

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS  
ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH  
THE UNION OF SOUTH AFRICA

1. The Committee has conducted the 1961 consultation with the Union of South Africa under the provisions of paragraph 4(b) of Article XII. The Committee had before it a basic document prepared by the secretariat in collaboration with the South African authorities (MGT(61)10/Rev.1) and certain documents provided by the International Monetary Fund. In conducting the consultation the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES. The consultation was completed on 26 April 1961. The present report summarizes the main points of discussion during the consultation.

### Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with South Africa. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of South Africa. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with the Union of South Africa under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation. The Fund has also provided a supplementary paper, dated April 6, 1961, to supply background information on recent developments.

"With respect to Parts I and III of the Plan for Consultations the Fund draws the attention of the CONTRACTING PARTIES to the Executive Board decision of December 28, 1960<sup>1</sup>, taken at the conclusion of its recent consultation with the Union of South Africa, and particularly to paragraph 3, which deals with the balance of payments and reserve position, and to paragraph 4, which deals with the restrictive system of the Union of South Africa. On the same date, the International Monetary Fund agreed to a request by the Government of South Africa for the purchase of sterling and deutsche mark each to an amount equivalent to \$18,750,000.

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<sup>1</sup>See Annex II.

"As will be noted from paragraph 3 of the Fund decision referred to above, reserves fell from £SA151.9 million at the end of 1959 to £SA85.6 million on December 2, 1960. On March 24, 1961, they amounted to £SA95.4 million. This figure included the Fund drawing of £SA13.4 million. The general level of restrictions of the Union of South Africa which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, the Fund draws attention to the decision taken at the conclusion of its last consultation with the Union of South Africa. The Fund has no additional alternative measures to suggest at this time.

"Perhaps I should add, Mr. Chairman, that the foregoing statement was drafted and approved in the Fund in the light of the latest information then available to the Fund, including the information on page 5 of the supplementary paper, under the heading 'Restrictive System'. We have been informed by the delegation from South Africa that certain other changes have since taken place. Undoubtedly the delegation will supply the Committee with information on these later changes."

#### Balance-of-payments position and prospects

3. The representative of the Union of South Africa opened the consultation with a statement on developments in the economic field in South Africa during 1960 and on certain modifications which his Government had recently introduced in the import control system. The complete text of this statement is attached as Annex I to this report.
4. The South African representative recalled that at the time of the last consultation in May 1960 the general economic recovery in South Africa which had begun about nine months earlier was reaching its height. Interest rates had fallen and merchandise exports were expanding. Export prices of raw materials had ceased to decline further and there was a substantial increase in gold output. As a result there was at that time a steady rise in the country's gold and foreign exchange reserves.
5. Taking 1960 as a whole South African imports, however, increased substantially to a level approaching the record level of 1958. This increase had largely been due to the appreciable expansion of general economic activity in the country, but it also reflected the flexibility of the import control system and its liberal administration. To a certain extent the rise in imports might be attributed to the replenishment of depleted inventories and speculative imports in anticipation of a possible intensification of the import restrictions. On the other hand, net exports increased only slightly in 1960. Excluding re-exports there was actually a slight decline in the exports of South African produce. This decline was mainly due to the somewhat subdued conditions which prevailed in the markets for certain primary commodities.

6. The substantial increase of R133 million in merchandise imports and the slight increase of only R6 million in merchandise exports resulted in an increase in the trade deficit by about R127 million. This, combined with changes in current invisible payments and gold output, resulted in a reduction in the net current surplus of about R128 million, i.e. from R158 million in 1950 to R30 million in 1960. A net outflow of capital in all forms of R162 million, therefore, caused South Africa's gold and foreign exchange reserves to decline by R132 million in 1960. The substantial net outflow of private capital occurred mainly during the first, second and third quarters of the year.

7. The gold and exchange reserves of South Africa stood at R304 million at the end of 1959 and declined to R171 million a year later. They continued to decline in the earlier months of 1961, and reached a level of R177 million on 14 April 1961 only through the inclusion of drawings amounting to an equivalent of R18 from the IMF. It was in the light of the present level of the country's foreign exchange reserves that the Minister of Economic Affairs had recently announced that the policy of caution which had been followed since the end of last year in the issue of import permit allocations was being continued with slight modifications. Details of these modifications were being supplied to the contracting parties (see L/1454).

8. Members of the Committee thanked the representative of South Africa for his clear and informative statement. The Committee then discussed with the South African representative various questions relating to the prospects for the country's principal exports, the expected level of imports, the trend in capital movements, and the general prospects for South Africa's balance of payments.

9. With regard to exports, a member of the Committee noted the decline in wool exports in 1960 and enquired about the future outlook. The representative of South Africa thought that recovery in export earnings from wool could be expected; the latest wool sales seemed to indicate a tendency of firming prices and a larger volume also came forward in March this year. As regards gold, which was the principal export of the Union, a member of the Committee observed that production and export of this commodity had been continuously rising since 1958 and enquired whether this trend could be projected into the future. The South African representative replied that the rise in gold exports in the last few years had been due to increases in the volume of production, the price of gold being pegged. He added that future production will become increasingly reliant upon deeper and technically more difficult mining and further expansion would therefore appear doubtful.

10. As regards imports, some members of the Committee noted that there had been a substantial fall in total imports in 1959, which followed the tightening of restrictions in 1959. The representative of South Africa pointed out that the decline in imports in 1959 was due to factors other than the import restrictions as was evidenced by the large amount of unused import-permit allocations totalling R79 million in 1959 compared to R25.8 million in 1958.

Referring to the statement by the South African representative that the increase in imports in 1960 might be partly attributed to the replenishment of depleted inventories and speculative over-importation, a member of the Committee considered that these might be a favourable factor in relation to the current balance-of-payments position in that they must have reduced the demand for imports in subsequent months. The representative of South Africa replied that so far there had been no discernible signs of a decline in imports; the imports in the first two months of 1961 had already exceeded those in the corresponding period in 1960. A member of the Committee commented that speculation develops when the future is uncertain. The best way of avoiding speculative importation would be to move as quickly as the reserve position permitted from a discretionary licensing system to full liberalization over a wide range of imports. It was suggested by another member that the recent decline in net capital inflow might be accompanied by a corresponding decline in the imports of capital equipment and other investment goods. The South African representative stated that despite the net outflow of capital in the past year and in the early months of 1961, there had been no falling off in the demand for capital goods; imports of such products were, in fact, higher in 1960 than in previous years.

11. Members of the Committee noted that the present balance-of-payments difficulties of South Africa and the decline in its gold and foreign exchange reserves were mainly due to a net outflow of private capital since, even with the worsened trade balance, there remained a net current account surplus of R30 million in 1960. Invited to comment on the prospects for a reversal of this situation, the representative of South Africa considered that the rate of the outflow of private capital had declined to a point where it could be expected to stabilize and gradually to revert to the traditional net inflow. In any case, the net loss of reserves on capital account could not continue indefinitely. Certain members of the Committee stressed the very special situation in which the Union of South Africa was placed. In spite of the positive balance on current account, South Africa was applying restrictions in the trade field in order to prevent exchange reserves from falling further. This fall was due entirely to movements in the capital sector. These members of the Committee enquired whether the South African authorities had considered the possibility of redressing the situation through measures which were directly related to capital transactions rather than through the restriction of imports. The South African representative stated that insofar as South African nationals were concerned capital transfers were controlled; however, there were no restrictions on capital movements by non-residents. He went on to state that the traditional policy of his Government was always to welcome foreign capital and that it would be detrimental to the country's position as an attractive field for foreign investment if any attempt were made to curb the free flow of foreign capital into or out of the country. The recent net outflow of private capital was regarded as a transient short-term problem, but whether the decline in reserves was caused by capital movements or by unfavourable trends on current account, the Union of South Africa considered that the appropriate course to follow at present was to continue its cautious policy in maintaining the import restrictions.

12. Some members of the Committee commented that, considering that the Union's export prospects remained favourable, that gold production might continue to rise or at least maintain its present level, that the high level of imports in 1960 had been partly due to transient factors, and that the outflow of private capital would not go on indefinitely, the South African Government should have greater confidence in its future balance-of-payments situation and should be in a position to exercise more restraint in the use of import restrictions. The representative of South Africa stated that it was the avowed policy of his Government to avoid the use of import restrictions as much as possible; for its experience had shown that such restrictions, while necessary for short-term financial reasons, had almost inevitably created readjustment problems for domestic industries and traders which might take a long time to resolve. For several years consistent efforts had been made to create a situation in which the import restrictions could be finally removed and, by the early months of 1960, the expectation had been that the final step could be taken shortly. This expectation had, however, been upset by the unforeseen change in capital movements.

13. The South African representative stressed that in spite of the recent slight tightening of restrictions, contracting parties could remain confident that the Union of South Africa would not hesitate to remove all restrictions once it felt certain that such a step could be taken without the risk of having to take retrogressive action. Members of the Committee expressed the hope that when that opportunity presented itself the South African Government would not hesitate to take the decisive step of removing all the remaining restrictions.

#### Alternative measures to restore equilibrium

14. The Committee noted the various measures in the fiscal and monetary field which, as described in the documents of the International Monetary Fund, had been taken in recent years by the South African Government. Members of the Committee expressed gratification at these sound financial policies being pursued and expressed the hope that these would be continued. The representative of South Africa recalled that the last Budget included a number of measures designed to encourage particularly the development of secondary industries, and capital development in the private sector in general. Two years ago the Board of Trade and Industries commenced investigations on products which were being imported into the Union in substantial quantities with a view to ascertaining which of them could be produced locally on an economical basis. The report of the Board on textiles had been submitted recently and its reports on other products were being prepared. Efforts in this field were aimed at solving the Union's balance-of-payments problems on a lasting basis.

#### System and methods of the restrictions

15. The Committee discussed the system and methods of restrictions of South Africa on the basis of the GATT and IMF documents before the Committee. The representative of South Africa informed the Committee that subsequent to the

preparation of the GATT "basic document", new decisions had been taken regarding further import licensing for 1961. These decisions, taken on 17 April 1961, had resulted in the following:

- (i) A supplementary allocation of 10 per cent for Group B goods (consumer goods with domestically available supplies, referred to in paragraph 14(i) of the "basic document"), thus bringing the allocations so far made up to 60 per cent of individual importers' quotas for 1960.
- (ii) A supplementary allocation of 25 per cent for Group A goods (other goods on the quota list, referred to in paragraph 14(ii) of the "basic document") thus bringing the allocations so far made up to 75 per cent of individual importers' quotas for 1960.
- (iii) For raw materials and capital equipment, additional issues of permits henceforth to be made in the light of actual requirements and existing stocks.

These decisions had been taken in view of the further decline in reserves and in continuation of the policy of caution indicated by the Government in November 1960. Additional allocations would, however, be considered later in the year if the level of reserves made this practicable (see L/1454).

16. The South African representative added that these measures were expected to produce a saving on imports of about R80 million, equivalent to approximately 7 per cent of the country's total imports in 1960. The estimated reduction in imports fell on the various categories of goods as follows:

Group B consumer goods	R30 million
Group A consumer goods	10
Raw materials and capital equipment	20
Motor vehicles	20
	<hr/>
Total	R80 million

17. Members of the Committee, noting that the reduction in motor vehicle imports had been achieved through the suspension of the system of replacement licensing to meet full requirements, requested information on the new method of restrictions used. The South African representative explained that, having found various disadvantages in the previous system under which passenger vehicle imports were licensed on the basis of monthly retail sales, the Government introduced a new system at the beginning of 1961 under which each importer was assigned a quantity for stocks and given quotas to meet six months' requirements estimated on the basis of sales in a previous representative period. The stocks allowed to all importers being equal,

importers already holding large inventories were thus given less licences. This transitional adjustment in stocks had resulted in a reduction in total allocations for the year. This reduction met the incidental need for economy in view of the balance-of-payments situation, but it was not intended that this degree of restriction would be repeated next year.

18. The Committee noted that according to the "basic document" raw materials and capital equipment (specified in Annex B to that document) previously licensed on a replacement basis without effective restriction had, from the beginning of 1961, been made subject to restrictions in respect of those goods available from local sources, and that according to the policy statement of the Minister of Economic Affairs on 17 April 1961, additional import permits for raw materials and capital equipment would be made in the light of actual requirements and existing stocks. The South African representative agreed that both these steps represented an administrative tightening of the controls. In his view, the recent deterioration in the balance-of-payments position of South Africa warranted an intensification of restrictions and, mainly owing to a desire to avoid the use of quotas, the Government had decided to rely on a more strict interpretation of the regulations in order to achieve a slight saving in import payments. Although the issue of such licences henceforth would be influenced to a greater extent by considerations of existing stocks and the availability of local supplies, there was no intention to use the discretionary power severely to interfere with the normal flow of such imports or to afford additional protection to domestic industries. The saving in foreign exchange to be achieved through this action would amount to no more than 6 per cent of the total imports in this category. Some members of the Committee commented that, while there might be a need for South Africa at present to reduce imports, it was unfortunate that a control system known to be largely pro forma had been changed to one with distinct restrictive features. The question was also raised as to what would be the means for arbitration if there should be a difference of opinion between the licensing authorities and importers as to whether the conditions of local supply and stocks were or were not fulfilled in any particular case. The representative of South Africa assured the Committee that the controls and restrictions in South Africa were administered in the most flexible and liberal manner possible, for instance import licences were issued for groups of commodities rather than single items. The administrative action in question was considered to be a more liberal substitute for straight quota restrictions, and in no way detracted from the Government's general policy of progressing as far and as rapidly as possible towards the full liberalization of imports.

19. In answer to questions, the representative of South Africa stated that as noted in the report on the last consultation in L/1191, the agricultural marketing boards dealt with only a very limited range of products, which constituted a very small proportion of total imports, the most important item being wheat, imports of which in 1960 amounted to R8 million only.

20. A member of the Committee urged that South Africa consider the possibility of using the so-called "negative list" method of restrictions; with the greatly diminished scope of import restriction, it would be desirable from the point of view of traders if the control dealt only with a list of specified products

#### Effects of the restrictions

21. The Committee noted statements which indicated that the general policy of South Africa was to avoid the use of import restrictions for protective purposes. However, the restrictions applied for balance-of-payments purposes, as the South African authorities were clearly aware, did in many cases have an incidental protective effect creating subsequent problems of readjustment. Some members expressed concern at the fact that in certain sectors the method and administration of the restrictions seemed to be linked closely to considerations of domestic availability. The representative of South Africa assured the Committee that his Government was fully aware of the dangers of protection being afforded to uneconomic industries. South Africa being primarily an exporter of agricultural and mining products, including gold whose price was fixed, the country clearly could not afford to have cost structure based on protected, inefficient industries. Local supply and production were taken into account in allocating exchange resources for imports with a view to ensuring availability of sufficient foreign exchange for essential requirements of raw materials and capital equipment.

#### General

22. Members of the Committee noted that South Africa's current account remained favourable and that the recent decline in reserves was entirely due to the net outflow of private capital. As regards imports, exports and other current account transactions there appeared to be no cause for concern. They noted the statement of the South African representative that in as much as the outflow of capital could not continue indefinitely, there was every reason to believe that the reserves might cease to fall. They expressed the hope that the South African Government would exercise restraint in the application of import restrictions and would take advantage of any significant improvement in the monetary reserves to resume the policy of gradually removing import restrictions in which considerable progress had been made up to 1959. Members of the Committee also expressed satisfaction that the South African Government was fully aware of the importance of giving the closest possible attention to the avoidance of incidental protection being afforded domestic uneconomic industries by the import restrictions.

23. The representative of South Africa said that he had taken note of all the views expressed at the consultation and would convey them to the attention of his Government.

ANNEX IStatement made by the Representative of  
South Africa on 25 April 1961

In the first instance I wish to thank you and your Committee, as well as the secretariat, for fitting into your programme this consultation with South Africa at this time, as was originally requested by us. The fact that this meeting of the Committee will not be followed now by the eighteenth session of the CONTRACTING PARTIES as was originally envisaged has created certain difficulties for the South African Government. However, we did not wish to disrupt the time-table of the Committee and my delegation is glad to be here today to participate in the work of the Committee. We hope that, as in the past, the discussions and exchange of views which will take place during the course of the Committee's consultation with South Africa will be both constructive and informative.

Secondly, Mr. Chairman, I wish to express a word of thanks to the International Monetary Fund for the excellent and comprehensive background material which it has made available to the Committee on the financial and economic developments in South Africa. Together with the background paper and the supplement thereto which have been prepared by the IMF, the Committee also has before it the basic document (MGT(61)10/Rev.1) which has been prepared by the GATT secretariat in consultation with the South African authorities. On behalf of my delegation I wish to thank the secretariat for the good work which it has done in this connexion. A special word of thanks is due in this regard to the secretariat because the up-to-date data which they required to prepare the final, or revised version, of this basic document could not be made available earlier by the South African authorities and only reached the secretariat fairly recently. We are, therefore, grateful that, with their customary efficiency, the personnel of the secretariat has nevertheless been able to prepare and distribute document MGT(61)10/Rev.1 in time. If any members of the Committee or contracting parties have perhaps been inconvenienced by the late distribution of this document it is not the fault of the secretariat and I wish to apologize to the members of the Committee and to the secretariat for the belated submission of the data by the South African authorities.

Mr. Chairman, I propose now, briefly, to give the Committee a resumé of economic developments in South Africa during 1960 as a whole, thereby supplementing to some extent the information provided by the Fund. I shall also refer to the most recent announcement of the South African Minister of Economic Affairs in which he indicated the import control policy to be followed for the second half of the current year. Copies of this statement which was issued in Cape Town on 17 April 1961 are being handed to the secretariat and will no doubt be circulated to contracting parties.

At this stage I should explain, Mr. Chairman, that on 14 February 1961 a Rand/cent decimal currency system was introduced in South Africa. The Rand is, therefore, now the currency unit of my country and the relationship between the old currency and the new is £1 = R2.

When the Committee last conducted its consultations under Article XII:4(b) with South Africa just before the sixteenth session in May 1960, the general economic recovery which had set in about nine months earlier was reaching its height. Interest rates had spiralled downwards, there had been an upsurge in merchandise exports without overseas raw material prices declining further, together with a substantial increase in gold output. At that time the most conspicuous feature of this recovery had been the steady upward trend in the level of the country's gold and foreign exchange reserves as a result of a material improvement in the balance of payments on current account.

The following details in relation to 1960 as a whole will illustrate what the general trend in output and employment was:

- (a) the gross value of agricultural production showed a small increase over the 1959 level;
- (b) the total value of mineral production increased by 8.3 per cent; increased gold output provided more than half the gain, although sales of coal, copper, diamonds and most other base and precious minerals showed increases too;
- (c) private manufacturing employment was slightly up on the 1959 level;
- (d) electric current generated increased by 6.8 per cent;
- (e) the average monthly index of building plans passed increased slightly and employment in private construction was at a high level; and
- (f) the average monthly index of mining employment was also higher than in 1959.

As regards external trade, we have in Annex "D" to document MGT(61)10/Rev.1 the import figures by country for each of the years 1956 to 1960. I may add in parenthesis that last year's statistics are preliminary and therefore subject to amendment. Compared with 1959, South Africa's imports of merchandise in 1960, after adjustment for balance-of-payments purposes, increased by no less than R133 million, to a level which very nearly equals the all-time high of 1958. In 1960 very few countries failed to increase their total exports to South Africa above the levels attained in 1959. The increase in our imports was largely due to an appreciable expansion of general economic activity in South Africa during 1960, and the normal associated tendency for a rise in the demand for imported goods and services. It also reflects the flexibility of the import control régime which is administered in the light of the country's balance-of-payments position and foreseeable prospects. To a certain extent,

however, the rise in the imports can also be ascribed to the replenishment of inventories not only because inventories had been considerably reduced the year before, but also because some importers apparently feared an intensification of import control and thought it wise rather to import too much than too little. The increase of R133 million was principally the result of an increase of about R82 million in the imports of "Metals, metal manufactures, machinery and vehicles" (of which motor vehicles, aircraft and parts accounted for R46 million), and an increase of R31 million in the imports of "Textiles, apparel, yarns and fibres". Of the other main classes of imports, only one, namely "Food, drink and tobacco" declined - by about R6 million.

The upward trend in imports during 1959 was continued during the first eight months of 1960, but during the last four months of 1960 the tendency was downwards.

In the case of merchandise exports, adjusted for balance-of-payments purposes, an increase of R6 million from R864 million in 1959 to R870 million in 1960 was the net result of an increase of about R8 million in re-exports and a small decline of about R2 million in the exports of South African produce. This decline was due mainly to somewhat subdued conditions which prevailed in the markets for certain primary products. There were decreases of about R10 million in wool exports, R6 million in the exports of other agricultural products and about R9 million in diamond exports. A number of increases were, nevertheless, registered, notably in the exports of "Food, drink and tobacco" (R17 million) and of "Metals, machinery, etc." (R8 million). Economic conditions abroad - the principal factor determining the demand for our merchandise exports - reveal divergent trends, as members of the Committee well know. Whilst, therefore, we cannot rely on any marked increase in our exports, there is likewise no reason for fearing a large fall.

The available figures show that while the value of merchandise exports continued to increase during the first half of 1960, a sharp downward tendency occurred during the second half of the year, when both the physical volume and the average price realized by South Africa's merchandise exports declined.

Internally, the index of the value of retail sales showed an increase of roughly 2 per cent in 1960, compared with 1959. This, together with the increase in external trade, caused railway earnings to increase as well. However, with the decline in imports and exports towards the close of 1960, the upward trend was not maintained in the fourth quarter of 1960.

I should also refer to prices. From December 1959 to December 1960, the index of wholesale prices increased by 1.5 per cent and that of retail prices by about 1.4 per cent (due mainly to increased food prices), whilst the average monthly index of agricultural prices declined by 6.2 per cent (reflecting, to a large extent, the movements in wool prices).

And, to complete the picture, I should refer to South Africa's national accounts. The figures available indicate that the gross domestic product increased by about 6 1/2 per cent from 1959 to 1960, reflecting increases in all the major classes of economic activity. The increase in the real gross national product was about 5 per cent. Gross domestic capital formation showed a considerable increase, mainly due to the fact that investment in inventories rose so much - a factor about which I shall have more to say when discussing South Africa's import control.

As has already been said, South Africa's merchandise imports increased by R133 million in 1960, compared with an increase of R6 million in merchandise exports. In addition to the increase of about R127 million in the trade deficit, net current invisible payments rose by about R28 million. With an increase in net gold output of R27 million, the net current surplus declined by about R128 million, i.e. from R158 million in 1959 to R30 million in 1960. A net outflow of capital in all forms of R162 million therefore caused South Africa's gold and foreign exchange reserves to decline by R132 million. There was a net inflow of official capital of about R32 million, and a net outflow of private capital of about R194 million. Purchases by South African residents from foreigners of securities listed on the Johannesburg Stock Exchange accounted for R78 million of the outflow, and repayments of foreign loans by local foreign-controlled subsidiaries for R24 million.

The substantial net outflow of private capital during 1960 occurred mainly during the first, second and third quarters of the year. During the fourth quarter there was a considerable decline in the rate of the outflow. With regard to the sales of South African securities on the Stock Exchange by foreigners to Union residents, the Fund remarks, on page 5 of its background document, that this "appears to have resulted from a re-evaluation by foreigners of South African securities in general, and gold mining shares in particular".

Since the beginning of 1961 reserves have moved downwards further, leaving aside the increase due to the drawings on the Fund aggregating R18 million. On 31 December 1959 they stood at R303.8 million, on 31 December 1960 at R171.1 million, and on 14 April 1961 at R177.1 million (including the R18 million drawings on the IMF). However, in the light of the present level of the country's foreign exchange reserves, the Minister of Economic Affairs announced eight days ago that the policy of caution which has been followed since the end of last year insofar as the issue of import permit allocations are concerned is in general being continued.

ANNEX II

IMF Executive Board Decision of 28 December 1960 at Conclusion of the Consultation  
Between the Fund and the Union of South Africa

1. The Government of the Union of South Africa has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements. The Fund took the occasion of these consultations to review again the other restrictive practices of South Africa.
2. Gross national product increased in real terms by 5 per cent in the year mid-1959 mid-1960, mainly as a result of a further rise in gold production and an improvement in export earnings, particularly from wool. Consumption and inventory investment rose but fixed investment declined. Bank credit to the private sector expanded by nearly 18 per cent in the year ended mid-1960, mainly in association with a considerable rise in imports. The budget introduced in March 1960 provided various incentives to private investment, but the current account again showed a surplus and capital expenditure was at about the same level as the preceding year. In August 1960, the official discount rate was increased from 4 per cent to  $4\frac{1}{2}$  per cent and private banks were requested to exercise caution in granting import credits.
3. As a result of a rise in inventories and in the level of business activity generally, imports increased in 1960 from the low level of 1959. Exports and gold production also increased, and the goods and services account remains in surplus. Despite some official borrowing abroad, a large net outflow of private capital, both long-term and short-term, has led to a fall in the gold and foreign exchange holdings of the Reserve Bank, which on December 2, 1960 were down to £SA85.6 million, compared with £SA151.9 million at the end of 1959.
4. The Union has continued to maintain a non-discriminatory system of controls over trade and current payments. The import régime has been liberally administered and the allocation for certain consumption goods still subject to restriction was larger in 1960 than in 1959. In view of the deterioration in reserves the Government has, however, decided to adopt a measure of caution in issuing import permits for 1961, and the initial issues for that year are smaller than those for 1960.
5. In concluding the 1960 consultations, the Fund has no other comments to make on the exchange system of the Union of South Africa.