

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FOR THE PRESS

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Eugene R. Black, President of the International Bank for Reconstruction and Development, announced today that the Bank had made loans totaling \$50,000,000 in the Union of South Africa: \$30,000,000 for electric power and \$20,000,000 for transport facilities. In addition, the Union has arranged, through Dillon, Read and Company, for the private placement with eight large American commercial banks of \$10,000,000 of the Union's promissory notes, as well as a \$20,000,000 revolving credit with such banks which replaces a revolving credit of similar amount. In making the announcement Mr. Black stated: "This is the first occasion where there has been simultaneous participation by the private financial markets in meeting the capital requirements of our member countries, and one which is most gratifying to us."

The International Bank's loan of \$30,000,000 was made to the Electricity Supply Commission, an autonomous state agency, to assist in the expansion of its generating, transmission and distribution facilities. This loan is for a term of 20 years and carries an interest rate of 4%, including a 1% commission, which, in accordance with the Bank's Articles of Agreement is allocated to the Bank's special reserve fund. Amortization payments, calculated to retire the loan by maturity, will start on May 15, 1954. The loan is guaranteed by the Union of South Africa.

The International Bank's loan of \$20,000,000 was made to the Union for the expansion and improvement of state-owned transport facilities, operated by the South African Railways and Harbours Administration. This loan is for a term of 15 years and carries an interest rate of 3 3/4%, including the statutory 1% commission. Amortization payments calculated to retire the loan by maturity will start on May 15, 1956.

Participating in the private financing arranged by the Union through Dillon, Read and Company were Bank of America, N.T. and S.A., the National City Bank of New York, Central Hanover Bank and Trust Company, Bankers Trust Company, Chemical Bank and Trust Company, The New York Trust Company, Bank of the Manhattan Company, and the First National Bank of Chicago. The \$20,000,000 revolving credit is for a term of 3 years and replaces an existing credit of similar amount. The promissory notes for the additional \$10,000,000 mature half in 1955 and half in 1956.

The contracts for both the International Bank loans and the private financing were signed today at the International Bank's headquarters in Washington. After approval by the International Bank's Executive Directors, Eugene R. Black, President, signed the loan documents on behalf of the International Bank for Reconstruction and Development. The Loan Agreement for the transport project and the Guarantee Agreement for the electric power project were signed by Ambassador G. P. Jooste, on behalf of the Union of South Africa; and the Loan Agreement for the electric power project was signed by A. J. van Lingen of the New York Agency of Barclay's Bank (Dominion, Colonial and Overseas), on behalf of the Electricity Supply Commission. The loan contract for the private financing was signed by representatives of the participating private banks, and by Ambassador Jooste on behalf of the Union of South Africa.

The loans by the American banks are for general purposes of the Union Treasury. However, the Union has advised the International Bank that funds equivalent to the proceeds of the \$10,000,000 of promissory notes will be made available to the South African Railways for transportation purposes during 1951 and 1952, as required. Thus \$10,000,000 of the private financing and the International Bank's loan for \$20,000,000, in effect, constitute one credit transaction for transportation purposes.

Specifically the International Bank's loan of \$30,000,000 to the Electricity Supply Commission (ESCOM) will assist in financing the foreign exchange costs of importing equipment during the years 1951 and 1952. Such equipment will include turbo-generators, boilers and accessories, electrical apparatus, including switch gear, transformers, power and control cable, cable for station lighting and grounding, pumps, piping and structural materials. Power is one of the basic requirements for the continued expansion of the South African economy. ESCOM supplies about 75% of the electricity consumed in the Union. Its systems cover an area of 73,200 square miles of the more industrialized parts of the country. Although ESCOM has increased its generating, transmission and distribution facilities more rapidly since the end of the war than at any other comparable period, its facilities are inadequate to meet current and future expected demands. Its expansion program, which the International Bank's loan of \$30,000,000 will help to finance, is designed to keep pace with the economic development taking place in all parts of the Union and to supply the large expected industrial demands of the new Orange Free State gold fields.

The International Bank's loan of \$20,000,000 to the Union will assist in financing the foreign exchange costs of importing equipment needed for the Union's transport expansion program during the years 1951 and 1952 and will be specifically devoted to the purchase of such items as rolling stock, workshop machinery, road motor equipment, spare parts for aircraft and special machinery and equipment for maintenance of aircraft, structural materials and miscellaneous equipment. In an industrially developed, but sparsely populated country like South Africa, with vast open spaces and long distances to be traversed to reach markets or ports, the efficiency of transport services is of vital importance to the economic welfare of the nation. Transport facilities of all

kinds have been inadequate to handle the enormous increase in traffic brought about by the heavy expansion of the Union's industries and the general development of the country during the war and post-war years. The Railway Administration's six-year program for the expansion and improvement of its transport facilities has been planned to fit both the immediate and future needs of South Africa and should overcome the present difficulties and greatly increase the efficiency of all forms of transport, particularly the railways.

With regard to expenditure of the international Bank loans, it is estimated, based on orders already placed for equipment for the transport and electric power projects, that about 20% of the equipment required will be drawn from the dollar area, with the remaining 80% to come from the United Kingdom, except for a very small amount which might possibly be supplied from Continental European sources.

In announcing the International Bank loans for development purposes in South Africa, Mr. Black pointed out that the rapidly developing economy of South Africa makes necessary the importation of capital from abroad to supplement its local savings. South Africa's traditional major source of supply of capital has been the United Kingdom, which, in present circumstances, does not consider itself able to furnish capital to a total commensurate with the Union's needs. Consequently, South Africa must seek other sources of external capital for its large investment needs. Without the International Bank loans, import of equipment for its program of expansion of transport and electricity facilities could be secured only at the expense of foreign exchange reserves. In view of the extent to which the Union is subject to the irregular inflow of private foreign capital, maintenance of foreign exchange reserves at a satisfactory level is particularly important to this country. By enabling South Africa to avoid excessive recourse to the use of its foreign

exchange reserves, the International Bank's loans will contribute directly to the maintenance of a future steady rate of investment and economic progress.

South Africa's external debt record is good and the level of its direct governmental debt, including the present loans and the private financing previously mentioned, is still only a little over half its prewar figure. Service charges on this debt are small in relation to South Africa's foreign exchange earning capacity, and do not constitute a serious burden on the country.

Mr. Black stated that the International Bank has indicated to the Union Government that it is willing, in principle, to entertain further applications for loan facilities in respect of future acceptable productive projects.

SUPPLEMENTAL STATEMENT BY THE INTERNATIONAL BANK
ON THE ECONOMIC POSITION OF THE UNION OF SOUTH AFRICA

General

The Union of South Africa, a Dominion of the Commonwealth of Nations, is a country with a large area of 472,000 square miles and a relatively sparse population of only 12 million of which nearly 70% are native Africans, 21% are "European" or white, and 9% are either Asiatic or of mixed blood.

The mineral resources of South Africa are extensive. The gold mines are at present the most valuable, but the exploitation of other minerals is gaining in importance. The chief mineral resources, apart from gold and diamonds, are coal, iron, copper, manganese, chrome and asbestos, as well as smaller amounts of many other minerals. In fact, the essential minerals needed for heavy industry are available in large quantities in South Africa. The growth of manufacturing has proceeded steadily, and the industrialization of the economy is now well advanced. The net output of manufacturing industry increased almost threefold in the twenty years of the inter-war period. However, apart from a small area in the southwest around Cape Town, the agricultural development of South Africa has been hampered by natural disadvantages -- most of the country suffers from a regular six months winter drought and in the summer the rainfall is irregular and often insufficient.

Course of Economic Development

The development of a modern economy in South Africa dates only from the latter part of the nineteenth century but has proceeded with great rapidity. The discovery of diamonds, which signified the start of South Africa's economic revolution, came in 1867 but it was the later gold discoveries of 1886 which provided the greatest magnet for European capital and technical skill and which gave the Union its most important basic industry.

The speed of development in mining and other occupations has been made possible by the import of substantial amounts of capital mainly from the United Kingdom. As most of the private capital went into gold mining, investment has proceeded in a series of bursts characterized by optimistic over-investment at some periods and excessive caution at others.

Factors Affecting Development Since World War II

Since the end of the war several factors have combined to produce a sustained investment and consumption boom. The economy ended the war with the banking system in a very liquid condition and with ample foreign exchange reserves; there was the wartime backlog of investment and consumption demand to be made good; the discovery of a new gold mining area in the Orange Free State created an altogether new demand for investment both directly in mining and in the provision of services and utilities; the general high level of activity stimulated a continuation of the wartime growth of secondary industry and demanded a general expansion of the public utilities. The boom was accelerated and facilitated by an exceptionally heavy flow of capital to the Union from the U.K. in 1947 and early 1948 and by credit expansion within South Africa. During this period internal savings were very low and the high

level of investment and consumption expenditure was maintained by incurring large deficits on the balance of payments covered either by capital inflow or by utilization of foreign exchange reserves. The total balance of payments deficits in 1946-1949 period was S. A. £515 million and in this period foreign exchange reserves fell from S. A. £266.8 million (\$1160 million equivalent) to S. A. £104.6 million (\$293 million equivalent).

To meet the situation presented by falling reserves, South Africa imposed controls on imports from hard currency countries in 1948 and extended them to cover all imports in 1949. The position was made more serious by the virtual cessation of the inflow of capital from Britain between the spring of 1948 and September 1949, the date of the devaluation of sterling. After September 1949, private capital again began to enter the Union and this, together with the much lower level of imports, brought about a reversal of the downward trend in the reserves of foreign exchange.

Future Economic Position

In the future South Africa's international economic position will be greatly dependent, not only on the rate of inflow of private capital but also on the earnings of her two most important exports, gold and wool. Gold is South Africa's most important source of foreign exchange although it does not occupy the preponderant position which it did immediately before the war. In 1937 gold production was equal to more than twice the value of all other exports combined, but in 1948 it was equal to only 85% of other exports. In 1950, even though devaluation has increased the value of gold production expressed in South African pounds, gold output was only about 70 or 75% of the value of other exports.

The value of gold output in 1950 was about £140 million but over the next 10 years it will be substantially increased as a result of the operations of the new mines in the Orange Free State. By 1960 total gold output is likely to be larger by about 50%.

South African wool is of high quality, more than 80% of the clip being merino. Since the war, there has been a very great increase in the demand for wool, prices have risen and the value of the South African wool clip has increased from S.A. £14 million in the 1946/47 season to S.A. £38.9 million in 1949/50. Since 1945, world wool consumption has exceeded production by approximately 20% and the substantial wool stocks which were accumulated during the war have now been fully liquidated. The high level of consumption of the past few years may reasonably be expected to decline somewhat in the near future, but there seems little prospect of a decline sufficient to close the gap between production and consumption except at prices substantially higher than those of the 1949/50 season. At present, prices for South African wool are nearly 50% above levels prevailing before the season opened last August. It was expected that the 1950 South African clip would bring in S.A. £77 million as compared to S.A. £38.9 million the season before.

Other important exports are diamonds, hides and skins, fruit, copper, and coal and coke. South Africa also has very large reserves of many base metals, including manganese, chrome, platinum, vermiculite, and asbestos, and the total value of exports of these commodities, although small, is increasing.

Need for Additional Capital

In spite of the prospects of increased foreign exchange earnings from her exports, it is still important for the Union to attract external capital. The size of the investment program, both public and private, considered necessary by South Africa for the next few years, is considerably larger than can be financed out of local savings. Consequently, continued development of the economy at the desired rate is dependent on the continued inflow of foreign capital. The difficult position in which South Africa found itself in mid-1949, with its foreign exchange position seriously depleted, was the result of the cessation of the inflow of private capital during the second half of 1948 and the first half of 1949.

Although the U.K. has been the traditional source of capital for South Africa, in view of the many other demands on the capital resources of the U.K., it is doubtful whether, for the next few years at least, the U.K. will be able to supply all the capital which South Africa will need in order to maintain the current rate of economic development. This applies certainly to the public sector and probably also to the private sector. The Government has, therefore, been anxious to borrow dollars and other hard currencies to meet its own investment requirements and has encouraged the inflow of private hard currency capital. The International Bank's loans will make possible the desired investment in electricity and transport without drawing down foreign exchange reserves in payment for imports needed for this investment.

Balance of Payments Prospects

Although South Africa is anxious to encourage the inflow of dollar capital as a supplement to that available from the U.K., she does not suffer from a current dollar shortage. Even in terms of repayment of a dollar loan, South Africa's capacity to borrow is determined more by its over-all balance of payments prospects than by its bilateral dollar (including gold) position. With current gold production taken into account, South Africa has at present a substantial surplus in its current account balance of payments position with the dollar area. The hard currency surplus in 1950 was about S.A. £55 million (\$154 million) and is expected to continue at a rate of at least S.A. £50 million in the next few years. Moreover, as the new gold mines in the Orange Free State come into full production, this surplus should be an increasing one. The surplus on the dollar and gold account will be used to settle the deficit on the non-dollar account and the strength of the total position will depend on the relation between the two.

The most probable development in the South African balance of payments, at least for the next decade, is a position with a current account deficit not fully covered by gold production, but with the gap filled by the flow of foreign capital to South Africa. This, it should be noted, is the typical position of a country whose developmental investment is proceeding more rapidly than can be financed out of domestic savings.