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ON TARIFFS AND  
TRADE

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IMPORT RESTRICTIONS IMPOSED BY THE UNION OF SOUTH AFRICA

Information on South Africa for the Contracting Parties

Memorandum prepared by the International Monetary Fund  
dated March 21st 1949

1. Monetary Reserves

A serious decline in South Africa's monetary reserves has occurred during 1948. If the drop in gold holdings had continued at the rate of the second half of 1948, they would have been depleted in six months. Since December gold reserves remained stable. Sterling balances continued to drop at a rising rate. Data on the monetary reserves of the Union, which in this context comprise all reported gold and foreign exchange holdings of the government and the central bank, are given in the attached Table 2.

2. Balance of Payments

Data on the balance of payments, based on official estimates presented to the Fund, are given in the attached Tables 3 and 4. Table 3 gives the over-all balance of payments for 1937, 1946 and 1947; Table 4 gives a regional breakdown for 1946, 1947, and the first nine months of 1948. A brief statement of the balance of payments 1947 and first nine months of 1948 is given in Table 1 below.

Table 1. Balance of Payments  
(in millions of South African pounds)

	Credit or Debit (-)		
	Non-Sterling Area	Sterling Area	Total
1 9 4 7			
Merchandise	-140	- 55	-195
Gold production	97 <sup>1/</sup>	--	97
Services	- 18	- 15	- 33
Private capital	5	152	157
Lend-Lease: Subscription to IMF	- 31	--	- 31
Total <sup>2/</sup>	- 87	82	- 5
Multilateral settlements <sup>3/</sup>	42	- 42	--
Monetary reserves:			
Foreign exchange assets (net)	1	- 40	- 39
Gold	44	--	44
Total	87	- 82	5
First nine months of 1948 (annual rate)			
Merchandise	-152	- 67	-219
Gold production	99 <sup>1/</sup>	--	99
Services	- 27	- 13	- 40
Private capital	--	100	100
Total	- 80	20	- 60
Multilateral settlements	12	- 12	--
Monetary reserves:			
Foreign exchange assets (net)	13	- 8	5
Gold	55 <sup>4/</sup>	--	55
Total	80	- 20	60

- <sup>1/</sup> Since in effect all newly produced gold was used, either directly or through London, to finance the deficit with the non-sterling area, it has been allocated to this column in order to simplify the presentation.
- <sup>2/</sup> This total represents the deficit which had to be financed by the use of monetary reserves either directly or by means of multilateral settlements.
- <sup>3/</sup> Excluding multilateral settlements through London financed by gold.
- <sup>4/</sup> Excluding the gold loan to the United Kingdom.

### 3. Developments Affecting the External Payments Position

#### The current deficit

The over-all deficit of the Union on current account has grown persistently since 1946, and by the autumn of 1948 it was apparent that immediate corrective measures could no longer be deferred.

The sterling area portion of this deficit was in 1947 and the first nine months of 1948 more than offset by an inflow of British capital. This inflow was £150 million in 1947 and £75 million during the first nine months of 1948. The inflow has probably stopped since then. Foreign exchange holdings of the Reserve Bank (virtually all sterling) fell between October 1948 and February 1949 at an annual rate of £SA120 million. This is mainly due to the current deficit with the sterling area, which was at a rate of £SA80 million in the first nine months of 1948 and rose as the November exchange restrictions resulted in a shift of imports. There may, however, also have been some outflow of capital. The absence of restrictions on the outflow of capital from the Union to other members of the sterling area, combined with the large inflow since 1946, makes the position vulnerable in this respect.

In 1947 the surplus of £82 million with the sterling area on current and private capital account taken together enabled South Africa to use £42 million for multilateral settlements with the non-sterling area and at the same time increase its net sterling reserves by £40 million. The remainder of the deficit with the non-sterling area was covered directly, or indirectly via London, by sales of £97 million of newly produced gold and £44 million of gold taken from reserves. The gold sales almost matched the deficit with the United States alone. As a result of these transactions gold reserves of South Africa declined by £44 million while sterling reserves increased by nearly the same amount.

The current Financial Agreement between the Union and the United Kingdom stipulates that beginning January 1, 1948 the Union will pay in gold for the net payments made by its residents through London to countries outside the sterling area. Hence, all South African transactions outside the sterling area may now be regarded as gold or dollar transactions. The lend-lease settlement and the gold payment to the International Monetary Fund did not recur in 1948, but the non-sterling area deficit on current

account continued at an increased rate in 1948. This, combined with the fact that sterling<sup>1/</sup> could no longer pay for a part of the deficit, led to a serious decline in non-sterling reserves.

Gold holdings fell from \$448 million in February 1948 after a loan of 9,275,000 ounces of fine gold valued at \$322 million to the United Kingdom had been made, to \$234 million in October, shortly before the exchange restrictions and the import prohibitions were introduced. Non-sterling exchange holdings fell by \$40 million during the first nine months of 1948 to a negligible figure. Gold holdings in the beginning of 1949 were stable at around \$185 million.

#### Gold production and price

An important feature leading to the present exchange situation is the rise in commodity prices, which in the case of South Africa is inadequately offset, as the Union's main export product is gold. Gold production paid for some 80 per cent of commodity imports in 1937. In mid-1948 the index of import prices was 111 per cent above 1937, the £SA value per ounce of gold had risen 23 per cent. Gold production is about the same as in 1937, but twenty per cent below the output in 1941, the peak year.

#### Imports

The second evident feature is the rise in the volume of imports estimated on the basis of available price indices by about 65 per cent in 1947 and 75 per cent in 1948 above 1937. Exports other than gold have indeed risen at an about equal rate but, being much smaller in total than imports, leave a widening gap. Not only has the volume of imports increased, but they have shifted in 1946-48 from sterling to non-sterling sources. Imports from the United States were 20 per cent of the total in 1937 and 35 per cent in 1947. The rise in imports took place both in consumers' and producers' goods.

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<sup>1/</sup> Sterling earned in transactions outside the sterling area can still be used in making payments outside this area. The above statement refers to the deficit which remains after such sterling earnings have been taken into account.

### Investment

A major factor for the sustained rise in the volume of imports was an investment boom of complex origin. This boom has resulted partly from the special opportunities of the new gold field discoveries. Arrears of investment in railways, housing of enlarged urban populations, development of consumer goods industries and to some extent of steel and engineering have added substantially to investment demands. Inventories have risen, especially in anticipation of the import restrictions in the months preceding November 1948.

### Bank credits

The financing of the import surplus involved at first activation of money supplies accumulated during the war. The money supply rose 250 per cent between 1939 and 1946, while the national income rose 80 per cent. The money supply itself continued, generally, to expand. Commercial bank credits doubled after the war, from £3129 million at the end of 1945 to £5273 million at the end of 1948.

### Inflow of capital

The large inflow of capital in 1947 and 1948 has been the major reason, even more significant than the rise in bank credit, why the money supply did not contract although there was a heavy import surplus.

Consumption and investment after the war would probably have been high in any event on account of backlogs and a high level of liquid assets. The capital inflow gave a further stimulus to high expenditure. While the inflow consisted almost entirely of sterling capital, it gave rise to demand both for sterling and non-sterling goods. The capital inflow thus was one of the causes of the rising balance of payments deficit on current account.

### Gold reserves

Gold holdings in February 1949 were nearly the same as at the end of 1937. From the point of view of the balance of payments this indicates a much weaker reserve position as the purchasing power of gold with respect

to imports has declined by 42 per cent since 1937.

From the standpoint of legal reserve requirements the reserve position was also much weaker as a result of the expansion of the money supply. In the years 1937-39 gold holdings were about equal to the liabilities of the Reserve Bank. In 1948 this ratio threatened to fall below the legal minimum of 30 per cent. In October 1948 the legal minimum ratio was reduced to 25 per cent, while the Reserve Bank became also empowered for the purpose of calculating this ratio to deduct from its liabilities an amount equal to the book value of its assets held outside the Union. In the Bank return of October 15, when the new ratio was first published, it was 41.1 per cent, while the former ratio was 31.6 per cent. Only the actual foreign exchange holding and not the sterling counterpart of the gold loan to the United Kingdom had been treated as a deduction. On February 18, 1949 the ratio had dropped to 32.6 per cent.

#### 4. The Import Restrictions

In view of the development outlined above, it was clear that strong immediate remedial measures were necessary to forestall the imminent threat of a further serious decline in gold and dollar reserves. The Union announced on November 5, 1948 measures consisting of:

(a) Exchange restrictions, limiting the provision of exchange for imports from the non-sterling area between July 1948 and June 1949 to 50 per cent of that used in 1947, although an exception was made in the case of producers goods and raw materials, for which supplementary exchange licences were to be provided.

(b) Prohibition of the import of certain goods, irrespective of the source, except under special licence.

In the opinion of the Fund measures which would restrict imports at least to the degree anticipated in these regulations were needed at that time as minimal immediate measures to cope with the balance of payments difficulties of the Union. It was recognized that the decline in sterling

reserves might give rise to difficulties during a later period.

The exchange restrictions have been dealt with directly by the Fund and the Fund has authorised them under Article VIII of the Fund Agreement.

From the point of view of the volume of imports, the effects of the import prohibitions introduced in November will be much less than those of the exchange restrictions. Moreover, their influence will be largely one of an indirect nature. A detailed breakdown of trade by commodities for recent years is not available, but unofficial estimates place the value of the imports which have now been prohibited at roughly £7 million a year. Of this total £1 million originated in the sterling area. The balance of some £6 million of such commodities which in the past had come from non-sterling area sources might well have led to increased imports from the sterling area had the prohibited list not been introduced. Moreover, the prohibitions added some selectivity to the non-selective system of exchange restrictions.

As a result of these measures the drain on gold holdings was stopped in December. The drop of sterling balances, however, continued at an accelerated rate. According to press reports, the Minister of Finance announced to Parliament on February 24th that to counteract this, and to remove certain anomalies inherent in the existing exchange quota system, it had been decided to change over to a system for the physical control of imports, both from the sterling and the non-sterling area. As regards imports from non-sterling sources, the existing scheme will continue to apply until 30 June 1949. From the date of inception of the permit system, however, only goods covered by permit will be allowed entry into the Union from the sterling area.

The Minister also announced that the prohibited list will shortly be extended so as to effect substantial savings on the present level of expenditure, both in non-sterling and in sterling currencies.

Table 2. Monetary Reserves of the Union of South Africa  
(in millions of U.S. dollars)

End of	Government Balances Abroad	Reserve Bank		Total
		Gold	Foreign Exchange	
December 1937	3	189	37	229
" 1945	36	914	246	1,196
" 1946	15	939	71	1,025
" 1947	4	762	245	1,010
1948				
January	5	764	253	1,022
February	8	448 <sup>1/</sup>	280	736
March	12	438	329	779
April	10	446	309	764
May	10	388	351	749
June	5	373	291	670
July	3	338	240	581
August	3	307	229	540
September	3	269	222	495
October	3	234	211	448
November	3	194	181	377
December	3	183	144	330
1949				
January	2	187	94	283
February		182	52	

<sup>1/</sup> In February 1948 £80 million gold was loaned to the United Kingdom under the Financial Agreement between the two countries.

A breakdown of foreign exchange holdings of the Reserve Bank for three months of 1948 is shown below (in millions of U.S. dollars):

End of	Pound Sterling	U.S. Dollars	Other Currencies	Total forei Exchange of Reserve Bank
April 1948	291	17	1	309
August 1948	222		7	229
November 1948	178		3	181



Table 3. Financing of International Transactions of  
the Union of South Africa

(in millions of South African pounds)

	1937	1946	1947
<b>A. TRANSACTIONS REQUIRING FINANCING</b>			
Goods and services			
Imports, f.o.b.	103.1	214.1	295.0
Foreign Travel	7.1	6.5	8.0
Transportation and insurance	7.6	27.3	30.0
Investment income	21.5	23.2	27.6
Government	0.7	14.6	7.0
Miscellaneous	1.6 <sup>1/</sup>	2.0	2.5
Total	141.6	287.7	370.1
Special official financing			
UNRRA contribution	-	2.0	-
Contribution to People of Britain Fund	-	1.0	-
Lend-Lease settlement	-	-	25.0
Gold and dollar subscriptions to IMF and IBRD	-	0.5	6.2
Debt repayment	-	0.4	0.1
Total	-	3.9	31.2
Total requiring financing	141.6	291.6	401.4
<b>B. TRANSACTIONS SUPPLYING FOREIGN EXCHANGE (Excl. Compensatory Official Financing)</b>			
Goods and services			
Exports, f.o.b.	41.1	87.3 <sup>2/</sup>	100.0
Nonmonetary gold movement	80.0	101.8	97.3
Foreign travel	1.5	4.5	12.5
Transportation and insurance	2.7	8.5	9.5
Investment income		5.0 <sup>3/</sup>	10.0 <sup>3/</sup>
Government	0.6	19.5	10.2
Miscellaneous	0.2		
Total	126.1	226.6	239.5
Private capital movements (net)	6.7	18.9	156.9
Errors and omissions			
Total	132.8	245.5	396.4
<b>C. NET SURPLUS (✓) OR DEFICIT (-) (B minus A)</b>	- 8.8	-46.1	- 5.0
<b>D. COMPENSATORY OFFICIAL FINANCING, CREDIT (✓), DEBIT (-)</b>			
New borrowing	✓ 1.9	-	-
Short-term balances			
Due abroad		- 0.3	✓ 1.7
Foreign exchange assets	✓ 4.1	✓ 52.6	-41.1
Monetary gold	✓ 2.8	- 6.2	✓ 44.4
Total compensatory official financing	✓ 8.8	✓ 46.1	✓ 5.0

<sup>1/</sup> Including small amounts of personal and institutional remittances and other private transfers.

<sup>2/</sup> After adjustment for movements in foreign-owned stocks in South Africa.

<sup>3/</sup> Part of this entry is appropriate to "Miscellaneous."

Table 4. Regional Financing of International Transactions of the Union of South Africa<sup>1/</sup>

(in millions of South African pounds)

	Non-Sterling Area			Sterling Area	Unallocat- ed	Total
	U.S.A. IMF	Other IBRD	Total			
		1 9 4 6				
A. GOODS AND SERVICES						
Trade balance (f.o.b.)	...	...	- 73	- 54	+ 102	- 25
Freight and insurance on imports	...	...	- 15	- 12	--	- 27
Other services (net)	...	...	- 7	- 2	--	- 9
Total	<u>- 59</u>	<u>- 36</u>	<u>- 95</u>	<u>- 68</u>	<u>+ 102<sup>2/</sup></u>	<u>- 61</u>
B. PRIVATE CAPITAL MOVEMENTS (NET) <sup>3/</sup>	+ 1	--	+ 1	+ 18	--	+ 19
C. SPECIAL OFFICIAL FINANCING	<u>- 1</u>	<u>- 2</u>	<u>- 3</u>	<u>- 1</u>	<u>--</u>	<u>- 4</u>
Total (A, B and C)	- 59	- 38	- 97	- 51	+ 102	- 46
D. COMPENSATORY OFFICIAL FINANCING						
Foreign exchange assets	- 8	--	- 8	+ 60	--	+ 52
Gold transactions <sup>4/</sup>	+ 24	+ 1	+ 25	+ 71	- 102	- 6
Multilateral settlements <sup>5/</sup>	<u>+ 43</u>	<u>+ 37</u>	<u>+ 80</u>	<u>- 80<sup>6/</sup></u>	<u>--</u>	<u>--</u>
Total	<u>+ 59</u>	<u>+ 38</u>	<u>+ 97</u>	<u>+ 51</u>	<u>- 102</u>	<u>+ 46</u>
		1 9 4 7				
A. GOODS AND SERVICES						
Trade balance (f.o.b.)	...	...	-140	- 55	+ 97	- 98
Freight and insurance on imports	...	...	- 19	- 11	--	- 30
Other	...	...	+ 1	- 4	--	- 3
Total	<u>-118</u>	<u>- 40</u>	<u>-158</u>	<u>- 70</u>	<u>+ 97<sup>2/</sup></u>	<u>-131</u>
B. PRIVATE CAPITAL MOVEMENTS (NET) <sup>3/</sup>	+ 3	+ 2	+ 5	+153	--	+157
C. SPECIAL OFFICIAL FINANCING	<u>- 31</u>	<u>--</u>	<u>- 31</u>	<u>--</u>	<u>--</u>	<u>- 31</u>
Total (A, B and C)	-146	- 38	-184	+ 82	+ 97	- 5
D. COMPENSATORY OFFICIAL FINANCING						
Short-term balances:						
Due abroad	--	--	--	+ 2	--	+ 2
Foreign exchange assets	+ 1	--	+ 1	- 42	--	- 41
Gold transactions <sup>4/</sup>	+ 70	+ 1	+ 71	+ 70	- 97	+ 44
Multilateral settlements <sup>5/</sup>	<u>+ 75</u>	<u>+ 37</u>	<u>+112</u>	<u>-112<sup>6/</sup></u>	<u>--</u>	<u>--</u>
Total	<u>+146</u>	<u>+ 38</u>	<u>+184</u>	<u>- 82</u>	<u>- 97</u>	<u>+ 5</u>

Table 4. Regional Financing of International Transactions  
of the Union of South Africa  
(continued)

	Non-Sterling Area			Sterling Area	Unallocated	Total
	U.S.A. IMF IBRD	Other	Total			
Nine Months Ended September 1948						
<b>A. GOODS AND SERVICES</b>						
Trade balance (f.o.b.)	...	...	-114	- 50	+ 74	- 90
Freight and insurance on imports	...	...	- 15	- 11	--	- 26
Other services (net)	...	...	- 5	+ 1	--	- 4
Total	...	...	-134	- 60	+ 74 <sup>2/</sup>	-120
<b>PRIVATE CAPITAL MOVEMENTS (NET)<sup>3/</sup></b>	...	...	--	+ 75	--	+ 75
<b>SPECIAL OFFICIAL FINANCING</b>				- 80 <sup>7/</sup>		- 80
Total (A, B and C)	...	...	-134	- 65	+ 74	-125
<b>COMPENSATORY OFFICIAL FINANCING</b>						
Foreign exchange assets	...	...	+ 10	- 6	--	+ 4
Gold transactions <sup>4/</sup>	...	...	+ 91	+104	- 74	+121
Multilateral settlements <sup>5/</sup>	...	...	+ 33	- 33 <sup>6/</sup>	--	--
Total	...	...	+134	+ 65	- 74	+125

Credit is indicated by a plus sign (+); debit, by a minus sign (-).  
 Non-monetary gold movement (gold production) which cannot be allocated by countries.  
 Including errors and omissions.  
 The entry in the "total" column is the monetary gold movement (i.e., the change in gold reserves) which cannot be allocated by areas. Exports of gold have been allocated in the first four columns (e.g. in 1946, £24-million gold exported to the United States. £1 million to other non-sterling countries; total £25 million, and £71 million gold exported to the sterling area). These exports minus gold production (£102 million in 1946) represent the loss in reserves (-£6 million, i.e. a rise of £6 million in 1946).  
 Including errors in allocation.  
 Net receipts of non-sterling area currencies from the sterling area, primarily the United Kingdom, and net use of sterling outside the sterling area.  
 Gold loan of £80 million to the Bank of England.

Explanatory Notes to Tables 2 - 5

Table 3 gives an over-all balance of payments for the years 1937, 1946 and 1947. The table gives particular attention to compensatory official financing, i.e., financing undertaken in response to balance of payments pressures, mainly the use of monetary reserves. For this purpose private capital movements have been added to the current account in arriving at the surplus or deficit requiring compensatory financing by the monetary authorities. However, while the capital inflow in 1947 (and 1948 see Table 4) reduced the need for compensatory official financing it was an unstable factor and tended to hide the underlying disequilibrium in the current account.

In interpreting the section entitled "Compensatory official financing" it should be borne in mind that a plus sign denotes the use of an asset or incurring of a liability, and a minus sign represents the accumulation of an asset or the reduction of a liability. For example, in 1947 the figure of ~~£~~41.1 million denotes a rise in foreign exchange assets, and ~~£~~44.4 million represents a decline in gold reserves.

A number of official financing transactions have not been classified as "compensatory," but have been placed in section A of the table under the designation "special". These are transactions which are undertaken for specific purposes and which are independent of balance of payments pressures. They include the UNRRA contribution and a similar contribution to the People of Britain Fund, the Lend-Lease settlement, and gold and dollar subscriptions to the International Monetary Fund and International Bank for Reconstruction and Development. The local currency subscriptions to IMF and IBRD and the corresponding increase in short-term liabilities have been cancelled against one another and excluded from the table.

Because all the items in the compensatory official financing account are taken directly from official records, it seems probable that errors or omissions in the South African balance of payments as a whole have occur

in the other two sections of Table 3. It is believed that they consist mainly of private capital movements and, since they have been net credits in each of the years under review, they have been placed for convenience in the second section.

The term nonmonetary gold is employed to denote the net of domestic production (credit) and consumption (which may be either credit or debit). Consumption includes private hoarding as well as gold used in industry and the arts. Gold consumed is treated as a debit; gold dishoarded or recovered from other sources is treated as a credit. Gold consumption is of minor importance in the case of South Africa and the figures are practically identical with gold production. The reason for including domestic transactions in gold in a balance of payments statement is that domestic sales of gold to the monetary authorities increase their international reserves in the same way as sales of merchandise to foreigners; and domestic purchases of gold from the monetary authorities decrease their international reserves in the same way as purchases of merchandise from foreigners. Domestic gold transactions that do not involve the monetary authorities cancel out in the net figure used for nonmonetary gold movement.

Under present world conditions of limited convertibility of currencies, the over-all balance of payments shows only part of the problem of compensatory official financing. Table 4 gives a regional breakdown of net transactions in 1946, 1947 and the first nine months of 1948. A difficulty is encountered in the case of gold transactions since the non-monetary gold movement can be distinguished from the monetary gold movement only on a global basis. The nonmonetary gold movement has, therefore, been placed in the unallocated column opposite goods and services, and total gold transactions with each area have been shown in the section "Compensatory official financing". The nonmonetary gold movement has been offset by a

debit entry in the unallocated column. For 1947 and the first nine months of 1948, it has been possible to adopt a simpler presentation in the table on page 1 because there was a surplus with the sterling area on current and private capital account, and at the same time a deficit with the non-sterling area which was larger than gold production. In these circumstances it seems reasonable to allocate all gold production to the non-sterling area.

The item: "multilateral settlements" is necessary to allocate transactions involving third countries properly between different currency areas. In 1946, for example, £80 million sterling was used to pay for goods and services from the non-sterling area, while the surplus with the sterling area on account of goods and services, private capital movements, and gold exports, resulted in a receipt of £20 million sterling. The net decline of sterling balances, therefore, was £60 million.

As £80 million sterling was used to buy non-sterling area currencies, there is in the row "Multilateral Settlements" a credit of £80 million for the non-sterling area, and a debit of £80 million for the sterling area. With these adjustments for multilateral settlements, the bilateral transactions between South Africa and each region are brought into balance.