Statement on exchange control

21 February 2001

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank

In his 2001/2002 Budget Speech today, the Minister of Finance referred to the gradual process of exchange control liberalisation and the implementation of a further round of relaxations.

South African corporates

In terms of existing policy corporates wishing to invest in countries outside the Common Monetary Area are, on application, allowed to transfer up to R250 million from South Africa per new investment into member countries of the Southern African Development Community and up to R50 million per new investment elsewhere. Corporates are also, on application, allowed to use part of their local cash holdings to finance up to 10 per cent of approved new foreign investments where the cost of these investments exceed the current limits. In addition to the aforegoing, corporates wishing to invest abroad may also apply for permission to make use of corporate asset/share swaps to finance these investments. Furthermore, South African corporates may utilise part of their local cash holdings to repay up to 10 per cent of outstanding foreign debt raised to finance foreign investments, provided the foreign debt has been in existence for the minimum period of two years.

The amounts of R50 million and R250 million referred to above are now increased to R500 million and R750 million respectively. The latter amount will now not only be applicable to investments in the Southern African Development Community but also to investments anywhere in Africa.

South African institutional investors

South African institutional investors i.e. long-term insurers, pension funds, the unit trust industry and fund managers have, since the inception of the asset swap mechanism in 1995, invested over R100 billion abroad. The asset swap mechanism has, therefore, been successful in achieving the original aim of allowing fairly rapid portfolio diversification.

It has, however, been decided to dispense with the asset swap mechanism. As a consequence, with effect from today, no further asset swaps will be permitted irrespective of availability under existing asset swap limits. All other terms and conditions applying to existing asset swap transactions remain unchanged. Institutional investors will be allowed to continue acquiring foreign portfolio investments simply by means of foreign-currency transfers from South Africa. Such transfers will be limited to 10 per cent of the net inflow of funds during the 2000 calendar year, subject to the retained overall limits on institutional foreign-asset holdings of 15 per cent of total assets for long-term insurers and pension funds, 15 per cent of total assets under management for fund managers and 20 per cent of total assets under management for unit trusts through unit trust management companies.

Although the aforegoing arrangements will also apply to fund managers, the technicalities of the implementation thereof will be worked out with the industry.

Allowances

The personal allowance remains at R750 000. However, the annual travel allowance applicable to residents travelling abroad is increased to R140 000 per person of twelve years and older and R45 000 per child under the age of twelve years, per calendar year.

Various other limits pertaining to study allowances, gifts and maintenance will also be adjusted.

General

The current moratorium on South African debt repayments, as embodied in the "1994 Debt Arrangements" expires on 15 August 2001. This event will present a new opportunity for further progress in the gradual relaxation of exchange control in the future.