

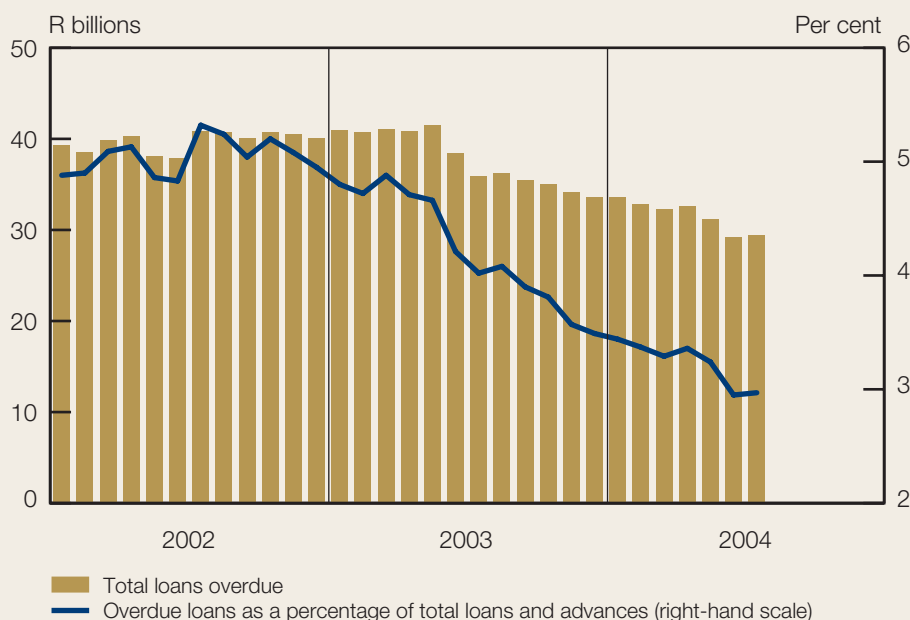
Developments in non-performing loans of the banking sector

The practice in South Africa is to consider a loan as overdue or non-performing when the borrower fails to repay specified instalments or contractual amounts for the period of three months or longer. Overdue loans are used as early warning indicators for assessing the credit risk run by banks, the stability of the banking sector and economic conditions in general.

The growth in banks' total loans and advances to the domestic private sector averaged 10 per cent per annum from the beginning of 2000 to July 2004. Within the broader category of loans and advances the twelve-month growth in asset-backed credit has been particularly brisk, accelerating to levels of more than 15 per cent since September 2003. The reduction in interest rates since mid-2003 contributed to easier bank lending conditions and stronger demand for such loans.

As shown in the accompanying graph the value of overdue loans remained relatively stable during 2002 and 2003 despite the interest rate increases effected in the first nine months of 2002. The fact that the initial debt levels of both the household and corporate sectors were well contained contributed to this outcome.

Total loan overdues



From around mid-2003, lower interest rates, rising incomes and positive wealth effects arising from increases in house prices contributed to a significant decline in the level of overdue loans. Current levels of the South African banking sectors' overdue loans compare favourably with those of the past and with those in other parts of the world.

M A Brits and N Gumata