NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 2574 [NW2987E]

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Mr N Singh (IFP) to ask the Minister of Finance:

Whether any measures are currently in place to protect the economy from capital flight in the event of another global recession; if not, why not; if so, what measures?

NW2987E

REPLY:

Yes, South Africa's flexible exchange rate provides a shock absorbing mechanism for the economy in the event of capital outflows. A real depreciation of the exchange rate would make exports more competitive and push up the cost of imports, in turn reducing the current account deficit. However, our prudently managed fiscal and monetary policies – which aim to keep the country's debt burden at a sustainable level and control inflation – are essential to support investor confidence and reduce the probability that capital outflows become destabilising.

South Africa has a relatively low external debt burden, which means that a weaker currency does not materially affect the country's balance sheet. Unlike many other emerging markets, we are fortunate to have a deep and liquid domestic bond market that allows the government and private sector to borrow money in rand. The domestic banking sector is also primarily funded in local markets, which is why we did not experience the same acute liquidity squeeze in the last crisis as many banks overseas which depended on dollar or euro funding.

Over the past few years South Africa's gross foreign exchange reserves have increased to a level that more than adequately covers our foreign obligations. South Africa's gross reserves amounted to US$51.5 billion in August 2011 from US$34.3 billion in August 2008, just before the collapse of Lehman Brothers. If necessary, some of these reserves could be used to ease temporary market stress in response to global market turmoil.

Our prudential framework governing the offshore exposure of institutional investors and pension funds are also important safeguards against destabilising capital flight. Foreign asset limits were increased by 5 percentage points in December 2010 to 25 per cent for retirement funds and 35 per cent for institutional investors, but the limits remain well within international benchmarks and consistent with our financial stability objectives.