NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 2918 [NW3421E]
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2918. Mr M G P Lekota (Cope) to ask the Minister of Finance:

(1) Whether the Government was proactively utilising the slide of the rand to its lowest level against the dollar in 15 years to stimulate (a) manufacturing, (b) mining, (c) agriculture, (d) agri-processing, (e) exports, (f) internal and external tourism and (g) methanol production to supplement liquid fuels; if not, why not; if so, (i) what exactly is the Government doing to use the weakness of the rand to spur real economic growth and (ii) how far is the Government succeeding in achieving the specified objective;

(2) what is the impact of the current state of weakness of our national currency on the economy?

NW3421E

REPLY:

1) A floating exchange rate is an important part of the design of macroeconomic policy which allows the economy to adapt to changing global circumstances. A weaker currency can stimulate exports. The speed with which exports can grow in response to a weaker rand, however, is influenced by how high and how quickly domestic costs rise in response to the weaker rand, the pace of growth in major markets and supply side factors.

   In an environment of weaker economic growth, it is imperative that policy supports the competitiveness of local business. The inflation targeting framework helps to anchor inflation expectation in the face of volatility. Continued government investment in infrastructure aims to lower the cost of doing business and increase the competitiveness of South African business. Furthermore, Government has a range of incentives in place to support economic growth and exports. The Department of Performance Monitoring and Evaluation (DPME) and / or the specific ministries involved (DTI, DMR, DAFF, EDD, DoT) can provide further details.

2) As South Africa is a price taker in international markets, there’s no evidence that the weakness of the rand has affected the terms of trade at this stage. The rand’s weakness is providing support to exports. To date, the knock-on impact of higher imported goods prices on inflation has been relatively low, although this remains a risk that the South African Reserve Bank is monitoring closely as it follows its mandate to keep inflation within the target band.