# Statement on the abolition of exchange control over non-residents

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

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In its *Interim Report on Exchange Rates in South Africa,* submitted in November 1978, the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa recommended "as the most appropriate eventual system for South Africa ... a unitary exchange rate system under which an independent and flexible rand finds its own level in well-developed and competitive spot and forward exchange markets in South Africa, subject to Reserve Bank 'intervention' or 'management' by means of purchases and sales of foreign exchange (mainly US dollars), but with no exchange control over non-residents and only limited control over residents." As a transitional measure, the Commission recommended "the expansion of the existing dual exchange rate system in South Africa into a more developed and formal system with a managed, market-determined rate for an independent and flexible 'commercial rand' and a more freely floating rate for a 'financial rand'."

As I announced in January 1979, the Government accepted the Commission's Report and immediately started to implement the recommended evolutionary process of exchange rate and exchange control reform. Among other things, the existing "securities rand" was transformed into a "financial rand" by extending the uses which non-residents could make of securities rand and by channelling certain resident transactions through the new financial rand market.

The Government believes that the time has now arrived to take the process of reform a step further and to implement the Commission's longer-term recommendation as set out above. With effect from 7 February 1983 exchange control over non-residents will accordingly be abolished. This implies the disappearance of the "financial rand" and of the dual exchange rate system as it has existed in one form or another since exchange control over non-residents was first introduced in South Africa in 1961.

In future the local proceeds of sales of quoted and unquoted South African securities, real estate and other equity investments held by non-residents will no longer be designated "financial rand" but will be freely transferable from South Africa through normal banking channels at the ruling unitary rate of exchange for the rand. Such proceeds may also be freely used in the Rand Monetary Area by non-residents for investment or other purposes.

Exchange control over residents will be retained with certain relaxations. As in the past, residents of the Rand Monetary Area will not be allowed to effect capital transfers to other countries without prior consent by the Exchange Control Authorities. To ensure that residents do not make such transfers through security transactions, the existing administrative procedures regarding the registration, transfer and endorsement of securities owned by non-residents will have to be retained. The domestically held assets of former residents who emigrated from South Africa will also continue to be "blocked" on the same basis as in the past.

As part of the Government's declared policy of gradually relaxing and simplifying exchange control over residents, however, it has been decided to extend the following concessions in respect of foreign travel and study allowances, emigration facilities and transfers of legacies, also with effect from 7 February 1983:

(1) The ordinary travel allowance for tourists will be increased from R4 000 to R6 000 per person per calendar year, and for South African businessmen on business visits abroad from R250 per day, with a maximum of R7 500 per calendar year, to R500 per day, with a maximum of R10 000 per calendar year.

(2) Emigrants, who in the past could transfer R100 000 per family unit to other countries through the financial rand market, will in future be permitted to transfer the same amount through ordinary banking channels at the prevailing unitary exchange rate for the rand, which should be a more favourable rate for them than the former financial rand rate.

(3) Transfers from deceased estates, which could in the past be effected in full through the financial rand market, will in future be allowed through normal banking channels at the (more favourable) unitary rate of exchange for the rand up to a maximum of R100 000 per beneficiary, without prior reference to the Reserve Bank. For the transfer of additional amounts, a programme can be worked out with the Exchange Control Authorities through the intermediation of an authorised foreign exchange dealer.

Further details of all these exchange control relaxations are provided in new exchange control circulars and notices which can be obtained by authorised foreign exchange dealers, stockbrokers and transfer secretaries at the Reserve Bank's Exchange Control Department, Boland Bank Building, Vermeulen Street, Pretoria, or at the Reserve Bank's Branch Office on the corner of Simmonds and Fox Streets, Johannesburg, from 08h30 on Monday, 7 February 1983.

The Government is pleased that its fiscal and monetary policies of consolidation and adjustment have helped to bring about such a strengthening of both the balance of payments and the domestic financial situation that it is now in a position to take the major forward step of abolishing exchange control over non-residents, thereby restoring the position that had prevailed up to 1961. As a country which undoubtedly has great growth potential and which believes in the virtues of private enterprise and free market forces, South Africa has always welcomed foreign capital and foreign participation in its domestic economic development, and has rewarded foreign investors handsomely. By abolishing exchange control over non-residents and thereby removing any deterrent to foreign investment that this control might have constituted, the authorities wish to demonstrate not only their favourable disposition to foreign capital but also their ability to provide a suitable and equitable environment for productive and profitable foreign investment.

In addition to creating the scope for the substantial relaxation of exchange control I am announcing today, the recent quite remarkable improvement in South Africa's balance of payments and domestic financial situation has also made such a move highly desirable from the point of view of economic stabilisation policy. This is evident from the following developments:

(1) Taken at a seasonally adjusted annual rate, the deficit on the current account of the balance of payments declined from R6,9 billion in the first quarter of 1982 and R5,4 billion in the second quarter, to less than R1 billion in the third quarter. Preliminary estimates suggest that this deficit was transformed into a small surplus in the fourth quarter. This remarkable improvement was mainly the result of a further decline in imports and a recovery in the gold price. It now seems likely that, even without any significant economic recovery in the main industrial countries in 1983, South Africa's balance of payments will show a moderate surplus on current account in 1983. And if there is a noticeable upturn in the industrial countries later in the year, this current surplus could become quite large as South Africa's non-gold exports resume their upward tendency.

(2) In addition, there has in recent months been a substantial net inflow of private sector foreign capital in the form mainly of trade credits and loans. This was largely the result of our fiscal and monetary policies, which entailed a tightening of domestic financial markets and the maintenance of higher nominal rates of interest in South Africa than in the United States and the Euro-dollar market — which, in turn, helped to bring about a reversal of the tendency for the rand to depreciate in terms of other currencies and the expectation that it would continue to appreciate. Understandably, this combination of lower overseas interest rates and the expectation of a further strengthening of the rand induced many enterprises in South Africa to make increased use of foreign finance without incurring the costs of forward exchange cover.

(3) The inevitable result of these developments on the current and capital accounts of the balance of payments has been a combination of an appreciation of the rand and rapidly rising net foreign reserves, largely reflecting substantial repayments of foreign credits by the Reserve Bank and the other banks. Since the middle of 1982 the rand has appreciated by nearly 10 per cent in terms of a weighted basket of currencies, and the net foreign reserves have increased by more than R2,5 billion, excluding valuation adjustments, and by about R3,6 billion if valuation adjustments are included.

(4) A further consequence of these developments has been a renewed acceleration of the annualised and seasonally adjusted rate of increase of the broad money supply ($M_2$) from 4,2 per cent in the second quarter of 1982 to 13,7 per cent in the third quarter and 14 per cent in the fourth quarter, giving a rate of increase for the year 1982 as a whole of 17,4 per cent.

(5) In these circumstances, both long and short-term interest rates have declined sharply since October 1982. The prime lending rate of the commercial banks declined from 20 per cent in October 1982 to 17 per cent on 24 January 1983, and the rate on three-month bank acceptances from 17,35 per cent on 24 September 1982 to 11,60 per cent early in February 1983.

(6) Yet another related development has been a considerable rise in share prices and turnover on the Johannesburg Stock Exchange since about the middle of 1982, which has clearly derived considerable impetus from the recovery in the gold price to around the $500 per ounce level.

Up to a point, and having regard to the downward cyclical phase in which the economy finds itself at present, these various developments have been welcomed by the authorities and viewed as proof of the improvement in both the balance of payments and the domestic financial situation. But, particularly in view of the urgent need to reduce the rate of inflation in South Africa, which has for more than a year now been more than double that of our main trading-partners, it is vitally important that the monetary authorities should not lose control over money, credit and interest rates in the months ahead.

Thus far this danger has largely been averted by the success of the Treasury's loan financing and the Reserve Bank's operations in the financial markets, and by the policy of allowing the rand to appreciate. But there is obviously a limit to which these policies can be carried without placing intolerable burdens on the Treasury or creating problems for non-gold exporters and domestic industries that have to compete with imported goods.

The need to maintain monetary stability and to curb inflation therefore played a major part in the Government's decision to abolish exchange control over non-residents at this particular juncture. Although the various short and long-term effects this step will have on money, credit, interest rates, share prices and exchange rates are impossible to predict accurately, it is clear that there will inevitably be a number of adjust-