

Credit restriction: new measures, November 1967

Notice issued by the Bank of England on 19th November 1967

On Saturday evening, November 18th, the Government announced new measures of economic policy, including credit policy. This notice describes the task the banks are now being asked to undertake.

Severe but very selective restrictions will need to be placed on bank lending in sterling to the private sector and to borrowers abroad. It is essential that credit for the finance and promotion of exports should be free of all restriction. The authorities warmly welcome the decision of the clearing and Scottish banks to renew their facilities for medium-term export finance for a further period at the fixed rate of 5½%.

Lending for most purposes must be held down in aggregate to the current level. This ceiling will apply to all lending outside the public sector except the medium-term fixed rate finance for exports and shipbuilding, the short-term export finance at Bank rate, and any other lending specifically identified with the finance of export transactions. After excluding these categories, the total of lending at the latest date for which figures are available will become the ceiling, apart from normal seasonal movements, until further notice. Within the ceiling, and subject to normal banking criteria, priority should be given to finance for production and investment necessary to sustain or increase exports, for the promotion of invisible earnings, or, as in the case of agriculture, for securing a saving in imports. The authorities will welcome new banking initiatives designed to increase the range of facilities open to customers in these priority categories.

The recent upward trend in lending to persons should be halted without delay. Personal loans, where related to the purchase of goods subject to hire purchase terms control, should be on terms no easier than those permitted by the Board of Trade for hire purchase contracts; bridging finance for house purchase may, however, continue to be made available. Lending for other non-priority purposes in the United Kingdom must be severely restricted, in particular credit that is associated with imports of manufactured goods for home consumption or for stock accumulation; regard should, however, continue to be paid to the Government's policies on regional development.

Lending in sterling to overseas borrowers, unless it is directly associated with United Kingdom exports in such a way as to qualify for exemption from the general ceiling, must be accommodated within the ceiling.

Credit made available through commercial bills or through leasing facilities should be treated as subject to the same guidance and the same ceiling as credit given through loans and overdrafts.

The authorities recognise the difficulties that the banks may encounter in seeking to give effect to the guidance now given. The Bank of England will therefore be inviting all the main banking groups to regular and frequent discussions with the Bank, so that progress may be better examined and difficulties more easily surmounted.