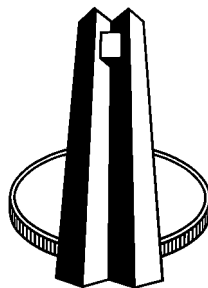


# **The influence of socio-political developments on banks in South Africa, 1992-1997**

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ISBN 0-9584059-7-2

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# The influence of socio-political developments on banks in South Africa, 1992-1997

## 1. Introduction

Socio-political developments, in conjunction with the transformation and black empowerment process, culminated in significant changes in the South African society and the economy at large, especially after a new government took office early in 1994. These developments opened up the banking system to many new entrants joining the formal economy. As the entry of a significant number of new participants availing themselves of banking services could well have caused a change in the banks' liability and asset structure which, in turn, could have implications for policy operations, this paper attempts to determine whether a structural change can in fact be determined.

The views expressed in this paper are those of the author and do not necessarily represent those of the South African Reserve Bank

New entrants making use of banking services for the first time will logically consist mainly of previously disadvantaged individuals and companies predominantly involved in black empowerment operations. This empirical analysis will therefore concentrate mainly on the growth in deposits with banks of, and bank credit extended to individuals and companies. Other parties involved will only be touched upon briefly. As detailed information is only available as from December 1991, this note will cover the period from that date until the end of December 1997.

## 2. Deposits with banks

### 2.1 Total deposits of "other domestic parties" with banks

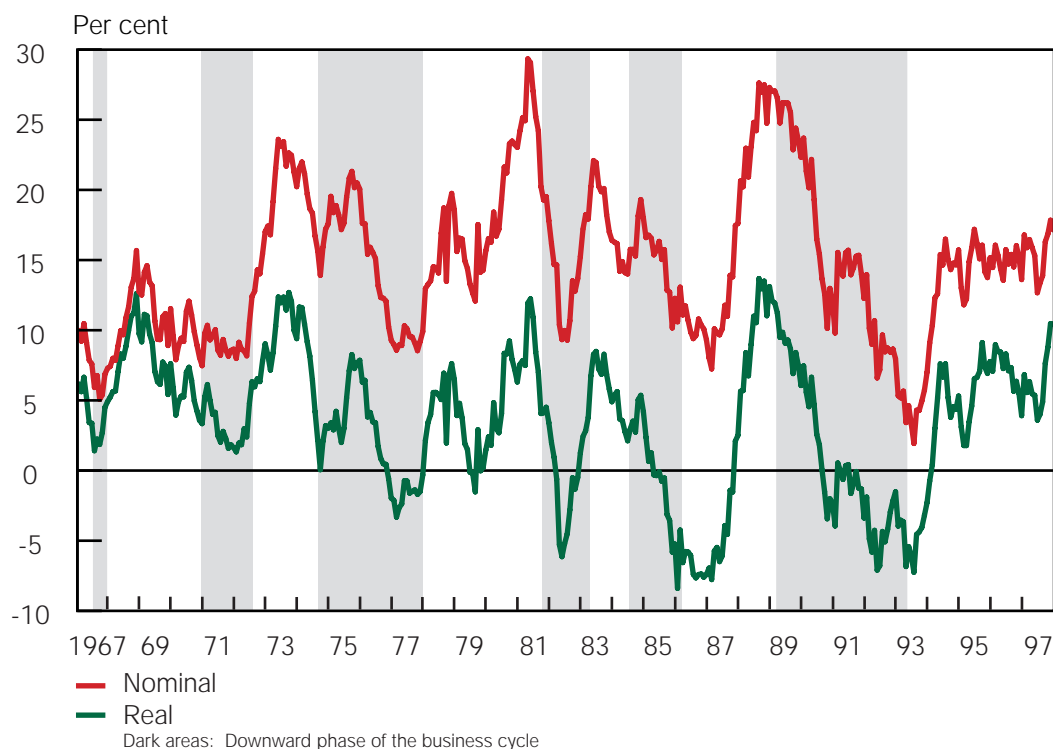
The annual growth rate of total deposits included in the money supply, briefly referred to as deposits of "other domestic parties"<sup>1</sup> with banks, accelerated appreciably from 9,3 per cent in 1992 and 7,1 per cent in 1993 to 19,9 per cent in 1994. This acceleration coincided with the marked changes in the socio-political environment in which the banks were operating. These socio-political developments undoubtedly played a role in the sharp rise in the deposit holdings of "other domestic parties". However, the significance of their contribution is difficult to determine as this period was also characterised by a marked upswing in economic activity which traditionally has a substantial influence on the growth of the money supply and a process of infusion which followed the decline in the rate of inflation during this period. Deposits of these parties as a percentage of M3 increased from a monthly average of 88,2 per cent in 1992 to 90,0 per cent in 1994 and further to 92,8 per cent in 1997 as these deposit holdings with banks increased at a faster rate than notes and coin in circulation outside the monetary sector (4,8 per cent of M3 in 1993 and 4,7 per cent in 1997) as well as private sector deposits with monetary institutions other than banks (7,0 per cent of M3 in 1992 and 2,5 per cent in 1997).

1) "Other domestic parties" consist of local governments and regional service councils, public enterprises/corporations, insurers and pension funds, other companies and close corporations, unincorporated businesses, individuals, non-profit-seeking organisations and others

The annual rate of increase in the total deposit holdings of "other domestic parties" coincided with a slowdown in gross domestic expenditure, which declined from

19,9 per cent in 1994 to 16,0 per cent in 1995 and 14,4 per cent in 1996. Contrary to the further weakening in gross domestic expenditure in 1997, the annual rate of increase in these deposits accelerated strongly to 18,0 per cent in 1997. This development constituted a break from the normal cyclical behaviour of the growth in the money supply, which normally loses momentum when economic activity starts to slow down (see Graph 1). The lower rate of increase in the nominal as well as the inflation-adjusted M3 money supply during the latest upswing in the business cycle, which had started in 1993, stemmed from the relatively tight monetary policy stance as reflected by the high level of real interest rates during most of the period 1993 to 1997. M3 as a percentage of gross domestic product at market prices nevertheless increased from 50,6 per cent in the third quarter of 1993 to 57,0 per cent in the fourth quarter of 1997.

Graph 1: Twelve-month percentage change in M3 over phases of the business cycle



The increase in the growth rate of the total deposit holdings of "other domestic parties" in the second half of 1997 was mainly the result of a rapid increase in their holdings of cheque and transmission deposits as well as in their holdings of medium-term deposits. The increase in these two types of deposits accounted for no less than 83 per cent of the increase in the total deposit holdings of "other domestic parties" during the second half of 1997, while the increase in their holdings of medium-term deposits alone contributed about 53 per cent to the increase in their total deposit holdings. The popularity of medium-term deposits followed the turmoil on the financial markets and investors' views that this volatility would last for some time.

Individuals' deposit holdings with banks, as a percentage of total deposits of "other domestic parties", decreased markedly from 52,0 per cent in December 1991 to

38,8 per cent in December 1997 (see Graph 2), whereas those of companies and close corporations increased from 32,2 per cent to 37,7 per cent over the same period. All other parties also increased their share of total deposit holdings of "other domestic parties" over this period, as is indicated in Table 1.

Graph 2: Deposit holdings of individuals, companies and others as percentage of total deposits of private sector

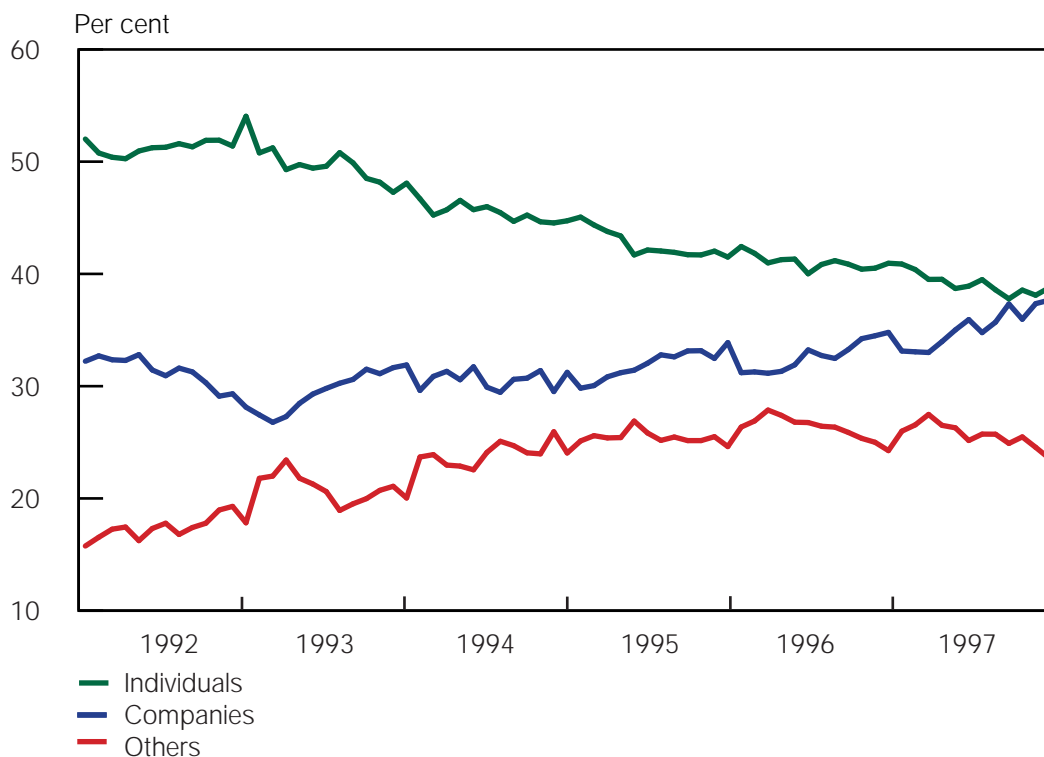


Table 1 Deposits per sector as percentage of total deposit holdings by "other domestic parties" with banks

Per cent

	1991	1992	1993	1994	1995	1996	1997
Local authorities.....	1,9	2,1	2,5	3,1	2,4	2,1	2,1
Public enterprises/corporations.....	2,2	2,8	2,0	4,3	3,8	3,7	3,4
Insurers and pension funds.....	6,5	7,0	6,8	7,6	8,5	9,1	8,1
Companies and close corporations	32,2	28,1	31,9	31,2	33,9	34,8	37,7
Unincorporated businesses.....	3,9	3,8	5,4	5,5	5,8	6,3	6,9
Individuals.....	52,0	54,1	48,1	44,7	41,5	41,0	38,8
Non-profit-seeking organisations and others .....	1,3	2,1	3,3	3,6	4,1	3,0	3,0
Total .....	100,0	100,0	100,0	100,0	100,0	100,0	100,0

The total number of deposit accounts with banks increased from 3,0 million in December 1993 to 4,2 million in December 1997. The annual growth in the number of deposit accounts with banks increased from 9,0 per cent in 1994 to 11,7 per cent in 1996, but then fell back to only 3,0 per cent in 1997.

## 2.2 Deposits held by individuals

### 2.2.1 *Total*

Total deposits of individuals with banks increased from R82,0 billion at the end of 1991 to R88,7 billion at the end of 1993 and to R134,3 billion at the end of December 1997. The average annual rate of increase in individuals' total deposit holdings accelerated from 4,0 per cent during the period December 1991 to December 1993 to 10,9 per cent during the period December 1993 to December 1997. The average annual rate of increase in individuals' holdings of deposits was also markedly lower than that of M3, which rose at an average annual rate of 7,5 per cent from December 1991 to December 1993 and by 15,4 per cent from December 1993 to December 1997.

The growth rate in deposit holdings of individuals was consistently lower than the increase in the total deposit holdings of "other domestic parties" over the period December 1991 to December 1997. The increase in deposit holdings of individuals constituted only 25,0 per cent of the increase in the deposit holdings of "all other domestic parties" during the period December 1991 to December 1993 and 28,2 per cent in the period December 1993 to December 1997. As a result, deposit holdings of individuals, as a percentage of total deposit holdings of "other domestic parties" with banks, declined from 52,0 per cent in December 1991 to 48,1 per cent in December 1993 and further to 38,8 per cent in December 1997.

Deposits held by individuals with banks not only grew at a slower rate than total deposits of "other domestic parties" with banks over the period December 1991 to December 1997, but also at a slower rate than gross domestic product over the same period. Deposit holdings of individuals, as a percentage of gross domestic product, consequently decreased from 25,0 per cent in the fourth quarter of 1991 to 21,7 per cent in the fourth quarter of 1993 and further to only 20,5 per cent in the fourth quarter of 1997. Individuals' deposit holdings with banks, as a percentage of personal disposable income, likewise declined from 41,1 per cent in the fourth quarter of 1991 to 34,2 per cent in the fourth quarter of 1993 and to 33,2 per cent in the fourth quarter of 1997. Individuals' holdings of deposits with banks on a per capita basis nevertheless increased from R2 110 in 1992 to R2 993 in 1997 as the growth in deposits exceeded the population growth. In real terms, however, individuals' per capita holdings of deposits declined by 3½ per cent from 1992 to 1997.

Although this analysis indicates a significant increase in the average annual growth rate of individuals' holdings of deposits with banks from 4,4 per cent during the period December 1991 to December 1993 to 9,9 per cent from December 1993 to December 1997, it does not provide conclusive evidence that the deposit holdings of individuals with banks have accelerated as a result of the socio-political and economic developments since 1994. Economic activity in South Africa which had declined by 2,2 per cent in 1992, turned around in 1993 when gross domestic product grew by 1,3 per cent. This growth rate increased progressively to 3,4 per



cent in 1995 before falling back to 1,7 per cent in 1997. As the money supply in South Africa is largely determined by demand, the higher rate of increase in individuals' holdings of deposits with banks could have been caused mainly by the higher level of economic activity. However, the increase in individuals' holdings of deposits was always lower than the increase in gross domestic product in nominal terms as well as the increase in total deposit holdings by "other domestic parties" with banks during the period 1994 to 1997.

Socio-political changes and the transformation process may well have led to increased employment of "previously disadvantaged individuals", but this did not imply the creation of instant wealth for these individuals. New entrants making use of banking services were therefore not in a position to accumulate substantial financial assets in the form of deposits with banks during the relatively short period since the changes have come into effect. Furthermore, sophisticated investors tend to move out of deposits and into other assets. Given the attractive yields on alternative types of investments during a large part of this period, the moving-out of investments in the form of deposits and into other assets may have overshadowed the increase in deposit holdings of first-time investors. Rationalisation programmes implemented by the private as well as the public sector caused a substantial increase in unemployment during the 1990s. The high level of unemployment could also have had an adverse influence on the growth of deposits held by individuals with banks during this period.

### *2.2.2 Cheque and transmission deposits*

Cheque and transmission deposits are withdrawable on demand and are usually kept for transaction purposes. Some cheque and transmission deposits are interest bearing, but the interest payable on these accounts is normally relatively low and generally varies in accordance with the minimum balance on the account during a month.

Individuals' holdings of cheque and transmission deposits with banks increased at an average annual rate of 27,4 per cent from December 1991 to December 1993. This was substantially higher than the average annual increase of 19,0 per cent in the total holdings of such deposits by "other domestic parties". As a result, individuals' holdings of cheque and transmission deposits, as a ratio of the total held by "other domestic parties", increased from 37,9 per cent in December 1991 to 43,4 per cent in December 1993. Contrary to the course of private consumption expenditure, which increased at about the same average annual rate from the fourth quarter of 1991 to the fourth quarter of 1993 (12,3 per cent) and from the fourth quarter of 1993 to the fourth quarter of 1997 (11,6 per cent), the increase in individuals' holdings of cheque and transmission deposits slowed down to an average annual rate of 19,2 per cent between December 1993 and December 1997, compared with 27,4 per cent from December 1991 to December 1993. Individuals' holdings of such deposits, as percentage of the total held by "other domestic parties", declined to 32,5 per cent in December 1997 as the average annual growth rate of the total of such deposits with banks accelerated to 23,4 per cent between December 1993 and December 1997.

Individuals' holdings of cheque and transmission deposits grew at an average annual rate of 21,9 per cent from December 1991 to December 1997, which exceeded the growth in individuals' total deposit holdings of 8,6 per cent per annum substantially during this period. As a result, individuals' holdings of cheque

and transmission deposits, as a percentage of their total deposit holdings, virtually doubled from 11,7 per cent in December 1991 to 23,3 per cent in December 1997 (see Table 2).

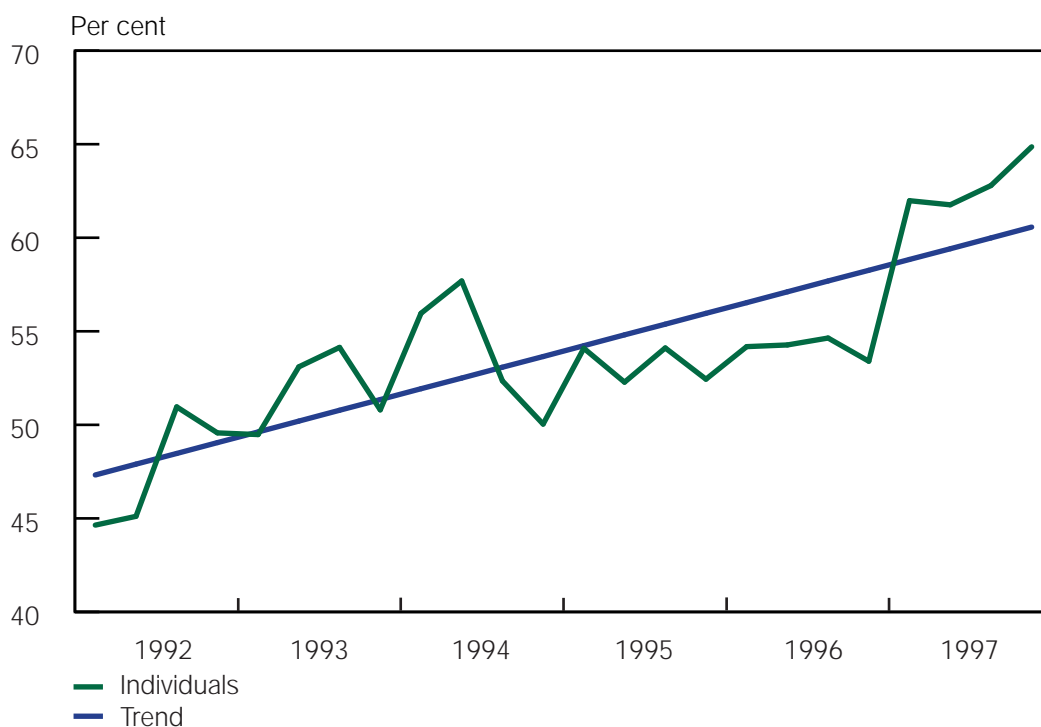
Table 2 Deposit holdings of individuals with banks by type of deposit

As at end of period	Cheque and transmission	Other demand	Savings	Other short term	Other medium term	Long term	Total
Percentage change over twelve months							
1992 .....	41,6	38,7	9,8	-8,6	7,2	7,0	13,6
1993 .....	14,5	-46,1	1,2	-18,3	-6,0	19,8	-4,7
1994 .....	13,5	21,8	6,4	31,4	18,5	-7,7	11,6
1995 .....	13,6	6,9	3,1	23,0	3,1	5,9	7,6
1996 .....	25,2	42,4	2,0	8,0	13,6	-3,4	12,9
1997 .....	25,1	19,3	5,1	6,5	8,5	3,2	11,7
Type of deposit as percentage of individuals' total holdings							
1991 .....	11,7	11,7	20,9	11,7	28,7	15,3	100,0
1992 .....	14,6	14,3	20,2	9,4	27,1	14,4	100,0
1993 .....	17,5	8,1	21,5	8,1	26,7	18,1	100,0
1994 .....	17,8	8,8	20,5	9,5	28,4	15,0	100,0
1995 .....	18,8	8,7	19,6	10,9	27,2	14,8	100,0
1996 .....	20,9	11,0	17,8	10,4	27,3	12,6	100,0
1997 .....	23,3	11,8	16,7	9,9	26,6	11,7	100,0
Individuals' holdings as percentage of total of type held by "other domestic parties"							
1991 .....	37,9	41,2	93,9	47,1	49,4	55,1	52,0
1992 .....	45,0	46,0	94,1	41,7	49,2	63,9	54,0
1993 .....	43,4	25,5	92,2	35,8	43,6	57,5	48,1
1994 .....	38,7	24,1	91,4	30,7	46,2	57,1	44,7
1995 .....	37,7	21,2	88,9	33,6	41,7	48,6	41,5
1996 .....	37,9	20,5	86,3	33,7	48,0	46,6	41,0
1997 .....	37,5	22,6	88,4	27,0	43,0	44,7	38,8

The substantial shift in individuals' deposit holdings towards cheque and transmission deposits clearly reflected their increased preference for transaction balances. Individuals' holdings of these deposits, as a percentage of private consumption expenditure on non-durable goods, fluctuated around a rising trend line during this period, increasing on balance from 44,4 per cent in the first quarter of 1992 to 63,4 per cent in the fourth quarter of 1997 (see Graph 3). The increase in this ratio during this period could indicate some lack of financial skill on the part of individuals in

managing their cheque and transmission accounts. Cheque and transmission deposits held by individuals as a percentage of notes and coin in circulation outside the monetary sector also increased from 108 per cent in December 1991 to 181 per cent in December 1997.

Graph 3: Individuals' cheque and transmission deposits as ratio of private consumption expenditure on non-durable goods



### 2.2.3 Other demand deposits

Other demand deposits consist of call deposits not withdrawable by cheque. This type of deposit usually earns interest at a substantially higher rate than that payable on cheque and transmission deposits and is normally not available as a retail deposit. Not many individuals are therefore in a position to avail themselves of this investment opportunity. As a result, individuals' holdings of other demand deposits as percentage of their total deposit holdings, showed little change between December 1991 (11,7 per cent) and December 1997 (11,8 per cent).

Other demand deposits held by individuals, as percentage of the total deposit holdings of "other domestic parties" with banks, declined from 6,1 per cent in December 1991 to 3,9 per cent in December 1993, but then increased again to 4,6 per cent at the end of December 1997. As percentage of total other demand deposits held by "other domestic parties" with banks, individuals' holdings of such deposits declined from 41,2 per cent in December 1991 to 25,5 per cent in December 1993 and to 22,6 per cent in December 1997 as other depositors increased their holdings of such deposits by substantially more than individuals during this period.

#### *2.2.4 Savings deposits*

Savings deposits are traditionally the main investment vehicle used by savers with basic financial knowledge and modest incomes. This type of deposit offers a secure and easily accessible investment. Such deposits are for an unlimited period but may require a minimum balance and withdrawals may be restricted to a specified maximum number per month. In many instances a special passbook provides the holder of the savings deposit with a full record of all transactions. In other cases, savings deposits are linked to automated teller machines that can be accessed by a personalised card. Savings deposits are interest bearing and the deposit rate generally varies according to the size of the balance. The interest rate on savings deposits is usually lower than that on fixed deposits.

The interest rate sensitivity of savings deposits seems to be relatively low. Changes in deposit rates do not seem to have a significant effect on the level of savings deposits with banks. This may be because the deposit rate on especially small-balance savings deposits tends to be comparatively low. Furthermore, investors seemingly prefer not to keep large balances on their savings accounts.

As could be expected, savings deposits at banks are kept mainly by individuals and their holdings of such deposits amounted on average to about 90 per cent of all such deposits held by "other domestic parties" with banks during the period December 1991 to December 1997. However, as a percentage of their total deposit holdings, individuals' holdings of savings deposits, contrary to what could be expected, declined from 20,9 per cent at the end of 1991 to 16,7 per cent at the end of 1997. The average annual growth in individuals' holdings of these deposits declined from 5,4 per cent from December 1991 to December 1993 to 4,1 per cent from December 1993 to December 1997. The average annual growth rate of savings deposits held by individuals of 4,6 per cent from December 1991 to December 1997 was also substantially less than the comparable increase of 8,6 per cent in individuals' total deposit holdings.

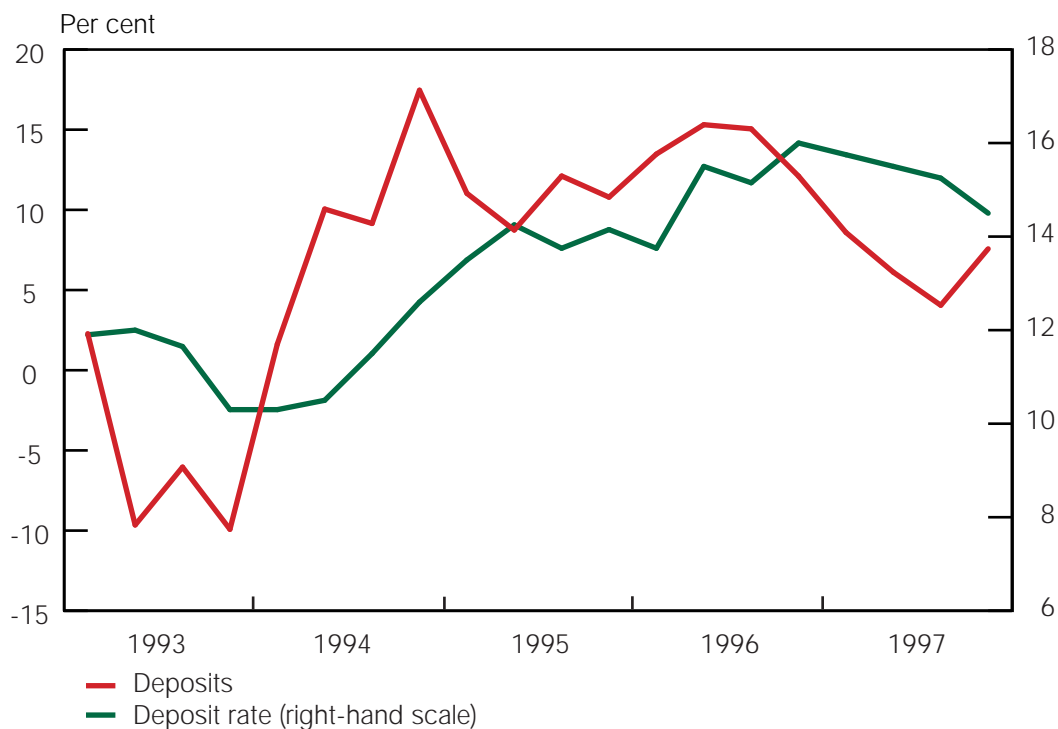
This development clearly indicated individuals' preference for investment vehicles other than savings deposits, despite the relative lack of investment experience of some of the new entrants in this market. This course of events may also indicate that the new entrants in this field had not been in a position to substantially increase their surplus funds, while more affluent investors preferred to use their surplus funds to accumulate other types of financial assets.

#### *2.2.5 Short-term and medium-term deposits*

Short-term and medium-term deposits held by individuals – i.e. deposits with a maturity of up to 6 months or subject to notice that makes it payable not later than 6 months as from the date of giving notice of withdrawal – declined from R33,1 billion in December 1991 to R30,9 billion in December 1993, but then increased to R49,0 billion in December 1997. These deposits declined at an average annual rate of 3,5 per cent from December 1991 to December 1993 before increasing again by 12,3 per cent per annum from December 1993 to December 1997. As a percentage of individuals' total deposit holdings, short-term and medium-term deposits decreased from 40,4 per cent in December 1991 to 34,8 per cent in December 1993, but then increased again to 36,5 per cent in December 1997. These types of deposits therefore constituted the major portion of individuals' total deposit holdings with banks throughout the period under review.

As in the case of individuals' holdings of other demand deposits, the growth in their holdings of short-term and medium-term deposits showed a clear turnaround in early 1994. This development more or less coincided with a turnaround in deposit rates in the first half of 1994 (see Graph 4). Actual and expected further upward adjustments in deposit rates seemingly played an important role in individuals' preference for liquidity, as indicated by their preference for short-term and medium-term deposits during the period subsequent to 1993. The average annual growth rate in individuals' holdings of short-term deposits amounted to 16,7 per cent from December 1993 to December 1997 as against 10,8 per cent for their holdings of medium-term deposits and 10,9 per cent for their total deposit holdings during this period. New entrants in the banking field could also have contributed to the acceleration in the annual rate of growth in short-term and medium-term deposits held by individuals during this period.

Graph 4: Change over four quarters in short-term and medium-term deposits of individuals and three-month deposit rate



The average annual rate of increase in individuals' holdings of short-term and medium-term deposits from December 1993 to December 1997 was still lower than the average annual rate of increase in the holdings of "other domestic parties" of such deposits during this period. Individuals' holdings of such deposits, as a percentage of the total of such deposits with banks held by "other domestic parties", consequently decreased from 42,9 per cent in December 1993 to 37,0 per cent in December 1997. The average annual rate of increase in individuals' holdings of short-term and medium-term deposits was also lower than the increase in the M2 money supply during this period.

### 2.2.6 Long-term deposits

Individuals' holdings of long-term deposits – i.e. deposits with a maturity or subject to notice of withdrawal of more than six calendar months – initially increased strongly from R12,6 billion in December 1991 to R16,1 billion in December 1993, but then declined on balance to R15,7 billion in December 1997. The average annual rate of increase from December 1991 to December 1993 amounted to 13,2 per cent, compared with a decline at an average annual rate of 0,6 per cent from December 1993 to December 1997. As a result, the average annual rate of increase from December 1991 to December 1997 amounted to only 3,8 per cent, which was substantially lower than the average annual growth rate in individuals' total deposit holdings of 8,6 per cent during this period. Individuals' holdings of long-term deposits as a percentage of their total deposit holdings therefore increased initially from 15,3 per cent in December 1991 to 18,1 per cent in December 1993 but subsequently decreased again to 11,7 per cent in December 1997.

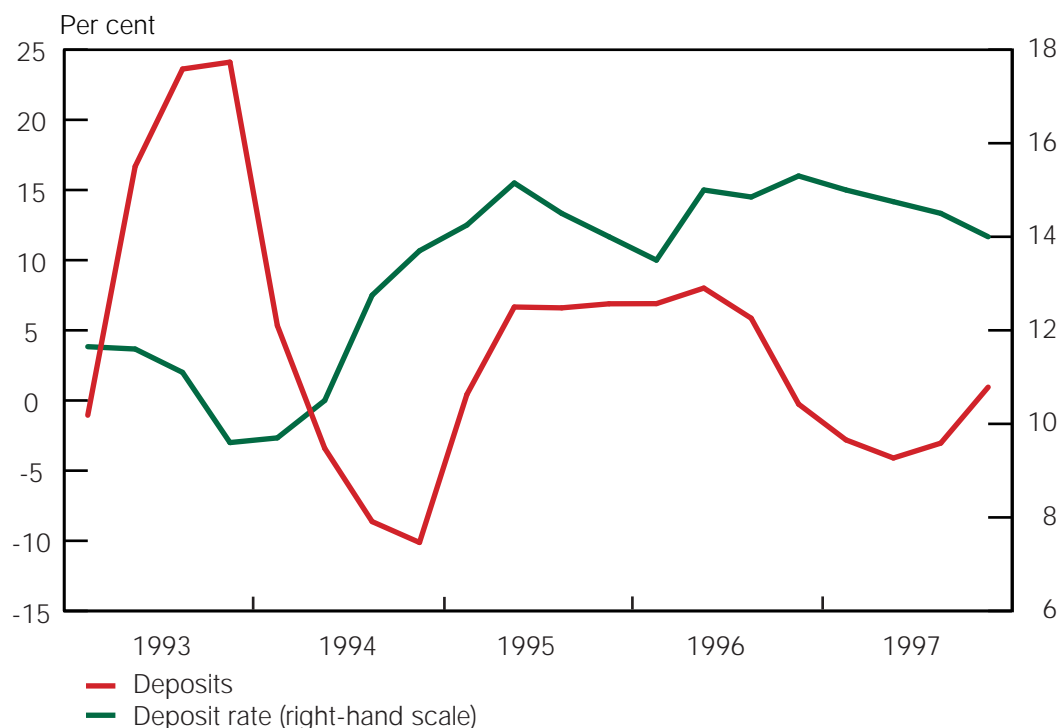
Long-term deposits held by "other domestic parties" increased at a lower average annual rate than individuals' holdings of such deposits during the period December 1991 to December 1993, i.e. 10,8 per cent against 13,2 per cent, respectively, but individuals' holdings of such deposits lagged substantially during the period December 1993 to December 1997 when total long-term deposits of "other domestic parties" increased on average by 9,1 per cent per annum, compared with the average annual decline of 0,6 per cent in the long-term deposit holdings by individuals. Individuals' holdings of long-term deposits, as a percentage of total long-term deposits held by "other domestic parties", consequently declined on balance from 55,1 per cent at the end of 1991 to 44,7 per cent at the end of 1997. As a percentage of total deposits of "other domestic parties" with banks, individuals' holdings of such deposits decreased from 8,0 per cent in December 1991 to 5,4 per cent in December 1997.

The deposit rate on fixed deposits of twelve months declined, on balance, from 15,5 per cent in December 1991 to 10,5 per cent in February 1994. This rate started to strengthen again in September 1994 and reached 15,0 per cent in June 1996 before easing to 13,5 per cent in November 1997. The relatively sharp increase in individuals' holdings of long-term deposits during a period of declining long-term deposit rates in 1992 and 1993 therefore reflected a typical liquidity preference proper reaction, where investors try to lock in at ruling rates in anticipation of a decline in such rates. The sharp decline in individuals' holdings of long-term deposits early in 1994 is also in accordance with the liquidity preference proper theory where investors prefer not to invest in long-term fixed-interest-bearing instruments during a period of rising interest rates, especially if further increases in interest rates are expected.

Individuals' evident preference for long-term deposits during the period 1992 to 1993, the decline in their holdings of other demand and short-term and medium-term deposits during a period of declining deposit rates and the turnaround in their preferences during the period 1994 to 1996 when deposit rates were fluctuating upwards therefore indicated a relatively high level of investor sophistication. However, the inverse relationship between investors' holdings of long-term deposits and actual and expected movements in deposit rates tended to be less clear during 1997 (see Graph 5). Total long-term deposit holdings of "other domestic parties" seemed to have been less sensitive to actual and expected changes in long-term deposit rates during the period December 1993 to

December 1997 when the total holdings of such deposits increased at an average annual rate of 5,8 per cent against a decline of 0,6 per cent per annum, on average, in individuals' holdings of such deposits. Individuals' holdings of long-term deposits, as a percentage of the total holdings of such deposits by "other domestic parties" with banks, accordingly declined from 57,5 per cent in December 1993 to 44,7 per cent in December 1997.

Graph 5: Change over four quarters in long-term deposits of individuals and twelve-month deposit rate



## 2.3 Deposits held by companies and close corporations

### 2.3.1 Total

Total deposits held by companies and close corporations increased at an average annual rate of 7,6 per cent from December 1991 to December 1993, but then accelerated sharply to 22,0 per cent from December 1993 to December 1997 (see Table 3). After an initial decline from R50,8 billion at the end of 1991 to R48,5 billion at the end of 1992 (i.e. by 4,6 per cent), companies and close corporations increased their total deposit holdings substantially to R58,9 billion at the end of 1993, or by 21,4 per cent. This build-up in deposits coincided with the increase in economic activity during 1993. As a percentage of gross domestic product, total deposits held by companies and close corporations consequently declined from 15,7 per cent in the fourth quarter of 1991 to 13,9 per cent in the fourth quarter of 1992, before increasing again to 14,7 per cent in the fourth quarter of 1993. The continued strong growth in their deposit holdings in subsequent years took this ratio to 21,4 per cent in the fourth quarter of 1997.

Table 3 Deposit holdings of other companies and close corporations with banks per type of deposit

As at end of period	Cheque and transmission	Other demand	Savings	Other short term	Other medium term	Long term	Total
Percentage change over twelve months							
1992	6,2	-4,2	23,1	15,0	-6,0	-39,3	-4,6
1993	5,7	39,7	8,2	-3,0	17,6	87,5	21,4
1994	43,9	33,4	8,3	59,7	-11,1	-23,4	17,4
1995	23,5	26,1	1,2	14,7	22,4	66,3	25,9
1996	28,8	47,1	199,3	5,5	-11,3	-5,0	17,5
1887	34,0	9,5	-46,8	34,8	48,2	33,5	27,8
Type of deposit as percentage of companies' total deposit holdings							
1991	21,1	18,2	0,8	13,9	32,2	13,8	100,0
1992	23,4	18,3	1,0	16,8	31,7	8,8	100,0
1993	20,4	21,0	0,9	13,4	30,7	13,6	100,0
1994	25,0	23,9	0,8	18,2	23,2	8,9	100,0
1995	24,5	23,9	0,7	16,6	22,6	11,7	100,0
1996	26,9	29,9	1,7	14,9	17,1	9,5	100,0
1997	28,2	25,7	0,7	15,7	19,8	9,9	100,0
Companies' holdings per type as percentage of total of type held by "other domestic parties"							
1991	42,3	39,8	2,2	34,7	34,3	30,9	32,2
1992	37,7	30,7	2,5	38,6	30,0	20,3	28,1
1993	33,5	44,0	2,6	39,3	34,8	28,6	31,9
1994	37,9	45,6	2,6	41,0	26,5	23,6	31,2
1995	40,1	47,3	2,5	41,8	28,3	31,5	33,9
1996	41,5	47,4	7,2	41,0	25,5	29,7	34,8
1997	43,9	47,8	3,7	41,6	31,1	36,9	37,7

Companies' and close corporations' total deposit holdings grew substantially faster than those of individuals, especially as from 1994. As a result their deposit holdings, as a percentage of the total deposit holdings of "other domestic parties", increased from 31,9 per cent in December 1993 to 37,7 per cent in December 1997. The increase in the deposit holdings of companies and close corporations constituted 28,6 per cent of the increase in M3 from December 1991 to December 1993 and the increase in individuals' deposit holdings 23,9 per cent. From December 1993 to December 1997 the increase in companies' and close corporations' total deposit holdings contributed no less than 43,9 per cent of the growth in M3, while the increase in individuals' holdings of deposits contributed only 27,9 per cent.

Holdings of deposits by companies and close corporations have increased at a substantially faster rate than the increase in economic activity, especially since 1994. The process of black empowerment, where investors of the previously dis-



advantaged groups bought control of large companies, could have left the sellers with large amounts in cash held at banks in anticipation of new investment opportunities. Companies' and close corporations' preference for liquidity also increased during the period, especially from 1994 onwards. This development seems to confirm their preference to hold deposits for speculative purposes.

### *2.3.2 Cheque and transmission deposits*

Cheque and transmission deposits held by companies and close corporations maintained a steady growth rate of 6,2 per cent and 5,6 per cent in 1992 and 1993. Their holdings of such deposits jumped by 43,9 per cent in 1994 and maintained a strong average growth rate amounting to 31,4 per cent per annum during the subsequent three years. The increase in companies' and close corporations' holdings of cheque and transmission deposits accounted for 45,2 per cent of the increase in M1A from December 1993 to December 1997. As a percentage of their total holdings of deposits with banks, cheque and transmission deposits of companies and close corporations increased from 20,4 per cent in December 1993 to 28,2 per cent in December 1997. The increase in their holdings of such deposits was also higher than the increase in the total holdings of cheque and transmission deposits of "other domestic parties" with banks during this period. Companies' and close corporations' holdings of these deposits, as a percentage of the total of cheque and transmission deposits of "other domestic parties" with banks, consequently increased from 33,5 per cent in December 1993 to 43,9 per cent in December 1997. These developments clearly illustrated companies' and close corporations' increased preference for cheque and transmission deposits from December 1993 to December 1997.

The increase in companies' and close corporations' holdings of cheque and transmission deposits was substantially more extensive than the increase in economic activity during the four-year period 1994-1997. As a result, cheque and transmission deposits held by companies and close corporations as percentage of gross domestic product increased from 3,6 per cent in 1993 to 4,9 per cent in 1997. Companies' and close corporations' holdings of cheque and transmission deposits were also boosted by the cash management schemes offered by the banks. The increased sophistication of such schemes offered by the banks allowed smaller groups of companies to use this service on a more extensive scale.

### *2.3.3 Other demand deposits*

Companies' and close corporations' increased preference for liquidity is also reflected in the growth in their holdings of other demand deposits which increased at an average annual rate of 15,7 per cent from December 1991 to December 1993 and 28,3 per cent from December 1993 to December 1997. Other demand deposits, as a percentage of companies' and close corporations' total deposit holdings, increased from 18,2 per cent in December 1991 to 29,9 per cent in December 1996 before declining again to 25,7 per cent in December 1997. Companies' and close corporations' holdings of other demand deposits also grew at a faster rate than the holdings of such deposits by "other domestic parties". Their holdings of other demand deposits consequently increased as a percentage of the total holdings of such deposits by "other domestic parties" with banks from 39,8 per cent in December 1991 to 47,8 per cent in December 1997.

Companies' and close corporations' holdings of other demand deposits were boosted by the comparatively attractive interest rates paid on these deposits and an improvement in the profitability of the corporate sector since 1993. The corporate sector also adopted a wait-and-see attitude during this period in anticipation of a change for the better in the domestic investment climate. Buy-outs by black empowerment groups also left some conglomerates with large deposit holdings awaiting new applications. The expected relaxation of exchange control regulations also favoured the holding of liquid deposits to enable companies to exploit foreign investment opportunities on the lifting of exchange controls.

#### *2.3.4 Savings deposits*

Companies' and close corporations' holdings of savings deposits amounted to only 0,8 per cent of their total deposit holdings in December 1991 and 0,7 per cent in December 1997. This type of deposit evidently plays a relatively minor role in the investment decisions of companies and close corporations. The socio-political changes of late apparently also had little or no influence on their holdings of such deposits.

#### *2.3.5 Other short-term deposits*

Companies' and close corporations' holdings of other short-term deposits grew on average by 5,6 per cent per annum from December 1991 to December 1993, but then accelerated to 27,0 per cent per annum from December 1993 to December 1997. Other short-term deposits held by companies and close corporations as a percentage of their total deposit holdings increased on balance only from 13,9 per cent in December 1991 to 15,7 per cent in December 1997. Their holdings of this type of deposit grew on average at a faster rate than the total of such deposits held by "other domestic parties" with banks, and their holdings of other short-term deposits, as a percentage of the total of such deposits, accordingly increased from 34,7 per cent in December 1991 to 39,3 per cent in December 1993 and to 41,6 per cent in December 1997.

Other short-term deposit holdings of companies and close corporations increased on average at a slower annual rate than M2 from December 1991 to December 1993, namely at 5,6 per cent compared with 7,3 per cent, but at a substantially faster average annual rate of 27,0 per cent against the 17,2 per cent of M2 from December 1993 to December 1997. The increased preference of companies and close corporations for liquidity, as reflected in the increase in their holdings of other short-term deposits, therefore boosted the growth in M2 from December 1993 to December 1997.

#### *2.3.6 Other medium-term deposits*

Companies' and close corporations' holdings of other medium-term deposits increased on average at a substantially lower annual rate than their total deposit holdings from December 1993 to December 1996. The average annual growth rate in their holdings of medium-term deposits amounted to only 5,1 per cent from December 1991 to December 1993 and declined on average by 1,2 per cent per annum from December 1993 to December 1996 compared with the strong rise in the average annual rate of increase in their total deposit holdings, which increased from 7,6 per cent from December 1991 to December 1993 to 20,2 per cent from

December 1993 to December 1996. As a percentage of their total deposit holdings, companies' and close corporations' holdings of medium-term deposits declined from 32,2 per cent in December 1991 to only 17,1 per cent in December 1996. The relatively weak growth in other medium-term deposits held by companies and close corporations was consistently lower than the average annual rate of increase in M2 during the period December 1991 to December 1996. The growth in these deposits therefore had a dampening effect on the growth in M2 during this period.

Companies' and close corporations' holdings of medium-term deposits increased sharply from R23,6 billion at the end of September 1997 to R31,9 billion at the end of November 1997 in reaction to the volatility on the share and bond markets, which was expected to continue for some time. Although their holdings of such deposits declined again to R25,8 billion in December 1997, the increase for the year as a whole still amounted to 48,2 per cent. The increase in companies' and close corporations' holdings of medium-term deposits from September to November 1997 also accounted for no less than 53 per cent of the increase in M2 during this period.

Investors' preference for liquidity and the inverse slope of the yield curve during a large part of the period under review, contributed to the decrease in the popularity of medium-term deposits, which despite the strong growth in 1997 declined as a percentage of the total deposit holdings of "other domestic parties" from 30,2 per cent in December 1991 to 24,0 per cent in December 1997. Medium-term deposits held by companies and close corporations constituted the largest deposit holding by type of their total deposit holdings in December 1991 at 32,2 per cent, but dropped back to third place behind their cheque and transmission and other demand deposit holdings respectively in December 1997. This can be attributed to their increased demand for transaction balances and the persistent downward slope of the yield curve.

### *2.3.7 Long-term deposits*

Long-term deposits held by companies and close corporations increased at an average annual rate of 6,7 per cent from December 1991 to December 1993 and to 12,8 per cent from December 1993 to December 1997. The average annual rate of increase in companies' and close corporations' holdings of long-term deposits was consistently lower than the rate of increase in their total deposit holdings. As a result, their holdings of long-term deposits, as a percentage of their total deposit holdings, declined from 13,8 per cent in December 1991 to 13,6 per cent in December 1993 and to 9,9 per cent in December 1997. The shift from long-term deposits to shorter-term deposits from December 1993 coincided with an upward shift in deposit rates and therefore reflected these depositors' liquidity preference proper during this period. Companies' and close corporations' holdings of long-term deposits nevertheless increased at a faster rate than individuals' holdings of such deposits. Consequently companies' and close corporations' holdings of long-term deposits, as a percentage of the total of such deposit holdings of "other domestic parties", increased from 28,6 per cent in December 1993 to 36,9 per cent in December 1997.

The comparatively higher average annual rate of increase in long-term deposits held by companies and close corporations from December 1993 to December 1997 could be an indication of uncertainty regarding investment decisions by these

depositors and their adoption of a longer-term wait-and-see approach. This sentiment may have stemmed from socio-political changes following the 1994 elections and the ensuing uncertainties.

#### 2.4 Deposits held by local authorities

Local authorities' holdings of deposits with banks increased at an average annual rate of 25,4 per cent from December 1991 to December 1993, but growth slackened to 11,9 per cent from December 1993 to December 1997. After some strong growth of no less than 43,3 per cent in their deposit holdings in 1994, local authorities' holdings of deposits declined in both 1995 and 1996 before recovering again in 1997. Deposits held by local authorities as a percentage of total deposit holdings of "other domestic parties" consequently increased from 1,9 per cent in December 1991 to 3,0 per cent in December 1994 before declining again to 2,1 per cent in December 1997. These developments in local authorities' holdings of deposits reflected to some extent their experience in respect of the non-payment of outstanding accounts.

The composition of deposits held by local authorities by type showed a marked change from December 1991 to December 1997, as indicated in Table 4. Contrary to developments in total deposit holdings by "other domestic parties", where a clear shift to cheque and transmission and other demand deposits occurred, local authorities' holdings of other short-term deposits on balance increased strongly over the period. This development could be a reflection of better cash management practices adopted by some of the larger local authorities' in cash-strapped positions. The increase in short-term deposits on the other hand could be a reflection of provisions made against known future obligations.

Table 4 Type of deposit held by local authorities as percentage of their total deposit holdings

Per cent							
As at end of period	Cheque and transmission	Other demand	Savings	Other short term	Other medium term	Long term	Total
1991 .....	21,6	16,4	0,8	16,9	34,8	9,5	100,0
1992 .....	21,1	13,4	0,8	19,7	32,2	12,8	100,0
1993 .....	17,9	26,2	0,6	15,8	31,3	8,2	100,0
1994 .....	34,6	10,7	0,5	14,0	28,0	12,2	100,0
1995 .....	19,6	17,7	0,5	15,2	33,5	13,5	100,0
1996 .....	14,3	16,2	0,5	23,6	31,0	14,4	100,0
1997 .....	12,1	11,8	1,2	33,2	33,9	7,8	100,0

#### 2.5 Deposits held by public enterprises/corporations

Changes in the deposit holdings of public enterprises/corporations varied in accordance with the level of their activities and consequently showed large fluctuations from year to year, varying from a decline of 23,2 per cent in 1993 to an increase of

155,7 per cent in 1994. The sharp increase in their deposit holdings from R3 675 million in December 1993 to R9 397 million in December 1994 was most probably associated with a decline of 16,8 per cent in the gross domestic fixed investment by public corporations in 1994 and the subsequent increase of 50,6 per cent in their capital formation in 1995.

Deposit holdings by public enterprises/corporations as a percentage of total deposit holdings by "other domestic parties" decreased from 2,2 per cent in December 1991 to only 2,0 per cent in December 1993 – a period of relatively low economic activity – but increased to 4,3 per cent in December 1994 after the strong increase in their deposit holdings during that year. This ratio subsequently declined to 3,4 per cent in December 1997, which is still appreciably higher than the previous level of about 2 per cent. The higher level of deposit holdings by public enterprises/corporations may well be related to the commercialisation process of a number of these institutions in preparation for their eventual privatisation.

As in the case of local authorities, but contrary to the behaviour of the other categories of deposit holders, public enterprises/corporations also reduced their holdings of cheque and transmission deposits, as a ratio of their total deposit holdings, from a peak of 47,8 per cent in December 1993 to only 11,6 per cent in December 1997. Public enterprises/corporations, however, increased their holdings of other demand deposits as percentage of their total deposit holdings from 8,3 per cent in December 1993 to 17,3 per cent in December 1997 and their holdings of other short-term deposits from 9,3 per cent to 26,3 per cent over the same period. The shift to other demand deposits was probably caused by the higher deposit rates available on such deposits, while the increase in the share of other short-term deposits could probably be connected with their investment strategies.

## 2.6 Deposits held by insurers and pension funds

Apart from maintaining working balances with banks, insurers and pension funds also use deposit-type investments as part of their portfolios. Their deposit holdings are adjusted in accordance with expected changes in the financial environment. According to the balance sheet data on insurers and pension funds published in the Quarterly Bulletin, their total holdings of cash and deposits, as a percentage of their total assets, remained surprisingly stable over time, varying only between a high of 10,7 per cent and a low of 9,1 per cent over the period December 1991 to December 1997. Deposits held by insurers and pension funds, as a percentage of total deposit holdings of "other domestic parties", increased on balance from 6,4 per cent in December 1991 to 9,2 per cent in December 1996 before declining somewhat to 8,1 per cent in December 1997.

Deposit holdings of insurers and pension funds increased at an average annual rate of 18,4 per cent from December 1991 to December 1997. This increase was more or less in line with the increase in the total assets of these institutions, which grew at an average annual rate of 17,6 per cent over the same period, but was markedly more rapid than the average annual rate of increase in the total deposit holdings of "other domestic parties" which amounted to 14,0 per cent over this period. The increase in the deposit holdings of insurers and pension funds therefore generally exerted upward pressure on the growth in the money supply from 1991 to 1997. The influence of the change in their deposit holdings on the growth of the money supply, however, varied from year to year as the annual percentage change in their deposit holdings fluctuated between 34,4 per cent in 1994 and 4,6 per cent in 1997, reflecting changes in the portfolio composition of these organisations.

Deposit holdings of insurers and pension funds consisted mainly of other demand, other short-term and other medium-term deposits which on average accounted for 70 per cent of their total deposit holdings during the period December 1991 to December 1997. Shifts between these types of deposits and long-term deposits varied in accordance with expected changes in the term structure of interest rates. Deposit holdings of insurers and pension funds were apparently not affected by socio-political changes in the South African economy during the 1990s.

## 2.7 Deposits held by unincorporated businesses

The deposit holdings of unincorporated businesses grew at substantially higher rates than total deposits held by "other domestic parties" from December 1992 to December 1997. As a result, total deposit holdings of unincorporated businesses, as a percentage of total deposit holdings of "other domestic parties", increased from 3,9 per cent in December 1991 to 7,0 per cent in December 1997. Although the strong annual growth rate in the total deposit holdings of unincorporated businesses added to the growth of the money supply during the period, their total deposit holdings were relatively small and the increase in their total deposit holdings from December 1991 to December 1997 constituted only 1,5 per cent of the overall increase in M3 from December 1991 to December 1997.

Table 5 Change over twelve months in deposit holdings of unincorporated businesses

Per cent							
As at end of period	Cheque and transmission	Other demand	Savings	Other short term	Other medium term	Long term	Total
1992 .....	13,0	81,0	-12,2	-21,7	-9,1	18,1	8,9
1993 .....	77,9	24,4	35,2	74,8	48,0	33,9	50,0
1994 .....	47,3	21,1	24,8	11,5	15,0	-9,4	23,4
1995 .....	12,3	59,2	7,8	16,8	10,7	-22,9	20,7
1996 .....	26,8	27,0	5,6	5,0	32,1	78,1	25,7
1997 .....	12,3	7,7	14,7	99,6	24,4	191,7	29,8

Unincorporated businesses' holdings of other demand deposits as percentage of their total deposit holdings increased on balance from 15,8 per cent in December 1991 to 28,4 per cent in December 1996, but declined again to 23,6 per cent in December 1997. In contrast, their holdings of medium-term deposits declined from 32,7 per cent in December 1991 to 23,2 per cent in December 1997. Unincorporated businesses' holdings of cheque and transmission deposits varied more or less in line with changes in the level of economic activity and increased from 21,0 per cent of their total deposit holdings in December 1991 to 30,9 per cent in December 1994, before declining again to 25,1 per cent in December 1997.

The rapid growth in the deposit holdings of unincorporated businesses, especially as from 1993, indicated a more extensive use of bank facilities by this type of depositor which could well have been influenced by the developments in the socio-political arena during this period.

## 2.8 Deposits held by non-profit-seeking organisations and other depositors

The deposit holdings of non-profit-seeking organisations and other depositors increased sharply from December 1991 to December 1995. As a result, their deposit holdings as percentage of total deposit holdings of "other domestic parties", increased from 1,3 per cent in December 1991 to 4,1 per cent in December 1995. The total deposit holdings of these institutions, however, declined by 16,8 per cent in 1996 before increasing again by 20,4 per cent in 1997.

The strong growth in the deposit holdings of non-profit-seeking organisations and other depositors during the period 1992 to 1995 could have been a reflection of the increase in the activities of non-government organisations in the period immediately before and after the elections in April 1994. The role of some of these institutions and the foreign donor assistance they received, diminished somewhat after the current government took office, but aid programmes picked up again as the new government established itself. The deposit holdings of these institutions were undoubtedly influenced by the socio-political changes in the country, but the scale of their operations remained relatively small in relation to the overall deposit liabilities of the banks.

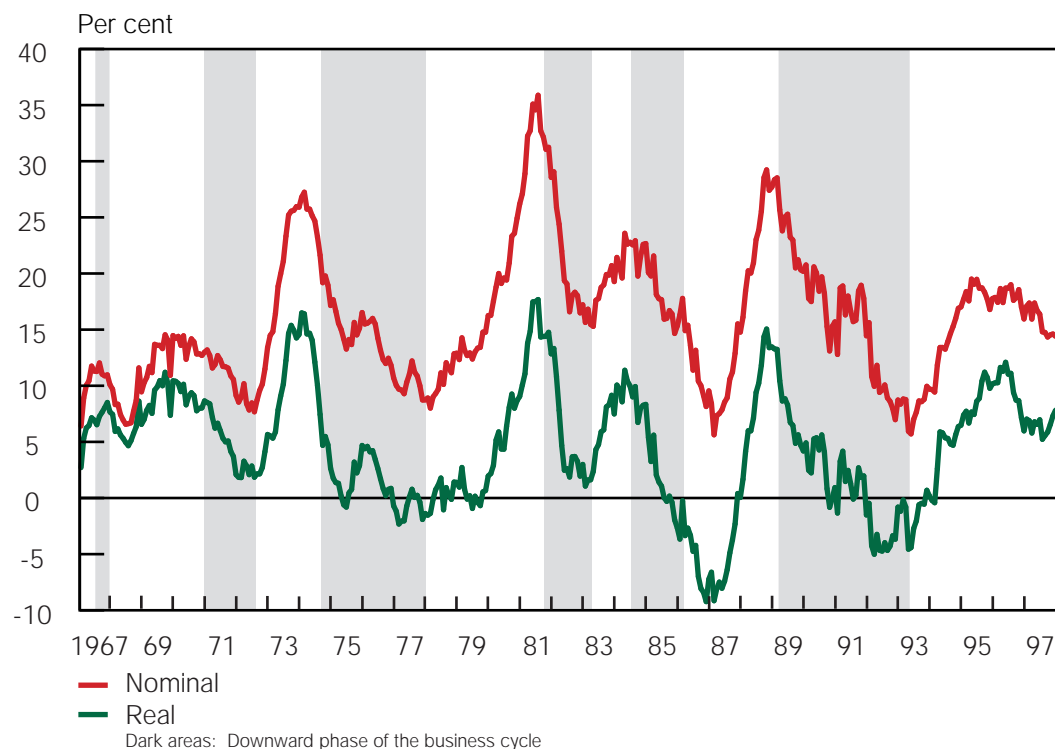
## 3. Bank credit extension to the non-bank private sector

### 3.1 Total

Credit extension to the domestic non-bank private sector by banks increased at an average annual rate of 10,7 per cent from December 1991 to December 1993, but then accelerated to an average annual rate of 17,0 per cent from December 1993 to December 1997. The growth rate of bank credit extended to the private sector usually starts to accelerate some months after the onset of an upward phase of the business cycle and to turn down again shortly before the start of the downward phase of the business cycle. During the economic recovery which started in April 1986, for example, the twelve-month growth rate of credit extension to the private sector declined from 15,4 per cent at the start of the recovery to a lower turning-point of 5,6 per cent some eight months later before this rate began to rise again. On the other hand, the slowdown in the twelve-month growth rate of credit extension to the private sector started to decrease in November 1988, i.e. four months before the downward phase of the business cycle commenced. During the latest upward phase of the business cycle, however, the acceleration in the twelve-month growth rate of credit extended to the private sector coincided with the start of the upward phase in the business cycle, i.e. in June 1993. This rate reached a recent peak in the second quarter of 1995 (see Graph 6) but only started to decline appreciably in the second half of 1997.

Another feature of the growth rate of credit extension to the private sector during the latest upswing in economic activity is that at no stage did the twelve-month growth rate of this series in either nominal or real terms, reach the heights attained during previous recoveries as can be seen from Graph 6. This could have been caused by the relatively stricter monetary policy stance maintained during the latest upswing in economic activity. The high level of nominal as well as real interest rates at the beginning of the recovery and the upward adjustments in these rates as from February 1994 probably not only suppressed the total demand for credit, but also blurred the demand for credit by new borrowers.

Graph 6: Twelve-month percentage change in credit extension to the private sector and phases of the business cycle



Mortgage loans outstanding increased at an average annual rate of 18,4 per cent from December 1991 to December 1993 and the growth in the banks' mortgage loan portfolio was the main driving force behind the growth in total credit to the private sector during that period. The increase in outstanding mortgage loans of R26,4 billion from December 1991 to December 1993 constituted no less than 66,5 per cent of the increase in total credit extension to the private sector during that period. The increase in mortgage loans at an average annual rate slowed down somewhat to 17,0 per cent from December 1993 to December 1997. The increase in these loans, as a percentage of the increase in total credit extension to the private sector from December 1993 to December 1997, however, fell back markedly to only 42,5 per cent as other types of credit grew at substantially faster rates during this period. As a percentage of total credit to the private sector, mortgage loans increased from 37,1 per cent in December 1991 to 42,5 per cent in December 1997.

The banks' holdings of investments showed a strong increase from December 1991 to December 1993 when these assets grew at an average annual rate of 19,8 per cent. The increase in the banks' holdings of investments from December 1991 to December 1993, however, amounted to only 6,1 per cent of the increase in total credit extension to the private sector during this period. The banks' holdings of bills, on the other hand, declined at an average annual rate of 22,3 per cent from December 1991 to December 1992 after bankers' acceptances had lost their liquid asset status. The decline in the bank's holdings of bills from December 1991 to December 1993 substantially exceeded the increase in the banks' holdings of investments during this period. From December 1993 to December 1997 the growth in the banks' holdings of investments increased to an average annual rate of



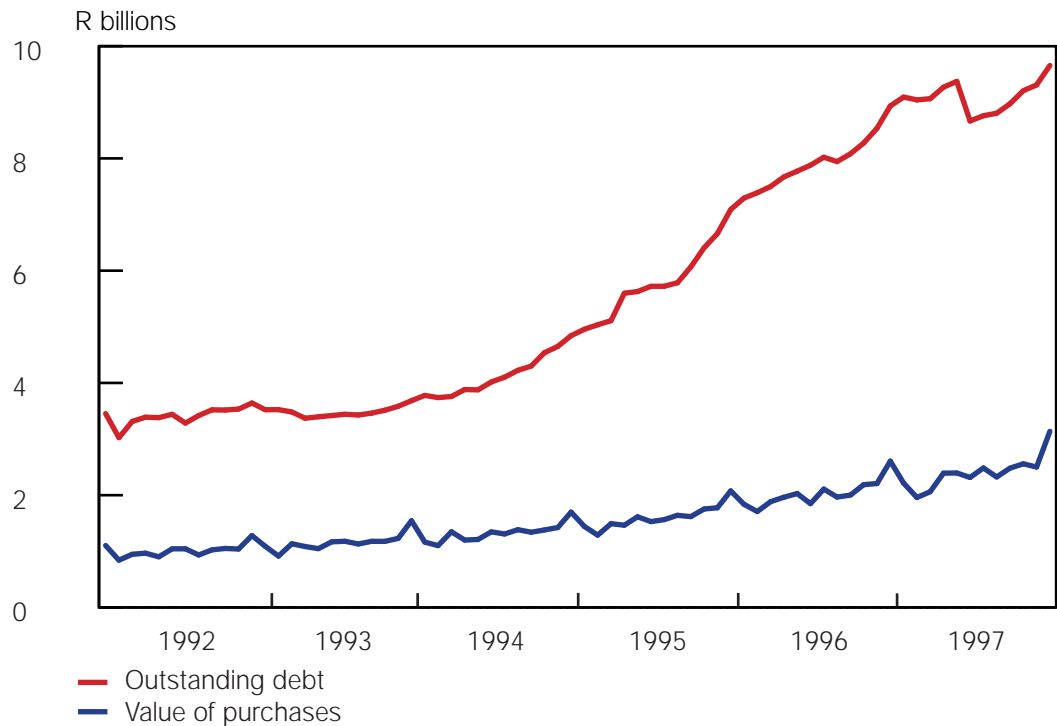
27,1 per cent in anticipation of lower interest rates. The banks' holdings of investments more than doubled from R8,0 billion in December 1993 to R20,9 billion in December 1997. The banks, however, continued to reduce their holdings of bills from December 1993 to December 1997, but at a substantially lower average annual rate than before. Their holdings of bills consequently declined by only R1,6 billion over this period. As a percentage of total credit extension to the private sector investments increased from 3,2 per cent in December 1991 to 3,7 per cent in December 1993 and 5,2 per cent in December 1997, whereas their holdings of bills declined from 7,4 per cent to 3,6 per cent and 1,6 per cent respectively over the same periods.

Credit extension to the domestic non-bank private sector in the form of instalment sale credit increased at an average annual rate of 9,4 per cent from December 1991 to December 1993, but then accelerated to an average annual rate of 21,1 per cent from December 1993 to December 1997. As a percentage of total credit extension to the private sector, instalment sale credit amounted to 10,9 per cent at the end of December 1991 and 10,7 per cent in December 1993, but then increased to 12,2 per cent at the end of December 1997 as the use of this type of credit gained popularity. Leasing finance to the private sector, which increased at an average annual rate of 8,2 per cent from December 1991 to December 1993, showed only a moderate acceleration to an average rate of 10,7 per cent per annum from December 1993 to December 1997. As a percentage of total credit extension to the private sector, leasing finance declined from 7,4 per cent in December 1991 to 7,2 per cent in December 1993 and further to 5,4 per cent in December 1997.

The average annual rate of increase in overdrafts on current account amounted to only 2,7 per cent from December 1991 to December 1993 but then accelerated to 15,6 per cent from December 1993 to December 1997. As a percentage of total credit extension to the private sector, overdrafts decreased in importance, declining from 18,1 per cent in December 1991 to 15,5 per cent of the total in December 1993 and to 14,8 per cent in December 1997. "Other loans and advances" gained popularity as a type of credit, increasing from 14,2 per cent of the total in December 1991 to 15,1 per cent in December 1993 and 15,9 per cent in December 1997. The average annual rate of increase in "other loans and advances" increased from 14,1 per cent from December 1991 to December 1993 to 16,5 per cent from December 1993 to December 1997. "Other loans and advances" increased particularly strongly in 1997 when it grew by 37,2 per cent to emerge as the main driving force of the growth in credit extension to the private sector during that year.

Outstanding credit card debt increased at an average annual rate of 10,3 per cent from December 1991 to December 1993, but spurted ahead at an average annual rate of no less than 27,2 per cent from December 1993 to December 1997. Despite this surge, credit card debtors as a percentage of total credit extension to the private sector which, on balance, remained unchanged at 1,6 per cent in December 1991 and December 1993 increased only moderately to 2,4 per cent in December 1997. The value of credit card transactions grew at an average annual rate of 19,4 per cent from December 1993 to December 1997. However, the outstanding balance on credit cards increased at an annual average rate of 27,2 per cent over the same period. This indicated that purchases paid with credit cards had not been fully settled when due or that credit cards had increasingly been used to finance purchases on budget accounts (see Graph 7).

Graph 7: Monthly value of credit card purchases and total outstanding debt on credit cards



The larger portion of bank credit to the private sector was extended to the household sector. Bank lending to the household sector, as a percentage of total credit extension to the private sector, increased from 55,4 per cent in December 1991 to a peak of 56,5 per cent in December 1992. This portion, however, subsequently declined to 52,1 per cent at the end of 1997 as credit extended to other borrowers grew at a faster rate than that to households (see Table 6).

Table 6 Credit extended to different categories of borrowers as percentage of total credit extended to the private sector by banks

Per cent							
Category	1991	1992	1993	1994	1995	1996	1997
Households .....	55,4	56,5	56,0	54,9	54,0	52,6	52,1
Corporate sector .....	40,6	38,7	37,8	38,9	38,5	39,1	39,8
Unincorporated businesses ...	2,8	3,1	4,3	4,4	4,9	5,5	5,2
Local authorities .....	0,2	0,1	0,3	0,2	0,5	0,4	0,9
Public enterprises .....	0,3	0,8	0,7	0,4	0,8	0,8	0,8
Non-profit-seeking organisations and others.....	0,7	0,8	0,9	1,2	1,3	1,6	1,4
Total .....	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Individuals, as a percentage of the total number of clients to whom bank credit was extended, also declined from 83,3 per cent in December 1996 to 82,5 per cent in December 1997 as the total number of such clients increased from 6,2 million in December 1996 to 6,9 million in December 1997, or 9,9 per cent, whereas individ-

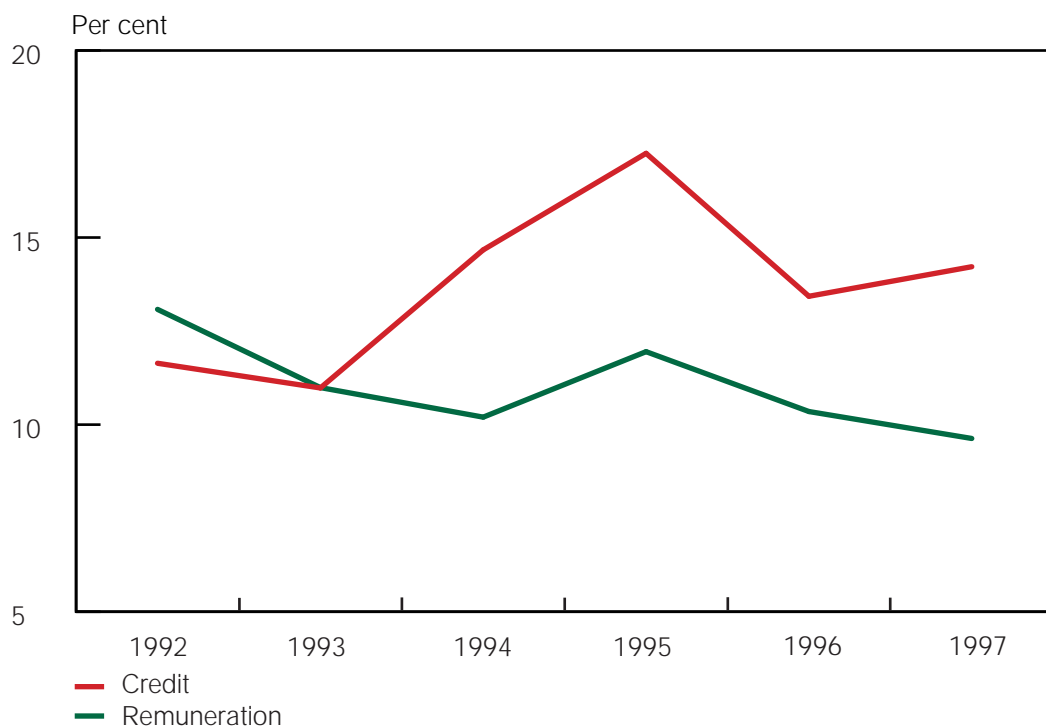
uals as clients increased from 5,2 million to 5,7 million or 8,8 per cent over the same period.

## 3.2 Credit extension to households

### 3.2.1 Total

Total credit extension by banks to households increased from R97,9 billion in December 1991 to R121,3 billion in December 1993 or at an average annual rate of 11,3 per cent. The average annual rate of increase in credit extension to households accelerated to 14,9 per cent from December 1993 to December 1997, which brought the total amount that households owed to banks to R211,3 billion at the end of 1997. Credit extension to households increased at a substantially faster rate than remuneration per worker, as can be seen in Graph 8. As a result, credit extension to households, as a percentage of annual personal disposable income, which at first had decreased from 52,2 per cent in 1991 to 49,5 per cent in 1993, increased to 56,9 per cent in 1997. This debt-to-income ratio should, however, be regarded with some caution, because a substantial portion of outstanding debt is repayable over several years. Total debt as a ratio of income may therefore not give a precise measure of the financial situation of the household sector or serve as an indication of near-term constraints on household budgets. The size of the monthly repayments is generally more important to decisions on spending than the actual size of the debt. However, bank credit extension to households, excluding mortgage loans as a percentage of personal disposable income, also increased from 16,9 per cent in 1993 to 19,7 per cent in 1997. Higher growth rates in instalment sale credit, other loans and advances and credit card debt made a major contribution to the acceleration in the rate of increase in credit extension to households during the period 1993 to 1997.

Graph 8: Annual percentage change in bank credit extension to individuals and remuneration of employees



The year-on-year rate of increase in the different types of credit to the household sector fluctuated widely, as shown in Table 7.

Table 7 Credit extension to households by banks

As at end of	Instalment sale credit	Leasing finance	Mortgage loans	Overdrafts	Other loans and advances	Credit cards	Total
Percentage change over twelve months							
1992	7,7	6,7	18,0	-8,0	-2,3	21,8	11,6
1993	17,9	1,9	13,5	26,7	-21,1	3,3	11,0
1994	15,4	17,4	18,1	-20,1	25,0	30,2	14,7
1995	32,8	-3,4	14,6	38,0	2,7	46,2	17,2
1996	17,6	4,2	13,4	12,0	5,6	26,9	13,4
1997	20,2	14,7	12,7	10,7	30,5	7,8	14,2
Type of credit as percentage of total credit extension to households							
1991	9,2	6,1	60,9	10,9	10,0	2,9	100,0
1992	8,9	5,9	64,4	8,9	8,8	3,1	100,0
1993	9,4	5,4	65,8	10,2	6,3	2,9	100,0
1994	9,5	5,5	67,8	7,1	6,8	3,3	100,0
1995	10,8	4,5	66,2	8,4	6,0	4,1	100,0
1996	11,2	4,2	66,1	8,3	5,6	4,6	100,0
1997	11,7	4,2	65,4	8,0	6,3	4,4	100,0
Credit extension to households as percentage of total credit extension to private sector per type							
1991	46,7	45,9	90,9	33,4	39,2	93,7	55,4
1992	49,6	44,3	90,7	31,3	36,5	94,7	56,4
1993	49,6	42,2	86,7	36,9	23,5	97,0	56,1
1994	44,8	46,2	85,6	28,0	22,1	95,9	54,9
1995	46,8	38,3	82,0	31,3	24,1	95,7	54,0
1996	45,4	34,1	79,4	30,1	21,8	96,6	52,6
1997	50,0	40,0	80,1	28,2	20,8	96,6	52,1

### 3.2.2 Instalment sale credit

In granting loans, banks endeavour to limit their risk by ensuring that the would-be borrower is in a position to comply fully with all his commitments and/or to obtain sufficient collateral in case of default. Instalment sale credit, where the underlying asset serves as collateral for the loan, is therefore an ideal vehicle to provide credit to qualifying workers with a steady income.

Instalment sale credit is mainly used to buy passenger cars, minibuses, trucks and other transport equipment, which at the end of 1997 accounted for about 75 per cent of the total of such credit outstanding. Instalment sale credit to individuals increased at an average annual rate of 12,7 per cent from December 1991 to

December 1993, but this rate accelerated to 21,3 per cent from December 1993 to December 1997, which was substantially higher than the average annual rate of increase in total credit extension to the domestic private sector of 17,0 per cent over the same period. Instalment sale credit to individuals, as a percentage of total credit extension to households, consequently increased from 9,4 per cent in December 1993 to 11,7 per cent in December 1997. The rate of increase in instalment sale credit to individuals remained strong in 1997, despite a marked slowdown in the sales of new passenger cars. This development indicated that individuals continued to use instalment sale credit not only to acquire new passenger cars, but also used vehicles and other durable goods. New entrants to the formal sector could therefore have contributed to the strong growth in this type of credit in the period 1993 to 1997.

### *3.2.3 Leasing finance*

Leasing finance consists mainly of financial leases, which accounted for about 85 per cent of all such credit. This type of credit was not widely used by households and it constituted only 4,2 per cent of the total credit extended to households at the end of December 1997. The average annual rate of increase in leasing finance to households amounted to only 4,3 per cent from December 1991 to December 1993. Although this rate accelerated to 7,9 per cent from December 1993 to December 1997, it still amounted to substantially less than the average annual rate of increase in total credit extension to households during the same period.

### *3.2.4 Mortgage loans*

Mortgage loans to households grew at an average annual rate of 15,7 per cent from December 1991 to December 1993, but this rate slowed down to 14,7 per cent from December 1993 to December 1997. As a percentage of total credit to households mortgage loans increased from 60,9 per cent at the end of 1991 to 67,8 per cent in December 1994 before decreasing again to 65,4 per cent in December 1997. As mortgage advances are mostly secured by real estate as the underlying collateral, this type of credit extension lowers the creditors' risk exposure and is ideally suited for granting loans to clients without an established relationship with a bank. Despite this obvious advantage, there is no clear evidence that this type of credit had been used more extensively by households during the period December 1993 to December 1997. The substantial rise in the mortgage rate from 15,25 per cent in December 1993 to 20,0 per cent in December 1996 made mortgage loans less affordable for prospective home-owners and dampened the demand for mortgage loans during this period.

### *3.2.5 Overdrafts on current account*

Overdrafts on current account are generally more freely available to clients with an established relationship with a bank. Overdrafts on current account to households increased at an average annual rate of 7,9 per cent from December 1991 to December 1993 and this rate increased marginally to 8,1 per cent from December 1993 to December 1997. As a percentage of total credit extension to households, overdrafts on current account amounted to 10,9 per cent in December 1991 and to 10,2 per cent in December 1993, but then declined further to 8,0 per cent in December 1997. Logically, new borrowers did not made extensive use of this type of credit because of the lack of an established relationship with a bank and the high level of interest rates applicable to such credit under these circumstances.

### *3.2.6 Other loans and advances*

Other loans and advances to households declined on average by 12,2 per cent per annum from December 1991 to December 1993. However, this type of credit showed a substantial increase of 25,0 per cent from December 1993 to December 1994, which partly could be due to the emergence of new borrowers. The annual rate of increase in other loans and advances to households subsequently decreased to 2,7 per cent in 1995, before increasing again to 30,5 per cent in 1997. These loans are normally repayable over a relatively long period, which reduces the scheduled periodic repayments and makes this type of credit affordable, even during times of high interest rates.

### *3.2.7 Credit card debtors*

Credit card debtors consisted mainly of households, which constituted on average about 96 per cent of the balances outstanding on credit cards. The average annual rate of increase in credit card debtors accelerated from 12,2 per cent during the period December 1991 to December 1993 to 27,0 per cent from December 1993 to December 1997. The growth in households' outstanding balances on their credit card accounts showed a sharp acceleration in 1994 and 1995 as credit cards were issued to a substantial number of new users. Despite rapid growth in outstanding balances, household debt in the form of credit card balances outstanding only increased from 2,9 per cent of households' total bank debt in December 1993 to 4,4 per cent in December 1997. The growth in outstanding balances on credit cards exceeded the growth in the value of credit card transactions substantially. This development indicated the full use of credit available to households under this facility, as already indicated. The increased use of credit cards also emphasises the convenience of such cards.

## **3.3 Credit extension to corporations**

### *3.3.1 Total*

Total credit extension to corporations by monetary institutions grew at a low average annual rate of 6,7 per cent from December 1991 to December 1993. Business demand for credit, however, strengthened in 1994 and credit extension to corporations increased by 20,8 per cent for that year. Credit extension to the corporate sector then continued to increase at a relatively high rate of between 17 and 19 per cent over the period from December 1995 to December 1997.

This continued strong growth in credit extension to corporations from 1995 to 1997 differed somewhat from the course of the normal credit cycle where the growth in such credit tends to slow down in conjunction with economic activities. Corporations' financial positions tend to deteriorate during a recession and banks generally become more cautious in their lending operations as corporations' creditworthiness weakens. However, during the latter part of the recovery which had started in June 1993, credit extension to corporations accelerated as the rapidly growing financing needs that accompanied the maturing recovery were bolstered by a strong demand for credit related to black empowerment take-overs and mergers. Other factors such as the switching from off-shore funding to domestic funding as a result of exchange rate uncertainties and the pick-up in inventory accumulation and capital spending also contributed to the strong demand for credit. The different types of

credit used to satisfy the credit needs of corporations during the period under review, will be discussed later.

### 3.3.2 Investments

Banks normally increase their holdings of debentures, preference shares and ordinary shares during times when the demand for other types of credit is relatively weak. The rate of increase in banks' holdings of investments therefore tends to show large fluctuations over time, as can be seen in Table 8. Nevertheless their holdings of investments, as a percentage of total credit extension to corporations, fluctuated upwards from only 7,0 per cent in December 1991 to 12,2 per cent in December 1997 as enhanced turnovers in the financial markets increased the liquidity of such instruments, turning them into near substitutes for money market instruments.

Table 8 Credit extension to corporations by banks

As at end of	Investments	Bills	Instalment sale credit	Leasing finance	Mortgage loans	Overdrafts	Other loans and advances	Credit cards	Total
Percentage change over twelve months									
1992 .....	18,6	0,3	-4,3	13,9	-3,2	0,7	12,5	3,3	4,4
1993 .....	9,0	-39,8	27,1	12,6	32,8	-10,7	55,5	-60,1	9,1
1994 .....	65,5	-8,1	39,9	1,6	27,0	20,0	14,8	149,2	20,8
1995 .....	21,7	1,2	22,7	34,1	50,4	19,1	0,5	30,6	17,5
1996 .....	19,5	-20,5	23,9	24,9	35,9	18,4	14,4	-5,9	18,6
1887 .....	25,5	8,2	-1,2	-12,9	11,2	23,0	41,6	13,0	17,3
Type of credit as percentage of total credit extension to corporations									
1991 .....	7,0	18,3	12,9	9,4	7,4	25,8	19,0	0,2	100,0
1992 .....	8,0	17,6	11,8	10,3	6,9	24,8	20,5	0,2	100,0
1993 .....	8,0	9,7	13,7	10,6	8,3	20,4	29,2	0,1	100,0
1994 .....	10,9	7,4	15,9	8,9	8,7	20,2	27,8	0,2	100,0
1995 .....	11,3	6,3	16,6	10,2	11,2	20,5	23,7	0,2	100,0
1996 .....	11,4	4,1	17,3	10,7	12,9	20,5	22,9	0,2	100,0
1997 .....	12,2	3,9	14,6	7,9	12,2	21,4	27,6	0,2	100,0
Credit extension to corporations as percentage of total credit extension to private sector per type									
1991 .....	90,4	100,0	47,8	51,6	8,1	58,0	54,4	5,1	40,6
1992 .....	78,6	100,0	45,1	60,9	6,6	59,6	58,3	4,4	38,7
1993 .....	81,4	100,0	48,6	55,9	7,4	49,5	73,2	1,7	37,8
1994 .....	92,7	100,0	53,3	52,9	7,9	56,5	71,5	3,3	38,9
1995 .....	88,1	100,0	51,4	60,8	9,9	54,4	68,3	2,9	38,4
1996 .....	93,5	100,0	52,5	65,0	11,5	55,2	66,9	2,2	39,1
1997 .....	94,4	100,0	47,5	58,4	11,4	57,6	69,0	2,3	39,8

### 3.3.3 *Bills*

Bankers' acceptances, commercial paper, bills, notes and other similar acknowledgements of debt that were discounted or purchased by banks as a percentage of total credit extension to corporations, declined from 18,3 per cent in December 1991 to only 3,9 per cent in December 1997. This type of credit lost its attractiveness for banks after the liquid asset status of three-month bankers' acceptances complying with certain requirements, was abolished early in 1993. The consequences of the change in the status of bankers' acceptances dominated the use of this type of credit extension and it is not possible to determine any influence of socio-political changes on this type of credit since 1993.

### 3.3.4 *Instalment sale credit*

Corporations mainly used instalment sale credit to finance motor car schemes as part of their remuneration packages and for investment in trucks and other land transport equipment. Their use of such credit as a percentage of total credit to corporations increased from 9,4 per cent in December 1991 to 17,3 per cent in December 1996, before declining again to 14,6 per cent in December 1997. After an initial decline of 4,3 per cent in 1992, the annual rate of increase in corporations' use of instalment sale credit accelerated to 39,9 per cent in 1994, but then declined again by 1,2 per cent in 1997. The marked increase in corporations' use of instalment sale credit, especially in 1994, could however largely be a reflection of a switch between instalment sale credit and leasing finance in that year as a result of a change in the tax treatment of the different types of credit in acquiring motor vehicles. Additions to the workforce in terms of transformation strategies could also conceivably have boosted corporations' use of instalment sale credit during the period December 1993 to December 1997.

### 3.3.5 *Leasing finance*

Leasing finance extended to corporations grew at an average annual rate of 13,2 per cent from December 1991 to December 1993. This rate then declined to 1,6 per cent in 1994 before jumping to 34,1 per cent in 1995. As indicated earlier, this volatility in the rate of increase in leasing finance to corporations could have been caused by corporations switching between leasing finance and instalment sale credit for tax-optimising reasons. As a percentage of total credit extension to corporations, leasing finance fluctuated between a low of 8,9 per cent in December 1994 and 10,7 per cent in December 1996. However, no clear evidence of a structural change in the use of leasing finance by corporations could be found during the period December 1991 to December 1997.

### 3.3.6 *Mortgage loans*

Mortgage loans to corporations have gained substantially in popularity in recent years. The annual rate of increase accelerated from a decline of 3,2 per cent in 1991 to 50,4 per cent in 1995. This rate remained high at 35,9 per cent in 1996 but slowed down to only 11,2 per cent in 1997. Mortgage loans generally grew at a higher annual rate than total credit extended to corporations from 1993 to 1997. The increase in mortgage loans to corporations was therefore a strong driving force in the growth in total credit to the private sector during most of this period.



The increase of R12,9 billion in mortgage loans to corporations from December 1993 to December 1997 constituted 16,1 per cent of the increase in total credit extended to corporations during this period. As a percentage of total credit extension to corporations, mortgage loans increased from 7,4 per cent in December 1991 to 12,2 per cent in December 1997. The increased popularity of mortgage advances as a source of funding stemmed mainly from the lower interest payable on these loans and the development of many new business premises which could serve as underlying security. It is also possible that some corporations may have bought residences for new employees financed by mortgage loans in their own name.

### *3.3.7 Overdrafts on current account*

Overdrafts granted to corporations decreased on average at a rate of 4,6 per cent per annum from December 1991 to December 1993. After the upswing in economic activity, these loans increased by 20,0 per cent in 1994 and then continued to expand at about 20 per cent per annum until December 1997. Overdrafts on current account were mainly used as working capital by corporations. This type of credit, as a percentage of total credit extension, declined from 25,8 per cent in December 1991 to 20,2 per cent in December 1994 and then fluctuated upwards to 21,4 per cent in December 1997. The relatively sharp increase of 23,0 per cent in overdrafts extended to corporations in 1997 was probably caused by switching from overseas to domestic sources to fund trade finance due to uncertainties about the exchange rate of the rand and an increase in the cost of forward cover.

### *3.3.8 Other loans and advances*

Other loans and advances to corporations constituted the major type of credit to corporations, amounting on average to 24,3 per cent of total credit extension to corporations during the past seven years. The growth rate of other loans and advances to corporations was typically volatile during this period, varying between a low of 0,5 per cent in 1995 and a high of 41,6 per cent in 1997. The strong increase in other loans and advances to corporations in 1997 was the main driving force behind total credit extension to corporations in that year and was probably bolstered by demands for credit related to black-empowerment mergers and acquisitions.

### *3.3.9 Credit card debtors*

Corporations' outstanding balances on credit cards amounted on average to only about 3 per cent of all credit card debtors. As a percentage of total credit extension to corporations, credit card debt amounted on average to only 0,2 per cent during the period December 1991 and December 1997. This type of credit extension therefore played a negligible role in the financing needs of corporations over the whole period from December 1991 to December 1997.

## **3.4 Credit extension to unincorporated businesses**

Bank credit extension to unincorporated businesses grew at a substantially higher rate than total credit extension to the private sector during the period December 1991 to December 1996, but slowed down in 1997. As a result, credit extended to unincorporated businesses, as a percentage of total credit extension to the private

sector by banks, increased from 2,8 per cent in December 1991 to 5,5 per cent in December 1996 before declining to 5,2 per cent in December 1997. Bank credit to unincorporated businesses was mainly in the form of advances secured by a mortgage and overdrafts; on average secured advances accounted for 38,5 per cent of total bank credit to these businesses during the period December 1991 to December 1997 and overdrafts 43,9 per cent.

Table 9 Change over twelve months in credit extension to unincorporated businesses by banks

Per cent

As at end of period	Instalment sale credit	Leasing finance	Mortgages loans	Over-drafts	Other loans and advances	Total
1992.....	-1,1	20,4	136,1	8,2	35,9	24,8
1993.....	-59,2	-25,1	151,8	56,3	85,1	53,0
1994.....	30,8	-51,4	25,1	16,8	2,0	19,8
1995.....	25,2	18,1	60,2	14,6	5,3	33,6
1996.....	39,5	21,8	33,4	20,8	45,5	29,1
1997.....	26,1	32,4	5,2	8,0	26,0	8,7

The strong growth in bank credit extension to unincorporated businesses is an indication of the growing importance of the small-business sector in the South African economy. It is also an indication of the important role that the banks are playing in meeting these businesses' financing needs. On the other hand, the banks contained their risk exposure by granting credit in the form of mortgage loans, which increased from 12,8 per cent of total bank credit extension to unincorporated businesses at the end of 1991 to 49,9 per cent at the end of 1997.

### 3.5 Credit extension to local authorities

Bank credit extension to local authorities, as a percentage of total bank credit extension to the private sector, fluctuated between 0,1 per cent in December 1992 and 0,8 per cent in December 1997. The percentage change over twelve months in bank credit extended to local authorities showed wide fluctuations during the period December 1991 to December 1997 as indicated in Table 10.

Table 10 Change over twelve months in bank credit extension to local authorities

Per cent

	1992	1993	1994	1995	1996	1997
Investments...	14,9	245,0	-37,7	145,1	-90,1	-67,3
Other loans....	-51,6	169,9	-15,1	379,3	39,3	139,4
Total.....	-30,8	208,8	-28,2	261,7	-4,8	132,1

Changes in bank credit extension to local authorities in the form of local authority bonds (classified as an investment in the books of the banks) are not necessarily an indication of a change in local authorities' total outstanding debt as these bonds are traded in the secondary bond market. The relatively poor liquidity of these bonds, however, was reflected in the banks' holdings of such bonds, which declined from 4,3 per cent of the banks total holdings of private sector investment instruments in December 1993 to 0,1 per cent in December 1997. As a percentage of total bank credit extended to local authorities, the banks' holdings of bonds issued by these authorities declined from 57,9 per cent in December 1993 to only 0,5 per cent in December 1997.

Bank credit extension to local authorities in the form of "other loans and advances" amounted to less than 1 per cent of the banks' total credit to the private sector in the form of other loans and advances up to December 1993, but then increased from 1,1 per cent in December 1994 to 5,3 per cent in December 1997. However, the actual amounts involved remained relatively small, amounting to R0,2 billion in December 1994 and R3,4 billion in December 1997.

The financing needs of the local authorities deteriorated significantly as the culture of non-payment for services persisted under the new political dispensation, while the demand for services continued to rise.

### 3.6 Credit extension to public corporations

Banks' holdings of public corporation bonds, classified as investments on the balance sheets of the banks, constituted on average 63,1 per cent of bank credit extended to public corporations. As in the case of the local authorities, changes in the banks' holdings of such bonds need not necessarily reflect a change in the total outstanding debt of the public corporations as these bonds are traded in an active secondary market. Public corporations also borrowed from the banks in the form of mortgage advances and other loans. The mortgage advances were mainly used to finance housing for employees of the corporations and amounted to only 0,3 per cent of the total of mortgage loans extended to the private sector by banks at the end of December 1997. Other loans and advances to public corporations, as a percentage of the total of such loans to the private sector, increased from 0,2 per cent in December 1992 to 2,8 per cent in December 1996, but declined again to 1,6 per cent in December 1997. Total credit extension to public corporations, however, remained relatively insignificant and, on balance, only increased from 0,3 per cent of total credit extended to the private sector by banks in December 1991 to 0,6 per cent in December 1997. The available data do not indicate a structural change in bank lending to public corporations during the period December 1991 to December 1997.

### 3.7 Credit extension to non-profit-seeking organisations and other borrowers

Bank credit extension to non-profit-seeking organisations and other borrowers increased steadily from R1,3 billion in December 1991 to R5,6 billion in December 1997. The twelve-month rate of increase in bank credit to non-profit-seeking organisations and other borrowers showed wide fluctuations from year to year. These fluctuations were loosely correlated with the changes in these organisations' deposit holdings with banks which presumably fluctuated in accordance with the flow of foreign donor funds to some of these organisations.

Table 11 Change over twelve months in credit extension to non-profit-seeking organisations and other borrowers by banks

Per cent

	1992	1993	1994	1995	1996	1997
Mortgages.....	1 275,0	169,8	45,1	28,3	24,4	-2,4
Overdrafts .....	-75,7	391,9	74,2	-7,8	25,6	131,5
Other loans....	-16,5	-86,0	254,2	-5,2	292,1	-40,9
Credit cards...	-5,6	38,2	-17,0	148,7	10,3	0,9
Total.....	21,9	29,1	59,0	21,7	52,3	-4,3

Bank credit extension to non-profit-seeking organisations and other borrowers as percentage of total bank credit extension to the private sector increased from 0,7 per cent in December 1991 to 1,4 per cent in December 1997. This credit was mainly in the form of mortgage advances which, on average, amounted to 58,7 per cent of the total bank credit extended to this type of borrower.

The growing importance of non-profit-seeking organisations and other borrowers in bank lending to the private sector could have been influenced by the socio-political changes in South Africa, but the role of these borrowers is still comparatively small.

#### 4. Conclusion

The increase in total deposit holdings of individuals appeared not to have been the driving force behind the obstinately high growth rate of the M3 money supply from 1994 to 1997. This is not surprising, because although the personal disposable income of previously disadvantaged individuals has increased appreciably since 1994, their capacity to accumulate wealth in the form of deposits with banks remained limited. The high propensity to consume of many of these households militated against strong asset accumulation. Individuals' holdings of cheque and transmission as well as other demand deposits increased at substantially higher rates than their total deposit holdings. This development not only reflected individuals' increased preference for transaction-type deposits and liquidity but also strengthened the growth rate of M1A as well as M1 from December 1993 to December 1997. The high rate of unemployment and the availability of attractive substitutes for deposit-type investments also dampened the growth rate of total deposit holdings of individuals.

Total deposit holdings of companies and close corporations grew strongly during the period 1994 to 1997 and added to the growth of the money supply throughout the period. The increase in their total deposit holdings was driven by the more extensive use of the cash management services offered by the banks which, together with higher balances for transaction purposes, caused an upward trend in companies' and close corporations' holdings of cheque and transmission deposits. Developments in the area of black empowerment furthermore left certain conglomerates with large amounts of readily available funds. These funds were supplemented by an improvement in the profitability of companies during the recovery and by the issuance of new shares *in lieu* of dividend payments. These funds were held

mainly as "other demand" deposits with banks, probably in anticipation of a further relaxation of exchange controls, an improvement in the domestic investment climate and the opening-up of investment opportunities in other parts of the world. The negative slope of the yield curve during most of the period 1994 to 1997 also encouraged holdings of "other demand" deposits, while the turmoil in the financial markets late in 1997 also added to holdings of this type of deposit.

The deposit holdings of unincorporated businesses grew considerably faster than the total deposit holdings of "other domestic parties" during the period under review. Their deposit holdings as a percentage of the total deposit holdings of "other domestic parties" consequently almost doubled from December 1991 to December 1992. This development could have been influenced by the new socio-political dispensation which fostered small-business development and accordingly also the use of banking facilities by this type of client.

A backlog of demand for durable consumer goods and for consumer credit played an important role in the ensuing rapid expansion in instalment sale credit to individuals from 1994 to 1997. Individuals also used credit cards increasingly as a convenient means of payment, especially after the introduction of a spate of private-label credit cards. The growing utilisation of credit cards by households added to the stock of consumer credit as the outstanding balances on credit cards increased at a substantially faster rate than the value of credit card transactions during the period under review.

Despite a dire need for housing finance, the growth rate in mortgage loans to households did not take off after the change in the political dispensation in 1994. In fact, the growth in mortgage loans started to decline from the middle of 1995 in response to the substantial rise in mortgage rates from the end of 1994 to the end of 1995. The lower rate of increase in mortgage loans probably reflected the fact that new entrants could not afford housing loans at the higher mortgage rate.

Contrary to the course of a typical credit cycle, credit extension to corporations increased at a faster rate during the mature stages of the latest economic recovery. The increase in corporations' demand for credit stemmed from credit related to black empowerment mergers and acquisitions as well as other factors such as switching from overseas to domestic sources of credit.

Bank credit extension to unincorporated businesses and non-profit-seeking organisations, as a percentage of total bank credit extension to the private sector, increased appreciably during the period under review. The socio-political changes probably had an influence in this regard, but no conclusive evidence of the extent of this influence could be obtained. Local authorities of late were forced to borrow more extensively from the banks as they were adversely affected by non-payment for services rendered. This situation is not sustainable and the local authorities' increased use of bank credit should not be seen as a structural change.

Although the 1990s, especially from 1994 onwards, were marked by important changes in the socio-economic environment in which banks operate, no clear evidence of a structural change in the behaviour of depositors or borrowers could be identified in this analysis. Social developments have probably played a role in the intermediary function of the banks in recent years, but no major structural change could be identified. The paucity of the available data, however, also hampered an in-depth analysis.

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