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To: Members of the Executive Board
From: The Secretary
Subject: South Africa - Unification of Exchange Rate

Attached for the information of the Executive Directors is a paper on the unification of the exchange rate for the South African rand.

Mr. O'Brien (ext. 35623) or Mr. Gordon (ext. 38663) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

South Africa - Unification of Exchange Rate

Prepared by the African and Monetary and
Exchange Affairs Departments

(In consultation with the Legal and Policy
Development and Review Departments)

Approved by Evangelos A. Calamitsis and Manuel Guitián

March 17, 1995

Effective March 13, 1995, the exchange rate for the South African rand was unified by means of the abolition of the financial rand. The background and implications of the unification were presented in a press statement, which was issued by the Minister of Finance, Mr. Liebenberg, on March 10. Initial market reaction was favorable; in the first days of trading following unification, the rand appreciated slightly relative to the last closing rate for the commercial rand (R 3.65 per U.S. dollar). At the close of the markets on March 16, the (unified) exchange rate was R 3.57 per U.S. dollar.

In announcing the unification, the Minister noted that South Africa's position in international markets changed dramatically in 1994, with the termination of economic sanctions and investment restrictions on South Africa, and with the strengthening of net capital inflows. This laid the ground for the unification of the exchange rate and was reflected in the narrowing of the spread between the commercial and financial rand exchange rates. ^{1/} He also noted, however, that while unification is a step towards full liberalization of exchange controls, the remaining controls on South African residents' capital transactions would remain in place for the time being, and that the implications of unification for debt-equity swaps negotiated under the 1993 final debt arrangement have yet to be determined.

With the unification of the exchange rate, South Africa has eliminated the single exchange restriction that was subject to Fund jurisdiction under Article VIII, arising from the requirement that emigrants' remittances of earnings in excess of R 350,000 be made through the financial rand.

The staff expressed support for the abolition of the financial rand mechanism, most recently in the context of the 1994 Article IV consultation concluded by the Executive Board on January 30, 1995. A staff visit scheduled for April to discuss macroeconomic developments will provide an opportunity for the staff to discuss the issues raised by unification with the authorities.

No action by the Executive Board is required at this time.

^{1/} In recent years, the spread between the commercial and financial rand exchange rates was generally above 20 percent. The discount narrowed in the second half of 1994, falling below 13 percent by end-October. It rose somewhat in January 1995, but fell back to well below 10 percent in the weeks preceding the abolition of the financial rand.