

Credit restraint in 1967/68

Notice issued by the Bank of England on 11th April 1967

The Chancellor of the Exchequer, in his Budget statement, said that it was still necessary to keep the growth of credit within modest bounds. He went on to say that the present ceiling on lending to the private sector would be discontinued forthwith for the clearing and Scottish banks, and discontinued for other banks and the finance houses as and when suitable new arrangements had been worked out. This notice sets out the present intentions about bank advances, and other similar forms of credit; and restates the guidance that the banks and some other groups of financial institutions have received regarding the direction of lending.

Although continued restraint will be needed on the total of sterling credit granted to the private sector, lending to customers in the priority categories will not be restricted. The priority categories, as hitherto, are the finance of exports, and lending in support of productive investment in manufacturing industry or agriculture. The banks are asked to continue meeting all requirements of credit-worthy customers in these categories that satisfy normal banking criteria.

At the other end of the scale of priorities, there should be no appreciable increase (other than seasonal) in lending for the finance of personal consumption, or for property development apart from housebuilding; and credit that is facilitating payment for imports of manufactured goods for home consumption or for stock-building should continue to be restricted to the greatest extent possible.

Lending to other non-priority categories in the United Kingdom must continue to be distinctly restrained. But full regard should be paid to the Government's policy on regional development; and a generally favourable view should be taken of temporary bridging finance for house purchase, and of credit for housebuilding.

Lending in sterling to overseas borrowers outside the sterling area is already subject to regulation by exchange control. Lending in sterling to overseas borrowers within the sterling area is not now subject to any specific restraint, except to the limited extent that it may be affected by the voluntary programme of restraint or the Control of Borrowing Order. But, while everything possible should be done to foster exports from this country, the rate of growth in overseas lending in total should be kept within reasonable bounds.

Credit given by way of discounting commercial bills or by way of leasing of industrial plant should be treated as subject to the same priorities and restrictions as credit given in the form of loans and overdrafts.

Given this guidance, and the likely developments in the economy over the coming year, credit is not expected to increase more than very moderately. Should it become necessary, to ensure an appropriate degree of restraint in the growth of such credit, the Bank will call additional Special Deposits from the clearing and Scottish banks, and will stand ready to adjust the calls more frequently than in the past to keep credit conditions continuously in line with the changing needs of the economy. The Bank will shortly be discussing with other banks means of ensuring an appropriate degree of restraint in their lending; and further consideration is being given to the best methods of regulating the level of credit available from the

finance houses. Until this has been done and any new arrangements for these banks and finance houses are in force, their credit will continue to be subject to a ceiling, which for the time being will remain at 105% of the level in March 1965, with allowance for seasonal factors.