# Politics and the (falling) Rand

The financial rand was abolished at the beginning of 1995, thus removing this artificial attempt to protect the SA currency against the vagaries of global financial markets – or, for that matter, against the pronouncements of local politicians.

This is the discipline enforced by open markets: watch your words and your steps, or you will pay an economic price. In closed economies politicians get away with much more. In open economies, they have to be more careful.

When PW Botha made his Rubicon speech he was not careful enough and the currency took an enormous "klap".

So what Rubicon-like politics occurred recently to force the rand down to R9,50 against the dollar (at the time of writing)?

The shenanigans in the Democratic Alliance? The name-calling between the African National Congress and Cosatu? The controversial attempts by some white and black business people to join forces under the umbrella of Safcoc? We doubt it. Not all of these players are taken all that seriously by the currency markets.

The president's views on AIDS? These have been around for a long time, surely the market has discounted them. In fact, it looks as if SA civil society is forcing the government on the defensive on the issue – a very positive political development.

Zimbabwe? The heat on SA from this issue is considerably less than at the beginning of the year. The Commonwealth and SADC are now much more prominent than SA.

The sloppy process around the Telecoms Bill? As a report by a leading international auditing firm shows, it is par for the course in countries struggling with deregulation.

Afro-pessimism? Then why is the rand falling against the Botswana pula?

SA not supporting the US strongly enough in the anti-terror campaign? Then why has the currency of the strongest US ally, Britain, fallen to a ten-week low against the dollar?

No, we are afraid we do not see many pronouncements for which we can blame the politicians.

Rather, we think the problem is elsewhere: we have remaining fundamental problems that have to be addressed and fixed. The currency will remain under pressure for as long as we don't do that -- simply because there will be more people wanting to sell the rand than there will be people wanting to buy it. Change that buy/sell relationship, and the currency will stabilise. We can hold the politicians responsible for that, but not in the populist way we sometimes do.

The most serious of the negative fundamentals we have to address are the NOFP (net open forward position) and SA's low growth rate.

At the end of September, SA had R67,5 billion in forex reserves. This gross figure included foreign credit lines to the tune of R35,8 billion. Deduct those and we are left with net foreign reserves of R31,7 billion. In dollars, that was about $4,8 billion in *currency*. Against that SA had outstanding forward *commitments* (the NOFP) of $8,4 billion.

Now, if you have R4,80 in your pocket but you owe the bank R8,40, how rich are you? Or are you perhaps bankrupt? The economists tell us not to confuse flows with balances. Maybe. But $4,8 billion in cash vs $8,4 billion in commitments … seems to us something must give.

And what is giving, is the currency.

There is a dangerous new theory going around, especially in the private sector: use a foreign loan to cover the NOFP, then SA will have the *currency* to cover her *commitments* (the open forward position) and the rand will stabilise.

How does more debt help you to get out of debt? Fortunately, it appears that both the Reserve Bank and the Finance Ministry are rejecting this proposal.

No, the only way out is to raise foreign currency by selling SA assets to foreigners and attract more foreign capital. That means privatisation to foreigners, and deregulating industries where foreigners can come and invest -- the two central planks of Mbeki's economic plan since November last year. He simply has to bite the bullet and see it through.

Will the Mbeki government see it through, or will it flip-flop? Not if you look at the past record.

The currency crisis of 1996 gave us Gear. Many of its targets have not been met, but the central planks of Gear have been achieved: restoring discipline to government finances and achieving macroeconomic balances.

The 1998 currency crisis and resultant interest rate rises did not push government away from its policy positions. Government stuck to its guns in spite of enormous pressures.

We forecast that government will continue to stick to its guns and that deregulation and privatisation will occur.

We have already seen the gas deal with Sasol that will entail $1 billion (no, not rands) invested in SA, and another $200 million in Mozambique.

These investments will in turn contribute to growth. Only if we break decisively with the 3% growth ceiling, can we hope to have a stronger currency.

There is no shortcut. Fix the fundamentals and the currency will settle. In that sense the politicians are responsible. But in fairness to them, it is a long haul. And the vested interests that want to block progress are enormous - see how private sector companies complained about telecoms deregulation!!

And let us also not tell ourselves that because we are an African country we must have a weak currency. It depends on what we do, not who we are.