

Statements regarding par value of the rand

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

13 February 1973

The Government has noted the statement by Mr. George Schultz, Secretary to the Treasury of the United States of America, that the U.S.A. dollar will be devalued by 10 per cent and that the Japanese yen will be allowed to float, further, that the parity of the West German mark and French franc will remain unchanged and that it is expected that the British pound, the Canadian dollar, and the Swiss franc will continue to float.

The Government has considered the position of the South African rand in the light of these developments and has decided, after the usual consultation with the other members of the Rand Currency Area, to maintain the parity of the rand unchanged.

From tomorrow, 14th February, 1973, the South African Reserve Bank will again be prepared to enter into purchase and sales transactions in U.S.A. dollars at the new rates which will be announced tomorrow morning.

A more detailed statement on the implications of this decision will be issued later during the day. (See statement below)

13 February 1973

The Smithsonian Agreement of the 21st December, 1971 resulted in a general realignment of exchange rates—the United States of America, inter alia, devalued the dollar by 7,89 per cent and South Africa the rand by 12,28 per cent.

The British pound was allowed to float in late June last year and South Africa decided for good reasons to leave the rand linked to the pound. Gradually, however, it became clear that the declining levels of the pound sterling could no longer be reconciled with the improved position of the rand and it was, consequently, decided on the 24th October, 1972, to allow the rand to return to a new fixed parity, approximately 4 per cent above the level of floating at that stage, but 4,202 per cent lower than the December 1971 parity level.

The recurrent deficits on the American balance of trade and payments and especially the recent announcement of a particularly large deficit for the year 1972 as a whole, gave rise to large speculative capital movements and placed the dollar under heavy pressure.

Consequently, after emergency meetings with the most important trading nations during the weekend, the American Government decided to devalue the U.S.A. dollar by 10 per cent. The Japanese yen will be allowed to float, the par values of the German mark and French franc will remain unchanged, while it is expected that the British pound, the Canadian dollar and the Swiss franc will continue to float.

The Cabinet thoroughly reviewed the position of the South African rand this morning and decided, after

the normal consultations with Botswana, Lesotho and Swaziland—the other three members of our Rand Monetary Area—to maintain the present par value of the rand. The reasons for this decision are to be found in the fact that South Africa is maintaining a particularly healthy balance of payments position and expectations are rosy indeed. In addition, the gold and other foreign reserves of the Reserve Bank have risen strongly and are still rising. Last Friday a level of nearly R1 000 million was reached while total reserves exceeded R1 100 million.

These facts, viewed in conjunction with the healthy economic expectations for 1973 and thereafter all pointed towards the maintenance by South Africa of the parity of the rand.

The decision not to change this parity will have a number of important consequences. In the first instance, our imports from the U.S.A. as well as from other countries also devaluing will become cheaper, and this will make an important contribution towards combating the price rises of imported goods and, consequently, the general rate of inflation. Japanese goods, however, may perhaps become somewhat more expensive.

On the export side the rand proceeds of our dollar exports will be lower.

As far as the gold mining industry is concerned, though the official dollar price of gold will increase from \$38 to \$42,22, the official rand price will nevertheless remain unchanged at R29,75 per fine ounce. Since the private market price is expressed in dollars, the rand proceeds per fine ounce of sales will, however, be lower than previously (i.e. to the extent that this is not neutralized by a further rise in the price on the private market). The relatively high and firm private market price has in any case already benefited our gold mining industry appreciably.

With respect to South Africa's foreign loan commitments, the decision implies that loans expressed in U.S.A. dollars will henceforth require fewer rand to effect interest and redemption payments and our dollar debts are correspondingly reduced.

I would like to emphasize the point here that South Africa's decision was taken from a position of strength. In fact, the U.S.A. dollar has devalued more than the rand since December 1971. Furthermore, recent events have once again focussed attention on the undisputed central role which gold, realistically priced, must play in future international monetary discussions and decisions.

I trust that the new and more acceptable level of the U.S.A. dollar will not now create a calmer atmosphere later in the year in which prudent decisions regarding the solution of international monetary problems may be taken.

18 March 1973

During the past few weeks the international monetary situation has once again been characterized by large speculative capital movements and far-reaching changes in exchange rates. The decision of February 12 to devalue the United States dollar by 10 per cent in terms of gold and to permit the Japanese yen to float upward, proved insufficient to calm the speculation and restore confidence. Under pressure of new speculative capital movements the main exchange markets had to remain closed for more than two whole weeks from the 2nd March while the EEC countries and other members of the Group of Ten held protracted discussions on possible solutions to the crisis.

Following the announcement made last Friday by the Ministers of Finance of this group of countries, it is now known what was finally decided upon. In the main it amounts to the fact that, after an initial revaluation of the German mark by 3 per cent, the EEC countries with the exception of the United Kingdom, Ireland and Italy, will continue to keep their currencies interlinked within narrow margins and float jointly against the U.S.A. dollar. For the time being the pound sterling and the Italian lira will continue to float independently. The Japanese yen, the Swiss franc and the Canadian dollar will also continue with their separate floats.

In the present uncertain climate it is not yet clear how all the floating currencies and particularly the linked EEC-currencies will perform in the exchange markets. From the announcement last Friday, however, it seems clear that all the participating countries consider the exchange rates which were recently established as more or less correct, and as a consequence they do not expect any major changes in this regard in the foreseeable future. The main purpose of the new joint float is, therefore, to protect these exchange rates against speculation rather than to try to find completely new levels. For this reason it has been agreed that the countries concerned will on their own initiative contribute to the stabilisation of the situation by intervening in their foreign exchange markets, and that the United States itself will, with the aid of drawings in terms of extensive "swap" arrangements, assist in supporting the dollar in the foreign exchange markets.

In the light of all these developments the South African authorities once again had to reconsider thoroughly the position of the rand. After careful consideration, and after the usual consultation with Botswana, Lesotho and Swaziland, *it has been decided to maintain the existing par value of the rand in terms of gold. The Reserve Bank will also, as from tomorrow, Monday 19th March 1973, be prepared again to enter into purchase and sales transactions in U.S.A. dollars at the same rates as those quoted prior to the suspension of its currency transactions on the 2nd March.*

Thanks to South Africa's particularly favourable

balance of payments position and prospects to which the Government's exchange rate policy of 1971 and 1972 made an important contribution, the rand is at present in a strong position. The financial and general economic climate, too, continues to be conducive to faster growth, and increasing proof exists that a business upturn is already being experienced.

Clearly in these circumstances a devaluation of the rand in terms of gold as a deliberate instrument of economic policy is out of the question. On the other hand, a further significant appreciation of the external value of the rand will also not be desirable at this stage. The decision of the Government not to follow the dollar devaluation of 12th February, resulted in an effective appreciation of the rand of about 11 per cent in terms of dollars, about 7 per cent in terms of sterling and on the average about 4 per cent against all foreign currencies. If one takes into account the substantial improvement in our balance of payments and reserves position and the necessity to curb inflation, this is a welcome result. Given the present international exchange rate situation, a further significant appreciation of the rand soon after this recent one, however, could exert a detrimental influence on both the current and the capital accounts of the balance of payments. It would also not contribute to the promotion of exports and sound import replacement and consequently also not to the attainment of a faster rate of real growth. It could impair the competitive ability of our industries on the domestic market as well as in foreign markets and would result in a reduction or in a smaller rise in the rand earnings of numerous exporters of minerals and agricultural products as well as of the gold mines. In addition it would affect government revenue adversely and would make the general financial climate less conducive to growth.

The decision to maintain the existing gold parity and official dollar rates of exchange naturally does not ensure that the rand will not experience some depreciation or appreciation, on the average, in terms of other currencies. Should the EEC currencies which will be floating jointly show a significant upward movement as against the dollar, an average depreciation of the rand will probably take place. As mentioned before, however, the present indications are that the jointly floating EEC currencies will appreciate only moderately, if at all, and that any average depreciation that the rand may in consequence experience, will thus be relatively small. Of course much depends also on the behaviour of sterling and whether it will at some later stage join the common float or not. A further sterling depreciation, for example, may counteract any average depreciation of the rand or may even convert it into a small appreciation.

Developments in this field will thus receive the constant attention of the authorities. Should the new EEC monetary arrangements become more permanently entrenched and be extended to all members, it

may be desirable at some later stage to associate the rand more closely with the EEC bloc. And if in the meantime the jointly floating currencies of the EEC should appreciate more than is generally expected at present, the authorities can always decide to adjust the dollar buying and selling rates of the Reserve Bank so as to bring about a further appreciation of the rand compared with the dollar and sterling. For the present, however, the existing exchange rate policy will continue to be applied.

It is clear that no permanent solution to the present international monetary problems has thus far been found. The statement issued in Paris last Friday confirms that the new arrangements will be of a temporary nature and that the task of the Committee of Twenty Governors of the International Monetary Fund to investigate the reform of the international monetary system has now become more urgent than ever before.

This process of reform will not be satisfactorily completed until clarity has been reached as to the monetary role of gold. It is ironical that the most recent fluctuations in the private market price of gold are regarded in certain circles as a sign of gold's instability as a monetary asset. In fact, these fluctuations are, in the main, a reflection of the present instability of currencies. If gold is not allowed to fulfil its rightful function in the international monetary system, no lasting stability can be achieved in this field.

Verklarings insake pari-waarde van die rand

Uitgereik deur Sy Edele die Minister van Finansies, Dr. N. Diederichs

13 Februarie 1973

Die Regering het kennis geneem van die verklaring van mnr. George Schultz, Sekretaris van die Tesourie van die Verenigde State van Amerika, dat die V.S.A. dollar met 10 persent gedevalueer gaan word en dat die Japanese jen toegelaat sal word om te sweef; verder dat die pari-waardes van die Wes-Duitse mark en die Franse frank onveranderd sal bly en dat dit verwag word dat die Britse pond, die Kanadese dollar en die Switserse frank sal voortgaan om te sweef.

In die lig van hierdie verwickelinge het die Regering die posisie van die Suid-Afrikaanse rand oorweeg en, na die gebruikelike oorleg met die ander lede van die Rand Monetêre Gebied, besluit dat die pari-waarde van die rand onveranderd sal bly.

Vanaf môre, 14 Februarie 1973, sal die Suid-Afrikaanse Reserwebank weer bereid wees om aankoop- en verkooptransaksies in V.S.A. dollar aan te gaan teen die nuwe koerse wat môre-oggend bekend gemaak sal word.

'n Meer volledige verklaring oor die implikasies van hierdie besluit sal later vandag uitgereik word. (Kyk verklaring hieronder).

13 Februarie 1973

Die Smithsonian Ooreenkoms van 21 Desember 1971 het 'n algemene herskikking van wisselkoerse tot gevolg gehad—o.a. het die Verenigde State van Amerika die dollar met 7,89 persent gedevalueer en Suid-Afrika die rand met 12,28 persent.

Laat in Junie verlede jaar is die Britse pond toegelaat om te sweef en het Suid-Afrika om goeie redes besluit om die rand aan die pond gekoppel te laat bly. Gaandeweg het dit egter duidelik geword dat die dalende vlakke van die pond sterling nie met die verbeterde posisie van die rand versoen kon word nie, en is daar gevolglik op 24 Oktober 1972 besluit om die rand na 'n nuwe vaste pari-waarde te laat terugkeer, ongeveer 4 persent hoër as die vlak van swewing, maar 4,202 persent laer as die Desember 1971 pari-vlak.

Die herhalende tekorte op die Amerikaanse handels- en betalingsbalans, en veral die onlangse bekendmaking van 'n besonder groot tekort vir die jaar 1972 as geheel, het aanleiding gegee tot groot spekulatiewe kapitaalbewegings en die dollar onder hewige druk geplaas.

Die Amerikaanse Regering het gevolglik, nadat noodsettings saam met die belangrikste handelslande gedurende die naweek gehou is, besluit om die V.S.A. dollar met 10 persent te devalueer. Die Japanese jen sal toegelaat word om te sweef, die pari-waardes van die Duitse mark en Franse frank bly onveranderd, terwyl dit verwag word dat die Britse pond, die Kanadese dollar en die Switserse frank sal voortgaan om te sweef.

Die Kabinet het vanoggend die posisie van die Suid-Afrikaanse rand deeglik in oënskou geneem en, na die gebruikelike oorleg met Botswana, Lesotho en Swaziland—die ander drie lede van ons Rand Monetêre Gebied—besluit om die pari-waarde van die rand onveranderd te laat. Die redes vir hierdie besluit lê daarin dat Suid-Afrika tans 'n besondere sterk betalingsbalansposisie handhaaf met rooskleurige vooruitsigte. Verder het die Reserwebank se reserwes aan goud en ander buitelandse betaalmiddele sterk gestyg en hulle styg nog steeds. 'n Vlak van byna R1 000 miljoen is verlede Vrydag bereik, terwyl totale reserwes R1 100 miljoen oorskry. Hierdie feite, tesame met die gesonde ekonomiese vooruitsigte vir 1973 en daarna, het almal daarop gedui dat die Suid-Afrikaanse rand sy pariteit moet behou.

Die besluit tot onveranderde pariteit sal dan ook verskillende belangrike gevolge hê. Eerstens, natuurlik, sal ons invoere vanuit die V.S.A., asook uit ander lande wat saam gedevalueer het, goedkoper word en sal dit 'n belangrike bydrae lewer tot die bekamping van prysstygings van ingevoerde goedere en gevolglik van die algemene koers van inflasie. Japanse goedere sal egter moontlik effens duurder word.

Aan die uitvoerkant sal die randopbrengs van ons dollar-uitvoere daal. Wat die goudmynbedryf betref, egter, hoewel die amptelike dollarprys van goud styg van \$38 na \$42,22 per fyn ons, bly die amptelike randprys nogtans vas op R29,75 per fyn ons. Aangesien die private markprys in dollars uitgedruk word, sal die randopbrengs per fyn ons goud van sulke verkope, egter laer wees as voorheen (d.w.s. in die mate wat dit nie teëgewerk word deur 'n verdere styging van die prys op die private mark nie). Die relatief hoë en stewige private markprys het in elk geval ons goudmynbedryf reeds aansienlik bevoordeel.

Wat Suid-Afrika se buitelandse leningsverplichtings betref, beteken die besluit dat lenings in V.S.A. dollars uitgedruk nou minder rand vir rente- en delgingsbetalings sal vereis en ons dollarskuld word dus dien-ooreenkomstig verlaag.

Ek wil dit graag hier beklemtoon dat Suid-Afrika sy besluit vanuit 'n posisie van sterkte geneem het. Inderwaarheid het die V.S.A. dollar sedert Desember 1971 meer as die rand gedevalueer. Verder het die onlangse gebeurtenisse weereens die kalklig laat val op die ongetwyfelde kernrol wat goud, teen 'n realistiese prys, moet speel in toekomstige monetêre besprekings en besluite.

Ek vertrou dat die nuwe en meer aanvaarbare vlak van die V.S.A. dollar nou daartoe sal bydra dat daar later vanjaar in 'n veel kalmer atmosfeer wyse besluite oor die oplossing van internasionale monetêre vraagstukke geneem sal word.

18 Maart 1973

Gedurende die afgelope aantal weke is die internasionale monetêre toestand weer eens deur groot spekulatiewe kapitaalbewegings en ingrypende veranderings in wisselkoerse gekenmerk. Die besluit van 12 Februarie om die V.S.A. dollar met 10 persent in terme van goud te devalueer en die Japanese jen opwaarts te laat sweef, het geblyk onvoldoende te wees om die spekulasie te laat bedaar en vertroue te herstel. Vanaf 2 Maart moes die vernaamste valutamarkte onder die druk van nuwe spekulatiewe kapitaalbewegings vir meer as twee volle weke gesluit bly, terwyl die EEG-lande en die ander lede van die Groep van Tien uitgebreide samesprekings oor moontlike oplossings vir die krisis gevoer het.

Na die aankondiging wat verlede Vrydag deur die Ministers van Finansies van hierdie groep lande uitgereik is, is dit nou bekend waarop finaal besluit is. In hoofsaak kom dit daarop neer dat na 'n aanvanklike revaluasie van die Duitse mark van 3 persent, die EEG-lande, uitgesonderd die Verenigde Koninkryk, Ierland en Italië, hulle geldeenhede binne enge marges aan mekaar gaan bly vaskoppel en gesamentlik teenoor die V.S.A. dollar gaan sweef. Die pond sterling en die Italiaanse lira sal voorlopig op hul eie bly sweef. Ook sal die Japanese jen, die Switserse frank en die Kanadese dollar met hul afsonderlike swewings voortgaan.

In die huidige onsekere klimaat is dit nog nie duidelik hoe al die swewende geldeenhede en spesifiek die saamgebonde EEG-geldeenhede in die valutamarkte sal vaar nie. Uit die verklaring van verlede Vrydag blyk dit egter duidelik dat al die deelnemende lande die wisselkoerse wat onlangs tot stand gekom het as min of meer korrek beskou en dat hulle dus nie in die voorsienbare toekoms groot veranderings daarin verwag nie. Die hoofdoel van die nuwe gesamentlike swewing is dan ook om hierdie wisselkoerse teen spekulasie te beskerm eerder as om heeltemal nuwé vlakke te probeer vind. Om hierdie rede is ooreengekom dat die betrokke lande op eie inisiatief deur inmenging in hulle valutamarkte tot die bestendiging van die situasie sal bydra en dat die Verenigde State self, met behulp van trekkings ingevolge uitgebreide "ruiloorreënkoms", die dollar in die valutamarkte sal help ondersteun.

In die lig van al hierdie verwickelinge moes die Suid-Afrikaanse owerhede weer eens die posisie van die rand deeglik in oënskou neem. Na versigtige oorweging, en na die gebruiklike oorleg met Botswana, Lesotho en Swaziland, *is besluit om die bestaande pari-waarde van die rand in terme van goud te handhaaf. Ook sal die Reserwebank vanaf môre, Maandag 19 Maart 1973, weer bereid wees om koop- en verkooptransaksies in V.S.A. dollars aan te gaan teen dieselfde koers as wat hy voor die opskorting van sy valutatransaksies op 2 Maart gekwoteer het.*

Danksy Suid-Afrika se besonder gunstige betalingsbalansposisie en -vooruitsigte, waartoe die Regering

se wisselkoersbeleid van 1971 en 1972 'n belangrike bydrae gelewer het, is die rand tans in 'n sterk posisie. Ook bly die finansiële en algemene ekonomiese klimaat steeds bevorderlik vir vinniger groei, en is daar toeneemende bewyse dat 'n sake-oplewing reeds aan die gang is.

In hierdie omstandighede is daar vanselfsprekend geen sprake van 'n devaluasie van die rand in terme van goud as doelbewuste instrument van ekonomiese beleid nie. Aan die ander kant sou 'n verdere betekenisvolle appresiasie van die buitewaarde van die rand ook nie in hierdie stadium wenslik wees nie. Die Regering se besluit om nie die dollardevaluasie van 12 Februarie na te volg nie het so pas 'n effektiewe appresiasie van die rand van omtrent 11 persent in terme van dollars, omtrent 7 persent in terme van sterling en gemiddeld sowat 4 persent teenoor alle buitelandse geldeenhede meegebring. Gesien die groot verbetering in ons betalingsbalans- en reserweposisie en die noodsaak om inflasie te beteuel, is hierdie 'n gewenste resultaat. Gegewe die huidige internasionale wisselkoerssituasie, sou 'n verdere betekenisvolle appresiasie van die rand kort op die hakke van hierdie een egter sowel die lopende as die kapitaalrekening van die betalingsbalans nadelig kon beïnvloed. Dit sou ook nie bydra tot die bevordering van uitvoere en gesonde invoervervanging nie en dus ook nie tot die bereiking van 'n vinniger reële groeikoers nie. Dit sou die mededingende vermoë van ons nywerhede in sowel die plaaslike mark as in die buiteland nadelig kon beïnvloed en 'n vermindering of kleiner toename in die randinkomste van talle uitvoerders van minerale en landbouprodukte, asook van die goudmyne, meebring. Verder sou dit die staatsinkomste nadelig tref en die algemene finansiële klimaat en rentekoerssituasie minder bevorderlik vir groei maak.

Die besluit om die bestaande goudpariteit en amp telike dollarkoerse te handhaaf, verseker natuurlik nie dat die rand geen gemiddelde depresiasie of appresiasie in terme van ander geldeenhede sal ondergaan nie. Indien die EEG-geldeenhede wat gesamentlik gaan sweef 'n betekenisvolle opwaartse beweging teenoor die dollar sou toon, sal daar waarskynlik 'n gemiddelde depresiasie van die rand plaasvind. Soos reeds genoem, is die huidige aanduidings egter dat die saamswewende EEG-geldeenhede slegs matig, indien wel, sal appresieer en dat enige gemiddelde depresiasie wat die rand hierdeur mag ondergaan dus betreklik klein sal wees. Baie hang natuurlik ook van die gedrag van sterling af en of hy hom later by die gesamentlike swewing gaan aansluit of nie. 'n Verdere sterling-depresiasie mag, byvoorbeeld, enige gemiddelde depresiasie van die rand teenwerk of selfs in 'n klein appresiasie omskep.

Die verwickelinge op hierdie terrein sal dus die voortdurende aandag van die owerhede geniet. Indien die nuwe EEG monetêre reëlins 'n meer permanente beslag verkry en tot alle lede uitgebrei word, mag dit in

'n later stadium wenslik wees om die rand nouer by die EEG-blok aan te sluit. En indien die saamswewende EEG-geldeenhede in die tussentyd meer sou appresieer as wat tans algemeen verwag word, kan die owerhede altyd besluit om die Reserwebank se koop- en verkoopkoerse vir die dollar aan te pas om 'n verdere appresiasie van die rand teenoor die dollar en sterling te bewerkstellig. Vir die huidige sal die bestaande wisselkoersbeleid egter voortgesit word.

'n Permanente oplossing vir die huidige internasionale monetêre vraagstukke is duidelik nog nie gevind nie. Die verklaring wat Vrydag in Parys uitgereik is bevestig dat die nuwe reëlins tydelik van aard sal wees en dat die taak van die Komitee van Twintig Goewerneurs van die Internasionale Monetêre Fonds om die hervorming van die internasionale monetêre stelsel te ondersoek, nou dringender as ooit geword het.

Hierdie hervormingsproses sal nie bevredigend afgehandel kan word alvorens daar nie klaarheid gekom het oor die monetêre rol van goud nie. Dit is ironies dat die jongste skommeling in die private markprys van goud in sekere kringe as 'n teken van goud se onstabiliteit as monetêre bate beskou word. In werklikheid weerspieël hierdie skommeling hoofsaaklik die huidige onstabiliteit van geldeenhede. As goud nie toegelaat word om sy regmatige funksie in die internasionale geldstelsel te vervul nie, kan blywende stabiliteit op hierdie gebied nie verkry word nie.