



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

STATEMENT BY MINISTER GORDHAN ON THE RAND CURRENCY

When governments in developed countries, especially in the US and Europe, injected huge amounts of money in an attempt to refloat their economies, some of this money came into South Africa and this led to the Rand being overvalued somewhat, by 15 per cent or so. This has been confirmed by the IMF, OECD and other analysts. This and other factors that raise the cost structure for South African firms have hurt our competitiveness.

A certain degree of adjustment (depreciation) in the Rand was therefore necessary and expected. However, when currencies adjust, they tend to overdo it. It hardly ever happens that the adjustment is smooth and orderly. In that sense, a degree of overshooting is normal. As policymakers we are obviously concerned about excessive volatility in the currency.

There are a number of international factors that have exacerbated the overshooting:

- a) As the Reserve Bank also points out, the rand's depreciation is also partly explained by the recent strengthening of the US dollar and the decline in commodity prices. (<http://www.resbank.co.za/Lists/Speeches/Attachments/374/Address%20by%20Deputy%20Governor%20Daniel%20Mminele.pdf>)
- b) The softening in the demand for commodities has seen prices come down as countries that normally buy these commodities are facing their own domestic challenges and are not buying as much volumes as they used to before the 2008 recession. The decline in the volumes sold and the fall in prices erode the profitability of mining companies. This makes their shares unattractive. Those who hold shares in them sell them.
- c) Growth is improving in the US; real estate prices are firming up and employment data (although mixed) suggests better prospects. This puts pressure on the rand in a number of ways. Firstly, it points to the possibility that the measures that the US had put in place to refloat its economy will be reversed. Such a reversal would raise US interest rates and yields. This would narrow the differential between what investors earn by buying US bonds and what they earn from South African bond investments. Up to now these investors were earning higher returns from South African bonds than from US bonds. When US bonds are more attractive than South African bonds, the US dollar will strengthen. Secondly, a growing US economy makes the shares of US companies very attractive to investors. The combination of these factors could result in investors selling their South African assets and taking the money back to the US.

There are also domestic factors that contribute to the situation:

- a) Firstly, while the SA economy was quick to rebound after the crisis, it has not been growing fast enough relative to other emerging markets and relative to what is needed to deal with South Africa's massive challenges. We can achieve higher growth. But that requires us to implement our plans - the National Development Plan (NDP), New Growth Path (NGP), and other plans (investments in infrastructure, etc) - diligently and with speed.
- b) Secondly, rising costs and wages combined with falling demand and prices are producing a challenging environment for mines, especially when these increases are not matched by increases in productivity.
- c) Lastly, the negative narrative within SA and the resultant negative perceptions around the mining sector have not helped.

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