Credit restriction

Issued by the Bank of England on 22nd November 1968

Notice

The Government has today announced increases in taxation and further credit restrictions, accompanied by the introduction of an Import Deposit Scheme.

In reviewing the changes in credit policy now appropriate, the authorities have carefully considered representations from the clearing and Scottish banks about the inclusion within the overall ceiling, since the 23rd May, of fixed-rate lending under the special schemes for export and shipbuilding finance. It is recognised that this inclusion can lead to inequities between individual banks and it has been concluded that it can be abandoned without damage to the effectiveness of credit policy generally. Accordingly, such lending will henceforth be excluded from the calculation of credit ceilings.

Allowing for the exclusion of fixed-rate lending, the London clearing banks' lending in sterling to the domestic private sector and to overseas borrowers in mid-October was broadly at the same level as in mid-November 1967, after allowing for seasonal adjustment. The clearing banks are now asked to reduce this lending to 98% of its mid-November 1967 level by mid-March 1969. The Scottish banks are asked to restrict their lending, so that it does not exceed in mid-March 1969, after seasonal adjustment, 98% of its level in mid-November 1967. Other banks, who are largely unaffected by the removal of fixed-rate lending from the ceiling, are asked to ensure that their restricted lending, after seasonal adjustment, does not exceed at the end of March 1969 102% of its level immediately before devaluation on 18th November 1967.

The deposit scheme requires importers to deposit with H.M. Customs 50% of the value of all imports covered. The deposits are to be made at the time of arrival of the goods affected and will be repaid 180 days later. The imports covered by the scheme for deposits are currently running at a rate of about £2,800 million per annum. (Further details of the scheme are given after this notice.) Deposits may build up to a maximum of about £600 million at the end of six months, depending on the extent of the resultant decline in imports. It is intended that the additional funds required to finance import deposits should not be primarily derived from credit provided by the banking system.

Banks are asked to make every effort to conform to the new ceiling despite the new demands for advances which will be made on them arising from import deposits. Though some limited degree of flexibility can be allowed to the banks in the first few weeks to permit adjustment to the new ceiling, it will be necessary for them to be very restrictive about lending to finance import deposits except where it can be shown that the imports in question make an essential contribution to exports or other activities which have been recognised as having the highest priority for bank lending purposes. In particular, the banks are asked to avoid as far as possible lending to finance imports which are to be added to stocks.

This further restriction of credit has been discussed with the clearing and Scottish banks who have been asked to secure a substantial reduction in their lending for the finance of personal consumption, whether extended directly to individuals or indirectly through retailers, dealers and others. While existing commitments will be respected, many customers of the banks whose borrowing is not of the highest priority for credit control purposes can therefore expect to be asked to effect as soon as possible a substantial repayment of borrowing outstanding.

Other banks are asked also to ensure that the curtailment of their low-priority lending now required falls particularly on lending for the finance of personal consumption.

The members of the Finance Houses Association and large non-member finance houses are being asked to observe comparable restraints on their lending.

The provisions of the Bank's notices of 23rd May 1968 and 19th November 1967 relating to leasing and the terms of personal loans remain in force.

Mechanics of Import Deposit Scheme

The scheme will apply to imports of goods which are currently running at about £2,800 million a year, or two fifths of total imports. In practice the categories of goods covered will be the same as those to which the temporary import charge applied, with minor exceptions.

From the time when the scheme comes into operation, importers of these goods will be required to make a deposit with H.M. Customs of 50% of their value before Customs will release them. (Technically, the deposits will be duties of Customs.) The importer will have to present to Customs a Customs entry form along with a cheque in favour of Customs for the amount of the deposit. As in the case of normal Customs duties, Customs will first satisfy themselves that the cheque will be honoured, usually by reference to a banker's guarantee or, failing that, by clearing the cheque. They will then give the importer a receipt for the amount of the deposit and stamp his Customs entry "paid". The importer can then use the stamped entry to obtain the release of his goods.

Customs will retain the deposits for six months. They will then repay them automatically to the original payer of the deposit (who may or may not be the importer himself), so that he will receive his money back 180 days after the original payment. The deposits will not bear interest.

The funds deposited will be transferred from the banking sector through the Customs to the Bank of England, increasing government receipts and reducing the Government's borrowing requirement. On repayment these effects will be reversed. It is estimated that the deposits with Customs will build up to a maximum of about £600 million.