

Discounts and advances of commercial banks, merchant banks and other monetary banking institutions, 1970–1986

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Introduction

Credit plays an almost indispensable role in any modern economy. It serves as a "lubricant" to help the economy run smoothly. One of the most important types of credit extended is bank lending, which is widely used by borrowers in many different sectors of the economy.

Although statistics regarding bank credit extended to the public and private sectors are published regularly in the *Quarterly Bulletin* of the South African Reserve Bank, a breakdown by industrial sector has been provided only infrequently. Such information has been collected, however, on a continuous basis up to December 1986 from the commercial banks, merchant banks and "other" monetary banking institutions.² The classification of these banks' debtor accounts in terms of industrial sectors is available only in respect of their discounts and advances. This article will, therefore, concentrate mainly on an analysis of this discounts and advances aggregate.

The total of the commercial banks', merchant banks' and "other" monetary banks' discounts and advances differs from these banks' total credit extension in that certain items on their Quarterly Statements of assets

and liabilities form part of total credit extended but are not regarded as part of discounts and advances.³ The discounts and advances of these banks on average amount to about 84 per cent of their total credit extension, and to about 90 per cent of the discounts and advances of all private banks.

This article firstly provides an overview of the behaviour of the banks' credit extension in the form of discounts and advances. Secondly, the different types of loans and advances are reviewed. Thirdly, broad types of borrowers are identified. Finally, the industrial classification of the different borrowers is analysed. Data on the sectoral breakdown of bank lending were last published in the December 1968 issue of the *Quarterly Bulletin*.

Behaviour of total discounts and advances, 1970–1986

Total discounts and advances by the banks increased from R2 677 million at the end of 1970 to R45 967 million at the end of 1986, i.e. at an average annual growth rate of 19,4 per cent. This rate of increase was substantially higher than the average annual rate of increase of 12,1 per cent in the consumer price index or the 16,3 per cent rate of growth in nominal gross domestic product between these two dates.

The commercial banks remained the major source by far of bank credit during this period. Their share in the total never fell below 70 per cent. This may be attributed mainly to their extended branch system, as well as to the wide range of services offered by them.

The annual changes in the banks' discounts and advances showed wide fluctuations over the years, varying from less than 4 per cent in 1971 to as much as

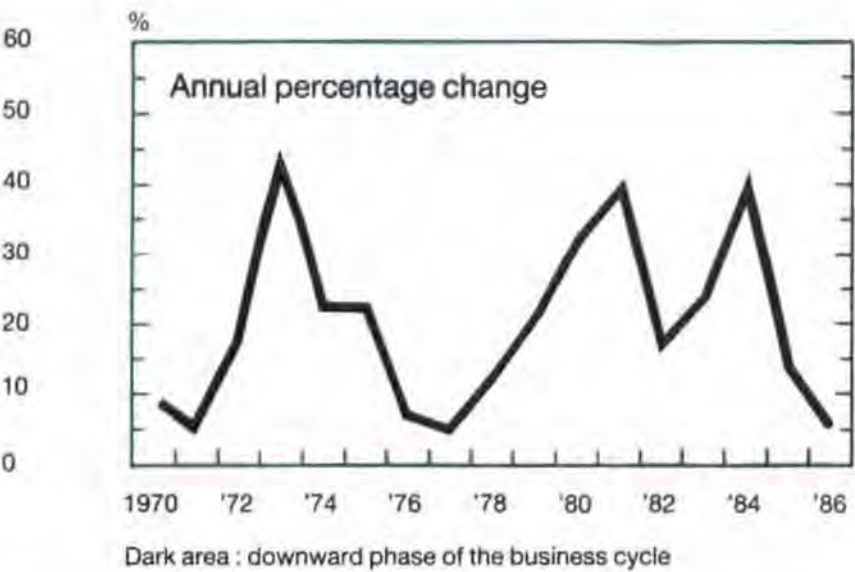
¹ The concept of "monetary" banking institutions was abandoned with the introduction of the new monetary aggregates in March 1986. Up to that date the so-called monetary banks made up the monetary banking sector. Monetary banking institutions included the South African Reserve Bank, the former National Finance Corporation, the Corporation for Public Deposits, discount houses, the short-term business of the Land Bank, commercial banks, merchant banks, and "other" banking institutions of which the monthly average amount of demand deposit liabilities during the preceding calendar year amounted to at least R5 000 000 (up to the end of 1970: R1 000 000 and from 1971 to the end of 1974: R3 000 000) and of which the monthly average amount of short- and medium-term deposit liabilities during the preceding calendar year collectively amounted to at least one-third of the total deposit liabilities of such an institution or at least R30 000 000. "Banks" as referred to in this paper include only the commercial banks, merchant banks and "other" monetary banking institutions.

² This survey was terminated as from 1987 to lessen the banks' statistical burden.

³ Discounts and advances consist of the following items shown on the banks' Quarterly Statement of assets and liabilities (BA Form 9, before its amendment as from December 1986), viz.: Bills discounted or purchased (item 10); Loans and advances to banking institutions (item 6); Bills of and advances to the Land Bank (item 7); Hire-purchase discounts and advances (item 11); Deeds of sale discounted (item 12); Loans and advances to Governments (item 13); Other loans and advances (item 14); and, Merchandise leases (item 15). Total bank credit extended also includes Deposits (item 4); Treasury bills (item 8); and, Investments (item 9). The latter three items are not included in this analysis because the classification of accounts in terms of industrial sectors is available only in respect of discounts and advances and not for total bank credit extended.

*Afskrifte van hierdie artikel in Afrikaans is verkrygbaar van die adres op bladsy 2 van hierdie *Kwartaalblad*.

Graph 1: Bank lending



almost 44 per cent in 1973. As indicated in Graph 1, the rate of increase in bank lending tended to move broadly in accordance with the business cycle. Growth in the banks' discounts and advances tended to accelerate at the start of cyclical upswings in economic activity and to slow down at the onset of downturns. The rate of increase in the banks' total discounts and advances declined, for example, from 40,8 per cent in 1984 to 14,3 per cent in 1985 and to 5,6 per cent in 1986 mainly as a result of the sharp decline in economic activity during 1985 and 1986, the concomitant deterioration in the economic outlook of borrowers, and already

Table 1: Discounts and advances by commercial banks, merchant banks and other monetary banking institutions as percentage of gross domestic product at market prices

Year	Discounts and advances	Gross domestic product at market prices (GDP)	Discounts and advances as percentage of GDP
	R millions	R millions	Percentage
1970	2 677	12 908	20,7
1972	3 243	16 104	20,1
1974	5 660	24 472	23,1
1976	7 311	30 800	23,7
1978	8 506	39 297	21,7
1980	13 508	62 007	21,8
1982	21 939	79 978	27,4
1984	38 083	105 584	36,1
1986	45 967	140 556	32,7
Average annual growth rate			
1970-1986	19,4%	16,1%	

high levels of borrowers' indebtedness. The relatively low rate of increase during 1986 in particular was also influenced by "disintermediation" phenomena, i.e. by the substitution of direct lending and borrowing between non-bank parties for deposit-holding with and borrowing from banks.

Several reasons from the supply as well as the demand side of the process of credit creation can be offered for the cyclical variations in the rate of growth of bank lending. Banks' liquidity, which tends to be relatively high at the start of an economic upswing, usually diminishes as the upswing gains momentum, thereby affecting not only the availability but also the cost of bank credit. On the demand side, factors such as the cost of credit, income expectations, and the existing debt burden of borrowers, also tend to favour an increase in the use of credit during the early stages of upswings and to inhibit the use of more credit during the later stages of upswings and the earlier stages of downswings.

Total discounts and advances by the banks as a percentage of gross domestic product at market prices fluctuated in a relatively narrow band from 1970 to 1980, rising only moderately during the period 1973 to 1975 when the credit ceilings were lifted temporarily (see Table 1). Credit ceilings were imposed formally from 30 September 1967 and were maintained up to the end of October 1972. Ceilings were in use again from 17 February 1976 up to their final withdrawal on 26 August 1980. They resulted in substantial disintermediation, which had a dampening effect on the growth in bank lending during this period.

Abolition of the credit ceilings, and the change-over to more market-related monetary policies during the early 1980s, brought about substantial reintermediation. This resulted in major increases in the measured amount of credit supplied by the banks between 1981 and 1985. This increase in discounts and advances occurred in all types of credit supplied by the banks. The ratio of discounts and advances to gross domestic product consequently rose from levels of between 20 to 24 per cent during the period 1970 to 1980 to about 36 per cent during 1984 and 1985, but then declined somewhat to about 33 per cent in 1986. The reappearance of disintermediation contributed to the decline in this ratio during 1986.

Types of loans and advances to the private sector

By far the larger part of the banks' discounts and advances consists of credit extended to the non-bank private sector, which amounted, on average, to about 90 per cent of the total during the period 1970 to 1986. Loans and advances to other banking institutions, including call money with discount houses, remained a fairly small proportion of the banks' total discounts and

advances throughout this period. As the major part of banks' claims against the government sector is in the form of Treasury bills and government stock (which are included in the banks' investments), discounts of and advances to the government sector formed only a very small proportion of the banks' total discounts and advances during the years concerned.

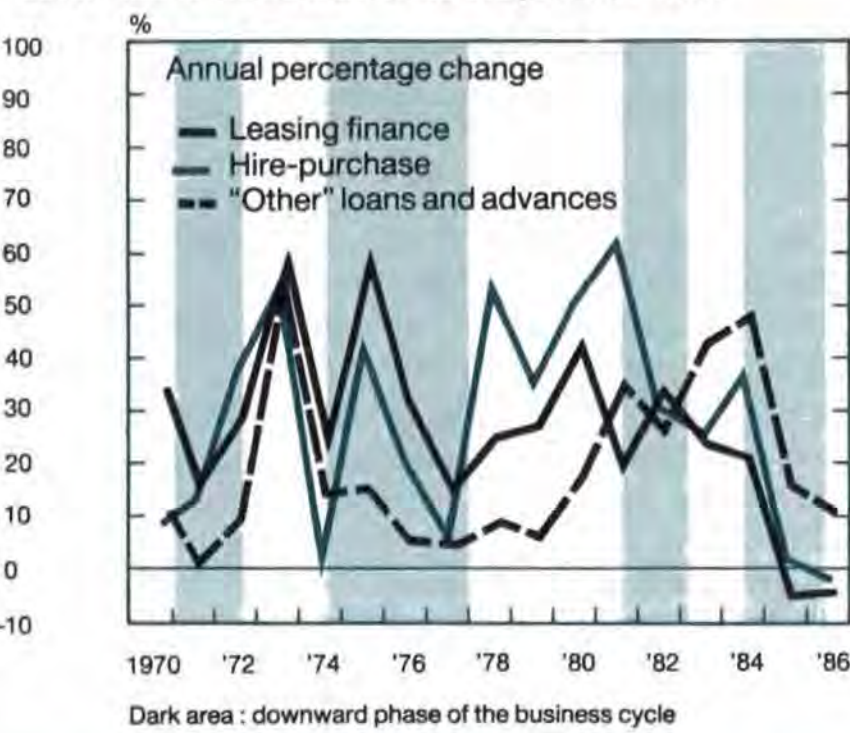
Credit extension by the banks in the form of bills discounted or purchased amounted to a fairly insubstantial part of total discounts and advances to the private sector throughout the period, varying from a high of 11,9 per cent of the total in 1974 to a low of only 2,1 per cent in 1984. The main proportion of bank credit to the private sector accordingly consisted of loans and advances.

The banks' loans and advances to the private sector consist of leasing finance, hire-purchase credit, and "other" loans and advances, mainly in the form of overdrafts. The total of such loans and advances increased from R2 152 million at the end of 1970 to R40 858 million at the end of 1986, or at an average annual rate of 20,2 per cent.

As in the case of the banks' total discounts and advances, the rates of change in the various types of loans and advances distinguished here also tended to fluctuate broadly procyclically, as can be seen from Graph 2. The composition of loans and advances to the private sector, however, tends to vary over time as different forces affect the rates of change in the various types of bank loans. Leasing finance, for example, tends to be influenced relatively strongly by fixed capital formation. Hire-purchase credit is associated more closely with household expenditure on consumer durables.

Leasing finance increased from R118 million in 1970 to R4 243 million in 1984 but then declined to R3 794

Graph 2: Leasing finance, hire-purchase credit and "other" loans and advances to the private sector



million in 1986. The annual growth rate in this kind of finance amounted to 24,2 per cent from 1970 to 1986 – substantially higher than the 20,2 per cent annual increase in total loans and advances to the private sector by the banks concerned over this period. Leasing finance as a percentage of the total of leasing finance, hire-purchase credit and "other" loans and advances to the private sector increased from 5,5 per cent in 1970 to 17,0 per cent in 1980 but then started to decline again to only 9,3 per cent of the total in 1986. The announcement by the Minister of Finance in his 1984

Table 2: Loans and advances to the private sector by type of loan

End of	Leasing finance		Hire-purchase finance		"Other" loans and advances		Total
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	
	R millions	%	R millions	%	R millions	%	R millions
1970	118	5,5	184	8,5	1 850	86,0	2 152
1972	174	6,9	283	11,3	2 051	81,8	2 508
1974	339	7,7	429	9,7	3 632	82,6	4 400
1976	709	12,2	736	12,6	4 380	75,2	5 825
1978	1 007	14,1	1 207	16,8	4 959	69,1	7 173
1980	1 672	17,0	2 154	21,8	6 035	61,2	9 861
1982	2 847	15,5	5 244	28,6	10 261	55,9	18 352
1984	4 243	12,1	8 951	25,5	21 863	62,4	35 057
1986	3 794	9,3	8 925	21,8	28 139	68,9	40 858
Average annual growth rate 1970 – 1986	24,2%		27,5%		18,5%		20,2%

Budget proposals that losses in terms of agreements of lease of capital equipment could no longer be offset against income other than that derived from the leasing of movables, contributed to the downturn of leasing finance.

Hire-purchase finance grew at an average annual rate of no less than 27,5 per cent between 1970 and 1986 – the highest growth rate of the three types of loans analysed here. The actual amount of hire-purchase finance outstanding increased from R184 million in 1970 to a peak of R9 098 million in 1985 before declining marginally to R8 925 million in 1986. Hire-purchase finance as a percentage of the banks' total loans and advances to the private sector rose from 8,5 per cent in 1970 to 12,7 per cent in 1977 and then advanced further to a peak of as much as 28,6 per cent in 1982 before declining again to 21,8 per cent at the end of 1986. The decline in this ratio during the more recent years mainly reflected the sluggish behaviour of private consumer spending on durable goods in the years immediately following the "mini-boom" of 1983-84.

"Other" loans and advances to the private sector, consisting mainly of overdrafts, remained the most important vehicle of bank lending during the period 1970 to 1986. The annual growth rate of this type of lending, however, was substantially lower than that of the other two types of bank loans, amounting to only 18,5 per cent over the period 1970 to 1986. Consequently "other" loans and advances as a percentage of the total of loans and advances to the private sector fluctuated downwards from 86,0 per cent in 1970 to as little as 55,9 per cent in 1982, before increasing again to 68,9 per cent at the end of 1986.

Banks usually lend against capital value or against income. Lending against collateral is the safest form of

lending and is fundamental to the whole operation of banking. Consequently, although banks lend primarily on their assessment of the credit-worthiness of their borrowing clients, they usually prefer to have some form of security as well. In the case of leasing finance and hire-purchase credit the asset concerned serves as security for the loan. In the case of "other" loans and advances there normally exists no underlying asset as such. Under such circumstances another form of security may be asked for by the bank. In the latter case factors such as the deposit-relationship with the borrower, the purpose for which the loan is needed, the type and marketability of the collateral if the loan is secured, the liquidity of the loan itself, other services to the customer, as well as interbank competition for profitable customers and the existence or prospect of a long-term customer relationship with the borrower, play an important role. As banks' capacity to lend depends on various key balance sheet relationships such as the ratio of loans to gross deposits, the customer relationship with the borrower often plays the major role in deciding on the most acceptable type of borrower.

Types of borrowers

The composition of the banks' loan portfolios is flexible and is adjusted on a continuous basis to suit changing conditions. It may also vary from bank to bank. It is determined mainly by demand factors rather than by banks' deliberate diversification of their portfolios with a view to risk reduction or similar considerations. A bank may, however, have some clear preferences regarding the composition of its portfolio.

The need for collateral means that it is much easier for a substantial borrower to raise money than for a

Table 3: Discounts and advances to corporate and non-corporate borrowers
R millions

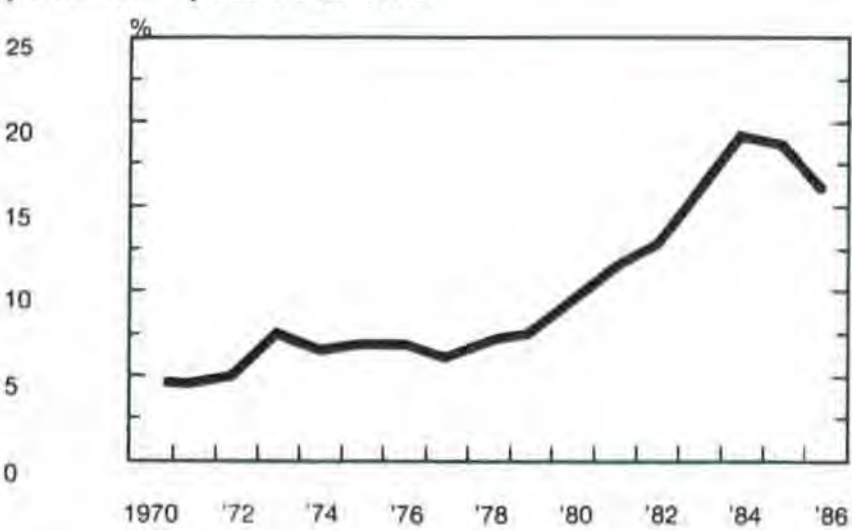
End of	Corporate borrowers			Non-corporate borrowers				Total
	Companies	Public corporations	Total	Non-corporate businesses	Individuals	Others	Total	
1970	1 604	138	1 742	424	448	59	935	2 677
1972	1 953	127	2 080	476	613	74	1 163	3 243
1974	3 748	184	3 932	641	1 007	80	1 728	5 660
1976	4 559	325	4 884	932	1 371	124	2 427	7 311
1978	4 720	569	5 289	1 224	1 761	232	3 217	8 506
1980	6 510	1 189	7 699	1 686	3 454	669	5 809	13 508
1982	10 455	1 695	12 150	3 238	5 973	578	9 789	21 939
1984	18 358	1 406	19 548	5 969	11 863	703	18 535	38 083
1986	22 483	1 747	24 230	7 388	12 869	1 480	21 737	45 967
Average annual growth rate 1970–1986	17,9%	17,2%	17,9%	19,6%	23,4%	21,9%	21,7%	19,4%

borrower of more limited means. In this respect, the commercial banks are in a particularly favourable position because their extensive branch system enables them to obtain accurate information about their borrowing clients that is drawn from first-hand observation.

Traditionally, the proper accommodation of corporate borrowers is regarded as essential for banks in order to maintain their lending base in the form of deposits. If corporate customers do not receive loans when needed, they may well take both their deposit and their loan business elsewhere. This possibility provides an incentive for banks to favour the borrowing needs of their larger deposit customers. The banks, however, have broadened their lending activities over time to meet competition from other institutions and to adapt to the changing economic environment. In recent times multiple banking by larger corporations also has become more common. Consequently consumer and personal loans, which are not primarily made for the deposit relationships involved but rather for the attractive return that can be earned on such loans even after allowance for risk, have increased sharply.

Bank lending to the *corporate* sector in the form of discounts and advances increased from R1 742 million at the end of 1970 to R24 230 million at the end of 1986, i.e. at an average annual rate of 17,9 per cent. Discounts and advances of the banks to *non-corporate* businesses increased from R424 million to R7 388 million over the same period, or at an average annual rate of 19,6 per cent. Borrowings by *individuals* grew at an average annual rate of no less than 23,4 per cent during this period, thereby raising the total amount outstanding from R448 million in 1970 to R12 869 million in 1986. Banks entering the market for home mortgage loans contributed to this sharp increase in loans to individuals during the 1980's.

Graph 3: Bank lending to individuals as percentage of personal disposable income



Lending to individuals as a percentage of total discounts and advances increased from 16,7 per cent in 1970 to a peak of 31,9 per cent in 1983 before declining somewhat again to 28,0 per cent at the end of 1986. Borrowings by the corporate sector as a percentage of total discounts and advances, on the other hand, initially increased from 65,1 per cent in 1970 to 69,5 per cent in 1974 but thereafter fluctuated downwards to 52,7 per cent at the end of 1986. Bank lending to non-corporate businesses as a percentage of the total fluctuated in a much narrower band, varying only between a low point of 11,3 per cent in 1974 and a peak of 16,2 per cent in 1983.

Total discounts and advances to individuals as a percentage of total personal disposable income increased from 5,2 per cent in 1970 to 7,8 per cent in 1979. However, the sharp increase in bank lending to individuals which commenced in 1980 then caused this ratio to spurt ahead to no less than 19,6 per cent in 1984 before it declined again to 16,4 per cent in 1986 (see Graph 3). The relatively high level, in 1984, of bank lending to individuals as a percentage of personal disposable income, together with a less optimistic outlook regarding future income growth, made individuals reluctant further to increase their debt commitments during the ensuing few years. Their attempts to restore more prudent debt-income ratios consequently led to

Table 4: Percentage distribution of discounts and advances to incorporated and other businesses in the different industrial sectors
Percentage

Sector	1970	1974	1978	1982	1986
Agriculture, forestry and fishing					
Incorporated	19,7	25,7	22,6	22,8	24,1
Other	80,3	74,3	77,4	77,2	75,9
Mining and quarrying					
Incorporated	97,9	99,1	98,6	98,7	97,3
Other	2,1	0,9	1,4	1,3	2,7
Manufacturing					
Incorporated	97,4	97,8	96,3	95,2	94,6
Other	2,6	2,2	3,7	4,8	5,4
Building and construction					
Incorporated	87,3	88,1	81,8	77,1	71,8
Other	12,7	11,9	18,2	22,9	28,2
Electricity, gas and water					
Incorporated	93,3	88,2	93,1	95,1	84,9
Other	6,7	11,8	6,9	4,9	15,1
Transport, storage and communication					
Incorporated	87,9	85,8	83,2	78,3	70,0
Other	12,1	14,2	16,8	21,7	30,0
Commerce					
Incorporated	86,9	88,3	85,0	81,4	77,1
Other	13,1	11,7	15,0	18,6	22,9

a decline in the demand for bank credit from individuals in 1985 and 1986. The severity of the recession and the wide swings in interest rates during this period also made borrowing in general less attractive.

From Table 4 it is clear that, with the exception of the sector agriculture, forestry and fishing where loans are largely made to the non-corporate sector, loans to all other industrial sectors distinguished here are made mainly to corporate businesses. Loans to non-corporate borrowers engaged in agriculture, forestry and fishing declined from 80,3 per cent of total bank lending to this sector in 1970 to 75,9 per cent of the total in 1986. In most of the other industrial sectors distinguished here, the share of loans to the non-corporate sector as a percentage of total loans to these various sectors tended to increase somewhat over the period 1970 to 1986. This development is in accordance with the decrease in the share of loans to the corporate sector in total bank lending, to which reference has been made above.

Categories of borrowers by industrial sector

In managing the composition of their loan portfolios banks are not only concerned with the legal form or organisation of their customers. They also regard a broad industrial diversification of their loan portfolio as essential and a geographical spread as desirable.

Table 5 shows that the composition of the banks' discounts and advances in terms of industrial sectors varied significantly and in divergent ways during the period 1970 to 1986. Although the banks' portfolio composition generally stems from the nature of the demand for credit rather than from planned diversification for the reduction of risk, the banks usually try to manage their sectoral exposures, as well as their sec-

toral exposures within specific geographical areas, in a prudent way. Loans to commercial and industrial enterprises are usually given a high priority because of their self-liquidating characteristics and because of the deposit relationships involved. Agricultural loans, on the other hand, usually are more dependent on the underlying value of the security than are most other types of lending. Bank lending to the mining sector remained relatively small because of the important role of the mining finance houses in the South African financial structure.

The importance of the underlying value securing loans in the agricultural sector is also apparent from the relatively high ratio between the banks' discounts and advances to this sector and the contribution made by this sector to gross domestic product: a major part of credit to agriculture is collateralised by mortgages over farm property or by claims on moveable property. The banks' discounts and advances to the agricultural sector as a percentage of their total discounts and advances remained at a level of about 10 per cent during most of the period 1970 to 1986, as can be seen from Table 5. Relative to the agricultural sector's contribution to gross domestic product, however, these discounts and advances showed wide fluctuations, varying from a low of 23,2 per cent in 1974 to a high of 72,2 per cent in 1984 (see Table 6). The fluctuations in this ratio clearly incorporated the effect of substantial year-to-year and other medium-term variations in value added by agriculture to gross domestic product, *inter alia* as a result of changing weather conditions. The ratios of the banks' discounts and advances to other major sectors of the economy compared with these sectors' contributions to the gross domestic product remained substantially lower (except for manufacturing in 1974) than that of the agricultural sector throughout the period concerned.

Table 5: Outstanding discounts and advances to different industrial sectors as percentage of the total outstanding
Percentage

End of	Agri- culture forestry and fishing	Mining and quarry- ing	Manu- factu- ring	Build- ing and con- struc- tion	Com- merce	Ser- vices	Other non- corpo- rate busi- nesses	Finan- cial busi- nesses	Other ¹	Total
1970	13,5	1,7	21,8	3,4	13,5	3,7	2,7	18,3	21,4	100,0
1972	10,6	2,2	19,8	2,4	12,6	4,2	3,3	23,6	21,3	100,0
1974	9,1	1,8	22,0	3,3	12,1	3,6	4,3	24,6	19,2	100,0
1976	10,4	2,6	18,8	2,9	11,6	4,0	4,6	24,7	20,4	100,0
1978	11,5	1,9	17,0	2,5	10,5	5,2	4,3	23,7	23,4	100,0
1980	9,7	2,7	14,9	2,2	9,3	6,5	4,3	21,4	29,0	100,0
1982	9,9	3,2	17,4	2,4	9,4	7,2	3,4	17,3	29,8	100,0
1984	10,0	2,3	17,0	2,7	8,1	8,5	2,9	15,5	33,0	100,0
1986	10,1	1,7	17,8	2,4	8,4	7,4	3,0	18,0	31,2	100,0

¹ Governments, individuals, non-profit institutions and non-residents.

Table 6: Discounts and advances to industrial sectors as percentage of these sectors' value added to gross domestic product

	Agriculture forestry and fishing	Mining and quarrying	Manufacturing	Building and construction	Commerce
1970	37,0	3,8	20,9	17,9	19,8
1972	26,1	4,7	19,6	10,4	19,0
1974	23,2	3,4	25,4	15,1	21,0
1976	33,9	5,5	20,1	14,7	21,0
1978	35,9	3,0	18,3	14,7	19,4
1980	32,6	2,9	16,0	14,0	18,4
1982	47,6	6,8	22,5	17,8	21,9
1984	72,2	6,6	28,5	28,0	26,9
1986	63,7	3,6	29,3	26,2	26,9

The sharp increase in bank credit during the 1980s, together with relatively slow growth in economic activity during this period, resulted in a substantial increase in the banks' discounts and advances to most major sectors relative to these sectors' various contributions to gross domestic product, especially during the period 1982 to 1986. In the case of manufacturing, for example, the ratio of discounts and advances to value added increased from an average of 20,1 per cent during the period 1970 to 1981 to 27,1 per cent during the period 1982 to 1986. In the case of building and construction and of commerce, these ratios increased from averages of 16,1 and 20,0 per cent, respectively, during the period 1970 to 1981 to averages of 25,0 and 25,1 per cent, respectively, during the period 1982 to 1986. The ratio in respect of mining and quarrying remained at a relatively low and stable level, averaging only 3,6 per cent during the period 1970 to 1986, because, in nominal terms, this sector largely escaped the slow-down in economic activity during the period 1982 to 1986.

Bank lending in the form of discounts and advances to some of the main industrial sectors will be discussed briefly below. A detailed analysis of such discounts and advances of the commercial banks, merchant banks and other monetary banking institutions to the various industrial sectors is shown in Table 7.

Agriculture, forestry and fishing

Discounts and advances of the banks to enterprises engaged in agriculture, forestry and fishing remained at a level of about 10 per cent of the banks' loan portfolio during most of the period 1970 – 1986. This sector's contribution to gross domestic product, however, declined from a level of about 8 per cent in the early 1970s to a level of about 5 per cent in the middle of the 1980s. This development indicated an increase in the relative indebtedness of agriculture, forestry and fishing enterprises to the banks during this period. This

sector's borrowings from the banks increased from R360 million in 1970 to R4 657 million in 1986, i.e. at an average annual rate of 17,4 per cent, compared with an average annual rate of increase of 13,3 per cent in the nominal value of this sector's output.

Bank lending to this sector did not show a clear pro-cyclical pattern during the period under review, as can be seen in Graph 4. This was due to the fact that variations in agricultural production are not necessarily in step with movements in the rest of the economy because of the dependence of agriculture on weather conditions and other non-economic factors that affect the size of crops. Furthermore, a large agricultural crop may initially result in an increase in bank credit to this sector because of the time lag between planting and harvesting. A crop failure, on the other hand, may lead to further increases in bank credit to tide farmers over to the next crop. Financial assistance by the government to the farming community also affects this sector's need for bank credit to varying degrees.

Graph 4: Output by and bank lending to the sector agriculture, forestry and fishing

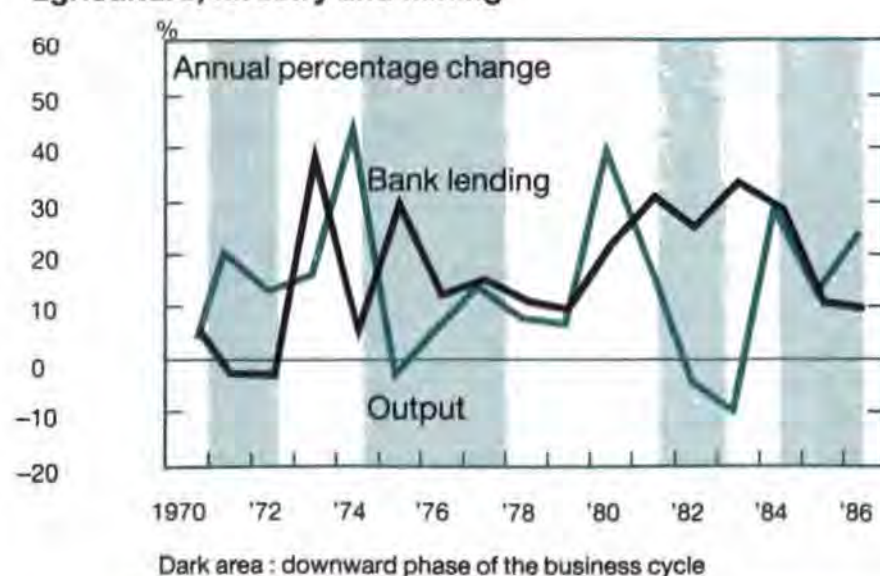


Table 7 Analysis of discounts and advances of commercial banks, merchant banks and "other" monetary banking institutions
R millions

End of	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Financial businesses																	
Banking and kindred institutions	211	229	398	291	604	780	834	747	563	910	821	1 008	649	685	1 285	1 506	2 561
Land Bank	71	61	102	103	100	146	138	293	390	488	952	2 182	1 259	814	1 224	1 725	1 513
Financial, investment and other trust companies	88	111	118	250	301	308	332	359	314	339	431	520	684	745	1 045	1 129	1 151
Hire-purchase finance companies	21	8	38	43	72	69	74	67	49	39	93	120	132	108	110	149	168
Real estate	68	83	90	185	229	358	352	419	581	428	462	575	785	844	1 807	1 764	1 963
Other financial businesses	31	46	18	64	92	100	74	106	118	147	135	182	290	392	423	796	903
Total financial businesses	490	538	764	936	1 398	1 761	1 804	1 991	2 015	2 351	2 894	4 587	3 799	3 588	5 894	7 069	8 259
Non-financial businesses																	
Public corporations	65	42	24	57	89	110	184	114	164	114	295	327	518	532	480	573	617
Agriculture, forestry and fishing	360	353	345	486	513	672	758	876	976	1 073	1 314	1 731	2 180	2 929	3 802	4 232	4 657
Mining and quarrying	46	53	71	77	104	128	190	176	163	415	365	574	710	618	866	570	756
Manufacturing	583	609	642	935	1 243	1 389	1 377	1 353	1 442	1 572	2 013	2 875	3 807	4 613	6 473	7 583	8 181
Food, drink and tobacco	94	103	105	159	227	243	236	216	229	242	286	296	564	731	854	1 310	1 274
Textiles, clothing and footwear	74	79	88	136	154	147	135	130	131	157	205	248	279	285	416	528	611
Wood and furniture	31	34	42	60	73	75	89	89	79	85	105	143	181	192	275	258	315
Paper, printing and publishing	32	32	31	43	66	93	103	100	82	75	122	273	356	583	765	808	1 173
Leather and rubber	14	18	19	26	20	23	21	21	23	32	42	53	68	78	111	191	167
Chemicals and chemical products	37	36	46	78	131	125	143	139	132	138	159	402	566	758	824	916	1 184
Non-metallic mineral products	37	45	53	65	77	114	148	153	168	199	198	264	331	407	1 089	847	943
Metals and engineering	226	221	211	294	408	468	408	411	467	452	632	907	1 132	1 080	1 531	1 897	1 793
Other	38	41	47	74	87	101	94	94	131	192	264	289	330	499	608	828	721
Building and construction	91	86	79	155	186	220	210	210	216	253	292	378	517	799	1 029	1 144	1 111
Commerce	361	368	408	604	683	751	846	814	892	1 056	1 253	1 610	2 056	2 323	3 092	3 542	3 850
Agricultural produce merchants and dealers ¹	50	44	56	82	83	67	92	90	105	155	145	161	174	204	233	305	447
Motor trade	73	81	93	143	160	194	192	186	214	217	248	331	482	558	782	844	851
Other wholesalers	88	96	90	138	172	185	210	159	183	225	290	400	477	476	638	738	898
Other retailers ²	150	147	169	241	268	305	352	379	390	459	570	718	923	1 085	1 439	1 655	1 654
Services (including professions) ..	98	102	137	179	201	272	295	326	445	547	873	1 183	1 586	2 146	3 248	3 543	3 422
Other non-financial businesses ..	72	73	84	117	156	147	152	184	200	221	288	327	218	398	633	735	765
Total non-financial businesses...	1 676	1 686	1 790	2 610	3 175	3 689	4 012	4 053	4 498	5 251	6 693	9 005	11 592	14 358	19 623	21 922	23 359
Other accounts																	
Governments	4	1	7	18	14	29	37	51	115	198	214	242	214	93	102	292	581
Individuals and non-profit institutions	460	510	628	1 020	1 025	1 305	1 389	1 443	1 779	2 274	3 482	4 698	6 019	8 682	11 986	13 289	13 119
Accounts of non-residents	47	46	54	69	48	93	69	86	99	159	225	289	315	322	478	961	649
Total other accounts	511	557	689	1 107	1 087	1 427	1 495	1 580	1 993	2 631	3 921	5 229	6 548	9 097	12 566	14 542	14 349
Total all accounts	2 677	2 781	3 243	4 653	5 660	6 877	7 311	7 624	8 506	10 233	13 508	18 821	21 939	27 043	38 083	43 533	45 967

¹ Including agricultural co-operative societies and companies.

² Including consumers' co-operatives.

Mining sector

The contribution of the sector mining and quarrying to gross domestic product at factor cost amounted on average to about 14 per cent during the period 1970 to 1986. The share of this sector in the banks' total discounts and advances, however, was considerably smaller than its relative contribution to gross domestic product. On average bank lending to this sector amounted to only slightly more than 2 per cent of the banks' total discounts and advances outstanding during this period. The main reason for this is the fact that most mining activities in South Africa are undertaken by financially strong mining houses. The mining sector's need for bank credit is correspondingly limited. Furthermore, most mining operations require prolonged preparatory development and capital investment and therefore are usually financed out of long-term funds rather than by means of bank credit. Banks, on the other hand, prefer their loans to be more liquid (short-term), and because the mining sector has traditionally also been regarded as somewhat risky, banks do not consider lending to this sector to be particularly attractive. Bank lending to mining enterprises nevertheless increased from R46 million in 1970 to R756 million in 1986.

Manufacturing sector

The manufacturing sector's annual contribution to gross domestic product at factor cost remained well above 20 per cent during the period 1970 to 1986, fluctuating between a low of 21,2 per cent in 1974 and a peak of 23,8 per cent in 1981. Given the importance of this sector in the economy, it is not surprising that a large part of the banks' loan portfolios consisted of loans to manufacturing enterprises. Loans to manufacturing concerns as a percentage of total discounts

and advances reached a peak of 22,0 per cent in 1974 and a trough of 14,9 per cent in 1980. At the end of 1986 this percentage amounted to 17,8 per cent.

The rates of increase in bank lending to the various sub-sectors of manufacturing showed divergent behaviour over the period 1970 to 1986. The average annual rate of increase in loans to the sub-sectors paper, printing and publishing and chemicals and chemical products amounted to as much as 24 per cent during this period. The rate of increase in lending to the sub-sector textiles, clothing and footwear, on the other hand, came to only about 14 per cent.

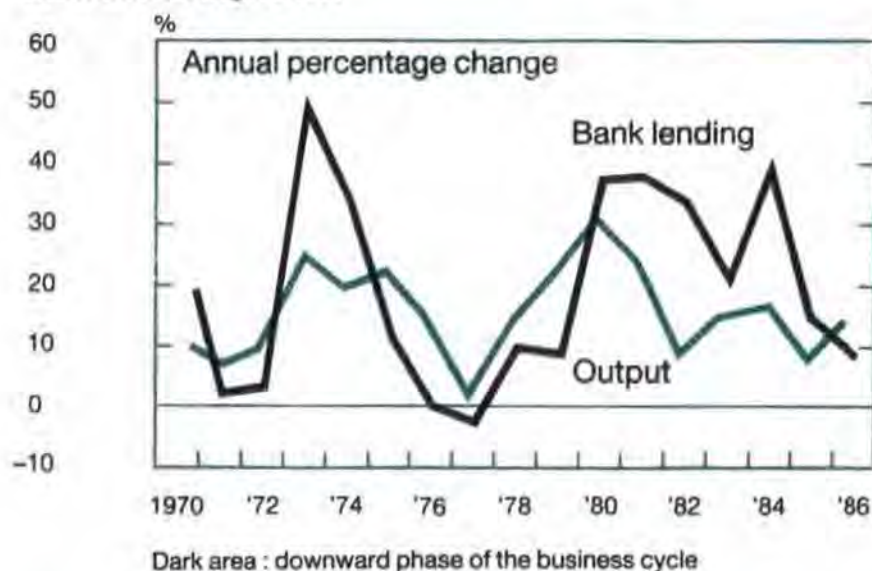
The annual percentage change in bank lending to the manufacturing sector showed a clear procyclical tendency over the period 1970 to 1986 (See Graph 5). This pattern is in accordance with the generally procyclical behaviour of activity in this sector in the course of the business cycle.

Commercial sector

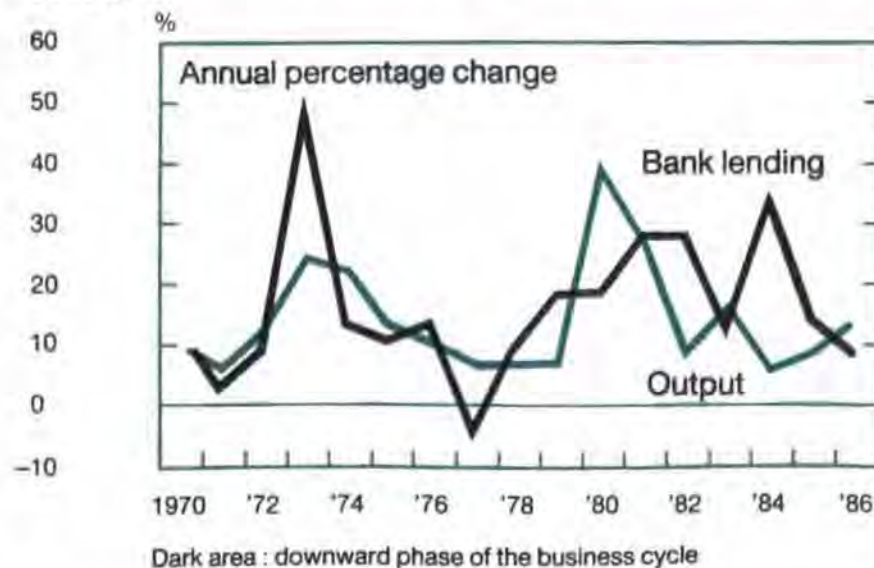
The average annual rate of increase in bank lending to the commercial sector amounted to 16,0 per cent over the period 1970 to 1986, compared with the average annual increase of 19,4 per cent in total bank lending. Discounts and advances to the commercial sector as a percentage of the banks' aggregate loan portfolio consequently declined from 13,5 per cent in 1970 to 8,4 per cent in 1986. This development was broadly in accordance with the decline in the relative contribution of wholesale and retail trade, catering and accommodation to gross domestic product at factor cost, which decreased from 15,1 per cent in 1970 to 11,1 per cent in 1986.

As can be seen from Graph 6, economic activity in the commercial sector as well as bank lending to this sector also fluctuated in a more or less procyclical manner during the years concerned.

Graph 5: Output by and bank lending to the manufacturing sector



Graph 6: Output by and bank lending to the commercial sector



Conclusion

Lending in the form of discounts, loans and advances by the commercial banks, merchant banks and "other" monetary banking institutions plays an important role in the South African economy. During the years from 1970 to 1986, such lending increased at a somewhat faster rate than gross domestic product at market prices, indicating increased recourse to such credit. As a result, the ratio of the volume of bank lending to gross domestic product rose substantially during this period.

Since the need for bank credit tends to rise broadly in line with economic activity at current prices, changes in total bank lending showed broadly procyclical behaviour during the period under review. Year-to-year rates of change in the total volume of bank lending showed wide fluctuations, varying from less than 4 per cent in one year (1971) to well above 40 per cent in others (1973 and 1984).

"Other" loans and advances by the banks concerned, consisting mainly of overdrafts, remained the mainstay of bank lending throughout the review period. Bank lending in the form of leasing finance and hire-purchase credit, however, increased at faster rates than "other" loans and advances. The growing importance of consumer credit from approximately 1978 not only contributed to the rapid rise in hire-purchase and leasing finance but also served to increase the share of borrowings by individuals in the banks' total loan portfolios.

Because of the importance of the deposit relationship between a bank and its borrowing clients, the larger part of a bank's loan portfolio traditionally consists of loans to the corporate sector. However the growing importance of other financial institutions (such as building societies) and the resultant increase in the competition for funds, as well as the introduction of innovations such as budget accounts on credit cards in the banking field, resulted in a sharp increase in bank lending to individuals during the years under consideration. The composition of the loan portfolios of the banks in respect of loans to corporate and non-corporate borrowers consequently showed a substantial shift from the former to the latter category between 1970 and 1986.

The shift between corporate and non-corporate borrowers was also reflected in declines in the shares of most of the major industrial categories in the total loan portfolios of the banks as loans to individuals increased between 1970 and 1986.

The banks, however, succeeded in maintaining a broad industrial diversification of borrowers throughout this period. The importance of the manufacturing sector in the South African economy was also reflected in the size of bank lending to that sector, which constituted a fairly substantial proportion of the banks'

aggregate loan portfolios. In contrast, bank lending to the mining sector, which similarly constitutes an important part of the economy, continued to account for only a fairly small proportion of the banks' loan portfolios, because of this sector's relatively low need for financing from external sources and also because of the kind of financing that is needed by this sector. Discounts, loans and advances to the agricultural sector made up a fairly stable proportion of banks' total discounts, loans and advances throughout the period 1970 to 1986, despite a substantial decline in this sector's relative contribution to gross domestic product. Like total bank lending, bank credit to most of the major industrial sectors, with the notable exception of agriculture, displayed broadly procyclical behaviour during the review period, showing the need for such credit to rise and decline in accordance with cyclical variations in economic activity.