

PART B

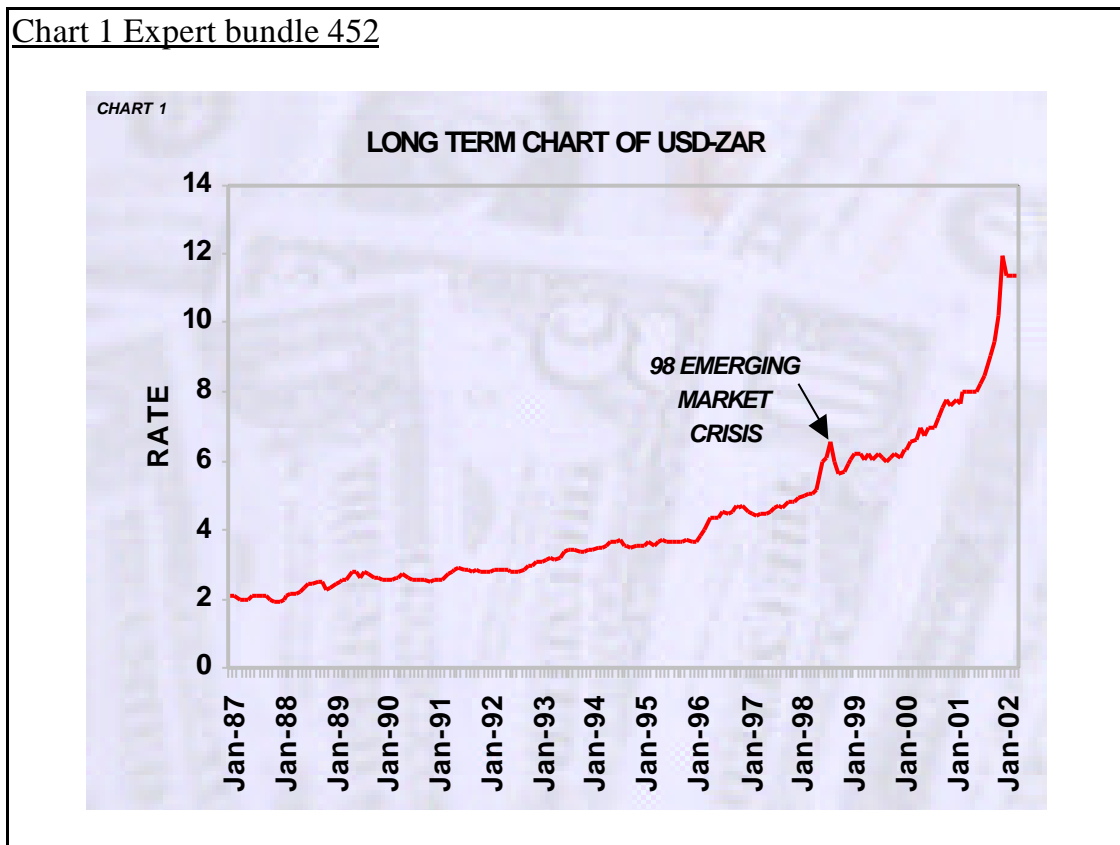
The performance of the rand

The history of the rand

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- 2.1 In the long term, the rand has moved in one general movement in favour of weakness as against the US dollar.¹

Chart 1 Expert bundle 452



¹ Glynos Expert bundle 423

2.2 The general experience during the past twenty years with the floating exchange rate system, specifically with regard to the fluctuation in the exchange rate, was the following:

- The exchange rate often fluctuated quite a lot over the short term, but followed a more rational path over the long term.
- The depreciation process never followed a smooth path and has been described as a “staircase” adjustment process, with a periodic run down a flight of stairs to a new level. The exchange rate of the rand against the US dollar tended to remain relatively stable for periods of up to two years, to be followed by a rather steep downward adjustment over a short period of time to a new (lower) level.
- In the circumstances, markets at times over-reacted. Market interest rates rose to extremely high levels, and the rand depreciated by more than the inflation differential – hence the need for a period of consolidation and stabilisation after every sharp depreciation of the rand.²

Highlights of the performance of the rand before 2001 were:-

2.2.1 Most of the rand’s history incorporated a dual exchange rate system. The financial rand acted as a shock absorber

²

Stals [Expert bundle 170, 171](#)

for the commercial rand traded at a significant discount of between 15% and 55% to the commercial rand over the thirty years that this mechanism was in place.

- 2.2.2 On different occasions during the 1970's the commercial rand was fixed to the US dollar or to the British pound and fluctuated in line with the value of these currencies. In September 1975, specifically, government devalued the rand against the pound by 18%.
- 2.2.3 In the late 1970's the commercial rand was allowed to float freely against all currencies and in 1980 hit its highest level ever of USD 1.35 to the rand.
- 2.2.4 During the debt standstill crisis in the 1980's both the commercial and financial rands plummeted, with the rand losing over 30% of its real trade weighted value in a matter of months. The only comparable decline of such magnitude in the real effective exchange rate of the rand was witnessed in November and December 2001.
- 2.2.5 For a period of eleven months after the abolition of the dual exchange rate system on 10 March 1995 the unified rand was stable at around R 3.60 to the US dollar.

- 2.2.6 1996 marked a “sell-off” of the rand with the rand losing 20% of its value reaching R 4.50 against the US dollar by June 1996.
- 2.2.7 Around September/October 1997, the world witnessed the start of the so-called Asian crisis. The contagion arising from this crisis hit all emerging markets in May 1998 and the rand was materially affected, as with currencies of many other developing countries.
- 2.2.8 Having declined by over 20% in real terms in 1998, the rand regained some of its composure through 1999, trading in a broad band between R5.50 and R 6.40 to the US dollar during that year.
- 2.2.9 The long slide in the rand began with the rand trading at R 6.12 at the turn of the new millennium.³
- 2.3 Over the twenty-one month period from the beginning of 2000 to 11 September 2001 the rand maintained an almost consistent and fairly well-defined declining trend against the US dollar.

³Jamine Expert bundle 297 – 300, 303, 304, 307- 312