

13.2 In this report, the order in which the determinants are dealt with are:

| | |
|---------------------------|---------------------------------|
| <u>Long term:</u> | Inflation differentials |
| <u>Short & medium</u> | - macro-economic factors; |
| | - perceptions |
| <u>Short term:</u> | - the role of the Reserve Bank; |
| | - speculation |

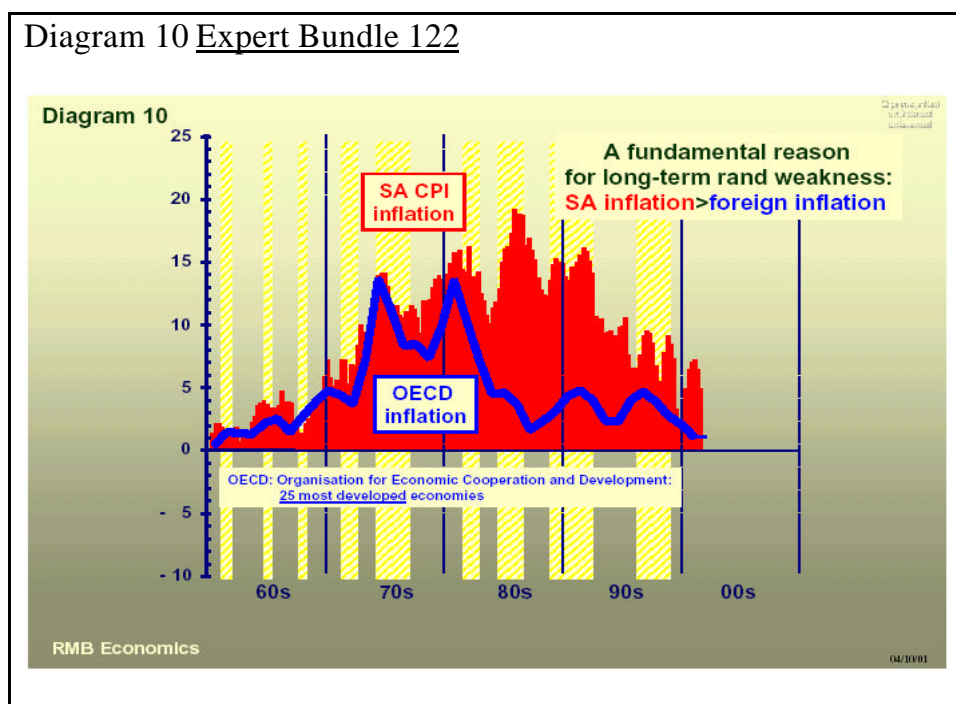
(1) Long Term

Inflation differentials

14

14.1 A fundamental reason for the long-term decline of the rand was that the South African inflation rate was higher than that of its trading partners. The reason is that if the internal value of any one currency falls faster than the internal value of another, the external value of that currency would, over time, reflect that difference. So, for example, if the rate of inflation in the United States of America is 1% per annum and in South Africa 9% per

annum, the depreciation by 8% will maintain the real value of the rand against the US dollar.³⁸

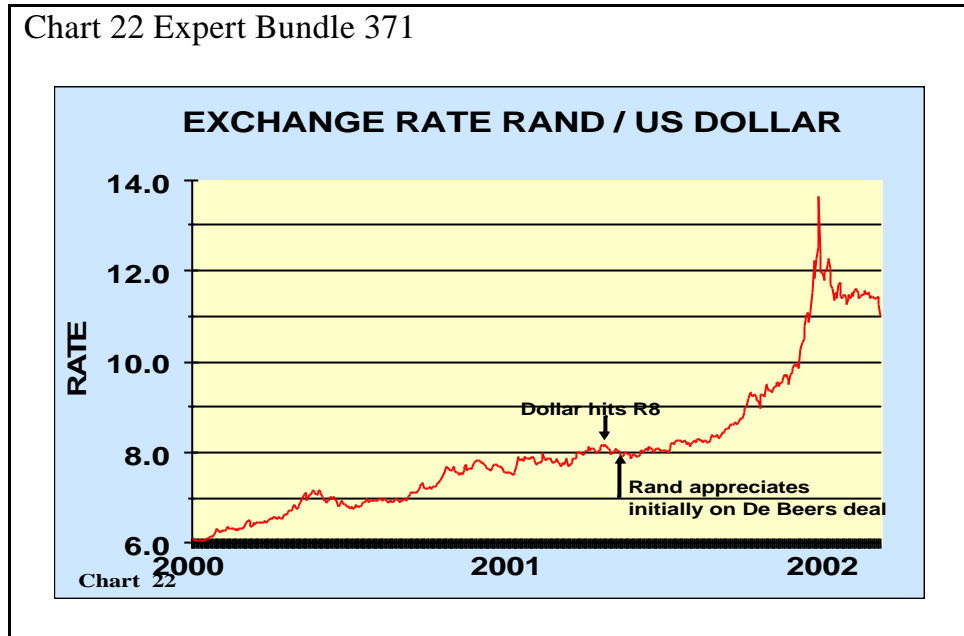


14.2 The slide in the value of the rand, in this phase, began in 2000. During 1999 the rand traded at about R6 to the US dollar, but by the end of 2000 it was trading close to R8 to the dollar, a depreciation of approximately 33%:

³⁸

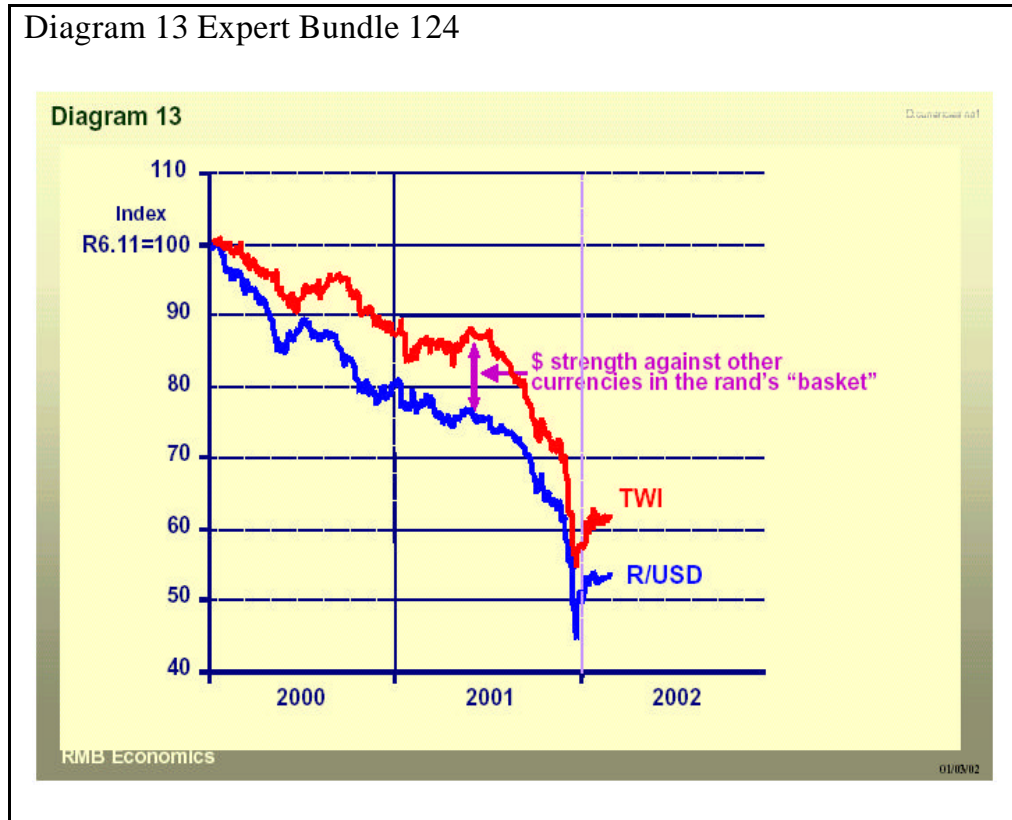
Gouws Expert Bundle 115; Stals Expert Bundle 170; Dr A Jamine, Director and Chief Economist, Econometrix (Pty) Ltd, Expert Bundle 301

Chart 22 Expert Bundle 371



The Commission did not investigate the decline in 2000. One thing seems clear and that is that at least until September 2000 the decline could at least partly be explained by the strength of the US dollar. The strength of the dollar against the trade weighted index (TWI) is shown in this diagram:

Diagram 13 Expert Bundle 124



The TWI is based on weightings determined by the relevant importance of the trade of various countries with South Africa. The percentage weightings in the basket of currencies is shown below: