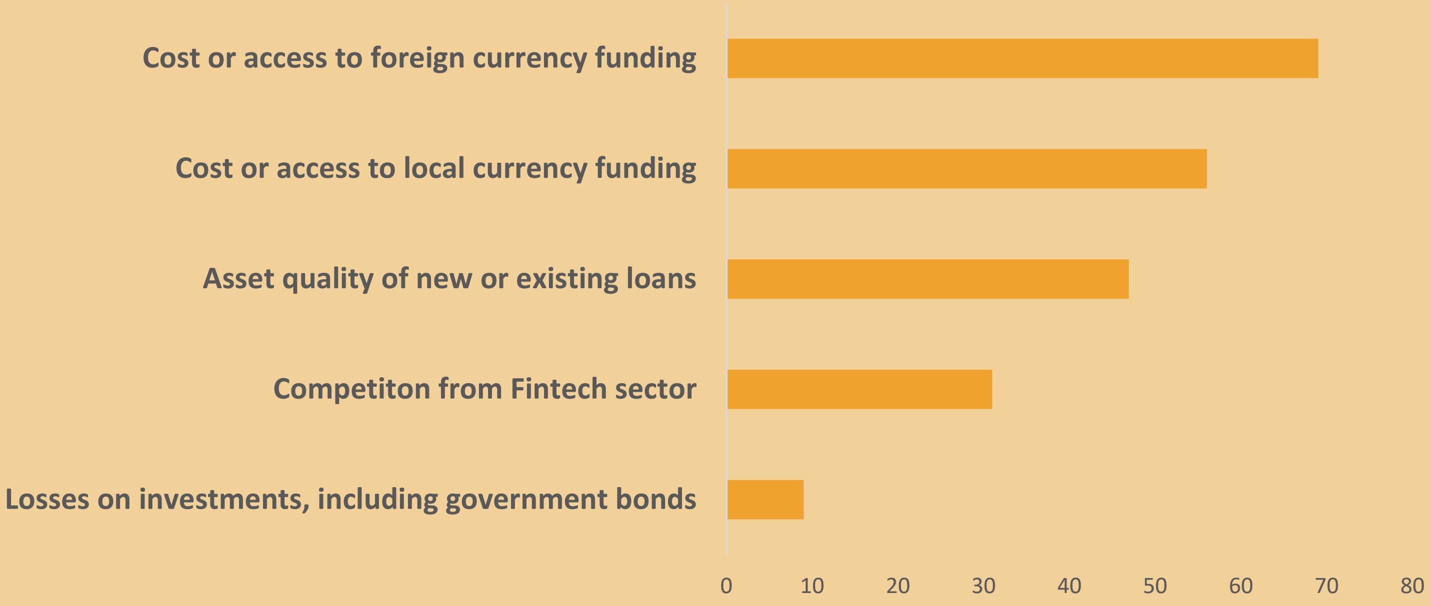
Banks' main concerns for the next year

Main factors affecting the bank over the next 12 months (% of responding banks)



- **Asset quality** remains a concern for *47% of banks – an issue since the pandemic*
- **Local currency funding costs** remain a concern for *56% of banks* in 2023 (compared to 57% in 2022)
- The **dominant concern** in 2023 is the **cost or availability of foreign currency funding** (69% of banks)

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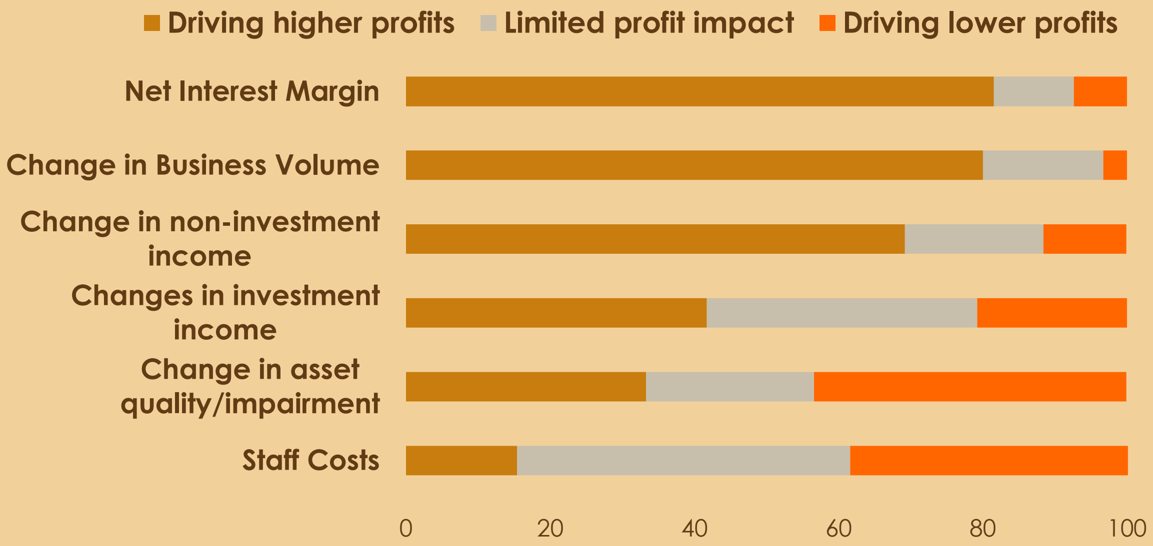
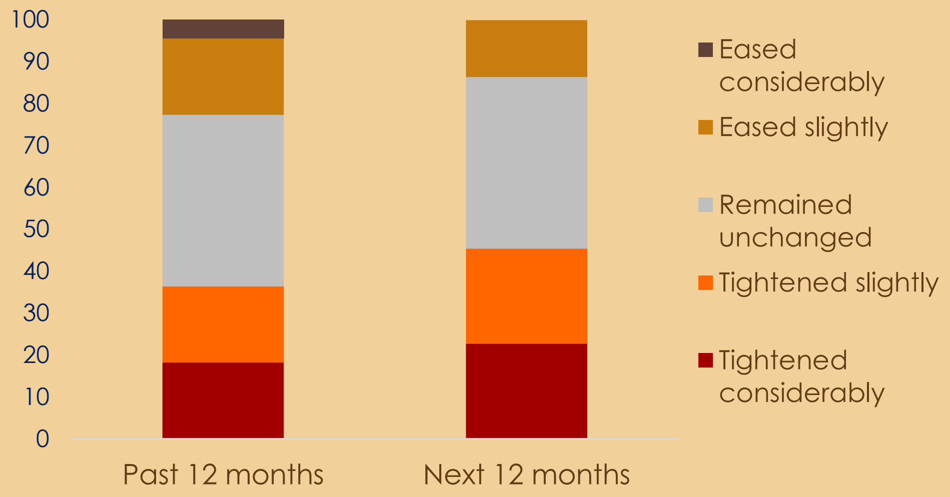
Profitability being supported by margins and volumes

Important profit drivers
(% of responding banks)



- About 80% of banks expect higher profits in 2023 than 2022
- **High interest rates** have supported net interest margins for banks and are important driver of **higher profitability**

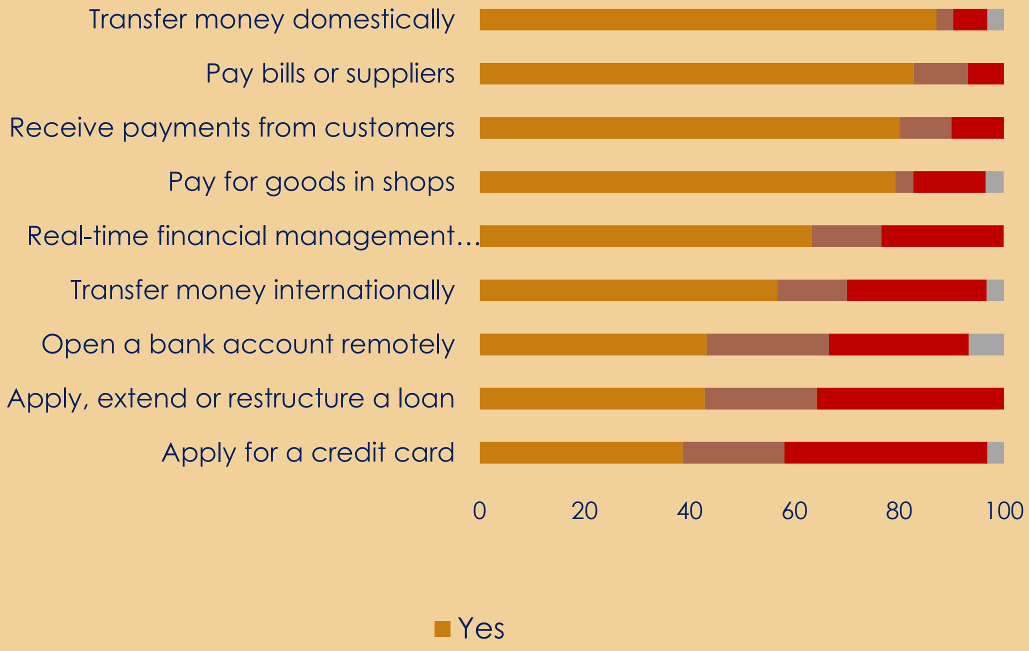
How credit standards have changed and will change
(% of responding banks)



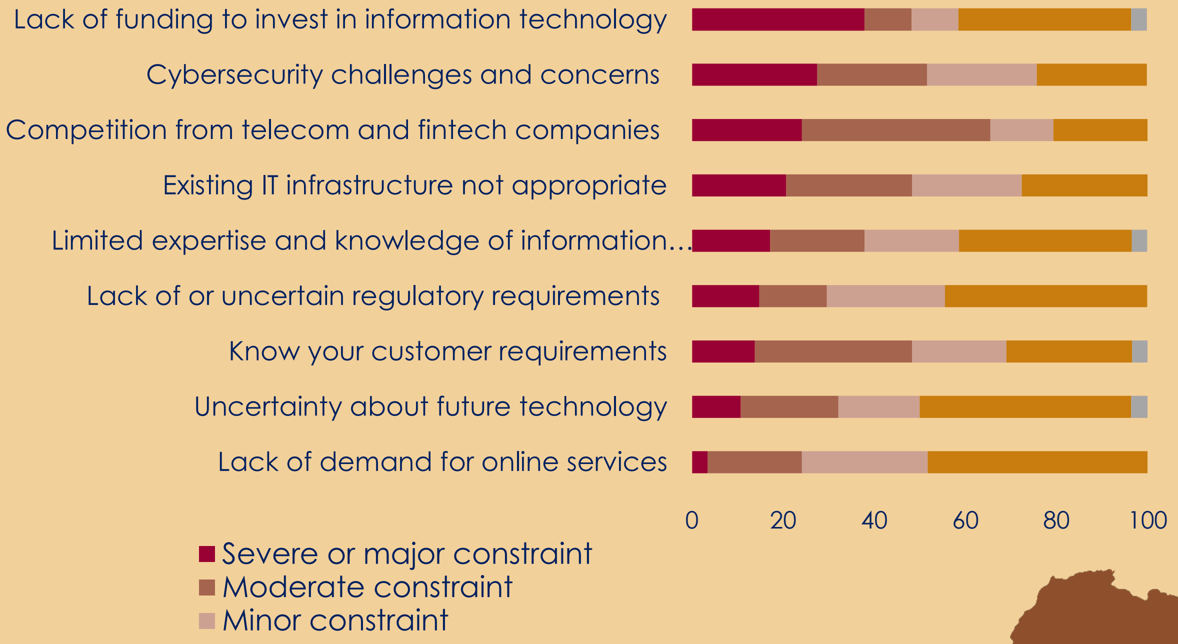
- Credit standards tightened for a third year in 2022, with a net tightening of 13% of banks
- In 2023, a **net tightening of 31%** of banks is expected although they retain an appetite to increase lending

Digitalisation trends in the banking system

Provision of digital services
(% of responding banks)



Barriers to further digitalisation
(% of responding banks)



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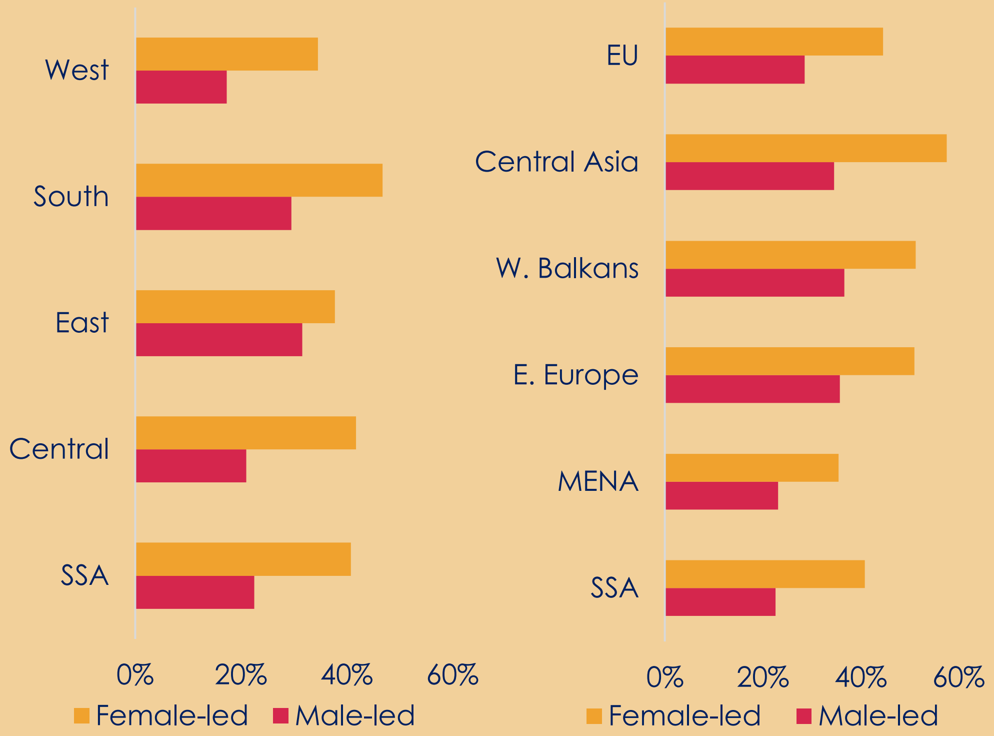
Gender gaps persist

Share of female workers by ownership of firm and by region



- **Enterprise survey data for 19 SSA countries finds 29% of the workforce is female and 33% of firms have female leaders**
- **Female-led companies employ more female workers (41%) compared to male-led firms (23%) – left side of chart**
- **This property is also observed in other regions – right side of chart.**
- **While the EU has higher levels of female employment among male and female led firms, the gap is similar to SSA.**

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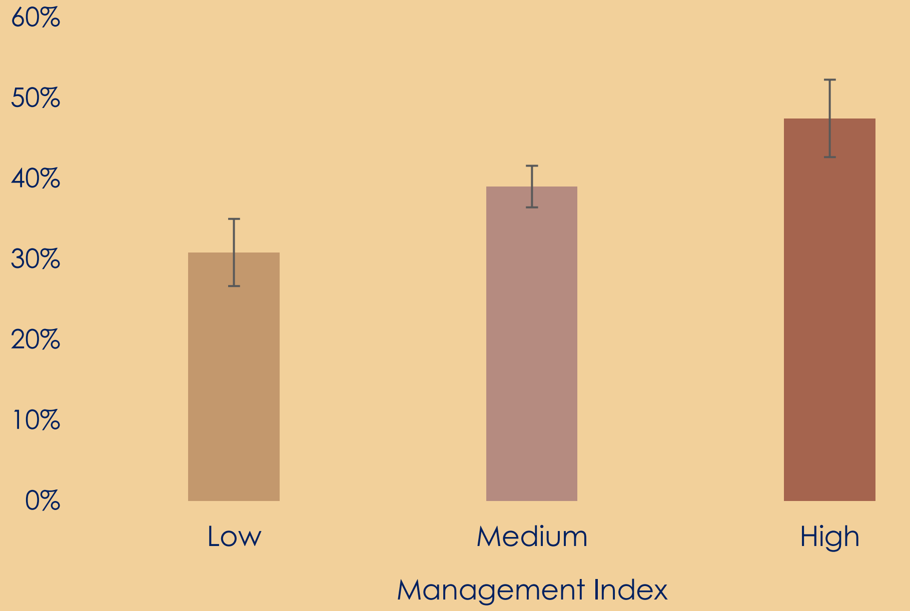
Characteristics of female-led firms

Probability of being female-led, by quality of management



Probability of being female-led, by firm characteristics

- Better managed firms more likely to be female led
- female-led firms are more likely to invest in innovation (7 pp), export goods (5 pp) and services and offer training (8 pp) to their employees

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A way of summarising climate risk for banks

1. Collect data on lending exposures to three sectors – households, sovereign and industry (7 sectors)

2. Collect data on climate risk households, sovereigns and industry and combine as follows:

$$BCR_i = S_i w_s + S_i w_H + IND_i w_{IND}$$

S_i is the EIB climate risk score for country *i*

w_s is the weight of the banking sector exposure to the sovereign sector

w_H is the weight of the banking sector exposure to the household sector

IND_i is the EIB industry climate risk score for industry *i*

w_{IND} is the weight of the banking sector exposure to the industrial sector

The equation is computed both for *physical* and *transitional* risk so to have two independent scores

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Climate risk on bank balance sheet

Banking sector exposure to physical risk…

and transitional risk

- **Country risk scores** have considerable impact on bank risk scores, as it feeds into both sovereign and household risk
- **Industry risk has** a comparatively smaller impact

- **Transition risk** for banks is lower than physical risk
- **Just one score over 3** for transition risk, compared to 13 countries with a score over 3 for physical climate risk

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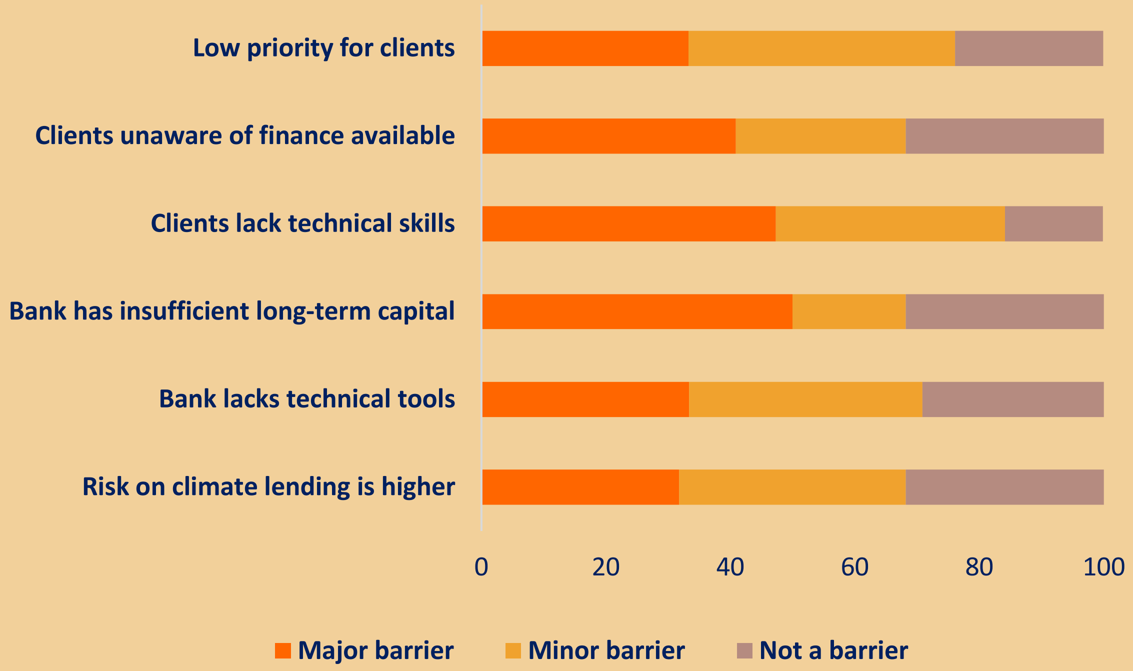
Climate investment and climate risk in Africa

From the Banking Survey 2023 results…

- **58% of banks have a climate change strategy** (23% plan to introduce).
- **64% of banks** (24% plan to do so) **considers climate with a new client/project**
- **44% of banks** (36% plan to do this) **do risk assessments of existing ptfs**
- **Banks' barriers**: lack of long-term capital, higher risk of green projects and lack of technical skills
- **Firms' barriers**: lack of demand, lack of awareness of green products, lack of technical skills

Factors constraining green lending



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Thank you for your attention

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