

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2435

1 June 1965

Limited Distribution

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 1965 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/46), and (b) documentation provided by the International Monetary Fund, as noted in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 10 May 1965. The present report summarizes the main points of discussion during the consultation.

Consultation with the International Monetary Fund

3. 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 and background material from the last consultation with the Republic of South Africa under Article XIV of the Fund Agreement.

"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 invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 5, 1965 taken at the conclusion of its recent consultation with the Republic of South Africa and particularly to paragraph 4 which reads as follows:

'Restrictions on imports were further relaxed in 1964 and there was some simplification of the restrictive system. The Fund welcomes these relaxations and urges the South African authorities to continue working toward the removal of the remaining restrictions maintained for balance of payments reasons and to rely on internal financial policies.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its recent Article XIV consultation with South Africa and has no additional measures to suggest at this time."

Opening statement by the representative of the Republic of South Africa

4. In his opening statement, the full text of which is annexed to this report, the representative of South Africa reviewed developments in South Africa's balance-of-payments situation and in the economy in general. As predicted last year, foreign exchange reserves had declined appreciably and this decline is still in progress; reserves at the end of March 1965 were only about R442 million compared with the peak of R583 million reached in January 1964. The domestic economy continued to be buoyant and for the third successive year the real gross national product showed an increase of some 7 per cent per year. Investment continued high, especially in the private sector, and there was a substantial rise in consumer expenditures, including the sale of automobiles. Wholesale and consumer price indexes had moved upward 3-5 per cent, mainly in the second half of the year, largely as a result of rising food prices attributed to unfavourable weather conditions in certain agricultural regions. The increase in imports, which had helped to keep prices stable, was 23 per cent as compared with 1964, a figure considerably greater than the increase in gross national product. Exports increased less and net invisible expenditure increased so that there was a deficit on current account amounting to R78 million. To cope with these developments, South Africa was not at this stage tightening import controls; in fact additional products had been freed from control. Instead various internal measures had been adopted: an increase in the Bank rate from 3.5 per cent early in 1964 by stages to a present 5 per cent, increases in the ratio of liquid assets required to be held by commercial banks, tighter regulations by the Central Bank for extension of credit and other measures to restrain credit expansion. It was hoped in this way to slow down consumer buying with favourable effects on reserves, without a change in import policy.

Balance-of-payments prospects and plan

5. Members of the Committee thanked the representative of South Africa for his clear description of the development of the South African economy in 1964 and welcomed the steps taken in the further relaxation of restrictions. It was recalled that South Africa's present payments difficulties had been caused in 1960 mainly by an acute outflow of capital in 1960, which had reduced foreign exchange reserves to a low level. The situation seemed now to be evolving toward pressure on resources for implementation of development; shortages of manpower and of capital were developing, consumer demand was booming and as a result there was pressure on prices which seemed to be the major current symptom of disequilibrium. Reference was also made to the IMF decision in which South Africa was urged to continue working toward the removal of remaining restrictions and to rely on

internal financial policies. The question was raised whether it was not time for South Africa to take further advantage of the moderating influence of unrestricted imports to help control price movements and whether South Africa might not better use fiscal and monetary measures to protect the balance of payments. Specifically, it was asked whether the measures now invoked by South Africa to relax import restrictions and to dampen inflation were part of a conscious and deliberate policy to build up reserves and to dismantle the restrictive import system. If so, what time-table was envisaged for accomplishing this purpose.

6. The representative of South Africa, in his replies, stressed the point that the total gold and foreign exchange reserves of his country had undergone a substantial decline during 1964 and that this downward trend, which had been beginning at the time of the last consultation, was even now continuing week by week. Total reserves had dropped to some R390 million on 5 May 1965 or below the safe minimum for a relatively new country which pays for its imports on a current cash basis; in fact reserves would now cover only approximately three months' imports on an f.o.b. basis or about two and a half months' total current payments. Notwithstanding this deterioration in its reserves of foreign exchange, the South African authorities had not taken any steps to intensify control on imports. Imports had increased during 1963 by 24 per cent over the preceding year, and during 1964 had shown a further increase of 23 per cent over 1963. It was acknowledged that the rise in imports had had a moderating and stabilizing effect on the country's price structure. The planned attack on this existing booming consumer demand had been by monetary and fiscal policies, and if these were effective, as it was expected they would be, there would be a dampening down of demand with a consequent falling off in imports which in turn would allow the present unsatisfactory reserve position to correct itself. In conformity with this policy, and using monetary and fiscal policies to correct the position, the South African Minister of Economic Affairs had announced on 28 April 1965 that the 1964 level of import permits for the second 1965 issue would be maintained with only one modification designed to use up imported stocks of medium and low-quality poplin.

7. The representative of South Africa stressed that the announcement indicated the degree of reliance placed by the authorities on the new monetary and fiscal policies. The tightening of import control would only take place if these policies did not become effective and if time did not allow alternative measures to be introduced, as it would not be in the interest of either South Africa or its trading partners to allow the reserves to run down to a very low level. The representative of South Africa pointed to the progressive steps which had been taken since 1961 to relax import control and again stated that once the reserves had reached a satisfactory level import control would be abandoned. In the past it had been found in practice that when the reserves were in the vicinity of six months' total commitments, no balance-of-payments difficulties were encountered.

8. As for a time-table, plans had been made in 1959 and in 1963, but events made it impossible to move in accordance with such plans. In a relatively young country which is in process of diversifying its economy, such as South Africa, rapid changes occur from time to time which make planning difficult. South Africa for example normally exports maize, wool and sugar and is self-sufficient in dairy products. But recently drought conditions had adversely affected these exports and had even led to a necessity to import certain foods. The resulting higher prices of agricultural products have in fact gone a long way to account for rises in price levels; such moderate demand inflation as exists comes not from any shortage of goods but from a shortage of skilled labour and the rapid expansion of credit. It was pointed out that South Africa, traditionally a cheap money country, had increased its Bank rate from 3.5 to 5 per cent and that banks were now required to maintain higher liquidity ratios than was heretofore the case; these measures are designed to make money and near money both more expensive and more difficult to obtain.

9. Referring back to the original capital outflow which had characterized South Africa's crisis in 1960, it was noted by members of the Committee that while South Africa's reserves are indeed deteriorating, this weakness does not appear to stem from the private capital account, which improved from a net outflow of the order of R85 million in the first half of 1964 to a net inflow of some R22 million in the second half of the year. This seemed to point to the fact that the decline in South Africa's gold and foreign exchange reserves, which amounted to some R51 million in the latter half of 1964, stemmed from the deficit on current account, which had resulted in part from import relaxations. In the view of members of the Committee this simply pointed to demand inflation as the source of the trouble and for that purpose South Africa should adopt adequate monetary and fiscal measures while moving further toward liberalization, as a guarantee against rising prices, and as a means of furthering competitive efficiency. The representative of South Africa pointed out however that on private and official capital account in 1964 there was a net outflow of R51 million.

Alternative measures to restore equilibrium

10. Members of the Committee enquired what internal measures were being taken to curb consumer demand; specifically, they enquired what was being done about Government spending and whether, on balance, it was felt that the overall cash Government budget would reduce, maintain or add to the amount of purchasing power in the economy. In particular, they asked whether the combined effects of all the budget accounts were expected to have a restraining effect.

11. The representative of South Africa agreed that consumer spending was perhaps excessive and said that the Government was well aware of the dangers involved. The volume of commercial bank discounts, loans and advances had, for example, increased by 40 per cent in 1964. The 1965-66 budget was designed to contain inflationary tendencies and yet allow healthy expansion to continue; it was

also designed to halt the excessive growth of monetary demand in respect of both investment and consumption, and particularly non-essential consumption. He stated that the fiscal policies adopted included a compulsory loan levy of 5 per cent on income tax on certain persons and companies. He stated that the problem was a complex one in that certain sections of the community, including the farming community, were not as prosperous as, for example, the business community and fiscal measures had to be designed for general application.

System and methods of restriction

12. Members of the Committee expressed concern that the maintenance of import restrictions by South Africa might, while not preventing the expansion of trade, distort the pattern of trade which would prevail if import restrictions could be removed; in particular they felt that there was danger that protection might be accorded to industries which were not viable in the long run. The representative of South Africa stated the principal aim of economic policy in South Africa is the achievement of the maximum rate of growth consistent with financial stability. There is some tendency to make the economy self-sufficient but such a policy is not pursued irrespective of cost, and the Government in general encourages only those industries which give promise of developing efficiently. Moreover, the way in which import control works in practice allows for the importation of all types of goods, even those on the restricted list of imports, so that all goods manufactured in South Africa are subject to competition from similar imported goods. The importer himself is free to decide which goods should be imported and from which countries. He felt the fact that two thirds of importers of consumer goods did not bother to apply for their 1964 third round allocation of permits indicated there was no great feeling of frustration among importers themselves, and indicated also the high rate of permit issues granted for 1964.

13. Members of the Committee also expressed their view that, notwithstanding progress towards simplification of the import system, much of the complexity remained and surely operated as a disincentive to importation out of all proportion to any benefit to South Africa. The representative of South Africa drew attention to the favourable comment of the Executive Board of the International Monetary Fund on recent simplification of the system. He explained that there really are only three basic categories of goods for import licensing purposes: (1) those which may be imported without an import permit constituting about 31 per cent of South Africa's 1964 imports (this category was expanded for 1965); (2) those which may be imported under permit but for which no specific annual quotas are granted to individual importers, making up about 64 per cent of South Africa's 1964 imports, including motor-vehicle components; and finally (3) those goods imported under permit but governed by specific quotas to individual importers, making up some 5 per cent of imports. These three categories together cover the entire range of commodity classification. Within certain commodity groups falling in the second and third categories there are particular goods which must be specifically described in the import permit in order to be imported, and this is the fourth licensing

category described in BOP/46. Import permits are issued not on a commodity basis but in general terms and an importer requiring a specific import permit converts his normal issue on the basis of R2 of the general permit for every R1 specific import permit required, provided however, that in respect of the first R5,000 of an importer's general allocation, there was no loss in the face value of the permit. It was confirmed that even if goods were included in the restricted list of imports, any such goods which were imported under rebate of the general customs duty were automatically exempted from the restrictions of the list.

14. In response to a question, the representative of South Africa stated that the original basis of granting import allocations had been based on the value of 1948 imports by that firm. This in the course of time had been changed and import facilities were now calculated in the case of merchants on the volume of business done allied to the type of business. Individual importing firms received their allocations on this basis. The scheme did not therefore provide for the division of a block allocation by a trade organization to the individual members. Individual firms all receive their allocations direct from the Directorate of Imports and Exports.

15. In response to questions, the representative of South Africa stated that automobile imports consist of three categories, namely (i) those imported built-up, (ii) those which are assembled in South Africa and which did not aspire to group (iii), and (iii) those with a South African content by weight of 45 per cent rising to 55 per cent within three and a half years of the date the car was proclaimed a South African manufactured model. Importers were free to make their own decisions regarding the categories in which they fall. Category (ii) received more liberal treatment than Category (i), while Category (iii) had been freed from import control. The percentages of the market were: Group (i) approximately 1 per cent, Group (ii) approximately 20 per cent and Group (iii) approximately 80 per cent. The representative of South Africa confirmed that apples are accorded token licences, to maintain traditional trade ties. Concerning the import treatment of tyres reinforced with metal, he stated that South Africa's manufacturing capacity for tyres exceeds present needs, as some countries, for example Rhodesia, to which South Africa formerly exported tyres, now make their own. Hence tyre imports are considered unessential.

16. A question was also asked concerning the extent to which South Africa is carrying out the undertaking which the South African delegate had given in 1960 to the GATT Working Party on the Trade Agreement with the Federation of Rhodesia and Nyasaland in which he had said that his Government was "prepared to undertake to eliminate the preferential situation enjoyed by products of the Federation from the Union's balance-of-payments restrictions through a general liberalization of South Africa's restrictions as rapidly as its balance-of-payments and reserve positions permitted, giving priority to products for which preferential treatment was meaningful to the trade of the Federation" (BISD, Ninth Supplement, p. 233). The representative of South Africa stressed that Rhodesia's share in South Africa's imports is very small, being only 1.4 per cent of total in 1964.

He also stated that imports of these goods from other countries had also benefited as a result of the larger allocations granted progressively since 1961. Some commodities imported from Rhodesia were of a kind that would not in all likelihood be imported at all if they had to be brought from a great distance. It was also emphasized that the trade agreement with Rhodesia itself has built-in limits on the amounts of some commodities which South Africa will import duty free, or at preferential rates, even though Rhodesian goods are not subject to quantitative restriction under the general system; leaf tobacco and some items in the group which includes clothing and textiles are examples of products subject to tariff quota.

The South African representative assured the Committee that as and when circumstances permitted the undertaking given in 1960 would continue to be implemented.

Effects of the restrictions

17. Members of the Committee reverted to their concern that the restrictions may be serving mainly purposes other than those for which they were originally intended. This protective effect extends in some cases to goods of a kind not made in South Africa, merely because the imports are competitive with locally manufactured goods. The representative of South Africa recalled that the purpose of the restrictions is to save scarce foreign exchange and said that it was his Government's view that if, for example, heaters designed for use with electricity or propane were available from local sources, there was no need to admit heaters designed for use with other fuels, but provision existed for such heaters to be imported on the basis of the two-for-one exchange of foreign-exchange allocation, which remained as a guarantee against excessive local prices.

18. On the general question of the effect of the licensing system on the quantity of imports, the representative of South Africa also noted that the practice of announcing foreign-exchange allocations ahead of time helped importers to maintain a flow of supplies. So for example, the first 1965 allocation had been announced in November when a second was promised for April, and this had just now been made. Also he stressed, South Africa had never revoked an allocation once made and is proud of this record.

General

19. Members of the Committee urged South Africa to continue to work towards liberalization and felt that a definite time-table would be helpful in assuring that this objective was clearly kept in mind and would be achieved promptly. As a first step, South Africa was urged to return to the free list all items removed from it since 1961. High priority should be given to complete removal of the "fourth" or specific permit system and progressive increase of quotas on general merchandise should be assured.

20. Goods not made in South Africa should not be restricted on the ground that they compete with local products. Also, in spite of simplification achieved, it was felt that the system was still too complex. The fact that importers had not fully utilized allocations late in 1964 could indicate that there were many goods, especially in the first licensing category, and including raw materials and capital equipment, which could well be freed entirely from any licensing requirement. If South Africa feels that any control must continue, certainly it is high time to establish a time-table for removal of the restrictions as a guarantee that the system established to deal with a temporary difficulty does not perpetuate itself for other purposes.

21. The representative of South Africa repeated the assurance given at previous consultations that as and when conditions allowed further steps would be taken to relax further the present restrictions. The restrictions were, however, maintained in the present circumstances in the interests not only of South Africa but also of its trading partners and it was still very necessary to proceed with caution.

Annex:

OPENING STATEMENT BY THE REPRESENTATIVE OF SOUTH AFRICA

The Committee will recall that during the last consultation with South Africa in May 1964, I mentioned two developments which could be regarded as the first signs of pressure which the expansionary influences at work in the economy might have on the balance of payments.

I am referring firstly to the balance of payments on current account which, after reaching a peak surplus of R308 million in 1962, declined to a deficit of R78 million in 1964, and secondly to the downward trend in the country's total gold and foreign exchange reserves since the month-end peak of R582.7 million recorded in January 1964.

As far as these two developments are concerned, the Committee at that time merely noted that it might be too early to say that the tapering of the reserves was in fact a trend.

From the documentation before us today, it will be observed that the views expressed a year ago have proved to be true. Total gold and foreign exchange reserves have declined appreciably since our last consultation and the indications are that this downward trend will continue until the various corrective measures, to which I shall refer later, have become effective.

However, before elaborating on the factors which have contributed to this trend and, more important, the steps taken to curb it, I should like to emphasize the extent to which the reserves have in fact declined, in view of the important bearing which this has on South Africa's import policy.

As I pointed out last year, the total gold and foreign exchange reserves reached a peak of R582.7 million in January 1964. Since then, there has been a persistent decline amounting to R89 million in 1964, compared with increases of R87 million and R188 million in 1963 and 1962, respectively. Since the end of 1964, there has been a further decline reducing the reserves to about R442 million on 31 March 1965.

Conditions in the South African economy in general remained buoyant throughout the whole of 1964. The gross national product at current prices is provisionally estimated at R7,417 million, which is approximately 11 per cent above the figure for 1963. After allowing for price increases and changes in terms of trade, it is estimated that the real gross national product increased by about 7 1/2 per cent in 1964. This is the third year in succession that a real gross rate of approximately this magnitude has been achieved.

There was a further substantial increase in private capital outlays on plant, equipment and construction which again constituted one of the major causes of the continued rise in the real gross national product. Towards the end of the year fixed investment by public authorities declined slightly, but for the year as a whole total fixed investment increased by 18 1/2 per cent compared with 1963, private fixed investment showing an increase of R190 million or 26 per cent. Of the increase in private fixed investment, private manufacturing accounted for R92 million, while residential construction, commerce, transport and mining also registered important increases.

After a decline during the third quarter of 1964, inventory investment increased sharply during the fourth quarter. For the year as a whole total stocks of goods increased substantially, although at a slower rate than the gross national product.

The increase in capital spending in 1964 was accompanied by a rise of no less than 14 per cent in total private consumption. Expenditure on new motor cars was responsible for a large portion of this increase.

There was a slowing down in the rate of increase of current expenditure by the Government and other public authorities during the last two quarters of 1964, but it nevertheless increased by nearly 13 per cent as compared with 1963.

The sharp increases in both capital and consumer outlays during the fourth quarter of 1964, came at a time when total demand was already exerting pressures upon available resources. Not only did the general high level of spending cause a shortfall of R78 million on the current account of the balance of payments for the year - the first time since 1958 that a shortfall was experienced for a year as a whole - but wholesale and consumer price indexes showed seasonally adjusted increases of 3.5 and 5.3 per cent per year respectively, during the second half of 1964, compared with increases of 1.6 and 2.3 per cent during the previous twelve months.

I must stress however that the increase in the wholesale price index in the second half of 1964 was largely a reflection of increases in the prices of agricultural products while the rise in the consumer price index was again mainly the result of a rise in food prices which can largely be attributed to unfavourable weather conditions in certain agricultural regions.

The South African authorities are fully alive to the important contribution which imports have made in keeping this price movement within manageable limits. As was expected, imports again rose sharply from R1,296 million in 1963 to R1,589 million in 1964, an increase of R293 million or 23 per cent as against the large increase of 24 per cent in 1963. This increase was due entirely to imports by the private sector, as Government imports actually fell from R80 million in 1963 to R60 million in 1964. Imports of raw materials rose by R149 million, capital goods by R106 million, and motor vehicles and parts by R54 million. General merchandise imports, office equipment and textile piece-goods likewise showed substantial gains.

Reflecting the fact that imports have been expanding at a much faster rate than the economy in general, the ratio of imports to the gross national product increased from 19 per cent in 1963 to 21 per cent in 1964.

These substantial and impressive increases in imports for two successive years could not have been accomplished without the substantial relaxation of import control.

During 1964 the allocation for consumer goods was increased by 10 per cent, and the allocation to merchants for textile piece-goods from 75 per cent to 85 per cent of their assessment bases. Motor cars with an approved local content programme were removed from control, while importers of raw materials and capital equipment continued to obtain their full requirements.

For 1965 the pattern of import control has not only been simplified by the transfer of certain items totalling about 11 per cent of the country's total imports to the free list, but liberal import facilities have once again been authorized for goods which are still subject to import permit.

Merchandise exports continued to lag behind imports, increasing in 1964 to R1,082 million or by about 6 1/2 per cent as compared with the previous year. Net gold output, although showing a tendency to level off towards the end of 1964, nevertheless increased by 7 per cent over the figure for 1963. Total net invisible payments increased by R46 million, mainly due to increased freight and insurance payments on the higher level of imports. This resulted in a deficit of R33 million on current account for the fourth quarter of 1964, bringing the total deficit for the year to R78 million. If, however, adjusted for seasonal influences and taken at an annual rate, the deficit for the fourth quarter actually amounted to R228 million, which was the largest adjusted quarterly deficit since the first quarter of 1958.

The deterioration in the current account of the balance of payments from a surplus of R148 million in 1963 to a deficit of R78 million in 1964 reflected the following increases:

- R293 million in merchandise imports;
- R 65 million in merchandise exports;
- R 48 million in net gold output; and
- R 46 million in net current invisible payments.

In assessing the prospects of the current account balance for 1965, account must, in particular, be taken of the vulnerability of merchandise exports. Although there was a welcome rise of over 13 per cent during 1964 in the exports of manufactured goods chiefly classified by material, South Africa remains to a large extent dependent on the exports of agricultural products, which, due to conditions

of severe drought, are expected to be substantially lower during 1965. The commodities primarily affected are wool and maize. Wool production for the 1964/65 season is provisionally estimated at 283.5 million pounds in weight, which is 22.5 million pounds or about 7 1/2 per cent lower than the figure reached during the previous season. Exports, which amounted to R130.1 million last season, dropped by R25 million, more than 25 per cent, to R73 million in the first eight months of the current season, compared with the same period in the previous season, mainly as a result of the decline in offerings and a 16.6 per cent decline in average prices. As regards maize, exports during the 1963/64 crop year amounted to 27.4 million bags of 200 lbs., valued at R88.7 million, whereas only 4 million bags are expected to be available for export during the 1964/65 season.

As far as the capital account of the balance of payments is concerned, there was a net capital outflow of R51 million in 1964, with the result that, after allowing for omissions and errors, the country's official gold and foreign exchange reserves declined by R89 million in contrast to an increase of R87 million in 1963. More than half of the decline in 1964 occurred during the last two months of the year, and this sharp downward trend continued in the opening months of 1965 reducing the reserves from R489.1 million at the end of 1964 to R442 million at the end of March 1965. The level of the reserves was then equivalent to less than three and a half months' imports, valued f.o.b., on the basis of the value of imports in 1964, and to slightly more than two months' total current payments (i.e. imports plus gross service and transfer payments, the latter amounting to R605 million in 1964).

Notwithstanding the overall balance-of-payments deficit, the seasonally adjusted ratio of money and near money to gross national product remained virtually unchanged during the fourth quarter of 1964 at the relatively high figure of 35 per cent, mainly as a result of a substantial further expansion of credit and, in order to stop the increasing internal inflationary pressure and its accompanying drain on the country's reserves, special measures had to be taken.

After the Bank rate had been increased from 3.5 per cent to 4 per cent in July 1964 and 4.5 per cent in December 1964, the following further disinflationary steps were announced by the Minister of Finance on 5 March 1965:

- (a) the Bank rate was further increased to 5 per cent;
- (b) the ratios of liquid assets to be held by the commercial banks against their short and medium term liabilities to the public were increased by 4 per cent;
- (c) the pattern of rates for Government stocks was raised; and
- (d) the Reserve Bank was authorized to decline accommodation, whether sought directly or indirectly, or to charge penalty rates to any institution which in the Bank's view had been extending credit to an excessive degree or for non-essential purposes.

On 2 April 1965 the ratios of liquid assets to be held by the commercial banks increased by a further 2 per cent.

During the week preceding this announcement, the Governor of the Reserve Bank held discussions with the representatives of the main types of banking institutions and impressed upon them the need for a substantial reduction in the rate of increase of credit, particularly credit for non-essential consumption.

In addition, the Reserve Bank, with effect from 22 March 1965, imposed maximum deposit interest rates on all commercial banks, merchant banks, discount houses and other banking institutions, as well as building societies. This step was taken because competition among banking institutions for funds had resulted in an excessive increase in certain deposit rates, which tended to distort the interest rate structure, resulting in undue pressure on certain lending rates, particularly those for residential construction while at the same time enabling hire-purchase, general and savings banks to attract considerable additional funds which could be used for credit extension, thus increasing inflationary pressure.

These measures are primarily aimed at restraining the excessive tempo of credit expansion to a rate which will not further stimulate inflationary pressure, but which will assist in maintaining reasonable stability at a rate of expansion commensurate with the country's resources.

In conclusion I should like to draw particular attention to the following:

- (a) following substantial relaxations in import control, imports rose by 24 per cent in 1963 and again by 23 per cent in 1964;
- (b) further relaxations for 1965 have been announced and additional goods totalling some 11 per cent of South Africa's imports based on 1964 figures have been freed from import controls making in all some 31 per cent of the country's imports free from import control;
- (c) prices remained reasonably stable in the first half of 1964, but a measure of inflation occurred in the second half of the year;
- (d) the gold and foreign exchange reserves have declined sharply mainly as a result of a large deficit on current account; and
- (e) the South African Government has acted promptly with both monetary and fiscal measures to deal with inflationary pressure and the deterioration of the current account of the balance of payments.

In deciding on the further relaxation of import control for 1964 and 1965, the South African Government bore in mind the views of this Committee as expressed at the consultation a year ago and granted for 1964 additional import facilities for those goods still subject to import control which resulted in the value of South Africa's imports reaching an all time record of R1,589 million. That policy was further pursued during 1965 by substantially increasing the Free List of Imports - i.e., goods which may be imported without an import permit.