

# The Exchange: 21 February 2025

The Rand has been more stable than expected given the shock postponement of the national budget

Published: 2025/03/24



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**T**HE SURPRISE OUTCOME OF RAND PERFORMANCE IS DUE TO A COUPLE OF FACTORS.

On 19 February the Rand ended the trading day at R18.56/US dollar, which is down only 0.8% compared with the prior day, despite the shock postponement of the National Budget until 12 March. Furthermore, on 20 February the Rand gained around 1.1% to end the trading day at R18.37/\$, suggesting that the currency market is largely unconcerned by the GNU's inability to agree on the details within the National Budget.

At the center of the GNU's disagreement regarding the National Budget is National Treasury's proposal to increase the VAT rate by 2 percentage points to 17% with effect from 1 April 2025. Understandably, this is a radical change in tax policy which will have very significant negative implications for the household sector, which is already under significant pressure given the high level of inflation in recent years, elevated interest rates and the lack of job opportunities.

Once the decision to delay the National Budget to 12 March was announced it was reasonable to have assumed that the Rand would weaken appreciably given the increased level of policy uncertainty and the heightened risk that the GNU might fail to reach an agreement regarding the proposed VAT hike, which could result in the GNU breaking-apart.

Instead, the Rand weakened modestly in the immediate aftermath of the decision and has subsequently strengthened appreciably. This surprise outcome is due to a couple of factors, including ongoing dollar weakness, a rally in commodity currencies and some understanding by investors that a disagreement within the GNU is not necessarily a bad thing, especially if it leads to a better outcome overall without the GNU collapsing.

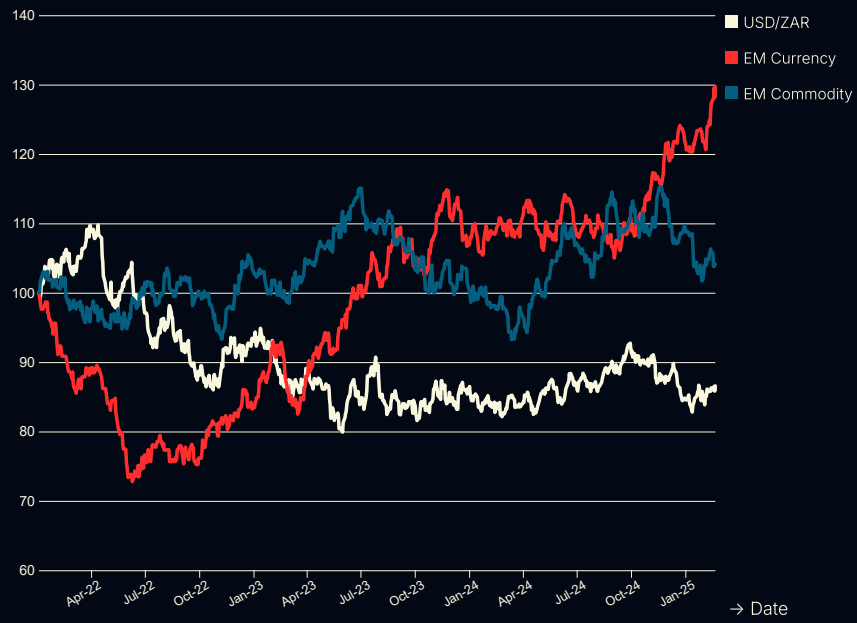
In terms of Dollar weakness, the currency dropped by 0.6% against the Euro on 20 February and has declined by 1.2% against the Euro since 11 February. Equally, commodity currencies (which includes the Rand) have gained 4% against the Dollar since the beginning of 2025.

Overall, since the formation of the GNU in June 2024, the largest daily loss of the Rand against the Dollar has been -2.1%, while the largest daily gain has been 1.6%. While this might sound significant, it reflects a much lower level of volatility than what the Rand has experienced in the years prior to the GNU. For example, in the period from 2019 up to the formation of the GNU, the largest daily loss of the Rand against the Dollar was -3.6%, while the largest daily gain was 4.1%. Although the Rand remains one of the most volatile actively traded currencies, the formation of the GNU appears to have contributed to some reduction in Rand volatility, which is a very welcome outcome.

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## Currency Index

↑ Index Level



Source: Internal

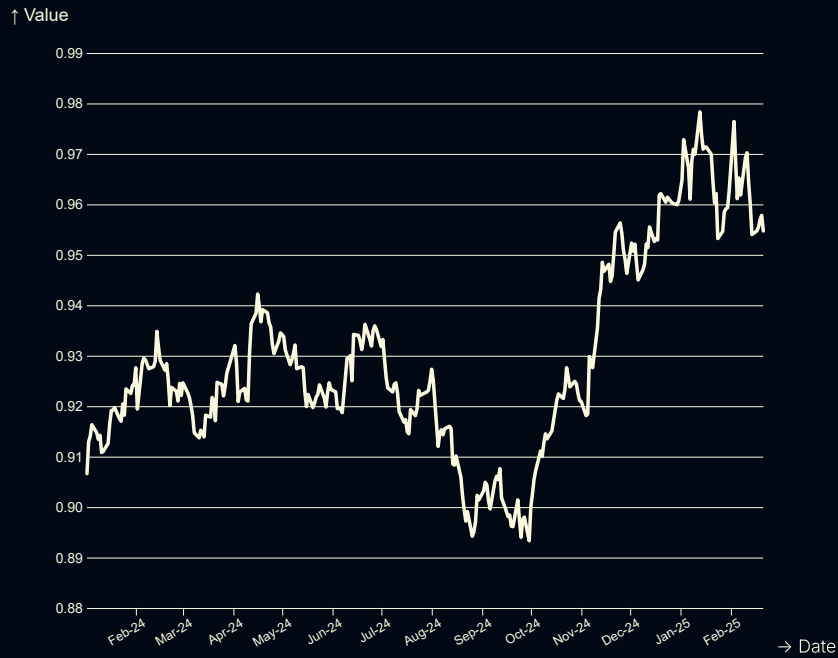
## Rand / US Dollar Since 2024 (Daily)

↑ Value



Source: Internal

## USD / EUR Since 2024



Source: Internal

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