

Statement regarding the return to a fixed parity for the rand

*Issued by the Honourable the Minister of Finance,
Dr. N. Diederichs*

24th October 1972

On 30th June 1972, after the British Government had allowed the exchange rate of sterling to float, the South African Government decided to maintain the existing relationship between the rand and the British pound, in other words, to permit the rand to float with sterling *vis-a-vis* other currencies. The Government made it clear, however, that it continued to subscribe to the principle of fixed par values in terms of gold and that it intended to return as soon as possible to an effective par value.

This decision served the purpose in view, as evidenced by the fact that the improvement in the balance of payments which had already been under way, has subsequently been confirmed and that the Reserve Bank's gold and other foreign reserves have increased by R177,0 million since the floating of sterling and presently stand at R892,4 million. Total official reserves now exceed the R1 000 million mark.

There is also growing general confidence in the economy and although this improved business climate has not as yet been reflected adequately in economic activity, conditions are at present more conducive to sounder growth. The greater strength of the economy, both internally and externally, has also removed the danger that speculative expectations could affect adversely the capital account of the balance of payments.

In accordance with an earlier announcement by the Prime Minister, the Government has considered the whole matter at the first opportunity after my return from the Annual Meeting of the International Monetary Fund and my other discussions overseas. In view of the favourable developments to which I have already referred, the Government is of opinion that the time is now ripe to establish a new par value for the rand in terms of gold.

The Government has, therefore decided to establish the par value of the rand at R29,75 per fine ounce of gold and has initiated the appropriate consultation with the International Monetary Fund. Although this par value represents a devaluation of 4,202 per cent in comparison with the par value established in December 1971, in practice it represents an *appreciation* of approximately four per cent in comparison with the current market exchange rates of the rand. The new par value will take effect when exchange markets open tomorrow, October 25th, 1972.

This step makes it necessary, for technical reasons, for the South African Reserve Bank to quote fixed buying and selling rates in terms of an appropriate currency with an effective par value. From tomorrow the Reserve Bank will therefore quote fixed buying and selling rates for the U.S. dollar instead of for sterling.

The Bank will continue to quote rates for other major currencies, which will be based on the market exchange rates for the U.S. dollar against these currencies.

Not only will the decision to establish a new effective par value for the rand at the level mentioned create greater certainty in our international trade and capital investment, but it will also reduce the cost of imported requirements and thus contribute to the curbing of inflation.

Despite some reduction in the rand value of exports on the basis of current market exchange rates, exporters will in fact still be in a more favourable position than they were prior to the floating of the rand, particularly having regard to the fact that foreign prices for many of our export products have in the meantime improved considerably. The same applies to the gold mines, and they will, moreover, receive a higher rand price for the gold purchased by the Reserve Bank for its official reserves.

By returning to a fixed par value at a realistic rate of exchange—a step made possible by the stronger performance of the economy—the best balance will be achieved between the aims of growth and stability and South Africa will, in addition, comply in full with its obligations to the world community and promote international monetary stability.

Verklaring insake terugkering na 'n vaste pariteitswaarde vir die rand

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24 Oktober 1972

Op 30 Junie 1972, nadat die Britse Regering die wisselkoers van sterling laat sweef het, het die Suid-Afrikaanse Regering besluit om die bestaande verhouding tussen die rand en die Britse pond te handhaaf, met ander woorde om die rand saam met sterling teenoor ander geldeenhede te laat fluktueer. Die Regering het dit egter duidelik gestel dat hy steeds die beginsel van vaste pari-waardes in terme van goud onderskryf en dat hy dit beoog om so gou doenlik tot 'n effektiewe pari-waarde terug te keer.

Hierdie besluit het die beoogde doel gedien soos blyk uit die feit dat die verbetering in die betalingsbalans wat reeds onderweg was, sedertdien bevestig is en dat die Reserwebank se goud- en ander buitelandse reserwes sedert die swewing van sterling met R177,0 miljoen toegeneem het en tans op R892,4 miljoen staan. Die totale amptelike reserwes het nou reeds die R1 000 miljoenkerf verbygesteek.

Daar is ook toenemende algemene vertroue in die ekonomie en hoewel hierdie verbeterde sake-klimaat nog nie tot dusver voldoende in ekonomiese bedrywighede weerspieël is nie, is toestande tans heelwat meer bevorderlik vir stewiger groei. Die groter krag van die ekonomie, sowel binnelands as teenoor die buiteland, het ook die gevaar dat spekulatiewe verwagtings die kapitaalrekening van die betalingsbalans nadelig kan beïnvloed, uit die weg geruim.

In ooreenstemming met 'n vroeëre aankondiging van die Eerste Minister het die Regering by die eerste geleentheid na my terugkeer van die Jaarvergadering van die Internasionale Monetêre Fonds en my ander samesprekings oorsee, die hele aangeleentheid oorweeg. In die lig van die gunstige verwickelinge waarna ek reeds verwys het, is die Regering van mening dat die tyd nou ryp is om 'n nuwe pari-waarde vir die rand in terme van goud vas te stel.

Die Regering het dus besluit om die pari-waarde van die rand vas te stel op R29,75 per fyn ons goud en het die gepaste konsultasie met die Internasionale Monetêre Fonds aangeknoop. Hoewel hierdie pari-waarde 'n devaluasie van 4,202 persent in vergelyking met die pari-waarde wat in Desember 1971 vasgestel is, beteken, kom dit in die praktyk neer op 'n *appresiasie* van ongeveer vier persent in vergelyking met die tans heersende markwisselkoerse van die rand. Die nuwe pari-waarde sal in werking tree wanneer die valuta-markte môre, 25 Oktober 1972, open.

Hierdie stap maak dit om tegniese redes vir die Suid-Afrikaanse Reserwebank nodig om 'n vaste koop- en verkoopkoers in terme van 'n gepaste geldeenheid met 'n effektiewe pari-waarde te kwoteer. Die Reserwebank sal gevolglik vanaf môre vaste koop- en verkoopkoerse vir die V.S.-dollar in plaas van vir die pond

sterling kwoteer. Die Bank sal voortgaan om koerse vir ander belangrike geldeenhede te kwoteer, wat gebaseer sal word op die markwisselkoerse van die V.S.-dollar teenoor hierdie geldeenhede.

Nie alleen sal die besluit om 'n nuwe effektiewe pari-waarde van die rand op die genoemde peil vas te stel meer sekerheid in ons internasionale handel en kapitaalbeleggings meebring nie, maar verlaag dit ook die koste van ingevoerde benodigdhede en dra sodoende by tot die beteueling van inflasie.

Ondanks 'n sekere afname in die randwaarde van uitvoere op grondslag van huidige markwisselkoerse, sal uitvoerders in werklikheid nog in 'n voordeliger posisie wees as wat hulle voor die swewing van die rand was, veral as in aanmerking geneem word dat buitelandse pryse van baie van ons uitvoerprodukte intussen heelwat verbeter het. Dieselfde geld vir die goudmyne, en daarbenewens sal hulle 'n hoër randprys ontvang vir die goud wat die Reserwebank vir sy amptelike reserwes aankoop.

Deur terug te keer na 'n vaste pari-waarde teen 'n realistiese wisselkoers—'n stap wat moontlik gemaak is deur die stewiger vertoning van die ekonomie—sal die beste balans tussen die doelstellings van groei en stabiliteit bewerkstellig word en sal Suid-Afrika eweneens sy verpligtings teenoor die wêreldgemeenskap ten volle nakom en internasionale monetêre stabiliteit bevorder.