

14

## INTERNATIONAL MONETARY FUND

## Minutes of Executive Board Meeting 82/141

3:00 p.m., November 3, 1982

J. de Larosière, Chairman  
W. B. Dale, Deputy Managing Director

Executive Directors

A. Alfidja  
J. Anson  
J. de Groote  
B. de Maulde  
A. Donoso  
R. D. Erb  
M. Finaish  
  
T. Hirao  
  
A. Kafka  
G. Laske  
G. Lovato  
  
Y. A. Nimatallah  
  
A. R. G. Prowse  
G. Salehkhoul  
F. Sangare

Alternate Executive Directors

A. Le Lorier  
  
C. Dallara  
T. Alhaimus  
  
M. Casey  
  
G. Grosche  
C. P. Caranicas  
A. S. Jayawardena  
J. E. Suraisry  
T. de Vries  
  
O. Kabbaaj  
  
J. L. Feito  
L. Vidvei  
Tai Q.

L. Van Houtven, Secretary  
K. S. Friedman, Assistant

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Also Present

D. T. Brand, Principal Resident Representative of South Africa. European Department: L. A. Whittome, Counsellor and Director; U. Dell'Anno, A. Knobl, L. J. Lipschitz, H. Vittas. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director; J. Berengaut. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel. Research Department: N. M. Kaibni, T. K. Morrison. Secretary's Department: A. P. Bhagwat. Special Representative to the UN: J. M. Zegers. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, J. Delgadillo, A. B. Diao, S. El-Khoury, M. A. Janjua, P. Kohnert, H.-S. Lee, P.-C. Maganga-Moussavou, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, L. Barbone, L. E. J. Coene, T. A. Connors, R. J. J. Costa, M. K. Diallo, C. Flamant, I. Fridriksson, G. Gomel, Jiang H., J. M. Jones, M. J. Kooymans, V. K. S. Nair, J. R. Novaes de Almeida, Y. Okubo, J. G. Pedersen, D. V. Pritchett, J. Reddy, C. A. Salinas, J. Schuijjer, D. I. S. Shaw, H. Suzuki, A. Yasserli.

1. SOUTH AFRICA - STAND-BY ARRANGEMENT, AND PURCHASE TRANSACTION -  
COMPENSATORY FINANCING FACILITY

The Executive Directors continued from the previous meeting (EBM/82/140, 11/3/82) their consideration of requests by South Africa for a stand-by arrangement (EBS/82/173, 10/4/82; and Cor. 1, 10/7/82), and a purchase under the compensatory financing facility (EBS/82/174, 10/4/82; and Sup. 1, 11/1/82).

The Director of the European Department remarked that the requirement of need had long been a difficult issue in the Fund. The last attempt to deal with the issue in a systematic way had been made in 1976, when the Executive Board had held a lengthy discussion based on a staff paper. The staff had proposed a stronger codification of the relevant practices than the Executive Directors had wished to accept, and there had been no formal decision on the matter. Indeed, Executive Directors had agreed that there should be no hard-and-fast rules for judging a member country's balance of payments need. Instead, they had emphasized that the long-established practice of approaching each country on a case-by-case basis should be maintained. They had also agreed that a judgment on need should take into account several factors, including the level and movement of reserves; the composition and development of the overall balance of payments; pressure on the exchange rate; the level of external debt; and the availability of alternative sources of finance.

All those factors had been taken into account in assessing South Africa's balance of payments need, and the staff continued to feel that there was an overwhelming case in favor of the conclusion that South Africa did have such a need, the Director noted. Gross official reserves defined on the IFS basis had fallen from a peak of SDR 1.5 billion in March 1981 to some SDR 500 million at end-October 1981. On the basis of South Africa's official valuation of the price of gold--90 per cent of the average of the previous ten fixings in London--there had also been a sharp fall in reserves, from some SDR 5.5 billion to less than SDR 3 billion. At present, gross official reserves, with gold valued at market-related prices, were equivalent to less than nine weeks' imports, a level that was not high for a primary producing country subject to wide fluctuations in exports. On the IFS basis, reserves were equivalent to less than two weeks' imports.

In the recent past, the Director continued, the external current account deficit had been huge, SDR 3.5 billion in 1981 and SDR 4 billion in 1982; and a further deficit was expected in 1983 on the basis of plausible assumptions concerning the price of gold. For example, on the basis of a gold price of \$415 per ounce, there would still be a current account deficit of SDR 300 million in 1983. The staff fully agreed with Executive Directors that making reasonable assumptions about the price of gold was a difficult and delicate matter, especially for the Fund. The average price both over the previous three months (\$407 per fine ounce) and over the previous six months (\$368 per fine ounce) gave a current account deficit notably larger than the one based on an average price of \$415 per ounce.

The exchange rate on an effective trade-weighted basis had depreciated by 6 per cent in the first ten months of 1982, following a 12 per cent decline in 1981, the Director explained. The weakness of the exchange rate, as reflected in the depreciation, was a clear sign of South Africa's balance of payments need.

As several speakers had stressed, the Director remarked, South Africa's official debt was not large. On the other hand, the level had been increasing sharply in recent months. According to BIS figures, South Africa's debt to foreign banks had grown by 55 per cent in 1982. The eightfold increase in official short-term liabilities in the 18 months to mid-1982 was even more striking.

The staff had never taken the position that a country's ability to continue to borrow abroad was the only criterion on which balance of payments need should be judged, the Director commented, and the Executive Board had taken a similar view on a number of occasions. Still, the staff had discussed South Africa's ability to borrow with the authorities. By mid-1982, when the authorities had first approached the Fund about the possibility of using Fund resources, they had found that they would have great difficulty in continuing to borrow abroad in sufficient quantities and on acceptable terms. At that stage, they could have continued to borrow only by providing collateral, and the supply of free gold had been diminishing. In any event, only a limited number of commercial banks around the world had been prepared to make advances against gold. A sign of the reserve stringency in South Africa during most of 1982 was the resort by that country to borrowing from the BIS.

The proposed frontloading of the disbursements of Fund assistance was in effect automatic, the Director explained, since assistance available under the compensatory financing facility and in the first credit tranche was not subject to phasing. Hence, most of the resources that would be available under the proposed decisions could be drawn by South Africa forthwith under the normal policies of the Fund. The portion of the proposed resources that was subject to phasing was to be distributed in four roughly even amounts; and such slight unevenness in the distribution as existed took the form of backloading rather than frontloading. Thus, the first disbursement was to be SDR 41 million, the second and third ones SDR 54 million, and the final one SDR 56 million.

In assessing the stringency of fiscal policy, the Director remarked, Executive Directors could usefully examine the breakdown of the fiscal accounts. On the expenditure side, the proportion of public spending in relation to GDP had fallen from 27 per cent in the mid-1970s to about 23 per cent in the early 1980s, an achievement equaled by few member countries. By almost any definition, expenditure in South Africa had been kept under tight control. On the revenue side, revenue derived from gold mining had played a dominant role. Changes in the price of gold affected budget revenue in South Africa with a lag of about six months. In the 1981/82 budget, gold-related revenue was derived from a gold price of \$510 per fine ounce. In the 1982/83 budget, gold-related revenue was

derived from a gold price of \$380 per fine ounce, and such revenue had fallen by 50 per cent compared with 1981/82. In order to achieve the fiscal outturn that was deemed necessary and to hold the budget deficit to 2.8 per cent of GDP in 1982/83, there had to be an increase in revenue equivalent to more than 2 per cent of GDP, and a reduction of expenditure in real terms. Those adjustments were substantial compared with other recent Fund-supported programs. Moreover, the authorities had undertaken to finance the budget deficit without any net increase in the Government's recourse to the banking system.

There seemed to be some feeling among Executive Directors that credit to the Government in 1982 had been expansionary, the Director continued. Total expansion of credit to the Government in calendar year 1982 was estimated at SDR 2 billion, of which SDR 1.9 billion was due to losses incurred on forward transactions. The amount of SDR 1.9 billion had been unavoidable, as it had been based on existing contracts and the losses had had to be covered. The policy under which the losses on forward transactions had occurred had recently been changed. Some credit had been derived from foreign borrowing, but from the budget itself there would be a repayment. The figures for fiscal year 1982/83 showed essentially the same trend as the figures for calendar year 1982.

The staff fully understood why some Executive Directors felt that the shift in emphasis from direct to indirect taxes was inequitable, the Director remarked. However, indirect taxes in South Africa were relatively low; the general sales tax was about 6 per cent. The tariff rates also were relatively moderate.

As for monetary policy, the Director said, there had been some overfunding of the Government's borrowing requirement, and to avoid squeezing credit unduly and restricting economic activity excessively, the authorities had chosen to lower the reserve requirements. It could be argued that the recent change in the reserve requirements had sent the wrong signal, but the net effect of the overfunding and the adjustment of the reserve requirements had not been inappropriate. Moreover, the authorities had immediately offset some of the effect of the reduction in the reserve requirements by constraining the ability of the commercial banks to borrow from the South African Reserve Bank.

South Africa was one of a number of countries that maintained an interest rate subsidy for agriculture, the Director commented. The staff had criticized South Africa's policy in the past and, following the 1982 Article IV consultation, the degree of the subsidy had been reduced and the interest rate on lending through the Land Bank had been raised in two separate steps from 13.5 per cent to some 18 per cent. That rate still involved a subsidy in relation to the 20 per cent prime rate in the country, but it did represent a substantial move in the direction that the Executive Directors and staff had favored.

Some Executive Directors seemed to feel that if the price of gold increased above the assumed average price, the performance criteria would become excessively easy, the Director remarked, and others felt that, if

the gold price fell further, more adjustment would be required but would be difficult to make. There was no perfect symmetry between the two views. It was true that the need for adjustment would be somewhat diminished if the price of gold increased, and that if the price of gold fell further, the authorities would need to make additional adjustments, especially if they continued to feel that in practice they did not have the freedom to borrow sufficiently to offset the effects of the fall in the gold price.

For all intents and purposes, the Director explained, the forward contracts incentive scheme was no longer in use. The authorities wished to be sensibly cautious about the scheme rather than abolish it altogether, and they planned to keep it in reserve for use in the event of exceptional unforeseen developments. They had no particular occasions in mind for the further use of the scheme.

The price of gold assumed in the budget projections for 1983/84 was \$315 per ounce, the Director explained. That assumption had been conservative at the time that the projections had been made, was even more conservative now, and illustrated the fact that the budget was much tighter than it appeared to be at first glance.

Commenting on the structural problems facing the economy, the Director said that in 1977 the Government had appointed two commissions to investigate various aspects of the labor market and to recommend measures to increase labor mobility and to ease bottlenecks caused by labor shortages. Details of the work of the commissions had been reported in previous staff reports on economic developments in South Africa. The first commission had called for the registration of black trade unions and for the abolition of statutory job reservations. Substantial progress had been made; of the 27 existing statutory job reservations, 26 had been eliminated, and in September 1981 the mining industry had recognized a trade union representing mixed-race miners. The heart of the matter, however, had been addressed by the second commission, which had dealt with the questions of geographical mobility of labor and the desirable location of new employment opportunities. In that connection, a number of recommendations had been considered. For instance, it had been suggested that the 72-hour limit on the presence of black workers without prior permission in urban areas be eliminated. That recommendation had been accepted in principle, but apparently had not been implemented.

Another series of measures with a similar objective had also been recommended by the commission, the Director noted. However, the advice given by the staff and Executive Directors had differed from the thrust of policy favored by the South African authorities. As the staff understood it, the authorities' intention was to provide incentives to industry to move to the underdeveloped parts of the country. The staff, however, had stressed the need to open the existing developed parts of the country to all potential employees. In the longer run, increasing labor mobility and making full use of the labor force would be important. In the short run, however, including the period of the proposed stand-by arrangement, even substantial changes in the labor field would not have a decisive effect

on the balance of payments. The staff had repeatedly stated its belief that any progress that could be made by opening opportunities for labor should certainly be sought by the authorities, even though it seemed that the economy could take full advantage of such progress only if substantial and costly infrastructure development were pursued.

It was true, the Director said, that the price of coal in South Africa was lower than the world price. However, the coal sold in South Africa was of a relatively low quality, and was not internationally traded. It was therefore difficult to give the lower-quality coal an international price. There was no direct fiscal subsidy for coal producers in South Africa. The price of coal was set to permit the coal producing companies to make a profit.

The policy of the authorities was to remove the various administered prices gradually, the Director explained. The policy had been described in some detail in previous staff reports on economic developments in South Africa. Controlled prices were in effect on a large number of food items, transportation, and fuel, and they were clearly maintained for social reasons.

South African economic history had been characterized by surges in demand, led by an improvement on the export side and a strengthening of the balance of payments, the Director remarked. Much thought had been given to the best ways to deal with the cycle. Improvements in the labor situation, particularly an increase in the supply of skilled labor, would obviously make an important contribution. Accumulating reserves, either in a stabilization account or in some other way, would also make a significant contribution if the Government could resist the temptation to use the accumulated reserves in periods of prosperity. Other options included repayment of accumulated debt and an increase in investment abroad.

The financial rand market in South Africa covered a portion of capital flows, the Director explained. It was the staff's understanding that no current account items were covered by the financial market. The discount on the financial rand was at present about 15 per cent. The authorities had continued to say that it was their aim eventually to merge the two exchange markets, but there was no formal timetable for achieving the objective, and, given the obvious dangers and difficulties in so doing, progress would probably be relatively slow.

Gold played a large role in South Africa's reserves, the Director said, and problems naturally arose when the price of gold fell, thereby reducing the value of South Africa's reserves. Over the years, however, South Africa had done at least as well by holding its reserves largely in gold as it would have if most of the reserves had been held in foreign exchange. The authorities had in fact been diversifying the reserve holdings, although mainly by running down their gold holdings, rather than by building up their foreign exchange holdings; and that trend was probably attributable as much to external deficits as to a deliberate policy decision. The volume of gold held in reserves had fallen from

some 19 million ounces in the early 1970s to about 7.5 million ounces in 1982, although the latter figure did not include gold involved in swap agreements.

If a member met all the necessary conditions, the Director remarked, it had the right to apply to the Fund to finance its payments imbalance under any facility that it qualified to use.

In its discussions with the authorities in 1982, the Director of the European Department commented, the staff had taken at least as strong a line against the import surcharge as it had in 1976. The termination of the surcharge within the period of the proposed stand-by arrangement was one of the conditions for the use of Fund resources. Indeed, the authorities had chosen to demonstrate their willingness to eliminate the import surcharge eventually by reducing the surcharge before their application for assistance was considered by the Executive Board. The authorities had argued that the import surcharge was designed purely to produce revenue. The staff tended to share the doubts about the actual role of the import surcharge that Executive Directors had expressed. Nevertheless, in seeking the abolition of the import surcharge, the staff had to take into account the revenue effects of the measure; the reduction of the surcharge announced in October 1982 had been foreshadowed by an increase in the general sales tax in September 1982. If the gold price remained strong, there would be an automatic improvement in the Government's fiscal accounts, and the termination of the import surcharge could perhaps be accelerated.

The staff representative from the Research Department recalled that a question had been asked about the effect of the Government's gold production policy on the calculation of the export shortfall. Adjustments to production had been made, but they had been moderate and had been introduced gradually in response to changes in market prices. Delays in taking decisions on adjustments in production were inevitable. The policy of adjusting production was designed to prolong the productive life of the gold mines and to stabilize earnings from gold. Over the years, the policy had stabilized the earnings from gold exports, and, to the extent that it had done so, the export shortfall calculated by the staff was smaller than it would have been otherwise. It was clear now that the gold price that the staff had assumed for the coming two years was conservative. If a higher price had been assumed, there would probably be no projected increase in the volume of gold exports, rather than the roughly 2 per cent increase mentioned in EBS/82/174. If the price used in the calculation was \$400 per ounce, the shortfall in total exports would be in excess of SDR 2 billion, compared with the present estimate of SDR 1.1 billion.

Stocks of high-quality diamonds had apparently accumulated mainly because of the weakness of the world market, the staff representative said. However, most of the stocks had been accumulated outside South Africa and had entered into the export statistics of the country. To the extent that the stocks had been included in the export statistics of South Africa, no adjustment for them in the calculations under the compensatory financing



facility was required. Stocks that were accumulated in South Africa were relevant for the purpose of the compensatory financing calculations. Those stocks consisted of the diamonds that South Africa had not been able to sell to the Central Selling Organization (CSO) because of limits imposed on such purchases from individual member countries. South Africa was in effect forced to maintain a certain level of diamond production because low-quality diamonds and high-quality ones were mined together, and the demand for the lower-quality diamonds had not declined. Stock data on the high-quality diamonds that had been accumulated in South Africa were not available. However, the circumstances that had caused South Africa to accumulate those stocks had apparently been unavoidable.

The staff did not have expert information on the effect of the operations of the De Beers Company on diamond prices, the staff representative from the Research Department remarked. Marketing operations were conducted by the Central Selling Organization, whose long-term policy was to stabilize the world price of diamonds through adjustments in the supply of newly mined diamonds. Over the years, the CSO had been successful in stabilizing the price of rough diamonds, but it had been unsuccessful in stabilizing the price of polished diamonds. A large portion of the stock of polished diamonds was held by private investors, and the price of those diamonds was affected by several factors, particularly interest rate levels, inflationary expectations, and the state of the world economy. The question of the possible ways to deal with the accumulation of stocks for which data were unavailable could perhaps best be dealt with in the context of a general review of the compensatory financing facility. Questions regarding the exclusion of gold from coverage by the compensatory financing facility and a possible change in the formula for determining export shortfalls to avoid the risks associated with export projections could also best be dealt with in a general review of the compensatory financing facility.

The Director of the European Department, responding to a further question by Mr. Nimatallah, said that interest rates in the money market had recently fallen from 17 per cent to 16.5 per cent. The fall in interest rates in South Africa had coincided with the sharp decline in interest rates abroad. As for the relationship between the level of interest rates in South Africa and the inflow of capital, it was important to stress that interest rates were not the only factor taken into account by persons deciding whether or not to place money in South Africa.

Mr. Brand said that he wished to inform Executive Directors of recent developments with regard to the training of labor in South Africa. His authorities were fully aware of the need to make every effort to increase the supply of skilled labor. The Government's objectives with respect to manpower and training were embodied in the Manpower Training Act of 1981, which had come into effect on November 1, 1981. The Act consolidated and adapted the four training Acts that had been administered by the Department of Manpower at that time, namely, the Apprenticeship Act of 1944, the Training of Artisans Act of 1951, the Black Employees In-Service Training Act of 1976, and the In-Service Training Act of 1979. The 1981 Act

provided for more effective training and retraining of the country's labor force and did not differentiate on the basis of population group, color, or sex. Furthermore, the new Act was applicable to any class of undertaking or activity, any division or part of an industry or any group of industries, and work in private households.

Under the Manpower Training Act of 1981, Mr. Brand continued, a National Training Board had been established. The National Training Board's functions were to advise the Minister of Manpower on policy matters related to the application of the Manpower Training Act of 1981 and on other matters having to do with training. To assist the Board in performing its functions, the 1981 Act had conferred on it the power to appoint an executive committee and committees appointed in respect of a particular industry and area, known as Manpower Training Committees.

Under the Manpower Training Act of 1981, Mr. Brand continued, there were at present 33 Manpower Training Committees that had been appointed for various industries. The Committees continually reappraised the conditions of apprenticeship to keep pace with the changing skilled labor requirements of the country. Apprentices of all races were being trained; the intake for 1981 had been 9,232 whites, 1,595 coloreds, 645 Asians, and 495 blacks. In 1981, 5,299 apprentices had passed the prescribed trade test. In the first six months of 1982, 6,129 persons had registered as apprentices, of whom 313 were black.

The Manpower Training Act of 1981, Mr. Brand said, also provided for the training of suitable persons who wished to attain artisan status. Training took place at government institutions for one year, and was followed by further training for a maximum of two years while the persons concerned were working for an approved employer. Training facilities were available in a number of different trades, and since the inception of the scheme 3,321 trainees had qualified as artisans. The 1981 Act also gave an opportunity to persons who had not served an apprenticeship but who had nevertheless attained the requisite degree of skill through practical experience or training to obtain artisan status either by passing prescribed trade tests or by submitting documentary evidence of a sufficient period of experience or training in a recognized trade. The number of persons who had attained artisan status in that manner since the inception of the scheme was 22,445.

The sections of the Manpower Training Act of 1981 concerning in-service training, Mr. Brand continued, had been designed to promote and regulate the training of employees and other persons, of all races, in agriculture, commerce, and industry. As an incentive to employers to develop the skills of their employees, tax concessions and cash allowances were granted to employers who had incurred expenses arising out of the attendance of their employees at registered group training centers and private training centers or schemes. The courses attended by employees had to be approved by the Department of Manpower in order for the employer to qualify for the tax concession or cash allowance. Eight group training centers, established by a group or association of employers in a particular

industry and area, had been registered and offered 119 approved courses to all races. A total of 13,000 persons had received training at such centers during 1981. A total of 3,995 approved courses were conducted at the 278 registered private training centers, and 77,275 persons had been trained at those centers in 1981. There were also 787 approved training schemes established for the training of an employer's own employees, and 226,244 persons had received training in that way. The number of approved courses given by the centers was 8,949 at end-June 1982.

Another category of assistance was grants-in-aid for training schemes conducted in economic development areas, Mr. Brand explained. Industrialists who had established factories in economic development areas and who conducted in-service training schemes could qualify for grants to cover the cost of salaries of instructors. The Manpower Training Act of 1981 also empowered the Minister of Manpower to establish, in concurrence with the Minister of Finance, schemes for training persons who were unemployed and seeking work. The budget for 1982/83 included R 9 million for that purpose.

The Manpower Training Act of 1981 established a Manpower Development Fund, financed mainly by the Government, for the purpose of providing financial assistance in the form of long-term loans at moderate interest rates, Mr. Brand went on. The loans were available to group training centers, private training centers, training schemes provided for under the 1981 Act, and training schemes operated under the terms of the so-called industrial council agreements.

Under the Manpower Training Act of 1981, Mr. Brand said, the Registrar of Manpower Training could, after consulting the National Training Board, recognize a center for the training of employees in a self-governing or independent national state for the purpose of tax concessions to employers in South Africa whose employees were trained at such centers. The 1981 Act also provided that the Minister of Manpower could, after consultation with the National Training Board, impose a levy on employers generally or on any category of employers for the purpose of achieving one or more objectives of the Act. The levies were meant to benefit three group training centers; they ranged from 5 cents to 60 cents per employee per week and, together with course fees, were used to finance the operations of the centers.

The programs that he had mentioned gave some indication of the considerable effort that the authorities were making to increase the supply of skilled labor, Mr. Brand remarked. The issue of skilled labor could perhaps be dealt with further during the mid-term review of the stand-by arrangement.

As for the budget for the next financial year, Mr. Brand explained, his authorities clearly intended to curtail expenditure as much as possible. The intention was, inter alia, to make virtually no provision for a general salary adjustment in the public sector in the coming financial year. Budgeted funds would provide basically only for ordinary annual

salary scale increases and improvements in the remuneration of certain occupational groups whose services the Government was having difficulty in retaining because of competition from private sector employers. Several national organizations representing the private sector had already expressed their support for the Government's intended policy of wage restraint as well as their willingness to propagate a similar approach among their members in the private sector. These developments could be seen as a kind of informal incomes policy, and the authorities hoped that it would also help in the fight against inflation.

It was difficult to say anything definite at the present stage about the possibility of South Africa's making early repurchases if economic conditions improved more rapidly than was expected, Mr. Brand commented. The matter could be discussed further during the mid-term review of the stand-by arrangement. His authorities were committed to implementing the proposed program. There was no danger that the conditions for the use of the Fund resources would not be observed after a large portion of the resources had been drawn.

The Deputy Managing Director, responding to a question by Mr. Nimatallah, said that, once a member country had fully complied with all the requirements to use a particular facility, it could decide to request whatever was available to it under the facility. There was ample evidence that South Africa qualified to purchase the equivalent of 100 per cent of quota under the compensatory financing facility; the conditionality and undertakings related to the proposed stand-by arrangement enabled the country to pass the stricter test of cooperation for a purchase under the compensatory financing facility in excess of 50 per cent of quota.

As for the proposed phasing and performance criteria under the stand-by arrangement, the Deputy Managing Director continued, the guidelines on conditionality approved on March 2, 1979 stated in part that "phasing and performance clauses will be omitted in stand-by arrangements that do not go beyond the first credit tranche. They will be included in all other stand-by arrangements, but these clauses will be applicable only to purchases beyond the first credit tranche." The money to be provided under the proposed stand-by arrangement was equivalent to South Africa's first credit tranche and was therefore not subject to phasing.

Mr. Nimatallah remarked that most Executive Directors had commented that, although the rigidities in the labor market were a long-run problem, the authorities should make an even greater effort than they had thus far to deal with them, and that the labor problem should have been mentioned in the proposed program.

The Chairman said that the staff would have the Executive Directors' comments in mind when it monitored the implementation of the proposed program and during the mid-term review of the stand-by arrangement. Although a summing up of the discussion was not required, he did wish to stress several points that had been made. First, after the strong balance of payments position generated by the high gold price in 1979/80,

South Africa had adopted somewhat excessively expansionary demand management policies. The delays in implementing corrective policies after the sharp decline in the price of gold had compounded the adjustment problems facing the economy. Executive Directors felt that it was important that the authorities should continue to implement adjustment measures efficiently and introduce additional measures, as necessary, in order to attain the objective of a sustainable external payments position. The effective implementation of the fiscal, monetary, and other measures would be foremost in mind during the mid-term review of the Government's program.

Second, the Chairman continued, speakers had stressed the desirability of an early elimination of the import surcharge. The authorities were committed to phasing out the import surcharge by the end of the program period, but an earlier date of abolition would certainly be desirable. Third, all speakers had underscored the need for structural adjustment of South Africa's economy. They attached particular importance to improving manpower training and labor mobility in order to eliminate the bottlenecks in the area of skilled labor. Executive Directors felt that the structural problems should not be underestimated, and that particular attention should be paid to them. They had noted Mr. Brand's comments on the labor-related issues, including his suggestion that the Executive Directors could return to those issues at the time of the mid-term review of the stand-by arrangement.

The sense of the meeting, the Chairman stated, was to accept the proposed decisions. The dissenting views and reservations expressed by Executive Directors would be fully recorded in the minutes.

The Executive Directors then turned to the proposed decisions, which were approved, with Mr. Finaish, Mr. Nimatallah, Mr. Salehkhoul, and Mr. Tai opposed, and Mr. Alfidja and Mr. Sangare reserving their position.

12.47

5.37

The decisions were:

Stand-By Arrangement

1. The Government of South Africa has requested a stand-by arrangement for a period from November 3, 1982 to December 31, 1983 in an amount equivalent to SDR 364 million.

2. The Fund approves the stand-by arrangement attached to EBS/82/173.

3. The Fund waives the limitation in Article V, Section 3(b)(iii), of the Articles of Agreement.

Decision No. 7233-(82/141), adopted  
November 3, 1982

Purchase Transaction - Compensatory Financing Facility

1. The Fund has received a request from the Government of South Africa for a purchase of SDR 636 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund approves the purchase in accordance with the request.

Decision No. 7234-(82/141), adopted  
November 3, 1982

2. STAFF OFFICIAL TRAVEL

Mr. Nimatallah considered that improvements were needed in the present informal system for informing Executive Directors of developments concerning member countries that were potential users of Fund resources. In particular, the failure to inform the Executive Directors about the latest mission to South Africa until after the completion of the mission had been a cause of some embarrassment. Avoiding such gaps in communication between management and the Executive Directors would help to ensure that business was conducted smoothly.

The Chairman said that the South African authorities had asked him to keep the negotiations on a possible Fund-supported program secret. Such requests were rare; indeed, South Africa's request was the first that he had dealt with. He had sometimes been asked by member governments not to disclose a particular aspect of the negotiations with the authorities, and he had always kept such information confidential. In the case of South Africa, when the authorities had made their request for confidentiality, they had not yet actually taken the final decision to submit a program for the Executive Board's approval. They had asked the staff to examine what kind of program would be appropriate, and it had not been until quite recently--after the 1982 Annual Meeting--that management had received a firm indication of South Africa's intention actually to request a use of the Fund's resources. He had always attached the greatest importance to maintaining confidentiality. He would have told the South African authorities that he would have been unable to maintain secrecy if prior conditions had been involved. Management and staff were obliged to inform Executive Directors of such conditions. However, no prior conditions had been involved in South Africa's case, and there had been no need to breach the confidence of the authorities in order for the discussions with them to be continued.

Mr. Nimatallah commented that, at the least, Executive Directors should be informed that a staff mission was visiting a country. There was no need to provide any details if management wished not to do so.

Mr. Vidvei remarked that on previous occasions his chair had taken the position that management had to handle some cases of surveillance with great discretion and, in that connection, the Executive Directors had to show their confidence in management. On the other hand, when the need for secrecy had passed, the Executive Board should be informed of the relevant developments. Some issues--for example, those concerning a member's exchange rate--had to be handled with the utmost secrecy.

Mr. Kafka considered that management must be given discretion to handle delicate cases. There might well be cases of a different nature from that of South Africa. Information even about the visit of a staff mission might well have to be kept secret if disclosure could conceivably upset negotiations with a member government.

Mr. Nimatallah remarked that he continued to have full confidence in management and staff; the issue he had raised had to do merely with the establishment of a simple procedure to avoid the embarrassment that Executive Directors felt when they were not in possession of basic information.

The Chairman said that he fully sympathized with Mr. Nimatallah, who had clearly posed a useful question, namely, whether or not management should in all cases disclose the sending of missions to member countries. Other Executive Directors and he himself had been embarrassed by the need to keep the staff mission to South Africa secret, but informing the Executive Directors of that particular mission at the time that the staff had been visiting the country would have been tantamount to informing them that negotiations on the possible use of Fund resources were under way, thereby breaking his promise to the authorities to keep the negotiations secret. In all normal cases, the Executive Directors should certainly receive an indication of staff missions to member countries. However, he hoped that the Executive Board would not prevent management from using its discretion about when secrecy was absolutely necessary. For instance, if a staff mission openly visited a member country, held discussions with the authorities, and returned to headquarters--leaving the impression among the public that the economic situation in the country was essentially trouble free--and then found that a second mission was needed to hold further discussions and obtain additional information, the disclosure of the second mission could send undesirable signals. He agreed with Mr. Nimatallah that the rule should be that, in all normal cases, management should give the Executive Directors an indication that a staff mission was visiting a member country. However, management wished to have some discretion for use in cases in which the giving of such an indication might not be prudent.

Mr. Erb said that he sympathized with Mr. Nimatallah. It was embarrassing for Executive Directors to learn about a Fund mission from a source outside the institution. However, basically he agreed with Mr. Vidvei and Mr. Kafka that management should have the discretion, at

the wish of the authorities concerned, to have the staff engage in confidential discussions on a possible Fund-supported program. Management should decide if and when to reveal that information.

The Executive Directors concluded their discussion.

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LEO VAN HOUTVEN  
Secretary