

SECRET

No. 89.....
SECRET

GATT/CP.4/E/4
22 March, 1950.

ORIGINAL: ENGLISH

GENERAL AGREEMENT ON
TARIFFS AND TRADE

WORKING PARTY "E" ON BALANCE OF PAYMENTS QUESTIONS

South African Import Restrictions

The following letter, dated 21 March, 1950, has been received by the Chairman of the Contracting Parties, from the Head of the International Monetary Fund's Mission to the Fourth Session:

"I am transmitting herewith the data on the foreign exchange reserves and balance of payments of the Union of South Africa, on the basis of which the Fund reached the conclusions which I communicated to you on March 17, 1950 (Doc. Secret CP4/E/3, March 18, 1950). The material herewith transmitted should be read in conjunction with the two reports transmitted by the Fund at Annecy.

"You will observe from Table A, attached, that the gold holdings of the South African Reserve Bank fell during 1948 from \$762 million to \$183 million. 1/ In 1949 there was a further decline to a low point of \$119 million at the end of October. Since then South Africa's gold holdings have increased moderately to \$128 million at the end of 1949 and to \$132 million at the end of January, 1950.

"The foreign exchange holdings of the South African Reserve Bank (including sterling as well as other foreign balances) have also fallen sharply since the end of 1947, when they totalled \$245 million. During 1948 they fell to \$144 million and reached a low point of \$12 million at the middle of 1949. They have since risen to \$165 million at the end of 1949, and further to \$181 million at the end of January, 1950.

"The decline in gold holdings during 1948 was caused in part by the \$322 million gold loan to the United Kingdom, made in February of that year. That loan had been repaid in full by September of last year. If one considers the total not only of South Africa's gold and foreign exchange holdings but also of this U.K. gold loan and of a small amount of Government balances abroad, one may conclude that the total monetary reserves of the Union of South Africa fell from \$1,010 million at the end of 1947 to \$652 million at the end of 1948 and further to \$298 million at the end of 1949.

"Recent developments in South Africa's overall balance of payments are summarized in Table B, attached. The Union's deficit on account of goods and services has increased from 154 million South African pounds in 1947 to 167 million South African pounds in 1948 and during the first half of 1949 was running at an annual

1/ This includes the decrease resulting from the gold loan to the U.K. (\$322 million)

rate of 173 million South African pounds. Under the impact of the restrictions applied at the middle of last year the goods and services deficit was reduced in the third quarter to an annual rate of 124 million South African pounds.

"South Africa's deficit on account of goods and services does not measure fully the drain on its official reserves because of private capital movements. In 1947, the flow of private capital into the Union was somewhat larger than the goods and services deficit. In 1948, the Union's private capital inflow had fallen by more than one-half from the 1947 level, and substantial compensatory official financing was necessary. In the first half of 1949 movement of private capital was actually reversed, the Union sustaining a slight outflow, and the drain on official reserves was again substantial. In the third quarter the flow of private capital into the Union has been resumed which, with the improvement in South Africa's goods and services deficit, has eased the drain on its official reserves.

"In the light of these considerations the Fund came to the conclusion that it was reasonable for South Africa to attempt to limit its foreign exchange expenditures and to build up its reserves from their present very low level.

"The general level of the trade restrictions under consideration, when considered from the aspect of the external financial position of the Union, seem to the Fund to be justifiable at the present time. The Fund is well aware that the balance of payments condition of South Africa, together with its monetary reserves position, may considerably alter in the future, and that its opinion with regard to the justifiability of restrictions from the aspect of the external financial position of the Union is one which must necessarily be reviewed in the future in the light of changing conditions.

"The discriminatory aspects of the South African restrictions raise many difficult problems, involving, as they do, a detailed knowledge and analysis of the contents of the restrictions and how they would work in practice. Recognizing the importance of any opinion with regard to the discriminatory aspects of the restrictions, the Fund feels that its conclusions must be based on a careful consideration of all available data and fullest possible consultation with South Africa. We are therefore not in a position at this time to inform the Contracting Parties pursuant to Article XV, Paragraph 2 of GATT as to our opinion on the monetary aspect of the discriminatory measures.

"As indicated in my previous communication (Doc. Secret/CP.4/E/3, March 18, 1950) the Fund's interest in the restrictions under consideration is not only in carrying out the consultative provisions under GATT but also in considering whether the significance of South Africa's exchange restrictions has been materially altered by their association with the trade restrictions recently imposed.

We are therefore in consultation with South Africa on these matters. We will communicate promptly to the Contracting Parties any opinion that we may reach pursuant to Articles XIV and XV of GATT."

TABLE A.

Monetary Reserves of the Union of South Africa.

(in millions of U.S. dollars)

End of	Government Balances Abroad	Reserve Bank Gold ^{1/}	Foreign Exchange ^{2/}	Foreign Invest ments ^{3/}	Total
December 1937	3	189	37 (7.3)	--	229
December 1945	36	914	246 (61.0)	--	1196
December 1946	15	939	71 (17.6)	--	1025
December 1947	4	762	245 (60.7)	--	1010
December 1948	3	183	144 (35.6)	322	652
January 1949	2	187	94 (23.3)	322	605
February	6	182	52 (12.8)	322	562
March	4	166	40 (10.0)	282	492
April	4	175	13 (3.2)	242	434
May	6	166	16 (4.1)	181	369
June	6	149	12 (2.9)	121	287
July	5	149	18 (4.4)	60	232
August	7	135	34 (8.4)	50	226
September	4	121	69 (24.7)	--	194
October	4	119	90 (32.2)	--	214
November	5	120	129 (46.0)	--	254
December	5	128	165 (58.9)	--	298
January 1950		132	181 (64.8)	--	

^{1/} Valued at S/35 per fine ounce.^{2/} Figures in parentheses are expressed in sterling.^{3/} £80 million of gold was lent to the U.K. in February, 1948; the loan was repaid in full in sterling during 1949.

TABLE B.

Financing of International Transactions
of Union of South Africa

(in millions of South African pounds)

	1947	1948	1949	
			First Half Annual rate	Third Quarter ^{1/} Annual rate
A. GOODS AND SERVICES				
Exports (f.o.b.)	96.2	131.2	132.2	124
Imports (f.o.b.)	-299.4	-351.0	-347.4	-312
Trade balance	-203.2	-219.8	-215.2	-188
Non-monetary gold	97.1	99.4	96.2	112
Transportation and insurance	- 19.0	- 19.5	- 20.0)
Investment income	- 23.1	- 23.1	- 28.8)
Government	- 4.9	- 3.0	- 1.0) -- - 48
Other	- 0.4	- 0.7	- 4.0)
Total	-153.5	-166.7	-172.8	-124
B. PRIVATE CAPITAL MOVEMENTS^{3/}				
	180.3	82.2	- 14.8	76
C. SPECIAL OFFICIAL FINANCING				
	- 31.5 ^{2/}	--	--	--
D. SURPLUS OR DEFICIT (-) (A plus B plus C)				
	- 4.7	- 84.5	-187.6	- 48
E. COMPENSATORY OFFICIAL FINANCING				
Gold loan to U.K.	--	- 80.0	100.0	120
Use of IMF resources	--	2.5	--	
Short-term balances: due abroad	1.7	- 1.8	- 0.6	
foreign exchange assets	- 41.1	21.2	71.4	- 96
Monetary gold	44.1	142.6	16.8	24
Total	4.7	84.5	187.6	48

^{1/} Preliminary estimates.

^{2/} Lend-lease settlement -25.0; gold and dollar subscriptions to IMF and IBRD -6.2; official donations including UNRRA -0.2; and other -0.1.

^{3/} Including errors and omissions and private donations.