Global integration and capital account liberalisation in South Africa

James H Cross

1. The impact of South Africa's financial isolation

It is well known that South Africa became the subject of severe financial sanctions during the course of the 1980s. The most visible impact of the pariah status which South Africa had attained was the imposition of a debt standstill by the South African authorities in September 1985. Then numerous foreign lenders refused to roll over short-term credit facilities which had up to that point been utilised by domestic borrowers, thereby causing a severe dearth of foreign exchange. In spite of the standstill, foreign capital nevertheless flowed out of the country: first a very considerable amount of short-term capital, mostly related to trade finance, that could not be brought within the standstill net because that would have damaged normal trade flows; thereafter, amounts which became payable in terms of the various standstill agreements in addition to some other outflows falling outside the standstill net. From mid-1985 to mid-1994 the average outflow amounted to some 2.5% of gross domestic product and 13% of gross domestic fixed investment.

During the nine years up to mid-1994 the South African economy was forced to generate current account surpluses for lack of foreign sources of funding. This curtailed the freedom of the domestic macroeconomic policymakers to a considerable extent. Nevertheless, it led to a reduction in the relative burden of South Africa's foreign debt to acceptable levels by developing country standards. Foreign debt denominated in both foreign and local currency receded from 126.1% of annual exports of goods and services in 1985 to 89.2% by the end of 1993. As a percentage of gross domestic product, it fell back from 42.9% to 21.6% over the same period.

Although the overall debt picture therefore seemed to have strengthened quite considerably, events during the two years up to mid-1994 were challenging, to say the least. Political uncertainties had reinforced capital outflows and the authorities had to draw on their rather limited foreign credit facilities to supply liquidity to the foreign exchange market. During the period of the elections in 1994 net foreign currency reserves of the Bank had declined to a level of approximately ZAR 500 million.

After the inauguration of President Mandela in May 1994, the capital outflows were abruptly reversed. Apart from substantial private sector inflows, the South African government also returned to the international capital markets in December 1994 with a global bond issue of USD 750 million. The scale of the inflows was such as to make it possible to simultaneously finance a modest current account deficit and replenish the South African Reserve Bank's net gold and foreign exchange position. During this time, the real effective exchange rate of the rand remained stable with a slight upward bias, in spite of the Reserve Bank's net purchases of foreign exchange in the market. Contrary to many analysts' predictions, this situation continued following the scrapping of the financial rand system of exchange control over non-residents in March 1995. It was only in February 1996 that a correction, in which the exchange rate of the rand fell significantly, was triggered by a number of rumours and factors.

2. A stable macroeconomic framework

A macroeconomy environment characterised by high and variable inflation, considerable swings in fiscal policy stance and accordingly strong fluctuations in key financial rates such as the exchange rate and interest rates may undermine sound economic management. A volatile financial environment can, for instance, at times deliver a combination of financial rates conducive to attracting foreign capital but usually not on a sustainable basis. A virtuous circle of exchange rate appreciation and capital inflow may result and continue for some time but can be abruptly reversed when the sustainability of the situation becomes suspect. The resulting correction may be extremely painful, involving a major realignment of financial rates and a strong tightening of policy. This may, in turn, have unexpected secondary effects, such as the threat of widespread bank failures, government action to prevent this by feeding more liquidity into the monetary system and consequent further rises in inflation, and so on. The Mexican, Asian and Russian experiences illustrate the magnitude of the corrections which the economy may face if macroeconomic policies prove to be unsustainable. Fortunately South Africa has maintained a consistent framework conducive to macroeconomic stability while various adjustments have taken place. Government remains committed to financial stability, including fiscal and monetary prudence. A track record has also been established - monetary policy has been firmly anti-inflationary since the late 1980s and fiscal policy has advanced from a point in 1992/93 when the budget deficit amounted to 8.5% of GDP to the current level of around 2%. Inflation has been brought down from a maximum of almost 21% in early 1986 to single digit average levels since 1993 in spite of the exchange rate volatility.

3. General comments on the monetary policy process

With the integration of international capital markets, central banks have found it increasingly difficult to pursue financial stability, especially in smaller open economies. Central banks have in effect seen their degree of freedom in controlling the level of exchange rates substantially eroded, and have been forced towards either accepting a fixed exchange rate or adopting a free floating regime.

In the wider pursuit of financial stability, other dimensions such as the health of financial institutions, debt structures, the liquidity in financial markets and financial market infrastructure (eg payment systems) must be considered. The South African Reserve Bank is responsible for banking supervision and the national payment system, both of which have been or will be improved to match world class standards.

Under a fixed exchange rate regime monetary policy tends to be less flexible, and under a floating exchange rate regime fiscal policy tends to lose its countercyclical influence through inflexibility. Furthermore, international capital flows have become disruptive in emerging market economies, often exposing weak financial systems. Up until the recent emerging market crises, the free flow of international capital had been encouraged by international monetary authorities. Subsequent to these developments, a more cautious approach has been adopted, and the need for temporary capital controls to ease financial stress has been widely discussed.

It is generally accepted that a central bank's function is to pursue domestic price stability. The primary objective of the South African Reserve Bank is set out in the South African Reserve Bank Act 90 of 1989 as amended as the *protection of the value of the currency of the Republic in the interest of balances and sustainable growth*. A central bank conducts monetary policy through the size of its own balance sheet (the capacity to control the level of bank reserves). As can be seen from South Africa's experience, central banks are not generally able to have a lasting influence over the rate of unemployment, the real exchange rate and the trade balance. The most credible policy therefore seems to be that of the pursuit of domestic price stability.

In the absence of a fixed exchange rate, where monetary policy tends to be dictated by the country to whose currency the exchange rate is fixed, monetary policy seems to be the only flexible tool in the short run with which to balance the macroeconomy. This burden on monetary policy can be clearly seen from the events of 2001, when external price shocks and volatile capital flows had to be balanced by a direct monetary policy response.

South Africa has in effect been forced to adopt a floating exchange rate regime and is committed to price stability. This type of approach has in recent times been adopted in many open economies such as Australia, New Zealand, Sweden, Canada and the United Kingdom. South Africa introduced an inflation targeting regime in 2000 with an initial target of between 3 and 6% on average for the calendar year 2002 declining to 2 to 5% on average in 2005. An inflation targeting regime is more transparent and the South African Reserve Bank holds regular monetary policy forums in various centres throughout the country during which progress is reviewed. By its very nature, inflation targeting is a forward-looking exercise and regular reports are published setting out results and forecasts. A comprehensive study has been made of the transmission mechanism but more experience must be gained on the time lag between the policy adjustment and the eventual effect on core inflation.

Under floating exchange rates, both interest rates and the exchange rate have an effect on spending and inflation pressure. The link between spending and the exchange rate in South Africa may not always agree with textbook economics. A weaker exchange rate should lead to lower demand for imported goods, but in 1998 and more recently in 2001 the initial response was to increase imports despite a lower exchange rate and higher interest rates. In J-curve fashion, the initial effects of a depreciation have thus been to widen the current account deficit, while money supply and bank credit growth accelerated. The maintenance of high real rates of interest eventually tends to restore balance by encouraging a partial reversal of depreciation and easing of pressures on the current account and dampening inflation expectations. In addition, fiscal policy has remained restrictive during the depreciation episodes and thus the monetary authorities have been expected to support market pressures for lower interest rates.

On balance, exchange rate stability will be enhanced by the *stability in the conduct of monetary policy*. The main advantage of adopting an inflation target is a publicly announced goal leading to increased transparency in the application of monetary policy. Furthermore, countries that have adopted inflation targeting seem to have been more successful in reducing inflation than those that have not adopted this policy.

4. The approach to markets

As noted above, South Africa - like many other countries - is not able to control the level of the exchange rate. Financial market integration and the high degree of capital mobility will encourage the authorities to pursue long-term sustainable macro policies in the interests of sustainable growth. However, in the medium term, South Africa had a number of financial imbalances due to a history of isolation and sanctions which have been corrected along with implementing long-term sustainable macro policies.

It is these vulnerabilities which were somewhat exploited whenever emerging market countries become unstable due to external price shocks and/or internal political events. For as long as South Africa was seen to have a shortage of external liquidity and an excess of foreign currency guarantees issued by the South African government (the Forward Book), the country would be a prime target for currency attacks. Such events have led in the past to higher inflation, higher real rates of interest and lower economic growth due to volatile domestic markets and uncertainty.

5. The build-up of forward exchange liabilities for account of government

The build-up of the Forward Book took place after the announcement of the foreign debt standstill in September 1985, at which time the country's foreign debt was close to the level where it was at the end of 2001, amounting to some USD 24 billion. At the time, the South African Reserve Bank had a net open forward position (the oversold Forward Book minus the net gold and foreign exchange reserves of the South African Reserve Bank) (NOFP) of some USD 12 billion, implying that the economy probably had an outstanding uncovered foreign exchange position of up to USD 10 billion (approximately USD 2 billion represented debt of the government which is not covered forward). It is important to note that this was not a commitment of one institution, but many South Africans had foreign commitments at the time. It emerged after the debt standstill that there were government agencies and private sector corporations that had large foreign exchange exposures. The type of crisis that was experienced in 1997 and 1998 in Asia was in fact experienced by South Africa, albeit for different reasons, back in the mid-1980s at the time of the debt standstill. It was in the ensuing years that the South African Reserve Bank provided an additional amount of some USD 10 billion's worth of forward cover to the market and by September 1988 the outstanding Forward Book stood at USD 25 billion.

The country had no access to the international capital markets at the time, including no access to borrowing from the IMF or other official agencies. With the South African government unable to borrow foreign currency, the country could only use one mechanism to raise foreign capital, ie providing forward cover to the private sector to ensure its use of trade credits. In macroeconomic terms Savings minus Investment must equal Exports minus Imports, which was not so in South Africa's case for a number of years after the debt standstill. These trade deficits were funded by private sector and government corporations accessing trade credit abroad. In addition, certain private sector and government corporations were able to raise trade credit for longer terms, eg for purchases of items such as power generators or aircraft, but the South African Reserve Bank had to provide forward cover for those foreign currency exposures as well.

The large Forward Book and the NOFP thus became a surrogate for what would have been IMF or other international capital market borrowing. Without the above-mentioned limitations, the exchange rate risks that the South African government was carrying through the Forward Book might have been carried in a different format, which would have been better understood by the markets.

In 1995 the dual exchange rate mechanism was abolished, thereby channelling the proceeds of any purchases and sales of assets in South Africa through the unitary exchange rate. Foreign exchange flows emanating from such transactions therefore became available for purchase by the Bank, influencing the NOFP. A large inflow from the purchase of bonds or shares by non-residents would make a difference to the net reserves, implying that the South African Reserve Bank could start reducing its Forward Book and NOFP. After the abolition of the dual exchange rate in March 1995, there was significant euphoria and the South African Reserve Bank was able to make a significant reduction in the NOFP in a matter of 12 months. By March 1995 the NOFP was USD 28 billion, and by March 1996 it had been reduced to USD 8.5 billion.

What actually happened was that the risk position that the South African government had been carrying with the NOFP at USD 25 billion was reduced mainly by purchasing foreign exchange from the market. The proceeds of government bond issues abroad were purchased, and the balance was purchased from the market. The result was that the market carried significantly more risk in March 1996 than it was carrying in March 1995. This significant portfolio shift almost inevitably influenced the exchange rate of the rand and it depreciated sharply in 1996, partly due to speculative activity.

In an effort to counter such speculative activity, the South African Reserve Bank in 1996 increased the Forward Book to USD 22 billion, in other words it sold about USD 14 billion into the market. That meant that a large amount of risk had been taken on again by the South African Reserve Bank on behalf of the South African government. However, this only contained the depreciation of the rand from ZAR 3.5 = USD 1 to ZAR 4.5 = USD 1.

Then in 1997, after this episode, the South African Reserve Bank was again successful in reducing the NOFP by almost USD 10 billion. That came from portfolio inflows, the purchase of shares and bonds by non-residents. However, in 1998 the emerging markets crisis occurred, and South Africa appeared to be used as a surrogate hedge for investors and speculators who had exposures to other emerging market countries with less liquid financial markets.

Again the Bank reacted, this time in two ways. First, it sold USD 11 billion forward to the market. Second, interest rates were hiked by 7% in real terms. However, these actions only resulted in containing the depreciation from a level of around ZAR 5.0 = USD 1 to a level of around ZAR 5.8 = USD 1. This implied returning the NOFP to exactly the situation 10 years before, almost to the last billion dollars.

Subsequent to this episode, there was a shift in the South African Reserve Bank's policy. A decision was taken to reduce the NOFP to zero. The IMF was highly critical of the country for having intervened by means of the Forward Book, and the advice was to reduce the NOFP. This advice was followed and the NOFP was reduced by around USD 9 billion in 1999, from USD 22 billion in December 1998 to USD 13 billion in December 1999. During that year the exchange rate actually appreciated by 0.6 % on a trade-weighted basis.

However, despite regional instability, the South African Reserve Bank continued reducing the NOFP, from USD 13 billion in December 1999 to USD 9.5 billion at the end of 2000. That was a small reduction compared to the year before, but because of regional events the markets were unwilling to accept additional risk. Consequently, the rand depreciated on a trade-weighted basis by 12.4% during the year 2000.

Table A1 in the Appendix has been compiled from BIS and IMF figures and demonstrates that the risks carried on the Forward Book were not unlike the risks of many other countries. Looking at the Forward Book of the South African Reserve Bank in isolation is an incorrect approach, as it is necessary to consider the external currency risks of governments, in other words their offshore borrowing, the position of the central bank and any derivatives transactions. In South Africa's case, there are no derivatives transactions, so government borrowing plus the NOFP equals the foreign exchange risk. There are many countries where foreign currency liabilities for account of their governments exceed the level of their reserves.

Relatively speaking, South Africa was not out of line, but a skewed picture emerges when the South African Reserve Bank's balance sheet is considered in isolation.

The most important fact is that the foreign exchange liabilities of the South African government have been significantly reduced over the last two and a half years. Today the forward liabilities have been reduced to USD 1.8 billion, which will be expunged by the proceeds of privatisation and the issue of bonds offshore by the South African government.

As mentioned previously, significant strides have been made in liberalising exchange control.

6. Overview and summary of exchange control relaxation

The present exchange control system in South Africa is used primarily to control movements of capital by South African residents. South Africa has, however, now reached the stage where there are no exchange controls on the movement of funds of non-residents and effectively no controls on current account transactions. Resident corporates, financial institutions and private individuals all have limited scope to make some investments abroad. This situation has been achieved by the South African government following a policy of gradually phasing out exchange controls. The South African government is, therefore, committed to the removal of exchange controls.

Events since 1994

- A first major step was the abolition in March 1995 of the financial rand, which had been reintroduced in 1985. No capital controls are, therefore, applied to non-residents, who may freely invest in and disinvest from South Africa. This applies to portfolio investment as well as foreign direct investment into South Africa.
- South African corporations have been allowed to make increasingly large offshore investments and to raise foreign capital against their domestic balance sheets. On approval, local corporates may transfer up to ZAR 500 million abroad for a new investment. For an approved investment into Africa, including the Southern African Development Community (SADC), an amount of up to ZAR 750 million may be remitted for a new investment. In addition to the aforementioned, corporates are allowed to effect foreign currency transfers for up to 10% of the cost of the investment in excess of the aforementioned respective limits.
- Qualifying institutions, ie long-term insurers, pension funds and the unit trust industry as well as fund managers, are allowed to invest a portion of their net inflows into portfolio investments offshore. The present limits for such portfolio investments are 15% of their total assets for long-term insurers and pension funds and 20% for the unit trust industry.
- Exchange control restrictions on foreign investments by private individuals resident in South Africa were lifted in July 1997 and the current limit stands at ZAR 750,000 per individual.
- Since July 1997, resident individuals have been permitted to retain foreign income earnings abroad.

Table 1

Exchange control: key changes

5 February 1983	Exchange controls over non-residents abolished and limits on resident transactions raised.
28 August 1985	South African foreign exchange market and Johannesburg Securities Exchange (JSE) closed.
2 September 1985	Foreign debt standstill imposed and financial rand system of exchange control over non-residents reimposed.
10 March 1995	Financial rand system abolished.
13 July 1995	Asset swap mechanism for South African insurers, pension funds and unit trusts introduced.
1 July 1997	South African individuals in good standing with the tax authorities allowed to hold up to ZAR 200,000 offshore.
11 March 1998	Limit for offshore holdings raised from ZAR 200,000 to ZAR 400,000 per individual. CFC period raised from 30 days to 180 days.
23 February 1999	Limit for offshore holdings raised from ZAR 400,000 to ZAR 500,000 per individual.
23 February 2000	Limit raised from ZAR 500,000 to ZAR 750,000 per individual.
21 February 2001	Asset swap mechanism scrapped. Prudential limits remain.

Note: For further relaxations, see Table A2 in the Appendix.

7. Summary of current exchange controls

A. Corporates

(i) ***Foreign investment***. Corporates are allowed, on application, to transfer up to ZAR 750 million from South Africa per new approved investment in Africa, including the SADC, provided a longer-term benefit to South Africa can be demonstrated. In respect of investments elsewhere in the world, corporates are limited to the transfer from South Africa of up to ZAR 500 million per new approved investment subject to the same criteria.

For more costly investments, corporates may, on application, raise foreign finance facilities on the strength of their South African Balance Sheet provided the facility is for a minimum period of two years.

Corporates are, on application to the Control, also allowed to utilise their local cash holdings in South Africa to partly finance new investments where the cost thereof exceeds the respective amounts of ZAR 750 million and ZAR 500 million. Such additional foreign currency transfers are restricted to 10% of the cost in excess of the foregoing amounts irrespective of the size of the transaction. The balance of the finance required must still be raised abroad on the basis outlined above.

Corporates wishing to invest in countries outside the Common Monetary Area may, in addition to the foregoing, on application to the Control, also engage in corporate asset/share swap transactions in order to finance the cost of such investments.

(ii) ***Foreign loans***. All loans from outside the Common Monetary Area require prior exchange control approval. Approval is normally granted provided the interest rate charged is market-related.

B. Institutional investors

Long-term insurers and pension funds may, on application, acquire foreign portfolio assets for up to 15% of their total assets and registered fund managers up to 15% of their total assets under management, subject to the regulatory framework within which they operate.

Unit trusts through unit trust management companies may, on application, acquire foreign portfolio assets for up to 20% of their total assets under management, subject to the regulatory framework within which they operate.

The foreign portfolio assets may be acquired by transferring foreign currency abroad. Such transfers will be limited to 10% of the previous calendar year's net cash inflow.

C. Foreign-controlled entities

(i) ***"Affected persons"***. South African registered entities which are 75% or more foreign-controlled are restricted in the amount of local financial assistance they may obtain. Dividend/profit/income distributions are, however, freely transferable in proportion to the percentage shareholding/ownership, provided the relative distribution will not cause the entity to be placed in an overborrowed position in terms of formula requirements.

D. Individuals

(i) ***Foreign investment***. Investment up to ZAR 750,000 per individual is permitted for any purpose outside the Common Monetary Area provided the party is over 18 years old and a registered taxpayer in good standing.

See Table A3 in the Appendix for further details.

8. Conclusion

Since 1994, significant progress has been made towards reintegrating the South African economy into the global economy:

- Tariffs and surcharges have been drastically reduced and the number of tariff lines has almost been halved. See Table A4 in the Appendix.
- As a consequence, the current account of the balance of payments appears to be far more resilient. For example, the economy grew by 3.4% in the year 2000 with a current account deficit of 0.4% despite a doubling of the price of oil imports in domestic currency terms and a significant increase in dividend payments as a result of investment flows.
- Inflation has been reduced from levels as high as 17% in the early 1990s to single digit figures today.
- The public sector borrowing requirement has declined from levels as high as 10% of GDP in the early 1990s to less than 2% over the last two and a half fiscal years.
- With the liberalisation of exchange control, residents have invested significant sums abroad. The foreign assets of South African residents have increased. Simultaneously, the foreign liabilities of South Africa for inward investment have increased (Table 2).
- Foreign exchange liabilities of government have been reduced by USD 22.8 billion but this reduction has nevertheless impacted on the exchange rate.

It is now seven years since the implementation of major macroeconomic reform in South Africa. The experiences of other countries which have implemented similar reforms have demonstrated that there is a significant lag between the reform implementation and a return to normal growth rates. The Australian authorities, for example, had noted that the time lag was around seven years in their case.

The South African economy is showing signs of a return to a somewhat higher growth rate in excess of 3% and a foundation has been laid for a stable macroeconomic environment. Against this background, it may be expected that South Africa will be amongst the better performing emerging market economies in years to come.

Table 2

South Africa's foreign assets and liabilities

(USD millions)

Foreign assets	**1994**	**2000**
Direct investment	19,000	35,000
Portfolio investment	107	50,000
Foreign liabilities	**1994**	**2000**
Direct investment	13,000	47,000
Portfolio investment	19,000	40,000

Source: South African Reserve Bank.

Additional tables appear in the Appendix:

Table A5 Major steps in the reform of South Africa's foreign exchange market

Table A6 Highlights in the evolution of the South African monetary policy dispensation since 1980

Appendix

Table A1

Debt indicators, June 2000

(USD millions)

Country	External public debt	International reserves	Gross domestic product	External public debt as percentage of international reserves	Net external public debt as percentage of GDP
Australia	27,618	16,730	382,804	165.1	2.8
Canada	147,861	30,273	695,452	488.4	16.9
Spain	66,708	37,605	556,332	177.4	5.2
Italy	241,016	45,973	1,064,500	524.3	18.3
Portugal	22,073	13,934	104,416	158.4	7.8
Belgium	53,071	11,967	231,496	443.5	17.8
Greece	49,606	14,900	124,806	332.9	27.8
Egypt	30,404	14,959	88,781	203.2	17.4
Tunisia	11,872	2,265	20,888	524.2	46.0
Croatia	9,443	3,025	18,988	312.2	33.8
Hungary	29,042	10,983	46,200	264.4	39.1
Poland	54,268	25,494	155,539	212.9	18.5
Mexico	166,960	31,782	567,740	525.3	23.8
Turkey	101,796	24,351	196,956	418.0	39.3
South Africa[1]	**7,976**	**7,486**	**125,088**	**106.5**	**0.4**
South Africa[2]	**18,099**	**7,486**	**125,088**	**242.0**	**8.5**

[1] External public debts exclude NOFP. [2] External public debts include NOFP. Taking into account the NOFP of USD 4.8 billion as at the end of December 2001, the respective ratios would have been 170.7% and 4.2%.

Sources: IMF; BIS.

Table A2

Further relaxations of exchange control

- The removal of controls on the level of foreign exchange holdings by authorised dealers in foreign exchange, ie South African banks.
- The licensing of foreign exchange bureaux.
- The ability of non-residents of the Common Monetary Area to maintain foreign currency denominated deposits with South African banks.
- The abolition of separate travel allowances for neighbouring countries and other foreign countries.
- The establishment of US dollar/South African rand futures contracts through the South African Futures Exchange for non-residents and authorised dealers in foreign exchange.
- Permission for immigrants to repatriate funds brought into the country.
- South African gold producers are no longer required to market their gold through the South African Reserve Bank.
- Permission for Southern African Development Community (SADC) firms to list on the JSE to raise capital up to a maximum of ZAR 750 million for projects anywhere in the SADC region.
- Permission for the issue of SADC Depositary Receipts in South Africa for companies listed in the SADC region.
- The requirement to repatriate foreign currency earnings within 30 days of accrual has, in respect of businesses utilising customer foreign currency accounts, been extended to 180 days.
- Restrictions on the opening and operation of customer foreign currency accounts by businesses making profits or commission on foreign transactions have been removed, subject to the 180-day limit for the repatriation of funds.
- The non-resident ownership level at which foreign-controlled resident entities become subject to the limits on local borrowing has been raised to 75%.
- A relaxation in the capital structure requirements of foreign-controlled South African resident entities.
- The extension of loans to foreign shareholders by such companies in lieu of dividend transfers.
- Current account payments and receipts are generally unrestricted.
- Permission for corporates utilising customer foreign currency accounts to offset foreign import commitments against export proceeds.
- Limits in respect of discretionary expenditure such as travel allowances are reviewed on an annual basis.
- In line with international practice and to accommodate permissible foreign currency payments for small transactions, eg imports over the internet, South African residents are allowed to make such payments via credit/debit cards. Payments are limited to ZAR 20,000 per transaction. This arrangement does not, however, exempt cardholders from the requirements imposed by the customs authorities or ad valorem excise and customs duties.

Table A3

Further exchange control dispensations for individuals

Foreign loans	All loans from outside the Common Monetary Area require prior exchange control approval. Approval is normally granted provided the interest rate is market-related.
Travel allowances	ZAR 140,000 per calendar year per person aged 12 years or over. ZAR 45,000 per calendar year per child under 12 years of age.
Foreign study allowances	ZAR 140,000 per calendar year per single student. ZAR 280,000 per calendar year per married student accompanied by spouse.
Holiday travel allowances for students studying abroad	ZAR 45,000 per calendar year per single student. ZAR 90,000 per calendar year per married student accompanied by spouse.
Gifts and donations to non-residents	ZAR 25,000 per applicant per calendar year.
Maintenance payments to non-residents	ZAR 7,000 per month to direct family members.
Alimony payments	ZAR 7,000 per month over and above the amount awarded by court to a beneficiary.
Emigrants	Persons emigrating to any country outside the Common Monetary Area qualify, at the time of their emigration and after all their assets have been brought under the control of an authorised dealer, for the following facilities: • a settling-in allowance of ZAR 400,000 per family unit; or • a settling-in allowance of ZAR 200,000 in respect of single persons; • a travel allowance applicable to each member of the family unit subject to the limits laid down under point (ii) above; • household and personal effects and motor vehicles to the value of ZAR 1 million may be exported. Various restrictions remain on the use of emigrants' blocked funds in South Africa.

Table A4

Highlights in the evolution of the South African trade policy dispensation since 1980

Date	Description
Prior to 1980	Imported control (permit control) in respect of numerous product categories; generally high import duties, including a surcharge on imported goods; some export subsidies.
27 March 1980	7.5% surcharge on imports abolished.
11 February 1982	Surcharge on imports reintroduced at a rate of 10%.
26 November 1982	Surcharge on imports lowered to 7.5%.
25 February 1983	Surcharge on imports lowered to 5%.
29 November 1983	Surcharge on imports abolished.
1 January 1984	Import control relaxed in respect of many product categories.
1 July 1985	Further relaxation of import control.
23 September 1985	Surcharge on imports reintroduced at a rate of 10%.
12 August 1988	10% surcharge changed to differentiated surcharges ranging from 0 to 60%.
14 March 1990	Surcharges reduced to 0 to 40%.
20 March 1991	Surcharges reduced.
2 September 1994	Surcharge and import duty on cars reduced.
12 June 1995	The Minister of Trade and Industry unveils final proposals for dramatic reform of the motor, textile and clothing industries designed to compel South African industry to become internationally competitive. Vehicles: customs duty on built-up cars will decline from 65% in 1995 to 40% in 2002; on components, duties will decline from 49% in 1995 to 30%. The ratio of these two sets of duties will be maintained at 1.33:1. Manufacturers would be entitled to a 27% duty-free allowance on component imports, based on the wholesale value of the vehicles manufactured. Excess duty-free components may be used to import completely built-up vehicles at a reduced duty. An import/export trade balance rebate is also provided for in the scheme; it enables the duty-free importation of vehicles and components equal to the local content value of the motor vehicles and components exported. Textiles/clothing: a period of eight years (no longer 10 years) is provided for scaling down duties, as follows: Clothing 90% to 40% Household textiles 55% to 30% Fabrics 45% to 22% Yarn 32% to 15% Polyester fibre 25% to 7.5% Rebates of duties on goods imported for the manufacture of exports will be phased out over 10 years.
1 September 1995	Comprehensive reduction in import duties introduced - the first step in the implementation of the announced tariff reduction programme.
1 October 1995	Remaining surcharge on imports abolished.
After 1995	Import duty reductions have continued on an annual basis in the subsequent years.

Table A5

Major steps in the reform of South Africa's foreign exchange market

22 December 1993	The IMF officially approves South Africa's first borrowing since 1982, when the Fund's board unanimously vote to grant South Africa's request for a USD 850 million drawing under the IMF Compensatory and Contingency Financing Facility.
1 January 1994	Start of arrangements under the Final Debt Agreement, to run until 2001.
10 March 1995	Announcement that the financial rand system of exchange control over non-residents will be scrapped from 13 March 1995.
1 May 1995	Foreign banks are allowed to open branches in South Africa, whereas earlier on they would have had to start a subsidiary or maintain a representative office.
13 July 1995	Asset swaps with foreign institutions are allowed; these enable South African insurance companies, pension funds and unit trusts to acquire foreign assets up to 5% of their total assets.
3 October 1995	Exporters are exempted from the requirement to take out forward cover on exports.
14 June 1996	South African institutional investors are henceforth allowed to enter into asset swaps with foreign institutions for up to 10% of their total assets (previously 5%). They may also transfer up to 3% of their annual cash inflow to foreign countries without swaps, but must stay within the 10% foreign asset limit.
12 March 1997	Announcement of relaxation of exchange controls on South African residents; individuals will from 1 July 1997 inter alia be allowed to invest a limited amount abroad or, alternatively, hold foreign currency deposits with South African banks.

Table A6

Highlights in the evolution of the South African monetary policy dispensation since 1980

Date	Description
Prior to 1980	Credit ceilings, deposit interest rates controlled.
28 March 1980	Deposit interest rate controls abolished.
12 September 1980	Credit ceilings abolished.
17 March 1986	Introduction of money supply targeting, flexibly applied.
23 March 1990	Money supply targets renamed money supply guidelines, to emphasise flexibility.
7 March 1998	Informal, central bank announced inflation target introduced, alongside money supply guidelines.
23 February 2000	Formal inflation targeting introduced.

References

South African Reserve Bank (2002): *Annual Economic Report*.

Van den Heever, Dr J P: Various data and comments, South African Reserve Bank.

White, William: Various documents, Bank for International Settlements.