

Credit restriction: May 1968

*Notice issued by the Bank of England on
23rd May 1968*

In November 1967 banks were asked to hold down most of their lending in sterling to the private sector and to borrowers abroad to the level then current. At that time it was not possible to foresee with any reliability the rate of growth in lending directly related to exports which would be needed over the immediately ensuing months; and such lending was therefore not brought within the quantitative limit then requested. Because the prospective growth of exports is now clearer, it has become possible to make an adequately reliable estimate, for the months ahead, of the growth in bank lending directly related to exports. Accordingly, the authorities have concluded that the administration of credit restrictions can both be simplified and made more effective by accommodating all lending directly related to exports, and to the financing of shipbuilding (under the special scheme relating thereto), within a new overall ceiling on bank lending to the private sector and overseas.

The authorities have also decided that the restrictions requested last November should be modified so as to achieve a greater reduction in lending to non-priority borrowers than has so far taken place and at the same time to leave sufficient room for lending for exports and for activities directly related to improving the balance of payments.

The clearing bank figures for May published this morning show, after seasonal adjustment, that the total of their lending in sterling to the private sector and to borrowers abroad, including export finance and other hitherto exempted categories, now stands at about 104% of the level reached in November 1967. These banks are asked not to allow this lending to exceed this percentage figure until further notice. All other banks should restrict their lending to the same percentage increase over November 1967.

Within this new ceiling and subject to normal banking criteria, banks are asked to give priority to lending for export transactions, to finance for production and investment necessary to sustain increased exports, for the promotion of invisible earnings or, as in the case of agriculture, for securing a saving in imports. The banks will need to make room for such lending within the new ceiling by curtailing lending to persons and for other non-priority purposes. They are asked especially to intensify restrictions on the granting of credit associated with imports of manufactured goods for home consumption or imports for stock accumulation.

Banks are asked to apply the restrictions set out above both to credit given through loans and overdrafts and also to credit given through commercial bills and leasing facilities.

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.

The authorities have noted that lending to local authorities by the London clearing and Scottish banks, through advances, has risen appreciably since last November, largely because of switching from other forms of short-term finance. The banks are asked to ensure that such lending returns to normal levels.