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THE INVESTMENT EXPERTS

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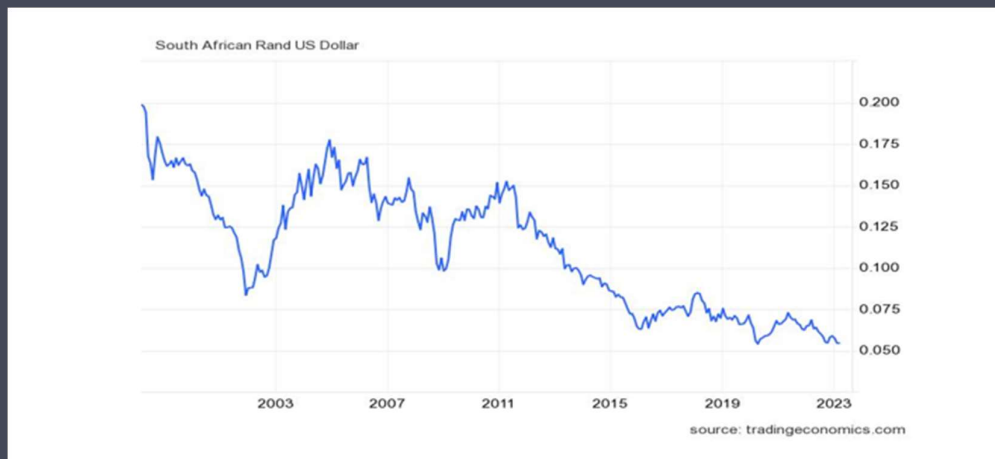
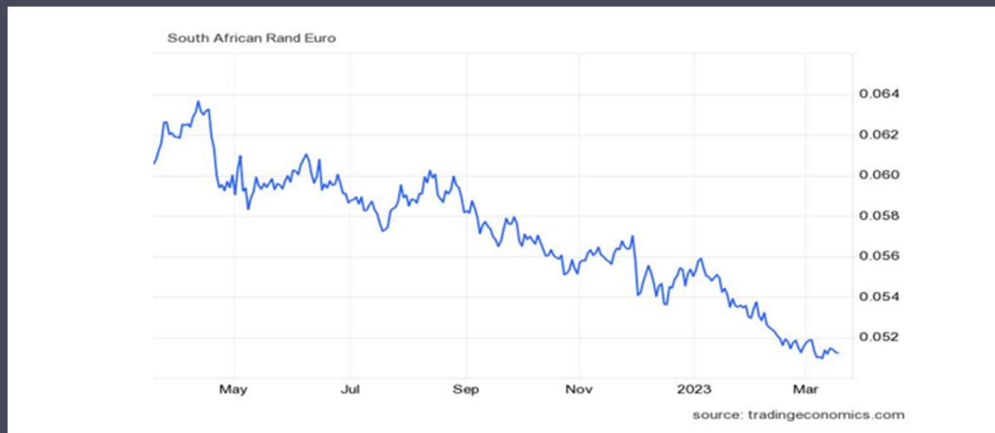
**With the  
Rand falling,  
will my money be  
worth anything?**

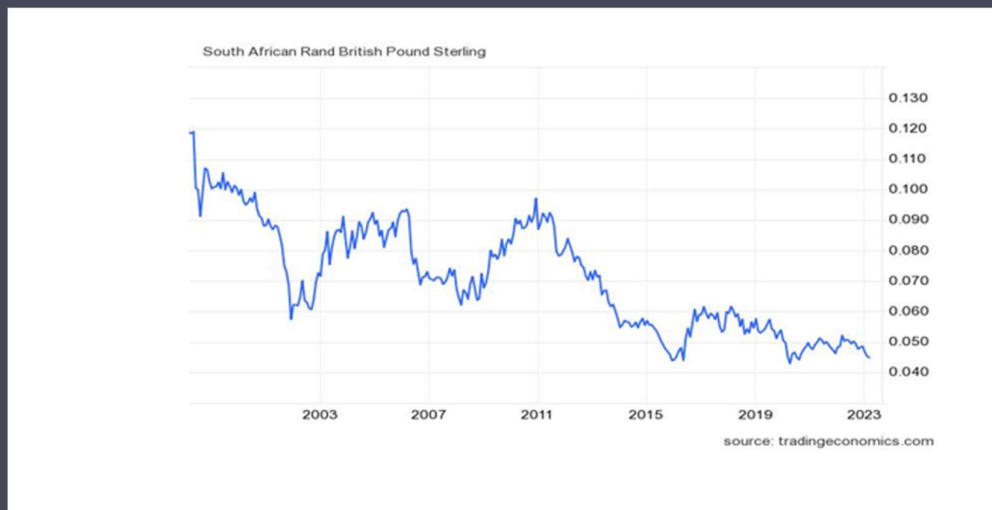


The South African Rand has been depreciating over the last few years, but there are a lot of things that we can do to avoid weakening it further. They include avoiding bad political choices, selecting qualified candidates for important government positions, budgeting sensibly, and encouraging investment.

While these may seem quite simple, they are not to be taken for granted in South Africa. In this article, we will discuss what the declining Rand means for the average South African citizen, the determinants of the Rand's value, and provide some tips on how you can best safeguard yourself from the negative consequences of the declining Rand.

### ZAR VS EUR/GBP/USD March 1998 - March 2023





**The preceding charts make it clear to see how the Rand has fallen over the last 25 years in comparison to three major currencies.** There are many domestic and international determinants of the Rand's value. Domestically, South Africa utilizes a flexible exchange rate regime. This means that the value of the Rand is determined by market forces such as supply and demand, which is significant when considering South Africa's current account. South Africa has a current account deficit, and it grows each time the country continues to spend more on imports than they receive from exports. This leaves the country with foreign capital debt, which in turn results in the Rand depreciating.

**Internationally, foreign investors want to invest in stable countries with promising returns.** South Africa over the last few years has been riddled with corruption issues, labour strikes, and of course, electricity shortage issues, all of which have taken a toll on the country's economy, especially the manufacturing sector. All these factors make it very difficult for South Africa to attract foreign investment. A lack of foreign investment eventually leads to the Rand depreciating.

**A weak currency can have a significant impact on the citizens of a country in many ways. Firstly,** if the Rand weakens, this could lead to high inflation rates, which will increase the cost of goods and decrease the purchasing power of the people, resulting in a lower standard of living. It will also make it difficult for those citizens who need to travel, as they will end up paying more than they usually would. As the Rand weakens, it becomes harder for South Africa to attract foreign investment because these international companies will effectively be earning less. This may result in a decline in employment prospects and economic expansion, which may have long-term effects on the population.

**If you are concerned about your cash becoming meaningless pieces of paper, do not worry;** there are a few ways you can safeguard yourself from the Rand depreciating. If you invest in a diverse range of assets, you may purchase bonds or other assets in different countries in different currencies. With a diversified portfolio, you will be safeguarded against any individual asset class.

**The Rand falling leads to the interest rate increasing which presents a great opportunity to invest in income funds.** Income funds are a type of mutual fund or

ETF which focus on investing in securities which produce an income such as bonds or dividend-paying stocks. Income funds do not aim for capital appreciation but rather generating income streams. For this reason, as well as the fact that income funds make diversification very simple, they are a great low risk investment you could add to your portfolio to capitalize on the Rand depreciating and turn a bad situation into a good one.

**In conclusion**, you may not be able to do anything about the politics or economic state of South Africa, but your finances are in your control. The Rand is still the legal currency of South Africa and can be traded for goods and services; but it will not take you as far as it did before.



### **Zeedaan DM Patel**

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Zeedaan recently joined Global & Local and aims to build his career with the company.

Zeedaan holds a bachelor's degree in B.Com Investment Management and will be attempting the CFA exam in November.

In his spare time, he enjoys football, padel tennis and chess.

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