1. The Committee has conducted the 1964 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/34) and (b) a background document provided by the International Monetary Fund, with a supplement thereto, and a decision by the Executive Board of 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, 78/97-98). The consultation was completed on 21 May 1964. 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 document concerning the position of South Africa. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision and background material from the latest consultation with the Republic of South Africa under Article XIV of the Fund Agreement."

1See Annex II.
"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 March 11, 1964, taken at the conclusion of its recent consultation with the Republic of South Africa, and particularly to paragraph 5 which reads as follows:

'Restrictions on imports were further relaxed in 1963 but the control system remains complex. The Fund notes the intention of the South African authorities, if the balance of payments continues to improve, to remove effective import restrictions, with the possible exception of certain restrictions which may be necessary for other than balance of payments reasons. In accordance with this intention and in view of the strength of its balance of payments and reserve position, the Fund believes that South Africa should proceed to eliminate as soon as possible restrictions maintained for balance of payments reasons.'

"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 latest consultation with South Africa. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of South Africa

In his opening statement, the full text of which is annexed, the representative of South Africa called attention to the several significant developments that have taken place in the six months since the last consultation and gave a survey of the balance-of-payments situation as of the end of the first quarter of 1964. The 1963 increase in real gross national product over 1962 was provisionally estimated at 9 per cent, compared with 7 per cent in 1962, or an increase in real gross national product per head of population of 7 per cent in 1963, but he noted that the rate of increase had been somewhat lower during
the fourth quarter than earlier in the year. Increase in fixed capital investment had contributed importantly to this rise. Increased investment in turn had stimulated consumption, which rose by about 11 per cent in 1963. Despite the rapid expansion, prices had remained relatively stable, both at the wholesale and retail levels, thanks in part to a 24 per cent increase in imports, from R1,046 million in 1962 to R1,296 million in 1963. This very large increase in imports, 80 per cent of which was in the private sector, underlined the extent of the relaxations of import control effected in 1963 and a further increase was expected in 1964 as a result of the additional measures of relaxation which had been placed in effect recently. First quarter imports in 1964 were up by 27 per cent over the corresponding months of 1963. Characteristically, the increase in gross national product had given rise to a greater than proportionate increase in imports, as has happened before in South Africa. Exports increased at a much slower rate than imports in 1963, namely, by R60 million as compared with 1962, reflecting an advance in prices of some of the important export commodities. Wool, maize, sugar, copper and diamonds were mainly responsible for the overall increase. The volume of gold output will probably reach a peak in 1964 but may soon begin to decline.

5. In these circumstances, the surplus on current account in 1963 was reduced by more than half, as compared with 1962, to R143 million in 1963. Moreover, the surplus ran at an even lower rate in the second half of 1963, while it was estimated to have disappeared altogether in the first quarter of 1964. Taking into account a net capital outflow of R83 million, and after allowing for errors and omissions, the country's reserves of gold and foreign exchange increased by only R87 million in 1963 as compared with R188 million in 1962. In the first quarter of 1964, reserves first rose slightly and then declined somewhat, ending at a level some R11 million below the year-end figure.

6. The 1963 developments had enabled the South African Government to proceed with major relaxations with the result that import permits are freely issued for all but four previous Group A consumer goods and the two allocations this year
for goods for which annual quotas are granted are already 10 per cent higher than the three allocations made during 1963. Finally, the list of goods subject to specific licence has been shortened by the removal of sixty-four commodity items. Because of the various indications that reserves may decline further and various uncertainties, South Africa feels it would be imprudent to plan further definite relaxations in restrictions at this stage.

**Balance-of-payments position and prospects**

7. The Committee discussed with the representative of South Africa the factors underlying South Africa's balance-of-payments position, with special reference to South Africa's belief that recent slowing in the growth of reserves might represent a trend. The South African representative explained that though the recent decline in reserves thus far was relatively modest, it was believed that there might be a lag in the actual decline, caused by extension of short-term credit to importers at a time when imports were increasing rapidly. Several members of the Committee noted however that the absolute level of South Africa's reserves which are sufficient to cover five and a half months imports, was reasonably comfortable, higher in fact than some countries which do not maintain import controls on balance-of-payments grounds.

8. On capital account, the representative maintained in response to a question that the official figure of R.83 million for net capital outflow did not much overstate the real position.

9. In response to further questions, South Africa felt that the outlook for increased imports combined with the poor outlook for increased exports was a major reason for caution. He emphasized that even with better prices for some important exports, the return from exports in 1963 had increased by very little, because of drought conditions which have appreciably reduced the current year's maize crop and may even to some extent affect yields, and because of the situation confronting marginal gold mines, where rising mining costs and a fixed gold price threaten to close some marginal mines, prospects for 1964 were uncertain, particularly in view of the current buoyant import figures.
10. Some members of the Committee expressed the view that the balance-of-payments situation did not warrant the existing restrictions, that there was always uncertainty and that the impressive performance of the economy and gain in and present comfortable level of South African reserves, even though tapering, warranted further moves toward liberalization, notwithstanding the measures adopted recently. In response to a question about the effect of subsequent developments on the Fund's views of the situation, the Fund representative said that the Fund regarded the quotation from its Article XIV decision in paragraph 3 above as remaining appropriate.

11. The South African representative maintained that the system of restriction as it now exists is only a shadow of what it was, as proved by the growth of imports which is still in progress. Two moves toward liberalization had been made recently; there is no restriction as to the country of origin of goods authorized to be imported and the restricted list is designed only to channel exchange to more essential use, in the sense of confining expenditure to products not available from domestic sources at competitive prices for the same qualities. Some 20 per cent of imports are already free from licence requirement; under the latest relaxation, another 15 per cent are licensed freely.

Alternative measures to restore equilibrium

12. In answer to a question, the South African representative indicated that his Government was not now concerned about the increase in money supply as the surplus liquidity evident at the last consultations had now disappeared. Prices had not risen, but the Government would not hesitate to take strong measures if necessary, as it was very aware of the need to avoid inflation. There were no significant signs of lack of labour except in certain skilled lines. The decline in exports of manufactures to neighbouring countries was attributed to a drying-up of the markets there rather than to any price increases.
13. Concerning efforts to promote exports, the South African representative mentioned a new organization of private interests specially established to promote exports called SAFTO (South Africa Foreign Trade Organization), but secondary industry remained dependent mainly on the domestic market, in part because of the very active domestic demand. One member called attention in this connexion to the fact that while 24 per cent of South Africa's GNP comes from manufacturing and only 10 per cent from agriculture, the proportion of exports coming from agriculture is much higher. It was explained that the main branches of agricultural production were based on exports, while the comparatively young manufacturing industries had developed mainly in response to the needs of the domestic market. Furthermore, it was also a question of classification, since certain of the manufacturing industries classified as such in the national accounts consist in the processing of foodstuffs and other primary products. Nevertheless South Africa is anxious to increase these and other industrial exports to replace the loss of exports expected to result from the progressive closing of gold mines.

System and methods of restrictions

14. There was some discussion of the working of the system of distributing licences to import goods, which delegates found complex and, in a relatively narrow range of goods, restrictive as well. South Africa explained that there are three classes of importers:

(a) for general merchandise, there is a register of importing merchants who are rated according to the volume and type of their business. At the beginning of the year licences are issued automatically for the first six months and sent to all such registered merchants on a percentage of a fixed assessment basis. A merchant needs only apply for a second or third issue when these are authorized, and when he has used the first;

(b) a similar system exists for merchant importers of raw materials;

(c) manufacturers complete a longish form twice a year, but are asked to give information they are likely to have available such as the goods they expect to import, the price they expect to pay, their inventory of the item, their monthly total sales, what outstanding import permits they have, and the quantity of goods they export.
15. In each case, import permits which are issued automatically are usable for consumer goods (in the case of importers (a) above) or for raw materials and capital goods not subject to quota ((b) and (c) above). When an importer in any of the three classes wishes to import goods subject to specific import permits, he may use his regular import permits to do so, up to a value of R.5,000 without use of permit value; thereafter, he must surrender them on the basis of R.2 for R.1 of import value to obtain further imported goods requiring specific permits. Only in cases where prior authority is given can he use his permits to purchase goods other than what he normally imports in his line of business. A member noted that imports under the first four categories in BOP/34 were shown as adding to 100 per cent, leaving the implication that there were no imports under the fifth category, specific permits. It was explained that since all goods subject to specific permit are either consumer goods, raw materials or capital goods, the value of imports subject to specific permits has, in the breakdown in BOP/34, been lumped with imports of other goods of the same class. He could give no estimate of the separate value of imports subject to specific permit. When items are removed from the specific permit list, they transfer back to the group relating to their class (i.e., consumer goods, raw materials or capital equipment, as the case may be) and are then subject to the normal policies pertaining to such groups.

16. While it was conceded that unfamiliarity with the system might make it appear more complex than it is for those concerned, members felt that the mere existence of a permit system involving some 20,000 importers and covering most imported goods may have a discouraging effect even in the area in which licences appear to be granted freely. When the difficulties of allocating quotas are added, and when in the case of industrial materials, capital equipment and specific permit goods it must be shown that goods cannot be obtained domestically, the whole system did present substantial restriction as well as complexity, in the view of some members.
17. The question was raised whether South Africa had made any calculation as to how much effect the restrictive system has, i.e., as to how much is being kept out, and how much of this would be consumer goods and how much industrial equipment and materials. The representative of South Africa said there was no recent estimate available on this subject.

18. With respect to State trading, it was explained, in answer to a question, that marketing boards concerned with the marketing of certain agricultural products like wheat, butter and cheese, also arrange imports. The distribution of these imports takes place, however, through normal commercial channels.

**Effects of the restrictions**

19. Early in the consultation, the representative of South Africa drew attention to the substantial liberalization measures introduced by South Africa in November 1963 and in March 1964, suggesting that what remains is in fact no more than a shadow of control, as evidenced by the 24 per cent increase in imports in 1963 and the 27 per cent increase in the first quarter of 1964 as compared in each case with the corresponding preceding period. Members of the Committee expressed doubt, however, as to whether restrictions might be termed "a shadow" in the absence of any study of the cost to South Africa of the remaining restrictions in terms of the level which imports might reach if all restrictions were removed. Moreover, if the restrictions were only a shadow, why could they not be removed quickly?

20. In reply to a question how South Africa assured that the domestic industries fostered by the restrictive system would be only such as presented reasonable prospects of effective long-term operation, the representative of South Africa stated that it was the practice of the control authorities always to assure that there would be competition either from among domestic suppliers or by authorizing some importation. If local production and quality did not measure up to goods which might be obtained by importation, imports were authorized, especially where
raw materials and capital equipment were concerned. The case of the exclusion of nylon filament at a time when a South African plant for the manufacture of this product was just beginning operation was explained as one exception which was considered warranted in view of the large and partly public investment involved in this project.

General

21. The Committee congratulated South Africa on the remarkable record of growth in national product, on the growth in consumption, the growth in imports and on the degree to which domestic price stability had been maintained. Members expressed the view that even the reserve position of South Africa was very favourable, relative to that of certain other countries which do not invoke the cover of Article XII; it was noted that it may be too early to say that the recent tapering of reserves is in fact a trend. In any event the view was expressed by several delegates that uncertainty was inevitable and that the present appeared to be a very good time to proceed to a rapid dismantling of the restrictive system, which would presumably lead to further growth of imports to the mutual benefit of the international community and the South African economy, as had happened in 1963. Several members felt that such a course was the best insurance for South Africa against stagnation of domestic industry and the best incentive to specialization and a more effective participation in export markets. In any event, it was felt that the present level of restriction is unwarranted in view of the strength of South Africa's balance-of-payments position to which the Fund decision had referred.

22. Members felt that, at a minimum, South Africa should remove from restriction all goods not subject to quota or specific permit and move toward more liberal licensing of the goods remaining under restriction, without any requirements that imports be shown not to be available domestically. One member indicated that his experts believed South Africa's imports would increase in that case by no more than R.10-15 million, which in his view South Africa could easily afford.
Members urged South Africa to reconsider its policy for the next few months in this light, and at least two felt that no particular category of restriction need be excluded from the process of general and rapid liberalization.

23. The representatives of South Africa drew attention once more to the very rapid increase in imports which was still in progress and to the unseasonal character of the decline and in fact disappearance of the surplus on the current account. South Africa was, they emphasized, a young country where change could bring about very serious consequences within a short time. They admitted that there may be an ambiguity concerning the nature of the decline in reserves now in progress, but their view was the more prudent one, namely, that it was indeed a trend; hence, they could see no ground which would prudently justify at this time further relaxation. South Africa would, however, as always, take the initiative to relax restrictions as rapidly as it appeared safe to do so.

24. The Committee thanked the representatives of South Africa for the frank and helpful way in which they had answered, and congratulated them on their presentation of South Africa's case. The representatives of South Africa stated that their Government would give careful consideration to the views and suggestions expressed in the consultation.
Opening Statement by the Representative of South Africa

Although the previous consultations with South Africa took place less than six months ago, certain developments have since taken place and new information has become available which could usefully be considered during our present consultations.

These developments include the decision reached by the Executive Board of the International Monetary Fund at the conclusion of the Fund's consultation with South Africa on 11 March 1964 about which we have just heard a statement by the Fund's representative. A further important development concerns the further substantial relaxations of import control by the Government of South Africa. New information which has become available includes statistics on the gross national product, the balance of payments and other relevant time series which now cover the whole of 1963.

The gross national product has continued to reflect conditions of prosperity, and for the year 1963 is estimated at R.6,679 million, which is 10 per cent higher than for 1962, when the increase, on the basis of provisional estimates, amounted to 9 per cent. In 1961 the increase was 4 per cent. If allowance is made for price increases, the real gross national product increased by 9 per cent in 1963, compared with 7 per cent in 1962. The increase in the real gross national product per head of population in 1963 amounted to 7 per cent.

The real gross national product continued to show a marked upward trend in the fourth quarter of 1963, although the rate of increase was lower than during the previous two quarters when the real gross national product was rising at an annual rate of about 12 per cent. This slackening in the rate of growth in the fourth quarter can be explained by the fact that, as human and other resources became more fully employed, the exceptionally rapid rate of growth made possible by the drawing of these resources into the productive process, gave way to a more sustainable rate of growth consistent with full employment.

The continued, though slower, rate of increase in the gross national product during the fourth quarter of 1963 can apparently be mainly ascribed to a continuation of the pronounced rise in fixed capital expenditure in both the private and public sectors which had become evident from about the middle of the year.

Private fixed investment is estimated to have increased by 123⁄4 per cent during 1963, substantial advances being recorded in residential construction, manufacturing and commerce.

Fixed investment by public authorities increased by an estimated margin of 17 per cent in 1963 reflecting mainly an increase of 38 per cent in capital outlays by the South African Railways and Harbours.
In the case of public corporations, the increase in fixed investment in 1963 amounted to 55 per cent.

Total domestic fixed investment accordingly showed an increase of R.189 million or 17 per cent in 1963, compared with an increase of less than 1 per cent in the previous year.

The increase in fixed investment tended to stimulate private consumption which rose by about 11 per cent in 1963, although at a somewhat lower rate towards the end of the year. Expenditure on durable consumer goods was mainly responsible for this increase.

Current expenditure by the Government and other public authorities also showed a tendency to level off in the last quarter of 1963, but nevertheless increased by 14 per cent during the year as a whole.

Inventories increased somewhat throughout 1963, and it is evident that the country was adequately stocked with goods at the end of that year.

It is noteworthy that, despite the rapid economic expansion which has taken place, prices have remained relatively stable. The official indices of both wholesale and consumer prices have risen by only slightly more than 1 per cent over the past year.

This achievement of rapid economic growth in the absence of inflation can largely be ascribed to an upward surge of imports from R.1,046 million in 1962 to R.1,296 million in 1963, an increase of no less than 24 per cent, which assisted in preventing the rising effective demand from generating inflationary pressure.

Imports increased sharply from R.1,046 million in 1962 to R.1,296 million in 1963. This exceptionally large increase of R.250 million or 24 per cent in one year clearly underlines the extent to which import control was relaxed during 1963, mainly benefiting the private sector of the economy. In fact, R.209 million or 80 per cent of the increase consisted of imports by the private sector of economy, with government expenditure, including that of the South African Railways and Harbours, accounting for only the remaining R.41 million or 20 per cent of the increase. The main categories of private imports which registered major increases were metals, metal manufactures, machinery and passenger and commercial vehicles; textiles and clothing; and foodstuffs.

Bearing in mind the import needs arising from the sustained expansion of the South African economy, as well as the further substantial relaxations of import control announced recently, a further large increase in imports is expected in 1964. It should be noted in this connexion that the South African import coefficient, i.e. the ratio of imports to the gross national product, is already high and came to 19 per cent in 1963. More significantly, however, increases in the gross
national product of South Africa consistently tend to give rise to greater than proportionate increases in imports, especially of investment goods and durable consumer goods. In 1963, for example, an increase of 10 per cent in the gross national product produced an increase of 24 per cent in imports. It is clear that this structural trend, which has persisted for many years, imposes on us the need to guard against a recurring strain on our monetary reserves. Net current invisible payments further accentuate the same trend, and during the year under review these payments also increased by R.30 million.

In contrast to the heavy increase in imports, merchandise exports tended to level off from about the middle of 1963. For the year as a whole they increased by R.60 million or 5.9 per cent, reflecting an advance in the prices of some of the principal export commodities. Wool, maize, sugar, copper and diamonds were the commodities mainly responsible for this overall increase.

The increase in net gold output likewise lagged behind the increase in imports. Net gold output increased by 8.9 per cent or R.56 million from R.632 million in 1962 to R.688 million in 1963, and will probably continue to increase until the end of 1964, but only at a reduced rate of increase. A number of marginal mines are, however, expected to cease operating in the near future if present conditions persist, and we are approaching the stage where gold output may soon begin to decline in absolute terms.

As a result of all these circumstances, the surplus on current account of the balance of payments was reduced by more than half from R.307 million in 1962 to R.143 million in 1963, reflecting the following increases:

- R.250 million in merchandise imports;
- R.30 million in net current invisible payments;
- R.60 million in merchandise exports; and
- R.56 million in net gold output.

A peak was reached by the surplus on current account in the second quarter of 1962. Since then, there has been an appreciable decline and, if adjustment is made for seasonal fluctuations, the current surplus was running at an annual rate of only R.56 million in the last quarter of 1963, which was the lowest quarterly level for three years, while according to preliminary figures the surplus on current account for the first quarter of 1964 had disappeared and the account was approximately in balance.

Taking into account a net capital outflow of R.83 million in 1963, and after allowing for omissions and errors, there was an increase of R.87 million in the country's official gold and foreign exchange reserves, compared with R.188 million in 1962.
Reflecting these developments, the gold and foreign exchange reserves rose from R.491.1 million at the end of December 1962 to R.578.1 million at the end of December 1963. After reaching a month-end peak of R.582.7 million in January, the reserves declined to R.567.0 million at the end of March 1964. At the end of 1963, the level of the reserves was equivalent to less than five and a half months' imports, valued f.o.b., on the basis of the value of imports in 1963, and less than four months' total current payments (i.e. imports plus gross service payments, the latter amounting to R.457 million in 1963).

In this connexion, it might be mentioned that in the view of the South African authorities, there are no restrictions on payments for current invisible transactions. It is true that the amount of foreign exchange made available for travel is controlled, but this is not intended to limit travel expenditure, but rather to curb the flight of capital in the guise of funds for travel.

With regard to the information before the Committee, I should like to emphasize the following recent relaxations: firstly, permits are now issued freely for all but four of the items previously described as Group A consumer goods, as well as for a number of other goods; secondly, the two allocations so far authorized this year for goods for which annual quotas are granted to individual importers are 10 per cent higher than the three allocations made during 1963; and thirdly, the list of goods subject to specific import permit has been reduced by the removal of sixty-four commodity items.

These relaxations are substantial and have been made at a time when the trend of the country's gold and foreign exchange reserves is no longer upward and when the surplus on current account of the balance of payments has given way to a position of approximate balance.

By these measures, the South African Government has sought to comply with the views of this Committee as expressed at the previous consultation as well as with those which emerged during the International Monetary Fund's last consultations with South Africa under Article XIV of the IMF Agreement.

Effective quota control is now maintained only on a small percentage of total imports into South Africa.

I would like to emphasize that:

(a) a substantial relaxation of control took place during 1963, resulting in an increase in imports of R.250 million or some 24 per cent;

(b) stability of prices was generally secured, which resulted in the official price indices rising by only slightly more than 1 per cent during the past twelve months;
(c) the previous buoyant tendency of South Africa's reserves of foreign exchange appears to have been reversed in recent months;

(d) imports during 1964 have again increased even further (the 1964 provisional import figures for the first quarter show an increase of approximately 27 per cent over the 1963 import figures for the same period);

(e) the previous surplus on current account has disappeared; and

(f) there is consequently a deterioration in the cover period which the existing reserves have in relation to South Africa's foreign commitments on current account.

In a young country such as South Africa economic conditions and particularly those relating to the balance on payments tend to be fluid; changes take place rapidly and there have been changes even since the last consultation with South Africa in December 1963.

This Committee is aware of the various steps which my Government has taken whenever possible progressively to relax import control. It would, however, be unwise and imprudent in the light of the information conveyed to you today to plan any further definite relaxations at this stage.
ANNEX II

1964 CONSULTATIONS UNDER ARTICLE XIV:4 WITH

THE REPUBLIC OF SOUTH AFRICA

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with the Republic of South Africa on 11 March 1964

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 economy has expanded rapidly in the past two years. Gross national product in the first half of 1963 rose at an annual rate of close to 8 per cent in value and the slack in the economy has been greatly reduced. Prices have remained fairly steady with the aid of a substantial rise in imports. A further increase in domestic expenditure is foreseen in 1964 and shortages of certain types of skilled labor, and some cost increases, may develop.

3. The surplus in the external current account was much smaller in 1963 than in 1962 largely because of the rise in imports. There was some slackening in the net outflow of capital in 1963. Total reserves continued to rise in the first three quarters of 1963, but at a slower rate than in the two previous years, and at the end of September 1963 amounted to R 570 million ($798 million), representing some five months' imports.

4. In order to preserve a satisfactory rate of growth under conditions of price and cost stability, the Fund considers some adaptations in policy, including import policy, may become necessary in the coming months. As far as financial policies are concerned, some diminution in their over-all expansionary influence, particularly in the field of public expenditure, would seem appropriate in view of the present state of the economy.
5. Restrictions on imports were further relaxed in 1963 but the control system remains complex. The Fund notes the intention of the South African authorities, if the balance of payments continues to improve, to remove effective import restrictions, with the possible exception of certain restrictions which may be necessary for other than balance of payments reasons. In accordance with this intention and in view of the strength of its balance of payments and reserve position, the Fund believes that South Africa should proceed to eliminate as soon as possible restrictions maintained for balance of payments reasons.

6. In concluding the 1963 consultations, the Fund has no other comments to make on the exchange system of the Republic of South Africa.