

Statement regarding exchange rate policy

Issued by the Honourable Sen. O. P. F. Horwood,
Minister of Finance

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Since June 1974 South Africa has followed an exchange rate policy of "independent managed floating". Under this policy the Reserve Bank has continued to quote fixed buying and selling rates for U.S. dollars, but has effected smaller and more frequent adjustments to these rates than formerly. The purpose of these adjustments was to avoid undesired changes or undue fluctuations in the weighted *average* exchange rate of the rand, without necessarily pegging the rand rigidly to the weighted average value of other currencies. Since June 1974 seven upward and four downward adjustments have been made to the Bank's middle rate for U.S. dollars within a range between \$1,50 per rand and \$1,42 per rand, and since September 1974 the weighted average exchange rate of the rand has, in fact, been kept more or less constant.

This policy worked reasonably well up to March 1975. In recent months, however, new conditions have arisen to which it is less suited. The strengthening of the U.S. dollar from March onwards, the substantial weakening of sterling beginning in April, and the resultant appreciation of the average external value of the rand have created the expectation that, *in terms of the existing South African exchange rate policy*, the rand would be adjusted downwards against the dollar in a series of small steps. This expectation, in turn, has had an unfavourable effect upon the so-called "leads and lags" in South Africa's foreign payments and receipts. Importers have tended to pay for their imports more promptly, exporters have tended to retain their export proceeds overseas for longer periods, domestic credit has been substituted for foreign trade credits and the inflow of private capital in certain other forms has been delayed.

With a view to rendering the balance of payments less vulnerable to such "leads and lags" and to reduce speculation against the rand in general, it has therefore been decided that the Reserve Bank will discontinue the practice of making small and frequent adjustments to its buying and selling rates for U.S. dollars. In future, these rates will be kept constant for longer periods at a time and will only be adjusted upwards or downwards if considered essential in the event of any *basic* change in domestic or international economic circumstances. In a world of floating currencies, such stability in the rand-dollar rate will naturally result in moderate fluctuations in the effective *average* exchange rate of the rand against other currencies in general. However, apart from the fact that such changes might at times suit South Africa's purposes, it is not considered desirable in present circumstances to attempt to iron them out by means of predictable short-term adjustments to the rand-dollar rate which can serve to encourage speculation.

Apart from discouraging short-term rand-U.S. dollar speculation, the modified policy should have the advantage of providing South Africa with exchange rate stability for extended periods with at least one major international currency, the U.S. dollar, with a large weight (more than 25 per cent) in our trade and other current transactions with the rest of the world. For the various participants in the South African foreign exchange market it also has the merit of being convenient, practical and easily understandable.

The new policy will be based upon a middle rand-dollar rate of \$1,4000 per rand, with the same total spread of $\frac{1}{2}$ per cent as before. With effect from 27 June, the Reserve Bank will accordingly quote public buying and selling rates for U.S. dollars of \$1,4035 and \$1,3965 per rand, respectively. This restores the rand-dollar relationship to that which existed for many years before the Smithsonian realignment of exchange rates in December 1971.

Compared with the existing middle rate of \$1,47, the new rate represents a depreciation of the rand *in terms of the dollar* of 4,76 per cent. This should benefit South African exporters and encourage economic growth, but will tend to increase the rand cost of imports. The Government was naturally reluctant to take any step which would tend to exert upward pressure, however small, on prices. However, against this it must be borne in mind that the *average* external value of the rand has recently increased to a level about 1 per cent above that which existed for many years prior to the devaluation of sterling in November 1967. Moreover, in view of probable developments in overseas foreign exchange markets, there is a strong expectation that it will continue to increase from its new level.

The adoption of the new rand-dollar rate in conjunction with the change in exchange rate policy does not therefore imply any significant devaluation of the rand against other currencies in general, when compared with the position earlier this year. It must, in fact, be seen as a precautionary move to prevent an undue appreciation of the rand in the period ahead as a result of movements in other currencies. In the present downward phase of the South African business cycle such an excessive appreciation might dampen down economic activity unduly and create problems for many industrialists and exporters by lowering the prices of imported goods sold in competition with locally manufactured goods and reducing the rand proceeds of many exports.

In a world suffering simultaneously from recession, inflation, and serious payments disequilibrium, South Africa's underlying balance of payments position has performed satisfactorily. The current account deficit has been running at a rate of about 4 per cent of

gross domestic product during the past year, which by historical standards is relatively low for the business cycle phases through which the economy has passed during this period. Moreover, despite the unfavourable turn in the "leads and lags" since March 1975, the capital account as a whole has remained sufficiently strong to offset the current deficit, so that the gold and other foreign reserves have held up well.

It is expected that the modified exchange rate arrangements now being introduced will assist materially in reversing the unfavourable leads and lags and improving the net inflow of foreign capital as a whole. South Africa should therefore be in a position to combine a satisfactory economic growth rate with overall balance of payments equilibrium and a strong rand in the period ahead.

Statement regarding exchange control relaxations

*Issued by the Honourable Sen. O. P. F. Horwood,
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11 August 1975

Last week, in replying to questions put to me by Reuters on South Africa's new exchange rate policy, I reaffirmed that the practice of making small and frequent adjustments to the rand-U.S.-dollar rate had been abandoned and ruled out any possibility of a devaluation of the rand in terms of the dollar in the foreseeable future. I also stated that further steps would be taken to correct the unfavourable "leads and lags" situation which had arisen in South Africa's balance of payments and to encourage the inflow of capital in general. I now announce that these steps will be the following:

(1) Monetary policy

Appropriate adjustments to monetary policy will be announced by the Reserve Bank today.

(2) Exchange control

(a) Sympathetic consideration will be given to applications by local entrepreneurs to borrow funds abroad for periods of not less than six months, provided that such funds are not destined for property development, speculation or consumer credit. This represents a relaxation of the existing control over incoming funds, as foreign loans were previously only approved for "manufacturing and other productive" purposes. The relaxation will extend to foreign borrowings by South African exporters in anticipation of receivable payments.

(b) Sympathetic consideration will also be given to applications by authorised dealers in foreign exchange to raise funds abroad in their own name for the financing of South African foreign trade and for other approved purposes.

(c) It has been decided in principle that blocked rand will be made directly transferable between non-residents. However, in view of the need to hold further discussions in this regard with authorised dealers in foreign exchange and other interested parties, the details of this new arrangement and the date from

which it will take effect will be announced at a later stage.

(d) Control in terms of Exchange Control Regulation 3(1)(f) over local borrowing by "foreign controlled" South African firms will be extended by the inclusion under local borrowing of—

- (i) certain defined leasing arrangements,
- (ii) factoring (with recourse), and
- (iii) certain defined "lease backs".

Particulars as to how this measure will be applied in practice will be furnished by the Exchange Control authorities to authorised dealers.

In respect of *existing* arrangements under these headings, firms affected by this regulation will be afforded a reasonable transition period within which to move to a position of full compliance with the new requirements.

(e) In addition to the new exchange control measures listed above, a circular has been sent to authorised dealers instructing them to ensure full compliance with the *existing* regulations in regard to import payments and export receipts. Authorised dealers are specifically required to ensure, firstly, that importers do not transfer funds abroad in payment of imports *prior* to the date of shipment or despatch of the relative goods to South Africa, and secondly, that export proceeds are remitted to South Africa within 30 days after the receipt of payment. The authorities view these malpractices in a very serious light and will not hesitate to deal severely with those who contravene the Regulations.

(3) Forward exchange cover

(a) The normal maximum period for which the Reserve Bank will grant forward exchange cover in respect of *imports* will be extended from six to twelve months.

(b) The charge in respect of such cover will remain 1 per cent per year.

(c) The Reserve Bank will also consider granting

Verklaring insake wisselkoersbeleid

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Sedert Junie 1974 het Suid-Afrika 'n wisselkoersbeleid van „onafhanklike beheerde swewing” gevolg. Ingevolge hierdie beleid het die Reserwebank voortgegaan om vaste koop- en verkoopkoerse vir V.S.A.-dollars te noteer, maar is daar meer dikwels en kleiner aanpassings aan hierdie koerse as voorheen gemaak. Die doel van hierdie aanpassings was om ongewenste veranderings of oormatige skommelings in die geweegde *gemiddelde* wisselkoers van die rand te vermy, sonder om die rand noodwendig streng aan die geweegde gemiddelde waarde van ander valutas te koppel. Sedert Junie 1974 is sewe opwaartse en vier afwaartse aanpassings aan die Bank se middelkoers vir V.S.A.-dollars gemaak binne 'n marge van tussen \$1,50 per rand en \$1,42 per rand, en sedert September 1974 is die geweegde gemiddelde wisselkoers van die rand in werklikheid min of meer konstant gehou.

Hierdie beleid het redelik goed gewerk tot Maart 1975. In onlangse maande het daar egter nuwe omstandighede ontstaan wat die beleid minder gepas gemaak het. Die versterking van die V.S.A.-dollar sedert Maart, die aansienlike verswakking van sterling vanaf April, en die gevolglike appresiasie van die gemiddelde buite-waarde van die rand, het die verwagting laat ontstaan dat, *ingevolge die bestaande Suid-Afrikaanse wisselkoersbeleid*, die rand afwaarts teenoor die dollar in 'n reeks klein stappies aangepas sou word. Hierdie verwagting het op sy beurt 'n ongunstige uitwerking op die sogenaamde „sloerings en vervroegings” in Suid-Afrika se buitelandse betalings en ontvangstes gehad. Invoerders was geneig om vroeër vir hul invoere te betaal, uitvoerders was geneig om hul uitvoeropbrengste vir langer tydperke oorsee te hou, buitelandse handelskrediet is deur plaaslike krediet vervang en die invloeiing van private kapitaal in sekere ander vorms is vertraag.

Met die oog daarop om die betalingsbalans minder kwesbaar vir sulke „sloerings en vervroegings” te maak en om spekulاسie teen die rand in die algemeen te verminder, is daar gevolglik besluit dat die Reserwebank die gebruik om klein en herhaalde aanpassings aan sy koop- en verkoopkoerse vir V.S.A.-dollars te maak, sal staak. In die toekoms sal hierdie koerse konstant gehou word vir langer tydperke en slegs opwaarts of afwaarts aangepas word indien noodsaaklik geag in geval van enige *basiese* verandering in binnelandse of internasionale ekonomiese toestande. In 'n wêreld van swewende valutas sal sodanige stabiliteit in die rand-dollarkoers natuurlik aanleiding gee tot matige skommelings in die effektiewe *gemiddelde* wisselkoers van die rand teenoor ander geldeenhede in die algemeen. Afgesien van die feit dat sulke veranderings Suid-Afrika by tye mag pas, word dit egter nie onder die heersende omstandighede as gewens beskou om te poog om hulle uit te stryk deur middel van voorspelbare korttermynaan-

passings van die rand-dollarkoers wat kan dien om spekulاسie aan te wakker nie.

Afgesien daarvan dat korttermyn rand-V.S.A.-dollar-spekulاسie ontmoedig sal word, behoort die gewysigde beleid dié voordeel te hê dat dit aan Suid-Afrika wisselkoers-stabiliteit sal verleen vir lang tydperke teenoor minstens een belangrike internasionale geldeenheid, die V.S.A.-dollar, met 'n groot gewig (meer as 25 persent) in ons handel en ander lopende transaksies met die res van die wêreld. Vir die onderskeie deelnemers in die Suid-Afrikaanse valutamark het dit ook dié voordeel dat dit gerieflik, prakties en maklik verstaanbaar is.

Die nuwe beleid sal gebaseer word op 'n middel rand-dollarkoers van \$1,4000 per rand, met dieselfde totale spreiding van $\frac{1}{2}$ persent soos tevore. Met ingang 27 Junie sal die Reserwebank gevolglik publieke koop- en verkoopkoerse vir V.S.A.-dollars van onderskeidelik \$1,4035 en \$1,3965 per rand noteer. Dit herstel die rand-dollar-verhouding wat vir baie jare voor die Smithsonianse herskikking van wisselkoerse in Desember 1971 bestaan het.

In vergelyking met die bestaande middelkoers van \$1,47, verteenwoordig die nuwe koers 'n depresiasie van die rand *in terme van die dollar* van 4,76 persent. Dit behoort Suid-Afrikaanse uitvoerders te bevoordeel en ekonomiese groei aan te moedig, maar die rand-koste van invoere sal neig om te styg. Die Regering was natuurlik huiwerig om enige stap te doen wat sal neig om 'n opwaartse druk op pryse, hoe gering ookal, uit te oefen, maar hierteenoor moet egter in gedagte gehou word dat die *gemiddelde* buite-waarde van die rand onlangs toegeneem het tot 'n vlak van ongeveer 1 persent bo die peil wat vir baie jare voor die devaluasie van sterling in November 1967 bestaan het. Met die oog op waarskynlike verwikkelings in oorsese valutamarkte is daar boonop 'n sterk verwagting dat dit sal voortgaan om te styg vanaf die nuwe peil.

Die aanvaarding van die nuwe rand-dollarkoers tesame met die verandering in die wisselkoersbeleid impliseer dus nie enige wesenlike devaluasie van die rand teenoor ander geldeenhede in die algemeen vergeleke met die posisie vroeër vanjaar nie. Dit moet in werklikheid beskou word as 'n voorsorgmaatreël ten einde te verhoed dat die rand in die tydperk wat voorlê oormatig appresieer as gevolg van bewegings in ander geldeenhede. In die huidige afwaartse fase van die Suid-Afrikaanse sakekringloop mag so 'n oormatige appresiasie ekonomiese bedrywigheid te veel demp en probleme vir baie nyweraars en uitvoerders veroorsaak deur 'n daling teweeg te bring in die pryse van ingevoerde goedere wat in mededinging met plaaslik-vervaardigde goedere verkoop word en deur 'n afname te veroorsaak in die rand-opbrengste van baie uitvoere.

In 'n wêreld wat tegelyk aan resessie, inflasie en ernstige betalingsbalansonewewig ly, het Suid-Afrika

se onderliggende betalingsbalansposisie bevredigend gebly. Die tekort in lopende rekening was gedurende die afgelope jaar gelykstaande aan ongeveer 4 persent van die bruto binnelandse produk wat, gemeet aan historiese standaarde, relatief laag is vir die sikliese fases waardeur die ekonomie gedurende hierdie tydperk beweeg het. Ten spyte van die ongunstige verloop in die „vervroegings en sloerings“ sedert Maart 1975, het die kapitaalrekening as geheel boonop sterk genoeg gebly om die lopende tekort te neutraliseer, met die gevolg dat die goud- en ander buite-

landse reserwes goed bly vertoon het.

Dit word verwag dat die gewysigde wisselkoersreëlings wat nou ingestel word aansienlik daartoe sal bydra om die ongunstige vervroegings en sloerings om te keer, asook om 'n verbetering ten opsigte van die netto invloeiing van vreemde kapitaal in die geheel teweeg te bring. Suid-Afrika behoort dus in die tydperk wat voorlê in staat te wees om 'n bevredigende ekonomiese groeikoers met algemene betalingsbalansewewig en 'n sterk rand te kombineer. -

Verklaring insake verslapping van deviesebeheer

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11 Augustus 1975

Verlede week het ek, in antwoord op vrae oor Suid-Afrika se nuwe wisselkoersbeleid wat deur Reuters aan my gestel is, herbevestig dat die gebruik om dikwels klein aanpassings in die rand-VSA-dollar-koers te maak, laat vaar is en enige moontlikheid uitgesluit dat die rand binne afsienbare tyd teenoor die dollar gevalueer sal word. Ek het ook verklaar dat verdere stappe gedoen sou word om die ongunstige toestand van „vervroegings en vertragings“ wat in Suid-Afrika se betalingsbalans ontstaan het, reg te stel en die invloeiing van kapitaal oor die algemeen aan te moedig. Ek kondig nou aan dat hierdie stappe die volgende sal wees:

(1) Monetêre beleid

Gepaste aanpassings in monetêre beleid sal vandag deur die Reserwebank aangekondig word.

(2) Deviesebeheer

(a) Simpatieke oorweging sal verleen word aan aansoeke deur plaaslike ondernemers om fondse in die buiteland vir tydperke van nie minder nie as ses maande te leen, mits sodanige fondse nie vir eiendomsontwikkeling, spekulasie of verbruikerskrediet bestem is nie. Dit verteenwoordig 'n verslapping van die bestaande beheer oor inkomende fondse aangesien buitelandse lenings voorheen slegs vir „vervaardiging en ander produktiewe“ doeleindes goedgekeur is. Die verslapping sal ook buitelandse lenings deur Suid-Afrikaanse uitvoerders in afwagting van betalingsontvangstes toelaat.

(b) Simpatieke oorweging sal ook verleen word aan aansoeke deur gemagtigde handelaars in vreemde valuta om fondse in die buiteland in hul eie naam op te neem vir die finansiering van Suid-Afrika se buitelandse handel en vir ander goedgekeurde doeleindes.

(c) Daar is in beginsel besluit dat geblokkeerde rand

regstreeks oordragbaar tussen nie-inwoners gemaak sal word. Met die oog op die noodsaaklikheid om verdere samesprekings in hierdie verband met gemagtigde handelaars in vreemde valuta en ander belanghebbende partye te voer, sal die besonderhede van hierdie nuwe reëling en die datum waarop dit in werking sal tree, egter op 'n latere stadium aangekondig word.

(d) Die beheer kragtens Deviesebeheerregulasie 3(1)(f) oor binnelandse lenings deur „buitelands-beheerde“ Suid-Afrikaanse ondernemings sal uitgebrei word deur die insluiting onder binnelandse leningsopnames van—

- (i) sekere omskrewe verhuringsooreenkomste,
- (ii) faktorisering (met verhaal), en
- (iii) sekere omskrewe „terugverhuring“.

Besonderhede oor hoe hierdie maatregel in die praktyk toegepas sal word, sal deur die Deviesebeheerowerhede aan gemagtigde handelaars verstrekkend word.

Met betrekking tot *bestaande* reëlings onder hierdie hoofde sal ondernemings wat deur hierdie regulasie geraak word 'n redelike oorgangstydperk gegun word om in 'n posisie te kom waarin hulle ten volle aan die nuwe vereistes voldoen.

(e) Bykomend tot die nuwe deviesebeheermaatreëls hierbo uiteengesit, is 'n omsendbrief aan gemagtigde handelaars gestuur waarin aan hulle opdrag gegee is om te verseker dat daar ten volle aan die *bestaande* regulasies met betrekking tot invoerbetalings en uitvoerontvangste voldoen word. Daar word van gemagtigde handelaars uitdruklik vereis om te verseker, eersens, dat invoerders nie fondse na die buiteland ooplaas in betaling vir invoere vóór die datum van verskeping of versending van die betrokke goedere na Suid-Afrika nie, en, tweedens, dat uitvoerverdienste na Suid-Afrika oorgeplaas word binne 30 dae ná die ontvangs van betaling. Die owerhede beskou hierdie