NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 610 [CW820E]

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610. Mr K A Sinclair (COPE-NC) to ask the Minister of Finance:

Whether the National Treasury has put any measures in place to limit the exposure of the South African currency from fluctuation as investors are becoming insecure regarding (a) labour unrest and (b) high salary demands that are being made by striking workers (details furnished); if not, why not; if so, what are the relevant details?

CW820E

REPLY:

Yes, the National Treasury has put measures in place to limit the exposure of the South African currency from fluctuation, through the country's levels of reserves and through flexible exchange rates for example.

Please note that the National Treasury is only in a position to respond to those matters that fall within its domain and would therefore not be able to respond to the issue of high salary demands by striking workers.

Investor's perceptions of risk have risen as a result of a number of factors, including labour unrest in the mining sector, and the ratings downgrades by Moody's and Standard and Poors. Higher levels of investor uncertainty and risk aversion have become evident in lower levels of business confidence, net sales of equities by non-residents and the weaker rand exchange rate. South Africa's flexible exchange rate provides an important shock absorbing mechanism for the economy in the event of investor risk aversion and capital outflows. A sustained 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.

Since 1 August 2012, non-resident investors were net sellers of equity worth R4.2 billion. This has been offset by the resilience of non-resident net purchases of bonds, which have risen by R21.2billion over the same period, in part due to South Africa's inclusion in the World Government Bond Index. The rand exchange rate has depreciated from an average of R8.17 per US dollar in first half of August to an average of R8.71 during the first two weeks of November.

Government is working closely with organised labour and business to achieve a speedy resolution to the on-going labour unrest and to rebuild confidence in the economy. Last month's Presidential Summit between government, labour and business agreed on a programme of action in the interests of all South Africans.

Government also plays an important role in limiting volatility driven by uncertainty through our commitment to stable macroeconomic policies. Our prudently managed fiscal and monetary policies – which aim to support growth, control inflation, and keep the country's debt burden at a sustainable level – are essential to support investor confidence and reduce the probability that capital outflows become destabilising. The Medium Term Budget Policy Statement highlighted Government's commitment to stabilising the debt to GDP ratio at below 40 percent by 2015/16.

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$50.7 billion in October 2012 from US$34.3 billion in August 2008, just before the collapse of Lehman Brothers.

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.