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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

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CONSULTATION UNDER ARTICLE XII:4(a) WITH SOUTH AFRICA

Statement Submitted by the South African Government

Following the consultation of the Committee on Balance-of-Payments Restrictions with South Africa in January 1972 the Council decided at its meeting on 7 March to keep the matter under review and requested the Committee to reconvene before the middle of 1972 in order to continue the consultation. The following information is accordingly being furnished in preparation for the continuation of the consultation.

At the outset it should be emphasized that the statistical information available at present is substantially inadequate to permit a reliable assessment being made of the effects on the balance of payments of the intensification of import control on 25 November 1971 and the devaluation of the rand on 21 December 1971.

For the year 1971 South Africa experienced a record deficit of R 1,005 million on the current account of its balance of payments. The figure for the first quarter of 1972 is however not yet available. As indicated at the consultation last January the size of the deficit can be largely ascribed to a buoyant demand for imports which rose from R 2,579 million in 1970 to R 2,883 million in 1971. Preliminary data suggest that on a seasonally adjusted annual basis imports in the first quarter of 1972 were some 5 per cent lower than for the year 1971. Exports on the other hand, after declining by 2 per cent in 1969 and 5 per cent in 1970, rose by 4 per cent to R 1,481 million in 1971. According to preliminary data, exports on a seasonally adjusted basis during the first quarter of 1972 were approximately equal to the annual rate of R 1,637 million attained in the fourth quarter of 1971.

South Africa's gold and foreign reserves reached a month end low point of R 570 million at the end of November 1971 but the South African Reserve Bank's share of these reserves continued to fall to reach a low point of R 375 million on 17 December. Thereafter the total reserves rose to R 674 million at the end of March 1972 which was less than the equivalent of three months imports based on imports in the first quarter of 1972. Since then the South African Reserve Bank's share of these reserves has risen from R 562 million to R 640 million on 12 May. As indicated by the South African representative at the consultation in January, R 55 million of this increase is attributable to the revaluation of the Reserve Bank's foreign reserves following the devaluation of the rand on 21 December 1971 and the special drawing rights allocated by the International Monetary Fund to South Africa on

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1 January 1972. A further non-recurrent reason for the improvement in the reserves is that the "leads and lags" have probably ceased to run against South Africa.

The substantial decline in South Africa's gold and foreign reserves in 1971 took place in spite of a record inflow of capital amounting to R 763 million.

It remains the policy of the South African Government to curb inflationary pressures and to ensure that these do not have an undue adverse effect on the balance of payments and in this connexion it is relevant to quote the Minister of Finance when he outlined the principal aims of Government economic policy for the following twelve months in his budget speech on 29 March 1972 as follows:

> "Since external factors were mainly responsible for the situation which developed towards the end of last year and which forced the government to intensify import restrictions and later to devalue the Rand, first priority must be given to the improvement of the balance of payments in particular the reduction of the large deficit on current account and the rebuilding of our external reserves to a safer level.
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> "While the rate of growth of the gross domestic product (in real terms) during 1971 was not low by international standards it is the aim of government policy to increase this rate of growth to the highest level compatible with our available resources and productive capacity and with the first objective which I mentioned.
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> "It is still a major aim of policy to curb inflation and this objective is doubly important if we are to reap the benefits of devaluation since undue price and cost increases would impair our competitive position in domestic and foreign markets."

In the field of fiscal policy the Minister stressed the necessity for substantially reducing the rate of increase of State expenditure especially on services which do not contribute directly to the economic infrastructure and for financing expenditure as far as possible from non-inflationary sources. He was in fact able to announce that estimated expenditure on capital works was 8.6 per cent less than the estimate for the previous financial year.

As far as monetary policy is concerned the discounts advances and investments of banks in South Africa remain subject to credit ceilings.

Price control is also being maintained not only to protect the public against excessive price increases following the intensification of import restrictions and the devaluation of the rand but also to ensure that the benefits of devaluation are not eroded by an inflationary spiral of rising prices.

South Africa's representatives will at the resumed consultation be able to provide information on the Government's import control policy in the light of developments since the consultation in January and will also have at their disposal more up-to-date statistical data than is at present available.