Bank credit to the private sector *(*1)*

by S.J. van der Walt

Introduction

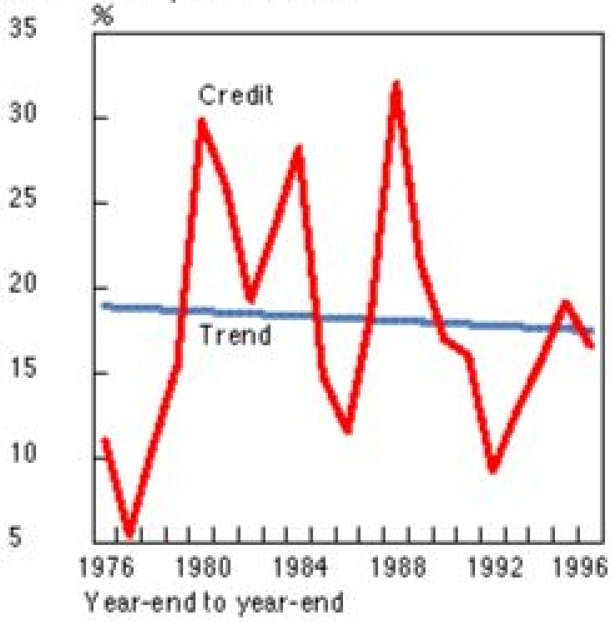
Bank credit is an important source of finance to the private sector in South Africa. Over the past twenty years bank lending to the private sector increased at a relatively high average annual rate, even though the development of sophisticated financial products and highly efficient financial markets seemed to favour borrowing from alternative non-bank sources of finance.

This note gives a short overview of changes in bank credit extension to the private sector during the period 1976 to 1996. A distinction is drawn between the different types of credit and between lending to companies and individuals. Finally, the banks' lending portfolio is disaggregated according to various sectors of economic activity.

Behaviour of bank credit to the private sector, 1976 to 1996

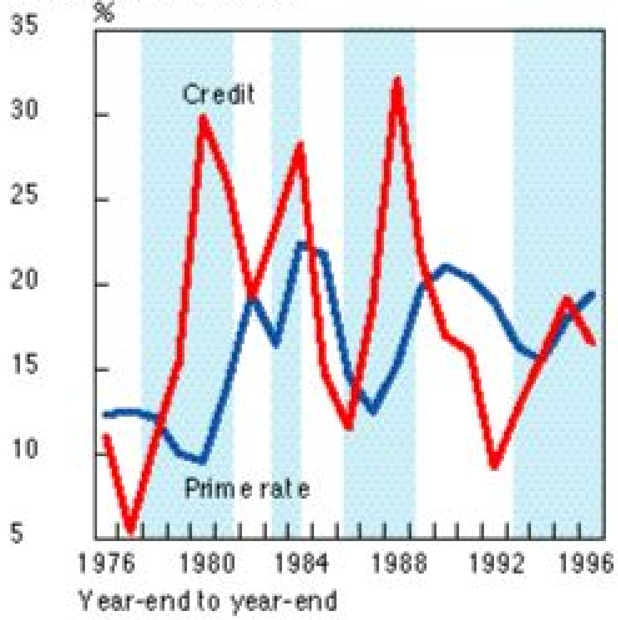
Bank lending to the private sector increased on average by 17,9 per cent per annum during the period 1976 to 1996. Annual increases fluctuated around a gently declining trend during this period and recorded a low of 5,4 per cent in 1977 and a high of 32,0 per cent in 1988. The growth of 16,6 per cent in 1996 declined to just below the value indicated by the fitted long-term trendline (see Graph 1).

Graph 1: Annual percentage change in bank credit to the private sector



Changes in bank lending during the period under review tended to precede changes in overall economic conditions. The year-end to year-end growth rate of bank lending generally started to accelerate ahead of an upturn in the business cycle and to slow down before the start of a downturn in the business cycle (see Graph 2).

Graph 2: Annual percentage change in bank credit to the private sector and average prime overdraft rate of banks

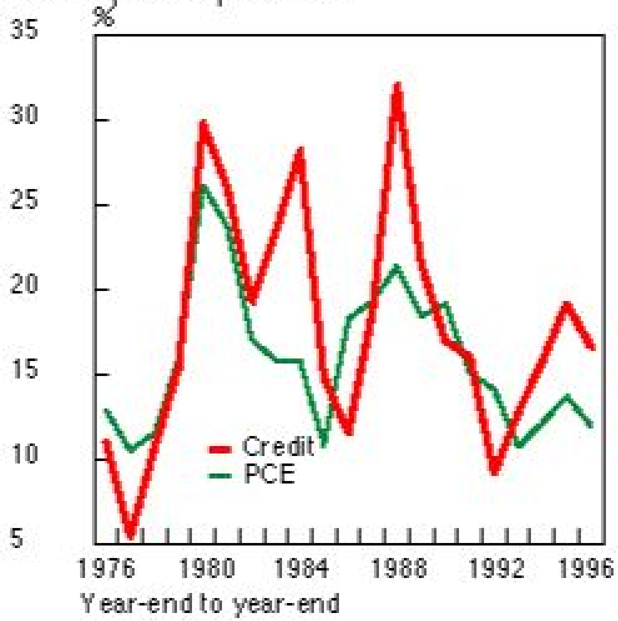


This probably reflects an increase in business demand for working capital in anticipation of an improvement in sales and economic activity generally, and the waning of the demand for funds when business liquidity improves and individuals reduce their use of bank credit during the advanced stages of a business cycle upturn.

The demand for credit is, of course, also affected by the cost of credit. A rise in interest rates is generally followed after a while by a slowdown in the growth of bank credit extension which, in turn, is followed with a further time delay by a decline in economic activity. Similarly, a softening in interest rates is usually followed by an increase in the growth of credit extension and still later by a strengthening of overall economic activity. This course of events is illustrated in Graph 2. These changes clearly reflect the role played by banks in the transmission mechanism of monetary policy when adjustments in Bank rate serve as the operational policy variable of the monetary authorities.

Private households made extensive use of bank credit to finance consumption expenditure. Changes in bank lending to the private sector show a close correlation with the changes in nominal private consumption expenditure (see Graph 3).

Graph 3: Annual percentage change in bank credit to the private sector and private consumption expenditure



On average, bank credit extension to the private sector increased at a faster rate than private consumption expenditure during the period 1976 to 1996; whereas bank lending to the private sector increased at an average annual rate of 17,9 per cent between 1976 and 1996, the rise in private consumption expenditure came to an average rate of 16,0 per cent per year. Bank credit to the private sector also increased at a substantially higher average annual rate than the average annual rate of growth in the consumer price index over the period in question. Real discounts and advances to the private sector (i.e. after adjustment for changes in the consumer price index) accordingly increased at an average rate of 4,4 per cent per year during this period, compared with an average annual growth rate of 1,8 per cent in real gross domestic product. Bank credit to the private sector, as a percentage of gross domestic product at market prices, consequently increased from 42,0 per cent in 1976 to 62,7 per cent in 1996. This development pointed to a substantial financial deepening in the economy during this period.

The average annual growth rate of the banks' total assets, which amounted to 16,7 per cent between 1976 and 1996, was markedly lower than the average annual increase of 25,2 per cent in the total assets of long-term insurers and the 18,3 per cent in the assets of private pension and provident funds over this period. At the end of 1996 the total assets of long-term insurers slightly exceeded those of banks (excluding mutual banks). Thus, despite banks' relatively strong asset growth, their dominant role in the financial system is being challenged by the even stronger growth of other types of institutions.

Bank credit to the private sector by type of credit

As shown in Table 1, the major portion of bank credit to the private sector consisted of *mortgage loans*, followed by *"other" loans and advances*, which include overdrafts, factoring and other loans and advances. These two components constituted, on average, 73,5 per cent of total bank lending to the private sector during the period 1976 to 1996. *Bills discounted*, which amounted to 6,9 per cent of the total in 1991, subsequently declined to a low of only 1,7 per cent in 1996. This decline in relative significance followed the removal of the liquid asset status of bankers' acceptances in terms of the Banks Act. Bankers' acceptances also became no longer eligible as collateral for overnight loans at the discount window as from May 1993.

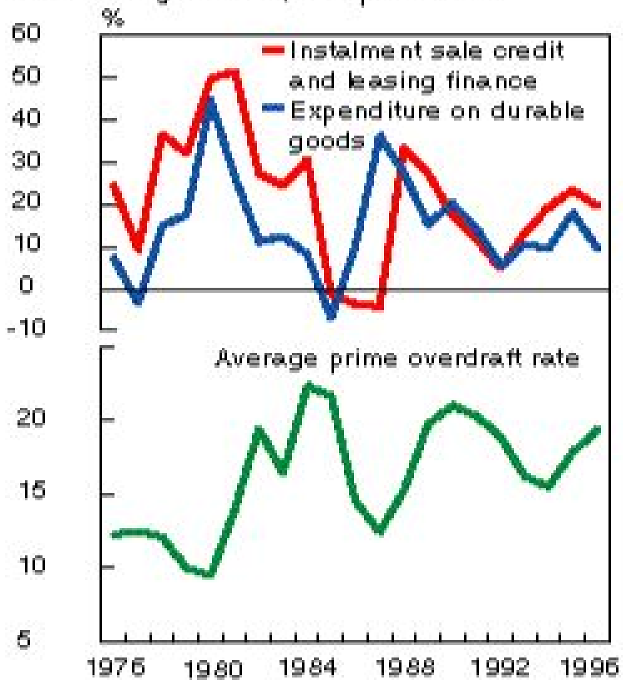
Table 1. Bank credit to the private sector by type of credit

End of	Bills discounted		Instalment sales credit		Leasing finance		Credit cards		Mortgage loans		Other		Total
	R millions	Percentage of total	R millions	Percentage of total	R millions	Percentage of total	R millions	Percentage of total	R millions	Percentage of total	R millions	Percentage of total	R millions
1976	830	6,6	804	6,4	923	7,3	...	...	5 553	44,1	4 484	35,6	12 594
1977	676	5,1	855	6,4	1 034	7,8	...	...	6 060	45,7	4 645	35,0	13 270
1978	602	4,1	1 317	9,0	1 263	8,6	...	...	6 572	44,8	4 922	33,5	14 676
1979	881	5,2	1 853	10,9	1 553	9,2	...	..	7 552	44,6	5 101	30,1	16 940
1980	1 446	6,6	2 959	13,5	2 145	9,7	...	...	9 594	43,7	5 833	26,5	21 977
1981	1 582	5,7	4 889	17,7	2 840	10,3	...	...	11 085	40,0	7 286	26,3	27 682
1982	2 204	6,7	6 196	18,8	3 638	11,0	...	...	12 124	36,7	8 832	26,8	32 994
1983	1 092	2,7	7 640	18,7	4 601	11,3	...	...	15 381	37,8	11 999	29,5	40 713
1984	1 243	2,4	10 401	19,9	5 605	10,8	...	...	18 066	34,6	16 851	32,3	52 166

1985	2 211	3,7	10 533	17,6	5 241	8,8	...	...	21 050	35,1	20 841	34,8	59 876
1986	2 598	3,9	10 309	15,4	4 889	7,3	...	...	24 818	37,2	24 154	36,2	66 768
1987	3 637	4,6	9 779	12,4	4 771	6,0	...	...	31 404	39,6	29 637	37,4	79 228
1988	5 735	5,5	12 422	11,9	6 988	6,7	...	...	41 152	39,3	38 316	36,6	104 613
1989	6 442	5,1	15 600	12,3	9 129	7,2	...	...	48 604	38,2	47 265	37,2	127 040
1990	8 746	5,9	18 054	12,2	10 976	7,4	...	...	55 891	37,6	54 846	36,9	148 513
1991	11 860	6,9	19 259	11,2	13 234	7,7	2 997	1,8	66 492	38,5	58 426	33,9	172 268
1992	12 537	6,7	19 552	10,4	14 500	7,7	3 613	1,9	78 457	41,7	59 355	31,6	188 014
1993	7 925	3,8	23 062	10,9	15 493	7,3	3 644	1,7	92 887	43,8	68 911	32,5	211 922
1994	7 284	3,0	29 423	12,0	16 613	6,8	4 794	2,0	110 166	44,9	76 920	31,3	245 200
1995	7 373	2,5	37 442	12,8	19 375	6,7	7 026	2,4	130 312	44,6	90 539	31,0	292 067
1996	5 863	1,7	45 380	13,3	22 637	6,6	8 834	2,6	152 406	44,8	105 440	31,0	340 560
Average annual growth (per cent)	**10,3**		**22,3**		**17,4**		**24,1**		**18,0**		**17,1**		**17,9**

Borrowers seem to switch with relative ease between *instalment sale credit* and *leasing finance*. On average, these two types of credit amounted to 21,2 per cent of total credit during the period 1976 to 1996, ranging from a low of 13,6 per cent of the total in 1976 to a high of 30,7 per cent in 1984. Changes in instalment sale credit and leasing finance generally corresponded fairly closely with the changes in private consumption expenditure on durable goods at current prices (see Graph 4).

Graph 4: Annual percentage change in private consumption expenditure on durable goods, instalment sale credit and leasing finance, and prime rate

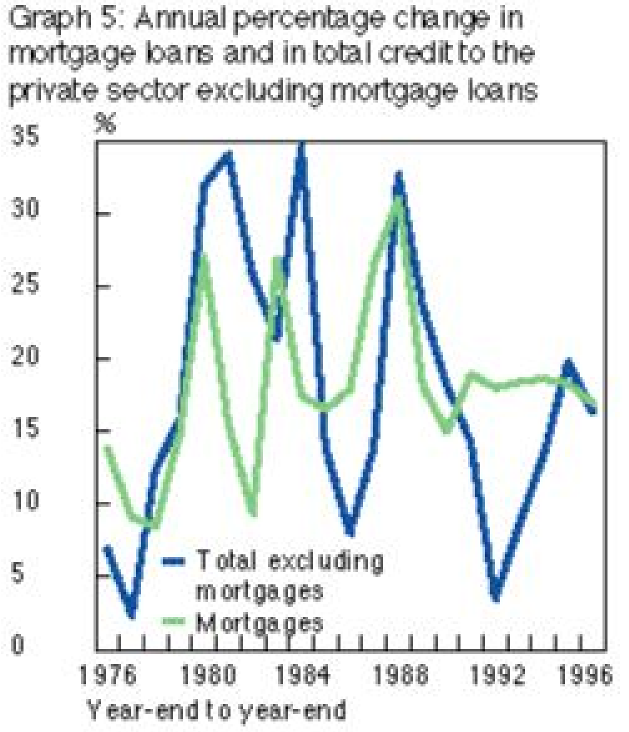


The graph also shows a relatively strong inverse relationship between changes in the total of instalment sale credit and leasing finance and the level of interest rates as indicated by the prime overdraft rate of the banks. This, of course, also implies that changes in private consumption expenditure on durable goods and the level of the prime overdraft rate are inversely related.

Data on *credit card debtors* are only available from 1991. At the end of 1996 this type of credit amounted to only 2,6 per cent of total bank credit to the private sector. On average, however, outstanding credit card debt increased by 24,1 per cent per year in the six years to 1996, which was substantially faster than the rate of increase in total bank credit to the private sector, which amounted, on average, to 14,6 per cent per year over the same period.

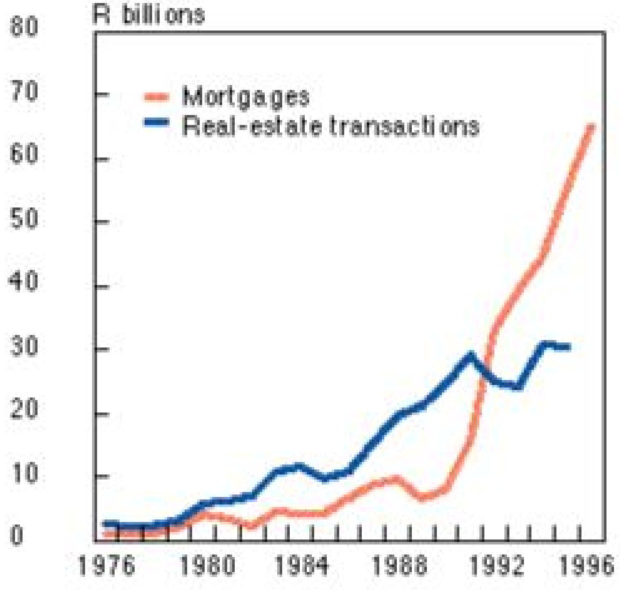
Mortgage loans, as a percentage of total bank credit to the private sector, declined from 45,7 per cent in 1977 to 34,6 per cent in 1984, before reverting to 44,8 per cent in 1996. Until 1990, the year-end to year-end rate of increase in mortgage loans followed a pattern broadly similar to that of total bank credit to the private sector, excluding mortgage loans. Since 1991, mortgage advances have been increasing at a surprisingly stable rate.

In contrast, the rate of increase in non-mortgage credit extended to the private sector continued to fall steeply in 1991 and 1992 but then accelerated progressively until 1995, before declining slightly in 1996 (see Graph 5).



The introduction of flexible mortgage loans improved the attractiveness of this type of credit and enabled borrowers to use mortgage facilities for purposes other than the financing of real-estate transactions. The attractiveness of mortgage borrowing was enhanced further by the relatively low cost of this type of financing. From the supply side, banks actively encouraged the use of mortgages on account of the lower capital-risk weight that this type of asset attracts, as well as the supposedly lower risk of such loans for the lender. The use of mortgage loans for reasons other than the financing of fixed property is illustrated in Graph 6, which shows that the yearly mortgage loan payouts have increasingly exceeded the value of yearly real-estate transactions since 1992.

Graph 6: Mortgage loans paid out and value of real-estate transactions



"Other" loans and advances amounted, on average, to 32,7 per cent of total bank credit to the private sector from 1976 to 1996, varying between a low of 26,3 per cent in 1980 and 36,9 per cent in 1990. This type of credit consists largely of overdrafts and is mainly used as working capital by businesses.

Bank credit to households and companies

A classification of bank credit to households and companies by type of credit is shown in Table 2. The household sector is the principal user of bank credit extended to the private sector: more than 60 per cent of total bank credit extended to the private sector is directed towards households. Furthermore, more efficient treasury operations and the introduction of various company cash management schemes gradually reduced the corporate sector's dependence on bank credit.

Table 2. Classificaton of bank credit to households and companies by type of credit

	End of 1992		End of 1994		End of 1996	
	Amount R millions	Percentage of total of type %	Amount R millions	Percentage of total of type %	Amount R millions	Percentage of total of type %
Instalment sales credit						
Households	10 722	54,8	13 729	46,7	21 528	47,4
Companies	8 830	45,2	15 694	53,3	23 852	52,6
Leasing finance						
Households	6 807	46,9	7 817	47,1	7 910	34,9
Companies	7 693	53,1	8 796	52,9	14 727	65,1
Credit cards						
Households	3 455	95,6	4 637	96,7	8 642	97,8
Companies	158	4,4	157	3,3	192	2,2
Mortgage loans						
Households	73 320	93,5	101 503	92,1	137 117	90,0
Companies	5 137	6,5	8 663	7,9	15 289	10,0
Other loans*						
Households	21 126	29,4	26 293	31,2	42 781	38,4
Companies	50 766	70,6	57 911	68,8	68 522	61,6
Total						
Households	115 430	61,4	153 979	62,8	217 978	64,0
Companies	72 584	38,6	91 221	37,2	122 582	36,0
Total	**188 014**	**100,0**	**245 200**	**100,0**	**340 560**	**100,0**
* Including bills discounted						

Households were the main recipients of bank loans in the form of mortgage advances: more than 90 per cent of this type of bank credit is allocated to households. Companies, on the other hand, mainly borrowed in the form of "other" loans and advances, including overdrafts and factoring. The corporate sector accounted for about two-thirds of this type of bank credit. An increasing portion of bank credit in the form of instalment sale credit and leasing finance also flowed to the corporate sector in recent years: the portion of outstanding instalment sale credit extended to companies increased from 45,2 per cent in 1992 to 52,6 per cent in 1996. Leasing finance extended to companies increased from 53,1 per cent of the total of this type of credit to 65,1 per cent over the same period.

Credit card debtors consist mainly of individuals. At the end of 1996, no less than 97,8 per cent of outstanding credit card debt was owed by the household sector. The outstanding amount of credit card debt is still relatively small and amounted to only 4 per cent of households' total bank debt at the end of 1996 (see Table 3). Households' borrowing from banks consisted mainly of mortgage loans; in general more than 60 per cent of households' total borrowing from the banks was accounted for by mortgage advances. "Other" loans and advances amounted to an average of about 18 per cent of households' total use of bank loans.

Table 3. Classification of bank credit to households and companies by type of credit as percentage of total credit to relevant sector

	End of 1992		**End of 1994**		**End of 1996**	
	Households	**Companies**	**Households**	**Companies**	**Households**	**Companies**
Instalment sales credit	9,3	12,2	8,9	17,2	9,9	19,5
Leasing finance	5,9	10,6	5,1	9,6	3,6	12,0
Credit cards	3,0	0,2	3,0	0,2	4,0	0,1
Mortgage loans	63,5	7,1	65,9	9,5	62,9	12,5
Other loans*	18,3	69,9	17,1	63,5	19,6	55,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

* Including bills discounted

Instalment sale credit and leasing finance used by companies increased from about 23 per cent of the corporate sector's total borrowings from banks in 1992 to 31 per cent in 1996. These types of credit arrangements became increasingly popular for the financing of company car schemes. "Other" loans and advances, however, still form the dominant type of credit used by companies.

In the operations of banks as financial intermediaries, the household and corporate sectors are not only important users of funds, but they also serve as major sources of funds for banks. Both these sectors are, however, indebted to the banks on a net basis (see Table 4). Banks therefore play an important role in funding both the household and corporate sector.

Table 4. Banks' net claims on household and corporate sectors

	End of 1992		**End of 1994**		**End of 1996**	
	Households	**Corporates**	**Households**	**Corporates**	**Households**	**Corporates**
Gross claims	115 430	72 584	153 979	91 221	217 978	122 582
Deposits	103 322	48 464	119 266	69 115	147 743	102 179
Net claims	**12 108**	**24 120**	**34 713**	**22 106**	**70 235**	**20 403**

Banks' net claims on the household sector showed a substantial increase in recent years; the growth in the banks' gross claims on households outstripped the growth in households' deposit holdings with banks by a fair margin. Banks' gross claims on households increased on average by 17,2 per cent per year from 1992 to 1996, while households' deposit holdings with banks increased at an average rate of 9,4 per cent per year over the same period. As a result, banks' net claims on the household sector increased from R12 108 million in 1992, to R70 235 million in 1996, or at an average rate of 55,2 per cent per year.

Households' deposit holdings with banks were adversely affected by the development of alternative investment opportunities over a period when the personal savings propensity remained weak. At the same time, bank credit extension to households increased from 52,7 per cent of personal disposable income in 1992 to 64,7 per cent in 1996. Many new entrants to the formal sector of the economy made extensive use of readily available bank credit during this period of rapidly growing aggregate domestic demand.

Banks' net claims on the corporate sector declined from R24 120 million in 1992 to R20 403 million in 1996. Over this period, the deposit holdings of the corporate sector increased at an average annual rate of 20,5 per cent, whereas the banks' gross claims on companies increased at a much slower annual rate of 14,0 per cent. This was essentially a reflection of improved liquidity in the corporate sector during a period of general economic recovery and strong profit growth.

Classification of bank credit by sector of economic activity

Banks not only provide loans to a wide spectrum of borrowers in different geographical areas, but also aim for a broad sectoral diversification of their lending activities. Data on the classification of bank credit to the private sector according to economic activity are shown in Table 5 **(2)*. The data for 1996 were compiled from information submitted biannually by banks and mutual banks in terms of the Regulations promulgated under the Banks Act. These data show a conspicuously large increase in bank credit to borrowers in the category "Other", which may indicate that an accurate classification of bank credit according to economic activity has not yet been fully implemented by all reporting banks.

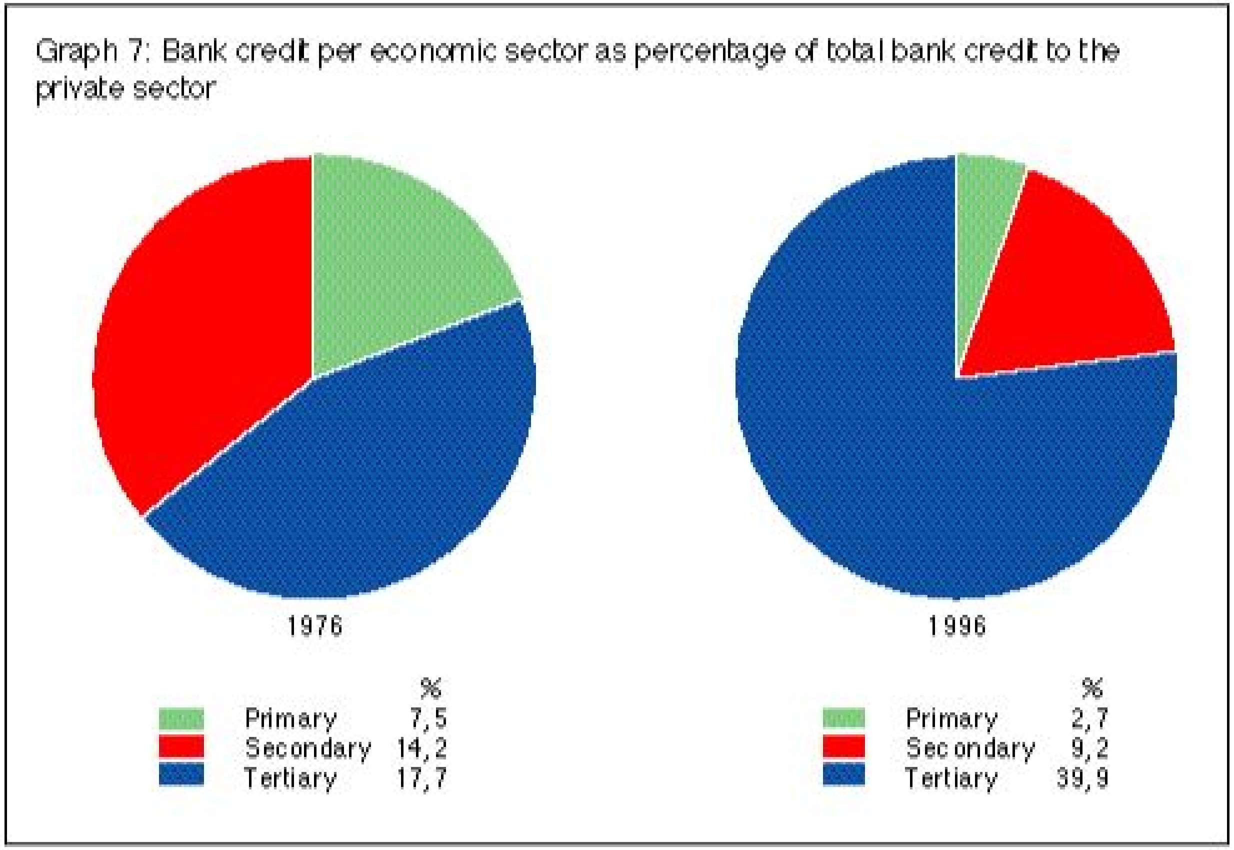
Table 5. Classification of bank credit to the private sector by kind of economic activity

	End of 1976		End of 1986		End of 1996	
	Amount R millions	Percentage of total credit %	Amount R millions	Percentage of total credit %	Amount R millions	Percentage of total credit %
Primary sector	948	7,5	5 413	8,1	9 082	2,7
Agriculture	758	6,0	4 657	7,0	7 401	2,2
Mining	190	1,5	756	1,1	1 681	0,5
Secondary sector	1 771	14,1	9 909	14,8	31 620	9,2
Manufacturing	1 377	10,9	8 181	12,3	24 862	7,3
Construction	210	1,7	1 111	1,7	3 879	1,1
Electricity, gas and water	184	1,5	617	0,9	2 879	0,8

Tertiary sector	2 231	17,7	13 452	20,1	135 829	39,9
Trade and accom-modation	846	6,7	3 580	5,4	19 910	5,8
Transport and communication	n/a	-	n/a	-	4 555	1,3
Real estate	352	2,8	1 963	2,9	57 355	16,9
Financial services	832	6,6	2 222	3,3	7 017	2,1
Other	201	1,6	5 687	8,5	46 992	13,8
Total (excluding individuals)	4 950	39,3	28 774	43,1	176 531	51,8
Individuals	7 644	60,7	37 994	56,9	164 029	48,2
Total	**12 594**	**100,0**	**66 768**	**100,0**	**340 560**	**100,0**

Bank credit extension to the non-bank private sector by kind of economic activity broadly corresponded with the relative contribution of the various sectors to gross domestic product at factor cost. The tertiary private sector, which accounted for 48,7 per cent of gross domestic product at factor cost in 1996 (excluding the general government sector), in that year utilised 39,9 per cent of total bank credit extended to the private sector. Bank credit to the private tertiary sector of the economy as a percentage of total bank credit extension increased modestly at first from 17,7 per cent in 1976 to 20,1 per cent in 1986, but then almost doubled over the next 10 years. In contrast, the value added by the private tertiary sector as a percentage of gross domestic product increased more moderately from 43,5 per cent in 1976 to 48,7 per cent in 1996. This indicates that the tertiary sector increased its use of bank credit extensively over the past twenty years.

Value added by the secondary sector as a percentage of gross domestic product increased marginally from 35,4 per cent in 1976 to 36,2 per cent in 1996. However, bank credit extended to this sector as a percentage of total bank credit extension to the private sector declined from 14,1 per cent in 1976 to 9,2 per cent in 1996. The relative significance of the secondary sector as a user of bank credit has, accordingly, waned over the past twenty years.



On balance, value added by the primary sector as a percentage of gross domestic product decreased from 21,1 per cent in 1976 to 15,1 per cent in 1996. However, bank credit to the primary sector, as a percentage of total bank credit extended to the private sector declined even more, viz. from 7,5 per cent in 1976 to only 2,7 per cent in 1996.

Table 6. Value added by kind of economic activity as percentage of nominal gross domestic product at factor cost

Sector	1976	1986	1996
Primary sector	21,1	24,0	15,1

Agriculture	8,3	6,4	5,5
Mining	12,8	17,6	9,6
Secondary sector	35,4	35,7	36,2
Manufacturing	26,8	26,7	28,1
Electricity, gas and water	3,1	4,9	4,6
Construction	5,5	4,0	3,5
Tertiary sector (excluding general government)	43,5	40,3	48,7
Trade and accommodation	15,4	13,7	19,0
Other (excluding central government	28,1	26,6	29,7

Table 7. Bank credit per sector as percentage of value added by kind of economic activity at factor cost

Sector	1976	1986	1996
Primary sector	17,7	19,8	14,7
Agriculture	35,9	63,6	32,8
Mining	5,8	3,8	4,3
Secondary sector	19,7	24,3	21,3
Manufacturing	20,2	26,8	21,6
Electricity, gas and water	23,7	11,0	15,2
Construction	15,1	24,3	27,1
Tertiary sector (excluding general government)	20,2	29,2	68,0
Trade and accommodation	21,6	22,9	25,6
Other (excluding central government)	19,4	32,5	95,1

Bank credit to the agricultural sector as a percentage of total bank credit extended to the private sector increased from 6,0 per cent in 1976 to 7,0 per cent in 1986, before declining to only 2,2 per cent in 1996. In contrast, the agricultural sector's value added as a percentage of gross domestic product at factor cost showed a persistent decline from 8,3 per cent in 1976 to 6,4 per cent in 1986 and 5,5 per cent in 1996. As a result, bank credit utilised by this sector as a percentage of the value added by this sector increased from 35,9 per cent in 1976 to 63,6 per cent in 1986, before declining again to 32,8 per cent in 1996.

Mining in general is a capital-intensive industry. Given the high risks involved in mining exploration and the relatively long period before mining operations become profitable, such projects are mostly funded by equity capital and long-term debt. Only limited use is made of bank credit (see Table 5). Bank credit extension to the mining sector, as a percentage of total bank credit to the private sector, decreased from an already low 1,5 per cent in 1976 to 1,1 per cent in 1986 and only 0,5 per cent in 1996. The mining sector's value added to the gross domestic product increased from 12,8 per cent in 1976 to 17,6 per cent in 1986 before falling back to 9,6 per cent in 1996. Bank credit utilised by the mining sector as a percentage of the value added to gross domestic product declined from 5,8 per cent in 1976 to 3,8 per cent in 1986, but then increased again to 4,3 per cent in 1996. This latter rise probably reflected an increased need for working capital in the mining sector as this sector's value added declined in real terms in 1996.

Bank credit to the manufacturing sector as a percentage of total bank credit extended to the private sector increased from 10,9 per cent in 1976 to 12,3 per cent in 1986, but decreased again to 7,3 per cent in 1996. This sector's smaller demand for bank credit in 1996 probably reflected an improvement in profitability and the availability of alternative sources of finance. The manufacturing sector's value added as a percentage of gross domestic product at factor cost increased on balance from 26,8 per cent in 1976 to 28,1 per cent in 1996. Manufacturing remained the single most important economic activity in the economy. Bank credit to the manufacturing sector as a percentage of total bank credit to the private sector, however, remained relatively low compared with the contribution of this sector to the gross domestic product.

The value added by the sector electricity, gas and water as a percentage of gross domestic product increased from 3,1 per cent in 1976, to 4,9 per cent in 1986, but declined again to 4,6 per cent in 1996. Bank lending to this sector also remained relatively insignificant and declined from an already low 1,5 per cent of total bank credit to the private sector in 1976 to only 0,8 per cent in 1996. The activities of enterprises in this sector are such that long-term funding is preferred; their demand for bank credit is therefore relatively low.

Bank lending to businesses in the construction sector of the economy also amounted to a relatively small portion of total bank credit extended to the private sector, declining on balance from 1,7 per cent in 1976 to 1,1 per cent in 1996.

The nature of the activities of businesses in the sector "trade and accommodation" caused this sector to remain an important user of bank credit during the period 1976 to 1996. Bank credit extended to this sector as a percentage of the value added by this sector to gross domestic product increased from 21,6 per cent in 1976 to 25,6 per cent in 1996. This increase attests to the fact that the trade and accommodation sector increasingly relies on bank credit for its financing requirements. Bank credit extended to trade and accommodation organisations, however, increased by less than total bank credit to the private sector, with the result that the portion of total bank credit apportioned to this sector declined from 6,7 per cent in 1976 to 5,8 per cent in 1996.

The available data indicate a substantial increase in bank credit extension to the category "Other" in the tertiary sector from 11,0 per cent of total bank credit extended to the private sector in 1976 to 14,7 per cent in 1986, and to 34,1 per cent in 1996. The contribution of this subsector to the gross domestic product only increased from 28,1 per cent in 1976 to 29,8 per cent in 1996. Bank credit utilised by these subsectors as a percentage of their contribution to gross domestic product consequently increased sharply from 19,4 per cent in 1976 to 32,5 per cent in 1986 and to no less than 95,1 per cent in 1996. This high ratio casts some doubt on the accuracy of the sectoral classification of bank credit at the end of 1996.

Conclusion

Banks were an important source of finance in South Africa during the period 1976 to 1996. Bank credit to the private sector continuously increased at a rate faster than the growth in the gross domestic product at market prices during this period. The growth in bank credit to the private sector differed among the various sectors of economic activity. Increases in bank lending also showed a relatively close inverse relationship with changes in the interest rate level, thereby attesting to the important role played by banks as conduits of monetary policy measures.

Bank lending to companies as a ratio of total bank lending to the private sector tended to decline as companies improved their cash management schemes, utilised new financial instruments and accessed more efficient markets to satisfy their funding requirements. Bank lending to households continued to increase unabatedly and the non-corporate sector now constitutes by far the larger portion of the banks' client base. Bank credit to the household sector consists mainly of mortgage loans, whereas companies obtained bank credit mainly by means of overdrafts and other loans. Both the corporate and household sectors are net debtors of the banks.

Banks maintained a well-diversified lending portfolio during the period under review. Bank credit to entities operating in the various sectors of economic activity, with some exceptions such as mining, tended to broadly resemble the sectors' contributions to the gross domestic product at factor cost. A clear shift in bank lending from entities in the primary and secondary sectors to entities in the tertiary sector occurred during the period 1986 to 1996. This partly reflects the growing importance of the services sector in the South African economy.

Footnotes *

(1) In this note bank credit to the private sector includes bills discounted, instalment sale credit, leasing finance, credit card debtors, mortgage loans and other loans and advances extended by registered banks and mutual banks. The private sector refers to the non-bank private sector.

(2) Data on the sectoral classification of discounts and advances by the then commercial banks, merchant banks and "other" monetary banks as at the end of 1986, were published in the June 1988 *Quarterly Bulletin*. In order to obtain consistency in the data series, information published for the

period prior to 1986 was adjusted for changes in the definition of the banking sector. The data contained in this publication for the years 1976 and 1986 differ from those published previously because credit extended to the private sector by former "non-monetary" banks and former building societies had been added to the previously released data series.