

June 1, 1982 - 82/79

The Chairman's Summing Up at the Conclusion
of the 1982 Article IV Consultation with South Africa
Executive Board Meeting 82/72 - May 26, 1982

Executive Directors agreed that the delay in adjusting policies in 1981 had compounded the balance of payments problems that had arisen as a result of the decline in the price of gold and sluggish world demand for South Africa's primary exports. They observed that expansionary monetary policy and, more generally, the slow policy response to the changed economic environment had contributed to keeping the rate of price inflation well above the average of that in the country's main trading partners, a stance which had contributed greatly to the size of the adjustment problems with which South Africa is now coping.

Noting that domestic costs had been sharply increased by widespread shortages of skilled labor, Directors urged that training programs for upgrading the skills of the labor force be accelerated. Such programs would also contribute to improving the supply performance of the economy in the medium term and to reducing unemployment.

Directors generally agreed that the external adjustment policies now being implemented with the aim of reducing the current account deficit of the balance of payments as a proportion of GDP to a level well below that reached in 1981, were appropriate. They welcomed the flexible use of exchange rate policy, the measures taken to control the growth of the monetary aggregates, and the fiscal austerity reflected in the recent budget. It was, in particular, urged that more flexible interest rate policies--including the abolition of existing ceilings, if possible--should be used and it was stressed that a phasing-out of direct controls would improve the economy's performance.

Although it was recognized that the imposition of the 10 per cent import surcharge was intended as a revenue-raising measure, Directors noted that the surcharge distorted trade and they urged its removal as soon as possible. With regard to the gold marketing policy in South Africa, interest was expressed in alternative techniques of reserve management to smooth out the effects of volatile export prices on the domestic economy and the balance of payments and reserve position of South Africa.

Directors commended the authorities for their readiness to take additional measures, which might be needed to ensure the achievement of their external payments objective.