

EXCHANGE CONTROL POLICY

By Derick de Wit

I have decided to dedicate the writing of my first newsletter to quite an interesting article I read in the Financial Times of 26 September 2008 by Nazmeera Moola, to whom full credit should so go as she has summed up the credit for the healthier financial situation RSA's banks are in to the SA exchange control policy.

Her article starts off by explaining how 18 months ago she listened to two English gentlemen discussing private equity opportunities in Europe and Africa. One of the gentlemen had limited knowledge of South Africa and asked what makes South Africa attractive to an investor. To which his friend replied: "... it is the lazy balance sheets...".

According to the article, cash on corporate balance sheets in RSA is 46% of GDP, and banks don't borrow much. The article states that deposits cover more than 90% of all bank loans, and this is partly due to the strenuous exchange control regulations. However, this has raised the cost of capital in RSA for both equity and debt.

I am a firm believer that exchange controls should be done away with, since it restricts the free flow of capital. In the past, there has been ample time to relax exchange controls, without upsetting South Africa's financial system and in particular the value of the Rand. However, in hindsight, exchange controls not only limited RSA's banks from raising offshore capital, but it also limited their exposure to dubious offshore investments, and it is here that RSA has gained the greatest advantage.

As Nazmeera stated, thank goodness for exchange controls. Without them, RSA would have been exposed to the same extent to investments in the sub-prime debt as the rest of the world.

The two men Nazmeera overheard had identified the under borrowing opportunity in the RSA market as something to be exploited, and as the article states, eighteen months later, this has turned out to be a saving grace.

The occurrences of the last few weeks have clearly indicated that there are advantages to exchange controls, similarly there are advantages to have them removed. The challenge and opportunity is to work together with government in finding ways to relax exchange controls, to allow capital to flow unrestricted, while at the same time ensuring sound and secure investments both abroad and at home.

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