

# Benefits of the weakened rand

A part from other economic factors such as the interest rate and the level of inflation, South Africa's exchange rate is one of the most vital aspects to the health of the country's economy. Over the last few years the rand has depreciated significantly causing concern among consumers.



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However, is it possible that the weakening rand could be a good thing for the country? While most would look at the current exchange rate as an indication of the sad state of the country's economy, a weakened currency can have its benefits.

Regional director and CEO of RE/MAX of Southern Africa, Adrian Goslett, says that while a weaker rand makes imported items and overseas travel more expensive for South African consumers, the current exchange rate will be very attractive to foreign investors, provided of course that foreign sentiment towards the country remains positive.

## Foreign interest in property

"Property within South Africa is becoming more and more affordable for buyers with currencies like dollars or pounds. This could mean that we may see higher numbers of foreign investors purchasing homes in 2016, bringing both capital and skills into the country," says Goslett. "That said, the allure of the weaker rand could be underpinned by other economic concerns that foreigners may have about South Africa. There will only be an increase in foreign property investment if buyers perceive the country to be a feasible investment option."

He adds that foreigners who buy property in South Africa will do so based on the fact that they have fallen in love with the country and intend to use their asset on a regular basis, rather than purely basing their decision on the fact that the property is relatively affordable.

## A boost for local suppliers

Goslett notes that another benefit of a weaker rand is that it may address the current trade deficit and see companies looking to local suppliers rather than importing items. At the moment South Africa imports more goods than it exports, which means many local businesses have suffered. A weakened rand makes international imports more expensive, while simultaneously making South African exports more competitive in the global market.

Essentially what this means is that the sales of South African products will increase on a worldwide scale. "The weakening rand will more than likely quell the demand for international goods, with many refocusing on local industry to substitute foreign investments. The higher demand for locally developed items will increase the need for workers and help to address the current high unemployment rate," says Goslett.

## **Uptick in tourism**

He adds that there has also been a massive uptick in tourism due to the weaker currency. "More visitors and investors coming to South Africa means more revenue entering the country and more opportunity for employment," says Goslett.

"Although it will take some time, the effect of the currency devaluation will ripple through the economy and have a knock-on effect throughout the country. There will be more opportunity for small local businesses and as more people gain employment, there will be larger numbers of consumers who will be able to realise their dreams of purchasing a property for example."

## **Benefits for SA investors**

According to Goslett there are also ways that South African investors can use the weakening currency to their benefit. "If local investors look at offshore investment options with the plan to retire in South Africa, then a weaker rand will be favourable because it means that they will be getting more from their investment returns once converted from a foreign currency to rands. This could mean being able to purchase a larger or better retirement property," says Goslett.

He concludes by saying that while there are benefits to currency devaluation, any positive aspects will take time to play out in the economy and the benefits will be far less if it begins to occur on a regular basis, with the risk of an increased inflation rate becoming a factor if nothing is done about it. If the rand continues to fall, we will likely see the South African Reserve Bank take a stronger stance at their monetary policy committee meeting later this month, possibly pushing the interest rate up by around 50 basis points.

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