**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER 1316**

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**Dr D T George (DA) to ask the Minister of Finance:**

(1) Whether any progress has been made in easing customer access to credit by the banks; if not, why not; if so, what progress;

(2) Whether an analysis of the risk associated with such easing has been conducted; if not, why not; if so, what are the relevant details?

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**REPLY:**

(1) No. The government has not directed banks to provide credit, or to ease the conditions for such credit, as we cannot and should not interfere in the way banks (or other private businesses) are run. Such an approach would not only result in greater moral hazard risks and potentially create our own sub-prime problems, but could also be viewed negatively by investors. To the extent that government stands ready to assist, we are focusing on the role that development finance institutions could play in assisting banks to access the resources of the public sector in lending to distressed sectors – I have responded to this matter in a related question posed previously by the Honourable Member.

(2) Yes. Government does conduct its own analysis on the risks faced by banks, and does engage with industry through forums such as NEDLAC. The National Treasury also monitors credit trends, as do the SA Reserve Bank and the National Credit Regulator, (the reports of the SARB and NCR are available on their websites).

During May and June 2009, National Treasury conducted a series of meetings with each of the four major banks, with the purpose of discussing the impact of the global financial crisis and the economic slowdown on their operations; understanding their lending behaviour; and identifying key risks faced by banks. Though this is an internal analysis, I am quite willing to indicate our conclusions.

The conclusions from the National Treasury's analytical exercise were that the continued slowdown in the economy has put pressure on the banks in terms of increased non-performing loans and bad debt provisioning. In addition, rising liquidations and a fall in corporate profitability coupled with deteriorating conditions in the property market have put further pressure on profitability in the sector. Due to the global credit squeeze, international funding was also more difficult to obtain. Banks responded to these adverse conditions by reducing credit extension. However, since this analysis was done, the banks have started to ease their lending criteria, especially for mortgage finance. This should assist in propelling credit extension to households and companies in the medium term.