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## STRAIGHTENING OUT STERLING.

(We have much pleasure to reproduce this excellent article, which appeared in the April number of "THE STATIST" by courtesy of the Editor.)

Complete satisfaction is expressed in Switzerland at the results of the recent Anglo-Swiss deliberations in Berne and Zermatt to adjust the operation of the Monetary Agreement of March 12th, 1946, to conditions as they will be during the second year of its duration. Goodwill on both sides and mutual eagerness to develop prolific business relations between the two countries made it possible to solve many a refractory problem.

By the existing agreement, Switzerland undertook to place Swiss francs at the disposal of Britain up to the equivalent of £15 million to cover the deficit in the balance of payments over a period of two years. Up to £10 million was to be made available in the first year and up to £5 million in the second. Any deficit in excess of these limits was to be covered by the shipment of gold. Britain had no desire to part with gold and Switzerland is very reluctant to accept any. But it was not expected that the deficit in the balance of payments would greatly exceed the limits set — if at all.

Actually, the allocation of francs for the first year was exhausted at the end of eight months. Needs far exceeded estimates, partly because the personal expenditure of British tourists in Switzerland was substantially greater than had been expected, the limitations on individual outlays having been evaded by the smuggling of sterling notes into Switzerland and by extensive private compensations, partly because India and certain of the dominions, notably South Africa, took advantage of the Anglo-Swiss Monetary Agreement to reduce sterling balances that had accumulated during the war, by making heavy purchases in Switzerland.

Competent Swiss authorities estimate that of the total amount of sFr.173.5 million credit allocated for the first year, about sFr.80 million represented tourist expenditure in Switzerland, sFr.30 million to cover outlays by the Red Cross, League of Nations, British diplomatic and consular services, while sFr.10 million were needed to defray charges for military rail transits through Switzerland and the rest capital transfers and insurances. During the remaining four months of the first credit year, the expenditure in francs aggregated about sFr.80 million or nearly £5 million, which Britain had to cover in gold.

For the second credit year, only £5 million in francs will be available to cover the deficit in the balance of payments. Unless far-reaching adjustments were made, this amount must be altogether inadequate, especially if accumulated sterling balances were to be available for making purchases in Switzerland under the credit. Neither Britain nor Switzerland is

desirous of curtailing the amount of business done. Britain is indeed obliged to cultivate to the utmost her export to countries with "hard" currencies like Switzerland. Addressing the Federation of British Industries last November, Sir Stafford Cripps said that unless the export effort were redoubled, especially to hard-currency areas, drastic action would be needed in the next year or two to enable Britain to carry on. At present, he said, 50 per cent. of British imports came from U.S.A. and Canada, but only 14 per cent. of British exports went to these countries. In other words, Britain is buying "hard" and selling "soft." Of the total exports in 1946, aggregating in value £962 million, £465 million or 48.2 per cent. went to countries of the sterling area, £289 million or 29.8 per cent. to Europe — exclusive of Sweden and Switzerland — and only £128 million or 13.2 per cent. to countries with hard currencies — including Sweden and Switzerland. Of the total imports, £558 million or 43 per cent. came from countries with hard currencies, £452 million or 34.9 per cent. from the sterling area and £133 million or 10.3 per cent. from Europe — exclusive of Sweden and Switzerland.

From the British point of view, trade with Switzerland has developed exceedingly favourably and the trend has been highly agreeable to Switzerland, whose chief desire is to increase imports of food, raw materials and semi-goods, and to augment her tourist trade. Imports into Switzerland from Britain in 1946 aggregated sFr.196.7 million and exports to Britain sFr.58.2 million, leaving a substantial margin to cover tourist expenditure and other invisible items of the balance of payments. Every effort is being made by Britain to increase exports to Switzerland. But obviously the balance of payments — after the reduction of the credit in the second year to £5 million — could not be balanced if India and the dominions were to use old sterling balances freely to make purchases in Switzerland. Britain is unable to prevent this occurring but Switzerland is under no obligation to accept sterling in payment unless that is convenient. Export from Switzerland is already "directed" in such a way as to minimise currency complications. When, at the end of eight months, when the credit allocation for the first year was exhausted, Switzerland took steps to curtail the purchases by India and the Dominions, this was not intended to be discriminatory but precautionary. For the second year, negotiations between Switzerland and the various holders of sterling balances will soon begin, when Switzerland will try to induce the countries in question to increase their exports to Switzerland of foodstuffs and raw materials so as to minimise the demands on the Anglo-Swiss monetary credit. Switzerland is, for instance, very desirous of obtaining more wool and hides from South Africa and butter from Australia.

At the wish of Switzerland, the allocation of francs to defray tourist expenditure is almost as great as in the first credit year, namely sFr.120 million — sFr.70 million for summer and sFr.50 million in winter. While the Swiss hotel industry, recognising the irritation caused, strongly advocates the removal of restrictions imposed last December on the nature of expenditure by individual tourists, sharp measures are to be taken to prevent evasion of the control by banknote smuggling and private compensations. Expenditure by commercial travellers, heretofore £10 a day, has been radically reduced. Business voyages

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to Switzerland are now limited to one visit of seven days' duration every three months, no extra francs being available for secretaries or assistants.

At the Anglo-Swiss discussions in Berne, no definite plans were made for procedure when, on July 15th, in accordance with the terms of the Anglo-American Credit Agreement, sterling received in current business with all countries of the sterling area is to become available for transactions in any currency area whatever. Discussion would be premature until the results have been seen of the action of the Bank of England on February 27th, when "transferable sterling accounts" were instituted as an experiment for a limited group of countries, comprising: Argentina, Belgium, Canada, Holland, Luxemburg, Newfoundland and Portugal. Deliberations on this will be resumed in Berne next June.

For countries in this specific group multilateral payments are now possible. That is to say, sterling balances arising in trade between any two members of the group will be available for paying for imports from any other countries of the group. Previously, all transactions were bilateral. Sterling obtained by selling to one country could not be used for buying from another. Consequently, countries like Switzerland, in a position to export, had either to insist on payments in dollars or other freely disposable currencies, or had to accumulate sterling balances. As long as the £ sterling was not freely convertible into other currencies, or freely available for payments in any sterling area country, London had no prospect of resuming her function as world money-market.

A great step forward was taken when, on January 1st, 1947, agreements between Canada and 22 other countries of the British Commonwealth, the Near East and the American continent, including U.S.A. and Argentina, came into force, making trade possible on a sterling basis. Canada was the first to benefit, because this agreement made available huge sterling balances, whose accumulation during the war obliged Canada to sell dollar securities and obtain credits in U.S.A. exceeding \$800 million. By this new measure, making sterling available for trade with many of the hard currency countries, a great stride forward was made from bilateral to multilateral payments, and a consequent strengthening of the £ sterling as an instrument of payment in international trade.

As the control on sterling balances arising in current business is to cease on July 15th, 1947, and as, despite the Anglo-Swiss credit, the balance of pay-

ments is likely to be strongly in favour of Switzerland, a difficult situation would arise unless Switzerland were to make considerate allowances for the momentary embarrassment of Britain, by allowing a certain accumulation of current sterling balances. That will be one of the chief topics of discussion at the Anglo-Swiss deliberations in Berne next June.

But in any case, complications will be apt to arise when control is removed, because of the peculiar position of Switzerland in world trade. Owing to the present inconvertibility of dollars into francs, other than those arising in trade, there are in practice two franc-dollar rates of exchange in Switzerland — (1) the official rate of 4.31½ recognised by the National Bank of Switzerland, and (2) the rate for the "finance dollar," which fluctuates around a mean of about 3.75. Swiss importers are not allowed by the National Bank to use finance-dollars to settle accounts in countries of the dollar-area, but importers in other countries can do so.

To liquidate dollar balances in U.S.A., Swiss investors sell their dollars at a heavy discount. To pay for imports of American raw cotton, Italian textile manufacturers buy finance-dollars in Switzerland and are consequently able to produce far more cheaply than their Swiss competitors. For this reason, Switzerland is eager to put an end to the abnormal state of affairs resulting in duality of the franc-dollar rate, arising solely from the inability to transfer dollar balances freely to Switzerland.

If, after the release of sterling on July 15th, large amounts of sterling are offered in payment in Switzerland and Switzerland is obliged to restrict the amount of sterling accepted, two franc-sterling rates of exchange will arise — (1) the official rate for sterling convertible at sFr.17.35, and (2) the unofficial rate for inconvertible sterling, probably in the proximity of the present rate for sterling banknotes — sFr.10.50. In practice, this duality already exists in Italy, where inconvertible sterling, obtained for exports to Britain, is used to buy dollars at a rate corresponding to about \$3.60 to £ as against the official rate of \$4.03. This would put Italy at an advantage over Britain wherever the two countries compete.

Switzerland is under no legal obligation to accept sterling liberated on July 15th by the terms of the Anglo-American Credit Agreement, but a categorical refusal to do so might subsequently entail serious disadvantages, so that the whole situation will require most exacting consideration.

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