

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES

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

REPUBLIC OF SOUTH AFRICA

1. The Committee has conducted the 1962 consultation with the Republic of South Africa under the provisions of paragraph 4(b) of Article XII. The Committee had before it (a) a basic document prepared by the South African authorities (BOP/12)<sup>1</sup> and (b) documents provided by the International Monetary Fund, as noted in paragraph 2 below. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7/S/97-98). The consultation was completed on 1 October 1962. 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 Republic of South Africa under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation. The background material was prepared before the announcement at the end of August last of further measures of relaxation (see Annex A, paragraph 21). Information concerning these measures was, however, presented to the Fund's Executive Board before it took its recent consultation decision."

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of September 10, 1962, taken at the conclusion of its recent consultation with South Africa, and particularly to paragraph 4, which reads as follows:

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<sup>1</sup>See also BOP/12/Corr.1.

'South Africa has continued to maintain nondiscriminatory restrictions on trade and current payments, tightening them in the first half of 1961 as reserves declined, and relaxing them to a certain extent in 1962 as reserves increased. The Fund notes the view of the South African authorities that their reserves, while increasing, have not yet reached a level at which the remaining restrictions can be withdrawn on a reasonably permanent basis. In view of the continuing increase in reserves, the Fund considers that South Africa should be able in its 1963 import program to make substantial progress in eliminating restrictions.'

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

Opening statement by the representative of South Africa

3. In his opening statement, the full text of which is annexed, the representative of South Africa explained that, following a noticeable decline in the rate of economic growth during the second half of 1960 and the first half of 1961, the rate of economic growth had shown a gradual increase. The four major productive sectors (agriculture, mining, manufacturing and commerce) had made some further advances. There had, however, been a decrease in fixed private investment and only a moderate increase in fixed public investment. Current expenditure by public authorities had shown an increase of R103 million in 1961/62 (the year ending 30 June 1962) as compared with an average annual increase of R33 million in recent years.

4. Private consumption was estimated to have been lower by R60 million in 1961/62 than in the previous year, despite a steady increase since the third quarter of 1961. The decrease in consumer spending had been particularly pronounced with respect to consumer durables, including automobiles. Despite the reduction in licence allocations which became necessary in May of 1961, commercial and industrial inventories had not decreased during 1961 but had even shown some increase during the second half of 1961.

5. Gross national product in 1961/62 had increased by an estimated 5.3 per cent. This compared with increases of 4.2 per cent in 1960/61 and 7 per cent in 1959/60. In real terms, the increase in GNP in 1961/62 had been of the order of roughly 3.4 per cent. Population was estimated to have increased by approximately 2.3 per cent during that period.

6. Welcome as the increase in the rate of economic growth was, the revival of economic activity had been less pronounced than expected in view of the significant increase in exports and the buoyancy in gold mining production. However, consumer spending was expected to increase in the months immediately ahead and information available suggested that manufacturing output might now be increasing more rapidly. Largely as a result of the increase in the Reserve Bank's holdings of gold and foreign exchange, the financial scene had changed from a state of relative stringency and high interest rates to one of increased liquidity throughout the financial structure and a general downward trend in interest rates. Business confidence being high, the stage was set for further economic expansion in the near future.

7. As regards merchandise exports, major increases had been registered in 1961/62 for maize, wool, fruit, pig iron and manufactured products. On the other hand, uranium exports had shown a substantial decline. Merchandise exports in the first eight months of 1962 had amounted to R582 million, or R35.3 million more than in the corresponding period of 1961. During this period, maize exports had more than doubled and exports of sugar had reached a record level. Exports of diamonds had shown a decline of R10 million as compared with the corresponding period of 1961, and there had been decreases also in exports of fish, uranium, ferro-alloys and copper. Compared with 1960, merchandise exports during the calendar year 1961 had increased by approximately R49 million, or 5.7 per cent.

8. Imports had declined by R106 million or 9.5 per cent in 1961 as compared with 1960. During the first eight months of 1962, imports had shown a decline in value of R25.5 million as compared with the corresponding period of 1961. However, in both July and August 1962, imports had exceeded the levels of a year ago. For 1962 as a whole an expansion of imports over the previous year of R120 million was expected. Provision for such an increase had been made earlier in the year, and the additional allocations to the private sector in respect of consumer goods and textile piece-goods had recently been announced. (See L/1846)

9. The total value of gold output had shown a strong upward tendency both during 1961 and 1962. As compared with the corresponding period in 1961, gold production in the first seven months of 1962 had been higher by R32.5 million. Even if no further expansion occurred, the gold output for 1962 as a whole was expected to exceed R600 million.

10. As regards developments in the financial and monetary situation, the outstanding feature in 1961/62 had been a phenomenal and virtually continuous surplus in the country's balance of payments. Provisional estimates for 1961/62 showed a net surplus of R249 million in the overall balance of payments, as compared with a deficit of R71 million in 1960/61. The surplus on current

account was estimated at R353 million as against a deficit on capital account of R104 million, of which a net outflow of capital from the private sector accounted for R21 million. Principal changes in the period 1961/62, as compared with 1960/61, had been a decrease in imports of R142 million, an increase in merchandise exports of R101 million, an increase of R44 million in net gold output and a decrease of R40 million in net current invisible payments. As a result of these factors, the Reserve Bank's holdings of gold and foreign exchange had increased from R153.4 million on 30 June 1961 to R407.5 million a year later. By mid-September 1962, reserves stood at R423.6 million. Although reserves during the middle of 1962 had reached their highest point since the years 1945 to 1947, they were still only the equivalent of the value of four and a half months imports, calculated on the basis of average annual imports in the past five years. While the Government did not have a particular optimum level of reserves in mind, the present level was considered inadequate. It was the expressed intention of the South African authorities, whenever possible, to build up international reserves to a higher level. The representative of South Africa pointed out that, in the absence of exchange control, the level of South Africa's reserves during most of the post-war period would have been insufficient in view of the sharp fluctuations, particularly in private non-direct investment. The total of such investment had amounted to R872 million at the end of 1960 with ordinary shares accounting for about R580 million. He pointed out that the exchange and the import restrictions maintained by South Africa were closely related measures and that further import liberalization would have to take full account of the level of exchange restrictions. The maintenance of the present restrictions had, however, not caused undue hardship to industry, to commerce or to consumers, and import controls would continue to be applied so as to cause as little hardship as possible.

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

11. The Committee thanked the representative of South Africa for his clear and comprehensive statement. They welcomed the favourable development of South Africa's trade and the considerable improvement in the balance of payments which had led to a record increase in reserves. Members of the Committee noted that the present level of reserves was equivalent to four and a half months import payments on the basis of average imports in the last five years, or the equivalent of six months import payments based on imports in the first half of 1962. They recognized that, in addition to the ratio of imports to reserves, various other factors, including movements on capital account, were important in determining the adequacy of a country's foreign exchange reserves. They pointed out, however, that South Africa had had a surplus on current account even at the height of its balance-of-payments difficulties, and that the heavy outflow of private capital, the factor mainly responsible for the deterioration of South Africa's reserves in 1960 and early 1961, had been successfully checked. Members of the Committee suggested that in the changed

circumstances, even in the absence of exchange restrictions, a renewed outflow of private capital of anywhere near the proportion experienced in 1959/60 and 1960/61 would be unlikely. They noted that some progress in the relaxation of import and exchange controls had been made recently. Having the above considerations in mind, as well as the degree of liberalization achieved by other contracting parties often with much lower reserves, they felt that there was further scope for import liberalization.

12. In his reply, the representative of South Africa said that the large increase in reserves had been due to a combination of a number of factors, a pattern which was not likely to be repeated. Above all, there had been the effect of import restrictions which had by now been considerably relaxed. Consumer demand had been exceptionally low, a situation which was already changing. Similarly there was reason to expect an increase of industrial activity which in turn would lead to higher import demand for industrial raw materials and equipment. In this connexion it had to be remembered that under the policy recently adopted by the Government import requirements by industry for most raw materials would be made on the basis of six months' full requirements. As regards developments on capital account it had to be remembered that, in the first instance, the rate of decrease in capital outflows had been brought about by exchange controls. While the factors and considerations which were thought to have contributed to these outflows should have lost much of their significance, there were indications (e.g. the difference in price of South African securities on the Johannesburg and London Stock Exchanges) that further progress in the relaxation of exchange controls would have to be carefully planned and would have to be implemented gradually. Finally, it should be borne in mind that the improvement in the reserve position had been brought about partially by foreign borrowing.

13. The representative of South Africa further stated that it was against the background of the persistent danger of large-scale and unpredictable capital movements and the not-altogether-promising export prospects, that his Government's determination to increase the level of international reserves should be assessed. While South Africa's reserves were at their highest level since 1947 it had to be remembered that South Africa's reserves during most of the post-war period had been inadequate to permit uninterrupted progress in import liberalization. It was in the interest of greater stability, which in the long term would be beneficial to economic development in his country and to trade in general, that his Government wished to place trade and payments on a sounder basis by providing a more adequate level of reserves. This did not, however, mean that his Government would abandon its traditional liberal trade policy or decrease its endeavours to make progress in import liberalization in step with improvements in the reserves and in the balance of payments. Under the circumstances it was not now considered possible to go beyond the present level of import liberalization.

14. Referring to the expected development of imports and exports, the representative of South Africa explained that his Government had planned for an increase of R120 million in public and private imports in the calendar year 1962. Because of a lag in Government imports, the expected increase in the public sector was now not expected to materialize, but increased imports in the private sector, estimated at some R80 million, were expected to materialize, and might perhaps be exceeded. The level of imports in July 1962 had been 23.4 per cent higher than in July 1961, and imports in August 1962 had been at the highest level of any month during the past fifteen months. In general, imports during 1963 were expected to show a further increase as a result of an acceleration in economic activity. At this stage, however, it was not possible to make a firm forecast of the total amount of foreign exchange which could be made available for imports during 1963 because of several factors which might interfere with export earnings. These factors included the severe drought which the country was at present experiencing, the 10 per cent increase in duties for practically all categories of goods recently imposed on imports into the Federation of Rhodesia and Nyasaland, which was traditionally an important buyer of products of South African secondary industries, and the general uncertainty arising from the increasing economic integration in Western Europe. These factors made it impractical to define at this stage a clear picture for 1963.

#### Alternative measures to restore equilibrium

15. The Committee noted, that primarily due to the considerable improvement in South Africa's balance of payments, liquidity had increased and interest rates had shown a downward trend. They noted that the current budget for the present fiscal year was expected to be in balance. The Committee expressed the hope that the South African authorities would continue to be successful in keeping prices relatively stable. They noted that, as a result of these favourable internal factors, and because business confidence was high, the South African authorities expected the level of economic activity to increase. They expressed the hope that the expected increase in the economic tempo would not lead to strains on the level of reserves.

#### System and methods of restrictions

16. Members of the Committee said that, although they appreciated the relaxation of import restrictions announced at various dates during the year, in their view, the significant improvement in the reserve position provided scope for a greater degree of import liberalization, including the raising of consumer goods quotas which still restricted imports below the level attained in the years 1959 and 1960. They called attention to the International Monetary Fund's decision which states: "In view of the continuing increase in reserves, the Fund considers that South Africa should be able in its 1963 import program to make substantial progress in eliminating restrictions". They urged that further progress towards import liberalization should soon be made.

17. Commenting on these observations, the representative of South Africa stated that, if account was taken of a number of changes in the administration of controls, the progress made by South Africa since the last consultation would be more apparent. He pointed out that more than one half of all imports (on the basis of 1961 imports), comprising most raw materials, capital equipment, agricultural machinery and pharmaceutical and medicinal requisites, were now licensed on the basis of manufacturers receiving six months' full requirements. As regards imports of "general merchandise", quotas in category A had been increased by one third and category B quotas by more than 14 per cent. The actual increase in quota allocations for general merchandise was still larger, however, since the assessment basis for many importers had recently been increased under the government policy of reviewing every two years the assessment basis on which quotas were allocated. This review was based on the principle that as a firm increased its volume of business it needed also to increase its level of imports. As a result of the recent adjustment in the assessment basis, the total increase for group B quotas was estimated to have been of the order of 20 per cent. Quota restrictions were such that even with the present level of permits issued, many importers did not use their full entitlement. There was indeed at present no lack of variety or scarcity of consumer goods, including imported goods, as a result of present import restrictions.

18. In clarification of information in the background document concerning the proportion of imports under the various control categories, the representative of South Africa explained that, on the basis of 1961 figures, 9 per cent of total imports fell into the general merchandise category. Imports under this heading were admitted under either group A or group B which, respectively, accounted for 3 and 6 per cent of total imports in 1961. Imports of motor vehicles, including CKD (completely knocked down) material for local assembly, were admitted under quota and imports of these had accounted for 11 per cent of total imports in 1961.

19. Members of the Committee expressed concern about the apparent severity of the restrictions applied to goods on the restricted list given in Annex D of BOP/12 which covered a wide range of goods of interest to exporters in foreign countries and urged an early relaxation of these restrictions. In reply to a question, the representative of South Africa explained that, under the current import programme, licences for goods on this list could be obtained on the basis of general merchandise import permits being surrendered at the rate of R2 category B import permits for R1 import permit for goods on the restricted list. If category A permits were surrendered, the conversion rate was R4 to R1, taking account of the more liberal issue of category A import permits. In 1961, the conversion rate had been R3 to R1 in respect of category B permits. In addition to the greater import facilities for goods on the restricted list as a result of the change in the conversion factor, the list of restricted items had on balance been shortened for 1962. In addition to the conversion rates,

importers in 1962 were granted the additional concession of converting the first R3,000 of their quotas on the basis of R1 for R1. Members of the Committee inquired about the reason for the addition to the restricted list of such items as hand-knitting wool and buttons which, although of significance to the trade, accounted for only a small proportion of total imports, so that their addition to the list could hardly be expected to result in a significant saving of foreign exchange. The representative of South Africa explained that the step had been taken to correct an administrative anomaly, as it was not his Government's policy to include in the list of goods which could be imported into South Africa without permits those goods which were manufactured to any great extent locally. Both items referred to above were manufactured in South Africa. The change in classification did not necessarily mean that there would be a decrease in the imports of the items concerned.

20. In further discussion of South Africa's import policy, members of the Committee expressed concern over what appeared to be a protective element in the formulation and implementation of licensing controls. They noted that for goods subject to import permits, an important consideration for the issue of import licences was the availability of supplies from domestic sources. They felt that this policy tended to shield domestic producers from foreign competition and might thus prevent the establishment of the industries concerned on an efficient basis. The representative of South Africa said that this requirement had been introduced to assure the best utilization of the country's foreign exchange resources. In considering licence applications for imports of raw materials and capital equipment available from domestic sources, full account was being taken of such considerations as price, quality and delivery time. Only if local industries were competitive in respect of all of these criteria would applicants for an import licence be expected to meet their requirements, in the first instance, from local production. Although the Government, in licensing imports, took account of domestic production, licensing controls were exercised so as to cause the least damage to traditional suppliers. As regards the recent decrease in imports of timber and newsprint, this was due to a recession in demand for the products at a time when domestic availabilities had increased.

21. In reply to questions regarding the import licensing of motor vehicles, the representative of South Africa explained that, although no quotas were at present being issued for built-up passenger cars with a retail list price exceeding R1,900, import of CKD material for the local assembly of such cars was permitted. The possibility of providing facilities for the import of built-up luxury cars was currently under review.

#### Effects of the restrictions

22. Referring to the earlier discussion, members of the Committee stated that the system of licensing controls in force in South Africa placed considerable emphasis on demand being met in the first instance from local suppliers. Indeed, the emphasis given to this consideration in granting

licences raised the question as to whether the protective effect of the balance-of-payments restrictions was purely incidental. They pointed out that the protection of uneconomic industries was not in the best interest of the country. The prolonged maintenance of restrictions, which tended to shield domestic producers from foreign competition, would lead to adjustment difficulties for the industries so protected when restrictions were dismantled in step with improvements in the balance-of-payments and reserve position. The representative of South Africa stated that, in order to eliminate the possibility of uneconomic industries being established, a special Government Committee had been set up in May 1961 to review in detail all applications to establish industries requiring import facilities; therefore there was little likelihood of the establishment of uneconomic industries being allowed.

#### General

23. The Committee thanked the South African representatives for the frank and co-operative manner in which they had responded to the many questions put to them. The Committee welcomed the relaxation of import restrictions put into effect by South Africa at various dates during the year. They felt, however, that in view of the very large increase in reserves and continuing favourable development of the balance of payments, there existed scope for substantial further import liberalization. They urged that South Africa should soon make further progress in the direction of import liberalization and that, in reviewing their import policy, the South African authorities should also examine the administration of restrictions with a view to minimizing incidental protection.

24. The representative of South Africa thanked the Committee for the friendly spirit in which the consultation had been conducted, and said that his delegation would not fail to bring the views expressed by members of the Committee during the consultation, to the attention of the South African authorities.

#### List of Annexes

- A. Opening statement by the South African representative
- B. International Monetary Fund Executive Board Decision of  
10 September 1962

ANNEX A

Opening Statement by the Representative of  
South Africa

1. My Government is indebted to the Committee for agreeing to the postponement of this consultation from May to the present time. This has enabled the Acting Director of Imports and Exports to be present himself at the consultations and I have no doubt that his presence will add to the mutual usefulness of this exchange of views and information. We have, in the past, set store on the Committee's consultation with South Africa being both constructive and informative, and, from our side, shall do all we can to ensure that this occasion will provide no exception.
2. It has become customary to speak with appreciation of the International Monetary Fund's contribution to the background material provided for these consultations. My repetition of these sentiments today nevertheless underlines the very real feeling of gratitude we have of the thorough and objective manner in which the IMF officials have once again set about presenting a comprehensive background document on the financial and economic situation in South Africa. The IMF paper therefore provides a valuable backdrop to any evaluation of the import control régime in South Africa such as that the Committee is now engaged upon, and in respect of which members will also have before them the basic document BOP/12 of 23 August 1962, amplified by document Spec(62)274 which was distributed this morning.
3. Mr. Chairman, the fact that a period of about seventeen months has elapsed since our last consultation with this Committee, enables one, in reviewing the situation, to obtain a rather broader perspective than would have been the case had the interval been much shorter. I propose to give the Committee a brief resumé of economic developments in South Africa during this period. I shall confine my remarks as far as possible to supplementing and not repeating the information which has been presented so lucidly in the IMF paper.
4. As in any developing country, a factor of great importance to the authorities is the rate of economic growth. It is generally recognized that a strong balanced rate of growth is conducive to expanding employment opportunities and to the achievement of a higher standard of living for all sectors of the community. The rate of economic growth in South Africa declined noticeably during the second half of 1960 and the first half of 1961. Thereafter a gradual moderate increase took place and the faster economic tempo was maintained throughout

the year ended 30 June 1962. In 1959/60 the gross national product increased by 7 per cent, in 1960/61 by only 4.2 per cent, but in 1961/62 by an estimated 5.3 per cent to R5,690 million. Allowing for an increase in the retail price level of 1.9 per cent, it would appear that for the twelve months as a whole, the real gross national product showed an increase of roughly 3.4 per cent. This compares with a population increase estimated at 2.3 per cent.

5. The questions naturally arise as to what extent the accelerated rate of economic growth found reflection in an expanded consumer demand and to what extent import control had a restricting effect on the full supply of consumers' needs. I shall endeavour to cast further light on this subject as we proceed.

6. During the year 1961/62, the total value of gold output and merchandise exports continued to show a strong upward tendency. During the first seven months of 1962 gold production was valued at R32.5 million more than production during the corresponding period in 1961. Even without further expansion, the output for 1962 as a whole will in all probability exceed R600 million. The main categories of merchandise exports which registered important increases were maize, wool, fruit, pig iron and manufactured products, while uranium exports showed a substantial decline. Whereas exports to the sterling and dollar areas decreased slightly, those to Western Europe and Japan showed marked increases. The most recent export statistics available relate to the first eight months of 1962. In this period, exports of South African produce were valued at R582.0 million, or R35.3 million more than in the corresponding period in 1961. Maize exports were more than doubled, and sugar exports also reached a record level. Exports of diamonds showed a decline of R10 million, whilst exports were also reduced in the case of fish, uranium, ferro-alloys and copper.

7. It is significant that, whereas in former years an increase of this magnitude in the total value of gold output and merchandise exports was usually accompanied by substantial increases in other forms of expenditure on the gross national product, the secondary stimulating effects were not much in evidence in 1961/62. In the first place, although replacement investment increased further, gross fixed private investment is estimated to have been somewhat lower than in 1960/61. It follows, therefore, that net private fixed investment must have shown a larger decrease. Secondly, partly as a result of a substantial decline in the fixed capital outlays of the railways, there was only a moderate increase in public fixed investment. Thirdly, despite a steady increase in private consumption since the third quarter of 1961, private consumption is still estimated to have been R60 million less during the year ended 30 June 1962, as a whole than during the preceding twelve months. Preliminary indications suggest that this decline took the form very largely of a reduction in outlays on durable consumer goods. It is known, for example, that sales of new and used motor vehicles were considerably lower than a year earlier. Sales of furniture and electrical appliances showed a similar trend.

8. Current expenditure by public authorities rose by R103 million as between 1960/61 and 1961/62, compared with an average annual increase of about R33 million in recent years. This was the main single component of the total expenditure on the gross national product, other than gold output and merchandise exports, which did increase substantially in this period.

9. A special word needs to be said about inventories. Both the relatively slow tempo of general economic development during the middle quarters of 1961 and the acceleration during the year 1961/62 are reflected in the behaviour of commercial and industrial inventories during this period. It will be recalled that, after allowance for the usual seasonal changes, such inventories had shown a strong upward tendency during 1960, but had ceased to grow during the first quarter of 1961. Moreover, following the further tightening of import control in May 1961, it had been expected that stocks would be run down to some extent. In actual fact, however, commercial and industrial inventories tended to increase during both the second and third quarters of 1961. While some substitution of locally produced for imported inventories probably occurred, this increase was, no doubt, largely a reflection of the consumption tendencies already discussed. In particular, it would appear that the actual spending by the general public weakened to such an extent during these two quarters that, despite tighter import control and increased exports, stocks of unused or unsold goods tended to accumulate.

10. From about the fourth quarter of 1961, however, as private consumption began to increase again while imports remained relatively low, commercial and industrial stocks first ceased to rise and then, during the first quarter of 1962, actually declined. In general, however, the inventory position of the country remained satisfactory. Indeed, provisional estimates point to a new increase in commercial and industrial stocks during the second quarter of this year.

11. Before turning to imports, I should like to refer very briefly to the behaviour of a few other economic indicators as well. It appears that the four main productive sectors in South Africa, namely agriculture, mining, manufacturing and commerce, all continued to advance during 1961/62. The overall figures for the year as a whole mask the underlying trend, as the acceleration in the rate of increase in economic activity occurred towards the third quarter of last year. In this way, bank debits, railway earnings, building plans and real estate transactions all reached lower turning points before the end of 1961. The available information also suggests that manufacturing output may now be increasing more rapidly, whilst a recent opinion poll clearly indicates that most industrialists are either already experiencing better conditions or confidently expecting a significant improvement soon.

12. South Africa's imports for the years 1957 to 1961, according to countries of origin, are tabulated in Annex E to the basic document BOP/12. Between 1960 and 1961 imports declined by R106 million or 9.5 per cent. The most recent information relates to the first eight months of 1962. As compared with imports in the corresponding period of 1961, there has been a decline in value of R25.5 million. However, in both July and August 1962, imports exceeded the levels of a year earlier. During the IMF consultations in Pretoria in July, it was stated that an expansion in imports of the order of R120 million was expected over the year as a whole. In the basic document (BOP/12) we have also indicated that provision has, in fact, been made for such an increase in the allocation of quotas. In announcing additional import facilities for consumer goods and textile piece-goods, on 28 August 1962, the Minister of Economic Affairs also stated that although there was at present no shortage of these goods in the country, he expected a gradual increase in the demand therefor during the balance of 1962. In anticipation of this demand, and with a view to especially the Christmas trade, the additional facilities should ensure that no shortages develop in the ensuing months.

13. Mr. Chairman, I have confined my remarks to the economic situation in South Africa, as an understanding of this situation greatly facilitates the interpretation of the financial and monetary situation. In this field, the outstanding feature in 1961/62 was undoubtedly the phenomenal and virtually continuous surplus in the country's balance of payments. As compared with a deficit of R71 million in 1960/61, provisional estimates for 1961/62 show a net surplus of R249 million in the overall balance of payments. This is made up of a surplus on current account of R353 million and a deficit on capital account of R104 million. The principal changes, as compared to 1960/61, were:

- an increase in merchandise exports of R101 million;
- an increase of R44 million in the net gold output;
- a decrease of R142 million in imports; and
- a decrease of R40 million in net current invisible payments

14. In his address to shareholders on 14 August 1962, Dr. M.H. de Kock, Chairman of the Board of Directors of the South African Reserve Bank, explained very lucidly why the tightening of exchange control on capital transfers cannot be given as a factor making a positive contribution to the large surplus in the balance of payments in 1961/62. Its function was merely to limit the possible draining-off of a surplus arising from other factors.

15. Dr. de Kock similarly explained that of the net capital outflow of R104 million the official and banking sector was responsible for no less than R82 million despite new receipts of R50 million, as the opportunity was also taken to repay certain credit facilities which could again be freely utilized

as and when required. The net outflow of capital from the private sector continued, although on a relatively small scale, namely R21 million in 1961/62 compared with R123 million in 1960/61 and R145 million in 1959/60.

16. The developments referred to above led to a welcome increase in the Reserve Bank's holdings of gold and foreign exchange from the relatively low level of R153.4 million on 30 June 1961, to R407.5 million a year later (on 12 September the reserves stood at R423.6 million); and the Bank's legal reserve ratio increased to the highest level in its history. The inevitable result of this trend has been the transformation of the local financial scene from a state of relative stringency and high interest rates to one of increasing liquidity throughout the financial structure and a general downward trend in interest rates.

17. In the light of the monetary conditions within the country and the buoyancy of gold-mine production and merchandise exports, the revival in economic activity has so far not come up to expectations. Big development projects in the public and semi-public sectors, as well as the enlarged defence programme, are still in the preliminary stages and will take some time to exert a strong and direct impact on the level of gross domestic expenditure. It should nevertheless be clear to the Committee, Mr. Chairman, that the stage is set for further economic expansion in the near future.

18. Official gold and exchange reserves have shown violent fluctuations during the past five years - namely from R271 million on 28 February 1957, down to R145 million on 31 May 1958, then up to R312 million on 31 January 1960 and down again to the low point of R142 million in mid-June 1961, and up once more to R407 million on 30 June 1962. The fact that these fluctuations have at times been accompanied or followed by the tightening or relaxation of the import and exchange restrictions, has in recent months caused a great deal of attention to be directed to the question of the level of the reserves which would be adequate, for the present and the foreseeable future, to ensure a minimum of disturbance in the import and exchange control policies to be followed by the authorities. It should be pointed out that the aforementioned figure of R407 million in the middle of this year, although the highest since the abnormal position of the years 1945-1947, represents only  $4\frac{1}{2}$  months of the country's average annual imports in the past five years, whereas in many countries the equivalent of at least 6 months' imports is considered to be a more appropriate basis. The need for larger average reserves than in the past has also been mentioned, in view of the large increase, during the last 20 years, in the volume of money in circulation and in other liquid assets held by the public.

19. The deduction is, therefore, that the monetary reserves have, on average, been too low since 1948, and have at times seriously restricted the scope for manoeuvre in monetary policy, but this was due primarily to the exceptionally rapid economic development which the country experienced during the period 1947-57 and which substantially raised the standard of living of all its inhabitants. In other words, except for occasional overspending on

imports destined for consumption, good use was made of the available reserves and receipts of foreign exchange from exports and foreign investments during that period.

20. Consequently, Mr. Chairman, I should draw attention to the fact that it is the expressed intention of the South African authorities to build up, whenever possible, international reserves to a higher level. In the absence of exchange control, the reserves have, on average, been insufficient because of marked fluctuations, particularly in private non-direct investment. The total of such investment was R872 million at the end of 1960, and of this amount, ordinary shares accounted for about R580 million. Since then, this figure has been reduced but, before completely removing the restrictions and controls imposed in June 1961, we would wish to see the reserves show a further substantial increase. As to an appropriate level of reserves, we do not have a specific figure in mind as the optimum level for any country at any given time depends upon a number and variety of factors.

21. In summary, Mr. Chairman, the position is thus that the exchange restrictions and the import restrictions are closely related measures and that contemplated relaxations of import control will have to take the level of exchange restrictions into full account. No undue hardship has yet been caused to either industry, commerce or the consumer by the level of the quantitative import restrictions and the authorities will do their utmost to limit hardship in the same manner in the future.

And finally, Mr. Chairman, I would like to bring to the notice of the members of this Committee, the latest steps in the relaxation of the measures announced in May 1961.

A supplementary document regarding the concessions granted to importers has already been mentioned by me in my opening remarks. That document has been circulated. In addition the following further steps in the liberalization of South Africa's exchange control measures were announced on 28 August 1962 by the Minister of Finance. Summarized, these steps are:

1. the making available periodic allocations of sterling to finance arbitrage transactions in South African securities between the Johannesburg Stock Exchange and stock markets abroad;
2. to consider favourably applications by non-residents to utilize their blocked Rand balances in the equity of loan capital of manufacturing enterprises; and
3. to increase the emigration or "settling-in" allowances of emigrants who emigrated after 28 August 1962 from the present maximum of R10,000 per family to 50 per cent of the value of the emigrants assets with a maximum of R30,000 per family unit.

ANNEX B

International Monetary Fund Executive Board Decision  
of 10 September 1962 at Conclusion of the  
Consultation between the Fund and the  
Republic of South Africa

1. The Government of the Republic 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. The rate of increase in gross national product fell off sharply in 1961. Increases of 5-6 per cent in each of the two preceding years were followed by an increase of 1-2 per cent from 1960 to 1961. Fixed capital formation increased slightly, but private consumption expenditures and inventories both declined. Bank credit to the Government and to the private sector both declined during the twelve months ending March 1962. The increase in the public's holdings of money and other liquid assets arose from the improvement in the balance of payments. Prices have remained relatively stable. The official discount rate was reduced from 5 per cent to  $4\frac{1}{2}$  per cent in December 1961 and further to 4 per cent in June 1962. The budget for 1962/63 called for increased current expenditure; certain taxes were also increased and allowances abolished. Capital expenditure is at about the same level as in the preceding year. It is expected that almost all the over-all deficit will be financed by long-term borrowing, both domestic and foreign.
3. The gold and foreign exchange reserves of the Reserve Bank increased from a low of R142 million in June 1961 to R276 million at the end of that year and to R421 million as of August 24, 1962. This has been due principally to an improvement on current account (imports and payments for invisibles have been reduced, and exports have increased), but also to a reduction in net capital outflow largely as a consequence of controls imposed in mid-1961 and of increased confidence.
4. South Africa has continued to maintain nondiscriminatory restrictions on trade and current payments, tightening them in the first half of 1961 as reserves declined, and relaxing them to a certain extent in 1962 as reserves increased. The Fund notes the view of the South African authorities that their reserves, while increasing, have not yet reached a level at which the remaining restrictions can be withdrawn on a reasonably permanent basis. In view of the continuing increase in reserves, the Fund considers that South Africa should be able in its 1963 import program to make substantial progress in eliminating restrictions.
5. In concluding the 1962 consultations, the Fund has no other comments to make on the exchange system of the Republic of South Africa.