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**STATEMENT ON EXCHANGE CONTROL ISSUED JOINTLY BY MR. TREVOR MANUEL, MINISTER OF FINANCE AND DR CHRIS STALS, GOVERNOR OF THE SOUTH AFRICAN RESERVE BANK - 12 MARCH 1997**

In the 1997/98 Budget Speech, a number of important exchange control relaxations are announced that pave the way for the continued phasing out of the remaining controls.

Good progress has been made over the past three years with the gradual phasing-out of exchange controls. Early in 1994, a final debt rescheduling agreement was reached with foreign creditors, bringing to an end the debt standstill arrangements. In March 1995, the financial rand was abolished and the restrictions applicable to the repatriation of non-resident owned funds were removed.

Various concessions to enable South African companies to invest in foreign countries have been made, leading to approved investments in excess of R18 billion to date. From June 1995 onwards, defined South African institutional investors were allowed to acquire foreign assets through asset swap transactions, and from June 1996, through limited cash transfers. Approved transactions under these provisions now exceed R30 billion, of which some R17 billion are estimated to have been executed.

A number of cumbersome administrative and restrictive measures have been eased, including:

- a doubling in the local borrowing facilities of foreign-controlled organisations;
- a relaxation in the capital structure requirements of foreign-controlled South African resident organisations;
- the extension of loans to foreign shareholders by such companies in lieu of dividend transfers;
- the retention of income earned off-shore by foreign subsidiaries and branches of South African organisations for expansion abroad;
- the transfer from South Africa of up to R20 million per new investment project in foreign countries approved by the Exchange Control;
- increases in the limit on foreign investment holdings by South African institutions;
- permission for corporates to off-set foreign import commitments against export proceeds; and
- substantial increases in the limits applicable to various current account transactions.

## Further steps announced in the 1997/98 Budget Speech

Government has decided that conditions are right for a significant instalment in the relaxation of exchange controls. South African individuals and corporations will in future be allowed the freedom to transact internationally. The package of exchange control reforms set out below reflects the philosophy that there should in due course be equality of treatment between residents and non-residents with respect to inflows and outflows of capital. The position of our balance of payments and the involvement of the South African Reserve Bank in the forward market make it impractical to permit unlimited transfers of capital at this stage. To give the economy time to adjust and to avoid unnecessary volatility, certain limits will remain but the emphasis will increasingly be on the positive aspects of prudential financial supervision.

Regulations applicable to non-residents, the corporate sector and institutional investors are further relaxed and the programme is now extended to resident individuals. The relaxations are:

### *Current account transactions*

Virtually all the remaining limitations on current account transactions will now be removed except in respect of certain discretionary expenditures where limits must be retained to make the remaining restrictions on capital outflows effective. The administrative burden of exchange controls will be lessened by these reforms.

South African residents travelling abroad will be allowed a maximum of R80 000 per person of twelve years and older, and R25 000 per child under the age of twelve years, per calendar year, without any daily limit. The distinction previously drawn between neighbouring countries and other countries will be scrapped, with the result that travelling allowances to neighbouring countries will be substantially increased.

Other restrictions on current account transactions such as the transfer of buying commissions, payment for computer packages purchased on a commercial basis, maintenance payments in respect of computer software, the importation of newspapers, books and periodicals, importation of medical preparations, philatelic and numismatic imports and importation of correspondence course material will no longer be subject to exchange control approval. Transfer of payments for most services rendered by non-residents will also no longer require prior exchange control approval. This includes the payment of directors' fees to non-residents, subscriptions to clubs, membership fees payable to professional associations and alimony payments.

### *Capital account transactions*

#### Non-residents

Non-residents will be given further relief in respect of their ability to borrow domestically. Until now, organisations with a foreign shareholding in excess of 25 per cent were subject to certain restrictions on local borrowing. This threshold will now be raised to 50 per cent. South African-authorised dealers in foreign exchange will be able to accept a non-resident guarantee without specific prior approval in support of local borrowings by foreign-controlled organisations resident in South Africa.

Non-residents in the Common Monetary Area will be allowed to maintain foreign currency denominated deposits with South African banks, provided suitable arrangements can be agreed with the Registrar of Banks for the prudential financial requirements against such liabilities.

**South African corporates**
South African corporates will be allowed to retain foreign currency earnings, eg from exports, for up to thirty days of accrual, instead of seven days, thereby removing the anomalies in the present position.

South African corporates will be permitted to transfer up to R30 million from South Africa to finance approved investments abroad, and up to R50 million per project for approved new investments in member countries of the Southern African Development Community, other than Namibia, Swaziland and Lesotho where funds already flow freely.

Further, corporates investing abroad with approvals will be able to raise offshore financing based on the strength of their local balance sheets. This implies recourse to South Africa in the event of a default. In addition, South African corporations will be free to invest a percentage of their assets abroad (based on audited balance sheets) for portfolio investments, when circumstances permit.

**South African institutional investors**
In 1996, qualifying institutions were permitted to invest offshore up to 3 per cent of their net inflow of funds during the calendar year 1995. Similarly, during the calendar year 1997, offshore investment of up to 3 per cent of the net inflow of funds for the calendar year 1996 will be permitted, subject to the overall limit of 10 per cent of total assets.

Additionally, subject to the overall limit of 10 per cent of total assets, an extra 2 per cent of the net inflow of funds for the calendar year 1996 may be invested during 1997 in securities listed on stock exchanges in SADC countries, other than Namibia, Swaziland and Lesotho where no restrictions apply.

The South African Reserve Bank will shortly announce details in which the definition of *institution* that qualifies for asset swaps will be broadened to include, for example, regulated fund managers registered with the Financial Services Board. The rules will also be extended to allow the unit trust management industry more flexibility when applying the current 10 per cent limit of assets available for foreign portfolio investment.

**South African resident private individuals**
From 1 July 1997, registered South African taxpayers in good standing over the age of eighteen will be allowed to invest a limited amount of capital abroad. In addition, individuals will also be allowed, after approval by the Exchange Control, to invest in fixed property (e.g. holiday homes and farms) in SADC countries. An announcement regarding the specific amounts will be made before July 1997.

Such taxpayers may alternatively hold foreign currency deposits with authorised foreign exchange dealers within a defined limit should they not wish to invest abroad.

Additionally, individuals will be allowed full discretion in the use of foreign-earned income, with the exception of the proceeds of merchandise exports which must be transferred to South Africa within thirty days of accrual.

### *Miscellaneous exchange control adjustments*

The South African Reserve Bank recognises the need to develop US dollar/ SA rand futures contracts through the South African Futures Exchange. Participation will initially be restricted to non-residents and to authorised dealers in foreign exchange. Residents, including corporates, will not yet be permitted to deal directly in such contracts, but may do so via an authorised dealer in foreign exchange.

A number of further reforms will be implemented to ease the administrative burden of exchange controls. These include, for example, the requirement that Forms A and E must be completed for all foreign exchange transactions of R2 000 and more. This threshold will now be raised to R40 000 per transaction. This change is expected to eliminate some 60 per cent of the workload associated with the implementation of the requirement.

### *Implementation*

In view of the administrative arrangements that need to be in place, the full range of amendments will only become effective from 1 July 1997. Where practical, the changes will also be implemented before then by means of announcements. The necessary alterations to the Exchange Control Regulations to give effect to these changes will be made as soon as possible.