

Statement regarding the devaluation of the rand

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

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On 27 June 1975 I announced that the practice of making small and frequent adjustments to the rand-U.S.-dollar rate would be discontinued and that this rate would in future be kept constant for longer periods at a time; and I stated categorically that the rand would not be devalued unless there was a basic change in domestic or international economic circumstances. This announcement was followed on 11 August by the introduction of significant changes in respect of exchange control policy and the arrangements regarding forward exchange cover, as well as by various adjustments in the Reserve Bank's monetary policy, including an increase in Bank Rate from 8 to 8½ per cent and an increase in the liquid asset requirements for banking institutions.

These measures were designed not only to counteract speculation against the rand, as reflected mainly in unfavourable leads and lags in foreign payments and receipts, but also to strengthen the balance of payments in general and to reduce the rate of inflation. Although they have, of course, not yet had sufficient time to exert their full effect, these steps have already yielded positive results, including a reduction in the adverse leads and lags.

In the meantime, however, the overall economic situation has changed in two basic respects. In the first place, it has now become clear that the present world economic recession is both deeper and of longer duration than was expected as recently as two months ago. Not only is the recovery which is said to have begun in the United States still noticeably weak, but in most other countries official forecasts of economic activity and real economic growth rates have in recent weeks been revised downwards quite sharply. No strong international cyclical recovery is now expected before well into 1976. It must therefore be assumed that the beneficial effects of such an upturn upon the value of South Africa's exports will now be further delayed.

Secondly, the price of gold on the private market, which averaged about \$159 per fine ounce in 1974 and about \$170 per fine ounce during the first eight months of 1975, has declined during the past two weeks to about \$135 per fine ounce as at last Friday. In these circumstances it is realistic and prudent to accept that *in the short term* the value of our net gold output is unlikely to come up to earlier expectations.

Given the strategically important role played by merchandise exports and gold in both the domestic economy and the balance of payments, these two developments clearly constitute the kind of basic change in circumstances which under the present exchange rate policy would call for a reassessment of the rand-dollar exchange rate.

It is true that South Africa's gold and other foreign reserves have held up well throughout the past year and are still at a satisfactory level. However, account must be taken of the fact that the increased current account deficit has been financed to a considerable extent by official loans, and that if these are taken into consideration, the Reserve Bank's *net* reserves have, in fact, shown a substantial decline during recent months.

After careful consideration of the pros and cons of including a currency devaluation in the total package of measures now required to bring about the necessary overall adjustment to the changed economic circumstances, the Government has decided to devalue the rand in terms of the U.S. dollar by 17,9 per cent. With effect from 22 September the Reserve Bank's middle rand-dollar rate will accordingly be reduced from \$1,4000 per rand to \$1,1500 per rand, and the Bank will quote public buying and selling rates for U.S. dollars of \$1,1529 and \$1,1471 per rand, respectively.

This decision has been communicated to the International Monetary Fund and South Africa will continue to collaborate with the Fund in accordance with Article IV, Section 4(a) of the Articles of Agreement. South Africa is also taking the necessary steps to make a drawing on the Fund equal to its gold tranche of approximately R82 million.

In arriving at the decision to devalue the rand, the Government took into account not only the need to strengthen the overall balance of payments but also the need to prevent the present slowing down in domestic activity from proceeding too far. Under present circumstances, undue reliance on deflationary monetary and fiscal measures runs the risk of aggravating recessionary conditions.

The devaluation should have the following favourable effects:

1. It should effectively curb the speculation against the rand which has flared up again following the gold price decline, and improve the net inflow of long and short-term capital.

2. It should help to improve the balance of payments on current account by increasing the value of the net gold output and merchandise exports, and by reducing imports below what they would otherwise have been.

3. It should have an immediate expansionary effect on export and gold mining incomes, with favourable secondary effects on domestic economic activity.

4. By raising the rand prices of imports competing with locally manufactured goods, it should stimulate industrial production and investment.

5. In the increasingly tight budgetary position which

has emerged, it should raise government revenue from taxation on the additional rand income generated and thereby lessen dependence on bank credit as a means of financing the Exchequer.

The inflationary consequences likely to follow from the devaluation cannot be ignored and the authorities are determined to counteract these effects as far as possible. To this end, it has been decided to increase further the liquid asset requirements of banking institutions as from the date of certification of their September month-end statements, and the Reserve Bank will be making an announcement in this regard shortly. The Government is also continuing its recently announced policy of doing everything possible to curb spending in the public sector as a whole.

Verklaring insake die devaluasie van die rand

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Ek het op 27 Junie 1975 aangekondig dat die gebruik om klein en herhaalde aanpassings aan die rand-V.S.A.-dollarkoers te maak, beëindig word en dat hierdie koers in die toekoms vir langer tydperke konstant gehou sal word; en ek het uitdruklik gesê dat die rand nie gedevalueer sal word nie tensy daar 'n basiese verandering in die binnelandse of internasionale ekonomiese toestande intree. Hierdie aankondiging is op 11 Augustus gevolg deur die instelling van betekenisvolle veranderings ten opsigte van deviese-beheerbeleid en die reëlins in verband met valuta-termyndekking, asook deur verskeie aanpassings in die Reserwebank se monetêre beleid, met inbegrip van 'n verhoging in die Bankkoers van 8 na 8½ persent en 'n verhoging in die likwiede batevereistes vir bank-instellings.

Hierdie maatreëls was nie alleen daarop gemik om die spekulاسie teen die rand, soos hoofsaaklik weerspieël in ongunstige vervroegings en vertraging in buitelandse betalings en ontvangstes, teen te werk nie, maar ook om die betalingsbalans oor die algemeen te versterk en die inflasiekoers te verlaag. Hoewel hulle natuurlik nog nie voldoende tyd gehad het om hul invloed ten volle te laat geld nie, het hierdie stappe reeds positiewe resultate tot gevolg gehad, met inbegrip van 'n afname in die nadelige vervroegings en vertraging.

Intussen het die algemene ekonomiese toestand egter in twee basiese opsigte verander. In die eerste plek het dit nou duidelik geword dat die huidige ekonomiese resessie in die wêreld dieper is en ook langer duur as wat so onlangs as twee maande gelede nog verwag is. Nie alleen is die herstel wat na bewering in die Verenigde State begin het, nog merkbaar swak nie, maar in die meeste ander lande is die amptelike vooruitskattings ten opsigte van ekonomiese bedrywigheid en reële ekonomiese groei gedurende onlangse weke redelik skerp afwaarts hersien. Geen sterk internasionale sikliese herstel word nou voor diep in 1976 verwag nie. Dit moet derhalwe aanvaar word dat die voordelige uitwerking van so 'n opswaai op die waarde van Suid-Afrika se uitvoere nou verder vertraag sal word.

Tweedens het die prys van goud op die private mark, wat in 1974 gemiddeld ongeveer \$159 per fyn ons en gedurende die eerste agt maande van 1975 nagenoeg \$170 per fyn ons beloop het, gedurende die afgelope twee weke gedaal tot ongeveer \$135 per fyn ons verlede Vrydag. Onder hierdie omstandighede is dit realisties en verstandig om te aanvaar dat die waarde van ons netto goudproduksie *oor die kort termyn* waarskynlik nie aan vroeëre verwagtings sal voldoen nie.

Met die oog op die strategies belangrike rol wat goedere-uitvoere en goud in sowel die binnelandse ekonomie as die betalingsbalans speel, is dit duidelik dat hierdie twee verwikkelinge die soort van basiese

verandering in omstandighede verteenwoordig wat ingevolge die huidige wisselkoersbeleid 'n heroorweging van die rand-dollarkoers vereis.

Dit is waar dat Suid-Afrika se goud- en ander buitelandse reserwes in die afgelope jaar deurgaans goed vertoon het en nog op 'n bevredigende peil is. Rekening moet egter gehou word met die feit dat die verhoogde tekort op die lopende rekening in 'n aansienlike mate deur amptelike lenings gefinansier is en dat, indien hierdie lenings in ag geneem word, die *netto* reserwes van die Reserwebank in werklikheid gedurende onlangse maande 'n aansienlike daling getoon het.

Na sorgvuldige oorweging van die voor- en nadele verbonde aan die insluiting van 'n devaluasie van die geldeenheid in die totale pakket van maatreëls wat nou benodig word ten einde die vereiste algemene aanpassing by die veranderde ekonomiese omstandighede te weeg te bring, het die Regering besluit om die rand teenoor die V.S.A.-dollar met 17,9 persent te devalueer. Met ingang vanaf 22 September sal die Reserwebank se middel rand-dollarkoers derhalwe verminder word van \$1,4000 per rand tot \$1,1500 per rand en sal die Bank publieke koop- en verkoopkoerse vir V.S.A.-dollars van onderskeidelik \$1,1529 en \$1,1471 per rand noteer.

Hierdie besluit is aan die Internasionale Monetêre Fonds oorgedra en Suid-Afrika sal voortgaan om met die Fonds saam te werk ingevolge Artikel IV, Deel 4(a) van die Artikels van Ooreenkoms. Suid-Afrika is ook besig om die nodige reëlins te tref vir die trekking van sy „goud-tranche” by die Fonds wat ongeveer R82 miljoen bedra.

Met die neem van sy besluit om die rand te devalueer, het die Regering nie alleen die behoefte om die algemene betalingsbalansposisie te versterk in ag geneem nie, maar ook die vereiste om te verhoed dat die huidige verlangsamings in die binnelandse ekonomiese bedrywigheid te ver gaan. Onder die huidige omstandighede loop oormatige steun op deflasionistiese monetêre en fiskale maatreëls die gevaar om resessietoestande te vererger.

Die devaluasie behoort die volgende gunstige gevolge te hê:

1. Dit behoort die spekulاسie teen die rand wat sedert die daling in die goudprys weer opgevlam het, effektief te beteuel en die netto invloeiing van lang- en korttermynkapitaal te bevorder.

2. Dit behoort te help om die lopende rekening van die betalingsbalans te verbeter deur die waarde van die netto goudproduksie en goedere-uitvoere te verhoog en deur invoere te verminder tot 'n peil laer as wat dit andersins sou beloop het.

3. Dit behoort onmiddellik aanleiding te gee tot 'n verhoging in die inkome van uitvoerders en die goudmyne, met 'n gunstige sekondêre uitwerking op binnelandse ekonomiese bedrywigheid.

4. Deur die verhoging van die randpryse van invoere wat met plaaslik vervaardigde goedere meeding, behoort dit nywerheidsproduksie en -investering te stimuleer.

5. In die toenemende knap begrotingsposisie wat na vore getree het, behoort dit aanleiding te gee tot verhoogde staatsinkomste uit belastings op die addisionele randinkome wat geskep sal word, en sodoende afhanklikheid van bankkrediet as 'n metode om die Skatkis te finansier, verminder.

Die inflasionistiese gevolge wat die devaluasie waarskynlik sal hê, kan nie geïgnoreer word nie en die owerheid is vasbeslote om hierdie gevolge sover as moontlik te bekamp. Met hierdie doel voor oë is daar besluit om die likwiede batevereistes van bankinstellings verder te verhoog vanaf die datum van sertifisering van hul September-maandeindstate, en die Reserwebank sal eersdaags in hierdie verband 'n aankondiging doen. Die Regering gaan ook voort met sy onlangs verklaarde beleid om alles in sy vermoë te doen ten einde uitgawes in die openbare sektor as 'n geheel te beteuel.