NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

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Mr M W Makhubela (COPE-Limpopo) to ask the Minister of Finance:

Whether the Government will heed the recent advice from a certain person (name furnished) that South Africa will have to intervene to manage its exchange rate in order to avoid the risks inherent in the unstable world economy; if not, why not; if so, what are the relevant details?

CW324E

REPLY:

No, the government does not intend to intervene to influence the level of the exchange rate at present.

Over the past two years, policies have been adjusted to support a more stable and competitive exchange rate. A package of measures was announced in the 2010 MTBPS to help reduce the volatility of the rand.

- National Treasury has assisted the Reserve Bank to accumulate foreign exchange reserves increasing the level of gross foreign exchange reserves stood at US$50 billion in April 2012 from US$39.7 billion at the end of 2009.
- In August 2010, the Reserve Bank started using foreign exchange swaps to sterilise large one-off inflows related to foreign direct investment (FDI) transactions to minimise the impact of such flows on the rand.
- Foreign asset limits for pension funds and institutional investors were increased by 5 percentage points in December 2010. Over time, an increase in foreign assets will reduce South Africa's external vulnerability by supporting more sustainable inflows of dividends and increasing two-way demand for the rand.
- In addition, exchange control and offshore investment limits on individuals have been amended, and restrictions on the "blocked" assets of emigrants have been lifted.
- Fiscal and monetary policies have been adjusted to support the economic recovery. Real interest rates remain low and supportive of growth, while the fiscal deficit will be reduced gradually over the next three years in line with the recovery in the economy.

It is difficult to assess the relative success of these measures given heightened global volatility, but without them, the rand may have been even more volatile over recent months.

Many factors influence the value of the rand. These include trends in the United States dollar; movements in commodity prices; weak growth and low investment returns in developed countries; strong but volatile capital flows to emerging markets; and changes in risk appetite.

The National Treasury will continue to monitor international and domestic factors affecting the rand, trends in capital flows and their impact on the economy. Appropriate action will be taken as and when required.