SOUTH AFRICA - MORATORIUM ON FOREIGN DEBT*

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Four month stand-still in repayment of foreign debt

In the course of the past few weeks certain foreign banks decided not to renew credit facilities they had previously made available to South African banks. The large amounts involved in the subsequent withdrawal of funds placed severe additional strains on the capital account of the South African balance of payments and caused the rand to depreciate sharply against the most important international currencies. The resulting cash flow problem in the foreign exchange market gave rise to uncertainty about South Africa's ability in the short term to continue to meet its international obligations. This added further impetus to the depreciation in the value of the rand.

As a consequence, the South African Monetary Authorities last week decided to close the foreign exchange market and the Stock Exchange from 28 August to 1 September 1985 in order to assess the situation and to decide on a policy strategy that would cause the least disruption for both the international lenders to South Africa and the South African economy.

South Africa has always had an unblemished record of meeting its foreign debt obligations. By international standards, South Africa's total foreign debt is relatively

*[This Proclamation which appeared in the Government Gazette, 1 Sept. 1985, Vol.243, No. 9926, pp 1-3, and the statement by the Minister of Finance were provided by the South African Embassy, Canberra.]

small. In the case of the total amount of government and government guaranteed debt the maturity structure is also basically sound. The total amount of interest currently payable on all these foreign loans amounts to only about 6 per cent of the country's annual export earnings. This is a low ratio for a developing country such as South Africa actively involved in international trade and finance.

Unfortunately, over the past two years, some "bunching" occurred in short term private sector foreign debt, mainly as a result of a substantial increase in short-term foreign borrowings arranged through the banking system. This phenomenon was, however, recently being reduced by applying the surplus on the current account of the balance of payments for this purpose. This healthy surplus, which is expected to last for some time, is currently running at a seasonally adjusted annual rate of $2,5 billion, equal to about 4 per cent of the gross domestic product and amounts to more than three times the original estimate for 1985.

However, the large-scale withdrawal of existing credit lines has in the short term placed in jeopardy our ability as a country to repay all these foreign loans. Based on economic fundamentals, the recent depreciation of the rand cannot be justified and a continuation of this trend will inflict serious damage to the South African corporate sector in general and to the otherwise imminent

- 3 -

resumption of economic growth. The unjustified further depreciation of the rand will also jeopardise the anticipated decline in the inflation rate.

Other international commercial and financial concerns interested in continuing normal business with their South African counterparts, will also be deterred by these developments, thus seriously impeding the entire Southern African region's ability to generate income and the essential employment opportunities needed to improve the quality of life.

Apart from the large number of unemployed in South Africa itself, to whom a revival of domestic employment opportunities is vital, the following facts relating to the Southern African region deserve mention.

Government guaranteed debts inter alia include funds for electrical and transport facilities.

South Africa provides electricity to Lesotho, Swaziland (both nearly 100%), Botswana (52%) and the city of Maputo (60%).

South Africa also transports an average of 45% of the combined imports and exports of Zambia, Zimbabwe, Zaire and Malawi and nearly 100% of that of Botswana, Lesotho and Swaziland.

South Africa provides employment to 352 000 foreign workers in terms of formal labour contracts. A further 1,2 million illegal immigrants from neighbouring states also find their livelihood here.

To safeguard all foreign, domestic and regional interests as far as possible, the South African monetary authorities have therefore decided on a comprehensive policy strategy. On the one hand, it will ensure the orderly management of a gradual reduction in the foreign debt of the country as a whole, at a rate more in line with what can be afforded in terms of the surplus on the rest of the balance of payments. On the other hand, this strategy will create the much needed scope for an easing in the restrictive monetary and fiscal policies currently in force.

After careful consideration of all the possible options, it has now been decided to introduce the following new arrangements when the markets re-open on Monday, 2 September 1985:

1. In terms of a proclamation issued by the State President the Government has decided to introduce a four month stand-still period for foreign debt repayments. With a few exceptions, all repayments of foreign debt by South African residents shall be postponed until after 31 December 1985, to enable the South African authorities to negotiate a satisfactory syst m for the repayment of foreign

debt with all the parties concerned. This temporary postponement of repayments will also apply to the liabilities of foreign branches and subsidiaries of South African banks, unless special dispensation to continue with their normal operations is obtained from the Minister of Finance by any individual South African banking institution.

2. During this stand-still period no restrictions, apart from the existing Exchange Control requirements, will be placed on any payments of a current nature, e.g. payments for imports. In particular, normal interest payable on foreign loans and other current income earned on foreign investments in South Africa will remain freely transferable.

3. The foreign exchange liquidity problem has been created by the withdrawal of short-term credit lines by foreign banking institutions, and not by disinvestment by non-residents through Stock Exchange transactions. It will, however, as part of the new restrictive measures, be essential to extend the controls also to Stock Exchange transactions in order to avoid the Stock Exchange from being used as a conduit for the evasion of the controls. As a consequential measure, therefore, the Financial Rand system which was abolished on 7 February 1983, will be reintroduced with effect from 2 September 1985. This implies that the

local sale proceeds of non-resident owned South African investments can not be transferred in foreign currency, but will have to be retained in South Africa with South African authorised dealers in foreign exchange in the form of Financial Rand balances. Such balances will, however, be freely transferable between non-residents and will also be eligible for reinvestment in South African quoted securities and in other equity investments as the authorities may determine from time to time.

4. In terms of accepted international practice, the South African authorities are in the process of acquiring the assistance of a reputable and independent international financial expert to assist in negotiating a programme for the resumption of debt repayments. In the meantime, regulations will be promulgated in the Government Gazette requiring all South African residents to furnish full details to the South African Reserve Bank of their outstanding foreign liabilities.

5. Apart from normal current transactions, the following foreign financial commitments will continue to be fully met, as and when they become due:

(a) Repayments on maturity of publicly bonded debt issued for or on behalf of the South African public sector, i.e. bonds quoted on foreign stock exchang s and not s privat ly plac d;

(b) debts to international financial agencies;

(c) debts guaranteed by foreign governments or their export credit agencies; and

(d) foreign debt commitments of the South African Reserve Bank, including gold swaps.

6. Outstanding amounts due by South African importers to foreign suppliers of goods as well as all future current payments for imports will remain free of restrictions.

7. The Minister of Finance can authorise foreign branches and subsidiaries of South African banks to redeem their foreign currency liabilities from the proceeds of maturing assets held by them, the liquidation of such assets, and loan redemptions.

8. These arrangements will not absolve South African residents from meeting their obligations to non-resident creditors in terms of existing loan contracts, but such commitments may only be met by crediting the amount to a special restricted account maintained with an authorised dealer in foreign exchange. Banking institutions in South Africa will be required to make a deposit in foreign currency with the South African Reserve Bank to cover all such loan repayments administered by them for their own account and on behalf of their clients. This situation will prevail until the bank is authorised in terms of the repayment programme to r fund its non-resident creditors.

- 8 -

9. Any new foreign loans raised during the stand-still period, i.e. up to 31 December 1985, that are not intended to replace maturing loans will not be subject to the repayment restrictions now being introduced.

To facilitate the transition in the foreign exchange market to the new situation, the Reserve Bank will enter the market on a temporary basis as an active participant by quoting spot and forward buying and selling rates for U.S. dollars as from Monday, 2 September 1985. The Bank will stop quoting rates for spot transactions again as soon as more orderly conditions have returned to the market.

Conclusion

The objectives of the comprehensive strategy are to -

(a) create a stand-still period during which South Africa can negotiate in a responsible way with all parties concerned regarding the orderly repayment of the foreign debt of the country;

(b) ensure that the surplus on the current account of the country's balance of payments will be used largely to meet the foreign obligations of all South African debtors in an equitable and orderly manner;

(c) discourage disinvestment by non-residents at the cost of the available foreign exchange reserves;

(d) facilitate an early resumption of domestic economic growth; and

(e) normalise South Africa's foreign financial relations as soon as circumstances permit.

The Government has the political will and management resources to achieve these objectives. South Africa has the economic means and human potential to meet this challenge while continuing to play its historic role as a regional power in the development of Southern Africa.

Pretoria
1 September 1985.

Following i full text of a Statement is ued by the Minister of Finance in Cape Town on 19860324, regarding the interim arrangement for the repayment of South Africa's Foreign debt:

Quote

On 20 February 1986 Dr Fritz Leutwiler announced in London that a "broad consensus of agreement" had been reached between the major creditor banks of South Africa and the South African Standstill Co- ordinating Committee regarding an iterim arrangement for the repayment of South Africa's foreign debt. He intimated that a small technical group would be formed by the creditor banks to have further discussions with the SCC regarding the finalisation of the arrangements and the implementation of the proposal..

Over the past few weeks, extensive negotiations took place between this technical working group of the banks and the SCC, and a full meeting of representatives of the major creditor banks members of the SCC took place in London today.

It can now be confirmed that all outstanding issues have been disposed of at this meeting, and that the Leutwiler proposal will now come into force on 1 April 1986 as envisaged.

In consulations with Dr Leutwiler, the major creditor banks and the SCC have agreed on two important modifications to the proposal of 20 February 1986.

Firstly, it has been agreed to extend the termination date of the iterim arrangement from 31 March 1987, as originally agreed, to 30 June 1987. The major creditor banks have now agreed to maintain their exposure to South African Borrowers at not less that 95 per cent of present level until the end of June 1987, and South Africa will lift the repayment restrictions on 5 per cent of the "affected debt" that has already reached maturity of will mature up 30 Junie 1987.

Secondly, it has been agreed that the 5 per cent in respect of all debt already matured or maturing before 15 April 1986, will now be released in one amount on 15 April 1986. In the case of debt maturing between 15 April 1986 and 30 Junie 1987, the 5 per cent will be released on the original maturity dates of the relevant debt.

A meeting between the major creditor banks and South Africa will take place in Septemenber 1986 to review

progre s made up to that time, and a major review of the ituation will take place in April next year

The South African Reserve Bank has, in the meantime, made the necessary arrangements to provide for any withdrawal of released funds on or after 15 April 1986. It will not be necessary for the bank to acquire any additional foreign exchange for this purpose from the local foreign exchange market.

It should, furthermore, be pointed out that the lifting of restriction on the repayment of funds does not necessarily mean that the funds will be withdrawn from South Africa. Each South African debtor will, of course, be in a position to negotiate with foreign lenders for a possible voluntary extension of released funds, and potential new borrowers of foreign funds should also now be in a better position to negotiate for new loans. In terms of the interim arrangement, indeed, it is required of existing South African borrowers of foreign funds, where existing loan contracts have already matured, to re- negotiate their loan arrangements with their foreign creditors and to agree to new conditions in compliance with the agreement.

Details of the arrangements will be made available to all South African authorised dealers in foreign exchange within the next few days, and existing South African Debtors are requested to contact their bankers in this regard as soon as possible.

The interim arrangement has now been agreed to by South Africa's major creditor banks, and Dr Leutwiler has also submitted the final detailed arrangements to the other bank creditors holding smaller claims on South African Debtors. These smaller banks creditors have been asked to give their support to the implementation of the terim arrangement. Debt due to non- bank creditors will, at this juncture, be treated in a similar way, but further discussions are still taking place in this regard.

This interim debt arrangement has been negotiated in a relatively short period of time and should be seen as an effort to return normality to South Africa's International Financial Relations. It is based on a sense of goodwill, mutual faith and understanding for a difficult ituation by all parties concern d I hould like to expre s th appreciation of the South African Government for the way in which it has been concluded.