1961 CONSULTATION UNDER ARTICLE XIII:4(b) WITH THE UNION OF SOUTH AFRICA

IMF Executive Board Decision 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 4½ 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 regime 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.