

BANK LENDING IN SOUTH AFRICA

“The U.S. banks, or some of them, are a little wary to be seen in public. But there is a good deal of business with them which doesn't hit the headlines, and they remain important to us, particularly in the private sector. If you look at the rest (of the world), we have been broadening the range of banks in the last few years.”

Owen Horwood, Minister of Finance of South Africa,
Euromoney, June 1984, p.S19

Lending in South Africa by U.S. banks increased 4.3 fold between the end of 1980, when bank lending was at a temporary low, and the middle of 1984. This increase by U.S. banks is greater than that of the banks of the rest of the industrialized world. This increase is shown graphically in the pie charts in figure 1 which show that between the end of 1980 and the end of 1983, U.S. banks had increased their South African market share from 15% to 27%, a startling increase. Thus there has been a “good deal of business which doesn't hit the headlines.”

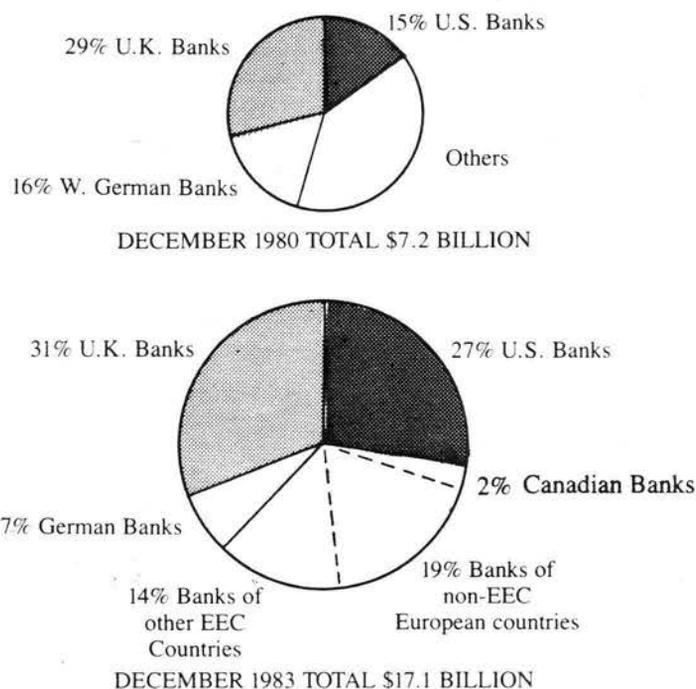
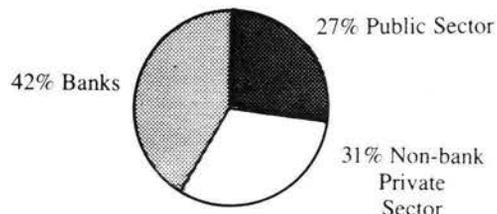
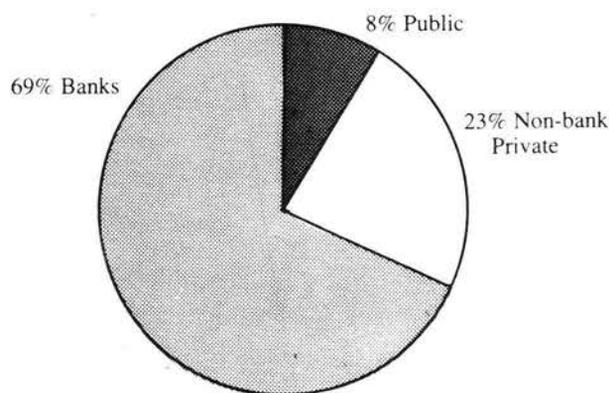


Figure 1. South African debt to the banks of the industrialized nations. The areas of the pie charts within the figures are proportional to the debt. Thus superimposing the two charts or segments of the two upon one another will show the relative increase of debt to those banks. Sources are given at the end of the article.

Probably because of investor pressure for banks to avoid lending to the South African government, the new lending by U.S. banks since 1980 has been primarily to private banks in South Africa. This results in a *seven fold increase* in interbank lending between the end of 1980 and the middle of 1984. Figures 2 and 3 show that by June of 1984 69% of all U.S. bank lending was to South African Banks, with over 85% of the South African debt to U.S. banks falling due in less than one year. This high percentage of short-term debt raises the question



December 1980: Total U.S. Bank Exposure \$1.06 billion



June 1984: Total U.S. Bank Exposure \$4.55 billion

Figure 2. Exposure of U.S. bank in South Africa by sector of the South African economy. The areas of the two pie charts within the figure are proportional to the amount of the exposure. Sources are given at the end of the article.

of whether short-term debt is being used to finance long-term capital outlays. If so, the South African Banks are in a very precarious position.

Fortunately for South Africa, the British banks have a more normal lending pattern which is shown in figure 4. Only 62% of the British lending is maturing in less than one year and only 23% of it is in the form of interbank loans. For the overall bank lending from the industrialized world, shown in figure 3, about 66% has a maturity of one year or less. This indicates that most of the other European and Canadian Banks are lending like the British Banks. Figure 1 also shows our estimates of the bank exposure of these other countries. At the end of 1983 Canadian banks had estimated outstandings in South Africa of between US\$300 and \$400 million or about 2% of total lending to that country. By assuming the Japanese banks have negligible exposure in South Africa, we estimate the banks of the EEC countries exclusive of the U.K. and Germany provided about US \$2.4 billion while the banks of the non-EEC nations (Switzer-

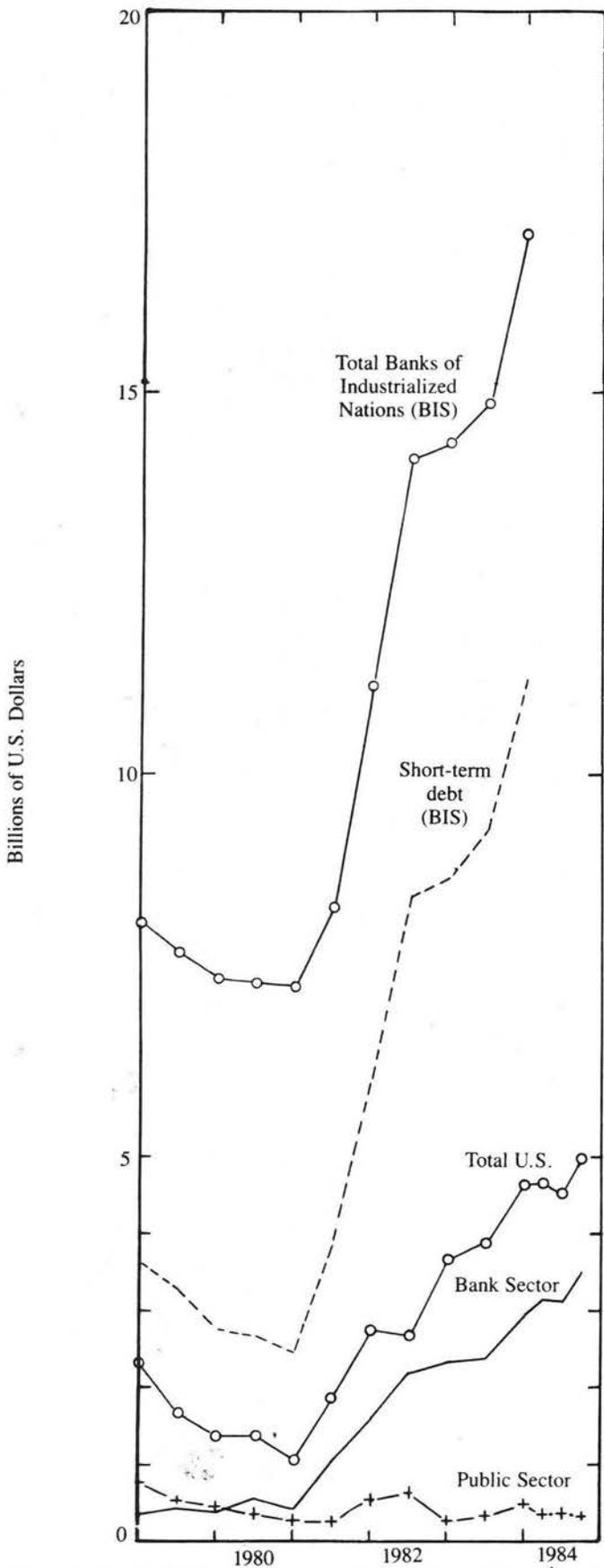


Figure 3. South African debts to the Banks of the Industrialized Nations (top) and to the U.S. banks (lower). The short-term debt of one year or less maturity is given for the former by a dashed line. The U.S. bank exposure is given by sector of the South African economy with the solid line representing exposure to South African banks and the line with crosses for data points representing the public sector.

land, etc.) provided about US\$3.2 billion. See the note on sources at the end of this article for the details of these estimates.

ECONOMY IN CRISIS

Since June of 1984, the South African economy and banking system have taken a nose dive. According to *The Banker* (January 1985), a large proportion of the short-term debt was left uncovered on the foreign exchange markets. This has caused sporadic runs on the South African currency, the Rand. In the eight months since the end of June, the rand has dropped to two-thirds its value relative to the dollar and since the end of 1980 its value had dropped to 35% relative to the dollar. As the rand plummeted, U.S. banks pumped another \$433 million of short-term funds into South Africa between June and September, the date of the last report of the U.S. monetary authorities. South African banks are now very dependent on U.S. banks, with 40% of their total debt to banks of the industrialized nations being to U.S. banks.* As a result of the crisis, the South African Reserve Bank in November had to swap and sell gold at rather low prices, probably below \$300 per ounce, to bolster the rand and they raised about \$150 million in the process.

With all these problems surfacing, the Bank of England started asking questions about subsidiaries of U.K. banks which are operating in South Africa. Shortly after that the South African Reserve Bank tightened its supervision of the country's banks with regard to: Raising funds in foreign markets, the operations of off shore facilities, and bank activities in the international markets.

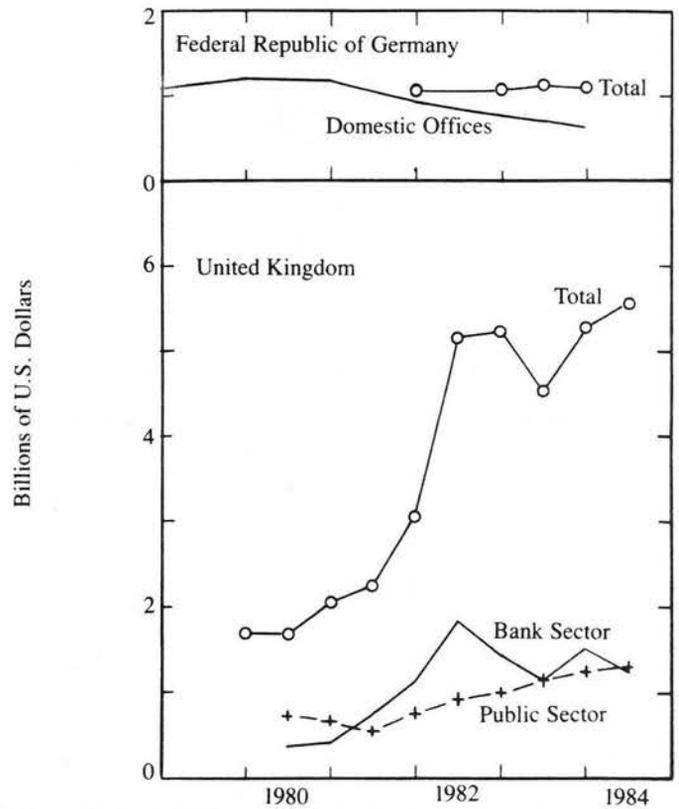


Figure 4. South African debt to the banks of the United Kingdom (below) and the Federal Republic of Germany (above). For U.K. banks, the exposure to the South African bank sector is the solid line and to the public sector is the line with crosses at the data points. For the Federal Republic of Germany the data is given for domestic German offices and foreign offices of German banks. See sources at the end of the article for a discussion of this data.

SOUTH AFRICAN BANKS

When we say that loans are being made to South African Banks, who are they and why should the Bank of England take such an interest in them? There are five bank groups in South Africa that control over 90% of all South African bank assets. Table I shows the distribution of bank assets at the end of 1980.

Table I. Assets of the South African Banking System (December 1980)

Bank	Assets (12/80)	Per Cent (12/80)	Assets (end 83)*
	Rand, millions	of System	Rand, millions
Barclays National Bank (Sub. Barclays U.K.)	6886	26.2	15554
Standard Bank (Sub. Std. Chartered U.K.)	6528	24.8	11377
Nedbank	3829	14.6	10587
Volkskas	3490	13.3	7985
Bank Holding Corp (Bankorp) Incl. Trust Bank R1919)	3323	12.6	—
Others	2218	8.5	(4572)
	26274	100	

Source: *Euromoney*, July 19810, p. 22ff.

*Bank Annual Reports for end of bank year

Here we see that the two subsidiaries of British banks each held about a quarter of the banking assets and the other three domestic South African banks each held a little over one-eighth.

Traditionally the two British subsidiaries received most of the international lending and were well connected to the mining sector. Nedbank has been primarily a city bank but is developing its international operations. It has recently set up an office in Hong Kong for NedFinance (Asia). As can be seen in Table I, by the end of 1983 Nedbank had taken 4% of the South African bank market share away from the British Standard Bank, while other banks' market shares remained about constant.

It is to these major five banks that U.S. banks are lending. Very few of the loans are reported publicly as noted by Mr. Horwood to *Euromoney*. In 1983 and 1984 the only reported interbank loans were two to Barclays totalling \$190 million. Citicorp (CMG) participated in both and Morgan Guaranty Trust participated in one. Intrabank-group loans were reported to Standard Bank in British pounds and Swiss francs (*Euromoney*, June 1984, p. S56).

CALIFORNIA BANKS

Of the five major California banks, Wells Fargo has no loans outstanding in South Africa and a policy of no lending to any business based in South Africa. This is by far the most extensive policy statement of any bank. At the end of 1982, BankAmerica had about \$156 million outstanding to South African banks or 73% of its portfolio. This amount is about 10% of the lending by the nine money center banks in the U.S., who in turn account for 60% of all U.S. bank lending to South Africa. Since BankAmerica is one of the two largest of these money center banks, this figure means that BankAmerica is lending relatively less percentagewise of its assets than most of the other money center banks. These other banks are Citicorp, Chase, Manufacturers Hanover, Morgan, Chemical, Bankers Trust, First Chicago and Continental Ill. If BankAmerica kept lending at the same rate compared to the other money center banks, by September 1984 it

would have loaned South African banks about \$223 million.

Table II summarizes the lending by the major California banks. Only Crocker has loans outstanding to the Government and state owned corporations. In fact they were renegotiating a syndicated loan with the government owned South African Transport Services (SATS) in the summer of 1984 for \$73 million.

Table II. Summary of Lending in South Africa by California Banks

Bank	Lending by Sector of South African Economy		
	Government and State-owned Corps.	Banks	Private non-bank
BankAmerica	None	\$156 mil.	\$58 mil. (12/82)
Wells Fargo	None	None	None
Crocker	Yes	Probably	Probably
First Interstate	None	Probably	Probably
Security Pacific	None	Yes	Probably

There are also operating in California, subsidiaries of foreign international banks which lend to South Africa. These two British banks whose subsidiaries control half of the South African market also have subsidiaries in California. Barclays Bank of California is relatively small with assets of about \$870 million in mid 1983. However, Standard Chartered's Union Bank (of California) had assets of \$7.9 billion at the end of 1983, which make it only slightly smaller than the \$9.4 billion equivalent of assets of the South African subsidiary based on the rand-dollar exchange rate of that date. By now the South African subsidiary should be smaller because of the low value of the rand. Other indirect connections are Lloyds Bank of California, whose parent, Lloyds (U.K.) has recently lent to SATS and the Bank of the West, whose parent Banque Nationale de Paris has handled recent floating-rate notes and Deutsche Mark bonds for both the South African government and its parastatal corporations (Electricity Supply Commission).

CONCLUSION

Over the past four years lending by U.S. banks to South Africa has increased more rapidly than lending by the banks of the other industrialized nations. However, the continental European banks did handle large numbers of Deutsche Mark bonds and floating rate notes which were not necessarily held by them but sold to non-bank investors. Nevertheless, with the current crisis in the South African economy, especially in the banking system, U.S. banks play a key role because they hold over 40% of the interbank lending to South African banks as of the end of 1983 and most of this is short term. Thus depending on the lending policies of the U.S. banks or the restraints that Congress might place on them, the U.S. banks can play either a stabilizing or a destabilizing role in the South African banking system.

* Since the BIS "Maturity distribution of international bank lending" does not disaggregate the data by sector, the estimate of total bank lending was obtained by scaling the slightly smaller totals reported in the BIS "International Banking Developments" up by 14% to agree with the total from the "Maturity Distribution...".

SHAREHOLDER ACTIVITY CONCERNING SOUTH AFRICA

Sources and Estimating Procedures:

Banks of the Industrialized World includes:

Banks of Belgium-Luxembourg, Canada, France, Federal Republic of Germany, Italy, Japan, Sweden, United Kingdom, United States, Switzerland, Austria, Denmark and Ireland. The data source is *The Maturity Distribution of International Bank Lending* of the Bank for International Settlements, Basle (Semi-annual).

U.S. Banks: *Country Exposure Lending Survey* (quarterly since 1984), Federal Reserve Board, FDIC and Comptroller of the Currency.

U.K. Banks: *Quarterly Bulletin*, Bank of England, Table 15.

Banks of the Federal Republic of Germany: *Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank*, Series 3: *Zahlungsbilanzstatistik*. Table 7d provides data for lending from domestic offices of German banks while Table 8b provides data on lending from foreign operations. For South Africa, the data is aggregated in Table 8b with data for Australia and New Zealand. The South African exposure of foreign offices was estimated by assuming that the percentage distribution among the three countries in the aggregate is the same as in the lending from domestic offices.

Canadian Banks: The Bank of Canada does not publish the exposure of Canadian banks country by country. Since the major six banks of Canada do most of the international lending outside of the U.S., their corporate reports for the end of 1983 report assets aggregated for the Middle East and Africa totalling U.S.\$1.75 billion. When the lending by U.S. and U.K. banks in the Middle East and Africa is examined, 26% of the U.K. bank's lending goes to South Africa and 20% of U.S. bank lending goes there. Thus it is reasonable to assume the average of the two or that 23% of Canadian bank assets in that geographic area are in South Africa. This yields a Canadian bank exposure of U.S.\$ 400 million. This is reasonable for when it is added to U.S. bank lending and the total is comparable to the assets attributable in the table of indirect investments in South Africa from North and South America in the monthly publication *South African Reserve Bank*. Regretably the September 1984 issue yields data for the end of 1982.

Other EEC Banks and Non-EEC European Banks: The monetary authorities of these countries do not provide country-by-country exposure data. Thus the data of the Bank for International Settlements (BIS) is used in conjunction with the *South African Reserve Bank*. The exposure of the U.S., U.K., Federal Republic of Germany, and Canada are available as explained above. Their exposure can be subtracted from the BIS aggregated data, the difference yielding the aggregate bank exposure of Japan and the other European countries, EEC and non EEC. The South African Reserve Bank lists for 1982 indirect investments, both bank and non-bank, by the following geographical areas: EEC, non-EEC Europe, North and South America, Asia, etc. The Asian exposure is small and has a significant Hong Kong component, so we will ignore the Japanese bank exposure which was not listed separately by the Japanese Ministry of Finance as reported in *Euromoney*, March 1983, p 123. Thus what remains unknown of the BIS total is the EEC banks exclusive of the U.K. and Germany and the non-EEC European banks. This amount can be distributed using the South African Federal Reserve Banks figures for the EEC after subtracting out the U.K. and Germany and the non-EEC European areas. These 1982 data are then scaled proportionally to the 1983 BIS figures. Presumably the non-EEC European banks will be dominated by the Swiss banks and the other EEC will be largely France, Netherlands and Belgium-Luxembourg.

While church shareholders are sponsoring a large number of shareholder resolutions, a new filer on the topic this year, is New York City Employees Retirement System. (NYCERS). In 1984 they adopted a phased divestment policy which requires them to file resolutions with companies in their portfolio who do not meet its criteria for operating in South Africa. NYCERS filed 20 resolutions including policy requests for no bank lending to the South African government, requests to sign the Sullivan Principles or up-grade their performance, and requests for no more sales to the military and police. A local company in silicon valley with whom the NYCERS filed requesting their signing the Sullivan Principles is Amdahl. NYCERS resolutions include: Amdahl, American Hospital Supply, Bucyrus-Erie, Champion Spark Plugs, Chesebrough-Ponds, Ford, General Motors, General Signal, Lubrizol, Manufacturers Hanover, Martin Marietta, Motorola, Newmont Mining, Oak Industries, Philbro-Salomon, Revlon, A.H. Robins, Searle and Singer. Some of these have subsequently been omitted or withdrawn. Church groups have co-sponsored several of these and have also filed with Bausch and Lomb, Ingersol-Rand, Timken, Cigna, American International, Nalco Chemical, NCNB, Chevron and Raytheon. Again some have been omitted by the SEC and some withdrawn. ■