PROCEEDINGS RESUME ON 24 MAY 2002

CHAIRPERSON: Alright ladies and gentlemen can we stop the photograph session and commence the proceedings this morning, please?

This is the final day of the hearing of the Commission. Today we deal with two issues. First of all the Minister of Finance is here to make a statement and then we will deal with one or two issues with the Reserve Bank.

Beginning with the Minister of Finance. Minister, you have given evidence before and you, as I understand it, are going to read a statement. I do not think it is appropriate in those circumstances for you to make an affirmation as you did when you last testified and would you like to read the statement?

MR TREVOR MANUEL: Thank you very much, Mr Chairman and commissioners.

I think the first point to make is that despite suggestions to the contrary, I am not Maria Ramos, as the press would have suggested.

CHAIRPERSON: You are not as pretty for .. (laughter)

MR TREVOR MANUEL:

Mr Chairman, I am grateful for the opportunity to make some closing remarks upon the completion of the hearings of this Commission.

The National Treasury has carefully reviewed the evidence presented to the Commission by a wide cross-section of experts, both local and international.

These experts have presented a broad spectrum of views on the causes of the Rand's rapid depreciation towards the end of the last year.

It seems true to say that there was a complex set of factors at play. The Commission has heard evidence of both external and internal factors which impacted on South Africa's balance of payments and confidence levels.

Certainly, global financial conditions following the events of September 11 last year were not conducive to capital flows to emerging markets, including South Africa. This has the effect of creating an underlying weakness in a currency.

In terms of internal factors, many of the statements made before the Commission have tended to focus on Government policy, including exchange controls, the net open forward position (NOFP) and the lack of intervention in the foreign exchange market.

All the arguments presented have been carefully considered. In the light of the Commission proceedings, it may be useful to summarise our position at this time.

Some commentators have called for a "big bang" approach to exchange control relaxation. At the same time, however, most of these same commentators have recognised the complexities and pitfalls inherent in capital account liberalisation.

Mindful of these complexities, Government's stated commitment has always been clear and unequivocal - we are committed to a gradual process of exchange control liberalisation that takes into account critical sequencing considerations. A sustainable development path requires that certain conditions be in place before proceeding to full capital account convertibility.

We have touched on these before in our testimony to the Commission, but they include ensuring that appropriate macroeconomic fundamentals are in place, that a sound and well-regulated financial system exists to promote financial stability, including prudential regulation, and that social safety nets are in place to protect the poor against the potential social costs of globalisation.

It is perhaps appropriate to pause at this point and take stock. Governments have to make policy choices in a complex and often unforgiving world. At the centre of the range of policy choices that our Government faces lies the principle that South Africa is an open economy. In that environment, it is inevitable that from time to time there will be turbulence. The events of late last year were clearly one of those times.

It is tempting at such times to look for quick fixes or hasty policy responses. But this, invariably, leads to unintended consequences and policy uncertainty. Rather, as our own experience and that of other countries internationally has borne out, the best response in such circumstances is to be confident that the policy choices we have made - and the good performance of the economy that we have achieved - over the past five or six years will support the ongoing growth and sustainable development that the South African economy needs.

As we sit here in the Commission five months, practically to the day, after the peak of the Rand's volatility, this faith in the soundness of our macroeconomic fundamentals would appear to have been justified. The Rand has appreciated by 38% against the dollar in the last five months from its record low of R13,85/$, and by approximately 19% since the beginning of the year. The recent strengthening of the Rand suggests a recognition amongst investors of the soundness of the South African economy and that the depreciation of the Rand last year was clearly overdone.

It is also heartening to note, from the testimony provided to the Commission, a general recognition by international experts that Government's macroeconomic policy has been well-directed and put on a sound sustainable footing.

Far-reaching fiscal reforms have been undertaken. Monetary policy has been consistent in tackling the distortionary impact of high inflation. Trade reform and financial market development have increased the flow of foreign currency into South Africa. Government spending has been repriorised to increase spending on social services, which promotes redistribution and provides a safety net against the potential social costs of globalisation. Ongoing financial market reform has kept South African financial market standards consistent with international best practice and has prevented exchange rate volatility translating into financial instability.

The process of economic reform is ongoing. Macroeconomic stability has been achieved. The focus has now shifted to microeconomic reforms aimed at promoting the competitiveness and job-creating potential of South African industries, as well as the strengthening of the balance of payment through the promotion of exports and attracting longer-term capital flows such as equity investment and FDI. This, in turn, will provide the foreign currency flows necessary to support further capital account liberalisation.

To reiterate, timing and sequencing are critical. It has been broadly recognised internationally that a gradual approach to liberalisation is advisable and should occur late in the process of economic reform. The IFM has stated that it considers the present pace of exchange control liberalisation in South Africa to be appropriate. Prudent liberalisation must consider factors such as the sequencing of economic reform and the strengthening of the balance of payments. As such, it is not possible to set a timetable for the gradual relaxation of exchange controls, but rather such policy will be monitored and reviewed continuously.

There is another benefit to a gradual approach to liberalisation that perhaps does not receive sufficient attention. Gradualism may produce internal and external criticism about the slow pace of reform, but it has also avoided policy reversals in the face of currency crises. The Commission is probably aware of another country's experience, whereby exchange controls had to be reintroduced in the face of economic crisis. A gradual approach to exchange control liberalisation has enabled the South African Government to deliver a policy message which is consistent and certain.

The testimony before the Commission may have indicated that, from time to time, irregularities may have occurred in the application of exchange controls. This evidence will have to be carefully considered by the Commission in terms of recommending ways to improve the application and enforcement of these controls. However, the testimony does not seem to point to any systematic gaps in exchange control regulation.

The effectiveness of exchange controls in protecting South Africa's foreign reserves has been borne out by the fact that, notwithstanding the gradual relaxation of exchange controls, there has been substantial growth in the country's reserves from approximately two weeks of import cover in 1994 to the prevailing levels of approximately 24 weeks of import cover.

Turning to the NOFP, the policy of extinguishing the net open forward position has been positively viewed by investors, rating agencies and the IMF. The exposure inherent in the NOFP was perceived by the market to be a risk. As such, it is our belief that the reduction in the NOFP has lowered the Rand's vulnerability to speculative attacks and, in turn, has reduced South Africa's sovereign risk premium. The NOFP stood at $2,9 billion at the end of March 2002 and has ceased to be of major concern to the international investment community.

Lastly, issues of our policy on exchange rate management should be viewed in light of the transition to an inflation targeting regime. Policies of intervention have, in the past, shown limited success. To reiterate our position, Government has chosen to follow a flexible exchange rate to act as a shock absorber against global developments. Exchange rate adjustments help cushion the economy from external trade and capital flow shocks, and mitigate the impact of economic contraction, especially in respect of the poor. Government policy is to target inflation rather than the level of the exchange rate. The shift to an inflation-targeting framework has enabled us to avoid the skyrocketing interest rate increases that accompanied the exchange rate volatility of 1998.

In closing, I would like to congratulate the Commission on the professional and thorough manner in which this inquiry has been conducted. It is clear that the Commission has had to deal with issues close to the hearts of all South Africans who are concerned about building an economy that is as strong and resilient as it can be, but also one that is equitable, in which the wrongdoings of the few should not be at the expense of the many. The Commission has pursued these concerns with vigour. I can assure you that the National Treasury has listened carefully to all the evidence presented before the Commission. We look forward to receiving the Commission's final report, and considering its insights in the pursuit of our commitment to managing economic reform in a manner that is, above all, consistent, considered and directed at sustained growth, employment and development.

Thank you very much.

CHAIRPERSON: Thank you very much, minister. The next is the Reserve Bank. National Treasury is excused. Mr Ginsburg?

MR GINSBURG: Thank you, Mr Chairman and commissioners.

There are three matters which we wish to address on behalf of the Reserve Bank. The first relates to information which .. (intervenes)

MS QUNTA: Mr Ginsburg, before you start. Do you have any statement and is there any particular reason why we do not have a statement in front of us as the commissioners?

MR GINSBURG: Just repeat that question please, Madam. I did not get it.

MS QUNTA: We do not have any statement in front of us from the Reserve Bank.

MR GINSBURG: No, there is going to be no statement. There is going to be a report back on two matters and there is going to be a request by the Reserve Bank on the third issue. So it is not going to be a statement.

The first report back issue is that the Commission requested the Reserve Bank to endeavour to obtain information from the Bank of England relation to certain figures emanating from the banks in the United Kingdom.

My instructions from the Reserve Bank is that the request has been made to the Bank of England. It has been favourably received and considered by the Bank of England. The bank is working on the information. It was supposed to be made available to us this week. It has unfortunately not yet become available but we are hopeful it will be available soon and before the Commission finalises its final report.

The second issue on which we want to report back is a question asked concerning the 5,6 million exchange control transactions which take place annually in this country. The breakdown of those transactions is basically as follows: they relate to cross-border transactions which take place offshore/onshore and onshore/offshore but they do not include transactions which take place on an offshore basis. Although those transactions do ultimately get settled in the South African foreign exchange market, the amount of those transactions is unknown because it is not disclosed to the South African Reserve Bank i.e. at the time when it takes place; when they take place or when settlement occurs. So the 5,6 million transactions of which we speak are simply cross-border transactions conducted locally - offshore/onshore and onshore/offshore.

CHAIRPERSON: So they do not include all the onshore transactions?

MR GINSBURG: No, they do not.

CHAIRPERSON: Thank you.

MR GINSBURG: So the 5,6 million is a minimum number and the maximum is not known to us. Thank you.

CHAIRPERSON: Is not known. Thank you.

MS QUNTA: Can I find out, Mr Ginsburg, about the .. you say although the offshore takes place in the South African market, the Reserve Bank does not have records, would the authorised dealers or the branches of the non-resident banks, would they have records?

MR GINSBURG: I believe not Madam Commissioner. The reasons for that I am not certain of but those are transactions which take place on an offshore/offshore basis and there would not necessarily any record of it when the settlement takes place onshore.

Now the third issue, commissioners, relates to the question of the share placements which have been aired in this Commission in regard to the bankers, Deutsche Bank Johannesburg concerning Sasol, M-Cell and Nampak. The Exchange Control Department of the Reserve Bank and Deutsche Bank have reached an agreement and that agreement relates to the manner of implementation of those transactions and in particular it relates to what the parties believe is a final conclusion of what we call the dual provisions which were commenced before the Commission was called into session and before the President called the Commission into life.

The request on behalf of the Reserve Bank and Deutsche Bank, is that the terms of the agreement be made known to the commissioners in an *in camera* hearing. The reason for that, Mr Chairman, is that the terms of the agreement are confidential and the confidentiality is covered by section 33(2) of the South African Reserve Bank Act. That section provides that -

"No person shall disclose to any other person any information contained in any written communication which is in any manner marked as confidential or secret and which has been addressed by the bank to any person or which has been addressed by any person to the Bank except for the purposes of the performance of his duties or the exercise of his powers in terms of any law or when required to do so before a court of law or with the written consent of both the sender and the recipient of that communication."

Now Mr Chairman the parties have considered it not in the public interest to make that settlement known publicly. The reason for that is first of all in accordance with general exchange control policy in all past matters that I am aware of; that arrangements or agreements reached between an authorised dealer and the Exchange Control Department of the Reserve Bank relating to exchange control matters which are controversial, are dealt with privately and confidentially. The reason for that is quite an obvious one and that is the trust and good faith that the exchange control system requires for it to operate properly and effectively, would be breached if agreements of this kind were made public. It is not in the public interest, we would submit, to make the agreement known. The public may be interested in it but that is not the test of public interest. The test for public interest is whether it is genuinely in the wider public interest to know of private commercial settlements.

Of course commissioners, the public are interested in matters of this kind. But as I say, that is not the test and we would therefore request a closed session to make the signed agreement available to yourselves and to then deal with it in a closed session and it is a request we make on our own behalf and on behalf of Deutsche Bank.

CHAIRPERSON: What will be made public?

MR GINSBURG: What will be made public is a statement which the parties have agreed to as part of their settlement. It is an annexure to the Agreement of Settlement and it contains broad statements of policy and detail relating to the settlement but it does not disclose the precise terms of the settlement.

CHAIRPERSON: So it is essentially the terms of the settlement that you wanted to disclose *in camera*?

MR GINSBURG: Yes, and we formally address that request to the Commission now as I say on behalf of ourselves and on behalf of Deutsche Bank.

CHAIRPERSON: Let me just confer with my fellow-commissioners. Yes, the Commission will then go *in camera* and all those not involved in this particular dispute, are asked to leave the room.