

INTERNATIONAL MONETARY FUND

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The International Monetary Fund has agreed to the use of its resources totaling the equivalent of SDR 1,000 million by the Government of South Africa. Of the total, SDR 364 million, or 57.2 per cent of South Africa's quota in the Fund, may be drawn over the period extending to the end of 1983 under a stand-by arrangement in connection with the Government's economic adjustment program. An amount of SDR 636 million, or the equivalent of 100 per cent of quota, is available immediately under the compensatory financing facility.

The Fund's compensatory financing facility provides financial assistance to member countries encountering balance of payments problems caused by temporary shortfalls in their export proceeds that are attributable to factors largely beyond their control. The drawing by South Africa is in respect of a shortfall in the country's export earnings for the 12 months ended June 1982. During this period, South Africa's total export earnings fell 13 per cent below the average level of the two preceding years. The shortfall is accounted for by declines in export receipts for gold, the country's major export commodity, and nongold exports such as diamonds, uranium, platinum, nickel, copper, iron ore, citrus fruit, wool, and karakul pelts. Altogether, the shortfall is estimated at SDR 1,099 million with nongold exports contributing SDR 752.4 million.

After vigorous growth and a strong balance of payments in 1980, South Africa's economic performance fell away in 1981. Real economic growth, which had reached 8 per cent in 1980, slowed to 5 per cent in 1981, and the balance of payments on current account swung from a surplus of SDR 3 billion in 1980 to a deficit of SDR 3.6 billion in 1981. The main causes of this deterioration were the decline in the price of gold, weaker markets for other exports, and excessive domestic demand, the latter reflecting a delay in implementing strong adjustment policies. These policies were strengthened substantially in early 1982. They included a sharp increase in interest rates to positive real levels; the containment of the overall budget deficit through a decline in real spending and significant tax increases; and a substantial depreciation of the rand. Although these measures have begun to curtail import demand, the balance of payments continued to deteriorate in the first half of 1982, mainly because of a further weakening of export markets and the decline in gold price.

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The Government's economic and financial program aims at reducing the current account payments deficit from nearly 6 per cent of gross domestic product (GDP) estimated for 1982 to 2 per cent in 1983. The principal instruments for achieving this objective will be domestic financial restraint and a flexible exchange rate policy. A number of monetary policy initiatives have recently been introduced to strengthen control over the monetary aggregates and, for the program period, the growth of broad money (M3) has been targeted well below the expected rate of inflation while the growth of domestic bank credit is to be contained within tight limits. Measures in the monetary field will be supported by fiscal measures. In order to offset expenditure overruns, the authorities have recently raised the general sales tax and for 1983/84 they intend to reduce the budget deficit to about 2 per cent of GDP and to finance it entirely outside the banking system. Total spending will again be reduced in real terms, but the authorities will ensure that training and infrastructural programs designed to ease medium-term constraints on growth will be less affected than other public expenditures. The authorities also announced their intention to phase out completely by the end of 1983 a 10 per cent surcharge on certain imports that had been introduced last February.

South Africa is an original member of the Fund and has, in the past, made use of the Fund's resources, the last occasions being 1976 and 1977, when it drew under the compensatory financing facility and under two stand-by arrangements, totaling SDR 160 million and SDR 232 million, respectively. These amounts were subsequently repurchased, and presently South Africa has no outstanding purchases from the Fund.