HOUSEHOLD INDEBTEDNESS SURVEY REPORT

2024 | 2025

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PURPOSE OF THE REPORT

This report summarises outcomes of a Household Indebtedness Survey conducted by the Bank of Botswana (Bank) for the year 2024/25. The Survey collects data from banks, micro-lenders and hire purchase stores to identify, assess and monitor credit developments within the household sector. The Bank undertakes the survey to supplement other official data sources, which is crucial for sound policy analysis and formulation. The household sector is a significant component of lending by commercial banks and other institutions; thus, a key aspect of monetary policy framework and transmission and important for economic activity. Access to credit, or debt, empowers households to make productive investments, smooth consumption during periods of income fluctuations, and participate more actively in the economy, all of which are vital for sustainable economic growth. Credit can also help households build personal wealth by facilitating the acquisition of valuable assets such as property and other income-generating assets. However, elevated indebtedness can also be a source of financial instability, especially when the economy unexpectedly faces negative shocks. The experience of the 2008/2009 global financial crisis underscores how excessive household debt can be a source of financial stability risks which might trigger prolonged recessions. As household borrowing increases, the economy could grow quickly in the short term but become highly leveraged and, in this situation, a macroeconomic shock may significantly lower growth and result in an increase unemployment undermining debt repayment capacity. It is therefore critical that lending and credit dynamics are understood in the context of appropriate risk management frameworks, legal and regulatory compliance, as well as policy setting and priorities. This is necessary to, on the one hand, achieve beneficial, sustainable and productive use of credit and financial inclusion and, on the other hand to safeguard soundness of financial institutions and, broadly, financial stability.

The annual survey helps to determine the dynamics of household borrowing to assess the potential impact on economic activity, as well as risks and vulnerabilities inherent in the structure and type of household borrowing. The findings are used to inform financial sector policy development, as well as regulatory and macroprudential policy formulation and implementation to support productive credit extension that drive sustainable economic growth while safeguarding financial stability.

The Survey, therefore, helps to inform the development of institutional frameworks and regulations to facilitate disciplined and beneficial access to credit and mitigate the associated risks. Moreover, the survey helps to identify potential data gaps in the market to inform remedial responses by the Bank, while also serving as a public awareness tool for households and generally providing market information. The information enables households to appreciate opportunities for optimising the benefits and cost of credit products offered by financial institutions and to make informed financial decisions, especially relating to borrowing. The survey also informs credit and other service providers about household credit trends that influence business strategies, models and activities. At the same time, financial institutions and emergent enterprises may use the information obtained from the survey to identify potential areas for inclusive and innovative financial products and services.

Overall, for policy makers, in the context of broader financial sector development and financial stability objectives, the information is relevant for balancing the economic opportunities and risks of household debt to ensure financial deepening and inclusion without endangering the financial system. The survey uses information from nine commercial banks, one statutory bank, 10 micro-lenders and one hire purchase group with 61 stores. The information is collected using an online questionnaire. The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank as well as the Quarterly Multi-Topic Survey conducted by Statistics Botswana.

The Survey questions covered the demographic characteristics of household borrowers; credit underwriting and management processes; characteristics of the credit or loan book and the credit outlook. Furthermore, the survey covered the features of household debt, including the debt-to-income ratio, debt service capacity and alternative sources of funding in 2024/25. These elements are also considered in the context of prevailing measures of market conditions, such as interest rates, instalment payments, expectations regarding future income and wealth, which affect household's borrowing decisions. For purposes of this survey, household debt refers to a loan or credit acquired, or debt incurred for, among others, the purchase of assets such as residential property, commercial real estate, equipment, vehicles, household durables and furniture, and the acquisition of consumer goods and services and other miscellaneous uses.

1 INTRODUCTION

1.1 Botswana's economic landscape is currently characterised by fiscal and liquidity challenges due to weakened diamond demand, shifts in geopolitics and overall change in international trade policies. The Ministry of Finance projects the economy to contract by 0.4 percent in 2025, marking a second consecutive year of economic decline. Local firms also face major cashflow challenges on account of slow pace of spending by government. Given the significance of government sector and as a source of liquidity, fiscal and cashflow constraints potentially dampens business activity and household incomes, increasing the risk of loan defaults thus posing a threat to financial stability.

1.2 Total household debt was estimated at P68.6 billion in December 2024, a 12 percent increase from P61 billion estimated in the 2023/24 Survey. The P68.6 billion comprised P59.6 billion (87 percent) commercial bank loans; P8.5 billion (12 percent) micro-lender loans; and P509 million (1 percent) hire purchase loans. As a percentage of GDP, total household debt accounted for 26 percent in December 2024, up from 23.1 percent in December 2023, mainly due to a decrease in GDP. In spite of the increase, these proportions remain significantly lower than regional counterparts, with latest data from South Africa and Mauritius showing ratios of 33.7 percent (December 2024) and 37.7 percent (June 2024), respectively.

1.3 As observed in the previous survey, men continue to borrow more than women across all financial institutions, accounting for an average of 56 percent of the entire lending. However, women held a higher proportion of hire purchase loans, making up 56 percent of the loan category. The survey also establishes that loans are dominated by persons aged 36-49 with total debt of P40 billion, with households earning between P9,000 and P25,000 accounting for most of the borrowing across commercial banks and micro-lenders.

1.4 Most of the participating institutions viewed the demand for credit as moderate whilst a few experienced higher demand in 2024. At the time of the survey, both banks and micro-lenders were optimistic about credit demand in 2025, due to anticipation of household income growth, favourable pricing and overall increase in economic growth. However, these expectations are largely conditioned by the macroeconomic, fiscal and liquidity challenges experienced in the first half of 2025.

1.5 The remainder of this report is organised into three sections; the methodology used for conducting the survey is discussed in section 2 while section 3 discusses the findings of the survey. Section 4 concludes the report.

2 METHODOLOGY

2.1 The Survey employed a web-based questionnaire to collect primary data from commercial banks, a statutory bank, micro-lenders and hire-purchase stores. The questions focused on key drivers of household credit, covering past demand and outlook; demographic characteristics of household borrowers; the loan application process, including all requirements and assessments; and credit risk management strategies employed by credit providers. The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank, as well as the QMTS conducted by Statistics Botswana.

2.2 Overall, the Survey response rate was satisfactory; with responses from all commercial banks, one statutory bank and 10 micro-lenders[1]. In spite of the limited participation from microlenders, those that responded have significant market influence; controlling more than 95 percent of the total industry assets. One hire purchase entity responded, representing a group company that owns 61 hire purchase stores across the country.

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1 Data provided by Non-Bank Financial Institutions Regulatory Authority (NBFIRA) indicates that there was total of 282 reporting micro-lenders in 2024, an increase from 248 in 2023.

3 ANALYSIS OF RESULTS

3.1 This section summarises the survey results, covering demographics of household borrowers, factors driving credit, lending practices across credit providers, as well as the credit outlook for 2025.

(a) Demographic Characteristics of Household Borrowers

i) Distribution of Loans by Gender and Age Groups

3.2 The Survey results show that the largest proportion of the loan portfolios is held by individuals aged between 36 and 49 years across both banks and micro-lenders, (Figure 1.1a and 1.1b), consistent with trends observed in previous years (2022 – 2024). The results also indicate that, on aggregate, the largest proportion of household loans are to customers aged above 31 years[2]. Commercial bank credit is largely dominated by males, although both males and females generally have a relatively similar appetite for the various bank credit products (Figure 1.1c). For the micro-lender loan categories, personal loans continue to dominate the portfolio at 97.8 percent (Figure 1.1d), even though their proportion fell from 99.6 percent in 2023.

3.3 Consistent with the distribution of loans by age group, the Q1 2024 QMTS shows that majority of employed individuals are aged between 36 and 49, forming 41.6 percent of total employment. Additionally, they hold the highest employment-to-population ratio at 66.9 percent, a slight increase from 66.3 percent registered in 2023. Figures 1.2a and 1.2b illustrate the distribution of loans by age group and the employment-to-population ratios across the ages. It is observed that this age group has the highest loan amounts followed by individuals aged between 50 and 65 and 31 to 35, respectively.

3.4 Individuals aged between 50 and 65 years have a lower employment ratio (53.2 percent) than those aged between 31 and 35 years (57.1 percent), though they hold a higher amount of loans. This could be attributed to the accumulated wealth by the older cohort, as they tend to have improved debt capacity and borrowing ability. Generally, females have a relatively lower employment-to-population ratio, which tends to limit their participation in the formal credit market.

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2 This is consistent with levels of employment across age groups, where those aged less than 30 years make up 24.1 percent of the total employed population (Q1 2024 QMTS).

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

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

Figure 1.1a Household Bank Loans by Gender and Age Group

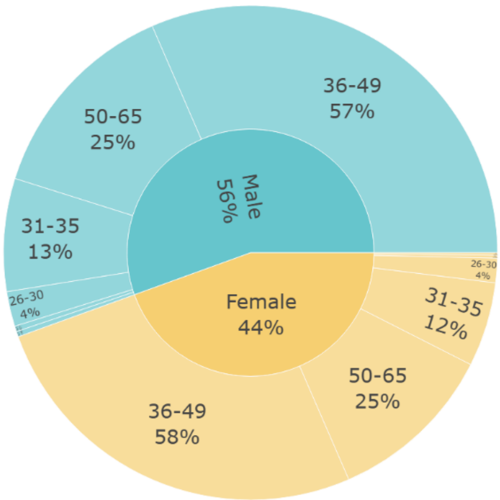


Figure 1.1b: Micro-lender Loans by Loan Category

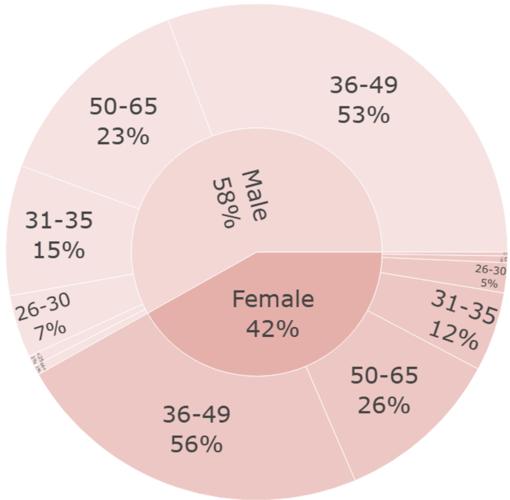


Figure1.1c: Household Bank Loan Accounts by Gender and Category

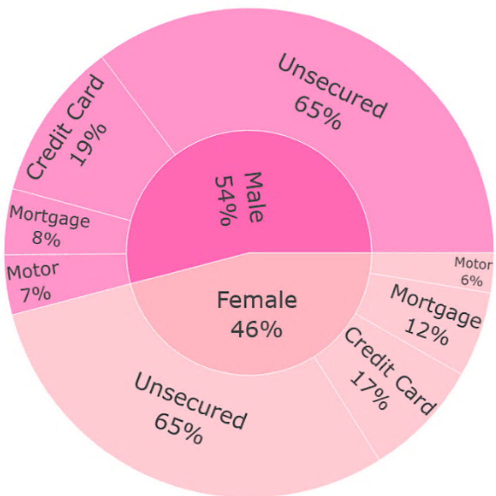
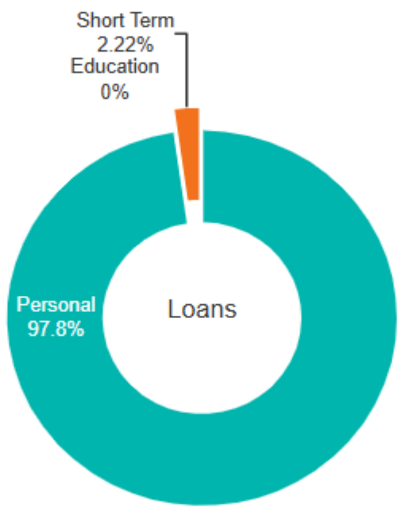


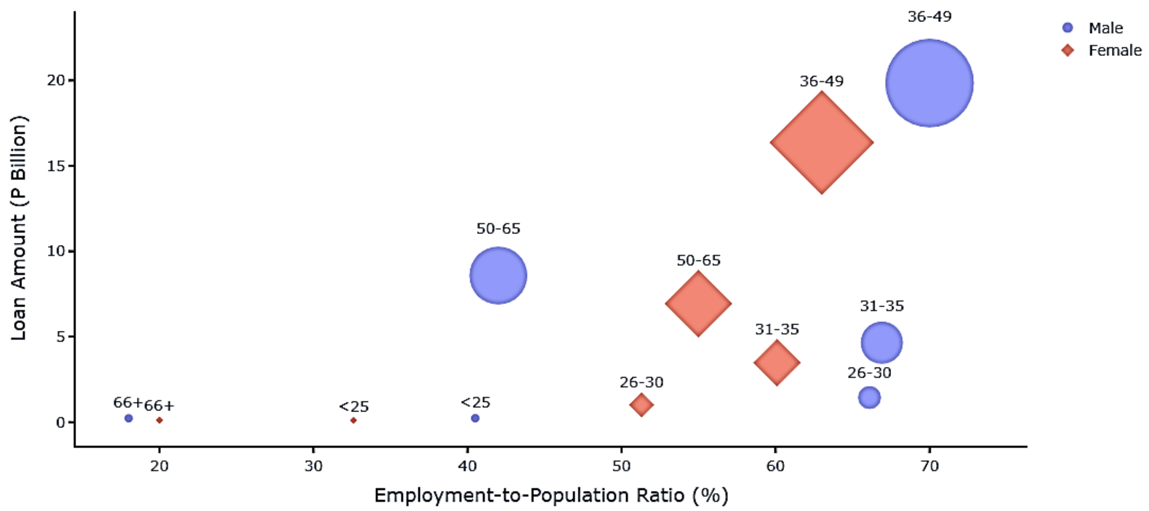
Figure 1.1d: Micro-lender Loans by Loan Category



Distribution of Loans by Gender and Age Groups

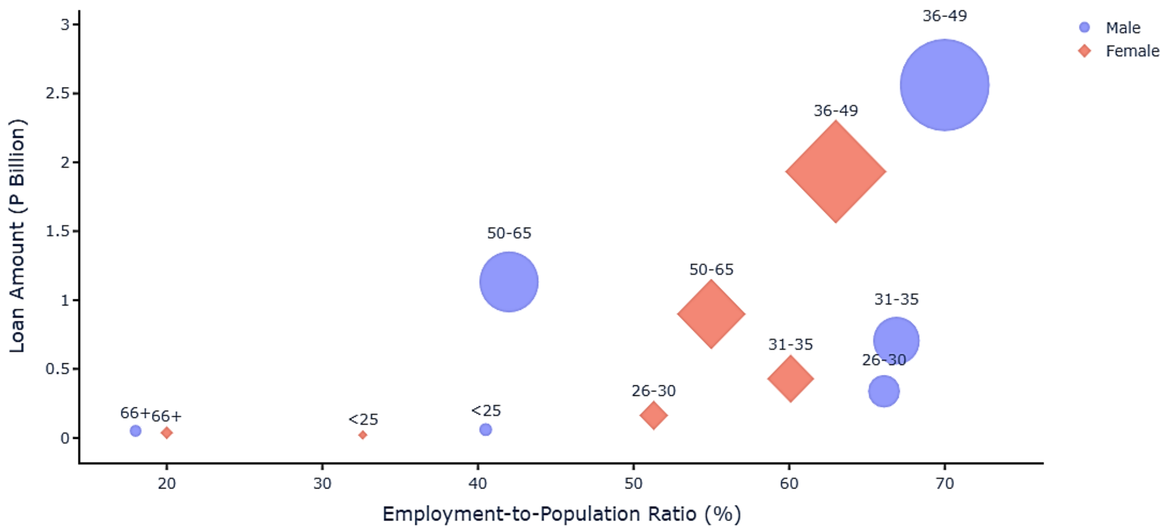
Most bank loans are taken by females and males aged 36 - 49 years who are the most employed

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



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

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



ii) Measures of Indebtedness

3.5 The Debt-to-Income ratio (DTI) is an important metric used by financial institutions when processing credit applications as it directly impacts an applicant's ability to repay their debt obligations. An analysis of DTI ratios across the gender category and age groups offers insights into the financial behaviour of households and their alignment with established economic theory relating to consumption-saving behaviour at different stages of life. The lowest average DTI ratios reported by banks are for individuals under age 25 years, at 33 percent. This reflects a variation of the life cycle hypothesis in the context of an upper-middle economy, where it is expected that wages start low as individuals enter the labour force. As a result, individuals aged less than 25 years have low access to credit and this is reflected in the low proportion of lending to this age group.

3.6 Figure 1.3 shows that as individuals progress through their careers and life cycles (age 26 to 50) their DTI ratios maintain an upward trajectory. This is consistent with both the permanent income and lifecycle hypotheses, wherein individuals spend money at a level consistent with their expected long-term average incomes. As such, individuals will leverage debt and borrow when their income is low, typically when they are younger, and save when their income is high, to smoothen lifetime consumption. On the other hand, the lifecycle hypothesis posits that households' incomes will generally peak within the 26 – 50 years old age group and at the same time increase expenses as they try to cover housing, marriages and investments.

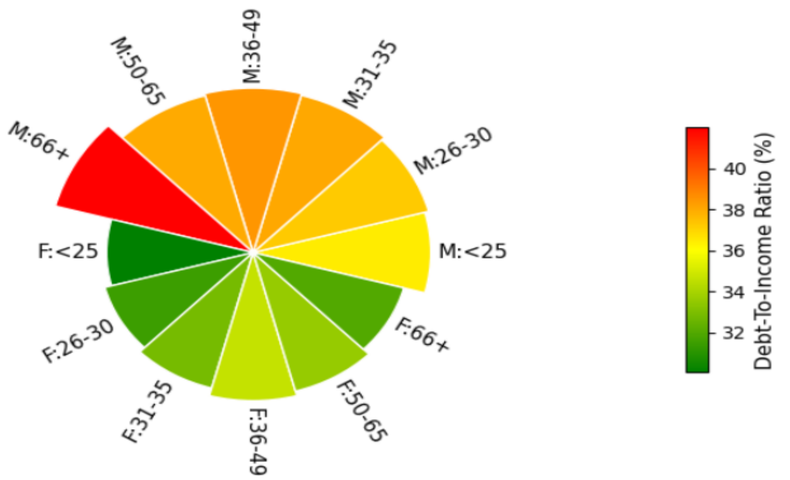
3.7 The highest debt burden as measured by the DTI is typically found in males and more pronounced for males aged 66 years and above. The gender disparity could be attributed to various social and economic factors, including potential gender wage gaps, differing financial priorities and potentially higher loan approval rates for men stemming from their perceived higher earning potential. The survey further reveals that males aged between 31 and 50 years are exhibiting higher than average DTIs consistent with the overall distribution of loans across age groups. Ironically, males above retirement age have the highest DTIs despite low levels of loans. This could mean that males leverage their pension at retirement or take loans just before retirement to maintain their lifestyles and pursue post-work investments. This exposes them to growing debt burden and exposes banks to unprecedented credit risk as it is most likely a significant proportion of this age group have lower prospects for future income growth.

3.8 The borrowing behaviour of those aged between 36 and 49 could be attributed to increased financial obligations such as retirement investments, family-building expenses, housing commitments and education costs for children. This behaviour is consistent with delayed life cycle hypothesis where incomes start too low in the context of an upper-middle economy. Consistently, this demographic profile is supported by higher incomes and increased debt repayment capacity, to maximise their consumption and investment opportunities before retirement. In line with the life cycle hypothesis, it is generally expected that as individuals transition into retirement, the DTI ratio generally declines, as debt decreases on account of loss of employment income and lower replacement in terms of pensions. However, the survey finds that this thinking is consistent for females but not for males and possible explanations, as mentioned before, including general behavioural patterns as well as socio-economic dynamics influencing gender-based borrowing patterns.

3.9 Overall, the patterns in DTI ratios across age groups and gender categories align closely with the established economic theories. Understanding these trends is essential to inform macroprudential and other policy interventions that promote responsible borrowing, enhance financial literacy and inclusion, and support a more stable and equitable financial system while also guiding product and market development.

Figure 1.3 Debt to Income Ratio (DTI) By Gender and Age Groups for Banks

Males at retirement ages have the highest debt burden



iii) Average Loans by Gender

3.10 Over the past three years, lending patterns for commercial banks have shifted, with females now securing larger average loan amounts than males and reversing historical trends where males dominated due to significant earnings disparity (Figure 1.4). Females' earnings have grown faster, narrowing the gender pay gap in recent years and now earn just 12.3 percent lower than males (P6,493 vs. P5,697 monthly average: 2024 QMTS). This improvement, alongside higher female labour force participation (61 percent in 2024 vs. 58.7 percent in 2022) coupled with the 54 percent share of formal sector employment and rising entrepreneurship, particularly in service-oriented sectors, likely enhanced their creditworthiness and access to larger loans. Consequently, females' average loan amount grew by 33 percent from 2022/23 to 2024/25, while average male loan amounts remained stagnant.

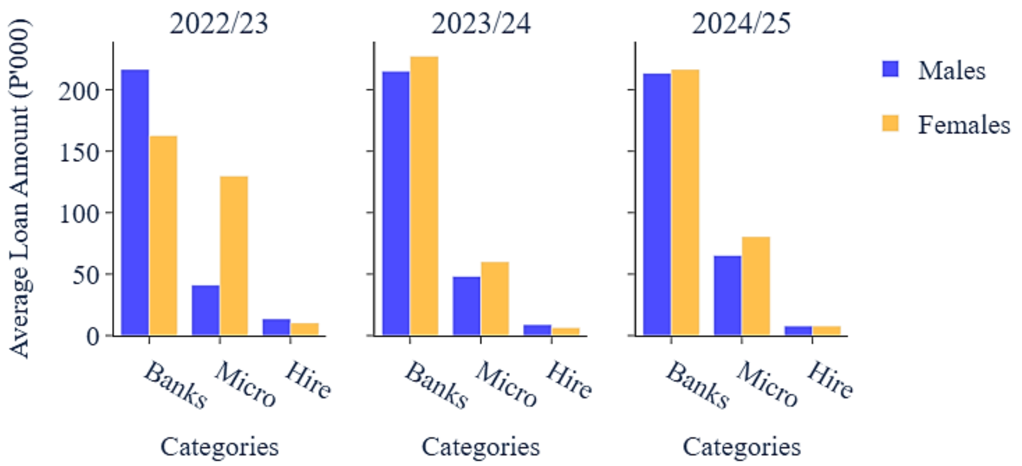
3.11 The increased participation of females in formal sector roles as well as well as their growing engagement in stable sectors like education and health, where they hold 60.7

percent of Professional roles (51.8 percent in 2023) and 57.4 percent of Technician roles (59.1 percent in 2023) support their borrowing capacity, reflecting successful gender-balanced and inclusive economic development. In microlending, females dominate the lending portfolio, likely due to their overrepresentation in lower-paying occupations like Service or Sales Workers (62.3 percent, where they earn 31.1 percent less than males) and Elementary Occupations (53.3 percent, where females earn 10.8 percent less). However, males have seen 59 percent growth in microlending loan amounts, possibly due to borrowing for capital-intensive microenterprises, as males hold 79.3 percent of Craft and Related Trades roles, earning 29.5 percent more than females.

3.12 In the hire purchase segment, average loan amounts remained below P10,000, with loan uptake among women increasing by 22 percent between 2023/24 and 2024/25 while declining by 13 percent for men. The QMTS indicates that females' 50.7 percent share of total employment and faster earnings growth enhance their purchasing power, enabling larger hire purchase loans for consumer durables. Females' strong presence in formal sector roles and lower unemployment rates in middle age groups (e.g., individuals aged 40-44 years old make up the biggest share of total employment at 15.6 percent) also support this trend.. Females' 72.6 percent share of underemployed workers and concentration in lower-paying occupations underscore their reliance on hire purchasing, yet their growing economic stability drives increased borrowing across all segments. These trends, supported by QMTS data, highlight the effectiveness of policies promoting financial inclusion and gender equity in credit access, enabling females to overcome historical barriers despite persistent earnings disparities.

Figure 1.4: Average Loans by Gender

Women have higher average loan amounts



iv) Average Loans by Age Groups

3.13 Average loan amounts per household vary in line with employment demographics including employment type, occupation distribution, and earnings disparities. According to the survey, banks' loan portfolio was dominated by middle-aged groups while micro-lender loans were skewed towards younger and middle-aged borrowers and hire purchase lending appeared to be balanced (Figure 1.5). Based on the employment data and survey results, it can be concluded that the amount of average loans that credit providers give per household is aligned with the borrower's financial capacity, assessed through employment and income metrics.

3.14 The survey establishes that banks lent mostly households aged between 36 and 49 for an average loan per household of P245,488 in 2024/25 (2023/24: P271,197), while average loan amount for those aged less than 25 dropped from P188,691 in 2022/23 to P27,218 in 2023/24 before recovering to P113,104 in 2024/25. The 2024 QMTS reports 504,738 formal jobs, which are concentrated among the 36 to 65 years age groups. These age groups mostly comprise individuals working in high-skilled occupations; Professionals (average earning of P22,472 monthly) and Managers (with average monthly earnings of P17,794), supporting larger loans due to repayment capacity. On the contrary, those aged less than 25 years, with a 38.2 percent unemployment rate and 173,583 informal jobs in Elementary Occupations, face lending restrictions, while fixed incomes limit borrowing capacity for those above retirement age.

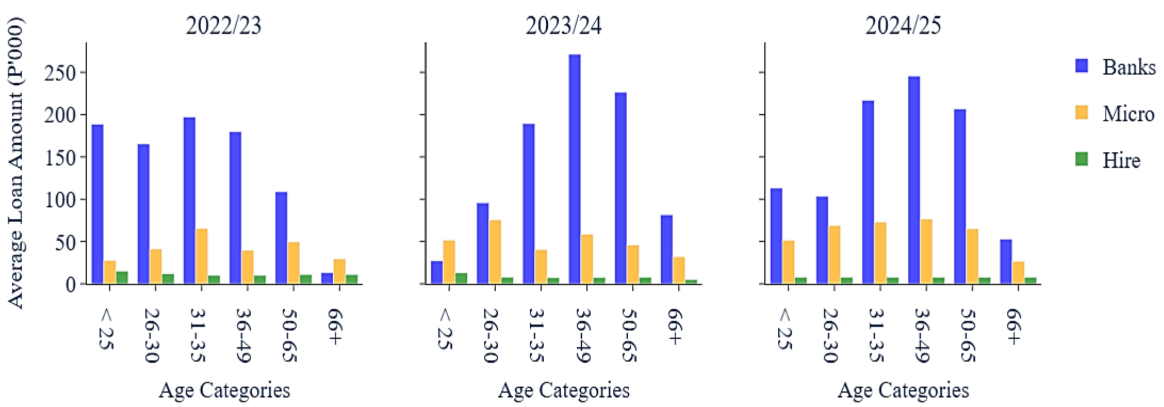
3.15 Micro-lenders are also highly exposed to households in the 36 to 49 age group who on average borrowed P76,503 each in 2024, followed by the P75,513 borrowed by the 26–30 years old cohort. The 31 – 35 age cohort had the third highest average at P73,055 while the average loan amount borrowed by those aged less than 25 wasP51,356. Owing to their declining repayment capacity, average loan amounts for those more than 66 years remained relatively low at P26,621.

3.16 Hire Purchase loans shifted from favouring the less than 25 age group (P13,026 in 2023/24) to a uniform average credit amount of P7,795 per household across all age groups in 2024/25. Initially targeting younger borrowers in informal jobs, this even spread suggests that microlenders offer more favourable terms to households in general despite their varying employment or occupation factors.

3.17 Overall, employment and earnings data explain the average borrowing pattern of the different age groups. Middle-aged groups 31 to 65 years old who are formally employed and have higher monthly earnings secure the largest bank loans, while younger (under 25 years) and older (more than 66 years old) borrowers who are limited by unemployment and fixed incomes, receive smaller amounts per individual.

Figure 1.5: Average Loans by Age Group

Middle-aged borrowers have the highest average loan amounts



v) Distribution of Total Household Loans by Income Groups

3.18 An analysis of the distribution of loans by income groups reveals that, in 2024, bank credit was skewed towards middle to high income earners, who earn a monthly income between P15,001 and P25,000, followed by those earning between P9,001 and P15,000; a stark contrast from the 2023 Survey where household bank credit was dominated by households with incomes ranging between P9,001 and P15,000 followed by those earning between P15,001 and P25,000. This change may be a result of the tightening credit conditions ushered by a difficult macroeconomic environment, leading to banks safeguarding their credit portfolios with higher earning customers. Meanwhile, micro-lender loans are also dominated by the aforementioned income groups, further highlighting credit risk exposure posed by this group to the whole financial system. Overall, loans were concentrated on those earning between P9,001 and P25,000 (Figure 1.6a and 1.6b).

3.19 Figure 1.6d shows the various loan products on offer and their distribution across the income groups. Consistent with the dominance of unsecured loans in the portfolio of banks, the survey data shows that the various income groups' borrowing is concentrated on unsecured loans. Furthermore, an assessment of debt-to-income (DTI) ratios across income groups reveals that individuals with lower monthly incomes tend to have the highest DTIs, tending to show elevated credit and default risk (Figure 1.6c). At the same time, it is expected that lower income earners have limited access to credit due to low debt service capacity, resulting in higher DTIs for relatively lower levels of borrowing. Additionally, given the limited access to credit for low-income earners, it is plausible to assume that they tend to maximise their borrowing when given the opportunity, contributing to the higher DTIs.

Distribution of Total Household Loans by Income Group

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

Figure 1.6a: Total Bank Loans by Income (P Billion)

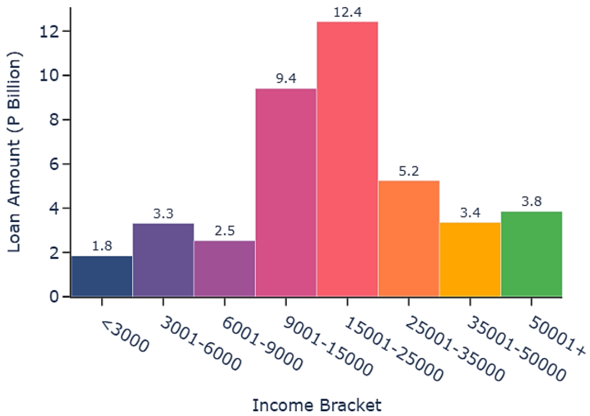


Figure 1.6b: Total Micro-lender Loans by Income Group (P Billion)

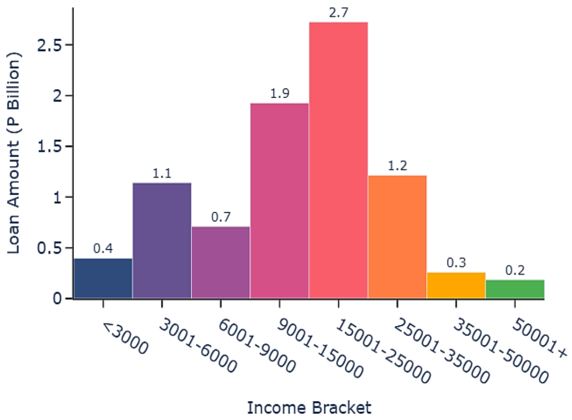


Figure 1.6c: Bank DTIs by Income Group (P Billion)

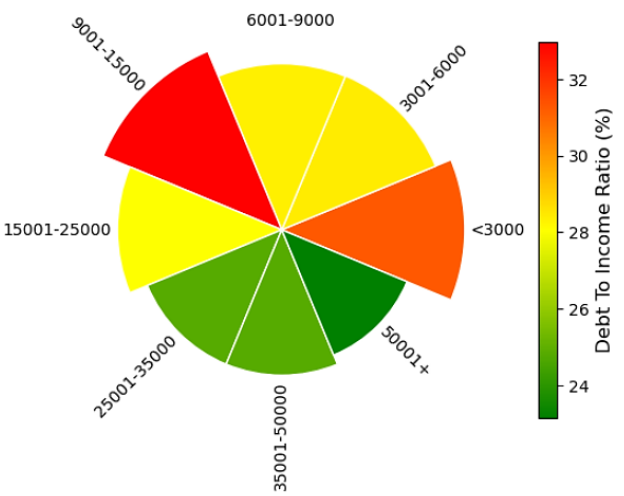
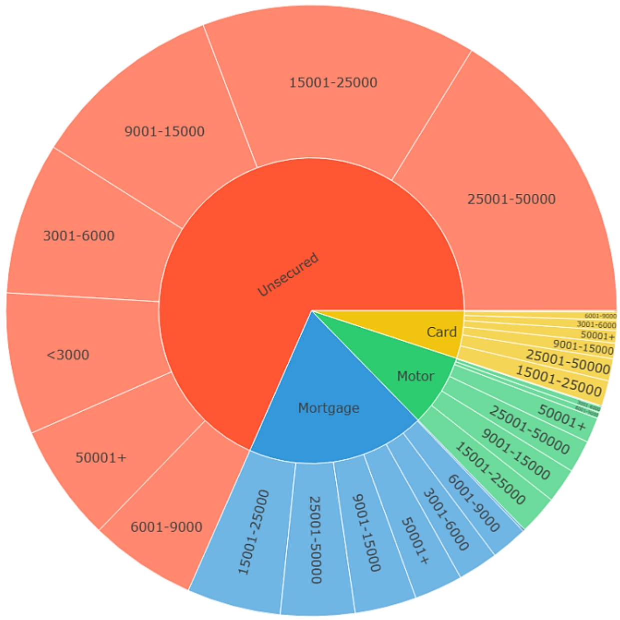


Figure 1.6d: Bank Loans by Category and Income Group (P Billion)



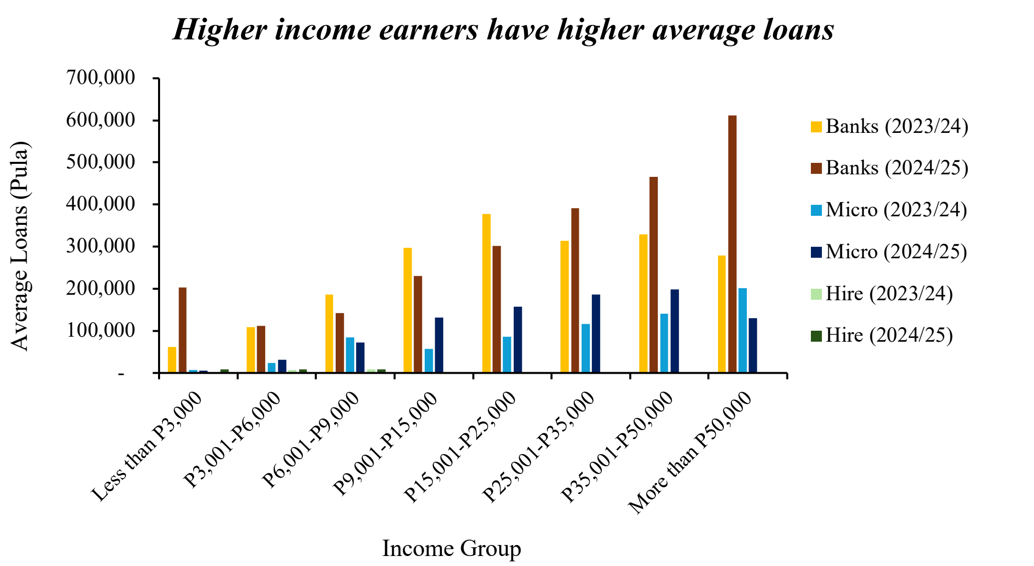
vi) Average Household Loan by Income

3.20 Average loans taken per household borrower generally increase with income levels as shown in Figure 1.7. For banks, it is found that average loans taken by households fell in 2024 compared to 2023 for the income groups between P6,001 and P25,000 while for those earning between P3,001 and P6,000, the average loan taken was unchanged.

The average loans increased significantly for households in the lowest income brackets and for those earning P25,001 and above. Specifically average loans taken by households earning less than P3,000 increased by 230 percent from P61,726 in 2023 to P203,561 in 2024. Other significant jumps are observed for the P25,001 to P35,000, P35,001 to P50,000 and more than P50,000 income brackets with average loans increasing by 25 percent (P391,380), 41.5 percent (P466,023) and 119 percent (P610,994), respectively.

3.21 Responses from micro-lenders show that average loans taken by households increased for all income brackets except for those earning between P6,001 and P9,000 and those earning more than P50,000. For, hire purchase store, the average loans are generally low and stagnant. Overall, dynamics around the evolution of average loans are consistent with market developments, capturing the entry of BBS into the commercial banking space with high value loans associated with mortgages and the increase of borrowing limits for personal loans by both banks and micro-lenders. It is expected that higher income earners would have the borrowing capacity to finance mortgages and increase their borrowing as personal loan limits increase. However, the increase in the value of average loans amplifies future credit risks as household debt-service costs increase, especially given the increases in prime lending rates by banks in the first half of 2025 amid liquidity challenges.

Figure 1.7: Average Loans by Income Group



vii) Distribution of Loans by Employment

3.22 The distribution of household loans by micro-lenders (Figure 1.8a) and banks (Figure 1.8b) reveals a complex interplay of employment sector, demography and borrower dynamics. Micro-lender loans are heavily concentrated in the private sector employees (82 percent) while most bank loans tend to be towards the government sector employees (64 percent). This could be underlaid by the existing deduction from source codes arrangement for most bank-public sector relations. The survey finds that 63 percent of total household loans are scheme loans (2023: 51.5 percent and 2022: 57 percent), and 73.9 percent have a deduction-from-source arrangement (2023: 67.5 percent and 2022: 63 percent); suggesting some level of secure repayment mechanism. Equally, the public sector is a relatively more formalised structure that easily meets the lending requirements for commercial banks. This employment dynamics combined with gender patterns, where males dominate micro-lender credit compared to a relatively gender-balanced bank credit, highlights distinct borrower patterns and varying borrower access. Specifically, the higher male representation among micro-lender borrowers (57 percent) compared to the more equitable gender split among bank borrowers (52 percent male, 48 percent female) suggests that males are more inclined to seek micro-lender loans possibly due to less strict credit standards, while banks serve a broader, more gender-balanced government sector clientele with generally similar employment dynamics.

3.23 This distribution points to a potential dynamic where private sector male borrowers (57 percent of micro-lender loans within the 82 percent lending to private sector employees) may turn to micro-lenders due to constrained access to bank loans, such as exceeding debt-to-income (DTI) limits or facing stricter lending conditions. The 64 percent share of bank loans to government sector employees and the balanced gender distribution for bank loans are likely tied to stable employment profile, while the stricter bank lending criteria disproportionately impact private sector males, pushing them toward micro-lenders offering more flexible and less structured lending models (albeit much more costly). A joint gender-employment-credit registry data, which is currently lacking, would enable a comprehensive analysis of how gender, employment, and credit profiles intersect to influence lending patterns, providing a robust foundation to validate the observed dynamics.

Distribution of Loans by Gender and by Employment

Micro-lender loans are mostly concentrated on private sector employees while bank loans are concentrated on government sector employees

Figure 1.8a: Household Micro-lender Loans by Gender and Employment

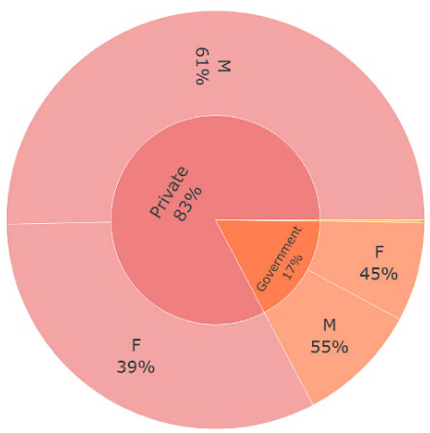
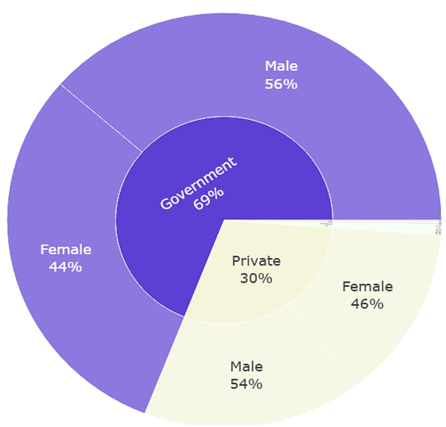


Figure 1.8b: Household Bank Loans by Gender and Employment



(b) Factors Driving Credit Growth

3.24 Figure 1.9a highlights risk appetite, household income and market share objective as the three main demand and supply factors that affected credit expansion in 2024 while funding costs became less of a prominent driver of credit growth compared to 2023. The same factors are also expected to play a crucial role in shaping credit developments in 2025 (Figure 1.9b). However, given the prevailing liquidity constraints, it is assessed that funding costs will be the most prominent factor driving credit in 2025.

Figure 1.9a: Factors Driving Credit Growth in 2024

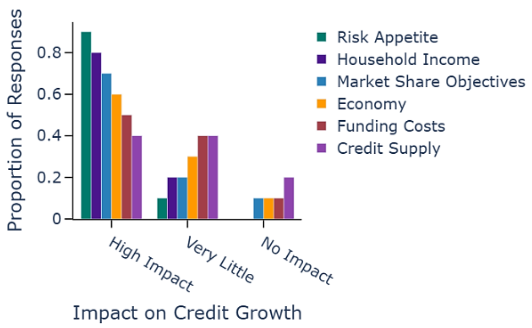
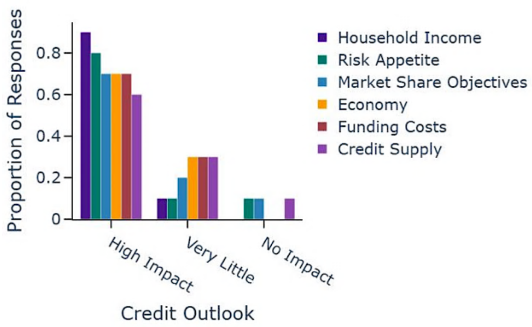


Figure 1.9b: Factors Driving Credit Outlook in 2025



(c) Credit Application Process

i) Documents for Loan Applications

3.25 The loan requirements are largely similar across financial institutions and for different types of loans, with bank statements, proof of residence, proof of identification, proof of income, marriage certificate and Form B (to determine whether the marriage is in community or out of community of property) and references (Figure 1.10a) being part of the core documentation at loan origination. Requirements for proof of sources of income and bank statements feature more prominently across different loan categories, followed by proof of identity and residence, and, in some cases, a marriage certificate. Meanwhile, references are not as prominent as the other requirements. The low requirement for proof of identification is probably due to the fact that banks require their clients to continuously meet know-your-customer requirements, making the proof of identity requirement redundant.

3.26 Furthermore, banks consider other sources of income in addition to or as an alternative to salary income such as rental, investment income and property presented as collateral (Figure 1.10b). All banks stated that they consider salary income for unsecured loans, while eight out of nine banks consider salary income for mortgages and seven and six out of the nine banks consider salary income for motor vehicle and credit card applications, respectively. Less than half of the banks consider other, unspecified, sources of income when considering credit applications.

Figure 1.10a: Document Requirements

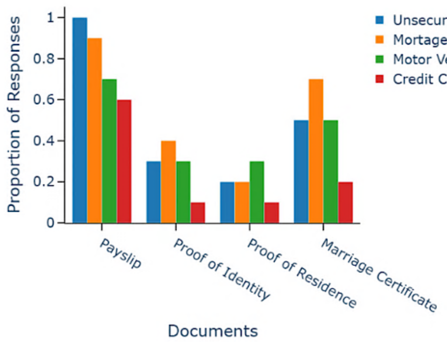
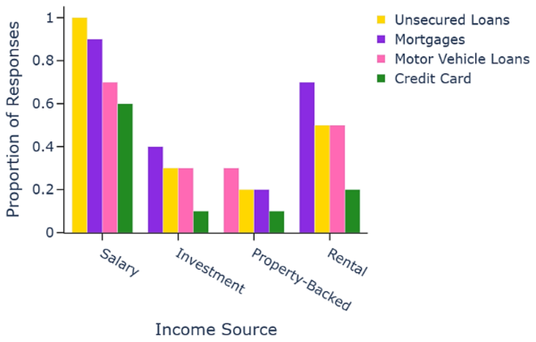


Figure 1.10b: Income Considered for Loan



ii) Assessment of Credit Risk

3.27 Banks use a variety of criteria and metrics to assess potential credit risks at loan origination. These include credit bureau checks, assessment of DTI and loan-to-value (LTV) ratios, review of financial statements (income and expenditure prospects of the borrower), industry and economic conditions (Figure 1.11a). Further, banks consider credit scoring models and check credit as well as default records including bankruptcy records and utility bills in arrears (Figure 1.11b). These robust credit risk assessment tools serve to minimise future credit losses and, in turn, support productive lending to creditworthy households.

3.28 All credit providers submit consumer information to credit bureaus to generate credit scores that establish the credit worthiness of borrowers. The regulation of credit information sharing addresses the risks posed by information asymmetry between credit providers and borrowers which can lead to credit mispricing and potential distortion of the credit allocation process.

3.29 The Survey further revealed that loan applications amounting to P491 million were rejected in 2024, with the largest proportion being motor vehicle loans, followed by personal loans (Figure 1.11c). The overall household loan approval rate decreased by 11.1 percentage points from 90.5 percent in 2023 to 79.4 percent in 2024 (Figure 1.11d). Reasons advanced by the banks for rejection of applications included mismanagement of personal banking accounts, over-indebtedness as measured by high DTI and DSTI ratios, rejection of assets presented as collateral for unsecured loans and failure to meet minimum employment requirements (6 months of continuous employment with one entity).

Credit Risk Assessment by Banks

Banks perform extensive credit risk assessment at loan origination

Figure 1.11a: Loan Application Assessment

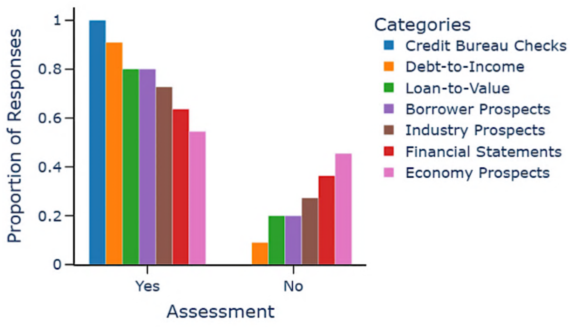


Figure 1.11b: Credit Risk Assessment

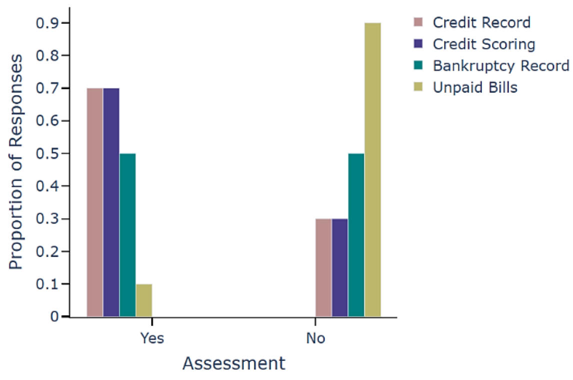


Figure 1.11c: Approved to Rejected Loans

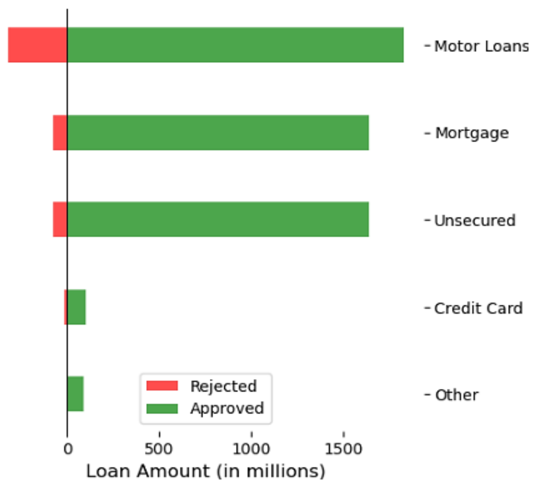
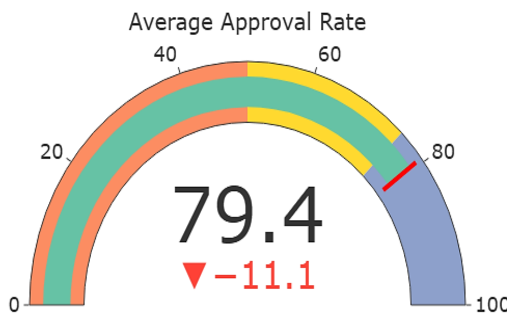


Figure 1.11d: Household Loan Approval Rate (Percent)



(d) Characteristics of the Loan Book

i) Loan Quality, Leverage and Default Rates

3.30 In 2024, banks reported an average default rate of about 2 percent, up slightly from 1.7 percent in 2023 (Figure 1.12a). Despite this increase, the banking sector maintained high-quality household credit portfolios, with the non-performing loans (NPLs) to total loans ratio of 3.4 percent. Most banks considered the 2024 default rates moderate but anticipate a mild deterioration in 2025 due to the economic recession and heightened risks of further job retrenchments and voluntary employer separations.

3.31 Households serviced credit obligations totalling P6.4 billion in 2024, with 77.9 percent covering loan principal repayments and 22.1 percent covering interest payments (Figure 1.12d). The high interest share reflects elevated rates on unsecured loans, which reached a maximum of 25.5 percent, driven by the dominance of unsecured loans in household borrowing.

3.32 Furthermore, the 2024/25 survey shows a decline in number of households with multiple loan commitments compared to the 2023/24 survey (Figure 1.12b), with those having two loan commitments dropping to 16.9 percent from 20.1 percent and those with three loan commitments falling to 3.7 percent from 7.6 percent. Additionally, households' debt-to-income (DTI) ratio averaged 53.7 percent in 2024, virtually unchanged compared to the 53.5 percent in 2023. However, the debt service-to-income (DSTI) ratio decreased from 70.5 percent to 63 percent, suggesting a reduced share of income devoted to debt servicing, possibly due to fewer multiple loan commitments.

3.33 Micro-lenders recorded the highest DTI and DSTI ratios at 60.4 percent and 64.4 percent, respectively. On the other hand, banks have DTI and DSTI of 48 percent and 54.6 percent, respectively. These dynamics buttress the assumption that micro-lenders mostly lend to lower-income borrowers while banks offer diverse loans. It is anticipated that without stronger income growth or tighter lending oversight, elevated debt levels could raise default risks, requiring close monitoring to ensure household financial stability.

3.34 In comparison to regional economies, South Africa registered a marginal increase in household debt as a percentage of nominal disposable income with a DTI of 62.7 percent in Q1 2025 from 62.2 percent in Q4 2024, while Namibians had a DTI of 43.2 percent in 2024 compared to 44.7 percent in 2023. Most jurisdictions consider DTIs and DSTIs to be astute macroprudential tools. This macroprudential tool is similarly an option domestically; thus, the Financial Stability Council (FSC) can lower the DSTI and DTI limits when household credit is adjudged to be a threat to financial stability or increase it to induce productive and sustainable credit extension.

Household Debt Servicing

Default rates were low in 2024 and are expected to increase moderately in 2025

Figure 1.12a: 2024 Average Default Rate

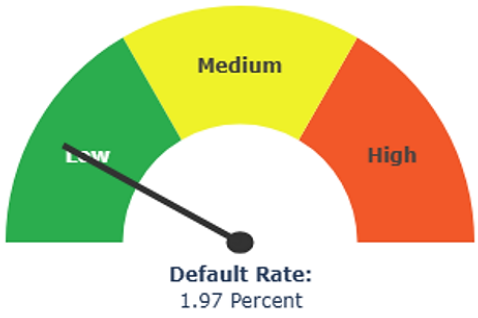


Figure 1.12b: Loan Commitments Per Customer

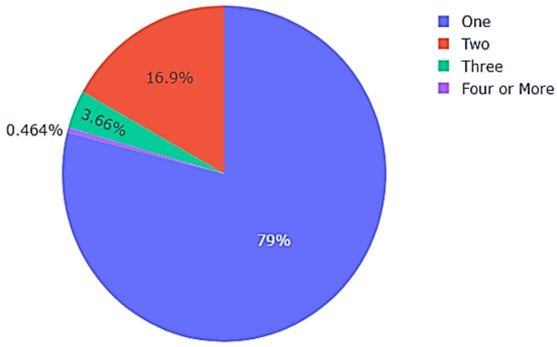


Figure 1.12c: Loan Payment Arrangements

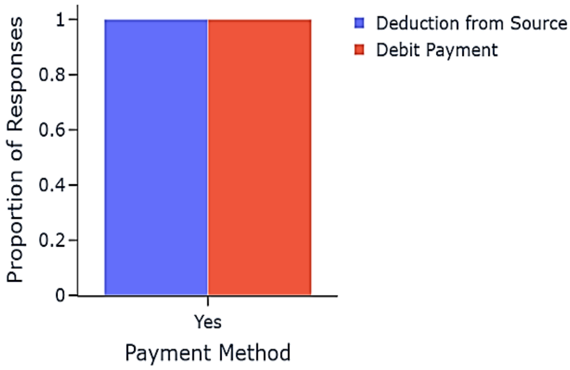
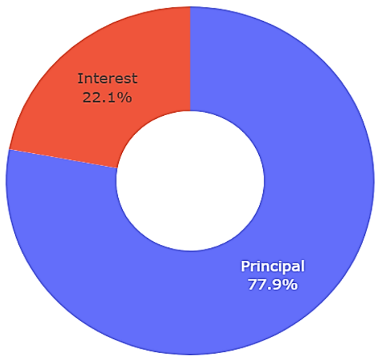


Figure 1.12d: Loan Repayments in 2024



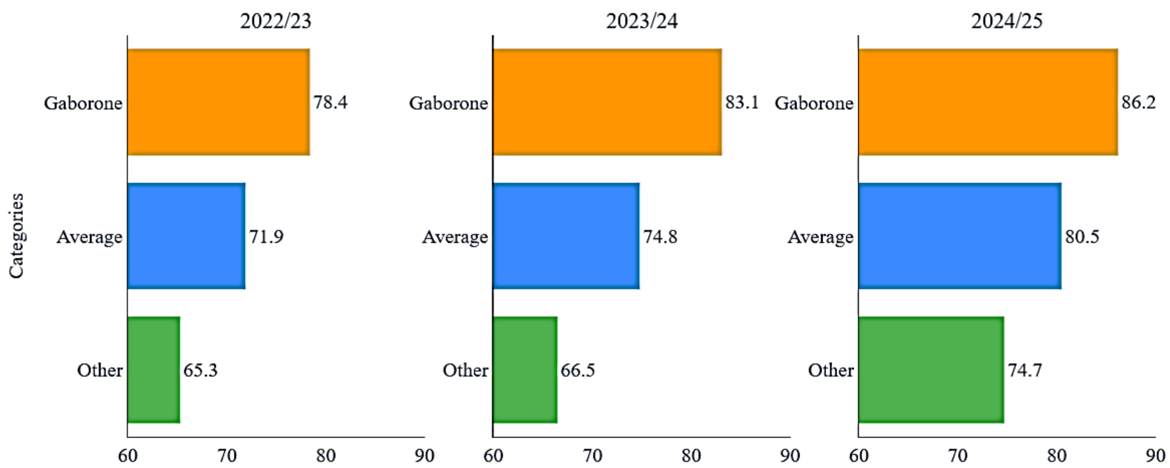
3.35 Botswana's mortgage market has experienced rising LTV ratios, indicating strong demand but growing financial risks to credit providers (Figure 1.13). Survey data from 2022/23 to 2024/25 reports an 8.6 percentage points overall LTV increase, with 7.8 percentage points in Gaborone and surrounding areas and 9.4 percentage points in other regions. However, stagnant incomes, compounded by the economic contraction in 2024 and 2025, are expected to reduce equity contributions for mortgages and borrowers may turn to additional credit to finance the deposit, consequently increasing lender's risk.

3.36 The 8.6 percentage points LTV rise underscored a robust balance of credit demand and supply in 2024, with banks reporting moderate to high credit demand outlook in 2025.However, heightened ratios could amplify default risks during an economic downturn, threatening financial stability. To balance stability with homeownership, particularly for lower-income households the Bank continues to closely monitor developments in the property market with a view to assessing the plausibility of LTV caps and other macroprudential tools. Government-backed initiatives, like partial loan guarantees or subsidies, can enhance affordability without excessive leverage. A critical need exists to improve data collection on LTVs and property prices to enable easier and more comprehensive price discovery, enhancing market transparency and informed decision-making. Nevertheless, rising LTVs highlight a dynamic yet leveraged market, necessitating tailored macroprudential measures and robust data to ensure sustainable growth and efficient deployment of private credit to support socio-economic development.

3.37 Figure 1.13 illustrates that mortgage loans in Gaborone and surrounding areas have higher leverage or debt burden for households, with an average LTV of 86.2 percent, while other areas have an average LTV of 74.7 percent in 2024. Higher LTVs for Gaborone and surrounding areas are indicative of the effect of location on valuations, which somehow mitigates credit risk exposure in the event of a default.

Figure 1.13: Loan-to-Value Ratios

Greater Gaborone properties have higher Loan-to-Value ratios



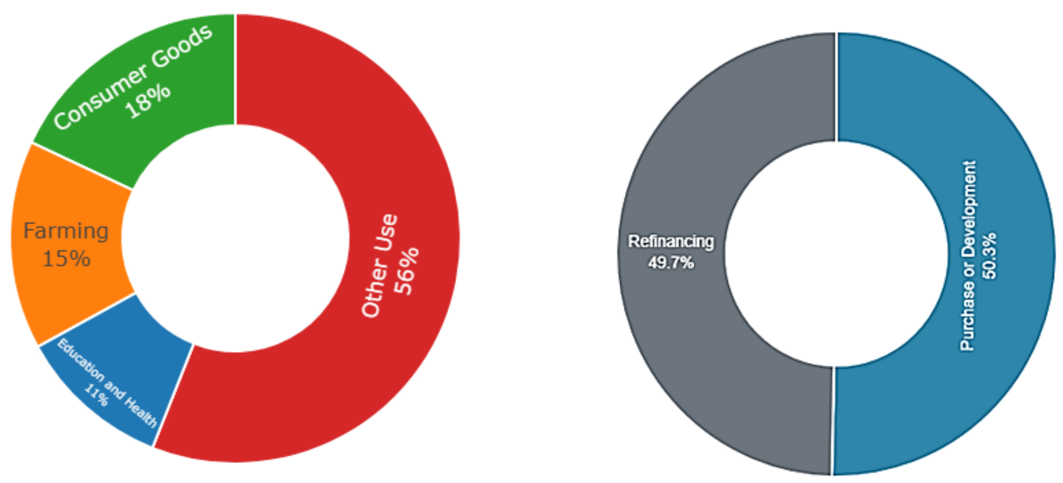
ii) Use of Household Loans

3.38 In assessing household indebtedness, it is important to understand the intended purpose of loans at origination. The 2024/25 survey results show that 56 percent of unsecured loans are channelled towards what households classify as other personal uses. This includes but is not limited to, motor vehicle maintenance, house renovations, marriage and funeral expenses, acquisition of residential plots and second-hand cars, as well as debt reconciliation. Households use 18 percent of unsecured loans on consumer goods, including furniture and other household items, while 15 percent and 11 percent are used on farming projects and education and health expenses, respectively (Figure 1.14 a).

3.39 For mortgage financing, the Survey indicates that 50.3 percent of the mortgages issued by banks in 2024 were used for new purchases and development projects, while the rest was used to refinance existing property (Figure 1.14b). The rise in refinancing, from

46.5 percent in 2023, indicates that households are tapping into their property equity to finance other projects and investments. This is necessary for the deepening of the domestic financial markets as it unlocks value and has the possible effect of igniting the development of financial products, supporting new investment platforms, projects and consumption avenues, that support further creation of value in the economy. On the downside, refinancing that do not improve the underlying asset value could increase LTVs with potential destabilisation effects in downturns.

Figure 1.14a: Household Use of Unsecured Loans **Figure 1.14b: Mortgage Financing Distribution**



iii) Probabilities of Joint Indebtedness Across Banks and Micro-lenders

3.40 Conditional joint probabilities, a statistical tool for understanding the likelihood of two events occurring together given a specific condition, provide the foundation for this report's assessment of joint indebtedness of households to banks and microlenders (Figure 1.15). This study examines the probabilities of individuals holding loans from both banks and microlenders, contingent on their employment sector and gender, by analysing survey data collected independently from both types of institutions. The aim is to deduce the prevalence and patterns of joint indebtedness, highlighting potential disparities in access to credit, varying levels of financial vulnerability, and potential debt-related stress across different demographic groups.

3.41 The analysis of dual or multiple borrowing from banks and micro-lenders reveals significant variations across gender and employment sectors, offering insights into financial behaviours shaping borrowing patterns in 2024. Men demonstrate a notably higher probability of holding loans from both types of institutions, with a 61 percent likelihood compared to 39 percent for women (Figure 1.15a). This variation by gender may be influenced by factors such as higher or more stable income levels among men, their greater involvement in entrepreneurial ventures, or societal expectations that encourage debt-taking to support personal or business growth. However, this increased engagement in dual borrowing also raises concerns about financial strain, as men may face heightened debt-related stress and challenges in managing multiple loan obligations, particularly in the current economic climate.

3.42 Employment sector differences further illuminate the landscape of multiple borrowing across banks and microlenders. Private sector employees exhibit the highest probability of engaging in this practice, with a 67 percent likelihood, likely driven by the inherently variable incomes or financial pressures that prompt multiple credit access (Figure 1.15b). In contrast, government employees, benefiting from more predictable and stable earnings, have only 28 percent that had borrowed across the two types of financial institutions, suggesting a more cautious approach to managing their finances. Self-employed individuals and the unemployed, have 3 percent and 2 percent respectively with outstanding loans in both banks and microlenders, displaying minimal engagement in dual borrowing. This low participation may stem from their reliance on informal financing networks *(like metshelo)* and private credit, as well as limited eligibility for formal credit due to irregular income streams or lack of collateral, highlighting a different set of financial challenges.

3.43 Simultaneous use of both types of financial institutions serves as a critical mechanism for financial inclusion, providing credit access to underserved populations who may not qualify for high value bank loans due to limited credit history or irregular income, enabling individuals such as the self-employed or those in low-income brackets to secure funding for essential needs or entrepreneurial ventures. However, this practice also introduces notable underlying risks, including the potential for over-indebtedness and financial strain, especially for men and private sector employees who show higher probabilities of dual borrowing and higher DTIs. Similarly, this arrangement strengthens interconnectedness of financial institutions that could exacerbate contagion risks in bad times.

Probabilities of Joint Indebtedness

Men and private sector employees have a higher probability of getting loans from both banks and micro-lenders

Figure 1.15a: Probability of Dual Borrowing by Gender

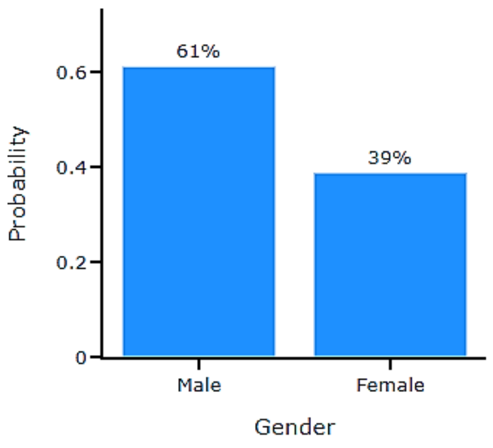
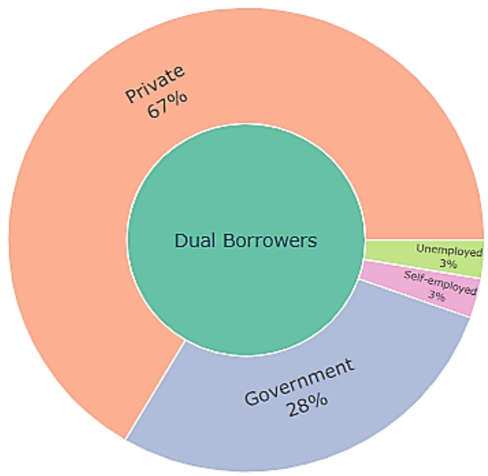


Figure 1.15b: Probability of Dual Borrowing by Sector



iv) Cost of Household Credit

3.44 The Survey participants were requested to provide the interest rates charged on the different credit offerings. The average interest rate on hire purchase agreements declined to 23 percent from 29 percent in 2023 and 27 percent in 2022. In addition, hire purchase stores charged once-off application fees (10 percent) and insurance premiums for the duration of the loan agreement (5.5 percent), contributing to a higher effective cost of instalment credit (2024: 38.5 percent). For micro-lenders, interest rates charged on household loans decreased to 32 percent in 2024, after rising to 33 percent in 2023 from 27 percent in 2022.

3.45 Similarly, banks provided the interest rates charged for different categories of loans. Mortgage and motor vehicle loans continued to exhibit narrow interest rate distributions showing that risk profiles of the loan products offered by banks have remained unchanged relative to each other. Average interest rates on mortgages fell from 8.4 percent in 2023 to 6.8 percent in 2024 while for motor vehicle loans, average rates also declined, falling to 6.8 percent in 2024 from 8.5 percent in 2023. On the other hand, interest rates charged on unsecured loans and credit cards displayed wider distributions. It is further observed that average interest rates charged on unsecured loans increased from 12.9 in 2023 percent to 13.5 percent while average rates on credit cards fell from 20.8 percent in 2023 to 17.1 percent in 2024. (Figure 1.16) [3].

3.46 Collective comparison shows that credit card loans remained the most expensive, with a maximum lending rate of 36 percent (2023: 24.6 percent), followed by unsecured loans at 25.5 percent (2023: 20.5 percent). Given the dominance of household unsecured borrowing, it is assessed that the cost of household borrowing from banks increased in 2024 relative to the previous year. This is inconsistent with the accommodative monetary policy stance of the Bank given the lowering of the policy rate in 2024. It is assessed that the increase in interest rates mainly captures increase in risk premiums attached to unsecured loans as the economy experiences mounting fiscal challenges that have culminated in historically low levels of market liquidity. Amid the prevailing conditions, banks are likely to employ stringent lending requirements and adopt higher interest costs both to manage liquidity and to increase returns on increasingly risky household credit. However, it is important that banks balance these risks and be cognisant of the possibility of increasing the debt-service burden of already existing loans as this can increase credit risks and lower the quality of their balance sheets.

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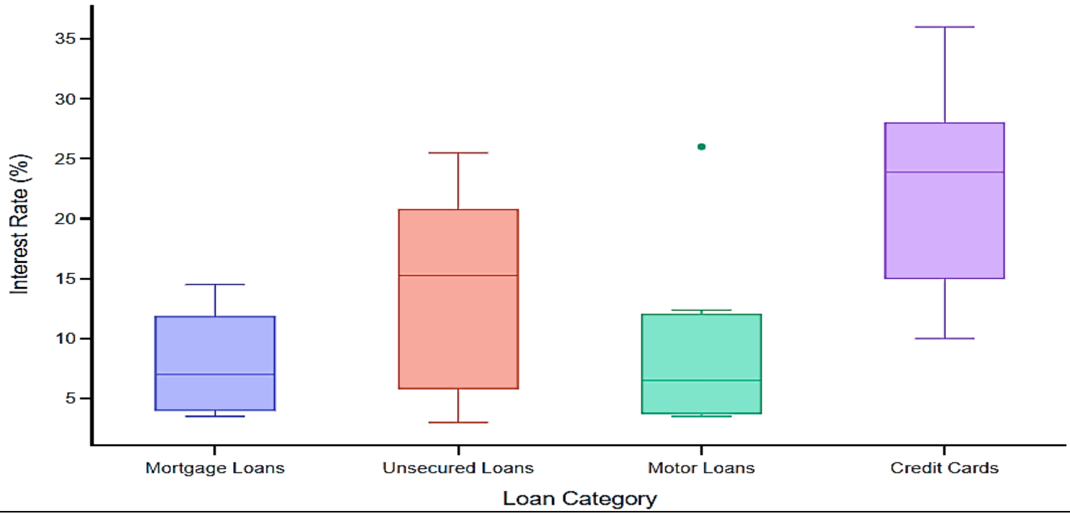
3 Average interest rates are computed as simple averages of lending rates provided by the commercial banks in the survey.

Figure 1.16: Average Interest Rates (Banks)



3.47 In addition to interest rates, banks also impose other fees associated with administration, facility and valuation, processing, documentation, collection and insurance that can increase the cost of borrowing.

(e) Demand for Credit in 2024 and Outlook for 2025

3.48 The 2024/25 survey results reveal that 60 percent of banks and 80 percent of micro-lenders assessed credit demand as moderate. While most participating banks expect credit demand to remain at current levels, most micro-lenders anticipate an increase in demand (Figure 1.17a to 1.17d). Overall, the surveyed financial institutions envisage an upward shift in credit demand, despite rising market uncertainty amid weak economic performance and a market liquidity squeeze. The optimism was supported by positive economic growth projections for 2024 and 2025 at the time of the survey, buoying market sentiments amid growing expectations of a diamond market driven economic recovery. Credit providers were also generally optimistic due to expected improvement in the implementation of the economic transformation initiatives following the election of a new government in 2024. However, mounting fiscal challenges have dampened this optimism and banks may have revised their credit outlook downwards for 2025, as economic projections themselves were also revised down significantly amid the prevailing fiscal and liquidity challenges.

Credit Demand in 2024 and 2025 Outlook

Figure 1.17a: Credit Demand for 2024 (Banks)

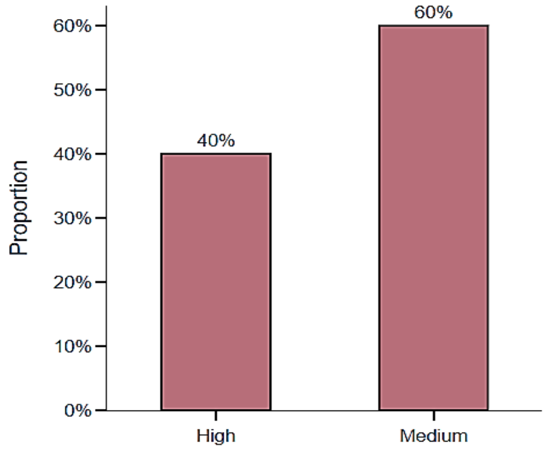
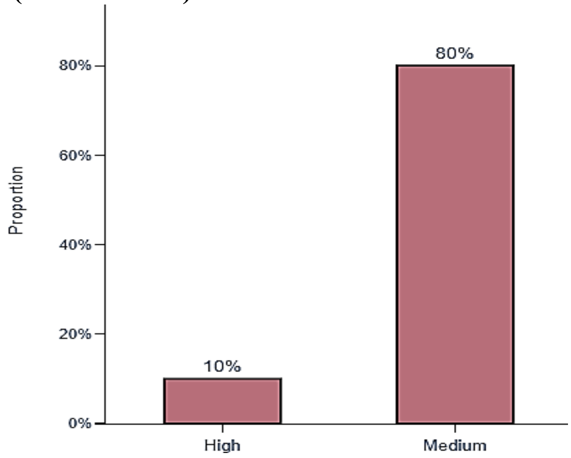


Figure 1.17b: Credit Demand for 2024 (Micro-lenders)



Credit demand was expected to decrease in 2025

Figure 1.17c: Credit Outlook for 2025 (Banks)

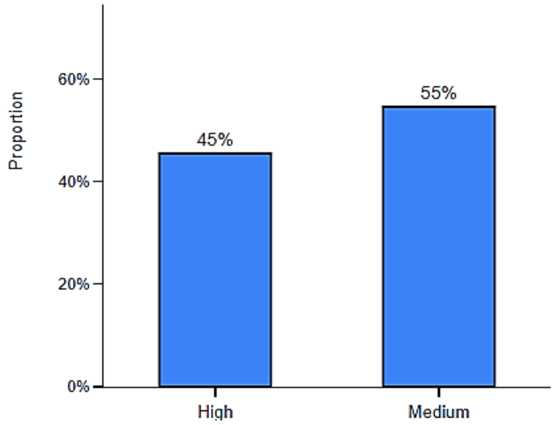
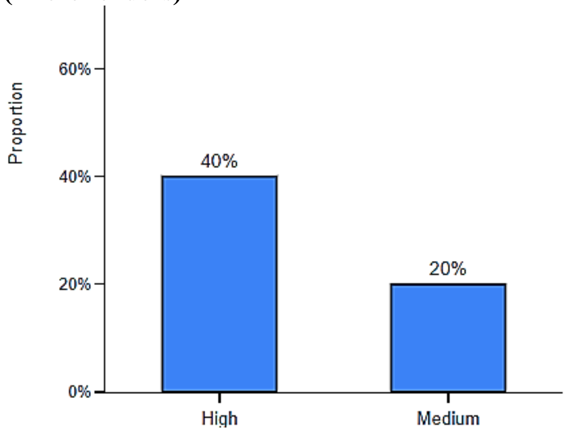


Figure 1.17d: Credit Outlook for 2025 (Micro-lenders)



(f) Credit Risk Mitigation

3.49 The results of the Survey show that participating financial institutions implement various risk mitigation tools, with extensive credit worthiness checks a common practice for banks and micro-lenders at loan origination. In addition, a variety of insurance products, such as credit life and mortgage protection policies, and retrenchment insurance cover are embedded in the process to guard against credit losses. Banks also utilise personal guarantees and offer asset-backed financing products to protect themselves in case of default by households. Overall, the implementation of risk mitigation measures safeguards the balance sheets of financial institutions against potential losses resulting from death, loss of employment and loan delinquencies, thus mitigating potential financial stability risks.

(g) Banks' Lending Strategic Focus for 2025

3.50 The strategies adopted by banks during 2025 with respect to lending to households were mainly focused on increasing market share, growing the loan book and increasing contribution to overall income. In addition, increased lending through private sector scheme arrangements supports efforts to not only grow the asset book but also reduce concentration of lending to government employees exposures. These arrangements are also expected to stimulate credit growth by mitigating lending risks, lowering borrowing costs and broadening access to credit. Furthermore, strategic initiatives focused on financial rehabilitation, affordable home ownership and the inclusion of women and other disadvantaged groups are expected to enhance financial inclusion while contributing to overall credit and economic growth.

3.51 At the undertaking of the survey, it was assessed that banks were highly optimistic about the possibility of public servants' salary increases, informed by patterns over the last few years. At the same time, the economy was expected to rebound, supporting prospects for high credit demand. In light of the reversal of these expectations, banks are most likely to refocus their strategies towards optimal liquidity and balance sheet management, with moderate credit extension to households. Consequently, the second-round effects of reduced credit extension are likely to further dampen economic activity. Nevertheless, decisions taken by the Bank to support market liquidity including the increase of the maturity of repurchase agreements and setting the reserve requirement at zero are expected to shore market liquidity in the short term. In the medium-to-long term, it is paramount that economic diversification efforts gain traction to alleviate the burden on government to drive economic activity, as current conditions show that such concentration of activity and liquidity undermines the overall function of the economy during times of compressed global commodity prices.

4 CONCLUSION

4.1 The information for the analysis and conclusions is derived from a survey of participating commercial and statutory banks, micro-lenders, and hire purchase stores. The 2024/25 survey results highlighted a growing inclination towards household borrowing across various demographics. These insights will guide policy decisions and shape the development and implementation of appropriate macroprudential, and regulatory measures aimed at supporting productive lending in the household sector and ultimately safeguarding financial stability.

4.2 Overall, banks dominate householding lending at 87 percent followed by micro-lenders at 12 percent. Furthermore, the results show that household lending is concentrated on males aged over 36, with a prime borrowing age bracket of 36 – 49. These findings align with both the life cycle and income hypotheses. Income levels play a critical role in borrowing behaviours, with higher income earners typically having higher average loans. In addition, higher levels of borrowing are observed in the income bracket between P15,001 and P25,000 across all credit products.

4.3 The Survey shows that public servants continue to dominate in commercial bank credit, supported by scheme loans and deduction from source arrangements. Consistently, a significant increase in credit to government employees is observed in banks, supported by an increase in scheme loans to 63 percent from 51.5 percent in the previous year. For micro-lenders, it is found that they lend mostly to t private sector employees with generally lower average loans by income and gender compared to banks.

4.4 Overall, the Survey indicates increasing costs of borrowing and a moderate outlook on default rates in 2025. Participating financial institutions continue to implement robust risk mitigation measures to safeguard their balance sheets and manage risks associated with household lending and the maintenance of a safe and sound financial system.

4.5 The Survey reveals that credit growth in 2024 was driven by risk appetite, household income and market share objectives. Credit providers expected that these trends would be sustained in 2025, owing to earlier positive sentiments surrounding the economic outlook, underpinned by the expected implementation of economic transformation and structural reforms. However, due to the prevailing economic recession and market liquidity squeeze, exacerbated by limited government revenue, it is highly likely that credit providers will moderate credit extension to households in 2025.