INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH SOUTH AFRICA ON 4 JANUARY 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with South Africa, pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. In 1965 and 1966 there was a further large expansion in economic activity in South Africa with gross national product rising at the rate of about 5 per cent a year in real terms. Public expenditure continued to increase rapidly but since late 1965 the increase in private sector expenditure has been more moderate. This latter development has been due, at least in part, to a reduction in stocks in the first half of 1966 after a heavy accumulation during most of 1965. The domestic economy has continued to be under pressure; in the first half of 1966 prices of domestically produced goods rose at an annual rate of close to 5 per cent.

3. Partly as a consequence of an intensification of import restrictions in the course of 1965, the deficit on the current account of the balance of payments was reduced to R 42 million in the twelve months to June 1966 from R 253 million in the corresponding period a year earlier. In addition, there was an unexpectedly large net inflow of capital from abroad in 1965/66 amounting to R 279 million; in part this inflow was of a short-term nature. Reserves, which had fallen sharply in the preceding year, rose by R 237 million to a record high of R 614 million ($860 million) in the twelve months to June 1966.

4. As a consequence of the rise in reserves, as well as heavy reliance by the central government on bank finance, the supply of money and near-money rose by 14 per cent in the twelve months to June 1966. In July and August, various monetary and fiscal measures including an increase in direct and indirect taxes, were taken to limit the rise in total expenditure. In December 1966, the South African authorities announced additional measures to strengthen fiscal policy and to make monetary policy more effective. The Fund notes these measures and welcomes the intention of the South African authorities to take further action if this should prove necessary.

5. After the intensification of import restrictions in mid-1965, there was a relaxation in July 1966, which, however, did not restore fully the degree of liberalization existing at the end of 1964. The Fund welcomes the further relaxation in December 1966 and urges South Africa to continue working toward the removal of remaining restrictions maintained for balance of payments reasons.